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Public Service Commission

June 23, 2000

Angela Llewellyn
Tampa Electric Company
P. O. Box 111
Tampa, FL 33601-0111

Re: Docket No. 950379-EI; Tampa Electric Company
Audit Report; Earnings Surveillance - 12 Months Ended December 31, 1999
Audit Control No. 00-069-2-1

Ms. Llewelyn:

The enclosed audit report is forwarded for your review. If you desire to file a response to the audit, please file one with the Division of records and Reporting so it may be forwarded for consideration by the staff analysts in their review of the audit.

Sincerely,

Denise N Vandiver

Denise N. Vandiver
Bureau of Auditing Services

APP DNV: sp
CAF Enclosure
CMP
COM
CTR cc: ✓ Division of Records and Reporting
ECR Division of Regulatory Oversight (Hoppe/Harvey/File Folder)
LEG Division of Economic Regulation (Merta)
OPC Tampa District Office (McPherson)
PAI Division of Legal Services
RGO
SEC 1
SER
OTH Office of Public Counsel

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State of Florida

PUBLIC SERVICE COMMISSION
DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES

TAMPA DISTRICT OFFICE

TAMPA ELECTRIC COMPANY

EARNINGS SURVEILLANCE AUDIT

TWELVE MONTHS ENDED DECEMBER 31, 1999

Docket No. 950379-EI
Audit Control Number 00-069-2-1

Jocelyn Y. Stephens, Audit Manager

Joseph W. Rohrbacher, Audit Staff

James A. McPherson
Tampa District Supervisor

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DIVISION OF REGULATORY OVERSIGHT
AUDIT REPORT

JUNE 15, 2000

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the accompanying Earnings Surveillance Report schedules of Rate Base, Net Operating Income, and Capital Structure for the twelve month period ending December 31, 1999. These schedules were prepared by the utility. There is no confidential information associated with this audit, and there are no audit staff minority opinions.

This is an internal accounting report prepared after performing a limited scope audit. Accordingly, this report should not be relied upon for any purpose except to assist the Commission staff in the performance of their duties. Substantial additional work would have to be performed to satisfy generally accepted auditing standards and produce audited financial statements for public use.

SUMMARY OF SIGNIFICANT FINDINGS:

The company recorded advertising expenditures and association dues which do not appear to be chargeable to the ratepayers. Company also failed to include an adjustment for a retroactive change in depreciation rates for 1999.

SUMMARY OF SIGNIFICANT PROCEDURES:

Our audit was performed by examining, on a test basis, certain transactions and account balances which we believe are sufficient to base our opinion. Our examination did not entail a complete review of all financial transactions of the company. Our more important audit procedures are summarized below. The following definitions apply when used in this report:

Scanned - The documents or accounts were read quickly looking for obvious errors.

Verify - The item was tested for accuracy, and substantiating documentation was examined.

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency and, except as otherwise noted, performed no other audit work.

RATE BASE: Compiled components of Rate Base and agreed to the Surveillance Report as filed by the Company. Tested the 13 month average calculations of components. Examined supporting documentation for selected 1999 plant and CWIP additions. Reviewed transactions in clearing accounts, prepayments, miscellaneous deferred debits/credits to determine that they were properly classified and utility in nature. Tested depreciation calculation to determine if company is using latest FPSC approved depreciation rates.

NET OPERATING INCOME: Compiled components of Net Operating Income and agreed to the Surveillance Report as filed by the Company. Recomputed unbilled revenue as of December 31, 1999. Tested advertising and industry association expenses to verify expenditures were properly classified and allowable.

CAPITAL STRUCTURE: Compiled components of Capital Structure and agreed to the Surveillance Report as filed by the Company. Verified that the cost rates used are appropriate.

Other: Verified that adjustments made in prior orders were made and were calculated properly. Scanned expense allocations from TECO Energy to Tampa Electric and tested selected computations. Recalculated Jurisdictional factor for accuracy in computation. Reviewed Intercompany charges from and to Tampa Electric. Provided list of nonregulated/non-utility services provided by Tampa Electric.

Audit Disclosure No. 1

Subject: Advertising Charges

Statement of Fact: Tampa Electric Company (TECO), on its 1999 Surveillance Report, included charges for Informational/Instructional Advertising (A/C#909.12) and Sales Related Advertising (A/C#913.01). A judgmental sample of the invoices processed in accounts 909.12 and 913.01 were reviewed to determine proper accounting treatment.

Included in these amounts were charges for the following:

$5,000 to the Tampa Bay Regional Planning Council for sponsorship of the 1999 Hurricane Guide Public Awareness Campaign.

$12,000 to the New York Yankees for two wall signs at Legends Field with Tampa Electric logo.

$2,281 for mini soccer balls with the Tampa Electric logo given away at Tampa Bay Mutiny soccer games.

$3,412 for food and drinks at the Florida Plant Engineering & Maintenance Show.

$1,000 for co-sponsorship of the Pinellas and Hillsborough County Hotel and Motel Association annual education fund raiser.

$17,009 for Y2K readiness bill inserts for Tampa Electric and Peoples Gas. The inserts were 68% for Tampa Electric and 32% for Peoples Gas. Tampa Electric paid for the full cost of the inserts.

Opinion: The majority of the above advertising charges appear to be image building and do not have tangible benefits to the ratepayers, therefore they should be adjusted out of the 1999 surveillance report.

The company did not explain how the charges for food and drink at the trade show would benefit the ratepayers. TECO staff stated that this was a relationship building opportunity.

While the sponsorship of the hurricane guide and the education fundraiser are worthwhile causes, the issue is why should the electric customers have to pay for these charges. The expenses would be more appropriately chargeable to the stockholders, since this also is image building.

Although the Y2K bill inserts are allowable, an adjustment is needed to charge $5,445 to Peoples Gas for its share of the Y2K insert charges.

The total amount of advertising charges to be adjusted out of the surveillance report is $29,138.

Audit Disclosure No. 2

Subject: Industry Association Dues

Statement of Fact: Tampa Electric Company's (TECO) General Ledger at December 31, 1999 had a balance of $816,538 in Account No. 930.02, Miscellaneous Expense - Company Dues. Included in this amount were the following expenses not removed from the surveillance report.

Global Climate Coalition	$18,750
The Conference Board	1,500
Total	$20,250

Opinion: It does not appear that these expenses should be included in O&M expense for regulatory purposes. The dues of these organizations do not relate to the provision of electricity and provide no direct benefit to ratepayers.

Per Company response, the Global Climate Coalition (GCC) is an organization of business trade associations established to coordinate business participation in the scientific and policy debate on the global climate change issue. GCC has represented its membership at all international negotiations.

Company response also explains that the Conference Board's purpose is to is to improve the business enterprise system and to enhance the contribution of business to society. It provides its members with cross-industry knowledge and reports of various issues that are used by TECO for evaluation. Among the areas covered by the reports are corporate contributions and retiree programs.

Audit Disclosure No. 3

Subject: Conservation and Environmental Clause Adjustments

Statement of Fact: The Company made adjustments to the Earnings Surveillance Report for revenues and expenses recovered through the Energy Conservation Cost Recovery Clause (ECCR) and the Environmental Cost Recovery Clause (ECRC).

The adjustments for revenue were the same as filed in the ECCR and ECRC filings as of December 31, 1999. The ECCR expense adjusted on the surveillance report is $19,492 less than the $18,129,268 reported on the filing (0.001%) and the adjusted ECRC expense is $187,168 less than the $4,265,418 on the filing (0.046%).

The company stated, estimated expenses are used to adjust the monthly earnings surveillance reports since these amounts are used to book deferred true-up amounts. The true-up filing amounts are the actual monthly amounts per general ledger that have been adjusted during the monthly review process to exclude charges that are determined to be non-recoverable through the clauses.

Audit Disclosure No. 4

Subject: Gross Receipts Tax Return Adjustment

Statement of Fact: The Company made errors in computing the January and February monthly Gross Receipts Tax Returns. Taxes, per the Tax Returns, were overpaid by $147,358 and $11,250, respectively. Total overpayment equaled $158,608.

The company stated an adjustment will be made on the June 2000 return.

Audit Disclosure No. 5

Subject: Omission of Liability in Working Capital Computation

Statement of Fact: The Company did not make an adjustment to remove $119,945 of Deferred Credit - ECRC, from the 13-month average computation of working capital.

Per Company spokesperson, this adjustment omission was an oversight by the company. Total working capital as recorded equals $39,722 039. The effect upon Rate Base for the liability not recorded is $116,591 (or .29% of Working Capital).

If an adjustment was made for this item, there would be a negligible effect upon the Company's Rate of Return.

Audit Disclosure No. 6

Subject: Retroactive Change in 1999 Depreciation Rates

Statement of Fact: In Commission Order No. PSC-00-0603-PAA-EI, issued March 2, 2000, the Company was required to revise its depreciation rates from interim to permanent, based upon a new depreciation study. The change in depreciation was retroactive to January 1, 1999.

The Company made an adjustment to decrease its depreciation expense $529,708 in its March 2000 books. We analyzed this adjustment and agree with the computation. However, since it was not made until the year 2000, 1999 depreciation expense and accumulated depreciation are overstated.

On a retail basis, the adjustment would be approximately $490,235. It should also be noted that depreciation expense, for the year 2000, will be understated but accumulated depreciation at year-end will be correct.