

State of Florida



Public Service Commission

ORIGINAL

-M-E-M-O-R-A-N-D-U-M-

DATE: August 10, 2000
TO: Division of Safety & Electric Reliability (Lee)
FROM: Division of Regulatory Oversight (Vandiver) *WJ*
RE: 000007-EI; Tampa Electric Company
 Audit Report; Environmental Cost Recovery Clause
 Twelve Months Ended December 31, 1999
 Audit Control No. 00-021-2-1

Attached is the final audit report for the utility stated above. I am sending the utility a copy of this memo and the audit report. If the utility desires to file a response to the audit report, they should send it to the Division of Records and Reporting. There are no confidential work papers associated with this audit.

DNV/sp

Attachment

cc: Division of Regulatory Oversight (Hoppe/Harvey/File Folder)
 Tampa District Office (McPherson)
 Division of Records and Reporting
 Division of Legal Services

Ms. Angela Llewellyn
 Tampa Electric Company
 P. O. Box 222
 Tampa, FL 33601-01

James Beasley/Lee Willis
 Ausley Law Firm
 P. O. Box 391
 Tallahassee, FL 32302

AIRP _____
 COMF _____
 CNRP _____
 COM _____
 CTR _____
 ECR _____
 LEG _____
 OPC _____
 PAI _____
 RGO _____
 SEC _____
 SER _____
 OTH _____

DOCUMENT NUMBER-DATE

09784 AUG 14 8

FPSC-RECORDS/REPORTING



FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY OVERSIGHT
BUREAU OF AUDITING SERVICES*

Tampa District Office

TAMPA ELECTRIC COMPANY

Environmental Cost Recovery Clause Audit

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1999

**Docket Number 000007-EI
Audit Control Number 00-021-2-1**

A handwritten signature in black ink, appearing to read "J. W. Rohrbacher", written over a horizontal line.

**Joseph W. Rohrbacher
Audit Manager**

A handwritten signature in black ink, appearing to read "James A. McPherson", written over a horizontal line.

**James A. McPherson
Regulatory Analyst Supervisor**

TABLE OF CONTENTS

I.	AUDITOR'S REPORT	Page
	PURPOSE.....	1
	DISCLAIM PUBLIC USE.....	1
	SUMMARY OF SIGNIFICANT FINDINGS.....	2
	SUMMARY OF SIGNIFICANT PROCEDURES.....	2
II.	DISCLOSURES	
1.	CAPITALIZED PAYROLL.....	3
2.	ADJUSTMENTS TO FILING.....	4
III.	EXHIBITS	
	CALCULATION OF FINAL TRUE-UP AMOUNT (12/31/99).....	5

**DIVISION OF REGULATORY OVERSIGHT
AUDITOR'S REPORT**

JULY 25, 2000

TO: FLORIDA PUBLIC SERVICE COMMISSION AND OTHER INTERESTED PARTIES

We have applied the procedures described later in this report to audit the Environmental Cost Recovery Clause (ECRC) schedules for the twelve month period ended December 31, 1999 prepared by Tampa Electric Company. These schedules were prepared by the utility in support of Docket No. 000007-EI. There is no confidential information associated with this audit.

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:

1. Company records show that payroll and related fringe benefit costs, in the amount of \$1,980,809, were capitalized and included in environmental projects during the twelve month period ending December 31, 1999. Also, \$1,546,419 were included in prior years ECRC filings.
2. The recoverable costs were understated by \$32,817.

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:

Compiled - The exhibit amounts were reconciled with the general ledger, and accounts were scanned for error or inconsistency.

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

REVENUES: Compiled Environmental Cost Recovery Clause (ECRC) revenue and agreed to the filing. Recomputed revenues using approved FPSC rate factors and company provided KWH sales.

EXPENSES: Compiled ECRC expenses and agreed to the filing. Recomputed allocations of expenses for Big Bend 3 Fuel Gas Desulfurization (BB3 FGD) Integration. Verified SO2 Emission Allowances. Determined that payroll expense was removed from ECRC expenses.

CAPITAL INVESTMENT: Scheduled capital investment for the ECRC projects. Reconciled depreciation rates used by utility to FPSC approved rates. Recomputed depreciation expense and accumulation and agreed to the filing. Recalculated recoverable costs on capital investment.

TRUE-UP: Recomputed ECRC true-up and interest calculation using FPSC approved amounts and interest rates. Recomputed energy and demand separation percentages.

DISCLOSURES

Disclosure No. 1

Subject: Capitalized Payroll

Statement of Fact: Company records show that payroll and related fringe benefit costs, in the amount of \$1,980,809, were capitalized and included in environmental projects during the twelve month period ending December 31, 1999. Also, \$1,546,419 were included in prior years ECRC filings.

In a prior audit the company response stated that no new positions, related to environmental functions, have been created since 1997. The ECRC audit performed in 1997 established that no new positions have been created specifically for ECRC purposes since 1995, the year that separate reporting of environmental purposes began.

Section 366.8255, Florida Statutes states, "An adjustment for the level of costs currently being recovered through base rates or other rate-adjustment clauses must be included in the filing."

Auditors Opinion: The payroll costs included in the ECRC plant investment is already being recaptured through base rates. Since no new positions have been created, no unanticipated incremental payroll costs have been incurred. Any increases in payroll costs since 1995 would consist mostly of normal, recurring charges such cost of living, merit increases, and promotions. These increases are anticipated and fall under the rate base umbrella.

To include these payroll costs in the ECRC as expenses or plant investment would allow the Company to receive double recovery of same. Therefore staff believes that an adjustment should be made to remove the capitalized payroll totaling \$3,527,228 (1,963,978 + 1,546,419).

Disclosure No. 2

Subject: Audit Adjustments

Statement of Fact: The company recorded the following in its 1999 Environmental Cost Recovery Clause (ECRC) filing:

- 1) Added \$236,408 for the net book value of the BB4 CEMs plant recovered through rate base for the beginning of period net investment. The rest of the year the amount was properly subtracted from plant in service.
- 2) Recorded \$31,353 as the beginning of period accumulated depreciation for the Gannon Oil Tank project. The beginning balance should have been \$ 21,415.
- 3) Improperly calculated the Jurisdictional Demand Factors for the year.
- 4) Used the wrong interest rate in the true-up calculations for the months of September through December 1999.

Auditors Opinion: Adjustments needed to the filing were calculated as follows:

- 1) Since the value of the BB4 CEMs plant are recovered through rate base the company should have subtracted the value from the beginning of period net investment. This would have averted double recovery of costs. The January return on investment was overstated by \$2,294.
- 2) The company books have recorded \$21,415 for accumulated depreciation as of December 31, 1998. The difference of \$9,938 understated return on investment for the year by \$1,157.
- 3) A recalculation of Jurisdictional Demand Factors increased recoverable costs by \$35,148.
- 4) Recalculating true-up using the correct interest rates, and allowing for the audit adjustments reduced recoverable true-up by \$1,194.

The 1999 ECRC filing should be adjusted for the above.

BB4 CEMs	\$(2,294)
Gannon Tank	1,157
Demand Factors	35,148
True-up Adjustment	<u>(1,194)</u>
	<u>\$ 32,817</u>

The company stated that a revised filing will be prepared and sent to the Commission.

Tampa Electric Company
Environmental Cost Recovery Clause (ECRC)
Calculation of the Actual Amount for the Period
January 1999 to December 1999

Current Period True-Up Amount
(in Dollars)

Line	Jan-99 - Dec-99												End of Period Total
	Actual Jan-99	Actual Feb-99	Actual Mar-99	Actual Apr-99	Actual May-99	Actual Jun-99	Actual Jul-99	Actual Aug-99	Actual Sep-99	Actual Oct-99	Actual Nov-99	Actual Dec-99	
1. ECRC Revenues (net of Revenue Taxes)	\$352,826	\$305,006	\$307,731	\$321,718	\$347,655	\$393,125	\$406,003	\$426,024	\$434,891	\$379,324	\$328,983	\$321,528	\$4,324,814
2. True-Up Provision	129,739	129,739	129,739	129,739	129,739	129,739	129,739	129,739	129,739	129,739	129,739	129,739	1,556,870
3. ECRC Revenues Applicable to Period (Lines 1 + 2)	482,565	434,745	437,470	451,457	477,394	522,864	535,742	555,763	564,630	509,063	458,722	451,267	5,881,682
4. Jurisdictional ECRC Costs													
a. O & M Activities (Form 42-5A, Line 9)	250,902	173,943	131,046	237,268	308,685	244,213	438,937	531,149	419,287	144,261	875,585	512,140	4,265,416
b. Capital Investment Projects (Form 42-7A, Line 9)	220,782	221,096	226,272	231,802	247,236	264,774	271,159	274,320	289,507	286,024	292,716	800,051	3,627,739
c. Total Jurisdictional ECRC Costs	471,684	395,039	359,318	469,070	553,921	508,987	710,096	805,469	708,794	430,285	1,168,301	1,312,191	7,893,155
5. Over/Under Recovery (Line 3 - Line 4c)	10,881	39,706	78,152	(17,813)	(76,527)	13,877	(174,354)	(249,706)	(144,164)	78,778	(709,579)	(860,924)	(2,011,473)
6. Interest Provision (Form 42-3A, Line 10)	1,822	1,400	1,125	724	14	(651)	(1,558)	(3,088)	(4,738)	(5,668)	(7,848)	(12,317)	(30,783)
7. Beginning Balance True-Up & Interest Provision	1,556,870	1,445,674	1,357,041	1,306,579	1,159,951	953,699	837,188	531,535	149,002	(129,639)	(186,268)	(1,033,434)	1,556,870
a. Deferred True-Up from April 1998 to December 1998 (Order No. PSC-99-2513-FOF-EI)	(1,053,356)	(1,053,356)	(1,053,356)	(1,053,356)	(1,053,356)	(1,053,356)	(1,053,356)	(1,053,356)	(1,053,356)	(1,053,356)	(1,053,356)	(1,053,356)	(1,053,356)
8. True-Up Collected/(Refunded) (see Line 2)	(129,739)	(129,739)	(129,739)	(129,739)	(129,739)	(129,739)	(129,739)	(129,739)	(129,739)	(129,739)	(129,739)	(129,739)	(1,556,870)
9. End of Period Total True-Up (Lines 5 + 6 + 7 + 7a + 8)	386,478	303,685	253,223	106,595	(99,657)	(216,170)	(521,821)	(904,354)	(1,182,995)	(1,239,624)	(2,086,790)	(3,089,770)	(3,095,812)
10. Adjustment to Period True-Up Including Interest (A)	5,840	0	0	0	0	0	0	0	0	0	0	0	5,840
11. End of Period Total Net True-Up (Lines 9 + 10)	\$392,318	\$303,685	\$253,223	\$106,595	(\$99,657)	(\$216,170)	(\$521,821)	(\$904,354)	(\$1,182,995)	(\$1,239,624)	(\$2,086,790)	(\$3,089,770)	(\$3,089,772)

Notes:

(A) Represents adjusted accumulated depreciation and return on investment for Big Bend Unit 4 CEM and Gannon Ignition Oil Tank; adjusted depreciation for Phillips Tanks #1 and #4 blanket projects; and adjusted return on investment from CWIP for Big Bend Fuel Oil Tanks #1 and 2, Phillips Fuel Oil Tanks # 1 and 4, and Gannon Ignition Oil Tank.

EXHIBIT NO. _____
DOCKET NO. 000007-EI
TAMPA ELECTRIC COMPANY
(KOZ-1)
FILED: APRIL 3, 2000
DOCUMENT NO. 2
PAGE 1 OF 1
FORM 42-2A