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

DATE: November 4, 2009
TO: Tim Devlin, Director, Division of Economic Regulation
FROM: Dale N. Mailhot, Assistant Director, Division of Regulatory Compliance *DM*
RE: Docket No.: 090368-EI
Company Name: Tampa Electric Company
Company Code: EI806
Audit Purpose: Post Rate Case Issues
Audit Control No: 09-197-2-1

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, it should send a response to the Office of the Commission Clerk. There are confidential work papers associated with this audit.

DNM/ch

Attachment: Audit Report

cc: (With Attachment)
Division of Regulatory Compliance (Mailhot, File Folder)
Office of Commission Clerk
Office of the General Counsel

(Without Attachment)
Division of Regulatory Compliance (Harvey, Tampa District Office, Miami District Office, Tallahassee District Office)

DOCUMENT NUMBER DATE
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FLORIDA PUBLIC SERVICE COMMISSION

*DIVISION OF REGULATORY COMPLIANCE
BUREAU OF AUDITING*

TAMPA DISTRICT OFFICE

TAMPA ELECTRIC COMPANY


PETITION FOR RATE INCREASE

HISTORICAL YEAR ENDED DECEMBER 31, 2008

DOCKET NO. 090368-EI

AUDIT CONTROL NO. 09-197-2-1


Daniel Acheampong, Reviewer


Jocelyn Y. Stephens, Audit Manager

DOCUMENT NUMBER-DATE
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FPSC-COMMISSION CLERK

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

OCTOBER 21, 2009

TO: FLORIDA PUBLIC SERVICE COMMISSION

We have performed the procedures described later in this report to meet the agreed upon objectives set forth by the *Division of Economic Regulation* in its audit service request dated July 15, 2009. We have applied these procedures to the attached schedule of Projected CT and Rail Facility Costs in support of Tampa Electric Company's Step Increase authorized in Order No. PSC-09-0283-FOF-EI, Docket No. 080317-EI.

This audit was performed following general standards and field work standards found in the AICPA Statements on Standards for Attestation Engagements. This report is based on agreed upon procedures. The report is intended only for internal Commission use.

OBJECTIVES AND PROCEDURES

Cost Documentation of Combustion Turbine (CT) and Rail Facility Projects

Objectives:

- To verify supporting documentation for CT and Rail Facility project costs recorded in the accounting books and records
- To compare actual costs completed to date to projected costs listed in Commission Order PSC-09-0283-FOF-EI, Docket No. 080317-EI.
- To document bidding process to ensure only reasonable costs associated with the CT and Rail Facility projects are being recovered in the step process.
- To verify calculation of AFUDC
- To verify payroll costs

General

Procedures:

- We received costs detail for each project for the period December 2007 through August 31, 2009 as included in the Power Plant accounting system and performed an analysis of these dollars.
- We also received costs detail for the period September 1, 2009 through October 21, 2009. No audit work was performed on these dollars.
- We verified that the costs included in the company's Power Plant system agreed to the dollars recorded in the general ledger master as of August 31, 2009.
- We prepared a summary of costs, by project, as of October 21, 2009 as recorded in the power plant system and compared to the projected costs as listed in Commission Order PSC-09-0283-FOF-EI. This information is further discussed in Audit Finding No. 4.
- We performed an analysis of Power Plant costs, by project, by year, by journal entry and selected journal entries that related to the calculation of simple and compound interest – AFUDC; Supervisory, Operating and Office payroll distribution and related costs for overtime, construction fringe and Success Sharing; and Accounts Payable interface

Documentation of Vendor Costs

Procedures:

- Using the accounts payable interface, we selected resource code 3 (subcontracted services) and resource code 7 (materials and supplies purchased - outside) for further analysis.

- Based upon our review of line item included in the resource codes 3 and 7, we selected 14 major vendors for further analysis.
- For each selected vendor we requested Request for Proposals, Service Agreement/Contracts, change orders and paid invoices. This information is further discussed in Audit Finding No. 3.

Payroll Costs

Procedures:

- Using the power plant data, we prepared a summary schedule of payroll costs, by project, by year, by journal entry
- On a sample basis, we requested and received a Payroll Summary Report which detailed hours worked and dollar costs, by employee, by wage type, by project, by check date. We reconciled the total dollars in this report to the total dollars recorded in the power plant system.
- For one month (two payroll periods), we further analyzed payroll data by tracing total hours and dollars to supporting documentation provided by the payroll department.
- We summarized the data provided by the payroll department and agreed the totals to the Payroll Summary Report. The data provided by the payroll department, the ZCATSHOW report, included the number of hours, pay type, costs and check date for each employee charged to the specific project for the specific period being analyzed.
- For selected employees, we traced hours and rates to payroll remittance reports for straight and overtime pay. We also noted differential classifications for various incentive and other payroll categories. This information is further discussed in Audit Finding No. 1.

Allowance for Funds Used During Construction (AFUDC)

Procedures:

- Using the Power Plant data provided we prepared a summary schedule of AFUDC by year, by project.
- We performed an analysis of the computation of AFUDC (simple and compound interest).
- For 2008, we obtained the monthly calculation of the AFUDC basis (Rpt FT003030-A) and monthly calculation of simple and compound interest (Rpt FT003080-A) as performed in the plant accounting system – Legacy.

- We noted that the company began use of the Power Plant accounting system in January 2009. For this year, we obtained the AFUDC calculation report which calculates the beginning and ending AFUDC basis and AFUDC debt and equity amounts on a monthly basis.
- We performed test calculations of AFUDC amounts.
- We traced AFUDC calculations, based upon the plant balances of each CT and Rail Facility project, to the amounts recorded in Power plant detail. This information is further discussed in Audit Finding No. 2.

AUDIT FINDING NO. 1

SUBJECT: PAYROLL COSTS

AUDIT ANALYSIS:

As part of our analysis of Payroll costs, we traced employee hours and dollars to supporting documentation. The documentation we used were daily time entry summaries, the ZCATSHOW reports and Remuneration Statements. The ZCATSHOW report is a payroll application that stores time information by hours, where charged (FERC No.) and type of pay (S/T, O/T, Lead, meal ticket, etc). The Remuneration Statement is a report which details hours worked by earnings type, rate of pay and other pertinent data.

Our analysis revealed that the earning types included in the Remuneration Statement are for the following categories.

A) The below categories are paid based upon actual hours

- 1) Straight Time (S/T)
- 2) Overtime 1.5 (OT)
- 3) OT 2.0
- 4) Bad weather time (represents hours that an employee cannot work outside due to bad weather) This is limited to shift hours scheduled
- 5) Non-Productive Straight Time - e.g. Meetings (N/P ST)
- 6) NP 1.5 Overtime (OT)
- 7) NP 2.0 OT
- 8) NP Safety Training
- 9) Call Out OT (Represents time when an employee is called in for an emergency when the employee is off duty)
- 10) Callout 2
- 11) Vacation
- 12) Sick
- 13) Sick Cr
- 14) Holiday
- 15) Floating Holiday
- 16) Birthday
- 17) Funeral
- 18) Sleep In - occurs when an employee has exceeded the amount of consecutive hours worked per union rules. The employee is paid for hours not worked on their next scheduled shift

B) The categories listed below are based upon the classification in which the employee is being used. They do not represent additional hours worked, only a pay differential for actual hours worked.

- 19) OT1.5 MSO (Matching for Savings- the company contributes towards a savings account based upon hours worked. There are no employee contributions that are being matched. This is a Union Negotiated item and is based upon overtime hours worked.

- 20) MSO Drvd (MSO for straight time hours)
- 21) Lead (Premium pay)
- 22) OT Lead

The following categories represent construction fringe that employees receive.

- 23) Union Duty
- 24) Safety (incentive for not causing safety violations on the job – tied to all employees in that operating area)
- 25) Success Sharing - a payroll bonus based upon: Reliability – which measures interruption in power; Safety - no recordable injuries on the job; Environmental Incidents such as spills, oil leaks etc; Clause projections - keeping costs \$/MWH charged under projections, Customer Favorability based upon customer surveys, and Net Income exceeding projected target
- 26) Dinner (represents Meal Tickets paid during overtime work)

AUDIT CONCLUSION:

No exceptions were noted in classification of earnings type. Total payroll recalculated agreed to the amount recorded in the Power Plant system.

EFFECT UPON GENERAL LEDGER: None

EFFECT UPON FILING: None

This finding is being provided for informational purposes only.

AUDIT FINDING NO. 2

SUBJECT: CALCULATION OF ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC)

AUDIT ANALYSIS:

We received monthly schedules which calculated the AFUDC basis by project for the period January 2008 through September 2009. On a judgmentally selected sample, we recalculated the AFUDC basis at the beginning of the month by using the prior month's beginning balance, plus or minus current month adjustments, plus prior months plant additions plus the prior month's AFUDC accrual. The plant additions were reconciled to the Power plant detail schedules.

We received monthly schedules which showed the amount of AFUDC accrued during the month. We recalculated and verified the amount of simple interest AFUDC for 2008 and determined the computation used to calculate compound interest AFUDC. For 2009, the AFUDC calculation was generated internally within the Power Plant system. The summary report generated does not segregate AFUDC between simple and compound amounts.

In January 2009, Tampa Electric Company (TECO) changed its in-house plant accounting system from Legacy to Power Plant. Along with the change in the accounting system, TECO included the amount of \$36,171,000 in the calculation of beginning AFUDC Base and began calculating AFUDC on this amount. Per Commission Order PSC-09-0283-FOF-EI, rates for the adjustments approved by the Commission would take place effective May 7, 2009. Thus, all changes affecting the rate structure should also take effect on May, 7, 2009. Therefore, TECO incorrectly began calculating AFUDC on \$36,171,000 at January 1, 2009.

In May, 2009, this error was noted by TECO staff and Plant accounting made an adjustment to remove the effect of the AFUDC accrual on the \$36,171,000 for the months January 2009 through April 2009. The total amount of the AFUDC accrual adjustment was \$907,313. The portion applicable to the CTs and Rail Facility was \$457,783. Staff requested and received documentation supporting this correcting journal entry and has examined the company's theoretical assumptions, calculations and supporting documentation.

AUDIT CONCLUSION:

The resultant entry to correct the over accrual of AFUDC and thus decrease the overstatement of plant cost associated with the early inclusion of the \$36,171,000 in the AFUDC base is consistent with the documentation and explanation provided by the company. Staff however noted that the company's computation for the accrual of AFUDC did not include the compounding component of AFUDC in the amount of \$14,314. The portion of the \$14,314 applicable to the CTs and Rail Facility is \$7,221. This amount should be removed from the cost of the CT and Rail Facility projects.

EFFECT UPON GENERAL LEDGER: None

EFFECT UPON FILING: None

AUDIT FINDING NO. 3

SUBJECT: ANALYSIS OF REQUEST FOR PROPOSAL (RFP) RESULTS AND VENDOR COST DOCUMENTATION

AUDIT ANALYSIS:

We received detail of all costs charged, by project, for the period December 2007 through August 31, 2009.

We sorted all cost detail by project, by year and traced the costs summary of the individual projects to the Construction Work in Progress Summary at December 31, 2008 and August 31, 2009. We also traced totals from the Construction Work in Progress Summary Report to the General Ledger Master Account

Based upon the dollar amounts of accounts payable interface, we selected 14 vendors for testing (9 from the CT projects and 5 from the Rail Facility project).

For the CT projects, the selected vendors accounted for 75% of costs recorded as of August 31, 2009. (Cost as of 8/31/09 = \$192,651,558; total dollars charged by selected vendors = \$144,957,341). We tested 83% (\$120,219,544) of the dollars charged by selected vendors.

For the Rail Facility project, the selected vendors accounted for 55% of costs recorded as of August 31, 2009. (Cost as of 8/31/09 = \$35,164,126; total dollars charged by selected vendors - \$19,257,362). We tested 57% (\$11,028,985) of the dollars charged by selected vendors.

As part of our tests, we reviewed contracts, RFPs, Purchase Orders, Change Orders and invoices for the selected vendors.

Of the selected vendors, 13 had written agreements and 1 had an oral agreement. Of the selected vendors, 11 were selected based upon Request for Proposals. The company did not request an RFP for the 3 remaining vendors. The reason given for not requesting RFPs is that 2 vendors were recognized engineering contractors that have done similar projects for Tampa Electric Company and are familiar with the necessary requirements to complete the task (based upon company response to a document record request) and 1 was the only local vendor in the bay area that has tugs and barges in the McKay Bay area that could perform the work necessary (based upon company response to a document record request).

We obtained copies of the Request for Proposal procedures and requested the results of 13 RFPs. For the RFP results that we received, we reviewed notes detailing the basis for choosing the selected vendor. Seven vendors were selected because they submitted the lowest proposal. One vendor was the only one that submitted a proposal. Four vendors did not submit the lowest proposal but were selected because either the other vendors could not meet the delivery dates, or because the company chose to diversify its combustion turbine fleet and reduce dependence on any one supplier for parts and services. We did not receive one RFP.

We tested purchase orders to determine that the descriptions and the approved costs agreed to the amounts and descriptions provided in the RFPs. We tested invoices for math accuracy, applicability to CT and Rail Facility projects, and for proper authorization.

AUDIT CONCLUSION:

The company complied with the RFP procedures that were provided to staff when awarding a project to a vendor. We could not determine if the company complied with its diversity efforts when inviting vendors to submit bid proposals.

EFFECT UPON GENERAL LEDGER: None

EFFECT UPON FILING: None

This finding is being presented for informational purposes only.

AUDIT FINDING NO. 4

SUBJECT: COMPARISON OF ACTUAL COST TO PROJECTED COSTS

AUDIT ANALYSIS:

We prepared and analyzed a schedule of all costs incurred for the Combustion Turbine and Rail Facility projects for the period December 2007 through August 31, 2009. We also obtained costs incurred for these projects for the period September 1, 2009 through October 21, 2009.

We then compared total costs incurred through October 20, 2009 with the costs as projected and included in Commission Order PSC-09-0283-FOF-EI. The projected costs for the Rail Facility project have increased from \$46.937 million to \$60 million. A chart detailing costs, in-service dates (actual and projected) and variances between projected and actual costs is shown below.

SUMMARY OF COSTS BY PROJECT:

<u>Project No.</u>	<u>Project Description</u>	<u>In-Service Dates</u>	<u>Total Costs Incurred 8/31/2009</u>	<u>Add'l Cost for the period 9/1-10/21/09 (a)</u>	<u>Total Cost To Date</u>	<u>Total Projected Costs</u>	<u>Cost (Over)/Under Projection</u>
H29	BIG BEND RAIL	12/01/09 (c)	\$ 35,164,126	\$ 13,296,934	\$ 48,461,060	\$ 46,937,000 (b)	\$ (1,524,060)
H22	BAYSIDE CT 3 & 4	07/13/09	57,808,585	312,126	58,120,711	93,895,000	35,774,289
H21	BAYSIDE CT 5&6	4/20 & 04/27/09	95,738,049	1,423,968	97,162,017	100,547,000	3,384,983
H23	BIG BEND CT 4	08/26/09	39,104,926	1,578,101	40,683,026	51,871,000	11,187,974
			<u>\$227,815,685</u>	<u>\$ 16,611,129</u>	<u>\$244,426,814</u>	<u>\$293,250,000</u>	<u>\$ 48,823,186</u>

Notes:

(a) Unaudited

(b) This represents the projected amount included in Commission Order PSC-09-0283-FOF-EI. The latest projected costs for the Rail Facility is \$60,000,000.

(c) Projected

AUDIT CONCLUSION:

Actual costs incurred for the Combustion Turbine projects are less than the projected amounts. Actual costs incurred to date for the Rail Facility are greater than the projected amounts in Order PSC-09-0283-FOF-EI. The latest projected cost for the Rail Facility is \$60,000,000. All combustion turbine projects are in service and producing MWH based upon data provided by the company in Schedule A4 of its Fuel Recovery Clause filing.

EFFECT UPON GENERAL LEDGER: None

EFFECT UPON FILING: None

EXHIBIT 1

Projected CT and Rail Facility Costs Per Order PSC-09-0283-FOF-EI

	<u>CT 5 & 6</u>	<u>CT 3 & 4 and BB 4</u>	<u>Total CT 3 & 4 and BB 4</u>	<u>Rail Facility</u>	
Projected Costs	\$ 100,547	\$ 93,895	\$ 51,871	\$ 145,766	\$ 46,937
Months in Service	5			9	N/A
13-Month Avg Amount	\$ 38,672			\$ 100,915	\$ 46,937
Accumulated Reserve	<u>(1,164)</u>			<u>(2,732)</u>	<u>(469)</u>
Net Plant	\$ 37,508			\$ 98,183	\$ 46,468
Jurisdictional Factor	0.963118			0.9631180	0.9631180
Jurisdictional Amount	\$ 36,125			\$ 94,562	
				<u>\$ 130,686</u>	<u>\$ 44,754</u>
				Adjustments per Order PSC-09-0283- FOF-EI, Docket No. 080317-EI	\$ 44,754
				\$ 130,689	\$ 44,754
				Difference	\$ -
				<u>\$ 3</u>	<u>\$ -</u>