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July 2, 1997

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399-0850

Re: Tampa Electric Company Environmental Compliance Cost Adjustment Audit Report - Audit Control #97-064-2-2
FPSC Docket No. 970007-EI

Dear Ms. Bayo:

Enclosed are the original and fifteen (15) copies of Tampa Electric Company's response to Audit Disclosures Nos. 1-3 contained in the above-referenced Audit Report.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,

James D. Beasley

JDB/pp
Enclosures

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AUDIT DISCLOSURE NO. 1

SUBJECT: Environmental Cost Recovery Clause (ECRC) Requirements

STATEMENT OF FACT: In Order No. PSC-94-004-FOF-EI the Commission established criteria for allowing cost recovery through the ECRC. Part of that criteria required that:

1. Such costs were prudently incurred after April 13, 1993.

2. Such costs are not recovered through some other cost recovery mechanism or through base rates.

In September 1992 the utility purchased a packing tower at a cost of $37,025.94. This amount was charged to a Storeroom Inventory account (163.04). The utility stated that in September 1996 it became necessary to change out the packing tower. At this time the item was expensed (recovered) through the ECRC.

The utility's last rate case was under Docket No. 920324-EI, issued 02/02/93. This was for the historical test year ending 12/31/91 and the projected test years 1992-1994.

AUDITOR OPINION: Since this amount was purchased and charged to an inventory account in 1992, the amount appears to have been in Rate Base for the last rate case and is recoverable through base rates. Therefore, it should not be recovered through the ECRC.

COMPANY RESPONSE: Tampa Electric disagrees with the opinion above.

Recoverability of expenses should be based on the nature of the activity, not the balance sheet account from which the resource was consumed. Inventory is a balance. The amount approved in the rate case represents a balance that is considered necessary to maintain in order to operate the utility and provide reliable electric service. It is expected that all inventory in rate base for rate case calculations will be issued and expensed or capitalized in future periods. As inventory is issued, it will be replenished. The inventory issued, as in this case, will be expensed to the appropriate account and the expense recovered through the appropriate mechanism, including the ECRC. Note that this is the same methodology applied when fuel inventory is consumed and recovered through the FAC. The original purchase date of an inventory item neither negates its validity as an asset when it is on the balance sheet nor negates its validity as an expense when that resource is consumed in the normal cycle of inventory turnover.

AUDIT DISCLOSURE NO. 2

SUBJECT: Gypsum Sales

STATEMENT OF FACT: Gypsum sales by Tampa Electric Co. (TEC) have steadily increased from $135,190 in 1991 to $1,220,854 in 1996.

In discussion with TEC staff it was confirmed that gypsum is a by-product of the limestone used in the scrubbing operation for the removal of SO2 at Big Bend 3 & 4. The utility is performing this operation on BB3 in compliance with the Clean Air Act Amendments of 1990 (CAAA).

TEC is recovering costs associated with the CAAA in the Environmental Cost Recovery Clause (ECRC) for the period June 1996 through March 1997. The recovery of limestone costs for BB3 is based on the ratio of tons of SO2 removed at BB3 to the total removed at BB 3 & 4 combined.

During the ECRC filing period $1,079,297 was recorded as gypsum sales in the General Ledger. The utility did not allocate any of these sales tot the ECRC filing. If the utility had allocated gypsum sales on the same ratio as limestone costs were allocated, $394,716 of revenue would have been recovered through the ECRC filing.

The utility stated that gypsum sales revenues were included in the calculations of base rates.

AUDITOR OPINION: In discussions with FPSC Tallahassee staff it was not determined if all gypsum sales should be recovered in base rates or a portion allocated to the ECRC based on the allocated cost of limestone. Further follow-up by FPSC staff is needed to make a determination.

COMPANY RESPONSE: Tampa Electric agrees with the need for a determination on this issue. However, additional facts need to be considered.

Because the incremental limestone consumed is recoverable through the ECRC, it is reasonable that the incremental by-product revenue should offset ECRC expense. This is parallel to the logic discussed in our response to Disclosure No. 3. Just as incremental labor can be incurred without the creation of new positions, incremental revenue can be generated without the creation of new sales contracts. The integration causes an increase in the level of scrubbing which in turn causes an increase in costs and by-product revenues.

However, limestone is not the only cost incurred to facilitate the production of gypsum. Actually, gypsum is produced as a result of the entire scrubbing process. The complete process involves operating and maintenance costs. While it is true that a credit for gypsum revenue has not been included in any ECRC filing, it is also true that no operating costs (other than consumables) have ever been included in any ECRC filing. It would only be fair that any proposal to include allocated gypsum revenue in the filing should also include allocated operating costs in the filing as well.

Some gypsum sales during the period above were made from pre-existing stockpiles. Notwithstanding that fact, if the method described above is used, the company would agree with the allocated gypsum sales computed by the auditor for the period of $394,716. The allocated operating costs which should accompany these revenues is $417,921. The company would urge the Commission to consistently treat the positive and negative impact of any incremental dollars that result from the scrubbing process.

AUDIT DISCLOSURE NO. 3

SUBJECT: Payroll Charges

STATEMENT OF FACT: The utility's last rate case was under Docket No. 920324-EI, issued 02/02/93. This was for the historical test year ending 12/31/91 and projected test years 1992-1994.

The utility is recovering payroll costs in the Environmental Cost Recovery Clause (ECRC) for the period June 1996 through March 1997. The recovery of payroll costs for Big Bend 3 (BB3) is based on the ratio of tons of SO_2 removed at BB3 to the total removed at BB 3 & 4 combined.

Most of the employees whose payroll is being recovered through the ECRC were employed by the utility as of the last rate case in substantially the same capacity as their current position. TEC stated that no new positions were created for the ECRC.

During the ECRC filing period $281,636 of payroll charges were recovered.

AUDITOR OPINION: The possibility of payroll being recovered twice was discussed with FPSC staff. Further follow-up by FPSC staff is needed to make a determination on the appropriate payroll allocations.

COMPANY RESPONSE: Tampa Electric disagrees with the opinion above.

To operate the ongoing integration, which is a key component of CAAA compliance, the company has clearly incurred incremental labor costs. Although no new positions were specifically created for the FGD Integration, positions were modified and expanded to handle the additional work load.

The costs associated with salary level, incentive pay, salary grade and overtime of any employee is driven by the duties of that employee. The auditor's issue centers on the labor costs of existing employees. If an employee had been terminated in restructuring, then hired back with new responsibilities, the additional payroll costs would not likely be questioned as to inclusion in the ECRC. However, in light of the company's commitment to control overall costs, the expansion of current positions to handle additional work is preferred over the creation of new positions.

As stated above, the scope of certain employees' duties have been expanded to facilitate integration. Thus, the financial impact of expanding employee responsibilities cannot be ignored in evaluating the incremental cost of complying with new environmental rulings.