



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

DATE: October 25, 2000
TO: Division of Safety & Electric Reliability (Lee)
FROM: Division of Regulatory Oversight (Vandiver) *W*
RE: 000007-EI; Tampa Electric Company
 Audit Response; 12 Months Ended December 31, 1999
 Audit Control No. 00-021-2-1

Tampa Electric Company submitted the attached comments regarding the recent environmental cost recovery audit completed by the Bureau of Auditing. These comments are forwarded for your review.

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


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

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October 25, 2000

Ms. Denise N. Vandiver
Bureau Chief - Auditing Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

**Re: Docket No. 000007-EI; Audit Report;
ECRC - Twelve Months Ended December 31, 1999
Audit Control No. 00-021-2-11**

Dear Ms Vandiver:

Enclosed is Tampa Electric Company's response to your document request August 10, 2000, regarding the audit of Environmental Cost Recovery - Twelve Months Ended December 31, 1999.

If you have any questions, please call me at (813) 228-1444.

Sincerely,



Paula Thompson
Regulatory Specialist
Tampa Electric Company

Enclosure

cc: J. D. Beasley

AUDIT 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".

Auditor's 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 expense 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).

Company Response:

Tampa Electric does not dispute the fact that payroll costs are included in the capitalized costs recovered through the ECRC. The issue of capitalized payroll costs was raised in Docket No. 990007-EI and ruled upon in Order No. PSC-99-2513-FOF, issued December 22, 1999 in this same docket.

Tampa Electric's position regarding the recoverability of payroll costs associated with ECRC projects was stated by Tampa Electric's witness Phil L. Barringer in testimony

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filed October 1, 1999 in Docket No. 990007-EI. Mr. Barringer testified that payroll charges should be fully recoverable through the ECRC for all new environmental projects. These charges are incurred to construct or install equipment required by new or changed environmental requirements. Since the new environmental activity requested for recovery was not included in the test year of the company's last rate case, these payroll costs are appropriate for recovery through the ECRC. Thus no adjustment is warranted or appropriate for payroll costs included in total project costs to be recorded through the ECRC.

In Docket 990007-EI, the Commission's staff also requested that the parties provide information on the recovery of payroll costs through the ECRC and held workshops and solicited data through informal data requests on this subject. Tampa Electric supported the position that recovery of capitalized payroll costs is appropriate for recovery through the ECRC. Tampa Electric also submitted a late-filed exhibit in the deposition of Karen O. Zwolak, in Docket No. 990007, explaining the methodology used to calculate payroll costs included in the ECRC filings and quantified these payroll costs.

After review of the testimony and information provided, the Commission found that the recovery of payroll costs through the ECRC was appropriate and in Order No. PSC-99-2513-FOF-EI stated the following:

We approve as reasonable the following stipulation concerning whether the companies have made the appropriate adjustments to remove ECRC project costs that are being recovered through base rates:

The adjustments have been made in accordance with Order No. 94-0044-FOF-EI, issued January 12, 1994, in Docket No. 930613-EI.

For Tampa Electric, this included no adjustment to remove ECRC related payroll costs. Based upon the order, Tampa Electric reiterates its position presented in Docket 990007 and does not believe it is appropriate to make any adjustment to remove capitalized payroll costs from the costs recovered through the ECRC.

AUDIT 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.

Auditor's 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, an allowing for the audit adjustments reduced recoverable true-up by \$1,194.

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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.

Company Response: The company has made the noted corrections and on August 18, 2000 filed the revisions to its exhibit, KOZ-1 in the ECRC true-up filing.