BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 950379-EI

In the Matter of

DETERMINATION OF REGULATED EARNINGS OF TAMPA ELECTRIC COMPANY PURSUANT TO STIPULATIONS FOR CALENDAR YEARS 1995 THROUGH 1999.
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VOLUME 2

Pages 164 through 296

PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN E. LEON JACOBS, JR. COMMISSIONER LILA A. JABER COMMISSIONER BRAULIO L. BAEZ
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APPEARANCES:	(As heretofore noted.)

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I N D E X

WITNESSES

NAME:	PAGE NO.
JAMES W. SHARPE	
Direct Examination by Mr. Hart	167
Prefiled Direct Testimony Inserted	169
Cross Examination by Mr. Howe	190
Cross Examination by Mr. Elias	199
HUGH LARKIN, JR.	
Direct Examination by Mr. Howe	204
Prefiled Direct Testimony Inserted	206
Cross Examination by Mr. Hart	230
DELAINE M. BACON (Rebuttal)	
Direct Examination by Mr. Willis	270
Prefiled Rebuttal Testimony Inserted	271
Cross Examination by Mr. Howe	290
CERTIFICATE OF REPORTER	296

EXHIBITS

NUMBER:		ID.	ADMTD.
9	3/26/98 FPSC Staff Recommendation in Docket No. 950379-EI	248	269
10	Excerpt of 5/12/98 FPSC Agenda Conference Transcript	249	269

PROCEEDINGS

(Transcript continues in sequence from Volume 1.)

CHAIRMAN JACOBS: And I guess we're at your next witness, Mr. Willis.

MR. HART: Mr. Chairman, we would call James Sharpe.

JAMES W. SHARPE

was called as a witness on behalf of Tampa Electric Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. HART:

Q Mr. Sharpe, would you state your name, address and employer, please.

A I'm James W. Sharpe. My office address is 1155 Peachtree Street, Atlanta, Georgia. I'm with PricewaterhouseCoopers.

Q Mr. Sharpe, did you prepare prefiled testimony that's been filed in this docket?

A I did.

Q If I asked you the same questions today, would your answers be the same?

A They would.

MR. HART: Commissioners, we request that the prefiled testimony of James W. Sharpe be entered into the record as though read.

CHAIRMAN JACOBS: Without objection, show it as

entered into the record as though read.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

JAMES W. SHARPE

Q. Please state your name and business address.

A. My name is James W. Sharpe and my business address is 1100 Campanile Building, 1155 Peachtree Street, Atlanta, Georgia 30309.

Q. By whom are you employed?

A. PricewaterhouseCoopers LLP ("PwC" or "the firm").

Q. What are your particular responsibilities with PwC?

A. I am a tax partner in the Global Energy and Mining unit of the firm and, more specifically, I am the leader of the Utility Tax Section of that unit. My practice includes regulated gas and electric utilities involved in generation, transmission and distribution. My clients include both corporations and partnerships.

Q. Please briefly describe your education and professional background.

A. I received Bachelor of Science in Business Administration and Master of Business Administration degrees from the University of South Carolina. My undergraduate work includes a major in Accounting and I am a Certified Public Accountant. I started my career with South Carolina Electric and Gas Company where I held various positions including Director of Income, Property and License Taxes. I also was Manager of Taxes for Kansas City Power & Light Company before joining Coopers & Lybrand L.L.P. in 1985. Coopers & Lybrand and Price Waterhouse L.L.P. merged on July 1, 1998 to form PricewaterhouseCoopers LLP. I have been working in the utility industry for over 27 years and concentrating in utility taxation for over 23 years. In my role with PwC I have advised utility clients with respect to tax law changes, tax planning and the regulatory impact of income tax expense in cost of service and its corresponding effects on rate base. I have spoken to industry and internal PwC groups on many occasions regarding tax issues affecting utilities. I have requested private letter rulings for utility clients and have submitted testimony before state public service commissions

including Missouri, Pennsylvania, Kentucky, Kansas and Nevada. I have also submitted testimony before the Federal Energy Regulatory Commission.

Q. Mr. Sharpe, would you briefly describe your experience serving Tampa Electric Company ("Tampa Electric" or "Company")?

A. Yes. I have been working on the Tampa Electric audit engagement since I joined the firm in 1985, first as the tax manager and since 1988 as the tax partner. One of my responsibilities as the PwC tax partner for Tampa Electric is to review the Company's tax accrual and to ensure that the Company's tax expense and tax liability are adequate and conform to Generally Accepted Accounting Principles ("GAAP").

Q. Mr. Sharpe, what is the purpose of your testimony in this proceeding?

A. My testimony relates to certain tax adjustments and the related interest expense that Tampa Electric recorded in 1999 and to offer support for these adjustments. During the course of PwC's annual audit of Tampa Electric, the firm reviewed the tax adjustments that Tampa Electric

recorded and we agreed with such adjustments. More specifically, due to the chain of events related to the examination by the Internal Revenue Service ("IRS") of Tampa Electric, PwC believed that GAAP required that Tampa Electric reflect its tax positions for the years under audit and appeals, and for similar issues included in years yet to be audited.

Q. Mr. Sharpe, does Tampa Electric accrue its estimate of its tax liability each year for the current year and if so, why was it necessary to adjust its tax expense for such year in a later year?

A. Tampa Electric does estimate its tax liability each year for the current operating year. It is important to note that each year's tax expense is an estimate. Like most expenses that are estimates, subsequent events can cause estimates to be adjusted. Moreover, I believe there are various times when tax expense and interest on tax deficiencies and overpayments are accruable. The first time is the normal current year accrual of tax expense based on current results that reflect the Company's best estimate, at that time, of its tax expense. The next time is after the Company has filed its current year tax return and it uses better information to refine its prior

estimate of tax expense. Tampa Electric, like most large companies, typically adjusts its prior year tax accrual to reflect its actual filing position in the subsequent year. The next time is upon receipt of proposed audit adjustments and it is probable that the proposed tax adjustments will not be resolved favorably for the Company. Also, there may IRS administrative pronouncements or court decisions that could impact the tax treatment of a specific item. This could cause the Company's tax liability to be adjusted. The last time is after the IRS has audited the Company's tax return and the Company and IRS have finally determined the tax treatment of various issues and the IRS can no longer make adjustments to taxable income. Effectively, a taxpayer's final tax expense for any particular year is not known until the taxpayer and the IRS determine the proper tax treatment of items of revenue and expense.

Q. Mr. Sharpe, would you please briefly describe the IRS' audit procedures?

A. Yes. Due to the fact that Tampa Electric's parent company TECO Energy, Inc. ("TECO") is a large publicly traded entity, the IRS audits every tax return that TECO files. During these audits, the IRS will issue Form

5701, Proposed Adjustments, setting forth their proposed adjustments to taxable income. The taxpayer then has the opportunity to respond to the IRS' proposed audit adjustments. For issues in which the IRS and the taxpayer do not agree during the audit process, the IRS will issue its Revenue Agent's Report ("RAR") for adjustments to taxable income including a redetermination of the tax and any resulting interest expense. The taxpayer then has the option of agreeing to the tax as determined by the IRS or protesting the adjustments by formally notifying the IRS that the taxpayer does not agree to the tax treatment as proposed by the revenue agent. This protest is filed with IRS District Director and requests a conference with the IRS Appeals Office. This is the next administrative level. During this phase, the taxpayer and the appeals officer attempt to resolve differences. If the taxpayer and the IRS cannot agree, the taxpayer's next course of action is to go to court and let the court decide whether the taxpayer or the IRS has reached the correct conclusion with respect to a specific issue. Also, it is not uncommon for the IRS or the taxpayer to appeal a lower court decision in which the lower court reaches an unfavorable decision. The United States Supreme Court ultimately decides certain tax disagreements.

Q. Mr. Sharpe, is it common for the IRS and taxpayers to disagree about the tax treatment of an item or issue?

A. Yes. It is common for the IRS and taxpayers to disagree about the tax treatment of a particular item. While there are many items or issues in which there is no doubt as to the proper tax treatment, there are many situations in which there is no clarifying income tax regulation, clear-cut Internal Revenue Code section or court decision directly on point with regard to a particular factual situation. Thus, taxpayers must attempt to determine the correct tax treatment by relying on similar situations in which there is some related administrative, regulatory or case law guidance. Given that taxpayers do not want to pay any more tax than absolutely necessary and that the IRS is trying to ensure compliance and to collect tax, there is a natural tension between taxpayers and the IRS. Taxpayers will typically interpret laws in a way that minimize their tax and the IRS will interpret those same laws in a way that maximize the tax. Simply stated, taxpayers should be aggressive to minimize their tax.

In order to protect the revenues for the United States Treasury Department, the IRS will challenge taxpayers on selected issues. In addition to the normal issues that

are raised and discussed during the course of audit, the IRS attempts to ensure that taxpayers with similar issues are treated similarly. Thus, there are occasions when the IRS' utility industry group develops new issues for examining agents to audit. An example of such an issue is removal costs. Utilities consistently deducted removal costs as incurred for years after 1970. Several years ago, the IRS utility industry group pushed revenue agents to challenge the deductibility of removal costs as incurred. The IRS insisted that removal costs be capitalized and depreciated over the recovery period of the new property.

Q. Mr. Sharpe, what happens when taxpayers are too aggressive and take positions that are not justified?

A. Congress has granted the IRS broad authority to assess penalties when taxpayers are too aggressive in taking positions that are not justified by existing regulations, case law, administrative pronouncements or other similar guidance. In addition, any such assessed penalties are not deductible. Unlike penalties, interest is automatically calculated on tax deficiencies or overpayments. Interest reflects the time value of money that either the taxpayer benefited from when they

underpaid their tax or the government benefited when taxpayers overpaid their tax. Unlike penalties, interest expense assessed on tax deficiencies is deductible.

Q. Have Tampa Electric or TECO Energy ever been assessed penalties for taking a position on their tax returns that was too aggressive?

A. Neither Tampa Electric nor TECO Energy has ever been assessed penalties. Tampa Electric incurs interest expense and interest income on tax adjustments. It is my opinion that taxpayers, including Tampa Electric, should interpret tax laws and regulations in the way most favorable to them. In other words, taxpayers should be aggressive in interpreting tax provisions provided that they are not so aggressive that they incur non-deductible penalties. If a taxpayer takes a position on its return and the taxpayer ultimately loses the issue, the taxpayer is only out-of-pocket for the interest on the tax underpayment. If you assume that the taxpayer invests the underpayment in tax at a rate similar to that charged by the IRS, the taxpayer does not incur any net cost related to taking an aggressive position on its return. If the taxpayer ultimately sustains the aggressive tax position taken on its return, the taxpayer has had the use of the

funds and does not have to pay the tax relating to that issue. The IRS will not generally look for items that result in an overpayment of tax. The point is that tax practitioners urge taxpayers to be aggressive but not so aggressive or frivolous that penalties are incurred. The Florida Public Service Commission ("Commission") should likewise encourage this policy.

Q. Do you think that Tampa Electric's basic approach to its income tax return filings has been reasonable?

A. Most definitely yes. As I stated earlier, I have been reviewing Tampa Electric's income tax accrual and tax returns for over 15 years. In my opinion, Tampa Electric has been reasonable in its filing positions. Tampa Electric has not been too aggressive or too conservative. Like most taxpayers, Tampa Electric has filed tax returns based on reasonable positions seeking to pay the appropriate amount of tax due.

Q. If Tampa Electric has sought to pay the appropriate amount of tax due, why has it had to adjust its income tax and interest expense?

A. To restate my earlier comments, there are several steps in determining a taxpayer's final tax liability. The first step is the annual tax accrual that is booked for the current year based upon estimated taxable income. Many items are estimates and the exact amount of revenue or expense in not known until the books are closed and additional work in done. One example of an estimate used during the year is tax depreciation. Determining actual tax depreciation requires a lot of work to be done after the books are closed. After the tax return is filed, the IRS will audit Tampa Electric's income tax returns and propose certain adjustments. Tampa Electric will agree to some of the adjustments and not agree with others. The items that have not been agreed upon are protested and Tampa Electric and the IRS will attempt to reach an agreement during the appeals process.

Both the examination and appeals process can take several years depending on the complexity of the various issues. This is evident in that it was not until 1999 that the IRS determined the final tax for 1986-1988 and RARs were received for the 1989-1991 and 1992-1994 audit cycles. I also want to make the point that some of the issues resolved for those earlier years affect the current audit cycle and years not yet under audit. That is because

some issues are referred to as carryover items. An example might be helpful to explain carryover items. Assume that Tampa Electric has deducted certain costs that the IRS believes must be capitalized. Tampa Electric has consistently deducted the particular item for every year since 1986, then in 1999 the issue is finally determined for tax year 1986 that the cost should be capitalized. Every open tax return filed in years before 1999 has the cost deducted rather than capitalized. Thus, the IRS will have an adjustment for this issue for each open tax return filed before 1999. This is what is referred to as a carryover item. Once the issue is determined for the initial year for which this issue was raised, it is known that tax expense and interest should be recorded for carryover items included in subsequent returns.

Q. Why has it taken Tampa Electric so long to resolve these issues with the IRS?

A. The audit process to final determination proceeds at a pace dictated by the IRS and takes years to complete. In general, the IRS does not begin the audit process until several years after the tax return has been filed. The audit process can, at times, be extremely slow. The

appeals process can last years due to many factors including the fact that the IRS has fewer appeals officers with the necessary experience to handle cases as complex as Tampa Electric's. Also, there have been contentious issues that have caused difficulty in reaching resolution. However, once a determination has been made, it can help settle several audit cycles quickly.

Q. When is it determined that an issue is resolved?

A. The resolution can occur at various times. It can occur during the actual audit when the taxpayer and the IRS agree. It can occur during the appeals process. It can occur when the courts render a final decision.

Q. When should a company adjust its tax expense for an item that has been resolved?

A. In general, tax expense and any related interest on a tax adjustment should be recorded when that tax adjustment meets the criteria for recording an expense pursuant to Statement of Financial Accounting Standards No. 5, Accounting for Contingencies ("FAS 5"). Paragraph 8 of FAS 5 generally requires an expense to be booked when

information that is available indicates that it is probable that a liability has been incurred and the amount of the expense can be reasonably estimated. Thus, tax expense and interest should be recorded when information available indicates that it is probable that the taxpayer will incur tax expense and related interest.

Q. Based on the FAS 5 probable criteria, did Tampa Electric book its tax adjustment and the related interest in the right year?

A. As the external auditors of Tampa Electric, we believe that the tax adjustment and related interest were recorded in the right year because it became probable in 1999, given the events that occurred, that Tampa Electric would owe additional tax and interest. The events that resulted in Tampa Electric's tax liability being adjusted included: 1) In May 1999, Tampa Electric received the RAR for the 1989-1991 audit cycle; 2) In July 1999, the tax liability was finally determined for the 1986-1988 audit cycle; and 3) In November 1999, Tampa Electric received the RAR for the 1992-1994 audit cycle. The determination of taxes for the 1986-1988 audit cycle and the definitive positions taken on the issues under discussion here by the Appeals Officer were the necessary events that

triggered the recording of tax and interest expense. The adjustment to tax and the related interest expense included the income statement impact of carryover items in tax years 1995 through 1998. It is PwC's opinion that the IRS' positions and determinations of the issues made it clear that tax and interest expense must be adjusted in 1999. PwC agreed with Tampa Electric that the 1999 IRS activity resulted in the interest and tax expense accrual under the standard articulated in FAS 5 and therefore, the year for charging operations with the interest and tax expense adjustment was 1999.

Q. Mr. Sharpe, should the tax adjustment and related interest taken by Tampa Electric in 1999 be considered a prior period adjustment?

A. No. The events that resulted in the accrual for the tax and interest occurred in 1999. It was not until 1999, that it became probable that Tampa Electric would owe additional tax and interest on the adjustments to taxable income. In 1999, it became clear that Tampa Electric was not going to be able to sustain the tax return positions that it had taken on the various returns. Under GAAP, the adjustment of tax expense and the related interest were current year expenses in 1999, the year the

adjustment became probable. Once Tampa Electric recognized that its tax was understated, the tax accrual and related interest were required to be booked under GAAP. PwC discussed the various issues with Tampa Electric's Tax Department and the possible scenarios that could occur. We agreed with the conclusions reached by Tampa Electric. Tax expense and interest needed to be adjusted to reflect the most current information available. We also agreed with Tampa Electric's estimate of the amount of the adjustment. The conclusion reached by Tampa Electric and PwC is supported by APB Opinion 20, Accounting Changes, Paragraph 31 that states, in part, that "changes in accounting estimates should be not reported in financial statements of prior periods or by reporting pro forma statements for prior periods."

Q. Mr. Sharpe, do you have an opinion regarding whether the Commission should allow the tax adjustment and related interest to be included as a 1999 operating expense?

A. I do. Utilities should be encouraged to minimize their tax payments to taxing authorities. In the long run, I think that is the best policy for the ratepayers. I have been working in this industry since 1973 and if there is one common criticism that I hear about utilities, it is

that they are very conservative from a tax perspective. It is my opinion that utilities are conservative because if they take a tax position that someone might label as an aggressive tax position and subsequently lose the issue, there is the risk that the regulatory body might not allow the adjustment to tax and related interest as legitimate expenses. Thus, some utilities are extremely conservative due to the fact that if they sustain their tax position, the savings are passed to customers, and if they are not able to sustain their position, the shareholders pay the tax and interest. That type of regulatory policy does not encourage innovation and penalizes ratepayers and utilities for trying to minimize tax expense.

Q. Mr. Sharpe, would you summarize your testimony?

A. PwC reviews Tampa Electric's tax accrual and tax returns each year. In 1999, several events occurred that required Tampa Electric to adjusts its tax liability and related interest expense. PwC agreed that the adjustments were properly charged to operations in 1999 and agreed that the amounts were reasonable.

Q. Does that conclude your testimony?

A. Yes.

BY MR. HART:

Q Mr. Sharpe, would you please summary your testimony.

A Good morning, Commissioners. The purpose of my testimony is to support Tampa Electric's recording of the tax deficiency interest expense in 1999 and to explain why PricewaterhouseCoopers believes that generally accepted accounting principles, or GAAP, require that Tampa Electric record its tax exposure.

I describe the procedures for recording tax expenses and what happens when the tax position taken by the company is contested by the IRS. I conclude my testimony by confirming that PricewaterhouseCoopers agreed with the amount of the tax deficiency interest expense recorded in 1999.

More specifically, we agreed that the events that occurred prior to the recording of the expenses required the company to record the tax deficiency adjustments on its income statement. Accrual accounting dictated the company recognition of expense in 1999, and Tampa Electric is required to follow the accrual method of accounting.

I explained that it is common for the IRS and the taxpayer to disagree about the tax treatment of a particular item. There are many situations in which there is no clarifying income tax regulation, clear-cut Internal Revenue Code section, or court decision directly on point with regard to a particular factual situation.

As expected, the IRS will interpret this situation in a way that maximizes the tax while the company will typically interpret laws in a way that minimizes their tax liability. This could lead to a circumstance in which a tax position is contested, and the IRS may or may not prevail on that particular issue. If they do ultimately prevail, the tax plus tax deficiency interest expense must be paid to the IRS.

While Tampa Electric vigorously contested various issues before the IRS, facts and circumstances forced the company to record interest expense on tax deficiency in 1999. Given this framework, it is my opinion that a company should not be penalized by having tax deficiency interest expense disallowed as an operating expense. The expenses only arise because of tax positions taken were meant to minimize costs.

Tampa Electric has not been assessed any penalties by the IRS. In fact, in my 15 years of reviewing Tampa Electric's income tax accrual and tax return, I believe that the company has been reasonable in its basic approach to its income tax return filings and the positions taken on such returns.

As I discussed in my testimony, it can take very long periods of time to resolve tax issues, but once that settlement or recognition of cost becomes evident, it affects that very same tax position for all of the following tax years. These are called carryover items. And basically, if the tax position is considered a loss for one tax period, it must be recognized

as a loss in the outstanding audits which have not yet been completed. Therefore, the income statement impact of carryover items should be recorded to the income statement at the same time, which in this particular case was 1999.

Finally, my testimony also explains Financial Accounting Standard 5, or FAS 5, which is a standard for accounting for lost contingencies. FAS 5 generally requires an expense to be recorded when information is available that is probable that a liability has been incurred and the amount of that liability can be reasonably estimated. Therefore, tax expense and interest must be recorded when information is available that indicates it is probable that the taxpayer will incur tax expense and related interest.

Stated differently, the FAS 5 has required Tampa Electric to record an expense for some tax issues that have not been completely resolved. As the external auditors, we felt that Tampa Electric recorded its tax deficiency interest for the resolved and unresolved issues in the correct year. The IRS positions and tax assessments made it clear that tax and interest expense needed to be adjusted in 1999. It became clear that Tampa Electric was not going to sustain all of the tax return positions that it had taken on the various returns; therefore, under GAAP, the adjustments for tax deficiency interest expense were current year expenses in 1999.

The conclusion that the tax deficiency adjustment was

not a prior period adjustment is supported by ABP Opinion 20, Paragraph 31 that states, in part, that changes of this type should not be reported in financial statements of prior periods or by reporting pro forma statements for prior periods.

In summary, I believe that the company has been prudent in its recording of tax expense and the associated tax deficiency interest expense. It was appropriate for the company to take the tax positions that it did, and it was appropriate to record expenses in '99 associated with the positions that the IRS has and is expected to win.

MR. HART: We would tender the witness for cross examination.

CHAIRMAN JACOBS: Mr. Howe.

MR. HOWE: Thank you, Chairman Jacobs.

CROSS EXAMINATION

BY MR. HOWE:

Q Hello, Mr. Sharpe.

A Good afternoon.

Q Tampa Electric doesn't file its own tax return, does it?

A Yes, it does.

Q Does it file its own tax return, or does it participate in a consolidated return with TECO Energy and its affiliates?

A It participates on a consolidated return.

Q We've heard testimony today that the company in 1999 on a total company basis recorded $13.2 million of interest expense on tax deficiencies. Are you aware of that number?

A Yes.

Q Is interest expense on tax deficiencies deductible for tax purposes?

A Under certain circumstances, it is deductible for tax purposes.

Q What are those circumstances?

A Generally, if it's been paid, it would be deductible. If it's for items that are still being contested, it would not be deductible. There are some rules under Code Section 461 that dictates when the interest would be deductible.

CHAIRMAN JACOBS: Mr. Howe, is your microphone on?

MR. HOWE: Yes, it is. I've got the green light showing.

CHAIRMAN JACOBS: Okay.

MR. HOWE: Is it working? I'll just get closer to it. Excuse me. Do I need to repeat that last question?

CHAIRMAN JACOBS: We're okay.

MR. HOWE: Do you need a moment?

THE WITNESS: I'm ready.

BY MR. HOWE:

Q Mr. Sharpe, how much, if any, of Tampa Electric's

$13.2 million of interest expense on tax deficiencies that they recorded on their books and records for 1999 did they include in their 1999 tax return?

A I'm not sure how much. We did not look at that particular position.

Q Do you know if it was none, some, or all?

A Some of it had been paid, so some of it would have been deductible. The percentage or the portion of it, I do not know.

Q We're dealing with different three-year audit periods, are we not?

A We are.

Q Do you know which audit periods would have been paid?

A There was some interest for the 1986, '88, '89, '91 interest that was paid by 1999.

Q But we don't know how much was actually paid?

A I think Tampa Electric knows, the tax department knows.

Q And you mentioned the tax department. Who is the tax department? Is there a tax department that you work with at Tampa Electric, or is there a tax department at TECO Energy that handles the taxes for all the -- for the parent and the affiliates?

A There is a tax department at TECO Energy that handles the tax affairs for the consolidated group.

Q Mr. Sharpe, at Page 11 of your prefiled testimony, you state that it was not until 1999 that the IRS determined the final tax for 1986 to 1988. Has the IRS in fact to date determined the final tax for the years 1986 to 1988?

A I think the intent of that statement was, it wasn't until 1999 that the company and the IRS resolved their tax issues for those particular years.

Q Has Tampa Electric made the final entries on its books and records for audit years 1986 through '88?

A I think they have recorded the income statement impact. When you say "final entries," there are many individual items. For example, they keep up with deferred taxes for individual items. And to my knowledge, I'm not sure whether they have made those final entries down to the individual general ledger account, but certainly the financial statement impact of that entry they have made.

Q Have they made the final entries for interest expense on tax deficiencies related to the audit years 1986 to '88?

A They have made the interest expense, the impact, the financial statement impact related to those particular years for those items that they are going to owe the tax, yes.

Q All right. That they're going to owe the tax.

A The fact that they have paid some taxes, yeah. The financial statement impact of that particular year, the interest expense, they have calculated that number and made

that entry.

Q Was Tampa Electric making entries for interest expense on tax deficiencies for the 1986 through '88 audit period in years after 1999?

A I'm not sure about that. My impression would not be. I think Ms. Bacon may have testified on that particular issue.

Q When you were giving your summary, Mr. Sharpe, you referred to recording tax and tax deficiency interest expense. Would it ever be appropriate for a company to record interest expense on tax deficiencies without also recording the tax deficiency itself?

A I think so. There could be a situation like that.

Q Do we have that situation here?

A I think that if you look at the financial statements, that if you think about it, a lot of these items reflect timing items. If they reflect timing items, that's really, without trying to get too technical, that's really nothing more than a swap between the current provision versus the deferred tax provision.

So in some sense, on a timing item the revision has been recorded. It's either in the current revision or in the deferred tax provision. Whereas the interest expense is the thing that would affect the income statement. The switch between current and deferred really doesn't affect the income statement. So in some situations what we're looking at under

FAS 5 is the income statement impact, and that number would be very appropriate to record the income statement impact without necessarily recording the switch between current and deferred income taxes.

Q I think I understand your answer.

A I hope so.

Q My question, I guess, would be, do you know whether in 1999 Tampa Electric recorded everything associated with the interest expense on tax deficiencies that they recorded as an expense? By that I mean, recorded the tax deficiency itself, and I would assume from your previous answer that there would be adjustments to deferred taxes in the capital structure.

A Right.

Q Was all that done in 1999?

A In 1999, certainly, the interest expense -- I think it's important to somewhat clarify when we're talking about interest expense. We were looking at interest expense related to items that have been assessed or items that were in carryover years or items where we had exposure and it was probable that we were going to have a loss.

As far as recording that particular interest expense, our estimate at the balance sheet date, Tampa Electric recorded that particular amount. As far as the amounts to the detail ledger between current and deferred income taxes, I'm not sure, but I think Ms. Bacon and the tax department would be -- has

given some detail and would be better to answer that question.

Q Mr. Sharpe, are you aware that in 1997 Tampa Electric recorded a deferred debit for its income tax expense? I guess it's the only way I can characterize it right now.

A Yes, I am.

Q And at that time, they recorded a deferred debit only for the audit periods 1986 through '88 and 1989 through 1991; isn't that correct?

A I think that's correct, yes.

Q Would it be fair to say that the company never recorded any deferred debits for audit periods 1992 through '94 or '95 through '98?

A I think that's correct. But I would clarify that at the time they recorded the deferred debits and those early balance sheets to date, the company was still optimistic that they were going to prevail on those particular issues.

It really wasn't until 1999 when the '86-'88 year was resolved, as well as some denial of some refund claims, that it was very clear in 1999 the company was not going to be able to sustain those positions in which they had been optimistic before.

In 1999, at that point in time, the company realized that it couldn't sustain these particular positions, so therefore, it had to record an income tax expense adjustment for the interest on tax deficiency in 1990 under FAS 5.

Q Mr. Sharpe, have you seen Ms. Bacon's deposition?

A No, I haven't.

Q I'm going to be referring to Exhibit 17 in her deposition, and this appears to be a journal entry, and I'll hand it to you, for TECO Energy dated March 2001. And the title of the entry is "To Reallocate Interest Based on Final IRS Appeals Settlement for '86 to '88."

And my question, Mr. Sharpe, is, it appears to me that in March of 2001, Tampa Electric is still recording something related to interest expense on tax deficiencies for the '86 to '88 time period; is that correct?

A I think that's what this entry at the bottom of the description says, yes.

Q If that is the case, was there a final settlement with the IRS for the 1986 to 1998 (sic) audit period in 1999?

A I think there was a final settlement in 1999. I think this particular entry -- and Ms. Bacon at the tax department would clarify, but one of the things that dealt with was some interest calculation dealing with the Internal Revenue Service. Those numbers are -- it's not unusual for taxpayers and the service to disagree with how that number is calculated, and I think this entry is somehow related to that particular number. I think that's just reallocated.

But the financial statement impact, while there may be some true-up again under FAS 5, it is an accrual of a loss

contingency. It is adjusting our income tax expense which is an estimate or, in this particular case, an interest on that particular estimate. And as that number gets trued-up, then obviously there would be some additional entries that would be made.

Q Well, then, Mr. Sharpe, is it fair to say that although there was a final settlement with the IRS for the 1986 to '88 tax period in 1999, a final determination of the actual amount of interest expense Tampa Electric would owe to the IRS for the audit period 1986 to '88 had not been determined in 1999?

A Well, I think this particular entry here, if I look at it, if -- I don't know these particular account numbers, but I think it's really a deferred debit, which is a balance sheet account, and an accounts payable, which is another balance sheet account. I don't think these numbers affected the income statement. So I think that there may be some numbers clearing up the balance sheet, but I don't think these particular numbers affected the income statement.

Q Would it be unusual to see adjustments being made in years subsequent to '99 such as 2000, 2001, specifically on the category of interest expense on tax deficiencies for 1986 through '88?

A I think that there would be -- it's not unusual to see the interest on tax deficiencies to be adjusted annually,

because what happens is, it is an accrual, and we're constantly adjusting that accrual based on the facts and circumstances that we have at that particular time. The '86-'88 years, for all practical purposes, were settled in 1999 and that was the triggering event. At that point in time, it was clear that the company was not going to be able to sustain all the issues, so therefore that triggered the accrual.

To adjust that accrual, it is very typical that it just happens to occur. I mean, there are mathematical corrections that occur. I mean, we are talking about detailed calculations that's go back many years that deal with, for example, interest on underpayments and interest on overpayments. Those rates typically will fluctuate every six months depending on what the service -- what the interest rate does, how they adjust their applicable federal rates. So it's not unusual for those numbers to be trued-up. But as far as the issues for 1986-'88, those issues were resolved in 1999.

Q Just one other question. I just want to be sure, when you referred to the issues, you're referring to the underlying tax issues themselves, are you not?

A That's correct.

MR. HOWE: I have no further questions. Thank you.

CHAIRMAN JACOBS: Staff.

CROSS EXAMINATION

BY MR. ELIAS:

Q Mr. Sharpe, if I understand your response to Mr. Howe, you indicated that it might be appropriate to defer the interest on tax deficiencies but at the same time recognizing the expense of the tax liability in a particular year; is that correct?

A I think that the company has -- yes, they have done that.

Q And you believe that's appropriate?

A I think that from an auditor's perspective, I think that we didn't have any problems in that particular entry. Again, I think the swap between current and deferred effectively for these timing items, if you think about it from a financial statement's perspective, the liability is either in the deferred tax liability or the current, so it doesn't affect the income statement. The interest that was being paid, I think that they felt like they would -- particularly they would sustain those particular issues, and that's why it was charged to the balance sheet rather than to the income statement.

Q Now, that's only applicable in a circumstance when you're talking about a, quote, timing item; is that correct?

A I'm sorry, what kind of payment?

Q Now, that rationale that you just offered would only be applicable in the circumstance where you're talking about a timing discrepancy? In other words, a tax life.

A That's correct --

Q And if it was --

A -- or tax life or treatment between current expense versus having to capitalize it and it appreciated or amortized it or something like that.

Q To the extent that it related to an item where there was just a disallowance of the expense, it would not be appropriate to recognize --

A Yeah, something that would be what we refer to as a permanent difference; for example, a disallowance of lobbying costs or meals and entertainment, which is the subject of 50 percent disallowance. Something like that that does not affect timing, I think that that would be true.

Q With respect to the items that were specifically discussed as part of the company's 1997 recordation of deferred debit and interest -- or tax expense, are you aware of whether they were or were not timing issues?

A I think for Tampa Electric, the issues that we discussed, and which I would also say that many other companies that I work with in the industry, most of those issues are timing items, if not all of them.

Q At what point in time in the IRS's review of a given tax return does a tax liability become probable and reasonably estimated?

A Well, I think it's -- really, it's not even necessarily from a financial statement's perspective that it's

just related to an IRS audit. It could be related to a particular issue, for example, that the taxpayer has taken, and there's been some change in the tax law, some issue of a regulation, a revenue ruling, something that would state the IRS case or, for example, just a court decision.

An example of that might be, one of my other clients, they have a corporate-owned life insurance policy. The taxpayer took the position for that particular program, and there's been a series of court cases. When the first case came out that the taxpayer lost, we still thought that our taxpayer, or our client, they would win the particular issue. But with two additional adverse decisions, they had to book the tax expense. So the point could be, when the service raises the issue, it could be when the issue has been resolved, when in this particular, Tampa Electric and the IRS would reach some type of resolution or determination, or it could be something that has not been raised yet, but we think that we have exposure. And because we have exposure, we expect that it would be probable that it would be raised and we would lose that issue. At that point in time, it would be accruable under the FAS 5.

Q As to the particular issues that are the subject of this proceeding, what was the event that triggered your belief that it was appropriate for Tampa Electric Company to record the deficiencies and associated interest expense in 1999?

A I think it was what Mr. Howe had said. It was really the 1986-'88 settlement or resolution of that particular case. It was really the denial of some refunds for the other period. And I think at that point in time, it was obvious, I mean, it was obvious, it was evident that the company had not sustained all their tax positions, and they weren't going to sustain that. So at that point in time, I think it -- from our perspective, when I say "ours," PricewaterhouseCoopers' perspective, we felt like the company had to take a hard look and look at their particular issues and those items that they were exposed to and take a -- go through an analysis and determine what was probable. And those are the events that triggered that in 1999.

Q What was the trigger in 1997 that necessitated the deferral of the interest on the tax deficiencies as opposed to 1999?

A I think that was the payment of the tax. I think they -- just kind of the normal accrual accounting. They paid the tax, so they had to credit cash. And the debit was going to the deferral debit account rather than expense, because at that point in time, they still felt like that they were going to prevail on those issues.

Q Did they pay the tax, or did they pay the interest?

A They paid the tax and the interest.

MR. ELIAS: We have no further questions. Thank you.

CHAIRMAN JACOBS: Commissioners?

COMMISSIONER JABER: No.

CHAIRMAN JACOBS: Redirect.

MR. HART: No redirect.

CHAIRMAN JACOBS: Very well. And there were no exhibits.

Thank you very much, Mr. Sharpe.

THE WITNESS: Thank you.

(Witness excused.)

CHAIRMAN JACOBS: Very well. Mr. Howe, your witness.

MR. HOWE: The Citizens would call Mr. Larkin to the stand.

Commissioners, we filed -- consistent with Commissioner Baez's directions, we filed one errata correction to Mr. Larkin's testimony. Do I need to have him address that also?

CHAIRMAN JACOBS: Your witness can address that in his --

MR. HOWE: Okay. It was on Page 4, Line 7. Delete the word "earnings" and substitute the words "excess revenue."

CHAIRMAN JACOBS: Very well.

HUGH LARKIN, JR.

was called as a witness on behalf of the Citizens of the State of Florida and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. HOWE:

Q Would you please state your name and address for the record.

A My name is Hugh Larkin, Jr. My business address is 15728 Farmington Road, Livonia, Michigan 48154.

Q Are you the same Hugh Larkin, Jr. who caused to be filed the prepared direct testimony of Hugh Larkin, Jr. consisting of 20 pages on behalf of the Citizens of the State of Florida?

A Yes.

Q I've made the one correction from your errata. With that one correction, would there be any other changes to your prefiled direct testimony?

A No.

MR. HOWE: Chairman Jacobs, I'd ask that Mr. Larkin's prefiled direct testimony be inserted into the record as though read.

CHAIRMAN JACOBS: Without objection, show the prefiled direct as entered into the record as though read.

DIRECT TESTIMONY OF HUGH LARKIN, JR.

ON BEHALF OF THE CITIZENS OF FLORIDA

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

TAMPA ELECTRIC COMPANY

DOCKET NO. 950379-EI

INTRODUCTION

Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in the States of Michigan and Florida and the senior partner in the firm of Larkin & Associates, PLLC, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan 48154.

Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES.

A. Larkin & Associates, PLLC, is a Certified Public Accounting and Regulatory Consulting Firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates, PLLC, has extensive experience in the utility regulatory field as expert witnesses in over 400 regulatory proceedings including numerous water and sewer, gas, electric, and telephone utilities.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION?

A. Yes. I have testified before the Florida Public Service Commission on numerous occasions starting in the 1970's. I have also testified before Public Service Commissions in 35 state jurisdictions, the Federal Energy Regulatory Commission and the Canadian National Energy Board.

Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Larkin & Associates, PLLC, was retained by the Florida Office of Public Counsel (OPC) to analyze the excess earnings of Tampa Electric for the refund period ended December 31, 1999. In addition to the refund amount accruing to ratepayers for 1999, Tampa Electric should also refund the ratepayers interest for the period December 31, 2000 through the date the refunds are made.

ANALYSIS AND CALCULATION OF REFUND AMOUNT

Q. WHAT REFUND AMOUNT HAVE YOU CALCULATED?

A. I have determined that a refund for the year ended December 31, 1999, in the amount of $14,422,776 is appropriate. As previously stated, additional interest for the period through the date the refunds are made should be added to this refund amount.

Q. WOULD YOU PLEASE DISCUSS THE CALCULATION OF THE REFUND

AMOUNT?

A. Revenues were deferred and refunds were made for the years ending December 31, 1995, through December 31, 1999, pursuant to a settlement with Staff and two stipulations entered into by Tampa Electric, the Florida Industrial Power Users Group (FIPUG) and the OPC. The Florida Public Service Commission approved the settlement in Order No. PSC-95-0580-FOF-EI and approved the two stipulations in Order Nos. PSC-96-0670-S-EI and PSC-96-1300-S-EI. The deferral of revenues and refunds have been made for all years except 1999. Pursuant to the agreement entered into by the parties to the stipulations, Tampa Electric's earnings exceeding a 12% return on equity for 1999 are to be shared between the Company's customers and the Company using a 60/40 split. Ratepayers of the Company are to receive 60% of the excess of earnings over 12% for 1999, plus interest calculated at the 30-day commercial paper rate.

Q. DID YOU FOLLOW THE SAME METHODOLOGY USED BY THE STAFF IN CALCULATING THE REFUND DUE RETAIL CUSTOMERS OF TAMPA ELECTRIC?

A. Yes, I did. I utilized the same methodology that the Staff put forth in its December 7, 2000, recommendation with one exception.

Q. WHAT WAS THAT ONE EXCEPTION?

A. I removed the adjustment that the Company made to 1999 earnings for the

$12,687,671 of interest expense on tax deficiencies.

Q. WHAT EFFECT DOES THE REMOVAL OF THIS PROPOSED ADJUSTMENT HAVE ON THE REFUND AMOUNT?

A. By removing the interest on tax deficiencies from the refund calculation, income is increased by $7,793,402. After applying the tax gross-up factor of 1.628, the adjustment increases the ~~earnings~~ excess revenue by an additional $12,687,658 above the Staff methodology ($7,793,402 x 1.628).

Q. HOW DOES THIS AFFECT THE REFUND DUE RETAIL CUSTOMERS?

A. Since there is a 60/40 sharing of excess earnings over 12%, 60% of the increase in earnings would be refunded to retail customers. This amounts to $7,612,595 (60% x $12,687,658).

Q. SHOULD INTEREST BE ADDED TO THIS AMOUNT?

A. Yes, it should. Interest should be calculated on this balance from January 1, 1999, through December 31, 2000, as required by the stipulations. This brings the effect of removing the interest on tax deficiencies adjustment to $8,320,657 at December 31, 2000. To this amount I added the Staff recommended refund amount of $6,102,119, resulting in a total refund due to retail customers at December 31, 2000, of $14,422,776. Additional interest should be added to this amount through the actual refund date.

Q. PLEASE EXPLAIN WHY YOU REMOVED THE AMOUNT IN THE STAFF RECOMMENDATION RELATED TO INTEREST ON TAX DEFICIENCIES FROM THE INCOME STATEMENT FOR REFUND CALCULATION PURPOSES.

A. I was asked to make a calculation of the refund amount based on my understanding of the clear wording of the stipulations involved. While I am not making a legal interpretation of the ramifications of the stipulations, I am able to clearly understand the meaning of the stipulations as they are worded. The first stipulation was entered by the parties on March 25, 1996, and approved by the Commission in Order No. PSC-96-0670-S-EI, issued May 20, 1996.

Paragraph 10 of that stipulation states:

> The Company plans to take a position regarding the tax life of its Polk Power Station intended to minimize its revenue requirements and to provide maximum benefits to its customers. The Parties agree that any interest expense that might be incurred as the result of a Polk Power Station related tax deficiency assessment will be considered a prudent expense for ratemaking purposes and will support this position in any proceeding before the FPSC.

It is clear that the Parties intended that only interest assessed on tax deficiencies related to the Polk Power Station would be included as reductions of operating income for refund purposes. The stipulation does not mention any other tax deficiency on which interest might be assessed by the IRS that should be included for determining net operating income for refund purposes. The

stipulation, in my opinion, was designed to limit the adjustments for interest expense on tax deficiency to only those assessments and the related interest which are directly related to the Polk Power Station.

Q. HAS MS. BACON OR MR. SHARPE IDENTIFIED ANY INTEREST EXPENSE ON TAX DEFICIENCIES WHICH RELATE SPECIFICALLY TO THE POLK POWER STATION?

A. To my knowledge, they have not. Although the stipulation clearly sets out the basis for recognizing interest on tax deficiencies, neither witness for Tampa Electric has identified any of the actual or proposed interest expense on tax deficiencies assessed by the IRS as specifically relating to the Polk Power Station. In fact, it appears that they have completely ignored this section of the stipulation in recommending that any and all interest on tax deficiencies be used as a reduction of operating income for refund purposes. It seems clear that this is inappropriate. There would be no reason or basis for including Paragraph 10 in the stipulation if, in fact, one could include any and all interest on tax deficiencies as a reduction of operating income. This clearly does not appear to be the intent of the Parties since otherwise it would be unnecessary to include this specific paragraph in the stipulation.

Q. IS THERE ANY OTHER PARAGRAPH IN THE STIPULATION WHICH, IN YOUR OPINION, EXCLUDES THE USE OF INTEREST ON TAX

DEFICIENCIES AS A REDUCTION OF OPERATING INCOME FOR REFUND PURPOSES?

A. Yes, there is. Paragraph 11 of the original stipulation states as follows:

> The calculations of the actual ROE for each calendar year will be on an "FPSC Adjusted Basis" using the appropriate adjustments approved in Tampa Electric's full revenue requirements proceeding. All reasonable and prudent expenses and investment will be allowed in the computation and no annualization or proforma adjustments shall be made.

Q. WHAT IS YOUR INTERPRETATION OF PARAGRAPH 11 OF THE ORIGINAL STIPULATION?

A. My interpretation of Paragraph 11 is that the calculation of the return on equity for each year covered by the stipulation will include only those adjustments approved by the Florida Public Service Commission in Tampa Electric's last full revenue requirement proceeding. An examination of Tampa Electric's last rate order does not show any adjustment for interest on tax deficiencies. Even if it did, Paragraph 10 would, in my opinion, have limited the interest on tax deficiencies only to those associated with the Polk Power Station. It is apparent that the stipulation limits the adjustment of operating income for return on equity calculation purposes only to interest assessed on tax deficiencies related to the Polk Power Station. Otherwise, Paragraph 10 would have no meaning or effect, and Paragraph 11 would have no meaning or effect.

Q. PARAGRAPH 11 STATES, IN PART, "ALL REASONABLE AND

PRUDENT EXPENSES AND INVESTMENT WILL BE ALLOWED IN THE COMPUTATION AND NO ANNUALIZATION OR PROFORMA ADJUSTMENTS SHALL BE MADE." IN YOUR OPINION, DOES THAT SENTENCE HAVE ANY IMPACT ON THE INCLUSION OF INTEREST RELATED TO TAX DEFICIENCY ASSESSMENTS?

A. No, it does not. It is my opinion that the meaning of this sentence would allow the inclusion of increases in plant investment and operating and maintenance expenses if they have occurred. These increased levels of expenses of items of the same type and nature should be allowed in the calculation of the return on equity as long as they are reasonable and prudent. This sentence, however, does not allow for the inclusion of an expense which was never before included in the calculation of operating income for ratemaking purposes. The interest on tax deficiencies, which the Company is attempting to include in its calculation of earnings for sharing purposes, is not reasonable and prudent because it was not, and has not been included as an adjustment in Tampa Electric's last full revenue requirements proceeding. Under the Company's interpretation, one would have to conduct a complete rate case analysis in order to determine if there were expenses or income items not included for ratemaking purposes in the last revenue requirement proceeding which might appropriately be included or excluded in this proceeding. In my opinion, that was not the purpose or intent of the stipulation or this sentence in the stipulation.

Q. DID THE STIPULATION ENTERED INTO BY THE PARTIES ON SEPTEMBER 25, 1996, AND APPROVED BY THE COMMISSION IN ORDER NO. PSC-96-1300-S-EI, ISSUED OCTOBER 24, 1996, MODIFY OR CHANGE THE BASIS ON WHICH EARNINGS WERE TO BE CALCULATED FROM THE ORIGINAL STIPULATION?

A. In my opinion, it did not. In fact, Paragraph 14 of the second stipulation states: "The first stipulation is hereby ratified and continued except as specifically modified herein." There were no modifications related to the calculation of earnings. There were modifications related to the return on equity above which the sharing between stockholders and ratepayers would be triggered. However, the basic methodology for calculating earnings on an "FPSC Adjusted Basis" was continued and the recognition of only interest on tax assessments associated with the Polk Power Station remains part of the stipulation. The stipulation required an additional refund of $25,000,000 and extended the sharing of over-earnings to include the year 1999.

PURPORTED BENEFITS TO RATEPAYERS AS JUSTIFICATION FOR REDUCING REFUNDS

Q. BOTH THE STAFF AND THE COMPANY HAVE ADVANCED A THEORY THAT RATEPAYERS HAVE BENEFITTED BY REDUCED RATES AS A RESULT OF THE TAX POSITIONS TAKEN BY THE COMPANY. WOULD YOU DISCUSS THAT PURPORTED BENEFIT?

A. The Commission's Order in the Company's last rate case, Docket No. 920324-EI, clearly shows that this argument is fallacious. The driving factor in setting rates in that docket was not the capital structure, the return on equity or the operating income of the Company. The Commission, in that decision, used a targeted interest coverage ratio in order to adjust rates to a level which would provide the Company a before-tax operating income, which would be 3.75 times interest expense. This is evident from the Commission's decision on page 32 of Order No. PSC-93-0165-FOF-EI, which states as follows:

> TECO's witness Mr. Abrams, who is employed by the Duff & Phelps rating agency, testifies that a 4.0 times interest coverage is appropriate for a AA-rated electric utility. Standard and Poor's, another rating agency, indicates that interest coverage for a AA-rated electric utility should be above 3.5 times. We believe the Company should be allowed enough CWIP in rate base to maintain an interest coverage of approximately 3.75 times. Therefore, in 1993, we allow only the $18,793,000 of CWIP ineligible for AFUDC in rate base. We have calculated, on a jurisdictional basis, that eliminating the remaining CWIP in 1993 will allow Tampa Electric a 4.16 times interest coverage.
>
> In 1994, we allow $48,017,000 of CWIP in rate base. Disallowing the remaining CWIP in 1994 will jurisdictionally allow Tampa Electric a 3.75 times interest coverage. Mr. Abrams testifies that Tampa Electric will be in the peak year of its construction program in 1994. Based on this testimony, we believe that if Tampa Electric does not fall below the interest coverage standard for a AA-rated electric utility in the critical year of 1994, the financial pressure on the company caused by the construction program will begin to moderate.

As can be seen from this discussion, the Commission picked the midpoint of a times interest coverage ratio between a witness who recommended 4.0 times interest coverage and a Standard and Poor's recommendation of 3.5 times

interest coverage. This midpoint of 3.75 times interest coverage ratio was the driving factor which determined how large the increase in rates authorized by the Commission would be. If the Commission had adopted the 3.5 times interest coverage ratio, there would have been less or no increase in rates authorized under that Order. If the Commission had adopted a 4.0 times interest coverage ratio, then the rate increase authorized would have been larger. The Commission adjusted the amount of Construction Work in Progress (CWIP) allowed in the rate base to achieve its desired interest coverage ratios. The underlying factor which determined the level of rate increase was the interest coverage ratio and not any other specific component of the Commission's Order. It certainly was not the amount of deferred taxes in the capital structure.

The Commission determined that its concern for the financial integrity of Tampa Electric and its ability to maintain a AA-rating should be the basis on which the level of revenue would be determined. Clearly, if the Commission had established rates without including CWIP in the rate base, and thereby attempting to maintain a 3.75 times interest coverage ratio, the level of revenues would have been less or even a rate reduction. To now say that one component of the capital structure had the effect of decreasing ratepayers rates in the Commission's Order in Docket No. 920324-EI, when it is clear that the Commission adjusted rates to achieve an interest coverage ratio, is inaccurate. Rates were not established to meet the traditional requirements of the overall

rate of return, but were established to meet the times interest coverage ratio.

Q. DID THE RATES ESTABLISHED IN DOCKET NO. 920324-EI RESULT IN TAMPA ELECTRIC EARNING WITHIN THE RETURN ON EQUITY RANGE ESTABLISHED BY THE COMMISSION?

A. No, it did not. It became apparent in 1995 that the Company would substantially overearn in 1995 and 1996. The Company was ordered to defer revenues, in part, with interest. Tampa Electric's 1995 revenues were deferred on the basis of 50% of earning over an 11.75% return on equity and 100% over a net return on equity of 12.75%. The Company deferred $50,517,063 of 1995 revenues to 1997.

The Commission's Order No. PSC-93-0165-FOF-EI in Docket No. 950379-EI states, in part: "For 1996, TECO's own projections indicate that substantial overearnings were likely." The Company deferred revenues of $37,081,064 from 1996 to 1997. Part of this deferral, $15 million, was included in the $25 million refunded over the period October, 1996, through September, 1997.

Q. WHAT RELEVANCE DOES THE LEVEL OF RATES SET IN DOCKET NO. 920324-EI HAVE TO THE STAFF'S AND THE COMPANY'S USE OF A COST-BENEFIT ANALYSIS TO JUSTIFY THE INCLUSION OF INTEREST ON TAX DEFICIENCY ASSESSMENTS IN THE REFUND

CALCULATION?

A. Both the Staff and the Company are, in essence, arguing that the ratepayers received a break because of tax positions taken by the Company, which they claim were incorporated in the rates authorized in Docket No. 920324-EI. In essence, the Staff and the Company are saying that, if the Company had taken different tax positions, rates would in effect have been higher than they currently are. The Company has deferred revenues and/or made refunds to ratepayers in 1995, 1996, 1997 and 1998. The Company was able to retain a substantial part of the overearnings for stockholders during the period from 1995 to 1998. Clearly, rates were established at an excess level in Docket No. 920324-EI. It is disingenuous for the Company and Staff to argue that ratepayers received some kind of benefit because they were not over-charged even more in the periods subsequent to the Company's last rate case, because of tax positions taken by the Company.

CONCEPTUAL BASIS OF COST-BENEFIT ANALYSIS IS FLAWED

Q. DO YOU BELIEVE THAT THE CONCEPTUAL BASIS OF THE COMPANY'S COST-BENEFIT ANALYSIS IS FLAWED?

A. Yes, I do.

Q. HOW IS THAT SO?

A. The Company's so-called Cost-Benefit Analysis assumes that a benefit flowed to

ratepayers from the deferral of revenues pursuant to the stipulations. The assumption made by the Company is that all these deferrals benefitted the ratepayers, which is not the case. In fact, the deferral of the revenue was designed to maintain the Company's earnings at up to a 12.75% return on equity in 1997. The Company's cost/benefit analysis assumes that the deferral of revenues was to flow to the benefit of the ratepayers and, therefore, should be counted in the Cost-Benefit Analysis as a customer benefit. However, the stipulations required that the deferred revenue would be set aside and utilized by the Company in 1997 to maintain its return on equity at up to 12.75%. This obviously cannot be counted as a benefit received by ratepayers as the benefit actually flowed to the stockholders.

Q. HOW WERE EXCESS EARNINGS TREATED IN 1997?

A. Any excess earnings over 11.75% was split 60/40 with the 40% allocated to stockholders being counted as earnings in 1997. The remaining 60% was deferred into 1998. The Company recorded $27,056,807 of the deferred revenues in 1997. An additional amount of $34,069,010 was recorded in 1998. Pursuant to the stipulation, refunds were made to ratepayers over a 12-month period starting in October 1996. According to the Company, these refunds totaled $25,737,978. The net balance of the deferral, therefore, is $734,332. This amount is calculated as follows:

1995 Revenue Deferral per Order No. PSC-97-0436-FOF-EI	$50,517,063
1996 Revenue Deferral per Order No. PSC-99-0683-FOF-EI	37,081,064
1996-1997 Refund	(25,737,978)
1997 Revenue Reversal per Order No. PSC-99-1940-PAA-EI	(27,056,807)
1998 Revenue Reversal per Order No. PSC-99-2007-PAA-EI	(34,069,010)
Balance of Deferred Revenue for Customer Refunds	$ 734,332

Thus, the excess revenue paid by ratepayers primarily went to the benefit of the Company's stockholders.

Q. DID THE RATEPAYERS RECEIVE AN ADDITIONAL REFUND OF APPROXIMATELY $13 MILLION FOR 1998?

A. Yes, they did. This refund was composed primarily of interest which the ratepayers had paid.

Q. HOW DID THE RATEPAYERS PAY THE INTEREST WHICH WAS INCLUDED IN THE REFUND?

A. The Florida Public Service Commission included the deferred revenue in the capital structure at a cost rate of the 30-day commercial paper rate. This, in effect, charges the ratepayer for the carrying cost of the deferred revenues because earnings are reduced by the weighted cost of the deferred revenue included in the capital structure. So the refund to ratepayers is really the carrying cost of the deferred revenues which in essence has already been paid for by ratepayers.

In summary, the Company's cost/benefit analysis concludes that ratepayers first of all benefitted from deferred revenues that essentially went to stockholders and that ratepayers benefitted because rates set in the prior rate case could have been more excessive then they were and overcharged the ratepayer even more than they did. Obviously, this is a convoluted conclusion since deferring revenues that essentially went to stockholders and not overcharging ratepayers more cannot be considered as benefits to ratepayers.

RETRO-ACTIVE RATEMAKING

Q. DOES THE USE OF A COST-BENEFIT ANALYSIS BASED ON ISSUES DECIDED IN A RATE ORDER ISSUED FEBRUARY 2, 1993, TO OFFSET A REFUND BASED ON A 1999 OVEREARNINGS CALCULATION HAVE RETRO-ACTIVE RATEMAKING IMPLICATIONS?

A. In my opinion, it does. The Company and the Staff are, in effect, stating that ratepayers received lower rates in the years 1993 through 1999 because of tax positions taken by the Company, which were incorporated within the test period upon which rates were based in Docket No. 920324-EI. Due to the fact that rates were lower in those years, according to the Cost-Benefit Analysis, ratepayers should be willing to accept a lower refund based on 1999 overearnings, because the overcharges that they paid in 1993 through 1999 were less than they could have been. This does not seem to be a reasonable basis for the Commission to determine refunds to ratepayers when it is clear that rates

were overstated in the Company's last base rate case decided in 1993. If the Commission had not included any CWIP in the Company's rate base, or had decided that 3.5 times interest coverage ratio was appropriate rather than a 3.75 times interest coverage ratio, then the level of rates would have obviously been lower. If one were to argue that the difference between 3.75 and 3.50 interest coverage ratio was a benefit that the Company received, which should be considered in a Cost-Benefit Analysis, the end result would show that the ratepayers provided funds to the Company which were not necessary to maintain its authorized return on equity. Obviously the interest coverage ratio which the Commission picked was a matter of judgment which the Commission thought was appropriate in establishing rates. The same is also true with the capital structure. The level of deferred taxes and other components in the capital structure were projections and were analyzed and based upon the Commission's best judgment at that time. To now take one component of that capital structure and argue that it benefitted the ratepayer to the extent that the ratepayers refund should be reduced while at the same time acknowledging that the Company has overearned since those rates were established in my opinion is retro-active ratemaking.

OTHER ADJUSTMENTS MADE BY THE COMMISSION DO NOT JUSTIFY THE INCLUSION OF INTEREST ON TAX DEFICIENCIES

Q. MS. BACON, IN HER TESTIMONY, CLAIMS THAT CERTAIN

ADJUSTMENTS MADE BY THE COMMISSION ARE NOT APPROPRIATE BECAUSE, "NONE OF THESE ADJUSTMENTS WERE SPECIFIED IN THE STIPULATIONS NOR INCLUDED AS ADJUSTMENTS IN THE LAST PROCEEDING, BUT HAVE BEEN MADE BY THE COMMISSION BASED UPON A 'REASONABLE AND PRUDENT' CRITERIA." WOULD YOU PLEASE COMMENT?

A. If the Company, in fact, felt that these adjustments were inappropriate and did not fall within the stipulation, or were not adjustments made in the last rate proceeding, then it could have protested the Commission's decision. It should not be allowed to now raise these issues as justification for including interest on tax deficiencies as a reduction to the rate refund. For Ms. Bacon to now state "...then all adjustments made by the Commission to date that were not contemplated in the stipulation would not be allowed and should be removed." would, in my opinion, circumvent the nature of this proceeding. If the OPC had not raised the interest on tax deficiency as an issue in its protest, obviously there would be no hearing even on that issue. If, in fact, as Ms. Bacon states that these items were not in the stipulation nor in the last rate proceeding, it is inappropriate for the Company to now attempt to raise those issues in this proceeding.

EFFECT OF EXCLUDING INTEREST ON TAX DEFICIENCIES FROM REFUND CALCULATION

Q. MR. SHARPE, IN HIS TESTIMONY, IMPLIED THAT THE TAX POSITIONS TAKEN BY TAMPA ELECTRIC WERE FOR THE BENEFIT OF THE RATEPAYERS, DO YOU AGREE WITH THAT CONCLUSION?

A. No, I do not. The tax positions taken by Tampa Electric on its returns filed with the IRS are designed to maximize the Company's cash flow for the benefit of stockholders. In other words, Tampa Electric does not file a tax return through its parent TECO with the thought in mind that it would benefit ratepayers. The positions taken by the Company on its tax return are done so to limit its tax liability. Rates are not established every time the Company files a tax return. Therefore, the tax benefits of any position taken on a tax return flow to the stockholders and are only reflected in rates if a rate case were filed in that given year. For instance, Tampa Electric's rates were adjusted in the mid-1980s. Any so-called "aggressive" tax position taken after rates were established in that rate case would flow to the benefit of the stockholders. Unless the same deduction were available when rates were established in the next rate case, which was filed in 1992 with rates being implemented in February 1993, any deduction taken and the cash flow benefit would flow to the stockholders because rates were established on the revenues, expenses and tax deductions implicit in the rate case in the mid-1980s. Tax positions taken by a company are taken not with a view in mind of benefitting ratepayers, but with the view in mind of benefitting stockholders.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BY MR. HOWE:

Q Mr. Larkin, would you please summarize your testimony.

A Yes. Good afternoon, Commissioners. I'm going to cut right to the chase. And I don't think there's any dispute about what effect the interest on tax deficiency has on the size of the refund. The company has not disputed it, and I've made a calculation that states that it's about $14.4 million. The Staff's calculation is about $6 million or $6.2 million. And essentially what we're saying is that the stipulation is clear. And if you read it clearly, Paragraph 10 states in its entirety, "The company plans to take a position regarding the tax life of its Polk Power Station intended to minimize its revenue requirements and to provide maximum benefits to its customers. The parties agree that any interest expense that might be incurred as the result of a Polk Power Station related tax deficiency assessment will be considered a prudent expense for ratemaking purposes and will support this position in any proceeding before the FPSC."

Clearly, those two sentences are related. They're in Paragraph 10, and one relates to the other. You cannot read them separately. You cannot construe that tax deficiencies are a separate entity from other tax deficiencies. And it's our position, my position, that the parties intended that only tax deficiencies associated with tax life on the Polk Power Station

would be recognized as an adjustment to operating income for refund purposes.

The other applicable paragraph is Paragraph 11. And, again, this says, "The calculations of the actual ROE for each calendar year will be on an FPSC adjusted basis using the appropriate adjustments approved in Tampa Electric's full revenue requirements proceeding. All reasonable and prudent expenses and investment will be allowed in the computation and no annualization or pro forma adjustments shall be made."

Our position is that those two sentences relate to each other; that in Paragraph 10, you can only recognize for adjusting operating income Polk Power Station tax deficiencies related to tax life. And in Paragraph 11, you can only recognize adjustments that were made in the last rate case; that you can't read the two sentences in both paragraphs separately and reach a different conclusion. And that's what you'd have to do in order to come to the conclusion that the company and the Staff has. So our position is that ratepayers are entitled to the full refund of $14 million that I have calculated and that what we've calculated is in compliance with the stipulation.

Now, I want to turn to the cost/benefit analysis, and particularly, I want to focus on the revenue requirement that was established by this Commission in 1994 going forward. That revenue requirement was calculated based on an interest earned

calculation. In other words, if you had $120 million of interest, the net operating income before taxes had to be 3.75 percent -- 3.75 times that to meet that standard for --

MR. HART: Could you tell me where in your direct testimony that is?

THE WITNESS: I'm giving an example. Yes. Where in my direct testimony 3.75 is? Yes. It's on Page 17.

So the 3.75 determines how high the revenue requirement would be. Deferred taxes has nothing to do with it. If you took all the deferred taxes out of the capital structure, the revenue requirement would still be the same, because you're trying to come up with a before tax earnings that is 3.75 times interest. If you double the deferred taxes, you'd get the same results. So one has nothing to do with the other.

Once the Commission used a financial stability standard in order to meet a AA bond rating, the capital structure has no meaning. How much deferred taxes has no meaning. You could take my heighth times $20 million as a starting point and say, okay, that's where we're going to start, but we're going to adjust that number up to 3.75 times the interest. So when the Commission in 1993 set these rates, deferred taxes had nothing to do with the level of revenues that ratepayers paid. It was the earnings multiple or the interest earned multiple that determined what the total revenue

would be. That's the rates that were in effect in 1994, the rates that were in effect in 1995, the rates that were in effect in 1996, '97, '98 and today. Nothing has changed, nothing has changed.

It became obvious that those rates would result in excess earnings to the company, and stipulations were entered into that would defer revenues, refund revenues to ratepayers, and allow the company to put the Polk Power Station in the rate base. Base rates were never changed. The fact that you make deferrals, the fact that you made refunds, those are a result of the stipulations. Deferred taxes had nothing to do with the level of revenue requirements after 1994. They had nothing to do with what the rates are that are in effect today.

Now, about tax positions. The company doesn't take tax decisions based on decisions you make unless you'd make a specific order or specific item in an order that says, you will do thus and such. The company looks at the best way to run the business, the best way to maximize revenues and expenses, cash flow, and it takes those positions regardless of what you might do unless you specifically order them to do a specific thing. So the decision to give the ratepayers the full amount of the refund, the company will go back, and it will fill out the tax returns the same way they have done year after year after year, looking at the deductions, determining what they reasonably can claim and making that claim. It will not affect that decision

to make the full amount of the refund. And I think that concludes my summary.

MR. HOWE: We tender Mr. Larkin for cross.

CHAIRMAN JACOBS: Thank you. Before we begin cross, we'll take a break. We'll take 15 minutes and come back at 3:25.

(Brief recess.)

CHAIRMAN JACOBS: We'll go back on the record. And I believe Mr. Willis -- I'm sorry, Mr. --

MR. HART: Hart.

CHAIRMAN JACOBS: -- I'm sorry, you may proceed.

CROSS EXAMINATION

BY MR. HART:

Q Mr. Larkin, isn't it correct that you have not formed a professional opinion as to whether the company was prudent or imprudent in taking the tax positions that gave rise to the tax deficiency interest expense at issue in this case?

A I have not looked at the individual tax positions and have not formed an opinion whether they were right, wrong, or indifferent. And I don't think that you get to that stage --

Q Thank you.

A -- that cost/benefit analysis is not something that you would do --

MR. HART: Mr. Chairman, he's way beyond what I asked him. I'm going to get there, but he's way beyond where it is

now.

CHAIRMAN JACOBS: Okay. Let's just -- restate the question, and then we'll get -- I'll ask him to restate your question, and then you can come back with an answer.

MR. HART: The question I asked him was, isn't it correct that he's not formed a professional opinion as to whether or not the company was prudent or imprudent in taking the tax positions that it took? And he answered that, that he had not, and then he moved on to something else.

CHAIRMAN JACOBS: Okay. Traditionally, we do allow a witness to explain the answer but not to expand upon it.

MR. HART: It was an unrelated subject.

CHAIRMAN JACOBS: Okay.

THE WITNESS: It was related to why it was not necessary to form an opinion. He asked me, did you form an opinion, and I said, no, and I didn't think it was necessary because a cost/benefit analysis is not an appropriate way.

CHAIRMAN JACOBS: Well, why don't we let your answer stand with that? And then if he wants to come back with additional questions, we'll let him do that.

THE WITNESS: Well, I think Mr. Howe let Ms. Bacon answer item for item. I don't think it's proper to cut me off.

CHAIRMAN JACOBS: No, I'm sorry. I thought you were done with your statement just then.

THE WITNESS: No, I wasn't finished.

CHAIRMAN JACOBS: Okay.

THE WITNESS: Well, I've forgotten now.

CHAIRMAN JACOBS: Subject to some discretion, why don't you go ahead and finish your statement?

THE WITNESS: My statement was that I didn't and it isn't appropriate because there is no cost/benefit analysis that should be used. It is not proper to look back at theoretical benefits, and I question whether any benefits were actually received by ratepayers to reduce future refunds. Cost/benefit analysis are done either to examine the current cost in relationship to a current benefit or a past cost in relationship to a past benefit. But you don't examine a past cost in relationship to reducing the current refund.

CHAIRMAN JACOBS: I understand.

THE WITNESS: And that's the reason why it would not be appropriate to look at the tax positions taken by the company. Our position is that the cost/benefit analysis is not appropriate.

CHAIRMAN JACOBS: And his question went back to the prudency test, and your response was that the cost/benefit analysis would not be appropriate because that would not be a part of the your prudency determination.

MR. HART: Mr. Chairman, what he first testified to is that he had no opinion on whether it was prudent or imprudent. Then he went on to talk about the cost/benefit

test.

CHAIRMAN JACOBS: Well, now that he's spoken into the record, anyway, why don't we move on?

BY MR. HART:

Q Isn't it true that in your testimony you have not testified that the amount of tax deficiency interest expense that the company recorded in 1999 was improperly recorded under generally accepted accounting principles?

A I have not formed an opinion as to whether it should be below the line on the company's final statements. They have formed an opinion that is not appropriate to be included for adjustment to the test year for determining refunds.

Q The question I asked you, though, was, you have not formed a professional opinion that 1999 was the inappropriate year to record the tax deficiency interest expense that the company recorded; isn't that correct?

A That's correct. They --

Q Okay.

A -- have formed no opinion one way or the other, either that it was or it wasn't.

Q Isn't it true that you haven't even reviewed the information necessary to form a professional opinion with regard to the appropriateness of recording tax deficiency interest expense in 1999?

A I have reviewed the theory underlying the

cost/benefit analysis and it falls apart. Therefore, it's not appropriate to look at the underlying tax basis for the interest on tax deficiency.

Q So is the answer to my question, you haven't looked at the information necessary to make such an opinion or form such an opinion?

A I think that's what I said. I didn't and it wouldn't be appropriate to do so.

Q I thought this is what you wanted to testify to as we were going through the preliminary questions. Isn't it true that it's your position that even if the tax deficiency interest expense was prudently incurred and properly recorded in 1999, that it should be disallowed for refund purposes?

A Yes. I don't even think you get to whether it's properly recorded because you can't get past the stipulation, and you can't get past the deficiencies in the cost/benefit analysis.

Q And it's true, is it not, that it's your reading of the stipulation that's given you that position?

A It's my reading of the stipulation, clear reading of the two paragraphs.

Q Right. Now, Mr. Larkin, you were not involved in the negotiation of the stipulations at issues in this case, were you?

A That's correct.

Q You weren't present at the meetings between the parties when the stipulations were discussed?

A No, I was not.

Q And isn't it true that you weren't involved in drafting language for the stipulations?

A No, I was not.

Q It's true, is it not, that you didn't even engage in conversations with any of the parties at the time these stipulations were entered into about what they intended in the stipulations?

A I may have talked to Mr. Howe about the stipulation at the time.

Q Now, the only portion of the stipulations that you refer to are Paragraphs 10 and 11; is that correct?

A That's correct.

Q And they're on Page 5 and 7 of your testimony; is that correct?

A That's correct.

Q And if we look at these pages, each of these paragraphs is, in fact, two sentences long; isn't that correct?

A That's correct.

Q So the real thrust of your testimony is to read these four sentences in the stipulation to the people who were involved in drafting it and tell them what they meant when they did it. Is that a fair summary of what you're doing?

A No. What I'm doing is reading them and putting my interpretation on how I would interpret two sentences that are under the same paragraph; that the first sentence had to pertain to the -- the second sentence had to pertain to the first.

Q Let's look at your testimony on Page 6, Lines 5 through 12.

Before we do that, is there anyplace other than in the quote from the stipulation in your testimony that you refer to the tax life of Polk?

A I don't know.

Q But you don't recall even saying that one time in your prefiled testimony, do you?

A It's in the stipulation. It's in Paragraph 10. There was no need to repeat what was obvious I was talking about.

Q Well, on Page 6, Lines 5 through 12, you make the statement that the issue is tax deficiency interest expense related to the Polk Power Station, don't you?

A Yeah, in relationship to Paragraph 10.

Q Right. On Page 5 on Lines 21 through 22, you make the statement, it is clear that the parties intended only -- the parties intended that only interest on tax deficiencies related to the Polk Power Station would be included as reduction of operating income for refund purposes; isn't that

correct?

A Sure, in the context of Paragraph 10.

Q And you didn't say anything about tax life?

A It's in Paragraph 10. I mean, the whole discussion is after Paragraph 10. It's in the context of Paragraph 10.

Q Well, you had an opportunity in your direct -- we've heard a lot about this today. You had an opportunity in your direct testimony to say what you were testifying to, didn't you?

A And I did.

Q And you said Polk Power Station?

A Polk Power Station in relationship to Paragraph 10.

Q Well, you didn't even say that, did you? You just said it relates to tax deficiency interest expense related to the Polk Power Station. You didn't relate it back to anything.

A It comes after Paragraph 10. How else would you read it?

Q When you filed your testimony, did you know or suspect that part of a tax deficiency interest expense was related to the Polk Power Station?

A Oh, I did look through discovery that was provided to the Staff to look for tax deficiencies; I didn't see any.

Q Okay. So at the time you filed your testimony --

A Tax life deficiencies.

Q At the time you filed your testimony, did you know

that any of the tax deficiency interest expense in this case was related to the Polk Power Station?

A I knew that the discovery did not identify any items related to tax deficiency related to tax life of Polk Power Station.

Q That's a different question. I want to know if you knew there was any tax deficiency interest expense related to the Polk Power Station, period.

A I didn't look for that.

Q Is the answer to the question you didn't know it?

A I didn't look for it, so I wouldn't have known it. It wasn't an issue.

Q Okay. But you later found out that there was the potential for issues related to tax deficiency interest expense related to the Polk Power Station, didn't you?

A There was a letter sent by Mr. Willis to Mr. Howe that said that there was, but it didn't identify any of that as related to tax life.

Q And after you got that letter, you started referring this as rather than a tax deficiency interest related to Polk Power Station to the tax life related to Polk Power Station, didn't you?

A No. If you look at the context of my testimony, it's after the quote of the full statement in Paragraph 10 which says tax life.

Q Well, what it says is, the company -- let's look at Paragraph 10. It says, the company plans to take a position regarding the tax life of Polk, isn't that correct, in the first sentence?

A "The company plans to take a position regarding the tax life of its Polk Power Station intended to minimize its revenue requirements and to provide maximum benefits to its customers."

Q And the company did that, didn't they?

A We don't know that. We don't know what the company did because it was never disclosed what the company did. It related to tax life.

Q Okay. Now, the next sentence says what the parties agreed to, doesn't it? It says, the parties agree that tax deficiency interest expense related to the Polk Power Station will be considered a prudent expense.

A No. What that refers to is, the first sentence, you read the two together, and it's the tax life and that the parties would agree that if the tax life becomes an issue, then every party would support it. That's my interpretation of that paragraph --

Q Well, from --

A -- and that's the only reasonable interpretation.

Q Well, the parties can't even agree what tax life means in this case, can they?

A Oh, yeah.

Q I mean, you have a position on what tax life means, but you don't agree with the company's definition of tax life, do you?

A You haven't provided a tax life. What you've done is, you've found some items that you deducted that the IRS disallowed which are not tax life related.

Q Well, the one that's been talked about in the proceedings was the research and development expense; is that correct?

A Yes.

Q And the issue with the Internal Revenue Service is whether that's to be expensed currently or capitalized, isn't it?

A That seems to be the issue.

Q And that's a question of whether the tax life of that deduction is one year or many years --

A No, that's a distortion of tax life.

Q Well --

A Tax life is the life over which the entire asset would be depreciated. It isn't taking a component of it and saying, oh, if I take this as a current deduction, then that must mean I'm saying that tax life is one year. That's what you're trying to say, but that's not tax life. Tax life is defined as the depreciation period over which an asset would be

recovered for tax purposes.

Q Well, once you decided to capitalize an expense, you then have to decide how many years to depreciate it over; isn't that correct?

A You don't decide. There are regulations that decide that.

Q Well, we're talking about a dispute with a service over what the appropriate life of the Polk Power Station is.

A No, you're talking about the deduction currently of something they said ought to be capitalized.

Q But once you capitalize it, you then have the same dispute with the service about the life, don't you?

A If it's in the capital cost and you are disputing the tax life, then you would have a dispute about the tax life which includes the cost that you tried to expense.

Q So even under your theory, a portion of this expense could be related to tax life?

A No. You're distorting or trying twist, as you've done through this whole case, twist the meaning of the words to say tax life is one thing, this is another thing.

Q Well, isn't this discussion we're having now exactly the reason why the company would insist on the second sentence of Paragraph 10?

A No.

Q And that is, if they wanted to take an aggressive

position on the tax life of Polk, they would insist on having the tax deficiency interest related to the Polk Power Station a prudent expense because otherwise they would end up in the same argument with you over which part of the paragraph it applied to?

A I guess I'm not following your question. What is your question?

Q Doesn't this discussion that we're having over the tax life demonstrate exactly why the company would have wanted the second sentence of Paragraph 10 to include all of the tax deficiency interest expense assessments related to the Polk Power Station?

A No.

Q What Paragraph 10 does in effect, isn't it, is limit Public Counsel's ability to challenge the prudency of something related to the Polk Power Station?

A It -- Paragraph 10 requires the Public Counsel to support the inclusion in the operating income of any tax deficiency associated with a disallowance of the tax life on the Polk Power Station.

Q And that was the purpose of Paragraph 10, wasn't it?

A Yes, the tax life, the whole paragraph.

Q But the point was that under Paragraph 10, Public Counsel is prohibited -- we're having a disagreement about what's covered under Paragraph 10, but under Paragraph 10,

whatever is covered, the purpose of it is to prevent Public Counsel from objecting to the prudency of the expense; isn't that correct?

A As long as it's related to tax life.

Q And that's different than Paragraph 11, isn't it? And it's on Page 7 of your testimony, where all prudent expenses are allowed for -- all reasonable and prudent expenses and investment will be allowed the computation of the revenue requirements.

A Again, you're trying to separate the two sentences. The first sentence defines what's included in the calculation. And that's -- the calculation is going to be of the ROE. It would be on the FPC (sic) adjusted basis using the appropriate adjustments approved in Tampa Electric's full revenue requirements proceeding. And then the second sentence modifies that and says you can only include anything within that category that's all reasonable and prudent.

Q Well, and it's your position then that since there was no tax deficiency interest expense at the time of the last rate case, it can't be included in this proceeding?

A That's correct.

Q And you know that's different than the way the Public Service Commission has treated other adjustments during the deferred revenue years, don't you?

A I don't know that.

Q Well, this has traditionally been interpreted by the Commission to require the inclusion of the same adjustments that were made in the last case but not to deal with new issues and other adjustments that might be appropriate; isn't that correct?

A The issue that I'm testifying in -- or to is the issue related to the protest filed by the Public Counsel. I didn't go back and look at what the Commission did or didn't do or could or could have done or should or shouldn't have done.

COMMISSIONER JABER: Mr. Larkin, may I ask you a question with respect to Paragraph 11?

THE WITNESS: Yes.

COMMISSIONER JABER: If -- and I don't know why this situation would exist or even if it's possible, but let's say Staff identified today some sort of potential refund, and the company came in and said, you can't require us to make that refund because it wasn't part of our last full revenue proceeding, you wouldn't agree with them; right?

THE WITNESS: Oh, it depends. If they were right, we would look at it and see whether it was or it wasn't within the last revenue requirement case, but that's not what was done. Nobody --

COMMISSIONER JABER: Do you think a refund amount --

THE WITNESS: Pardon?

COMMISSIONER JABER: But, see, I'm asking with

respect to potential refund to consumers. You're not advocating to us that any sort of refund or credit to a consumer has to be made only if that adjustment was also included in the last rate case a company had; right?

THE WITNESS: Yes, I'm saying that that's what the stipulation says. And if the Commission made an adjustment that was unfavorable to the company, then the company could have protested that, and we'd be here arguing about whether that's right or wrong. But they didn't protest anything. The only protest that was filed was by the Public Counsel, and Public Counsel said it is inappropriate to include interest on tax deficiency in calculation of revenue requirements.

We didn't look at anything else. He didn't, or he didn't ask me to look at anything else. So if the Staff found something else and it was in the PAA and the Public Counsel thought that was inappropriate, they would have protested that, and we would have two issues here instead of one, but they didn't.

COMMISSIONER JABER: Okay.

BY MR. HART:

Q Please refer to the 14,442,000 referred to on Page 2 of your testimony.

A Yes.

Q That's your calculation of what the refund -- you want the refund to be for 1999; is that correct?

A That's correct, plus interest through the date of the refund.

Q And in making that calculation, you utilized adjustments not made in the company's last rate case, didn't you?

A I don't know. I took the adjusted refund amount. I looked at the interest on tax deficiency, and I put it back in the calculation. I didn't look at any other adjustment because there was no basis to do that. There's no basis for me to come before the Commission and say, you should make this an adjustment, this adjustment and this adjustment because we weren't protesting. That's our understanding, my understanding of how this protest works.

Q Does that mean that unless somebody protests something, you would intentionally calculate something under the stipulation differently than you thought it should be?

A If it was wrong -- if it wasn't protested, we wouldn't be sitting here whether the stipulation allowed it or not. If it weren't protested by the Public Counsel, nobody would be here. I couldn't -- after the PAA became final, I couldn't say, oh, here's a calculation error that I found, or here's something that wasn't in the last rate case, let's go in and raise it. There would be no basis to do it because we would not have filed a protest within -- within the requirements of the rule.

Q But you've done more than just challenge the interest expense. You've calculated the appropriate amount of refund which includes everything. Are you saying that in calculating the total amount of refund that you are free to calculate things in violation of your understanding of the stipulation if no one calls your hand on it?

A What I'm saying is, it isn't protested. Then you start with a number that is agreed upon, and then you add back to that the amount that you protest. You don't reaudit everything and decide, well, I protest this one item; therefore, I can raise 15 other issues.

Q You know, do you not, that the Commission has altered the company's cap structure to be different than it was in the last rate case?

A I do not know that. I didn't look at it because it was not an issue in this case.

COMMISSIONER JABER: Mr. Larkin, are there -- just in general ratemaking there are issues that fall out from a given issue and adjustments have to be made accordingly; right?

THE WITNESS: Yes, there could be.

COMMISSIONER JABER: Are there fallout adjustments that come from the interest on the income tax deficiency?

THE WITNESS: I don't think so.

COMMISSIONER JABER: To the degree that you're incorrect and there might be some fallout adjustments, you

would agree that they should be made; right?

THE WITNESS: Yes, if changing the interest and taking out the interest on tax deficiency changes something else that would normally flow through that calculation, then I think that ought to be done, but I don't know of any.

MR. HART: Mr. Chairman, I'd like to have this marked for identification as an exhibit.

CHAIRMAN JACOBS: Very well. Show this marked as Exhibit 9.

(Exhibit 9 marked for identification.)

BY MR. HART:

Q Mr. Larkin, would you look at Issue 3 on Page 10?

A Yes.

Q Would you read Issue Number 3?

A "Should TECO's equity ratio be adjusted for purposes of measuring earnings under the earnings sharing agreement?"

Q And would you read Staff's recommendation?

A You want me to read it out loud or --

Q Yes, read the recommendation out loud.

A In the earnings sharing agreement --

Q No, no, not the analysis, the recommendation.

A Oh. "Yes. The Commission should cap the equity ratio at 57.5 percent as a percentage of investor-supplied capital for purposes of measuring earnings under the earnings sharing agreement."

Q Now, you would agree, would you not, that that was an adjustment not made in the company's last rate case?

A That they capped the equity ratio?

Q Yes.

A Well, obviously, when they set a capital structure, you're capping the equity ratio at whatever is in the rate order.

Q In the company's last rate case, other than a fallout issue, they didn't make any adjustment to the company's equity ratio, did they?

A No, because it wasn't necessary because it was a -- the revenues were calculated based on interest coverage ratios.

Q So then this would be an adjustment not made in the company's last rate case?

A I don't know. I wouldn't think so.

Q All right. Mr. Larkin, I'm next going to show you an excerpt from the agenda conference dated May 12th, 1998.

A Yes.

MR. HART: Mr. Chairman, I'd like to have this marked as an exhibit as well.

CHAIRMAN JACOBS: Show it marked as Exhibit 10.

(Exhibit 10 marked for identification.)

BY MR. HART:

Q Would you look at Page 14, please.

A Yes.

Q And would you read Lines 9 through 15 out loud?

A Okay. "Mr. Howe: For the record, Commissioners, I'm Roger Howe with the Office of Public Counsel. We would like to address two issues, both dealing with the company's capital structure, and in particular we would like to offer our strong support for Staff's position on Issue 3 concerning the company's equity ratio."

Q Would you look at Page 17, please. And would you read out loud Lines 10 through 17?

A "Mr. Howe: Just a test of reasonableness. And that is contemplated by the stipulation where it says all reasonable and prudent expenses and investment will be allowed. And the prudence and the reasonableness of investment is tied to the amount of that investment that is supported by equity capital. If the company can make its investment at a lower cost to the customers, it has an obligation to do so."

Q Now, the position of the Office of Public Counsel at the time that the Commission was considering an adjustment to the equity ratio was a test of reasonableness and that the test was prudency under Paragraph 11; isn't that correct?

A Yes. And of course --

MR. HOWE: Excuse me. I'm sorry, I'm a little late. Mr. Hart's reference to Paragraph 11, I didn't see that in any of the quoted language. In other words, Mr. Hart was paraphrasing an issue, and he referred to Paragraph 11. I

don't think anything that Mr. Larkin just read referred to Paragraph 11.

CHAIRMAN JACOBS: Mr. Hart, would you like to respond?

MR. HART: Thank you for pointing that out, Mr. Howe.

BY MR. HART:

Q Look at Page 16, would you, Mr. Larkin?

A Sixteen?

Q Page 16.

A Yes.

Q And read Lines 7 through 17 out loud.

A "I also point out that Mr. Willis referred to Paragraph 11 of the FERC stipulation, and he claimed that what Staff was proposing was a pro forma adjustment. I would refer the Commission to Order Number PSC-98-0038-FOF-EU issued January 6th of this year in the FMPA and Lakeland docket, and that was Docket Number 970171-EU."

Do you want me to continue?

Q Yes.

A "And addressing specifically Paragraph 11 of the first stipulation, the Commission defined what it meant when it approved that stipulation in terms of what were annualization and what were pro forma adjustments."

Q That position on Paragraph 11 and the adjustment to the capital structure is exactly the opposite of the position

taken by the Office of Public Counsel in this proceeding, is it not?

A No, I don't think so.

MR. HOWE: I would object to the question. What I just heard read into the record was Paragraph 11 of the FERC stipulation.

MR. HART: We know that's a typo. You want to go back through the whole agenda conference?

MR. HOWE: No, no. I just want to be clear on the record, and I'm not characterizing it as anything else, but --

CHAIRMAN JACOBS: At --

MR. HART: Look at Page 16, Lines 13 and 14.

CHAIRMAN JACOBS: Thirteen through 17, I think it makes reference to the stipulation.

THE WITNESS: Is there a question pending?

BY MR. HART:

Q Well, the question is that the interpretation by the Commission in the PAA issued in this case is consistent with Mr. Howe's position that he took in the agenda conference May 1998, is it not?

MR. HOWE: Objection. This is outside the scope of Mr. Larkin's testimony, and he's not in any position to state whether my positions were inconsistent or consistent with anything.

MR. HART: Well, what Mr. Larkin -- I agree that a

lot of his testimony is inappropriate because he's testifying about what a contract means which he says is not ambiguous, which is a legal question. But the Commission's practice in the past has been to allow witnesses to argue about what contracts mean, which is what Mr. Larkin has been doing here. He really hasn't been providing factual testimony. He's been arguing about the legal interpretation of a contract, and he's been testifying as to what the parties intended.

We think that the actions of the parties show what they intended, and the Office of Public Counsel's position in other proceedings show exactly how the stipulation was supposed to be interpreted and why the Staff and the Commission reached the decision they reached in this case. So if Mr. Larkin is capable of testifying as to the intent of the parties with regard to the stipulation, he has to live with the history of what the parties have said about the stipulation. I agree that this information impeaches his testimony, but that's not a reason to object to it.

MR. HOWE: If I might, Chairman Jacobs. At Page 5 of Mr. Larkin's prefiled testimony, it states, "While I am not making a legal interpretation of the ramifications of the stipulations, I am able to clearly understand the meaning of the stipulations as they are worded."

Mr. Larkin is not here to tell you what my interpretation was or what Tampa Electric's interpretation was

and will be. He's stating what his understanding is from a reading. My only objection to the line of questions is the fact that Mr. Hart is asking Mr. Larkin to comment on what I meant. It's totally outside the scope of his direct testimony.

CHAIRMAN JACOBS: I think this is an allowed line of questioning. The witness is, however, free to state as to his own awareness of this agenda transcript and of prior positions taken by Public Counsel. And if he is without that knowledge, then he's free to state so, but I think this is an allowed line of questioning.

THE WITNESS: Is there a question pending? I'm lost.

MR. HART: No, I think you answered the last one.

THE WITNESS: Well, I don't remember answering it.

BY MR. HART:

Q On Page 19 of your testimony, you state that all deferred tax benefits after a rate case flow only to the benefit of the shareholder; is that correct?

A Where are you reading it specifically? I think you are misreading it. I said, rates are not established every time the company files a tax return. Therefore, the tax benefits of any tax position taken on a tax return flows to the stockholders and are only reflected in rates if a rate case were filed in that given year. For instance, Tampa Electric's rates were adjusted in mid 1980. Any so-called, quote, aggressive, close quote, tax position taken after rates were

established in that case would flow to the benefit of the stockholders.

Q Are you aware that the deferred revenues and customer refunds have been based on the actual earnings of the company from 1995 through 1999?

A Sure. But the rates were set based on the times interest earned. And all that calculation does is determine how much of the deferral revenue -- how much revenue would be deferred and how much would be taken into income by the company. It doesn't change base rates.

Q It doesn't change the base rates, but it changes the total amount paid by the customers of Tampa Electric each year, does it not?

A No. There were two refunds that were stipulated. Those refunded funds that were excess -- that the rates were set in excess of.

Q Well, whether they got a refund or whether they deferred the amount to carry forward for an appropriate year, a new determination was made of the appropriate amount for the customers to pay each year, and the amount that was considered more than was appropriate was either deferred to another year or refunded to customers; isn't that correct?

A No, I disagree with that interpretation. The rates are what they are. The stipulation required you to give back two $25 million refunds and to give back whatever was left at

the end of 1998, which happened to be interest which the ratepayer paid anyway. So they got back only their own money at the end of 1998. I mean, we would have been better off in 1992 insisting on a rate case.

Q Now, listen to my question carefully this time.

A No, I understood your question. You're not going to get a different answer.

Q Are you going to refuse to answer the question, or are you just going to answer the other question anyway?

A The question that you asked is --

Q I didn't ask you about the individual rates per kilowatt hour. I asked you about the total amount paid by the customers, and what I asked you was, wasn't there a calculation every year to determine the total amount the customers were supposed to pay for that year, and wasn't it determined anew every year from 1995 through 1999?

A No. The stipulations required a rate refund. The stipulations determined that there would be a refund in '86 through '87, and the next stipulation required another refund. And then at the end of 1998, what was ever left over was refunded to the ratepayer. But the calculation of what was deferred didn't determine the amount of the refund except for the last year.

Q I don't believe I asked you that either. What I asked you was, didn't we go in every year and determine either

the amount to be deferred or the amount to be refunded, and that the appropriate level to be paid by the customers was determined anew every year from 1995 through 1999? Different things happened if there was an overage, but it was determined every year from 1995 through 1999 based on the company's actual expenses; isn't that correct?

A I don't agree with that.

Q Well, what are we doing here for 1999? We are determining the total amount to be paid by the customers for 1999, aren't we?

A How much they are going to be refunded.

Q That's correct. In order to determine that we look at how much the company got, and we look at what the appropriate amount is, and we refund if there's an excess.

A That's correct.

Q And we've gone through that every year from 1995 through today.

A No, no. 1999 sets on its own. It's an individual stipulation that all refunds were made prior all through 1998. It's not the same continuing analysis. And the amounts that were refunded in 1996 and '97 were by stipulation. They weren't by calculation. The only thing that was refunded by calculation was the $13 million that was left over at the end of 1998, and that was paid by the ratepayer in the first place as interest. So I disagree that the calculation determined the

amount of the refunds. It did only in the instance of 1998. The others were --

Q Which calculation are you talking about? I didn't ask you a question about calculations, but --

A You said -- or my understanding of your question was, isn't it correct that the calculation of the rate of return and the deferral determined the amount of the deferral and refunds?

Q No. I just asked you that -- didn't we every year go in and determine whether there was an amount to be deferred or whether there was an amount to be refunded? And didn't we use the company's actual expenses when we made that determination?

A Well, I disagree with the use of the word "refunded."

COMMISSIONER JABER: Mr. Larkin, regardless of whether that calculation or that decision was made pursuant to a stipulation or a ratemaking calculation, I think the question is, every year some determination was made with respect --

THE WITNESS: Of what would be deferred.

COMMISSIONER JABER: Yes.

THE WITNESS: Yes.

COMMISSIONER JABER: That was the question.

THE WITNESS: But that's not what he asked. He said, "What was deferred and refunded?"

MR. HART: I said, "or refunded."

COMMISSIONER JABER: Mr. Larkin, I understood the question to be, each year that determination was made, and the

answer to that question is, yes, with respect --

THE WITNESS: The amount --

COMMISSIONER JABER: Go ahead.

THE WITNESS: No, it isn't yes.

COMMISSIONER JABER: Go ahead.

THE WITNESS: What is yes is each year the amount that was deferred was determined.

COMMISSIONER JABER: Okay.

THE WITNESS: The amount that was refunded was the result of the stipulation, except for the year 1998. The remainder which was essentially interest on the deferred balance which the ratepayer paid was refunded.

BY MR. HART:

Q Now, in determining -- let's talk about the amount deferred. In determining the amount deferred each year, the company's actual deferred taxes were used in making that calculation, weren't they?

A The capital structure was used, yes.

Q And the tax positions that the company took affected the amount of deferred revenues in each of those years, did it not?

A It would have affected the return on equity, and it would have affected how much was rolled over to the next year.

Q And the purpose of this proceeding is to determine the final amounts to be charged customers for 1999; isn't that

correct?

A The final refund which is separate from all the other preceding years. There's nothing rolled over from any other year into this year.

Q I don't know what -- I'm sorry if anything in my question implied that.

We're here today, 1999, to determine -- we're here today to determine for 1999 what the total amount the customers are to pay and how much they are to be refunded; isn't that correct?

A Are to pay? I mean, they have already paid it.

Q Mr. Larkin, the company received a certain amount of money for 1999. We're going to determine what was the appropriate amount for the company to keep and what was the appropriate amount to refund; is that correct?

A Well, I would say it's the appropriate amount to refund. You've already kept it all. You have it all.

Q Well, would you agree in making the determination of the amount of the 1999 refund, one of the issues that we're looking at is what is the 1999 expense to be for tax deficiency interest?

A Whether that should be included in the calculation of net operating income.

Q Well, isn't it correct then if we're here determining whether this is an appropriate 1999 expense in setting the

final amount to be paid by customers for 1999, there is no retroactive ratemaking involved?

A It is retroactive ratemaking when you look back and you say, ratepayers got a benefit in 1994, '93, '94, '95 and '96, '97, '98, and '99, and therefore, they should be willing to take less money in 1999 because of something that occurred prior, so that's retroactive. I mean, the Commission's decision said but for this cost/benefit analysis, we wouldn't recognize this. So if the cost/benefit analysis looks back, which it does, and you're using that as a justification for reducing current refunds, then that's retroactive in my way of thinking.

COMMISSIONER JABER: What's your definition of "retroactive ratemaking," Mr. Larkin?

THE WITNESS: It's recovering or reducing a benefit that ratepayer gets -- are entitled to for an expense or for a revenue that has occurred in the past.

COMMISSIONER JABER: What's your source for that definition? Is that your layman's definition, or did you --

THE WITNESS: Well, it's my expert opinion definition which this Commission has accepted before.

COMMISSIONER JABER: In what case?

THE WITNESS: A water case where a utility attempted to collect legal fees in current rates.

COMMISSIONER JABER: You don't remember the name of

that --

THE WITNESS: I don't remember offhand, but I'll get it.

BY MR. HART:

Q Well, there's been testimony here today that the expense was a -- under generally accepted accounting principles was properly recorded in 1999, and you testified that you don't have an opinion on that subject; isn't that correct?

A That's correct, but that doesn't affect ratemaking.

Q Now, we're here setting the final amount to be paid for 1999; isn't that correct?

A Yes.

Q Okay. And if it determines that 1999 is the appropriate year to book this expense and it is a 1999 expense used to set 1999 amounts paid by customers, there is no retroactive ratemaking, is there?

A I don't think you can reach that conclusion without -- that it's a 1999 expense without looking back. I mean, that's what the Commission order says. We did it because of the cost/benefit analysis. If you removed the cost/benefit analysis, what basis is there for including it in the test year?

Q But you don't think any cost/benefit analysis should be done in making this decision, do you?

A I don't think one that looks back at expenses to --

looks back at proposed benefits to reduce a future refund to ratepayers has got to be retroactive ratemaking. I don't think you can take a cost/benefit analysis that singles out one component of a rate and analyze that. It's inappropriate.

Q Well, all cost/benefit analysis of historic actions necessarily involve historical information about cost and benefits, don't they?

A All historical?

Q Well, if you want to measure the prudency of a historical action, you have to look at cost and benefits that occurred historically in order to tell?

A Yes. Yeah, if you're measuring historical. But what you're doing is taking a historical cost/benefit to reduce a future rate, a future refund. So that is improper. If you were using the cost/benefit analysis to measure something that happened in the past, then it might be appropriate, but it isn't in this instance.

Q The way the company would have -- the best way for the company to fit under your analysis would have been to not take aggressive tax positions but take tax positions that cause this to be paid as they went through time; therefore, the amount would have taken into account each year, and we wouldn't be here about this issue?

A No. It's my position that the company would have taken those tax positions regardless of what happens here; that

you do that independent of how rates are set.

COMMISSIONER JABER: Mr. Larkin?

THE WITNESS: That it's a measurement of how you run the company.

COMMISSIONER JABER: Help me understand your position on retroactive ratemaking. If a company today came in and said, we forgot in 1999 that we had an expense, and we want to seek recovery for that expense today, we want you incorporate that expense in today's rate, you would agree with me that's clearly retroactive ratemaking?

THE WITNESS: Yes, because you're recovering that cost from the past in a future rate collected from the ratepayer.

COMMISSIONER JABER: Okay. The reason I'm having difficulty understanding your position in this case is perhaps because I don't understand your position with respect to when this expense was incurred. Is it your position that this expense, the income tax liability, was not incurred in 1999?

THE WITNESS: I'm not taking a position -- that's immaterial. The company is saying ratepayers got a benefit in '93 because they had lower rates. They got a benefit in '94 because they had lower rates and a greater deferral. They got a benefit in '95 because they had a lower rate and greater deferrals. They had a benefit in '96 because they had lower rates and greater deferrals, and they did the same in '97 and

'98. And they're saying, okay, look at what we gave them in those years, and doesn't that justify what we want to take away from them in '99? How is that not the same thing as what you just described to me?

COMMISSIONER JABER: Well, Mr. Larkin, forget the utility's argument with respect to benefit and answer my question. With respect to the income tax liability, would you agree that was incurred for 1999 in 1999?

THE WITNESS: I don't know. I didn't look at it because I didn't get to that position.

COMMISSIONER JABER: Okay. And with respect to the expense associated with the interest on any sort of tax liability regardless of the year, it should have been incurred the year that the liability was incurred, generically. I understand you didn't look at it, but with respect to income tax liability --

THE WITNESS: Well, in theory, the liability occurred in 19-- whenever the tax period happened.

COMMISSIONER JABER: Right, whatever the tax period happens to be. And any interest from a deferral would also be incurred in the year the tax period occurred; right?

THE WITNESS: Yes. Yes, if we're talking about the audit periods 1986 to '88, then the liability and the interest would have been incurred in that year and every year thereafter.

COMMISSIONER JABER: And we're going to come back to your point because I do want to understand your point. This is not a trick question. I'm really trying to understand your position with respect to retroactive ratemaking. So if you come back to my original question, if a company tries to put in rates today, an expense that was incurred three years ago, that's retroactive ratemaking.

THE WITNESS: Right.

COMMISSIONER JABER: But if they're trying to true-up something that they incurred in a given year that has no affect on today's rate, how is that retroactive ratemaking? And there's a point you want me --

THE WITNESS: Are you talking just about the interest expense?

COMMISSIONER JABER: Yes.

THE WITNESS: Okay. Well, if you take away the cost/benefit analysis and you say, okay, let's forget that that doesn't exist, then you have to have some other reason to move it from below the line where it is, because this isn't an expense that would ordinarily be in rates, and you move it up above the line and reduce operating income by it. So if you don't justify it by a cost/benefit analysis, then it has to stand on its own.

And then you go to Paragraph 11 and you say, oh, was this an expense that we put in the last rate case, and the

answer is no. Then it falls not because it's retroactive ratemaking, because it's not an expense that was recognized in rates in the last full rate case. And I think that's your question. Okay. Let's forget about the cost/benefit analysis. Let's assume, which I wouldn't, that this is a legitimate 1999 expense. Why shouldn't we include it? Well, you shouldn't include it because it was not included before, and the company has to physically make a journal entry to move it up into where it would affect operating income. That's why they had to go to the Staff and ask them to agree to it because it's not a legitimate expense that would normally be recognized.

CHAIRMAN JACOBS: It wasn't in your testimony, and I do not, frankly, recall where I heard it, but let me ask you this. You didn't get to this point, I understand, but is that flexibility as the one the company should have recognized the deficiency?

THE WITNESS: Yeah. I mean, it's a management judgment. There isn't any -- I mean, they could have said, well, I think we're going to lose this and accrue it, all along.

CHAIRMAN JACOBS: So if you had gotten it, that would have been part of your prudency determination as well?

THE WITNESS: Well, I mean, yes. I suppose I would have looked at individual interest calculations and decided

whether they were appropriate or not. But, I mean, a lot of these deficiencies -- the interest on these deficiencies took place after the base rate case and using a 1990 deferred tax balance that was projected. So the deductions that came in the '93 and '94 and '95, '96 tax return, I cannot envision how somebody could have guessed they would have taken those and put those in so that they affected rates, which they didn't, because as I explained earlier, because the Commission abandoned the capital structure approach to determining the revenue requirement.

So there are a lot of questions about what was in the balance and whether you can actually state that something that took place in '94, '95, '96 could have actually been anticipated and included in a projection in 1993 or '94.

CHAIRMAN JACOBS: Thank you. Any more questions, Mr. Hart?

MR. HART: I have one redirect.

COMMISSIONER JABER: You mean cross.

MR. HART: Yes, definitely.

BY MR. HART:

Q Is it your testimony that if we had had a Polk -- what you consider a Polk tax life issue in this case, that it would still be retroactive ratemaking?

A No, because it would have been stipulated. It would have stipulated -- that's what the Public Counsel agreed to

allow you to have. It's only the cost/benefit analysis that makes it retroactive.

Q And if you stipulate to it, then it's not retroactive?

A Well, I think you're distorting what I said. The basis of including the tax deficiency in the test year is a cost/benefit analysis, and the cost/benefit analysis is retroactive.

MR. HART: We have no further questions.

CHAIRMAN JACOBS: Staff.

MR. ELIAS: We have no questions.

CHAIRMAN JACOBS: Commissioners?

Redirect.

MR. HOWE: No redirect.

CHAIRMAN JACOBS: Very well. And we had one exhibit TECO, I'm sorry, two exhibits.

MR. HART: I think we have 9 and 10, don't we?

CHAIRMAN JACOBS: Yes, two exhibits.

MR. HART: We would move Exhibits 9 and 10 into the record.

CHAIRMAN JACOBS: Without objection, show Exhibits 9 and 10 are admitted.

(Exhibits 9 and 10 admitted into the record.)

CHAIRMAN JACOBS: Thank you, Mr. Larkin.

(Witness excused.)

CHAIRMAN JACOBS: And we're back to Ms. Bacon.

DELAINE M. BACON

was recalled as a rebuttal witness on behalf of Tampa Electric Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. WILLIS:

Q Are you the same Delaine Bacon that's previously testified in this docket?

A Yes, I am.

Q Did you prepare and cause to be prefiled in this docket a document entitled, "Rebuttal Testimony of Delaine M. Bacon"?

A Yes, I did.

Q If I were to ask you the questions contained in that document, would your answers be the same?

A Yes, they would.

Q You do not have an exhibit attached to your testimony, do you?

A No.

MR. WILLIS: I would request that Ms. Bacon's testimony be inserted in the record as though read.

CHAIRMAN JACOBS: Without objection, show Ms. Bacon's rebuttal testimony is entered into the record as though read.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

DELAINE M. BACON

Q. Please state your name, address, occupation and employer.

A. My name is DeLaine M. Bacon. My business address is 702 North Franklin Street, Tampa, Florida, 33602. I am the Director, Financial and Strategic Analysis for TECO Energy, Tampa Electric Company's ("Tampa Electric" or "company") parent.

Q. Are you the same DeLaine M. Bacon who filed direct testimony in this docket related to the tax deficiency interest expense recorded in 1999?

A. Yes I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of the Office of Public Counsel's ("OPC") witness Hugh Larkin, Jr. I will first explain how witness Larkin has misrepresented the language of the

Stipulation. Just as OPC did in its petition protesting the Florida Public Service Commission's ("Commission") decision regarding the amount of refund from 1999, witness Larkin must add or alter wording in the Stipulation to make his case. Next, I will point out how witness Larkin distorts the Commission's 1992 rate case decision for Tampa Electric to incorrectly interpret the application and results of the cost/benefit analysis. As a result, witness Larkin misstates the customer benefits from the deferred revenue plan. Finally, I will address witness Larkin's inconsistencies in interpreting adjustments made by the Commission under the deferred revenue plan.

Stipulation Language

Q. How has witness Larkin added or altered wording in the Stipulation to make his case?

A. In several instances, witness Larkin, while explaining provisions in the Stipulation, changed or added wording to the language of the Stipulation. On page 5, line 15-19 of witness Larkin's direct testimony, he quotes paragraph 10 of the Stipulation.

> The Parties agree that any interest expense that might be incurred as the result of a Polk Power Station related tax deficiency assessment will be considered a prudent expense for ratemaking purposes and will support this position in any proceeding before the FPSC.

Witness Larkin explains that it is clear that the parties intended that only interest assessed on tax deficiencies related to the Polk Power Station would be included as reductions of operating income for refund purposes. If, however, the parties had intended for the Stipulation to limit all other tax deficiencies, the sentence would have read, "the Parties agree that only interest expense…" rather than "the Parties agree that any interest expense…."

On page 7, lines 4-6 of witness Larkin's testimony, he quotes the first sentence of paragraph 11 in the Stipulation.

> The calculations of the actual ROE for each calendar year will be on an "FPSC Adjusted Basis" using the appropriate adjustments approved in Tampa Electric's full revenue

requirements proceeding.

Witness Larkin concludes that the calculation of the return on equity for each year covered by the Stipulation includes only those adjustments approved by the Commission in Tampa Electric's last full revenue requirements proceeding. Again, this sentence in the Stipulation does not contain the word "only." If the parties had intended for the Stipulation to limit adjustments of operating income to those approved in Tampa Electric's last rate proceeding, the language would have reflected that intention.

On page 8, lines 1-3 of witness Larkin's testimony, he references the second sentence of paragraph 11.

> All reasonable and prudent expenses and investment will be allowed in the computation and no annualization or proforma adjustments shall be made.

He concludes that the meaning of this sentence allows for the inclusion of increases in plant investment and operating and maintenance ("O&M") expenses. This sentence in paragraph 11 does not contain the words

"operating and maintenance." If the parties had intended this sentence of the Stipulation to limit allowed increases in expenses to only O&M expenses, the sentence would have stated that "all reasonable and prudent operating and maintenance expenses and investment will be allowed."

It is also clear that OPC's misrepresentations of the Stipulations discussed above are inconsistent with how the Commission interpreted the Stipulations in prior deferred revenue years. If the Commission had applied the interpretations now being asserted by OPC, it would not have made certain adjustments that it did in other deferred revenue years, such as the adjustments to the equity ratio, short-term debt and deferred revenues in the capital structure.

Q. Do you disagree with any other interpretations of the Stipulation made by witness Larkin?

A. Yes. I disagree with two other interpretations he makes. First, he concludes on page 6, lines 15-17 of his direct testimony that there would have been no reason or basis for including paragraph 10 in the Stipulation if, in fact, one could include any and all interest on tax

deficiencies as a reduction of operating income.

The Stipulation does not allow for any and all tax deficiency interest. The Stipulation allows for all reasonable and prudent expenses, which would include prudent tax deficiency interest expense. Also, it is inaccurate to say that paragraph 10 loses its basis or reasoning if other tax deficiency interest is allowed. The purpose of paragraph 10 is to document an agreement among the parties to support recovery should the Polk Power Station tax life position be questioned by the IRS at a future date.

Secondly, I disagree with witness Larkin's statement on page 8, lines 10-12 of his testimony. He states that paragraph 11 does not allow for the inclusion of an expense which was never before included in the calculation of operating income for ratemaking purposes. Paragraph 11 does not limit allowed expenses to those costs included in the last rate case. The second sentence of paragraph 11 states that all reasonable and prudent expenses and investment will be allowed. Again, this is consistent with other adjustments made for calculating the amount of deferred revenues and refunds.

Cost/Benefit Analysis

Q. Has witness Larkin misinterpreted the cost/benefit analysis?

A. Yes. He has misapplied the cost-benefit analysis in two respects; he misconstrued benefits associated with the last rate proceeding and he has misinterpreted the effect of using a cost-benefit analysis as a tool to determine the prudence of an expense incurred in the relevant year.

Q. How has witness Larkin misconstrued the Commission's 1992 rate proceeding decision?

A. Witness Larkin states, "clearly, rates were established at an excess level in Docket No. 920324-EI." This is not true. Rates were established based upon costs incurred at the time of the 1992 proceeding. Subsequent to the rate proceeding, Tampa Electric initiated a corporate restructuring in late 1994 and instigated stringent cost control efforts which resulted in a 1995 projected return on equity ("ROE") in excess of 12.75 percent. As a result, Tampa Electric's cost control efforts led to the deferred revenue plan that has provided customers with $63 million of refunds thus far, along with other benefits. It is erroneous to state that permanent rates

were established at an excess level.

Q. Witness Larkin suggests that customers have been overcharged subsequent to the company's last rate case and Tampa Electric has been able to retain a substantial part of overearnings for stockholders from 1995 through 1998. Do you agree?

A. No, his assertion is incorrect. In no year did Tampa Electric retain earnings above the top of its ROE range. In fact, as a part of its Stipulations with OPC and the Florida Industrial Power Users Group ("FIPUG"), Tampa Electric has been deferring and sharing 60 percent of all earnings in excess of 11.75 percent, the company's ROE midpoint.

Q. Witness Larkin states on page 14, lines 5-7 that "the company's cost-benefit analysis assumes that the deferral of revenues was to flow to the benefit of ratepayers and, therefore, should be counted in the cost-benefit analysis as a customer benefit." Is witness Larkin correct in this statement?

A. No. Witness Larkin has not correctly interpreted the application of the cost/benefit analysis for the deferred revenue period. The deferral of revenues did flow to the benefit of the ratepayers, but the cost/benefit analysis is not computing additional deferred revenues. The analysis demonstrates that if deferred tax balances had been less, deferred revenues would have been less.

Q. Is witness Larkin correct in his arguments that the rate case cannot be included in the cost-benefit analysis because of the 3.75 times interest coverage target?

A. No, he is not. Witness Larkin states that no benefits can be derived from deferring taxes in the last rate case because if there had been less deferred taxes, the Commission would have adjusted the allowed Construction Work In Progress ("CWIP") in rate base to retarget the 3.75 interest coverage.

First, Witness Larkin has misunderstood the 1993 test year. The Commission did not approve any CWIP in the 1993 rate base that was eligible for Allowance for Funds Used During Construction ("AFUDC"). In other words, the $18.8 million of CWIP included in rate base for 1993 was short-term CWIP that was not the type of CWIP that the

Commission was granting to retain the 3.75 times interest coverage ratio. In fact, the interest coverage resulting from the Commission's approval of rates for 1993 was 4.16 times interest coverage.

It also does not matter if CWIP would have been adjusted in the 1994 test year. Real benefits were included in the revenue requirements from the last rate case because of the deferred taxes associated with Tampa Electric's tax positions. Because CWIP may have been re-adjusted does not take away from this fact. Ignoring or not recognizing the efforts of the company could lead to flawed decision making.

Furthermore, witness Larkin neglected to consider that the $36.2 million of CWIP in the 1994 test year rate base is now a threshold that is being used before the company can earn AFUDC on its current capital projects. This benefits customers' rates because less AFUDC is being charged to customers on significant capital projects.

Finally, even if the 1994 test year were ignored and only the 1993 test year and the 1995 to 1999 deferred revenue benefits were examined in the cost-benefit analysis, customers have been provided a $8.5 million nominal

benefit due to the company's tax positions. Further, as I explained on page 8 of my direct testimony, $6.8 million of net benefits result from the cost-benefit analysis even if all of the rate case benefits are ignored.

Q. Can the Commission use tools other than the cost-benefit analysis to consider the fair treatment of tax deficiency interest expense?

A. Yes. A cost-benefit analysis is only one of many tools used by the Commission to contemplate prudency of an expense. For example, if the Commission generally believes that aggressive tax positions are in the best interest of the utilities and ratepayers, it can use logic and reasoning in addition to a quantitative analysis in determining that the tax deficiency interest should be allowed. This type of judgment is used by the Commission for a majority of its decisions.

Q. Could you please address witness Larkin's retroactive ratemaking arguments on pages 16 and 17 of his testimony?

A. Yes. Witness Larkin is completely incorrect in his suggestion that the cost/benefit analysis is being used

to offset refunds from 1999. As I explained in my direct testimony, the cost-benefit analysis demonstrates that the benefits of Tampa Electric's tax positions far outweigh the tax deficiency interest expense. The analysis is only being used to show the reasonableness of incurring the interest expense in the period under review. There is a considerable difference between employing a cost/benefit analysis to ensure prudency of an expense and asking for the proven benefits from the analysis to be given back to the company. Tampa Electric is not doing this.

Commission Adjustments and Customer Benefits

Q. Please address witness Larkin's discussion on page 18 of his testimony regarding other adjustments made by the Commission in this docket.

A. Witness Larkin asserts that Tampa Electric cannot raise other issues in this proceeding because the company has not disputed these issues for the other deferred revenue years. Tampa Electric raised these issues, however, only to demonstrate that OPC's positions are inconsistent with past Commission decisions under the Stipulations. OPC has supported these Commission decisions for each year under the deferred revenue plan. This support was based

upon reasoning that is completely at odds with OPC's arguments in this proceeding.

It is clearly inappropriate for OPC to oppose an adjustment that is beneficial to the company, while accepting adjustments that are detrimental. The Commission's Order protested by OPC provided historically consistent treatment for all adjustments made in 1999. OPC seeks contradictory treatment while the Commission has applied its adjustments consistently.

Q. Witness Larkin states on page 15, lines 8-9 of his testimony that "the excess revenue paid by ratepayers primarily went to the benefit of the company's stockholders." Could you please comment on this statement?

A. Yes. Witness Larkin grossly underestimates the customer benefits provided from the deferred revenue plan by asserting that customers only received $734,332 of benefit from deferred revenues. He ignores the initial $26 million refund, the $25 million temporary base rate reduction, the $50 million of savings to customers from collapsing the Oil Backout Clause, and the $6.1 million refund already acknowledged by the Commission from 1999

earnings. The total benefits, including the $13 million refund from 1998, are about $120 million, a far cry from witness Larkin's suggested benefits to customers.

Q. On page 19 of his testimony, Witness Larkin questions whether the tax positions taken by Tampa Electric were for the benefit of ratepayers or shareholders. Could you please respond?

A. Yes. Witness Larkin states that "tax benefits of any position taken on a tax return flow to the stockholders and are only reflected in rates if a rate case were filed in that given year." Witness Larkin's statement is unreasonable and misleading. Delaying tax payments provides additional cash flows that reduce the company's cost of capital and benefit its customers at all times. For example, a rate case reflects much more than the tax positions taken in the year of the rate proceeding. Most of the deferred income taxes resulting from Tampa Electric's tax return positions prior to the year of its last rate proceeding also reduced the rate case cost of capital.

Also, since its last rate case, Tampa Electric has been under a deferred revenue plan that has provided refunds

contingent upon the company's earnings from 1995 through 1999. As recognized in the cost/benefit analysis, the 1998 and 1999 refunds would have been much less but for the reduced cost of capital resulting from the deferred taxes associated with tax positions taken by the company.

Q. Please summarize your rebuttal testimony.

A. In my rebuttal testimony, I have pointed out the shortcomings in witness Larkin's testimony. His testimony distorts the plain language of the Stipulations. He also has attempted to discount the Commission's decisions in Tampa Electric's last rate case rather than recognize the company's efforts to lower costs.

I have explained the meaning of the results of the cost/benefit analysis, which differ from witness Larkin's interpretation, and how a cost/benefit analysis does not equate to retroactive ratemaking as long as the benefits over and above the tax deficiency interest are not taken from customers.

I demonstrated the appropriate overall customer benefits from the deferred revenue plan, which includes $120

million in lower rates. I then explain why re-contemplating other adjustments used in determining refunds highlights the inconsistency in OPC's positions for removing tax deficiency interest. Finally, I refute witness Larkin's suggestion that customers have not and do not receive any benefits from Tampa Electric's tax positions in years that there are no rate cases.

Q. Does this conclude your testimony?

A. Yes, it does.

BY MR. WILLIS:

Q Please summarize your rebuttal testimony.

A Good afternoon, Commissioners. In my rebuttal testimony, I have pointed out the many shortcomings of Witness Larkin's testimony. His testimony distorts and misrepresents the plain language of the stipulation. Witness Larkin has to add or alter wording in the stipulation to make his case.

For example, he attempts to argue that Paragraph 10 requires that only interest assessed on tax deficiencies related to the Polk Power Station would be included as adjustments. Paragraph 10 simply and directly says that the parties agree that any interest expense that might be incurred related to Polk will be considered a prudent expense for ratemaking purposes and will support this position in any proceeding before the FPSC. To now construe Paragraph 10 in the manner proposed by Witness Larkin, you would have to change or add wording to that paragraph and disregard other provisions in the stipulation.

I also point out that he is being very inconsistent. He argues that interest on tax deficiencies cannot be considered because it was not an adjustment approved in the last rate case. To agree with Witness Larkin, you would also have to acknowledge that all of the other adjustments supported by OPC that have been included in the earnings calculations

that were not in the last rate case were made in error by this Commission in 1996, 1997, 1998 and 1999. In fact, the Commission has correctly based its review of earnings for each of those years on the guiding principle of the stipulation of determining whether or not the investment or expense issue was reasonable and prudent.

Witness Larkin states in his testimony that we cannot raise this issue of inconsistency as it pertains to adjustments in the last rate case. OPC's position here is fundamentally inconsistent with past decisions of the Commission in this docket. We are not asking you to reverse your decision on these other adjustments. We simply point out that OPC has supported positions on other adjustments that are completely at odds with their arguments in this proceeding. It is clearly contradictory and inappropriate for OPC in this instance to oppose an adjustment that is beneficial to the company while supporting and accepting similar adjustments that are detrimental.

Witness Larkin also has questioned the harmony of Paragraph 10 and Paragraph 11 if you approve the interest on tax deficiency. He says that Paragraph 10 loses its basis or reasoning if tax deficiency interest expense is allowed under Paragraph 11. This is not so. Paragraph 10 documents an agreement among the parties; that any interest expense that might be incurred as a result of the Polk Power Station tax

assessment will be considered a prudent expense. This agreement between the parties simply requires that OPC support the consideration of such interest. It does not in any way limit the Commission from approving prudent expenses in the calculation of Tampa Electric's 1999 earnings.

My rebuttal testimony also disagrees with Witness Larkin's assertion that the benefits from the 1994 rate case test year must be excluded. However, even if you accept Mr. Larkin's argument, you can completely exclude all of the rate case benefits for the 1994 test year and still show $8.5 million of customer benefits from the cost/benefit analysis.

My rebuttal testimony also explains the meaning of the cost/benefit analysis and shows that this study is merely a tool of analysis for the Commission to use in determining whether an expense and tax positions that this company has taken are prudent under the stipulation. This decision does not involve in any way an actual change in rates.

Finally, Witness Larkin asserts that customers have not received much benefit under the stipulation. We completely disagree. Customers not only have avoided any rate increases due to the inclusion of the Polk Power Station and rate base, in fact, customers have received a total of over $120 million in benefits, including an additional $6.1 million plus interest from December 31st, 2000, if the Commission's PAA order

protested by OPC is sustained in this proceeding.

COMMISSIONER JABER: Ms. Bacon, before you're tendered for cross, let me get this out the way so that the attorneys can cross you on this. What is your definition of "retroactive ratemaking"?

THE WITNESS: My definition of retroactive ratemaking is when you reach back in time and either, you know, accept a cost that was incurred five years ago in today's, you know, rate calculations, or you actually change the rates back in 1995 or 1996 or any other year. You accept a rate change after those rate years have been closed.

And, again, I don't believe that the cost/benefit analysis falls underneath that because we're not changing those rates. We're just merely trying to show that the decisions in relation to these tax positions were prudent.

COMMISSIONER JABER: Mr. Willis.

MR. WILLIS: I would tender the witness.

CHAIRMAN JACOBS: Mr. Howe.

CROSS EXAMINATION

BY MR. HOWE:

Q Ms. Bacon, I couldn't help but notice in your summary you used the phrase "any interest expense on tax deficiencies related to Polk" I believe it was. Would you refer to Page 6 of your prefiled rebuttal testimony?

A The rebuttal?

Q Yes, ma'am, Lines 9 through 12.

A What page now?

Q Page 6.

A Okay.

MR. HOWE: Commissioners, I'm going to be showing Ms. Bacon a copy of Commission Order Number PSC-96-0670-S-EI dated May 20th, 1996. It is the Commission order approving the first stipulation.

BY MR. HOWE:

Q Ms. Bacon, would you please read into the record the text of that order beginning at the paragraph beginning with "tax deficiency assessment."

A Yes. It says, "The parties have agreed to support any interest expense incurred as a result of any tax deficiency assessment related to the tax life of the Polk Power Station as a prudent expense for ratemaking purposes. However, this provision is binding only on the parties to the stipulation. Based on the evidence presented during a proceeding, the Commission may make a determination to either include or exclude any such interest expense for ratemaking purposes."

Q Ms. Bacon, is what you just read consistent with what you stated at Lines 9 through 12 of Page 6 of your prefiled rebuttal testimony?

A On those particular lines, what I said was that the purpose of Paragraph 10 is to document an agreement among the

parties to support recovery should the Polk Power Station tax life position be questioned by the IRS at a future date.

Again, I think it's very important for the Commission to understand that there are two sentences within Paragraph 10. I can tell you that I was part of the negotiation for this stipulation throughout the entire deferred revenue years. I was on the negotiation team. And I basically ran the numbers behind all the deferred revenue years.

We requested this particular provision in the stipulation because we knew that we were going to be taking aggressive tax positions related to the Polk Power Station. One of those certainly was related to a 7- versus a 20-year MACRS rate. However, we also had other aggressive tax positions that drove us, you know, in general for Polk, including the R and E, including the in-service date issue that also were drivers as to why we needed this paragraph in the stipulation. And it's the second paragraph in that stipulation that I think is the driving paragraph that defined exactly what we negotiated for in the stipulation.

MR. WILLIS: Did you misspeak? Did you say "paragraph" instead of "sentence"?

MR. HOWE: I believe she did. She said, "Second paragraph" --

THE WITNESS: I said, "Second sentence within Paragraph 10," excuse me.

BY MR. HOWE:

Q Would you agree, Ms. Bacon, that the statement in the Commission order is consistent with your statement at Page 6 in that Commission interpretation is that the parties agreed about interest expense on tax deficiencies related to the tax life? Is that what it says in the order and in your prefiled rebuttal testimony?

A I think that it was very clear that certainly one of the driving needs for us to have this paragraph was the 7- versus 20-year tax life, but I would also have to point out that I do believe that the R and E issue is in the form of itself a tax life issue. If we did not -- what the IRS is basically arguing is that it should be amortized over 20 years. Now, you know, you can either say 7 versus 20, or you can say 1 year versus 20, but basically what is at issue here is how fast for tax purposes the investment for Polk is amortized over, you know, whatever period of time. And the company was seeking protection for those types of issues, and that's what we bargained for in that paragraph.

The second sentence basically says that the parties agree that any interest expense that might be incurred as a result of the Polk Power Station will be considered a prudent expense.

Q Ms. Bacon, I'll return to my question. Would you agree that both your prefiled rebuttal testimony and the

Commission order approving the first stipulation refer only to tax life?

A I think the reason why that, you know, I think --

Q Could I have a yes-or-no answer, and then you're free to explain? Would you agree that both refer to tax life?

A Both of them do refer to the tax life in the sentence. However, I would think that what is the driving reason behind that is that everyone understood that the tax life, the 7 versus the 20 year, was one of the primary reasons we were asking for this paragraph. However, any position on the Polk Power Station, including the R and E, is in a form of itself a tax life issue. And certainly what the company was bargaining for was protection for all of the Polk Power Station issues.

The other thing, too, I'd like to point out, Mr. Howe, it's very important for the Commission to understand that what we're talking about here is -- there's two issues related to Paragraph 10. First is whether or not what is defined under the Polk Power Station tax deficiency assessment. You believe that it's related to the tax life only, i.e., the 7 versus 20. We have a broader, you know, definition of that. But I think what's even more critical here is, I believe that you are saying that Paragraph 10, in essence, limits the Commission of only including Polk related tax deficiency interest in the calculation of the earnings. And that is

certainly a whole other issue that's even beyond just whether or not it's a tax life versus a broader definition.

MR. HOWE: I have no further questions. Thank you, Ms. Bacon.

CHAIRMAN JACOBS: Staff.

MR. ELIAS: We have no questions.

MR. WILLIS: No redirect.

CHAIRMAN JACOBS: Very well. And there were no exhibits. Thank you. You are excused, Ms. Bacon.

(Witness excused.)

CHAIRMAN JACOBS: I believe that takes care of all the witnesses today.

Are there any other matters? Posthearing scheduled, Counsel?

MR. ELIAS: As referenced in the order establishing procedure in the prehearing order, briefs are due on September 24th, and rebuttal briefs are to be filed two weeks later, which I believe is October 8th.

CHAIRMAN JACOBS: Very well. Anything else to come before the Commission today? Thank you very much. Thank all the parties. We're adjourned.

(Hearing concluded at 4:40 p.m.)

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STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, TRICIA DeMARTE, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 7th DAY OF SEPTEMBER, 2001.

Tricia DeMarte

TRICIA DeMARTE
FPSC Official Commission Reporter
(850) 413-6736

EXHIBIT NO. 1
DOCKET NO. 950379-EI
TAMPA ELECTRIC COMPANY
(DMB-1)

TAMPA ELECTRIC COMPANY

EXHIBIT OF

DELAINE M. BACON

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 950379-EI EXHIBIT NO. 1
COMPANY/
WITNESS: Bacon
DATE: 8-27-01

EXHIBIT NO. _____
DOCKET NO. 950379-EI
TAMPA ELECTRIC COMPANY
(DMB-1)

INDEX

DOCUMENT NO.	PAGE
1	1
2	32

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 1 OF 31
FILED; APRIL 30, 2001

Net Impact to Customers From Tampa Electric Tax Positions

	1993	1994	1995	1996	1997	1998	1999	Total
1995-1998 Tax Period								
Avoided lower/(higher) deferred revenue refund			281	714	1,696	2,087	1,034	5,812
Tax deficiency interest expense [1]							(2,433)	(2,433)
								3,379
1992-1994 Tax Period								
Avoided higher permanent rates	(13)	268	268	268	268	268	268	1,595
Avoided lower/(higher) deferred revenue refund			1,123	714	1,357	1,739	827	5,760
Tax deficiency interest expense [2]							(3,544)	(3,544)
								3,812
1989-1991 Tax Period								
Avoided higher permanent rates	1,231	1,307	1,307	1,307	1,307	1,307	1,307	9,073
Avoided lower/(higher) deferred revenue refund			0	0	(1,010)	(2,003)	(815)	(3,828)
Tax deficiency interest expense [3]							(2,182)	(2,182)
								3,063
1986-1988 Tax Period								
Avoided higher permanent rates	487	517	517	517	517	517	517	3,589
Avoided lower/(higher) deferred revenue refund			0	0	(674)	(976)	(404)	(2,054)
Tax deficiency interest benefit [4]							617	617
								2,152
Total	1,705	2,092	3,496	3,520	3,461	2,939	(4,807)	**12,406**
Cumulative net revenue requirements at y/e 1999 $ [5]	2,918	3,274	5,002	4,605	4,140	3,214	(4,807)	**18,347**

[1] $4.054 million total paid times 60 percent impact to customers in 1999
[2] $5.906 million total paid times 60 percent impact to customers in 1999
[3] $3.636 million when $5.195 million total paid is prorated for 7 of 10 years, times 60 percent impact to customers in 1999
[4] *$1.029 million when $1.911 million total received is prorated for 7 of 13 years,* times 60 percent impact to customers in 1999
[5] at 9.37% Tampa Electric cost of funds

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 2 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.61%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.03%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.15%		
As Filed by Company	8.17%		
Excess Rate of Return		0.02%	
Total Incremental Rate of Return			0.05%
Incremental Net Operating Income			863
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,404
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,236

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	1,892	808,335	46.86%	11.75%	5.51%
Long Term Debt	445,931	1,046	446,977	25.91%	6.64%	1.72%
Short Term Debt	77,331	181	77,512	4.49%	6.01%	0.27%
Preferred Stock	44,105	103	44,208	2.56%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(3,223)	236,417	13.70%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.15%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,236
Less to be Deferred	**(281)**

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 3 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.90%	
Beginning Sharing Point at 11.75% ROE	8.20%	
Incremental Rate of Return		1.70%
Incremental Net Operating Income		31,088
Revenue Expansion Factor		1.62800
Gross Excess Revenues		50,611
Less Refund		(15,000)
Gross Excess Revenues Less Refund		35,611
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		21,367

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	136	4,821	851,241	46.55%	11.75%	5.47%
Long Term Debt	467,909	75	2,666	470,650	25.74%	6.74%	1.73%
Short Term Debt	103,514	17	590	104,120	5.69%	5.47%	0.31%
Preferred Stock	24,058	4	137	24,199	1.32%	5.75%	0.08%
Customer Deposits	41,580	7		41,586	2.27%	5.85%	0.13%
Deferred Revenues	77,670	(281)		77,389	4.23%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	36	(8,213)	214,967	11.76%	0.00%	0.00%
ITCs - Weighted	44,533	7		44,540	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.20%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	21,367
Less to be Deferred	**(714)**

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 4 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		2,084,268
Adjusted Achieved Rate of Return	8.77%	
Allowed Maximum Rate of Return at 12.75% ROE	8.72%	
Incremental Rate of Return		0.05%
Incremental Net Operating Income		1,042
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		1,697
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(1,697)
Maximum Allowed Revenue Reversal		28,753

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	568	6,466	984,890	47.25%	12.75%	6.02%
Long Term Debt	583,150	339	3,856	587,344	28.18%	6.73%	1.90%
Short Term Debt	95,482	55	631	96,169	4.61%	5.47%	0.25%
Preferred Stock	9,459	5	63	9,527	0.46%	5.48%	0.03%
Customer Deposits	47,015	27		47,042	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(995)		57,546	2.76%	5.60%	0.15%
Deferred Taxes & 0 cost ITCs	266,717		(11,016)	255,701	12.27%	0.00%	0.00%
ITCs - Weighted	46,048			46,048	2.21%	10.47%	0.23%
	2,084,268			2,084,268			8.72%
				58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	28,753
Additional to be Reversed to Company	**1,696**

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 5 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		2,136,797
Adjusted Achieved Rate of Return	9.54%	
Allowed Maximum Rate of Return at 12.75% ROE	8.66%	
Incremental Rate of Return		0.88%
Incremental Net Operating Income		18,804
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		30,613
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		2,144
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(2,144)
Maximum Allowed Revenue Reversal		36,156

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	1,537	7,804	1,020,674	47.77%	12.75%	6.09%
Long Term Debt	642,241	976	4,956	648,172	30.33%	6.61%	2.01%
Short Term Debt	69,311	105	535	69,951	3.27%	5.38%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	73		48,297	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(2,691)		18,032	0.84%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085		(13,294)	288,791	13.52%	0.00%	0.00%
ITCs - Weighted	42,879			42,879	2.01%	10.37%	0.21%
	2,136,797			2,136,797			8.66%
				58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	36,156
Additional to be Reversed to Company	**2,087**

95-98 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	50,236
1996 Revenue Deferral	36,367
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(28,753)
1998 Revenue Reversal	(36,156)
1995-1998 Interest	10,492
Refund as of 12/31/98	6,448
Refund Ordered	11,227
Refund Adjusted	6,448
(Additional)/Less Deferred Revenue Refund	**4,778**

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 6 OF 31
FILED: APRIL 30, 2001

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 7 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		2,116,832
Adjusted Achieved Rate of Return	8.46%	
Allowed Maximum Rate of Return at 12.00% ROE	8.24%	
Excess Rate of Return		0.22%
Excess Net Operating Income		4,657
Revenue Expansion Factor		1.62800
Revenues in Excess of 12.00% ROE		7,582
Less 40% Sharing		(3,033)
Amount to be Refunded		4,549

	Company Filed	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,007,980	6,834	1,014,814	47.94%	12.00%	5.75%
Long Term Debt	631,493	4,281	635,774	30.03%	6.54%	1.96%
Short Term Debt	77,699	527	78,226	3.70%	5.00%	0.18%
Preferred Stock	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,095		48,095	2.27%	6.12%	0.14%
Deferred Revenues	7,706		7,706	0.36%	5.06%	0.02%
Deferred Taxes & 0 cost ITCs	306,039	(11,642)	294,397	13.91%	0.00%	0.00%
ITCs - Weighted	37,820		37,820	1.79%	9.90%	0.18%
	2,116,832		2,116,832			8.24%
			58.70%			

1999 Refund Recomended	5,583
1999 Refund Adjusted	4,549
Additional (Less) to be Refunded	**(1,034)**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1993 Test Year Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 8 OF 31
FILED: APRIL 30, 2001

Achieved NOI		$142,732
Adj. rate base	1,749,355	
ROR	8.2000%	
Required NOI		143,447
Net Revenue Deficiency		(715)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(1,150)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	748,447	386	748,833	42.81%	12.00%	5.14%
Long Term Debt	514,895	266	515,161	29.45%	7.56%	2.23%
Short Term Debt	39,223	20	39,243	2.24%	4.28%	0.10%
Preferred Stock	48,274	25	48,299	2.76%	6.49%	0.18%
Customer Deposits	42,056		42,056	2.40%	8.19%	0.20%
Deferred Taxes & 0 cost ITCs	292,477	(697)	291,780	16.68%	0.00%	0.00%
ITCs - Weighted	63,983		63,983	3.66%	10.06%	0.37%
	1,749,355		1,749,355			8.20%

Avoided Cost from $1.163 Million of Implemented Annual Rates ($13)

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1994 Test Year Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 9 OF 31
FILED: APRIL 30, 2001

Achieved NOI		$145,228
Adj. rate base	1,857,874	
ROR	8.3600%	
Required NOI		155,318
Net Revenue Deficiency		(10,090)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(16,225)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	801,028	846	801,874	43.16%	12.00%	5.18%
Long Term Debt	558,899	590	559,489	30.11%	7.81%	2.35%
Short Term Debt	56,194	59	56,253	3.03%	5.37%	0.16%
Preferred Stock	45,539	48	45,587	2.45%	6.49%	0.16%
Customer Deposits	43,512		43,512	2.34%	7.86%	0.18%
Deferred Taxes & 0 cost ITCs	293,667	(1,544)	292,123	15.72%	0.00%	0.00%
ITCs - Weighted	59,035		59,035	3.18%	10.15%	0.32%
	1,857,874		1,857,874			8.36%

Avoided Cost from $15.957 Million of Implemented Annual Rates	$268
1994-1999 Cumulative Avoided Cost	1,608

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 10 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.62%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.04%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.19%		
As Filed by Company	8.17%		
Excess Rate of Return		-0.02%	
Total Incremental Rate of Return			0.02%
Incremental Net Operating Income			345
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			562
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			49,394

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	5,647	812,090	47.08%	11.75%	5.53%
Long Term Debt	445,931	3,123	449,054	26.03%	6.64%	1.73%
Short Term Debt	77,331	542	77,872	4.51%	6.01%	0.27%
Preferred Stock	44,105	309	44,414	2.57%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(9,620)	230,020	13.33%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.19%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	49,394
Less to be Deferred	**(1,123)**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 11 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.91%	
Beginning Sharing Point at 11.75% ROE	8.21%	
Incremental Rate of Return		1.70%
Incremental Net Operating Income		31,088
Revenue Expansion Factor		1.62800
Gross Excess Revenues		50,611
Less Refund		(15,000)
Gross Excess Revenues Less Refund		35,611
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		21,367

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	543	5,647	852,473	46.62%	11.75%	5.48%
Long Term Debt	467,909	300	3,122	471,331	25.77%	6.74%	1.74%
Short Term Debt	103,514	66	691	104,271	5.70%	5.47%	0.31%
Preferred Stock	24,058	15	161	24,234	1.33%	5.75%	0.08%
Customer Deposits	41,580	27		41,606	2.28%	5.85%	0.13%
Deferred Revenues	77,670	(1,123)		76,547	4.19%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	143	(9,620)	213,667	11.68%	0.00%	0.00%
ITCs - Weighted	44,533	29		44,561	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.21%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	21,367
Less to be Deferred	**(714)**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 12 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		2,084,268
Adjusted Achieved Rate of Return	8.78%	
Allowed Maximum Rate of Return at 12.75% ROE	8.72%	
Incremental Rate of Return		0.06%
Incremental Net Operating Income		1,251
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		2,036
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(2,036)
Maximum Allowed Revenue Reversal		28,414

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	1,049	5,647	984,552	47.24%	12.75%	6.02%
Long Term Debt	583,150	625	3,368	587,143	28.17%	6.73%	1.90%
Short Term Debt	95,482	102	551	96,136	4.61%	5.47%	0.25%
Preferred Stock	9,459	10	55	9,524	0.46%	5.48%	0.03%
Customer Deposits	47,015	50		47,065	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(1,837)		56,704	2.72%	5.60%	0.15%
Deferred Taxes & 0 cost ITCs	266,717		(9,620)	257,097	12.34%	0.00%	0.00%
ITCs - Weighted	46,048			46,048	2.21%	10.47%	0.23%
	2,084,268			2,084,268			8.72%
				58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	28,414
Additional to be Reversed to Company	**1,357**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 13 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		2,136,797
Adjusted Achieved Rate of Return	9.54%	
Allowed Maximum Rate of Return at 12.75% ROE	8.65%	
Incremental Rate of Return		0.89%
Incremental Net Operating Income		19,017
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		30,960
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		2,492
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(2,492)
Maximum Allowed Revenue Reversal		35,808

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	1,824	5,647	1,018,805	47.68%	12.75%	6.08%
Long Term Debt	642,241	1,158	3,586	646,985	30.28%	6.61%	2.00%
Short Term Debt	69,311	125	387	69,823	3.27%	5.38%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	87		48,311	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(3,194)		17,529	0.82%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085		(9,620)	292,465	13.69%	0.00%	0.00%
ITCs - Weighted	42,879			42,879	2.01%	10.37%	0.21%
	2,136,797			2,136,797			8.65%
				58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	35,808
Additional to be Reversed to Company	**1,739**

92-94 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	49,394
1996 Revenue Deferral	36,367
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(28,414)
1998 Revenue Reversal	(35,808)
1995-1998 Interest	10,492
Refund as of 12/31/98	6,293
Refund Ordered	11,227
Refund Adjusted	6,293
(Additional)/Less Deferred Revenue Refund	**4,933**

Note:
- The increase in rates in 1994 increases revenues during 1995-1998, which has been included in the adjusted achieved ROR.

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 14 OF 31
FILED: APRIL 30, 2001

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 15 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		2,116,832
Adjusted Achieved Rate of Return	8.45%	
Allowed Maximum Rate of Return at 12.00% ROE	8.22%	
Excess Rate of Return		0.23%
Excess Net Operating Income		4,869
Revenue Expansion Factor		1.62800
Revenues in Excess of 12.00% ROE		7,926
Less 40% Sharing		(3,170)
Amount to be Refunded		4,756

	Company Filed	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,007,980	4,518	1,012,498	47.83%	12.00%	5.74%
Long Term Debt	631,493	2,831	634,324	29.97%	6.54%	1.96%
Short Term Debt	77,699	348	78,047	3.69%	5.00%	0.18%
Preferred Stock	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,095		48,095	2.27%	6.12%	0.14%
Deferred Revenues	7,706		7,706	0.36%	5.06%	0.02%
Deferred Taxes & 0 cost ITCs	306,039	(7,697)	298,342	14.09%	0.00%	0.00%
ITCs - Weighted	37,820		37,820	1.79%	9.90%	0.18%
	2,116,832		2,116,832			8.22%
			58.70%			

1999 Refund Recomended	5,583
1999 Refund Adjusted	4,756
Additional (Less) to be Refunded	**(827)**

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1993 Test Year Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 16 OF 31
FILED: APRIL 30, 2001

Achieved NOI		$142,833
Adj. rate base	1,749,355	
ROR	8.2500%	
Required NOI		144,322
Net Revenue Deficiency		(1,489)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(2,394)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	748,447	5,222	753,669	43.08%	12.00%	5.17%
Long Term Debt	514,895	3,592	518,487	29.64%	7.56%	2.24%
Short Term Debt	39,223	274	39,497	2.26%	4.28%	0.10%
Preferred Stock	48,274	337	48,611	2.78%	6.49%	0.18%
Customer Deposits	42,056		42,056	2.40%	8.19%	0.20%
Deferred Taxes & 0 cost ITCs	292,477	(9,425)	283,052	16.18%	0.00%	0.00%
ITCs - Weighted	63,983		63,983	3.66%	10.06%	0.37%
	1,749,355		1,749,355			8.25%

Avoided Cost from $1.163 Million of Implemented Annual Rates $1,231

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1994 Test Year Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 17 OF 31
FILED: APRIL 30, 2001

Achieved NOI		$145,325
Adj. rate base	1,857,874	
ROR	8.4000%	
Required NOI		156,061
Net Revenue Deficiency		(10,736)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(17,264)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	801,028	5,165	806,193	43.39%	12.00%	5.21%
Long Term Debt	558,899	3,604	562,503	30.28%	7.81%	2.36%
Short Term Debt	56,194	362	56,556	3.04%	5.37%	0.16%
Preferred Stock	45,539	294	45,833	2.47%	6.49%	0.16%
Customer Deposits	43,512		43,512	2.34%	7.86%	0.18%
Deferred Taxes & 0 cost ITCs	293,667	(9,425)	284,242	15.30%	0.00%	0.00%
ITCs - Weighted	59,035		59,035	3.18%	10.15%	0.32%
	1,857,874		1,857,874			8.40%

Avoided Cost from $15.957 Million of Implemented Annual Rates	$1,307
1994-1999 Cumulative Avoided Cost	7,842

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 18 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.66%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.08%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.19%		
As Filed by Company	8.17%		
Excess Rate of Return		-0.02%	
Total Incremental Rate of Return			0.06%
Incremental Net Operating Income			1,035
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,685
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,517

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	5,532	811,975	47.07%	11.75%	5.53%
Long Term Debt	445,931	3,059	448,990	26.03%	6.64%	1.73%
Short Term Debt	77,331	530	77,861	4.51%	6.01%	0.27%
Preferred Stock	44,105	303	44,407	2.57%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(9,425)	230,216	13.35%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.19%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,517
Less to be Deferred	0

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 19 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.94%	
Beginning Sharing Point at 11.75% ROE	8.20%	
Incremental Rate of Return		1.74%
Incremental Net Operating Income		31,819
Revenue Expansion Factor		1.62800
Gross Excess Revenues		51,802
Less Refund		(15,000)
Gross Excess Revenues Less Refund		36,802
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		22,081

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	0	5,532	851,816	46.58%	11.75%	5.47%
Long Term Debt	467,909	0	3,059	470,967	25.75%	6.74%	1.74%
Short Term Debt	103,514	0	677	104,191	5.70%	5.47%	0.31%
Preferred Stock	24,058	0	157	24,215	1.32%	5.75%	0.08%
Customer Deposits	41,580	0		41,580	2.27%	5.85%	0.13%
Deferred Revenues	77,670	0		77,670	4.25%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	0	(9,425)	213,720	11.69%	0.00%	0.00%
ITCs - Weighted	44,533	0		44,533	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.20%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	22,081
Less to be Deferred	**0**

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 20 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		2,080,272
Adjusted Achieved Rate of Return	8.82%	
Allowed Maximum Rate of Return at 12.75% ROE	8.69%	
Incremental Rate of Return		0.13%
Incremental Net Operating Income		2,704
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		4,403
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(4,403)
Maximum Allowed Revenue Reversal		26,047

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	(2,206)	0	2,553	978,203	47.02%	12.75%	6.00%
Long Term Debt	583,150	(1,316)	0	1,523	583,357	28.04%	6.73%	1.89%
Short Term Debt	95,482	(215)	0	249	95,516	4.59%	5.47%	0.25%
Preferred Stock	9,459	(21)	0	25	9,462	0.45%	5.48%	0.02%
Customer Deposits	47,015	(106)	0		46,909	2.25%	6.10%	0.14%
Deferred Revenues	58,541	(132)	0		58,409	2.81%	5.60%	0.16%
Deferred Taxes & 0 cost ITCs	266,717			(4,350)	262,367	12.61%	0.00%	0.00%
ITCs - Weighted	46,048				46,048	2.21%	10.47%	0.23%
	2,084,268	(3,996)			2,080,272			8.69%
					58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	26,047
Additional (Less) to be Reversed to Company	**(1,010)**

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 21 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		2,131,602
Adjusted Achieved Rate of Return	9.59%	
Allowed Maximum Rate of Return at 12.75% ROE	8.59%	
Incremental Rate of Return		1.00%
Incremental Net Operating Income		21,316
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		34,702
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		6,234
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(6,234)
Maximum Allowed Revenue Reversal		32,066

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	(2,932)	(577)	0	1,007,825	47.28%	12.75%	6.03%
Long Term Debt	642,241	(1,862)	(366)	0	640,012	30.02%	6.61%	1.98%
Short Term Debt	69,311	(201)	(40)	0	69,071	3.24%	5.38%	0.17%
Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	(140)	(28)		48,057	2.25%	6.09%	0.14%
Deferred Revenues	20,723	(60)	1,010		21,673	1.02%	5.49%	0.06%
Deferred Taxes & 0 cost ITCs	302,085			0	302,085	14.17%	0.00%	0.00%
ITCs - Weighted	42,879				42,879	2.01%	10.37%	0.21%
	2,136,797	(5,195)			2,131,602			8.59%
					58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	32,066
Additional (Less) to be Reversed to Company	**(2,003)**

89-91 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	50,517
1996 Revenue Deferral	37,081
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(26,047)
1998 Revenue Reversal	(32,066)
1995-1998 Interest	10,492
Refund as of 12/31/98	14,239
Refund Ordered	11,227
Refund Adjusted	14,239
(Additional)/Less Deferred Revenue Refund	**(3,013)**

Note:
- *The increase in rates in 1994 increases revenues during 1995-1998, which has been included in the adjusted achieved ROR.*

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 22 OF 31
FILED: APRIL 30, 2001

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 23 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		2,112,738
Adjusted Achieved Rate of Return	8.50%	
Allowed Maximum Rate of Return	8.19%	
Excess Rate of Return		0.31%
Excess Net Operating Income		6,549
Revenue Expansion Factor		1.62800
Revenues in Excess of 12.00% ROE		10,663
Less 40% Sharing		(4,265)
Amount to be Refunded		6,398

	Company Filed	Adjust for Deferred Debit	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,007,980	(2,327)	1,352	1,007,004	47.66%	12.00%	5.72%
Long Term Debt	631,493	(1,458)	847	630,882	29.86%	6.54%	1.95%
Short Term Debt	77,699	(179)	104	77,624	3.67%	5.00%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,095	(111)		47,984	2.27%	6.12%	0.14%
Deferred Revenues	7,706	(18)		7,688	0.36%	5.06%	0.02%
Deferred Taxes & 0 cost ITCs	306,039		(2,303)	303,737	14.38%	0.00%	0.00%
ITCs - Weighted	37,820			37,820	1.79%	9.90%	0.18%
	2,116,832	(4,094)		2,112,738			8.19%
				58.70%			

1999 Refund Recomended	5,583
1999 Refund Adjusted	6,398
Additional (Less) to be Refunded	**815**

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 24 OF 31
FILED: APRIL 30, 2001

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1993 Test Year Adjusted

Achieved NOI		$142,771
Adj. rate base	1,749,355	
ROR	8.2200%	
Required NOI		143,797
Net Revenue Deficiency		(1,026)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(1,650)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	748,447	2,253	750,700	42.91%	12.00%	5.15%
Long Term Debt	514,895	1,550	516,445	29.52%	7.56%	2.23%
Short Term Debt	39,223	118	39,341	2.25%	4.28%	0.10%
Preferred Stock	48,274	145	48,419	2.77%	6.49%	0.18%
Customer Deposits	42,056		42,056	2.40%	8.19%	0.20%
Deferred Taxes & 0 cost ITCs	292,477	(4,066)	288,411	16.49%	0.00%	0.00%
ITCs - Weighted	63,983		63,983	3.66%	10.06%	0.37%
	1,749,355		1,749,355			8.22%

Avoided Cost from $1.163 Million of Implemented Annual Rates $487

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1994 Test Year Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 25 OF 31
FILED: APRIL 30, 2001

Achieved NOI		$145,259
Adj. rate base	1,857,874	
ROR	8.3700%	
Required NOI		155,504
Net Revenue Deficiency		(10,245)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(16,474)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	801,028	2,228	803,256	43.24%	12.00%	5.19%
Long Term Debt	558,899	1,555	560,454	30.17%	7.81%	2.36%
Short Term Debt	56,194	156	56,350	3.03%	5.37%	0.16%
Preferred Stock	45,539	127	45,666	2.46%	6.49%	0.16%
Customer Deposits	43,512		43,512	2.34%	7.86%	0.18%
Deferred Taxes & 0 cost ITCs	293,667	(4,066)	289,601	15.59%	0.00%	0.00%
ITCs - Weighted	59,035		59,035	3.18%	10.15%	0.32%
	1,857,874		1,857,874			8.37%

Avoided Cost from $15.957 Million of Implemented Annual Rates	$517
1994-1999 Cumulative Avoided Cost	3,102

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 26 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.63%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.05%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.16%		
As Filed by Company	8.17%		
Excess Rate of Return		0.01%	
Total Incremental Rate of Return			0.06%
Incremental Net Operating Income			1,035
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,685
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,517

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	2,387	808,830	46.89%	11.75%	5.51%
Long Term Debt	445,931	1,320	447,251	25.93%	6.64%	1.72%
Short Term Debt	77,331	229	77,560	4.50%	6.01%	0.27%
Preferred Stock	44,105	131	44,235	2.56%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(4,066)	235,574	13.66%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.16%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,517
Less to be Deferred	0

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 27 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.91%	
Beginning Sharing Point at 11.75% ROE	8.17%	
Incremental Rate of Return		1.74%
Incremental Net Operating Income		31,819
Revenue Expansion Factor		1.62800
Gross Excess Revenues		51,802
Less Refund		(15,000)
Gross Excess Revenues Less Refund		36,802
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		22,081

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	0	2,387	848,670	46.41%	11.75%	5.45%
Long Term Debt	467,909	0	1,320	469,228	25.66%	6.74%	1.73%
Short Term Debt	103,514	0	292	103,806	5.68%	5.47%	0.31%
Preferred Stock	24,058	0	68	24,126	1.32%	5.75%	0.08%
Customer Deposits	41,580	0		41,580	2.27%	5.85%	0.13%
Deferred Revenues	77,670	0		77,670	4.25%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	0	(4,066)	219,079	11.98%	0.00%	0.00%
ITCs - Weighted	44,533	0		44,533	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.17%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	22,081
Less to be Deferred	**0**

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 28 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		2,081,629
Adjusted Achieved Rate of Return	8.79%	
Allowed Maximum Rate of Return at 12.75% ROE	8.67%	
Incremental Rate of Return		0.12%
Incremental Net Operating Income		2,498
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		4,067
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(4,067)
Maximum Allowed Revenue Reversal		26,383

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	(1,457)	0	1,102	977,501	46.96%	12.75%	5.99%
Long Term Debt	583,150	(869)	0	657	582,938	28.00%	6.73%	1.88%
Short Term Debt	95,482	(142)	0	108	95,448	4.59%	5.47%	0.25%
Preferred Stock	9,459	(14)	0	11	9,456	0.45%	5.48%	0.02%
Customer Deposits	47,015	(70)	0		46,945	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(87)	0		58,454	2.81%	5.60%	0.16%
Deferred Taxes & 0 cost ITCs	266,717			(1,877)	264,840	12.72%	0.00%	0.00%
ITCs - Weighted	46,048				46,048	2.21%	10.47%	0.23%
	2,084,268	(2,639)			2,081,629			8.67%
					58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	26,383
Additional (Less) to be Reversed to Company	**(674)**

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 29 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		2,132,508
Adjusted Achieved Rate of Return	9.56%	
Allowed Maximum Rate of Return at 12.75% ROE	8.59%	
Incremental Rate of Return		0.97%
Incremental Net Operating Income		20,685
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		33,676
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		5,207
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(5,207)
Maximum Allowed Revenue Reversal		33,093

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	(2,421)	(385)	0	1,008,528	47.29%	12.75%	6.03%
Long Term Debt	642,241	(1,537)	(244)	0	640,459	30.03%	6.61%	1.99%
Short Term Debt	69,311	(166)	(26)	0	69,119	3.24%	5.38%	0.17%
Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	(115)	(18)		48,090	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(50)	674		21,347	1.00%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085			0	302,085	14.17%	0.00%	0.00%
ITCs - Weighted	42,879				42,879	2.01%	10.37%	0.21%
	2,136,797	(4,289)			2,132,508			8.59%
					58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	33,093
Additional (Less) to be Reversed to Company	**(976)**

86-88 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	50,517
1996 Revenue Deferral	37,081
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(26,383)
1998 Revenue Reversal	(33,093)
1995-1998 Interest	10,492
Refund as of 12/31/98	12,876
Refund Ordered	11,227
Refund Adjusted	12,876
(Additional)/Less Deferred Revenue Refund	**(1,650)**

Note:
- The increase in rates in 1994 increases revenues during 1995-1998, which has been included in the adjusted achieved ROR.

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 30 OF 31
FILED: APRIL 30, 2001

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

EXHIBIT NO. _____
TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
(DMB-1)
DOCUMENT NO. 1
PAGE 31 OF 31
FILED: APRIL 30, 2001

Commission Adjusted Rate Base		2,113,533
Adjusted Achieved Rate of Return	8.48%	
Allowed Maximum Rate of Return	8.19%	
Excess Rate of Return		0.29%
Excess Net Operating Income		6,129
Revenue Expansion Factor		1.62800
Revenues in Excess of 12.00% ROE		9,978
Less 40% Sharing		(3,991)
Amount to be Refunded		5,987

	Company Filed	Adjust for Deferred Debit	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,007,980	(1,876)	551	1,006,655	47.63%	12.00%	5.72%
Long Term Debt	631,493	(1,175)	345	630,663	29.84%	6.54%	1.95%
Short Term Debt	77,699	(145)	42	77,597	3.67%	5.00%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,095	(89)		48,006	2.27%	6.12%	0.14%
Deferred Revenues	7,706	(14)		7,691	0.36%	5.06%	0.02%
Deferred Taxes & 0 cost ITCs	306,039		(938)	305,101	14.44%	0.00%	0.00%
ITCs - Weighted	37,820			37,820	1.79%	9.90%	0.18%
	2,116,832	(3,299)		2,113,533			8.19%
				58.70%			

1999 Refund Recomended	5,583
1999 Refund Adjusted	5,987
Additional (Less) to be Refunded	404

FLORIDA POWER CORPORATION
RESPONSE TO FPSC STAFF AUDIT DISCLOSURE NO. 14
DOCKET NO. 910890-EI

The Company has included interest on tax deficiencies as a recoverable expense. The Company included interest as a recoverable expense because the Company's ratepayers are direct beneficiaries of the its tax administration policies. The Commission recognized that ratepayers are the primary beneficiaries of tax planning and established a precedent for allowing such costs in rates in its Order Number 13948 in Docket No. 830465. In this Order, the Commission allowed Florida Power & Light to recognize in cost of service the amortization of interest on tax deficiencies. Although Order No. 13948 was not a generic Order, the issue involved and the underlying principles are equally applicable to all other investor-owned utilities.

Tax deficiencies and the related interest expense arise primarily because of varying interpretations of the tax laws, rules, regulations, etc. by taxpayers and taxing authorities. As discussed in the testimony of Mr. John Scardino, Jr. on pages 69 and 70, the tax law is very complex. While the Company makes a good faith effort to remain in compliance with the tax law, it will understandably interpret the tax law to protect the interests of its customers. The Company has used the term "aggressive" in this response to denote the preparation of tax returns in this manner. The IRS and the Department of Revenue, on the other hand, seek to protect the revenue position of the Treasury and other governmental entities of which they are a part. This divergence of interests and constituencies inevitably causes taxpayers and taxing authorities to have differing opinions as to the true tax liability that is due. In order to protect the interests of our customers, the Company prepares its returns to conserve cash flow and defer the need for external financing.

If the Company prepared its return as conservatively as a taxing authority may propose, the ratepayers would incur substantial additional financing and tax cost as will be subsequently demonstrated. The Company is considered by the IRS to be a "large case" taxpayer and consequently, its returns for each tax year will be subjected to audit. The Company is aware that when these audits occur, the IRS and other taxing authorities will take extremely conservative positions on issues that arise during the audits. Although the Company prevails on most of the positions that are taken in its returns, the taxing authorities prevail on some issues, thus giving rise to deficiencies and related interest.

It is important to note the process in which tax deficiencies are determined and agreed upon. As the agents conduct their audits, many issues are raised. For most issues, additional information or explanation will lead to their resolution. However, when the

Company and agents remain at an impasse because of differing perceptions of the facts or interpretations of the law, the tax authority and the Company will settle some issues on a negotiated basis. Typically, the Company will settle issues for some percentage of the original amount suggested by the agents. When issues cannot be resolved with the audit agents, the Company will avail itself of the appeals process. The appeals process is designed by the IRS to provide administrative relief to taxpayers without litigation. As stated in Mr. Scardino's testimony, it is important to note that even though the Company does not prevail on all issues it takes to Appeals, the final tax liability negotiated in Appeals is typically less than that originally proposed by the IRS.

It is also important to note two additional points. The first point is that many issues that the Company takes an aggressive position on are never raised by a taxing authority. For those issues, there is a benefit created that does not require any additional expense or effort to defend. The second point is that on the positions that are questioned, had the Company never taken the controversial position in its return, it would never have been granted the compromise position that it receives from the agents or at Appeals. For example, the Company asserted in its tax return for 1982 that approximately $15 million spent on landfill at the Crystal River site was both depreciable and eligible for investment tax credit. The IRS in its audit report asserted that none of the landfill was depreciable or eligible for investment tax credit. In Appeals, the Company reached a settlement that allowed depreciation and investment tax credit on 72% and 70%, respectively. Clearly, being aggressive in the preparation of tax returns conserves cash flow and defers the need for external financing. However, being aggressive in the preparation of tax returns inevitably leads to tax deficiencies and related interest expense.

One of the concerns raised by some is that the ratepayers pay the same tax expense, under normalization, whether or not a company aggressively prepares its return. Therefore, the ratepayers receive no benefit from aggressive preparation of a return and thus should not have to bear any associated cost. It should be noted that while interest expense on tax deficiencies is a direct result of aggressive tax planning, it is, nevertheless, a true cost of capital. When the Company is required to pay interest on a deficiency, it is because the Company has withheld cash payments from a taxing authority and has used the cash to displace external capital financing. To the extent that other capital financing has been displaced, the cost of the capital displaced presents a savings to the ratepayers of the Company.

FLORIDA POWER CORPORATION
RESPONSE TO FPSC STAFF AUDIT DISCLOSURE NO. 14
DOCKET NO. 910890-EI

The following example demonstrates the concept that tax deficiencies displace capital financing and lead to a direct benefit to ratepayers.

For the purpose of this example, a hypothetical utility has a $1,000,000 rate base and $100,000 of test year operating expenses. The rate base is supported by a capital structure comprising $500,000 of debt at a cost rate of 10% and $500,000 of equity at a cost rate of 15%; the overall cost of capital is thus 12.5%. The utility has an arguable position that, for tax purposes, it can deduct an additional $100,000 by, for example, deducting an item that is capitalized per books. However, its operating expenses for ratemaking purposes will not be affected by whether this deduction is taken. Finally, the income tax rate is 50%.

If the utility does not take the additional deduction, its revenue requirements will be as follows:

$100,000	-	operating expenses
125,000	-	required after-tax return on $1,000,000 rate base at 12.5% cost of capital
75,000	-	income taxes on pre-tax equity return (equal to after-tax equity return of $500,000 x 15% = $75,000)
$300,000		

However, if the utility aggressively pursues the arguably available deduction, its revenue requirements will be reduced even with normalization because the required return on the rate base and the income tax expense will be less:

$100,000	-	operating expenses
118,750	-	required after-tax return on $1,000,000 rate base at 11.875% cost of capital (effect of cost-free capital)
71,250	-	income taxes on pre-tax equity return (equal to after-tax equity return of $475,000 x 15% = $71,250)
$290,000		

FLORIDA POWER CORPORATION
RESPONSE TO FPSC STAFF AUDIT DISCLOSURE NO. 14
DOCKET NO. 910890-EI

The required return on rate base would be lower because some of the debt and equity originally supporting the rate base is supplanted by the deferred taxes resulting from the $100,000 additional tax deduction:

$475,000	-	debt
475,000	-	equity
50,000	-	deferred taxes ($100,000 deduction x 50% tax rate)
$1,000,000		

Since the deferred taxes are included at a zero cost, the overall cost of capital is lowered accordingly:

47.5%	-	debt at 10% =	4.75%
47.5%	-	equity at 15% =	7.125%
5%	-	deferred taxes at 0% =	0%
			11.875%

As the example clearly demonstrates, the ratepayers have clearly benefitted from the utility's cost-free use of the deficiencies until such time as the amount must be paid to the IRS. It is important, therefore, to emphasize that the "real" cost or benefit to the ratepayers of taking certain positions in the Company's tax returns and ultimately having to concede those positions to the IRS is the differential between the interest owed to the government and the cost of capital the Company was able to avoid by having the use of the money during the period the tax liability was outstanding. The aggressive positions that were sustained and not conceded provide additional avoided cost benefits.

The Company has prepared an analysis which shows the cost of the federal tax deficiencies, the displaced cost of capital related to the deficiencies, and the benefit of aggressive positions sustained for the tax years 1982 - 85. A copy of the analysis is attached. This audit period was selected for analysis because these are the latest closed years for which we have been assessed interest on deficiencies. The displaced cost of capital was computed using short-term interest rates incurred by the Company. Although short-term interest rates are not theoretically correct (a blended cost of capital, using debt and equity, would have been theoretically correct), they were used as a conservative measure of the displaced cost of capital without distorting the overall results. The difference between the interest on deficiencies and the interest expense that would have been incurred if the deficiencies were replaced by short-term borrowings for tax years 1982 through 1985

is a net cost of $2 million. If the theoretically correct blended capital structure cost had been used, the computations would actually reflect a net benefit of $2.1 million.

The avoided cost benefits related to aggressive positions that were sustained were also computed using short-term borrowing rates rather than blended capital rates for simplicity. In order to determine the cost benefit of positions sustained, the Company compared major issues in the Revenue Agent's Report (RAR) where deficiencies were asserted, that were subsequently resolved at Appeals for lesser amounts. Comparing RAR audit assessments to Appeals settlements provides a very conservative estimate of the true benefits of planning. As previously stated, many aggressive positions are never questioned by the agents. Many issues that are questioned by the agents are settled at lesser amounts than the agents originally proposed and are never included in the RAR. Finally, many audits are settled at the agent level and are never appealed. Again, the RAR assessments were used to provide simplicity and objectivity for our analysis.

The net cost savings from aggressive positions that were sustained at Appeals were $19.8 million for tax years 1982 - 1985. The savings represent a combination of permanent tax savings such as investment tax credit on 70% of the Crystal River landfill and avoided interest expense on timing differences such as accelerated depreciation on 72% of the landfill.

To summarize, the cost or benefit of aggressive positions taken in the Company's tax returns is the differential between the IRS underpayment rate and the Company's avoided capital cost rate. This cost or benefit, however, is far outweighed by savings that were only realized because the Company took the controversial positions in its original returns.

FLORIDA POWER CORPORATION
RESPONSE TO FPSC STAFF AUDIT DISCLOSURE NO. 14
DOCKET NO.910890-EI

INTEREST ANALYSIS ON FEDERAL TAX DEFICIENCY

(Thousand's)

Line No.	(A)	(B) Total	(C) Workpaper Reference
1	Net Interest – Cost of Tax Deficiency		
2	Interest Owed On Tax Deficiency Through 12/31/91	$6,243	7 & 8 of 17
3			
4	Avoided Interest Expense on Tax Deficiency Through 12/31/91	4,202	9 of 17
5	Net Interest Cost	2,041	
6			
7	Savings Derived From Appeals Negotiations		
8	Permanent Tax Savings From Appeals Negotiations	2,140	10 & 11 of 17
9			
10	Avoided Interest on Taxes Deferred From Appeals Negotiations	17,699	12 thru 17 of 17
11	Total Savings From Appeals Negotiations	19,839	
12			
13	Net Cost (Savings)	($17,798)	

DOCKET NO. 950379-EI
EXHIBIT NO. 2
Transcript and Exhibits of Delaine M. Bacon's August 2, 2001, deposition

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Determination of regulated earnings of Tampa Electric Company pursuant to stipulations for calendar years 1995 through 1999.

Docket No. 950379-EI
Filed: July 24, 2001

/

DEPOSITION OF:	DELAINE M. BACON
TAKEN AT THE INSTANCE OF:	Office of Public Counsel
DATE:	August 2, 2001
TIME:	Commenced at 9:30 a.m. Concluded at 2:50 p.m.
LOCATION:	227 South Calhoun Street Tallahassee, Florida
REPORTED BY:	ANITA M. PEKEROL, RPR, CP, CM. Notary Public in and for the State of Florida at Large.

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950379-EI EXHIBIT NO. 2
COMPANY/ WITNESS: Bacon
DATE: 8-27-01

ACCURATE STENOTYPE REPORTERS, INC.
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I N D E X

WITNESS	PAGE
DELAINE M. BACON	
Direct Examination by Mr. Howe	5
CERTIFICATE OF REPORTER	147
CERTIFICATE OF ADMINISTERING OATH	148
ERRATA SHEET	149

E X H I B I T S

NUMBER	DESCRIPTION	PAGE
1	Memorandum dated Dec. 9, 1992	8
2	Transcript Vol. I, Docket No. 920324-EI	17
3	Memorandum dated March 25, 1993	33
4	Income Tax Form for TECO Energy, Inc.	43
5	Interrogatory No. 10, pg. 1 of 1	47
6	TECO Energy, Inc. 1989-1991 RAR's	52
7	Interrogatory No. 13, pg. 1 of 1	58
8	Interrogatory No. 7, pg. 1 of 1	59
9	IRS letter to Ms. Ross dated May 4, '99	63
10	Tampa Electric Interest/FIT Adjustments	69
11	IRS letter to Ms. Ross dated 10-1-99	77

E X H I B I T S (Continued)

NUMBER	DESCRIPTION	PAGE
12	IRS letter to TECO dated Nov. 17, 1999	80
13	1999 Provision	83
14	TECO letter to Fla. Dept. of Revenue dated Feb. 26, 1999	86
15	IRS letter to TECO dated March 10, 2000	90
16	Deferred Debit-Interest Balance Sheet	103
17	TECO Journal Entry Sheets	109

P R O C E E D I N G S

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The following deposition of DELAINE M. BACON was taken on oral examination, pursuant to notice, for purposes of discovery, for use as evidence, and for such other uses and purposes as may be permitted by the applicable and governing rules. Reading and signing is not waived.

- - -

Thereupon,

DELAINE M. BACON

was called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. HOWE:

Q Would you please state your name and your business address for the record.

A DeLaine M. Bacon. I'm director of strategic and financial analysis at TECO Energy and my address is 702 North Franklin Street, Tampa, Florida.

Q Are you the same DeLaine M. Bacon who has prefiled direct and rebuttal testimony in Florida Public Service Commission docket number 950379-EI, dealing with Tampa Electric's earnings

for 1999?

A Yes, I am.

Q What were your responsibilities? You were formerly employed by Tampa Electric; is that correct?

A That's correct.

Q And what were your job responsibilities or your job titles say from the time Tampa Electric's last rate case in 1992 until you went with TECO Energy?

A I think back in 1992 I was probably administrator of revenue requirements at the time. And then I think it was manager of financial analysis and then director of utility financial analysis. I left to go to TECO Energy in July of last year.

Q Ms. Bacon, how familiar are you with the company's last rate case?

A I participated in it. I was not a witness in it. I was a back-up witness and I helped prepare a lot of the schedules that went into the filing.

Q What was your responsibility in that case, and by that I mean --

A I was a back-up witness for Liz

Townes, who was a witness in the case. I prepared all of the minimum filing requirements for the most part regarding the revenue requirement calculations for Tampa Electric.

Q You mentioned Liz Townes, was she known at that time --

A Liz Simokat.

Q I think it is spelled S-I-M-O-K-A-T?

A Correct.

Q When did Tampa Electric file its last rate case?

A I believe it was filed in May of 1992.

Q And did the company file its petition and prefiled testimony at that time and its MFR's?

A Yes.

Q At the time the company filed its last rate case in May of 1992, had Tampa Electric yet filed its 1991 federal income tax return?

A Probably not, according to my understanding of when those are filed. I believe the tax returns are filed around the August/September frame of the following year after the close of the business year.

Q Right now --

A That's my understanding of it.

Q I am referring right now to the prefiled testimony filed in the rate case of a Benjamin A. McKnight, III.

And in that prefiled testimony he stated, I'll quote, the 1991 tax returns are being prepared and are not expected to be filed until September 15, 1992.

A I think that's consistent with my statement.

Q You think that would be an accurate representation, so it is probably filed around September 15th?

A If that's what he said, yes.

Q Ms. Bacon, did you attend the agenda conference in which the Commission voted to set Tampa Electric rates for 1993 and 1994 at the conclusion of the last rate case?

A Yes, I did.

MR. HOWE: I would like to have this marked as an exhibit.

(Deposition Exhibit 1 marked for identification.)

BY MR. HOWE:

Q Ms. Bacon, could you please refer to this document which has been identified as Exhibit

1? Would you recognize this as an excerpt from the staff recommendation for the special Public Service Commission agenda conference at the conclusion of Tampa Electric's last rate case?

A It looks like the index for the staff recommendation.

Q And would you recognize this as being an excerpt from that recommendation, it being the first few pages which are the cover page and the index?

A That's correct.

Q Now on this first page I'm going to ask you if you can identify certain individuals of the staff who participated in this recommendation. I am looking at, by the first page I mean the cover page of the memorandum.

A All right.

Q Those individuals indicated as belonging to or working for the division of auditing and financial analysis, do you know who, it is generally given by last names, do you know who Lee would be?

A That's a last name?

Q Yes.

A Oh, yes, I see it there. It sounds

familiar.

Q Would it be Pat Lee, do you think?

A Oh yes, that's it. She's retired now, I believe, right.

Q I don't think so.

A No? Okay.

Q I think I saw her at a meeting a couple of days ago. The next individual, Lester?

A Pete Lester.

Q I believe so. The next one Merta, M-E-R-T-A?

A Sam Merta.

Q And an individual named Neil, N-E-I-L?

A Ron Neil.

Q And the next to the last name is Romig, R-O-M-I-G?

A Christine.

Q And Slemkewicz?

A John.

Q And Stallcup?

A Paul Stallcup.

Q And under the division of legal services, the name Palecki.

A Yes. Wasn't his first name Roger Palecki?

Q It is probably Mike.

A Mike Palecki. I'm sorry, it has been a while.

Q Do you know what his current job is?

A I know he went on to something else, but, no.

Q He's now a commissioner.

A Okay.

Q And the last one, division of legal service, do you recognize that name, Elias?

A Yes. At the end of the table.

Q Now with the exception of Mr. Neil, would you recognize these names as generally being staff members who are still at the Public Service Commission?

A Especially Mr. Palecki, yes.

Q Now, if you would refer, still with Exhibit 1, if you would refer to the first page dealing with rate base.

A All right.

Q What is the rate base? What is a rate base for utility rate setting purposes?

A It is the amount of net assets that a company is allowed to earn a return from.

Q Now, as you go down these lists of

issues under the rate base, these are the issues that the Commission considered in the rate case, beginning with issues three and continuing on to issue 37, I believe.

A All right.

Q What I'm going to be referring to is the individuals' names at the end of the issues. This is standard Commission format, isn't it, where it gives an issue and then it identifies the staff member responsible for the issue?

A Uh-huh.

Q As you just scan down issues three, four, five and so forth, would you agree you don't see Mr. Neil mentioned until issues 13 and 14?

A I think that's correct.

Q And Mr. Neil is identified as a staff member on issues 13 and 14. Issue 13 dealing with the effects of including CWIP in rate base on Tampa Electric's financial integrity; is that correct?

A Yes.

Q And issue 14, dealing with the amount of construction work in progress, CWIP that should be allowed in Tampa Electric's rate base?

A That's correct.

Q If you will go forward, I believe you

will see on issue 19, you see Christine Romig responsible for issue 19 which deals with working capital allowance as it should be adjusted for the effective tax refunds; is that correct?

A That's correct.

Q And continuing down issue 24, do we see Mr. Neil responsible for how common stock dividends payable should be treated and working capital?

A Yes.

Q Continuing on, the next section is cost of capital. Could you define cost of capital as it is used by the Public Service Commission in setting rates for Tampa Electric, in the context of a rate case such as this?

A It would be a factor that is applied to the rate base which would recover the costs associated with the funds that are used to support that rate base.

Q Thank you. With reference to issue 38, would you agree that Mr. Neil is the staff member identified to address the appropriate cost of short-term debt in Tampa Electric's capital structure as well as long-term debt?

A That's correct.

Q And Mr. Neil, would you agree, is also the staff member identified to address the appropriate cost of common equity for Tampa Electric?

A That's correct.

Q Continuing down to issue 40, would you agree that Mr. Neil is the, is the staff member addressing the capital structure treatment to be afforded the Gannon, G-A-N-N-O-N, oil backout project?

A That's correct.

Q And issue 41, that issue deals with accumulated deferred investment tax credits; is that correct?

A Yes.

Q And the staff member responsible for that issue is who?

A Christine Romig.

Q Now, what are accumulated deferred investment tax credits as the term is used in the regulatory context of setting electric utility rates?

A Those would be the cost refunds that are derived from differences between book and tax timing related items that have generally a zero

cost applied to them in rate setting purposes.

Q Thank you. If you would refer to issue 42 at the top of the next page. Again do we see that Christine Romig is the staff member assigned still on the issue of accumulated deferred investment tax credits?

A Can I back up one second, please?

Q Certainly.

A You were saying accumulated deferred, I thought it was income taxes. You are actually speaking of investment tax credits.

Q I'm sorry. Let's be clear. Issue 41 deals with accumulated deferred investment tax credits.

A Right.

Q And that was sponsored by Christine Romig.

A Correct. And my definition on that was a little bit off because I was defining income tax, accumulated deferred income taxes. Accumulated deferred investment tax credits are basically credits that were given by the Internal Revenue Service back in the early '80's that are being amortized over the life of the assets that gave rise to those credits. And in the meantime

they're put on the, in the capital structure at the cost rate equal to long-term debt common equity and I believe preferred stock.

Q If we can go forward then -- thank you -- to issue 42. Again, would you agree there is staff member Christine Romig sponsoring the staff's position on accumulated deferred investment tax credits?

A Yes.

Q And with issue 43, again Christine Romig sponsoring the staff's position on accumulated deferred taxes; is that correct?

A Yes, that's correct.

Q And issue 44, again Christine Romig addressing the staff's position on the appropriate treatment of FAS 109?

A That's correct.

Q And issue 45 then we see Mr. Neil again as the staff member sponsoring the staff's position on the appropriate weighted average cost of capital?

A That's correct.

Q From your participation in the last rate case and your attendance at the agenda conference, would you agree -- and this outline of

issues and staff members who sponsored them -- would you agree that Christine Romig handled for staff the income tax issues, at least those we've spoken of in these issues?

A I think related to the ones here, yes, she was the staff person.

Q Would you agree that Mr. Neil was the staff member who sponsored the staff's position on issues dealing with construction work in progress, financial integrity and cost of capital?

A I would say more so the last two. The only reason why I think the CWIP came into play was in relation to some of the interest coverage issues.

Q Would it be fair to say then that Mr. Neil did not participate as a staff member in quantifying Tampa Electric's deferred taxes as reflected in Tampa Electric's capital structure for 1993 or 1994?

A I think that's true, yes.

MR. HOWE: I'd like to have another document marked as an exhibit, this will be Exhibit 2 I believe.

(Deposition Exhibit 2 marked for identification.)

THE WITNESS: Mr. Howe, can I back up on that one real quickly?

BY MR. HOWE:

Q Sure.

A I think this all has to be taken into context, you know, that I didn't exactly participate in the staff side of what they were all doing. I am sure they all worked as a team, you know, looking at the ones that they have assigned here. I'm just reading from here.

Q Yes. So we can be clear I'm not asking you to represent staff. What I'm asking for is your recollections and whether this accurately reflects your memory and what you recall from your own participation in the last rate case. I'm not asking you to in any way announce what staff meant. It is who participated and the roles in which they participated as you recall them or as you recall they're accurately represented on this document I passed out, this Exhibit 1.

If you could, please, I now, we've had identified Exhibit Number 2. Ms. Bacon, what I have done here, Exhibit Number 2 is just the first page and the next few pages up through page 4. And for some reason I have something attached to the

back of this which you can just pull off if you don't mind. I have no idea why this is there. The last page of what I distributed.

A All right.

Q Ms. Bacon, what this is is the first page of the first volume of the transcript of the Commission special agenda conference held on Wednesday, December 16, 1992, in Tampa Electric's last rate case.

Have you ever had occasion to review this transcript?

A It has been such a long time I'm not really sure if I actually ever looked through it or not.

Q If you would, please, I would like you to refer to the second page, and you notice at the top of the second page it identifies individuals participating. Would you recognize these names generally to be staff members that participated in the Commission's December 16, 1992 agenda conference?

A That's correct.

Q And just starting at the top, would you recognize Robert W. Elias?

A Yes.

Q Is he assigned to the current Tampa Electric case, that dealing with Tampa Electric's earnings for 1999?

A To the extent he's sitting at the end of the table I would assume so.

Q And the next to the last name, Christine Romig.

A Yes.

Q Do you recognize her as the individual we referred to before as the person that participated on the deferred tax issues on the 1992 case?

A Yes.

Q Is she also a staff member assigned to and participating in the 1999 earnings case?

A I am not really positive of that. I mean, she definitely has worked on things for Tampa Electric during the deferred revenue years. Whether she's specifically assigned to 1999 I'm not really sure.

Q And the last name, Ron Neil.

A Yes.

Q Do you recognize that individual as somebody who was on the Commission staff in 1992?

A Yes.

Q And would he be the same Ron Neil we were referring to earlier as sponsoring certain issues?

A Yes, he is.

Q And could you tell me where Mr. Neil is currently employed?

A He is employed by Tampa Electric Company in the regulatory affairs department.

Q Do you know how long he has been employed there?

A Since 1995 at TECO, I believe. Probably later than that in the regulatory affairs department.

Q When you use the term TECO?

A TECO Energy.

Q Is he currently employed by TECO Energy or by Tampa Electric?

A Tampa Electric. He transferred to Tampa Electric after that.

Q Do you know when that was?

A Not exactly.

Q Ms. Bacon, if I could ask you to refer back for a moment to Exhibit 1.

A All right.

Q Would you agree that the rate base

issues identified in Tampa Electric's last rate case were issues 3 through 37?

A That's correct.

Q If I could refer you, please, back to Exhibit Number 2, which is the excerpt from the agenda conference transcript. If you turn to the third page you will see a list of issues and the page number in which they were addressed.

A Yes.

Q Would you agree that with certain exceptions generally the Commission went through the agenda conference issue by issue starting with issue 1 and continuing on? I don't want to make this more complicated than it needs to be. Generally what I'm going to ask you is generally the Commission went through to issue number 36, which they had voted on on page 62 of the transcript.

A That's what it appears, yes.

Q And would you note that on the page in which the issues are first listed that issues 13 and 14 are not listed there on the first sheet.

A That's true.

Q And if you will turn forward to the third sheet, would you agree you find issues 13 and

14 identified as being considered by the Commission at pages 194 and 195 of the transcript?

A That's true.

Q Now if you need to go back to Exhibit Number 1, which identifies the issues, I think you will find there that issue 13 dealt with the, whether CWIP should be included for financial integrity purposes and issue 14 was the amount of CWIP to be included in rate base.

Now, from your own knowledge, Ms. Bacon, why would the Commission have taken up a rate base issue such as CWIP and rate base as reflected in issues 13 and 14 after essentially all of the other rate base issues?

A It has been a long time but just from my knowledge of the case I would probably say it is because of the financial integrity calculation.

Q Would you agree generally the Commission applies -- does its financial integrity calculation after the revenue requirements have otherwise been established?

A I don't know that that's a common practice, but in this case I think that is what was done.

Q Ms. Bacon, do you know how the -- let

me back up.

Did the Commission apply -- let me back up even a step further. In the Tampa Electric Company's last full rate case did the Public Service Commission set rates for Tampa Electric based upon a 1993 test year and upon a 1994 test year?

A We had rates set based upon the '93 and then I believe there was a true-up to rates in '94 that was based upon the '94 test year. In other words, we had a step increase in rates and the second step was based upon the '94 test year.

Q Did the Commission employ a financial integrity standard in Tampa Electric's rate case for both 1993 and 1994?

A I think it was '94 only.

Q Did they test 1993 against the financial integrity standard?

A I know that no adjustment was made in '93. They might have looked at it to judge that there was no adjustment necessary.

Q What do you mean by no adjustment necessary?

A Basically my recollection is that they adjusted the rate base, the CWIP amounts in order

to achieve a 3.75 times coverage. To the extent that we were above 3.75 times in '93, no adjustment was necessary to the CWIP balance.

Q What is interest coverage?

A Interest coverage is the amount of earnings before interest and taxes divided by interest expense and it is basically used to judge the credibility of the company and looked at from the rating agencies in terms of our financial integrity of the company.

Q As the Commission applied that 3.75 interest coverage standard, what interest did they use? By that I mean what dollar amount, how was it quantified?

A I am not exactly sure. It has been a long time to specifically describe it. It should be -- I'm not really sure. I can give you what I think it should have been, but I'm not saying that that's what it was.

Q Are you familiar with the -- first of all, do you know whether the auditing and financial analysis staff at the Public Service Commission at the time the Commission was voting on Tampa Electric's revenue award at the end of the last rate case, do you know whether they employed a

financial integrity model to quantify the amount of CWIP in rate base necessary to achieve a given interest coverage multiple?

A When you say model, I'm sure they had to have some way to calculate it but I don't know if it was a model. I don't know what they had really.

Q Do you know how it was calculated?

A I had my own calculations I believe, my recollection is, that I did on my own. But I don't know exactly how theirs were.

Q Did you get the same answer they did?

A I think so in the end, yes.

Q How did your own calculation work? What did you use as an interest amount?

A Again, I can't recall all of the specifics of the calculation. I do believe in my own calculations it was based upon the allowed interest in the calculation of the revenue requirements was the dollar amount for the denominator. So in other words it was the jurisdictional allowed interest expense in the denominator.

Q What was the numerator? I think you already gave it but I ask you to repeat it.

A Well, in the financial world it is earnings before income taxes and I think in this regulated type calculation it was the same thing, it was a similar type calculation, a pre-tax kind of an income number.

Q Would it be fair to say that for Tampa Electric's rates for 1993, were set in a manner that would allow Tampa Electric to earn what the Commission considered to be a fair rate of return on a rate base as you defined it earlier?

A I think that was their intent, yes.

Q And it would be fair to say that the 1993 revenue and increase awarded by the Florida Public Service Commission provided Tampa Electric with a return on a rate base which included all ineligible CWIP?

A Typically ineligible CWIP is included fully in rate base.

Q And is that what happened in the revenue award by the Commission for 1993?

A My recollection is yes.

Q For 1994, did the Commission calculate a revenue requirement in the traditional manner? By that I mean a revenue award that would provide the company a fair opportunity to earn a rate of

return considered reasonable by the Commission on a rate base as you earlier defined it?

A Again, I think that was their intent.

Q Did that rate base for 1994 also include ineligible CWIP?

A My recollection is yes, it did.

Q Did the Commission then test the adequacy of the 1994 revenue requirement that they had calculated using the financial integrity test that we spoke of earlier?

A Yes, they did.

Q And that would have been that 3.75 times interest coverage multiple, would it not?

A Yes, it was.

Q Did the Commission conclude that the revenue award originally calculated for 1994 should be increased to allow Tampa Electric to achieve this 3.75 times interest coverage multiple?

A Could you repeat that?

Q Would you agree that the Commission applied this interest coverage multiple of 3.75 times and concluded that Tampa Electric's revenue award for 1994 should be increased?

A I think what they did, they put an additional CWIP and rate base and to the extent

that that additional CWIP and rate base was in there I do believe the revenue requirement did increase.

Q From your knowledge of the rate-making process, would an increase to rate base lead to an increased revenue award?

A That's correct.

Q And was the Commission adding CWIP and rate base in sufficient amount to allow Tampa Electric to earn a 3.75 interest coverage?

A That's correct.

Q Would it be fair to say that the final revenue award Tampa Electric was granted for 1994 was an amount adequate to allow the company to earn that multiple?

A Based upon the forecasted test year, that's correct.

Q Now, you use the term forecasted, would it be fair to say that Tampa Electric's test year for 1993 was what you would call a budgeted projected test year?

A I think that's a fair assessment, yes.

Q Was the company's -- were the company's projections for 1994 based upon something other than a budgeted projected test year?

A I really -- that's been a while to remember exactly all of the details of how we went to prepare the 1994 test year. I do recall it was an extension of the budgeted test year, and there were reasons for that given the magnitude of the Polk Power Station, I do recall, and it being constructed during that time period.

Q Ms. Bacon, would it be fair to say that when the company filed its rate case in May of 1992 that it had, in fact, budgeted a 1993 year, test year?

A I recall that, yes.

Q Would it be fair to say that in 1992 the company had not fully budgeted for 1994?

A I really can't remember that. I mean I know that that was an issue in the case, I believe, in terms of the use of the '94. And I know that the Commission became comfortable with the use of the '94 test year and that's what we used.

Q For the 1993 test year, can you tell me how Tampa Electric projected or budgeted, whichever definition is appropriate for your answer, the deferred taxes to be included in the capital structure for 1993?

A How we calculated them?

Q Or projected them.

A That was not really my area of responsibility so, no, I can't tell you in detail how they were projected.

Q Would you know how they were projected for the 1994 test year?

A Again, I don't recall all of the specifics of that down to that level as to how the deferred income taxes were calculated.

Q With reference to what has been marked as Exhibit 1 and issue 43, that being sponsored by the staff's position on the issue being sponsored by Christine Romig, would you agree that the staff recommendation was that the company's projection of deferred income taxes for 1994 was incorrect and needed to be changed?

A I do recall we did refile some information for 1994, but other than that I'm not exactly sure why or what was the circumstances.

Q If I might refer you to a document, this is the transcript of the December 16, 1992 agenda conference.

Would you please review pages 162 through 163 of that transcript and tell me whether

it appears that, upon Christine Romig's advice, the Commission adjusted the manner in which the company's deferred income taxes in its capital structure were calculated?

If you will note at the top of that page I referred you to it refers to issue 43.

A All right. It appears there was a discussion about a late filed exhibit that was filed that changed the '94 information from a simple average to a 13-month average calculation.

Q If you recall, would the agree the company had filed on a simple average basis?

A That's my recollection.

Q If you recall, would you agree the staff wanted it expressed on a 13-month average basis?

A That's correct.

Q Ms. Bacon, if you recall, do you remember what rate increase in dollar amount the Commission awarded Tampa Electric for 1993?

A I could guess. It has been a long time.

Q Do you remember what the award was for 1994?

A Again, I have a ballpark number in my

head, but I don't remember the number.

Q Ms. Bacon, do you recall whether after the Commission voted on December 16, 1992, and I should correct that, whether they considered the company's request on December 16, 1992, and then continued it at an agenda conference on Thursday, December 17, 1992, if after the Commission had voted at that agenda conference Tampa Electric Company by letter informed the Commission that they thought the 3.75 interest coverage multiple, the revenues associated with that, had been calculated incorrectly.

A I recall something about that, yes.

Q And do you recall whether the Commission changed the revenue awarded previously calculated for 1994 and increased it or decreased it or changed it, I should say, to achieve that 3.75 multiple?

A I think it was a subsequent change, yes.

MR. HOWE: I am going to distribute another document and ask that it be marked as an exhibit.

(Deposition Exhibit 3 marked for identification.)

BY MR. HOWE:

Q If you would refer, please, to Exhibit 3.

A Yes.

Q Can you identify this document?

A This appears to be the same docket, the rate case docket in '92 and it looks like an April agenda conference.

Q And if you would, just review it, but would you tell me whether you could agree that this is the staff recommendation on the action the Commission should take after receipt of a letter from Tampa Electric on January 4, 1993, indicating that the financial integrity standard had been calculated incorrectly.

A It does state here that there was an error in the calculation of 3.75 so I would imagine that this is the correction for that.

Q Do you believe you would have reviewed this, because of your activities at Tampa Electric during this time period that you would have reviewed the staff recommendation that came out?

A Yes, I would have.

Q Does this refresh your memory of something you have seen before?

A I am sure I have seen this. I don't remember all of the specifics of it.

Q If you would refer to the first page where it identifies the staff members, do you see at one of the staff designated for the division of audit and financial analysis to be an individual whose last name is Neil?

A Yes, I do.

Q And with the initials that follow, would that be Ron Neil?

A Yes, it would be.

Q Would that be an individual who is currently employed by Tampa Electric?

A I believe so.

Q Ms. Bacon, would you agree that in Tampa Electric's last rate case Florida Public Service Commission allowed $36 million of eligible CWIP in rate base?

A That number appears reasonable, yes, based upon my recollection.

Q For what reason?

A Again, to achieve a 3.75 times coverage ratio on the financial integrity, is the direct answer. I mean, I think basically the Commission saw need for supporting Tampa Electric's

financial integrity during the construction period for the Polk Power Unit 1.

Q Would it be fair to characterize 1994 as the peak period for construction expenditures for Tampa Electric?

A I'm not quite sure of that, '95 I'm sure was also, '95 and '96. The unit did not go into service until October of 1996, September/October.

Q Ms. Bacon, you may have noticed to keep all of this information somewhat straight I'm kind of going through it in a chronological order to kind of deal with -- since we're dealing with 1992 through 1999.

What happened in 1995 to cause Tampa Electric Company and the Commission staff to enter into an agreement for the deferral of revenues from 1995 to future years?

A What was the cause?

Q Yes.

A My view of that, my recollection of that was that there was a need to defer those revenues for the potential use of offsetting those costs against Polk in the future.

Q So the record is clear, we're speaking

of Polk as a generating unit, right?

A Correct.

Q A new generating facility on Tampa Electric's system?

A Correct.

Q Would you agree that that unit went into service in approximately the last quarter of 1996?

A I think it was, the actual in service date was the last few days of September. But, yes, it was around there.

Q And was the purpose of the company entering into an agreement with the staff to defer revenues to take what staff considered to be excess revenues from 1995 and have the company have them available to meet what they perceived as increased revenue requirements when Polk Unit 1 went into rate base?

A I'm not so sure that at that point in time when the '95 agreement was actually struck that the use of those revenues in the future had really been that defined. But certainly that was Tampa Electric's intention was to try to defer those dollars into the future to offset Polk.

Q What do you mean to offset Polk?

A To offset the cost of Polk as we bring those dollars back.

Q Why would Polk have an effect on the company's revenue requirements?

A Higher operating costs, an increase in rate base, the typical type of thing that would happen as a new generating unit would come on line.

Q Still moving forward somewhat chronologically. Are you familiar with the stipulation entered into between Tampa Electric, the Office of Public Counsel, and the Florida Industrial Power Users Group on March 25, 1996?

A Yes, I am.

Q I will refer to that for simplicity sake as the first stipulation.

A All right.

Q Can you characterize what that stipulation did?

A If I can keep them all separated in my mind clearly from my recollection.

MR. HOWE: If you like I am passing to the witness a copy of Commission order number PSC 96-0670-S-EI dated May 20, 1996, and that has the stipulation appended to it.

THE WITNESS: Yes, this was

basically setting a sharing and a deferral mechanism for 1996, for the earnings in 1996 basically.

BY MR. HOWE:

Q Would you agree one of the issues left outstanding in that stipulation was whether and in what amount Tampa Electric should be allowed to include Polk Unit 1 in its rate base?

A I believe that's true. I don't believe Polk was addressed in this particular stipulation.

Q Ms. Bacon, are you familiar with another stipulation between the Office of Public Counsel, Tampa Electric Company and the Florida Industrial Power Users Group entered into on September 25, 1996, but in a separate docket, docket number 960409-EI. Just to refresh your memory and let you see it, I'm handing you a copy of Commission order number PSC-96-1300-S-EI dated October 24, 1996.

A This particular stipulation covered '97 and '98, and I believe '99 as well, and also addressed the treatment of Polk.

Q Just for clarification, would you agree that the stipulations say what they say. The

reason I'm asking is, I am not asking you to change your answer but is it possible that the first stipulation covered up through 1998 and the second stipulation extended it, extended the first with modifications through 1999?

A You're absolutely correct. The first stipulation deferred from '96, '97 and '98. And the second stipulation covered '99 and Polk; that's correct.

Q So by the end of 1996 we had two stipulations addressing how Tampa Electric's earnings should be calculated and whether revenue should be deferred for the years 1996, 1997, 1998 and 1999; is that correct?

A Between the two stipulations, yes.

Q And, in fact, the agreement that the company had with staff for 1995, that was also being carried forward, was it not?

A The revenues as part of this, yes.

Q Would it be fair to characterize the overall effect of these stipulations to be such that the company was able to defer revenues in 1995 and 1996 and to use those deferred revenues in 1997 and 1998 under the first stipulation, to shore up the company's earnings after Polk Unit 1 came on

line in late 1996?

A Is that supposed to be the first stipulation only?

Q Yes. And I'm only going through 1998.

A I think another significant part of that was some material refunds also made to customers, as well as I think the oil back-out clause was ended, and those assets were put back into Tampa Electric's rate base.

Q Those are additional things you are mentioning?

A That we're including in the stipulation, yes.

Q Was my first characterization accurate with the additional things you mentioned?

A I believe so.

Q And then under the second stipulation, there was a -- I should back up.

Under the first stipulation if the company had excess earnings in 1998, or for 1998, as specified in the stipulation, was Tampa Electric then required to make refunds to customers?

A I think to the extent that earnings exceeded a 12.7 times ROE in 1998, refunds to customers were made of those dollars.

Q Just to be clear, you said 12.7 times?

A 12.75 percent ROE.

Q And the way it worked was there was a sharing arrangement, there was a sharing between a return on equity of 11.75 and 12.75; is that correct?

A There was different sharing amounts for different years so we would probably have to go year-by-year if we were going to do that.

Q Did Tampa Electric in fact -- I'll get to that in a little while.

Eventually the Commission established an amount of money that should be deferred from 1995 to future periods; is that correct?

A Yes.

Q And would you agree that that amount was $50,517,063 as reflected in Commission order PSC-97-0436-FOF-EI.

A Actually I think I have those here with me. I can check myself.

Q And that's dated April 17, 1997?

A Yes.

Q Do you agree with the amount that I read?

A I do.

Q Now we're up to 1997. In January 1997 did Tampa Electric receive what is called a revenue agent or agent's report from the IRS for audit years 1989 to 1991?

A I believe that is correct. That is the year.

Q And I am asking for that specific date, January 31, 1997?

A I am not that familiar with specific dates to be able to confirm that.

MR. HOWE: I would ask that another document be marked as an exhibit. This will be Exhibit 4.

(Deposition Exhibit 4 marked for identification.)

BY MR. HOWE:

Q Do you recognize this document, Ms. Bacon?

A No, I do not.

Q Have you ever seen one like it?

A No, I have not.

Q Have you ever seen -- it is undated but I believe it was an August 1, year 2000 letter from Ron Neil to Christine Romig containing various information including a cost benefit analysis?

A I am familiar with that docket or document.

Q Have you seen this document? What I'm referring to, it is a letter addressed to Christine Romig, signed by Ron Neil, manager, utility financial analysis on Tampa Electric letterhead. It is undated but as you can see I think you can see we received it on August 2, 2000. Have you seen this document?

A Yes, I have.

Q Have you reviewed its contents?

A Not every number in the entire package, number by number. It is a very thick package but generally I'm familiar.

Q Would you recall seeing on the fourth page the document I just had handed to you and marked as Exhibit 4?

A Yes. Like I said, I generally know what was in the whole package but I was not familiar with that particular page included in it.

Q Had you seen this before then?

A Yes. I knew the cost benefit analysis had been refiled with the Commission in August and I generally knew what was in it. But like I said I had already moved to the finance department by this

point in time and I was not reviewing page by page.

Q Okay. I guess my question remains. With reference to what has been marked as Exhibit 4, is this a revenue agent's report, or do you know?

A I do not know.

Q Would you notice down at the bottom of the page, and again would you agree this is a document that has been provided by Tampa Electric to the Commission staff and to the Office of Public Counsel as part of that packet provided by Ron Neil to Christine Romig on approximately August 1st or 2nd, 2000?

A It does appear that this page was included, yes.

Q If you look down in the box towards the very bottom entitled other information, this refers to a corrected report, does it not?

A That's what it reads.

Q And this report is dated February 24, 1997; is that correct?

A That's correct.

Q And it refers to, this report as superseding a report dated January 31, 1997, does it not?

A That's what it reads.

Q So if this is a revenue agent's report or this is a report involving the IRS in tax years, it would indicate that there was one on January 31, 1997 and another one on February 24, 1997, would it not?

A It would appear so, yes.

Q If you look at the top of the page, you will notice it refers to a form number that it comes from the Department of Treasury Internal Revenue Service, do you see that?

A Yes.

Q Do you see that it is addressed to TECO Energy, Incorporated and affiliated corporations?

A Yes, that's what it reads.

Q Do you see looking on the line marked number 1, that it is referring to years 1989, 1990 and 1991?

A That's what it appears to read, yes.

Q Ms. Bacon, by the way, at any time if you want to take a break, just let me know. I'm going to distribute another document and ask it to be marked as Exhibit 5.

(Deposition Exhibit 5 marked for identification.)

BY MR. HOWE:

Q Ms. Bacon, this is Tampa Electric's response to the Office of Public Counsel's interrogatory Number 10. Have you seen this document before?

A Yes, I have.

Q Does this indicate that in 1997 a deferred debit -- and by the way I think that is deferred debit, it says deferred debt.

A I believe it should be deferred debit, yes.

Q Of $13,658,578 was recorded in the year 1997.

A That's correct.

Q Would you agree that this deferred debit was only addressing the audit years 1986 through 1988, and 1989 through 1991?

A Subject to check, I believe that is true. I did not record these entries, but I believe that's my understanding.

Q If you would like to know how we have looked at this number. If we're correct it appears to us that in March of 1997 Tampa Electric

recorded, and you might want to write this number down, $9,369,586 for the period 1989 to 1991 and that was booked in March of 1997. And that the company recorded an additional $4,288,992 for the years 1986 through 1988, and that was recorded in May of 1997. And we add those two numbers together and we get what is shown as the deferred debit for interest for 1997. Does that look right?

A Subject to check. I'm not familiar with the specifics of these numbers.

Q Is this the first and only time that Tampa Electric has recorded such a deferred debit for interest expense on income tax deficiencies to Tampa Electric's books?

A My understanding from the tax department is back in the '80's there was a very small item that the IRS had taken issue with us. It was basically immaterial in amount. I'm not sure if it ended up in a deferred debit account, but for the most part this was the first item of such nature that was booked.

Q Given that this entry, or these amounts or this amount were booked in 1997, and assuming for purposes of this question that the amount booked really does refer only to the audit

periods 1986 to 1988 and 1989 to 1991, why would Tampa Electric have not recorded deferred debits for other open audit years, such as 1992 through 1994?

A I would imagine at that time they felt that there was not a need to based upon where they stood at that point in time and the understanding of the issues within those audit years.

Q Could you explain just generally what is a deferred debit?

A A deferred debit is a recognition of a charge, a future charge that you might have to take to the income statement of which you basically put on the balance sheet because it is not time to, you know, recognize it through the income statement.

When it is cleared it would be shown as an expense in the income statement, to the extent that it was needed to be recognized at that point.

Q Would this entry for 1997 on Tampa Electric's books have affected its reported earnings for surveillance purposes at the Florida PSC for 1997?

A To the extent that it was included in the rate base it would, and my recollection is, I

do believe these amounts were included in rate base. So there would be a small impact on the return on equity reported in the surveillance report as this item would sit in rate base.

Q Where would it sit in rate base?

A In working capital.

Q In what part of working capital, as a current asset?

A Yes.

Q Mathematically would the effect on Tampa Electric's reported earnings for 1997 be the same as if this amount had been included in the capital structure as a reduction in zero cost capital?

A That's probably -- it is not exact, but effectively you would probably get a similar answer, yes.

Q Still referring to our Exhibit 5 which is the company's response to interrogatory Number 10. Under the heading, under the column deferred debit interest, there is a credit amount, is there not, of $9,484,317?

A That's correct.

Q Do you know what specific amounts generate that number?

A The details of that?

Q Yes.

A Not to the level of detail that the tax department would know them. I know that they do probably relate to those same tax years.

Q I will get to some of these other entries in a moment, but for your information, again if you would like to write these numbers down so you will know how we have derived this number. A credit of $4,288,992 for audit years 1986 through '88. And we get that from page 42 of the company's response to our request for production of documents.

We also have an amount of $4,563,904 for audit years 1989 through 1991, which come from POD page 42.

We have a third amount, again a credit of $631,421, also for the audit years 1989 through 1991, coming from the production of documents response page 35. When we add those together we get the amounts shown as the deferred debit for 1999.

Now, if I could refer you back for just a moment. Earlier referring to the amounts that were booked for 1997 we referred to a

$9,365,586 amount that was recorded in March of 1997, do you recall that?

A Yes, that's the number you gave me.

Q Yes. And it appears -- scratch that, I'll address that amount in more detail later.

Still referring to Exhibit 5 for 1999, there is an entry for interest expense in the amount of $13,244,244, do you see that?

A Yes, I do.

Q What does that indicate? What is interest expense in that amount as reflected on the company's books in 1999?

A It relates to the interest regarding the tax deficiencies that Tampa Electric booked in 1999.

MR. HOWE: Could we have another document marked as an exhibit, I believe this will be Exhibit 6.

(Deposition Exhibit 6 marked for identification.)

BY MR. HOWE:

Q Ms. Bacon, what I have passed you is a document comprised of three pages. If you will note down at the very bottom in a Bate stamp number, pages 51, 52 and 53. These are the numbers

placed by the company on the document, on the response to our document production. We kept them together for that purpose. This is how it was provided to us.

Now, looking at the first page of Exhibit 6, would this indicate amounts booked in March of 1997, in the various accounts as indicated on the page itself?

A I did not prepare this document. It does say up in the right-hand corner, booked in March of 1997. So I would assume that's what it is, subject to check.

Q Have you seen documents like this in the corporate files of Tampa Electric or TECO Energy?

A This is -- again, I do not work in the tax department. I am familiar with these types of documents but not intimately familiar with the preparation of this one.

Q If you would note up in the upper left-hand corner it refers to 1989 through 1991 RAR's.

A Yes.

Q Do you know if that is referring to revenue agent reports?

A That would be my understanding, yes.

Q And up towards the top of the page, do you see under the heading 1989, you come down, I guess it is the fourth line, it says Tampa Electric Company?

A Yes.

Q You go over to the next column, it says IRS AJE's, do you know what that refers to?

A Not for sure, not enough.

Q Would you think it was probably adjusted journal entries?

A Perhaps, subject to check, but I'm not positive of that.

Q If you follow that across all the way up to the right for Tampa Electric it gives both a tax and an interest amount, does it not?

A Yes, it does.

Q If you would refer, please, to the second page which is Bate stamp marked page 52. This is a journal entry document for TECO Energy, is it not?

A It does have the letter stamped TECO Energy in the top left. I'm not sure if that means that it is only TECO Energy adjustments though.

Q You might help me then. When it says

journal entry on the right-hand side and TECO Energy on the left?

A I happen to know the tax department does the journal entries for Tampa Electric at TECO Energy, I believe, so I am not so sure that this wouldn't be a Tampa Electric journal entry.

Q I see. And this is dated March of 1997, is it not?

A Yes, it is.

Q And down at the bottom, the title of the entry, it reads and I quote, "To allocate FIT and INT to electric for 87-91 RAR." Is that correct?

A Yes, that's what it reads.

Q What would FIT stand for?

A Federal income tax.

Q And what would INT stand for?

A I assume, interest.

Q Now, would you note on the far right-hand column under the credits we see that amount of $9,369,586 identified as deferred debit interest?

A Yes.

Q If you will refer to the next page.

A All right.

Q Which is Bate stamp page 53. Now this is a journal entry on a document for Tampa Electric, is it not? Do you see Tampa Electric's logo in the upper left-hand corner?

A The logo is there, yes.

Q So the record is clear, what is the relationship between TECO Energy and Tampa Electric?

A Tampa Electric is an operating subsidiary of TECO Energy, the holding company.

Q Now, this third page, Bate stamp number 53, this is also for the month of March 1997; is it not?

A Yes, it is.

Q And this would show, would it not, on that first line a deferred debit interest recorded in the amount of $9,369,586 on Tampa electric's books. And pursuant to the title of the entry, it would be for federal income tax and interest for 1989 through 1991?

A That's correct.

Q And it would be pursuant to something called an RAR?

A That's correct.

Q Which from your experience may or may

not be a revenue agent's report?

A I have heard it referred to as that.

Q So, now Ms. Bacon, do you see where we got the entry -- when we tried to come up with the $13 million amount shown on what has been identified as Exhibit 5, we found, we believe 9 million being recorded in March of 1997 for audit years 1989 to 1991?

A That's correct. It appears that way based upon these journal entries.

Do you mind if I take a break now?

MR. HOWE: Sure. How long do you need?

THE WITNESS: Ten minutes.

MR. HOWE: We'll take a break.

(Brief recess.)

BY MR. HOWE:

Q Ms. Bacon, again moving forward in time, we were just talking about the amounts booked in 1997. Now, in 1999 the company recorded interest expense on income tax deficiencies, did it not?

A Yes.

Q And this was recorded as an expense for surveillance purposes at the Public Service

Commission; is that correct?

A Correct.

Q Did including this expense, this interest expense for income tax deficiencies reduce Tampa Electric's reported earnings for 1999?

A For surveillance report purposes or in total?

Q Yes, ma'am.

A Yes. The return on equity was lower.

Q Would it be fair to say that Tampa Electric imputed this interest expense on tax deficiencies as a separate adjustment on its surveillance report?

A We did include the interest expense in the income statement as an adjustment, yes.

Q Was it imputed?

A Imputed, I'm not sure what you mean.

MR. HOWE: Let me have another document marked, please. This will be Exhibit 7.

(Deposition Exhibit 7 marked for identification.)

BY MR. HOWE:

Q If you would like, Ms. Bacon, take a moment to review that. This is a copy of a Tampa

Electric Company response to the Florida Industrial Power Users Group's second set of interrogatories, interrogatory Number 13 from an earlier stage of this proceeding.

A It uses the word "imputed this prudent expense as a separate adjustment on the surveillance report" as the wording in the interrogatory.

Q Would you read that first sentence of the last paragraph of the company's response to FIPUG's interrogatory Number 13.

A "To place the tax deficiency interest back above the line in 1999, the company imputed this prudent expense as a separate adjustment on the surveillance report."

Q Thank you. I will now distribute another document and ask that it be marked as Exhibit 8.

(Deposition Exhibit 8 marked for identification.)

BY MR. HOWE:

Q Ms. Bacon, do you recognize this document as an interrogatory -- it is Tampa Electric's response to the Office of Public Counsel's first set of interrogatories,

interrogatory Number 7? So the record is clear these are the interrogatories dealing with 1999 earnings.

A Was there a question?

Q I'm sorry, I was giving you some time to review it.

A I'm okay.

Q Are you familiar with this interrogatory response?

A I have seen it, yes.

Q Does this accurately portray the amounts Tampa Electric booked in 1999?

A I'm not familiar with each and every one of these items on here. The total amount I recognize.

Q Would you agree that pursuant to this interrogatory response on Exhibit 8, that it appears that Tampa Electric has recorded amounts pursuant to a 1986 to 1988 IRS settlement and that was done on September 17, 1999.

A That's what it says, yes.

Q And recorded an account 431.02 in the amount of I assume this is a credit amount of $1,911,009?

A That's what it says.

Q And that was recorded on September 30, 1999?

A Yes.

Q Now do you have any reason to believe any of these numbers reported here in answer to our interrogatory are inaccurate?

A Not to my knowledge.

Q Now, it also shows for the period, for tax years 1989 to 1991 there was an IRS assessment received on May 4, 1991 (sic.) booked to the same account 431.02, in the amount of $4,563,904, on September 30, 1999; is that correct?

A That's what it says, yes.

Q And another entry was made on November 30, 1999, again for the 1989 to 1991 tax years, in the amount of $631,420. Now, so far this indicates that the September 17th IRS settlement for tax years 1986 to 1988 was recorded just less than two weeks later on September 30, 1999?

A Say that again, please.

Q The IRS settlement for the years 1986 to 1988 was received on September 17th, was recorded on September 30th, approximately two weeks later; is that correct?

A That's what the dates are on here.

I'm not exactly sure when it says date received if that means that that's the IRS settlement received.

Q We'll be going through some other documents that might help clarify this. Would you agree according to this answer, this Exhibit 8, the 1989 to 1991 IRS assessment received on May 4, 1999 was not recorded until September 30th and November 30th, 1999?

A Again, it does appear that they were adjustments made in September and November. I'm not exactly sure how they relate to the May 4, 1999 date.

Q Do you know who prepared the answer to this interrogatory?

A I would imagine someone within the tax department.

Q Does Tampa Electric have a tax department as well as TECO Energy or is there just one that works for both organizations?

A One, I believe.

Q And would that be under TECO Energy?

A Uh-huh.

Q If you go down to the next entry still on Exhibit 8 for tax years 1992 to 1994, this shows an IRS an assessment received on November 17, 1999,

does it not?

A Uh-huh.

Q But yet it shows an entry of $6,971,074 made on September 30th two months earlier; is that correct?

A Those are the dates, yes.

Q And it also shows a credit entry for the tax years 1992 to 1994 made on November 30, 1999, does it not?

A That's correct.

MR. HOWE: If I could have another exhibit marked, please. I believe we're up to Exhibit 9.

(Deposition Exhibit 9 marked for identification.)

BY MR. HOWE:

Q Ms. Bacon, would you take a moment to review this, please.

Again, if you will notice from the Bate stamps down at the bottom of these pages, these are Bate stamps 11 through 16. They're here presented to you as a packet because this is how we received them from the company in response to our motion for, or our request for production of documents.

A Okay.

Q Referring to the first page which is Bate stamped 11, would you please note that the date is given as May 4, 1999.

A Yes.

Q Would you agree that that corresponds to the date received shown on the first page of Exhibit 8?

A Yes, it is the same date.

Q Page 1 of 1 of Exhibit 8.

And it is addressed to Shirley M. Ross, VP of corporate taxes, do you know Shirley Ross?

A Her name is now Shirley Myers, but yes, I do know her.

Q And can you tell me who she is and in what, well I guess she was the VP of corporate taxes at that time. Was she responsible for both Tampa Electric's and TECO Energy's taxes or how they were reported?

A I'm not positive how that reports up. I believe that is true, but subject to check.

Q Would you agree that on the first page of Exhibit 9 Bate stamped 11, the tax period they refer to are those for 1989 through 1991?

A It does say that on the page, yes, tax period ended.

Q If you would refer to page 12, please. By that I mean Bate stamp page 12, the second page of Exhibit 9, we see another document which may or may not be an RAR, do we not?

A Yes.

Q And this one is dated May 4, 1999; is it not?

A Yes, it is.

Q And, again, that corresponds to the May 4 on Exhibit 8, would you agree?

A It would appear to be the same date, yes.

Q And this is for the tax years 1989 through 1991; is it not?

A It does say that at the top, yes.

Q We had earlier referred to a report that the Tampa Electric had received on January 31, 1997, which appeared to be, which may have been an RAR, a revenue agent report for audit years '89 to '91. A second one dated February 24, 1997, that was part of that packet that had been provided to Christine Romig, and it was also what we had identified as Exhibit 4. Do you have Exhibit 4

there handy?

A Yes.

Q You will note down at the bottom of Exhibit 4 we have reference again to an earlier report received on January 31, 1997, Exhibit 4 which was dated February 24, 1997, and now we have on Exhibit 9, Bates page 12, what appears to be a third report dealing with the years 1989 to 1991.

A By reading this page I believe the primary purposes of Exhibit 9 is a disallowance of our claim for refund, which is a different report that we would receive from the IRS than maybe this previous RAR. It might still contain an RAR, it appears to do that, it is in the package. But by just reading this it has X'ed out in the box full disallowance, and that basically is saying that the IRS is disclaiming our or denying our claim for refund. I think that's the primary purpose of Exhibit 9.

Q All right. If you would refer, please, to the second page of Exhibit 9, Bate stamp 12.

A All right.

Q Would what you just said be supported

by the fact that if you notice for lines 14, 15, 16 and 17 all of the entries are zero? In other words no adjustments are being allowed?

A I'm not positive if that means that those lines are being zeroed out. I'm reading the front page where it says full disallowance.

Q Would you agree it appears that Tampa Electric recorded interest expense on income tax deficiencies for the year audit, tax years 1989 to 1991 upon receipt of the third RAR for the period 1989 to 1991?

A I'm not sure of that because I don't know personally if we ever received the first one. I do know that we did make a, we booked an adjustment in 1999 for the 1989 to 1991 assessment.

Q Would it necessarily be upon the receipt of either the second or third RAR from the Internal Revenue Service?

A I am not exactly sure if that's -- in fact I'm almost positive that is not our absolute criteria of booking these types of adjustments.

Q I'm not asking for the criteria, I'm just asking is that what happened?

A Is that the sequence of events?

Q Was it upon receipt of the third RAR

that Tampa Electric recorded interest expense on income tax deficiencies?

A I don't believe that. I don't think you get three RAR's, but I really do not know. So I can't answer yes to that.

Q Do you have any -- do you question the number received? I mean, is the question whether or not you received two or three?

A I think so, yes.

Q Can we agree that it was upon receipt of either the second or the third RAR?

A No, I can't agree to that. What I'm saying is I don't believe this was another RAR. I'm not positive of that, but I don't believe it is.

Q Okay.

A So I can't say yes or no to that.

Q You can't say yes. Would it be fair to say that you can't say no either?

A I can say that we booked an adjustment in 1999.

Q Can you say what was the triggering event --

A I do not know how many RAR's we received.

MR. HOWE: If we could have another exhibit marked for identification, please.

(Deposition Exhibit 10 marked for identification.)

BY MR. HOWE:

Q Ms. Bacon, I appreciate if you would review these pages, pages 42, Bate stamped page 42 through 50. Again, these are together because that's how we received them from Tampa Electric in response to our request for production of documents.

A Okay. I think I've reviewed this.

Q Referring to the first page of Exhibit 10, Bate stamp number 42. Up at the top it says "Summary of 9-30-99 JE's."

A Yes.

Q What would that indicate to you?

A September 30, 1999, obviously could stand for journal entries.

Q Is that a common abbreviation for journal entries?

A I don't work in the accounting department.

Q Have you ever?

A Many years ago.

Q Did you ever see such an abbreviation for journal entries?

A Yes.

Q Now, going still on the same first page at the top on the left it refers to interest/FIT adjustments 1986 to 1998, do you see that?

A Yes.

Q What would the interest/FIT adjustments mean?

A Again, FIT from my knowledge would stand for federal income tax.

Q If we go over to the right-hand column would that indicate, we see the top of the right-hand column on the first page, we see the letters G/L and the symbol at 8/30/99, would that refer to general ledger --

A I can't say for sure on these. I can read these off the page and summarize, surmise myself, but it says G/L at 8-30-99.

Q In your experience with Tampa Electric has G/L ever been used to mean general ledger?

A I don't know.

Q If it does mean general ledger, A/C just under the heading of G/L, would that mean

account?

A Again, it says A/C. I can't take all of these abbreviations and define every one of them for you. I didn't prepare this document.

Q We see a year entry for '89-'91. And we see, would you agree what appears to be an account number of 186.89?

A That could be an account number.

Q Is that an account number that you are familiar with?

A I think it is a deferred debit account.

Q And if it is a deferred debit account would it indicate that for the years 1989 to 1991 there was probably a deferred debit on the books in the amount of $9,369,586?

A That's the number, yes.

Q And if that is -- would you recognize that as being the same amount that we referred to with reference to Exhibit 5 and Exhibit 6, Bate stamp page 53?

A Yes, it is the same number.

Q And if you would look at Bate stamp page 53 which is the last page of Exhibit 6, would you agree that that shows the deferred debit

interest on Tampa Electric's books as recorded in account number 186.89?

A Yes, those are the same numbers.

MR. HART: Unless Mr. Howe asks you to, don't write on the exhibits.

THE WITNESS: Okay. I circled the number.

MR. HOWE: That's true. In this particular case the court reporter will be collecting them back to make them a part of the record.

THE WITNESS: I wrote all over that one. I thought they were mine to keep.

MR. HOWE: Maybe we can swap stickers with a clean copy.

MR. HART: No, the other one you told her to write those numbers down so she wrote them on your exhibit.

THE WITNESS: That's true.

BY MR. HOWE:

Q Ms. Bacon, again referring to what has been identified as Exhibit 10, given that we apparently have the company recording a deferred debit in the amount of $9,369,586, in March of 1997, would it be reasonable to assume that that

same amount was on the company's books every month at least until August 30, 1999?

A I am not positive of that.

Q Would it be a reasonable interpretation of this entry given that we see the same dollar amount recorded in 1997 and what appears to be a G/L of 8-30-99, with that account number in the same amount?

A Again, I just don't know for a fact that that was the same amount out there every month.

Q You don't know that it was not either, do you?

A That's correct.

Q Staying with Exhibit 10, if you would turn to the next page which is Bate stamp 43.

A All right.

Q This is a journal entry by its title at TECO Energy, Incorporated, is it not?

A That's what it is titled, correct.

Q And it indicates a deferred debit interest entry of $3,269,033, and from the title of the entry it appears to be an estimate of interest for 1986 through 1998, does it not?

A That's what it reads.

Q And if we turn to the next page. We again have a document entitled TECO Energy, Incorporated; would you agree?

A It is titled that, yes.

Q And if we go through to what is Bate stamped page 46, we now have a document which refers to Tampa Electric Company; is that correct?

A It is titled Tampa Electric Company.

Q And it refers to a journal entry number 141, does it not?

A Yes, that's what it reads.

Q It is for the month of September 1999?

A That's correct.

Q And this is to record an interest estimate for the period 1986 to 1998; is it not?

A That's what it says at the bottom, yes.

Q Can we believe what it says here that these are in fact estimates?

A To the extent the company makes an accrual. I think it was our reasonable estimate of our exposure at that time, yes.

Q Would you agree it would be for your exposure, as you call it, for tax matters for the years audited as '86 to '88, '89 to '91, '92 to '94

and '95 to '98?

A Those years are listed on there. I am not sure if they sum to that amount.

Q If they do sum to the amount of $12,225,334, would that indicate that all of those years are in fact accounted for in this entry?

A It would appear so.

Q If you turn to the next page which is Bate stamp number 47, again we have a document entitled Tampa Electric Company journal entry number 141 for September of 1999; is that correct?

A That's what it says.

Q Do you know these individuals that are listed down here as preparing and approving this entry? The prepared by is, I will try to pronounce it, Okolovitch?

A I'm not directly familiar with that person, no.

Q And it shows approved by what I read as Mary Rader, R-A-D-E-R, do you know that individual?

A Yes, I do.

Q Who is she?

A I don't know exact title. She works in the corporate tax department.

Q If you turn to the next page of Exhibit 10, Bate stamp number 48, again this is a document headed Tampa Electric Company, month of September 1999, journal entry 141.

Are you familiar generally with this type of form as used by Tampa Electric Company?

A No, I'm not.

Q Who sees or uses these types of forms?

A Very few people. I am not exactly sure. Obviously Mary Rader and the other person listed down there is familiar with them and uses them.

Q And would you agree that the title of the entry is to record FIT provision for '92-'94 RAR?

A That's what it reads.

Q Would FIT in your estimation mean federal income tax?

A That's my interpretation of it.

Q Would this suggest that upon receipt of an RAR for the years '92 to '94 Tampa Electric felt it was appropriate to make certain entries on its books and records in September of 1999?

A Again, I do not think that was the criteria. I can't say that it was just an

automatic event upon receiving the RAR.

Q Do you know what event would have caused this to be recorded?

A I think generally the company is obligated to follow FAS 5 which says that if a contingent loss is probable and reasonably estimated then we're under an obligation to record it to our income statement. I think that's the criteria.

Q Would these journal entries support or provide back up for Exhibit 8 which was Tampa Electric's response to interrogatory number 7? It is Exhibit 8.

A I've got it. I see a couple of the numbers do tie. Whether or not this was the support for the interrogatory, I can't say for sure. There seems to be more numbers on the interrogatory than there are on this.

Q Maybe we can help with that. I would like to have another document marked, if I could. I believe this would be Exhibit 11.

(Deposition Exhibit 11 marked for identification.)

BY MR. HOWE:

Q Have you had a chance to review this

document?

A There is quite a bit here.

Q My question is very simple, see if it will help in your review of the document. My question is: This is a document dated October 1, 1999, it refers to tax periods ending 1986 through 1988. Would this reflect the Memorandum of Understanding, this and the attached pages on Bate stamp pages 2 through 10, the Memorandum of Understanding and the closing agreement between Tampa Electric and the IRS with respect to audit years 1986 through 1988?

A What was that last part that you described, the '86 to '88?

Q I said would it reflect the transmittal and receipt of the Memorandum of Understanding and the closing agreement between Tampa Electric Company, or I should say TECO Energy in this case, and the IRS with respect to audit years 1986 through 1988.

A It does read, "Enclosed herein is a copy of the approved Memorandum of Understanding," but I'm not exactly sure what a closing agreement is and whether or not --

Q I see. If you look at Bate stamp page

6 is where I pulled that heading.

A There is a lot of other stuff in here so I'm not so sure that the only two things in here are those. It does read at the top of Bate stamp 6, "closing agreement" also.

Q Would you agree that it seems to indicate, if you look at Bate stamp page 5, that the commissioner of Internal Revenue, or the associate chief I should say of the Tampa appeals office signed what appears to be a Memorandum of Understanding with Tampa Electric on September 29, 1999.

A I am just not that familiar with this document to say that that's what this is.

Q Would you agree that going back to Exhibit 8, the one page exhibit, that Tampa Electric in September, on September 30, 1999, apparently recorded an IRS settlement for the years 1986 through 1988?

A That's what it reads, yes.

Q And so far this is all you have seen referring to a settlement or what might be construed as a settlement, being the Memorandum of Understanding and the closing agreement for those years?

A I have never seen this document before.

MR. HOWE: Another document to be marked, please, as Exhibit 12, I believe.

(Deposition Exhibit 12 marked for identification.)

BY MR. HOWE:

Q Would you take a moment to review this document. Again, this is how we received it, as a stapled packet of information, Bate stamp number 18 through 25, in response to our request for production of documents.

A Okay.

Q Now, this is apparently from the Internal Revenue Service and it is addressing the taxes of TECO Energy, Incorporated and affiliated corporations for the tax years 1992 through 1994; is it not?

A It does say 1992 through 1994, correct.

Q Are you familiar with the manner in which Tampa Electric receives and -- correspondence from the IRS?

A No, I'm not.

Q Are you familiar with the manner in

which Tampa Electric interacts with the IRS in the process of either agreeing, contesting the amount of taxes owed to the IRS?

A No, I'm not.

Q Are you familiar with the reasons or the causes which lead Tampa Electric to record interest expense on tax deficiencies on its books and records?

A I understand the criteria, I believe, from the standpoint of the FAS 5 and what it requires, and through discussions with the tax department I am familiar with levels of exposure that we have on general issues, in total. But the day-to-day dealings with the IRS, no, I'm not familiar with.

Q Who makes the decision whether or not it was appropriate for Tampa Electric to record interest expense on tax deficiencies pursuant to FAS, that's FAS 5, at a particular time?

A I would imagine it is a collective agreement including our external auditors, Price Waterhouse, Cooper's, as well as internal management within the accounting, in the finance areas.

Q Have you ever been involved in those

decisions?

A I have been some, maybe around in some of the decisions but not all of them, no.

Q Have you been directly involved with any of the decisions that led to Tampa Electric recording interest expense on income tax deficiencies in 1999?

A Not directly all of them, no.

Q You said all of them, have you been directly involved in any of them?

A The reason I say that, I might have participated and might have been in the room when one was discussed. To say that I was involved in the decision on all of them, I can't say that. I also can't say that I wasn't ever participating or wasn't ever there in any of the discussions either.

Q Ms. Bacon, were you directly involved in the decision to record any of the amounts shown on what has been identified as Exhibit 8?

A Again, maybe in brief in passing in some of the conversations, but not any of the details to this level.

Q Let's move on. Let's have another document marked.

MR. HOWE: Let's mark this as Exhibit

Number 13.

(Deposition Exhibit 13 marked for identification.)

BY MR. HOWE:

Q Again, Ms. Bacon, this is how it was received by us from Tampa Electric, as a stapled packet. And this is Bate stamped pages 35 through 41. These were received in response to our request for production of documents.

Up at the top of the page my copy appears to read, it looks like this was done in hand, I think it is "Summary of 11-30-99 JE's." Is that a reasonable interpretation?

A That's what it reads, yes.

Q From the looks of this document, would it be fair to assume that JE's refers to journal entries?

A Again, I did not write that so I'm not positive.

Q But have we established in an answer to an earlier question that when you did work with accounts and journal entries, JE was a common abbreviation for that?

A Yes, I have seen it defined that way.

Q Referring to the first page of Exhibit

13, if I can I'm afraid I'm going to have to take you back to an earlier exhibit. Do you recall with reference to Exhibit Number 5?

A Yes.

Q If you would, do you recall that in telling you what appeared to us to make up that credit entry for 1999, of $9,484,317, that it appeared to us that for 1989, the period 1989 to 1991, part of that had been a credit entry of $631,421?

A Yes, that's what you told me earlier.

Q If you look on the first page of Exhibit 13, do you see that credit entry shown under November entries for Tampa Electric, which appears to be in an account called deferred debit interest, account 186.89?

A Yes, the same number is there.

Q Same number. I think I told you earlier I would tell you where our numbers came from. So would this indicate that the deferred debit that had been set up in 1997, for the years 1986 through 1988 and 1989 through 1991, this is a credit entry made to that account in 1999?

A I can see it is to the same account. I don't know that it is a reversal of the same

dollars.

Q I didn't ask for a reversal. It is a credit entry to?

A I thought I heard something about relating to the '87 number.

Q Let me restate it.

A Or the 1997 number, excuse me.

Q In 1997 I believe we established the company, Tampa Electric, recorded deferred debits for the audit years 1986 through 1988 and 1989 through 1991. All I'm asking is, would this indicate that a credit entry had been made in 1999, to that same account?

A This says that it is a credit entry to that account.

Q If you could turn, still referring to exhibit 13, if you would, please, refer to the next page, which is Bate stamps page 36. We have again a journal entry, but for TECO Energy, Incorporated, do we not?

A It reads TECO Energy, yes.

Q And if you would go to Bate stamp page 38.

A All right.

Q This is a Tampa Electric journal entry

document, is it not?

A I really don't know that. It says Tampa Electric at the top. That I can read.

Q If we had asked for journal entries and such from Tampa Electric for a particular time period and this was provided in response, would you take comfort in the fact that this is a journal entry for Tampa Electric?

A I am not familiar with them, I do not prepare them.

Q From your personal knowledge you are not familiar with it?

A That's correct, and that's why I don't feel comfortable.

Q Still on Bate stamp page 38, the title of the entry to record interest estimate for 1986 to 1998. Do you feel confident to comment at all on what these entries on this page mean?

A Other than what it reads at the bottom.

MR. HOWE: Let's mark one more document. This will be Exhibit 14.

(Deposition Exhibit 14 marked for identification.)

BY MR. HOWE:

Q Again, this is part of the document production, take a moment to review it. I would point out to you, so there is no confusion. You notice on the cover page it is apparently under letterhead from TECO Energy dated February 26, 1999, it is addressed to the Florida Department of Revenue.

A That's correct.

Q So the only reason I'm presenting it to you in this format, this is how we received it, from this group of pages stapled together.

If you would refer to the last page, I'm sorry, that is incorrect, the next to the last page.

A All right.

Q I guess I'm asking for some help here, if you can. These appear to be copies of checks from the United States Treasury to TECO Energy, Incorporated in care of the corporate tax department and they appear to be dated September 27, 1999. Can you enlighten us at all on these documents?

A I am sorry, no. They appear to be checks. Other than that I don't know anything

about what they would pertain to.

Q Let's go down to the bottom page in the handwritten notation. Would you agree it appears to refer to tax and interest on '87 and '88 audit settlement?

A Well, that's what it -- well, it has those words written there. Whether or not that is what this is for, I'm not sure.

Q Do you see the following where it says, "Book to 649.12"? Is 649.12 an account dealing with either taxes or interest expense?

A I don't know.

Q I am still moving forward in time, Ms. Bacon. Are you familiar with the various orders the Commission has issued determining the amount of revenues appropriately either deferred in 1995, 1996 or reversed in 1997 and 1998?

A You mean the orders on the deferred revenue docket?

Q Yes.

A I have reviewed them in the past. I don't know that I can recall all of the specifics of them offhand.

Q Let me, on October 1, 1999, the Commission issued its order PSC-99-1940-PAA-EI,

order establishing deferred revenue amount for 1997. Are you familiar with that order?

A I am sure I reviewed it in the past, yes.

Q Did Tampa Electric raise any challenge to the amount, to the amount of revenue the Commission ordered deferred for 1997?

A Subject to check. You mean -- can you define what you meant by that?

Q They issued a proposed agency action order?

A Right, did they protest the order.

Q Right.

A Not that I recall. We did ? I said not that I recall.

Q On October 14, 1999, the Commission issued its order PSC-99-2007-PAA-EI. And that was an order determining refund amount for 1998 in the amount of $11,226,598, do you recall that?

A Subject to check. I don't remember the exact number.

Q Would you like to take a look at it.

A All right. Yes, that's the number.

Q Was this the subject of a protest? I will make it simple for you. Was there later a

stipulation between Tampa Electric and the Office of Public Counsel that the refund amount would be 13 million for 1998?

A I do recall that. I had actually already started moving over to the finance department, that's why the specifics of some of these I'm not, you know, but I do recall that happening after that.

Q And do you recall that we did stipulate and the final amount we agreed upon was $13 million for 1998?

A Subject to check.

MR. HOWE: If I could have another exhibit marked, please. I believe it will be 15.

(Deposition Exhibit 15 marked for identification.)

BY MR. HOWE:

Q Again, these are Bate stamped pages 26 through 34 from Tampa Electric's response to our request for production of documents. And they're provided as a packet because that's how they were included in the document production.

A All right.

Q Give me just a moment, please. If you

could also have at the ready Exhibit 12.

A All right.

Q Now, Exhibit 12 we previously talked about, it's correspondence from the Internal Revenue Service dated November 17, 1999, apparently referring to tax years 1992 through 1994. Do you have that?

A Yes. Exhibit 12?

Q Yes.

A Yes.

Q And now I would like you to look at the first page of Exhibit 15.

A All right.

Q Do you note that this is also from the Internal Revenue Service dated March 10, 2000?

A Yes.

Q And do you agree it apparently refers to the same tax years, 1992 through 1994?

A Yes, it does say 1992 through 1994.

Q Kind of in the middle of the first page on the right-hand side it looks like the reference is to a revised RAR for 1992 through 1994?

A It appears to read that. It is kind of hard to read.

Q Since both seem to deal with deficiencies and increase in taxes for the period '92 to '94, would you agree that it appears that Tampa Electric or at least TECO Energy received a second notification of increase in tax for the period '92 through '94 that was a lesser amount for each of the years 1992, '93, and '94, in the March 10, 2000 document than it was in the November 17, 1999 document?

A I'm not really sure of the specifics of this document. I really don't want to make that conclusionary statement.

Q Would you agree that the numbers are different for the years 1992 to 1994 on the first page of Exhibit 15 in comparison to the first page of Exhibit 12?

A The numbers are different, yes.

Q Moving forward in time. I would like to talk now a little bit about the calculation of Tampa Electric's over earnings pursuant to the stipulations for the year 1999. And we've already established have we not that in 1999 Tampa Electric recorded for surveillance purposes interest expense on tax deficiencies.

A That's correct.

Q And for jurisdictional purposes what was that amount?

A $13,200,000.

Q That is?

A That's the total company amount. The jurisdictional amount, subject to check, it was 12 million and change.

Q Do you recall a meeting held on May 24, 2000, at which the company referred and perhaps presented a cost benefit analysis?

A I don't actually remember the date being the 24th, you said, but I do recall generally a meeting on the 23rd or the 24th of that year regarding the cost benefit analysis.

Q You were at that meeting, were you not?

A Yes, I was.

Q And what was the reason for the meeting?

A We had requested the meeting to be set up with the parties within the docket on the deferred revenue to present our cost benefit analysis that the company had prepared in relation to the interest on the tax deficiencies.

Q When was that cost benefit analysis

prepared?

A Over probably the previous six-month period. Five, six months.

Q Five, six months, so probably from December 1999 through the time of the meeting?

A Late fallish, through the spring.

Q Do you recall what was the amount of the net benefit you calculated pursuant to that cost benefit study?

A The original one?

Q Yes.

A I do not know it offhand.

Q I have a note. This is my handwritten notes, of $13.2 million, does that seem approximately right?

A Is that the MPV amount or is that the nominal amount?

Q I have no idea.

A I can go back and check that. I just don't recall the older number off the top of my head. But subject to check, let's assume it is 13 million.

Q Who prepared the -- I must correct my question to you, it now appears that I'm misreading my own notes, I think I am saying 13.2 million of

interest on tax deficiency. That's the expense amount probably.

A Yes.

MR. HART: If you're going to testify we need to make sure the facts are correct.

MR. HOWE: I don't need to be under oath.

BY MR. HOWE:

Q Who prepared the cost benefit analysis that was prepared prior to this meeting in May of 2000?

A I participated in its preparation and at least one or two other people, including Ron Neil within the regulatory affairs department.

Q What was your role in preparing the cost benefit analysis?

A I basically directed the preparation of it in terms of how it would be set out and how it would be calculated.

Q Were you following any template, any guide from the prior cost benefit analyses?

A Yes. We used previous Commission precedence in determining how that would be calculated and how it would be looked at.

Q What precedence were those?

A The main one I think was the People's Gas System docket on the '96 over earnings.

Q That docket, the '96 over earnings, People's Gas, was a stipulation in any way involved in the calculation of those over earnings?

A No. I don't believe so.

Q Had Tampa Electric's earnings previously been established using a financial integrity standard?

A Ask that again, please.

Q Had People's earnings prior to 1996 been established in its previous rate case using a financial integrity standard?

A I am really not familiar with that. I mean that was prior to the merger with Tampa Electric and their last rate case was in the early '90's.

Q I previously asked you, let me stay with the cost benefit analysis and how it was compiled.

You referred to Mr. Neil, Ron Neil?

A Yes.

Q What was his role in compiling the cost benefit analysis?

A He prepared all of the worksheets and

gathered all of the inputs into it.

Q And did he, the format of the worksheet and what was actually in the cost benefit analysis, was that at your direction?

A We both worked on it.

Q Who else worked on it?

A We had assistance from probably the tax department on some pieces of it.

Q What caused you to set about preparing a cost benefit analysis?

A We had worked or I had worked particularly on the People's Gas System docket and I knew that the Commission's precedent for determining prudency on such type of issues was a cost benefit analysis.

Q I previously referred to and I think I have shown you, I don't have copies to distribute, but it is a letter from Ron Neil to Christine Romig that had been received on August 2 in our office. I think it was perhaps provided to staff on August 1. Have you seen this document and the attached information, in particular the cost benefit analysis that was attached to it?

A Again, I am aware of the document being filed and I am generally familiar with its

contents.

Q Now, are you aware that in this document as filed with the Commission staff, the net benefit determined to arise for the customer's benefit is the company, that it was $11,085,000, are you familiar with this?

A That looks like the number, yes.

Q Did the company later provide staff with a different, I should not say different, with a cost benefit analysis that demonstrated a different net benefit?

A I'm not exactly sure what was the form or who it was provided to are when. I do believe there was another cost benefit analysis prepared after that, that was trued-up to the 1999 actual results as approved by the Commission for the deferred revenues.

Q This would be before the Commission voted.

A Okay.

Q What I'm going to show you, I should tell you, you will see here, this is a cost benefit analysis that as I read it results in a $10,741,000 net benefit to the customers.

A Okay.

Q Would you agree that that is the amount that the Commission found in its proposed agency action order to be the net benefit?

A That's true. That is the number that I think went into the actual Commission order as being approved.

Q As you will note, we received this as a facsimile transmission from Christine Romig. How many cost benefits analyses were provided to staff?

A We prepared one that was shared on May 23rd with all of the parties in the docket. I know that we followed up with the August memo. I am not familiar offhand with exactly which one this one is by looking at it.

Q This one you will agree has a different amount than the August 1 memo?

A It does have a different amount, yes.

Q Would you agree that this one, by this one, I mean the one appended to a facsimile transmission from Christine Romig on December 18th, 2000, appears to have the cost benefit analysis that was accepted by the Commission before it issued its PAA on '99 earnings for Tampa Electric?

A I'm not exactly sure offhand what is the difference between the two.

Q Who interacted with the staff to provide these analyses?

A I believe that one right there was a follow-up from the discussion that we had on May 23rd to kind of file it with the Commission. I was not involved in any discussions with this one after that, so I really don't know.

Q Were you involved with any of the discussions with the one provided, as you said, on May 23rd?

A To the extent that I participated in the May 23rd meeting, yes.

Q Were there any communications with staff after the May 23rd meeting that led to the cost benefit analysis appended to the August 1 letter?

A None that I participated in.

Q Were there any that you heard about?

A I do believe that the staff called with a couple of clarifying questions which a couple of people within the company answered, other than that I don't believe there were any other discussions.

Q Do you know who on the staff may have called?

A Not really.

Q Did you hear any names referenced?

A No.

Q Do you have any idea who at Tampa Electric or TECO Energy may have interacted with the staff before this, before providing the August 1 cost benefit analysis?

A From my understanding Ron Neil and Mary Rader.

Q We don't know who they interacted with?

A Not for sure.

Q I am not going to ask you if you have grounds for suspicion.

A Meaning I don't know for sure.

Q Do you know whether any interaction -- now, on this later cost benefit analysis that was provided to staff that showed the $10,741,000 of net benefit, did any interaction between the company and staff occur between the August 1 cost benefit analysis and this later one?

A I do not know. I don't know specifics. I know that there were some clarifying questions asked, the timing of those I do not know.

Q Now, we're speaking of after the

August 1, I understood you to say between May 23rd and August 1 you thought there were some communications?

A I am not exactly sure I know the dates of those communications.

Q Okay. Do you happen to know if anybody besides staff was provided with a cost benefit analysis, that being the one showing a net benefit of $10,741,000?

A It appears it was sent to you.

Q We got this from the staff. I am asking did Tampa Electric, to your knowledge did Tampa Electric provide this cost benefit analysis that the Commission staff relied upon, or referred to I should say, in their recommendation that the Commission referred to as the net benefit in the PAA order. Do you have any knowledge whether Tampa Electric provided that to anybody other than staff?

A I don't know. We have a disbursement department, and I have no knowledge of who it was disbursed to.

Q We need a disbursement department.

A Yes, we have people that take care of that.

Q Before I get to your testimony itself,

I would like to go through a couple of other things. If I could have another document marked as an exhibit, please. This will be Exhibit 16, I believe.

(Deposition Exhibit 16 marked for identification.)

BY MR. HOWE:

Q Again, Ms. Bacon, these are Bate stamped pages 93 through 98 provided by Tampa Electric to the Office of Public Counsel in response to a request for production of documents. Have you ever seen a document like this?

A No, I have not.

Q At the top it refers to deferred debit interest. We do know that Tampa Electric recorded certain deferred debit to interest in 1997?

A From some of the previous documents, yes.

Q Going down this page to the first page which is Bate stamp number 93, a little more than halfway down, it refers to what appears to be a payment of estimated interest for 1992-1994 RAR and this is '92-'94 RAR payment, allocation of Tampa Electric portion. Does this carry any meaning to you?

A No, it does not.

Q Do you know whether this could represent amounts that were ultimately recorded on Tampa Electric's books?

A This is a very detailed schedule. I don't feel comfortable responding to what it might refer to.

Q Would you agree from the lower right-hand corner, by that I am putting in it in landscape orientation, it appears it was a document dated, generated -- the document date that is written is February 6, 2001?

A That is the date printed there.

Q Was Tampa Electric Company recording or making entries related to tax audit years 1986 through 1988 in 2001?

A I don't feel comfortable deriving that from this.

Q From your own knowledge did Tampa Electric record on its books and records any amounts related to tax audit years 1986 through 1988?

A I do not know offhand what years any adjustments applied to.

Q Would you know whether Tampa Electric

in the year 2001 made any entries on its books and records?

A I think we booked an additional $10 million approximately of interest on tax deficiency in the year 2000 and another two to two and a half million dollars in interest on tax deficiency in 2001.

Q Was this for Tampa Electric Company?

A Yes.

Q For which audit years?

A I think across all of them. I don't know.

Q When will Tampa Electric make its final entry on its books and records for the audit years 1986 to 1988?

A I don't know that.

Q When will Tampa Electric make the final entry on its books and records for audit years '89 to '91?

A I don't know that either.

Q Has Tampa Electric yet made final entries for audit years '86 through '88 or '89 through '91?

A I do not know the answer to that.

Q Do you know with respect to audit

years '92 through '94?

A No, sir.

Q Do you know for audit years '95 through '98?

A I'm just not aware of that level of detail.

Q If you would refer to the second page of what is marked as Exhibit 16. This appears to be a requisition for a voucher-check, are you familiar with this document or this type of document?

A No, I'm not.

Q In the explanations given on that page it says, "Payment of taxes per revised RAR and estimate of interest for 92-94 audit cycle." From what you said earlier, am I correct that the tax manager handled it at the TECO Energy level?

A We have a corporate tax department.

Q And this check, if that's what it is, this request for a check was made by Mary Rader; is that correct?

A It appears to be so, yes.

Q And would you agree it appears to have been made on September 30, 2000?

A That's the date there, yes.

Q Would this give you the impression that Tampa Electric is still dealing with estimates of interest expense for the '92 to '94 audit cycle?

A I don't feel comfortable enough with this document to say that.

Q Would it be fair to say you don't know one way or the other?

A That's correct.

Q If you refer to the next page, 95, this again appears to be a journal entry for TECO Energy, does it not?

A It is headed TECO Energy. I am not sure.

Q I mean we can't --

A It is titled TECO Energy.

Q Does it mean anything if something is titled TECO Energy and says journal entry, does that give us any useful information about whether it was a journal entry made by TECO Energy?

A I don't work in the accounting department. The fact that it says Tampa Electric right below that in the line would suspect me to think it might be for Tampa Electric, so I don't know.

Q Would that refer to an accounts

receivable from Tampa Electric?

A I don't know.

Q How about from the account Number 646.01?

A I'm not familiar with that account.

Q How about the date, do you think we can put any reliance on that?

A I can read that, October 2000.

Q Do you think we can rely on it as the approximate time that this journal entry, if this is a journal entry, when it was made?

A October 2000, yes, I would assume that.

Q You see a penciled in or a handwritten entry. It says, "Entry is estimate of Electric's tax and interest associated with payment of 92-94." Could we fairly read this to state that somebody is trying to record the, or make an estimate of Tampa Electric's tax and interest associated with the '92 to '94 tax period?

A The words are what they are. I am not familiar to be able to confirm that.

Q Okay. If you go to the next page, page 96.

A All right.

Q In the middle of the page, again handwritten, again we're looking at a journal entry for TECO Energy apparently dated November of 2000, would you agree we're talking about that time period?

A Yes.

Q Do you read the words as I do? "Reclass to reflect tax received for 86-88. Amount was erroneously charged to interest."

A The words say that, but I don't know what that really means.

Q Would it be correct then to assume you don't know what it means when we continue down to the handwritten portion where it says, "Incorrect assumption"?

A The words do read "incorrect assumption" on the page.

MR. HOWE: If I could have this marked, I think this is 17, Exhibit 17.

(Deposition Exhibit 17 marked for identification.)

BY MR. HOWE:

Q Again, these are Bate stamped numbers 99 through 104, copied in this fashion just because this is how it was produced for us in our request

for production of documents.

Can we agree this appears to be a document entitled a journal entry for TECO Energy for the month of March 2001?

A It does read that, yes. Again I did not prepare this document.

Q I understand. From just the words written down there in the title of the entry, does it appear that a September 1999 estimate of interest for audit years '86 to '88 had to be reversed?

A I don't know about had to be reversed, it says "to reverse." I don't understand that, I don't know why they had to do that.

Q In your career as an accountant, as a CPA, as an employee of Tampa Electric and TECO Energy, have you ever had occasion to work with journal entries?

A Not at TECO.

Q How about elsewhere?

A General Telephone, 1981.

Q It is not unusual to make reversing entries, is it, on books and records of the corporation?

A I am just -- I just do not know the

details or the specifics behind why this journal entry was made. So the words are what they are and I can't confirm as to what they were doing.

Q If you could turn to the next page, page 100?

A Okay.

Q Does this still look like we're dealing with March of 2001?

A Yes, that's the date.

Q Does this page indicate that there was a reallocation of interest based on a final IRS appeals settlement for 1986 to 1988 in the year 2001?

A That's what the words say.

Q Can you think of any reason we shouldn't accept the words at face value?

A My personal opinion is sometimes I think there is more to the story than behind one sentence. So I don't know if you can interpret it for being all that it is.

Q With page 101, can you provide any interpretation for that phrase at the bottom where it says, "Record Energy's piece of interest expense resulting from '86-'88 appeals settlement"?

A I have no idea.

Q Would you agree it appears that TECO Energy is on its books and records recording dollar amounts for an appeals settlement with the IRS relating to the '86 to '88 time period?

A I can't confirm that.

Q Then I assume you would have the same feelings about page 102. Would it be fair to say you don't know what this means, other than it appears to be a journal entry for TECO Energy for March of 2001?

A I can't confirm anything more than that.

Q Would it be fair to say then from your earlier answers, you don't know whether Tampa Electric or TECO Energy is done recording interest expense on tax deficiencies or other amounts related to tax audit years '86 through '88, '89 through '91, '92 through '94 or '95 to '98?

A Are you saying that I can't confirm it that we're through?

Q Confirm or deny.

A That's true.

Q Now I would like to start talking about your testimony.

By the way, did you have any role in

answering Public Counsel's second set of interrogatories?

A I reviewed them, yes.

Q Do you know who did provide the answers? I don't have any affidavit, Ken, on these.

MR. HART: We have a response department.

MR. HOWE: Who answered these interrogatories? This is our second set of interrogatories Numbers 12 through 25.

MR. HART: I don't know the answer to that question, but I can find out.

BY MR. HOWE:

Q Ms. Bacon, did I understand you to say that you had reviewed them?

A Excuse me?

Q That you had reviewed them?

A Yes.

Q Do they appear to be -- several of them deal with your own testimony, do they not?

A Correct.

Q Are the answers here your own, where the questions refer to your testimony?

A Yes, they are.

Q Did you answer all of them?
A All of the interrogatories in here?
Q Yes.
A I reviewed all of them, I did not prepare all of them.
Q For example, in response to interrogatory Number 12?
A Number 12, yes, I prepared this one.
Q Number 13?
A I wrote the answer and I had assistance with the filing itself, the cost benefit analysis.
Q How about Number 14?
A Yes, that would be my response.
Q 15?
A Yes.
Q 16?
A Yes.
Q 17?
A Yes.
Q 18?
A Yes.
Q 19?
A Yes.
Q 20?

A This one was not directly prepared by me, no.

Q Do you know who did?

A No.

Q 21?

A I don't believe I know who prepared this, no.

Q 22?

A No.

Q Now, on 22 this is asking for amounts Tampa Electric has recorded on its books in years 2000 and 2001. We asked for each year 1980 through 2000. You don't see any response dealing with the years 1980 through 2000, do you?

A What is the question again, I'm sorry?

Q The question asks for Tampa Electric to identify the amounts recorded on its books and records for interest expense on tax deficiencies accrued or paid for each year 1980 to 2000. Would you agree it appears we haven't received anything for the years 1980 through 1988?

A I really can't answer that.

Q Interrogatory Number 23?

A This one was not directly prepared by me.

Q What does that mean, not directly?

A Meaning I reviewed it, as I reviewed all of these interrogatories.

Q Do you know who did prepare this response?

A No, I do not.

Q 24?

A That one is mine.

Q And 25?

A I am reading it. I'm not sure. I think that I would have to say this was probably a collective effort from people who were involved in different parts of this answer.

Q Do you know who they would be?

A I think I already previously said that would probably be Mary Rader and Ron Neil.

MR. HOWE: Ken, I would appreciate it if you could tell me who provided the answers for those that Ms. Bacon did not.

MR. HART: We'll do that.

MR. HOWE: Off the record.

(Luncheon recess.)

BY MR. HOWE:

Q Ms. Bacon, if you would please refer to your prefiled direct testimony and to the

exhibit appended to it, the cost benefit analysis.

A All right.

Q Would it be fair to say that this cost benefit analysis which reports to show a $12,406,000 net benefit to customers is identical, it is the one we saw before, which had a net benefit of $10,700,000 except for the difference in entries in 1999?

A That's correct.

Q And would it be fair to say that this cost benefit analysis is essentially based upon one previously accepted by the Commission on a People's Gas case?

A The methodology is the same, yes.

Q And the People's Gas case though there was never an issue of deferred revenues, was there?

A That's correct.

Q And in the People's Gas case, from our earlier discussion, would I be correct to say that the People's Gas case did not involve a stipulation?

A That's correct.

Q And that it did not involve revenue requirements set based upon a financial integrity case?

A That I'm not positive of, not being that familiar with their rate case.

Q Just looking at that, just referring to the first page of your cost benefit analysis. We have by years 1993 through 1996 so we are dealing with a period of seven years; is that correct?

A Yes.

Q Did I say 1996 or 1999? I meant 1999.

And we're dealing with income tax periods of '86 through '88, '89 through '91, '92 through '94 and '95 through '98?

A That's correct.

Q Under the first column where the heading is 1993, would you agree that that just shows the effects of permanent rates or I should say on permanent rates of the company's decision, or I'll use the company's language to take an aggressive tax position on certain matters?

A Yes, that's correct.

Q What is the underlying principal? How does the company's taking of an aggressive tax position in any way affect the revenue, the level of rates awarded by the Commission for a particular test year?

A Well, the company's positions on these tax issues basically create time related items and increase the deferred accumulative deferred income taxes in the company's capital structure. Those amounts tend to offset investor sources of capital, other funds, common equity, long-term, short-term debt, they would be raised in lieu of that. Those particular cost to capital items have a cost with them, whereas the deferred income taxes are zero costs. That differential produces a savings to revenue requirements and that's what is reflected in these numbers.

Q For example, under the column for 1993, for the 1986 to 1988 tax period, we see a number of 487,000; is that correct?

A Which? Yes, I see that.

Q Now, $487,000 represents what?

A The higher revenue requirement that was avoided by us taking the tax positions.

Q And then is it the company's position that the revenue requirements set by the Commission for 1993 would have been $487,000 higher but for the aggressive tax positions taken by the company?

A That's correct.

Q Now, under 1994 we see similar

entries, or we see entries also under the category of avoided higher permanent rates. Were those calculated on the same basis for 1993?

A They were using the '94 test year numbers, but other than that the methodology was similar, yes.

Q Would you agree though that the rates for 1994 were set differently than those for 1993 in that the Commission set rates for 1994 to meet a 3.75 times interest coverage which they did not do for 1993?

A The Commission did use a 3.75 times coverage ratio calculation in 1994 that is not reflected in these columns. However, I would point out, Mr. Howe, that to the extent that if you did go back and make that adjustment for the 3.75 and removed all of the rate case benefits from this calculation, I believe we provided you another benefit analysis that still shows that the 12 million is still a positive number over $6 million.

Q That was for a separate cost benefit analysis provided in response to an interrogatory, correct?

A Right. So my point being there is, I believe it is a moot point to the extent that it

still comes out to be a benefit even if you remove all of the rate case benefits from the calculations.

Q For example, referring to column 1994 and the 1986 to 1988 tax period, that amount of $517,000, is it the company's position that the rates would have been set to generate revenues $517,000 higher in 1994, but for the company's taking aggressive tax positions?

A That's correct.

Q Now, would you agree that if the revenue requirement for 1994 though was unaffected by the amount of deferred taxes in the capital structure for 1994, there couldn't be any benefit from the amount of deferred taxes in the capital structure?

A But for what though?

Q In other words, if the Commission for 1994 set the company's revenue requirement and rates to meet a target interest coverage multiple, would you agree that the level of deferred taxes in the capital structure did not affect the bottomline revenue award or rates set for 1994?

A If you went back and applied the 3.75 times coverage calculation on top of the '94

number, it would tend to reduce these numbers. But what I also am telling you is if you ran that through the entire benefit analysis it would still come up to a positive $6.5 million net benefit.

Q I note that the company in this analysis is showing benefits and costs associated with the tax period 1989 to 1991, '92 to '94 and '95 to '98. My question would be: How could the 1992 to 1994 tax period affect '93 numbers or '94 numbers if at the time of the Commission's last -- at the time of the company's last rate case it had not even filed its 1991 tax return?

A I am not so sure that those -- I believe what the cost benefit analysis is doing is actually going back and applying those deferred income taxes as if these positions had not been taken. So I'm not so sure that the actual timing of the company's filed tax return would affect that calculation.

Q Ms. Bacon, at the time of the rate case, we were talking about that earlier, the company filed its case in May of 1992, hearings were held, the Commission reached a final decision or voted in December of 1992. Would you agree if what I have just stated, if you agree with the

statement I just made, that the 1992 to 1994 tax period could not have affected the 1993 revenue requirement because the company had not filed even its 1991 tax return, and it certainly had not filed its 1992, '93 or '94 tax returns?

A We also though took positions in the tax years though, whether or not the actual tax return was actually filed yet does not mean that some of the positions that were in that tax return were included in the tax years, in the test years, I mean. And to the extent they were included in the tests years these benefits reflect those.

Q Ms. Bacon, I asked a question earlier in this deposition about how deferred taxes were calculated or as they were used in the company's filing for the 1993 test year.

A Yes.

Q Do I recall correctly that you stated that you weren't sure how the 1993 deferred taxes were calculated for that purpose?

A No. I think my answer was, I was not that familiar with the actual details of the preparation. I do know overall though that I have discussed with the tax department and we did go back and look and there were positions that were

included in the test year that are also positions that we are collecting here in the benefit analysis.

Q If you filed your case in May of 1992, what positions for 1993 and 1994 could have been included?

A We filed projected test years for 1993 and 1994. To the extent that there were tax positions assumed in there that were part of the benefits, then this is what that relates to.

If I'm not mistaken, I believe that we did not put all of the tax positions because not all of the tax positions were actually reflected in the test years. We put only in the cost benefit analysis those tax positions that were actually reflecting consistent with those tests years.

Q I understand. Is not an underlying assumption of the company, the fact that the position you took on taxes actually affected the deferred taxes you include in your capital structure for your rate case and in the test year for your rate case?

A Could you repeat that?

Q Perhaps I can do a better job.

You mentioned earlier that you worked

on the '92 rate case and you were involved in the revenue requirements, correct?

A Yes.

Q If I recall correctly, I believe it was Mr. Loeffler who sponsored overall a rate base and an income statement; is that correct?

A I believe he was the accounting witness, yes.

Q Didn't the company just offer a capital structure that reconciled to that proposed rate base, that there was not any attempt to include in deferred taxes in that capital structure any particular tax positions?

A I cannot recall the specifics back in 1992, '93 and '94 as to how those accumulated deferred income taxes were calculated. I didn't participate in that particular process at that point in time. However, as part of this cost benefit analysis through discussions with the tax department they went back and they looked to see what was actually included and projected in the test years and what was not. And it was only those tax positions that we included in this cost benefit analysis.

Q Would you agree if the company merely

took a capital structure and prorated it to the rate base, that the deferred taxes, just like the equity and so forth, are just the fallout from the ratios that are used in your general capital structure?

A I don't believe that is true, no.

Q I note that for the category of avoided higher permanent rates for each of the years 1994 through 1999 that for each tax period '86 to '88, '89 to '91, and '92 to '94, those amounts are the same; is that correct?

A Could you repeat that?

Q For example, for the 1992 to 1994 tax period we have $268,000, every year '94 through '99?

A Correct.

Q For the '89 to '91 tax period we have $1,307,000 every year, 1994 through '99?

A Yes, I see what you are saying, yes, that's correct.

Q What happened between 1993 and 1994 to change the amount of deferred taxes in utilities capital structure?

A I would have to go back and look at the specific calculations to be able to define

exactly what is the change.

Q Do you remember in an earlier part of this deposition I asked you about the recommendation of Christine Romig on accumulated deferred income taxes and we agreed, did we not, that the staff changed the manner in which the company calculated those deferred taxes for 1994?

A From a simple average to a 13-month average?

Q Yes.

A That could be, but I don't believe that's what is causing the change from '93 to '94 here. It could be a number of things that are causing this.

Q Could it be --

A It probably is a number of things.

Q Could the increase in deferred taxes just be from a proration, from a smaller rate base in '93 to a larger rate base in '94?

A I would rather not speculate. I think it is from a number of things.

Q But do you know what all of those things are?

A I know what some of them could be.

Q Okay. If you turn to the second page,

please.

A All right.

Q Now, we're going to start through a series of pages that support the entries on the first page of your exhibit; is that correct?

A Yes.

Q For example, down at the bottom of the page where you calculate an amount less to be deferred, that 281,000 figure. Is that the same 281,000 figure that appears on the first page under 1995 for the period 1995 to 1998?

A Yes, it is.

Q If we go to the next page then we see that $281,000 figure under a column change to deferred revenues; is that correct?

A Yes.

Q And you calculate a new number, a new total down at the bottom, $714,000?

A Yes.

Q We follow that back to the first page and we see that listed under 1996?

A Yes.

Q The next page, page 4, under the column entitled change to deferred revenues you have a credit amount of $995,000, do you see that?

A Correct.

Q And that is the sum of the $281,000, plus $714,000 from the previous two years, isn't it, or the previous two pages?

A I believe that is correct. Subject to check. I think it adds up to that, yes.

Q Then we come up with a new total at the bottom of the page, $1,696,000 and that appears under 1997 on the first page?

A Correct.

Q Continuing on, the next page, page 5, we see the amount under change to deferred revenues of $2,691,000?

A Yes.

Q And that again is the sum of 281, plus 714, plus 1,696, isn't it?

A Subject to check, it looks like it.

Q This is the methodology you have followed through here?

A Yes.

Q And the bottom line is $2,787,000 that appears on the first page under 1998 and so these schedules go.

A Yes.

Q We come to page 6, and down at the

bottom of the page we have a figure of $4,787,000 and that would just be the sum of what went before for the years 1995 through 1998, would it not, those being the 281,000, plus 714,000, plus 1,696,000, plus 2,087,000?

A That's correct.

Q Now, look up at the top of the page, and I have done a little math, and it looks like if we start up at the top of the page with the $50,236,000, '95 revenue deferral you have there, plus the 1996 revenue deferral, minus the 1996 to 1997 refund, minus the 1997 revenue reversal, I calculate that you have $32,112,000 left in the --

A This is my copy so I can write on it. What is the number again?

Q Yes. What I have is the two positives minus the two negatives, I have a figure of $32,112,000. And the company's position is that it should have been or it would have been able in 1998 to reverse $36,156,000; isn't that correct?

A That's the number listed there, yes.

Q So, from $32,112,000, if we subtract $36,156,000, I get a negative number of $4,044,000.

A That's because you are leaving out the interest expense.

Q So is it the company's position that it could tap not only the deferred revenue, but the deferred revenue plus interest?

A Yes, it is.

Q Can you point to anything in the stipulation that says that the company would be allowed to reverse the interest?

A The deferred revenue pot is the stipulation, is defined as the deferred revenues. It does not, those deferred revenues accrue interest, so to the extent they accrue interest they become a collective pot. I don't think anything in the stipulation says they're defined separately either. The deferred revenues accrue interest. That means that the deferred revenues themselves would grow.

Q Well, then is it the company's position that the customer should both provide deferred revenues, should pay, I mean actually provide those deferred revenues, I'm sorry the interest on the deferred revenues and that interest on the deferred revenues should be available to the company to shore up its earnings?

A I don't think there was any distinction between, deferred revenues are deferred

revenues. To the extent they're for reversal, whether they accrue interest or not, they're one amount.

Q Do you agree the customers were charged for the interest in the capital structure in the calculations?

A I believe we had another hearing on this about a year or so ago. And you know, as I stated in that particular hearing, yes, the interest was appropriately included in the calculation of the deferred revenues because it relates to a cost on those deferred revenues.

Q Is it the company's position then that the interest on deferred revenues can be used under the stipulations to both reduce the amount of money that is either deferred into a future period or refunded, and to be used by the company to shore up its earnings?

A My position is that it is one pot of money and to the extent that it accumulates over time and it bears a cost of interest, and that interest should be included in the calculation of the deferred revenues because it represents a true cost of those deferred revenues and to the extent that that pot of deferred revenues is there then

available to reverse for the company, yes, including that interest it is available to the company to reverse. As well as to ultimately refund a part of it as well.

Q All right. So am I correct though that the way the Commission has reached decisions so far, in its various orders, including its PAA for 1999, that under the Commission's decisions all the interest is being returned to the customers?

A You would have to point that out to me.

Q Would it be fair to say you just don't know?

A It is fair to say I'm not sure exactly what part of the stipulations or the orders you are referring to.

Q In reference to an earlier question, can you point to any provision, any explicit provision in the stipulation that says the company may draw down the interest accrued on deferred revenues to meet its earnings requirements?

A There may be something there, I just don't recall today.

Q What we just went through with the

first six pages, that is more or less repeated in the succeeding pages, is it not?

A Yes.

Q For example, if we go to page 14 we would have a similar type of math where essentially the company's position is that although the interest for '95 to '98 is $10,492,000, the company should only have to refund $6,293,000, thereby retaining a portion of that interest for its own purposes?

A The net amount to refund after pushing the deferred revenues through all of the years was $6,293,000. I'm not so sure we defined how much the $6,293,000 was interest.

Q I note here that on page 14 when you say the refund ordered in the amount of 11,227,000, why is that?

A Say that again.

Q See the line entitled refund ordered, you have an amount of $11,227,000.

A Right.

Q What does that amount reflect?

A I have a feeling that that -- I'm pretty fairly sure that that is the amount that was approved by the Commission in the original. I can

check that number, but I have a feeling that is the amount that was ordered by the Commission to be refunded in the original set.

Q That is not the amount that the company refunded, is it? Didn't we just establish --

A Are you talking about the extent that there was a stipulation after?

Q Yes.

A Subject to check, I believe the number might be different based upon that.

Q And if the stipulation was for $13 million, that was the amount refunded, was it not?

A Subject to check, yes.

Q Would it be fair to say -- I'm going back to the first page right now -- the company has not incorporated in its analysis the effect of any of the deferred debits it recorded in 1997?

A What do you mean included?

Q Well, accounted for. For example, I think -- let me ask you this: The deferred debits, didn't we agree earlier that mathematically very close approximation would consider them as reducing zero cost capital to the capital structure?

A I would have to go back and check the

specifics on the calculations. I remember that issue coming up. And I believe we did put something in there to account for the effect of that.

Q Do you know where that would be?

A It would probably -- I mean in terms of the specific calculations I would have to go back and check. I believe it would be adjusting the rate base amounts, but I would have to go back and verify that.

Q If they were adjusted would we expect that they would have occurred in the years 1997, 1998, 1999?

A That's correct.

Q Are you looking at something there that might help my question? Is it already in here and I may have overlooked it?

A Hold on a second, if you don't mind could I look at something and verify?

Q Yes.

A There are a lot of numbers here.

Yes, in the original '97 order that approved the deferred revenue amounts, the rate base amount is $2,084,268,120. So that's 2,084,268,120. In this number here it is

2,080,272,000. That's two billion.

That $4 million difference, I believe, is probably that deferred debit. In other words this rate base amount here included the higher deferred, included the deferred debit in the original filing.

Q Wasn't the original deferred debit over $13,000,000? I'm referring to our Exhibit 5.

A Right, the original deferred debit. But I think the only net amount that really needed to be removed out of here is the 4 million. I would have to go back and check why that is. The appropriate number we pulled out was approximately 4 million.

Q When you say pulled out, which page were you referring to?

A Again if you look on page 20 you will see the rate base amount is $2,080,272, and that's lower than the original rate base amount that was included in the approved deferred revenue calculations in the Commission's original order. And that lower rate base is removing that deferred debit. You can even see down in the capital structure there is a column that is reconciling the cap structure that says adjustment for deferred

debit. Down right below that, right next to the change to deferred revenues, that's probably reconciling the cap structure back to that lower rate base amount.

Q And the amount in total would be the 3,996,000?

A That's probably a jurisdictional amount. But yes, that's what it appears it is, $3,996,000.

Q Jurisdictional amount?

A Meaning it is not a total company amount, it has been jurisdictionalized for retail purposes.

Q Wouldn't you expect if you were starting with a number over 13 million?

A There is a reason why it should not be 13 million, I would have to go back and look at my notes on that. But I know that the appropriate number to pull out is the 4 million.

Q Let me ask you some questions generally, they'll address your testimony somewhat. When the company records interest on a tax deficiency, do they generally record the deficiency itself at the same time?

A Can you say that one more time?

Q When the company records interest expense on a tax deficiency, does it also record the deficiency at the same time?

A I am not exactly sure what you are referring to as the deficiency. The interest on the deficiency, what do you mean?

Q If there is a tax deficiency, the IRS says you owe more money than you think you do, that creates a deficiency; is that correct, a tax deficiency?

A Yes.

Q Interest on a tax deficiency is the time value of money the IRS is going to charge the company for not paying what they think they're owed, isn't that correct?

A Yes.

Q So my question is: Are there any circumstances in which the company records an interest expense on a tax deficiency where it has not recorded the deficiency itself?

A I think there are times where it is appropriate to reflect the provision on the income statement even though the company might not as of yet have paid the cash to the IRS for the deficiency itself. So to the extent that that is

reflected beforehand I guess that might be a situation.

Q Do you think it would be reasonable under FAS 5 to recognize interest on a tax deficiency?

A Absolutely. I don't think there is any inconsistency there, no.

Q If you did recognize the deficiency at the same time you recognized the interest expense, would that deficiency reduce zero costs deferred taxes in the capital structure?

A Back in '97 it was actually, the cash paid was actually set up in the deferred debit account. But eventually it would probably be taken to the accumulated deferred income taxes.

Q How about, for example, in 1999 when the company recorded the interest expense on, the interest expense on the tax deficiency in 1999, did the company also record the deficiency itself, the tax deficiency?

A I think it would depend upon which portion. Again there was a deferred debit already sitting out there for some of it. When that was taken to the accumulated deferred income taxes or if there was additional amounts booked I am not

really sure about the details of that here today.

Q If the company were to record the interest expense on the tax deficiency and not the deficiency itself, would that indicate that the company was not really sure whether they were going to have to pay that deficiency?

A Not necessarily. I think, you know, the FAS 5 requires you to judge whether or not you have a probable and likely future contingent loss, and I think the timing of when you actually pay the cash to the IRS might be somewhat different than that, it might be before that and it might be after that.

Q Has Tampa Electric recognized any change to deferred taxes in 1999 from recognizing a tax deficiency?

A I would have to go back and look at the specifics. I'm not sure about that.

Q Do you know exactly which tax deductions were reflected in the 1993 projected test year and disputed by the IRS, has that been provided to us anywhere, are you familiar with that?

A Which ones were actually included in the projected test years?

Q Yes.

A I don't know if that has been provided to you or not. I know there were some and I know those were the amounts we reflected in the cost benefit analysis. I do not know them by item or how much they exactly were.

Q How would you personally go about determining whether specific, whether a specific tax deficiency was actually reflected in the deferred tax balance used in the capital structure for 1993?

A I went to the tax department.

Q And just asked them?

A Yes, and they researched it.

Q Do you know who would have that precise answer, who gave you an answer?

A I am not exactly sure who did the research.

Q Are you aware of any work papers that reconcile each tax deficiency to a journal entry?

A Any papers?

Q Yes. That reconcile a tax deficiency to a particular journal entry?

A No, I'm not aware of any.

Q Under the stipulation certain revenues

were deferred; is that correct?

A Yes.

Q Is it the company's position that the revenues deferred pursuant to the stipulation were incorrect in any particular year? For example for 1995, does the company dispute the amount that the Commission found appropriately deferred?

A No, I don't believe so.

Q Is it the company's position that it should have been either more or less?

A No, it is not our position.

Q For 1996, does the company dispute the amount the Commission found appropriately deferred from 1996 to future periods?

A No.

Q Does the company believe the amount should be either larger or smaller?

A No.

Q The company is asking the Commission to evaluate the prudence of the income tax, the interest expense on tax deficiency claimed in 1993 based upon the cost benefit analysis, is it not?

A I think that that is what the company has filed because in the past it has been the Commission precedent that that has been the tool

that they have used to judge the prudency. I would imagine that the Commission would also use other judgment in defining what is prudent and what is not.

Q Is there any reason why the company did not ask for the Commission to consider other expenses on a cost benefit basis?

A I think what we filed with the Commission for the interest on tax deficiency was filed specifically because that happens to be the Commission precedent for judging the prudency of those types of costs. To the extent that we were asked to provide a cost benefit analysis in another expense I'm sure we would have.

Q When you say that was the Commission -- I don't know if you used the word precedent, but there from the People's Gas case?

A Historical practice, yes.

Q Ms. Bacon, have you ever been responsible for Tampa Electric's surveillance reports?

A Not directly.

Q Have you ever been the person that signed the transmittal letter?

A No.

Q Is it the company's position that adjustments other than those allowed in the last rate case are properly included in calculating earnings for 1999 under the stipulation?

A Yes.

Q Is there any reason why the company did not make adjustments for other than interest expense on tax deficiencies?

A I don't think there was any other adjustments that were necessary. The stipulation calls that all of the adjustments from the last rate case be included, but I don't think that's the end all of the adjustments. Obviously the Commission has made many other adjustments over the years in the deferred revenues including the OUC, Orlando Utilities Commission transmission line, as well as putting, placing the deferred revenues in the capital structure, as well as capping the company's equity ratio to 58.7 percent. And all of those types of adjustments represent adjustments that were not in the company's last rate case.

MR. HOWE: If I can have just a moment, I think we might be there.

(Brief pause.)

MR. HOWE: I think I'm done. Thank

you very much, Ms. Bacon.

THE WITNESS: You are welcome.

MR. ELIAS: Staff won't have any questions here, but we may have cross questions at the hearing. Our silence here should not in any way, shape or manner be asserted or construed as a waiver of our right to cross-examine the witness at the hearing.

MR. HART: I have no questions.

She'll read.

(Deposition concluded at 2:50 p.m.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA:

COUNTY OF LEON:

I, ANITA M. PEKEROL, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 1 through 146 are a true and correct record of the aforesaid proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

DATED THIS 8th day of August, 2001.

ANITA M. PEKEROL, CCR, RPR, CP, CM
100 Salem Court
Tallahassee, Florida 32301
850-878-2221

CERTIFICATE OF ADMINISTERING OATH

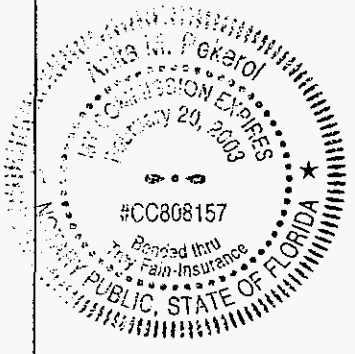
STATE OF FLORIDA:

COUNTY OF LEON:

I, ANITA M. PEKEROL, Registered Professional Reporter and Notary Public in and for the State of Florida at Large:

DO HEREBY CERTIFY that on the date and place indicated on the title page of this transcript, an oath was duly administered by me to the designated witness(s) before testimony was taken.

DATED THIS 8th day of August, 2001.



ANITA M. PEKEROL, CCR, RPR, CP, CM
100 Salem Court
Tallahassee, Florida 32301
850-878-2221

My Commission Expires: February 20, 2003.

8-2-01 ERRATA SHEET

I have read the transcript of my deposition, pages 1 through 148, and hereby subscribe to same, including any corrections and/or amendments listed below.

_____ _____

DATE: (DELAINE M. BACON)

(In re: Determination of regulated earnings of Tampa Electric Company, etc.)

Page/Line	

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

December 9, 1992

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF ELECTRIC AND GAS (Ballinger, Floyd, Berg, Dudley, Colson, Futrell, Haff, Kummer, McLean, Meeter, Shea, Shiner, Taylor, Wheeler)
DIVISION OF AUDITING AND FINANCIAL ANALYSIS (J. Bass, Lee, Lester, Merta, Moody, Neil, Revell, C. Romig, L. Romig, Slemkewicz, Stallcup, Brand, Reeves)
DIVISION OF LEGAL SERVICES (Palecki, Christ, Canzano, Elias)

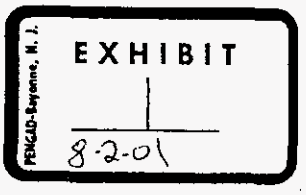
RE : DOCKET NO. 920324-EI, TAMPA ELECTRIC COMPANY
PETITION FOR A RATE INCREASE

AGENDA : DECEMBER 15, 1992 SPECIAL AGENDA - REVENUE REQUIREMENTS
CONTROVERSIAL - PARTIES MAY NOT PARTICIPATE

PANEL : COMMISSIONERS EASLEY, DEASON AND LAUREDO

CRITICAL DATE: 8-MONTH EFFECTIVE DATE: JANUARY 22, 1993

This is the Staff Recommendation on permanent rates in this rate proceeding.



DOCKET 920324-EI
December 9, 1992

TABLE OF CONTENTS

TEST PERIOD

ISSUE 1: Is Tampa Electric Company's request for a step increase based on a subsequent test period of calendar year 1994 appropriate? (Merta) 1

ISSUE 2: Are Tampa Electric's forecasts of Customers and KWH by Revenue Class, and Retail and System KW for the 1993 projected test year and the 1994 subsequent test year reasonable? (Stallcup) . 3

RATE BASE

ISSUE 3: Is the use of a simple average the appropriate methodology for computing the 1994 rate base? (Revell) 5

ISSUE 4: Is the inclusion of the Hookers Point generating plant in rate base for 1993 appropriate? (Haff, Revell, Bass) 8

ISSUE 5: Should Plant in Service, Accumulated Depreciation, and Depreciation Expense be reduced in the 1993 Projected Test Year and the 1994 Subsequent Test Year due to the over accrual of AFUDC on Work Order K23? (Revell, J. Bass) 12

ISSUE 6: Is Tampa Electric in compliance with Rule 25-6.0141(1)(e), segregating eligible and ineligible AFUDC projects in Account 107? (Revell, J. Bass) 13

ISSUE 7: Are any adjustments to rate base related to the Dravo-Wellman bucket unloader contract appropriate for any test year? (Reeves, Moody, Dudley) 15

ISSUE 8: Should an adjustment be made to any test year for planning and pre-engineering expenses incurred at Big Bend 4 due to scope changes? (Revell, J. Bass, Futrell) 17

ISSUE 9: Should an adjustment be made to any test year for Architect/Engineering Expenses incurred at Big Bend 4 due to poor vendor performance? (Revell, J. Bass, Futrell) 19

ISSUE 10: Is the acquisition and inclusion of the generating system and associated transmission facilities of the Sebring Utilities Commission in rate base for the 1993 projected test year and the 1994 subsequent test year appropriate? (Futrell, Reeves, Lee) 20

ISSUE 11: What is the appropriate rate base accounting treatment for Tampa Electric's acquisition of the electric generation system and associated transmission facilities of Sebring Utilities? (Reeves, Lee) 22

ISSUE 12: Is Tampa Electric's requested level of Plant in Service in the amount of $2,488,652,000 ($2,629,733,000 system) for the 1993 projected test year and $2,625,595,000 ($2,774,444,000 system) for the 1994 subsequent test year appropriate? (Reeves, Merta, Ballinger) . . . 24

ISSUE 13: Has Tampa Electric properly calculated the effects of including CWIP in rate base on its financial integrity? (Neil, Reeves) 28

ISSUE 14: Is Tampa Electric's requested level of Construction Work in Progress in the amount of $89,609,000 ($90,257,000 system) for the 1993 projected test year and $213,831,000 ($215,377,000 system) for the 1994 subsequent test year appropriate? (Reeves, Neil) 31

ISSUE 15: Is Tampa Electric's requested level of Plant Held for Future Use for the Gannon Coal Yard land in the amount of $35,515 ($36,429 system) for the 1993 projected test year and $35,515 ($36,429 system) for the 1994 subsequent test year appropriate? (Haff, Reeves, Bass) 35

ISSUE 16: Is Tampa Electric's requested level of Plant Held for Future Use for the Port Manatee Plant Site in the amount of $4,750,000 ($5,094,000 system) for the 1993 projected test year and $4,822,000 ($5,172,000 system) for the 1994 subsequent test year appropriate? (Haff, Reeves) 37

ISSUE 17: Should Rate Base be reduced in the 1993 Projected Test Year and the 1994 Subsequent Test Year due to the reclassification of three substation sites to non-utility? (Revell, Moody, McLean) 39

ISSUE 18: Is Tampa Electric's requested level of Plant Held for Future Use in the amount of $50,105,000 ($51,834,000 System) for the 1993 projected test year and $62,036,000 ($64,177,000 system) for the 1994 subsequent test year appropriate? (Haff, McLean) 40

ISSUE 19: Should the 1993 and 1994 working capital allowance be adjusted to remove the effect of tax refunds due from the Internal Revenue Service? (C. Romig) 43

ISSUE 20: Is Tampa Electric's requested level of cash included in Working Capital in the amount of $7,117,000 ($7,292,000 system) in the 1993 and 1994 test years appropriate? (Revell) 45

ISSUE 21: Should unamortized rate case expense be included in Working Capital? (Merta, Brand) . . 47

ISSUE 22: Has Tampa Electric Company properly reflected the net overrecoveries or net underrecoveries of fuel and conservation expenses in its calculation of working capital? (Merta, Brand) 49

ISSUE 23: Should Working Capital be reduced for costs associated with renegotiating the Ziegler Coal contract? (Revell, Dudley) 51

ISSUE 24: Should common stock dividends payable be included as a current liability in the Working Capital computation? (Reeves, Neil) 52

ISSUE 25: Should an adjustment be made to Working Capital associated with the Success Sharing Plan? (Revell) 54

ISSUE 26: Should an adjustment be made to Working Capital associated with Account 183, Preliminary Survey and Investigation? (Reeves, Haff) 56

ISSUE 27: Should an adjustment be made to Working Capital associated with SFAS 106? (Lester, Reeves) . . 58

ISSUE 28: Should adjustments be made for the Rate Base effects of transactions with affiliated companies? (Revell) 60

ISSUE 29: Are Tampa Electric's forecasted fuel prices included in fuel inventory for 1993 and 1994 reasonable? (Colson, Dudley) 63

ISSUE 30: Is Tampa Electric's requested level of heavy oil inventory in the amount of $1,748,880 ($1,800,000 system) for the 1993 projected test year and $1,923,768 ($1,980,000 system) for the 1994 subsequent test year appropriate? (Colson, Dudley) 65

ISSUE 31: Is Tampa Electric's requested level of light oil inventory in the amount of $1,535,128 ($1,580,000 system) for the 1993 projected test year and $1,696,414 ($1,746,000 system) for the 1994 subsequent test year appropriate? (Colson, Dudley) 69

ISSUE 32: Is Tampa Electric's requested level of coal inventory in the amount of $87,236,078 ($89,786,000 system) for the 1993 projected test year and $86,558,872 ($89,089,000 system) for the 1994 subsequent test year appropriate? (Colson, Dudley) 71

ISSUE 33: Is Tampa Electric's request for an additional 173,077 tons of coal inventory in 1993 at a cost of $8,799,781 ($9,057,000 system) and an additional 180,000 tons of coal inventory in 1994 at a cost of $9,209,796 ($9,479,000 system) for test burns to comply with the Clean Air Act appropriate? (Colson, Dudley) 74

ISSUE 34: Is Tampa Electric's requested level of Working Capital in the amount of $156,635,000 ($161,153,000 system) for the 1993 projected test year and $168,207,000 ($173,061,000 system) for the 1994 subsequent test year appropriate? (Reeves) 77

ISSUE 35: What adjustment should be made to the test year depreciation reserve to reflect the depreciation rates approved by the Commission in Docket No. 920618-EI? (Bass) 78

ISSUE 36: Is Tampa Electric's requested level of Accumulated Depreciation in the amount of $916,214,000 ($962,762,000 system) for the 1993 Projected Test Year and $996,699,000 ($1,047,338,000 system) for the 1994 Subsequent Test Year appropriate? (Revell, J. Bass) . . . 80

ISSUE 37: Is Tampa Electric's requested Rate Base of $1,868,787,000 ($1,970,215,000 system) for the 1993 Projected Test Year and $2,071,954,000 ($2,178,682,000 system) for the 1994 Subsequent Test Year appropriate? (Revell, J. Bass) . . . 81

COST OF CAPITAL

ISSUE 38: What is the appropriate cost of short-term debt and long-term debt for the 1993 and 1994 test years? (Neil) 83

ISSUE 39: What is the appropriate cost of common equity capital for Tampa Electric? (Neil) 85

ISSUE 40: What is the appropriate capital structure treatment of the Gannon conversion assets being recovered through the oil backout clause? (Neil, Salak) 98

ISSUE 41: Is Tampa Electric's requested balance of Accumulated Deferred Investment Tax Credits in the amount of $395,000 at zero cost rate for the 1993 projected test year and $248,000 for the 1994 subsequent test year appropriate? (C. Romig) 100

ISSUE 42: Is Tampa Electric's requested balance of Accumulated Deferred Investment Tax Credits in the amount of $64,868,000 at a cost rate of 11.17% for the 1993 projected test year and $59,988,000 at a cost rate of 11.21% for the 1994 subsequent test year appropriate? (C. Romig) 102

ISSUE 43: Is Tampa Electric's requested balance of Accumulated Deferred Taxes in the amount of $295,258,000 for the 1993 projected test year and $296,905,000 for the 1994 subsequent test year appropriate? (C. Romig) 104

ISSUE 44: Is Tampa Electric's treatment of FAS 109, Accounting for Income Taxes, appropriate? (C. Romig) 106

ISSUE 45: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure for the 1993 and 1994 test years? (Neil) 108

NET OPERATING INCOME

ISSUE 46: Are the company's estimated revenues for sales of electricity based upon reasonable estimates of customers, KW, and KWH billing determinants by rate class? (Berg) 111

ISSUE 47: Are adjustments removing $407,074,000 ($412,686,000 system) in fuel revenues for 1993 and $440,078,000 ($452,211,000 system) for 1994 and the related expenses recoverable through the Fuel Adjustment Clause appropriate? (L. Romig, Ballinger) 113

ISSUE 48: Are adjustments removing $18,195,000 ($18,195,000 system) in conservation revenues for 1993 and $18,774,000 ($18,774,000 system) for 1994 and the related expenses recoverable through the Conservation Cost Recovery Clause appropriate? (L. Romig) 114

ISSUE 49: Is Tampa Electric's requested level of Total Operating Revenues in the amount of $548,162,000 ($571,600,000 system) for the 1993 projected test year and $612,747,000 ($636,234,000 system) for the 1994 subsequent test year appropriate? (Merta) 115

ISSUE 50: Should an adjustment be made to Tampa Electric's advertising expenses to be allowed in the 1993 projected and the 1994 subsequent test years? (Brand) 117

ISSUE 51: Are Tampa Electric's requested Industry Association Dues in the amount of $3,703,385 ($3,802,465 system) for the 1993 projected test year and $3,855,220 ($3,958,364 system) for the 1994 subsequent test year appropriate? (McLean, Brand) 120

ISSUE 52: Should an adjustment be made to Tampa Electric's Outside Services expense to be allowed for the 1993 projected and the 1994 subsequent test years? (Brand) 123

ISSUE 53: Should an adjustment be made to Tampa Electric's Miscellaneous General Expenses for the 1993 projected and the 1994 subsequent test years? (Brand) 124

ISSUE 54: Is Tampa Electric's requested O&M expense level of Salaries and Employee Benefits in the amount of $92,606,000 ($94,873,000 system) and $23,912,000 ($24,553,000 system) for the 1993 projected test year and $97,601,000 ($99,991,000 system) and $25,762,000 ($26,452,000 system) for the 1994 subsequent test year appropriate? (Revell) 125

ISSUE 55: Should an adjustment be made to the number of employees budgeted by Tampa Electric for 1993 and 1994? (Revell) 127

ISSUE 56: Is Tampa Electric's 1993 and 1994 projected accrual for Injuries and Damages appropriate? (L. Romig) 131

ISSUE 57: Is Tampa Electric's requested level of costs associated with its Success Sharing Program in the amounts of $5,487,000 ($8,763,000 system) for the projected 1993 test year and the 1994 subsequent test year appropriate? (Revell) . . 133

ISSUE 58: Should an adjustment be made to Other Fringe Benefits in Account 926 for the 1993 projected test year or for the 1994 subsequent test year? (Revell) 138

ISSUE 59: Should an adjustment be made to the level of expenditures Tampa Electric has budgeted for the Supplemental Executive Retirement Program in 1993 and 1994? (Revell) 139

ISSUE 60: Should the 1993 projected test year or the 1994 subsequent test year be adjusted for any non-recurring expenses? (Revell) 141

ISSUE 61: Should the Commission approve Tampa Electric's request to move from a cash basis to an accrual basis when accounting for post-retirement benefits other than pensions (OPEB) for ratemaking purposes? (Lester) 142

ISSUE 62: Is Tampa Electric's requested level of Other Post Employment Benefits cost in the amount of $6,545,000 ($6,749,000 system) for the 1993 projected test year and $6,995,000 ($7,213,000 system) for the 1994 subsequent test year appropriate? (Lester) 146

ISSUE 63: Is Tampa Electric's requested level of Pension Expense in the amount of $2,608,000 ($2,678,000 system) for the 1993 projected test year and $2,778,000 ($2,852,000 system) for the 1994 subsequent test year appropriate? (Salak) . . . 148

ISSUE 64: Is Tampa Electric's requested Rate Case Expense in the amount of $1,438,000 appropriate? (Merta, Brand) 149

ISSUE 65: What is the appropriate net operating income accounting treatment for Tampa Electric's acquisition of the electric generation system and associated transmission facilities of Sebring Utilities? (Reeves, Lee, Futrell) . . . 151

ISSUE 66: Should adjustments be made for the NOI effects of transactions with affiliated companies? (Revell) 152

ISSUE 67: What are the appropriate Consumer Price Index factors to use in determining test year expenses? (Haff, Stallcup) 153

ISSUE 68: Is Tampa Electric's requested level of Total Fossil Production O&M expenses in the amount of $78,663,000 ($81,614,000 System) for the 1993 projected test year and $81,841,000 ($84,910,000 system) for the 1994 subsequent test year appropriate? (Haff) 155

ISSUE 69: Is Tampa Electric's requested level of Fossil Production O&M expense in the amount of $7,897,627 ($8,198,981 system) associated with the Hookers Point generating plant for the 1993 and 1994 test years appropriate? (Haff) 157

ISSUE 70: Is Tampa Electric's requested level of Transmission O&M expenses in the amount of $7,486,000 ($7,644,000 System) for the 1993 projected test year and $7,971,000 ($8,139,000 system) for the 1994 subsequent test year appropriate? (Haff) 158

ISSUE 71: Is Tampa Electric's requested level of Distribution O&M expenses in the amount of $28,279,000 ($28,284,000 System) for the 1993 projected test year and $30,117,000 ($30,122,000 system) for the 1994 subsequent test year appropriate? (Haff, Colson) 160

ISSUE 72: Should Miscellaneous Prepaid Items (Account 165.50) be reduced for prepaid pensions? (Salak) 162

ISSUE 73: Is Tampa Electric's requested level of distribution expense in the amount of $6,257,305 ($6,257,305 system) associated with tree trimming expense for the 1993 and 1994 test years appropriate? (Brand, Colson) 164

ISSUE 74: Is Tampa Electric's requested level of Customer Accounts Expense in the amount of $19,050,000 ($19,053,000 system) for the 1993 projected test year and $20,289,000 ($20,292,000 system) for the 1994 subsequent test year appropriate? (L. Romig) 167

ISSUE 75: Is Tampa Electric's requested level of Customer Service Expense in the amount of $2,923,000 ($2,923,000 system) for the 1993 projected test year and $3,112,000 ($3,112,000 system) for the 1994 subsequent test year appropriate? (Brand) 169

ISSUE 76: Is Tampa Electric's requested level of Sales Expense in the amount of $280,000 ($280,000 system) for the 1993 projected test year and $298,000 ($298,000 system) for the 1994 subsequent test year appropriate? (Brand) . . . 170

ISSUE 77: Is Tampa Electric's requested level of Administrative and General Expense in the amount of $73,407,000 ($75,372,000 system) for the 1993 projected test year and $77,544,000 ($79,646,000 system) for the 1994 subsequent test year appropriate? (L. Romig) 171

ISSUE 78: What adjustments should be made to test year depreciation expense to reflect the depreciation rates approved by the Commission in Docket No. 920618-EI? (J. Bass) 172

ISSUE 79: Is Tampa Electric's requested level of Operation and Maintenance Expense in the amount of $217,355,000 ($222,686,000 system) for the 1993 projected test year and $228,732,000 ($234,340,000 system) for the 1994 subsequent test year appropriate? (Merta) 173

ISSUE 80: Is Tampa Electric's depreciation expense for 1993 and 1994 associated with the acquisition of Sebring Utilities Commission's electric generation system and associated transmission facilities appropriate? (Moody) 175

ISSUE 81: Are adjustments to Depreciation Expense related to the Dravo-Wellman bucket unloader contract appropriate for any test year? (Reeves, Moody) 176

ISSUE 82: Should requested levels of O&M expenses below the Commission established benchmark be subject to a test of prudence? (Haff, Revell) 177

ISSUE 83: Is Tampa Electric's requested Depreciation Expense of $102,642,000 ($107,168,000 system) for the 1993 projected test year and $107,980,000 ($112,740,000 system) for the 1994 subsequent test year appropriate? (Moody) . . . 179

ISSUE 84: Is Tampa Electric's requested level of Taxes Other Than Income Taxes in the amount of $39,762,000 ($41,662,000 system) for the 1993 projected test year and $41,960,000 ($43,965,000 system) for the 1994 subsequent test year appropriate? (C. Romig) 180

ISSUE 85: Should an adjustment be made to the level of interest synchronization budgeted by Tampa Electric in 1993 and 1994? (C. Romig) 182

ISSUE 86: Is Tampa Electric's requested Income Tax expense in the amount of $47,028,000 ($50,097,000 system) for the 1993 projected test year and $60,619,000 ($63,389,000 system) for the 1994 subsequent test year appropriate? (C. Romig) 184

ISSUE 87: Is Tampa Electric's requested Net Operating Income of $141,416,000 ($150,030,000 system) for the 1993 projected test year and $173,465,000 ($181,809,000 system) for the 1994 subsequent test year appropriate? (Merta) . . . 186

REVENUE REQUIREMENTS

ISSUE 88: Are Tampa Electric's proposed revenue expansion factors appropriate? (Revell, C. Romig) 188

ISSUE 89: Were settlement charges in the amount of $850,000 by Utley-James/Oakes on contract BB4-04 appropriate? (Revell, Futrell) 189

ISSUE 90: Has Tampa Electric demonstrated that capacity associated with the Hardee Power Station is needed for its retail ratepayers in 1993 and 1994? (Shine) 191

ISSUE 91: TECO has requested that the capacity costs associated with the purchase of power from the Hardee Power Station be flowed through the new Capacity Cost Recovery Factor. Is this treatment appropriate? (Shine, C. Romig) . . . 193

ISSUE 92: Has TECO demonstrated that the amount of capacity charges for the Hardee Power Station it proposes to collect through the Capacity Cost Recovery Factor are appropriate? (Shine, C. Romig) 195

ISSUE 93: TECO has requested that the fuel and O&M costs associated with the purchase of power from the Hardee Power Station be flowed through the Fuel Adjustment Clause. Is this treatment appropriate? (Shine) 196

ISSUE 94: Should Tampa Electric receive a reward/penalty for corporate performance in the areas of residential rates, customer service, and energy efficiency programs? (Jenkins/Trapp) 198

ISSUE 95: Is Tampa Electric's requested annual operating revenue increase of $63,494,000 for the 1993 projected test year and $34,392,000 for the 1994 subsequent test year appropriate? (Merta) 205

ISSUE 96: Is Tampa Electric operating within the intent of the Florida Energy Broker system when making off-system sales? (Meeter, Shine) 207

ISSUE 97: What is the appropriate treatment of revenues associated with off-system sales? (Shine) . . . 209

ISSUE 98: Should Tampa Electric be allowed to retain for stockholder use a percentage of the capacity revenue from off-system sales? (Shine) 213

ISSUE 99: Is it fair and appropriate to offer the Kissimmee Utility Authority, the Utilities Commission of the City of New Smyrna Beach, Reedy Creek Improvement District, the City of Wauchula and the Florida Municipal Power Association a rate based on the Big Bend Station plants whose costs are below the system average? (Meeter, Shine) 217

ISSUE 100: Are Tampa Electric's separation of amounts for wholesale and retail jurisdictions appropriate? (Meeter, Shine) 219

COST OF SERVICE AND RATE DESIGN

ISSUE 101: Should the interruptible service rate classes be treated in the cost of service study based on the class' load characteristics and be provided a credit based on the avoided cost? (Shine, Meeter) 221

ISSUE 102: Should TECO's demand side management rates, including interruptible and curtailable services, be made available without restrictions, to customers with a demand of 250 KW? (Kummer) 222

ISSUE 103: Should the existing closure and waiting list procedure associated with TECO's interruptible rates be eliminated? (Kummer, Shine) 223

ISSUE 104: Are TECO's proposed interruptible rates cost effective within the meaning of Rule 25-6.0438, Florida Administrative Code? (Shine, Kummer) . . 224

ISSUE 105: What is the appropriate cost of service methodology to be used in designing the rates of Tampa Electric? (Meeter) 226

ISSUE 106: Should the rate base for environmental investment, including the pollution control equipment, for Big Bend 4, be classified as energy related? (Meeter) 227

ISSUE 107: Should lower load factor GSD customers have the option of paying an energy charge which is 120 percent of the GS energy charge in lieu of the GSD demand and energy charges as the company has proposed? (Wheeler) 228

ISSUE 108: What is the appropriate level of credit per coincident KW for interruptible service (IS-1 and IS-3)? (Shine, Kummer) 229

ISSUE 109: Should the credits for interruptible service be distributed to IS customers on the basis of billing KW? If so, what is the appropriate level of credit per billing KW? (Meeter) . . . 230

ISSUE 110: How should the credits for interruptible service be recovered from ratepayers? (Ballinger, Kummer) 231

ISSUE 111: Is Tampa Electric's proposal to state the power factor as a range of 85% to 90%, with a penalty for a power factor below 85% and a credit for a power factor above 90% appropriate? (Kummer) . . 232

ISSUE 112: What is the appropriate credit and penalty applicable as a result of the power factor clause? (Kummer) 233

ISSUE 113: Should the power factor be stated as the average power factor for the billing period or as the customer's power factor only during its peak demand period? (Kummer) 234

ISSUE 114: What is the appropriate transformer discount? (Berg) 235

ISSUE 115: Are Tampa Electric's proposed changes in the Tariff Agreements for the purchase of firm and interruptible standby and supplemental service appropriate? (Meeter) 236

ISSUE 116: What are the appropriate level of charges for 1993 and 1994 for the Firm Standby rate schedule? (Meeter) 237

ISSUE 117: What are the appropriate level of charges for 1993 and 1994 for the Interruptible Standby rate schedule? (Meeter) 239

ISSUE 118: Should the power factor clause apply to the standby portion as well as the supplemental portion of a standby service customer's load? (Kummer, Meeter) 241

ISSUE 119: What are the appropriate customer charges for 1993 and 1994? (Berg) 242

ISSUE 120: What are the appropriate service charges for 1993 and 1994? (Berg) 244

ISSUE 121: What is the appropriate time of use rate design? (Kummer) 245

ISSUE 122: What are the appropriate lighting rate schedule charges for 1993 and 1994? (Wheeler) 247

ISSUE 123: Should the Street Lighting (SL-1) and Outdoor Lighting (OL-2 and OL-3) rate schedules include a provision which requires replacement of company-owned lamps within 72 hours after the customer notifies Tampa Electric Company the lamp is burned out? (Wheeler) 249

ISSUE 124: What is the appropriate level of the Emergency Relay Power Supply Charge on the general service demand, interruptible and standby and supplemental service rate schedules? (Berg) . . 250

ISSUE 125: What is the correct method to determine the amount of CIAC a customer is required to contribute to receive Emergency Relay Power Supply? (Berg, C. Romig) 251

ISSUE 126: What is the correct method to determine the amount of CIAC a customer is required to contribute to purchase a Time-of-Day meter? (Berg, C. Romig) 252

OTHER

ISSUE 127: Should Tampa Electric be required to justify any instance in which it does not competitively bid contracts for Architect/Engineering services for power plant construction? (Futrell, Revell) 253

ISSUE 128: Should Tampa Electric implement revenue and sales decoupling? And, if so, how? (Ballinger) 255

ISSUE 129: Should Tampa Electric implement Demand Side Management incentives? And, if so, how? (Ballinger) 259

ISSUE 130: Is the development and use of an Integrated Resource Plan an essential element of Tampa Electric Company's providing reliable electric services at least cost? (Ballinger) 262

ISSUE 131: Should the Commission require Tampa Electric Company to employ Least Cost Integrated Resource Planning as the basis for resource acquisition and resource investment cost recovery in order to fix just, reasonable and compensatory rates pursuant to Section 366.041, F.S.? (Ballinger) 264

PREHEARING STIPULATION

ISSUE 132: Is Tampa Electric Company's request for permanent rate relief based on a projected test period of calendar year 1993 appropriate? (Merta) 265

ISSUE 133: Should the net overrecoveries or underrecoveries of fuel and conservation expenses be included in the calculation of Working Capital? (Merta, Brand) 266

ISSUE 134: What are the appropriate depreciation rates to be used for this proceeding? (J.Bass) 267

ISSUE 135: Is Tampa Electric's requested level of Bad Debt Expense in the amount of $2,041,000 ($2,041,000 system) for the 1993 projected test year and $2,174,000 ($2,174,000 system) for the 1994 subsequent test year appropriate? (L. Romig) . 268

ISSUE 136: Should Tampa Electric be required to file, within 60 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case? (Revell) 269

ISSUE 137: How should any increase in revenue for 1993 and 1994 be allocated among rate classes? (Kummer) 270

ISSUE 138: Is the method used by the utility for calculating the increase in unbilled revenues by rate class appropriate? (Berg) 271

ISSUE 139: Should sports fields taking service under the Sports Field Provision on the GS rate schedule pay an energy charge which is 120 percent of the GS energy charge? (Wheeler) 272

ISSUE 140: Should the Sports Field provision in Rate Schedule GS be eliminated if the low load factor provision is approved? (Wheeler) 273

ISSUE 141: Should the provisions on the General Service Nondemand (GS/GST) and General Service Demand (GSD/GSDT) rate schedules that provides for 90 days notice before transferring a customer whose demand has exceeded the maximum for the rate schedule to the GSD/GSDT or GSLD/GSLDT rate schedules be eliminated? (Wheeler) 274

ISSUE 142: Should the company's proposed revision of the definitions of some of the standby service billing determinants be approved? (Meeter) . . 275

ISSUE 143: Is it appropriate to eliminate the Street Lighting Service (SL-1) and Outdoor Lighting Service (OL-2) rate schedules? (Wheeler) . . . 276

SCHEDULES 277

PROPOSED FINDINGS OF FACT 339

CASE BACKGROUND

On May 22, 1992, Tampa Electric Company (TECO or the company or the utility) filed a Petition for an increase in its rates and charges and approval of a fair and reasonable rate of return. The petition seeks a permanent increase in TECO's rates and charges pursuant to Section 366.06, Florida Statutes. The petition cites the costs associated with building and maintaining an adequate and reliable production, transmission and distribution system; the cost of serving over 106,000 new customers expected to take service by 1993 as compared to 1984 (the test year in the company's last rate proceeding); and the effects of a 41% expected increase in inflation from year end 1984 to 1993 as factors creating the need for higher rates.

The increases requested total 63.5 million dollars in 1993 and a step increase in 1994 of 34.4 million dollars. The company seeks a Commission determination that a 13.75% return on equity and a 9.22% overall rate of return is fair and reasonable for Tampa Electric Company. Tampa Electric Company filed new tariff schedules reflecting the proposed increases. The company did not seek an interim increase.

By Order No. PSC-92-0596-FOF-EI issued July 1, 1992, the Commission voted to suspend the permanent increase pending review. A customer service hearing was held on October 7, 1992 in Tampa, Florida. The final hearing was held on October 12-17, 19 and 21-24, 1992.

The Legal Environmental Assistance Foundation (LEAF) and John Ryan, a party to this proceeding submitted twenty one Proposed Findings of Fact as well as a posthearing brief. Pursuant to Section 120.57, Florida Statutes, the Commission is required to make a ruling on each proposed finding of fact. Staff's recommendations on the Proposed Findings of Fact are consistent with the recommendations made on the substantive issues to which the proposed findings relate and are included in this recommendation.

There are two motions pending which require Commission action. LEAF filed a Motion to Strike the Florida Industrial Power Users Group's (FIPUG) post hearing brief in its entirety. FIPUG's respnose to that motion was just filed. A separate recommendation will be filed this date concerning that Motion. On December 3, 1992, the Office of Public Counsel filed a motion to Supplement the Record with the second supplemental audit report filed with the Division of Records and Reporting on November 17, 1992 by the Commission Staff. The other parties have until December 15, 1992

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

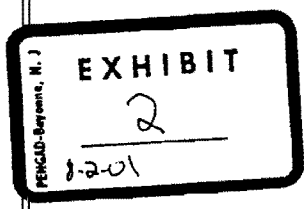
In The Matter of	:	DOCKET NO. 920324-EI
Application for a Rate Increase by TAMPA ELECTRIC COMPANY	:	

FIRST DAY - MORNING SESSION

VOLUME I

Page 1 through 213

PROCEEDINGS:	SPECIAL AGENDA CONFERENCE
BEFORE:	COMMISSIONER BETTY EASLEY COMMISSIONER TERRY DEASON COMMISSIONER LUIS J. LAUREDO
DATE:	Wednesday, December 16, 1992
TIME:	Commenced at 9:30 a.m. Concluded at 5:00 p.m.
LOCATION:	FPSC Hearing Room 122 101 East Gaines Street Tallahassee, Florida 32399
REPORTED BY:	JOY KELLY, CSR, RPR SYDNEY C. SILVA, CSR, RPR PAMELA A. CANELL Official Commission Reporters



DOCUMENT NUMBER-DATE
14674 DEC 18 92
FPSC-RECORDS/REPORTING

PARTICIPATING:

DAVID SMITH, FPSC, Division of Legal Services.

ROBERT W. ELIAS, FPSC, Division of Legal Services.

DONNA CANZANO, FPSC, Division of Legal Services.

JAY REVELL, FPSC, Division of Research and Regulatory Review.

HURD REEVES, FPSC, Division of Research and Regulatory Review.

MARGARET MEETER, FPSC, Division of Electric and Gas.

MARK FUTRELL, FPSC, Division of Electric and Gas.

DAVID SWAFFORD, Executive Director, FPSC.

WILLIAM TALBOTT, Deputy Executive Director-Technical, FPSC.

STEVE TRIBBLE, FPSC, Division of Records and Reporting.

KENNETH DUDLEY, FPSC Division of Electric and Gas.

TOM BALLINGER, FPSC Division of Electric and Gas.

PETE LESTER, FPSC Division of Auditing and Financial Analysis.

BETH SALAK, FPSC Division of Auditing and Financial Analysis.

CHRISTINE ROMIG, FPSC Division of Auditing and Financial Analysis.

RON NEIL, FPSC Division of Auditing and Financial Analysis.

I N D E X

	PAGE NO.
MOTIONS:	
LEAF's Motion to Strike FIPUG's Brief	4
Office of Public Counsel's Motion to Supplement the Record	6
ISSUES:	
Issue No. 1	9
Issue No. 2	9
Issue No. 3 - Tabled	10
Issue No. 100	11
Issue No. 4	11
Issue No. 5	12
Issue No. 6	12
Issue No. 7	12
Issue No. 8	12
Issue No. 9	12
Issue No. 89	13
Issue No. 10	13
Issue No. 11	14
Issue No. 12	14
Issue No. 15	21
Issue No. 16	21
Issue No. 17	21
Issue No. 18	23
Issue No. 19	23
Issue No. 20	23
Issue No. 21	24
Issue No. 22	24
Issue No. 23	25
Issue No. 24	25
Issue No. 57	26
Issue No. 25	27
Issue No. 26	27
Issue No. 28	28
Issue No. 29	33
Issue No. 29	42
Issue No. 30	43
Issue No. 31	43
Issue No. 32	43
Issue No. 33	44
Issue No. 35	60
Issue No. 3	61

Index Continued:

ISSUES:	PAGE NO.
Issue No. 36	62
Issue No. 46	63
Issue No. 47	63
Issue No. 48	64
Issue No. 49	64
Issue No. 50	64
Issue No. 51	64
Issue No. 52	66
Issue No. 53	66
Issue No. 54	67
Issue No. 55	67
Issue No. 56	67
Issue No. 58	67
Issue No. 59	67
Issue No. 60	68
Issue No. 64	68
Issue No. 65	68
Issue No. 66	68
Issue No. 67	68
Issue No. 68	69
Issue No. 69	70
Issue No. 70	71
Issue No. 71	71
Issue No. 73	71
Issue No. 74	72
Issue No. 75	72
Issue No. 76	72
Issue No. 77	72
Issue No. 78	73
Issue No. 79	73
Issue No. 80	74
Issue No. 81	74
Issue No. 82	74
Issue No. 83	74
Issue No. 84	75
Issue No. 86	75
Issue No. 88	77
Issue No. 90	77
Issue No. 91	77
Issue No. 92	77
Issue No. 93	77
Issue No. 94	77
Issue No. 96	83

Index Continued:

ISSUE:

Issue No. 97	93
Issue No. 98	131
Issue No. 99	131
Issue Nos. 132, 134, 136, 137, 138, 139, 140, 141, 142, 143, 133, 135 (Stipulated)	138
Issue No. 127	138
Issue No. 128	139
Issue No. 129	140
Issue No. 130	140
Issue No. 131	141
Issue No. 72	141
Issue No. 63	142
Issue No. 61	142
Issue No. 62	142
Issue No. 27	143
Issue No. 34	143
Issue No. 38	144
Issue No. 39	145
Issue No. 40	146
Issue No. 41	158
Issue No. 42	158
Issue No. 43	162
Issue No. 44	165
Issue No. 45	165
Issue No. 85	165
Issue No. 87	166
Issue No. 13	194
Issue No. 14	195
Issue No. 37	205
Issue No. 95	205
Issue No. 45	207

16

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

M E M O R A N D U M

March 25, 1993

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF LEGAL SERVICES [ELIAS, CANZANO] RVE JC MM
DIVISION OF ELECTRIC AND GAS [TRAPP, KUMMER, MEETER, SHINE] RES AH
DIVISION OF AUDIT AND FINANCIAL ANALYSIS [REVELL, SALAK, NEIL] RN SR DM JDJ

RE : DOCKET NO. - 920324-EI- TAMPA ELECTRIC COMPANY - APPLICATION FOR A RATE INCREASE BY TAMPA ELECTRIC COMPANY

AGENDA: 04/06/93 - CONTROVERSIAL - PARTIES MAY NOT PARTICIPATE

CRITICAL DATES: 12-MONTH EFFECTIVE DATE: 05/22/93

PANEL: DEASON, LAUREDO

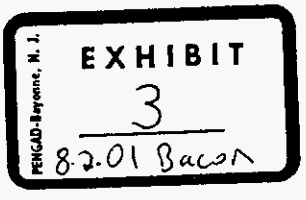
SPECIAL INSTRUCTIONS: 920324RC.RCM

CASE BACKGROUND

By Petition filed May 22, 1992, Tampa Electric Company (TECO or the company) requested an annual increase of 49.7 million dollars in 1993 and a step increase of 33.5 million dollars to be effective January 1, 1994. On January 4, 1993 the Commission established the 1993 rates based on the $1,163,000 increase approved at the December 16, 1992 special agenda conference. The Final Order reflecting these rates (Order No. PSC-93-0165-FOF-EI) was issued on February 2, 1993. No party requested reconsideration of that Order. Staff has learned of possible errors in the calculation of the appropriate amounts of Construction Work in Progress (CWIP) and off-system sales O&M revenue used to determine the 1994 revenue requirement. The net effect of these two proposed corrections is a reduction of the 1994 revenue requirement by $1,456,000. A Commission vote on these two proposed corrections is necessary before the company can file a cost of service study to be used to establish the appropriate 1994 rates.

Staff is also recommending amendments to the discussion in Order No. PSC-93-0165-FOF-EI of the Commission's decision to establish an interim shareholder incentive for off system sales of excess capacity. These changes are proposed to clarify the incentive established by the Commission.

DOCUMENT NUMBER-DATE
03278 MAR25 93



DISCUSSION OF ISSUES

ISSUE 1: Should the Commission reconsider upon it own motion the amount of CWIP allowed in the 1994 rate base authorized in Order No. PSC-93-0165-FOF-EI?

RECOMMENDATION: Yes. The Commission's decision establishing the amount of CWIP allowed in the 1994 rate base should be reconsidered. The amount of CWIP in 1994 should be increased by $6,947,000 to maintain a 3.75 times interest coverage.

STAFF ANALYSIS: At the December 16, 1992 Agenda Conference, staff recommended to the Commission an amount of CWIP that would correspond to a 3.75 times interest coverage ratio in 1994 for Tampa Electric Company. On January 12, 1993, the company filed a letter (with copies to all parties) stating that the staff possibly made a mathematical error when computing the 3.75 times interest coverage ratio.

The staff, when calculating the interest coverage estimate, failed to recognize the rate base impact of the Commission's coal inventory vote. (Issue 33) The Commission's decision to increase the amount of coal inventory allowed in rate base was not accounted for by staff when calculating the interest coverage ratio. Staff recommends that $5,859,000 of additional CWIP be allowed in rate base to compensate for the oversight. The recommended amount is less than the company estimated in its letter because staff used a more precise long-term debt rate in its calculation than did the company (7.806% vs. 7.81%).

In addition, the 1994 interest coverage calculation did not reflect the full amount of interest on the oil backout debt. In its letter to the Commission, the company recommended using a 1994 oil backout interest amount of $2,133,000. Based on the record, though, staff believes the correct amount of interest the Commission should consider is the $2,033,000 as outlined on page two of Hearing Exhibit No. 123. Applying this cost to the interest coverage calculation increases the amount of CWIP recommended in 1994 by $1,088,000.

Staff recommends that the Commission reconsider upon its own motion the amount of CWIP allowed in the 1994 rate base. Based on the information in the record, if no additional CWIP is allowed by the Commission, staff calculates that Tampa Electric will maintain a 3.733 times interest coverage ratio in 1994. To maintain a prescribed 3.75 times interest coverage, another $6,947,000 of CWIP should be allowed in rate base. The total amount of allowed CWIP in 1994 will increase from the $48,017,000 cited in Order No. PSC-93-0165-FOF-EI to $54,964,000. This balance represents $18,793,000

of short-term CWIP and $36,171,000 of CWIP subject to AFUDC. From January 1, 1994 until ordered by the Commission to modify or cease, the $36,171,000, which is earning a return from this proceeding, should offset CWIP balances that accrue AFUDC.

ISSUE 2: Should the Commission reconsider the amount of 1994 off-system sales O&M revenue allowed in the 1994 base rates authorized in Order No. PSC-93-0165-FOF-EI?

RECOMMENDATION: Yes. The Commission's decision establishing the amount of off-system sales O&M revenue for 1994 should be reduced from $3,888,000 jurisdictional to $1,349,000 jurisdictional for a difference of $2,539,000.

STAFF ANALYSIS: At the December 16, 1992 Agenda Conference, staff recommended the Commission exclude $3,888,000 of off-system sales O&M revenue for the 1994 test year as discussed in Issue 97 of the staff recommendation. On January 12, 1993 Tampa Electric filed a letter stating that the staff possibly made a mathematical error when computing the 1994 off-system O&M revenues.

Tampa Electric's original rate case request included off-system O&M revenues as a credit to base rates. In Issue 97, the Commission voted to accept staff's recommendation to remove these revenues from base rates and credit them to the Fuel and Purchase Power Clause because of their variability from year to year. When calculating the appropriate O&M revenues to move from base rates to the Fuel and Purchased Power Clause, staff relied on Late Filed Exhibit 106 requested by the Office of Public Counsel (OPC). This exhibit contained two scenarios; one scenario reflecting the sharing arrangement proposed by Tampa Electric, and a second scenario reflecting no sharing of non-separated off-system sales profits.

Late Filed Exhibit 106, Schedule C-10 Page 60, OPC's second scenario contained the $3,888,000 in off-system sales revenues, which included both off-system O&M revenues ($1,349,000) and capacity revenues ($2,539,000). Unfortunately, staff did not rely on the first scenario contained in Late Filed Exhibit 106 Schedule C-10 Page 27, which identified $1,349,000 of O&M revenues. In the instant recommendation, staff is only concerned with the proper treatment of the O&M revenues, as the Commission credited all capacity revenues not allocated to the wholesale customers (Schedule D sales) to the Fuel and Purchased Power Clause, Order No. PSC-93-0165-FOF-EI. Therefore, the correct amount of O&M revenues from off-system sales credited to the retail jurisdiction should have been $1,349,000, not $3,888,000.

The appropriate adjustment to remove the capacity revenues from the O&M revenues which are to be credited to the Fuel and Purchased Power Clause is as follows:

OFF SYSTEM SALES O&M REVENUES

Rate Case Issue 97 Recommendation	$3,888,000
Remove Capacity Revenues	$2,539,000
Correct Amount net of Capacity	$1,349,000

Staff recommends the Commission reconsider upon its own motion the retail jurisdictional amount of O&M revenues from off-system sales, and remove the capacity related component ($2,539,000) of off-system sales revenues. This adjustment results in $1,349,000 of O&M revenues credited to the Fuel and Purchased Power Clause for 1994.

ISSUE 3: Should the Commission amend Order No. PSC-93-0165-FOF-EI to clarify the incentive established for TECO's stockholders to maximize off-system sales of excess capacity?

RECOMMENDATION: Yes.

STAFF ANALYSIS: The discussion of the incentive for off-system sales begins at page 85 of the Order Granting Certain Increases. The proposed changes are intended to clarify the scope and duration of the incentive. This discussion as amended is shown below in legislative format (additions underlined, deletions stricken). Staff believes that the proposed changes are consistent with the Commission's intent in establishing the incentive and recommends that they be approved.

H. Appropriate Treatment Of Revenues Associated With Off-System Sales, Incentives

Staff recommended that all capacity revenues from off-system sales should be credited to the Capacity Cost Recovery Clause and that all off-system O&M revenues credited to the Purchased Power and Fuel Cost Recovery Clause. Staff proposed this treatment because of the variability of off-system revenues, which depend on the needs of Tampa Electric's neighboring utilities, the prevailing market conditions, and competing fuel prices. Uncertainty in projecting off-system revenues presents a problem when determining base rates in a rate case.

If in future years, actual revenues are greater than the forecasted amount included in base rate determination, the ratepayer are penalized and the company retains the excess revenues for its stockholders. The opposite is true if actual revenues are less than the forecasted amount benefiting the ratepayer. Since forecasting the revenue impact of future off system sales revenues is difficult because of the numerous assumptions contained in the forecast which may or may not prove accurate over time, staff recommended crediting off-system capacity revenues to the Capacity Cost Recovery Clause, and removing the projected off-system O&M revenues of $2.75 million in 1993 and $3.88 million in 1994 from base rate revenues and crediting these amounts to the Fuel Cost Recovery Clause.

Forecasting levels of off-system sales is far from an exact process. In his testimony, Tampa Electric's witness, Mr. Ramil, projects $11.9 million of nonfuel

revenues from off-system transactions in 1993 not including the Sebring and TECO Power Services sales. This is roughly half of the 8 month actual/4 month forecast amount of $23 million of nonfuel ~~off-system sales~~ revenues for the current year 1992. Tampa Electric will likely have the opportunity for additional off-system sales starting in 1993 when the Hardee Power Station capacity of 295 MW comes on-line.

The revenue effect of incorrectly forecasting off-system sales from year to year will be eliminated if the revenues are credited through the Capacity Cost Recovery and Fuel and Purchased Power Clauses. Our treatment eliminates the potential inaccuracy from forecasting the level of off-system sales to be included in the calculation of base rate revenues.

All revenues and expenses associated with the firm Schedule D sales (for the cities of New Smyrna Beach, St. Cloud and Wauchula, the Reedy Creek Improvement District and the Florida Municipal Power Association), and the City of Sebring and TECO Power Services contracts have been removed from the retail jurisdiction in the stipulated jurisdictional separation study.

Accordingly, we find that all nonfuel revenues from off-system sales not allocated to the wholesale jurisdictional shall be included as credits in the Capacity Cost Recovery and Fuel and Purchased Power Cost Recovery Clauses. The capacity revenues shall be credited to the Capacity Cost Recovery Clause with O&M revenues credited to the Fuel and Purchased Power Cost Recovery Clause. We remove projected O&M revenues from off-system sales of $2,750,000 jurisdictional in 1993 and $3,888,000 jurisdictional in 1994 from base rate revenues.

Tampa Electric has proposed a sharing of the benefits of certain off-system sales described in Mr. Ramil's testimony (modified in accordance with the revised jurisdictional separation), in order to preserve an incentive for engaging in off-system sales which was incorporated in Tampa Electric's last full rate proceeding in Docket No. 850050-EI. TECO claims that retention of this incentive will directly benefit Tampa Electric's retail Customers.

Tampa Electric proposes to retain 60 percent of the capacity revenues from off-system sales other than those in the wholesale jurisdiction for the benefit of their stockholders and flow the remaining 40 percent of these revenues through the Capacity Cost Recovery clause for the benefit of the ratepayers.

Staff recommended that the Commission reject Tampa Electric's proposed 60/40 stockholder/ratepayer sharing of off system sales capacity revenues as unnecessary. Staff suggested that a prudently managed utility would use its best efforts to market this capacity and energy irrespective of whether it receives an additional incentive for doing so.

If the Commission decides to explore incentives, staff recommended that this issue be investigated in a generic docket. At that time, the Commission can explore the issue of off-system sales incentives as well as penalties for low levels of off-system sales or continued high levels of surplus capacity. This proceeding would allow the Commission the opportunity to adopt a uniform approach for all companies if it determines that incentives and penalties are needed for levels of off-system sales of generating capacity.

We believe that a generic proceeding to consider this issue is appropriate. We direct staff to initiate a docket to investigate and consider stockholder incentives for off-system sales.

By our decision to credit the nonfuel revenues associated with off-system sales through the Capacity Cost and Fuel and Purchased Power cost recovery clauses, we have not maintained the status quo for Tampa Electric Company. In addition to the imputation of 37.1 million dollars of nonfuel revenue in the last rate case, in that case we established a sharing of the annual revenues in excess of that amount. The stockholders would have received 20% of the revenue above that level and the ratepayer 80%. Since the target level of off-system sales was never achieved, no sharing ever occurred.

We believe that incentives can be useful in maximizing the level of off-system sales. Maximizing off-system sales makes the best use of the available capacity and can help minimize rates. The time necessary to conduct and decide a generic proceeding to determine an appropriate, industry-wide policy is likely to yield

an effective date of October, 1993 at the earliest. This means that there will be less incentive for TECO to pursue off-system capacity sales and the carrying cost of any unused capacity will be paid by the ratepayer.

As an interim method to maximize the potential off-system revenues between the effective date of this Order and the decision in the generic proceeding, we establish the following incentive for Tampa Electric Company: We establish an $18 million dollar 1993 annual revenue target for nonfuel revenues from off-system sales of excess jurisdictional capacity. Below that level, all the revenues will be credited, as discussed, through the Capacity and Fuel and Purchased Power Cost Recovery Clauses. Above $18 million dollars; 80% of the nonfuel revenues shall be credited through Capacity and Fuel and Purchased Power Cost Recovery Clauses and 20% of the nonfuel revenues shall be retained by the shareholders. This incentive shall be in effect until the decision is reached in the generic docket. The $18 million dollar target shall exclude TECO's commitments to the Utilities Commission of the City of New Smyrna Beach, the Reedy Creek Improvement District, the City of Wauchula and the Florida Municipal Power Association (the previously identified Schedule D sales), the City of Sebring and TECO Power Services for 1993, and the City of St. Cloud in subsequent years.

ISSUE 4: Should the Commission order Tampa Electric Company to file a cost-of-service study reflecting the revised 1994 revenue requirement?

RECOMMENDATION: Yes. Tampa Electric Company should be directed to submit a 1994 compliance cost-of-service study within 10 days of the Order to be issued reflecting the Commission's vote on these matters.

STAFF ANALYSIS: Filing a compliance cost-of-service study is a necessary prerequisite to the calculation of the 1994 rates. The 1994 rates will be presented to the Commission at a subsequent agenda, after staff and parties have had the opportunity to review the company's cost study.

RVE/DLC:bmi

Form 4549-A

Name and Address of Taxpayer	S.S. or E.I. Number	Filing Status
TECO ENERGY, INC. AND AFFILIATED CORPORATIONS POST OFFICE BOX 111 TAMPA FL 33601-0111	59-2052286	Corporate
	Person With Whom Examination Changes Were Discussed	Name and Title DONALD A. MULLIGAN, VICE PRESIDENT - TAXES

		Year: 8912	Year: 9012	Year: 9112
1.	Adjustments to Income			
A.	Total Adjustments (See FORM 4549-B)	16,657,586.00	15,328,535.00	8,291,614.00
B.				
C.				
D.				
E.				
F.				
G.				
2.	Total Adjustments PAGE 4	16,657,586.00	15,328,535.00	8,291,614.00
3.	Adjusted Gross or Taxable Income Shown on Return or as Previously Adjusted	129,942,664.00	105,480,636.00	131,873,220.00
4.	Corrected Adjusted Gross or Taxable Income	146,600,250.00	120,809,171.00	140,164,834.00
5.	Tax PAGES 17-19	49,844,085.00	41,075,118.00	47,656,044.00
6.	Alternative Tax, If Applicable	0.00	0.00	0.00
7.	Corrected Tax Liability (Lesser of line 5 or 6)	49,844,085.00	41,075,118.00	47,656,044.00
8.	Less a.			
	Credits b. Total Credits (See attached schedule) PAGES 20-22	368,927.00	0.00	2,830,283.00
	(Specify) c.			
9.	Balance (Line 7 less total of lines 8a through 8c)	49,475,158.00	41,075,118.00	44,825,761.00
10.	a.			
	b. Other Taxes (See attached schedule) PAGES 25, 27, 29	357,508.00	8,412,803.00	268,555.00
	Plus c.			
11.	Total Corrected Income Tax Liability (Line 9 plus total of lines 10a through 10c)	49,832,666.00	49,487,921.00	45,094,316.00
12.	Total Tax Shown on Return or as Previously Adjusted PAGE 2	43,764,929.00	46,229,640.00	42,925,302.00
13.	Adjustment to: A. B.			
14.	Deficiency-Increase in Tax or (Overassessment-Decrease in Tax) (Line 11 adjusted by Line 12)	6,067,737.00	3,258,281.00	2,169,014.00
15.	Adjustments to Prepayment Credits	0.00	0.00	0.00
16.	Balance Due or (Overpayment) (Line 13 adjusted by Line 14) Not Including Interest	6,067,737.00	3,258,281.00	2,169,014.00
17.	Penalties, If Any (See explanation)	0.00	0.00	0.00

Other Information:

SEE ATTACHMENT FOR NOTICES AND OTHER INFORMATION

CORRECTED REPORT - THIS CORRECTED REPORT SUPERSEDES THE REPORT DATED 1/31/97 - SEE ATTACHED FOR ADDITIONAL INFORMATION

Examiner: Albert L. Kimbrough Jr.
A.L. KIMBROUGH, JR.

District: Jacksonville

Date: 02/24/97

Form CG-4549-A

PENCAD-Bayonne, N.J.
EXHIBIT
4
8-2-01 Bacon

10. For the years 1980 through 2000, provide all transactions, including all journal entries, recording income tax penalties or interest on income tax deficiencies on Tampa Electric Company's books.

A. See chart below. The specific journal entries for recording this tax deficiency interest are provided in response to OPC's request in Production of Document No. 1. There have been no penalties to record.

Years	Deferred Debt Interest	Interest Expense (Inc.)
1997	13,658,578	
1999	(9,484,317)	13,244,244
2000		9,872,069

pours 42

4563,984 ~~[illegible]~~ 631,421 pod 35 = 4288,992 — 9,484,317

9,369,586 — 4,288,992 — 13,658,578

89-91 MAR 97
89-91 MAY 97
86-88

EXHIBIT 5
8-2-01 Bacon

Booked 3/97

TECO ENERGY, INC. & SUBSIDIARIES
1989 - 1991 RAR's

filename: H:\electric\1989-90RAR's\taxsum2.wk3

1989	IRS AJE's	Tax Rate	Tax	Interest	Tampa Electric Tax	Tampa Electric Interest
TECO ENERGY, INC.	(697,154)	0.34	(237,032)	(2,648)		
cap. loss CB incl. in adj.			233,843			
TECO Investments	1,044,091	0.34	354,991	294,690		
Tampa Electric Company	14,486,971	0.34	4,925,570	4,221,470	4,925,570	4,221,470
ITC/Research credit disallow.			159,724		159,724	
Gatliff Coal Company	(1,054)	0.34	(358)	(297)		
Electro-Coal Transfer Co.	1,195,735	0.34	406,550	337,490		
Gulfcoast Transit Co.	1,311,364	0.34	445,864	370,126		
Mid-South Towing Co.	(682,367)	0.34	(232,005)	(192,595)		
TECO Power Services, Inc.	0	0.34	0	0		
	16,657,556		6,057,146	5,028,237		
Environmental Tax			10,591			
Capital loss carryback						
less Credits disallowed:						
subtotal adjustments			6,067,737			
per schedule			6,067,737			
Difference			0			

EXHIBIT
6
8-2-01 Bacon
PENGAD-Bayonne, N. J.

1990	IRS AJE's	Tax Rate	Tax	Interest		
TECO ENERGY, INC.	(2,635,478)	0.34	(964,063)	(1,882,265)		
cap. loss CB incl. in adj.			341,217			
reduction in AMT			(2,312,386)			
TECO Investments	1,787,338	0.34	607,695	389,694		
Tampa Electric Company	17,875,349	0.34	6,077,619	3,897,371	6,077,619	3,897,371
Gatliff Coal Company	22,722	0.34	7,725	4,954		
Electro-Coal Transfer Co.	(279)	0.34	(95)	(61)		
Gulfcoast Transit Co.	(660,911)	0.34	(224,710)	(144,099)		
Mid-South Towing Co.	(15,958)	0.34	(5,429)	(3,482)		
TECO Power Services, Inc.	(844,238)	0.34	(287,041)	(184,070)		
	15,328,535		3,240,533	2,078,044		
Environmental tax			17,748			
Cap loss carryback						
Reduction in AMT						
Subtotal Adjustments			3,258,281			
per schedule			3,258,281			
Difference			(0)			

89-91
Allocation

1991	IRS AJE's	Tax Rate	Tax	Interest		
TECO ENERGY, INC.	(1,624,197)	0.34	(552,227)	(594,836)		
cap. loss CB Incl. in adj.			235,369			
additional Sec. 29 allowed			(897,355)			
TECO Investments	2,109,073	0.34	717,085	351,296		
Tampa Electric Company	7,509,099	0.34	2,553,094	1,250,745	2,553,094	1,250,745
Gatliff Coal Company	0	0.34	0	0		
Electro-Coal Transfer Co.	2,640	0.34	898	440		
Gulfcoast Transit Co.	316,067	0.34	107,463	52,645		
Mid-South Towing Co.	(21,068)	0.34	(7,163)	(3,509)		
TECO Power Services, Inc.	0	0.34	0	0		
	8,291,614		2,157,163	1,056,781		
Environmental tax			11,851			
Cap loss carryback						
Addn Sec. 29						
subtotal adjustments			2,169,014			
per schedule			2,169,014			
Difference			(0)			

March 97

① Electric should be $155 Y$ - and above not include R+D disallowance

Energy (30% Electric $158

will be

3 Year Total				51 495,032	8,163,062	13,716,007	9,369,586

19,638,094

23,085,593 (incl interest)

TECO ENERGY

JOURNAL ENTRY

MONTH OF	SOURCE	JOURNAL ENTRY NO.
March 19 97	79	

EXPLANATION:

ACCOUNT TITLE	ACCOUNT NO. ORIG LOC	ACCOUNT MAJOR	ACCOUNT SUB	RES	REN LOC	DEBIT	CREDIT
Accts Rec. - Tampa Electric Co.	099	646	01	99	713	23,085,593	
Deferred Debit - Unallocated FIT	099	647	13	99	099		13,716,007 ✓
DP Deferred Debit - Interest	099	649	12	99	099		9,369,586 ✓
52							
TOTAL DEBITS/CREDITS						23,085,593	23,085,593

ABBREVIATED DESCRIPTION (Block Print): ALLOCATE TAX, INT 89-91 RAR

TITLE OF ENTRY: To Allocate FIT And INT TO ELECTRIC FOR 89-91 RAR

PREPARED BY | DATE | CHECKED BY | APPROVED BY | CARD PUNCHED BY

TAMPA ELECTRIC
A TECO ENERGY COMPANY

JOURNAL ENTRY

MONTH OF	SOURCE	JOURNAL ENTRY NO
March 1997	71	90341

ACCOUNT TITLE	ACCOUNT NO. ORIG	MAN	SUB	RES	BEN	DEBIT	CREDIT
Def. Debit - Interest	140	186	89	99	099	9,369,586	
Current Tax Exp	140	409	10	99	099	13,716,007	
Current Tax Payable - Prior Prior	140	236	00	99	099		13,716,00
Deferred Tax Exp	140	411	83	99	099		13,716,00
Deferred Tax Payable	140	282	15	99	099	13,716,007	
Accds. Pay - TECO Energy	140	234	09	99	099		23,085,5
Current Tax Payable - Prior Prior	140	236	00	99	099	13,716,007	
						TOTALS	

ABBREVIATED DESCRIPTION (Block Print): RAR 89-91 UNALLOCATED

TITLE OF ENTRY: Recorded unallocated FIT and Int from RAR 1989-1991

PREPARED BY: Mary Rader 3/21/97

CHECKED BY:

APPROVED BY:

CARD PUNCHED BY:

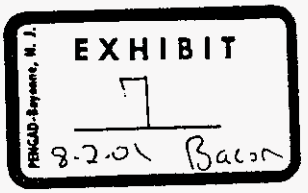
53

13. Describe in detail the charges to revenue shown on Tampa Electric's 1999 Earnings Surveillance Report of $5.2 million for income tax true-up, including the circumstances surrounding the charge and the year to which the true-up applied.

A. The income tax true-up line on Schedule 2, page 2 of 3, of the monthly surveillance report is a standard component used in deriving the company's regulatory return on equity. The purpose of this adjustment (which is mechanical in nature) is to true-up the above-the-line income tax expense for any differences between book interest expense and the allowed regulated interest expense, which is based upon the capital structure and rate base.

Because the allowed regulated interest expense is based upon the capital structure and rate base, the mechanics within the surveillance report would not recognize interest such as the $13.2 million for interest related to tax deficiencies with the IRS. This is reflected in the $5.2 million income tax true up in 1999.

To place the tax deficiency interest back above the line in 1999, the company imputed this prudent expense as a separate adjustment on the surveillance report. This adjustment is consistent with the treatment for tax deficiency interest for Peoples Gas System in Docket No. 971310-EU, Order No. PSC-98-0329-FOF-GU. The adjustment is addressed in Interrogatory No. 14.



7. For each month of 1999, identify the amount Tampa Electric Company has recorded on its books for interest expense on income tax deficiencies accrued or paid for each tax year 1980 through 2000. Separately identify for each tax year the amounts resulting from: (1) an IRS assessment; (2) a settlement with the IRS; (3) an IRS revenue agent's report; or (4) a company estimate. Indicate which tax years are "open".

A. An IRS assessment and an IRS revenue agent's report ("RAR") are considered the same. The RAR is the formal document proposing adjustments to the taxpayer's tax liability. TEC has received RARs for 1986-1994. The Company's interest expense estimate for the tax years 1995-1997 is calculated on identical issues previously adjusted by the IRS in earlier audit cycles. These carryover issues required the company, pursuant to GAAP, to record interest expense. As of the date of this interrogatory, the tax years 1989-2000 are open. Interest expense by audit cycle is identified below.

Tax Years		Date Received	Interest Expense Account	09/30/1999	11/30/1999	Total
1980-1983				None	None	
1984-1985				None	None	
1986-1988	IRS Settlement	17 Sept-99	431.02	($1,911,009)	None	($1,911,009)
1989-1991	IRS Assessment	4-May-99	431.02	4,563,904	631,420	5,195,324
1992-1994	IRS Assessment	17-Nov-99	431.02	6,971,074	(1,065,641)	5,905,433
1995-1998	Company estimate of carryover Issues		431.02	2,601,364	1,453,129	4,054,493
	Total			$12,225,333	$1,018,908	$13,244,241

Internal Revenue Service Department of the Treasury

DISTRICT DIRECTOR

Date: May 4, 1999

Shirley M. Ross
V/P of Corporate Taxes

TECO Energy, Inc.
Post Office Box 111
Tampa, Florida 33601

89-91

In Reply Refer To:
4104/AFA Badge # 59-01072
Kind of Tax:
Income
Tax Period Ended:
12/31/89, 12/31/90, 12/31/91

Amount of Claim:
$7,801,444 (1989)
$4,952,000 (1990)
$4,153,612 (1991)

Contact Telephone Number:
(813) 348-1814

Dear Ms. Ross:

We have examined your claim and propose the following:

☐ Partial disallowance, as shown in the enclosed examination report. If you accept our findings, please sign and return the enclosed Forms 2297 and 3363.

☒ Full disallowance, as shown in the enclosed examination report or on the back of this letter. If you accept our findings, please sign and return the enclosed Forms 2297 and 3363.

☐ Full disallowance, additional tax due. If you accept our findings, please sign and return the enclosed Forms 2297 and examination report.

If you do not accept our findings, we recommend that you request a conference with our Appeals Office.

If the examination is conducted by correspondence or by a tax auditor, a conference will be granted upon your request and a written protest is not required. When a revenue agent conducts the examination, you may request a conference in one of the following manners:

1. If the proposed change to your tax is $2,500 or less for any tax period, you may call the person whose name and telephone number are shown above, or you may send us a written request for a conference.
2. If the proposed change to your tax is more than $2,500, but is $10,000 or less for any tax period, you must provide us with a brief written statement of the disputed issues.
3. If the proposed change to your tax is more than $10,000 for any tax period, you must submit a written protest. The requirements for a written protest are

Letter 569(DO) (Rev. 4-88)

EXHIBIT
9
8-2-01 Brown
PENGAD-Bayonne, N. J.

Substitute for Form 4549-A	Department of the Treasury - Internal Revenue Service INCOME TAX EXAMINATION CHANGES	Return Form No. 1120

Name and Address of Taxpayer	S.S. or E.I. Number	Filing Status
TECO ENERGY, INC. AND AFFILIATED CORPORATIONS P.O. BOX 111 TAMPA FL 33601-0111	59-2052286	Corporate
	Person With Whom Examination Changes Were Discussed	Name and Title Russ Richert - Director of Taxes

1. Adjustments to Income	Year: 198912	Year: 199012	Year: 199112
A. Total Adjustments (See FORM 4549-B)	16,657,586.00	15,328,535.00	8,291,614.00
B.			
C.			
D.			
E.			
F.			
G.			
2. Total Adjustments	16,657,586.00	15,328,535.00	8,291,614.00
3. Adjusted Gross or Taxable Income Shown on Return or as Previously Adjusted	129,942,664.00	105,480,636.00	131,873,220.00
4. Corrected Adjusted Gross or Taxable Income	146,600,250.00	120,809,171.00	140,164,834.00
5. Tax	49,844,085.00	41,075,118.00	47,656,044.00
6. Alternative Tax, If Applicable	0.00	0.00	0.00
7. Corrected Tax Liability (Lesser of line 5 or 6)	49,844,085.00	41,075,118.00	47,656,044.00
8. Less a.			
Credits b. Total Credits (See attached schedule)	368,927.00	0.00	2,830,283.00
(Specify) c.			
9. Balance (Line 7 less total of lines 8a through 8c)	49,475,158.00	41,075,118.00	44,825,761.00
10. a.			
b. Other Taxes (See attached schedule)	357,508.00	8,412,803.00	268,555.00
Plus c.			
11. Total Corrected Income Tax Liability (Line 9 plus total of lines 10a through 10c)	49,832,666.00	49,487,921.00	45,094,316.00
12. Total Tax Shown on Return or as Previously Adjusted	49,832,666.00	49,487,921.00	45,094,316.00
13. Adjustment to: A.			
B.			
14. Deficiency-Increase in Tax or (Overassessment-Decrease in Tax) (Line 11 adjusted by Line 12)	0.00	0.00	0.00
15. Adjustments to Prepayment Credits	0.00	0.00	0.00
16. Balance Due or (Overpayment) (Line 13 adjusted by Line 14) Not Including Interest	0.00	0.00	0.00
17. Penalties, If Any (See explanation)	0.00	0.00	0.00

Other Information:

SEE ATTACHMENT FOR NOTICES AND OTHER INFORMATION

Examiner: Alvin F. Ashley, Jr.	District: North Florida	Date: 05/04/1999

Form 886A	Department of the Treasury-Internal Revenue Service Explanation of Items	Schedule /Exhibit No.
Name of Entity TECO Energy, Inc. and Affiliated Corporations		Year/Period 1989, 1990, 1991

Other Information

Amended Returns Filed

1989

On June 26, 1998, you filed a timely claim on Form 1120X for a refund of $7,801,444 for 1989.

The issues raised by your claim have been considered during this examination and have been allowed in this report to the extent determined to be correct.

1990

On June 26, 1998, you filed a timely claim on Form 1120X for a refund of $4,952,000 for 1990.

The issues raised by your claim have been considered during this examination and have been allowed in this report to the extent determined to be correct.

1991

On June 26, 1998, you filed a timely claim on Form 1120X for a refund of $4,153,612 for 1991.

The issues raised by your claim have been considered during this examination and have been allowed in this report to the extent determined to be correct.

Prior Changes in Tax Liability	8912	9012	9112
Tax Liability per Return	43,764,929	46,229,640	42,925,302
Increase per 2/24/97 RAR	6,067,737	3,258,281	2,169,014
Tax as Previously Adjusted	49,832,666	49,487,921	45,094,316

TAXPAYER: TECO ENERGY, INC. AND AFFILIATED CORPORATIONS
TIN: 59-2052286

Tax Periods: 8912 9012 9112

OTHER INFORMATION

The Internal Revenue Service has agreements with State tax agencies under which information about Federal tax, including increases or decreases, is exchanged with the States. If this change affects the amount of your State income tax, you should file the required State form.

You may be subject to backup withholding if you underreport your interest, dividend, or patronage dividend income and do not pay the required tax. The IRS may order backup withholding at 20 percent after four notices have been issued to you over a 120-day period and the tax has been assessed and remains unpaid.

Income Tax Examination Changes

Name and Address of Taxpayer	Employer Identification Number
TECO Energy, Inc. & Affiliated Corporations Post Office Box 111 Tampa, Florida 33601	59-2052286

Adjustments to Ordinary Income -- 1989	Page	Claimed	Disallowed	Adjustment
Capital Loss Carryback Allowed In 2/24/97 RAR				(686,563)
Other Adjustments For RAR Dated 2/24/97				17,344,149
TECO Investments, Inc.				
03-01 - Dividend Received Deduction	7	(1,044,665)	1,044,665	0
Tampa Electric Company				
04-01 - Research Credit	25	N/A	N/A	N/A
04-02 - Research Expense	28	61,213	(61,213)	0
04-03 - Capacity Payments	30	(3,788,405)	3,788,405	0
04-04 - Income - Capacity Account	44	(2,319,763)	2,319,763	0
04-05 - Amortization of Early Capacity Payments	49	0	0	0
04-06 - Nonaccrual Experience Method	58	20,620	(20,620)	0
04-07 - Interest Capitalized	66	(2,139,750)	2,139,750	0
04-08 - Cost of Removal - ACRS/MACRS Assets	82	(1,005,613)	1,005,613	0
04-09 - Cost of Removal - Asbestos	93	(317,945)	317,945	0
04-10 - Repairs - pre 1981 Assets	101	(7,503,997)	7,503,997	0
04-11 - Repairs - post 1980 Assets	115	(812,449)	812,449	0
04-12 - Contributions In Aid of Construction	122	(3,182,453)	3,182,453	0
04-13 - Depreciation as a result of the above changes	138	546,547	(546,547)	0
04-14 - Depreciation on Street Lighting Equipment	142	(612,657)	612,657	0
04-15 - COGS - Hookers Point Start-Up Costs	151	0	0	0
Gulf Coast Transit Company				
14-01 - Legal Fees St. Phillips Settlement	161	(549,319)	549,319	0
14-02 - Amortization of Agrico Contract	165	103,014	(103,014)	0
Total Adjustments to Ordinary Income		(22,545,622)	22,545,622	16,657,586

Form 4549-B

Income Tax Examination Changes

Name and Address of Taxpayer	Employer Identification Number
TECO Energy, Inc. & Affiliated Corporations Post Office Box 111 Tampa, Florida 33601	59-2052286

Adjustments to Ordinary Income -- 1990	Page	Claimed	Disallowed	Adjustment
Capital Loss Carryback Allowed In 2/24/97 RAR				(1,695,911)
Other Adjustments For RAR Dated 2/24/97				17,024,446
TECO Investments, Inc.				
03-01 - Dividend Received Deduction	7	(1,787,338)	1,787,338	0
Tampa Electric Company				
04-01 - Research Credit	25	N/A	N/A	N/A
04-02 - Research Expense	28	81,226	(81,226)	0
04-03 - Capacity Payments	30	(4,574,340)	4,574,340	0
04-04 - Income - Capacity Account	44	0	0	0
04-05 - Amortization of Early Capacity Payments	49	0	0	0
04-06 - Nonaccrual experience method	58	519,877	(519,877)	0
04-07 - Interest Capitalized	66	(1,688,276)	1,688,276	0
04-08 - Cost of Removal - ACRS/MACRS Assets	82	(1,067,839)	1,067,839	0
04-09 - Cost of Removal - Asbestos	93	(96,220)	96,220	0
04-10 - Repairs - pre 1981 Assets	101	(6,947,208)	6,947,208	0
04-11 - Repairs - post 1980 Assets	115	(1,382,729)	1,382,729	0
04-12 - Contributions in Aid of Construction	122	(3,034,971)	3,034,971	0
04-13 - Depreciation as a result of the above changes	138	1,761,036	(1,761,036)	0
04-14 - Depreciation on street lighting equipment	142	(1,433,639)	1,433,639	0
04-15 - Hookers Point Start up Costs	151	(5,312,157)	5,312,157	0
Gulf Coast Transit Company				
14-01 - Legal Fees St. Phillips Settlement	161	0	0	0
14-02 - Amortization of Agrico Contract	165	247,232	(247,232)	0
Total Adjustments to Ordinary Income		(24,715,346)	24,715,346	15,328,535

Form 4549-B

DRAFT 9-30-99 JE's

Tampa Electric
Interest/FIT Adjustments 1986-1998

H:\92-94 IRS Audit\[JE 86-98.xls]Sheet1

Yrs	a/c #	Description	Debit	Credit
86-88	186.89	Deferred Debit-Interest		4,288,992
	431.02	Other Int. Exp.-FIT	4,288,992	
	237.40	Interest Payable-FIT	6,200,000	
	431.02	Other Int. Exp.-FIT		6,200,000
	411.84	Deferred Tax Expense	4,120,540	
	282.16	Unallocated RAR 86-88		4,120,540
	409.10	Current Tax Expense		4,120,540
	236.00	Cur. Tax Pay.-Prior prior	4,120,540	
89-91	186.89	Deferred Debit-Interest		4,563,904
	431.02	Other Int. Exp.-FIT	4,563,904	
	409.10	Current Tax Expense	260,486	
	236.00	Cur. Tax Pay.-Prior prior		260,486
	411.83	Deferred Tax Expense	5,123,038	
	282.15	Unallocated RAR 89-91		5,123,038
	409.10	Current Tax Expense		5,123,038
	236.00	Cur. Tax Pay.-Prior prior	5,123,038	
92-94	431.02	Other Int. Exp.-FIT	6,971,074	
	237.40	Interest Payable-FIT		6,971,074
	411.85	Deferred Tax Expense		7,690,571
	282.17	Est. 92-94 Deferreds	7,690,571	
	409.10	Current Tax Expense	7,690,571	
	236.00	Cur. Tax Pay.-Prior prior		7,690,571
	409.10	Current Tax Expense	598,941	
	236.00	Cur. Tax Pay.-Prior prior		598,941
95-98	431.02	Other Int. Exp.-FIT	2,601,364	
	237.40	Interest Payable-FIT		2,601,364
	409.10	Current Tax Expense	226,662	
	236.00	Cur. Tax Pay.-Prior prior		226,662
	411.86	Deferred Tax Expense		11,550,281
	282.18	Est. 95-98 Deferreds	11,550,281	
	409.10	Current Tax Expense	11,550,281	
	236.00	Cur. Tax Pay.-Prior prior		11,550,281
		After Tax Interest	7,509,411	
		Interest Expense	12,225,333	
		Tax Expense	1,086,089	
		Total P&L	8,595,500	
		Energy/Inv. P & L	3,543,190	
		Total	12,138,690	

G/L @ 8/30/99 a/c	yr.	
186.89	86-88	4,288,992
186.89	89-91	9,369,586
282.16	86-88	4,921,026
282.15	89-91	13,716,007
411.83	89-91	-
411.84	86-88	-

Sept. J/E's '99

EXHIBIT 10 8-2-01 BACON

PSNGD-Bayonet, N. J.

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TECO ENERGY, INC.

JOURNAL ENTRY

MONTH OF: SEP 99 SOURCE 71 JOURNAL ENTRY NO. 58

ACCOUNT TITLE:	ACCOUNT NO.					DEBIT	CREDIT
Deferred Debit-Interest	099	649	12	99	099	3,269,033.00	
Interest Income	099	869	24	99	099		3,269,033.00
See Energy A/c Analysis for backup - maintained by Corporate Tax Dept.							
					TOTAL		$3,269,033.00

TITLE OF ENTRY: Estimate of interest 1986 - 1998

ABBREVIATED DESCRIPTION:

PREPARED BY:	CHECKED BY:	APPROVED BY:	CARD PUNCH:
DENISE OKOLOVITCH 10/4/99		Mary Kader 10/4/99	

43

3269033
x .61425
2008031

Agrees to Energy Schedule

'86 - '88	<805,981>	x .61425 =	<495,074>
'89 - '91	<1,346,841>		<827,297>
'92 - '94	<1,542,533>		<947,501>
'95 - '98	426,322		261,868
	<3,269,033>		<2,008,004>

TECO ENERGY, INC.
JOURNAL ENTRY
SOURCE 79 JOURNAL ENTRY

SEPTEMBER 1999

58 13

ACCOUNT TITLE	ACCOUNT NO.					DEBIT	CREDIT
Interest Income	099	869	24	99	099	3,269,033.00	
Unalloc. Interest Expense	099	837	91	10	099		3,269,033.00
						$3,269,033.00	$3,269,033.00

ABBREVIATED DESCRIPTION | Reclass interest income to expense.

Reclass interest income to expense.

PREPARED BY | CHECKED BY | APPROVED BY | CARD PUNCHED BY

44

H:\92-94IRS\ENERGINT.WK4

TECO ENERGY, INC.

JOURNAL ENTRY

MONTH OF: SEP 99 SOURCE 71 JOURNAL ENTRY NO. 58-12

ACCOUNT TITLE:	ACCOUNT NO.					DEBIT	CREDIT
Deferred Debit-Interest	099	649	12	99	099	3,269,033.00	
Interest Income	099	~~869~~ 837	~~24~~ 91	~~99~~ 10	099		3,269,033.00
					TOTAL		$3,269,033.00

RECLASSED PER RE 10-5-99

See Energy A/C Analysis for backup - maintained by Corporate Tax Dept.

45

TITLE OF ENTRY: Estimate of interest 1986-1998

ABBREVIATED DESCRIPTION:

PREPARED BY:	CHECKED BY:	APPROVED BY:	CARD PUNCH:
DENISE OKOLOVITCH 10/4/99		Mary Fader 10/4/99	105

COPY

TAMPA ELECTRIC COMPANY

MONTH OF: September 1999 SOURCE 71 JOURNAL ENTRY NO. 141

ACCOUNT TITLE	ACCOUNT NO					DEBIT	CREDIT
Deferred Debit Interest	140	186	89	99	140		8,852,896.00
Other Interest Exp Fed Income Tax	140	431	02	99	140	12,225,334.00	
Int Pay FIT	140	237	40	99	140		3,372,438.00

Estimated Interest by
Audit Cycle:
86-88 (1,911,008) No change
89-91 4,563,904
92-94 6,971,074
95-98 2,601,364

COPY

TITLE OF ENTRY
To Record Interest Estimate for 86 - 98

AMOUNT 12,225,334.00 12,225,334.00

PREPARED BY	CHECKED BY	APPROVED BY	CARD PUNCHED
D.L. Okolovitch 10/4/99		Mary Ruden 10/4/99	

TAMPA ELECTRIC COMPANY

MONTH OF: September 1999 SOURCE 71 JOURNAL ENTRY NO. 141

ACCOUNT TITLE	ACCOUNT NO					DEBIT	CREDIT
Inc Taxes Current Payable	140	409	10	99	140	226,662.00	
Tax ACCR FIT Before Prior Year	140	236	00	99	140		226,662.00
Provision for RAR 95-98	140	411	86	99	140		11,550,281.00
Provision for RAR 95-98	140	282	18	99	140	11,550,281.00	
Inc Taxes Current Payable	140	409	10	99	140	11,550,281.00	
Tax ACCR FIT Before Prior Year	140	236	00	99	140		11,550,281.00

TAMPA ELECTRIC COMPANY

MONTH OF: September 1999 SOURCE 71 JOURNAL ENTRY NO. 141

ACCOUNT TITLE	ACCOUNT NO					DEBIT	CREDIT
Provision for RAR 92-94	140	411	85	99	140		7,690,571.00
Provision for RAR 92-94	140	282	17	99	140	7,690,571.00	
Inc Taxes Current Payable	140	409	10	99	140	7,690,571.00	
Tax ACCR FIT Before Prior Year	140	236	00	99	140		7,690,571.00
Inc Taxes Current Payable	140	409	10	99	140	598,941.00	
Tax ACCR FIT Before Prior Year	140	236	00	99	140		598,941.00

TAMPA ELECTRIC COMPANY

MONTH OF: September 1999 SOURCE 71 JOURNAL ENTRY NO. 141

ACCOUNT TITLE	ACCOUNT NO					DEBIT	CREDIT
Inc Taxes Current Payable	140	409	10	99	140	260,486.00	
Tax ACCR FIT Before Prior Year	140	236	00	99	140		260,486.00
Unallocated RAR 89-91	140	411	83	99	140	5,123,038.00	
Unallocated RAR 89-91	140	282	15	99	140		5,123,038.00
Inc Taxes Current Payable	140	409	10	99	140		5,123,038.00
Tax ACCR FIT Before Prior Year	140	236	00	99	140	5,123,038.00	
TITLE OF ENTRY			AMOUNT			10,506,562.00	10,506,562.00
To Record FIT Provision for 89 - 91 RAR							

PREPARED BY	CHECKED BY	APPROVED BY	CARD PUNCHED
D.L. Okolovitch 10/4/99		Mary Lander 10/4/99	

COPY

49

TAMPA EL .TRIC COMPANY

MONTH OF: September 1999 SOURCE 71 JOURNAL ENTRY NO. 141

ACCOUNT TITLE	ACCOUNT NO					DEBIT	CREDIT
Unallocated RAR 86-88	140	411	84	99	140	4,120,540.00	
Unallocated RAR 86-88	140	282	16	99	140		4,120,540.00
Inc Taxes Current Payable	140	409	10	99	140		4,120,540.00
Tax ACCR FIT Before Prior Year	140	236	00	99	140	4,120,540.00	

Internal Revenue Service
Tampa Appeals
2203 North Lois Avenue
Suite 812
Tampa, FL 33607-2312

Date: October 1, 1999

Shirley M. Ross, V/P Corporate Taxes
TECO Energy, Inc. & Affiliated Corp.
Post Office Box 111
Tampa Fl. 33601-0111

Department of The Treasury
Southeast Region

Person to Contact:
Nelson A. Leduc
Contact Person ID#:
59-00397
Telephone Numbers:
(813) 348-1794
FAX (813) 348-1770
Refer Reply to:
SER:NFL:A:T:NAL
In Re:
Income Tax
Tax Period(s) Ended:
1986 thru 1988
SSN or EIN
59-2052286

Dear Mrs. Ross:

Enclosed herein is a copy of the approved Memorandum of Understanding which you signed July 13, 1999, pertaining to TECO Energy, Inc. and Affiliated Corporations for the period shown above. The enclosed copy of the agreement is for your records.

Thank you for your cooperation.

Sincerely,

Nelson A. Leduc
Appeals Officer

86-88
Settlement

EXHIBIT
11
8-20-01 Bacon

Internal Revenue Service
Tampa Appeals
2203 North Lois Avenue
Suite 812
Tampa, FL 33607-2312

Date: SEP 17 1999

Department of The Treasury
Southeast Region

Person to Contact:
Nelson A. Leduc
Contact Person ID#:
59-00397
Telephone Numbers:
(813) 348-1794
FAX (813) 348-1770
Refer Reply to:
SER:NFL:A:T:NAL

TECO Energy, Inc. & Affiliated Corp.
Post Office Box 111
Tampa, FL 33601-0111

Dear TECO Energy, Inc. & Affiliated Corp.:

The Joint Committee on Taxation has taken no exception to the conclusions the Internal Revenue Service reached in your income tax case for the tax period(s) ended December 31,1986, December 31, 1987 & December 31, 1988.

We have forwarded your case to the District Director at Jacksonville, for processing.

If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely,

Nelson A. Leduc
Appeals Officer

Copy in 1/99 83

Memorandum of Understanding

This Memorandum of Understanding is entered into by and between the Commissioner of Internal Revenue ("Internal Revenue Service") and TECO Energy, Inc. & Affiliated Corporations (59-2052236) (*referred to as "Taxpayer"*) who are signatories hereto

WITNESSETH

WHEREAS, the Internal Revenue Service and the Taxpayer have agreed upon a settlement of certain tax matters affecting tax years 1986, 1987, and 1988 (referred to as the "Settlement");

WHEREAS, the Internal Revenue Service and the Taxpayer desire to enter into Closing Agreements pursuant to Section 7121 of the Internal Revenue Code of 1986, as amended;

WHEREAS, the final execution of the Closing Agreements could occur before the Appeals Division secures jurisdiction over subsequent years affected by such Agreements;

WHEREAS, as a result of the "Settlement," taxable income and/or liability will be imposed on the Taxpayer in tax years after 1988;

WHEREAS, the Taxpayer has proposed a *resolution of the dispute on "Capacity Payments* Deductions" (Appeals Case Memo Issue #1) on the same basis represented in a National Office Technical Advice Memorandum (PLR 9641004 issued October 11, 1996, *currently under reconsideration*);

WHEREAS, the Appeals Office has agreed to implement a resolution of the "Capacity Payment" dispute (ACM Issue #1) on the basis of Private Letter Ruling 9641004 and Taxpayer's written settlement proposal to Appeals dated February 3, 1998, if PLR 9641004 remains unchanged, or if modified in a manner consistent with Taxpayer's February 3, 1998 proposal, and will reconsider the Taxpayer's Claim, as to this dispute, and settle it on the basis of such ruling and proposal. The Taxpayer retains its rights to pursue this issue by filing a lawsuit in the United States District Court or United States Claim Court within the time permitted by law;

WHEREAS, the Taxpayer has been granted permission to change its method of accounting from the nonaccrual experience method to the specific write-off method for tax year 1990 (Appeals Case Memo Issue #6);

WHEREAS, a settlement has been concluded as to Repair Expenses (Appeals Case Memo Issues #7 and #8) in connection with Transmission and Distribution Assets, both Pre-1981 and Post-1980 Asset, for the years 1986, 1987, and 1988, and the related Depreciation Expense on sums capitalized (Appeals Case Memo Issue #11) and Gains or Losses on Asset Disposal (Appeals Case Memo Issue #12);

WHEREAS, the Internal Revenue Service, by signature of its authorized representatives, hereby certifies and affirms to the Taxpayer it will enter into Closing Agreements as to Appeals Case Memo Issue #6 (NonAccrual Experience Method), Issue #7 (Repairs Pre-1981), and Issue #8 (Repairs Post-1981).

NOW, THEREFORE, in consideration of valuable consideration and the promises and covenants provided herein, the parties hereto agree as follows:

(1) Recitations. The above recitations are true and correct.

(2) Change in Method of Accounting (Appeals Case Memo Issue #6). The change in method of accounting has been authorized by the Appeals Office to take effect on the first day of tax year 1990. The parties agree such change will require the "Tax Reserve Amount" as of December 31, 1989, in the amount of $3,608,698, to be included in the Taxpayer's income under provisions of Section §481. The sum will be incorporated into taxable income over a four year period, with 25 percent of such change, in the amount of $902,175, included in income in each of the years 1990, 1991, 1992, and 1993.

(3) Change in Treatment of Repair Expenses (Appeals Case Memo Issue #7 and #8). The parties have reached a mutual agreement and resolution as to the portion of such costs which should be treated as period costs and as capital expenditures recoverable by depreciation. The settlement results in forty (40%) percent of disputed sums represented in ACM Issue #7 being treated as capital expenditures, the remainder as period costs. The settlement for ACM Issue #8 requires fifty (50%) percent of disputed costs to be treated as capital expenditures, the remainder as period costs. While tax years 1989, 1990, and 1991 are not currently under the jurisdiction of the Appeals Office, this Memorandum of Understanding is intended to pledge to the taxpayer Appeal's commitment to resolve this dispute on the same basis as 1986, 1987, and 1988, assuming the factual pattern remains the same, and Appeals secures jurisdiction of the case.

(4) By signing this agreement, the Taxpayer signifies its agreement to Appeals Case Memo Issues #6, Issue #7, and Issue #8 (namely the change in accounting and repair expense issues), and makes a commitment to waive its entitlement or rights to file a lawsuit for tax years 1986, 1987, and 1988 with respect to Appeals Case Memo Issues #6, Issue #7, and Issue #8.

(5) Closing Agreements. The Internal Revenue Service and the Taxpayer, in consideration of the items outlined herein and other valuable consideration, the sufficiency of which is acknowledged, do hereby enter into this Memorandum of Understanding, and further certify from one party to the other they each shall take such necessary action as shall be required to properly finalize and execute any Closing Agreements that are a necessary part of resolving agreed upon issues involved in the settlement of tax years 1986, 1987, and 1988.

IN WITNESS WHEREOF, the parties hereto have executed this agreement as of the date indicated next to their respective names.

TECO Energy, Inc. & Affiliated Corporations

SM Ross, VP Corporate Taxes — Date signed 7/15/99

By Officer Name and Title

Commissioner of Internal Revenue

By _____ Date signed 9/29/99

William E. Oppenheim, Jr., Associate Chief, Tampa Appeals Office

DUPLICATE ORIGINAL

Form 906-c
(Rev. 8/1994)

Department of the Treasury-Internal Revenue Service

Closing Agreement On Final Determination Covering Specific Matters

Under Section §7121 of the Internal Revenue Code

TECO ENERGY, INC. & AFFILIATED CORPORATIONS (59-2052286), POST OFFICE BOX 111, TAMPA, FLORIDA 33601-0111

and the Commissioner of Internal Revenue make the following closing agreement:

WHEREAS, the Internal Revenue Service denied TECO Energy, Inc.'s subsidiary, Tampa Electric Company (TECO Energy, Inc. and Tampa Electric Company are hereinafter referred to collectively as "taxpayer"), period costs for repair expenses identified in Schedule M-1 of the tax return in connection with electric transmission and distribution facilities in the total amount of $14,114,546 for the years 1986, 1987, and 1988;

WHEREAS, the taxpayer agreed to the disallowance of the deduction of such repair expenses as a result of the Commissioner's initial examination of such tax years 1986, 1987 and 1988, as represented by an Audit Report, dated September 13, 1994, and adjustments of $5,523,668 for 1986, $4,279,867 for 1987, and $4,311,011 for 1988, or a total of $14,114,546;

WHEREAS, the taxpayer filed "claims for refund," Form 1120X, with the Atlanta Service Center, on March 14, 1995, seeking a reduction of income in the amount of $5,624,838 for 1986, $5,461,348 for 1987, and $5,663,538 for 1988, in connection with "repair expenses" of Electric Transmission and Distribution Assets, both Pre 1981 and Post 1980 Assets;

WHEREAS, the taxpayer's "claims for refund" on this issue, upon subsequent audit, were denied by the Examination Division by eliminating the requested deductions of $5,624,838 for 1986, $5,461,348 for 1987, and $5,663,538 for 1988, per Audit Report dated May 6, 1997;

WHEREAS, the National Office, by letter dated July 30, 1996, denied the taxpayer's request of September 7, 1994, to grant it an extension of time pursuant to Regulation §1.301.9100-1T to elect application of the asset guideline class repair allowance described in Regulation §1.167(a)-11(d)(2)(iii) for its Electrical Transmission and Distribution Facilities, Asset Guideline Class 49.14, for taxable years 1986 through 1991;

WHEREAS, a DISPUTE has arisen between the parties as to whether, and to what extent, the taxpayer's claims for repair expense should be allowed as period costs in the years 1986, 1987, and 1988, or should be treated as capital expenditures subject to recovery by way of depreciation; and

WHEREAS, the taxpayer and the Commissioner of Internal Revenue Service wish to resolve with finality the controversy between them with respect to whether, and to what extent, the taxpayer's

claims for repair expense should be allowed as period costs in the years 1986, 1987, and 1988, or should be treated as capital expenditures subject to recovery by way of depreciation.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes that:

(1) A settlement of the dispute for 1986, 1987, and 1988, has been concluded that requires capitalization of forty (40%) percent of the disputed costs associated with Pre-1981 asset repairs, with the remainder allowed as period costs, and fifty (50%) of costs associated with Post 1980 asset repairs, with the remainder allowed as period costs, as set forth in the taxpayer's claim filed March 14, 1995, and denied by Audit Report dated May 6, 1997.

(2) As a result of the settlement of repairs in paragraph one, required changes to depreciation and gains and losses on asset disposition are required. These have been identified, calculated, and appropriately made a part of the Appeals Audit Report for tax years 1986, 1987, and 1988. The taxpayer agrees to implement carryover changes to all years subsequent to tax year 1988 to bring its tax returns for these years into compliance with changes agreed upon in this Closing Agreement and the related Appeals Audit Report.

IT IS ALSO AGREED this Closing Agreement shall not become effective or binding on the parties hereto until the effective date of the related Form 870-AD, which occurs upon final acceptance, approval, and signing by the Associate Chief of Appeals, Tampa, Florida.

This agreement is final and conclusive except:

(1) the matter it relates to may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact;

(2) it is subject to the Internal Revenue Code sections that expressly provide that effect be given to their provisions (including any stated exception for Code Section §7122) notwithstanding any other law or rule of law; and

(3) if it relates to a tax period ending after the date of this agreement, it is subject to any law, enacted after the agreement date, that applies to that tax period.

By signing, the above parties certify that they have read and agreed to the terms of this document.

Taxpayer (other than individual) TECO ENERGY, INC. & AFFILIATED CORPORATIONS

By S M Ross Date Signed 7/13/99
VP, Corporate Taxes

Commissioner of Internal Revenue

By K.W. Black, acting for Date Signed 9/16/99
William E. Oppenheim, Jr.
Title Associate Chief

Form 906-c
(Rev. 8/1994)

Department of the Treasury-Internal Revenue Service

Closing Agreement On Final Determination Covering Specific Matters

Under Section §7121 of the Internal Revenue Code of 1986 ("IRC 86")

TECO ENERGY, INC. & AFFILIATED CORPORATIONS (59-2052286), POST OFFICE BOX 111, TAMPA, FLORIDA 33601-0111
and the Commissioner of Internal Revenue make the following closing agreement:

WHEREAS, the "Reserve for Bad Debt Method" under Section §166(c) was eliminated as a permissible method of claiming deductions in connection with sales of an accrual basis taxpayer by the Internal Revenue Code of 1986, effective for tax years following December 31, 1986;

WHEREAS, TECO Energy, Inc.'s subsidiary, Tampa Electric Company (TECO Energy, Inc. and Tampa Electric Company are hereinafter collectively referred to as "taxpayer"), implemented a voluntary change to the "Special Rule for Service Method" (also referred to as the "Nonaccrual Experience Method of Accounting.") under Section §448(d)(5) IRC 86 in calendar year 1987;

WHEREAS, the taxpayer agreed to a full denial of such treatment as a result of the Commissioner's initial examination of tax years 1987 and 1988, as represented by an Audit Report, dated September 13, 1994, and adjustments of $1,013,971 for 1987 and $1,315,686 for 1988;

WHEREAS, the taxpayer filed "claims for refund," Form 1120X, with the Atlanta Service Center, on March 14, 1995, seeking a reduction of income in the amount of $3,646,426 for 1987, and an increase in income of $17,108 for 1988, to reflect the adoption by the taxpayer of the nonaccrual experience method pursuant to Section §448(d)(5) IRC 86;

WHEREAS, the taxpayer's "claims for refund" on this issue, upon subsequent audit, were denied by the Examination Division by eliminating a deduction of $3,646,426 for 1987, and an increase in income of $17,107 for 1988, per Audit Report dated May 6, 1997;

WHEREAS, the National Office, by letter dated March 27, 1991, denied the taxpayer's request of September 28, 1990, per Form 3115, to make a late election to change its reporting method to the required specific write-off method of accounting;

WHEREAS, a DISPUTE has arisen between the parties as to whether the taxpayer is entitled to utilize the Nonaccrual Experience Method of Accounting under Section §448(d)(5) IRC 86, or is required to convert to the Specific Write-off Method of Accounting, and if a conversion is necessary, whether a change in method of accounting is to be implemented in 1987 or 1990; and

WHEREAS, the taxpayer and the Commissioner of Internal Revenue Service wish to resolve with finality the controversy between them with respect to whether the taxpayer is entitled to utilize the Nonaccrual Experience Method of Accounting under Section §448(d)(5) IRC 86, or is required to convert to the Specific Write-off Method of Accounting, and if a conversion is necessary, whether the change in method of accounting is to be implemented in 1987 or 1990.

NOW IT IS HEREBY DETERMINED AND AGREED for Federal income tax purposes that:

(1) The taxpayer is granted permission to change its method of accounting from the Nonaccrual Experience Method of Accounting to the Specific Write-off Method of Accounting for tax year 1990, and the change in method of accounting authorized for 1990 will result in the elimination of the existing tax reserve in the amount of $3,608,698 as of December 31, 1989, under the provisions of Section §481 IRC 86.

(2) The implementation of the change in accounting method in 1990, rather than 1987, requires the elimination of the taxpayer's claim for an additional deduction of $3,646,426 for 1987.

(3) The taxpayer is entitled to a deduction of $911,607 in the years 1987, 1988, 1989, and 1990, and an increase in income of $17,107 and $20,621 for 1988 and 1989 to return to the position represented in the original returns filed.

(4) The taxpayer agrees to implement the following changes to income reported for the years 1987 through 1993:

Schedule of Required Adjustments for Change of Accounting from the Nonaccrual Experience Method in 1990 to the Specific Write-off Method

TAX YEAR	DESCRIPTION OF SECTION §481 ACTIVITY TO BE IMPLEMENTED FOR ALL YEARS FROM 1987 THROUGH 1993 PER AGREEMENT AND EFFECT ON TAXABLE INCOME	§481 ADJUSTMENT.	FOUR YEAR SPREAD EFFECT ON INCOME	ADJUSTMENT TO TAXABLE INCOME (DECR) INCREASE
1987	Tax Reserve Amount Dec. 31, 1986 Implemented by the Taxpayer under §481 on January 1, 1987 [Denied Per the Appeals Division - Change January 1, 1990]	$3,646,426		
1987	Amount to return to Original Tax Return Filing 1987		($911,607)	($911,607)
1988	Amount to return to Original Tax Return Filing 1988		(911,607)	(911,607)
1988	Taxpayers Correction in Tax Reserve for Filing 1988		17,107	17,107
1989	Amount to return to Original Tax Return Filing 1989		(911,607)	(911,607)
1989	Taxpayers Correction in Tax Reserve for Filing 1989		20,621	20,621
1990	Amount to return to Original Tax Return Filing 1990		(911,607)	(911,607)
1990	Tax Reserve Amount Dec. 31, 1989 to be Implemented by Taxpayer under Sec. §481 on January 1, 1990 [Allowable Per Appeals Division]	$3,608,698		
1990	Taxable Income to be Increased in 1990 per Sec. §481		902,175	902,175
1991	Taxable Income to be Increased in 1991 per Sec. §481		902,175	902,175
1992	Taxable Income to be Increased in 1992 per Sec. §481		902,175	902,175
1993	Taxable Income to be Increased in 1993 per Sec. §481		902,175	902,175

IT IS ALSO AGREED this Closing Agreement shall not become effective or binding on the parties hereto until effective date of the related Form 870-AD, which occurs upon final acceptance, approval, and signing by the Associate Chief of Appeals, Tampa, Florida.

This agreement is final and conclusive except:

(1) the matter it relates to may be reopened in the event of fraud, malfeasance, or misrepresentation of material fact;

(2) it is subject to the Internal Revenue Code sections that expressly provide that effect be given to their provisions (including any stated exception for Code Section §7122) notwithstanding any other law or rule of law; and

(3) if it relates to a tax period ending after the date of this agreement, it is subject to any law, enacted after the agreement date, that applies to that tax period.

By signing, the above parties certify that they have read and agreed to the terms of this document.

Taxpayer (other than individual) TECO ENERGY, INC. & AFFILIATED CORPORATIONS

By Sruley M Ross Date Signed 7/13/99

Title VP, Corporate Taxes

Commissioner of Internal Revenue

By K. W. Black, Acty for Date Signed 9/16/99

William E. Oppenheim, Jr.

Title Associate Chief

District Director

Date: November 17, 1999

In Reply Refer to:
CEP/STOP 4104
Form:
1120
Person to Contact:
LOUISE M. HAWTHORNE 59-00724
Contact Telephone Number:
(813) 348-1814

TECO ENERGY, INC. AND AFFILIATED
CORPORATIONS
P.O. BOX 111
TAMPA, FL 33601-0111

92-97
RAR

Tax Year Ended:	December 31, 1992	December 31, 1993	December 31, 1994
Deficiency:			
Increase in tax	1,333,558.00	1,847,042.00	4,619,518.00

Dear TECO ENERGY, INC. AND AFFILIATED:

We're enclosing a report proposing a change to the amount of your tax for the year(s) shown above. Please read the report, decide whether you agree or disagree with us, and respond within 30 days from the date of this letter. (Our report may not reflect the results of later examinations of partnerships, S corporations, trusts, etc. in which you may have an interest. Changes made to their tax could affect your tax.)

IF YOU AGREE, you should:

1. Sign and date the enclosed agreement form.

2. Return the signed agreement form to us.

3. Enclose payment of the tax and interest, if you owe additional tax. (The person whose name and telephone number appear above will be able to tell you how much interest is due to the date you intend to make payment. See enclosed Publication 5 for additional payment information.)

It is to your advantage to pay the full amount you owe as soon as possible to reduce additional interest charges. If you can't pay the amount in full, but agree with our findings, please contact the person above to discuss different methods of payment, such as paying in installments.

If you can only pay part of your bill, you should pay as much as you can and immediately write us or visit your nearest IRS office to explain your circumstances. We may ask you to complete a Collection Information Statement. We will use this form to review your financial condition to determine how you can pay the amount due.

EXHIBIT
12
8-2-01 Baker

(continued next page)

STOP 4104
3848 WEST COLUMBUS DRIVE
TAMPA, FL 33607

Letter 950(DO)(CG)(Rev. 10-95)

After we receive your signed agreement form, we will close your case. If you didn't enclose payment for the additional tax and interest we will bill you for any unpaid amounts.

IF YOU DON'T AGREE and wish a conference with the Regional Office of Appeals, YOU MUST LET US KNOW within 30 days.

1. If the proposed change and penalties to your tax is $2,500 OR LESS for any tax period, you may call the person whose name and telephone number appear above; he or she will arrange for your case to be forwarded to Appeals. Or, you may send us your request by checking the appropriate section at the end of this letter. We've enclosed an additional copy of this letter for this purpose.

2. If the proposed change and penalties to your tax is more than $2,500 but $10,000 or less for any tax period, you must send us a BRIEF written statement of the issues that you don't agree with. Write your statement in the space at the end of this letter. We've enclosed an additional copy of this letter for this purpose.

3. If the proposed change and penalties to your tax is MORE THAN $10,000 for any tax period, we will require a written protest. Follow the instructions in the enclosed Publication 5.

You should mail your signed agreement form, a copy of this letter, or your protest to us within 30 days.

PLEASE MAIL TO: Internal Revenue Service
Attn: LOUISE M. HAWTHORNE
CEP/STOP 4104
3848 WEST COLUMBUS DRIVE
TAMPA, FL 33607

An Appeals Officer, who hasn't previously examined your return, will take a fresh look at your case. The Appeals Office is independent of the District Director. Most disputes considered by Appeals are resolved informally and promptly. By going to Appeals, you may avoid court costs (such as the Tax Court's $60 filing fee), clear up this matter sooner, and prevent interest from continuing. An Appeals Officer will telephone you and, if necessary, arrange an appointment.

The Tax Court is authorized to award damages of up to $25,000 to the United States where a taxpayer unreasonably fails to pursue available administrative remedies. Damages could be awarded under this provision, for example, if the Court concluded that it was unreasonable for a taxpayer to bypass Appeals and then file a petition in the Tax Court. The Tax Court will make that determination based upon the facts and circumstances of each case. Generally, IRS won't ask the Court to award damages under this provision if you made a good faith effort to meet with Appeals and to settle your case before petitioning the Tax Court.

(continued next page)

If you don't reach an agreement with Appeals, or if you don't respond to this letter, you will receive another letter that will tell you how to obtain Tax Court review. If you decide to bypass Appeals and petition the Tax Court, your case will normally be assigned for settlement to an Appeals office before the Tax Court hears the case.

IF YOU AREN'T SURE what to do or have other questions, call the person whose name and telephone number appear above. We will be glad to discuss your choices.

Sincerely yours,

Ted F. Brown

Ted Brown
District Director

Enclosures:
Copy of this letter
Examination Report
Agreement Form
Publication 1
Publication 5

AP/STOP 4104
3848 WEST COLUMBUS DRIVE
TAMPA, FL 33607

Letter 950(DO)(CG)(Rev. 10-95)

Form 870	Department of Treasury-Internal Revenue Service	Date received Internal Revenue Service
(Rev. February 1985)	Waiver of Restrictions on Assessment and Collection of Deficiency in Tax and Acceptance of Overassessment	

Names and address of taxpayers(Number,street,city or town,State,ZIP code)

TECO ENERGY, INC. AND AFFILIATED
CORPORATIONS
P.O. BOX 111

TAMPA FL 33601-0111

Social security or employer Identification number

59-2052286

Increase (Decrease) in Tax and Penalties

Tax Year Ended	Tax	Penalties		
199212	$ 1,333,558.00	$	$	$
199312	$ 1,847,042.00	$	$	$
199412	$ 4,619,518.00	$	$	$

Consent to Assessment and Collection

I consent to the immediate assessment and collection of any deficiencies (increase in tax and penalties) and accept any overassessment (decrease in tax and penalties) shown above, plus any interest provided by law. I understand that by signing t waiver, I will not be able to contest these years in the United States Tax Court, unless additional deficiencies are determin for these years.

Signature | Date

Signature | Date

Signature | Title | Date

Form 870 (Rev. 2

TECO ENERGY, INC. AND AFFILIATED
9-2052286

Instructions

General Information

If you consent to the assessment of the deficiencies shown in this waiver, please sign and return the form in order to limit any interest charge and expedite the adjustment to your account. Your consent will not prevent you from filing a claim for refund (after you have paid the tax) if you later believe you are so entitled. It will not prevent us from later determining, if necessary, that you owe additional tax; nor extend the time provided by law for either action.

We have agreements with State tax agencies under which information about Federal tax, including increases or decreases, is exchanged with the States. If this change affects the amount of your State income tax, you should file the required State form.

If you later file a claim and the Service disallows it, you may file suit for refund in a district court or in the United States Claims Court, but you may not file a petition with the United States Tax Court.

We will consider this waiver a valid claim for refund or credit of any overpayment due you resulting from any decrease in tax and penalty shown above, provided you sign and file it within the period established by law for making such a claim.

Who Must Sign

If you filed jointly, both you and your spouse must sign. If this waiver is for a corporation, it should be signed with the corporation name, followed by the signatures and titles of the corporate officers authorized to sign. An attorney or agent may sign this waiver provided such action is specifically authorized by a power of attorney which, if not previously filed, must accompany this form.

If this waiver is signed by a person acting in a fiduciary capacity (for example, an executor administrator, or a trustee) Form 56, Notice Concerning Fiduciary Relationship should, unless previously filed, accompany this form.

Substitute for Form 4549-A	Department of the Treasury - Internal Revenue Service INCOME TAX EXAMINATION CHANGES	Return Form No. 1120

Name and Address of Taxpayer
TECO ENERGY, INC. AND AFFILIATED CORPORATIONS
P.O. BOX 111
TAMPA FL 33601-0111

S.S. or E.I. Number 59-2052286 | Filing Status Corporate

Person With Whom Examination Changes Were Discussed: Name and Title: Shirley M. Ross, V.P. - Corporate Taxes

1. Adjustments to Income	Year: 199212	Year: 199312	Year: 199412
A. Total Adjustments (See FORM 4549-B)	5,769,156.00	8,197,487.00	22,023,573.00
B.			
C.			
D.			
E.			
F.			
G.			
2. Total Adjustments	5,769,156.00	8,197,487.00	22,023,573.00
3. Adjusted Gross or Taxable Income Shown on Return or as Previously Adjusted	150,135,406.00	162,401,078.00	181,983,771.00
4. Corrected Adjusted Gross or Taxable Income	155,904,562.00	170,598,565.00	204,007,344.00
5. Tax	53,007,551.00	59,709,498.00	71,402,721.00
6. Alternative Tax, If Applicable	0.00	0.00	0.00
7. Corrected Tax Liability (Lesser of line 5 or 6)	53,007,551.00	59,709,498.00	71,402,721.00
8. Less a.			
Credits b. Total Credits (See attached schedule)	8,319,797.00	13,519,916.00	17,685,424.00
(Specify) c.			
9. Balance (Line 7 less total of lines 8a through 8c)	44,687,754.00	46,189,582.00	53,717,297.00
10. a.			
b. Other Taxes (See attached schedule)	266,046.00	275,068.00	320,277.00
Plus c.			
11. Total Corrected Income Tax Liability (Line 9 plus total of lines 10a through 10c)	44,953,800.00	46,464,650.00	54,037,574.00
12. Total Tax Shown on Return or as Previously Adjusted	43,620,242.00	44,617,608.00	49,418,056.00
13. Adjustment to: A.			
B.			
14. Deficiency-Increase in Tax or (Overassessment-Decrease in Tax) (Line 11 adjusted by Line 12)	1,333,558.00	1,847,042.00	4,619,518.00
15. Adjustments to Prepayment Credits	0.00	0.00	0.00
16. Balance Due or (Overpayment) (Line 13 adjusted by Line 14) Not Including Interest	1,333,558.00	1,847,042.00	4,619,518.00
17. Penalties, If Any (See explanation)	0.00	0.00	0.00

Other Information:

SEE ATTACHMENT FOR NOTICES AND OTHER INFORMATION

Examiner: Alvin F. Ashley Jr
Alvin F. Ashley Jr

District: North Florida

Date: 11/17/1999

Form CG-4549-A

Form 4549-B (Rev. October 1976)	Department of the Treasury - Internal Revenue Service INCOME TAX EXAMINATION CHANGES	Return Form No. 1120

Name and Address of Taxpayer
TECO ENERGY, INC. AND AFFILIATED CORPORATIONS
P.O. BOX 111
TAMPA FL 33601-0111

Social Security or Employer Identification Number
59-2052286

Adjustments to Income - ISSUE NUMBER	Page No.	Year: 199212	Year: 199312	Year: 199412
A. AMENDED WALDEN WOODS P/S RETURNS ALLOWED			(52,500.00)	(29,914.00)
B. WALDEN WOODS BUS CTR AGREED RAR ADJUSTMENTS				47,944.00
C. ISSUE 03-01 DIVIDEND RECEIVED DEDUCTION	43	2,579,381.00	2,701,171.00	1,983,447.00
D. ISSUE 03-02 -LEVERGED LEASES	78	260,991.00	101,336.00	23,035.00
E. ISSUE 03-03 GROSS RENTS	82	0.00	0.00	(1,039,374.00)
F. ISSUE 04-01 RESEARCH AND DEVELOPMENT EXPENS	84	(1,261,626.00)	(7,838,375.00)	290,815.00
G. ISSUE 04-03 GANNON PROJECT TRUST LOSS	86	230,199.00	0.00	0.00
H. ISSUE 04-04, DEPRECIATION - MACRS PRODUCTIO	89	164,776.00	152,429.00	140,974.00
ISSUE 04-05 DEPRECIATION; CLASS LIFE T&D	93	422,662.00	367,017.00	334,507.00
J. ISSUE 04-06 DEPRECIATION; ADR T&D	98	97,952.00	14,961.00	75,070.00
K. ISSUE 04-07A DEPRECIATION; PRE '54 T&D	103	47,849.00	5,964.00	(6,737.00)
L. ISSUE 04-08A SALARIES AND WAGES	106	332,760.00	243,936.00	225,986.00
M. ISSUE 04-09, EARLY CAPACITY PAYMENTS	109	1,189,065.00	0.00	0.00
N. ISSUE 04-10A AMORT OF EARLY CAPICTY PMTS	124	(809,124.00)	(1,078,831.00)	(1,078,831.00)
O. ISSUE 04-11A COAL CONTRACT BUY-OUT	139	0.00	0.00	(5,100,000.00)
P. ISSUE 04-12 RESEARCH EXPENSE, TOTAL	150	1,261,626.00	9,838,375.00	20,338,572.00
Q. ISSUE 04-13A INTEREST CAPITALIZATION	268	2,119,895.00	1,645,856.00	6,228,039.00
R. ISSUE 04-14 COST OF REMOVAL ASBESTOS	317	289,962.00	341,246.00	(71,813.00)
S. ISSUE 04-15 COST OF REMOVAL ACRS/MACRS	320	2,010,322.00	2,703,375.00	2,278,212.00
T. ISSUE 04-16 DEPRECIATION - COST OF REMOVAL	360	(89,651.00)	(287,666.00)	(461,320.00)
U. ISSUE 04-17 ADR REPAIR ALLOWANCE	411	(1,790,053.00)	0.00	0.00
V. ISSUE 04-18 DEP. - ADR REPAIR ALLOWANCE	420	67,126.00	128,899.00	118,590.00
W. ISSUE 04-19B REPAIRS - POST 1980 ASSETS	428	0.00	1,000.00	1,000.00
X. ISSUE 04-20B DEPRECIATION - POST 1980 REPAI	441	0.00	(37.00)	(111.00)
Y. ISSUE 04-21 DEP. ACRS STEAM PRODUCTION	458	(225,315.00)	(218,792.00)	(185,030.00)
ISSUE 04-22A DEPRECIATION ACRS T & D	461	(246,482.00)	(233,399.00)	(229,432.00)
TOTAL ADJUSTMENTS		6,652,314.00	8,535,965.00	23,883,629.00

Form 4549-B (Rev. October 1976)	Department of the Treasury - Internal Revenue Service INCOME TAX EXAMINATION CHANGES	Return Form No. 1120

Name and Address of Taxpayer
TECO ENERGY, INC. AND AFFILIATED CORPORATIONS
P.O. BOX 111
TAMPA FL 33601-0111

Social Security or Employer Identification Number
59-2052286

Adjustments to Income - ISSUE NUMBER		Year: 199212	Year: 199312	Year: 199412
	Page No			
TOTAL ADJUSTMENTS FROM PREVIOUS PAGE		6,652,314.00	8,535,955.00	23,883,629.00
AA. ISSUE 04-23 DEP. ADR STEAM PRODUCTION	464	2,757.00	(18,427.00)	1,901.00
AB. ISSUE 04-24A DEPRECIATION MACRS T & D	468	(271,944.00)	(249,278.00)	(228,549.00)
AC. ISSUE 04-25 DEPRECIATION HEAVY TRUCKS	472	13,842.00	4,660.00	0.00
AD. ISSUE 04-26 DEPRECIATION STRUCTURES GENERAL	475	(13.00)	(13.00)	(54.00)
AE. ISSUE 04-27 DEPRECIATION ACRS T & D	478	41,744.00	36,293.00	36,095.00
AF. ISSUE 04-28A DEPRECIATION MACRS T & D	481	(810,398.00)	(744,053.00)	(683,070.00)
AG. ISSUE 04-30A FAS 106 CLAIM	491	0.00	676,288.00	192,547.00
AH. ISSUE 04-31 DEP. FOR INTEREST CAPITALIZED	501	(83,459.00)	(310,052.00)	(531,441.00)
ISSUE 04-32 DEP.FOR SALARIES & WAGES CAPITA	525	(8,439.00)	(25,352.00)	(40,956.00)
AJ. ISSUE 04-33A DEP FOR FAS 106 CLAIM	529	0.00	(15,098.00)	(35,939.00)
AK. ISSUE 04-34 DEPRECIATION -MACRS TRUE-UP	534	64.00	483.00	1,709.00
AL. ISSUE 04-37 DEPRECIATION-ACRS STEAM PROD.	547	9,586.00	8,328.00	8,287.00
AM. ISSUE 04-38 DEPRECIATION- C/O FROM 89/90/91	550	(665,802.00)	(593,149.00)	(552,230.00)
AN. ISSUE 04-39 INCOME FROM BAD DEBT RESERVE	567	902,175.00	902,175.00	0.00
AO. ENVIRONMENTAL TAX DED		(8,271.00)	(11,283.00)	(27,957.00)
AP.				
AQ.				
AR.				
AS.				
AT.				
AU.				
AV.				
AW.				
AX.				
AY.				
TOTAL ADJUSTMENTS		5,769,156.00	8,197,487.00	22,023,972.00

Summary of 11-30-99 JE's

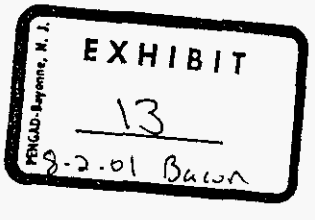
1999 Provision

H:\ELECTRIC\99 Analysis\[Provision 1999.xls]Sheet1

	Account	Sept Entries $ Dr(Cr)	Nov Entries $ Dr(Cr)	TOTAL
TECO Energy				
Unalloc Interest Exp	83791	($3,269,033)	$1,799,503	($1,469,530)
Def. Debit Interest	64912	3,269,033	(1,799,503)	1,469,530
Tampa Electric				
Def Debit Interest	186.89	(8,852,896)	(631,421)	(9,484,317)
Other Int Exp FIT	431.02	12,225,334	1,018,908	13,244,242
Int Pay FIT	237.40	(3,372,438)	(387,487)	(3,759,925)
Inc Tax Cur Payable Exp	409.10	11,083,363	6,632,847	17,716,210
Tax Accr FIT Before Pr Yr	236.00	(11,083,363)	(6,632,847)	(17,716,210)
Provision for RAR 95-98	411.86	(11,550,281)	(2,987,273)	(14,537,554)
Provision for RAR 95-98	282.18	11,550,281	2,987,273	14,537,554
Provision for RAR 92-94	411.85	(7,690,571)	(1,929,833)	(9,620,404)
Provision for RAR 92-94	282.17	7,690,571	1,929,833	9,620,404
Unalloc RAR 89-91	411.83	5,123,038	(831,562)	4,291,476
Unalloc RAR 89-91	282.15	(5,123,038)	831,562	(4,291,476)
Unalloc RAR 86-88	411.84	4,120,540		4,120,540
Unalloc RAR 86-88	282.16	(4,120,540)		(4,120,540)
TECO Investments				
Income Tax Expense-Federal	47500	4,317,595	(616,806)	3,700,789
Taxes Payable-FIT Prior	22002	(4,317,595)	616,806	(3,700,789)

Implicit

Nov. J/Es
'99



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TECO ENERGY, INC.

JOURNAL ENTRY

MONTH OF: Nov 99 SOURCE 71 JOURNAL ENTRY NO. 58

ACCOUNT TITLE:	ACCOUNT NO.					DEBIT	CREDIT
Deferred Debit-Interest	099	649	12	99	099		1,799,503.00
Interest Income	099	837	91	10	099	1,799,503.00	
					TOTAL		$1,799,503.00

TITLE OF ENTRY ABBREVIATED DESCRIPTION:

PREPARED BY:	CHECKED BY:	APPROVED BY:	CARD PUNCH:
DENISE OKOLOVITCH		Mary Ruden 12/7/99	

'89 - '91 <457,125> x .61425 = <280,709>

'92 - '94 2,330,998 1,431,816

'95 - '98 <74,370> <45,682>

1,799,503 1,105,345

TAMPA ELECTRIC COMPANY

H:\92-94 IRS Audit\ENERINT.WK4

MONTH OF: November 1999 SOURCE 71 JOURNAL ENTRY NO. 141

ACCOUNT TITLE	ACCOUNT NO					DEBIT	CREDIT
Deferred Debit Interest	140	186	89	99	140		631,421.00
Int Pay FIT	140	237	40	99	140	631,421.00	

TAMPA ELECTRIC COMPANY H:\92-94 IRS Audit\NOVJRNL.WK4

MONTH OF: November 1999 SOURCE 71 JOURNAL ENTRY NO. 141

ACCOUNT TITLE	ACCOUNT NO					DEBIT	CREDIT
Deferred Debit Interest	140	186	89	99	140		
Other Interest Exp Fed Income Tax	140	431	02	99	140	1,018,908.00	
Int Pay FIT	140	237	40	99	140		1,018,908.00

(Round 1.1)

	Prin	Current	Charge
86-88	(1911008	1911008)	-
89-91	4562903	5195324	631,421
92-94	6771074	5705433	(1065641)
95-98	2601364	4054494	1453130
	Total		1018910

Credit Net Tax to Int Pay

To Int Pay 388,488

To Int Pay

See Reclass ATTACHED

TITLE OF ENTRY	AMOUNT		
To Record Interest Estimate for 86 - 98		1,018,908.00	1,018,908.00

PREPARED BY	CHECKED BY	APPROVED BY	CARD PUNCHED
D.L. Okolovitch		Mary Radcliffe 12/6/99	

TAMPA ELECTRIC COMPANY H:\92-94 IRS Audit\NOVJORNL.WK4

MONTH OF: November 1999 SOURCE 71 JOURNAL ENTRY NO. 141

ACCOUNT TITLE	ACCOUNT NO					DEBIT	CREDIT
Inc Taxes Current Payable	140	409	10	99	140	831,562.00	
Tax ACCR FIT Before Prior Year	140	236	00	99	140		831,562.00
Unallocated RAR 89-91	140	411	83	99	140		831,562.00
Unallocated RAR 89-91	140	282	15	99	140	831,562.00	
Inc Taxes Current Payable	140	409	10	99	140		
Tax ACCR FIT Before Prior Year	140	236	00	99	140		

TAMPA ELECTRIC COMPANY H:\92-94 IRS Audit\NOVJORNL.WK4

MONTH OF: November 1999 SOURCE 71 JOURNAL ENTRY NO. 141

ACCOUNT TITLE	ACCOUNT NO					DEBIT	CREDIT
Provision for RAR 92-94	140	411	85	99	140		1,929,833.00
Provision for RAR 92-94	140	282	17	99	140	1,929,833.00	
Inc_Taxes Current Payable	140	409	10	99	140	1,929,833.00	
Tax ACCR FIT Before Prior Year	140	236	00	99	140		1,929,833.00
Inc_Taxes Current Payable	140	409	10	99	140	598,940.00	
Tax ACCR FIT Before Prior Year	140	236	00	99	140		598,940.00
TITLE OF ENTRY			AMOUNT			4,458,606.00	4,458,606.00
To Record FIT Provision for 92 - 94 RAR							

PREPARED BY	CHECKED BY	APPROVED BY	CARD PUNCHED
D.L. Okolovitch		Mary Ladue 12/7/99	

40

TAMPA ELECTRIC COMPANY H:\92-94 IRS Audit\NOVJORNL.WK4

MONTH OF: November 1999 SOURCE 71 JOURNAL ENTRY NO. 141

ACCOUNT TITLE	ACCOUNT NO					DEBIT	CREDIT
Inc Taxes Current Payable	140	409	10	99	140	285,239.00	
Tax ACCR FIT Before Prior Year	140	236	00	99	140		285,239.00
Provision for RAR 95-98	140	411	86	99	140		2,987,273.00
Provision for RAR 95-98	140	282	18	99	140	2,987,273.00	
Inc Taxes Current Payable	140	409	10	99	140	2,987,273.00	
Tax ACCR FIT Before Prior Year	140	236	00	99	140		2,987,273.00
TITLE OF ENTRY			AMOUNT			6,259,785.00	6,259,785.00
To Record FIT Provision for 95 - 98 RAR							

PREPARED BY	CHECKED BY	APPROVED BY	CARD PUNCHED
D.L. Okolovitch		Mary Rader 12/7/99	

February 26, 1999

Florida Department of Revenue
5050 W. Tennessee Street
Tallahassee, FL 32399-0135

RE: TECO Energy, Inc. and Affiliated Corporations
F.E.I.N. 59-2052286
Years Ended December 31, 1989, 1990, and 1991

Dear Sir/Madam:

Enclosed are two sets of Form F-1120X (Amended Florida Income Tax Returns) for TECO Energy, Inc. and Affiliated Corporations for the above referenced tax years. One set of amended returns is required due to a deficiency that was paid to the IRS on February 27, 1997, resulting from IRS audit adjustments issued in a corrected examination report dated February 24, 1997. The other set of amended returns represents claims for refund for the same three year period. That set represents protective claims for refund following claims for refund filed with the IRS in June 1998. The IRS has yet to respond to the refund claims, therefore, TECO Energy requests that the Florida DOR hold these claims in abeyance until there is final resolution with the IRS. At that time, final amended returns will be filed.

Upon receipt of the IRS examination report, TECO Energy executed a Form 870 (Waiver of Restrictions on Assessment and Collection of Deficiency and Tax and Acceptance of Overassessment) on February 28, 1997, and paid the tax deficiency and interest thereon. TECO Energy then filed refund claims with respect to certain of the items that were the subject of the Examination Report. The collective amount of refund sought exceeded the deficiency that TECO Energy paid.

Also enclosed is a TECO Energy check representing payment of the tax deficiency shown on the amended returns and the associated interest.

The following is a summary of the tax and interest due on the 1989, 1990, and 1991 Amended Florida Income Tax Returns:

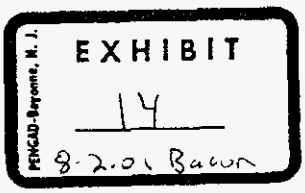
	1989	1990	1991	Total
Tax due	$ 739,181	$365,591	$239,497	$1,344,269
Interest	541,121	230.162	127.360	898.643
Total	$1.280.302	$595.753	$366.857	$2.242.912

If you have any questions regarding these amendments, please contact me at (813) 228-4747.

Very truly yours,

Donald A. Mulligan
Vice President, Taxes

TECO ENERGY, INC.
P.O. BOX 111
TAMPA, FL 33601-0111
813-228-4111
HTTP://WWW.TECOENERGY.COM
AN EQUAL OPPORTUNITY COMPANY



Account Name: Deferred Debit-Interest
Account No : 649.12

Balance Sheet									Income Statement	
Entry Description	Beg Balance	Debit	Credit	OBO Debit	OBO Credit	ADJS Debit	ADJS Credit	End Balance	Debit	Credit
	(2,012,506)							(2,012,506)		
Jan. Accrual								0		0
Bal 01/99	0	0	0	0	0	0	0	(2,012,506)	0	0
Interest, Fl Dept of Rev - '89, '90, and '91	898,643							898,643		0
Bal 02/99	898,643	0	0	0	0	0	0	(1,113,863)	0	0
ALLOCATE TAX INT 89-91								0		
Bal 03/99	898,643	0	0	0	0	0	0	(1,113,863)	0	0
April Accrual								0		
Bal 04/99	898,643	0	0	0	0	0	0	(1,113,863)	0	0
Paid-1995 FIT Audit Assessmt	3,903							3,903		
Interest on '95 FIT Audit Assessmt	1,544							1,544		
Bal 05/99	904,090	0	0	0	0	0	0	(1,108,416)	0	0
June Accrual								0		
Bal 06/99	904,090	0	0	0	0	0	0	(1,108,416)	0	0
July Accrual								0		
Bal 07/99	904,090	0	0	0	0	0	0	(1,108,416)	0	0
Aug. Accrual								0		
Bal 08/99	904,090	0	0	0	0	0	0	(1,108,416)	0	0
Accrued (Provision outside rtn position)	3,269,033							3,269,033		
Bal 09/99	4,173,123	0	0	0	0	0	0	2,160,617	0	0
To reclass FIT for '87 and '88 Audit-Tax Po	2,666,331							2,666,331		
Tax & Interest on '87 Audit-total amt of IRS check rec'd		(1,994,016)						(1,994,016)		
Tax & Interest on '88 Audit-total amt of IRS check rec'd		(1,653,174)						(1,653,174)		
October Accrual								0		
Bal 10/99	6,839,454	(3,647,190)		0	0	0	0	1,179,758	0	0
Accrued (Provision outside rtn position)		(1,799,503)						(1,799,503)		
Bal 11/99	6,839,454	(5,446,693)		0	0	0	0	(619,745)	0	0
								0		
December Accrual								0		
Bal 12/99	6,839,454	(5,446,693)		0	0	0	0	(619,745)	0	0

Net amount of ($980,859) represents interest income recv'd for '87 yr of ($536,262) and '88yr of ($444,597).

REQUISITION FOR VOUCHER - CH

by 5/3/99 P.M.

TO THE COMPTROLLER

PLEASE AUTHORIZE ISSUANCE OF VOUCHER CHECK

IN THE AMOUNT OF $ 5,446.86

TODAY'S DATE 4/30 19__

Internal Revenue Service

TO THE ORDER OF (May Continue on Line Below)

SS NO. REQUIRED FOR EMPLOYEES

ADDRESS OR DEPT

CITY STATE ZIP

THIS VOUCHER CHECK IS FOR 1994 Form 1120 Assessment

EXPLANATION AND/OR SPECIAL INSTRUCTIONS

Assessment on partnership income from Walden Woods

CHARGE	DESCRIPTION	QUANTITY
09964912999		1,543.
09964913999		3,903.

REQUESTED BY Cracklin-mcr 5/3/99 APPROVED BY Jm Ross APPROVAL DATE 5/3/99

SOURCE 31

PO NO

PRICE & EXT.

MAIL OK

OK TO PAY

USED FOR

REFERENCE NUMBER	ACCOUNT NUMBER: ORIGINATING LOCATION	NARUC OR REG.	SUB	COST DESC.	BENEFITING LOCATION	AMOUNT

DESCRIPTION QUANTITY

H:\92-94IRS\ENERGINT.WK4

TECO ENERGY, INC.

JOURNAL ENTRY

MONTH OF: SEP 99 SOURCE 71 JOURNAL ENTRY NO. 58

ACCOUNT TITLE:	ACCOUNT NO.					DEBIT	CREDIT
Deferred Debit-Interest	099	649	12	99	099	3,269,033.00	
Interest Income	099	869	24	99	099		3,269,033.00
See Energy A/C Analysis for backup - maintained by Corporate Tax Dept.							
					TOTAL		$3,269,033.00

TITLE OF ENTRY: Estimate of interest 1986 - 1998

ABBREVIATED DESCRIPTION:

PREPARED BY:	CHECKED BY:	APPROVED BY:	CARD PUNCH:
DENISE OKOLOVITCH 10/4/99		Mary Kaalen 10/4/99	

89

3269033
X .61425
2008004

Agrees to Summary Schedule

'86 - '88	<805,981>	X .61425 =	<495,074>
'89 - '91	<1,346,841>		<827,297>
'92 - '94	<1,542,533>		<947,501>
'95 - '98	426,322		261,868
	<3,269,033>		<2,008,004>

cNERGY

JOURNAL ENTRY

MONTH OF	SOURCE	JOURNAL ENTRY
October 19 99	79	NO.

EXPLANATION:

ACCOUNT TITLE	ACCOUNT NO. ORIG LOC	ACCOUNT MAJOR	ACCOUNT SUB	RES	DEN LOC	DEBIT	CREDIT
Deferred Debit – Interest	099	647	12	99	099	2,666,331.00	
Deferred Debit – Unallocated FIT	099	647	13	99	099		2,666,331.00

06

87 FIT 1457754

88 FIT 1208577

2,666,331

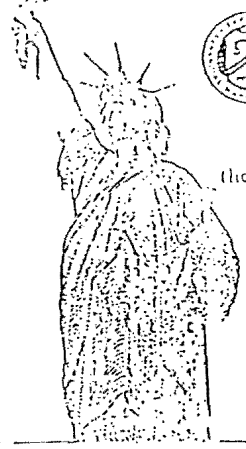
TOTAL DEBITS/CREDITS 2,666,331.00 2,666,331.00

ABBREVIATED DESCRIPTION (Block Print): Allocate INT and TAX

TITLE OF ENTRY: To Reclass FIT for '87 and '88

PREPARED BY	DATE	CHECKED BY	APPROVED BY	CARD PUNCHED BY
Mary Rader	10/14/99	Deb Okolowitz 12/13/99		

United States Treasury 15-61/000 A 094,743,142



Check No.

09 27 99 64 AUSTIN, TEXAS - 2221 01816679

592052286 M1 ATSC 990702671L 20090700

Pay to the order of

TECO ENERGY INC
C/O CORPORATE TAX DEPARTMENT
PO BOX 111
TAMPA, FL 33601-0111112

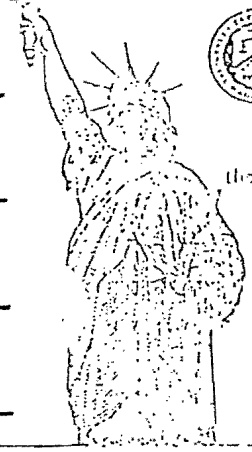
$1653174*31

VOID AFTER ONE YEAR

59 02/198812
26476

⑈ 2221 ⑈

United States Treasury 15-61/000 A 094,743,141



Check No.

09 27 99 54 AUSTIN, TEXAS - 2221 01816678

592052286 M1 AISC 990702670L 20090700

Pay to the order of

TECO ENERGY INC
C/O CORPORATE TAX DEPARTMENT
PO BOX 111
TAMPA, FL 33601-0111112

$1994015*69

VOID AFTER ONE YEAR

59 02/198712
26476

⑈ 2221 ⑈

649.12 Def. Debit - Int

Tax + Interest on 87 + 88 Audit settlement. Book to 649.12 - unless when we can break out tax and interest.

87 1994015.69
88 1653174.31
3,647,190.00

91 See other 86-88 checks

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TECO ENERGY, INC.

JOURNAL ENTRY

MONTH OF: Nov 99 SOURCE 71 JOURNAL ENTRY NO. 58

ACCOUNT TITLE:	ACCOUNT NO.					DEBIT	CREDIT
Deferred Debit-Interest	099	649	12	99	099		1,799,503.00
Interest Income	099	837	91	10	099	1,799,503.00	
						TOTAL	$1,799,503.00

TITLE OF ENTRY ABBREVIATED DESCRIPTION:

PREPARED BY:	CHECKED BY:	APPROVED BY:	CARD PUNCH:
DENISE OKOLOVITCH		Mary Fowler 12/7/99	

'89 - '91 < 457,125> x .6145 = <280,781>

'92 - '94 2,330,998 1,431,816

'95 - '98 < 74,370> < 45,682>

1,799,503 1,105,345

District Director

Date: March 10, 2000

In Reply Refer to:
CEP/STOP 4104
Form:
1120
Person to Contact:
Albert L. Kimbrough Jr. 59-01078
Contact Telephone Number:
(813) 348-1814

TECO ENERGY, INC. AND AFFILIATED
CORPORATIONS
P.O. BOX 111
TAMPA, FL 33601-0111

Tax Year Ended:	December 31, 1992	December 31, 1993	December 31, 1994
Deficiency:			
Increase in tax	967,165.00	1,352,943.00	4,237,264.00

Dear TECO ENERGY, INC. AND AFFILIATED:

We're enclosing a report proposing a change to the amount of your tax for the year(s) shown above. Please read the report, decide whether you agree or disagree with us, and respond within 30 days from the date of this letter. (Our report may not reflect the results of later examinations of partnerships, S corporations, trusts, etc. in which you may have an interest. Changes made to their tax could affect your tax.)

IF YOU AGREE, you should:

92 - 94
Re-mail RAR

1. Sign and date the enclosed agreement form.
2. Return the signed agreement form to us.
3. Enclose payment of the tax and interest, if you owe additional tax. (The person whose name and telephone number appear above will be able to tell you how much interest is due to the date you intend to make payment. See enclosed Publication 5 for additional payment information.)

It is to your advantage to pay the full amount you owe as soon as possible to reduce additional interest charges. If you can't pay the amount in full, but agree with our findings, please contact the person above to discuss different methods of payment, such as paying in installments.

If you can only pay part of your bill, you should pay as much as you can and immediately write us or visit your nearest IRS office to explain your circumstances. We may ask you to complete a Collection Information Statement. We will use this form to review your financial condition to determine how you can pay the amount due.

(continued next page)

EXHIBIT
15
8-2-01 Bacon
PENGAD-Bayonne, N.J.

/STOP 4104
3648 WEST COLUMBUS DRIVE
TAMPA, FL 33607

Letter 950(DO)(CG)(Rev. 10-95)

After we receive your signed agreement form, we will close your case. If you didn't enclose payment for the additional tax and interest we will bill you for any unpaid amounts.

IF YOU DON'T AGREE and wish a conference with the Regional Office of Appeals, YOU MUST LET US KNOW within 30 days.

1. If the proposed change and penalties to your tax is $2,500 OR LESS for any tax period, you may call the person whose name and telephone number appear above; he or she will arrange for your case to be forwarded to Appeals. Or, you may send us your request by checking the appropriate section at the end of this letter. We've enclosed an additional copy of this letter for this purpose.

2. If the proposed change and penalties to your tax is more than $2,500 but $10,000 or less for any tax period, you must send us a BRIEF written statement of the issues that you don't agree with. Write your statement in the space at the end of this letter. We've enclosed an additional copy of this letter for this purpose.

3. If the proposed change and penalties to your tax is MORE THAN $10,000 for any tax period, we will require a written protest. Follow the instructions in the enclosed Publication 5.

You should mail your signed agreement form, a copy of this letter, or your protest to us within 30 days.

PLEASE MAIL TO: Internal Revenue Service
Attn: Albert L. Kimbrough Jr.
CEP/STOP 4104
3848 WEST COLUMBUS DRIVE
TAMPA, FL 33607

An Appeals Officer, who hasn't previously examined your return, will take a fresh look at your case. The Appeals Office is independent of the District Director. Most disputes considered by Appeals are resolved informally and promptly. By going to Appeals, you may avoid court costs (such as the Tax Court's $60 filing fee), clear up this matter sooner, and prevent interest from continuing. An Appeals Officer will telephone you and, if necessary, arrange an appointment.

The Tax Court is authorized to award damages of up to $25,000 to the United States where a taxpayer unreasonably fails to pursue available administrative remedies. Damages could be awarded under this provision, for example, if the Court concluded that it was unreasonable for a taxpayer to bypass Appeals and then file a petition in the Tax Court. The Tax Court will make that determination based upon the facts and circumstances of each case. Generally, IRS won't ask the Court to award damages under this provision if you made a good faith effort to meet with Appeals and to settle your case before petitioning the Tax Court.

(continued next page)

If you don't reach an agreement with Appeals, or if you don't respond to his letter, you will receive another letter that will tell you how to obtain Tax Court review. If you decide to bypass Appeals and petition the Tax Court, your case will normally be assigned for settlement to an Appeals office before the Tax Court hears the case.

IF YOU AREN'T SURE what to do or have other questions, call the person whose name and telephone number appear above. We will be glad to discuss your choices.

Sincerely yours,

Ted Brown
District Director

Enclosures:
Copy of this letter
Examination Report
Agreement Form
Publication 1
Publication 5

STOP 4104
848 WEST COLUMBUS DRIVE
TAMPA, FL 33607

Letter 950(DO)(CG)(Rev. 10-95)

STATEMENT OF DISPUTED ISSUES

TECO ENERGY, INC. AND AFFILIATED	TIN: 59-2052286 REF: CEP/STOP 4104

Check appropriate block:

[ ] THE PROPOSED CHANGE IS $2,500 OR LESS FOR ANY TAX PERIOD.
I disagree and wish a conference with an Appeals Officer.
(Note: You may call and request a conference if you prefer.)

Signature Date

[ ] THE PROPOSED CHANGE IS OVER $2,500 BUT IS $10,000 OR LESS FOR ANY TAX PERIOD.

Issue(s) I Disagree With:	Reason for Disagreement:

(If more space is needed, attach a separate sheet.)

Signature Date

Letter 950(DO)(CG)(Rev. 10-95)

March 10, 2000

HAND DELIVERED

District Director
Internal Revenue Service
3848 West Columbus Drive
Tampa, FL 33607

Attn: 4104/AFA
Badge #:59-00724

Re: PROTEST
TECO Energy, Inc. and Affiliated Corporations
P.O. Box 111
Tampa, Florida 33601-0111
Employer I.D. No.: 59-2052286
Reply Ref. No.: 4104/AFA
Badge #: 59-00724
Revised Examination Report Dated March 10, 2000
Income Tax Reports for Years ended 12/31/92,
12/31/93 and 12/31/94

Dear Sirs:

This letter is in response to your letter to us dated March 10, 2000, which furnished us with a copy of your revised Examination Report. We would like to request a conference with the Appeals Officer based upon our Protest previously filed January 18, 2000.

Very truly yours,

TECO Energy, Inc.

Shirley M Ross

Shirley M. Ross
Vice President
Corporate Taxes

rec 3/10/2000
AFA

TECO ENERGY, INC.
P.O. BOX 111
TAMPA, FL 33601-0111
813-228-4111
HTTP://WWW.TECOENERGY.COM
AN EQUAL OPPORTUNITY COMPANY

"Corrected Report"

Substitute for Form 4549-A	Department of the Treasury - Internal Revenue Service INCOME TAX EXAMINATION CHANGES	Return Form No. 1120

Name and Address of Taxpayer
TECO ENERGY, INC. AND AFFILIATED CORPORATIONS
P.O. BOX 111
TAMPA FL 33601-0111

S.S. or E.I. Number 59-2052286 | Filing Status Corporate

Person With Whom Examination Changes Were Discussed | Name and Title: Shirley M. Ross, V.P. - Corporate Taxes

1. Adjustments to Income	Year: 199212	Year: 199312	Year: 199412
A. Total Adjustments (See FORM 4549-B)	4,111,833.00	5,992,436.00	20,383,728.00
B.			
C.			
D.			
E.			
F.			
G.			
2. Total Adjustments	4,111,833.00	5,992,436.00	20,383,728.00
3. Adjusted Gross or Taxable Income Shown on Return or as Previously Adjusted	180,135,406.00	162,401,078.00	181,983,771.00
4. Corrected Adjusted Gross or Taxable Income	184,247,239.00	168,393,514.00	202,367,499.00
5. Tax	62,444,061.00	58,937,730.00	70,828,625.00
6. Alternative Tax, If Applicable	0.00	0.00	0.00
7. Corrected Tax Liability (Lesser of line 5 or 6)	62,444,061.00	58,937,730.00	70,828,625.00
8. Less a.			
Credits b. Total Credits (See attached schedule)	5,120,512.00	13,239,296.00	17,492,310.00
(Specify) c.			
9. Balance (Line 7 less total of lines 8a through 8c)	44,323,549.00	45,698,434.00	53,337,315.00
10. a.			
b. Other Taxes (See attached schedule)	263,858.00	272,117.00	318,235.00
Plus c.			
11. Total Corrected Income Tax Liability (Line 9 plus total of lines 10a through 10c)	44,587,407.00	45,970,551.00	53,655,550.00
12. Total Tax Shown on Return or as Previously Adjusted	43,620,242.00	44,617,608.00	49,413,286.00
13. Adjustment to: A.			
B.			
14. Deficiency-Increase in Tax or (Overassessment-Decrease in Tax)' (Line 11 adjusted by Line 12)	967,165.00	1,352,943.00	4,237,264.00
15. Adjustments to Prepayment Credits	0.00	0.00	0.00
16. Balance Due or (Overpayment) (Line 13 adjusted by Line 14) Not Including Interest	967,165.00	1,352,943.00	4,237,264.00
17. Penalties, If Any (See explanation)	0.00	0.00	0.00

Other Information:

SEE ATTACHMENT FOR NOTICES AND OTHER INFORMATION

Examiner: Alvin F. Ashley Jr.

District: North Florida

Date: 03/08/2000

TAXPAYER: TECO ENERGY, INC. AND AFFILIATED CORPORATIONS
TIN: 59-2052286

Tax Periods: 199212 199312 199412

OTHER INFORMATION

The Internal Revenue Service has agreements with State tax agencies under which information about Federal tax, including increases or decreases, is exchanged with the States. If this change affects the amount of your State income tax, you should file the required State form.

You may be subject to backup withholding if you underreport your interest, dividend, or patronage dividend income and do not pay the required tax. The IRS may order backup withholding at 20 percent after four notices have been issued to you over a 120-day period and the tax has been assessed and remains unpaid.

This report supersedes report dated 11/17/1999.

Form 4549-B (Rev. October 1976)	Department of the Treasury - Internal Revenue Service INCOME TAX EXAMINATION CHANGES	Return Form No. 1120

Name and Address of Taxpayer
TECO ENERGY, INC. AND AFFILIATED CORPORATIONS
P.O. BOX 111
TAMPA FL 33601-0111

Social Security or Employer Identification Number
59-2052286

Adjustments to Income - ISSUE NUMBER	Page No.	Year: 199212	Year: 199312	Year: 199412
A. AMENDED WALDEN WOODS P/S RETURNS ALLOWED			(52,500.00)	(29,914.00)
B. WALDEN WOODS BUS CTR AGREED RAR ADJUSTMENTS				47,944.00
C. ISSUE 03-01 DIVIDEND RECEIVED DEDUCTION		2,579,381.00	2,701,171.00	1,983,447.00
D. ISSUE 03-02 -LEVERGED LEASES		260,991.00	101,336.00	23,035.00
E. ISSUE 03-03 GROSS RENTS		0.00	0.00	(1,039,374.00)
F. ISSUE 04-01 RESEARCH AND DEVELOPMENT EXPENS		(1,261,626.00)	(7,838,375.00)	290,815.00
G. ISSUE 04-03 GANNON PROJECT TRUST LOSS		230,199.00	0.00	0.00
H. ISSUE 04-04, DEPRECIATION - MACRS PRODUCTIO		164,776.00	152,429.00	140,974.00
I. ISSUE 04-05 DEPRECIATION; CLASS LIFE T&D		422,662.00	367,017.00	334,507.00
J. ISSUE 04-06 DEPRECIATION; ADR T&D		97,952.00	14,961.00	75,070.00
K. ISSUE 04-07A DEPRECIATION; PRE '54 T&D		47,848.00	5,564.00	(6,737.00)
L. ISSUE 04-08A SALARIES AND WAGES		332,760.00	243,936.00	225,986.00
M. ISSUE 04-09, EARLY CAPACITY PAYMENTS		1,189,065.00	0.00	0.00
N. ISSUE 04-10A AMORT OF EARLY CAPICTY PMTS		(809,124.00)	(1,078,831.00)	(1,078,831.00)
O. ISSUE 04-11A COAL CONTRACT BUY-OUT		0.00	0.00	(5,100,000.00)
P. ISSUE 04-12 RESEARCH EXPENSE, TOTAL		1,261,626.00	9,838,375.00	20,338,572.00
Q. ISSUE 04-13A INTEREST CAPITALIZATION		2,119,895.00	1,645,856.00	6,228,039.00
R. ISSUE 04-14 COST OF REMOVAL ASBESTOS		289,962.00	341,246.00	(71,813.00)
S. ISSUE 04-15A COST OF REMOVAL ACRS/MACRS	C37	0.00	0.00	0.00
T. ISSUE 04-16A DEPRECIATION - COST OF REMOVAL	C38	(10,874.00)	(33,729.00)	(41,295.00)
U. ISSUE 04-17 ADR REPAIR ALLOWANCE		(1,790,053.00)	0.00	0.00
V. ISSUE 04-18 DEP. - ADR REPAIR ALLOWANCE		67,126.00	128,899.00	118,590.00
W. ISSUE 04-19B REPAIRS - POST 1980 ASSETS		0.00	1,000.00	1,000.00
X. ISSUE 04-20B DEPRECIATION - POST 1980 REPAI		0.00	(37.00)	(111.00)
Y. ISSUE 04-21 DEP. ACRS STEAM PRODUCTION		(225,315.00)	(218,792.00)	(185,030.00)
Z. ISSUE 04-22A DEPRECIATION ACRS T & D		(246,482.00)	(233,399.00)	(229,432.00)
TOTAL ADJUSTMENTS		4,720,769.00	6,086,527.00	22,025,442.00

Form 4549-B (Rev. October 1976)	Department of the Treasury - Internal Revenue Service INCOME TAX EXAMINATION CHANGES	Return Form No. 1120

Name and Address of Taxpayer
TECO ENERGY, INC. AND AFFILIATED CORPORATIONS
P.O. BOX 111
TAMPA FL 33601-0111

Social Security or Employer Identification Number
59-2052286

Adjustments to Income - ISSUE NUMBER	Page No.	Year: 199212	Year: 199312	Year: 199412
TOTAL ADJUSTMENTS FROM PREVIOUS PAGE		4,720,769.00	6,086,527.00	22,025,442.00
AA. ISSUE 04-23 DEP. ADR STEAM PRODUCTION		2,757.00	(18,427.00)	1,901.00
AB. ISSUE 04-24A DEPRECIATION MACRS T & D		(271,944.00)	(249,278.00)	(228,549.00)
AC. ISSUE 04-25 DEPRECIATION HEAVY TRUCKS		13,842.00	4,660.00	0.00
AD. ISSUE 04-26 DEPRECIATION STRUCTURES GENERAL		(13.00)	(13.00)	(54.00)
AE. ISSUE 04-27 DEPRECIATION ACRS T & D		41,744.00	36,293.00	36,095.00
AF. ISSUE 04-28B DEPRECIATION MACRS T & D	C46	(655,772.00)	(602,115.00)	(552,806.00)
AG. ISSUE 04-30A FAS 106 CLAIM		0.00	676,288.00	192,547.00
AH. ISSUE 04-31 DEP. FOR INTEREST CAPITALIZED		(88,459.00)	(310,052.00)	(531,441.00)
.. ISSUE 04-32 DEP.FOR SALARIES & WAGES CAPITA		(8,439.00)	(25,352.00)	(40,956.00)
AJ. ISSUE 04-33A DEP FOR FAS 106 CLAIM		0.00	(15,098.00)	(35,939.00)
AK. ISSUE 04-34 DEPRECIATION -MACRS TRUE-UP		64.00	483.00	1,709.00
AL. ISSUE 04-37 DEPRECIATION-ACRS STEAM PROD.		9,586.00	8,328.00	8,287.00
AM. ISSUE 04-38A DEPRECIATION- C/O FROM 89/90/9	C64	(548,394.00)	(493,651.00)	(466,834.00)
AN. ISSUE 04-39 INCOME FROM BAD DEBT RESERVE		902,175.00	902,175.00	0.00
AO. ENVIRONMENTAL TAX DED		(6,083.00)	(8,332.00)	(25,674.00)
AP.				
AQ.				
AR.				
AS.				
AT.				
AU.				
AV.				
AW.				
AX.				
AY.				
.				
TOTAL ADJUSTMENTS		4,111,833.00	5,992,436.00	20,383,728.00

Account Name: Deferred Debit-Interest
Account No : 649.12

Balance Sheet									Income Statement	
Entry Description	Beg Balance	Debit	Credit	OBO Debit	OBO Credit	ADJS Debit	ADJS Credit	End Balance	Debit	Credit
	(619,745)							(619,745)		
To correct entry posted 7/99		16,610						16,610		0
Bal 01/00				0	0	0	0	(603,135)	0	0
								0		0
Bal 02/00				0	0	0	0	(603,135)	0	0
								0		
Bal 03/00				0	0	0	0	(603,135)	0	0
								0		
Bal 04/00				0	0	0	0	(603,135)	0	0
								0		
								0		
Bal 05/00				0	0	0	0	(603,135)	0	0
								0		
Bal 06/00				0	0	0	0	(603,135)	0	0
								0		
Bal 07/00				0	0	0	0	(603,135)	0	0
								0		
Bal 08/00				0	0	0	0	(603,135)	0	0
								0		
Bal 09/00				0	0	0	0	(603,135)	0	0
Pymt of Estimated Interest for 92-94 RAR		4,442,628						4,442,628		
'92-'94 RAR Pymt - Allocation of								0		
Tampa Electric portion			(5,679,859)					(5,679,859)		
Bal 10/00				0	0	0	0	(1,840,366)	0	0
Reclass to reflect tax recvd for 86-88		308,331						308,331		
Refund w/filing of final amended for 1987 State as a result				0	All tax; no interest			0		
of 1986-88 Appeals Settlement (State Interest)			(308,331)					(308,331)		
Estimate of Interest								0		
Bal 11/00				0	0	0	0	(1,840,366)	0	0
Reversal of 86-88 alloc of RAR from 5/97		4,288,992						4,288,992		
								0		
Bal 12/00				0	0	0	0	2,448,626	0	0

Components:

Correction of '99 error	16,610
Total Pymt of Int - '92-'94 RAR	4,442,628
Allocation to Electric for '92-'94 Pymt	(5,679,859)
Reversal of 5/97 entry to book '86-'88 RAR	4,288,992
	3,068,371

Beg. Balance	(619,745)
Ending Balance	2,448,626
	3,068,371

EXHIBIT 16 8-2-01 Bucar

TECO ENERGY

REQUISITION FOR VOUCHER - CHECK

A-105 R 6 82

TO THE CONTROLLER

TODAY'S DATE 10/2 2000

PLEASE AUTHORIZE ISSUANCE OF VOUCHER / CHECK

IN THE AMOUNT OF $ 11,000,000.00

INTERNAL REVENUE SERVICE

TO THE ORDER OF (May Continue on Line Below)

SS NO. REQUIRED FOR EMPLOYEES

ADDRESS OR DEPT.

CITY STATE ZIP –

THIS VOUCHER / CHECK IS FOR Payment of 92-94 Federal Inc. Taxes

EXPLANATION AND/OR SPECIAL INSTRUCTIONS

Payment of Taxes per Revised Plan And estimate of interest for 92-94 Audit cycle.

CHARGE	DESCRIPTION	QUANTITY	
0996491399099			6,557,372.
0996491299099			4,442,628.

REQUESTED BY Mary Rader 9/30/00 APPROVED BY S A Myers APPROVAL DATE 9/30/2000

94

TECO ENERGY

JOURNAL ENTRY

MONTH OF	SOURCE	JOURNAL ENTRY NO
Oct. 2000	79	5507

EXPLANATION:

ACCOUNT TITLE	ACCOUNT NO. ORIG LOC	ACCOUNT MAJOR	ACCOUNT SUB	RES	DEST LOC	DEBIT	CREDIT
Accts Rec – Tampa Electric	099	644	01	99	913	15,210,761.00	
Deferred Debit – Unallocated FIT	099	644	13	99	099		9,530,907.00
Deferred Debit – Interest	099	644	14	99	099		5,679,854.00

TECO ENERGY

JOURNAL ENT.

MONTH OF	SOURCE	JOURNAL ENTRY NO
Nov. 19 00	79	

EXPLANATION:

ACCOUNT TITLE	ACCOUNT NO. ORIG LOC	ACCOUNT MAJOR	ACCOUNT SUB	RES	DEN LOC	DEBIT	CREDIT
Def. Debit - SIT	099	649	14	99	099		308,331.00
Def. Debit - Interest (State) ✓	099	649	12	99	099	308,331.00	

96

Reclass to reflect Tax received for 86-88. Amount was erroneously charged to interest. See Attached.

1981-88	86	150,316	As check indicated
Appeals	87	169,716	Amt was '87 only
Statement	88	158,015	And it was assumed
		478,047	Remainder was interest. Incorrect Assumption

TOTAL DEBITS/CREDITS

ABBREVIATED DESCRIPTION (Block Print): Reclass of Amts TO ST TAX

TITLE OF ENTRY: Reclass of Tax

PREPARED BY	DATE	CHECKED BY	APPROVED BY	CARD PUNCHED BY
Mary	11/27/00	11/27/00		

STATE OF FLORIDA
OFFICE OF COMPTROLLER
REMITTANCE ADVICE

4-33 920 7

THIS IS NOT A PAYMENT D

SAMAS ACCOUNT CODE	OLO	SITE	DOCUMENT NUMBER	OBJECT	DATE	PAYM
	40000	RF	C1000012490	8600	11/01/00	083

PAYMENT AMOUNT
$ 478,047.00

DO NOT CASH

AGENCY DOCUMENT N
VRN0806

-OR- CORP. INCOME TAX FYE 12/87AMENDED

TECO ENERGY INC & AFFILIATED CO
PO BOX 111
TAMPA FL 33601-0111

PLEASE DIRECT QUESTIONS TO: (850) 488-8937, DEPARTMENT OF REVENUE - REFUNDS

VENDORS NOW CAN VIEW PAYMENT INFORMATION AT HTTP://FLAIR.DBF.STATE.FL.US

INVOICE NUMBER	AMOUNT
TAX-AMT	$ 478,047.00

I.n Ca
Ca 478,047.
Def Debit - Tax 169,716
Def Debit - Int 308,331
State

Refund w/ filing of final state
return & is audited & agreed
Settlement 2-28-88)

DETACH CAREFULLY AND RETAIN FOR YOUR RECORDS BEFORE CASHING OR DEPOSITING THE WARRANT

SAMAS ACCOUNT CODE	DOCUMENT NO.	OBJECT	DATE	WARRANT NO	
44-101000902-44100200-00-22002000	C1000012490	8600	11/01/00	0831865	63-69/630

VOID AFTER 12 MONTHS

4-33 920 7

STATE OF FLORIDA
OFFICE OF COMPTROLLER

PAY

AMOUNT
$***478,047.0

FOUR-HUNDRED-SEVENTY-EIGHT-THOUSAND-FORTY-SEVEN & 00/100 DOLLARS

TO THE ORDER OF:

TECO ENERGY INC & AFFILIATED CO
PO BOX 111
TAMPA FL 33601-0111

VENDOR ID NUMBER

EXPENSE WARRANT

TO: TREASURER OF FLOR
TALLAHASSEE

Robert L Milligan

COMPTROLLER OF FLORIDA

TECO ENERGY, INC.

JOURNAL ENTRY

MONTH OF: DEC 00 SOURCE 71 JOURNAL ENTRY NO. 58

ACCOUNT TITLE:	ACCOUNT NO.					DEBIT	CREDIT
ACCTS REC - ELECTRIC	099	646	01	99	913		9,210,018.00
DEF DEBIT - UNALLOCATED FIT	099	649	13	99	099	4,921,026.00	
DEF DEBIT - INTEREST	099	649	12	99	099	4,288,992.00	
NET INCOME EFFECT DR(CR) $0.00							
						TOTAL	$9,210,018.00

TITLE OF ENTRY

REVERSAL OF 86-88 ALLOCATION OF RAR FROM MAY '97

ABBREVIATED DESCRIPTION: REV 86-88 RAR ALLOCATION

PREPARED BY:	CHECKED BY:	APPROVED BY:	CARD PUNCH:
MARY RADER	DR Okolovich 1/4/00		

98

TECO ENERGY

JOURNAL EN

MONTH OF	SOURCE	JOURNAL ENTRY NO.
Mar 19 01	79	

EXPLANATION:

ACCOUNT TITLE	ORIG LOC	ACCOUNT MAJOR	ACCOUNT SUB	RES	DEN LOC	DEBIT	CREDIT
Interest Income	099	837	91	99	099	805,981	
Def'd Debit - Interest	099	649	12	99	099		805,98

	After-Tax Amount	Before-Tax Amount
'86-'88	<495,074>	<805,981>
'89-'91	<827,297>	<1,346,841>
'92-'94	<947,501>	<1,542,533>
'95-'97	261,868	426,331
	<2008,004>	<3,269,033>

3,269,033 x .61425 = 2008,004

TOTAL DEBITS/CREDITS

ABBREVIATED DESCRIPTION (Block Print): 9/99 estimate for 86-'88 C/

TITLE OF ENTRY: to reverse 9/99 estimate of Interest for '86-'88 & clear def'd debit - interest acco

PREPARED BY	DATE	CHECKED BY	APPROVED BY	CARD PUNCHED BY
[signature]	8/8/01		Mar Lacker 3/25/01	

99

PENGAD-Bayonne, N. J. EXHIBIT 17 8-2-01 Becker

TECO ENERGY

JOURNAL ENTR

MONTH OF	SOURCE	JOURNAL ENTRY NO.
Mar 19 01	79	

EXPLANATION:

ACCOUNT TITLE	ACCOUNT NO. ORIG LOC	ACCOUNT MAJOR	ACCOUNT SUB	DEN	DEN LOC	DEBIT	CREDIT
Def'd Debit - Interest	099	649	12	99	099	$2,670,557	
Accts Rec/Pay - TECO Coal	099	684	03	99	099		$25,878
Accts Payable - TECO Transport	099	684	02	99	099		573,689
Accts Payable - Tampa Electric	099	684	01	99	099		$2,070,990
1986 552,187							
1987 1,216,115							
1988 902,255							
$2,670,557							
TOTAL DEBITS/CREDITS							

130

ABBREVIATED DESCRIPTION (Block Print): 1986-88 APPEALS SETTLEMENT

TITLE OF ENTRY: To reallocate interest based on final IRS Appeals Settlement for '86-'88

PREPARED BY	DATE	CHECKED BY	APPROVED BY	CARD PUNCHED BY
[signature]	2/8/01		Mary Ruel 3/25/	

TECO ENERGY

JOURNAL ENTRY

A-IF 501

MONTH OF	SOURCE	JOURNAL ENTRY NO.
Mar 19 01	79	

EXPLANATION:

ACCOUNT TITLE	ACCOUNT NO. ONIC LOC	ACCOUNT MAJOR	ACCOUNT SUB	DES	DEN LOC	DEBIT	CREDIT
Misc Interest Expense - Unallocable	099	837	01	99	099	130,068	
Def'd Debit - Unallocated Interest	099	649	12	99	099		130,068

101

1986 140,058
1987 < 13,202 >
1988 3,212
130,068

TOTAL DEBITS/CREDITS

ABBREVIATED DESCRIPTION (Block Print): 1 8 6 - 1 8 8 Energy Appeals Settl

TITLE OF ENTRY: To record Energy's piece of interest expense resulting from '86-'88 Appeals Settlement

PREPARED BY	DATE	CHECKED BY	APPROVED BY	CARD PUNCHED BY
A Pendarthy	2/8/01		3/25/01	

TECO ENERGY

JOURNAL ENTR

MONTH OF	SOURCE	JOURNAL ENTRY NO.
Mar 01	79	

EXPLANATION:

ACCOUNT TITLE	ACCOUNT NO. ORIG LOC	ACCOUNT MAJOR	ACCOUNT SUB	RES	DEN LOC	DEBIT	CREDIT
Accts Receivable - Tampa Electric	099	646	01	99	913	4845.640	
Defrd Debit - Interest	099	649	12	99	099		4845.640

Interest

1986	2,069,386.62
1987	1,687,385.35
1988	1,088,867.69
	4845,639.66

Re: '86 - '88 Appeals Settlement

TOTAL DEBITS/CREDITS

ABBREVIATED DESCRIPTION (Block Print): 1 8 6 - 1 8 8 A P P E A L S R E F U N D

TITLE OF ENTRY: To transfer refund rec'd 3/21/00 + interco'd. to Tampa Electric to Energy for allocation.

PREPARED BY: [signature] DATE: 2/8/01 CHECKED BY: APPROVED BY: CARD PUNCHED BY:

102

Account Name: Deferred Debit-Interest
Account No : 649.12

Balance Sheet									Income Statement	
Entry Description	Beg Balance	Debit	Credit	OBO Debit	OBO Credit	ADJS Debit	ADJS Credit	End Balance	Debit	Credit
	2,448,626							2,448,626		
'86 Tax Year Refund - Interest			(540,789)					(540,789)		0
Bal 01/01				0	0	0	0	1,907,837	0	0
								0		0
Bal 02/01				0	0	0	0	1,907,837	0	0
								0		
Bal 03/01				0	0	0	0	1,907,837	0	0
								0		
Bal 04/01				0	0	0	0	1,907,837	0	0
								0		
								0		
Bal 05/01				0	0	0	0	1,907,837	0	0
								0		
Bal 06/01				0	0	0	0	1,907,837	0	0
								0		
Bal 07/01				0	0	0	0	1,907,837	0	0
								0		
Bal 08/01				0	0	0	0	1,907,837	0	0
								0		
Bal 09/01				0	0	0	0	1,907,837	0	0
								0		
								0		
								0		
Bal 10/01				0	0	0	0	1,907,837	0	0
								0		
								0		
								0		
								0		
Bal 11/01				0	0	0	0	1,907,837	0	0
								0		
								0		
Bal 12/01				0	0	0	0	1,907,837	0	0

Previous Day Detail Report *01/22/2001*

As-Of Date: 01/16/2001

Bank of America - Cust Connect

TECO Energy - Operations USD 3750001806

Credit Transactions: ---------- Availabil

Amount	Reference Number	Zero Day Float	One D
ACH CREDIT (ACHCR)			
PREAUTHORIZED ACH CREDIT			
1,995,965.76	0000000000		
	ASCI TREAS 220 ;DES=MISC PAY ;ID=592052286200907		
	EFF DATE: 010116;INDN:TECO ENERGY INC		
	PMT INFO:RMR*T6*F1120 TY198612-		
1,995,965.76	ACH CREDIT (ACHCR) Totals		
1,995,965.76	*Credit Totals*		

1455 - 7 T: /
540,788.76 INT

'86 Tax Year

DOCKET NO. 950379-EI
EXHIBIT NO. 3
Transcript from the December 16-17, 1992, Special Agenda Conference in Docket Number 920324-EI

BEFORE THE
FLORIDA PUBLIC SERVICE COM

In The Matter of	DOCKET NO. 920324-EI
Application for a Rate Increase by TAMPA ELECTRIC COMPANY	

FIRST DAY - MORNING SESSION

VOLUME I

Page 1 through 213

PROCEEDINGS:	SPECIAL AGENDA CONFERENCE
BEFORE:	COMMISSIONER BETTY EASLEY COMMISSIONER TERRY DEASON COMMISSIONER LUIS J. LAUREDO
DATE:	Wednesday, December 16, 1992
TIME:	Commenced at 9:30 a.m. Concluded at 5:00 p.m.
LOCATION:	FPSC Hearing Room 122 101 East Gaines Street Tallahassee, Florida 32399
REPORTED BY:	JOY KELLY, CSR, RPR SYDNEY C. SILVA, CSR, RPR PAMELA A. CANELL Official Commission Reporters

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950379-EI EXHIBIT NO. 3
COMPANY/ WITNESS: Bacon
DATE: 8-27-01

DOCUMENT NUMBER-DATE
14674 DEC 18 92
FPSC-RECORDS/REPORTING

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CHRISTINE ROMIG, FPSC Division of Auditing and Financial Analysis.

RON NEIL, FPSC Division of Auditing and Financial Analysis.

I N D E X

MOTIONS:	PAGE NO.
LEAF's Motion to Strike FIPUG's Brief	4
Office of Public Counsel's Motion to Supplement the Record	6

ISSUES:

Issue No. 1	9
Issue No. 2	9
Issue No. 3 - Tabled	10
Issue No. 100	11
Issue No. 4	11
Issue No. 5	12
Issue No. 6	12
Issue No. 7	12
Issue No. 8	12
Issue No. 9	12
Issue No. 89	13
Issue No. 10	13
Issue No. 11	14
Issue No. 12	14
Issue No. 15	21
Issue No. 16	21
Issue No. 17	21
Issue No. 18	23
Issue No. 19	23
Issue No. 20	23
Issue No. 21	24
Issue No. 22	24
Issue No. 23	25
Issue No. 24	25
Issue No. 57	26
Issue No. 25	27
Issue No. 26	27
Issue No. 28	28
Issue No. 29	33
Issue No. 29	42
Issue No. 30	43
Issue No. 31	43
Issue No. 32	43
Issue No. 33	44
Issue No. 35	60
Issue No. 3	61

Index Continued:

ISSUES:	PAGE NO.
Issue No. 36	62
Issue No. 46	63
Issue No. 47	63
Issue No. 48	64
Issue No. 49	64
Issue No. 50	64
Issue No. 51	64
Issue No. 52	66
Issue No. 53	66
Issue No. 54	67
Issue No. 55	67
Issue No. 56	67
Issue No. 58	67
Issue No. 59	67
Issue No. 60	68
Issue No. 64	68
Issue No. 65	68
Issue No. 66	68
Issue No. 67	68
Issue No. 68	69
Issue No. 69	70
Issue No. 70	71
Issue No. 71	71
Issue No. 73	71
Issue No. 74	72
Issue No. 75	72
Issue No. 76	72
Issue No. 77	72
Issue No. 78	73
Issue No. 79	73
Issue No. 80	74
Issue No. 81	74
Issue No. 82	74
Issue No. 83	74
Issue No. 84	75
Issue No. 86	75
Issue No. 88	77
Issue No. 90	77
Issue No. 91	77
Issue No. 92	77
Issue No. 93	77
Issue No. 94	77
Issue No. 96	83

Index Continued:

ISSUE:

Issue No. 97	93
Issue No. 98	131
Issue No. 99	131
Issue Nos. 132, 134, 136, 137, 138, 139, 140, 141, 142, 143, 133, 135 (Stipulated)	138
Issue No. 127	138
Issue No. 128	139
Issue No. 129	140
Issue No. 130	140
Issue No. 131	141
Issue No. 72	141
Issue No. 63	142
Issue No. 61	142
Issue No. 62	142
Issue No. 27	143
Issue No. 34	143
Issue No. 38	144
Issue No. 39	145
Issue No. 40	146
Issue No. 41	158
Issue No. 42	158
Issue No. 43	162
Issue No. 44	165
Issue No. 45	165
Issue No. 85	165
Issue No. 87	166
Issue No. 13	194
Issue No. 14	195
Issue No. 37	205
Issue No. 95	205
Issue No. 45	207

COMMISSIONER EASLEY: Well, I'm inclined --

COMMISSIONER DEASON: Commissioners, I don't even know if it's relevant to discuss that because depending on what the bottom line is as far as financial indicators, it may make no difference one way or the other if it was under, over or projected precisely correct.

COMMISSIONER EASLEY: We're going to hold Issue 14 until we can deal with 13 and some of the others. Issue 15.

COMMISSIONER LAUREDO: I move 15.

COMMISSIONER EASLEY: Without objection. Question?

COMMISSIONER DEASON: No objection.

COMMISSIONER EASLEY: Issue 15 is approved. Issue 16.

COMMISSIONER DEASON: I move approval.

COMMISSIONER EASLEY: Without objection Issue 16 is approved. Issue 17.

COMMISSIONER LAUREDO: I move 17.

COMMISSIONER DEASON: I have a question on Issue 17. We had some -- there's some utility property that was reclassified to nonutility, and my question is if this property is being reclassified a nonutility and there's a subsequent sale, such as there's a gain on

MS. ROMIG: Yes.

COMMISSIONER LAUREDO: Because it's likely to happen, or at least there is a lot of talk about it.

MS. ROMIG: Yes.

COMMISSIONER EASLEY: All right. Issue 43. Accumulated deferred taxes.

MS. ROMIG: That's the one I was getting mixed up with the one before.

COMMISSIONER EASLEY: Here's the 1.572 million.

MS. ROMIG: Exactly. Okay, an adjustment was made, as I said earlier on the wrong issue, for 1.752 million in the 1993 test period, which we agree with that adjustment.

The Utility should have followed that through and used its 13-month average capital structure for 1994; instead it used a simple average capital structure for 1994 with no specific adjustments period.

COMMISSIONER EASLEY: I don't remember any discussion on this. Was there -- was this an error, was there any testimony on this? I don't remember this one.

MS. ROMIG: It came up simply from the fact that they used their attrition allowance, their request for an attrition for test year 1994, and it was based

there or something.

COMMISSIONER DEASON: I think we determined 87 was a fallout issue.

COMMISSIONER EASLEY: That's correct. Okay. Sorry. We're back to Issue 13.

COMMISSIONER LAUREDO: Do we need to do 14 before we do 13?

MR. NEIL: No, sir. You can do 13 first.

COMMISSIONER LAUREDO: Does this have any revenue impact? This is another philosophy, a judgment?

MR. NEIL: Yes, sir. OPC believes that Company has understated some potential revenues on the total company basis, and we've gone through the recommendations and discussed how we would consider everything when we make our CWIP adjustment.

COMMISSIONER LAUREDO: I move Staff on 13.

COMMISSIONER DEASON: Let me ask a question. The fact now that the off-system sales are going to be accounted for in the fuel adjustment. That clarifies any questions or eliminates any questions about the accuracy of those projections or for CWIP and financial integrity; is that correct?

MR. NEIL: Yes, sir.

COMMISSIONER DEASON: And Staff has

recognized that there needs to be an adjustment to recognize the cash flow from the FAS 106 treatment.

MR. NEIL: Yes, sir, we considered that and that's the way we did the analysis.

COMMISSIONER DEASON: I would second the motion.

COMMISSIONER EASLEY: Without objection 13. Do we take 14 now?

MR. NEIL: Yes, ma'am. Just to start out, Issue 14, I made some interest coverage calculations on Page 34 of the recommendation. And I updated that to include your three adjustments about coal inventory and removing the penalty and the 12% ROE. And the new number I'm going to tell you about also includes the total interest expense associated with the oil backout debt. I had just considered jurisdictional amount of interest expense, and I believe -- we believe we should consider the whole amount of that interest expense. And the new number is updated on 1993 from 4.08 to 4.14; and 1994 updates from 3.57 to 3.70.

COMMISSIONER LAUREDO: All right. So the 3.70 is '94?

MR. NEIL: It's 1994.

COMMISSIONER LAUREDO: And '93?

MR. NEIL: Is 4.14. Those numbers are

under --

COMMISSIONER LAUREDO: What those numbers mean is that we are still within range of financial -- the ratios that are financially sound, financially sound from --

MR. NEIL: Yes, sir. Your prior decisions made the interest coverage better.

MS. SALAK: It's above the -- S&P's bottom of the range is 3.5 and it's above the 3.5. There was some testimony in the case from Mr. Abrams that electric utilities in general are around 4, but the bottom of the range for S&P is 3.5.

COMMISSIONER LAUREDO: Bottom of the --

COMMISSIONER EASLEY: Bottom of range is 3.5?

MR. NEIL: The bottom of --

COMMISSIONER LAUREDO: For this rated company.

MR. NEIL: For a double A rated company.

COMMISSIONER LAUREDO: It's important you say that.

COMMISSIONER EASLEY: The one thing I wanted to be sure of is that the net effect is we don't create a yo-yo type of situation where if we get them so close that any slippage takes them down, and then you've got them coming back in, they've we got to go back up and

then, you know, I don't want to create one of these. And we allowed -- forgive me -- have we allowed any kind of fudge factor or room?

MR. NEIL: Well, what Company Witness Abrams said that 1994 would be the peak construction year, and so we've considered '94 to be the low point, the stress year, any year after that it would be much better in interest coverage.

COMMISSIONER DEASON: How much CWIP would be required in 1994 to achieve a 4.0 interest coverage ratio?

MR. NEIL: A 4.0 in 1994 at your 12% ROE allowed would be 140 million -- 140.5. 140.517 actually.

COMMISSIONER EASLEY: Did you say 4.0 in '94?

COMMISSIONER DEASON: Yeah. A 4.0 interest coverage in '94 would equate to what?

MR. NEIL: Allowing a $140,517,000 of CWIP. We're making on adjustment of 72,959,000. That includes her adjustment of overprojection. And we wanted to point out that that way we did our calculation for CWIP, we did not take into account purchased power. We did it on a jurisdictional basis.

COMMISSIONER DEASON: What do you mean you did not account for purchased power?

MR. NEIL: We didn't -- I believe Duff & Phelps says you need to include the interest -- the fixed charges that are associated with purchased power, and we did our calculation on a jurisdictional basis. And we believe the purchased power costs would be covered in Florida and through the clause.

MS. SALAK: It also leaves the definition as applied by S&P found in one of the exhibits.

MR. NEIL: S&P didn't have that same definition of purchased power.

COMMISSIONER DEASON: Are you saying that since purchased power is flowed through the clause, that there is immediate recovery and there's really not a liability that needs to be accounted for as far as interest coverages are concerned?

MR. NEIL: Yes, sir. And from some of the things I've looked at, the risk with purchased power comes into play when they started looking at downgrading utilities, is when you start getting too much purchased power. They feel the company becomes more risky. And Tampa Electric is around 10% purchased power and about 1.5% of that is from nonaffiliated companies.

COMMISSIONER EASLEY: I'm still a little bit concerned about that drop in the second year,

particularly. I am concerned about pegging it at a number that is at the bottom of the range and not allowing any room at all.

MR. NEIL: Well, the actual is 3.70 with your percentages now. It's not 3.5.

COMMISSIONER DEASON: 3.70 is with the adjustments that the Commission has voted upon today and allowing Staff's recommendation of 19 million of CWIP in rate base in '94.

MR. NEIL: Yes.

COMMISSIONER LAUREDO: And you don't have any problem with '93, just with '94?

COMMISSIONER EASLEY: Well, not after the vote. '94, I think you're taking it down to the point where you are going to start to see a yo-yo if you start getting them down to the bottom. I don't see any reason to penalize the Company because they enjoy a double A bond rating. And to put them in jeopardy of losing it doesn't seem to be very smart to me because then you're going to turn right around and have them coming back in saying, "We need to get it back up because the cost of borrowing is going to go up." You know --

COMMISSIONER DEASON: There's a 20-point cushion there under Staff's projections.

COMMISSIONER EASLEY: Where, where are you talking about?

MR. NEIL: 3.70. 3.5 is the bottom of the range.

COMMISSIONER LAUREDO: What is the high end of the range?

MR. NEIL: Above 3.5 is what they say.

COMMISSIONER LAUREDO: Above 3.5?

MR. NEIL: S&P has them double A rated but Moody's has them double A rated 1, which is a step above.

COMMISSIONER LAUREDO: What are they required, what is their current ratio currently to support that double A rating? Is it 4%?

MR. NEIL: Before this rate case, like 1992, I believe it is above 4%. I have that but -- (Pause) I'm not sure what the interest coverage is right this minute.

COMMISSIONER LAUREDO: It would be interesting to know. Because one of the things that happens is that one of the worst things is to inadvertently force a downgrade on rating, which is extraordinarily difficult to regain it. It is much easier to lose it than to regain it, and it is going to be more expensive in the long run to the consumers.

Like Commissioner Easley pointed out, they're going to come back here with a higher cost of capital.

MR. DEVLIN: I would like to point out this is just one factor that the bond rating companies look at, the TIE ratio. They also look at the equity ratio, the regulatory climate, the decision-making process, the whole broad spectrum of policy. They do not look at just one area in a vacuum.

COMMISSIONER EASLEY: They look at regulatory climate?

MR. DEVLIN: For lack of a better description.

COMMISSIONER DEASON: I think Staff indicated a good point. That is, as I understand, if anybody understands them, period, is that they take into account construction programs and whether that's going to be a stressful period for a year or whether it's going to be over a long period of time. And I believe there's testimony in the record that 1994 is going to be the critical period and that there is going to be less stress or less pressure on these financial indicators after 1994.

COMMISSIONER LAUREDO: And it is also an element that historically this Company has overstated its construction work in progress, I think. Is that

something that came out? Is that a fair statement?

MS. SALAK: I'm sorry. What was your question?

COMMISSIONER LAUREDO: That historically this company has overstated its construction work in progress.

MR. REEVES: Well, they appear to have done so, based on a comparison of actuals for the six months beginning in February 1992, it does appear they have overstated their construction work in progress.

COMMISSIONER DEASON: What would be the CWIP necessary in 1994 to achieve the 3.75 interest coverage ratio?

MR. NEIL: With all our caveats of what you have done so far, you would allow 40,017,000, which would be an adjustment, including Hurd's adjustment for overprojection, of 165.459, which is $21 million different than our recommendation.

COMMISSIONER DEASON: And what does that equate to in revenue dollars?

MR. NEIL: I think we --

COMMISSIONER DEASON: Somewhere in the neighborhood between 3 and 4 million?

MR. NEIL: I didn't look at the revenue effect when I did those calculations.

COMMISSIONER DEASON: If we were to set it at a target of 3.75 interest coverage, that would be approximately 21 million above what you are recommending now?

MR. NEIL: 21,245,000.

COMMISSIONER DEASON: The overall rate of return for this Company is what?

MR. NEIL: That's going to change also with your update.

COMMISSIONER DEASON: Ballpark, 8, 9, 10, 11, 12%? Would is it overall?

MR. NEIL: I would say it would be around 8.5, 8.3.

COMMISSIONER DEASON: I'm sorry, 8 what?

MR. NEIL: 8.3, let's say.

COMMISSIONER DEASON: And the expansion factor is about 1.6? (Pause) Roughly about $3 million, 2.18 million.

Commissioners, I don't want to cut off this stimulating discussion, but if a motion is appropriate, I would be willing to make a motion that we set the amount of CWIP in rate base in 1993 as Staff recommends, which would be targeted to achieve a 4.14 interest coverage ratio; and that the amount of CWIP for 1994 be targeted to achieve a 3.75 interest

coverage ratio. Which, according to Staff's recommendations, would be a CWIP allowance in 1994 of $40,017,000 --

UNIDENTIFIED SPEAKER: Clsoe. It's going to be close.

COMMISSIONER DEASON: -- give or take a few thousand dollars.

COMMISSIONER LAUREDO: So be it would be a net increase of 5 basis points coverage in '94 from what we have as we speak. We have an actual of 3.70.

MR. NEIL: Yes, sir, to 3.75, yes, sir.

COMMISSIONER DEASON: Well, that's really based upon projections in '94 and all the adjustments which we made to that.

COMMISSIONER LAUREDO: I second the motion as fair.

COMMISSIONER EASLEY: All right. Without objection.

MR. DEVLIN: Commissioners, could we clarify? Because the accounting on these kind of matters sometimes gets confusing. We're talking about $40 million of essentially long-term CWIP that would remain not eligible for AFUDC until the next rate case.

COMMISSIONER DEASON: That's my understanding. That flat amount would not be eligible

for AFUDC. They would have to have CWIP in excess of that amount before they could accrue any AFUDC.

MR. DEVLIN: Okay.

COMMISSIONER DEASON: That's the normal standard procedure, is it not?

MR. DEVLIN: I haven't been through this in a number of years. I think that's the proper way to do it.

COMMISSIONER EASLEY: All right. Issue 37, I believe is next; is that correct?

MR. ELIAS: Yes.

COMMISSIONER EASLEY: Rate base. (Pause)

It would be kind of a fallout issue?

UNIDENTIFIED SPEAKER: Yes, ma'am.

COMMISSIONER LAUREDO: I think it is, yes. I move it with all the changes.

COMMISSIONER EASLEY: All right. 37 is approved.

COMMISSIONER LAUREDO: 95 would be the same thing?

COMMISSIONER EASLEY: 95 also a fallout?

MR. ELIAS: I believe so.

COMMISSIONER EASLEY: Operating revenue?

COMMISSIONER LAUREDO: If it is, I move 95. I believe it is a fallout issue.

UNIDENTIFIED SPEAKER: 95 is a calculation

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of	:	DOCKET NO. 920324-EI
Application for a rate increase by TAMPA ELECTRIC COMPANY.	:	

VOLUME II

Pages 214 through 236

PROCEEDINGS:	SPECIAL AGENDA CONFERENCE
BEFORE:	COMMISSIONER BETTY EASLEY COMMISSIONER J. TERRY DEASON COMMISSIONER LUIS J. LAUREDO
DATE:	Thursday, December 17, 1992
TIME:	Reconvened at 9:00 a.m. Concluded at 2:10 p.m.
LOCATION:	FPSC Room 122, Fletcher Building 101 East Gaines Street Tallahassee, Florida
REPORTED BY:	JOY KELLY, CSR, RPR Official Commission Reporter
PARTICIPATING:	

(As heretofore noted.)

DOCUMENT NUMBER-DATE
14675 DEC 18 1992
FPSC-RECORDS/REPORTING

P R O C E E D I N G S

(Hearing reconvened at 9:00 a.m.)

COMMISSIONER DEASON: Okay. The continuation of the Special Agenda for TECO, which was supposed to continue at 9:00 this morning, will be delayed until approximately 9:15 in this same room.

(Brief recess.)

- - - - -

COMMISSIONER DEASON: Call this agenda conference to order.

I understand Staff has made final calculations of the revenue increase. Who is going to explain the schedule? (Pause)

I believe it's pretty self-explanatory. Maybe we should just open it up to questions, maybe.

MS. MERTA: Yes. On the handout that we gave you this morning, I just listed the fallout issues. And the annual revenue increase is just a calculation using the rate base and the overall rate of return and the achieved NOI.

COMMISSIONER DEASON: I have a question on Issue 14, the amount of CWIP for 1994.

Perhaps I just made an error when I wrote down the figure yesterday, but I thought that was 40.17 million. Is there an amount for CWIP which is not

eligible for AFUDC, which is included in that amount, or how did you calculate the final?

MR. NEIL: No, sir. Yesterday when I gave you that calculation, that's what I had calculated. But between now and then, we thought about some additional interest expense associated with the oil backout debt that I should have considered more. And so I added that amount back in, which increased the amount to 48.

COMMISSIONER DEASON: So the policy, that was maintained, that we are targeting CWIP to achieve a 3.75 interest coverage ratio?

MR. NEIL: That does give you 3.75, yes, sir.

COMMISSIONER LAUREDO: Is it difficult for you to quantitate the difference between the 3.70, which would have been the fallout just based on ROE increase to the additional five basis points that were voted on?

MR. NEIL: Quantify it in what aspect?

COMMISSIONER LAUREDO: In other words, when we voted on ROE 12%, there was a fallout number that gave you a 3.70 ratio.

MR. NEIL: Yes, sir.

COMMISSIONER LAUREDO: That's what you reported. And then this Commission voted 3.75, another

five basis points.

MR. NEIL: The fallout number, the number that we voted to allow was 18.772. So it's been increased to 48 million.

COMMISSIONER LAUREDO: No. That's not my question.

The five additional basis points that -- what does that translate, if it is something you can do quickly, in increase?

MR. NEIL: In revenue requirement, sir?

COMMISSIONER LAUREDO: Because I honestly was voting on that issue on the basis of 40 million not 48 million. And there's probably no rule of thumb on one basis point equals so much.

MS. SALAK: Right. I would point out that when we did that calculation yesterday, the 3.7, that would have also been inaccurately calculated. We do also have to add the interest. So that should have been lower than the 3.7. So --

MR. NEIL: I can tell you that before I made this additional adjustment, and we did our numbers last night, the revenue requirement was around 16 million, so it's increased to the 17.4 after making my correction.

COMMISSIONER DEASON: I think what Staff is

saying in simple terms is that there is a certain amount of interest that they did not properly account for yesterday. And so when they told us that our decisions had resulted in a 3.7 interest coverage ratio, that also was in there. It was something less than that. So to bring it up to 3.7 interest coverage, there had to be more CWIP than what --

MR. NEIL: Probably would have been a little bit lower interest coverage yesterday, if we had done it correctly, a little lower than 3.7.

COMMISSIONER LAUREDO: Yeah. I understand that. I'm just saying that difficult as it is to keep making decisions without having you all -- which is impossible -- maintain us within the range of what the overall numbers are going to be, which is why we're here this morning, I voted for the increase and that was more than five basis points. Because you said now that the calculation would be lower than 3.70. And I was just trying to quantitate that difference, even if it's the most ballpark figure you can give me. Because I really did, was persuaded to vote with the majority on the basis of $40 million impact, not $48 million. That's my point.

MR. NEIL: Are you asking me if I had done it correctly yesterday what would have been the TIE ratio?

COMMISSIONER LAUREDO: No. I'm not questioning whether you did it correctly or not. I don't know, I guess I'm not -- it's too early for this.

Let me see if I can go at it another way.

MS. SALAK: The difference in revenue requirements between the 40 and the 48 is approximately -- (Pause) It's approximately $1 million difference in revenue requirements, the 40 and the 48 in CWIP.

MR. NEIL: What you voted would have been about a million dollars less than what we brought forward today.

COMMISSIONER LAUREDO: Yes. I was going to say, another short way of saying it is I didn't want to play around with Issue 14. I was more concerned with ROE. And if we just do -- and if we leave making no adjustments on 14, what would that number be, $48 million?

Remember when we started Issue 14, you started by explaining to us that you had taken the time, that based on our ROE decision of 12%, here were the coverage ratios. And at the time preliminary was 3.70, and we increased it 3.75. I want to go back to the figures rather than the percentages, assuming we didn't do anything with 14.

MR. NEIL: If you just accepted Staff's

position and what would have been the revenue requirement?

COMMISSIONER DEASON: Right. Because we changed the ROE and it pushed that up.

COMMISSIONER DEASON: The revenue requirement is Staff's original recommended amount of CWIP?

MR. NEIL: This is true, yes.

COMMISSIONER DEASON: Okay. Is that the question? I'm just trying to understand.

COMMISSIONER LAUREDO: No. I guess I'm not -- why don't I ask you the --

MS. SALAK: We have that number upstairs, I'm sure. I mean, we can go get it.

COMMISSIONER LAUREDO: There is an interrelationship between our vote on the return on equity and Issue 14, correct?

MR. NEIL: That's true.

MS. SALAK: Yes, as you increase the ROE.

COMMISSIONER LAUREDO: We changed the ROE; it automatically as a fallout and changes the numbers in 14?

MR. NEIL: As you raise ROE, you need less CWIP.

COMMISSIONER LAUREDO: Right. That's the number I'm looking for.

MR. NEIL: Okay.

MS. SALAK: We do have that number and we can calculate that number upstairs and --

COMMISSIONER LAUREDO: It wouldn't be $8 million difference, would it?

MS. SALAK: No, sir. It's approximately -- no, it's not $8 million. It might be -- maybe two, but we have the numbers.

COMMISSIONER LAUREDO: The only reason I'm asking these questions is that I was persuaded to increase on the basis of the debt service coverage ratio on the basis of $40 million. You know, I wasn't going to be scientific on $40 million, but 48 is more than I had thought I had voted on. I don't know how we can --

COMMISSIONER EASLEY: I take it then you're going to need some additional information before we can pass on these final numbers? (Pause) Are you recommending to make a change?

COMMISSIONER LAUREDO: Let me ask you, maybe it's not that material.

Let's just assume you say it's $2 million, so that number would be $46 million. Item 14, 1994?

MS. SALAK: No. I was referring to revenue requirements.

If we did not change our recommendation from yesterday to increase -- to take the TIE ratio to 3.75, it would have been the CWIP we had recommended yesterday, which was, I think, approximately 18, 19 million.

MR. NEIL: Well, if $40 million is a good number of CWIP, we can make our recommendation with the final revenue increase based on the $40 million allowing CWIP, which would be just --

COMMISSIONER LAUREDO: Would that significantly impact on the annual revenue increase? You say it's $2 million; is that what you were talking about?

MS. SALAK: It would be less than 2 million.

COMMISSIONER LAUREDO: No, you started that by yourself --

MR. NEIL: It's going to be about 16.3.

(Pause)

I say it's going to be a little bit above 16.3, maybe, revenue requirement. That's probably pretty close.

MS. SALAK: Based on $40 million of CWIP.

MR. NEIL: $40 million of CWIP.

COMMISSIONER DEASON: And what would be the TIE ratio?

COMMISSIONER LAUREDO: It would be below 3.70.

MS. SALAK: Yes. It would be below 3.70, yes.

MR. NEIL: Not at 40 million. It would be 3.75; it's going to be about 3.72 or 3. (Pause)

It's going to be slightly less than the 3.75; the 40 million, I'd say, is going to be about 37.1, 2 or 3.

COMMISSIONER LAUREDO: 37.1?

MR. NEIL: It's going to be like 37.1, 2 or 3.

COMMISSIONER LAUREDO: Oh, 37.1. Okay.

COMMISSIONER DEASON: You're the only one who can make a motion so I'm waiting. (Laughter)

COMMISSIONER LAUREDO: I just voted. I really honestly voted on $40 million, and it bothers me that -- I don't think it's going to impact on the financial integrity of the Company on the basis of the ratios. If it's still within 3.71, we voted 3.75, so it would be a four-basis-points drop.

MR. NEIL: Probably at the most.

COMMISSIONER LAUREDO: And I think that's fair. I was inclined not to touch at all Issue 14, just to leave it as it is and have the fallout numbers'

rate based on the changes in ROE.

So I don't know. Is that a motion? I guess two of us, but I don't want to -- and I think, in fact, and I'm not putting words into your mouth, but I think you did articulate your motion on the basis of $40 million yesterday, or at least partially so.

COMMISSIONER DEASON: Well, I guess the motion was really a combination, that being to have a target of 3.75 and that 40 million equated to that, or at least that was our understanding at the time, and it was basically taking the two in conjunction. Considering that 40 million was not, in our opinion, excessive, to have the CWIP, and 3.75 was probably a reasonable target. I think the two taken in conjunction, I think the majority felt like that was reasonable. At least that's where I was coming from.

If you are indicating now that your vote primarily was on the 40 million and not necessarily 3.75 or 3.70, or whatever, perhaps you need to reconsider that and we can do that.

COMMISSIONER LAUREDO: You see the problem, as I prefaced my comments, is that we make decisions on individual items but keeping up in your mind without a computer the interrelationships. In the end both of us are concerned about the real bottom line, which is rate

and revenue. And so we try just to do these mental gymnastics as you're voting under pressure to figure out where you are. And I had kind of made a mental calculation that I felt comfortable with the number as it impacted at the bottom line with $40 million.

COMMISSIONER DEASON: Well, let me indicate this: I think that the 3.75 is a good target, because it's basically halfway between the 3.5 and the 4.0. And given the fact that we know that '94 is going to be a stress period, and that if the Company can reasonably achieve the 3.75, I don't think there would be any pressure at all on their bond rating whatsoever.

I think 3.75 gives a cushion above 3.50 and some of the uncertainties that may occur between now and then concerning projections and just the economy in general, things that we just don't know how they are going to turn out.

But realistically, you have to also say that there's not a significant difference between 3.70 TIE coverage and 3.75.

I guess what I'm indicating is, I'm comfortable with 3.75 but I could accept the 3.70. And if you have strong feelings one way or the other, I would entertain a motion.

COMMISSIONER LAUREDO: Yes. And it's

important to highlight that we're still increasing from the recommended 3.57. So, I mean, we're making a significant increase in the ratio.

COMMISSIONER DEASON: I was going to ask Staff a question.

If we were to change the CWIP at this point, there would be a need to recalculate because it could have effects on other fallout numbers; is that correct?

MS. SALAK: Yes.

COMMISSIONER DEASON: Such as interest reconciliation?

MS. SALAK: Rate base fallout, and interest reconciliation, overall cost of capital, taxes, all of those.

COMMISSIONER LAUREDO: Which means that you have to have another hour or two to do this, or more?

MS. SALAK: About that.

COMMISSIONER DEASON: Probably an hour.

(Pause)

Well, Commissioner, we need to either decide on this or else instruct Staff to come back with some additional information, because we do have another proceeding.

COMMISSIONER LAUREDO: Can we reconvene at noon when we have our lunch break there for five or ten

minutes, or what?

MS. SALAK: Down there you want to do it, in 106, or do you want to do it in here?

COMMISSIONER DEASON: No. We can reconvene here at noon, give or take a few minutes, realizing we do have another proceeding that will be taking place.

COMMISSIONER LAUREDO: And they will give us the specific numbers of changing it to 3.71, which is now the number you've been throwing around?

COMMISSIONER DEASON: Well, I think you just wanted 40 million.

COMMISSIONER LAUREDO: 40 million, how you would impact it.

MR. NEIL: 40 million.

MS. SALAK: We'll verify all those ratios and everything.

COMMISSIONER LAUREDO: And leave this column -- don't give us that alternative, because I haven't voted on it.

MR. NEIL: Okay.

COMMISSIONER LAUREDO: Okay.

COMMISSIONER DEASON: Does Staff understand the instructions?

MR. NEIL: Yes, sir. $40 million of CWIP in '94 allowed.

COMMISSIONER DEASON: Right, and compare it to what you are recommending right now.

MR. NEIL: Okay.

COMMISSIONER LAUREDO: And the only thing I need additionally is when you take the 40 million, in parentheses, I want to know what the debt service ratio is.

MR. NEIL: Okay.

COMMISSIONER DEASON: Okay. We will reconvene this Special Agenda at the noon hour, in this same room.

(Brief recess.)

- - - - -

COMMISSIONER EASLEY: Are we ready to go back on the record? Staff.

MR. ELIAS: Commissioners, I believe you have in front of you a two-page work sheet which reflects the impact of the decisions on specific issues voted at yesterday's Agenda Conference, and a computation of the revenue requirement for 1993, 1994, assuming $48.17 million of construction work in progress, and $40 million of construction work in progress and the impacts all the way through on the financial ratios and the bottom-line revenue requirement.

COMMISSIONER EASLEY: Okay. Questions,

Commissioners?

COMMISSIONER LAUREDO: Yeah. I thank Staff. I'm sorry to have delayed it but, you know, we need to make informed decisions, and sometimes we get you stuff on the spot; I'd rather have it.

The basic question I had had to do with what was a bottom-line impact and the ratios. Looking at these numbers, it really is less than I thought, and I have no problem with the original proposition.

I think the saving is slightly less than $1 million. To sacrifice the coverage ratio of three basis points is probably not a good tradeoff to the financial integrity of the Company, which if we do jeopardize it, in the long run we're going to have to face up to more and higher rates. So I think what I had a question is what the discrepancy is. And assuming these numbers are correct, I have no problem with that.

MR. NEIL: Yes, sir. Just being more specific, that 3.72 --

COMMISSIONER LAUREDO: I thought it was going to be a $3 or $4 million difference.

MR. NEIL: Just being more specific, that 3.72, another digit out, is 3.723.

COMMISSIONER EASLEY: How many more digits do

you want to go out?

MR. NEIL: That's it. (Laughter)

MR. ELIAS: Commissioners, I haven't seen the transcript of yesterday's Agenda Conference, but in the interest of making sure that the record is clear, since the number for CWIP on the second column is different from the number that was explicitly voted on but is consistent with what we were instructed to do in other issues, I think that it would be appropriate to make a motion and reflect in the record that the Commission voted to approve 48 million --

COMMISSIONER LAUREDO: We're going to vote on what we're going to vote today and the numbers are here.

COMMISSIONER EASLEY: Well, actually, I think technically, there is not the need for a vote because what we voted on was 3.75 and the number that results is a fallout number. And what we were --

COMMISSIONER LAUREDO: No. What happened, you weren't here, is that we got detracted on how were we persuaded on the 48 or the 40. It was part of the discussion. And what he wants is clarification. But if we vote on one of these columns --

COMMISSIONER EASLEY: I have no problem with another vote. I just want to be sure that the vote

from last night is not misstated either, because the vote last night was on 3.75.

Now, there may be confusion as a result of the 3.75. And I think that Staff is correct that it might be clearer to have, since we now have the definitive numbers in our hot little hands, to make the motion again for both the coverage ratio and the resulting number.

Commissioner Deason, since it was your motion last night.

COMMISSIONER DEASON: I'll certainly make a motion.

Before I do, I want to basically apologize to Staff, because I think I probably put them in an unfair situation yesterday asking them for an exact number which related to 3.75. Because it was my interest, my intent to hopefully achieve a 3.75 interest coverage. And I think in their eagerness to be responsive, they gave a number. But in retrospect it wasn't the correct number. And I think I probably perhaps put them in a difficult position, and if I did, I apologize. But I appreciate their efforts.

My motion is that we approve the fallout numbers as presented by Staff in the middle column labeled "1994," which would specifically result in a

target of a 3.75 TIE ratio and a dollar amount of CWIP to be included in rate base in 1994 of $48,017,000. This is my motion. And that the amounts as reflected for 1993 also would be approved.

COMMISSIONER LAUREDO: I second you.

COMMISSIONER EASLEY: All right. And one of the things that I'm really kind of glad to have the opportunity to say that I forgot to say last night is that I know that we put Staff in another box by moving this special agenda up to get it in before the end of the year. Because it was scheduled for what, January or February. So a lot of the technical information and the calculations were, of necessity, compacted into a much shorter period of time than would have normally been done. And I appreciate the fact you all were able to be as accurate as you were.

Without objection, show the motion approved.

Is there anything else that needs to be done today?

MR. ELIAS: Continue this special agenda to a date certain for the consideration of the rates.

COMMISSIONER EASLEY: I believe that date certain has been ascertained to be January 4th. Is that correct?

MR. ELIAS: That is my understanding, yes.

COMMISSIONER EASLEY: All right.

COMMISSIONER DEASON: January 4th is my understanding also, 1:00. Is that correct, Mr. Tribble?

MR. TRIBBLE: I believe that is correct.

COMMISSIONER EASLEY: All right.

COMMISSIONER LAUREDO: It's something we can change now or not? (Laughter)

Now, let me tell you why. January 4th is the first Monday after the holidays, and I have already had plenty of experience of being bumped off overbooked airplanes in my commute home. And the next one after the 7:00 a.m that I normally catch, that gets me here at 8:30, is at 12:00. And 12:30, and a hour and a half, hour and a half flight --

COMMISSIONER DEASON: If you prefer to have it later in the afternoon --

COMMISSIONER LAUREDO: It would be a little safer just so that we don't have any problems, because it will be just you and I. If we do it like at 3:00, at least if I get bumped off the 8:00, 7:00 a.m. flight. I don't know if it causes you all any problems.

MR. ELIAS: Not Staff.

COMMISSIONER LAUREDO: Normally, if you get

bumped off one flight, you're guaranteed a seat on the next one. I guess that's the way it works.

COMMISSIONER DEASON: I have no problem. I can be here at 1:00 or 3:00.

COMMISSIONER EASLEY: I don't either.

(Laughter)

COMMISSIONER LAUREDO: Then it will be at 3:00, is all right?

MR. TRIBBLE: 3:00, yes.

COMMISSIONER EASLEY: At least by not changing the day, I think, would have been a problem but -- okay. All right. Is that it now?

COMMISSIONER LAUREDO: Staff, you did an excellent job.

COMMISSIONER EASLEY: Thank you all very much.

(Thereupon, the hearing concluded at 12:10 p.m.)

- - - - -

FLORIDA)
:
COUNTY OF LEON)

CERTIFICATE OF REPORTERS

We, JOY KELLY, CSR, RPR, SYDNEY C. SILVA, CSR, RPR, and PAMELA ANNE CANELL, Official Commission Reporters,

DO HEREBY CERTIFY that the hearing in the captioned matter, Docket No. 920324-EI, was heard by the Florida Public Service Commission at the time and place herein stated; it is further

CERTIFIED that we reported in shorthand the proceedings held at such time and place; that the same has been transcribed under our direct supervision, and that the transcript, consisting of 234 pages, Volumes I through II, inclusive, constitutes a true and accurate transcription of our notes of said proceedings; it is further

CERTIFIED that we are neither of counsel nor related to the parties in said cause and have no interest, financial or otherwise, in the outcome of this docket.

IN WITNESS WHEREOF, we have hereunto set our hands at Tallahassee, Leon County, Florida, this 18th day of December, A.D., 1992.

JOY KELLY, CSR, RPR

SYDNEY C. SILVA, CSR, RPR

PAMELA ANNE CANELL

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OPC

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of	
Application for a rate increase by TAMPA ELECTRIC COMPANY.	DOCKET NO. 920324-EI

FOURTH DAY - MORNING SESSION

VOLUME X

Pages 1009 through 1244

PROCEEDINGS:	FINAL HEARING
BEFORE:	COMMISSIONER BETTY EASLEY COMMISSIONER TERRY DEASON COMMISSIONER LUIS J. LAUREDO
DATE:	Thursday, October 15, 1992
TIME:	Commenced at 8:30 a.m.
PLACE:	Hearing Room 122 Fletcher Building 101 East Gaines Street Tallahassee, Florida
REPORTED BY:	JOY KELLY, CSR, RPR SYDNEY C. SILVA, CSR, RPR Official Commission Reporters and LISA GIROD JONES, RPR, CM Post Office Box 10195 Tallahassee, Florida 32302

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Florida Public Service Commission

APPEARANCES:

(As heretofore noted.)

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950379-EI EXHIBIT NO. 4
COMPANY/ WITNESS. Bacon
DATE 8-22-01

DOCUMENT NUMBER-DATE
12155 OCT 16 1992
FPSC-RECORDS/REPORTING

11206-01

I N D E X

WITNESSES - VOLUME XI X

Name:	Page No.
BENJAMIN A. McKNIGHT, III	
Prefiled Direct Testimony Inserted by Stipulation	1013
VICTORIA. A. MONTANARO	
Prefiled Direct Testimony Inserted by Stipulation	1026
BENJAMIN A. McKNIGHT, III	
Prefiled Rebuttal Testimony Inserted by Stipulation	1088
ELIZABETH. A. SIMOKAT	
Direct Examination by Mr. Willis	1116
Prefiled Direct Testimony inserted	1118
Cross Examination by Mr. Howe	1151
Cross Examination by Ms. Canzano	1227

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

BENJAMIN A. MCKNIGHT III

Q. Please state your name, occupation and business address.

A. My name is Benjamin A. McKnight III. I am a partner in the firm of Arthur Andersen & Co. My business address is 33 West Monroe Street, Chicago, Illinois, 60602.

Q. Please describe the firm of Arthur Andersen & Co.

A. Arthur Andersen & Co. is an independent public accounting firm with more than 300 offices throughout the world. We have as clients a large number of New York Stock Exchange companies. We provide services to approximately one-third of the electric and gas distribution companies in the country, and to a substantial number of natural gas transmission and telephone companies.

Q. Please describe your professional background and qualifications to testify as an expert in this proceeding.

A. I hold a B.S. degree in accounting from Florida State

calculations?

A. The following procedures were performed by me or representatives of my Firm under my direct supervision:

1. We reviewed the company's portion of TECO Energy, Inc.'s 1990 income tax return to gain an understanding of the differences between book and taxable income. These book/tax differences are shown on Schedule M of the income tax return and result because certain items of revenue and expense are recognized in different periods for tax purposes and financial reporting purposes. Examples of book/tax differences include accelerated depreciation used for income tax purposes versus straight line depreciation used for financial reporting and contributions in aid of construction treated as taxable income for tax return purposes but deducted from plant in service for book purposes. We reviewed Schedule M included in the 1954 to 1990 tax returns. The 1991 tax returns are being prepared and are not expected to be filed until September 15, 1992.
2. We examined supporting documentation for the significant book/tax differences.
3. We noted that the book/tax differences were treated

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Charles S. Ausley (1907-1972)
John C. Ausley (1912-1980)
D. Fred McMullen (1904-1980)
Gerald T. Hart (1948-1991)
DuBose Ausley
Margaret B. Ausley
James D. Beasley
C. Graham Carothers
Kevin J. Carroll
Robert N. Clarke, Jr.
J. Marshall Conrad
Timothy B. Elliott
Stephen C. Emmanuel
John P. Fons
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Michael J. Glazer
Carla A. Green

Jann Johnson Hart
Kenneth R. Hart
David J. Hull
E. Martin McGehee (Retired)
Carolyn D. Olive
R. Stan Peeler
Robert A. Pierce
H. Palmer Proctor
M. Julian Proctor, Jr.
Steven P. Seymoe
William M. Smith
Deborah J. Stephens
James Harold Thompson
J. Jeffry Wahlen
Emily S. Waugh
C. Gary Williams
Lee L. Willis

January 12, 1993

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Office of
Public Counsel

Mr. Steve C. Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399-0850

Re: Application for a Rate Increase by Tampa Electric Company: FPSC Docket No. 920324-EI

Dear Mr. Tribble:

Tampa Electric has discovered what it believes to be two mathematical errors by the Staff in the calculation of the 1994 revenue requirements in the above-styled proceeding. While these errors could be pointed out in a petition for reconsideration, we feel compelled to disclose this information at this point because the company is required to file a cost of service study for 1994 and the Commission is scheduled to consider the appropriate rate design to recover the revenue increase determined to be appropriate for 1994. This notification does not attempt to persuade the Commission to reconsider the principles on which their votes were cast in this case; it only seeks to assure that the mathematical computations accurately reflect the votes cast. We believe that the errors involved are mechanical in nature and can be easily corrected and are offsetting to some degree.

The first error involves the Staff's calculation of the 1994 revenue requirement as shown in Attachment 1. We believe that the wrong number was inadvertently used to adjust off-system sales in this calculation and that its correction, taken by itself would result in a downward change in the revenue requirement from $17,412,000 to $14,873,000, a change of $2,539,000.

The second error shown in Attachment 2 involves the Staff calculation of the company's interest coverage ratio for 1994 in order to reach the Commission's decision to target a coverage ratio of 3.75 times. This correction would require additional 1994 revenues of $1,660,000.

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950379-EI EXHIBIT NO. 5
COMPANY/ WITNESS: Bacon
DATE: 8-29-01
11206-01e

The net effect of these two errors would result in a rate increase of $16.541 million, instead of the $17.412 million originally announced ($17.512-$2.539+$1.660=$16.541).

Again, I wish to point out that the reason for bringing these matters to the Commission's attention at this time is because the company is required to file a compliance cost of service study for 1994 and that study cannot be entirely consistent with all of the various decisions that were made by the Commission because of the inconsistency of some of the numbers used in the calculation of revenue requirements. A resolution of these errors should take place prior to the filing of the required cost of service study and the final design of 1994 rates.

Sincerely,

Lee L. Willis

LLW/pp
Attachments

cc: All Parties of Record (w/attachments)
William D. Talbott (w/attachments)
Joseph D. Jenkins (w/attachments)
Timothy J. Devlin (w/attachments)
Robert V. Elias (w/attachments)

TAMPA ELECTRIC COMPANY
DOCKET NO. 920324-EI
1994 ADJUSTED REVENUES

Attachment 1

PER STAFF CALCULATION:

	Original filing	Adjustments due to Late Filed Exhibit 106	Subtotal	Staff Adjustments	Staff Adjusted	Staff 1994 Revenue Increase	Revenues with Revenue Increase
BASE REVENUES	$596,065	($6,518)	$589,547	($42,115)	$547,432	$17,412	$564,844
OFF SYSTEM SALES	2,972	(1,623)	1,349	(3,888)(1)	(2,539)		(2,539)
MISC SERVICE CHARGES	5,802		5,802	0	5,802		5,802
RENT REVENUES	4,640		4,640		4,640		4,640
UNBILLED REVENUES	463		463		463		463
OTHER ELECTRIC REVENUE	2,805	(19)	2,786		2,786		2,706
	$612,747	($8,160)	$604,587	($46,003)	$558,584	$17,412	$575,996

CORRECTED CALCULATION:

	Original filing	Adjustments due to Late Filed Exhibit 106	Subtotal	Staff Adjustments	Staff Adjusted	Staff 1994 Rev Inc	Revenues with Revenue Increase
BASE REVENUES	$596,065	($6,518)	$589,547	($42,115)	$547,432	$14,873	$562,305
OFF SYSTEM SALES	2,972	(1,623)	1,349	(1,349)	0		0
MISC SERVICE CHARGES	5,802		5,802	0	5,802		5,802
RENT REVENUES	4,640		4,640		4,640		4,640
UNBILLED REVENUES	463		463		463		463
OTHER ELECTRIC REVENUE	2,805	(19)	2,786		2,786		2,706
	$612,747	($8,160)	$604,587	($46,003)	$561,123	$14,873	$575,996

Note 1): The amount of the staff adjustment necessary to zero out the remaining off system sales is only $1,349,000, not $3,888,000. The corrected calculation is shown above. The $3,888,000 includes the capacity revenues on non-firm sales which had already been removed in the company's filing. The $3,888,000 amount was filed in Late Filed Exhibit No. 106, but was included in "Public Counsel's Scenario". This scenario included all O&M and Capacity revenues for non-firm off system sales above-the-line and did not represent the company's revenue request.

Tampa Electric Company
Interest Coverage Ratio
1994

Attachment 2

	Staff Method	Staff Method @ 3.75
Required NOI	$154,367	$155,554
Achieved Taxes	47,724	48,529
Taxes on Revenue Increase (1)	6,552	6,221
Subtotal	208,643	210,304
OBO Interest (3)	1,433	1,433
Subtotal	210,076	211,737
Interest W/ CWIP (2)	$54,965	$54,965
OBO Interest (3)	1,433	1,433
Total Interest	56,398	56,398
Coverage Ratio	3.72	3.75
Additional CWIP		$12,000
Additional Revenue Requirement		$1,660
Revenue Requirement W/ Corrected Revenues:		
Revenue Increase		$16,533
Total Revenue Requirement		$577,656

Note: Using the calculation of interest coverages as proposed by Staff in the case, Tampa Electric has calculated the interest coverage ratio for 1994 given the approved final revenue requirement, which assumed $48.017 million of CWIP in rate base. As shown in the first column, this produces a coverage ratio of 3.72x not the target level of 3.75x. Keeping interest expense constant, a recalculation was made to achieve 3.75x coverage. In this example, an assumption was made to include an additional amount of CWIP in rate base, resulting in an increase in revenue requirements of $1,660 million. This additional revenue requirement increases the coverage ratio to the target level of 3.75x as approved by the Commission.

1) Revenue Increase		$17,412	$16,533
Income Tax Rate		37.63%	37.63%
Taxes on Revenue Increase		$6,552	$6,221
2) Long Term Debt	$613,317	7.81%	$47,900
Short Term Debt	61,665	5.37%	3,311
Customer Deposits	47,749	7.86%	3,753
Interest W/ CWIP *			$54,965

* Assumes all CWIP in Rate Base except for "over projection" amount of $11.959 Million.

3) 1994 Forecast OBO Gross Interest	$2,133
Divided By Original Interest Rate	6.00%
Multiplied by Staff OBO Rate	4.03%
Revised OBO Gross Interest	$1,433

TAMPA ELECTRIC

RECEIVED

AUG 0 2 2000

Office of
Public Counsel

Christine Romig
Bureau of Economics, Rates & Forecasting,
Division of Economic Regulation
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0865

Christine,
I am sending a package with this letter that contains information that we agreed to provide in our May 24 meeting with the parties to discuss the tax deficiency interest. We were first asked to provide additional information related to the issues that have been contested by the IRS. On the following pages you will find a summary of the issues and the years that were impacted by the taxes; a schedule of adjustments for the 1986 to 1988 tax period settlement; and the revenue agent reports (RARs) for the 1989-91 tax period and the 1992-94 tax period.

We were also asked to make some adjustments to the benefit analysis based upon discussions we had at our May 24 meeting. I am providing an update to the benefit analysis that we presented, with the following changes:

a) We considered a simple average rather than year-end balances. This only affected deferred taxes incurred during the 1995 to 1998 tax years, and the deferred taxes incurred during the rate case for the 1992 to 1994 tax years.
b) We had not included the deferred revenue benefits/(costs) to customers for 1999 in our initial analysis of the impact to customers, and have now provided these results.
c) As discussed in our meeting, the tax deficiency interest accrued in a deferred debit account until expensed in late 1999. We have now reflected the impact to the rate base from the tax deficiency interest being included in working capital as a deferred debit. We have attached a schedule reflecting the monthly balance of the deferred debit associated with the tax issues for the 1986-88 tax years and 1989-91 tax years from its inception in May 1997 until being expensed in September and November of 1999. This change affects the 1997-1999 deferred revenue years for the 1986-88 tax period analysis and the 1989-91 tax period analysis.
d) In our initial analysis, we did not reflect the impact to taxes by increasing the amount of debt in the capital structure when making our adjustments. In other words, when we remove the deferred taxes from the capital structure, we are increasing other sources of capital, including long and short-term debt. Because interest expense associated with debt lowers income tax expense, we needed to reflect that benefit in the NOI calculation. We have done this in the analysis by adjusting the achieved rate of return by the taxes that would be associated with the additional interest expense.

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 952379-EI EXHIBIT NO. 6
COMPANY/ WITNESS: Bacon
DATE: 8-27-01

TAMPA ELECTRIC COMPANY
P. O. BOX 111 TAMPA, FL 33601-0111

AN EQUAL OPPORTUNITY COMPANY
HTTP://WWW.TAMPAELECTRIC.COM

(813) 228-4111
CUSTOMER SERVICE:
HILLSBOROUGH COUNTY (813) 223-0800
OUTSIDE HILLSBOROUGH COUNTY 1 (888) 223-0800

11206-01

6

These changes, we believe, lead to a more accurate result. The overall nominal benefit changes from the $18.3 million that we presented at our meeting, to an $11.1 million benefit. The result in 1999 dollars changes from $26.0 million to $17.0 million.

We are also providing a disk of the analysis for your own review. Thank you for the opportunity to be proactive in the 1999 earnings review process in addressing the benefits created by the company's tax positions with the IRS.

Ron Neil
Manager - Utility Financial Analysis

Tampa Electric Company
Issues in audit years 1986-1998

Years	
1986-88 1989-91	**ADR Repair allowance** – Tampa Electric Company (TEC) uses a methodology for determining repairs versus capital expenses for tax purposes. Under this methodology, an amount of expenditures on pre-81 vintage assets is currently deductible as repairs on the tax return, while the same expenditures are capitalized for book. The IRS has disallowed TEC's deduction on pre-81 vintage assets
1986-88 1989-91 1992-94	**Capacity Payments** – TEC deducted payments for capacity made available and delivered under power purchase contracts. The IRS has disallowed the current deduction for capacity payments as being "early payments".
1989-91	**HP Startup Costs** – TEC incurred O & M costs related to bringing the Hooker's Point Plant out of reserve standby. The IRS is disallowing the costs based on rehabilitation doctrine incurred to return HP to commercial operation as a current deduction and is requiring the taxpayer to amortize over the book life of 5 years approved by the PSC.
1989-91 1992-94 1995-97 1998	**Cost of Removal** – The IRS is disallowing a current deduction for the cost of removing a damaged or obsolete asset, requiring that the cost of removal be capitalized and added to the cost of the replacement asset.
1989-91 1992-94 1995-97 1998	**Interest Capitalization** - Interest is capitalized on construction for book and tax purposes. The IRS is requiring TEC to capitalize additional interest for tax purposes pursuant to federal income tax law changes effective with the 1986 Tax Reform Act.
1992-94 1995-97	**Research and Experimental Expenditures** – The Internal Revenue Code (IRC) allows construction costs that are research and experimental in nature to be currently deducted. TEC incurred R & E costs in the design and integration of the Polk Power Plant and the IRS has disallowed the current year deduction for those expenditures.
1992-94	**Coal Contract Buyout** – TEC incurred costs to terminate a coal contract with Peabody. For book the costs were amortized over a ten-year period approved by the PSC. For tax the costs of terminating the contract should be currently deductible. The IRS has disallowed a current deduction.

File:h:word\tax benefit analysis\audit issues-PSC

Substitute for Form 4549-A | Department of the Treasury - Internal Revenue Service INCOME TAX EXAMINATION CHANGES | Return Form No. 1120

Name and Address of Taxpayer
TECO ENERGY, INC.
AND AFFILIATED CORPORATIONS
POST OFFICE BOX 111
TAMPA FL 33601-0111

S.S. or E.I. Number 59-2052286 | Filing Status Corporate

Person With Whom Examination Changes Were Discussed: Name and Title: DONALD A. MULLIGAN, VICE PRESIDENT - TAXES

1. Adjustments to Income	Year: 8912	Year: 9012	Year: 9112
A. Total Adjustments (See FORM 4549-B)	16,657,586.00	15,328,535.00	8,291,614.00
B.			
C.			
D.			
E.			
F.			
G.			
2. Total Adjustments PAGE 4	16,657,586.00	15,328,535.00	8,291,614.00
3. Adjusted Gross or Taxable Income Shown on Return or as Previously Adjusted	129,942,664.00	105,480,636.00	131,873,220.00
4. Corrected Adjusted Gross or Taxable Income	146,600,250.00	120,809,171.00	140,164,834.00
5. Tax PAGES 17-19	49,844,085.00	41,075,118.00	47,656,044.00
6. Alternative Tax, If Applicable	0.00	0.00	0.00
7. Corrected Tax Liability (Lesser of line 5 or 6)	49,844,085.00	41,075,118.00	47,656,044.00
8. Less a.			
Credits b. Total Credits (See attached schedule) PAGES 20-22	368,927.00	0.00	2,830,283.00
(Specify) c.			
9. Balance (Line 7 less total of lines 8a through 8c)	49,475,158.00	41,075,118.00	44,825,761.00
10. a.			
b. Other Taxes (See attached schedule) PAGES 25, 27, 29	357,508.00	8,412,803.00	268,555.00
Plus c.			
11. Total Corrected Income Tax Liability (Line 9 plus total of lines 10a through 10c)	49,832,666.00	49,487,921.00	45,094,316.00
12. Total Tax Shown on Return or as Previously Adjusted PAGE 2	43,764,929.00	46,229,640.00	42,925,302.00
13. Adjustment to: A.			
B.			
14. Deficiency-Increase in Tax or (Overassessment-Decrease in Tax) (Line 11 adjusted by Line 12)	6,067,737.00	3,258,281.00	2,169,014.00
15. Adjustments to Prepayment Credits	0.00	0.00	0.00
16. Balance Due or (Overpayment) (Line 13 adjusted by Line 14) Not Including Interest	6,067,737.00	3,258,281.00	2,169,014.00
17. Penalties, If Any (See explanation)	0.00	0.00	0.00

Other Information:

SEE ATTACHMENT FOR NOTICES AND OTHER INFORMATION

CORRECTED REPORT - THIS CORRECTED REPORT SUPERSEDES THE REPORT DATED 1/31/97 - SEE ATTACHED FOR ADDITIONAL INFORMATION

Examiner: Albert L. Kimbrough Jr.
A.L. KIMBROUGH, JR.

District: Jacksonville

Date: 02/24/97

Form CG-4549-A

APPEALS CASE MEMO

1. Schedule of Adjustments

►►► *ISSUE LISTING for TECO Energy, Inc. & Affiliated Corp.* ◄◄◄

Issue Number	Description of Issue	Tax Year	RAR Page No.	ACM Page No.	Examiner's Claim Adjustment	Appeals Change to Adjustment	Appeals Corrected Adjustment	Reason Code
1.	Capacity Payments Deduction	8612	13	7	$ 0	$ 0	$ 0	
		8712			297,620	0	297,620	
		8812			1,858,170	0	1,858,170	
2.	Depreciation - MACRS Steam	8612	27	20	0	0	0	A
		8712			0	0	0	
		8812			108,163	0	108,163	
3.	Depreciation - MACRS Steam (AMTI)	8612	28	20	0	0	0	B
		8712			0	0	0	
		8812			(30,891)	0	(30,891)	
4.	Capacity Payments Interest Income	8612	32	21	0	0	0	B
		8712			(1,302)	0	(1,302)	
		8812			(124,025)	0	(124,025)	
5.	Connection Fees	8612	35	21	1,156,035	0	1,156,035	
		8712			0	0	0	
		8812			0	0	0	
6.	Non-Accrual Experience Method	8712	37	22	3,646,426	(911,607)	2,734,819	
		8812			(17,108)	(894,500)	(911,607)	
	Memo Entry for Subseque : Yrs	8912			0	(890,986)	(890,986)	
		9012			0	(9,432)	(9,432)	
		9112			0	902,175	902,175	
		9212			0	902,175	902,175	
		9312			0	902,175	902,175	
7.	Repairs-Pre 1981 (ADR Rep Allow)	8612	53	31	5,225,569	(3,135,341)	2,090,228	
		8712			4,671,029	(2,802,617)	1,868,412	
		8812			4,881,019	(2,928,611)	1,952,408	
8.	Repairs - Post 1980 (ADR/MACRS Assets)	8612	66	41	399,269	(199,634)	199,635	
		8712			790,319	(395,160)	395,159	
		8812			782,517	(391,259)	391,258	
9.	Contributions In Aid of Constr.	8612	72	45	0	0	0	
		8712			4,104,899	0	4,104,899	
		8812			5,983,476	0	5,983,476	
10.	Reimbursement for Relocations	8612	85	46	0	0	0	
		8712			480,009	0	480,009	
		8812			123,767	0	123,767	
11.	Depreciation	8612	96	47	(338,530)	166,496	(172,034)	
		8712			(1,053,907)	451,792	(602,115)	
		8812			(1,774,999)	651,633	(1,123,366)	

Reason Codes (no narrative):

- A taxpayer now agrees
- B accepted by examiner
- C taxpayer substantiated
- D computational adjustment

▶▶▶ ISSUE LISTING for TECO Energy, Inc. & Affiliated Corp. ◀◀◀

Issue Number	Description of Issue	Tax Year	RAR Page No.	ACM Page No.	Examiner's Claim Adjustment	Appeals - Change to Adjustment	Appeals Corrected Adjustment	Reason Code
12.	Loss on Asset Disposal	8612	99	48	(10,268)	5,050	($ 5,218)	D
		8712			(32,259)	13,435	(18,824)	
		8812			(87,545)	32,270	(55,275)	
13.	Environmental Tax	8612	NA	NA	0	0	0	D
		8712			165,077	(2,286)	162,791	
		8812			213,324	(4,315)	209,087	

Income Tax Examination Changes

Name and Address of Taxpayer	Employer Identification Number
TECO Energy, Inc. & Affiliated Corporations Post Office Box 111 Tampa, Florida 33601	59-2052286

Adjustments to Ordinary Income	Pg	Yr: 12/89	YR: 12/90	YR: 12/91
a. TECO Energy, Inc. (Corrected)	6	(697,154)	(2,835,478)	(1,624,197)
b. TECO Investments, Inc.		1,044,091	1,787,338	2,109,073
c. Tampa Electric Company (Corrected)	9	14,486,971	17,875,349	7,509,099
d. Gatliff Coal Company		(1,054)	22,722	0
e. Electro-Coal Transfer Co.		1,195,735	(279)	2,640
f. Gulf Coast Transit Co.		1,311,364	(660,911)	316,067
g. Mid-South Towing Company		(682,367)	(15,968)	(21,068)
h. TECO Power Services, Inc.		0	(844,238)	0
Total Adjustments		16,657,586	15,328,535	8,291,614

Income Tax Examination Changes

Name and Address of Taxpayer	Employer Identification Number
TECO Energy, Inc. & Affiliated Corporations Post Office Box 111 Tampa, Florida 33601	59-2052286

Adjustments to Ordinary Income	Pg	Yr: 12/89	YR: 12/90	YR: 12/91
Tampa Electric Company (Page 1 of 2)				
04-01 - Capacity Payments		3,788,405	4,574,340	4,719,600
04-02 - Income from Capacity Payments		2,319,763	0	0
04-03 - Interest Income-Capacity Accounts		Conceded	0	0
04-04 - Interest Income-Capacity Accounts		Conceded	Conceded	Conceded
04-05 - Recapture of Bad Debt Reserve		325,329	325,329	0
04-06 - Research Credit		N/A	N/A	N/A
04-07 - Research & Development		(61,213)	(81,226)	(56,835
04-08 - Grantor Trust Income/Loss		103,577	55,721	(85,003
04-09 - Nonaccrual Experience Method		666,843	456,262	0
04-10 - COGS-Hookers Point Start-Up Costs		0	5,312,157	378,490
04-11A- Depreciation - Salvage (Corrected)	37	660,151	649,159	583,956
04-12 - Investment Credit		N/A	N/A	N/A
04-13 - Depreciation - ITC Effects		130	711	357
04-14 - Depreciation - Rcls ACRS to MACRS		6,598	14,599	12,155
04-15 - CIAC Income		0	464,630	23,232
04-16 - Interest Capitalized-Section 263A		2,139,750	1,688,276	2,212,744
04-17 - Cost of Removal - RWIP		(764,865)	(684,539)	0
04-18 - Cost of Removal - Asbestos		317,945	96,220	229,407
04-19 - Cost of Removal - ACRS/MACRS Assets		1,005,613	1,067,839	1,639,746
04-20 - Depreciation - Cost of Removal		(54,911)	(153,340)	(264,748
04-21 - Depreciation - COR (AMTI)		AMTI Item	AMTI Item	AMTI Item
04-22 - Depreciation - COR (ACE)		N/A	ACE Item	ACE Item
04-23 - Depreciation - ITC Effects (AMTI)		AMTI Item	AMTI Item	AMTI Item
04-24 - Depreciation - ITC Effects (ACE)		N/A	AMTI Item	AMTI Item
04-25 - Depreciation - ACRS/MACRS (AMTI)		AMTI Item	ACE Item	ACE Item
04-26 - Depreciation - ACRS/MACRS (ACE)		N/A	AMTI Item	AMTI Item
04-27 - Depreciation - Year End Basis		0	1,678	0
04-28 - Depreciation - Yr End Basis (AMTI)		AMTI Item	AMTI Item	AMTI Item
04-29 - Depreciation - Yr End Basis (ACE)		N/A	ACE Item	ACE Item
04-30 - Depreciation - Farmland CIAC		0	(14,293)	0
04-31 - Depreciation - Farmland CIAC (AMTI)		AMTI Item	AMTI Item	AMTI Item
04-32 - Depreciation - Farmland CIAC (ACE)		N/A	ACE Item	ACE Item
04-33 - ADR Repair Allowance		6,755,383	6,247,454	5,571,776
04-34 - Depreciation - ADR Repair Allow		(252,623)	(719,600)	(1,175,816
04-35 - Depreciation - ADR Repair (AMTI)		AMTI Item	AMTI Item	AMTI Item
04-36 - Depreciation - ADR Repair (ACE)		N/A	ACE Item	ACE Item
04-37 - Depreciation - Sec 263A Interest		(71,076)	(176,826)	(281,924
04-38 - Depreciation - Sec 263A Int (AMTI)		AMTI Item	AMTI Item	AMTI Item
04-39 - Depreciation - Sec 263A Int (ACE)		N/A	ACE Item	ACE Item
04-40A- Deprec - Salvage-Pre 54 (Corrected)	39	(248,580)	17,379	100,252
Total Adjustments - Page 1		16,636,219	19,141,930	13,607,389

Income Tax Examination Changes

Name and Address of Taxpayer	Employer Identification Number
TECO Energy, Inc. & Affiliated Corporations Post Office Box 111 Tampa, Florida 33601	59-2052286

Adjustments to Ordinary Income	Pg	Yr: 12/89	YR: 12/90	YR: 12/91
Tampa Electric Company (Page 2 of 2)				
Total Adjustments - Page 1		16,636,219	19,141,930	13,607,389
04-41 - Depreciation - HP Start Up		0	(199,206)	(392,574)
04-42 - Depreciation - HP Start Up (AMTI)		AMTI Item	AMTI Item	AMTI Item
04-43 - Depreciation - HP Start Up (ACE)		N/A	ACE Item	ACE Item
04-44 - Depreciation - Carryover Issues		(2,285,195)	(1,445,167)	(1,356,688)
04-45 - Depreciation - Carryovers (AMTI)		AMTI Item	AMTI Item	AMTI Item
04-46 - Depreciation - Carryovers (ACE)		N/A	ACE Item	ACE Item
04-47 - CIAC Income - 1988 Reversal		(105,612)	0	0
04-48 - Depreciation - MACRS Steam		208,222	192,589	178,164
04-49 - Depreciation - MACRS Steam (AMTI)		AMTI	AMTI	AMTI Item
04-50 - Depreciation - MACRS Steam (ACE)		N/A	ACE	ACE Item
04-51 - Early Capacity Payments		0	0	(4,719,600)
04-52 - Vacation Pay		33,337	185,203	192,408
Total Adjustments		14,486,971	17,875,349	7,509,099

"Corrected Report"

Substitute for Form 4549-A	Department of the Treasury - Internal Revenue Service INCOME TAX EXAMINATION CHANGES	Return Form No. 1120

Name and Address of Taxpayer
TECO ENERGY, INC. AND AFFILIATED CORPORATIONS
P.O. BOX 111
TAMPA FL 33601-0111

S.S. or E.I. Number 59-2052286 | Filing Status Corporate

Person With Whom Examination Changes Were Discussed: Name and Title: Shirley M. Ross V.P. - Corporate Taxes

1. Adjustments to Income	Year: 199212	Year: 199312	Year: 199412
A. Total Adjustments (See FORM 4549-B)	4,111,833.00	5,992,436.00	20,383,728.00
B.			
C.			
D.			
E.			
F.			
G.			
2. Total Adjustments	4,111,833.00	5,992,436.00	20,383,728.00
3. Adjusted Gross or Taxable Income Shown on Return or as Previously Adjusted	150,135,406.00	162,401,078.00	181,983,771.00
4. Corrected Adjusted Gross or Taxable Income	154,247,239.00	168,393,514.00	202,367,499.00
5. Tax	52,444,061.00	58,937,730.00	70,823,525.00
6. Alternative Tax, If Applicable	0.00	0.00	0.00
7. Corrected Tax Liability (Lesser of line 5 or 6)	52,444,061.00	58,937,730.00	70,823,525.00
8. Less a.			
Credits b. Total Credits (See attached schedule)	8,120,512.00	13,239,296.00	17,491,310.00
(Specify) c.			
9. Balance (Line 7 less total of lines 8a through 8c)	44,323,549.00	45,698,434.00	53,332,215.00
10. a.			
b. Other Taxes (See attached schedule)	263,858.00	272,117.00	323,105.00
Plus c.			
11. Total Corrected Income Tax Liability (Line 9 plus total of lines 10a through 10c)	44,587,407.00	45,970,551.00	53,655,320.00
12. Total Tax Shown on Return or as Previously Adjusted	43,620,242.00	44,617,608.00	49,418,056.00
13. Adjustment to: A.			
B.			
14. Deficiency-Increase in Tax or (Overassessment-Decrease in Tax) (Line 11 adjusted by Line 12)	967,165.00	1,352,943.00	4,237,264.00
15. Adjustments to Prepayment Credits	0.00	0.00	0.00
16. Balance Due or (Overpayment) (Line 13 adjusted by Line 14) Not Including Interest	967,165.00	1,352,943.00	4,237,264.00
17. Penalties, If Any (See explanation)	0.00	0.00	0.00

Other Information:

SEE ATTACHMENT FOR NOTICES AND OTHER INFORMATION

Examiner: Alvin F. Ashley Jr. | District: North Florida | Date: 03/08/2000

Form 4549-B (Rev. October 1976)	Department of the Treasury - Internal Revenue Service INCOME TAX EXAMINATION CHANGES	Return Form No. 1120

Name and Address of Taxpayer
TECO ENERGY, INC. AND AFFILIATED CORPORATIONS
P.O. BOX 111
TAMPA FL 33601-0111

Social Security or Employer Identification Number
59-2052286

Adjustments to Income - ISSUE NUMBER	Page No.	Year: 199212	Year: 199312	Year: 199412
A. AMENDED WALDEN WOODS P/S RETURNS ALLOWED			(52,500.00)	(29,914.00)
B. WALDEN WOODS BUS CTR AGREED RAR ADJUSTMENTS				47,944.00
C. ISSUE 03-01 DIVIDEND RECEIVED DEDUCTION		2,579,381.00	2,701,171.00	1,983,447.00
D. ISSUE 03-02 -LEVERGED LEASES		260,991.00	101,336.00	23,035.00
E. ISSUE 03-03 GROSS RENTS		0.00	0.00	(1,039,374.00)
F. ISSUE 04-01 RESEARCH AND DEVELOPMENT EXPENS		(1,261,626.00)	(7,838,375.00)	290,815.00
G. ISSUE 04-03 GANNON PROJECT TRUST LOSS		230,199.00	0.00	0.00
H. ISSUE 04-04, DEPRECIATION - MACRS PRODUCTIO		164,776.00	152,429.00	140,974.00
I. ISSUE 04-05 DEPRECIATION; CLASS LIFE T&D		422,662.00	367,017.00	334,507.00
J. ISSUE 04-06 DEPRECIATION; ADR T&D		97,952.00	14,961.00	75,070.00
K. ISSUE 04-07A DEPRECIATION; PRE '54 T&D		47,848.00	5,964.00	(6,737.00)
L. ISSUE 04-08A SALARIES AND WAGES		332,760.00	243,936.00	225,986.00
M. ISSUE 04-09, EARLY CAPACITY PAYMENTS		1,189,065.00	0.00	0.00
N. ISSUE 04-10A AMORT OF EARLY CAPICTY PMTS		(809,124.00)	(1,078,831.00)	(1,078,831.00)
O. ISSUE 04-11A COAL CONTRACT BUY-OUT		0.00	0.00	(5,100,000.00)
P. ISSUE 04-12 RESEARCH EXPENSE, TOTAL		1,261,626.00	9,838,375.00	20,338,572.00
Q. ISSUE 04-13A INTEREST CAPITALIZATION		2,119,895.00	1,645,856.00	6,228,039.00
R. ISSUE 04-14 COST OF REMOVAL ASBESTOS		289,962.00	341,246.00	(71,813.00)
S. ISSUE 04-15A COST OF REMOVAL ACRS/MACRS	C37	0.00	0.00	0.00
T. ISSUE 04-16A DEPRECIATION - COST OF REMOVAL	C38	(10,874.00)	(33,729.00)	(41,295.00)
U. ISSUE 04-17 ADR REPAIR ALLOWANCE		(1,790,053.00)	0.00	0.00
V. ISSUE 04-18 DEP. - ADR REPAIR ALLOWANCE		67,126.00	128,899.00	118,590.00
W. ISSUE 04-19B REPAIRS - POST 1980 ASSETS		0.00	1,000.00	1,000.00
X. ISSUE 04-20B DEPRECIATION - POST 1980 REPAI		0.00	(37.00)	(111.00)
Y. ISSUE 04-21 DEP. ACRS STEAM PRODUCTION		(225,315.00)	(218,792.00)	(185,030.00)
Z. ISSUE 04-22A DEPRECIATION ACRS T & D		(246,482.00)	(233,399.00)	(229,432.00)
TOTAL ADJUSTMENTS		4,720,769.00	6,086,527.00	22,025,442.00

Form 4549-B (Rev. October 1976) | Department of the Treasury - Internal Revenue Service INCOME TAX EXAMINATION CHANGES | Return Form No. 1120

Name and Address of Taxpayer
TECO ENERGY, INC. AND AFFILIATED
CORPORATIONS
P.O. BOX 111

TAMPA FL 33601-0111

Social Security or Employer Identification Number

59-2052286

Adjustments to Income - ISSUE NUMBER	Page No.	Year: 199212	Year: 199312	Year: 199412
TOTAL ADJUSTMENTS FROM PREVIOUS PAGE		4,720,769.00	6,086,527.00	22,025,442.00
AA. ISSUE 04-23 DEP. ADR STEAM PRODUCTION		2,757.00	(18,427.00)	1,901.00
AB. ISSUE 04-24A DEPRECIATION MACRS T & D		(271,944.00)	(249,278.00)	(228,549.00)
AC. ISSUE 04-25 DEPRECIATION HEAVY TRUCKS		13,842.00	4,660.00	0.00
AD. ISSUE 04-26 DEPRECIATION STRUCTURES GENERAL		(13.00)	(13.00)	(54.00)
AE. ISSUE 04-27 DEPRECIATION ACRS T & D		41,744.00	36,293.00	36,095.00
AF. ISSUE 04-28B DEPRECIATION MACRS T & D	C46	(655,772.00)	(602,115.00)	(552,806.00)
AG. ISSUE 04-30A FAS 106 CLAIM		0.00	676,288.00	192,547.00
AH. ISSUE 04-31 DEP. FOR INTEREST CAPITALIZED		(88,459.00)	(310,052.00)	(531,441.00)
.. ISSUE 04-32 DEP.FOR SALARIES & WAGES CAPITA		(8,439.00)	(25,352.00)	(40,956.00)
AJ. ISSUE 04-33A DEP FOR FAS 106 CLAIM		0.00	(15,098.00)	(35,939.00)
AK. ISSUE 04-34 DEPRECIATION -MACRS TRUE-UP		64.00	483.00	1,709.00
AL. ISSUE 04-37 DEPRECIATION-ACRS STEAM PROD.		9,586.00	8,328.00	8,287.00
AM. ISSUE 04-38A DEPRECIATION- C/O FROM 89/90/9	C64	(548,394.00)	(493,651.00)	(466,834.00)
AN. ISSUE 04-39 INCOME FROM BAD DEBT RESERVE		902,175.00	902,175.00	0.00
AO. ENVIRONMENTAL TAX DED		(6,083.00)	(8,332.00)	(25,674.00)
AP.				
AQ.				
AR.				
AS.				
AT.				
AU.				
AV.				
AH.				
AX.				
AY.				
TOTAL ADJUSTMENTS		4,111,833.00	5,992,436.00	20,383,728.00

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.61%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.03%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.15%		
As Filed by Company	8.17%		
Excess Rate of Return		0.02%	
Total Incremental Rate of Return			0.05%
Incremental Net Operating Income			863
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,404
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,236

	Commission Adjusted	*Alternate* Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	1,892	808,335	46.86%	11.75%	5.51%
Long Term Debt	445,931	1,046	446,977	25.91%	6.64%	1.72%
Short Term Debt	77,331	181	77,512	4.49%	6.01%	0.27%
Preferred Stock	44,105	103	44,208	2.56%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(3,223)	236,417	13.70%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.15%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,236
Less to be Deferred	**(281)**

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.90%	
Beginning Sharing Point at 11.75% ROE	8.20%	
Incremental Rate of Return		1.70%
Incremental Net Operating Income		31,088
Revenue Expansion Factor		1.62800
Gross Excess Revenues		50,611
Less Refund		(15,000)
Gross Excess Revenues Less Refund		35,611
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		21,367

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	136	4,821	851,241	46.55%	11.75%	5.47%
Long Term Debt	467,909	75	2,666	470,650	25.74%	6.74%	1.73%
Short Term Debt	103,514	17	590	104,120	5.69%	5.47%	0.31%
Preferred Stock	24,058	4	137	24,199	1.32%	5.75%	0.08%
Customer Deposits	41,580	7		41,586	2.27%	5.85%	0.13%
Deferred Revenues	77,670	(281)		77,389	4.23%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	36	(8,213)	214,967	11.76%	0.00%	0.00%
ITCs - Weighted	44,533	7		44,540	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.20%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	21,367
Less to be Deferred	(714)

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,084,268
Adjusted Achieved Rate of Return	6.77%	
Allowed Maximum Rate of Return at 12.75% ROE	8.72%	
Incremental Rate of Return		0.05%
Incremental Net Operating Income		1,042
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		1,697
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(1,697)
Maximum Allowed Revenue Reversal		28,753

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	568	6,466	984,890	47.25%	12.75%	6.02%
Long Term Debt	583,150	339	3,856	587,344	28.18%	6.73%	1.90%
Short Term Debt	95,482	55	631	96,169	4.61%	5.47%	0.25%
Preferred Stock	9,459	5	63	9,527	0.46%	5.48%	0.03%
Customer Deposits	47,015	27		47,042	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(995)		57,546	2.76%	5.60%	0.15%
Deferred Taxes & 0 cost ITCs	266,717		(11,016)	255,701	12.27%	0.00%	0.00%
ITCs - Weighted	46,048			46,048	2.21%	10.47%	0.23%
	2,084,268			2,084,268			8.72%
				58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	28,753
Additional to be Reversed to Company	1,696

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,136,797
Adjusted Achieved Rate of Return	9.54%	
Allowed Maximum Rate of Return at 12.75% ROE	8.66%	
Incremental Rate of Return		0.88%
Incremental Net Operating Income		18,804
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		30,613
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(In Excess) of 12.75%		2,144
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(2,144)
Maximum Allowed Revenue Reversal		36,156

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	1,537	7,804	1,020,674	47.77%	12.75%	6.09%
Long Term Debt	642,241	976	4,956	648,172	30.33%	6.61%	2.01%
Short Term Debt	69,311	105	535	69,951	3.27%	5.38%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	73		48,297	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(2,691)		18,032	0.84%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085		(13,294)	288,791	13.52%	0.00%	0.00%
ITCs - Weighted	42,879			42,879	2.01%	10.37%	0.21%
	2,136,797			2,136,797			8.66%
				58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	36,156
Additional to be Reversed to Company	2,087

95-98 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	50,236
1996 Revenue Deferral	36,367
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(28,753)
1998 Revenue Reversal	(36,156)
1995-1998 Interest	10,492
Refund as of 12/31/98	6,448

Refund Ordered	11,227
Refund Adjusted	6,448
Deferred Revenue Benefit from TEC Tax Position	**4,778**

Note:
Adjusted achieved rate of return would not change because achieved NOI and rate base are not impacted by the deferred tax adjustment. However, the beginning sharing point changes because of the capital structure shift.

95-98 Tax Years
Adjusted Revenue Requirement & *Cost of Capital*
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,115,823
Adjusted Achieved Rate of Return	8.36%	
Required Average Rate of Return	8.35%	
Incremental Rate of Return		0.01%
Incremental Net Operating Income		212
Revenue Expansion Factor		0.00000
Deferred Revenue for Refund		0

	Company Filed	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,030,820	6,993	1,037,813	49.05%	12.08%	5.93%
Long Term Debt	607,716	4,123	611,838	28.92%	6.54%	1.89%
Short Term Debt	77,655	527	78,182	3.70%	5.28%	0.20%
Preferred Stock	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,068		48,068	2.27%	6.12%	0.14%
Deferred Revenues	7,706		7,706	0.36%	5.10%	0.02%
Deferred Taxes & 0 cost ITCs	306,039	(11,642)	294,397	13.91%	0.00%	0.00%
ITCs - Weighted	37,820		37,820	1.79%	10.03%	0.18%
	2,115,823		2,115,823			8.35%
			60.06%			

1999 Refund Filed	1,722
1999 Refund Adjusted	0
Additional (Less) to be Refunded	(1,722)

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,111,730
Adjusted Achieved Rate of Return	8.41%	
Required Average Rate of Return	8.30%	
Incremental Rate of Return		0.11%
Incremental Net Operating Income		2,323
Revenue Expansion Factor		1.62800
Deferred Revenue for Refund		3,782

	Company Filed	Adjust for Deferred Debit	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,030,820	(2,381)	1,383	1,029,822	48.77%	12.08%	5.89%
Long Term Debt	607,716	(1,404)	815	607,127	28.75%	6.54%	1.88%
Short Term Debt	77,655	(179)	104	77,580	3.67%	5.28%	0.19%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,068	(111)		47,957	2.27%	6.12%	0.14%
Deferred Revenues	7,706	(18)		7,688	0.36%	5.10%	0.02%
Deferred Taxes & 0 cost ITCs	306,039		(2,303)	303,737	14.38%	0.00%	0.00%
ITCs - Weighted	37,820			37,820	1.79%	10.03%	0.18%
	2,115,823	(4,094)		2,111,730			8.30%
				60.06%			

1999 Refund Filed	1,722
1999 Refund Adjusted	3,782
Additional (Less) to be Refunded	2,060

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1994 Test Year Adjusted

Achieved NOI		$145,228
Adj. rate base	1,857,874	
ROR	8.3600%	
Required NOI		155,318
Net Revenue Deficiency		(10,090)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(16,225)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	801,028	846	801,874	43.16%	12.00%	5.18%
Long Term Debt	558,899	590	559,489	30.11%	7.81%	2.35%
Short Term Debt	56,194	59	56,253	3.03%	5.37%	0.16%
Preferred Stock	45,539	48	45,587	2.45%	6.49%	0.16%
Customer Deposits	43,512		43,512	2.34%	7.86%	0.18%
Deferred Taxes & 0 cost ITCs	293,667	(1,544)	292,123	15.72%	0.00%	0.00%
ITCs - Weighted	59,035		59,035	3.18%	10.15%	0.32%
	1,857,874		1,857,874			8.36%

Savings from $15.957 Million of Implemented Annual Rates	$268
1994-1999 Cumulative Savings	1,608

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.62%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.04%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.19%		
As Filed by Company	8.17%		
Excess Rate of Return		-0.02%	
Total Incremental Rate of Return			0.02%
Incremental Net Operating Income			345
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			562
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			49,394

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	5,647	812,090	47.08%	11.75%	5.53%
Long Term Debt	445,931	3,123	449,054	26.03%	6.64%	1.73%
Short Term Debt	77,331	542	77,872	4.51%	6.01%	0.27%
Preferred Stock	44,105	309	44,414	2.57%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(9,620)	230,020	13.33%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.19%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	49,394
Less to be Deferred	**(1,123)**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.91%	
Beginning Sharing Point at 11.75% ROE	8.21%	
Incremental Rate of Return		1.70%
Incremental Net Operating Income		31,088
Revenue Expansion Factor		1.62800
Gross Excess Revenues		50,611
Less Refund		(15,000)
Gross Excess Revenues Less Refund		35,611
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		21,367

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	543	5,647	852,473	46.62%	11.75%	5.48%
Long Term Debt	467,909	300	3,122	471,331	25.77%	6.74%	1.74%
Short Term Debt	103,514	66	691	104,271	5.70%	5.47%	0.31%
Preferred Stock	24,058	15	161	24,234	1.33%	5.75%	0.08%
Customer Deposits	41,580	27		41,606	2.28%	5.85%	0.13%
Deferred Revenues	77,670	(1,123)		76,547	4.19%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	143	(9,620)	213,667	11.68%	0.00%	0.00%
ITCs - Weighted	44,533	29		44,561	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.21%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	21,367
Less to be Deferred	(714)

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 **Deferred Revenues Adjusted**

Commission Adjusted Rate Base		2,084,268
Adjusted Achieved Rate of Return	8.78%	
Allowed Maximum Rate of Return at 12.75% ROE	8.72%	
Incremental Rate of Return		0.06%
Incremental Net Operating Income		1,251
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		2,036
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(2,036)
Maximum Allowed Revenue Reversal		28,414

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	1,049	5,647	984,552	47.24%	12.75%	6.02%
Long Term Debt	583,150	625	3,368	587,143	28.17%	6.73%	1.90%
Short Term Debt	95,482	102	551	96,136	4.61%	5.47%	0.25%
Preferred Stock	9,459	10	55	9,524	0.46%	5.48%	0.03%
Customer Deposits	47,015	50		47,065	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(1,837)		56,704	2.72%	5.60%	0.15%
Deferred Taxes & 0 cost ITCs	266,717		(9,620)	257,097	12.34%	0.00%	0.00%
ITCs - Weighted	46,048			46,048	2.21%	10.47%	0.23%
	2,084,268			2,084,268			8.72%
				58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	28,414
Additional to be Reversed to Company	1,357

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,136,797
Adjusted Achieved Rate of Return	9.54%	
Allowed Maximum Rate of Return at 12.75% ROE	8.65%	
Incremental Rate of Return		0.89%
Incremental Net Operating Income		19,017
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		30,960
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		2,492
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(2,492)
Maximum Allowed Revenue Reversal		35,808

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	1,824	5,647	1,018,805	47.68%	12.75%	6.08%
Long Term Debt	642,241	1,158	3,586	646,985	30.28%	6.61%	2.00%
Short Term Debt	69,311	125	387	69,823	3.27%	5.38%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	87		48,311	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(3,194)		17,529	0.82%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085		(9,620)	292,465	13.69%	0.00%	0.00%
ITCs - Weighted	42,879			42,879	2.01%	10.37%	0.21%
	2,136,797			2,136,797			8.65%
				58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	35,808
Additional to be Reversed to Company	1,739

92-94 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	49,394
1996 Revenue Deferral	36,367
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(28,414)
1998 Revenue Reversal	(35,808)
1995-1998 Interest	10,492
Refund as of 12/31/98	6,293

Refund Ordered	11,227
Refund Adjusted	6,293
Deferred Revenue Benefit from TEC Tax Position	4,933

Note:
- Adjusted achieved rate of return is unaffected by the deferred tax change because achieved NOI and rate base are not impacted.
- The deferred tax change does change the beginning sharing point because of the capital structure shift.
- The increase in rates in 1994 increases revenues during 1995-1998, which has been included in the adjusted achieved ROR.

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,115,823
Adjusted Achieved Rate of Return	8.36%	
Required Average Rate of Return	8.33%	
Incremental Rate of Return		0.03%
Incremental Net Operating Income		635
Revenue Expansion Factor		1.62800
Deferred Revenue for Refund		1,033

	Company Filed	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,030,820	4,623	1,035,444	48.94%	12.08%	5.91%
Long Term Debt	607,716	2,726	610,441	28.85%	6.54%	1.89%
Short Term Debt	77,655	348	78,003	3.69%	5.28%	0.19%
Preferred Stock	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,068		48,068	2.27%	6.12%	0.14%
Deferred Revenues	7,706		7,706	0.36%	5.10%	0.02%
Deferred Taxes & 0 cost ITCs	306,039	(7,697)	298,342	14.10%	0.00%	0.00%
ITCs - Weighted	37,820		37,820	1.79%	10.03%	0.18%
	2,115,823		2,115,823			8.33%
			60.06%			

1999 Refund Filed	1,722
1999 Refund Adjusted	1,033
Additional (Less) to be Refunded	(689)

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1993 Test Year Adjusted

Achieved NOI		$142,833
Adj. rate base	1,749,355	
ROR	8.2500%	
Required NOI		144,322
Net Revenue Deficiency		(1,489)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		(2,394)

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	748,447	5,222	753,669	43.08%	12.00%	5.17%
Long Term Debt	514,895	3,592	518,487	29.64%	7.56%	2.24%
Short Term Debt	39,223	274	39,497	2.26%	4.28%	0.10%
Preferred Stock	48,274	337	48,611	2.78%	6.49%	0.18%
Customer Deposits	42,056		42,056	2.40%	8.19%	0.20%
Deferred Taxes & 0 cost ITCs	292,477	(9,425)	283,052	16.18%	0.00%	0.00%
ITCs - Weighted	63,983		63,983	3.66%	10.06%	0.37%
	1,749,355		1,749,355			8.25%

Savings from $1.163 Million of Implemented Annual Rates $1,231

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1994 Test Year Adjusted

Achieved NOI		$145,325
Adj. rate base	1,857,874	
ROR	8.4000%	
Required NOI		156,061
Net Revenue Deficiency		(10,736)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(17,264)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	801,028	5,165	806,193	43.39%	12.00%	5.21%
Long Term Debt	558,899	3,604	562,503	30.28%	7.81%	2.36%
Short Term Debt	56,194	362	56,556	3.04%	5.37%	0.16%
Preferred Stock	45,539	294	45,833	2.47%	6.49%	0.16%
Customer Deposits	43,512		43,512	2.34%	7.86%	0.18%
Deferred Taxes & 0 cost ITCs	293,667	(9,425)	284,242	15.30%	0.00%	0.00%
ITCs - Weighted	59,035		59,035	3.18%	10.15%	0.32%
	1,857,874		1,857,874			8.40%

Savings from $15.957 Million of Implemented Annual Rates	$1,307
1994-1999 Cumulative Savings	7,842

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.66%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.08%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.19%		
As Filed by Company	8.17%		
Excess Rate of Return		-0.02%	
Total Incremental Rate of Return			0.06%
Incremental Net Operating Income			1,035
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,685
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,517

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	5,532	811,975	47.07%	11.75%	5.53%
Long Term Debt	445,931	3,059	448,990	26.03%	6.64%	1.73%
Short Term Debt	77,331	530	77,861	4.51%	6.01%	0.27%
Preferred Stock	44,105	303	44,407	2.57%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(9,425)	230,216	13.35%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.19%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,517
Less to be Deferred	0

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.94%	
Beginning Sharing Point at 11.75% ROE	8.20%	
Incremental Rate of Return		1.74%
Incremental Net Operating Income		31,819
Revenue Expansion Factor		1.62800
Gross Excess Revenues		51,802
Less Refund		(15,000)
Gross Excess Revenues Less Refund		36,802
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		22,081

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	0	5,532	851,816	46.58%	11.75%	5.47%
Long Term Debt	467,909	0	3,059	470,967	25.75%	6.74%	1.74%
Short Term Debt	103,514	0	677	104,191	5.70%	5.47%	0.31%
Preferred Stock	24,058	0	157	24,215	1.32%	5.75%	0.08%
Customer Deposits	41,580	0		41,580	2.27%	5.85%	0.13%
Deferred Revenues	77,670	0		77,670	4.25%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	0	(9,425)	213,720	11.69%	0.00%	0.00%
ITCs - Weighted	44,533	0		44,533	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.20%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	22,081
Less to be Deferred	0

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,081,071
Adjusted Achieved Rate of Return	8.82%	
Allowed Maximum Rate of Return at 12.75% ROE	8.69%	
Incremental Rate of Return		0.13%
Incremental Net Operating Income		2,705
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		4,404
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(4,404)
Maximum Allowed Revenue Reversal		26,046

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	(1,765)	0	2,553	978,644	47.03%	12.75%	6.00%
Long Term Debt	583,150	(1,052)	0	1,523	583,620	28.04%	6.73%	1.89%
Short Term Debt	95,482	(172)	0	249	95,559	4.59%	5.47%	0.25%
Preferred Stock	9,459	(17)	0	25	9,467	0.45%	5.48%	0.02%
Customer Deposits	47,015	(85)	0		46,930	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(106)	0		58,436	2.81%	5.60%	0.16%
Deferred Taxes & 0 cost ITCs	266,717			(4,350)	262,367	12.61%	0.00%	0.00%
ITCs - Weighted	46,048				46,048	2.21%	10.47%	0.23%
	2,084,268	(3,197)			2,081,071			8.69%
					58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	26,046
Additional (Less) to be Reversed to Company	(1,011)

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,131,602
Adjusted Achieved Rate of Return	9.59%	
Allowed Maximum Rate of Return at 12.75% ROE	8.59%	
Incremental Rate of Return		1.00%
Incremental Net Operating Income		21,316
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		34,702
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		6,234
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(6,234)
Maximum Allowed Revenue Reversal		32,066

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	(2,932)	(577)	0	1,007,824	47.28%	12.75%	6.03%
Long Term Debt	642,241	(1,862)	(367)	0	640,012	30.02%	6.61%	1.98%
Short Term Debt	69,311	(201)	(40)	0	69,071	3.24%	5.38%	0.17%
Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	(140)	(28)		48,057	2.25%	6.09%	0.14%
Deferred Revenues	20,723	(60)	1,011		21,674	1.02%	5.49%	0.06%
Deferred Taxes & 0 cost ITCs	302,085			0	302,085	14.17%	0.00%	0.00%
ITCs - Weighted	42,879				42,879	2.01%	10.37%	0.21%
	2,136,797	(5,195)			2,131,602			8.59%
					58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	32,066
Additional (Less) to be Reversed to Company	(2,003)

89-91 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	50,517
1996 Revenue Deferral	37,081
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(26,046)
1998 Revenue Reversal	(32,066)
1995-1998 Interest	10,492
Refund as of 12/31/98	14,240

Refund Ordered	11,227
Refund Adjusted	14,240
Deferred Rev Benefit (Cost) from TEC Tax Position	**(3,014)**

Note:
- Adjusted achieved rate of return is unaffected by the deferred tax change because achieved NOI and rate base are not impacted.
- The deferred tax change does change the beginning sharing point because of the capital structure shift.
- The increase in rates in 1994 increases revenues during 1995-1998, which has been included in the adjusted achieved ROR.

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,111,730
Adjusted Achieved Rate of Return	8.41%	
Required Average Rate of Return	8.30%	
Incremental Rate of Return		0.11%
Incremental Net Operating Income		2,323
Revenue Expansion Factor		1.62800
Deferred Revenue for Refund		3,782

	Company Filed	Adjust for Deferred Debit	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,030,820	(2,381)	1,383	1,029,822	48.77%	12.08%	5.89%
Long Term Debt	607,716	(1,404)	815	607,127	28.75%	6.54%	1.88%
Short Term Debt	77,655	(179)	104	77,580	3.67%	5.28%	0.19%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,068	(111)		47,957	2.27%	6.12%	0.14%
Deferred Revenues	7,706	(18)		7,688	0.36%	5.10%	0.02%
Deferred Taxes & 0 cost ITCs	306,039		(2,303)	303,737	14.38%	0.00%	0.00%
ITCs - Weighted	37,820			37,820	1.79%	10.03%	0.18%
	2,115,823	(4,094)		2,111,730			8.30%
				60.06%			

1999 Refund Filed	1,722
1999 Refund Adjusted	3,782
Additional (Less) to be Refunded	2,060

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1993 Test Year Adjusted

Achieved NOI		$142,771
Adj. rate base	1,749,355	
ROR	8.2200%	
Required NOI		143,797
Net Revenue Deficiency		(1,026)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		(1,650)

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	748,447	2,253	750,700	42.91%	12.00%	5.15%
Long Term Debt	514,895	1,550	516,445	29.52%	7.56%	2.23%
Short Term Debt	39,223	118	39,341	2.25%	4.28%	0.10%
Preferred Stock	48,274	145	48,419	2.77%	6.49%	0.18%
Customer Deposits	42,056		42,056	2.40%	8.19%	0.20%
Deferred Taxes & 0 cost ITCs	292,477	(4,066)	288,411	16.49%	0.00%	0.00%
ITCs - Weighted	63,983		63,983	3.66%	10.06%	0.37%
	1,749,355		1,749,355			8.22%

Savings from $1.163 Million of Implemented Annual Rates $487

88-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1994 Test Year Adjusted

Achieved NOI		$145,259
Adj. rate base	1,857,874	
ROR	8.3700%	
Required NOI		155,504
Net Revenue Deficiency		(10,245)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		(16,474)

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	801,028	2,228	803,256	43.24%	12.00%	5.19%
Long Term Debt	558,899	1,555	560,454	30.17%	7.81%	2.36%
Short Term Debt	56,194	156	56,350	3.03%	5.37%	0.16%
Preferred Stock	45,539	127	45,666	2.46%	6.49%	0.16%
Customer Deposits	43,512		43,512	2.34%	7.86%	0.18%
Deferred Taxes & 0 cost ITCs	293,667	(4,066)	289,601	15.59%	0.00%	0.00%
ITCs - Weighted	59,035		59,035	3.18%	10.15%	0.32%
	1,857,874		1,857,874			8.37%

Savings from $15.957 Million of Implemented Annual Rates	$517
1994-1999 Cumulative Savings	3,102

80-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.63%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.05%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.16%		
As Filed by Company	8.17%		
Excess Rate of Return		0.01%	
Total Incremental Rate of Return			0.06%
Incremental Net Operating Income			1,035
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,685
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,517

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	2,387	808,830	46.89%	11.75%	5.51%
Long Term Debt	445,931	1,320	447,251	25.93%	6.64%	1.72%
Short Term Debt	77,331	229	77,560	4.50%	6.01%	0.27%
Preferred Stock	44,105	131	44,235	2.56%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(4,066)	235,574	13.66%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.16%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,517
Less to be Deferred	0

86-38 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.91%	
Beginning Sharing Point at 11.75% ROE	8.17%	
Incremental Rate of Return		1.74%
Incremental Net Operating Income		31,819
Revenue Expansion Factor		1.62800
Gross Excess Revenues		51,802
Less Refund		(15,000)
Gross Excess Revenues Less Refund		36,802
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		22,081

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	0	2,387	848,670	46.41%	11.75%	5.45%
Long Term Debt	467,909	0	1,320	469,228	25.66%	6.74%	1.73%
Short Term Debt	103,514	0	292	103,806	5.68%	5.47%	0.31%
Preferred Stock	24,058	0	68	24,126	1.32%	5.75%	0.08%
Customer Deposits	41,580	0		41,580	2.27%	5.85%	0.13%
Deferred Revenues	77,670	0		77,670	4.25%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	0	(4,066)	219,079	11.98%	0.00%	0.00%
ITCs - Weighted	44,533	0		44,533	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.17%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	22,081
Less to be Deferred	0

86-83 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,081,629
Adjusted Achieved Rate of Return	8.79%	
Allowed Maximum Rate of Return at 12.75% ROE	8.67%	
Incremental Rate of Return		0.12%
Incremental Net Operating Income		2,498
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		4,067
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(4,067)
Maximum Allowed Revenue Reversal		26,383

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	(1,457)	0	1,102	977,501	46.96%	12.75%	5.99%
Long Term Debt	583,150	(869)	0	657	582,938	28.00%	6.73%	1.88%
Short Term Debt	95,482	(142)	0	108	95,448	4.59%	5.47%	0.25%
Preferred Stock	9,459	(14)	0	11	9,456	0.45%	5.48%	0.02%
Customer Deposits	47,015	(70)	0		46,945	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(87)	0		58,454	2.81%	5.60%	0.16%
Deferred Taxes & 0 cost ITCs	266,717			(1,877)	264,840	12.72%	0.00%	0.00%
ITCs - Weighted	46,048				46,048	2.21%	10.47%	0.23%
	2,084,268	(2,639)			2,081,629			8.67%
					58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	26,383
Additional (Less) to be Reversed to Company	(674)

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,132,508
Adjusted Achieved Rate of Return	9.56%	
Allowed Maximum Rate of Return at 12.75% ROE	8.59%	
Incremental Rate of Return		0.97%
Incremental Net Operating Income		20,685
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		33,676
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		5,207
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(5,207)
Maximum Allowed Revenue Reversal		33,093

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	(2,421)	(385)	0	1,008,528	47.29%	12.75%	6.03%
Long Term Debt	642,241	(1,537)	(244)	0	640,459	30.03%	6.61%	1.99%
Short Term Debt	69,311	(166)	(26)	0	69,119	3.24%	5.38%	0.17%
Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	(115)	(18)		48,090	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(50)	674		21,347	1.00%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085			0	302,085	14.17%	0.00%	0.00%
ITCs - Weighted	42,879				42,879	2.01%	10.37%	0.21%
	2,136,797	(4,289)			2,132,508			8.59%
					58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	33,093
Additional (Less) to be Reversed to Company	(976)

86-88 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	50,517
1996 Revenue Deferral	37,081
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(26,383)
1998 Revenue Reversal	(33,093)
1995-1998 Interest	10,492
Refund as of 12/31/98	12,876

Refund Ordered	11,227
Refund Adjusted	12,876
Deferred Rev Benefit (Cost) from TEC Tax Position	(1,650)

Note:
- Adjusted achieved rate of return is unaffected by the deferred tax change because achieved NOI and rate base are not impacted.
- The deferred tax change does change the beginning sharing point because of the capital structure shift.
- The increase in rates in 1994 increases revenues during 1995-1998, which has been included in the adjusted achieved ROR.

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,112,524
Adjusted Achieved Rate of Return	8.38%	
Required Average Rate of Return	8.30%	
Incremental Rate of Return		0.08%
Incremental Net Operating Income		1,690
Revenue Expansion Factor		1.62800
Deferred Revenue for Refund		2,751

	Company Filed	Adjust for Deferred Debit	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,030,820	(1,919)	564	1,029,465	48.73%	12.08%	5.89%
Long Term Debt	607,716	(1,132)	332	606,917	28.73%	6.54%	1.88%
Short Term Debt	77,655	(145)	42	77,553	3.67%	5.28%	0.19%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,068	(89)		47,978	2.27%	6.12%	0.14%
Deferred Revenues	7,706	(14)		7,691	0.36%	5.10%	0.02%
Deferred Taxes & 0 cost ITCs	306,039		(938)	305,101	14.44%	0.00%	0.00%
ITCs - Weighted	37,820			37,820	1.79%	10.03%	0.18%
	2,115,823	(3,299)		2,112,524			8.30%
				60.06%			

1999 Refund Filed	1,722
1999 Refund Adjusted	2,751
Additional (Less) to be Refunded	1,029

	86-88 Deferred Debit	89-91 Deferred Debit
12/96	0	0
1/97	0	0
2/97	0	0
3/97	0	0
4/97	0	0
5/97	4,289	5,195
6/97	4,289	5,195
7/97	4,289	5,195
8/97	4,289	5,195
9/97	4,289	5,195
10/97	4,289	5,195
11/97	4,289	5,195
12/97	4,289	5,195
13-month avg.	2,639	3,197
12/97	4,289	5,195
1/98	4,289	5,195
2/98	4,289	5,195
3/98	4,289	5,195
4/98	4,289	5,195
5/98	4,289	5,195
6/98	4,289	5,195
7/98	4,289	5,195
8/98	4,289	5,195
9/98	4,289	5,195
10/98	4,289	5,195
11/98	4,289	5,195
12/98	4,289	5,195
13-month avg.	4,289	5,195
12/98	4,289	5,195
1/99	4,289	5,195
2/99	4,289	5,195
3/99	4,289	5,195
4/99	4,289	5,195
5/99	4,289	5,195
6/99	4,289	5,195
7/99	4,289	5,195
8/99	4,289	5,195
9/99	4,289	5,195
10/99	0	631
11/99	0	631
12/99	0	0
13-month avg.	3,299	4,094

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Yearly Benefit/Impact to Customers

	1993	1994	1995	1996	1997	1998	1999	Total
1995-1998 Tax Period [1]								
Deferred revenue benefits/(costs)			281	714	1,696	2,087	1,376	6,156
Tax deficiency interest expense at 60% [2]							(2,433)	(2,433)
								3,723
1992-1994 Tax Period [3]								
Rate case benefits	(13)	268	268	268	268	268	268	1,595
Deferred revenue benefits/(costs) [4]			1,123	714	1,357	1,739	689	5,622
Tax deficiency interest expense at 60% [5]							(3,544)	(3,544)
								3,673
1989-1991 Tax Period [6]								
Rate case benefits	1,231	1,307	1,307	1,307	1,307	1,307	1,307	9,073
Deferred revenue benefits/(costs) [7]			0	0	(1,011)	(2,003)	(2,060)	(5,074)
Tax deficiency interest expense at 60% [8]							(2,182)	(2,182)
								1,817
1986-1988 Tax Period [9]								
Rate case benefits	487	517	517	517	517	517	517	3,589
Deferred revenue benefits/(costs) [7]			0	0	(674)	(976)	(1,029)	(2,679)
Tax deficiency interest benefit at 60% [10]							617	617
								1,527
Total	1,705	2,092	3,496	3,520	3,460	2,939	(6,471)	10,741
Cumulative net revenue requirements at y/e 1999 $ [11]	2,918	3,274	5,002	4,605	4,139	3,214	(6,471)	16,682

[1] Issues include: R & E expenses, COR, and interest capitalization under 263A
[2] $4.054 million total paid times 60 percent impact to customers in 1999
[3] Issues include: R & E expenses, COR, and interest capitalization under 263A
[4] Related to tax issues not projected in 1993 or 1994 test years, but included in deferred revenue years
[5] $5.906 million total paid times 60 percent impact to customers in 1999
[6] Issues include: Capacity payments, Hooker's Point startup, Repair allowance, COR, and interest capitalization under 263A
[7] Impact to deferred revenues because deferred taxes reversed in May 1997
[8] $3.636 million when $5.195 million total paid is prorated for 7 of 10 years, times 60 percent impact to customers in 1999
[9] Issues include: Repair allowance, Non-accrual experience method for bad debts
[10] $1.029 million when $1.911 million total received is prorated for 7 of 13 years, times 60 percent impact to customers in 1999
[11] at 9.37% Tampa Electric cost of funds

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950379-EI EXHIBIT NO. 7
COMPANY/
WITNESS: Bacon
DATE: 8-29-01

11206-01g

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.61%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.03%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.15%		
As Filed by Company	8.17%		
Excess Rate of Return		0.02%	
Total Incremental Rate of Return			0.05%
Incremental Net Operating Income			863
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,404
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,236

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	1,892	808,335	46.86%	11.75%	5.51%
Long Term Debt	445,931	1,046	446,977	25.91%	6.64%	1.72%
Short Term Debt	77,331	181	77,512	4.49%	6.01%	0.27%
Preferred Stock	44,105	103	44,208	2.56%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(3,223)	236,417	13.70%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.15%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,236
Less to be Deferred	(281)

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.90%	
Beginning Sharing Point at 11.75% ROE	8.20%	
Incremental Rate of Return		1.70%
Incremental Net Operating Income		31,088
Revenue Expansion Factor		1.62800
Gross Excess Revenues		50,611
Less Refund		(15,000)
Gross Excess Revenues Less Refund		35,611
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		21,367

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	136	4,821	851,241	46.55%	11.75%	5.47%
Long Term Debt	467,909	75	2,666	470,650	25.74%	6.74%	1.73%
Short Term Debt	103,514	17	590	104,120	5.69%	5.47%	0.31%
Preferred Stock	24,058	4	137	24,199	1.32%	5.75%	0.08%
Customer Deposits	41,580	7		41,586	2.27%	5.85%	0.13%
Deferred Revenues	77,670	(281)		77,389	4.23%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	36	(8,213)	214,967	11.76%	0.00%	0.00%
ITCs - Weighted	44,533	7		44,540	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.20%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	21,367
Less to be Deferred	(714)

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,084,268
Adjusted Achieved Rate of Return	8.77%	
Allowed Maximum Rate of Return at 12.75% ROE	8.72%	
Incremental Rate of Return		0.05%
Incremental Net Operating Income		1,042
Revenue Expansion Factor		1.62600
Revenues Below/(in Excess) of 12.75%		1,697
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(1,697)
Maximum Allowed Revenue Reversal		28,753

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	568	6,466	984,890	47.25%	12.75%	6.02%
Long Term Debt	583,150	339	3,856	587,344	28.18%	6.73%	1.90%
Short Term Debt	95,482	55	631	96,169	4.61%	5.47%	0.25%
Preferred Stock	9,459	5	63	9,527	0.46%	5.48%	0.03%
Customer Deposits	47,015	27		47,042	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(995)		57,546	2.76%	5.60%	0.15%
Deferred Taxes & 0 cost ITCs	266,717		(11,016)	255,701	12.27%	0.00%	0.00%
ITCs - Weighted	46,048			46,048	2.21%	10.47%	0.23%
	2,084,268			2,084,268			8.72%
				58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	28,753
Additional to be Reversed to Company	1,696

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,136,797
Adjusted Achieved Rate of Return	9.54%	
Allowed Maximum Rate of Return at 12.75% ROE	8.66%	
Incremental Rate of Return		0.88%
Incremental Net Operating Income		18,804
Revenue Expansion Factor		1.62800
Revenues Below/(In Excess) of 12.75%		30,613
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(In Excess) of 12.75%		2,144
Company Reversal		38,300
Revenues Below/(In Excess) of 12.75% ROE		(2,144)
Maximum Allowed Revenue Reversal		36,156

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	1,537	7,804	1,020,674	47.77%	12.75%	6.09%
Long Term Debt	642,241	976	4,956	648,172	30.33%	6.61%	2.01%
Short Term Debt	69,311	105	535	69,951	3.27%	5.38%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	73		48,297	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(2,691)		18,032	0.84%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085		(13,294)	288,791	13.52%	0.00%	0.00%
ITCs - Weighted	42,879			42,879	2.01%	10.37%	0.21%
	2,136,797			2,136,797			8.66%
				58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	36,156
Additional to be Reversed to Company	2,087

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,115,823
Adjusted Achieved Rate of Return	8.36%	
Required Average Rate of Return	8.35%	
Incremental Rate of Return		0.01%
Incremental Net Operating Income		212
Revenue Expansion Factor		1.62800
Deferred Revenue for Refund		344

	Company Filed	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,030,820	6,993	1,037,813	49.05%	12.08%	5.93%
Long Term Debt	607,716	4,123	611,838	28.92%	6.54%	1.89%
Short Term Debt	77,655	527	78,182	3.70%	5.28%	0.20%
Preferred Stock	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,068		48,068	2.27%	6.12%	0.14%
Deferred Revenues	7,706		7,706	0.36%	5.10%	0.02%
Deferred Taxes & 0 cost ITCs	306,039	(11,642)	294,397	13.91%	0.00%	0.00%
ITCs - Weighted	37,820		37,820	1.79%	10.03%	0.18%
	2,115,823		2,115,823			8.35%
			60.06%			

1999 Refund Filed	1,722
1999 Refund Adjusted	344
Additional (Less) to be Refunded	(1,378)

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1993 Test Year Adjusted

Achieved NOI		$142,732
Adj. rate base	1,749,355	
ROR	8.2000%	
Required NOI		143,447
Net Revenue Deficiency		(715)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(1,150)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	748,447	386	748,833	42.81%	12.00%	5.14%
Long Term Debt	514,895	266	515,161	29.45%	7.56%	2.23%
Short Term Debt	39,223	20	39,243	2.24%	4.28%	0.10%
Preferred Stock	48,274	25	48,299	2.76%	6.49%	0.18%
Customer Deposits	42,056		42,056	2.40%	8.19%	0.20%
Deferred Taxes & 0 cost ITCs	292,477	(697)	291,780	16.68%	0.00%	0.00%
ITCs - Weighted	63,983		63,983	3.66%	10.06%	0.37%
	1,749,355		1,749,355			8.20%

Savings from $1.163 Million of Implemented Annual Rates ($13)

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1994 Test Year Adjusted

Achieved NOI		$145,228
Adj. rate base	1,857,874	
ROR	8.3600%	
Required NOI		155,318
Net Revenue Deficiency		(10,090)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(16,225)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	801,028	846	801,874	43.16%	12.00%	5.18%
Long Term Debt	558,899	590	559,489	30.11%	7.81%	2.35%
Short Term Debt	56,194	59	56,253	3.03%	5.37%	0.16%
Preferred Stock	45,539	48	45,587	2.45%	6.49%	0.16%
Customer Deposits	43,512		43,512	2.34%	7.86%	0.18%
Deferred Taxes & 0 cost ITCs	293,667	(1,544)	292,123	15.72%	0.00%	0.00%
ITCs - Weighted	59,035		59,035	3.18%	10.15%	0.32%
	1,857,874		1,857,874			8.36%

Savings from $15.957 Million of Implemented Annual Rates	$268
1994-1999 Cumulative Savings	1,608

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.62%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.04%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.19%		
As Filed by Company	8.17%		
Excess Rate of Return		-0.02%	
Total Incremental Rate of Return			0.02%
Incremental Net Operating Income			345
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			562
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			49,394

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	5,647	812,090	47.08%	11.75%	5.53%
Long Term Debt	445,931	3,123	449,054	26.03%	6.64%	1.73%
Short Term Debt	77,331	542	77,872	4.51%	6.01%	0.27%
Preferred Stock	44,105	309	44,414	2.57%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(9,620)	230,020	13.33%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.19%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	49,394
Less to be Deferred	**(1,123)**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.91%	
Beginning Sharing Point at 11.75% ROE	8.21%	
Incremental Rate of Return		1.70%
Incremental Net Operating Income		31,088
Revenue Expansion Factor		1.62800
Gross Excess Revenues		50,611
Less Refund		(15,000)
Gross Excess Revenues Less Refund		35,611
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		21,367

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	543	5,647	852,473	46.62%	11.75%	5.48%
Long Term Debt	467,909	300	3,122	471,331	25.77%	6.74%	1.74%
Short Term Debt	103,514	66	691	104,271	5.70%	5.47%	0.31%
Preferred Stock	24,058	15	161	24,234	1.33%	5.75%	0.08%
Customer Deposits	41,580	27		41,606	2.28%	5.65%	0.13%
Deferred Revenues	77,670	(1,123)		76,547	4.19%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	143	(9,620)	213,667	11.68%	0.00%	0.00%
ITCs - Weighted	44,533	29		44,561	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.21%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	21,367
Less to be Deferred	(714)

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,084,268
Adjusted Achieved Rate of Return	8.78%	
Allowed Maximum Rate of Return at 12.75% ROE	8.72%	
Incremental Rate of Return		0.06%
Incremental Net Operating Income		1,251
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		2,036
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(2,036)
Maximum Allowed Revenue Reversal		28,414

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	1,049	5,647	984,552	47.24%	12.75%	6.02%
Long Term Debt	583,150	625	3,368	587,143	28.17%	6.73%	1.90%
Short Term Debt	95,482	102	551	96,136	4.61%	5.47%	0.25%
Preferred Stock	9,459	10	55	9,524	0.46%	5.48%	0.03%
Customer Deposits	47,015	50		47,065	2.26%	6.10%	0.14%
Deferred Revenues	56,541	(1,837)		56,704	2.72%	5.60%	0.15%
Deferred Taxes & 0 cost ITCs	266,717		(9,620)	257,097	12.34%	0.00%	0.00%
ITCs - Weighted	46,048			46,048	2.21%	10.47%	0.23%
	2,084,268			2,084,268			8.72%
				58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	28,414
Additional to be Reversed to Company	1,357

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,136,797
Adjusted Achieved Rate of Return	9.54%	
Allowed Maximum Rate of Return at 12.75% ROE	8.65%	
Incremental Rate of Return		0.89%
Incremental Net Operating Income		19,017
Revenue Expansion Factor		1.62800
Revenues Below/(In Excess) of 12.75%		30,960
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(In Excess) of 12.75%		2,492
Company Reversal		38,300
Revenues Below/(In Excess) of 12.75% ROE		(2,492)
Maximum Allowed Revenue Reversal		35,808

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	1,824	5,647	1,018,805	47.68%	12.75%	6.08%
Long Term Debt	642,241	1,158	3,586	646,985	30.28%	8.61%	2.00%
Short Term Debt	69,311	125	387	69,823	3.27%	5.38%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	87		48,311	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(3,194)		17,529	0.82%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085		(9,620)	292,465	13.69%	0.00%	0.00%
ITCs - Weighted	42,879			42,879	2.01%	10.37%	0.21%
	2,136,797			2,136,797			8.65%
				58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	35,808
Additional to be Reversed to Company	1,739

92-94 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	49,394
1996 Revenue Deferral	36,367
1996-1997 Refund	(25,736)
1997 Revenue Reversal	(28,414)
1998 Revenue Reversal	(35,808)
1995-1998 Interest	10,492
Refund as of 12/31/98	6,293

Refund Ordered	11,227
Refund Adjusted	6,293
Deferred Revenue Benefit from TEC Tax Position	4,933

Note:
- Adjusted achieved rate of return is unaffected by the deferred tax change because achieved NOI and rate base are not impacted.
- The deferred tax change does change the beginning sharing point because of the capital structure shift.
- The increase in rates in 1994 increases revenues during 1995-1998, which has been included in the adjusted achieved ROR.

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,115,823
Adjusted Achieved Rate of Return	8.36%	
Required Average Rate of Return	8.33%	
Incremental Rate of Return		0.03%
Incremental Net Operating Income		635
Revenue Expansion Factor		1.62800
Deferred Revenue for Refund		1,033

	Company Filed	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,030,820	4,623	1,035,444	48.94%	12.08%	5.91%
Long Term Debt	607,716	2,726	610,441	28.85%	6.54%	1.89%
Short Term Debt	77,655	348	78,003	3.69%	5.28%	0.19%
Preferred Stock	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,068		48,068	2.27%	6.12%	0.14%
Deferred Revenues	7,706		7,706	0.36%	5.10%	0.02%
Deferred Taxes & 0 cost ITCs	306,039	(7,697)	298,342	14.10%	0.00%	0.00%
ITCs - Weighted	37,820		37,820	1.79%	10.03%	0.18%
	2,115,823		2,115,823			8.33%
			60.06%			

1999 Refund Filed	1,722
1999 Refund Adjusted	1,033
Additional (Less) to be Refunded	(689)

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1993 Test Year Adjusted

Achieved NOI		$142,833
Adj. rate base	1,749,355	
ROR	8.2500%	
Required NOI		144,322
Net Revenue Deficiency		(1,489)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		(2,394)

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	748,447	5,222	753,669	43.08%	12.00%	5.17%
Long Term Debt	514,895	3,592	518,487	29.64%	7.56%	2.24%
Short Term Debt	39,223	274	39,497	2.26%	4.28%	0.10%
Preferred Stock	48,274	337	48,611	2.78%	6.49%	0.18%
Customer Deposits	42,056		42,056	2.40%	8.19%	0.20%
Deferred Taxes & 0 cost ITCs	292,477	(9,425)	283,052	16.18%	0.00%	0.00%
ITCs - Weighted	63,983		63,983	3.66%	10.06%	0.37%
	1,749,355		1,749,355			8.25%

Savings from $1.163 Million of Implemented Annual Rates $1,231

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1994 Test Year Adjusted

Achieved NOI		$145,325
Adj. rate base	1,857,874	
ROR	8.4000%	
Required NOI		156,061
Net Revenue Deficiency		(10,736)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		(17,264)

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	801,028	5,165	806,193	43.39%	12.00%	5.21%
Long Term Debt	558,899	3,604	562,503	30.28%	7.81%	2.36%
Short Term Debt	56,194	362	56,556	3.04%	5.37%	0.16%
Preferred Stock	45,539	294	45,833	2.47%	6.49%	0.16%
Customer Deposits	43,512		43,512	2.34%	7.86%	0.18%
Deferred Taxes & 0 cost ITCs	293,667	(9,425)	284,242	15.30%	0.00%	0.00%
ITCs - Weighted	59,035		59,035	3.18%	10.15%	0.32%
	1,857,874		1,857,874			8.40%

Savings from $15.957 Million of Implemented Annual Rates	$1,307
1994-1999 Cumulative Savings	7,842

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.66%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.08%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.19%		
As Filed by Company	8.17%		
Excess Rate of Return		-0.02%	
Total Incremental Rate of Return			0.06%
Incremental Net Operating Income			1,035
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,685
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,517

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	5,532	811,975	47.07%	11.75%	5.53%
Long Term Debt	445,931	3,059	448,990	26.03%	6.64%	1.73%
Short Term Debt	77,331	530	77,861	4.51%	6.01%	0.27%
Preferred Stock	44,105	303	44,407	2.57%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,840	(9,425)	230,216	13.35%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.61%	0.28%
	1,725,081		1,725,081			8.18%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,517
Less to be Deferred	0

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.94%	
Beginning Sharing Point at 11.75% ROE	8.20%	
Incremental Rate of Return		1.74%
Incremental Net Operating Income		31,819
Revenue Expansion Factor		1.62800
Gross Excess Revenues		51,802
Less Refund		(15,000)
Gross Excess Revenues Less Refund		36,802
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		22,081

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	0	5,532	851,816	46.58%	11.75%	5.47%
Long Term Debt	467,909	0	3,059	470,967	25.75%	6.74%	1.74%
Short Term Debt	103,514	0	677	104,191	5.70%	5.47%	0.31%
Preferred Stock	24,058	0	157	24,215	1.32%	5.75%	0.08%
Customer Deposits	41,580	0		41,580	2.27%	5.85%	0.13%
Deferred Revenues	77,670	0		77,870	4.25%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	0	(9,425)	213,720	11.69%	0.00%	0.00%
ITCs - Weighted	44,533	0		44,533	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.20%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	22,081
Less to be Deferred	0

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,081,071
Adjusted Achieved Rate of Return	6.82%	
Allowed Maximum Rate of Return at 12.75% ROE	6.69%	
Incremental Rate of Return		0.13%
Incremental Net Operating Income		2,705
Revenue Expansion Factor		1.62800
Revenues Below/(In Excess) of 12.75%		4,404
Company Reversal		30,450
Revenues Below/(In Excess) of 12.75% ROE		(4,404)
Maximum Allowed Revenue Reversal		26,046

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	(1,765)	0	2,553	978,644	47.03%	12.75%	6.00%
Long Term Debt	583,150	(1,052)	0	1,523	583,620	28.04%	6.73%	1.89%
Short Term Debt	95,482	(172)	0	249	95,559	4.59%	5.47%	0.25%
Preferred Stock	9,459	(17)	0	25	9,467	0.45%	5.48%	0.02%
Customer Deposits	47,015	(85)	0		46,930	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(106)	0		58,436	2.81%	5.60%	0.16%
Deferred Taxes & 0 cost ITCs	266,717			(4,350)	262,367	12.61%	0.00%	0.00%
ITCs - Weighted	46,048				46,048	2.21%	10.47%	0.23%
	2,084,268	(3,197)			2,081,071			8.69%
					56.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	26,046
Additional (Less) to be Reversed to Company	(1,011)

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,131,602
Adjusted Achieved Rate of Return	9.59%	
Allowed Maximum Rate of Return at 12.75% ROE	8.59%	
Incremental Rate of Return		1.00%
Incremental Net Operating Income		21,316
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		34,702
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		6,234
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(6,234)
Maximum Allowed Revenue Reversal		32,066

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	(2,932)	(577)	0	1,007,824	47.28%	12.75%	6.03%
Long Term Debt	642,241	(1,862)	(367)	0	640,012	30.02%	6.61%	1.98%
Short Term Debt	69,311	(201)	(40)	0	69,071	3.24%	5.36%	0.17%
Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	(140)	(28)		48,057	2.25%	6.09%	0.14%
Deferred Revenues	20,723	(60)	1,011		21,674	1.02%	5.49%	0.06%
Deferred Taxes & 0 cost ITCs	302,085			0	302,085	14.17%	0.00%	0.00%
ITCs - Weighted	42,879				42,879	2.01%	10.37%	0.21%
	2,136,797	(5,195)			2,131,602			8.59%
					58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	32,066
Additional (Less) to be Reversed to Company	(2,003)

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,111,730
Adjusted Achieved Rate of Return	8.41%	
Required Average Rate of Return	8.30%	
Incremental Rate of Return		0.11%
Incremental Net Operating Income		2,323
Revenue Expansion Factor		1.62800
Deferred Revenue for Refund		3,782

	Company Filed	Adjust for Deferred Debit	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,030,820	(2,381)	1,383	1,029,822	48.77%	12.08%	5.89%
Long Term Debt	607,716	(1,404)	815	607,127	28.75%	6.54%	1.88%
Short Term Debt	77,655	(179)	104	77,580	3.67%	5.28%	0.19%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,068	(111)		47,957	2.27%	6.12%	0.14%
Deferred Revenues	7,706	(18)		7,688	0.36%	5.10%	0.02%
Deferred Taxes & 0 cost ITCs	306,039		(2,303)	303,737	14.38%	0.00%	0.00%
ITCs - Weighted	37,820			37,820	1.79%	10.03%	0.18%
	2,115,823	(4,094)		2,111,730			8.30%
				60.06%			

1999 Refund Filed	1,722
1999 Refund Adjusted	3,782
Additional (Less) to be Refunded	**2,060**

89-91 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	50,517
1996 Revenue Deferral	37,081
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(26,046)
1998 Revenue Reversal	(32,066)
1995-1998 Interest	10,492
Refund as of 12/31/98	14,240
Refund Ordered	11,227
Refund Adjusted	14,240
Deferred Rev Benefit (Cost) from TEC Tax Position	**(3,014)**

Note:
- Adjusted achieved rate of return is unaffected by the deferred tax change because achieved NOI and rate base are not impacted.
- The deferred tax change does change the beginning sharing point because of the capital structure shift.
- The increase in rates in 1994 increases revenues during 1995-1998, which has been included in the adjusted achieved ROR.

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1993 Test Year Adjusted

Achieved NOI		$142,771
Adj. rate base	1,749,355	
ROR	8.2200%	
Required NOI		143,797
Net Revenue Deficiency		(1,026)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		(1,650)

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	748,447	2,253	750,700	42.91%	12.00%	5.15%
Long Term Debt	514,885	1,550	516,445	29.52%	7.56%	2.23%
Short Term Debt	39,223	118	39,341	2.25%	4.28%	0.10%
Preferred Stock	48,274	145	48,419	2.77%	6.49%	0.18%
Customer Deposits	42,056		42,056	2.40%	8.19%	0.20%
Deferred Taxes & 0 cost ITCs	292,477	(4,066)	288,411	16.49%	0.00%	0.00%
ITCs - Weighted	63,983		63,983	3.66%	10.06%	0.37%
	1,749,355		1,749,355			8.22%

Savings from $1.163 Million of Implemented Annual Rates $487

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1994 Test Year Adjusted

Achieved NOI		$145,259
Adj. rate base	1,857,874	
ROR	8.3700%	
Required NOI		155,504
Net Revenue Deficiency		(10,245)
Revenue Tax Factor		1.608012
Total Revenue Deficiency		**(16,474)**

	Staff Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	801,028	2,228	803,256	43.24%	12.00%	5.19%
Long Term Debt	558,899	1,555	560,454	30.17%	7.81%	2.36%
Short Term Debt	56,194	156	56,350	3.03%	5.37%	0.16%
Preferred Stock	45,539	127	45,666	2.46%	6.49%	0.16%
Customer Deposits	43,512		43,512	2.34%	7.86%	0.18%
Deferred Taxes & 0 cost ITCs	293,687	(4,086)	289,601	15.59%	0.00%	0.00%
ITCs - Weighted	59,035		59,035	3.18%	10.15%	0.32%
	1,857,874		1,857,874			8.37%

Savings from $15.957 Million of Implemented Annual Rates	$517
1994-1999 Cumulative Savings	3,102

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.63%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.05%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.16%		
As Filed by Company	8.17%		
Excess Rate of Return		0.01%	
Total Incremental Rate of Return			0.06%
Incremental Net Operating Income			1,035
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,685
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,517

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	2,387	808,830	46.89%	11.75%	5.51%
Long Term Debt	445,931	1,320	447,251	25.93%	6.64%	1.72%
Short Term Debt	77,331	229	77,560	4.50%	6.01%	0.27%
Preferred Stock	44,105	131	44,235	2.56%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(4,066)	235,574	13.66%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.16%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,517
Less to be Deferred	0

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.91%	
Beginning Sharing Point at 11.75% ROE	8.17%	
Incremental Rate of Return		1.74%
Incremental Net Operating Income		31,819
Revenue Expansion Factor		1.62800
Gross Excess Revenues		51,802
Less Refund		(15,000)
Gross Excess Revenues Less Refund		36,802
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		22,081

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	0	2,387	848,670	46.41%	11.75%	5.45%
Long Term Debt	467,909	0	1,320	469,228	25.66%	6.74%	1.73%
Short Term Debt	103,514	0	292	103,806	5.68%	5.47%	0.31%
Preferred Stock	24,058	0	68	24,126	1.32%	5.75%	0.08%
Customer Deposits	41,580	0		41,580	2.27%	5.85%	0.13%
Deferred Revenues	77,670	0		77,670	4.25%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	0	(4,068)	219,079	11.98%	0.00%	0.00%
ITCs - Weighted	44,533	0		44,533	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.17%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	22,081
Less to be Deferred	0

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,081,629
Adjusted Achieved Rate of Return	8.79%	
Allowed Maximum Rate of Return at 12.75% ROE	8.67%	
Incremental Rate of Return		0.12%
Incremental Net Operating Income		2,498
Revenue Expansion Factor		1.62800
Revenues Below/(In Excess) of 12.75%		4,067
Company Reversal		30,450
Revenues Below/(In Excess) of 12.75% ROE		(4,067)
Maximum Allowed Revenue Reversal		26,383

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,858	(1,457)	0	1,102	977,501	46.96%	12.75%	5.99%
Long Term Debt	583,150	(669)	0	657	582,938	28.00%	6.73%	1.88%
Short Term Debt	95,482	(142)	0	108	95,448	4.59%	5.47%	0.25%
Preferred Stock	9,459	(14)	0	11	9,456	0.45%	5.48%	0.02%
Customer Deposits	47,015	(70)	0		46,945	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(87)	0		58,454	2.81%	5.60%	0.16%
Deferred Taxes & 0 cost ITCs	266,717			(1,877)	264,840	12.72%	0.00%	0.00%
ITCs - Weighted	46,048				46,048	2.21%	10.47%	0.23%
	2,084,268	(2,639)			2,081,629			8.67%
					58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	26,383
Additional (Less) to be Reversed to Company	(674)

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,132,508
Adjusted Achieved Rate of Return	9.56%	
Allowed Maximum Rate of Return at 12.75% ROE	8.59%	
Incremental Rate of Return		0.97%
Incremental Net Operating Income		20,685
Revenue Expansion Factor		1.62800
Revenues Below/(In Excess) of 12.75%		33,676
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(In Excess) of 12.75%		5,207
Company Reversal		38,300
Revenues Below/(In Excess) of 12.75% ROE		(5,207)
Maximum Allowed Revenue Reversal		33,093

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	(2,421)	(385)	0	1,008,528	47.29%	12.75%	6.03%
Long Term Debt	642,241	(1,537)	(244)	0	640,459	30.03%	6.61%	1.99%
Short Term Debt	69,311	(166)	(26)	0	69,119	3.24%	5.38%	0.17%
Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	(115)	(18)		48,090	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(50)	674		21,347	1.00%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085			0	302,085	14.17%	0.00%	0.00%
ITCs - Weighted	42,879				42,879	2.01%	10.37%	0.21%
	2,136,797	(4,289)			2,132,508			8.59%
					58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	33,093
Additional (Less) to be Reversed to Company	(976)

86-88 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	50,517
1996 Revenue Deferral	37,081
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(26,383)
1998 Revenue Reversal	(33,093)
1995-1998 Interest	10,492
Refund as of 12/31/98	12,876

Refund Ordered	11,227
Refund Adjusted	12,876
Deferred Rev Benefit (Cost) from TEC Tax Position	**(1,650)**

Note:
- Adjusted achieved rate of return is unaffected by the deferred tax change because achieved NOI and rate base are not impacted.
- The deferred tax change does change the beginning sharing point because of the capital structure shift.
- The increase in rates in 1994 increases revenues during 1995-1998, which has been included in the adjusted achieved ROR.

88-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,112,524
Adjusted Achieved Rate of Return	8.38%	
Required Average Rate of Return	8.30%	
Incremental Rate of Return		0.08%
Incremental Net Operating Income		1,690
Revenue Expansion Factor		1.62800
Deferred Revenue for Refund		2,751

	Company Filed	Adjust for Deferred Debit	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,030,820	(1,919)	564	1,029,465	48.73%	12.08%	5.89%
Long Term Debt	607,716	(1,132)	332	606,917	28.73%	6.54%	1.88%
Short Term Debt	77,855	(145)	42	77,553	3.67%	5.28%	0.19%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,068	(89)		47,978	2.27%	6.12%	0.14%
Deferred Revenues	7,706	(14)		7,691	0.36%	5.10%	0.02%
Deferred Taxes & 0 cost ITCs	306,039		(938)	305,101	14.44%	0.00%	0.00%
ITCs - Weighted	37,820			37,820	1.79%	10.03%	0.18%
	2,115,823	(3,299)		2,112,524			8.30%
				60.06%			

1999 Refund Filed	1,722
1999 Refund Adjusted	2,751
Additional (Less) to be Refunded	1,029

Inputs

DISCOUNT RATE	9.37%

1986-1988 Tax Years

Original 1986-1988 deferred taxes disputed with IRS	4,667
Deferred taxes reversed in May 1997	4,921
Amount credited back to deferred taxes in Sep 1999	(4,121)
Deferred taxes related to interest benefit booked in 1999	**4,066**
Remaining 1986-1988 deferred taxes on balance sheet	4,066

1989-1991 Tax Years

Original 1989-1991 deferred taxes disputed with IRS	$15,004
Deferred taxes reversed in May 1997	$13,716
Amount credited back to deferred taxes in Sep 1999	(5,123)
Deferred taxes reversed in Nov 1999	832
Deferred taxes related to interest expense booked in 1999	**9,425**
Remaining 1989-1991 deferred taxes on balance sheet	5,579

1992-1994 Tax Years

Original 1992-1994 deferred taxes disputed with IRS	13,529
Deferred taxes reversed in Sep 1999	7,691
Deferred taxes reversed in Nov 1999	1,930
Deferred taxes related to interest expense booked in 1999	9,620
Deferred taxes not included in MFRs or rate case (but include in deferred revenues)	(6,532)
Deferred taxes included in rate case that relate to interest expense booked in 1999	**3,089**
Portion only in 1993 rates	**1,395**
Remaining 1992-1994 deferred taxes on balance sheet	3,909

1995-1998 Tax Years

Original 1995-1998 deferred taxes disputed with IRS	14,538
Deferred taxes reversed in Sep 1999	11,550
Deferred taxes reversed in Nov 1999	2,987
Deferred taxes related to interest expense booked in 1999	14,538
1995 portion	**6,446**
1996 portion	**3,535**
1997 portion	**2,070**
1998 portion	**2,487**
Remaining 1995-1998 deferred taxes on balance sheet	0

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
EX. 9

TAMPA ELECTRIC'S ANSWER

TO INTERROGATORY 13

OPC 2ND SET

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 950379-EI EXHIBIT NO. 8
COMPANY/
WITNESS. Bacon
DATE: 8-27-01

11206-01h

13. Refer to Ms. Bacon's prefiled direct testimony at page 8 and her prefiled rebuttal testimony at page 11. How do $6.8 million of net benefits result from the cost-benefit analysis if all of the rate case benefits are ignored? Provide all information necessary to calculate this amount.

A. See the attached cost-benefit analysis for details of the calculation. Ratepayers have received a $6.8 million nominal benefit even if rate case benefits are ignored because the company's tax positions since 1986 have created deferred taxes that are a source of cost free funds used in the calculation of deferred revenues and refunds from 1995 through 1999. Refunds would have been much less if not for the increasing deferred taxes.

In addition, it can be observed that page 1 of the cost-benefit analysis attached to witness Bacon's direct testimony shows a $5.7 million nominal benefit ($5.8M+$5.8M-$3.8M-$2.1M) to customers during the deferred revenue period rather than the $14.3 million nominal benefit ($5.8M+$6.6M+$1.4M+$.5M) included in the attached cost-benefit analysis that excludes the rate case benefits. The reason for this is because in the first analysis, the additional revenues assumed from the rate proceeding would increase the amount of revenues available from 1995 to 1999 for calculating deferred revenues and refunds. The first analysis included these additional revenues when taking into consideration the benefits/costs during the deferred revenue period. If the benefits from the rate case were excluded, then the additional revenues would not be available during the deferred revenue years.

Yearly Benefit/Impact to Customers

	1993	1994	1995	1996	1997	1998	1999	Total
1995-1998 Tax Period								
Deferred revenue benefits/(costs)			281	714	1,696	2,087	1,034	5,812
Tax deficiency interest expense at 60% [1]							(2,433)	(2,433)
								3,379
1992-1994 Tax Period								
Rate case benefits	0	0	0	0	0	0	0	0
Deferred revenue benefits/(costs)			1,123	893	1,696	2,087	827	6,626
Tax deficiency interest expense at 60% [2]							(3,544)	(3,544)
								3,083
1989-1991 Tax Period								
Rate case benefits	0	0	0	0	0	0	0	0
Deferred revenue benefits/(costs)			1,123	714	6	(267)	(196)	1,380
Tax deficiency interest expense at 60% [3]							(2,182)	(2,182)
								(802)
1986-1988 Tax Period								
Rate case benefits	0	0	0	0	0	0	0	0
Deferred revenue benefits/(costs)			562	536	4	(629)	9	482
Tax deficiency interest benefit at 60% [4]							617	617
								1,099
Total	0	0	3,089	2,857	3,402	3,278	(5,867)	**6,759**
Cumulative net revenue requirements at y/e 1999 $ [5]	0	0	4,420	3,738	4,069	3,585	(5,867)	**9,945**

[1] $4.054 million total paid times 60 percent impact to customers in 1999
[2] $5.906 million total paid times 60 percent impact to customers in 1999
[3] $3.636 million when $5.195 million total paid is prorated for 7 of 10 years, times 60 percent impact to customers in 1999
[4] $1.029 million when $1.911 million total received is prorated for 7 of 13 years, times 60 percent impact to customers in 1999
[5] at 9.37% Tampa Electric cost of funds

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.61%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.03%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.15%		
As Filed by Company	8.17%		
Excess Rate of Return		0.02%	
Total Incremental Rate of Return			0.05%
Incremental Net Operating Income			863
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,404
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			50,236

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	1,892	808,335	46.86%	11.75%	5.51%
Long Term Debt	445,931	1,046	446,977	25.91%	6.64%	1.72%
Short Term Debt	77,331	181	77,512	4.49%	6.01%	0.27%
Preferred Stock	44,105	103	44,208	2.56%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(3,223)	236,417	13.70%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.15%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	50,236
Less to be Deferred	**(281)**

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.90%	
Beginning Sharing Point at 11.75% ROE	8.20%	
Incremental Rate of Return		1.70%
Incremental Net Operating Income		31,088
Revenue Expansion Factor		1.62800
Gross Excess Revenues		50,611
Less Refund		(15,000)
Gross Excess Revenues Less Refund		35,611
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		21,367

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	136	4,821	851,241	46.55%	11.75%	5.47%
Long Term Debt	467,909	75	2,666	470,650	25.74%	6.74%	1.73%
Short Term Debt	103,514	17	590	104,120	5.69%	5.47%	0.31%
Preferred Stock	24,058	4	137	24,199	1.32%	5.75%	0.08%
Customer Deposits	41,580	7		41,586	2.27%	5.85%	0.13%
Deferred Revenues	77,670	(281)		77,389	4.23%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	36	(8,213)	214,967	11.76%	0.00%	0.00%
ITCs - Weighted	44,533	7		44,540	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.20%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	21,367
Less to be Deferred	**(714)**

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,084,268
Adjusted Achieved Rate of Return	8.77%	
Allowed Maximum Rate of Return at 12.75% ROE	8.72%	
Incremental Rate of Return		0.05%
Incremental Net Operating Income		1,042
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		1,697
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(1,697)
Maximum Allowed Revenue Reversal		28,753

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	568	6,466	984,890	47.25%	12.75%	6.02%
Long Term Debt	583,150	339	3,856	587,344	28.18%	6.73%	1.90%
Short Term Debt	95,482	55	631	96,169	4.61%	5.47%	0.25%
Preferred Stock	9,459	5	63	9,527	0.46%	5.48%	0.03%
Customer Deposits	47,015	27		47,042	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(995)		57,546	2.76%	5.60%	0.15%
Deferred Taxes & 0 cost ITCs	266,717		(11,016)	255,701	12.27%	0.00%	0.00%
ITCs - Weighted	46,048			46,048	2.21%	10.47%	0.23%
	2,084,268			2,084,268			8.72%
				58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	28,753
Additional to be Reversed to Company	**1,696**

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,136,797
Adjusted Achieved Rate of Return	9.54%	
Allowed Maximum Rate of Return at 12.75% ROE	8.66%	
Incremental Rate of Return		0.88%
Incremental Net Operating Income		18,804
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		30,613
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		2,144
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(2,144)
Maximum Allowed Revenue Reversal		36,156

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	1,537	7,804	1,020,674	47.77%	12.75%	6.09%
Long Term Debt	642,241	976	4,956	648,172	30.33%	6.61%	2.01%
Short Term Debt	69,311	105	535	69,951	3.27%	5.38%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	73		48,297	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(2,691)		18,032	0.84%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085		(13,294)	288,791	13.52%	0.00%	0.00%
ITCs - Weighted	42,879			42,879	2.01%	10.37%	0.21%
	2,136,797			2,136,797			8.66%
				58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	36,156
Additional to be Reversed to Company	**2,087**

95-98 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	50,236
1996 Revenue Deferral	36,367
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(28,753)
1998 Revenue Reversal	(36,156)
1995-1998 Interest	10,492
Refund as of 12/31/98	6,448
Refund Ordered	11,227
Refund Adjusted	6,448
Deferred Revenue Benefit from TEC Tax Position	**4,778**

95-98 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,116,832
Adjusted Achieved Rate of Return	8.46%	
Allowed Maximum Rate of Return at 12.00% ROE	8.24%	
Excess Rate of Return		0.22%
Excess Net Operating Income		4,657
Revenue Expansion Factor		1.62800
Revenues in Excess of 12.00% ROE		7,582
Less 40% Sharing		(3,033)
Amount to be Refunded		4,549

	Company Filed	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,007,980	6,834	1,014,814	47.94%	12.00%	5.75%
Long Term Debt	631,493	4,281	635,774	30.03%	6.54%	1.96%
Short Term Debt	77,699	527	78,226	3.70%	5.00%	0.18%
Preferred Stock	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,095		48,095	2.27%	6.12%	0.14%
Deferred Revenues	7,706		7,706	0.36%	5.06%	0.02%
Deferred Taxes & 0 cost ITCs	306,039	(11,642)	294,397	13.91%	0.00%	0.00%
ITCs - Weighted	37,820		37,820	1.79%	9.90%	0.18%
	2,116,832		2,116,832			8.24%
			58.70%			

1999 Refund Recomended	5,583
1999 Refund Adjusted	4,549
Additional (Less) to be Refunded	**(1,034)**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.62%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.04%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.19%		
As Filed by Company	8.17%		
Excess Rate of Return		-0.02%	
Total Incremental Rate of Return			0.02%
Incremental Net Operating Income			345
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			562
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			49,394

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	5,647	812,090	47.08%	11.75%	5.53%
Long Term Debt	445,931	3,123	449,054	26.03%	6.64%	1.73%
Short Term Debt	77,331	542	77,872	4.51%	6.01%	0.27%
Preferred Stock	44,105	309	44,414	2.57%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(9,620)	230,020	13.33%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.19%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	49,394
Less to be Deferred	**(1,123)**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.90%	
Beginning Sharing Point at 11.75% ROE	8.21%	
Incremental Rate of Return		1.69%
Incremental Net Operating Income		30,905
Revenue Expansion Factor		1.62800
Gross Excess Revenues		50,313
Less Refund		(15,000)
Gross Excess Revenues Less Refund		35,313
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		21,188

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	543	5,647	852,473	46.62%	11.75%	5.48%
Long Term Debt	467,909	300	3,122	471,331	25.77%	6.74%	1.74%
Short Term Debt	103,514	66	691	104,271	5.70%	5.47%	0.31%
Preferred Stock	24,058	15	161	24,234	1.33%	5.75%	0.08%
Customer Deposits	41,580	27		41,606	2.28%	5.85%	0.13%
Deferred Revenues	77,670	(1,123)		76,547	4.19%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	143	(9,620)	213,667	11.68%	0.00%	0.00%
ITCs - Weighted	44,533	29		44,561	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.21%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	21,188
Less to be Deferred	(893)

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,084,268
Adjusted Achieved Rate of Return	8.77%	
Allowed Maximum Rate of Return at 12.75% ROE	8.72%	
Incremental Rate of Return		0.05%
Incremental Net Operating Income		1,042
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		1,697
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(1,697)
Maximum Allowed Revenue Reversal		28,753

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	1,151	5,647	984,654	47.24%	12.75%	6.02%
Long Term Debt	583,150	686	3,368	587,204	28.17%	6.73%	1.90%
Short Term Debt	95,482	112	551	96,146	4.61%	5.47%	0.25%
Preferred Stock	9,459	11	55	9,525	0.46%	5.48%	0.03%
Customer Deposits	47,015	55		47,070	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(2,016)		56,525	2.71%	5.60%	0.15%
Deferred Taxes & 0 cost ITCs	266,717		(9,620)	257,097	12.34%	0.00%	0.00%
ITCs - Weighted	46,048			46,048	2.21%	10.47%	0.23%
	2,084,268			2,084,268			8.72%
				58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	28,753
Additional to be Reversed to Company	1,696

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,136,797
Adjusted Achieved Rate of Return	9.53%	
Allowed Maximum Rate of Return at 12.75% ROE	8.65%	
Incremental Rate of Return		0.88%
Incremental Net Operating Income		18,804
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		30,613
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		2,144
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(2,144)
Maximum Allowed Revenue Reversal		36,156

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	2,120	5,647	1,019,101	47.69%	12.75%	6.08%
Long Term Debt	642,241	1,346	3,586	647,173	30.29%	6.61%	2.00%
Short Term Debt	69,311	145	387	69,844	3.27%	5.38%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	101		48,325	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(3,712)		17,011	0.80%	5.49%	0.04%
Deferred Taxes & 0 cost ITCs	302,085		(9,620)	292,465	13.69%	0.00%	0.00%
ITCs - Weighted	42,879			42,879	2.01%	10.37%	0.21%
	2,136,797			2,136,797			8.65%
				58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	36,156
Additional to be Reversed to Company	**2,087**

92-94 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	49,394
1996 Revenue Deferral	36,188
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(28,753)
1998 Revenue Reversal	(36,156)
1995-1998 Interest	10,492
Refund as of 12/31/98	5,427

Refund Ordered	11,227
Refund Adjusted	5,427
Deferred Revenue Benefit from TEC Tax Position	**5,799**

92-94 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,116,832
Adjusted Achieved Rate of Return	8.45%	
Allowed Maximum Rate of Return at 12.00% ROE	8.22%	
Excess Rate of Return		0.23%
Excess Net Operating Income		4,869
Revenue Expansion Factor		1.62800
Revenues in Excess of 12.00% ROE		7,926
Less 40% Sharing		(3,170)
Amount to be Refunded		4,756

	Company Filed	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,007,980	4,518	1,012,498	47.83%	12.00%	5.74%
Long Term Debt	631,493	2,831	634,324	29.97%	6.54%	1.96%
Short Term Debt	77,699	348	78,047	3.69%	5.00%	0.18%
Preferred Stock	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,095		48,095	2.27%	6.12%	0.14%
Deferred Revenues	7,706		7,706	0.36%	5.06%	0.02%
Deferred Taxes & 0 cost ITCs	306,039	(7,697)	298,342	14.09%	0.00%	0.00%
ITCs - Weighted	37,820		37,820	1.79%	9.90%	0.18%
	2,116,832		2,116,832			8.22%
			58.70%			

1999 Refund Recomended	5,583
1999 Refund Adjusted	4,756
Additional (Less) to be Refunded	**(827)**

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.62%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.04%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.19%		
As Filed by Company	8.17%		
Excess Rate of Return		-0.02%	
Total Incremental Rate of Return			0.02%
Incremental Net Operating Income			345
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			562
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			49,394

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	5,532	811,975	47.07%	11.75%	5.53%
Long Term Debt	445,931	3,059	448,990	26.03%	6.64%	1.73%
Short Term Debt	77,331	530	77,861	4.51%	6.01%	0.27%
Preferred Stock	44,105	303	44,407	2.57%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(9,425)	230,216	13.35%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.19%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	49,394
Less to be Deferred	**(1,123)**

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.90%	
Beginning Sharing Point at 11.75% ROE	8.20%	
Incremental Rate of Return		1.70%
Incremental Net Operating Income		31,088
Revenue Expansion Factor		1.62800
Gross Excess Revenues		50,611
Less Refund		(15,000)
Gross Excess Revenues Less Refund		35,611
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		21,367

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	543	5,532	852,358	46.61%	11.75%	5.48%
Long Term Debt	467,909	300	3,059	471,268	25.77%	6.74%	1.74%
Short Term Debt	103,514	66	677	104,257	5.70%	5.47%	0.31%
Preferred Stock	24,058	15	157	24,231	1.33%	5.75%	0.08%
Customer Deposits	41,580	27		41,606	2.28%	5.85%	0.13%
Deferred Revenues	77,670	(1,123)		76,547	4.19%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	143	(9,425)	213,863	11.69%	0.00%	0.00%
ITCs - Weighted	44,533	29		44,561	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.20%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	21,367
Less to be Deferred	(714)

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,080,272
Adjusted Achieved Rate of Return	8.79%	
Allowed Maximum Rate of Return at 12.75% ROE	8.69%	
Incremental Rate of Return		0.10%
Incremental Net Operating Income		2,080
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		3,387
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(3,387)
Maximum Allowed Revenue Reversal		27,063

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	(2,206)	1,049	2,553	979,252	47.07%	12.75%	6.00%
Long Term Debt	583,150	(1,316)	625	1,523	583,982	28.07%	6.73%	1.89%
Short Term Debt	95,482	(215)	102	249	95,619	4.60%	5.47%	0.25%
Preferred Stock	9,459	(21)	10	25	9,472	0.46%	5.48%	0.02%
Customer Deposits	47,015	(106)	50		46,959	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(132)	(1,837)		56,572	2.72%	5.60%	0.15%
Deferred Taxes & 0 cost ITCs	266,717			(4,350)	262,367	12.61%	0.00%	0.00%
ITCs - Weighted	46,048				46,048	2.21%	10.47%	0.23%
	2,084,268	(3,996)			2,080,272			8.69%
					58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	27,063
Additional (Less) to be Reversed to Company	6

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,131,602
Adjusted Achieved Rate of Return	9.55%	
Allowed Maximum Rate of Return at 12.75% ROE	8.60%	
Incremental Rate of Return		0.95%
Incremental Net Operating Income		20,250
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		32,967
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		4,498
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(4,498)
Maximum Allowed Revenue Reversal		33,802

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	(2,932)	1,052	0	1,009,454	47.36%	12.75%	6.04%
Long Term Debt	642,241	(1,862)	668	0	641,047	30.07%	6.61%	1.99%
Short Term Debt	69,311	(201)	72	0	69,182	3.25%	5.38%	0.17%
Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	(140)	50		48,134	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(60)	(1,843)		18,820	0.88%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085			0	302,085	14.17%	0.00%	0.00%
ITCs - Weighted	42,879				42,879	2.01%	10.37%	0.21%
	2,136,797	(5,195)			2,131,602			8.60%
					58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	33,802
Additional (Less) to be Reversed to Company	(267)

89-91 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	49,394
1996 Revenue Deferral	36,367
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(27,063)
1998 Revenue Reversal	(33,802)
1995-1998 Interest	10,492
Refund as of 12/31/98	9,650
Refund Ordered	11,227
Refund Adjusted	9,650
Deferred Rev Benefit (Cost) from TEC Tax Positio	**1,576**

89-91 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,112,738
Adjusted Achieved Rate of Return	8.47%	
Allowed Maximum Rate of Return	8.19%	
Excess Rate of Return		0.28%
Excess Net Operating Income		5,916
Revenue Expansion Factor		1.62800
Revenues in Excess of 12.00% ROE		9,631
Less 40% Sharing		(3,852)
Amount to be Refunded		5,779

	Company Filed	Adjust for Deferred Debit	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,007,980	(2,327)	1,352	1,007,004	47.66%	12.00%	5.72%
Long Term Debt	631,493	(1,458)	847	630,882	29.86%	6.54%	1.95%
Short Term Debt	77,699	(179)	104	77,624	3.67%	5.00%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,095	(111)		47,984	2.27%	6.12%	0.14%
Deferred Revenues	7,706	(18)		7,688	0.36%	5.06%	0.02%
Deferred Taxes & 0 cost ITCs	306,039		(2,303)	303,737	14.38%	0.00%	0.00%
ITCs - Weighted	37,820			37,820	1.79%	9.90%	0.18%
	2,116,832	(4,094)		2,112,738			8.19%
				58.70%			

1999 Refund Recomended	5,583
1999 Refund Adjusted	5,779
Additional (Less) to be Refunded	196

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1995 Deferred Revenues Adjusted

Commission Adjusted Rate Base			1,725,081
Commission Adjusted Achieved Rate of Return	8.61%		
Company Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.03%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.16%		
As Filed by Company	8.17%		
Excess Rate of Return		0.01%	
Total Incremental Rate of Return			0.04%
Incremental Net Operating Income			690
Revenue Expansion Factor			1.62800
Additional/(Less) Deferred Revenues			1,123
Revenues Deferred by TECO			48,832
Total 1995 Deferred Revenues			49,955

	Commission Adjusted	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	806,443	2,387	808,830	46.89%	11.75%	5.51%
Long Term Debt	445,931	1,320	447,251	25.93%	6.64%	1.72%
Short Term Debt	77,331	229	77,560	4.50%	6.01%	0.27%
Preferred Stock	44,105	131	44,235	2.56%	6.49%	0.17%
Customer Deposits	41,248		41,248	2.39%	5.73%	0.14%
Deferred Revenues	20,868		20,868	1.21%	5.97%	0.07%
Deferred Taxes & 0 cost ITCs	239,640	(4,066)	235,574	13.66%	0.00%	0.00%
ITCs - Weighted	49,515		49,515	2.87%	9.81%	0.28%
	1,725,081		1,725,081			8.16%
			58.70%			

1995 Deferred Revenues Ordered	50,517
1995 Deferred Revenues as Adjusted	49,955
Less to be Deferred	**(562)**

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1996 Deferred Revenues Adjusted

Commission Adjusted Rate Base		1,828,691
Adjusted Achieved Rate of Return	9.89%	
Beginning Sharing Point at 11.75% ROE	8.18%	
Incremental Rate of Return		1.71%
Incremental Net Operating Income		31,271
Revenue Expansion Factor		1.62800
Gross Excess Revenues		50,909
Less Refund		(15,000)
Gross Excess Revenues Less Refund		35,909
60% Deferred Per Stipulation		60.00%
Net 1996 Deferred Revenues		21,545

	Commission Adjusted	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	846,284	272	2,387	848,942	46.42%	11.75%	5.45%
Long Term Debt	467,909	150	1,320	469,379	25.67%	6.74%	1.73%
Short Term Debt	103,514	33	292	103,839	5.68%	5.47%	0.31%
Preferred Stock	24,058	8	68	24,133	1.32%	5.75%	0.08%
Customer Deposits	41,580	13		41,593	2.27%	5.85%	0.13%
Deferred Revenues	77,670	(562)		77,108	4.22%	5.46%	0.23%
Deferred Taxes & 0 cost ITCs	223,145	72	(4,066)	219,150	11.98%	0.00%	0.00%
ITCs - Weighted	44,533	14		44,547	2.44%	9.89%	0.24%
	1,828,691			1,828,691			8.18%
				58.70%			

1996 Deferred Revenues Ordered	22,081
1996 Deferred Revenues as Adjusted	21,545
Less to be Deferred	**(536)**

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1997 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,081,629
Adjusted Achieved Rate of Return	8.78%	
Allowed Maximum Rate of Return at 12.75% ROE	8.68%	
Incremental Rate of Return		0.10%
Incremental Net Operating Income		2,082
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		3,389
Company Reversal		30,450
Revenues Below/(in Excess) of 12.75% ROE		(3,389)
Maximum Allowed Revenue Reversal		27,061

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	977,856	(1,457)	627	1,102	978,127	46.99%	12.75%	5.99%
Long Term Debt	583,150	(869)	374	657	583,312	28.02%	6.73%	1.89%
Short Term Debt	95,482	(142)	61	108	95,509	4.59%	5.47%	0.25%
Preferred Stock	9,459	(14)	6	11	9,462	0.45%	5.48%	0.02%
Customer Deposits	47,015	(70)	30		46,975	2.26%	6.10%	0.14%
Deferred Revenues	58,541	(87)	(1,098)		57,356	2.76%	5.60%	0.15%
Deferred Taxes & 0 cost ITCs	266,717			(1,877)	264,840	12.72%	0.00%	0.00%
ITCs - Weighted	46,048				46,048	2.21%	10.47%	0.23%
	2,084,268	(2,639)			2,081,629			8.68%
					58.70%			

1997 Revenue Reversal Ordered	27,057
1997 Revenue Reversal as Adjusted	27,061
Additional (Less) to be Reversed to Company	4

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1998 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,132,508
Adjusted Achieved Rate of Return	9.55%	
Allowed Maximum Rate of Return at 12.75% ROE	8.59%	
Incremental Rate of Return		0.96%
Incremental Net Operating Income		20,472
Revenue Expansion Factor		1.62800
Revenues Below/(in Excess) of 12.75%		33,329
Less Temporary Reduction		(25,422)
Less Company Adjustment		(3,047)
Revenues Below/(in Excess) of 12.75%		4,860
Company Reversal		38,300
Revenues Below/(in Excess) of 12.75% ROE		(4,860)
Maximum Allowed Revenue Reversal		33,440

	Commission Adjusted	Adjust for Deferred Debit	Change to Deferred Revenues	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,011,334	(2,421)	629	0	1,009,542	47.34%	12.75%	6.04%
Long Term Debt	642,241	(1,537)	400	0	641,103	30.06%	6.61%	1.99%
Short Term Debt	69,311	(166)	43	0	69,188	3.24%	5.38%	0.17%
Preferred Stock	0	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,224	(115)	30		48,139	2.26%	6.09%	0.14%
Deferred Revenues	20,723	(50)	(1,102)		19,571	0.92%	5.49%	0.05%
Deferred Taxes & 0 cost ITCs	302,085			0	302,085	14.17%	0.00%	0.00%
ITCs - Weighted	42,879				42,879	2.01%	10.37%	0.21%
	2,136,797	(4,289)			2,132,508			8.59%
					58.70%			

1998 Revenue Reversal Ordered	34,069
1998 Revenue Reversal as Adjusted	33,440
Additional (Less) to be Reversed to Company	**(629)**

86-88 Tax Years
Deferred Revenue Summary

1995 Revenue Deferral	49,955
1996 Revenue Deferral	36,545
1996-1997 Refund	(25,738)
1997 Revenue Reversal	(27,061)
1998 Revenue Reversal	(33,440)
1995-1998 Interest	10,492
Refund as of 12/31/98	10,753
Refund Ordered	11,227
Refund Adjusted	10,753
Deferred Rev Benefit (Cost) from TEC Tax Positio	**473**

86-88 Tax Years
Adjusted Revenue Requirement & Cost of Capital
1999 Deferred Revenues Adjusted

Commission Adjusted Rate Base		2,113,533
Adjusted Achieved Rate of Return	8.46%	
Allowed Maximum Rate of Return	8.19%	
Excess Rate of Return		0.27%
Excess Net Operating Income		5,707
Revenue Expansion Factor		1.62800
Revenues in Excess of 12.00% ROE		9,290
Less 40% Sharing		(3,716)
Amount to be Refunded		5,574

	Company Filed	Adjust for Deferred Debit	Alternate Tax Position	Capital Structure	Ratio	Cost Rate	Weighted Cost
Common Equity	1,007,980	(1,876)	551	1,006,655	47.63%	12.00%	5.72%
Long Term Debt	631,493	(1,175)	345	630,663	29.84%	6.54%	1.95%
Short Term Debt	77,699	(145)	42	77,597	3.67%	5.00%	0.18%
Preferred Stock	0	0	0	0	0.00%	0.00%	0.00%
Customer Deposits	48,095	(89)		48,006	2.27%	6.12%	0.14%
Deferred Revenues	7,706	(14)		7,691	0.36%	5.06%	0.02%
Deferred Taxes & 0 cost ITCs	306,039		(938)	305,101	14.44%	0.00%	0.00%
ITCs - Weighted	37,820			37,820	1.79%	9.90%	0.18%
	2,116,832	(3,299)		2,113,533			8.19%
				58.70%			

1999 Refund Recomended	5,583
1999 Refund Adjusted	5,574
Additional (Less) to be Refunded	(9)

6

FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center ● 2540 Shumard Oak Boul
Tallahassee, Florida 32399-0850

M E M O R A N D U M

March 26, 1998

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (CAUSSEAUX, SLEMKEWICZ, LEE, MERTA, MAUREY) JS SM RLT ALM
DIVISION OF ELECTRIC AND GAS (BASS, GING) RG
DIVISION OF LEGAL SERVICES (ELIAS) RVE

RE: DOCKET NO. 950379-EI - TAMPA ELECTRIC COMPANY - INVESTIGATION INTO EARNINGS FOR 1995 AND 1996 OF TAMPA ELECTRIC COMPANY

AGENDA: 04/07/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\950379EI.RCM
R:\PSC\AFA\123\TECO96.WK4 - ATTACHMENT A
R:\PSC\AFA\123\TECO96CS.WK4 - ATTACHMENT B
ATTACHMENTS C & D ARE NOT AVAILABLE
R:\PSC\AFA\123\TECO96.WK4 - ATTACHMENTS E-F

CASE BACKGROUND

On March 1, 1996, Tampa Electric Company (TECO or the Company) submitted its 1996 Forecasted Earnings Surveillance Report in compliance with Rule 25-6.1353, Florida Administrative Code (F.A.C.). According to that report, TECO forecasted an achieved return on equity (ROE) of 13.27% which exceeded its then currently authorized ROE ceiling of 12.75%. Due to the high level of TECO's forecasted earnings, meetings were held to explore the possible disposition of the excess earnings. TECO, the Office of Public Counsel (OPC), the Florida Industrial Power Users Group (FIPUG), and the Staff participated in the meetings.

On March 25, 1996, TECO, OPC, and FIPUG filed a joint motion for approval of a stipulation that resolved the issues regarding TECO's overearnings and the disposition of those overearnings for the period 1995 through 1998. This stipulation was approved by Order No. PSC-96-0670-S-EI, issued May 20, 1996.

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950379-EI EXHIBIT NO. 9
COMPANY/ WITNESS. Larkin
DATE: 8-27-01
DOCUMENT NUMBER-DATE
03592 MAR 26 98
FPSC-RECORDS/REPORTING

11206-01

The stipulation, agreed to by TECO, OPC and FIPUG:

1) freezes existing base rate levels through December 31, 1998;

2) refunds $25 million plus interest over a one year period commencing on October 1, 1996;

3) defers 60% of the net revenues that contribute to a return on equity (ROE) in excess of 11.75% for 1996;

4) defers 60% of the net revenues that contribute to an ROE in excess of 11.75% up to a net ROE of 12.75% for 1997;

5) defers 60% of the net revenues that contribute to an ROE in excess of 11.75% up to a net ROE of 12.75% for 1998;

6) refunds any net revenues contributing to a net ROE in excess of 12.75% for 1998 plus any remaining deferred revenues from 1996 and 1997;

7) allows TECO the discretion to reverse and add to its 1997 or 1998 revenues all or any portion of the balance of the previously deferred revenues;

8) prohibits TECO from using the various cost recovery clauses to recover capital items that would normally be recovered through base rates; and

9) requires consideration of the regulatory treatment of the Polk Power Station separately.

Order No. PSC-96-1300-S-EI issued October 24, 1996, in Docket No. 960409-EI (Prudence review to determine the regulatory treatment of TECO's Polk Unit) approved a stipulation entered into by TECO, OPC and FIPUG. The stipulation resolved the issues in the Polk Unit docket, agreed to a rate settlement covering TECO's base rates and rate of return for the period January 1, 1999 through December 31, 1999, and modified the Stipulation approved in Order PSC-96-0670-S-EI dated May 20, 1996. It resulted in an additional one year extension of the rate freeze established by the first stipulation and a guaranteed additional $25 million refund starting in October, 1997.

The stipulation:

1) extends the existing freeze on TECO's base rates from January 1, 1999, through December 31, 1999;

2) precludes TECO from filing a rate increase request prior to July 1, 1999, and precludes TECO from requesting an interim increase in any such docket which is filed prior to January 1, 2000;

3) provides for an additional $25 million refund over fifteen months beginning about October 1, 1997 and credited to customer's bill based on actual KWH usage adjusted for line losses;

4) allows TECO to defer into 1999 any portion of its 1998 revenues not subject to refund;

5) provides for the refund in the year 2000 of 60% of any revenues which contribute to a ROE in excess of 12% up to a net ROE of 12.75% for calendar year 1999;

6) provides for the refund in the year 2000 of 100% of any revenues which contribute to a ROE in excess of 12.75% for calendar year 1999;

7) resolves all of the issues in Docket 960409-EI by conferring a finding of prudence on the commencement and continued construction of the Polk Unit by TECO;

8) allows TECO to include the actual final capital cost of the Polk Unit in rate base for all regulatory purposes, up to an amount equal to one percent above the capital cost estimate of $506,165,000 plus related estimated working capital of $13,029,000;

9) allows TECO to include the full operating expense of the Polk Unit in the calculation of net operating income for all regulatory purposes (estimated to be $20,582,000 net of DOE funding for the first 12 months);

10) places the entire investment in the Port Manatee site and any future gain on sale of this site to an independent third party below the line;

11) continues to use the separation procedure adopted in the company's last rate case to separate any current and future wholesale sales from the retail jurisdiction; and

12) provides that any further Commission action relative to this stipulation will be considered in Docket No. 950379-EI.

The parties filed an amendment to the stipulation which allows the Commission to determine the appropriate separation

treatment of any off-system sale that is priced based on the Polk Unit's incremental fuel cost. This amendment addressed concerns regarding the potential subsidization of wholesale sales by the retail ratepayers.

This recommendation addresses the determination of the appropriate amount of excess revenues to be deferred for 1996. Specifically, the issues in this recommendation discuss TECO's investment in a 25% interest in a transmission line and the associated acquisition adjustment, the treatment of deferred revenues in the capital structure, the Company's equity ratio, fossil fuel dismantlement amortization, and the Florida Municipal Power Agency (FMPA) and the City of Lakeland wholesale sales. Each of these issues not only affects earnings for 1996, but also has a growing impact for 1997 and beyond.

DISCUSSION OF ISSUES

ISSUE 1: What is the appropriate rate base for 1996?

RECOMMENDATION: The appropriate rate base is $1,829,487,489. (Attachment A) (MERTA, LEE, GING)

STAFF ANALYSIS: Based on the adjustments discussed below, the appropriate rate base is $1,829,487,489 for 1996.

Adjustment 1: Orlando Utility Commission's (OUC) Transmission Line - The proposed adjustment is being made consistent with the Commission decision in Order No. PSC-97-0436-FOF-EI (TECO's 1995 Earnings Docket), issued April 17, 1997. TECO owns a 25% share in OUC's 230 KV line connecting the Lake Agnes substation to the Cane Island generating station. By Order No. PSC-97-0436-FOF-EI, the Commission directed that TECO's entire investment in the transmission line be removed from the calculation of 1995 earnings and allocated to the wholesale jurisdiction because the line was purchased "primarily to ensure the ability to make wholesale sales to entities such as the Reedy Creek Improvement District." The Commission stated:

> The utility has failed to demonstrate the benefits to retail ratepayers that would justify the allocation of any portion of the transmission line to the retail jurisdiction. Based on the information available at this time, we find that the entire investment shall be assigned to the wholesale jurisdiction.

Staff recommends that Plant and Accumulated Depreciation be reduced by $1,512,444 and $373,677, respectively. In addition, Depreciation Expense and Taxes Other Than Income should be reduced by $242,243 and $47,167, respectively. The 1996 operation & maintenance (O&M) expenses related to the OUC transmission line were not booked until January 1997, therefore, no adjustment to 1996 O&M expense is necessary.

Adjustment 2: OUC Acquisition Adjustment - The proposed adjustment is being made consistent with the Commission decision in Order No. PSC-97-0436-FOF-EI. The total purchase price of the OUC transmission line was $7,459,939. The acquisition adjustment amounts to $6,182,810, or 82.9%, of the total purchase price. Since the Commission removed TECO's investment in the OUC transmission line and this acquisition adjustment per Order No. PSC-97-0436-FOF-EI, the acquisition adjustment should also be removed in this case.

Regardless of whether or not the Commission includes any portion of the net book value of the OUC transmission line in the retail jurisdiction, no portion of the acquisition adjustment, or its related amortization, should be allowed for determining the level of earnings for 1996. The Uniform System of Accounts requires that a utility petition the Commission for permission to account for acquisition adjustments in a manner other than as normally prescribed, i.e., below-the-line. To date, TECO has not petitioned the Commission to amortize the acquisition adjustment above-the-line nor has it provided any formal justification for including the acquisition adjustment in rate base. Therefore, the acquisition adjustment should be removed. Staff recommends that Net Plant be reduced by $5,580,605. The amortization expense was removed in Adjustment No. 1, included in the $242,243 depreciation and amortization expense.

Adjustment 3: **Fossil Fuel Dismantlement Accrual** - This adjustment is based on an audit disclosure in TECO's surveillance audit report for the twelve month period ending December 31, 1996. As part of TECO's last depreciation study in Docket No. 950499-EI, the Commission approved an annual accrual for fossil fuel dismantlement in the amount of $8,770,000 in Order No. PSC-96-0399-FOF-EI, issued March 21, 1996. The Order further stated that the annual accrual would increase by $1,348,000 when the Polk Power Plant came on-line.

The Polk Power Plant came on-line September 30, 1996. Accordingly, TECO should have increased its monthly fossil dismantlement accrual by $112,397 at that time. According to the audit report, however, TECO did not increase its monthly accrual until January 1997. The fossil dismantlement expense for 1996 should, therefore, be increased by $313,341 ($337,192 system). The 13-month average reserve should likewise be increased by $48,207, ($51,876 system).

Adjustment 4: **Florida Municipal Power Agency (FMPA) and City of Lakeland (Lakeland) Wholesale Sales** - In August and October of 1996, TECO entered into two long-term wholesale electricity sales agreements with Lakeland and FMPA, respectively. Service for the Lakeland contract began on November 4, 1996; service for FMPA began on December 16, 1996. TECO accounted for these sales as though they were retail sales. By Order No. PSC-97-1273-FOF-EU, issued October 15, 1997, the Commission directed TECO to (1) separate capital and O&M costs associated with these sales at average embedded cost, (2) credit its Fuel Clause with an amount equal to the system incremental fuel cost resulting from the FMPA and Lakeland sales, (3) credit its Environmental Cost Recovery Clause with all incremental SO2 allowance costs incurred, (4) retain all

non-fuel revenues in the wholesale jurisdiction, and (5) for monthly surveillance purposes, reduce retail operating revenues by the amount of any shortfall, in the event revenues received in excess of the non-fuel revenues are less than the incremental costs. In order to separate the FMPA and Lakeland sales, the jurisdictional separation factors were decreased thereby including less in jurisdictional rate base and net operating income (NOI). Rate base is decreased, but in this case, NOI is increased because expenses decreased more than revenues, and the lower the expense the higher the NOI. In accordance with the above Order, Staff recommends that rate base be decreased by $1,826,150 and NOI be increased by $104,914. The adjustments to each component of rate base and NOI are shown on Attachment A.

Adjustment 5: Separation Factors - As a result of decreasing the separation factors to exclude the FMPA and Lakeland sales from retail sales, the Company's jurisdictional adjustments to rate base and NOI changed. By decreasing the factor, fewer dollars are included in jurisdictional rate base and NOI. The jurisdictional adjustments are calculated by multiplying the separation factor times the system adjustment. Therefore, if the separation factor changes, the adjustment changes. For example, a $100,000 system adjustment would be multiplied by .925872 to yield a jurisdictional adjustment of $92,587 ($100,000 x .925872 = $92,587). If the separation factor were changed to .925213, the jurisdictional adjustment would be $92,521, a $66 difference. Since the adjustments are less than the "as filed adjustments", rate base is increased; NOI is decreased because the adjustment is smaller therefore expenses are increased and NOI is decreased. Based on the change in separation factors, Staff recommends that rate base be increased by $31,176 and NOI be decreased by $163. The adjustments to each component of rate base and NOI are shown on Attachment A.

ISSUE 2: How should deferred revenue accrued subject to the earnings sharing agreement be reflected in TECO's capital structure for surveillance purposes?

RECOMMENDATION: Consistent with the Commission decision in Order No. PSC-97-0436-FOF-EI, deferred revenue should be included in the capital structure as a separate line item. The cost rate should be the thirty day commercial paper rate as specified in Rule 25-6.109, F.A.C. For 1996, the average cost rate for the thirty day commercial paper rate was 5.46%. (MAUREY)

STAFF ANALYSIS: In its December 1996 earnings surveillance report, TECO included the amount of revenue deferred subject to the earnings sharing agreement (agreement), approved in Order No. PSC-95-0580-FOF-EI, issued May 10, 1995, in its capital structure on a pro rata basis across all sources of capital. After the decision regarding 1995 earnings was made in Order No. PSC-97-0436-FOF-EI, the Company refiled its surveillance report with deferred revenue as a separate line item. However, the Company made a pro rata adjustment over the deferred revenue amount when reconciling the capital structure with rate base. The Company contends this treatment is appropriate because funds are fungible, meaning that the Company can identify how funds were used but cannot identify which source of capital funded which particular asset. For this reason, the Company believes its adjustment to its capital structure over all sources of capital, including deferred revenue, is consistent with the pro rata methodology of reconciling the capital structure to rate base. (Data Request No. 20)

Staff does not agree with TECO's proposed treatment. Consistent with how the Commission treated the balance of deferred revenue in its decision regarding 1995 earnings, the 13-month average deferred revenue amount should be included in the capital structure as a separate line item at the thirty day commercial paper rate as specified in Rule 25-6.109, F.A.C. A pro rata adjustment was not made over the 13-month average balance for 1995, and Staff recommends the pro rata adjustment proposed by TECO not be made in 1996 either.

By authorizing the Company to defer this revenue for use in the future, the Commission lowered the Company's regulatory and business risk. The Company's regulatory risk decreased when the Commission approved the agreement on the prudence of the Company's investment in the Polk Power Station and allowed full recovery of all expected capital costs and O&M expenses associated with Polk Unit 1. TECO's business risk decreased because the Company has the discretion to reverse and add to its 1997, 1998, and 1999 revenue all or any portion of the balance of previously deferred revenue. This feature of the agreement significantly reduces the variability

of the Company's future returns. The reduction in regulatory and business risk is evidenced in the May 1997 Standard & Poor's (S&P) Utility Credit Report for TECO:

> The plan benefits Tampa Electric in a number of ways. First, from a competitive perspective, the implementation of a base rate freeze allows the company to keep rates low relative to the other investor owned utilities in the state. Second, the revenue deferrals authorized by the plan allow time for revenue growth to offset costs associated with the Polk Plant. This will help stabilize the utility's financial performance during the new plant's initial period of operation. Third, the plan removes the company from the regulatory arena for the next several years and stabilizes base rates and ROE for the foreseeable future. These factors should allow the company to maintain its strong competitive position in the Florida market over the short term. (POD #2)

This reduction in risk implies a reduction in required return, all other things being equal. The inclusion of deferred revenue in the capital structure recognizes, in part, this reduction in risk by lowering the Company's cost of capital for purposes of the plan. It would be counter intuitive to then make a pro rata adjustment which would increase the cost of capital and thereby offset this recognition of the decrease in risk.

To be consistent with the treatment approved by the Commission for 1995 and in keeping with the spirit and intent of the agreement to equitably administer the plan for both stockholders and ratepayers, Staff recommends the full 13-month average balance of deferred revenue be included in the capital structure as a separate line item with a cost rate of 5.46%.

ISSUE 3: Should TECO's equity ratio be adjusted for purposes of measuring earnings under the earnings sharing agreement?

RECOMMENDATION: Yes. The Commission should cap the equity ratio at 57.5% as a percentage of investor-supplied capital for purposes of measuring earnings under the earnings sharing agreement. (MAUREY)

STAFF ANALYSIS: In the earnings sharing agreement (agreement) approved by the Commission in Order No. PSC-95-0580-FOF-EI and as amended in Order Nos. PSC-96-0670-S-EI and PSC-96-1300-S-EI, for 1996, TECO is allowed to defer 60% of net revenue that contributes to a return on equity (ROE) in excess of 11.75%. There is no ROE cap for earnings in 1996. For the years 1997 and 1998, TECO will defer 60% of net revenue that contributes to an ROE in excess of 11.75%, as well as all revenue above a net ROE of 12.75%. For 1999, TECO defers 60% of net revenue that contributes to an ROE in excess of 12.0%, as well as all revenue above a net ROE of 12.75%. Under the terms of the agreement, TECO has the discretion to reverse and add to its 1997, 1998, and 1999 revenue all or any portion of the balance of previously deferred revenue. If any deferred revenue remains after 1999, TECO will refund this amount plus interest accrued at the thirty day commercial paper rate.

Under the terms of the agreement, the sharing bands are established based on ROE. Since the amount of equity capital maintained by a company is integral in the determination of the ROE, a company can shield earnings from deferral by increasing its equity ratio. For example, in TECO's case the difference between sharing at an equity ratio of 57.5% and an equity ratio of 59.5% as filed by the Company at an ROE of 11.75%, is approximately $1.6 million in revenue, all other things held constant. Through the flow of dividends and equity infusions between TECO and its parent, TECO Energy, the Company has control over the level of equity maintained at the utility level. This control is evidenced in TECO Energy's Annual Report and the following passage from the May 1997 Standard & Poor's (S&P) Utility Credit Report for TECO:

> All of the subsidiaries upstream total unrestricted earnings to TECO Energy, which allocates equity to the subsidiaries based on cash requirements, capital structure objectives, and management strategies. [Emphasis added] (POD #2)

It is clear, by adjusting the level of equity maintained at the utility level, the Company can circumvent the sharing mechanism approved in the Commission's Order.

As shown on Attachment C, TECO has the highest equity ratio of the electric utilities rated by S&P. (POD #5) Attachment D is a schedule which shows the S&P financial benchmarks in effect during 1996 for AA-rated electric utilities. The financial benchmarks, along with the assessment of a company's business position, form the basis for determining a company's bond rating. The benchmarks for the total debt to total capital ratio are presented and the complement of this ratio is the guideline for a company's equity ratio. For 1996, TECO was assigned a business position of 1. Based upon the rating criteria in effect during 1996, S&P assigned business position ratings on a scale of 1 to 7 with 1 being the best business position and 7 being the worst. Given its business position and bond rating during 1996, TECO's equity ratio was high compared with the S&P financial benchmarks.

Staff believes that the 57.5% cap is appropriate for five reasons. First, an equity ratio of 57.5% is well above the implied guideline during 1996 of 53% for an electric utility with an above average business position and a AA bond rating. (See Attachment D) Second, the 57.5% ratio is high compared to the level of equity maintained by the other AA-rated electric utilities. (See Attachment C) Third, an equity ratio of 57.5% is well above the level maintained by TECO Energy during 1996. In its presentation to security analysts on March 4 and 5, 1997, TECO Energy reported an equity ratio of 49% as of December 31, 1996. (POD 1) Fourth, a 57.5% equity ratio is above the level the Company projected for 1996. Based upon the Company's projections in its March 1996 forecasted earnings surveillance report, TECO forecasted its equity ratio would be 57.24% for 1996. The 57.5% equity ratio level is also above the 57.34% level the Company forecasted for 1995 at the time it entered the agreement. Finally, at an equity ratio of 57.5%, TECO's pretax interest coverage ratios remain very favorable. In 1996, TECO's pretax interest coverage ratios of 4.97x with AFUDC and 4.54x without AFUDC were well above the benchmark of 3.50x for electric utilities with AA-rated debt. (See Attachment D) These interest coverage ratios were also well above the 3.75x ratio assumed for TECO when the Commission allowed construction work in progress (CWIP) in rate base in Order Nos. PSC-93-0165-FOF-EI, issued December 2, 1993 and PSC-93-0664-FOF-EI, issued April 28, 1993 in the Company's last rate case.

Staff brought a similar recommendation before the Commission regarding TECO's 1995 equity ratio. In denying Staff's recommendation, the Commission cited the absence of a showing that the Company's equity ratio of 58.7% was unreasonable. However, in rendering its decision, the Commission expressly said its action for 1995 did not foreclose consideration of this adjustment for future determinations of earnings. Staff continues to be concerned regarding TECO's equity ratio because the level of equity

maintained at the utility level is integral in the determination of the sharing band and is completely under management's control. Since TECO has the discretion to reverse and add to its revenue all or any portion of the balance of previously deferred revenues during 1997, 1998, and 1999, revenue that is deferred may stay with the Company or may be refunded to ratepayers after 1999. However, any incremental revenue that the Company can avoid deferring by increasing its equity ratio flows solely to the Company's stockholders. In the instant case, the difference between TECO's 1996 equity ratio of 59.5% and the equity ratio allowed by the Commission for 1995 of 58.7% represents approximately $715 thousand in revenue.

Staff does not believe this adjustment is punitive or can fairly be characterized as "micro management". When a parent company can so completely control the effect of intercompany transactions such that $1.6 million in revenue is shifted from the ratepayers to the stockholders, those transactions must be carefully examined. The flow of dividends and equity infusions between TECO Energy and TECO is an example of just such a transaction. TECO has the burden of showing that there is some compelling reason for maintaining an equity ratio that has the effect of shifting revenue between its ratepayers and its stockholders, especially during the period when a sharing mechanism is in effect. TECO has made no demonstration of any company-specific or Florida-specific factors that would support its decision to maintain an equity ratio well above the average for its peer group and the implied guideline for AA-rated electric utilities. Staff is not recommending TECO's equity ratio be capped at the average for its peer group of 51.7% or the implied guideline during 1996 of 53%. In fact, with the exception of Florida Power & Light Company and Florida Power Corporation, an adjustment to staff's recommended level of 57.5% would represent an increase in the equity ratio for every AA-rated electric utility in the country. Rather than being punitive, Staff is simply recommending the equity ratio be capped at the level the Company forecast for itself at the time it entered this agreement. During the March 18, 1997 agenda conference, representatives of TECO were asked repeatedly how much equity was too much. The Commission never received a definitive answer. Staff is bringing this issue to the Commission's attention again because it believes the equity ratio represents a loop hole that will permit TECO to unilaterally increase its equity ratio and circumvent the sharing mechanism approved in the Commission's Order to the detriment of ratepayers.

At this point, it is necessary to clarify a miscalculation of the equity ratio made at the March 18, 1997 agenda conference. During the discussion of the appropriate equity ratio for measuring 1995 earnings, Staff reported that the equity ratio decreased as a

result of including deferred revenue in the capital structure as a separate line item. The equity ratio is calculated based upon the relative amounts of investor-supplied capital. The inclusion of deferred revenue in the capital structure does not change the Company's equity ratio as reported by Staff any more than changes in the balances of deferred taxes, investment tax credits, or customer deposits do. This is consistent with how the equity ratio is calculated by Staff for other regulatory purposes and how S&P calculates the equity ratios it reports in its analyses. Staff incorrectly informed the Commission at the agenda conference that TECO's equity ratio decreased from 58.7% to 57.8% as a result of its decision in an earlier issue to include deferred revenue in the capital structure as a separate line item. For 1995, TECO's equity ratio was 58.7%.

In light of the average equity ratio for AA-rated electric utilities in 1996 of 51.7%, the implied guideline in effect during 1996 of 53%, and the absence of any demonstration of company-specific or Florida-specific factors which would support an equity ratio well above these levels, Staff believes a 59.5% equity ratio is unreasonable for determining the level of deferred revenue. For the reasons stated above and to ensure the agreement is equitably administered for both stockholders and ratepayers, Staff believes it is reasonable and necessary to cap the equity ratio at 57.5% for purposes of measuring 1996 earnings under the agreement.

ISSUE 4: What is the appropriate net operating income for 1996?

RECOMMENDATION: The appropriate net operating income is $181,309,662 for 1996. (Attachment A) (MERTA, CAUSSEAUX)

STAFF ANALYSIS: Based on the adjustments discussed below and Adjustments 1, 3, 4 and 5 discussed in Issue 1, the appropriate net operating income is $181,309,662 for 1996.

Adjustment 6: Deferred Revenue - In 1996, TECO reduced revenues by $34.2 million for 1996 revenues to be deferred and refunded $15.0 million of this amount as a credit on the customers' bills. In order to properly determine the amount of 1996 revenues to be deferred, $34.2 million should be included in revenues. Staff is simply reversing this amount in order to determine the total amount of earnings for 1996. The $15 million refund is subtracted in the calculation of additional deferred revenues in Attachment F.

Adjustment 7: Interest Reconciliation - This adjustment is based on the reconciliation of the rate base and the capital structure due to the Staff adjustments to rate base. In this instance, income taxes should be reduced by $1,705,360. (Attachment E)

Adjustment 8: Tax Effect of Other Adjustments - The tax effect of Staff's adjustments to NOI results in a $1,600,970 decrease to income taxes and a $13,063,990 increase to deferred income taxes.

ISSUE 5: What is the total amount of earnings to be deferred for 1996?

RECOMMENDATION: The total amount of earnings to be deferred for 1996 is $23,345,525, plus interest. (Attachment F) (MERTA)

STAFF ANALYSIS: According to its December 1996 ESR, TECO reported that it had deferred $34.2 million in revenues, which resulted in an earned ROE of 12.39% after the deferral. Based on Staff's adjustments in this recommendation, using a 57.5% equity ratio and after removing the $15,000,000 refund, the 1996 net deferred revenue is $23,345,525, plus interest. This compares to TECO's originally filed net deferral of $19.2 million. Therefore, TECO should record an additional revenue deferral of $4,145,525 for 1996.

ISSUE 6: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open pending the review of TECO's 1997, 1998 and 1999 earnings and the determination of the appropriate amount of any additional deferred revenues related to 1997, 1998, and 1999. (ELIAS)

STAFF ANALYSIS: This docket was opened to review TECO's earnings for both 1995 and 1996. However, Order No. PSC-96-0670-S-EI (TECO's 1995 earnings review), and Order No. PSC-96-1300-S-EI (Prudence review to determine the regulatory treatment of TECO's Polk Unit), approve stipulations that provide that any further Commission action relative to the stipulations be considered in Docket No. 950379-EI. Therefore, this docket should remain open pending the review of TECO's earnings for 1997, 1998, and 1999.

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
REVIEW OF 1996 EARNINGS

ATTACHMENT A

	As Filed FPSC Adjusted Basis	OUC Transmission Line	OUC Transmission Line Acquisition Ad Net	Fossil Fuel Dismantlement	Deferred Revenue	FMPA and Lakeland Wholesale Sa	Separation Factor Revision	Interest Reconciliation	Total Adjustments	Total Adjusted Rate Base
RATE BASE										
Plant In Service	$2,894,244,733	($1,512,444)	($5,580,605)			($2,795,955)			($9,889,004)	$2,884,355,729
Accumulated Depreciation	(1,160,672,445)	373,677	0	(48,207)		1,052,356			1,377,826	(1,159,294,619)
Net Plant In Service	1,733,572,288	(1,138,767)	(5,580,605)	(48,207)		(1,743,599)	0	0	(8,511,178)	1,725,061,110
Property Held for Future Use	48,471,966					(35,275)			(35,275)	48,436,691
Construction Work In Progress	34,092,982					(32,009)	31,073		(936)	34,092,046
Net Utility Plant	1,816,137,236	(1,138,767)	(5,580,605)	(48,207)		(1,810,883)	31,073	0	(8,547,389)	1,807,589,847
Working Capital	21,912,806					(15,267)	103		(15,164)	21,897,642
Total Rate Base	$1,838,050,042	($1,138,767)	($5,580,605)	($48,207)		($1,826,150)	$31,176	$0	($8,562,553)	$1,829,487,489
INCOME STATEMENT										
Operating Revenues	$587,441,175				$34,200,000	($155,152)			$34,044,848	$621,486,023
Operating Expenses:										
Operation & Maintenance - Fue	9,225,494					0			0	9,225,494
Operation & Maintenance - Oth	202,666,705					(128,744)	267		(128,477)	202,538,228
Depreciation & Amortization	112,561,296	(242,243)	0	313,341		(88,816)			(17,718)	112,543,578
Taxes Other Than Income	38,359,153	(47,167)				(32,398)			(79,565)	38,279,588
Income Taxes - Current	63,402,498	111,640				(7,146)	(104)	(1,705,360)	(1,600,970)	61,801,528
Deferred Income Taxes (Net)	7,137,718	0	0	(120,871)	13,192,650	(7,789)			13,063,990	20,201,708
Investment Tax Credit (Net)	(4,377,475)					4,777			4,777	(4,372,698)
(Gain)/Loss on Disposition	(41,114)					50			50	(41,064)
Total Operating Expenses	428,934,275	(177,770)	0	192,470	13,192,650	(260,066)	163	(1,705,360)	11,242,086	440,176,361
Net Operating Income	$158,506,900	$177,770	$0	($192,470)	$21,007,350	$104,914	($163)	$1,705,360	$22,802,762	$181,309,662
OVERALL RATE OF RETURN	8.62%								1.29%	9.91%
RETURN ON EQUITY	12.39%								3.34%	15.73%

DO[illegible] NO.950379-EI
DATE: MARCH 26, 1998

DOCKET NO. 950379-EI
TAMPA ELECTRIC COMPANY
STAFF ADJUSTED EARNINGS SURVEILLANCE REPORT
YEAR ENDING DECEMBER 31, 1998

ATTACHMENT B

	AVERAGE TEST YEAR	ADJUSTMENTS									
	RETAIL PER BOOKS	COMPANY SPECIFIC	COMPANY PRO RATA	COMPANY ADJUSTED	Deferred Revenue Adjustment	*STAFF* SPECIFIC	*STAFF* PRO RATA	*STAFF* ADJUSTED	WEIGHT	COST RATE	WEIGHTED COST
LONG TERM DEBT	$582,708,744	($7,886,641)	($95,979,404)	$478,842,699	($20,233,055)	$29,200,000	($2,372,724)	$485,436,920	26.53%	6.74%	1.79%
SHORT TERM DEBT	130,437,308	(380)	(21,779,382)	108,657,586	($4,590,301)		($506,187)	$103,561,076	5.66%	5.47%	0.31%
PREFERRED STOCK	30,726,000	(416,176)	(5,061,237)	25,250,587	($1,064,080)		($117,644)	$24,068,863	1.32%	5.75%	0.08%
CUSTOMER DEPOSITS	52,390,453	0	(8,747,758)	43,642,695	($1,840,761)		($203,326)	$41,598,588	2.27%	5.85%	0.13%
COMMON EQUITY	1,085,501,475	(4,306,847)	(180,529,621)	900,665,007	($38,058,337)	(29,200,000)	($4,053,721)	$829,352,950	45.33%	11.75%	5.33%
DEFERRED REVENUE	0	0		0	77,670,075			77,670,075	4.25%	5.46%	0.23%
DEFERRED TAXES	279,332,463	1,830,118	(46,946,380)	234,216,201	($9,910,702)		($1,091,030)	223,214,469	12.20%	0.00%	0.00%
FAS 109 DEFERRED TAXES	0	0	0	0	0		0	0	0.00%	0.00%	0.00%
TAX CREDITS - ZERO COST	38,290	0	(6,393)	31,897	0		($155)	$31,741	0.00%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	56,126,574	(13,922)	(9,369,262)	46,743,390	($1,972,820)		($217,766)	$44,552,804	2.44%	9.82%	0.24%
	$2,217,263,307	($10,793,848)	($368,419,417)	$1,838,050,042	($0)	$0	($8,562,553)	$1,829,487,489	100.00%		8.10%
			EQUITY RATIO	59.51%			EQUITY RATIO	57.50%			

ATTACHMENT C

1996 Electric Utility Capital Structures

Standard & Poors' Bond Rating	Electric Company	Debt	Preferred Stock	Common Equity	Common Equity Averge Per Bond Rating
AA+	Wisconsin Electric Power	47.5%	0.9%	51.6%	
	Wisconsin Public Service	41.2%	6.0%	52.8%	52.2%
AA	NSP - Wisconsin	45.0%	0.0%	55.0%	
	Southern Indiana G&E	50.3%	3.1%	46.6%	
	Tampa Electric Company	39.9%	1.1%	59.0%	53.5%
AA-	Dayton Power & Light	44.1%	1.0%	54.9%	
	Duke Power	40.9%	7.3%	51.8%	
	Florida Power	41.6%	1.1%	57.3%	
1, 2	Florida Power & Light	37.3%	4.2%	58.5%	
	Indianapolis P&L	44.7%	3.4%	51.9%	
	Kentucky Utilities	48.6%	3.2%	48.2%	
3	Louisvile G&E	47.0%	6.9%	46.1%	
	Northern States Power	48.3%	5.2%	46.5%	
	Otter Tail Power	49.6%	8.4%	42.0%	
	Union Electric Company	42.1%	4.9%	53.0%	51.0%
A+	Baltimore G&E	51.3%	5.2%	43.5%	
2	Alabama Power Company	45.7%	9.0%	45.3%	
1	Consolidated Edison	42.0%	3.1%	54.9%	
	Georgia Power Company	42.5%	9.7%	47.8%	
	Gulf Power Company	43.1%	9.7%	47.2%	
	Massachusetts Electric	46.7%	5.6%	47.7%	
	Mississippi Power	41.6%	9.5%	48.9%	
	Narragansett Electric	44.0%	7.0%	49.0%	
1, 2	Pacific Gas & Electric	48.5%	4.7%	46.8%	
	PS of Oklahoma	47.9%	2.1%	50.0%	
	Southern California Ed.	49.6%	5.0%	45.4%	
3	SWEPCO	46.7%	3.4%	49.9%	48.0%
A	Carolina P&L	48.7%	2.6%	48.7%	
	Central P&L	48.2%	7.7%	44.1%	
	Delmarva Power & Light	50.2%	7.3%	42.5%	
	MDU Resources	49.7%	2.3%	48.0%	
3	New England Power	46.7%	2.2%	51.1%	
	Northern Indiana PS	53.4%	5.7%	40.9%	
	PacifiCorp	57.9%	4.8%	37.3%	
	Potomac Electric Power	50.9%	6.1%	43.0%	
	South Carolina E&G	48.7%	2.5%	48.8%	
3	Southwestern Public Service	49.0%	0.0%	51.0%	
	Virginia Electric Power	46.2%	9.1%	44.7%	
	Washington Water Power	48.1%	7.2%	44.7%	
3	West Texas Utilities	51.9%	1.1%	47.0%	45.5%
A-	Appalachian Power	53.0%	8.2%	38.8%	
	Central Hudson G&E	41.8%	6.2%	52.0%	
	Cincinnati G&E	52.4%	0.6%	47.0%	
2	Columbus Southern Power	54.6%	4.3%	41.1%	
	Empire District	48.0%	7.0%	45.0%	
3	Houston Lighting & Power	44.1%	1.9%	54.0%	
	Ohio Power	42.8%	5.6%	51.6%	
	Orange and Rockland	50.6%	5.1%	44.3%	
	Pennsylvania Electric	47.9%	7.2%	44.9%	
1,2	Pennsylvania P&L	50.1%	7.6%	42.3%	
	PSI Energy	48.7%	7.4%	43.9%	
	Public Service E&G	50.1%	6.5%	43.4%	
	SCANA Corporation	50.3%	2.0%	47.7%	45.8%

1) Equity Ratio = Common Equity / (Long-Term Debt + Short-Term Debt + Capital Leases + Common Equity + Pfd./Pfc. Stock + Minority Interest)
2) Source: May 1997 Duff & Phelps Credit Rating Co. Comparative Statistics for Utilities
3) The following companies were in the prior report, but do not appear in the May 1997 Duff & Phelps report or October 1997 S&P report:
IES Utilities, Kansas City P&L, Minnesota P&L, Sierra Pacific Power
4) Footnotes:
1 - From the October 1997 Standard & Poor's Global Utilities Credit Review
2 - Companies not included on prior report
3 - Companies that have been downgraded since prior report

ATTACHMENT D

DOCKET NO. 950379-EI
TAMPA ELECTRIC COMPANY
YEAR ENDING DECEMBER 31, 1996

STANDARD & POOR'S FINANCIAL BENCHMARKS

BUSINESS POSITION	TOTAL DEBT / TOTAL CAPITAL AA RATING	EQUITY RATIO * AA RATING
1	**47.0%**	**53.0%**
2	**45.5%**	**54.5%**
3	**44.0%**	**56.0%**
4	**42.0%**	**58.0%**

* The complement of the Total Debt to Total Capital Benchmark.

BUSINESS POSITION	PRETAX INTEREST COVERAGE AA RATING
1	**3.50**
2	**3.65**
3	**3.80**
4	**4.00**

NOTE : Tampa Electric has a AA Bond Rating and an Above Average (1) Business Position.

BUSINESS POSITION	
1	Above Average
2	Somewhat Above Average
3	High Average
4	Average

SOURCE : Standard and Poor's Utility Financial Statistics

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
REVIEW OF 1996 EARNINGS

ATTACHMENT E

INTEREST RECONCILIATION

	Amount	Cost Rate	Interest Exp.	Tax Rate	Effect on Income Tax
Long Term Debt	$485,436,920	6.74%	$32,718,448		
Short Term Debt	103,561,078	5.47%	5,664,791		
Customer Deposits	41,598,588	5.85%	2,433,517		
Deferred Revenue	77,670,075	5.46%	4,240,786		
Tax Credits - Weighted Cost	44,552,804	2.44%	1,087,088		
Staff Interest Expense			46,144,631		
Adj. Company Interest Expense			41,723,736		
Staff Adjustment			($4,420,895)	38.575%	($1,705,360)

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
REVIEW OF 1996 EARNINGS

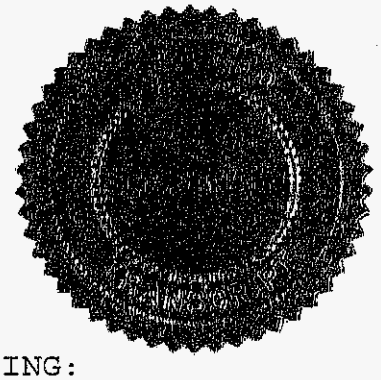
ATTACHMENT F

Adjusted Rate Base		$1,829,487,489
Adjusted Achieved Rate of Ret	9.91%	
Beginning Sharing Point at 11.75% ROE	8.10%	
Excess Rate of Return		x 1.81%
Excess Net Operating Income		33,113,724
Revenue Expansion Factor		x 1.62800
Gross Excess Revenues		53,909,208
Less Refund		(15,000,000)
Gross Excess Revenues Less Refund		38,909,208
60% Deferred Per Stipulation		x 60.00%
Net 1996 Deferred Revenues		$23,345,525

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
TALLAHASSEE, FLORIDA

IN RE: Investigation into earnings for 1995 and 1996 of Tampa Electric Company. (Deferred from the 4/7/98 Commission Conference.)

DOCKET NO. 950379-EI



BEFORE:	CHAIRMAN JULIA A. JOHNSON COMMISSIONER J. TERRY DEASON COMMISSIONER SUSAN F. CLARK COMMISSIONER JOE GARCIA COMMISSIONER E. LEON JACOBS
PROCEEDING:	AGENDA CONFERENCE
ITEM NUMBER:	6**PAA
DATE:	May 12, 1998
PLACE:	4075 Esplanade Way, Room 148 Tallahassee, Florida

JANE FAUROT, RPR
P.O. BOX 10751
TALLAHASSEE, FLORIDA 32302
(850) 561-5598

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 950379-EI EXHIBIT NO. 10
COMPANY/
WITNESS: Larkin
DATE: 8-27-01

11206-01

10

APPEARANCES:

LEE L. WILLIS, ESQUIRE, and SANDRA CALLAHAN, representing Tampa Electric Company.

ROGER HOWE, ESQUIRE, representing Office of Public Counsel.

VICKI GORDON KAUFMAN, ESQUIRE, representing the Florida Industrial Power Users Group

STAFF RECOMMENDATION

Issue 1: What is the appropriate rate base for 1996?
Recommendation: The appropriate rate base is $1,829,487,489.
Issue 2: How should deferred revenue accrued subject to the earnings sharing agreement be reflected in TECO's capital structure for surveillance purposes?
Recommendation: Consistent with the Commission decision in Order No. PSC-97-0436-FOF-EI, deferred revenue should be included in the capital structure as a separate line item. The cost rate should be the thirty day commercial paper rate as specified in Rule 25-6.109, F.A.C. For 1996, the average cost rate for the thirty day commercial paper rate was 5.46%.
Issue 3: Should TECO's equity ratio be adjusted for purposes of measuring earnings under the earnings sharing agreement?
Recommendation: Yes. The Commission should cap the equity ratio at 57.5% as a percentage of investor-supplied capital for purposes of measuring earnings under the earnings sharing agreement.
Issue 4: What is the appropriate net operating income for 1996?
Recommendation: The appropriate net operating income is $181,308,662 for 1996.
Issue 5: What is the total amount of earnings to be deferred for 1996?
Recommendation: The total amount of earnings to be deferred for 1996 is $23,345,525, plus interest.
Issue 6: Should this docket be closed?
Recommendation: No. This docket should remain open pending the review of TECO's 1997, 1998, and 1999 earnings and the determination of the appropriate amount of any additional deferred revenues related to 1997, 1998, and 1999.

group, does that take into consideration the income tax effect of having that higher equity ratio?

MS. CALLAHAN: Income taxes are not specifically calculated in that.

COMMISSIONER DEASON: Okay. Thank you.

CHAIRMAN JOHNSON: Any other questions, Commissioners? Thank you, Ms. Callahan.

Public Counsel.

MR. HOWE: For the record, Commissioners, I'm Roger Howe with the Office of Public Counsel. We would like to address two issues, both dealing with the company's capital structure, and in particular we would like to offer our strong support for staff's position on Issue 3 concerning the company's equity ratio.

Commissioners, the arguments that the company has offered to you here, I think, are very similar to the arguments you heard in the company's last rate case. In that last rate case the equity ratio was not a specific enumerated issue. However, the company came out of that case with a lower cost of equity and a lower equity ratio than what it was asking for. This Commission normally looks at equity ratio in conjunction with what is a fair return.

COMMISSIONER DEASON: Mr. Howe, let me ask you a

question on that. That previous rate case, the equity ratio you indicated was less than what the company requested. Was that because of a specific adjustment to the equity level or was that just a fallout calculation based upon other adjustments which had an impact on the amount of equity in the capital structure?

MR. HOWE: I think it was probably a fallout of the others. It's hard to tell from the order. And so we are clear, the order I'm referring is to Order Number PSC-93-0165-FOF-EI, issued in Docket Number 920324-EI on February 2nd, '93. On Page 101, it gives the comparative capital structure, and it shows that the company -- now, this was an equity ratio based on all sources of capital so the numbers are slightly different. But the company's ratio of common equity was 43.51 percent as they had filed their case, and the Commission authorized 42.78 percent. And I'm only pointing this out, Commissioners, to point out that the Commission regularly looks at equity ratios.

Also, if you look at the company's argument here, this rate case was done on a 1993 and 1994 projected test year. I think the company's arguments, if applied right after that rate case, would have been that if the company had allowed its equity ratio to be

as high as what the Commission had not allowed, that the company should have -- the Commission should have deferred to the company's expertise. The equity ratio that was started with after the rate case, and the equity ratio that is in existence now is always subject to a question of reasonableness.

I also point out that Mr. Willis referred to Paragraph 11 of the FERC stipulation, and he claimed that what staff was proposing was a pro forma adjustment. I would refer the Commission to Order Number PSC-98-0038-FOF-EU issued January 6th of this year in the FMPA and Lakeland docket, and that was Docket Number 970171-EU. And addressing specifically Paragraph 11 of the first stipulation, the Commission defined what it meant when it approved that stipulation in terms of what were annualization and what were pro forma adjustments.

And I quote, I'm quoting from -- this is from the PSC Reporter. It's at 98 FPSC 1:163. It says, "An annualization adjustment is made to extrapolate an adjustment for an entire year that occurred for only a portion of that year. A pro forma adjustment is one in which future expected charges are estimated and accounted for prior to their occurrence."

I would suggest that under the Commission's

explicit interpretation in January of this year of that specific paragraph of the stipulation, what staff is proposing here is not a pro forma adjustment. I would also note that --

COMMISSIONER DEASON: What kind of adjustment is it, Mr. Howe, if it is not pro forma?

MR. HOWE: I think it's just applying a test of reasonableness --

COMMISSIONER DEASON: Reasonableness.

MR. HOWE: Just a test of reasonableness. And that is contemplated by the stipulation where it says all reasonable and prudent expenses and investment will be allowed. And the prudence and the reasonableness of investment is tied to the amount of that investment that is supported by equity capital. If the company can make its investment at a lower cost to the customers it has an obligation to do so.

So I would suggest, Commissioners, that the staff's recommendation on Issue Number 3 be accepted, it be accepted for the reasons stated in the staff recommendation. I think they have come up with a very good analysis of the issue and why a reasonable equity ratio should be employed.

Now, Commissioners, I have one other issue I would like to address. If you would like to finish

equity in 1995 is unreasonable.

CHAIRMAN JOHNSON: And the equity ratio is 58.7?

MR. WILLIS: Yes.

COMMISSION STAFF: Chairman Johnson --

COMMISSIONER GARCIA: Mr. Howe, what were you trying to -- by raising the equity issue, what we are trying to do is preserve that money there for the ratepayers, right? It will set a certain amount that will be available in the future for ratepayers, correct? It's not -- let me ask Mr. Howe, and then I will ask TECO. But the bottom line here is the money, not necessarily the equity ratio, right? The equity ratio you use to determine the amount of money. And by using the staff's analysis, and staff correct me if I'm wrong, it's 1.6 million that becomes available. That's what you're going for.

MR. HOWE: I would agree that with --

COMMISSIONER GARCIA: The issue is an equity ratio as much as the money.

MR. HOWE: With the understanding that when we look back at the dollar amount of the money to be deferred, we see that as the equity ratio is increasing, which we believe is completely under the company's control --

COMMISSIONER GARCIA: You think, of course --

MR. HOWE: -- the dollars available for a deferral are going down. So we see an element of control by the company that is decreasing the amount of monies available for a deferral and potential refund in the future.

COMMISSIONER GARCIA: And correct -- would the company mind having that money set aside, and not necessarily discussing the equity ratio, whether it's too high or too low, but simply having that available in the long-run and then we can determine the equity ratio, whether it's too high or too low, in some other proceeding?

MR. WILLIS: Well, I think that you are capable of making the decision of where it is and that it is reasonable in 1996. I think that, you know, it has been, you know, sometime now since the books were closed for 1996. We are in 1998 now, and through no fault of anyone we are well along the road. And, Commissioner, I honestly believe that the decision that you made last year was well-reasoned and prudent, and I think that what you have seen is a continuation of the same program by the company in response to the same conditions you recognized last time and that you ought to approve the actual equity ratio.

COMMISSIONER DEASON: What we need to realize is