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February 28, 2006

HAND DELIVERED

Ms. Blanca Bayo, Director
Division of Commission Clerk
& Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Rule Title: Use of Accumulated Provision Accounts 228.1, 228.2 and 228.4
(Undocketed) (Proposed Rule Development for Rule 25-6.0143)

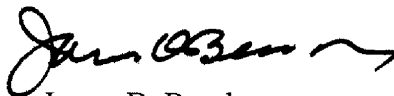
Dear Ms. Bayo:

Enclosed for filing are the original and fifteen (15) copies of Tampa Electric Company's comments for consideration in connection with the proposed rule development referenced above.

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

Thank you for your assistance in connection with this matter.

Sincerely,



James D. Beasley

JDB/pp
Enclosure

cc: John Slemkewicz (w/enc.)
Marlene Stern (w/enc.)

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

**NOTICE OF PROPOSED RULE DEVELOPMENT
FLORIDA PUBLIC SERVICE COMMISSION**

Tampa Electric Comments

Tampa Electric appreciates the opportunity to comment on the proposed rule development for Rule 25-6.0143, Accumulated Provision Accounts 228.1, 228.2, and 228.4. Although there are certain elements of the Florida Public Service Commission ("Commission") Staff's draft proposed rule language that concerns Tampa Electric, it seems appropriate, given the events of the last couple of years with regard to hurricanes, that new rule language be crafted that addresses the important issue of accounting for accruals for unrecovered losses as a result of storm damage and other events, as well as related matters. However, it should be noted that the impetus behind this proposed rulemaking change appears to be the recent cost recovery dockets regarding recovery of hurricane costs not covered by insurance. The establishment of accounting guidance for recording costs should not be used to presume appropriate ratemaking treatment regarding cost recovery of such costs. It appears that many of the changes are being proposed because of cost recovery issues raised over the past year or so. Accordingly, many of Tampa Electric's comments go to the issue of cost recovery. However, these two issues are very separate and should not be confused.

While there are certain specific language changes that Tampa Electric would propose to be made to the proposed rule, an overarching issue involves the codification of the incremental cost methodology as the way costs are to be charged to the account, rather than the actual recovery cost approach. The actual recovery cost approach was mandated by the Commission to be used by Tampa Electric in Order No. PSC-95-0255-FOF-EI issued February 23, 1995 in Docket No. 930987-EI. In Tampa Electric's stipulation and settlement order related to the

effects of Hurricanes Charley, Frances and Jeanne (Order No. PSC-05-0675-PAA-EI issued June 20, 2005 in Docket No. 050225-EI) a modification to that approach was agreed to by the parties and approved by the Commission, however no permanent change was made to the actual recovery cost approach originally mandated by the Commission in the prior order. Tampa Electric is aware that the Commission, in its orders in the Florida Power and Light (FPL) and Progress Energy Florida (PEF) hurricane cost surcharge request dockets (Order No. PSC-05-0937-FOF-EI in Docket No. 041291-EI for FPL and Order No. PSC-05-0748-FOF-EI in Docket No. 041272-EI for PEF) elected to apply an incremental cost methodology. However, in both orders the Commission chose to implement the incremental methodology based on the facts and circumstances in those cases. The Commission has thus utilized both approaches at different times in different orders to the same companies. Adopting one methodology for accounting purposes would seem to be trying to tie the hands of future Commissions in making a choice of the appropriate methodology to use in future cost recovery proceedings.

In any case, whatever methodology is ultimately adopted by the Commission, for accounting or other purposes, the philosophical basis of that methodology should be carried out in its entirety to assure appropriate cost recovery. Selecting one method, and then arbitrarily deciding to exempt recognition for particular cost items that reflect that methodology's philosophical basis, would be unfair and not reflect the cost recovery principles of regulation in general and this Commission in particular.

There are some particular elements of the proposed rule that Tampa Electric would like to identify for inquiry at this time in the process, although additional items and issues may arise later:

- ▶ Section (1)(c) which would establish a new, specified subaccount, for storm-related damage accounting may be too specific. A better approach might be to require the utility to maintain accounting records in the parent account in sufficient detail to report storm costs by individual storm, and let the utility develop the appropriate accounting mechanism to do that.

- ▶ Section (1)(d) addresses the entire incremental cost issue as discussed above. If the incremental cost approach is to be applied, all incremental costs above base rate recovery must be made eligible for recovery. So called “double dipping” should not be allowed to occur, however the first dip must be included in base rates before something is excluded to avoid a double dip. All incremental base rate expenses should be recorded and eligible for recovery. It should be noted that this problem is avoided altogether using the actual cost recovery method. In any case, the rule should be focused on accounting for these costs so that there is sufficient information available to support future cost recovery. One additional comment for this section would be to consider changing the \$10 million threshold for notification to a percentage of rate base or percentage of storm reserve cap to better match reporting with the size of utility. Another comment would be to consider adding language that “reasonable estimates” are acceptable as many costs are not known for months. For example, Tampa Electric learned during the 2004 hurricane season that

mutual assistance utilities that assist during hurricanes do not bill for their services until many months after the storm restoration has been completed.

- ▶ Section (1)(e) expressly prohibits certain costs from being charged to the account. Tampa Electric has many questions about these exclusions and the basis for them. For example, some employee assistance costs may be necessary to enable employees to return to work for storm restoration duty. Certain advertising and media costs should be considered recoverable as well; for example, communicating essential safety information to customers or requesting customers call the company if they are still out of power and other such messages associated with returning them to service are directly related to storm restoration and should be recoverable. It is unclear why all call center and customer service costs, including overtime, are excluded. There are other substantial issues regarding these exclusions which should be explored before summarily being excluded from recovery.

- ▶ Tampa Electric believes a better way to address the issue raised by Section (1)(f) would be to give the utility discretion to increase or decrease the annual accrual, not the amount charged to the reserve. In addition, the \$5 million threshold for notification could be treated as a percentage rather than a fixed value, similar to the suggestion in Section (1)(d).

- ▶ Tampa Electric agrees with Section (1)(g) as being administratively efficient, however Section (1)(h) appears to unreasonably restrict Commission action (limiting a utility

surcharge request to the debit balance in the account). It is also not clear whether this prohibition would be inclusive of securitization. On any case, the rule should make clear that the credit balance of the account can be replenished through a surcharge, special assessment or securitization.

- ▶ Section (1)(i) is not clear, and Tampa Electric is concerned that something like this could be a disincentive for utilities to aid each other during storm recovery. Utilities incur backfill work when they send crews to assist storm damaged utilities and these revenues serve, in part, to counterbalance those costs. Mutual assistance activities are not profit ventures for utilities but instead are cost reimbursement for actual work performed. These activities are essential for timely restoration and have greatly benefited Florida.
- ▶ Sections (1)(j), (k) and (l) seem generally reasonable and appropriate at this point, pending the company gaining further information on the requirements.

The comments provided above are not necessarily the final positions of Tampa Electric on this proposed rule language, nor are they comprehensive of positions Tampa Electric may take as this rulemaking proceeds. Tampa Electric looks forward to participating in the workshop and in having further discussions with Commission Staff and other interested parties as this rulemaking moves forward.