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May 28, 2010

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Ms. Ann Cole, Director
Division of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: UNDOCKETED - May 12, 2010 Staff Workshop Regarding Reconciling Rate Base with Capital Structure

Dear Ms. Cole:

Enclosed for filing in the above-styled matters are the original and fifteen (15) copies of Tampa Electric Company's Comments in response to the staff workshop held May 12, 2010.

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

15 cc: Andrew Maurey (w/enc.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: May 12, 2010 Staff Workshop Regarding Reconciling Rate Base with Capital Structure	))))	UNDOCKETED FILED: May 28, 2010

COMMENTS BY TAMPA ELECTRIC COMPANY

Tampa Electric Company (Tampa Electric or the Company) submits these comments in response to the staff workshop held May 12, 2010, regarding the reconciliation of rate base with capital structure.

Tampa Electric supports Florida's long standing methodology to reconcile the capital structure to the rate base over all sources of capital. This method has been used by the Commission in Florida for many years and recognizes that an asset's funding cannot be specifically traced to any one source of capital and that all sources of cash used in funding the investment in rate base should be included in the capital structure. This method avoids the difficulties and impracticality associated with tracing funds and avoids unnecessary complexity which could lead to inadvertent errors and controversy.

Although the method of reconciling items over all sources of capital generally applies to assets which might be removed from rate base, there are two rare exceptions First, if the Commission provides a regulated return on an asset through a clause or other separate recovery mechanism and that return is not equal to the overall cost of capital, then a specific adjustment is warranted to ensure that the asset is removed from the capital structure at a cost rate equivalent to the return provided in the separate recovery mechanism. This method ensures full recovery and avoids over-recovery of the utility's allowed cost of capital. Several examples of assets that earn a separately identified return include storm recovery assets (securitized debt), deferred tax

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assets (assigned to a clause recovery specific assets such as nuclear investments), and under-recovery of fuel assets (which would more appropriately utilize the short term debt rate).

The second exception is the Commission's long term policy regarding adjustments to reassign declared common dividends from working capital to 100% common equity and to remove non-utility assets 100% from common equity. The 100% equity adjustments for these items were based on specific rationale by the commission. The rationale for common dividends is that they are still, in-effect, common equity until they are actually dividended up to the parent. The rationale for non-utility assets involves assigning a higher cost of capital to account for the risk associated with those investments. Although Tampa Electric does not agree that all non-utility assets carry a higher risk, the Commission has consistently applied this treatment of specifically removing such items from common equity only. However, it should be noted that if the non-utility assets are plant-related, a separately identified (or pro-rated) amount of deferred taxes should also be removed to ensure the IRS normalization rules are not violated.

In summary, the following key principles should be used in the reconciliation of capital structure to rate base:

- All sources of identified funds should be included in the capital structure.
- Unless there is a separately identified return in a clause or other recovery mechanism, that is not equal to the overall cost of capital, the assets should be removed over all sources of capital i.e., pro-rata over all sources.
- Those assets that do earn a return other than the overall cost of capital through a clause or other separate recovery mechanism should be adjusted out of the capital structure using the cost of capital item that best reflects that separate return.

- Other rare exceptions to remove or add items for specific sources of capital include long term policy adjustments for common dividends and non-utility assets.
- Normalization violations can be avoided with pro-rata adjustments over all sources of capital including ADIT.

Sound regulatory policy should ensure that the utility is allowed an opportunity to earn its allowed cost of capital. The capital structure reconciliation described above will minimize the complexity associated with reconciling rate base with capital structure, ensure compliance with IRS normalization rules, and help avoid inadvertent adjustments that prohibit the utility from earning its allowed return.

Finally, Tampa Electric believes that the calculation of the AFUDC rate should be consistent with the method of reconciling the capital structure to the rate base for the removal of CWIP earning AFUDC in setting base rates. This creates consistency for the capitalized return on CWIP and that the return the asset will earn when placed into service.

DATED this 28th day of May 2010.

Respectfully submitted,

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ATTORNEYS FOR TAMPA ELECTRIC COMPANY