

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition for Rate Increase by )  
Tampa Electric Company. )  
\_\_\_\_\_ )

DOCKET NO. 130040-EI

DATED: August 12, 2013

**THE FLORIDA RETAIL FEDERATION'S**  
**PREHEARING STATEMENT**

The Florida Retail Federation, pursuant to the Order Establishing Procedure in this docket, Order No. PSC-13-0150-PCO-EI, issued on April 8, 2013, hereby submits the Federation's Prehearing Statement.

**APPEARANCES:**

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On behalf of the Florida Retail Federation.

1. **WITNESSES:**

The Florida Retail Federation is sponsoring the testimony of Steve W. Chriss, whose testimony addresses the Commission's purpose of scrutinizing Tampa Electric Company's ("Tampa Electric," "Company," or "TECO") rate increase request in order to ensure that any increase that might be awarded to Tampa Electric would be only an amount sufficient to ensure that the Company provides safe, adequate, and reliable service at the lowest possible cost. Mr. Chriss's testimony also addresses Tampa Electric's request for an ROE of 11.25 percent, which is not justified in light of the high degree of revenue certainty that Tampa Electric enjoys through the use of numerous cost recovery clauses. Mr. Chriss also testifies that TECO should not be allowed to include \$174.1 million of Construction Work in Progress in rate base.

2. **EXHIBITS:**

The Florida Retail Federation is sponsoring the following exhibits through the testimony of Mr. Chriss.

Exhibit SWC-1: Witness Qualifications Statement

- Exhibit SWC-2: Calculation of Test Year Jurisdictional Revenues Collected through Base Rates
- Exhibit SWC-3: Reported Authorized Returns on Equity, Electric Utility Rates Cases Completed in 2012 and 2013

The Federation has not yet identified exhibits that it intends to use in cross-examination, but the Federation reserves its rights to introduce exhibits through cross-examination.

### 3. STATEMENT OF BASIC POSITION

The core question to be addressed by the Commission in this proceeding is whether Tampa Electric Company ("Tampa Electric" or "TECO") needs any additional revenues in order to provide safe, adequate, reliable service, to recover its legitimate costs of providing such service, and to have an opportunity to earn a fair and reasonable return on its legitimate investment in assets used and useful in providing such service. The evidence shows that the answer to this question is that Tampa Electric does not need any additional revenues at all in order to fulfill its duty to provide safe, adequate, reliable service at the lowest possible cost, and that, in fact, with a decrease in base rate revenues of approximately \$6.0 million per year, Tampa Electric will recover all of its legitimate costs of providing service and have the opportunity to earn a fair and reasonable return on its reasonable and prudent investment in assets used and useful in providing such service.

Tampa Electric's requested after-tax return on equity ("ROE") of 11.25 percent equates to a before-tax return greater than 18 percent. This is excessive and unjustified, not only with respect to current capital market conditions, but also relative to the minimal risks that Tampa Electric faces as the monopoly provider of a necessity – electric service – pursuant to regulation by the Florida Public Service Commission under applicable Florida Statutes. In particular, the fact that Tampa Electric recovers more than half of its total revenues through "cost recovery clauses" and line item charges separate from base rates, together with the use of a projected test year, greatly reduces the risks that Tampa Electric faces, thus rendering its requested 11.25 percent ROE unreasonable and overreaching.

Tampa Electric has overstated its expenses in many areas, including payroll costs, improperly allocated common costs (more of which should have been allocated to TECO affiliates), unnecessarily generation maintenance and tree-trimming expenses, unnecessarily high rate case expenses, and an unnecessarily high storm reserve accrual. Tampa Electric has also understated its revenues, by removing transmission revenues that the Company will receive from Calpine and by overstating its uncollectible expense by \$1.2 million per year; correcting for such understated revenues further reduces Tampa Electric's need for base rate revenues from its retail customers. Tampa Electric has also sought to inappropriately include \$174.1 million of Construction Work in Progress ("CWIP") in its rate base, even though this amount is not for any asset that will be used and useful in providing service during the 2012 test year.

In summary, the combined evidence submitted by witnesses for the consumer parties in this case shows that Tampa Electric can provide safe, adequate, and reliable service with a base

rate decrease of approximately \$6.0 million per year. The Commission should therefore reduce Tampa Electric's base rates by this amount.

#### 4. STATEMENT OF FACTUAL ISSUES AND POSITIONS

##### TEST PERIOD AND FORECASTING

**ISSUE 1:** Is Tampa Electric's projected test period of the 12 months ending December 31, 2014 appropriate?

**FRF Position:** Agree with Citizens.

**ISSUE 2:** Are Tampa Electric's forecasts of customers, KWH, and KW by revenue and rate class, for the 2014 projected test year appropriate?

**FRF Position:** No.

**ISSUE 3:** What are the appropriate inflation factors for use in forecasting the test year budget?

**FRF Position:** Agree with OPC.

**ISSUE 4:** How should the Calpine contract renewal be treated for ratemaking purposes?

**FRF Position:** Revenues from the Calpine contract renewal should be included in the Company's test year revenues in determining Tampa Electric's authorized revenue requirement, and the jurisdictional separation factors should be adjusted to reflect the impact of the Calpine contract and associated revenues.

**ISSUE 5:** Should revenues be adjusted for the renewal of the Calpine contract?

**FRF Position:** Yes.

**ISSUE 6:** Is the proposed Jurisdictional Separation Study appropriate?

**FRF Position:** No. The jurisdictional separation study should be adjusted to reflect the recommendations of Citizens' witness Donna Ramas.

##### QUALITY OF SERVICE

**ISSUE 7:** Is the quality of electric service provided by Tampa Electric adequate?

**FRF Position:** Agree with Citizens.

### **RATE BASE**

**ISSUE 8:** Has the Company removed all non-utility activities from rate base?

**FRF Position:** Agree with Citizens.

**ISSUE 9:** Is Tampa Electric's requested level of Plant in Service in the amount of \$6,506,194,000 (\$6,516,443,000 system) for the 2014 projected test year appropriate? (FALLOUT)

**FRF Position:** No. Agree with Citizens.

**ISSUE 10:** Should Tampa Electric's amortization periods for computer software and ERP system be changed, and if so, what are the resulting impacts on rate base, expense, and amortization rates?

**FRF Position:** Yes. Agree with Citizens.

**ISSUE 11:** Is Tampa Electric's requested level of accumulated depreciation in the amount of \$2,436,895,000 (\$2,439,935,000 system) for the 2014 projected test year appropriate? (FALLOUT)

**FRF Position:**No. Agree with Citizens.

**ISSUE 12:** Is Tampa Electric's requested level of Construction Work in Progress in the amount of \$174,146,000 (\$174,529,000 system) for the 2014 projected test year appropriate? (FALLOUT)

**FRF Position:**No.

**ISSUE 13:** Is Tampa Electric's requested level of Property Held for Future Use in the amount of \$35,409,000 (\$35,859,000 system) for the 2014 projected test year appropriate?

**FRF Position:**No.

**ISSUE 14:** Should an adjustment be made to Tampa Electric's requested storm damage reserve, annual accrual, and target level?

**FRF Position:** Yes. Tampa Electric's storm reserve accrual should be set at zero, that is, accruals to the storm reserve should cease as of the effective date of the new rates set pursuant to the Commission's actions in this case, and its target level should remain unchanged.

**ISSUE 15:** Should an adjustment be made to rate base for unfunded Other Post-retirement Employee Benefit (OPEB) liability and any associated expense?

**FRF Position:** Agree with Citizens.

**ISSUE 16:** Should any adjustments be made to Tampa Electric's fuel inventories?

**FRF Position:** Agree with Citizens.

**ISSUE 17:** Has Tampa Electric properly reflected the net over recoveries or net under recoveries of fuel and conservation expenses in its calculation of working capital?

**FRF Position:** Agree with Citizens.

**ISSUE 18:** Is Tampa Electric's requested level of Working Capital in the amount of \$61,118,000 (\$61,053,000 system) for the 2014 projected test year appropriate? (FALLOUT)

**FRF Position:** No. Agree with Citizens.

**ISSUE 19:** Is Tampa Electric's requested rate base in the amount of \$4,339,972,000 (\$4,347,949,000 system) for the 2014 projected test year appropriate? (FALLOUT)

**FRF Position:** No. Agree with Citizens.

### **COST OF CAPITAL**

**ISSUE 20:** What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

**FRF Position:** Agree with Citizens.



**ISSUE 21:** What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

**FRF Position:** Agree with Citizens.

**ISSUE 22:** What is the appropriate cost rate for short-term debt for the 2014 projected test year?

**FRF Position:** The appropriate cost rate for short-term debt is 1.47%.

**ISSUE 23:** What is the appropriate cost rate for long-term debt for the 2014 projected test year?

**FRF Position:** The appropriate cost rate for long-term debt is 5.40%.

**ISSUE 24:** What is the appropriate capital structure for the 2014 projected test year?

**FRF Position:** The appropriate capital structure for Tampa Electric is 50% equity and 50% debt. TECO's requested 54.2% equity ratio would, if allowed, result in unfair, unjust, and unreasonably high rates being imposed on the Company's retail customers.

**ISSUE 25:** Should the Commission approve Tampa Electric's request to reflect flotation costs in the allowed ROE? (HUA CONTESTED ISSUE)

**FRF Position:** No.

**ISSUE 26:** What is the appropriate ROE to use in establishing Tampa Electric's revenue requirement?

**FRF Position:** If the Commission adopts the 50% equity, 50% debt capital structure recommended by the Citizens' witnesses, the fair, just, and reasonable ROE to be used in setting Tampa Electric's retail rates is 9.0%. If the Commission adopts the 54.2% equity ratio sought by the Company, the appropriate, fair, just, and reasonable ROE is 8.75%.

**ISSUE 27:** What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure? (FALLOUT)

**FRF Position:** The appropriate weighted average cost of capital for Tampa Electric is 5.66%.

### **NET OPERATING INCOME**

**ISSUE 28:** Has Tampa Electric correctly calculated the revenues at current rates for the projected test year?

**FRF Position:** No. Agree with Citizens.

**ISSUE 29:** Should revenues be adjusted for the extension of the Auburndale agreement?

**FRF Position:** Agree with Citizens.

**ISSUE 30:** Is Tampa Electric's projected level of Total Operating Revenues in the amount of \$950,663,000 (\$951,811,000 system) for the 2014 projected test year appropriate? (FALLOUT)

**FRF Position:** No. Agree with Citizens.

**ISSUE 31:** Should any adjustments be made to Tampa Electric's requested vegetation maintenance expense?

**FRF Position:** Yes. Agree with the Citizens that Tampa Electric's allowable vegetation management expense should be set at \$8,370,613 based on the Company's projected mileage of tree-trimming and mowing for 2014.

**ISSUE 32:** Should any adjustments be made to Tampa Electric's requested level of generation maintenance expense?

**FRF Position:** Yes. Agree with Citizens that Tampa Electric's requested generation maintenance expense is overstated by \$4.088 million per year, and that the Company's revenue requirements should be reduced by that amount.

**ISSUE 33:** Has Tampa Electric made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause?

**FRF Position:** Agree with Citizens.

**ISSUE 34:** Has Tampa Electric made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

**FRF Position:** Agree with Citizens.

**ISSUE 35:** Has Tampa Electric made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause?

**FRF Position:** Agree with Citizens.

**ISSUE 36:** Has Tampa Electric made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause?

**FRF Position:** Agree with Citizens.

**ISSUE 37:** Should any adjustment be made to incentive compensation?

**FRF Position:** Yes. Agree with Citizens.

**ISSUE 38:** Should an adjustment be made to Tampa Electric's requested level of Salaries and Employee Benefits for the 2014 projected test year?

**FRF Position:** Yes. Tampa Electric's requested Salaries and Employee Benefits expense for the 2014 test year should be reduced by \$7.4 million (\$5.705 million in payroll and \$1.678 million in benefits) to reflect the Company's overstated number of employees. This adjustment is particularly appropriate, and necessary, in light of the fact that the Company's projected number of employees in Docket No. 080317-EI did not materialize after the Commission set the Company's rates in that docket.

**ISSUE 38A:** Should an adjustment be made to Tampa Electric's requested level of stock compensation expense for the 2014 projected test year?

**FRF Position:** Yes. Agree with Citizens.

**ISSUE 39:** Should an adjustment be made to Pension Expense associated with the Supplemental Executive Retirement Plan for the 2014 projected test year?



**FRF Position:** Agree with Citizens.

**ISSUE 40:** Should adjustments be made for the net operating income effects of allocated costs and charges with affiliated companies for Tampa Electric?

**FRF Position:** Yes. Agree with Citizens.

**ISSUE 41:** Are Tampa Electric's Call Center expenses just and reasonable?

**FRF Position:** No. The Commission should reduce the Company's requested O&M expenses by \$1.575 million for the 2014 test year.

**ISSUE 42:** Should an adjustment be made to the accrual for storm damage for the 2014 projected test year?

**FRF Position:** Yes. The Company's storm reserve accrual should be set equal to zero for the 2014 test year, because the Company's existing storm reserve is adequate to cover the costs of all but the most severe storms and because the Commission has always provided for prompt cost recovery of reasonable and prudent storm restoration costs in the event of unusually high storm costs.

**ISSUE 43:** Should an adjustment be made to the accrual for the Injuries & Damages reserve for the 2014 projected test year?

**FRF Position:** Agree with Citizens.

**ISSUE 44:** Should any adjustments be made to Directors and Officers Liability Insurance?

**FRF Position:** Yes. Allowable expenses for this cost item to be included in retail customers' rates should be no greater than half of the total amount; thus, the maximum amount to be included in retail customers' rates is no more than \$398,974.

**ISSUE 45:** Should any adjustments be made to Outside Services - Legal Expense?

**FRF Position:** Yes. The Company's request that retail customers pay \$520,000 in litigation costs for pole attachment revenue litigation with Verizon should be removed from the Company's revenue requirement, because these costs are non-recurring and further because they may result in additional revenues to the Company which will not accrue to the benefit of customers.

**ISSUE 46:** What is the appropriate amount and amortization period for Tampa Electric's rate case expense for the 2014 projected test year?

**FRF Position:** The appropriate amount of rate case expenses to be recovered from Tampa Electric's retail customers is \$1.377 million, and that amount should be amortized over a 5-year period. Tampa Electric has incurred these expenses in an effort to raise its retail customers' rates by an excessive amount, and accordingly, the Company should bear any excess over this \$1.377 million amounts.

**ISSUE 47:** Should an adjustment be made to Bad Debt Expense for the 2014 projected test year?

**FRF Position:** Yes. Agree with Citizens that the Company's requested level of bad debt expense is overstated and should be reduced by \$1.228 million, and further that this adjustment should be tracked through in developing the revenue expansion factor addressed in Issue 53.

**ISSUE 48:** Is Tampa Electric's requested level of O&M Expense in the amount of \$363,832,000 (\$364,130,000 system) for the 2014 projected test year appropriate? (FALLOUT)

**FRF Position:** No.

**ISSUE 49:** What is the appropriate amount of depreciation and fossil dismantlement expense?

**FRF Position:** Agree with Citizens.

**ISSUE 50:** Should an adjustment be made to Taxes Other Than Income Taxes for the 2014 projected test year? (FALLOUT)

**FRF Position:** Yes. Payroll taxes should be reduced by \$430,164 (retail) to reflect the reduction in salaries recommended by the Citizens' witnesses.

**ISSUE 51:** Should an adjustment be made to Income Tax expense for the 2014 projected test year? (FALLOUT)

**FRF Position:** Yes. Agree with Citizens.

**ISSUE 52:** Is Tampa Electric's projected Net Operating Income in the amount of \$209,901,000 (\$210,244,000 system) for the 2014 projected test year appropriate? (FALLOUT)

**FRF Position:** No. The Company's NOI should be adjusted to reflect the recommendations of witnesses for the Citizens, the FRF, FIPUG, and the HUA.

### **REVENUE REQUIREMENTS**

**ISSUE 53:** What are the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates, for Tampa Electric?

**FRF Position:** The appropriate revenue expansion factor is 1.63117.

**ISSUE 54:** Is Tampa Electric's requested annual operating revenue increase of \$134,841,000 for the 2014 projected test year appropriate? (FALLOUT)

**FRF Position:** No. Tampa Electric's base rate revenues should be reduced by approximately \$6 million on an annual basis.

### **COST OF SERVICE AND RATES**

**ISSUE 55:** Should Tampa Electric's proposed Minimum Distribution System ("MDS") costing method be approved?

**FRF Position:** No position.

**ISSUE 56:** What is the appropriate Cost of Service Methodology to be used to allocate production costs to the rate classes?

**FRF Position:** No position.

**ISSUE 57:** What is the appropriate Cost of Service Methodology to be used to allocate transmission costs to the rate classes?

**FRF Position:** No position.

**ISSUE 58:** How should any change in the revenue requirement approved by the Commission be allocated among the customer classes?

**FRF Position:** Any increase or decrease in base rate revenues should be allocated across-the-board in proportion to base rate revenues.

**ISSUE 59:** What is the appropriate treatment of the IS schedules?

**FRF Position:** These rate schedules should not be eliminated. No position on design of the rates.

**ISSUE 60:** Should TECO's proposal to reinstitute the Commercial/Industrial Service Rider (CISR) tariff be approved?

**FRF Position:** Yes.

**ISSUE 61:** Should the "Transformer Ownership Discount" be renamed the "Delivery Voltage Credit" and should the credits provided reflect full avoided distribution costs?

**FRF Position:** No position at this time.

**ISSUE 62:** What are the appropriate service charges (normal reconnect, same day reconnect, reconnect at meter/pole, field visit, tampering charge, temporary service charge)?

**FRF Position:** If the existing service charges are demonstrably cost-based at their present levels, they should not be changed. If they are to be changed, they should either be set at demonstrable, specific cost-based levels, or they should be set by starting with the existing charges, adjusted proportionally to any increase or decrease in base rate revenues approved by the Commission in this proceeding.

**ISSUE 63:** What is the appropriate emergency relay power supply charge?

**FRF Position:** The emergency relay power supply charge should be cost-based. No position as to the level of the charge.

**ISSUE 64:** What are the appropriate contributions-in-aid for time-of-use rate customers opting to make a lump sum payment for a time-of-use meter in lieu of a higher time-of-use customer charge?

**FRF Position:** The CIAC should be cost-based. No position as to the level of the CIAC.

**ISSUE 65:** What changes in allocation and rate design should be made to Tampa Electric's rates established in Docket Nos. 130001-EI, 130002-EG, and 130007-EI to recognize the decisions in various cost of service rate design issues in this docket?

**FRF Position:** No position.

**ISSUE 66:** What are the appropriate monthly rental factors and termination factors to be approved for the Facilities rental Agreement, Appendix A? (Tampa Electric to check if can be dropped.)

**FRF Position:** The monthly rental factors and termination factors should be cost-based. No position as to the values of those factors.

**ISSUE 67:** What are the appropriate customer charges and should "customer charge" be renamed "basic service charge"?

**FRF Position:** The appropriate customer charges are the existing charges, adjusted proportionally to any increase or decrease in base rate revenues approved by the Commission in this proceeding. The FRF does not object to renaming the charge as proposed by the Company.

**ISSUE 68:** What are the appropriate demand charges?

**FRF Position:** The appropriate demand charges are the existing charges, adjusted proportionally to any increase or decrease in base rate revenues approved by the Commission in this proceeding.

**ISSUE 69:** What are the appropriate energy charges?

**FRF Position:** The appropriate energy charges are the existing charges, adjusted proportionally to any increase or decrease in base rate revenues approved by the Commission in this proceeding.

**ISSUE 70:** What are the appropriate lighting charges?

**FRF Position:** The appropriate lighting charges are the existing charges, adjusted proportionally to any increase or decrease in base rate revenues approved by the Commission in this proceeding.



**ISSUE 71:** What are the appropriate Standby Charges?

**FRF Position:** The appropriate charges for Standby Service are the existing charges, adjusted proportionally to any increase or decrease in base rate revenues approved by the Commission in this proceeding.

**OTHER**

**ISSUE 72:** What is the appropriate effective date for Tampa Electric's revised rates and charges?

**FRF Position:** The appropriate effective date for any revised rates and charges is for bills rendered on or after the thirtieth day following the date of the Commission's vote.

**ISSUE 73:** Should Tampa Electric be required to file, within 90 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.

**FRF Position:** Yes.

**ISSUE 74:** Should this docket be closed?

**FRF Position:** No.

5. **STIPULATED ISSUES:**

The Florida Retail Federation is not aware of any stipulated issues at this time.

6. **PENDING MOTIONS:**

The Florida Retail Federation has no motions pending before the Commission in this proceeding.

7. **STATEMENT OF PARTY'S PENDING REQUESTS OR CLAIMS FOR CONFIDENTIALITY:**

The FRF has no pending requests or claims for confidentiality.

8. OBJECTIONS TO QUALIFICATIONS OF WITNESSES AS EXPERTS:

The FRF does not expect to challenge the qualifications of any witness to testify, although the FRF reserves all rights to question witnesses regarding their qualifications as related to the credibility and weight to be accorded their testimony.

9. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:

There are no requirements of the Order Establishing Procedure with which the Florida Retail Federation cannot comply.

Respectfully submitted this 12th day of August, 2013.



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**CERTIFICATE OF SERVICE**

I **HEREBY CERTIFY** that a true and correct copy of the foregoing has been furnished by electronic mail this 12th day of August 2013, to the following:

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