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 ORDER NO. PSC-99-2007-PAA-EI ISSUED: October 14, 1999

The following Commissioners participated in the disposition of this matter:

JOE GARCIA, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JULIA L. JOHNSON
E. LEON JACOBS, JR.

NOTICE OF PROPOSED AGENCY ACTION
ORDER DETERMINING REFUND AMOUNT

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

I. CASE BACKGOUND

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. 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 Commission 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. 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

No. PSC-96-0670-S-EI. 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.

By Order No. PSC-97-0436-FOF-EI, issued April 17, 1997, the Commission determined that $50,517,063, plus interest should be deferred from 1995. Of the $50,517,063, $10 million has already been refunded to the customers. By Order No. PSC-99-0683-FOF-EI, issued April 7, 1999, we determined that, after refunding $15 million, $22,081,064 plus interest remained to be deferred from 1996. By Order No. PSC-99-1940-PAA-EI, issued October 1, 1999 we determined that the appropriate maximum amount of deferred revenue that could be reversed into 1997 earnings was $27,056,807. As of the date of issuance of this Order, Order No. PSC-99-1940-PAA-EI is not yet final. Based on our decisions for 1995, 1996, and 1997, at December 31, 1997, there was approximately $43.8 million, including interest, to be deferred into 1998 earnings.

TECO's 1998 Earnings Surveillance Report was the subject of an audit by Commission staff. The audit report discusses certain transactions and practices which could potentially change the amount of TECO's 1998 earnings. Specifically, this Order addresses asset transfers between affiliates, the Company's equity ratio, TECO's investment in a 25% interest in a transmission line, industry association dues, advertising, and the allocation of expenses to subsidiaries.

II. APPROPRIATE RATE BASE FOR 1998

Based on the adjustment discussed below, we find that the appropriate rate base is $2,136,797,562 for 1998.

Adjustment 1: Asset Transfers Between Affiliates - Audit Disclosure No. 5 from the 1997 Affiliated Transactions Audit, indicated that four LPG Fueler Tanker Trucks were sold from TECO to Peoples Gas Company, a nonregulated affiliate of Peoples Gas System, during 1997. The sale was recorded at fair market value.

Consistent with our decision concerning the treatment of this transaction in 1997, the sale from TECO to Peoples Gas Company should have been made at net book value. To recognize this, the average reserve balance must be increased by $66,050. The amount of the adjustment for 1998 is double the 1997 adjustment because the 1997 adjustment covered six months while the 1998 adjustment is for a full year.

III. APPROPRIATE CAPITAL STRUCTURE FOR PURPOSES OF MEASURING EARNINGS FOR 1998

We began our analysis with the 13-month average capital structure from the company's Earnings Surveillance Report (ESR) for the period ending December 31, 1998. Consistent with the decision, and for all the reasons stated in Order No. PSC-98-0802-FOF-EI, a specific adjustment was made to cap the equity ratio at the actual level achieved in 1995 of 58.7%.

The cost rate on the balance of deferred revenues is based on the average 30-day commercial paper rate as per Rule 25-6.109, Florida Administrative Code. The average 30-day commercial paper rate for 1998 was 5.49%. The treatment of deferred revenues as a separate line item in the capital structure is consistent with the decision in Order No. PSC-99-0683-FOF-EI.

The company calculated the cost rate for short-term debt as 5.56% by using the actual interest expense and the average daily balance for short-term debt. This average daily balance is calculated by totaling the balance of outstanding short-term debt for each day and then dividing by the number of days in the year. Using the actual interest expense and the 13-month average balance for short-term debt yields a cost rate of 5.38% for short-term debt. We believe that 5.38% is the appropriate cost rate to use for short-term debt for the following two reasons. First, using the 13-month average cost rate allows the recovery of only the actual interest expense incurred. Second, this method is consistent with the 13-month average balances reported in the capital structure and rate base. Unless this adjustment is made, applying the cost rate calculated by the company to the 13-month average balance of short-term debt would result in an over-recovery of interest expense incurred by the company in 1998.

In 1995 and 1996, the pro rata adjustments were made over all sources of capital to be consistent with how the company filed its ESR. After reviewing Order No. PSC-93-0165-FOF-EI, issued February 2, 1993, following TECO's last rate case, we determined that the reconciling adjustment in the company's ESR was not consistent with the treatment in the last rate case. To be consistent with how the pro rata adjustment was made in the last rate case, we find that pro rata adjustments shall be made over investor sources of capital and customer deposits. As discussed in the previous section of this Order, we made an adjustment of $66,050 to rate base. Consistent with our 1997 decision, wemade this pro rata adjustment over investor sources of capital and customer deposits. ATTACHMENT B details the appropriate capital structure for purposes of measuring 1998 earnings under the stipulations.

IV. APPROPRIATE NET OPERATING INCOME FOR 1998

Based on the following adjustments, we find that the appropriate net operating income for 1998 is $203,606,345.

Adjustment 2: Deferred Revenue Refund - In 1998, TECO reversed $38.3 million of deferred revenue. The accumulated balance of deferred revenues, including interest, at December 31, 1998, was $3,046,891. In order to properly determine the amount of 1998 revenues to be refunded, $3,046,891 should be included in revenues. We are reversing this amount in order to determine the total amount of earnings for 1998. The $3,046,891 is subtracted in the calculation of the maximum allowed revenue reversal for 1998 on ATTACHMENT D.

Adjustment 3: Temporary Base Rate Reduction - Per the stipulation agreement, "There will be added to total base rate revenues for 1998 an amount equal to the $25 million temporary base rate reduction credited to customers from October 1, 1997 through December 31, 1998 pursuant to this Stipulation." Therefore, we have added $25,422,000 to 1998 revenues. The $25.422 million temporary base rate reduction is subtracted in the calculation of the maximum allowed revenue reversal for 1998 on ATTACHMENT D.

Adjustment 4: Orlando Utility Commission's (OUC) Transmission Line - The adjustment is being made consistent with our previous decisions in Order No. PSC-97-0436-FOF-EI (1995 Earnings), Order No. PSC-98-0802-FOF-EI (1996 Earnings) and Order No. PSC-99-1940-PAA-EI. 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, we found that TECO's entire investment in the transmission line should 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 Company removed plant-in-service, accumulated amortization, net acquisition adjustment and amortization expense related to the OUC transmission line from the 1998 ESR. However, it failed to remove Taxes Other. Therefore, we find that Taxes Other shall be reduced by $46,914. There were no O&M costs associated with the OUC transmission line for 1998.

Adjustment 5: Industry Association Dues - Based on Audit Disclosure No. 1, we find that expenses shall be reduced by $5,574 for Employers Health Coalition. In addition, $22,500 for Electric Cooking Council dues shall also be disallowed. The dues of these associations do not relate to the provision of electricity and provide no benefit to ratepayers; therefore, the costs should not be borne by ratepayers. Order No. PSC-93-0165-FOF-EI, (TECO's 1992 rate case), issued February 2, 1993, disallowed similar costs.

Therefore, expenses shall be reduced by a total of $28,074 for industry association dues.

Adjustment 6: Advertising - Based on Audit Disclosure No. 3, 100% of certain advertisements were charged to TECO instead of being allocated between TECO Energy and TECO. We find that expenses shall be reduced by $6,318 for the allocation. In addition, consistent with Order No. PSC-94-0170-FOF-EI (Florida Public Utilities Company Marianna Division 1993 rate case), issued February 10, 1994, image building, promotional advertising shall be removed from the calculation of net operating income because such expenses provide no benefit to ratepayers. $1,381 in expenses for "golf brushes for sponsorship of golf tournaments" shall be disallowed. Therefore, expenses shall be reduced by $7,699.

Adjustment 7: Allocation to Subsidiaries - Audit Disclosure No. 7 in the 1997 audit indicated that seven subsidiaries were not allocated costs by TECO Energy. The Company stated that TECO Energy did not allocate to these companies due to the developmental nature of these businesses. However, TECO has indicated that it believes an allocation for these entities is reasonable. We believe Bosek, Gibson and Associates and TeCom should receive an allocation of expenses. Therefore, we find that expenses shall be reduced by $45,818 for 1998.

We did not conduct a thorough review of the appropriate methodology for allocating expenses by TECO Energy to its subsidiaries. The Company uses one composite factor to allocate all expenses among the subsidiaries; more factors based on cost causation may be appropriate. Although 1998 earnings were calculated using the one factor method, we may review the cost allocation methodology in the future to determine if it is reasonable.

Adjustment 8: Interest Reconciliation - This adjustment is based on the reconciliation of the rate base and the capital structure. In this instance, income taxes should be reduced by $934,381. (ATTACHMENT C)

__Adjustment 9__: **Tax Effect of Other Adjustments** - The tax effect of these adjustments to NOI results in a $10,097,065 increase to income taxes.

V. MAXIMUM AMOUNT OF DEFERRED REVENUES THAT CAN BE REVERSED INTO 1998'S EARNINGS

In 1998, TECO reversed $38.3 million in revenues and earned 12.66% after the reversal per its December 1998 ESR. According to the stipulations, the maximum the Company is allowed to earn is 12.75%. Based on the adjustments approved in this Order, we find that the maximum amount of deferred revenues that can be reversed into 1998's earnings is $34,069,010.

VI. AMOUNT TO BE REFUNDED

The stipulation requires that any earnings over 12.75% ROE for 1998 be refunded in addition to any remaining deferred revenues. Based on the foreging adjustments, we find that the amount to be refunded pursuant to the stipulation based on 1998 earnings is $11,226,598. ATTACHMENT E summarizes the amount remaining to be refunded. Additional interest shall be accrued from December 31, 1998 to the time of the actual refund.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the appropriate rate base for Tampa Electric Company for 1998 is $2,136,797,562. It is further

ORDERED that the appropriate capital structure for Tampa Electric Company for measuring 1998 earnings is detailed on ATTACHMENT B to this Order, which is incorporated by reference herein. It is further

ORDERED that the appropriate net operating income for Tampa Electric Company for measuring 1998 earnings is $203,606,345. It is further

ORDERED that the maximum amount of deferred revenues to be reversed into 1998 earnings is $34,069,010. It is further

ORDERED that the amount to be refunded to customers is $11,226,598. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided by Rule 28-106.201, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that this docket shall remain open pending the review of TECO's 1999 earnings and the determination of the appropriate amount of any additional deferred revenues related to 1999.

By ORDER of the Florida Public Service Commission this 14th day of October, 1999.

BLANCA S. BAYÓ, Director
Division of Records and Reporting

Kay Flynn

Kay Flynn, Chief
Bureau of Records

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing that is available under Section 120.57, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on November 4, 1999.

In the absence of such a petition, this order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

ATTACHMENT A

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
REVIEW OF 1998

	As Filed FPSC Adjusted Basis	Asset Transfer	Deferred Revenue Refund	Temporary Base Rate Reduction	OUC Transmissi Line	Industry Dues	Assoc. Advertisin	Allocation Subsidiari	Interest Reconcilia	Total Adjustment	Total Adjusted Rate Base
RATE BASE											
Plant in Service	$3,398,144,									$0	$3,398,144,41
Accumulated Depreciation	(1,371,926,	(66,050)								(66,050)	(1,371,992,60
Net Plant in Service	2,026,217,8	(66,050)	0	0	0	0	0	0	0	(66,050)	2,026,151,810
Property Held for Future	30,750,290									0	30,750,290
Construction Work in	17,117,984									0	17,117,984
Net Utility Plant	2,074,086,1	(66,050)	0	0	0	0	0	0	0	(66,050)	2,074,020,084
Working Capital	62,777,478									0	62,777,478
Total Rate Base	$2,136,863,	($66,050)	$0	$0	$0	$0	$0	$0	$0	($66,050)	$2,136,797,56
INCOME STATEMENT											
Operating Revenues	$685,731,347		$3,046,891	$25,422,000						$28,468,89	$714,200,238
Operating Expenses:											
Operation & Maintenance -	11,041,648									0	11,041,648
Operation & Maintenance -	227,048,054					(28,074)	(7,699)	(45,818)		(81,591)	226,966,463
Depreciation &	136,945,472									0	136,945,472
Taxes Other Than Income	46,299,527				(46,914)					(46,914)	46,252,613
Income Taxes - Current	55,039,865		1,175,338	9,806,537	18,097	10,830	2,970	17,674	(934,381)	10,097,065	65,136,930
Deferred Income Taxes	28,506,796									0	28,506,796
Investment Tax Credit	(4,225,036)									0	(4,225,036)
(Gain)/Loss on Disposition	(30,993)									0	(30,993)
Total Operating Expenses	500,625,333		1,175,338	9,806,537	(28,817)	(17,244)	(4,729)	(28,144)	(934,381)	9,968,560	510,593,893
Net Operating Income	$185,106,014	$0	$1,871,553	$15,615,464	$28,817	$17,244	$4,729	$28,144	$934,381	$18,500,33	$203,606,345
OVERALL RATE OF RETURN	8.66%									0.87%	9.53%
RETURN ON EQUITY	12.66%									2.06%	14.72%

ATTACHMENT B

DOCKET NO. 950379-EI
TAMPA ELECTRIC COMPANY
COMMISSION APPROVED CAPITAL STRUCTURE
AVERAGE TEST YEAR — YEAR ENDING DECEMBER 31, 1998

	RETAIL PER BOOKS	ADJUSTMENTS COMPANY SPECIFIC	COMPANY PRO RATA	COMPANY ADJUSTED	EQUITY ADJUSTMENT	COMMISSION PRO RATA	COMMISSION ADJUSTED	WEIGHT	COST RATE	WEIGHTED COST
LONG TERM DEBT	$667,444,138	($6,458,419)	($57,335,516	$603,650,203	$38,614,500	($23,951)	$642,240,752	30.06%	6.61%	1.99%
SHORT TERM DEBT	75,897,735	(380)	(6,583,522)	69,313,833		(2,585)	$69,311,248	3.24%	5.38%	0.17%
PREFERRED STOCK	0			0		0	$0	0.00%	0.00%	0.00%
CUSTOMER DEPOSITS	52,806,382		(4,580,555)	48,225,827		(1,798)	$48,224,029	2.26%	6.09%	0.14%
COMMON EQUITY	1,150,449,24	(733,566)	(99,729,148)	1,049,986,53	(38,614,500)	(37,716)	$1,011,334,3	47.33%	12.75%	6.03%
DEFERRED REVENUE	20,723,028			20,723,028			$20,723,028	0.97%	5.49%	0.05%
DEFERRED TAXES	329,106,607	1,671,248	(28,692,479)	302,085,376			$302,085,376	14.14%	0.00%	0.00%
FAS 109 DEFERRED TAXES	0		0	0			$0	0.00%	0.00%	0.00%
TAX CREDITS - ZERO COST	0		0	0			$0	0.00%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	46,963,093	(11,594)	(4,072,688)	42,878,811			$42,878,811	2.01%	10.37%	0.21%
	$2,343,390,2	($5,532,711)	($200,993,90	$2,136,863,6	$0	($66,050)	$2,136,797,5	100%		8.59%
			EQUITY RATIO	60.94%		EQUITY RATIO	58.70000%			

ATTACHMENT C

TAMPA ELECTRIC
DOCKET NO. 950379-EI
REVIEW OF 1998

INTEREST RECONCILIATION

	Amount	Cost Rate	Interest	Tax Rate	Effect on Income Tax
Long Term Debt	$642,240,7	6.61%	$42,452,1		
Short Term Debt	69,311,248	5.38%	3,728,945		
Customer Deposits	48,224,029	6.09%	2,936,843		
Deferred Revenue	20,723,028	5.49%	1,137,694		
Tax Credits - Weighted	42,878,811	2.57%	1,100,825		
Interest Expense			51,356,42		
Adj. Company Interest			48,934,17		
Adjustment			($2,422,2	38.575%	($934,381)

ATTACHMENT D

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
REVIEW OF 1998 EARNINGS

Adjusted Rate		$2,136,797,5
Adjusted Achieved Rate of	9.53%	
Allowed Maximum Rate of at 12.75%	8.59%	
Excess Rate of Return		
Excess Net Operating Income		20,085,897
Revenue Expansion Factor		
Revenues in Excess of 12.75% ROE		32,699,881
Less Temporary Reduction		(25,422,000)
Less Company Adjustment		(3,046,891)
1998 Revenues in Excess of 12.75% ROE		$4,230,990

Company Reversal	$38,300,000
Less: Revenues in Excess of 12.75% ROE	(4,230,990)
Maximum Allowed Revenue Reversal	$34,069,010

ATTACHMENT E

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
DEFERRED REVENUE SUMMARY

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 09/07/99 Commission Decision	(34,069,010)
1995-1998 Interest	10,492,266
Refund as of 12/31/98	$11,226,598