FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

**M E M O R A N D U M**

APRIL 20, 1995

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF AUDITING AND FINANCIAL ANALYSIS (SLEMKEWICZ, MAUREY) JS DM
DIVISION OF ELECTRIC AND GAS (BASS) ALM
DIVISION OF LEGAL SERVICES (PALECKI) MCB RCT

RE: DOCKET NO. 950379-EI - INVESTIGATION INTO EARNINGS FOR 1995 AND 1996 OF TAMPA ELECTRIC COMPANY.

AGENDA: 05/02/95 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\AFA\WP\950379.RCM
ATTACHMENT NOT AVAILABLE

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## CASE BACKGROUND

On March 1, 1995, Tampa Electric Company (TECO) submitted its 1995 Forecasted Earnings Surveillance Report in compliance with Rule 25-6.1353, Florida Administrative Code. Per the report, TECO forecasted an achieved return on equity (ROE) of 14.28% for 1995. This exceeds the top of TECO's currently authorized ROE range (10.35% to 12.35%, with an 11.35% midpoint). The 1.93% in excess of the top of the range represents approximately $25.8 million of excess revenues for 1995. Subsequently, additional data was requested and received for 1996 that indicated a projected ROE of 13.81%, which represents additional excess revenues of approximately $21.9 million. For 1994, TECO reported an actual achieved ROE of 11.26%, which included a one-time restructuring charge of $21.3 million. If the restructuring charge is excluded, TECO's 1994 achieved ROE would be 12.87%.

Due to concerns over the high level of TECO's forecasted earnings, a meeting was scheduled on March 22, 1995, to explore alternatives regarding the possible disposition of the excess earnings. TECO, the Office of the Public Counsel, FIPUG and the Staff participated in the discussions at the meeting. At this and subsequent meetings, various proposals have been proffered concerning the disposition of the excess revenues. This recommendation addresses TECO's proposal (Attachment).

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the Commission accept Tampa Electric Company's proposal to: (1) establish a new return on equity of 11.75% with a range of 10.75% to 12.75%, effective January 1, 1995; (2) irrevocably defer a revenue amount of $15 million for 1995; (3) defer 50% of any revenues in excess of an 11.75% ROE up to a net 12.75% ROE and to defer all revenues in excess of a net 12.75% ROE; (4) defer any deferred revenues until 1997 and accrue interest at the commercial paper rate; and (5) end the oil backout clause, effective January 1, 1996?

**RECOMMENDATION:** Yes. The Commission should accept Tampa Electric Company's proposal to resolve the issue of its projected excess earnings for 1995. [SLEMKEWICZ, MAUREY, BASS]

**STAFF ANALYSIS:** The entire proposal proffered by TECO contains nine separate items (See Attachment). The proposal is basically self-explanatory and the Staff analysis addresses only a few items for the sake of clarity.

Return on Equity - With regard to the return on equity of 11.75%, Staff believes that this return is within the range of reasonableness for TECO. In the interest of regulatory efficiency and cost savings, Staff recommends that the Commission approve the 11.75%, with a range of 10.75% to 12.75%, as the Company's authorized ROE for any and all regulatory purposes effective January 1, 1995. However, it should be noted that if this matter went to hearing, Staff would not necessarily recommend an ROE of 11.75%.

Initial Revenue Deferral - TECO will initially record a revenue deferral of $15 million. This means that TECO will reduce its operating revenues and establish a liability in the amount of $15 million. This revenue deferral is irrevocable and will be treated as "excess" earnings regardless of the actual level of TECO's earnings for 1995.

Additional Revenue Deferral - After giving consideration to the $15 million deferred revenue reduction, TECO will defer 50% of any actual revenues in excess of an 11.75% ROE up to a net earned ROE of 12.75%. Any actual revenues in excess of the net 12.75% ROE will also be deferred without limitation. In essence, TECO has an earnings cap of 12.75% for 1995.

Oil Backout Clause - Any oil-backout project costs incurred beginning January 1, 1996, will no longer be recovered through the oil-backout cost recovery clause. For earnings surveillance purposes, the oil-backout investment and expenses should be included as a part of regular operations in the rate base and the income statement.

Projected oil-backout costs for the period October 1, 1995 through December 31, 1995 will be recovered during that period. Any remaining true-up dollars related to oil-backout costs for 1995 will be recovered as a line item adjustment to fuel costs through the fuel and purchased power cost recovery clause during the period April 1, 1996 through September 30, 1996.

**ISSUE 2:** Should this docket be closed?

**RECOMMENDATION:** No. This docket should remain open until Staff has reviewed Tampa Electric Company's historical earnings data for 1995, and the Commission has determined the actual amount of the excess earnings. However, this proposed agency action shall become final if no substantially affected person timely files a protest. [SLEMKEWICZ, PALECKI]

**STAFF ANALYSIS:** This docket should remain open until the actual December 1995 Earnings Surveillance Report has been received, audited, and final action has been taken by the Commission to determine the actual amount of any excess earnings for 1995. However, if no substantially affected person files a timely request for a §120.57, Florida Statutes, hearing within twenty-one days, this proposed agency action will become final.

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**TAMPA ELECTRIC COMPANY**
**DEFERRED REVENUE PROPOSAL**
**4/18/95**

The following is Tampa Electric Company's proposal:

1. Tampa Electric Company's ("Tampa Electric") return on equity ("ROE") will be established at a midpoint of 11.75% with a range of 10.75% to 12.75% for all regulatory purposes effective January 1, 1995.

2. For 1995, Tampa Electric will defer a revenue amount of $15.0 million. After the recording of the initial revenue deferral for calendar year 1995, no further revenue deferral will be required for 1995 unless Tampa Electric has earnings above 11.75% as discussed in item 3 below.

3. 50% of any actual revenues contributing to earnings in excess of 11.75% ROE will be deferred up to a net earned ROE of 12.75% on an FPSC adjusted basis per December earnings surveillance reports for calendar year 1995. The company also agrees that any actual revenues in excess of the net 12.75% ROE will be deferred.

4. The 1995 revenues will be deferred until 1997 and will accrue interest at the thirty day commercial paper rate as specified in Rule 25-6.109, Florida Administrative Code.

5. The calculations of the actual ROE for 1995 will be on an "FPSC Adjusted Basis" using the appropriate adjustments approved in Tampa Electric's last full price change proceeding. All reasonable and prudent expenses and investment will be allowed in the calculation and no annualized or proforma adjustments will be made.

6. The company's intent for the timing of the return of deferred revenues to customers is that the return will initiate coincident with the effective date of new rates resulting from a full rate case filing that Tampa Electric expects to file by May 1, 1996. In the event that no rate case is required or filed, Tampa Electric agrees to petition the Commission by December 1, 1996 to determine the specific method for return of the deferred revenues and interest to Customers.

7. The calendar year 1995 surveillance report on which the deferred revenues cap will be based, is subject to audit and true-up by the FPSC Staff.

8. Tampa Electric agrees that the oil backout clause will be collapsed effective January 1, 1996.

9. The Commission will retain jurisdiction over all deferred revenues.