FLORIDA PUBLIC SERVICE COMMISSION
Capital Circle Office Center ● 2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

MEMORANDUM

MARCH 6, 1997

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (JONES, LESTER, MAUREY, SLEMKEWICZ)
DIVISION OF ELECTRIC AND GAS (HAFF, KUMMER)
DIVISION OF LEGAL SERVICES (ELIAS)

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

AGENDA: 03/18/97 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\950379.RCM
R:\PSC\AFA\123\AFAD\1EQ-AA.WK4 - ATTACHMENT A
R:\PSC\AFA\123\AFAD\TEC&0379.WK4 - ATTACHMENTS B THROUGH E
R:\PSC\AFA\123\TEC55_0.WK4 - ATTACHMENT F
R:\PSC\AFA\123\TEC57_5.WK4 - ATTACHMENT G
S:\PSC\EAG\WP\FLA-MAP.PRS - ATTACHMENT H

CASE BACKGROUND

On March 1, 1995, Tampa Electric Company (TECO or Company) submitted its 1995 Forecasted Earnings Surveillance Report in compliance with Rule 25-6.1353, Florida Administrative Code. Per that report, TECO forecasted an achieved return on equity (ROE) of 14.28% which exceeded its then currently authorized ROE ceiling of 12.35%. 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 Staff participated in the meetings.

TECO subsequently proffered a proposal concerning the disposition of the excess revenues for 1995. The main provisions of the proposal were to: (1) establish a new ROE of 11.75% with a range of 10.75% to 12.75%, and (2) defer 50% of any revenues in excess of an 11.75% ROE up to a net 12.75% ROE; and (3) to defer all revenues in excess of a net 12.75% ROE. The Commission accepted this proposal in Order No. PSC-95-0580-

DOCUMENT NUMBER-DATE
02469 MAR-6 97
FPSC-RECORDS/REPORTING

FOF-EI, issued May 10, 1995. Potential excess earnings for subsequent years have been addressed in other orders.

This recommendation addresses the determination of the appropriate amount of excess revenues to be deferred for 1995. Specifically, the issues in this recommendation discuss TECO's investment in a 25% interest in a transmission line and the associated acquisition adjustment, the treatment of deferred revenues in the capital structure, and the Company's equity ratio. Each of these issues not only affects earnings for 1995, but also has a growing impact for 1996 and beyond.

DISCUSSION OF ISSUES

ISSUE 1: What portion, if any, of TECO's investment in a 25% share of the Orlando Utility Commission's (OUC) 230 KV line, connecting the Lake Agnes substation to the Cane Island generating station, should be included in rate base and net operating income for retail purposes?

RECOMMENDATION: Based on the information available at this time, Staff recommends that TECO's entire investment in the OUC transmission line be allocated to the wholesale jurisdiction. This would reduce the retail rate base by $1,599,806 and increase the retail net operating income by $37,643. [HAFF, KUMMER, SLEMKEWICZ]

STAFF ANALYSIS: This issue came to light as a result of the Staff's audit when the treatment of the acquisition adjustment, related to the purchase of the transmission line, was raised during the 1995 earnings review. The Uniform System of Accounts (USOA) requires utilities to petition the Commission for retail rate base recovery of any acquisition adjustment that is paid for a capital investment. Although the acquisition adjustment and the investment are separate issues, treatment of the investment will govern the treatment of any acquisition adjustment allowed. Therefore, justification for any acquisition adjustment would also provide the rationale for the allocation of the investment between retail and wholesale jurisdictions. If the line was purchased primarily to facilitate wholesale transactions either to increase sales or reduce wheeling charges, the total investment should be assigned to the wholesale jurisdiction. If the retail ratepayers derive the majority of the benefit, the costs would appear above the line to reduce TECO's earnings and, therefore, the potential for refunds at the end of 1999.

TECO not only failed to file the required petition on the acquisition adjustment, but mis-represented to the Federal Energy Regulatory Commission (FERC) that the Commission had already approved the acquisition. Despite TECO's failure to file a petition with the Commission justifying the acquisition adjustment, Staff initiated a limited review of the basis for allocation of the underlying investment between wholesale and retail jurisdictions.

History of Existing Facilities

Since the early 1980's, the Orlando Utilities Commission (OUC) has owned and operated a 230 kV transmission line connecting OUC's service territory with McIntosh Unit 3, located in Polk County and jointly owned by OUC and the City of Lakeland. In 1994 and 1995, the Cane Island plant, located in northwestern Osceola county and jointly owned by the Florida Municipal Power Agency (FMPA) and the Kissimmee Utility Authority (KUA), was placed into service and connected to the Taft-McIntosh line via a tap. During this time, TECO constructed the Lake Agnes substation on the Taft-McIntosh line. The attached map gives a general location of these facilities. (ATTACHMENT H)

Description of TECO's Investment

TECO purchased a 25% share in the portion of the existing 230 kV line between the Lake Agnes substation and the Cane Island tap. After reviewing TECO's response to Staff's interrogatories and requests for production of documents, Staff has been unable to find sufficient justification for recommending that any of the investment in this line be allocated to the retail jurisdiction.

It appears that TECO purchased 25% of the line primarily to ensure the ability to make wholesale sales to entities such as the Reedy Creek Improvement District (RCID). TECO currently has a power sales agreement with RCID which expires in the year 2017. Through this agreement, TECO sells firm capacity in amounts varying from 10 to 40 MW throughout the contract period. Although mention is made of benefits to the retail load, TECO's Program Scope Approval (PSA) provided to Staff through a Production of Documents request states, in part:

> *Purchase of the OUC 230 kV circuit between the Lake Agnes Switching Station and the Cane Island tap will provide Tampa Electric with 111 MVA of transmission capacity into Central Florida, providing Tampa Electric with direct interconnect capacity with the City of Kissimmee and the Florida Municipal Power Agency (FMPA). This will facilitate interchange purchase and sales opportunities without wheeling costs and constraints. The project also provides to TEC opportunities for more wholesales into the fast growing Central Florida at very low incremental costs. (*Program Scope Approval, page 3*)*

TECO also asserts that the transmission line purchase will alleviate potential transmission system reliability concerns. The PSA notes that the reliability of the connection with Florida Power Corporation's Lake Buena Vista Substation was of such concern to RCID that other potential wholesale suppliers bidding on the RCID load were requested to provide remedies for the potential overload of RCID circuits on this route.(PSA, page 3) Based on this statement, Staff concludes that the availability of the purchased transmission capacity was a significant deciding factor in TECO's winning bid.

Also, the location of the line is not directly tied into TECO's retail territory, so any retail service benefits would be indirect at best. Although the analysis provided in the POD shows a base revenue savings to retail customers, the RCID sale is a separated sales. All revenue from separated sales goes to stockholders, not retail ratepayers. The projected increase in broker revenues is negligible and the projected benefit of cheaper off-system power will likely benefit only non-firm customers as there is little danger that TECO will have insufficient capacity to service its firm load because of the recent addition of the new Polk Unit. Likewise, the avoided wheeling costs cited as a savings which are in the PSA assume TECO will have the need to purchase power which is unlikely.

Ownership of limited transmission in an environmentally sensitive area will undoubtedly benefit TECO in a competitive market, but appears to provide little near term benefits to retail ratepayers. The reliability arguments in the documents furnished by TECO further support the position that the primary purpose of the transmission line is to provide reliable service to a wholesale customer (RCID). Documents provided to Staff under the POD, reiterate the need to provide RCID with reliable power and the way in which the purchased transmission will fill that need.

Not only do TECO's own documents emphasize the wholesale use of the transmission acquisition but it appears to be a common assumption among the financial community as well. The May 1996 issue of Standard and Poor's Utilities Rating Service Report discusses TECO's purchase of the transmission line in an article summarizing the financial outlook for the company. It states, "Acquisition of the additional transmission is consistent with Tampa Electric's desire to grow its wholesale business." (page 10)

The argument can be made that increasing overall system reliability benefits retail ratepayers as well as wholesale customers. The question at hand is who should bear the cost of that increased reliability. Staff maintains that if the wholesale load causes the need for increased transmission capacity for reliability, then costs should be assigned to the wholesale jurisdiction. The fact that some incidental benefits may accrue to retail ratepayers does not justify imposing the cost of the line on them.

Had TECO chosen to comply with the USOA and file a request and justification for the acquisition adjustment, perhaps more information would have been provided up front to determine the appropriate allocation of both the investment and the acquisition adjustment. Without that initial pleading from the utility, Staff must guess at the rationale and attempt to pinpoint the appropriate relevant data through formal discovery on the thought process TECO used in purchasing the transmission line. The utility has failed to demonstrate the benefits to retail ratepayers that would justify the purchase of the transmission line. Based on the information available at this time, Staff recommends that the entire investment be assigned to the wholesale jurisdiction.

ISSUE 2: If any portion of TECO's investment in the OUC transmission line is included in the retail jurisdiction, should the related acquisition adjustment also be included above-the-line?

RECOMMENDATION: No. The retail rate base should be reduced by $1,326,448 and the retail net operating income should be increased by $29,067 to remove the effects of the OUC transmission line acquisition adjustment. [SLEMKEWICZ] (This issue is moot if the recommendation in Issue 1 is approved.)

STAFF ANALYSIS: Per the Uniform System of Accounts, the normal accounting treatment for acquisition adjustments when the purchase price exceeds the net book value is to amortize the acquisition adjustment below-the-line. Should a utility wish to account for the acquisition adjustment in any other manner, it must petition the Commission for authority to do so. It is also the Commission's general policy not to include acquisition adjustments in rate base unless the utility has demonstrated that the ratepayers have benefited from the purchase of the asset. To date, TECO has not petitioned the Commission to amortize the acquisition adjustment above-the-line nor has it provided any formal justification for including the acquisition adjustment in rate base.

Per TECO, the total purchase price of the OUC transmission line was $7,459,939. The acquisition adjustment amounts to $6,182,810, or 82.9%, of the total purchase price. Per its April 18, 1996 letter to FERC concerning the proposed accounting treatment for the acquisition adjustment, TECO stated that:

> The acquisition adjustment has been included in rates as a result of the agreement on earnings codified in the Florida Public Service Commission Order Establishing Return on Equity and Deferred Revenues for Tampa Electric Company issued May 10, 1995 - Docket No. 950379-EI, Order No. PSC-95-0580-FOF-EI. (Production of Documents No. 8)

Staff contends that this statement is a gross misinterpretation of the provisions included in Order No. 95-0580. Since the purchase of the OUC transmission line was not consummated until October 1995, it was not even an issue or item that was identified in the docket at that time. TECO has suggested that the following language contained in the order gives it carte blanche to include whatever it chooses in rate base or expenses:

> 5. The calculations of the actual ROE for 1995... <u>All reasonable and prudent expenses and investments will be allowed in the calculation</u>...
> (Order No. 95-0580, P. 5) (Emphasis added)

This same language is also included in Order No. PSC-96-1300-S-EI, issued October 24, 1996 in Docket No. 960409-EI. That docket authorized the inclusion of the Polk IGCC unit in rate base and extended the period for revenue deferral through the end of 1999. In the body of that order, however, TECO is cautioned that it is the Commission, not the Company, that makes the final determination of "reasonable and prudent". (Order No. 96-1300, P. 5)

The Uniform System of Accounts requires that a utility petition the Commission for permission to account for acquisition adjustments in a manner other than is normally prescribed, i.e., below-the-line. Even in its application to FERC for authorization to acquire the facilities in Docket No. EC95-17-000, filed July 26, 1995, TECO recognized that it would have to "...address the benefits of the acquisition to ratepayers at such time as it seeks to recover the related costs, including acquisition adjustment costs, in its rates." (Production of Documents No. 7, P.19). While this statement is directed to FERC, the same holds true with this Commission. By attempting to include the total purchase of the OUC transmission line in the calculation of 1995's excess earnings, TECO is in effect seeking to recover these costs currently. Regardless of whether or not the Commission includes any portion of the net book value of the OUC transmission line in the retail jurisdiction, no portion of the $6,182,810 acquisition adjustment, or its related amortization, should be allowed for determining the level of earnings for 1995.

ISSUE 3: How should deferred revenue accrued subject to the earnings sharing agreement be reflected in TECO's capital structure for surveillance purposes?

RECOMMENDATION : Deferred revenue should be included in the capital structure as a separate line item. The cost rate should be the thirty day commercial paper rate as specified in Rule 25-6.109, Florida Administrative Code. For 1995, the average cost rate for thirty day commercial paper was 5.97%. [JONES, LESTER, MAUREY]

STAFF ANALYSIS : In its December 1995 earnings surveillance report, TECO included the amount of revenue deferred subject to the earnings sharing agreement (agreement) approved in Order No. PSC-95-0580-FOF-EI in its capital structure on a pro rata basis across all sources of capital. Under this treatment, the Company will earn its overall cost of capital on the balance of deferred revenue. For 1995, the Company reported a rate of return of 8.58%. The Company contends this treatment is appropriate because a similar treatment was not challenged in the tax savings dockets (Docket Nos. 880356-EI, 890325-EI, and 900153-EI).

Staff does not agree with TECO's proposed treatment. A review of the Orders in the tax savings dockets indicate this issue was not raised or affirmatively decided in those dockets. If TECO's proposed treatment is allowed by the Commission, the Company will earn a return in excess of its actual costs on the balance of deferred revenues during the period this amount is held by the Company. Based on its filing, for 1995 TECO would be allowed to earn 8.58% on the balance of deferred revenues. However, in the event a refund is ordered, it would only be required to refund the specified amount plus interest calculated at the thirty day commercial paper rate. For 1995, the average cost rate for thirty day commercial paper was 5.97%. Under TECO's proposal, the Company would keep the difference. For 1995, this treatment would allow TECO to reduce revenues subject to deferral under the agreement by $1,532,083.

Staff believes the deferred revenue should be included in the capital structure as a separate line item. The cost rate should be the thirty day commercial paper rate as specified in Rule 25-6.109, F.A.C. This is the interest rate TECO would use to calculate the interest on the balance of deferred revenue under the terms of the agreement in the event a refund is ordered.

Staff's recommended treatment of including the deferred revenue in the capital structure is consistent with the treatment in a number of other Commission decisions. In Order No. 22367 involving Quincy Telephone (Docket Nos. 890292-TL and 891237-TL), deferred revenues from 1987, 1988, 1989, and the first six months of 1990 were included in the capital structure and allowed to accrue interest at the thirty day commercial paper rate. In Order No. PSC-94-0172-FOF-TL involving Southern Bell (Docket No. 920260-TL), the accrued refund for Florida ratepayers was included in the capital structure as a specific adjustment to short-term debt and allowed to accrue interest at the thirty day commercial paper rate. Finally, in Order No. PSC-97-0135-FOF-EI involving Florida Public Utilities Company (Docket No. 961542-EI), deferred revenues associated with overearnings were included in the capital structure as a specific adjustment to short-term debt and allowed to accrue interest at the thirty day commercial paper rate.

Consistent with these Commission decisions, Staff recommends deferred revenue accrued subject to the agreement be included in the capital structure. Because the agreement specifies that in the event of a refund TECO will pay the specified amount plus interest accrued at the thirty day commercial paper rate, Staff recommends the deferred revenue be recorded as a separate line item at this cost rate.

ISSUE 4: Should TECO's equity ratio be adjusted for purposes of measuring earnings under the earnings sharing agreement?

RECOMMENDATION: Yes. The Commission should cap the equity ratio at 55% as a percentage of investor-supplied capital for purposes of measuring earnings under the earnings sharing agreement. [MAUREY]

ALTERNATIVE RECOMMENDATION: Yes. The Commission should cap the equity ratio at 57.5% as a percentage of investor-supplied capital for purposes of measuring earnings under the earnings sharing agreement. [MAUREY]

STAFF ANALYSIS: In the earnings sharing agreement (agreement) approved by the Commission in Order No. PSC-95-0580-FOF-EI and as amended in Order Nos. PSC-96-0670-S-EI and PSC-96-1300-S-EI, for 1995 the Company is allowed to retain 50% of the revenue above a return on equity (ROE) of 11.75% up to a net ROE of 12.75%. The remaining 50% of earnings between an ROE of 11.75% and a net ROE of 12.75%, as well as all revenues above a net ROE of 12.75%, are deferred to the future. For 1996, TECO defers 60% of net revenues that contribute to an ROE in excess of 11.75%. There is no ROE cap for earnings in 1996. For the years 1997 and 1998, TECO will defer 60% of net revenues that contribute to an ROE in excess of 11.75%, as well as all revenues above a net ROE of 12.75%. Under the terms of the agreement, TECO has the discretion to reverse and add to its 1997 and 1998 revenues all or any portion of the balance of previously deferred revenues. For 1999, TECO defers 60% of net revenues that contribute to an ROE in excess of 12.0%, as well as all revenues above a net ROE of 12.75%. If any deferred revenues remain after 1999, TECO will refund this amount plus interest accrued at the thirty day commercial paper rate.

Under the terms of the agreement, the sharing bands are established based on ROE. Since the amount of equity capital maintained by a company is integral in the determination of the ROE, a company can shield earnings from deferral by increasing its equity ratio. For example, in TECO's case the difference between sharing at an equity ratio of 55% and an equity ratio of 58.7% as filed by the Company at an ROE of 11.75%, is approximately $5.3 million in revenue, all other things held constant. Through the flow of dividends and equity infusions between TECO and its parent, TECO Energy, the Company has complete control over the level of equity maintained at the utility level. By manipulating the level of equity maintained at the utility level, the Company could circumvent the sharing mechanism approved in the Commission's Order.

In response to a Staff interrogatory, TECO contends that its equity ratio is necessary to support its "strong credit rating over time and ensure efficient access to capital." However, this argument is drawn into question when it is noted that other electric utilities in the country support the same or higher bond ratings at lower equity ratios. Attachment A is a schedule which shows the equity ratios for all electric utilities in the country rated AA or higher by Standard & Poor's (S&P). The equity ratios are all calculated on a consistent basis based on financial information filed by the utilities in 10Q and 10K reports with the Securities and Exchange Commission (SEC). As this schedule shows, TECO maintained the highest, or next to highest, equity ratio in every quarter. Moreover, the Company's equity ratio was consistently greater than the ratios maintained by the three higher-rated utilities over the same period.

In its response to the same interrogatory, the Company stated that improved levels of financial flexibility would be necessary to counterbalance greater business risk. However, Staff believes if the Company truly required this level of equity to offset the level of business risk faced by the regulated utility, it would stand to reason that the parent company would be capitalized at the same or higher level of equity to compensate for its relatively greater risk exposure. This is not the case. Returning to Attachment A, it is shown that management has consistently employed greater equity capitalization at the regulated utility level than at the consolidated parent company level. TECO represents approximately 75% of the assets of TECO Energy. Since these assets are capitalized at an equity ratio of approximately 58%, the remaining 25% of non-regulated assets must be capitalized at a significantly lower equity ratio to produce the approximate 46% equity ratio maintained by TECO Energy on a consolidated basis. Even after removing the non-recourse debt of TECO Power Services and making an adjustment for the unamortized portion of debt which financed the Company's ESOP, the level of equity at the utility level still exceeds the level of equity maintained at the consolidated level. In Order No. PSC-92-0708-FOF-TL involving United Telephone Company of Florida (Docket No. 910980-TL), the Commission adjusted United Telephone's equity ratio to 57.5% for ratemaking purposes. One of the reasons for adjusting the equity ratio stated in the Order was the fact that United Telephone's equity ratio was significantly greater than the equity ratio maintained at the consolidated parent level.

As shown on Attachment A, TECO has maintained one of the highest equity ratios among AA rated electric utilities. In addition, the Company has increased its equity ratio almost every quarter since it entered this agreement. Attachment B is a schedule which shows the S&P financial benchmarks for AA rated electric utilities. The financial benchmarks, along with the assessment of a company's business position, form the basis for determining a company's bond rating. The benchmarks for the total debt to total capital ratio are presented and the complement of this ratio is the guideline for a company's equity ratio. TECO has been assigned a business position of 1. S&P assigns business position ratings on a scale of 1 to 7 with 1 being the best business position and 7 being the worst. Given its business position and bond rating, TECO's equity ratio is high compared with the S&P financial benchmarks.

Attachment C presents the 1995 capital structure filed in the Company's December 1995 earnings surveillance report. This schedule shows the 58.7% equity ratio as filed by the Company and the 57.82% equity ratio which falls out from the adjustments Staff recommends in Issues 1-3. Attachment D presents the Company's position as shown on Attachment C and the impact of Staff's recommendation to recognize a 55% equity ratio for measuring revenue under the agreement. Staff accomplished this adjustment by reducing the balance of common equity and imputing a like amount of long-term debt. As shown on page 3 of Attachment F, the total revenue impact of the adjustments recommended in Issues 1-3 and adjusting the equity ratio to 55% for purposes of measuring revenue under the plan is approximately $6,800,598.

Staff believes that the 55% cap is appropriate for three reasons. First, an equity ratio of 55% compares very favorably with other electric utilities with AA-rated debt. (See Attachment A) Second, as noted above, the 55% cap is above the 53% implied equity ratio guideline for an electric utility with an above average business position and a AA bond rating. (See Attachment B) Finally, at an equity ratio of 55%, TECO's pretax interest coverage ratio remains very favorable. In 1995, TECO's pretax interest coverage ratio of 5.12x with AFUDC and 4.72x without AFUDC was well above the benchmark of 3.50x for electric utilities with AA-rated debt. (See Attachment B)

For the reasons stated above and to ensure the agreement is equitably administered for both stockholders and ratepayers, Staff believes it is reasonable and necessary to cap the equity ratio at 55% for purposes of measuring 1995 earnings under the agreement.

ALTERNATIVE STAFF ANALYSIS: Alternative Staff agrees with all of the reasons for adjusting TECO's equity ratio for purposes of measuring earnings subject to the agreement expressed in the Recommendation. In the event the Commission denies the Recommendation, alternative Staff recommends the equity ratio be capped at 57.5% of investor capital for purposes of measuring earnings under the agreement. The 57.5% ratio is high compared to the level of equity maintained by the other AA-rated electric utilities (See Attachment A) This level of equity is well above the implied guideline of 53% for an electric utility with an above average business position and a AA bond rating. (See Attachment B) Moreover, based upon the Company's projections in its March 1995 forecasted earnings surveillance report, TECO forecasted its equity ratio would be 57.34% for 1995. Although the actual equity ratio for 1995 on a FPSC adjusted basis was 58.7%, the adjustment Staff is recommending is above the level the Company forecasted for 1995 at the time it entered the agreement. In addition, the 57.5% equity ratio cap is above the level forecasted in the 1996 forecasted earnings surveillance report of 57.24%. As shown on page 3 of Attachment G, the total revenue impact of the adjustments recommended in

Issues 1-3 and adjusting the equity ratio to 57.5% for purposes of measuring earnings under the agreement is $2,366,696.

As discussed in the Recommendation, TECO has complete control over the level of its equity ratio. As a result, TECO has the incentive to manipulate its equity ratio to minimize sharing under the agreement. Staff believes an equity cap removes this perverse incentive. In approving the agreement, the Commission noted that the stipulation achieves a reasonable balance between stockholder and ratepayer interests. Therefore, to ensure that the agreement is equitably administered for both stockholders and ratepayers, Staff believes it is reasonable and necessary to cap the equity ratio at 57.5% for purposes of measuring earnings under the agreement.

ISSUE 5: What is the total amount of excess earnings to be deferred for 1995?

RECOMMENDATION: The total amount of excess earnings to be deferred for 1995 is $55,632,598 plus interest. [SLEMKEWICZ]

ALTERNATIVE RECOMMENDATION: The total amount of excess earnings to be deferred for 1995 is $51,198,696 plus interest. [SLEMKEWICZ]

STAFF ANALYSIS: Per its December 1995 Earnings Surveillance Report, TECO reported that it had deferred $50.8 million in revenues, which resulted in an earned ROE of 12.62% after the deferral. This amount, however, was adjusted by TECO to reflect a net earned ROE of 12.75% for 1995. The TECO adjusted amount of deferred revenues for 1995 is $48.832 million. Based on the Staff's adjustments in this recommendation and utilizing a 55.0% equity ratio, an additional $6,800,598 of revenues should be deferred. (ATTACHMENT F) This results in a total revenue deferral of $55,632,598 ($48,832,000 + $6,800,598), plus interest.

ALTERNATIVE STAFF ANALYSIS: Per its December 1995 Earnings Surveillance Report, TECO reported that it had deferred $50.8 million in revenues, which resulted in an earned ROE of 12.62% after the deferral. This amount, however, was adjusted by TECO to reflect a net earned ROE of 12.75% for 1995. The TECO adjusted amount of deferred revenues for 1995 is $48.832 million. Based on the Staff's adjustments in this recommendation and utilizing a 57.5% equity ratio, an additional $2,366,696 of revenues should be deferred. (ATTACHMENT G) This results in a total revenue deferral of $51,198,696 ($48,832,000 + $2,366,696), plus interest.

ISSUE 6: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open pending the review of TECO's 1996 earnings and the detemination of the appropriate amount of any additional deferred revenues related to 1996. [SLEMKEWICZ]

STAFF ANALYSIS: This docket was opened to review TECO's earnings for both 1995 and 1996. Therefore, this docket should remain open pending the review of TECO's earnings for 1996.

ATTACHMENT A

EQUITY RATIOS FOR ELECTRIC UTILITIES
with an S&P Rating of AA+ and AA

			Equity Ratios						
Company		Bond Rating	3/31/95	6/30/95	9/30/95	12/31/95	3/31/96	6/30/96	9/30/96
Central Illinois Public Service Co.		AA+	50.64%	49.58%	51.18%	48.45%	50.16%	48.66%	48.79%
Wisconsin Electric Power Co.		AA+	51.67%	51.11%	52.39%	52.13%	53.42%	53.26%	53.03%
Wisconsin Public Service Corp.		AA+	53.60%	53.50%	53.81%	53.61%	54.33%	54.50%	53.19%
Louisville Gas & Electric Co.		AA	43.64%	43.72%	44.45%	44.39%	44.56%	45.21%	46.10%
Madison Gas & Electric Co. and Subsidiaries		AA	56.63%	56.48%	55.19%	56.85%	58.77%	57.44%	55.99%
Southern Indiana Gas & Electric Co.		AA	47.41%	46.00%	47.06%	46.76%	45.94%	45.93%	46.59%
Southwestern Public Service Co.	(a)	AA	51.46%	51.57%	52.38%	52.42%	49.85%	49.53%	50.95%
Tampa Electric Co.		AA	56.21%	56.65%	58.52%	56.26%	58.20%	58.46%	61.39%
Wisconsin Power & Light Co. and Subsidiaries		AA	53.84%	52.01%	53.01%	52.57%	55.70%	56.35%	55.66%
TECO Energy		AA-	45.72%	44.86%	46.81%	46.24%	46.96%	46.99%	48.30%

(a) Southwestern Public Service Co.'s Quarterly/Annual reports are filed for one month earlier than the other companies listed above. Also, SPSC's fiscal year end is August 31 of each year rather than December 31.

Source:
United States Securities and Exchange Commission -
Form 10-Q: As of the end of March, June, and September (Unaudited Financial Statements)
Form 10-K: As of the end of December (Audited Financial Statements)

DOCKET NO. 950379-EI
TAMPA ELECTRIC COMPANY
YEAR ENDING DECEMBER 31, 1995

STANDARD & POOR'S FINANCIAL BENCHMARKS

BUSINESS POSITION	TOTAL DEBT / TOTAL CAPITAL AA RATING	EQUITY RATIO * AA RATING
1	**47.0%**	**53.0%**
2	**45.5%**	**54.5%**
3	**44.0%**	**56.0%**
4	**42.0%**	**58.0%**

* The complement of the Total Debt to Total Capital Benchmark.

BUSINESS POSITION	PRETAX INTEREST COVERAGE AA RATING
1	**3.50**
2	**3.65**
3	**3.80**
4	**4.00**

NOTE : Tampa Electric has a AA Bond Rating and an Above Average (1) Business Position.

BUSINESS POSITION	
1	Above Average
2	Somewhat Above Average
3	High Average
4	Average

SOURCE : Standard and Poor's Utility Financial Statistics

ATTACHMENT C

DOCKET NO. 950379-EI
TAMPA ELECTRIC COMPANY
STAFF ADJUSTED EARNINGS SURVEILLANCE REPORT
YEAR ENDING DECEMBER 31, 1995

AVERAGE
TEST YEAR

		ADJUSTMENTS								
	RETAIL PER BOOKS	COMPANY SPECIFIC	COMPANY PRO RATA	COMPANY ADJUSTED	STAFF SPECIFIC	STAFF PRO RATA	STAFF ADJUSTED	WEIGHT	COST RATE	WEIGHTED COST
LONG TERM DEBT	$589,862,991	($42,838,711)	($95,214,358)	$451,809,922	($5,460,517)	($418,611)	$445,930,794	25.85%	6.64%	1.72%
SHORT TERM DEBT	94,861,589	(17)	(16,511,486)	78,350,086	(946,929)	($72,593)	77,330,564	4.48%	6.01%	0.27%
PREFERRED STOCK	54,956,000	(852,735)	(9,417,146)	44,686,119	(540,071)	($41,403)	44,104,645	2.56%	6.49%	0.17%
CUSTOMER DEPOSITS	50,623,997	(25,000)	(8,807,198)	41,791,799	(505,090)	($38,721)	41,247,988	2.39%	5.73%	0.14%
COMMON EQUITY	995,852,169	(6,587,089)	(172,190,235)	817,074,845	(9,875,062)	($757,036)	806,442,747	46.75%	11.75%	5.49%
DEFERRED REVENUE	0	0		0	20,868,462		20,868,462	1.21%	5.97%	0.07%
DEFERRED TAXES	292,036,768	1,806,134	(51,145,926)	242,696,976	(2,933,205)	($224,864)	239,538,908	13.89%	0.00%	0.00%
FAS 109 DEFERRED TAXES	0	0	0	0	0	$0	0	0.00%	0.00%	0.00%
TAX CREDITS - ZERO COST	126,907	0	(22,089)	104,818	(1,267)	($97)	103,454	0.01%	0.00%	0.00%
TAX CREDITS - WEIGHTED COS	60,755,179	(15,086)	(10,572,344)	50,167,749	(606,321)	($46,481)	49,514,946	2.87%	9.81%	0.28%
	$2,139,075,600	($48,512,504)	($363,880,781)	$1,726,682,315	$0	($1,599,806)	$1,725,082,509	100.00%		8.14%
			EQUITY RATIO	58.70%		EQUITY RATIO	57.82%			

ATTACHMENT D

DOCKET NO. 950379-EI
TAMPA ELECTRIC COMPANY
STAFF ADJUSTED EARNINGS SURVEILLANCE REPORT
YEAR ENDING DECEMBER 31, 1995

AVERAGE
TEST YEAR

		ADJUSTMENTS								
	RETAIL PER BOOKS	COMPANY SPECIFIC	COMPANY PRO RATA	COMPANY ADJUSTED	STAFF SPECIFIC	STAFF PRO RATA	STAFF ADJUSTED	WEIGHT	COST RATE	WEIGHTED COST
LONG TERM DEBT	$589,862,991	($42,838,711)	($95,214,358)	$451,809,922	$33,939,483	($455,562)	$485,293,843	28.13%	6.64%	1.87%
SHORT TERM DEBT	94,861,589	(17)	(16,511,486)	78,350,086	(946,929)	(72,593)	77,330,564	4.48%	6.01%	0.27%
PREFERRED STOCK	54,956,000	(852,735)	(9,417,146)	44,686,119	(540,071)	(41,403)	44,104,645	2.56%	6.49%	0.17%
CUSTOMER DEPOSITS	50,623,997	(25,000)	(8,807,198)	41,791,799	(505,090)	(38,721)	41,247,988	2.39%	5.73%	0.14%
COMMON EQUITY	995,852,169	(6,587,089)	(172,190,235)	817,074,845	(49,275,062)	(720,085)	767,079,699	44.47%	11.75%	5.22%
DEFERRED REVENUE	0	0		0	20,868,462		20,868,462	1.21%	5.97%	0.07%
DEFERRED TAXES	292,036,768	1,806,134	(51,145,926)	242,696,976	(2,933,205)	(224,864)	239,538,908	13.89%	0.00%	0.00%
FAS 109 DEFERRED TAXES	0	0	0	0	0	0	0	0.00%	0.00%	0.00%
TAX CREDITS - ZERO COST	126,907	0	(22,089)	104,818	(1,267)	(97)	103,454	0.01%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	60,755,179	(15,086)	(10,572,344)	50,167,749	(606,321)	(46,481)	49,514,946	2.87%	9.66%	0.28%
	$2,139,075,600	($48,512,504)	($363,880,781)	$1,726,682,315	$0	($1,599,806)	$1,725,082,509	100.00%		8.01%
			EQUITY RATIO	58.70%		EQUITY RATIO	55.00%			

ATTACHMENT E

DOCKET NO. 950379-EI
TAMPA ELECTRIC COMPANY
STAFF ADJUSTED EARNINGS SURVEILLANCE REPORT
YEAR ENDING DECEMBER 31, 1995

AVERAGE TEST YEAR	RETAIL PER BOOKS	ADJUSTMENTS COMPANY SPECIFIC	COMPANY PRO RATA	COMPANY ADJUSTED	STAFF SPECIFIC	STAFF PRO RATA	STAFF ADJUSTED	WEIGHT	COST RATE	WEIGHTED COST
LONG TERM DEBT	$589,862,991	($42,838,711)	($95,214,358)	$451,809,922	($960,517)	($422,831)	$450,426,574	26.11%	6.64%	1.73%
SHORT TERM DEBT	94,861,589	(17)	(16,511,486)	78,350,086	(946,929)	(72,593)	77,330,564	4.48%	6.01%	0.27%
PREFERRED STOCK	54,956,000	(852,735)	(9,417,146)	44,686,119	(540,071)	(41,403)	44,104,645	2.56%	6.49%	0.17%
CUSTOMER DEPOSITS	50,623,997	(25,000)	(8,807,198)	41,791,799	(505,090)	(38,721)	41,247,988	2.39%	5.73%	0.14%
COMMON EQUITY	995,852,169	(6,587,089)	(172,190,235)	817,074,845	(14,375,062)	(752,816)	801,946,967	46.49%	11.75%	5.46%
DEFERRED REVENUE	0	0		0	20,868,462		20,868,462	1.21%	5.97%	0.07%
DEFERRED TAXES	292,036,768	1,806,134	(51,145,926)	242,696,976	(2,933,205)	(224,864)	239,538,908	13.89%	0.00%	0.00%
FAS 109 DEFERRED TAXES	0	0	0	0	0	0	0	0.00%	0.00%	0.00%
TAX CREDITS - ZERO COST	126,907	0	(22,089)	104,818	(1,267)	(97)	103,454	0.01%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	60,755,179	(15,086)	(10,572,344)	50,167,749	(606,321)	(46,481)	49,514,946	2.87%	9.80%	0.28%
	$2,139,075,600	($48,512,504)	($363,880,781)	$1,726,682,315	$0	($1,599,806)	$1,725,082,509	100.00%		8.12%
			EQUITY RATIO	58.70%		EQUITY RATIO	57.50%			

FILENAME: TEC55_0

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
REVIEW OF 1995 EARNINGS
PRIMARY RECOMMENDATION

ATTACHMENT F
Page 1 of 3

	As Filed FPSC Adjusted Basis	OUC Transmission Line	OUC Transmission Line Acquisition Adj.			Interest Synch	Total Adjustments	Total Adjusted Rate Base
RATE BASE								
Plant in Service	$2,571,058,394	($352,690)	($1,333,618)				($1,686,308)	$2,569,372,086
Accumulated Depreciation	(991,246,181)	79,332	7,170				86,502	(991,159,679)
Net Plant in Service	1,579,812,213	(273,358)	(1,326,448)	0	0	0	(1,599,806)	1,578,212,407
Property Held for Future Use	54,010,377						0	54,010,377
Construction Work in Progress	46,592,497						0	46,592,497
Net Utility Plant	1,680,415,087	(273,358)	(1,326,448)	0	0	0	(1,599,806)	1,678,815,281
Working Capital	46,267,228						0	46,267,228
Total Rate Base	$1,726,682,315	($273,358)	($1,326,448)	$0	$0	$0	($1,599,806)	$1,725,082,509
INCOME STATEMENT								
Operating Revenues	$562,881,765						$0	$562,881,765
Operating Expenses:								
Operation & Maintenance - Fuel	8,496,012						0	8,496,012
Operation & Maintenance - Other	205,772,040						0	205,772,040
Depreciation & Amortization	100,493,114	(13,751)	(46,604)				(60,355)	100,432,759
Taxes Other Than Income	39,716,152						0	39,716,152
Income Taxes - Current	75,925,798					(1,282,378)	(1,282,378)	74,643,420
Deferred Income Taxes (Net)	(11,450,636)	5,175	17,537				22,712	(11,427,924)
Investment Tax Credit (Net)	(4,191,025)						0	(4,191,025)
(Gain)/Loss on Disposition	(39,258)						0	(39,258)
Total Operating Expenses	414,722,197	(8,576)	(29,067)	0	0	(1,282,378)	(1,320,021)	413,402,176
Net Operating Income	$148,159,568	$8,576	$29,067	$0	$0	$1,282,378	$1,320,021	$149,479,589
OVERALL RATE OF RETURN	8.58%						0.08%	8.67%
RETURN ON EQUITY	12.62%						0.59%	13.21%

FILENAME: TEC55_0

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
REVIEW OF 1995 EARNINGS
PRIMARY RECOMMENDATION

CAPITAL STRUCTURE

AS FILED - FPSC ADJUSTED	Amount	Ratio	Cost Rate	Weighted Cost
Long Term Debt	$451,809,922	26.17%	6.64%	1.74%
Short Term Debt	78,350,086	4.54%	6.01%	0.27%
Preferred Stock	44,686,119	2.59%	6.49%	0.17%
Customer Deposits	41,791,799	2.42%	5.73%	0.14%
Common Equity	817,074,845	47.32%	11.75%	5.56%
Deferred Revenues	0	0.00%	0.00%	0.00%
Deferred Income Taxes	242,696,976	14.06%	0.00%	0.00%
Tax Credits - Zero Cost	104,818	0.01%	0.00%	0.00%
Tax Credits - Weighted Cost	50,167,750	2.91%	9.81%	0.29%
Total	$1,726,682,315	100.00%		8.17%

ADJUSTED	Amount	Adjustments Specific	Adjustments Pro Rata	Adjusted Total	Ratio	Cost Rate	Weighted Cost
Long Term Debt	$451,809,922	$33,939,483	($422,831)	$485,326,574	28.13%	6.64%	1.87%
Short Term Debt	78,350,086	(946,929)	(72,593)	77,330,564	4.48%	6.01%	0.27%
Preferred Stock	44,686,119	(540,071)	(41,403)	44,104,645	2.56%	6.49%	0.17%
Customer Deposits	41,791,799	(505,090)	(38,721)	41,247,988	2.39%	5.73%	0.14%
Common Equity	817,074,845	(49,275,062)	(752,816)	767,046,967	44.46%	11.75%	5.22%
Deferred Revenues	0	20,868,462	0	20,868,462	1.21%	5.97%	0.07%
Deferred Income Taxes	242,696,976	(2,933,205)	(224,864)	239,538,907	13.89%	0.00%	0.00%
Tax Credits - Zero Cost	104,818	(1,267)	(97)	103,454	0.01%	0.00%	0.00%
Tax Credits - Weighted Cost	50,167,750	(606,321)	(46,481)	49,514,948	2.87%	9.66%	0.28%
Total	$1,726,682,315	$0	($1,599,806)	$1,725,082,509	100.00%		8.01%

INTEREST SYNCHRONIZATION

	Adjustments	Cost Rate	Effect on Interest Exp.	Tax Rate	Effect on Income Taxes
Long Term Debt	$33,516,652	6.64%	$2,225,506	37.63%	($837,458)
Short Term Debt	(1,019,522)	6.01%	(61,273)	37.63%	23,057
Deferred Revenue	20,868,462	5.97%	1,245,847	37.63%	(468,812)
Customer Deposits	(38,721)	5.73%	(2,219)	37.63%	835
Total	$53,326,871		$3,407,861		($1,282,378)

FILENAME: TEC55_0

TAMPA ELECTRIC COMPANY
DOCKET NO. 961542-EI
REVIEW OF 1995 EARNINGS
PRIMARY RECOMMENDATION

Adjusted Rate Base			$1,725,082,509
Adjusted Achieved Rate of Return	8.67%		
Reported Achieved Rate of Return	8.58%		
Excess Rate of Return		0.08%	
Beginning Sharing Point Rate of Return:			
As Adjusted	8.01%		
As Filed	8.17%		
Excess Rate of Return		0.16%	
Total Excess Rate of Return		x	0.24%
Excess Net Operating Income			4,177,267
Revenue Expansion Factor		x	1.62800
Additional Deferred Revenues			$6,800,598

FILENAME: TEC57_5

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
REVIEW OF 1995 EARNINGS
ALTERNATIVE RECOMMENDATION

DOCKET NO. 950379-EI
DATE: MARCH 6, 1997

	As Filed FPSC Adjusted Basis	OUC Transmission Line	OUC Transmission Line Acquisition Adj.			Interest Synch	Total Adjustments	Total Adjusted Rate Base
RATE BASE								
Plant in Service	$2,571,058,394	($352,690)	($1,333,618)				($1,686,308)	$2,569,372,086
Accumulated Depreciation	(991,246,181)	79,332	7,170				86,502	(991,159,679)
Net Plant in Service	1,579,812,213	(273,358)	(1,326,448)	0	0	0	(1,599,806)	1,578,212,407
Property Held for Future Use	54,010,377						0	54,010,377
Construction Work in Progress	46,592,497						0	46,592,497
Net Utility Plant	1,680,415,087	(273,358)	(1,326,448)	0	0	0	(1,599,806)	1,678,815,281
Working Capital	46,267,228						0	46,267,228
Total Rate Base	$1,726,682,315	($273,358)	($1,326,448)	$0	$0	$0	($1,599,806)	$1,725,082,509
INCOME STATEMENT								
Operating Revenues	$562,881,765						$0	$562,881,765
Operating Expenses:								
Operation & Maintenance - Fuel	8,496,012						0	8,496,012
Operation & Maintenance - Other	205,772,040						0	205,772,040
Depreciation & Amortization	100,493,114	(13,751)	(46,604)				(60,355)	100,432,759
Taxes Other Than Income	39,716,152						0	39,716,152
Income Taxes - Current	75,925,798					(410,355)	(410,355)	75,515,443
Deferred Income Taxes (Net)	(11,450,636)	5,175	17,537				22,712	(11,427,924)
Investment Tax Credit (Net)	(4,191,025)						0	(4,191,025)
(Gain)/Loss on Disposition	(39,258)						0	(39,258)
Total Operating Expenses	414,722,197	(8,576)	(29,067)	0	0	(410,355)	(447,999)	414,274,198
Net Operating Income	$148,159,568	$8,576	$29,067	$0	$0	$410,355	$447,999	$148,607,567
OVERALL RATE OF RETURN	8.58%						0.03%	8.61%
RETURN ON EQUITY	12.62%						0.19%	12.81%

FILENAME: TEC57_5

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
REVIEW OF 1995 EARNINGS
ALTERNATIVE RECOMMENDATION

CAPITAL STRUCTURE

AS FILED - FPSC ADJUSTED	Amount	Ratio	Cost Rate	Weighted Cost
Long Term Debt	$451,809,922	26.17%	6.64%	1.74%
Short Term Debt	78,350,086	4.54%	6.01%	0.27%
Preferred Stock	44,686,119	2.59%	6.49%	0.17%
Customer Deposits	41,791,799	2.42%	5.73%	0.14%
Common Equity	817,074,845	47.32%	11.75%	5.56%
Deferred Revenues	0	0.00%	0.00%	0.00%
Deferred Income Taxes	242,696,976	14.06%	0.00%	0.00%
Tax Credits - Zero Cost	104,818	0.01%	0.00%	0.00%
Tax Credits - Weighted Cost	50,167,750	2.91%	9.81%	0.29%
Total	$1,726,682,315	100.00%		8.17%

ADJUSTED	Amount	Adjustments Specific	Adjustments Pro Rata	Adjusted Total	Ratio	Cost Rate	Weighted Cost
Long Term Debt	$451,809,922	(960,517)	($422,831)	$450,426,574	26.11%	6.64%	1.73%
Short Term Debt	78,350,086	(946,929)	(72,593)	77,330,564	4.48%	6.01%	0.27%
Preferred Stock	44,686,119	(540,071)	(41,403)	44,104,645	2.56%	6.49%	0.17%
Customer Deposits	41,791,799	(505,090)	(38,721)	41,247,988	2.39%	5.73%	0.14%
Common Equity	817,074,845	(14,375,062)	(752,816)	801,946,967	46.49%	11.75%	5.46%
Deferred Revenues	0	20,868,462	0	20,868,462	1.21%	5.97%	0.07%
Deferred Income Taxes	242,696,976	(2,933,205)	(224,864)	239,538,907	13.89%	0.00%	0.00%
Tax Credits - Zero Cost	104,818	(1,267)	(97)	103,454	0.01%	0.00%	0.00%
Tax Credits - Weighted Cost	50,167,750	(606,321)	(46,481)	49,514,948	2.87%	9.80%	0.28%
Total	$1,726,682,315	$0	($1,599,806)	$1,725,082,509	100.00%		8.12%

INTEREST SYNCHRONIZATION

	Adjustments	Cost Rate	Effect on Interest Exp.	Tax Rate	Effect on Income Taxes
Long Term Debt	($1,383,348)	6.64%	($91,854)	37.63%	$34,565
Short Term Debt	(1,019,522)	6.01%	(61,273)	37.63%	23,057
Deferred Revenue	20,868,462	5.97%	1,245,847	37.63%	(468,812)
Customer Deposits	(38,721)	5.73%	(2,219)	37.63%	835
Total	$18,426,871		$1,090,501		($410,355)

FILENAME: TEC57_5

TAMPA ELECTRIC COMPANY
DOCKET NO. 961542-EI
REVIEW OF 1995 EARNINGS
ALTERNATIVE RECOMMENDATION

Adjusted Rate Base				$1,725,082,509
Adjusted Achieved Rate of Return	8.61%			
Reported Achieved Rate of Return	8.58%			
Excess Rate of Return		0.03%		
Beginning Sharing Point Rate of Return:				
As Adjusted	8.12%			
As Filed	8.17%			
Excess Rate of Return		0.05%		
Total Excess Rate of Return			x	0.08%
Excess Net Operating Income				1,453,743
Revenue Expansion Factor			x	1.62800
Additional Deferred Revenues				$2,366,696

DOCKET NO. 950379-EI
DATE: MARCH 6, 1997

ATTACHMENT H