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March 26, 1998

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

FROM: DIVISION OF AUDITING & FINANCIAL ANALYSIS (CAUSSEAUX, SLEMKEWICZ, LEE, MERTA, MAUREY) JS DM RLT ALM
DIVISION OF ELECTRIC AND GAS (BASS, GING)
DIVISION OF LEGAL SERVICES (ELIAS) RVE

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

AGENDA: 04/07/98 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\AFA\WP\950379EI.RCM
R:\PSC\AFA\123\TECO96.WK4 - ATTACHMENT A
R:\PSC\AFA\123\TECO96CS.WK4 - ATTACHMENT B
ATTACHMENTS C & D ARE NOT AVAILABLE
R:\PSC\AFA\123\TECO96.WK4 - ATTACHMENTS E-F

CASE BACKGROUND

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 (F.A.C.). 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 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.

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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 PSC-96-0670-S-EI dated May 20, 1996. 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.

This recommendation addresses the determination of the appropriate amount of excess revenues to be deferred for 1996. 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, the Company's equity ratio, fossil fuel dismantlement amortization, and the Florida Municipal Power Agency (FMPA) and the City of Lakeland wholesale sales. Each of these issues not only affects earnings for 1996, but also has a growing impact for 1997 and beyond.

DISCUSSION OF ISSUES

ISSUE 1: What is the appropriate rate base for 1996?

RECOMMENDATION: The appropriate rate base is $1,829,487,489. (Attachment A) (MERTA, LEE, GING)

STAFF ANALYSIS: Based on the adjustments discussed below, the appropriate rate base is $1,829,487,489 for 1996.

Adjustment 1: **Orlando Utility Commission's (OUC) Transmission Line** - The proposed adjustment is being made consistent with the Commission decision in Order No. PSC-97-0436-FOF-EI (TECO's 1995 Earnings Docket), issued April 17, 1997. 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, the Commission directed that TECO's entire investment in the transmission line 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 Commission stated:

> The utility has failed to demonstrate the benefits to retail ratepayers that would justify the allocation of any portion of the transmission line to the retail jurisdiction. Based on the information available at this time, we find that the entire investment shall be assigned to the wholesale jurisdiction.

Staff recommends that Plant and Accumulated Depreciation be reduced by $1,512,444 and $373,677, respectively. In addition, Depreciation Expense and Taxes Other Than Income should be reduced by $242,243 and $47,167, respectively. The 1996 operation & maintenance (O&M) expenses related to the OUC transmission line were not booked until January 1997, therefore, no adjustment to 1996 O&M expense is necessary.

Adjustment 2: **OUC Acquisition Adjustment** - The proposed adjustment is being made consistent with the Commission decision in Order No. PSC-97-0436-FOF-EI. 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. Since the Commission removed TECO's investment in the OUC transmission line and this acquisition adjustment per Order No. PSC-97-0436-FOF-EI, the acquisition adjustment should also be removed in this case.

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 acquisition adjustment, or its related amortization, should be allowed for determining the level of earnings for 1996. The Uniform System of Accounts requires that a utility petition the Commission for permission to account for acquisition adjustments in a manner other than as normally prescribed, i.e., below-the-line. 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. Therefore, the acquisition adjustment should be removed. Staff recommends that Net Plant be reduced by $5,580,605. The amortization expense was removed in Adjustment No. 1, included in the $242,243 depreciation and amortization expense.

<u>Adjustment 3:</u> **Fossil Fuel Dismantlement Accrual** - This adjustment is based on an audit disclosure in TECO's surveillance audit report for the twelve month period ending December 31, 1996. As part of TECO's last depreciation study in Docket No. 950499-EI, the Commission approved an annual accrual for fossil fuel dismantlement in the amount of $8,770,000 in Order No. PSC-96-0399-FOF-EI, issued March 21, 1996. The Order further stated that the annual accrual would increase by $1,348,000 when the Polk Power Plant came on-line.

The Polk Power Plant came on-line September 30, 1996. Accordingly, TECO should have increased its monthly fossil dismantlement accrual by $112,397 at that time. According to the audit report, however, TECO did not increase its monthly accrual until January 1997. The fossil dismantlement expense for 1996 should, therefore, be increased by $313,341 ($337,192 system). The 13-month average reserve should likewise be increased by $48,207, ($51,876 system).

<u>Adjustment 4:</u> **Florida Municipal Power Agency (FMPA) and City of Lakeland (Lakeland) Wholesale Sales** - In August and October of 1996, TECO entered into two long-term wholesale electricity sales agreements with Lakeland and FMPA, respectively. Service for the Lakeland contract began on November 4, 1996; service for FMPA began on December 16, 1996. TECO accounted for these sales as though they were retail sales. By Order No. PSC-97-1273-FOF-EU, issued October 15, 1997, the Commission directed TECO to (1) separate capital and O&M costs associated with these sales at average embedded cost, (2) credit its Fuel Clause with an amount equal to the system incremental fuel cost resulting from the FMPA and Lakeland sales, (3) credit its Environmental Cost Recovery Clause with all incremental SO2 allowance costs incurred, (4) retain all

non-fuel revenues in the wholesale jurisdiction, and (5) for monthly surveillance purposes, reduce retail operating revenues by the amount of any shortfall, in the event revenues received in excess of the non-fuel revenues are less than the incremental costs. In order to separate the FMPA and Lakeland sales, the jurisdictional separation factors were decreased thereby including less in jurisdictional rate base and net operating income (NOI). Rate base is decreased, but in this case, NOI is increased because expenses decreased more than revenues, and the lower the expense the higher the NOI. In accordance with the above Order, Staff recommends that rate base be decreased by $1,826,150 and NOI be increased by $104,914. The adjustments to each component of rate base and NOI are shown on Attachment A.

Adjustment 5: **Separation Factors** - As a result of decreasing the separation factors to exclude the FMPA and Lakeland sales from retail sales, the Company's jurisdictional adjustments to rate base and NOI changed. By decreasing the factor, fewer dollars are included in jurisdictional rate base and NOI. The jurisdictional adjustments are calculated by multiplying the separation factor times the system adjustment. Therefore, if the separation factor changes, the adjustment changes. For example, a $100,000 system adjustment would be multiplied by .925872 to yield a jurisdictional adjustment of $92,587 ($100,000 x .925872 = $92,587). If the separation factor were changed to .925213, the jurisdictional adjustment would be $92,521, a $66 difference. Since the adjustments are less than the "as filed adjustments", rate base is increased; NOI is decreased because the adjustment is smaller therefore expenses are increased and NOI is decreased. Based on the change in separation factors, Staff recommends that rate base be increased by $31,176 and NOI be decreased by $163. The adjustments to each component of rate base and NOI are shown on Attachment A.

ISSUE 2: How should deferred revenue accrued subject to the earnings sharing agreement be reflected in TECO's capital structure for surveillance purposes?

RECOMMENDATION: Consistent with the Commission decision in Order No. PSC-97-0436-FOF-EI, 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. For 1996, the average cost rate for the thirty day commercial paper rate was 5.46%. (MAUREY)

STAFF ANALYSIS: In its December 1996 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, issued May 10, 1995, in its capital structure on a pro rata basis across all sources of capital. After the decision regarding 1995 earnings was made in Order No. PSC-97-0436-FOF-EI, the Company refiled its surveillance report with deferred revenue as a separate line item. However, the Company made a pro rata adjustment over the deferred revenue amount when reconciling the capital structure with rate base. The Company contends this treatment is appropriate because funds are fungible, meaning that the Company can identify how funds were used but cannot identify which source of capital funded which particular asset. For this reason, the Company believes its adjustment to its capital structure over all sources of capital, including deferred revenue, is consistent with the pro rata methodology of reconciling the capital structure to rate base. (Data Request No. 20)

Staff does not agree with TECO's proposed treatment. Consistent with how the Commission treated the balance of deferred revenue in its decision regarding 1995 earnings, the 13-month average deferred revenue amount should be included in the capital structure as a separate line item at the thirty day commercial paper rate as specified in Rule 25-6.109, F.A.C. A pro rata adjustment was not made over the 13-month average balance for 1995, and Staff recommends the pro rata adjustment proposed by TECO not be made in 1996 either.

By authorizing the Company to defer this revenue for use in the future, the Commission lowered the Company's regulatory and business risk. The Company's regulatory risk decreased when the Commission approved the agreement on the prudence of the Company's investment in the Polk Power Station and allowed full recovery of all expected capital costs and O&M expenses associated with Polk Unit 1. TECO's business risk decreased because the Company has the discretion to reverse and add to its 1997, 1998, and 1999 revenue all or any portion of the balance of previously deferred revenue. This feature of the agreement significantly reduces the variability of the Company's future returns. The reduction in regulatory and business risk is evidenced in the May 1997 Standard & Poor's (S&P) Utility Credit Report for TECO:

> The plan benefits Tampa Electric in a number of ways. First, from a competitive perspective, the implementation of a base rate freeze allows the company to keep rates low relative to the other investor owned utilities in the state. Second, the revenue deferrals authorized by the plan allow time for revenue growth to offset costs associated with the Polk Plant. This will help stabilize the utility's financial performance during the new plant's initial period of operation. Third, the plan removes the company from the regulatory arena for the next several years and stabilizes base rates and ROE for the foreseeable future. These factors should allow the company to maintain its strong competitive position in the Florida market over the short term. (POD #2)

This reduction in risk implies a reduction in required return, all other things being equal. The inclusion of deferred revenue in the capital structure recognizes, in part, this reduction in risk by lowering the Company's cost of capital for purposes of the plan. It would be counter intuitive to then make a pro rata adjustment which would increase the cost of capital and thereby offset this recognition of the decrease in risk.

To be consistent with the treatment approved by the Commission for 1995 and in keeping with the spirit and intent of the agreement to equitably administer the plan for both stockholders and ratepayers, Staff recommends the full 13-month average balance of deferred revenue be included in the capital structure as a separate line item with a cost rate of 5.46%.

ISSUE 3: 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 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 1996, TECO is allowed to defer 60% of net revenue that contributes to a return on equity (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 revenue that contributes to an ROE in excess of 11.75%, as well as all revenue above a net ROE of 12.75%. For 1999, TECO defers 60% of net revenue that contributes to an ROE in excess of 12.0%, as well as all revenue above a net ROE of 12.75%. Under the terms of the agreement, TECO has the discretion to reverse and add to its 1997, 1998, and 1999 revenue all or any portion of the balance of previously deferred revenue. If any deferred revenue remains 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 57.5% and an equity ratio of 59.5% as filed by the Company at an ROE of 11.75%, is approximately $1.6 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 control over the level of equity maintained at the utility level. This control is evidenced in TECO Energy's Annual Report and the following passage from the May 1997 Standard & Poor's (S&P) Utility Credit Report for TECO:

> All of the subsidiaries upstream total unrestricted earnings to TECO Energy, which allocates equity to the subsidiaries based on cash requirements, <u>capital structure objectives, and management strategies</u>. [Emphasis added] (POD #2)

It is clear, by adjusting the level of equity maintained at the utility level, the Company can circumvent the sharing mechanism approved in the Commission's Order.

As shown on Attachment C, TECO has the highest equity ratio of the electric utilities rated by S&P. (POD #5) Attachment D is a schedule which shows the S&P financial benchmarks in effect during 1996 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. For 1996, TECO was assigned a business position of 1. Based upon the rating criteria in effect during 1996, S&P assigned 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 during 1996, TECO's equity ratio was high compared with the S&P financial benchmarks.

Staff believes that the 57.5% cap is appropriate for five reasons. First, an equity ratio of 57.5% is well above the implied guideline during 1996 of 53% for an electric utility with an above average business position and a AA bond rating. (See Attachment D) Second, the 57.5% ratio is high compared to the level of equity maintained by the other AA-rated electric utilities. (See Attachment C) Third, an equity ratio of 57.5% is well above the level maintained by TECO Energy during 1996. In its presentation to security analysts on March 4 and 5, 1997, TECO Energy reported an equity ratio of 49% as of December 31, 1996. (POD 1) Fourth, a 57.5% equity ratio is above the level the Company projected for 1996. Based upon the Company's projections in its March 1996 forecasted earnings surveillance report, TECO forecasted its equity ratio would be 57.24% for 1996. The 57.5% equity ratio level is also above the 57.34% level the Company forecasted for 1995 at the time it entered the agreement. Finally, at an equity ratio of 57.5%, TECO's pretax interest coverage ratios remain very favorable. In 1996, TECO's pretax interest coverage ratios of 4.97x with AFUDC and 4.54x without AFUDC were well above the benchmark of 3.50x for electric utilities with AA-rated debt. (See Attachment D) These interest coverage ratios were also well above the 3.75x ratio assumed for TECO when the Commission allowed construction work in progress (CWIP) in rate base in Order Nos. PSC-93-0165-FOF-EI, issued December 2, 1993 and PSC-93-0664-FOF-EI, issued April 28, 1993 in the Company's last rate case.

Staff brought a similar recommendation before the Commission regarding TECO's 1995 equity ratio. In denying Staff's recommendation, the Commission cited the absence of a showing that the Company's equity ratio of 58.7% was unreasonable. However, in rendering its decision, the Commission expressly said its action for 1995 did not foreclose consideration of this adjustment for future determinations of earnings. Staff continues to be concerned regarding TECO's equity ratio because the level of equity maintained at the utility level is integral in the determination of the sharing band and is completely under management's control. Since TECO has the discretion to reverse and add to its revenue all or any portion of the balance of previously deferred revenues during 1997, 1998, and 1999, revenue that is deferred may stay with the Company or may be refunded to ratepayers after 1999. However, any incremental revenue that the Company can avoid deferring by increasing its equity ratio flows solely to the Company's stockholders. In the instant case, the difference between TECO's 1996 equity ratio of 59.5% and the equity ratio allowed by the Commission for 1995 of 58.7% represents approximately $715 thousand in revenue.

Staff does not believe this adjustment is punitive or can fairly be characterized as "micro management". When a parent company can so completely control the effect of intercompany transactions such that $1.6 million in revenue is shifted from the ratepayers to the stockholders, those transactions must be carefully examined. The flow of dividends and equity infusions between TECO Energy and TECO is an example of just such a transaction. TECO has the burden of showing that there is some compelling reason for maintaining an equity ratio that has the effect of shifting revenue between its ratepayers and its stockholders, especially during the period when a sharing mechanism is in effect. TECO has made no demonstration of any company-specific or Florida-specific factors that would support its decision to maintain an equity ratio well above the average for its peer group and the implied guideline for AA-rated electric utilities. Staff is not recommending TECO's equity ratio be capped at the average for its peer group of 51.7% or the implied guideline during 1996 of 53%. In fact, with the exception of Florida Power & Light Company and Florida Power Corporation, an adjustment to staff's recommended level of 57.5% would represent an increase in the equity ratio for every AA-rated electric utility in the country. Rather than being punitive, Staff is simply recommending the equity ratio be capped at the level the Company forecast for itself at the time it entered this agreement. During the March 18, 1997 agenda conference, representatives of TECO were asked repeatedly how much equity was too much. The Commission never received a definitive answer. Staff is bringing this issue to the Commission's attention again because it believes the equity ratio represents a loop hole that will permit TECO to unilaterally increase its equity ratio and circumvent the sharing mechanism approved in the Commission's Order to the detriment of ratepayers.

At this point, it is necessary to clarify a miscalculation of the equity ratio made at the March 18, 1997 agenda conference. During the discussion of the appropriate equity ratio for measuring 1995 earnings, Staff reported that the equity ratio decreased as a result of including deferred revenue in the capital structure as a separate line item. The equity ratio is calculated based upon the relative amounts of investor-supplied capital. The inclusion of deferred revenue in the capital structure does not change the Company's equity ratio as reported by Staff any more than changes in the balances of deferred taxes, investment tax credits, or customer deposits do. This is consistent with how the equity ratio is calculated by Staff for other regulatory purposes and how S&P calculates the equity ratios it reports in its analyses. Staff incorrectly informed the Commission at the agenda conference that TECO's equity ratio decreased from 58.7% to 57.8% as a result of its decision in an earlier issue to include deferred revenue in the capital structure as a separate line item. For 1995, TECO's equity ratio was 58.7%.

In light of the average equity ratio for AA-rated electric utilities in 1996 of 51.7%, the implied guideline in effect during 1996 of 53%, and the absence of any demonstration of company-specific or Florida-specific factors which would support an equity ratio well above these levels, Staff believes a 59.5% equity ratio is unreasonable for determining the level of deferred revenue. 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 57.5% for purposes of measuring 1996 earnings under the agreement.

ISSUE 4: What is the appropriate net operating income for 1996?

RECOMMENDATION: The appropriate net operating income is $181,309,662 for 1996. (Attachment A) (MERTA, CAUSSEAUX)

STAFF ANALYSIS: Based on the adjustments discussed below and Adjustments 1, 3, 4 and 5 discussed in Issue 1, the appropriate net operating income is $181,309,662 for 1996.

Adjustment 6: **Deferred Revenue** - In 1996, TECO reduced revenues by $34.2 million for 1996 revenues to be deferred and refunded $15.0 million of this amount as a credit on the customers' bills. In order to properly determine the amount of 1996 revenues to be deferred, $34.2 million should be included in revenues. Staff is simply reversing this amount in order to determine the total amount of earnings for 1996. The $15 million refund is subtracted in the calculation of additional deferred revenues in Attachment F.

Adjustment 7: **Interest Reconciliation** - This adjustment is based on the reconciliation of the rate base and the capital structure due to the Staff adjustments to rate base. In this instance, income taxes should be reduced by $1,705,360. (Attachment E)

Adjustment 8: **Tax Effect of Other Adjustments** - The tax effect of Staff's adjustments to NOI results in a $1,600,970 decrease to income taxes and a $13,063,990 increase to deferred income taxes.

ISSUE 5: What is the total amount of earnings to be deferred for 1996?

RECOMMENDATION: The total amount of earnings to be deferred for 1996 is $23,345,525, plus interest. (Attachment F) (MERTA)

STAFF ANALYSIS: According to its December 1996 ESR, TECO reported that it had deferred $34.2 million in revenues, which resulted in an earned ROE of 12.39% after the deferral. Based on Staff's adjustments in this recommendation, using a 57.5% equity ratio and after removing the $15,000,000 refund, the 1996 net deferred revenue is $23,345,525, plus interest. This compares to TECO's originally filed net deferral of $19.2 million. Therefore, TECO should record an additional revenue deferral of $4,145,525 for 1996.

ISSUE 6: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open pending the review of TECO's 1997, 1998 and 1999 earnings and the determination of the appropriate amount of any additional deferred revenues related to 1997, 1998, and 1999. (ELIAS)

STAFF ANALYSIS: This docket was opened to review TECO's earnings for both 1995 and 1996. However, Order No. PSC-96-0670-S-EI (TECO's 1995 earnings review), and Order No. PSC-96-1300-S-EI (Prudence review to determine the regulatory treatment of TECO's Polk Unit), approve stipulations that provide that any further Commission action relative to the stipulations be considered in Docket No. 950379-EI. Therefore, this docket should remain open pending the review of TECO's earnings for 1997, 1998, and 1999.

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
REVIEW OF 1996 EARNINGS

ATTACHMENT A

	As Filed FPSC Adjusted Basis	OUC Transmission Line	OUC Transmission Line Acquisition Ad Net	Fossil Fuel Dismantlement	Deferred Revenue	FMPA and Lakeland Wholesale Sa	Separation Factor Revision	Interest Reconciliation	Total Adjustments	Total Adjusted Rate Base
RATE BASE										
Plant in Service	$2,894,244,733	($1,512,444)	($5,580,605)			($2,795,955)			($9,889,004)	$2,884,355,729
Accumulated Depreciation	(1,160,672,445)	373,677	0	(48,207)		1,052,356			1,377,826	(1,159,294,619)
Net Plant in Service	1,733,572,288	(1,138,767)	(5,580,605)	(48,207)		(1,743,599)	0	0	(8,511,178)	1,725,061,110
Property Held for Future Use	48,471,966					(35,275)			(35,275)	48,436,691
Construction Work in Progress	34,092,982					(32,009)	31,073		(936)	34,092,046
Net Utility Plant	1,816,137,236	(1,138,767)	(5,580,605)	(48,207)		(1,810,883)	31,073	0	(8,547,389)	1,807,589,847
Working Capital	21,912,806					(15,267)	103		(15,164)	21,897,642
Total Rate Base	$1,838,050,042	($1,138,767)	($5,580,605)	($48,207)		($1,826,150)	$31,176	$0	($8,562,553)	$1,829,487,489
INCOME STATEMENT										
Operating Revenues	$587,441,175				$34,200,000	($155,152)			$34,044,848	$621,486,023
Operating Expenses:										
Operation & Maintenance - Fue	9,225,494					0			0	9,225,494
Operation & Maintenance - Oth	202,666,705					(128,744)	267		(128,477)	202,538,228
Depreciation & Amortization	112,561,296	(242,243)	0	313,341		(88,816)			(17,718)	112,543,578
Taxes Other Than Income	38,359,153	(47,167)				(32,398)			(79,565)	38,279,588
Income Taxes - Current	63,402,498	111,640				(7,146)	(104)	(1,705,360)	(1,600,970)	61,801,528
Deferred Income Taxes (Net)	7,137,718	0	0	(120,871)	13,192,650	(7,789)			13,063,990	20,201,708
Investment Tax Credit (Net)	(4,377,475)					4,777			4,777	(4,372,698)
(Gain)/Loss on Disposition	(41,114)					50			50	(41,064)
Total Operating Expenses	428,934,275	(177,770)	0	192,470	13,192,650	(260,066)	163	(1,705,360)	11,242,086	440,176,361
Net Operating Income	$158,506,900	$177,770	$0	($192,470)	$21,007,350	$104,914	($163)	$1,705,360	$22,802,762	$181,309,662
OVERALL RATE OF RETURN	8.62%								1.29%	9.91%
RETURN ON EQUITY	12.39%								3.34%	15.73%

DOCKET NO. 950379-EI
TAMPA ELECTRIC COMPANY
STAFF ADJUSTED EARNINGS SURVEILLANCE REPORT

ATTACHMENT B

AVERAGE TEST YEAR

YEAR ENDING DECEMBER 31, 1996

AVERAGE TEST YEAR	RETAIL PER BOOKS	ADJUSTMENTS COMPANY SPECIFIC	COMPANY PRO RATA	COMPANY ADJUSTED	Deferred Revenue Adjustment	STAFF SPECIFIC	STAFF PRO RATA	STAFF ADJUSTED	WEIGHT	COST RATE	WEIGHTED COST
LONG TERM DEBT	$582,708,744	($7,886,641)	($95,979,404)	$478,842,699	($20,233,055)	$29,200,000	($2,372,724)	$485,436,920	26.53%	6.74%	1.79%
SHORT TERM DEBT	130,437,308	(380)	(21,779,362)	108,657,566	($4,590,301)		($506,187)	$103,561,078	5.66%	5.47%	0.31%
PREFERRED STOCK	30,728,000	(416,176)	(5,061,237)	25,250,587	($1,064,080)		($117,644)	$24,068,863	1.32%	5.75%	0.08%
CUSTOMER DEPOSITS	52,390,453	0	(8,747,758)	43,642,695	($1,840,781)		($203,326)	$41,598,588	2.27%	5.85%	0.13%
COMMON EQUITY	1,085,501,475	(4,306,847)	(180,529,621)	900,665,007	($38,058,337)	(29,200,000)	($4,053,721)	$829,352,950	45.33%	11.75%	5.33%
DEFERRED REVENUE	0	0		0	77,670,075			77,670,075	4.25%	5.46%	0.23%
DEFERRED TAXES	279,332,463	1,830,118	(46,946,380)	234,216,201	($9,910,702)		($1,091,030)	223,214,469	12.20%	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	38,290	0	(6,393)	31,897	0		($155)	$31,741	0.00%	0.00%	0.00%
TAX CREDITS - WEIGHTED COST	56,126,574	(13,922)	(9,369,262)	46,743,390	($1,972,820)		($217,766)	$44,552,804	2.44%	9.82%	0.24%
	$2,217,263,307	($10,793,848)	($368,419,417)	$1,838,050,042	($0)	$0	($8,562,553)	$1,829,487,489	100.00%		8.10%

EQUITY RATIO 59.51%

EQUITY RATIO 57.50%

1996 Electric Utility Capital Structures

Standard & Poors' Bond Rating		Electric Company	Debt	Preferred Stock	Common Equity	Common Equity Averge Per Bond Rating
AA+		Wisconsin Electric Power	47.5%	0.9%	51.6%	
		Wisconsin Public Service	41.2%	6.0%	52.8%	52.2%
AA		NSP - Wisconsin	45.0%	0.0%	55.0%	
		Southern Indiana G&E	50.3%	3.1%	46.6%	
		Tampa Electric Company	39.9%	1.1%	59.0%	53.5%
AA-		Dayton Power & Light	44.1%	1.0%	54.9%	
		Duke Power	40.9%	7.3%	51.8%	
		Florida Power	41.6%	1.1%	57.3%	
	1, 2	Florida Power & Light	37.3%	4.2%	58.5%	
		Indianapolis P&L	44.7%	3.4%	51.9%	
		Kentucky Utilities	48.6%	3.2%	48.2%	
	3	Louisvile G&E	47.0%	6.9%	46.1%	
		Northern States Power	48.3%	5.2%	46.5%	
		Otter Tail Power	49.6%	8.4%	42.0%	
		Union Electric Company	42.1%	4.9%	53.0%	51.0%
A+		Baltimore G&E	51.3%	5.2%	43.5%	
	2	Alabama Power Company	45.7%	9.0%	45.3%	
	1	Consolidated Edison	42.0%	3.1%	54.9%	
		Georgia Power Company	42.5%	9.7%	47.8%	
		Gulf Power Company	43.1%	9.7%	47.2%	
		Massachusetts Electric	46.7%	5.6%	47.7%	
		Mississippi Power	41.6%	9.5%	48.9%	
		Narragansett Electric	44.0%	7.0%	49.0%	
	1, 2	Pacific Gas & Electric	48.5%	4.7%	46.8%	
		PS of Oklahoma	47.9%	2.1%	50.0%	
		Southern California Ed.	49.6%	5.0%	45.4%	
	3	SWEPCO	46.7%	3.4%	49.9%	48.0%
A		Carolina P&L	48.7%	2.6%	48.7%	
		Central P&L	48.2%	7.7%	44.1%	
		Delmarva Power & Light	50.2%	7.3%	42.5%	
		MDU Resources	49.7%	2.3%	48.0%	
	3	New England Power	46.7%	2.2%	51.1%	
		Northern Indiana PS	53.4%	5.7%	40.9%	
		PacifiCorp	57.9%	4.8%	37.3%	
		Potomac Electric Power	50.9%	6.1%	43.0%	
		South Carolina E&G	48.7%	2.5%	48.8%	
	3	Southwestern Public Service	49.0%	0.0%	51.0%	
		Virginia Electric Power	46.2%	9.1%	44.7%	
		Washington Water Power	48.1%	7.2%	44.7%	
	3	West Texas Utilities	51.9%	1.1%	47.0%	45.5%
A-		Appalachian Power	53.0%	8.2%	38.8%	
		Central Hudson G&E	41.8%	6.2%	52.0%	
		Cincinnati G&E	52.4%	0.6%	47.0%	
	2	Columbus Southern Power	54.6%	4.3%	41.1%	
		Empire District	48.0%	7.0%	45.0%	
	3	Houston Lighting & Power	44.1%	1.9%	54.0%	
		Ohio Power	42.8%	5.6%	51.6%	
		Orange and Rockland	50.6%	5.1%	44.3%	
		Pennsylvania Electric	47.9%	7.2%	44.9%	
	1,2	Pennsylvania P&L	50.1%	7.6%	42.3%	
		PSI Energy	48.7%	7.4%	43.9%	
		Public Service E&G	50.1%	6.5%	43.4%	
	_	SCANA Corporation	50.3%	2.0%	47.7%	45.8%

1) Equity Ratio = Common Equtiy / (Long-Term Debt + Short-Term Debt + Capital Leases + Common Equity + Pfd./Pfc. Stock + Minonty Interest)
2) Source: May 1997 Duff & Phelps Credit Rating Co. Comparative Statistics for Utilities
3) The following companies were in the prior report, but do not appear in the May 1997 Duff & Phelps report or October 1997 S&P report:
IES Utilities, Kansas City P&L, Minnesota P&L, Sierra Pacific Power
4) Footnotes:
1 - From the October 1997 Standard & Poor's Global Utilities Credit Review
2 - Companies not included on prior report
3 - Companies that have been downgraded since prior report

10/24/97

DOCKET NO. 950379-EI
TAMPA ELECTRIC COMPANY
YEAR ENDING DECEMBER 31, 1996

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

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
REVIEW OF 1996 EARNINGS

ATTACHMENT E

INTEREST RECONCILIATION

	Amount	Cost Rate	Interest Exp.	Tax Rate	Effect on Income Tax
Long Term Debt	$485,436,920	6.74%	$32,718,448		
Short Term Debt	103,561,078	5.47%	5,664,791		
Customer Deposits	41,598,588	5.85%	2,433,517		
Deferred Revenue	77,670,075	5.46%	4,240,786		
Tax Credits - Weighted Cost	44,552,804	2.44%	1,087,088		
Staff Interest Expense			46,144,631		
Adj. Company Interest Expense			41,723,736		
Staff Adjustment			($4,420,895)	38.575%	($1,705,360)

ATTACHMENT F

TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
REVIEW OF 1996 EARNINGS

Adjusted Rate Base			$1,829,487,489
Adjusted Achieved Rate of Ret	9.91%		
Beginning Sharing Point at 11.75% ROE	8.10%		
Excess Rate of Return		x	1.81%
Excess Net Operating Income			33,113,724
Revenue Expansion Factor		x	1.62800
Gross Excess Revenues			53,909,208
Less Refund			(15,000,000)
Gross Excess Revenues Less Refund			38,909,208
60% Deferred Per Stipulation		x	60.00%
Net 1996 Deferred Revenues			$23,345,525