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RECORDS AND REPORTING

October 26, 1998

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0850

Re: Investigation into Earnings for 1995 and 1996 of Tampa Electric Company; FPSC Docket No. 950379-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket, on behalf of Tampa Electric Company, are the original and fifteen (15) copies of Rebuttal Testimony of Delaine M. Bacon.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

- ACK _____
- AFA Stankewicz
- APP _____
- CAF _____
- CMU _____
- CTR _____
- EAG 2 JDB/pp
- LEG 1 Enclosures
- LIN 504 of: All Parties of Record (w/enc.)
- OPC _____
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Sincerely,

James D. Beasley
James D. Beasley

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

DELAINE M. BACON

Q. Please state your name, business address and position with Tampa Electric Company ("Tampa Electric" or "Company").

A. My name is Delaine M. Bacon. My business address is 702 North Franklin Street, Tampa, Florida, 33602. I am the Director of Utility Financial Analysis - Regulatory Affairs for TECO Energy, Tampa Electric's parent, and have filed direct testimony in this proceeding.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address the testimony of the Florida Industrial Power Users Group ("FIPUG"), as presented by Witness Jeffry Pollock, and the testimony of the Office of Public Counsel ("OPC"), as presented by Witness Hugh Larkin, relating to the treatment of deferred revenues in Order Nos: PSC-95-0580-FOI-EI, PSC-96-0670-S-EI, and PSC-96-1300-S-EI (collectively the "Stipulations"). I will point out flaws in this testimony, including the failure to recognize: (i) regulatory precedent;

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1 (ii) utility accounting procedures; and (iii) the purposes of
2 the Stipulations.

3 Q. Have you prepared an exhibit in support of your rebuttal
4 testimony?

5

6 A. Yes. My rebuttal exhibit titled Alternative Treatment of
7 Interest on Deferred Revenue, Exhibit ____ (DMB-1), was
8 prepared under my direction and supervision.

9

10 Q. Please discuss the events that necessitate the Commission's
11 consideration of the treatment of deferred revenues and the
12 accrued interest on the deferred revenue balance as required
13 by the Stipulations.

14

15 A. The primary event that gives rise to the need for the
16 Commission's consideration of this issue is the Company's 1995
17 forecasted achievement of a return of equity ("ROE") in excess
18 of the ROE authorized by the Commission. As a result of that
19 event and an identical event in 1996, the Company, FIPUG and
20 OPC agreed to three separate Stipulations approved by the
21 Commission which resulted in a base rate freeze until December
22 31, 1999, a payment of \$50 million to ratepayers, the collapse
23 of the oil backout clause, and a requirement that the Company
24 defer and potentially refund different percentages of revenues
25 based upon ranges of ROE.

1 In those instances where the ROE was in a range less than the
2 maximum allowed but greater than the midpoint, the Company was
3 required to defer a percentage of revenues. In those cases
4 where the ROE exceeded the maximum allowable ROE, the Company
5 was required to defer 100 percent of its revenues. The
6 Company, however, was granted the discretion to reverse the
7 deferred revenues and add them to its revenues in future
8 years. Although the Stipulations contemplated that the
9 ratepayers could receive refunds in addition to the \$50
10 million specified for payment if earnings achieved certain
11 levels, there was no guarantee that there would be any
12 deferred revenues and interest on deferred revenues available
13 for refund.

14

15 Q. What are the basic differences between your testimony and the
16 testimony offered by Witnesses Pollock and Larkin?

17

18 A. My testimony is based upon prior regulatory interpretation,
19 Commission precedent and an examination of the original intent
20 of the Stipulations. The testimony offered by Witnesses
21 Pollock and Larkin, in contrast, is without regulatory
22 precedent and has no factual basis. In addition, both
23 witnesses ignore the Commission's reasoning in adopting the
24 Stipulations.

25

1 Q. Please give an example.

2

3 A. Witness Pollock asserts that the sole purpose in permitting
4 the Company to retain the excess revenues is to create rate
5 stability. This is not true. A simple rate freeze without
6 other provisions would have accomplished this result. There
7 was a second key purpose ignored by Witness Pollock which was
8 to afford the Company an opportunity to earn a fair rate of
9 return. Each of the Stipulations reflect, therefore, the
10 Commission's desire to apply a balanced approach that would be
11 fair to both ratepayers and the Company.

12

13 Indeed, the Commission stated that its decision to allow the
14 Company to retain certain deferred earnings reflected its
15 desire to facilitate the use of these deferred revenues to
16 offset Polk Power Station ("Polk") costs and other operating
17 expenses. Rather than refunding the excess revenues and
18 concurrently seeking an increase in base rates to recover the
19 costs of Polk, the Company was allowed by the Commission to
20 retain the deferred revenues and reverse them in the future to
21 offset the future increased revenue requirement associated
22 with Polk. In the words of the Commission, "The stipulation
23 achieves a reasonable balance between stockholder and
24 ratepayer interests and should be approved". See Order No.
25 PSC-96-1300-S-EI.

1 Q. Have you identified any other misstatements by the witnesses?
2

3 A. Yes. Both Witnesses Pollock and Larkin repeatedly assert in
4 their testimony that the Stipulations require the Company to
5 "pay interest" on the overearnings to ratepayers. In fact,
6 the Stipulations require the Company to accrue interest on the
7 deferred revenues at the thirty-day commercial paper rate
8 specified in Rule 25-6.109. From an accounting perspective,
9 accruing interest is not equivalent to paying interest to
10 ratepayers. Under the Stipulations, interest is "paid" to
11 customers only if a refund is made out of any deferred revenue
12 balance that remains after reversing deferred revenues to
13 earnings in 1998.
14

15 Further, the Stipulations do not direct a refund of all
16 deferred revenue and accrued interest to ratepayers. In fact,
17 the Stipulations set forth in detail the circumstances under
18 which the accumulated balance of deferred revenues, including
19 interest, would be retained by the Company or refunded to
20 customers. Contrary to the testimony of Witnesses Pollock and
21 Larkin, the deferred revenues simply represent contingent
22 ratepayer refunds and constitute capital available for use by
23 the Company until refunds, if any, are made.
24
25

1 Both witnesses also incorrectly characterize the deferred
2 revenues as "cost free." From both a financial and regulatory
3 accounting perspective, their conclusion is wrong. The
4 Stipulations clearly require the Company to accrue interest on
5 the deferred revenues, resulting in a cost to the Company
6 which needs to be reflected in its capital structure.
7 Contrary to Witness Larkin's contention, this practice does
8 not constitute "double counting," as the Commission is well
9 aware; otherwise interest expense on any outstanding
10 indebtedness, customer deposits or other obligations would never
11 be reflected in a utility's capital structure and in its
12 regulatory rate of return calculations. The intervenors
13 "cost-free" arguments, therefore, have no merit. They could
14 be sustained only if the Stipulations specified that no
15 interest was to be accrued on deferred revenues.

16

17 Q. Please discuss Witness Larkin's assertion that the intent of
18 the Stipulations was to charge the Company for the use of the
19 deferred revenues.

20

21 A. Although Witness Larkin repeatedly argues that the parties
22 contemplated Company responsibility for paying the ratepayer
23 interest for the use of "their money", he never cites any
24 language in the Stipulations to support his position. In
25 fact, when he says that the agreement was to "charge the

1 Company" for the use of the funds, he actually means that the
2 expense should be disallowed and charged "below-the-line."
3 This is contrary to regulatory policy and practice. Prudent
4 costs for sources of capital should not be disallowed as an
5 "above-the-line" expense and "charged" to the Company.
6 Certainly there should be no disallowance here since the
7 Commission Orders approving the Stipulations expressly require
8 accrual of interest on deferred revenues at the commercial
9 paper rate. In contrast, when an agreement between the
10 parties was reached that the Company should no longer recover
11 the cost of holding the Port Manatee site for the future
12 construction of generating capacity, the 1996 Stipulation
13 expressly placed this asset "below-the-line."

14

15 Q. Please discuss Witness Pollock's comparison of deferred taxes
16 and deferred revenues.

17

18 A. Witness Pollock argues that deferred revenues are analogous to
19 deferred taxes since both constitute cost-free prepaid
20 ratepayer sources of funds. This is not true.

21

22 Although there is no interest requirement imposed on deferred
23 taxes, the Commission's Orders and related Stipulations
24 require that interest on the deferred revenue balances be
25 accrued at the thirty-day commercial paper rate as specified

1 in Rule 25-6.109, Florida Administrative Code. This
2 difference cannot be overlooked.

3
4 Deferred taxes represent a future liability resulting from
5 incentives in the Internal Revenue Code that allows items to
6 be expensed and deducted more rapidly for tax purposes than
7 they are for financial reporting purposes. Deferred taxes are
8 ultimately paid to the state and federal government with no
9 interest and this is why they are assigned a zero cost rate in
10 the Company's capital structure for regulatory purposes. If
11 the Stipulations had provided and the Commission had decided
12 that the deferred revenue balances should not bear interest,
13 then a zero cost rate would be appropriate and the analogy to
14 deferred taxes would be reasonable. This is not the case
15 presented, however, because the Commission Orders approving
16 the Stipulations require the accrual of interest on deferred
17 revenues.

18
19 Q. Witness Pollock compares the treatment of interest on bank
20 accounts to interest on deferred revenues. Please discuss
21 this comparison.

22
23 A. Witness Pollock contends that just as a bank depositor does
24 not "pay" for the interest earned on its deposit, neither
25 should the ratepayers pay for their own interest. Witness

1 Pollock's logic is faulty because he fails to complete the
2 analogy he is trying to make. Any banking analogy needs to
3 include current bank customers using the bank's services, not
4 just depositors or lenders to the bank. Clearly, fees for
5 trust services and interest on loans paid by the bank's
6 customers comprise a part of the bank's revenues used to pay
7 interest on any deposits, including deposits by these same
8 customers. Thus, in a truly analogous situation the bank
9 customer/depositor is similarly situated to the utility
10 customer. In paying for current services (e.g. interest on
11 loans), each is paying for the cost of funds available to the
12 bank, including those provided by the customer in the form of
13 deposits.

14

15 Q. Can you bring the bank customer deposit analogy even closer to
16 the utility deferred revenues case presented here?

17

18 A. Yes. Assume the case of a bank depositor who has a loan from
19 a bank where the lender bank can attach the borrower's
20 deposits with the bank in the event of a default on the loan.
21 This case is exactly the same as the utility customer deposit
22 case where the utility can apply the customer's deposits plus
23 any accrued interest against overdue bills for utility
24 service. As I pointed out in my direct testimony, moreover,
25 utility customer deposits are directly analogous to deferred

1 revenues under the Stipulations and the Commission's treatment
2 of interest on customer deposits ought to be completely
3 dispositive of the treatment of interest on deferred revenues
4 in this case.

5

6 Q. Please discuss Witness Pollock's assertion that cash flow
7 available to the Company in 1996 and 1997 negated any
8 requirement for the Company to seek outside financing to cover
9 the "cost" of the interest on the deferred revenues.

10

11 A. This argument is misplaced for several reasons. First, there
12 is no relationship between the need, or lack thereof, of
13 external financing and the accrual of the deferred revenue
14 interest because the latter is a non-cash expense.

15

16 Secondly, Witness Pollock incorrectly characterizes the costs
17 required to be taken into account in determining the Company's
18 return on capital requirements. Capital has a cost
19 requirement, whether it is generated internally or externally.
20 To say that cash is cost-free because it was internally
21 generated ignores economic reality and regulatory practice as
22 well as the Commission's Orders based upon the Stipulations
23 that require the accrual of interest on deferred revenues.

24

25 Q. Please address Witness Pollock's assertion that interest on

1 ratepayer deposits and on deferred revenues should be treated
2 differently.

3

4 A. Witness Pollock attempts to distinguish the treatment of
5 customer deposits from the treatment of deferred revenues by
6 arguing that customer deposits are a normal part of doing
7 business while overearned revenues are not. This assertion
8 makes no sense. Clearly, revenues contributing to
9 overearnings are collected in the ordinary course of business
10 as are customer deposits. The issue is not how, why or when
11 customer deposits and deferred revenues are collected; the
12 issue is whether the interest costs of each should be taken
13 into account when calculating regulatory returns. In both
14 cases they represent costs of capital which are
15 indistinguishable from each other.

16

17 It is equally irrelevant that the interest that is earned on
18 customer deposits is mandated by rule rather than by the
19 Stipulations. Both accrue interest and, therefore, both are
20 legitimate "above-the-line" costs.

21

22 Q. Please address Witness Pollock's arguments on page 7 in his
23 testimony regarding the Company's cost of service and its
24 accounting treatment.

25

1 A. Witness Pollock is incorrect when he asserts that the accrued
2 interest "artificially" inflates the Company's cost of
3 service. There is nothing artificial about this expense. The
4 interest is an actual expense that the Company is booking and
5 accruing to the deferred revenue balance.

6

7 This accounting treatment accurately reflects the requirement
8 of the Stipulations which clearly mandate the accrual of
9 interest on the balance. It is also totally consistent with
10 the treatment of customer deposits and other regulatory
11 precedent.

12

13 Q. Please address Witness Pollock's statement that the
14 Commission's precedents are not controlling regulatory
15 authority on this issue.

16

17 A. Again Witness Pollock sets forth arguments that have no
18 bearing on this matter. He argues that because the Quincy
19 Telephone and FPUC-Fernandina dockets were not "settlements,"
20 the capital structure treatment of deferred revenues for these
21 companies does not constitute regulatory precedent on this
22 issue, but he gives no reasons to support this contention.
23 The fact is that those Commission decisions reflect the
24 Commission's policies and practices and Witness Pollock has

1 not shown why the same policies and practices should not be
2 applied here.

3

4 Witness Pollock attempts to distinguish the Southern Bell
5 docket by arguing that Southern Bell eventually agreed to
6 reduce rates rather than defer revenues. Regardless of
7 whether the decision in Southern Bell Order No. 94-0172-FOF-EI
8 on the capital structure treatment of deferred revenues was
9 actually carried out, the proper treatment was still clearly
10 defined by the Commission.

11

12 The Commission and the Company have interpreted the accrual of
13 interest on the deferred revenues in accordance with prior
14 regulatory precedent. Following the entry of the above Orders
15 by the Commission, the Commission when conducting the 1995
16 and 1996 earnings reviews (Order No. PSC-97-0436-FOF-EI, Order
17 No. PSC-98-0802-FOF-EI) held that Quincy Telephone and
18 Southern Bell were legitimate precedent for including deferred
19 revenues in the capital structure at the commercial paper
20 rate. Although the Company previously proposed a treatment
21 which removed the deferred revenue liability pro-rata from the
22 capital structure, the Commission utilized the precedents at
23 issue as a basis for establishing the current treatment used
24 by the Company.

25

1 Q. What are your observations on Witness Larkin's discussion of
2 the FPUC-Fernandina case?

3

4 A. First, it is clear that this case supports the proposition
5 that it is appropriate to reflect interest on deferred
6 revenues in the capital structure when calculating regulatory
7 return rates. Second, the various adjustments that he
8 describes were not followed in subsequent proceedings
9 involving the same company and its sister division, FPUC-
10 Marianna (Docket Nos. 971227-EI and 971228-EI). In these
11 dockets, the Commission's treatment of deferred revenues is
12 consistent with Tampa Electric's treatment and actually refers
13 to Tampa Electric's treatment as the appropriate precedent.
14 It is also interesting to note that neither FIPUG nor OPC
15 challenged the deferred revenue interest calculations in these
16 dockets.

17

18 Q. Please address the attempt by both intervenor witnesses to
19 analogize deferred revenues to fuel under and over-recoveries.

20

21 A. The treatment of fuel over and under-recoveries does not apply
22 to the deferred revenues. In several of the initial dockets
23 at the onset of the regulatory balance sheet method of
24 treating working capital, the Commission stated that its
25 treatment of fuel over and under-recoveries was intended to

1 provide an incentive for companies to make accurate forecasts
2 of fuel expense.

3

4 In Florida Power and Light's (FPL) Order No. 11628, the
5 Commission stated that in an under-recovery situation,
6 allowing the Company to both collect interest from customers
7 through the fuel clause and earn a rate of return on the
8 under-recovery through base rates provides an incentive to
9 consistently underestimate fuel expense.

10

11 In FPL's Order No. 13537, the Commission stated that if the
12 ratepayer has to provide the interest on both
13 over/underrecoveries, the Company will have no incentive to
14 make its projections as accurate as possible. Therefore, it
15 was clear that the Commission was intending to provide a
16 deterrent to keep fuel under and over-recoveries as low as
17 possible. This scenario is very different from the treatment
18 of deferred revenues.

19

20 The Commission is not attempting to deter Tampa Electric from
21 achieving higher levels of deferred revenues. In fact, the
22 opposite is true. Higher deferred revenues result in greater
23 potential refunds to customers.

24

25

1 Q. On the bottom of page 4 of Witness Larkin's testimony, he
2 states that if the interest component of the Stipulation is
3 calculated as currently approved, it would result in a smaller
4 amount being deferred than if there had been zero interest.
5 Is he correct?

6
7 A. No. Although Witness Larkin believes that the current
8 treatment causes less refund potential than if no interest was
9 being accrued and added to the deferred revenue balance, this
10 will not occur during any of the years of the Stipulation.

11
12 Q. Doesn't the calculation on page 9 of Witness Larkin's
13 testimony demonstrate that your conclusion is incorrect?

14
15 A. No. Witness Larkin's example shows a resulting deferred
16 revenue balance (\$1,123.08) that is even lower than the
17 original \$1,200, indicating that accruing interest actually
18 produces a lower deferred revenue balance than if no interest
19 had ever been applied. This conclusion is wrong. Clearly,
20 Witness Larkin's example has several miscalculations which
21 must be corrected.

22
23 Using Witness Larkin's assumptions, deferred revenues are
24 actually \$1,281 less \$76.92, or a total of \$1,204.08. He has
25 neglected to add the \$81 of accrued interest in the example to

1 his \$1,123.08 of deferred revenues in calculating the total
2 deferred revenue balance, which is \$1,204.08.

3

4 Q. In his example, shouldn't the \$81.00 interest accrual and the
5 \$76.92 interest cost of capital be the same?

6

7 A. Yes. His \$81 of interest is too high and appears to reflect
8 his failure to apply the interest rate to average monthly
9 outstanding balances. When Witness Larkin's example is
10 corrected, the total deferred revenue balance is \$1,200, which
11 is not less than if a zero cost rate is used.

12

13 Q. Are you saying that accruing interest and assigning the same
14 cost rate in the capital structure will always have the same
15 result as if no interest is accrued on deferred revenues and
16 deferred revenues are treated as cost-free in the capital
17 structure?

18

19 A. No. Although this would be true in some situations because of
20 the revenue sharing formula under the Stipulations, it is not
21 true in all cases.

22

23 In fact, under the Stipulations there will be more revenue
24 deferred over the term of the Stipulations because of the
25 interest component than if no interest had been accrued. For

1 example, in years where the ROE sharing arrangement is 60/40,
2 the full accrual of interest is increasing the deferred
3 revenue balance, but only an amount equal to 60 percent of
4 this accrual would increase the deferred revenue balance if a
5 zero cost rate were used. The accrual of interest also
6 potentially benefits customers more than if there was no
7 interest being accrued because interest will continue to
8 accrue on any deferred revenues being held for refund.

9
10 Q. Does Witness Larkin's testimony on page 5 and 6 correctly
11 identify the impact on the 1996 deferred revenues?

12
13 A. No. There are two reasons why Witness Larkin's results are
14 incorrect. First, it appears he did not base his calculations
15 on the final approved 1996 results. Although this will impact
16 his conclusion, it is not material.

17
18 Secondly, Witness Larkin failed to remove the income tax
19 benefit associated with the interest on deferred revenues. In
20 other words, he should have adjusted the 9.91 percent Adjusted
21 Achieved Rate of Return when making the calculation on his
22 Schedule 2. This return should be 9.82 percent. This results
23 in a \$2,502,000 impact on deferred revenues instead of Witness
24 Larkin's \$4,110,160 calculated impact.

25

1 Q. Why is it an inappropriate assumption that the impact on the
2 deferred revenues in 1996 would equal the deferred revenue
3 interest in the cost of capital?

4

5 A. In Witness Larkin's testimony on page 6, he concludes that his
6 calculated impact of \$4,110,160 is consistent with the
7 deferred revenue interest in the capital structure of
8 \$4,240,786. Witness Larkin's conclusion would only be true in
9 years where the Company is earning in the 100 percent sharing
10 range. Because in 1996 the sharing range is 60/40, the impact
11 of using his proposed zero cost rate in the capital structure
12 is \$2,502,000.

13

14 Q. Please address Witness Larkin's discussion on page 7 of his
15 testimony related to the customers' use of the deferred
16 revenues and the cost of an alternative source of funds.

17

18 A. Witness Larkin is correct that the ratepayer could have used
19 those deferred revenues in 1995 and 1996, but he ignores the
20 negative impact of this alternative on customers in the
21 future. Stated differently, Witness Larkin disregards the
22 benefits to customers in 1997 and thereafter, from the \$50
23 million in refunds, the absence of base rate increases, the
24 collapse of the oil-backout clause, and the possibility of
25 additional refunds.

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Witness Larkin also ignores the Commission's finding that it would be improper to disregard the cost of replacement capital if the deferred revenues were not available to the Company. It is a fact that if the deferred revenues had not been available, the Company would have had to charge customers for another source of funds.

Q. Please review the treatment proposed by the witnesses of both intervening parties.

A. I have provided Schedules A - C in Exhibit ___ to my rebuttal testimony that describe several scenarios of alternative regulatory treatment of the deferred revenues.

Each case assumes that the utility would have earned in excess of its assumed ROE of a 12.75 percent prior to any consideration of deferring revenues. Also, in all of the examples, the Company earns at levels where sharing would be 100 percent.

Schedule A represents the Commission's current treatment and the decision that OPC and FIPUG have protested. In this example, the Company would defer an original amount of \$211 and accrued interest of \$14, for a total deferral of \$225.

1 Both the financial and regulated ROE would be at the target
2 level of 12.75 percent.

3

4 Schedule B assumes the Stipulations had not specified a cost
5 rate to accrue interest to the deferred revenue balance. In
6 this case, the original deferred amount is \$225 which is
7 higher than in Schedule A; however, the interest accrual is
8 now zero, for a total deferred amount of \$225. Additionally,
9 the financial and regulated ROE still would be equal.

10

11 Finally, Schedule C shows the method advocated by OPC and
12 FIPUG. In this example, the deferred revenue amount would be
13 \$227, with interest of \$14, for a total deferred amount of
14 \$241. As can be seen, use of this method means that the
15 Company could never earn at the top of its allowed ROE because
16 the financial reported ROE is now less than the regulated
17 return. This result is totally inconsistent with the
18 Stipulations which afford the Company the opportunity to earn
19 the ROE allowed in the Stipulations.

20

21 Q. What conclusions do you draw from your previous analysis of
22 Witness Larkin's calculations and your Exhibit A?

23

24 A. My conclusions are:

25

- 1 1. If symmetrical and conventional regulatory practice is
2 followed by including deferred revenues and accrued
3 interest on deferred revenues in the development of
4 regulatory rates of return, the total amount of deferred
5 revenues and hence, the potential refunds to customers
6 under the Stipulations will not under any circumstances
7 be lower than if no interest is accrued on such revenue.
- 8 2. Because of the 60/40 split in the Stipulations' rate of
9 return formula and the accrual of interest on deferred
10 revenues held for refund, customers benefit from accruing
11 interest on deferred revenues compared to not accruing
12 interest because the probability and potential amount of
13 refunds are increased.
- 14 3. If conventional regulatory practice is not followed and
15 the non-symmetrical approach advocated by the intervenor
16 witnesses is followed, Tampa Electric will be denied the
17 opportunity to earn the rates of return on common equity
18 set forth in the Stipulations.

19

20 Q. Does this conclude your rebuttal testimony?

21

22 A. Yes, it does.

23

24

25

**TAMPA ELECTRIC COMPANY
ALTERNATIVE TREATMENT OF INTEREST
ON DEFERRED REVENUE**

	Schedule A			Schedule B			Schedule C		
	Commission Approved Method With Interest Allowed			Assumes Stipulations Had Not Specified A Cost Rate to Accrue Interest at 6%			OPC Method Disallowing Interest Cost And Using Zero Cost Rate for Regulated ROE		
	Earnings Before Defer Rev	Deferred Revenues Per Co	Diff	Earnings Before Defer Rev	No Interest Accrued	Diff	Earnings Before Defer Rev	Deferred Revenues Per OPC	Diff
Income Statement:									
Revenues	1,300	1,300	0	1,300	1,300	0	1,300	1,300	0
Deferred Revenues	0	(211)	(211)	0	(225)	(225)	0	(227)	(227)
Total Revenues	1,300	1,089	(211)	1,300	1,075	(225)	1,300	1,073	(227)
Expenses	200	200	0	200	200	0	200	200	0
Interest - Other	144	139	(5)	144	139	(5)	144	138	(6)
Interest - Deferred Rev	0	14	14	0	0	0	0	14	14
Pretax Income	956	736	(220)	956	736	(220)	956	720	(236)
Income Taxes	382	295	(88)	382	295	(88)	382	288	(94)
Net Income	<u>\$574</u>	<u>\$442</u>	<u>(132)</u>	<u>\$574</u>	<u>\$442</u>	<u>(132)</u>	<u>\$574</u>	<u>\$432</u>	<u>(141)</u>
Financial Return on Equity	<u>15.93%</u>	<u>12.75%</u>	<u>-3.18%</u>	<u>15.93%</u>	<u>12.75%</u>	<u>-3.18%</u>	<u>15.93%</u>	<u>12.51%</u>	<u>-3.42%</u>
Regulated Return on Equity	<u>15.93%</u>	<u>12.75%</u>	<u>-3.18%</u>	<u>15.93%</u>	<u>12.75%</u>	<u>-3.18%</u>	<u>15.93%</u>	<u>12.76%</u>	<u>-3.17%</u>

Notes:

*Total deferral benefit equal to \$225 (original deferral of \$211 plus interest of \$14).
*Symmetrical treatment results in fair rates of return for the utility.

*Total deferral benefit equal to \$225 (original deferral of \$225 plus interest of \$0)
*Symmetrical treatment results in fair rates of return for the utility.
*Total deferral is no greater than exhibit A where interest is accrued and included as a cost in the regulated returns.

*Total deferral benefit equal to \$241 (original deferral of \$227 plus interest of \$14)
*Regulated ROE includes Zero cost for interest on Deferred Revenues.
*Non-symmetrical treatment results in the utility failing to earn appropriate targeted rate of return.
*Total deferral is greater, but only to the extent that the utility fails to earn the fully designated return.