ORIGINAL

TAMPA ELECTRIC COMPANY
DOCKET NO. 990007-EI
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

PHIL L. BARRINGER

Q. Please state your name, address, occupation and employer.

A. My name is Phil Barringer. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "the company") in the position of Vice President - Controller.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Biology degree from Davidson College and an Accounting Degree from the University of South Florida. I earned my CPA designation in 1984. I spent seven years in the banking industry and a year with Coopers & Lybrand before joining Tampa Electric in 1984. Prior to my current position, I have held the positions of Director of Business Planning, Director - Pricing and Financial Analysis in the Regulatory Department, and Assistant

Controller. My current position is Vice President-Controller with responsibility for accounting, financial reporting and budgeting practices. I am a member of the Florida Institute of Certified Public Accountants and the American Institute of Certified Public Accountants.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present Tampa Electric's position on minimum filing requirements for the Environmental Cost Recovery Clause ("ECRC"), timing of petitions, the appropriate methodology for treatment of retirements of replaced plant-in-service items, and the appropriate methodology for reflecting payroll charges included in environmental projects. I will also address miscellaneous items that impact the company's ECRC filing as sponsored by Tampa Electric witness Karen O. Zwolak.

Minimum Filing Requirements

Q. Has the Florida Public Service Commission ("Commission") set minimum filing requirements for utilities when filing a petition for approval for recovery of new projects through the ECRC?

A. No. Although the Commission has consistently requested certain documents to determine project prudency, it has not set minimum filing requirements.

Q. Should the Commission set minimum filing requirements for utilities upon a petition for approval for recovery of new projects through the ECRC?

A. No. While Tampa Electric does not believe that minimum filing requirements are necessary, the company is willing to provide the Commission Staff with prompt and thorough support for approval for recovery of new projects through the ECRC. This has been facilitated this year through the flexible procedures the Staff has used in gathering and analyzing the material submitted in support of ECRC proposals and in asking for additional information on an as-needed basis. This process has worked well and utilities have developed an understanding of the type and detail of information the Commission and its Staff need in order to evaluate new projects. The company would urge a continuation of this process rather than the adoption of minimum filing requirements, which could create unnecessary work for all parties involved. This process allows for specific and necessary information to evolve rather than be determined by more rigid minimum filing requirements.

Timing of Petitions

Q. Has the Commission required utilities to petition for approval for recovery of new environmental projects through the ECRC prior to the due date for filing projected testimony?

A. No. Typically utilities have petitioned for new project approval coincidental with its annual cost recovery filings.

Q. Should the Commission require utilities to petition for approval for recovery of new projects through the ECRC prior to the due date for filing projected cost testimony when the company becomes aware that a project will be necessary in the upcoming projection period?

A. No. While the company believes utilities should promptly seek approval for recovery of new projects through the ECRC once the need is determined, that decision needs to be deliberate and not rushed in order to meet a deadline prior to filing projected cost testimony. New environmental requirements and decisions on how to comply can occur at any time during the year. Tampa Electric does not believe that an earlier, fixed due date is necessary or appropriate.

Replacement of Existing Assets

Q. What is the appropriate treatment for existing environmental equipment that must be replaced?

A. The Commission has determined that existing plant-in-service has been prudently incurred and, therefore, is recoverable through base rates. The existing assets are not yet fully recovered and, as such, the company should continue to depreciate this investment as a part of its rate base. Replacing this original investment with new environmental equipment does not make the original investment imprudent. Continuing to recover the initial investment through base rates and recovering the new environmental equipment through the ECRC is not double recovery of the same assets because the investment in the replaced assets needs to be fully recovered, and the new investment will need to be fully recovered.

Q. What is the basis for this treatment of replaced plant-in-service that is being recovered through base rates?

A. The ECRC was established to provide a mechanism by which utilities could recover required environmental costs that were not included in the utility's last rate case. The Commission and Legislature recognized that a mechanism such as the ECRC would encourage utilities to comply with ever-increasing environmental requirements. The ECRC allows utilities to recover these associated costs in a more timely fashion and between utility's rate cases.

In reviewing costs that are eligible for recovery through the ECRC, the Commission established specific criteria on which to base the appropriateness of costs incurred by public utilities for environmental compliance activities. As set forth in Order No. PSC-94-0044-FOF-EI ("Order No. 94-0044"), issued in February 1994, the Commission ruled that environmental costs may be recovered only if the following criteria are met:

1. Such costs were prudently incurred after April 13, 1993;
2. The activity is legally required to comply with a governmentally imposed environmental regulation enacted, became effective, or whose effect was triggered after the company's last test year upon which rates are based; and
3. Such costs are not recovered through some other cost recovery mechanism or through base rates.

Order No. 94-0044 further stated,

> "...the solution is to allow recovery of costs associated with activities which were not included in the test year of the utility's last rate case. This proposal satisfies the legislative intent and is consistent with regulatory theory.
>
> A problem arises if a new environmental regulation requires the utility to increase the scope of an activity which was considered in the last rate case. Regulatory theory indicates that the utility is already being compensated for such changes in scope. But the legislative intent is to allow utilities to recover increased costs due to new environmental requirements. We find that the cost of the scope change shall be allowed for recovery through the environmental cost recovery clause, because we consider the scope change to be a new activity."

It is clear from this order that the Commission supports full recovery of all prudent costs associated with new environmental activities and does not attempt to deny recovery of appropriate costs previously incurred by utilities in providing electric service.

Q. In conclusion, what is the appropriate methodology for making adjustments to the ECRC to reflect replaced plant-in-service items?

A. There does not need to be any adjustment to the ECRC to reflect replaced equipment as the result of a new environmental requirement. A new environmental requirement that dictates the replacement of current plant-in-service does not make the original investment any less prudent or negate the rationale for full recovery of the original investment through base rates. However, the new environmental requirement does impose new capital project costs that should also be fully recoverable through the ECRC based upon an appropriate recovery period. There are two separate and distinct paths for recovery of two separate investments. There is no double recovery.

ECRC Payroll Charges

Q. What is the appropriate methodology for making adjustments to ECRC project costs to reflect payroll charges that may be included and recovered through base rates?

A. There is no adjustment needed to ECRC project costs to reflect payroll charges provided the projects are new and not included in the company's base rates.

Q. How does the company determine whether these payroll charges are not already being recovered in base rates?

A. The company has consistently applied the methodology advocated by Commission Staff and set forth in Order No. 94-0044. In that proceeding, it was anticipated that it could be difficult to earmark specific payroll expenses to newly required environmental projects. Commission Staff suggested that "the solution is to allow recovery of costs associated with activities which were not included in the test year of the utility's last rate case. This proposal satisfies the legislative intent and is consistent with regulatory theory." As such, it was clear from this order that all prudent costs associated with new environmental activities qualify for recovery through the ECRC. Therefore, when costs are related to a new environmental activity, issues relating to other increases or decreases in the utility's total labor hours, total payroll costs, or the total number of employees since the last rate case are not pertinent to ECRC recovery.

Even when resource utilization is considered, the commitment of company employees to new environmental projects does not remove the need to devote resources to providing basic electric service. Removal of payroll charges from environmental projects would ignore this fact and would result in a disallowance of prudent expenditures.

Another way of considering this would be to consider alternatives to company personnel performing the activities related to new environmental projects. Clearly one alternative would be to use sub-contracted labor. These very similar costs have been accepted as prudent, incremental costs for recovery through the ECRC. Sub-contracted labor would be performing the same functions as company personnel at, most likely, higher costs and with less expertise. This is clearly not the intent of the ECRC.

Q. In conclusion, what is the appropriate methodology for making adjustments to ECRC project costs to reflect payroll charges that may be included and recovered through base rates?

A. Payroll charges should be fully recoverable through the ECRC for all new environmental projects. These charges are incurred to construct or install equipment required by new or changed environmental requirements. Since the new environmental activity requested for recovery was not included in the test year of the company's last rate case, payroll and all other capital and O & M costs associated with the new environmental activity are appropriate for recovery through the ECRC. Thus, no adjustment is warranted or appropriate for payroll costs included in total project costs to be recorded through the ECRC.

Other Items

Q. Were any adjustments made to the ECRC projections included in the schedules sponsored by Tampa Electric witness Karen O. Zwolak?

A. Yes. Two adjustments were included totaling $24,864. The first adjustment for $19,166 was associated with the removal of a portion of the return requirements on the replaced Gannon Ignition Oil tank and the Big Bend Unit 4 Continuous Emission Monitoring pursuant to Audit Disclosure No. 2, Audit Control No. 99-042-2-1 in Docket No. 990007-EI. The second adjustment for $5,689 was the result of a correction in the calculation for return on investment for projects in construction work-in-progress. Both of these adjustments include the interest impact of removing the aforementioned items from prior periods in the ECRC.

Q. What is the projected allowance for funds used during construction ("AFUDC") associated with the company's Big Bend 1 and 2 flue gas desulfurization system ("FGD system")?

A. The projected AFUDC is $1,523,490.

Q. Was the AFUDC calculated in a manner consistent with that ordered by this Commission in Docket No. 980693-EI, Order No. 99-0075-FOF-EI, issued January 11, 1999?

A. Yes. Tampa Electric has only accrued AFUDC for the FGD system to the extent that it complies with the criteria set forth in Rule 25-6.0414, Florida Administrative Code.

Q. Does this conclude your testimony?

A. Yes, it does.