

AUSLEY & McMULLEN

ATTORNEYS AND COUNSELORS AT LAW

227 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(850) 224-9115 FAX (850) 222-7560

ORIGINAL

May 30, 2000

HAND DELIVERED

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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

RECEIVED - FPSC
03 MAY 30 PM 3:15
RECORDS AND REPORTING

Dear Ms. Bayo:

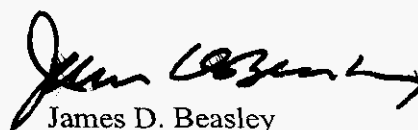
Enclosed for filing in the above docket on behalf of Tampa Electric Company are the original and fifteen (15) copies of each of the following:

1. Rebuttal Testimony of Sandra W. Callahan.
2. Rebuttal Testimony and Exhibit (TLH-1) of Thomas L. Hernandez.

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.

Sincerely,


James D. Beasley

APP _____
CAF _____ JDB/pp
CMP _____ Enclosures
COM 3 te rgs
CTR _____
ECR _____ cc: All Parties of Record (w/enc.)
LEG 1
OPC _____
PAI _____
RGO 1
SEC 1
SER _____
OTH _____

RECEIVED & FILED
MW
FPSC-BUREAU OF R

Callahan
DOCUMENT NUMBER-DATE
06585 MAY 30 8
FPSC-RECORDS/REPORTING

Hernandez
DOCUMENT NUMBER-DATE
06586 MAY 30 8
FPSC-RECORDS/REPORTING

CERTIFICATE OF SERVICE

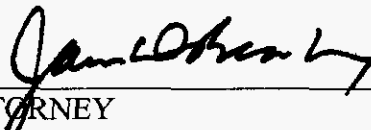
I HEREBY CERTIFY that a true copy of the foregoing Rebuttal Testimony and Exhibits has been furnished by U. S. Mail or hand delivery (*) on this 30th day of May 2000 to the following:

Mr. Robert V. Elias*
Staff Counsel
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Ms. Vicki Gordon Kaufman
McWhirter, Reeves, McGlothlin, Davidson,
Decker, Kaufman, Arnold & Steen, P.A.
117 S. Gadsden Street
Tallahassee, FL 32301

Mr. John Roger Rowe
Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street - #812
Tallahassee, FL 32399-1400

Mr. John W. McWhirter, Jr.
McWhirter, Reeves, McGlothlin, Davidson,
Decker, Kaufman, Arnold & Steen, P.A.
Post Office Box 3350
Tampa, FL 33601



ATTORNEY

ORIGINAL

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 REBUTTAL TESTIMONY

3 OF

4 SANDRA W. CALLAHAN

5
6 Q. Please state your name, business address and position
7 with Tampa Electric Company.

8
9 A. My name is Sandra W. Callahan. My business address is
10 702 North Franklin Street, Tampa, Florida, 33602. I am
11 the Vice President-Treasurer for TECO Energy, Tampa
12 Electric Company's parent, and Treasurer for Tampa
13 Electric Company ("Tampa Electric" or "company").

14
15 Q. Are you the same Sandra W. Callahan who filed direct
16 testimony related to the appropriate equity ratio for
17 determining earnings in 1997 and 1998?

18
19 A. Yes I am.

20
21 Q. What is the purpose of your rebuttal testimony?

22
23 A. The purpose of my rebuttal testimony is to respond to the
24 segment of Florida Industrial Power Users Group ("FIPUG")
25 witness Mark Cicchetti's direct testimony that addresses

DOCUMENT NUMBER-DATE

06585 MAY 30 8

1 Tampa Electric's equity ratio.

2

3 Q. What is your general response to witness Cicchetti's
4 direct testimony?

5

6 A. Witness Cicchetti's testimony offers no additional
7 evidence beyond the facts that the Florida Public Service
8 Commission's ("Commission") has previously considered at
9 its agenda conferences in this docket. As such, his
10 testimony should not be a basis for any change in the
11 Commission's decision regarding Tampa Electric's
12 regulatory capital structure.

13

14 Witness Cicchetti also provided no evidence that Tampa
15 Electric's equity ratio should be lowered to 55 percent
16 of total capital, nor has he substantiated that the
17 Commission's decisions with respect to Tampa Electric's
18 earnings in 1997 and 1998 were inappropriate.

19

20 Q. On page 10 of witness Cicchetti's testimony, he states
21 that "FIPUG has the right to expect that in determining
22 the earnings of Tampa Electric pursuant to the
23 Stipulations, the Commission will allow only the
24 reasonable and prudent costs associated with the
25 provision of service." Would you please address this

1 statement?

2

3 A. Yes. FIPUG and all other stakeholders have the right to
4 expect that only reasonable and prudent costs will be
5 included in the determination of earnings. As described
6 in my direct testimony, Tampa Electric has maintained a
7 reasonable financial policy and prudently adhered to the
8 Stipulations. FIPUG was aware of the company's actual
9 equity ratios and was familiar with the company's equity
10 ratio policy when agreeing to the Stipulations and when
11 it allowed the Commission's decision for 1995 earnings to
12 become final. At no time did FIPUG indicate to the
13 company or to the Commission that Tampa Electric's actual
14 equity ratio was imprudent or unreasonable. Even when
15 FIPUG filed a protest regarding 1996 earnings, they did
16 not reference the company's equity ratio. (On February
17 13, 1996, FIPUG protested the Commission's decision in
18 Order No. PSC-96-0122-FOF-EI on how to treat Tampa
19 Electric's 1996 earnings.)

20

21 For FIPUG to recommend a 55 percent equity ratio now,
22 when the company's equity ratio policy was evident from
23 the beginning of the Stipulation period, is an attempt to
24 alter the ratepayer impact of a reasonable agreement
25 among the parties.

1 Q. Witness Cicchetti concludes that a utility's equity ratio
2 should be reasonable and allow the Company to attract
3 capital at a reasonable cost. Has he offered evidence
4 that Tampa Electric's costs were unreasonable?

5
6 A. No. In fact, his testimony on page 10 supports Tampa
7 Electric's position that a strong balance sheet provides
8 the advantage of lower costs to customers. The 6.54
9 percent cost of debt is an excellent example of how a
10 sound balance sheet benefits customers. It shows that
11 Tampa Electric can, and has, accessed the capital markets
12 when needed, and has received favorable rates.

13
14 Q. Witness Cicchetti indicates that investments by TECO
15 Energy's non-regulated subsidiaries have impacted Tampa
16 Electric ratepayers' costs. Please address this
17 assertion.

18
19 A. Witness Cicchetti alludes to the differences in equity
20 ratios between TECO Energy's subsidiaries as an impact on
21 Tampa Electric's costs. However, an acceptable financing
22 structure within one industry will not be consistent with
23 another industry. Investments are financed in a manner
24 to allow competitively priced services within their
25 industries. Investors understand this and compensate

1 risk with return. Therefore, the cross-subsidization
2 referenced by Witness Cicchetti is not indicated when one
3 industry is conservatively financed with low expected
4 investor returns, while a subsidiary in another industry
5 is more leveraged with higher expected investor returns.
6

7 Finally, TECO Energy's other subsidiaries use non-
8 recourse financing, when possible, that limits creditors
9 to the equity and quality within a particular investment.
10

11 Q. In Witness Cicchetti's testimony, he states that Tampa
12 Electric should not be permitted to manipulate its equity
13 ratio to the detriment of its ratepayers and to the
14 benefit of itself and its affiliates. Has this happened?
15

16 A. No. Witness Cicchetti cannot reasonably claim that Tampa
17 Electric has manipulated its equity ratio to the
18 detriment of ratepayers during the Stipulation period.
19 The company's actual equity ratio at the beginning of the
20 Stipulation period was 59 percent. On the contrary, it
21 is witness Cicchetti's 55 percent equity ratio that is an
22 anomaly and appears to be recommended only to support a
23 larger refund.
24

25 Q. Witness Cicchetti states that Tampa Electric's capital

1 structure is costly and its equity ratio is above that of
2 comparable companies and the industry average. Is this a
3 fair evaluation?
4

5 **A.** No. As the company has stated in the past, the cost to
6 ratepayers and the impact to the deferred revenue
7 calculation is based upon the overall cost of capital.
8 Tampa Electric's overall cost of capital before the
9 Commission's equity ratio adjustment was lower in 1997
10 and 1998 than the other peninsular Florida utilities, and
11 was in line with other AA-rated utilities during the same
12 period. When the Commission's equity ratio cap of 58.7
13 percent for 1997 and 1998 is taken into consideration,
14 Tampa Electric's cost of capital compares even more
15 favorably.
16

17 **Q.** Does witness Cicchetti's own testimony support Tampa
18 Electric's actual equity ratio?
19

20 **A.** Yes. Witness Cicchetti recommends a 55 percent equity
21 ratio that corresponds with the minimum requirements
22 identified in his Schedule No. 2 for Standard & Poor's
23 ("S&P") total debt to total capital benchmark for AA-
24 rated electric utilities with an above-average business
25 risk profile. However, it appears that witness Cicchetti

1 either misinterpreted or simply did not take into account
2 Tampa Electric's actual business risk profile.

3
4 In Schedule No. 1 of his testimony, witness Cicchetti
5 provides Tampa Electric's S&P bond rating of AA and its
6 business profile of "4." On Schedule No. 2 of witness
7 Cicchetti's testimony, it can be seen that the total debt
8 to total capitalization percentage criteria for a utility
9 with a "4" business risk profile and a AA bond rating is
10 41 percent. This correlates to an equity ratio of 59
11 percent.

12
13 As can be seen on Schedule No. 1 and as discussed on line
14 5 of page 12 of his testimony, witness Cicchetti provides
15 Tampa Electric's year-end, purchased power adjusted
16 equity ratio of 59 percent derived from Duff & Phelps
17 June 1999 report. Therefore, Tampa Electric's 58.7
18 percent regulatory equity ratio established by the
19 Commission for 1997 and 1998, which is unadjusted for
20 purchased power, is below the boundary provided in
21 witness Cicchetti's own testimony.

22
23 It should also be noted that witness Cicchetti's Schedule
24 2 provides only one equity ratio point (59 percent) for a
25 business risk profile of "4", while in S&P's June 1999

1 Financial Targets report, the full equity ratio range for
2 a "4" is 57 percent to 62.5 percent. Therefore, Tampa
3 Electric's actual 13-month average equity ratio in 1997
4 (59.6 percent) and 1998 (60.9 percent) fell well within
5 S&P's targeted ratio, while witness Cicchetti's
6 recommendation does not.

7
8 The fact that the company's actual equity ratio was
9 within the S&P guideline provides additional support for
10 Tampa Electric's position that its equity ratio has been
11 appropriate and reasonable. It also demonstrates the
12 unreasonableness of witness Cicchetti's 55 percent
13 recommendation, and clearly refutes his assertion that
14 the company has manipulated its equity ratio. When the
15 Commission's decision to cap Tampa Electric's equity
16 ratio at 58.7 percent for 1997 and 1998 is considered,
17 the company's equity ratio is comfortably within a
18 reasonable zone and there is absolutely no rational basis
19 for an additional adjustment.

20
21 Q. Please summarize your rebuttal testimony.

22
23 A. Witness Cicchetti's 55 percent equity ratio
24 recommendation is not a reasonable basis for calculating
25 earnings in 1997 and 1998, and should be rejected by the

1 Commission. He has provided no new evidence related to
2 Tampa Electric's capital structure beyond the facts that
3 the Commission has already considered. He also fails to
4 provide any evidence that Tampa Electric's actual capital
5 structure has been imprudent.

6
7 Finally, the facts he presented do not support his
8 recommended 55 percent equity ratio. His own schedules
9 present information that shows a 59 percent equity ratio
10 is appropriate for Tampa Electric based upon the S&P
11 guidelines. When the full S&P range up to 62.5 percent
12 is considered for the risk profile assigned by S&P to
13 Tampa Electric, it confirms that the company's actual
14 equity ratio was appropriate in 1997 and 1998. The
15 evidence presented by witness Cicchetti demonstrates that
16 Tampa Electric has maintained a prudent capital structure
17 policy through the Stipulation period.

18
19 Q. Does this conclude your testimony?

20
21 A. Yes, it does.
22
23
24
25