Ann Cole

From: Mary Bane
Sent: Friday, March 13, 2009 4:53 PM
To: Marshall Willis
Cc: Tim Devlin; Betty Ashby; Mary Anne Helton; Booter Imhof; Cheryl Bulecza-Banks; Keino Young; John Slemkewicz; William C. Garner; Roberta Bass; Lorena Holley; Larry Harris; Bill McNulty; Ann Cole; Chuck Hill
Subject: RE: Request of Oral Modification to Item 9, March 17, 2009 Agenda Conference, Docket No. 080317-EI - Tampa Electric Company Rate Case Staff Recommendation

Approved.

From: Marshall Willis
Sent: Friday, March 13, 2009 1:51 PM
To: Mary Bane
Cc: Tim Devlin; Betty Ashby; Mary Anne Helton; Booter Imhof; Cheryl Bulecza-Banks; Keino Young; John Slemkewicz
Subject: Request of Oral Modification to Item 9, March 17, 2009 Agenda Conference, Docket No. 080317-EI - Tampa Electric Company Rate Case Staff Recommendation

Staff requests approval to make oral modifications to its recommendation scheduled for Tuesday's agenda. Two issues are affected: Issue 16 and 32 with fallout changes to other issues. The following revisions are related to Issue 16 and Issue 32.

The revision to Issue 16 concerns the working capital allowance adjustment for the disallowance of the increase to the storm damage accrual. Staff inadvertently reduced working capital by $8,000,000. Because the storm damage reserve is a liability, it reduces working capital. Because staff is recommending that the increased annual accrual be denied, the storm damage reserve in working capital would be decreased, resulting in an $8,000,000 increase to working capital.

The revision to Issue 32 concerns the incorrect adjustment to reduce working capital by $77 million to reverse the effects of the Company's proposed pro forma adjustment to increase the balance of common equity in the capital structure. The $77 million adjustment should still be removed from equity but instead of decreasing working capital by this amount as initially recommended, the appropriate offsetting adjustment is a prorata adjustment to increase all sources of capital.

As a direct result of the revisions to Issues 16 and 32, the following issues also had to be revised: 27, 28, 31, 33, 38, 77, 78 and 80. The net result of these revisions is a $10,844,507 increase in staff's recommended annual operating revenue increase from $76,713,931 to $87,558,438.

The appropriate revisions to staff's recommendations are as follows:

<u>Issue 16</u>:

Should an adjustment be made to TECO's requested storm damage reserve, annual accrual and target level? ***(Page 36)***

<u>**Recommendation**</u>:

Yes. TECO's requested increases in storm damage reserve, annual accrual, and the storm damage target reserve level should be rejected. The accrual for Storm Damage Reserve should remain at its current annual level of $4 million with a $55 million target amount. Removing TECO's requested increase to the storm damage accrual results in a decrease in the Company's jurisdictional O&M expense of $16,000,000 ($16,000,000 system) and an increase ~~decrease~~ in the jurisdictional working capital of $8,000,000 ($8,000,000 system) for the test year. At this point, it would be premature to require that the storm damage accrual stop when the target level is achieved. Staff believes this issue should be readdressed if and when the target level is actually achieved. (Prestwood)

Issue 27:

Is TECO's requested level of Working Capital in the amount of ($30,586,000) for the 2009 projected test year appropriate? ***(Page 64)***

Recommendation:

No. The appropriate level of Working Capital for the 2009 projected test year is ($37,909,649) ~~($130,910,649)~~. (Slemkewicz)

Issue 28:

Is TECO's requested rate base in the amount of $3,656,800,000 for the 2009 projected test year appropriate? ***(Page 65)***

Recommendation:

No. The appropriate amount of rate base for the 2009 projected test year is $3,439,610,836 ~~$3,346,610,836~~. (Slemkewicz)

Issue 31:

What is the appropriate amount and cost rate for short-term debt for the 2009 projected test year? ***(Page 72)***

Recommendation:

The appropriate amount and cost rate for short-term debt for the 2009 projected test year are $7,435,627 ~~$7,227,005~~ and 2.75 percent, respectively, as shown on Attachment 2. (Livingston, Springer)

Issue 32:

Should TECO's requested pro forma adjustment to equity to offset off-balance sheet purchased power obligations be approved? ***(Page 75)***

Recommendation:

No. The $77 million in question should be removed from the capital structure through a specific adjustment to reduce common equity and ~~the same amount should be removed from rate base through an~~

~~adjustment to working capital.~~ a prorata adjustment to increase all sources of capital. (Maurey)

Issue 33:

What is the appropriate amount and cost rate for long-term debt for the 2009 projected test year? ***(Page 78)***

Recommendation:

The appropriate amount and cost rate for long-term debt are $1,345,196,153 ~~$1,308,427,206~~ and 6.80 percent, respectively, as shown on Schedule 2. (Springer, Livingston)

Issue 38:

What is the appropriate weighted average cost of capital for the 2009 projected test year? ***(Page 95)***

Recommendation:

The appropriate weighted average cost of capital for the projected test year is ~~7.87~~ 7.88 percent. (Springer, Livingston)

Issue 77:

Should an adjustment be made to Income Tax expense for the 2009 projected test year? ***(Page 168)***

Recommendation:

Yes. Total Income Tax expense should be increased by $7,532,923 ~~$8,562,853~~ resulting in a total income tax expense of $56,024,923 ~~$57,054,853~~ for the 2009 projected test year. (Kyle, Springer, Slemkewicz)

Issue 78:

Is TECO's projected Net Operating Income in the amount of $182,970,000 for the 2009 projected test year appropriate? ***(Page 169)***

Recommendation:

No. The appropriate Net Operating Income for the 2009 projected test year is $217,485,497 ~~$216,455,567~~. (Slemkewicz)

Issue 80:

Is TECO's requested annual operating revenue increase of $228,167,000 for the 2009 projected test year appropriate? ***(Page 172)***

Recommendation:

No. The appropriate annual operating revenue increase for the 2009 projected test year is $87,558,438 ~~$76,713,931~~. (Slemkewicz)

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