FILED AUG 12, 2013
DOCUMENT NO. 04680-13
FPSC - COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for rate increase by Tampa Electric Company
________________________________/

Docket No: 130040-EI

Filed: August 12, 2013

PREHEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL

The Citizens of the State of Florida, through the Office of Public Counsel, pursuant to the Order Establishing Procedure in this docket, Order No. PSC-13-0150-PCO-EI, issued April 8, 2013, and the First Order Revising Order Establishing Procedure, Order No. PSC-13-0203-PCO-EI, issued May 17, 2013, hereby submit this Prehearing Statement.

APPEARANCES:

Patricia A. Christensen
Associate Public Counsel

Joseph A. McGlothlin
Associate Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida

1. WITNESSES:

The Citizens intend to call the following witnesses, who will address the issues indicated:

NAME	ISSUES
Kevin W. O'Donnell	24, 27
J. Randall Woolridge	24, 25, 26, 27
Jacob Pous	10, 11, 49
Helmuth W. Schultz III	14, 18, 31, 32, 37, 38, 38A, 42, 44, 46, 48, 50

Donna Ramas	4-6, 9-14, 18-21, 24, 27-30, 37-38, 38A, 40, 44, 45, 47-54

2. **EXHIBITS:**

Through Kevin W. O'Donnell, J. Randall Woolridge, Jacob Pous, Helmuth W. Schultz III, and Donna Ramas, the Citizens intend to introduce the following exhibits, which can be identified on a composite basis for each witness:

Kevin W. O'Donnell	KWO-1	Company Requested Capital Structure
Kevin W. O'Donnell	KWO-2	TECO and Tampa electric 2012 Capital Structure Comparison
Kevin W. O'Donnell	KWO-3	Equity Balances of TECO Energy and Subsidiaries
Kevin W. O'Donnell	KWO-4	Tampa Electric Equity Ratios
Kevin W. O'Donnell	KWO-5	Subsidiary Capital Structure Comparison
Kevin W. O'Donnell	KWO-6	Tampa Electric Dividends to TECO Energy
Kevin W. O'Donnell	KWO-7	Authorized Equity Ratios
Kevin W. O'Donnell	KWO-8	Authorized Equity Ratios and ROEs
Kevin W. O'Donnell	KWO-9	OPC Capital Structure Recommendation
Kevin W. O'Donnell	KWO-10	Credit Rating Criteria
Kevin W. O'Donnell	KWO-11	OPC Recommendation on Credit Metrics
Kevin W. O'Donnell	KWO-12	O'Donnell CV
J. Randall Woolridge	JRW-1	Recommended Return on Equity
J. Randall Woolridge	JRW-2	Interest Rates
J. Randall Woolridge	JRW-3	Changes in Capital Costs
J. Randall Woolridge	JRW-4	Summary Financial Statistics for Proxy Groups
J. Randall Woolridge	JRW-5	Capital Structure Ratios
J. Randall Woolridge	JRW-6	The Relationship Between Estimated ROE and Market-to-Book Ratios
J. Randall Woolridge	JRW-7	Utility Capital Cost Indicators
J. Randall Woolridge	JRW-8	Industry Average Betas
J. Randall Woolridge	JRW-9	DCF Model
J. Randall Woolridge	JRW-10	DCF Study
J. Randall Woolridge	JRW-11	CAPM Study
J. Randall Woolridge	JRW-12	Summary of Tampa Electric's Cost of Capital
J. Randall Woolridge	JRW-13	Summary of Tampa Electric's Company's ROE Results
J. Randall Woolridge	JRW-14	GDP and S&P 500 Growth Rates
J. Randall Woolridge	JRW-15	The VIX and the Market Risk Premium
J. Randall Woolridge	JRW-16	Appendices

	Appendix A	Qualifications and Experience
	Appendix B	EPS Growth Rate Forecast
	Appendix C	Building Blocks Equity Risk Premium
Jacob Pous	JP-1	Jacob Pous Resume
Jacob Pous	JP-2	Jacob Pous Workpapers
Helmuth W. Schultz III	HWS-1	Qualifications and Experience
Helmuth W. Schultz III	HWS-2	HWS Schedules
	C-1	Payroll Adjustment
	C-2	Performance Sharing Program Adjustment
	C-3	Employee Benefit Adjustment
	C-4	Payroll Tax Adjustment
	C-5	Generation Maintenance Adjustment
	C-6	Rate Case Expense Adjustments
	C-7	Storm Accrual Adjustment
	C-8	Tree Trimming Adjustment
Donna Ramas	DMR-1	Qualifications of Donna Ramas
Donna Ramas	DMR-2	OPC Primary Recommendation
	A-1	Revenue Requirement
	A-2	Revenue Expansion Factor
	B-1	Adjusted Rate Base
	C-1	Adjusted Net Operating Income
	C-2	Calpine Transmission Service Agreement Revenues-Estimate
	C-3	Reduction to Allocated Expenses-Tampa Electric Allocation
	C-4	Uncollectible Expense
	C-5	Income Tax Expense – Impact of Other Adjustments
	C-6	Interest Synchronization Adjustment
	D	Cost of Capital
Donna Ramas	DMR-3	OPC Alternative Recommendation Schedules and Calculations

3. <u>STATEMENT OF BASIC POSITION</u>

Tampa Electric Company's ("Tampa Electric" and "Company") base rate increase of $134.8 million is grossly overstated. Moreover, the Company's request for an 11.25% return on equity (ROE) is excessive particularly in today's economy. Close scrutiny of the Company's MFRs shows that a $5.7 million revenue requirement reduction for the projected 2014 test year is necessary to ensure customers are paying a fair rate while allowing Tampa Electric to earn a fair rate of return on rate base and meet its operational needs.

Citizens reviewed Tampa Electric's capital structure and determined the appropriate return on equity in today's market conditions. Tampa Electric has asked for a 54.2% equity ratio, even though from 2005 to 2011 its equity ratio had been no higher than 52%. Only in 2012, did Tampa Electric increase its equity ratio to 53.78%. Plus, TECO Energy's 2012 equity ratio was only 43.59%. Allowing a 54.2% equity ratio for Tampa Electric creates an incentive to extract excess profits through double leveraging. Citizens believe that a 50% equity ratio should be used for Tampa Electric with a 9.0% ROE. However, should the Commission allow the 54.2% equity ratio to be used for Tampa Electric, an 8.75% ROE should be applied to recognize the reduced financial risk to the Company. Utilizing the 50% equity ratio and 9.0% ROE, the reasonable and supported overall fair rate of return is 5.66%.

In addition to the cost of capital adjustments to the Company's request, numerous adjustments are warranted to the Company's projected 2014 test year rate base and operating expense. Tampa Electric's rate case filing does not include the effects of the renewed Calpine contract or the allocation impacts of the recent New Mexico Gas Company purchase. Tampa Electric has also significantly overstated certain amounts such as salaries, incentive compensation, uncollectibles, etc., which if left uncorrected would result in customers paying rates in excess of rates than would be reasonable and necessary to provide safe and reliable service. The Company has also failed to provide documentation sufficient to support the amounts of its requests or the need for the requested items, or both.

Based on the adjustments to rate base, cost of capital, and operation and maintenance expense discussed below an overall reduction to Tampa Electric's request of $140.52 million is warranted. Citizen's adjustments are discussed in detail below.

4. STATEMENT OF FACTUAL ISSUES AND POSITIONS

TEST PERIOD AND FORECASTING

ISSUE 1: Is Tampa Electric's projected test period of the 12 months ending December 31, 2014 appropriate?

OPC: Tampa Electric has the burden of demonstrating that the test period it proposes is representative of going-forward operations and conditions. Until the Commission has received all the evidence in this case, a final determination of the appropriateness of 2014 as a test year cannot be made.

ISSUE 2: Are Tampa Electric's forecasts of customers, KWH, and KW by revenue and rate class, for the 2014 projected test year appropriate?

OPC: No.

ISSUE 3: What are the appropriate inflation factors for use in forecasting the test year budget?

OPC: Tampa Electric has the burden of demonstrating that the inflation factors it proposes are representative of going-forward operations and conditions. Until the Commission has received all the evidence in this case, a final determination of the appropriateness of inflation factors cannot be made.

ISSUE 4: How should the Calpine contract renewal be treated for ratemaking purposes?

OPC: The Calpine contract renewal should be included in test year revenues and the jurisdictional allocation factors should be adjusted to reflect the impact of this contract. (Ramas)

ISSUE 5: Should revenues be adjusted for the renewal of the Calpine contract?

OPC: Yes. As Mr. Chronister testified, the Company should provide the proper amount of test year revenues that should be increased to reflect the new Calpine commitment of 249 MW. These revenues are non-jurisdictional. (Ramas)

ISSUE 6: Is the proposed Jurisdictional Separation Study appropriate?

OPC: No. The amount should reflect the adjustments recommended by OPC in the proceeding. (Ramas)

QUALITY OF SERVICE

ISSUE 7: Is the quality of electric service provided by Tampa Electric adequate?

OPC: Tampa Electric has the burden of demonstrating that its quality of service is satisfactory. Until the Commission has received all the evidence in this case, a final determination of the quality of service cannot be made.

RATE BASE

ISSUE 8: Has the Company removed all non-utility activities from rate base?

OPC: Tampa Electric has the burden of demonstrating that it has removed all non-utility activities from rate base. Until the Commission has received all the evidence in this case, a final determination cannot be made.

ISSUE 9: Is Tampa Electric's requested level of Plant in Service in the amount of \$6,506,194,000 (\$6,516,443,000 system) for the 2014 projected test year appropriate? (FALLOUT)

OPC: No, the jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

ISSUE 10: Should Tampa Electric's amortization periods for computer software and ERP system be changed, and if so, what are the resulting impacts on rate base, expense, and amortization rates?

OPC: Yes. A 15-year amortization period should be prescribed for all software systems recorded in Account 303 effective December 1, 2014. The company has not provided any analyses or studies to justify the reasonableness of the 10-year amortization period for its new ERP system or its 5-year amortization period for its other computer systems. Both periods significantly understate reasonable life expectations for major software systems. Test year amortization expense for Account 303 – Miscellaneous Intangible Software should be reduced by \$6.197 million with a corresponding reduction to the 2014 reserve by one-half of the 2014 expense adjustment, or \$3.099 million. Also, the reserve balance should be increased to reflect the Commission approved 5-year amortization period for 2012 and 2013 instead of the 10-year period used by the Company. The reserve should be increased by \$2.497 million to reflect the proper 2012 and 2013 amortization expense and decreased by \$0.553 million to recognize a 15-year amortization for 2014, for a net increase of \$1.944 million. The Commission should order the Company to perform detailed engineering, economic, or other depreciation studies of its software systems to establish the reasonable expected useful life. (Pous, Ramas)

ISSUE 11: Is Tampa Electric's requested level of accumulated depreciation in the amount of \$2,436,895,000 (\$2,439,935,000 system) for the 2014 projected test year appropriate? (FALLOUT)

OPC: No. The reserve should be reduced by \$3,099,000 to reflect the impact of the reduction to Software Amortization Expense and the net increase in Software Amortization Reserve \$1,944,000. Also, the jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Pous, Ramas)

ISSUE 12: Is Tampa Electric's requested level of Construction Work in Progress in the amount of \$174,146,000 (\$174,529,000 system) for the 2014 projected test year appropriate? (FALLOUT) (Ramas)

OPC: No, the jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

ISSUE 13: Is Tampa Electric's requested level of Property Held for Future Use in the amount of \$35,409,000 (\$35,859,000 system) for the 2014 projected test year appropriate?

OPC: No, the jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

ISSUE 14: Should an adjustment be made to Tampa Electric's requested storm damage reserve, annual accrual, and target level?

OPC: Yes. The appropriate annual storm accrual should be set at $3 million. The Company's requested $8 million accrual ignores the actual historical storm damage, overstates inflation impacts to the transmission system, overestimates potential damage based on hypothetical storms, and fails to consider storm hardening or the incremental cost recovery allowed by rule. The rate base adjustment to the storm reserve is an increase of $2.5 million to working capital and the appropriate target level should be $64 million. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Schultz, Ramas)

ISSUE 15: Should an adjustment be made to rate base for unfunded Other Post-retirement Employee Benefit (OPEB) liability and any associated expense?

OPC: No position at this time.

ISSUE 16: Should any adjustments be made to Tampa Electric's fuel inventories?

OPC: Tampa Electric has the burden of proof to demonstrate that it has properly estimated it fuel inventories.

ISSUE 17: Has Tampa Electric properly reflected the net over recoveries or net under recoveries of fuel and conservation expenses in its calculation of working capital?

OPC: Tampa Electric has the burden of proof to demonstrate that it has adhered to Commission policy of excluding clause over-recoveries and including clause under-recoveries in its calculation of working capital under the balance sheet approach. The Commission should require that the Company meet this burden.

ISSUE 18: Is Tampa Electric's requested level of Working Capital in the amount of $61,118,000 ($61,053,000 system) for the 2014 projected test year appropriate? (FALLOUT)

OPC: No. Working capital should be increased by the impact of OPC's recommended reduction to the annual storm accrual. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Schultz, Ramas)

ISSUE 19: Is Tampa Electric's requested rate base in the amount of $4,339,972,000 ($4,347,949,000 system) for the 2014 projected test year appropriate? (FALLOUT)

OPC: No. The amount should reflect the adjustments to rate base recommended by OPC in the proceeding and the jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

COST OF CAPITAL

ISSUE 20: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

OPC: The appropriate amount of accumulated deferred taxes is $835,876,000 on a jurisdictional basis. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

ISSUE 21: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

OPC: The appropriate amount of ITCs is $8,006,000 on a jurisdictional basis. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

ISSUE 22: What is the appropriate cost rate for short-term debt for the 2014 projected test year?

OPC: The appropriate cost rate is 1.47%.

ISSUE 23: What is the appropriate cost rate for long-term debt for the 2014 projected test year?

OPC: The appropriate cost rate for long-term debt is 5.40%.

ISSUE 24: What is the appropriate capital structure for the 2014 projected test year?

OPC: The appropriate capital structure for Tampa Electric is 50% equity and 50% debt. Tampa Electric has asked for a 54.2% equity ratio, even though from 2005 to 2011 its equity ratio had been no higher than 52%. Only in 2012, did Tampa Electric increase its equity ratio to 53.78%. Plus, TECO Energy's 2012 equity ratio was only 43.59%. Allowing a 54.2% equity ratio for Tampa Electric creates an incentive to extract excess profits through double leveraging. Moreover, equity cost significantly more expensive than long-term debt and substantially increases income tax expense. TECO Energy is using debt proceeds to finance equity infusions into Tampa Electric, thereby costing ratepayers $13.2 million in higher revenue requirements to support a common equity ratio that provides customers little-to-no benefits. Since, investors can only purchase TECO Energy stock, and Tampa Electric's credit rating is inextricably linked to TECO Energy's credit rating, setting rates based on an equity-heavy capital, is simply improper and unfair to consumers of Tampa Electric. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (O'Donnell, Woolridge, Ramas)

ISSUE 25: Should the Commission approve Tampa Electric's request to reflect flotation costs in the allowed ROE? (HUA CONTESTED ISSUE)

OPC: No. Floatation costs should not be included in the cost of equity. (Woolridge)

ISSUE 26: What is the appropriate ROE to use in establishing Tampa Electric's revenue requirement?

OPC: Based on OPC's recommended 50% equity ratio capital structure, the appropriate ROE is 9.0%. If the Commission adopts the Company's requested 54.2% equity ratio capital structure, the appropriate ROE should be 8.75%. (Woolridge)

ISSUE 27: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure? (FALLOUT)

OPC: Based on OPC's recommended 50% equity ratio for its capital structure, and 9.0% ROE, the overall cost of capital should be 5.66%. If the Commission adopts the Company's requested 54.2% equity ratio for its capital structure, with OPC's alternative 8.75% ROE, the overall cost of capital should be 5.67%. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Woolridge, O'Donnell, Ramas)

NET OPERATING INCOME

ISSUE 28: Has Tampa Electric correctly calculated the revenues at current rates for the projected test year?

OPC: No. There was stronger customer growth in the General Services industrial rate class in 2012 than expected. The impact of the higher level of GS customers is estimated to be approximately $35,000 per year. Also, test year wholesale (non-jurisdictional) revenues should be increased to reflect the impact of the extension of the Calpine agreement. (Ramas)

ISSUE 29: Should revenues be adjusted for the extension of the Auburndale agreement?

OPC: No adjustment is necessary at this time unless circumstances change and Tampa Electric is informed that either the grandfathered TSA is being extended or rolled over into an Open Access Transmission Tariff ("OATT") point-to-point TSA, then the resulting revenues should be adjusted into the test year. The impact of such change, if it occurs, should also be reflected in the calculation of the jurisdictional separation factors in this case. (Ramas)

ISSUE 30: Is Tampa Electric's projected level of Total Operating Revenues in the amount of $950,663,000 ($951,811,000 system) for the 2014 projected test year appropriate? (FALLOUT)

OPC: No. Operating revenues should be increased by $35,000 per year for the understated general service revenue, by approximately $4,509,267 (non-jurisdictional) for the renewed Calpine agreement and the revenue impact, if any, of a contract renewal with the Auburndale Power Partners. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

ISSUE 31: Should any adjustments be made to Tampa Electric's requested vegetation maintenance expense?

OPC: Yes. The Company should be allowed no more than $8,370,613 for tree trimming. That reduces the Company's $9,303,754 request for distribution tree trimming by $933,141. The estimated cost is based on 1,575.2 trim miles at the 2012 rate of $5,314 per mile, which is inclusive of scheduled tree trimming, enhanced tree trimming and mowing. The trim miles are the number of miles the Company has indicated that it would trim in 2014. (Schultz)

ISSUE 32: Should any adjustments be made to Tampa Electric's requested level of generation maintenance expense?

OPC: Yes. Comparing the historical average costs ($10.832-11.811 million), the historical inflation-indexed costs ($13.497 million), and the Company's 2014 request ($17.585 million), the Company's requested generation maintenance expense is overstated by $4.088 million (jurisdictional). (Schultz)

ISSUE 33: Has Tampa Electric made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause?

OPC: No position at this time.

ISSUE 34: Has Tampa Electric made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

OPC: No position at this time.

ISSUE 35: Has Tampa Electric made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause?

OPC: No position at this time.

ISSUE 36: Has Tampa Electric made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause?

OPC: No position at this time.

ISSUE 37: Should any adjustment be made to incentive compensation?

OPC: Yes. Tampa Electric's 2014 requested performance sharing program (PSP) costs of $ 5,986,604 should be limited to the 2% safety-related percentage distributed in 2011 and 2012, or $2,548,966. Tampa Electric did not justify the reasonableness of the incremental operational incentives or the plan change. Alternatively, the 2012 historical PSP costs escalated by salary increases could be apportioned on a 50% basis between ratepayers and shareholders. This would reflect an annual expense of $2,292,785. Further, absent evidence that these TECO Energy PSP costs are not tied to TECO Energy's net income, there is no reason why these costs should be allowed in rates. OPC's primary recommendation reflects a reduction to the Company's requested total incentive compensation of $7,823,486 (or $7,818,174 jurisdictional) to allow a 2% incentive on adjusted payroll for safety goals, with no allowance for the TECO Energy allocated PSP costs. The net alternative adjustment for the Tampa Electric PSP and TECO Energy allocation is a reduction to O&M Expense of $8,079,667 ($8,074,181 jurisdictional). The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Schultz, Ramas)

ISSUE 38: Should an adjustment be made to Tampa Electric's requested level of Salaries and Employee Benefits for the 2014 projected test year?

OPC: Yes. The Company's 2014 payroll assumption that an average of 114 additional employees will be required is not reasonable and has not been justified. The proposed additions are dubious because (1) in Tampa Electric's last rate case, Docket No. 080317-EI, the Company's approved increase in the number of employees did not materialize; (2) as of March 31, 2013, the actual employee count was below the projected employee count for March 2013; and (3) the Company does not provide sufficient support for the additional employees requested. The Company's request should be reduced by 104 positions to a complement of 2,351. This allowance reflects 10 more positions than the actual average for the year ended 2012. The reduction of 104 positions reduces O&M expense by $5,705,698 to a more reasonable expense level of $127,448,302. This is a reduction of $5,701,824 on a jurisdictional basis. Corresponding adjustments to reduce employee benefits by $1,678,721 ($1,679,971 system) should also be made related to OPC's recommended employee disallowance. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Schultz, Ramas)

ISSUE 38 A: Should an adjustment be made to Tampa Electric's requested level to stock compensation expense for the 2014 projected test year?

OPC: Yes. Employee benefits should be reduced by $9,715,447 ($5,084,200 for Tampa Electric and $4,638,481 allocated from TECO Energy) to remove stock compensation. The plan is discriminatory since it applies only to select executives and is an excessive cost that should not be charged to ratepayers. If allowed, an adjustment should be made to reflect only 63% of the cost should be expensed rather than capitalized, consistent with how other employee benefits are treated. This results in an expense reduction of $1,881,154. The expense percentage has no impact on the recommended adjustment to remove the allocated amount for TECO Energy's stock compensation. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Schultz, Ramas)

ISSUE 39: Should an adjustment be made to Pension Expense associated with the Supplemental Executive Retirement Plan for the 2014 projected test year?

OPC: No position at this time.

ISSUE 40: Should adjustments be made for the net operating income effects of allocated costs and charges with affiliated companies for Tampa Electric?

OPC: Yes. The allocated costs and charges from TECO Energy are substantially higher than historical amounts (16.8% higher than 2012 and 28.8% higher than 2011) due to several reasons:1) the sale of TECO Guatemala; and 2) TECO Energy announced acquisition of New Mexico Gas Company. At a minimum, expenses should be reduced by the $2,900,000 to reflect the projected annual impact of the NMGC acquisition. Additionally, $378,082 of allocated costs should be removed from test year expenses to remove the shifting of costs from other current subsidiaries of TECO Energy to Tampa Electric. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

ISSUE 41: Are Tampa Electric's Call Center expenses just and reasonable?

OPC: No. Agree with HUA. The Commission should reduce the Company's requested O&M expense by $1.575 million.

ISSUE 42: Should an adjustment be made to the accrual for storm damage for the 2014 projected test year?

OPC: Yes. The appropriate storm accrual for the test year is $3 million. See OPC position on Issue 14. (Schultz)

ISSUE 43: Should an adjustment be made to the accrual for the Injuries & Damages reserve for the 2014 projected test year?

OPC: No position at this time.

ISSUE 44: Should any adjustments be made to Directors and Officers Liability Insurance?

OPC: Yes. DOL insurance protects officers and directors from claims made stockholder. Ratepayers should not be solely responsible for the cost of protecting shareholders from their own decisions. The $798,546 cost should be shared equally, with a reduction of $398,974 ($399,273 system) to test year expenses. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Schultz, Ramas)

ISSUE 45: Should any adjustments be made to Outside Services - Legal Expense?

OPC: Yes. The $520,000 in legal fees included in projected test year expenses for the pending litigation with Verizon regarding pole attachment charges should be removed. These costs are non-recurring and may result in additional revenues being recovered by the Company as a result of the litigation. (Ramas)

ISSUE 46: What is the appropriate amount and amortization period for Tampa Electric's rate case expense for the 2014 projected test year?

OPC: The requested rate case expense of $2,200,000 is excessive and the 3-year amortization period is too short. The costs associated with PowerPlan ($304,000) and William Slusser ($136,000) for rate case oversight should be removed as unreasonable. The cost of capital consulting fee is excessive and should be reduced by $103,000 to reflect a more reasonable expense of $70,000 for this type of service. Further, rate case legal fees of $1.490 million requested by Tampa Electric are 44.66% higher than the $1.030 million allowed in the last rate case. Legal fees should be reduced by $280,000, to reflect a combined growth and inflation indices applied the prior allowed level. Total rate case expense should be reduced by $823,000 to reflect $1.377 million. Further, the requested 3-year amortization period is too short and allows for potential over recovery of rate case expense. A 5-year amortization period is more appropriate. Using a 5-year amortization period, the annual expense would be $275,000, which reflects a reduction test year amortization expense of $458,000. (Schultz)

ISSUE 47: Should an adjustment be made to Bad Debt Expense for the 2014 projected test year?

OPC: Yes. Uncollectible expense was substantially lower than budgeted in both 2011 and 2012. Tampa Electric has implemented a software system and other actions that have steadily decreased the percentage of bad debt write-offs which should continue into the future. With these changes, using the historic average is not a reasonable method to determine projected bad debt expense. Uncollectible expense and the bad debt rate should be based on the actual 2012 ratio of net write-offs to revenues. Using the 2012 bad debt factor of 0.122%, uncollectible expense should be $2,395,000, which reflects a $1,228,000 reduction for the test year. This factor should also be used in determining the revenue expansion factor addressed in Issue 53. (Ramas)

ISSUE 48: Is Tampa Electric's requested level of O&M Expense in the amount of $363,832,000 ($364,130,000 system) for the 2014 projected test year appropriate? (FALLOUT)

OPC: No. The amount should reflect the adjustments recommended by OPC in the proceeding. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

ISSUE 49: What is the appropriate amount of depreciation and fossil dismantlement expense?

OPC: The appropriate amount of depreciation expense is $226,551,000 on a jurisdictional basis. Adjustments are appropriate to reduce amortization expense by $6,190,000 as addressed in Issue 10 to reflect a 15-year amortization period for all software systems recorded in Account 303. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Pous, Ramas)

ISSUE 50: Should an adjustment be made to Taxes Other Than Income Taxes for the 2014 projected test year? (FALLOUT)

OPC: Yes. Adjustments are appropriate to reduce payroll taxes by $430,164 ($430,530 jurisdictional) associated with OPC's recommended adjustment to salaries. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

ISSUE 51: Should an adjustment be made to Income Tax expense for the 2014 projected test year? (FALLOUT)

OPC: Yes. Adjustments are appropriate to reduce income taxes associated with OPC's recommended adjustment to rate base and operating expenses. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

ISSUE 52: Is Tampa Electric's projected Net Operating Income in the amount of $209,901,000 ($210,244,000 system) for the 2014 projected test year appropriate? (FALLOUT)

OPC: No. The amount should reflect the adjustments recommended by OPC in the proceeding. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

<u>REVENUE REQUIREMENTS</u>

ISSUE 53: What are the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates, for Tampa Electric?

OPC: The Company's revenue expansion factor should be adjusted to reflect the 2012 bad debt factor of 0.122% addressed in Issue 47. The appropriate revenue expansion factor is 1.63117. (Ramas)

ISSUE 54: Is Tampa Electric's requested annual operating revenue increase of $134,841,000 for the 2014 projected test year appropriate? (FALLOUT)

OPC: No. The amount should reflect the adjustments recommended by OPC in the proceeding. Based on OPC's primary recommendation, annual operating revenues should be decreased by $6,058,000. Based on OPC's alternative recommendation, annual operating revenues should be decreased by $290,000. The jurisdictional amount is subject to the appropriate jurisdictional separation factors addressed in Issue 6. (Ramas)

COST OF SERVICE AND RATES

ISSUE 55: Should Tampa Electric's proposed Minimum Distribution System ("MDS") costing method be approved?

OPC: No position.

ISSUE 56: What is the appropriate Cost of Service Methodology to be used to allocate production costs to the rate classes?

OPC: No position.

ISSUE 57: What is the appropriate Cost of Service Methodology to be used to allocate transmission costs to the rate classes?

OPC: No position.

ISSUE 58: How should any change in the revenue requirement approved by the Commission be allocated among the customer classes?

OPC: No position.

ISSUE 59: What is the appropriate treatment of the IS schedules?

OPC: No position.

ISSUE 60: Should TECO's proposal to reinstitute the Commercial/Industrial Service Rider (CISR) tariff be approved?

OPC: No position.

ISSUE 61: Should the "Transformer Ownership Discount" be renamed the "Delivery Voltage Credit" and should the credits provided reflect full avoided distribution costs?
OPC: No position.

OPC: No position.

ISSUE 62: What are the appropriate service charges (normal reconnect, same day reconnect, reconnect at meter/pole, field visit, tampering charge, temporary service charge)?

OPC: No position.

ISSUE 63: What is the appropriate emergency relay power supply charge?

OPC: No position.

ISSUE 64: What are the appropriate contributions-in-aid for time-of-use rate customers opting to make a lump sum payment for a time-of-use meter in lieu of a higher time-of-use customer charge?

OPC: No position.

ISSUE 65: What changes in allocation and rate design should be made to Tampa Electric's rates established in Docket Nos. 130001-EI, 130002-EG, and 130007-EI to recognize the decisions in various cost of service rate design issues in this docket?

OPC: No position.

ISSUE 66: What are the appropriate monthly rental factors and termination factors to be approved for the Facilities rental Agreement, Appendix A? (Tampa Electric to check if can be dropped.)

OPC: No position.

ISSUE 67: What are the appropriate customer charges and should "customer charge" be renamed "basic service charge"?

OPC: No position.

ISSUE 68: What are the appropriate demand charges?

OPC: No position.

ISSUE 69: What are the appropriate energy charges?

OPC: No position.

ISSUE 70: What are the appropriate lighting charges?

OPC: No position.

ISSUE 71: What are the appropriate Standby Charges?

OPC: No position.

OTHER

ISSUE 72: What is the appropriate effective date for Tampa Electric's revised rates and charges?

OPC: No position.

ISSUE 73: Should Tampa Electric be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case?

OPC: Yes.

ISSUE 74: Should this docket be closed?

OPC: No.

5. STIPULATED ISSUES:

None at this time.

6. PENDING MOTIONS:

OPC has no pending motions.

7. STATEMENT OF PARTY'S PENDING REQUESTS OR CLAIMS FOR CONFIDENTIALITY:

OPC has no pending request or claims for confidentiality.

8. **OBJECTIONS TO QUALIFICATION OF WITNESSES AS AN EXPERT:**

OPC has no objection to qualifications of witnesses.

9. **STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:**

There are no requirements of the Order Establishing Procedure with which OPC cannot comply.

Dated this 12th day of August, 2013

J.R. Kelly
Public Counsel

Patricia A. Christensen
Associate Public Counsel

Joseph A. McGlothlin
Associate Public Counsel

Charles J. Rehwinkel
Deputy Public Counsel

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street, Room 812
Tallahassee, FL 32399-1400
(850) 488-9330

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and foregoing **PREHEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL** has been furnished by electronic mail on this 12th day of August, 2013, to the following:

James D. Beasley
Ausley Law Firm
P.O. Box 391
Tallahassee, FL 32302
Phone: 850-224-9115
FAX: (850) 222-7560

Martha Brown
Martha Barrera
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Gordon L. Gillette, President
Paula K. Brown, Manager
Tampa Electric Company
P. O. Box 111
Tampa, FL 33601-0111

Jon C. Moyle, Jr.
Moyle Law Firm, P.A.
The Perkins House
118 North Gadsden Street
Tallahassee, FL 32301

Robert Scheffel Wright
Gardner, Bist, Wiener, et at., P.A.
Florida Retail Federation
1300 Thomaswood Drive
Tallahassee, FL 32308

Federal Executive Agencies
c/o Lt Col Gregory J. Fike
AFLOA/JACL-ULFSC
139 Barnes Drive, Suite 1
Tyndall Air Force Base, Fl 32403

WCF Hospital Utility Alliance
c/o Andrew Kurth LLP
Kenneth L. Wiseman
1350 I Street NW, Suite 1100
Washington, DC 20005

Patricia A. Christensen
Associate Public Counsel