

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Petition for Rate Increase  
by Tampa Electric Company.

DOCKET NO. 130040-EI  
FILED: August 12, 2013

**THE FLORIDA INDUSTRIAL POWER USERS GROUP'S  
PREHEARING STATEMENT**

The Florida Industrial Power Users Group (FIPUG), pursuant to Order No. PSC-13-0150-PCO-EI, as modified by Order No. PSC-13-0203-PCO-EI, files its Prehearing Statement.

**A. APPEARANCES:**

JON MOYLE, JR.  
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Representing the Florida Industrial Power Users Group (FIPUG)

**B. WITNESSES:**

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
Jeffrey Pollock	Revenue requirements, cost of service, revenue allocation, rate design, storm account	32, 42, 55, 56, 57, 58, 59, 61, 65, 67, 68, 69

**C. EXHIBITS**

<u>Exhibit</u>	<u>Witness</u>	<u>Description</u>
_____ (JP-1)	Pollock	GSD-IS Load Usage and Class Service Characteristics
_____ (JP-2)	Pollock	Cost Allocation with 12CP -50%

<u>(JP-3)</u>	Pollock	Operating Hours - TECO Peaker Units
<u>(JP-4)</u>	Pollock	Load Analysis; Monthly TECO Peaks
<u>(JP-5)</u>	Pollock	Reserve Margin % Peak Demand
<u>(JP-6)</u>	Pollock	Classification and Allocation of Distribution Plant
<u>(JP-7)</u>	Pollock	Utilities that Classify Portion of Distribution Network as Customer Related
<u>(JP-8)</u>	Pollock	MDS Customer Classification
<u>(JP-9)</u>	Pollock	Adjustment to Production O&M expense
<u>(JP-10)</u>	Pollock	TECO Historical Storm Damage Expense

#### **D. STATEMENT OF BASIC POSITION**

##### **FIPUG's Statement of Basic Position:**

In this case, TECO seeks to increase rates by approximately \$135 million dollars. A significant portion of this increase is due to TECO's request for an 11.25% return on equity (ROE). TECO's request is over-stated and should not be granted as requested. Given the favorable regulatory treatment given Florida utilities as well as the fact that TECO collects hundreds of millions of dollars outside of base rates through guaranteed cost recovery clauses, a ROE of 11.25% is excessive. Further, TECO, in contrast to businesses which must compete in the open market, is a monopoly with a captive customer base. Additionally, TECO does not have nuclear assets which tend to

increase utility risk. All these things and more greatly reduce TECO's risk and suggest that an ROE of 9.77%, the natural average for approved ROE makes during 2013, is sufficient to allow the company to access capital markets and adequately serve its customers.

In the area of cost of service, FIPUG urges the Commission to:

Reject TECO's class cost-of-service study and rate design and maintain the current separate homogeneous (GSD and IS) customer classes. GSD and IS rate classes are materially different from each other and should not be collapsed. IS customers have been subsidizing other rate classes, and collapsing IS unto GSD will continue this subsidization, a result that is unfair to industrial customers belonging to the IS rate class. The Commission should also reject the 12CP-50% AD method (which has never been approved by this Commission) and apply the Commission-approved 12CP-1/13<sup>th</sup> AD method of allocation, or retain the 12 CP -25% AD. FIPUG supports the implementation of minimum distribution system approach to cost allocation.

#### **E. STATEMENT OF 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?

**FIPUG:** No position at this time.

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

**FIPUG:** No.

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

**FIPUG:** Adopt position of OPC.

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

**FIPUG:** Adopt position of OPC.

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

**FIPUG:** Yes.

**ISSUE 6:** Is the proposed Jurisdictional Separation Study appropriate?

**FIPUG:** No. Adjustments recommended by OPC should be adopted.

## QUALITY OF SERVICE

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

**FIPUG:** Yes.

## RATE BASE

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

**FIPUG:** No position at this time.

**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)

**FIPUG:** No. Adjustments recommended by OPC should be adopted.

**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?

**FIPUG:** Adopt position of OPC.

**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)

**FIPUG:** Adopt position of OPC.

**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)

**FIPUG:** No. Adjustments proposed by OPC should be adopted.

**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?

**FIPUG:** No.

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

**FIPUG:** Yes. The storm damage reserve should cease.

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

**FIPUG:** Adopt position of OPC.

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

**FIPUG:** Adopt position of OPC.

**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?

**FIPUG:** Adopt position of OPC.

**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)

**FIPUG:** No. The level should be adjusted as recommended by OPC.

**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)

**FIPUG:** No. Adjustments as recommended by OPC should be made.

### **COST OF CAPITAL**

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

**FIPUG:** \$835,876,000 jurisdictional.

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

**FIPUG:** \$8,006,000 jurisdictional.

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

**FIPUG:** 1.47%

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

**FIPUG:** 5.4%

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

**FIPUG:** A capital structure of 51% equity and 49% debt should be adopted. These percentages closely approximate the actual capital structure of the company over recent years.

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

**FIPUG:** No.

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

**FIPUG:** 9.77% which is the adjusted national average of commission approved returns during 2013.

**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)

**FIPUG:** This sum, a fallout issue, should result from an ROE of 9.77% and a capital structure of 51% equity and 49% debt.

#### NET OPERATING INCOME

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

**FIPUG:** No.

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

**FIPUG:** Adopt position of OPC.

**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)

**FIPUG:** No.

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

**FIPUG:** Yes. A downward adjustment should be made.

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

**FIPUG:** Yes, \$3.7 million of planned outage expenses should be disallowed because TECO's test year expenses are clearly abnormal (26% higher) relative to prior years.

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

**FIPUG:** 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?

**FIPUG:** 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?

**FIPUG:** 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?

**FIPUG:** No position at this time.

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

**FIPUG:** Yes, for the reasons set forth by OPC.

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

**FIPUG:** Yes, a downward adjustment should be made.

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

**FIPUG:** Yes, a downward adjustment should be made.

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

- FIPUG:** Yes, a downward adjustment should be made.
- ISSUE 41:** Are Tampa Electric's Call Center expenses just and reasonable?
- FIPUG:** No, a downward adjustment of approximately \$1.5 million dollars should be made.
- ISSUE 42:** Should an adjustment be made to the accrual for storm damage for the 2014 projected test year?
- FIPUG:** Yes, TECO's proposal to increase its storm damage reserve is unwarranted. Not only is the current reserve more than adequate to handle almost three consecutive years of damage (including Category 1 and all but the most severe of Category 2 hurricanes), TECO's analysis fails to recognize the substantial investment in storm hardening, which should lessen future expenses. Accruals to the storm reserve should cease.
- ISSUE 43:** Should an adjustment be made to the accrual for the Injuries & Damages reserve for the 2014 projected test year?
- FIPUG:** No position at this time.
- ISSUE 44:** Should any adjustments be made to Directors and Officers Liability Insurance?
- FIPUG:** Yes, these costs should be split equally between ratepayers and shareholders.
- ISSUE 45:** Should any adjustments be made to Outside Services - Legal Expense?
- FIPUG:** Yes.
- ISSUE 46:** What is the appropriate amount and amortization period for Tampa Electric's rate case expense for the 2014 projected test year?
- FIPUG:** TECO's rate case expense should be adjusted downward and authorized over 10 years.
- ISSUE 47:** Should an adjustment be made to Bad Debt Expense for the 2014 projected test year?
- FIPUG:** Yes. TECO's bad debt expense is overstated and should be adjusted downward.
- 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)
- FIPUG:** No. Downward adjustments are warranted.
- ISSUE 49:** What is the appropriate amount of depreciation and fossil dismantlement expense?



- FIPUG:** Adopt position of OPC.
- ISSUE 50:** Should an adjustment be made to Taxes Other Than Income Taxes for the 2014 projected test year? (FALLOUT)
- FIPUG:** A downward adjustment to payroll taxes should be made.
- ISSUE 51:** Should an adjustment be made to Income Tax expense for the 2014 projected test year? (FALLOUT)
- FIPUG:** A downward adjustment to payroll taxes should be made.
- 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)
- FIPUG:** No.

### **REVENUE REQUIREMENTS**

- 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?
- FIPUG:** Adopt position of OPC.
- ISSUE 54:** Is Tampa Electric's requested annual operating revenue increase of \$134,841,000 for the 2014 projected test year appropriate? (FALLOUT)
- FIPUG:** No, Tampa Electric's requested annual operation revenue should be substantially reduced in accord with the evidence in this case.

### **COST OF SERVICE AND RATES**

- ISSUE 55:** Should Tampa Electric's proposed Minimum Distribution System ("MDS") costing method be approved?
- FIPUG:** Yes. TECO's proposal to classify a portion of the distribution network investment as customer-related should be adopted. This is consistent with accepted practice. Further, the results of TECO's minimum distribution system (MDS) method are reasonable relative to other utilities that use MDS or other methods to determine the customer-related portion of distribution network costs.
- ISSUE 56:** What is the appropriate Cost of Service Methodology to be used to allocate production costs to the rate classes?
- FIPUG:** The Commission should adopt 12CP-1/13thAD for TECO, just as it has adopted this method for Duke, FPL and Gulf. Alternatively, if the Commission determines that

no change is appropriate, it should retain 12CP-25%AD, which was approved in TECO's last rate case. TECO has failed to support changing the production plant allocation method to 12CP-50%AD as it proposes.

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

**FIPUG:** Adopt the position of TECO.

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

**FIPUG:** Revenues should be aligned to reflect the cost of serving each customer class as closely as practicable, using a reasonable class cost-of-service study. IS class revenues should not be increased as TECO proposes.

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

**FIPUG:** TECO's proposal to consolidate the GSD and IS rate classes (and eliminate the IS rate schedules) should be rejected. The GSD and IS rates classes are not homogeneous. This means that GSD and IS should have different rate structures to reflect the corresponding differences in their respective costs to serve. Consolidating the GSD and IS classes would be grossly inequitable to the IS customers. This is because the IS customers would experience an double digit base rate increase under TECO's consolidation proposal.

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

**FIPUG:** Yes.

**ISSUE 61:** Should the "Transformer Ownership Discount" be renamed the "Delivery Voltage Credit" and should the credits provided reflect full avoided distribution costs?

**FIPUG:** If the IS rate schedules are eliminated, the Delivery Voltage Credit for Sub-Transmission service should be \$0.53 per kW higher than the credit proposed by TECO. Because the IS class takes service primarily at sub-transmission voltage, raising the credit by an additional \$0.53 would help mitigate the higher rates that would result from the GSD-IS class consolidation.

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

**FIPUG:** No position at this time.

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

**FIPUG:** No position at this time.

**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?

**FIPUG:** No position at this time.

**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?

**FIPUG:** The Commission should adopt 12CP-1/13thAD for TECO, just as it has adopted this method for Duke, FPL and Gulf. Alternatively, if the Commission determines that no change is appropriate, it should retain 12CP-25%AD, which was approved in TECO's last rate case. TECO has failed to support changing the production plant allocation method to 12CP-50%AD as it proposes.

**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.)

**FIPUG:** No position at this time.

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

**FIPUG:** Rate design is a continuation of the cost allocation process. Thus, properly designed rates should track cost causation as defined in the class cost-of-service study. This means that Customer (or Basic) charges should reflect customer-related costs, Demand charges should reflect demand-related costs, and Energy charges should reflect energy-related costs. For the IS class, the Basic Service Charges should be \$520 per month for Primary service and \$2,150 for Sub-Transmission service, including IS equipment costs.

**ISSUE 68:** What are the appropriate demand charges?

**FIPUG:** For the IS rate schedules, the standard Demand charge should be at least \$5.19 per kW. For the GSD rate schedules, the Demand charges should be increased as necessary to recover the revenue requirement not otherwise recovered by setting the Basic Service charges at cost and retaining the current Energy charges.

**ISSUE 69:** What are the appropriate energy charges?

**FIPUG:** The current IS Energy charge is more than 166% above cost. The current IS Demand charge is 81% below cost. Consequently, if the IS class is retained, the Energy charge should be reduced by at least 25% or no higher than 1.878¢ per kWh. The current GSD Energy charges are already above cost. The proposed charge would be 91% higher than the unit cost. Thus, any increase in Energy charges is unwarranted. This includes TECO's proposal to raise the On-Peak Energy charge by 38%. Not only is this increase contrary to cost-based ratemaking, it would violate gradualism

**ISSUE 70:** What are the appropriate lighting charges?

**FIPUG:** No position at this time.

**ISSUE 71:** What are the appropriate Standby Charges?

**FIPUG:** No position at this time.

#### **OTHER**

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

**FIPUG:** No position at this time.

**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.

**FIPUG:** Yes.

**ISSUE 74:** Should this docket be closed?

**FIPUG:** Yes after a final decision is reached.

#### **F. STIPULATED ISSUES**

**FIPUG:** None at this time.

#### **G. PENDING MOTIONS**

FIPUG: None at this time.

**H. PENDING REQUEST OR CLAIMS FOR CONFIDENTIALITY**

FIPUG: None at this time.

**I. OBJECTIONS TO A WITNESS' QUALIFICATION AS AN EXPERT.**

FIPUG: FIPUG does not object to the witness being deemed an expert able to offer opinion testimony if such witness is clearly designated as an expert witness in pre-filed testimony. To the extent that no such expert witness designation was made, FIPUG reserves the right to object to expert testimony or an undesignated expert witness' qualifications.

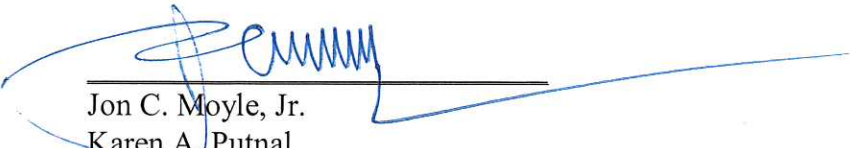
**K. REQUIREMENTS THAT CANNOT BE COMPLIED WITH.**

FIPUG: None at this time.

**L. OTHER**

FIPUG:

1. Due to scheduling conflicts and issues, FIPUG requests that its witness Mr. Pollock be assigned a date and time certain for his appearance. FIPUG will work with the other parties and staff to accomplish a mutually convenient date and time for Mr. Pollock to take the stand.



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**CERTIFICATE OF SERVICE**

I **HEREBY CERTIFY** that a true and correct copy of the foregoing The Florida Industrial Power Users Group's Prehearing Statement has been furnished by electronic mail on this 12th day of August, 2013 to the following:

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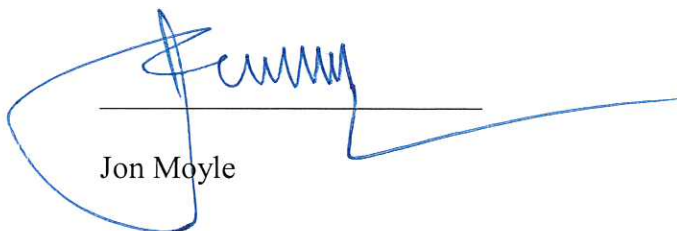
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