

**Shawna Senko**

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**Sent:** Monday, August 12, 2013 2:15 PM  
**To:** Filings@psc.state.fl.us  
**Subject:** Docket No. 130040-EI: HUA's Prehearing Statement  
**Attachments:** HUA's Prehearing Statement.pdf

Electronic Filing

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b. Docket No. 130040-EI.

c. Document being filed on behalf of WCF Hospital Utility Alliance (HUA).

d. There are a total of 20 pages.

e. The document attached for electronic filing is HUA's Prehearing Statement (See attached HUA's Prehearing Statement.pdf).

Thank you for your attention and cooperation to this filing.

Regards.  
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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**In re: Petition for rate increase by Tampa Electric Company**      §      **Docket No.: 130040-EI**  
   §  
   §      **Dated: August 12, 2013**

**PREHEARING STATEMENT OF THE  
WCF HOSPITAL UTILITY ALLIANCE**

Pursuant to Order No. PSC-13-0203-PCO-EI, the WCF Hospital Utility Alliance hereby files its Prehearing Statement.

**A.      APPEARANCES:**

**Kenneth L. Wiseman**, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; **Mark F. Sundback**, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; **Lisa M. Purdy**, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; **William M. Rappolt**, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; **Blake R. Urban**, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005; **Allison E. Hellreich**, Andrews Kurth LLP, 1350 I Street NW, Suite 1100, Washington, D.C. 20005.

**On Behalf of the WCF Hospital Utility Alliance (“HUA”)**

**B.      WITNESSES:**

<u>Witness</u>	<u>Subject Matter</u>
Richard A. Baudino	Return on equity and capital structure
Stephen J. Baron	Class cost of service, cost allocation, and rate design
Lane Kollen	Operation and maintenance expenses, revenue adjustments, and impacts of adjustments to return on equity on revenue requirement

C. **EXHIBITS:**

<b><u>Exhibits</u></b>	<b><u>Witness</u></b>	<b><u>Description</u></b>
RAB-1	Richard A. Baudino	Resume of Richard A. Baudino
RAB-2	Richard A. Baudino	Historical Bond Yields
RAB-3	Richard A. Baudino	FOMC June 19, 2013 Press Release
RAB-4	Richard A. Baudino	Historical Daily VIX Values
RAB-5	Richard A. Baudino	Excerpts from TECO Energy Dec. 31, 2012 SEC 10-K
RAB-6	Richard A. Baudino	Excerpts from TECO Energy Investor Presentations
RAB-7	Richard A. Baudino	Tampa Electric Discovery Responses
RAB-8	Richard A. Baudino	Comparison Group Dividend Yield Calculations
RAB-9	Richard A. Baudino	Comparison Group Growth and DCF ROE Calculations
RAB-10	Richard A. Baudino	Capital Asset Pricing Model ROE Analysis – Comparison Group
RAB-11	Richard A. Baudino	Capital Asset Pricing Model Analysis - Historical Market Premium

<b><u>Exhibits</u></b>	<b><u>Witness</u></b>	<b><u>Description</u></b>
SJB-1	Stephen J. Baron	List of Expert Testimony Appearances
SJB-2	Stephen J. Baron	U.S. EIA Annual Energy Outlook 2013 Levelized Costs of New Generation Resources
SJB-3	Stephen J. Baron	NARUC: Electric Utility Cost Allocation Manual

SJB-4	Stephen J. Baron	HUA 12 CP 1/13th AD + MDS COS
SJB-5	Stephen J. Baron	Tampa Electric Response to HUA First Set, Q-90
SJB-6	Stephen J. Baron	HUA Proposed Revenue Increases
SJB-7	Stephen J. Baron	HUA Proposed GSD Rate Design

<u>Exhibits</u>	<u>Witness</u>	<u>Description</u>
LK-1	Lane Kollen	Resume of Lane Kollen
LK-2	Lane Kollen	Schedule of Adj. – 2009 Rate Case
LK-3	Lane Kollen	Tampa Electric’s Response to OPC’s Interrogatory No. 75
LK-4	Lane Kollen	Tampa Electric’s Response to OPC’s Interrogatory No. 77
LK-5	Lane Kollen	Tampa Electric’s Response to HUA’s Interrogatory No. 76
LK-6	Lane Kollen	Tampa Electric’s Response to HUA’s Interrogatory No. 61
LK-7	Lane Kollen	Tampa Electric’s Response to Staff’s Interrogatory No. 48
LK-8	Lane Kollen	Tampa Electric’s Response to OPC’s Interrogatory No. 8
LK-9	Lane Kollen	Tampa Electric’s Response to OPC’s Interrogatory No. 60
LK-10	Lane Kollen	Tampa Electric’s Response to OPC’s Interrogatory No. 57
LK-11	Lane Kollen	Tampa Electric’s Response to OPC’s Interrogatory No. 12
LK-12	Lane Kollen	Tampa Electric’s Response to OPC’s Interrogatory No. 131

LK-13	Lane Kollen	Tampa Electric's Response to OPC's Interrogatory No. 133
LK-14	Lane Kollen	Tampa Electric's Response to OPC's Interrogatory No. 138
LK-15	Lane Kollen	Tampa Electric's Response to OPC's Interrogatory No. 49
LK-16	Lane Kollen	Tampa Electric's Response to HUA's Interrogatory No. 81
LK-17	Lane Kollen	Tampa Electric's Response to OPC's Interrogatory No. 119
LK-18	Lane Kollen	Tampa Electric's Response to HUA's Interrogatory No. 125
LK-19	Lane Kollen	Tampa Electric's Response to HUA's Interrogatory No. 131
LK-20	Lane Kollen	HUA Recommended Cost of Capital Adjustments, Revenue Requirements - ROE
LK-21	Lane Kollen	Excerpts of TECO Energy, Inc.'s 2009-2012 SEC 10-Ks
LK-22	Lane Kollen	Excerpts of TECO Energy, Inc.'s 2013 Proxy Statement

WCF Hospital Utility Alliance reserves the right to identify additional exhibits for purposes of cross-examination.

**D. STATEMENT OF BASIC POSITION:**

When Tampa Electric Company ("Tampa Electric") last filed for an increase in base rates, on June 12, 2008, in Docket No. 080317-EI, the financial markets were contracting and the ability to borrow was severely hampered. At that time, the financial markets were experiencing tumultuous change and volatility on a scale not seen since the Great Depression. Stocks of both large and small companies decreased around 37% for the year. Investors fled from stocks into bonds. Electric utility stocks did not fare well during the 2008 upheaval in the financial markets, with the Dow Jones Utility Average declining 30.4%. From 2009 to 2012, utility bond yields fell from their November 2008 high of 7.80% to an average December 2012 yield of 4.1%.

Tampa Electric's filing in that environment proposed a permanent rate increase that included an overall increase of \$228.2 million in gross revenues, a rate of return of 8.82 percent based on a 12.00 percent return on equity (ranging from 11.00 percent to 13.00 percent). It was

in this period of high volatility that the Commission authorized, in an April 2009 Order, an ROE of 11.25% with a range of plus or minus 100 basis points. Since 2009, the financial markets have recovered and interest rates are near historic lows. The Dow Jones Utility Average, which closed at 334.20 in April 2009, closed at 482.16 as of May 30, 2013, a rise of approximately 44%.

Tampa Electric has enjoyed a solid financial profile. The base rates that were approved in the Commission's last order have allowed Tampa Electric to maintain a Standard and Poor's ("S&P") bond rating of BBB+ and an A3 rating from Moody's Investor's Services. In a May 2012 presentation, the CEO of TECO Energy touted that "TECO Energy expects to generate significant free cash flow after dividends for the next several years." Additionally, since its last rate proceeding before the Commission, Tampa Electric has had low cost access to capital markets for its construction program and for other corporate purposes. For example, Tampa Electric issued \$250 million in 30-year bonds in June 2012 at a coupon rate of 5.4% and \$225 million in 10-year bonds in September 2012 at a coupon rate of 2.6%. The solid financial metrics and near historic low current interest rates support a much lower return on equity for Tampa Electric than that which the Commission approved in April 2009 during the financial crisis.

According to Tampa Electric's data regarding rate cases since 1980, the average allowed ROE from August 2008 through April 2009 was 10.5%. Tampa Electric's 11.25% was the highest Commission-allowed ROE during that period. *See* Baudino Test. 48:19-24 (discussing the Direct Testimony of Tampa Electric's Robert Hevert and the allowed ROE data from Exhibit No. RBH-1, Document No. 6). Allowed ROEs have declined in connection with the decline in Treasury bond yields since Tampa Electric's last rate proceeding, and during 2013, Tampa Electric's data demonstrates that the average allowed ROE was 9.75%. An 11.25% ROE, from 2009, is thus no longer reflective of market conditions.

Employing both a Discounted Cash Flow ("DCF") and several Capital Asset Pricing Model ("CAPM") analyses, only one conclusion remains: there is no economic justification for Tampa Electric's proposal. Tampa Electric and its parent company, TECO Energy, Inc. ("TECO Energy"), have stated in investor presentations that economic conditions in Tampa Electric's service territory have been improving in recent years. *See* Baudino Test., Exhibit No. RAB-6. Moreover, Tampa Electric's proposed equity ratio for this case is 54.2%, a substantial increase from its 47.12% equity ratio in the first quarter of 2007. The earlier economic conditions that were used to justify the ROE in 2009 no longer exist.

Notwithstanding that fact, Tampa Electric has proposed to continue to receive an ROE of 11.25%. As Mr. Baudino shows, a ROE of 9.30% is clearly reasonable, in fact generous, given the particularly thick equity component of Tampa Electric's capital structure.

Tampa Electric's request for an inflated ROE is not the only problem with Tampa Electric's filing. HUA witness Lane Kollen points out numerous instances in which Tampa Electric's filing inappropriately attempts to increase its purported revenue requirement. Viewed in light of the evidence presented to date, it is clear Tampa Electric's significant proposed increase in revenue is unjust and unreasonable.



Tampa Electric's requested revenue requirement represents an 18.4% increase over 2012. The Commission should reduce Tampa Electric's claimed revenue requirement by \$40.898 million to \$313.633 million on a jurisdictional basis to reflect a just and reasonable O&M expense. Examples of the excessive nature of Tampa Electric's claimed revenue requirement are a 64% increase in energy supply maintenance outage expenses and a claimed increase of 21% in distribution operation expense in the test year as compared to expenses that were actually incurred in 2012. A better measure of increased O&M expenses should be tied to the effects of inflation and would suggest an annual growth rate of 2.3%.

In addition, the Commission should modify Tampa Electric's proposal to properly align cost responsibility with cost causation. National Association of Regulatory Utility Commissions ("NARUC") defines cost causation as "a phrase referring to an attempt to determine what, or who, is causing costs to be incurred by the utility." Economic efficiency requires that rates reflect underlying costs, and this is best achieved by allocating fixed demand related costs on the basis of class peak demand. In addition to economic efficiency, the Commission should prevent cross-subsidization of one rate class by another. Tampa Electric's proposed 12 Coincident Peak and 50% Average Demand ("AD") class cost of service study for production plant is an unjust and unreasonable attempt to shift costs to the general service demand ("GSD") class. Evidence will demonstrate that the GSD rate schedule has a flatter annual usage pattern over the year, and consumes a relatively (compared to the residential class) lower portion of its energy in the peak summer months. This means that GSD's responsibility for load during the peak hours of the year is smaller than its overall percentage of energy use each month. A more reasonable balance is required between the proposed increases in the energy charges and the demand charge, following unit cost of service results. The cost shift proposed by Tampa Electric would be a step backwards from the goal of aligning cost responsibility with cost causation.

Tampa Electric's proposal classifies half of all fixed production costs as demand related. In comparison, the current Tampa Electric method classifies 75% of fixed production costs as demand related, which is 25% less than cost causation would suggest. For Tampa Electric, the most appropriate alignment of cost responsibility with cost causation occurs under a winter peak or a summer/winter peak methodology to allocate fixed production costs to rate classes. However, the Commission has demonstrated a preference for a 12 CP and 1/13<sup>th</sup> AD methodology, and while HUA prefers the most accurate alignment of cost responsibility with cost causation, HUA supports a 12 CP and 1/13<sup>th</sup> AD methodology in this case because it is far more accurate than Tampa Electric's proposed 12 CP and 50% AD methodology.

Tampa Electric has also proposed to use the Minimum Distribution System ("MDS") methodology to classify and allocate distribution function costs. The MDS methodology recognizes an indisputable fact, *i.e.*, that certain facilities, such as poles, overhead conductors, underground conductors and transformers, are required to connect a customer, regardless of the level of the customer's usage. HUA supports the use of the MDS methodology. It was unclear in Tampa Electric's original testimony whether Tampa Electric only supported MDS methodology if the Commission adopts the 12 CP and 50% AD class cost of service study. An interrogatory response from Tampa Electric's witness William Ashburn appears to clarify that Tampa Electric supports the MDS methodology regardless of the class cost of service methodology. The MDS methodology has been adopted by regulatory commissions in other



states. The MDS analysis demonstrates that existing rates, without recognition of the minimum costs of connecting or serving a customer, will cause the GSD customers to subsidize other customers, thereby misaligning cost causation and cost responsibility.

A more accurate revenue allocation based on the 12 CP and 1/13<sup>th</sup> AD + MDS methodology is required because the requested \$133.645 million base rate revenue increase is unreasonably based on a methodology that does not reflect proper cost causation. HUA witness Stephen J. Baron updated an alternative cost of service study based on the 12 CP and 1/13<sup>th</sup> AD + MDS methodology and compares Tampa Electric's proposed revenue responsibility to that proposed by HUA, inclusive of HUA's recommended revenue requirement adjustments presented by Mr. Kollen and Mr. Baudino's recommended ROE of 9.30%. *See Exhibit No. SJB-6.*

Finally, Tampa Electric's proposed GSD rate class rate design should be updated to reflect an alternative based on cost of service results. Tampa Electric's proposed GSD/GSDT rate design is unjust and unreasonable because it proposes an on-peak GSDT energy charge that is more than four times the unit cost of service. Evidence will show that energy charges should be set at the unit cost of service, and then demand charges may be used to meet the rate class targets.

For all these and other reasons, the Commission should reduce Tampa Electric's requested increase in base rates. The Commission should adjust O&M expenses to reflect current conditions and reasonable expectations. It also should reallocate class cost responsibility by moving toward a cost causation, cost responsibility rate design. And the Commission should approve a reasonable return on equity that reflects the current economic climate and access to low cost capital. The evidence will show that a more accurate overall revenue increase of no more than \$30.6 million should be awarded to Tampa Electric. Evidence that is developed during the hearing may support further reductions to Tampa Electric's proposed increase.

**E. 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?

**POSITION:** 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?

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

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

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

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

**POSITION:** The Commission should increase Tampa Electric's revenues by \$4.920 million to reflect the fact that Calpine recently notified Tampa Electric of its intent to rollover a portion of its transmission load. *See Kollen Test. 4:10-15.*

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

**POSITION:** Tampa Electric's revenue deficiency should be reduced by \$4.92 Million, because of the additional revenues from the Calpine contract that were not reflected in Tampa Electric's revenue requirement. *See Kollen Test. 31:3-15.*

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

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

#### QUALITY OF SERVICE

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

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

#### RATE BASE

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

**POSITION:** 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)

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

**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?

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

**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)

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

**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)

**POSITION:** No. Reducing ROE to 9.30% will reduce the rate of return used to capitalize financing costs during construction in the form of Allowance for Funds Used During Construction ("AFUDC"), which is then added to CWIP. *See* Kollen Test. 32:5-16.

**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?

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

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

**POSITION:** Yes. The Commission should disallow the requested \$8.0 million for storm damage expense accrual. Tampa Electric has a substantial storm damage reserve and there is no need to continue to build the reserve given that Tampa Electric has mechanisms available to it to obtain funds in the event of excessive storm damages. The cost to ratepayers of those alternative mechanisms (such as securitization) would be less than the cost of an annual accrual.

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

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

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

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

**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?

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

**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)

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

**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)

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

### **COST OF CAPITAL**

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

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

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

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

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

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

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

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

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

**POSITION:** Tampa Electric's proposed equity ratio is significantly higher than the average of comparable companies. Baudino Test. 32:20-21. The Value Line Investment Survey and AUS Utility Reports show that comparative companies average common equity 48.5% and 44.7%, respectively, but Tampa Electric seeks an equity ratio of 54.2%.

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

**POSITION:** No. A DCF model using current stock prices should account for investor expectations regarding the collection of flotation costs. *See* Baudino Test. 47:22 - 48:8.

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

**POSITION:** HUA recommends the Commission adopt a reasonable ROE of 9.30% as opposed to Tampa Electric's excessive request for an 11.25% ROE. *See, e.g.,* Baudino Test. 2:14-3:6. Tampa Electric's ROE analysis systematically overstates the current investor ROE required. Baudino Test. 3:5-6. Tampa Electric maintains attractive BBB+/A3 bond ratings that do not require excessive ROE to entice

investment. Since the last rate proceeding, allowed ROEs have declined in connection with the decline in Treasury bond yields.

**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)

**POSITION:** Provided that Tampa Electric's ROE is set to 9.30%, the Commission should adopt the cost of capital adjustments recommended by HUA in Exhibit No. LK-20, including a weighted total cost of capital of 5.91%.

#### NET OPERATING INCOME

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

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

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

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

**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)

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

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

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

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

**POSITION:** Yes. Expenses should be normalized to reflect recent actual experience, and Tampa Electric's requested 64% increase in planned maintenance outage expenses (comparing 2014 with 2012) is well in excess of historic levels. A bottoms-up approach would support a reduction of \$7.145 million. *See* Kollen Test. 14:6-15:3.

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

**POSITION:** 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?

**POSITION:** 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?

**POSITION:** 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?

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

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

**POSITION:** Yes. Tampa Electric's requested increase in Performance Sharing Plan incentive compensation expense is excessive and unjustified. A bottoms-up approach would support a reduction of \$5.304 million. Additionally, rejecting the stock compensation expense will save \$5.084 million. Kollen Test. 4:9.

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

**POSITION:** Yes. Tampa Electric's requested increase in Performance Sharing Plan incentive compensation expense is excessive and unjustified. A bottoms-up approach would support a reduction of \$5.304 million. The Commission should consider incentives to encourage Tampa Electric to reduce its common equity ratio and link such savings to PSP incentive compensation. Kollen Test. 4:9, 20:1-23:8.

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

**POSITION:** Yes. Tampa Electric's stock compensation expense should be rejected. A bottoms-up approach would support a reduction of \$5.084 Million. This expense is incurred to incentivize TECO Energy, Inc. and Tampa Electric's financial performance, not to achieve operational or customer service goals to benefit customers. The expense should be borne by the shareholder, TECO Energy, Inc. Kollen Test. 4:9, 23:13-24:12.

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

**POSITION:** 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?

**POSITION:** Yes. Affiliate charges should be reduced by a minimum of \$2.9 Million to reflect TECO Energy's acquisition of New Mexico Gas Co. In addition, if some of the allocated expenses are direct charged to New Mexico Gas, then this should reduce the allocated charges even further. *See* Kollen Test. 4:9, 25:24-27:12.

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

**POSITION:** No. Tampa Electric's Call Center expenses should be reduced by \$1.575 Million because evidence has not been provided demonstrating that performance was unacceptable, worse than its historical average, suffered from a lack of staffing, nor that communication tools could not reduce pressure on the Call Center. *See* Kollen Test. 27:14-28:20.

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

**POSITION:** Yes. The Commission should eliminate the requested \$8.0 million from Tampa Electric's request. The reserve is substantially funded and there are lower cost options to fund future costs in the event that the reserve is not sufficient.

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

**POSITION:** Yes. The Injuries & Damages expense should be normalized to reflect recent actual experience. *See* Kollen Test. 24:18 – 25:16. As detailed in the direct testimony of Lane Kollen, O&M expenses should be reduced under a bottoms-up approach that would include normalizing Injuries & Damages expense to reflect recent historic levels in the amount of \$1.728 million. *See* Kollen Test at 4:4-9.

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

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

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

**POSITION:** Yes. Tampa Electric proposes to increase legal expenses by \$2.254 million to \$4.115 million and included in the increase is \$0.733 million for the amortization of rate case expenses. *See* Kollen Test. 29:24 – 30:18. Tampa Electric has not justified the remaining increase of \$1.521 million. *Id.*

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

**POSITION:** HUA does not object to the rate case amortization expense.



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

**POSITION:** Yes. The Bad Debt Expense should be reduced by \$1.302 million. Tampa Electric has provided no empirical evidence that the expense will revert to historical levels, especially given that a new credit and collections system was implemented in 2011. *See* Kollen Test. 4:9, 29:1-18.

**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)

**POSITION:** No. O&M expenses averaged annual growth of 2.1% from 1995 to 2007, and 0.2% from 2008 through 2012. *See* Exhibit No. RAB-7, p. 22. Tampa Electric's claimed revenue requirement should be reduced by at least \$40.898 million to reflect reduced O&M expenses to a just and reasonable amount. Kollen Test. 3:10-12.

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

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

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

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

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

**POSITION:** Yes. The income tax expense should be modified to reflect changes in the return on equity, rate base, and operating expenses.

**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)

**POSITION:** No. Net operating income will be modified based on adjustments to revenues and expenses.

### **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?

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

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

**POSITION:** No. The Commission should reduce Tampa Electric's claimed revenue requirement by \$40.898 million to reflect a reduction in O&M expense to a just and reasonable amount, moreover, further reduction by \$58.375 million is necessary to reflect the 9.30% ROE supported by Mr. Baudino. *See* Kollen Test. 3:10-12, 32:20-22.

### COST OF SERVICE AND RATES

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

**POSITION:** Yes. MDS methodology is appropriate to classify and allocate distribution function costs because it recognizes the cost causation/cost responsibility principle. *See* Baron Test. 5:15-22. Certain distribution costs are incurred due to the presence of a customer on the system, regardless of the level of demand. MDS methodology recognizes this link.

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

**POSITION:** The appropriate method for allocating production plant under strict cost causation is either a winter or a combined winter/summer coincident peak allocator. Previously, the Commission has adopted a 12 CP and 1/13<sup>th</sup> AD class cost of service study. Either option is superior to Tampa Electric's proposal. *See* Baron Test. 7-14.

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

**POSITION:** Transmission plant should be appropriately allocated on either a winter CP, an average summer/winter CP, or on a 12 CP basis. *See* Baron Test. 6:5-9. Tampa Electric has presented a 12 CP methodology to allocate transmission.

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

**POSITION:** The revenue requirement should be allocated based on the results of the 12 CP & 1/13<sup>th</sup> AD + MDS method so that existing rate parities are eliminated, subject to the limitation that no class receives an increase greater than 150% of the average and no class receives a rate decrease. *See* Baron Test. 8.

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

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

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

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

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

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

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

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

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

**POSITION:** 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?

**POSITION:** 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?

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

**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.)

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

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

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

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

**POSITION:** The proposed GSD/GSDT rate design is unjust and unreasonable because it proposes an on-peak GSDT energy charge that is more than four times the unit cost of service. The appropriate charges for GSD/GSDT should be based on the methodology set forth in Mr. Baron's Exhibit No. SJB-7.

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

**POSITION:** The appropriate energy charges for GSD/GSDT should be based on the methodology set forth in Mr. Baron's Exhibit No. SJB-7. Energy charges should be set at the unit cost of service, and then demand charges may be used to meet the rate class targets.

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

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

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

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

**OTHER**

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

**POSITION:** January 1, 2014.

**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.

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

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

**POSITION:** No.

**F. STIPULATED ISSUES:**

No stipulated issues.

**G. PENDING MOTIONS:**

HUA does not have any pending motions at this time.

**H. PENDING REQUESTS FOR CONFIDENTIAL CLASSIFICATION:**

HUA does not have any pending requests for confidential classification at this time.

**I. OBJECTION TO WITNESSES' QUALIFICATIONS:**

HUA has no objections to witnesses' qualifications.

**J. REQUIREMENTS OF THE PREHEARING ORDER THAT CANNOT BE MET:**

HUA is not aware of any requirements of the prehearing order that cannot be met.

*/s/ Kenneth L. Wiseman*

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Attorneys for the WCF Hospital Utility Alliance

August 12, 2013

**CERTIFICATE OF SERVICE**  
**DOCKET NO. 130040-EI**

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic mail and U.S. mail to the following parties on this 12th day of August, 2013:

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