BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 130040-EI

PETITION FOR RATE INCREASE
BY TAMPA ELECTRIC COMPANY.
_______________________________/

VOLUME 4

Pages 507 through 737

PROCEEDINGS: HEARING

COMMISSIONERS PARTICIPATING: CHAIRMAN RONALD A. BRISÉ
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Monday, September 9, 2013

TIME: Commenced at 9:37 a.m.
Concluded at 10:01 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: LINDA BOLES, CRR, RPR
Official FPSC Reporter
(850) 413-6734

APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:	ID.	ADMTD.

NO EXHIBITS MARKED OR ADMITTED IN THIS VOLUME

P R O C E E D I N G S

(Transcript follows in sequence from Volume 3.)

TAMPA ELECTRIC COMPANY
DOCKET NO. 130040-EI
FILED: 04/05/2013

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

BRAD J. REGISTER

Q. Please state your name, address, occupation and employer.

A. My name is Brad J. Register. My business address is 702 N. Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Director - Compensation and Benefits.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Science degree in Electrical Engineering in 1985 from the University of South Florida in Tampa, Florida. I have been employed by Tampa Electric for 27 years, working predominately in positions in the areas of Energy Delivery, Telecommunications, Facilities, and most recently in Human Resources.

In 2007, I accepted a position in Human Resources as Director - Employee Relations, where I became responsible for a variety of employee related functions including all labor relations matters. In 2009, I became Director - Compensation and Benefits, responsible for all benefit programs including compensation, defined benefit pension, retirement savings (401k), healthcare, training and development. In 2010, I assumed responsibility for the payroll function as well. In 2012, the training and development function was transferred to the company's Employee Relations group.

I am a registered professional engineer in the State of Florida. I also hold a Senior Professional in Human Resources certification from the Society for Human Resource Management.

INTRODUCTION

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to provide an overview of the gross payroll and benefits expense as shown in Minimum Filing Requirements ("MFR") Schedule C-35, and demonstrate the reasonableness of Tampa Electric's forecasted gross payroll and benefits expense of $295,381,075 for 2014. My direct testimony also supports MFR Schedules C-8, C-17, C-41 and F-8.

Q. Have you prepared an exhibit for presentation in this proceeding?

A. Yes, I am sponsoring Exhibit No. ___ (BJR-1) entitled "Exhibit of Brad J. Register", that was prepared under my direction and supervision and consists of the following ten documents:

Document No. 1	List of Minimum Filing Requirement Schedules Sponsored or Co-Sponsored by Brad J. Register
Document No. 2	Total Annual Compensation Analysis for Exempt and Non-Covered/Non-Exempt Benchmarked Positions (2012)
Document No. 3	Merit Budget History - Exempt (2008-2013)
Document No. 4	Merit Budget History - Non-Covered/Non-Exempt (2008-2013)
Document No. 5	Utility Comparison - Total Salaries and Wages as a Percent of Operations and Maintenance Expense (2011)
Document No. 6	IBEW and OPEIU Historical Base Wage Adjustment (2008-2013)
Document No. 7	2011 BENVAL Study - Entire Benefit Program (Excludes Team Member Contributions)

Document No. 8 — 2011 BENVAL Study - Medical and Dental (Excludes Team Member Contributions)

Document No. 9 — Average Healthcare Cost per Active Team Member (2008-2012)

Document No. 10 — 2011 BENVAL Study - Defined Benefit and Defined Contribution (Excludes Team Member Contributions)

Q. What is Tampa Electric's basic philosophy with respect to its team members (employees)?

A. Tampa Electric's vision is to be a values-driven, results-focused company that is respected by its constituents which includes team members, customers, shareholders, the communities it serves and various governmental authorities. The company's core values are Safety, Integrity, Respect and Concern for Others, Achievement with a Sense of Urgency and Customer Service. Tampa Electric's vision is accomplished through engaged, motivated, talented team members who deliver results in a cost-effective and innovative manner. The company's workforce is built and maintained using a strategy of attraction, retention and development with the following areas of focus:

- Selection and promotion of talented, dedicated team members.

- Competitive fixed and variable compensation programs.
- Competitive benefits package.
- Alignment of team member development with company and individual career goals.
- Integration of Human Resource policies and procedures which value team members.

This focused philosophy provides Tampa Electric with a workforce dedicated to controlling costs and driving key performance metrics throughout the organization.

Q. What is Tampa Electric's projected total compensation and benefits cost and projected team member count for 2014?

A. As outlined in MFR Schedule C-35, Tampa Electric's total compensation and benefits cost is projected to be $295,381,075 for 2014. The average number of team members projected for 2014 is 2,455.

Q. What actions has Tampa Electric taken since its last base rate proceeding, filed in Docket No. 080317-EI, to control headcount?

A. Tampa Electric is committed to serving its customers by delivering reliable electric service in a cost-effective manner. This effort is driven by all team members working in both operations and support functions throughout the company, continually looking for ways to drive efficiency into the business. Staffing levels are one area of emphasis given the significant contribution of payroll and benefits to the company's overall costs. As such, all department leaders are expected to consider the need to fill a vacancy when one occurs. In order to ensure the company's continued focus on managing staffing levels, officer approval is required for every headcount addition. Tampa Electric's 2014 test year includes an average headcount of 2,455. This staffing level is nearly 100 positions below Tampa Electric's average team member headcount of 2,538 in 2008 and the 2,548 positions approved by the Commission for the 2009 test year in Tampa Electric's last base rate proceeding, in the final Order PSC-09-0283-FOF-EI issued on April 30, 2009 in Docket No. 080317-EI. This decreased staffing level occurred during a time period when the company has continued to add infrastructure to reliably support both existing and new customers.

The most significant contributor to this headcount reduction took place in mid-2009 when TECO Energy, Inc.

undertook a reorganization of its Florida operations including both Tampa Electric and Peoples Gas System ("Peoples Gas") in order to maintain a reasonable and prudent cost profile at both utilities. This action was taken after analyzing the results of the final Tampa Electric 2008 base rate proceeding order while considering a number of critical factors including the continuing economic uncertainty, energy sales declining in stark contrast to the energy sales increases projected in Tampa Electric's 2008 base rate proceeding, and our continuing desire to maintain a lean and efficient operation. Because of this effort, the Florida operations were streamlined and integrated to capture efficiencies and synergies throughout the entire organization. This integration led to a net reduction of 169 positions at Tampa Electric without adversely affecting service to our customers. All areas and levels of the organization were affected, excluding front line personnel.

Q. What are the objectives of Tampa Electric's total compensation and benefits programs?

A. Tampa Electric's compensation and benefits programs are designed to build and maintain a dedicated work force by competitively rewarding individuals compared to national and local markets. Specifically, the company's compensation program strives to drive success throughout the organization through a competitive compensation structure for each position targeting the market median (50th percentile) for total annual compensation based on job duties and responsibilities. Market median is predominately used as a compensation best practice and is advantageous over the mean or average since the median is less sensitive to outliers in market data.

Total annual compensation includes both a fixed component (base salary) and a variable component (Performance Sharing Program or "PSP"). The use of a variable compensation component helps control fixed compensation costs by putting a portion of total annual compensation at risk thus allowing Tampa Electric to react to market conditions while focusing team members on safety, productivity, efficiency, cost containment, reliability and customer service.

Q. Are Tampa Electric's total compensation and benefits costs reasonable?

A. Yes. Tampa Electric benchmarks both compensation and benefits costs on a regular basis against various market sources to ensure reasonableness. Cost control measures continue to be a major focus throughout the company.

COMPENSATION

Q. What resources does Tampa Electric use to evaluate its compensation programs?

A. Tampa Electric uses a number of nationally recognized resources to evaluate and benchmark its compensation programs. For managerial, professional, and technical positions, national compensation market data is typically used since the local labor pool does not always provide an adequate candidate pool for these types of positions. For administrative positions, local compensation market data is typically used since there is an adequate candidate pool available locally. Both general and utility specific market data are used as appropriate, depending on the type of position, since the company's workforce encompasses multi-industry talents. Skilled labor positions, covered by International Brotherhood of Electrical Workers ("IBEW") Local Union 108, are benchmarked during each collective bargaining agreement ("CBA") negotiation using southeastern utilities as the comparable group. The CBA is the contract between the union and the company that governs working conditions including wage scales, working hours, training, health and safety, overtime, grievance mechanisms and rights to participate in workplace or company affairs.

The primary sources of compensation data relied on by Tampa Electric include the following providers:

- Towers Watson, a leading global professional services company in the area of human resources.
- WorldatWork, a global nonprofit human resources association of more than 30,000 professionals and organizations focused on compensation, benefits, and human resources management.
- Mercer, a leading global human capital advisory firm. Mercer is also TECO Energy, Inc.'s independent actuary, 401k administrator and healthcare consultant.
- AonHewitt, a leading global provider of risk management, insurance and reinsurance brokerage, and human resource solutions and outsourcing services. AonHewitt is also TECO Energy, Inc.'s Funded Benefit Committee's investment advisor.
- EAP Data Information Solutions, LLC, a provider of cost effective and timely compensation and benefits support services to the Energy Services Industry (used for technical craft job benchmarking).

- Steven Hall & Partners Executive Compensation, an independent compensation consulting firm, specializing exclusively in the areas of executive compensation, board remuneration and related corporate governance issues. Steven Hall & Partners is also TECO Energy, Inc.'s Board Compensation Committee consultant.

Q. How does Tampa Electric's total annual compensation program compare to the market?

A. Tampa Electric's total annual compensation levels are slightly below the market median. A detailed benchmarking analysis of total annual compensation (fixed and variable) is performed on an annual or biennial basis for a core group of jobs defined as "benchmark jobs" to determine Tampa Electric's position compared to the market. The benchmark jobs include both exempt and non-covered/non-exempt ("NC/NE") jobs that provide an exact match between market data and a Tampa Electric job. This type of benchmarking analysis is standard throughout the industry. The most recent analysis, completed for 2012, included market data from Towers Watson, Mercer and EAP Data Information Solutions. Document No. 2 of my exhibit demonstrates that Tampa Electric has maintained its average total annual compensation for benchmarked exempt and NC/NE jobs slightly below the market median (50^{th} percentile).

As demonstrated in Document No. 3 and No. 4 of my exhibit, Tampa Electric's salary budget percentage used in its annual merit pay program has averaged below key market indices over the period 2008 to 2013. In addition, the percent increase for each individual year has predominately been at or below the average rates of key market indices.

Finally, Document No. 5 of my exhibit demonstrates the appropriateness of Tampa Electric's total salaries and wages as compared to a number of other utilities in the Southeast as reported in the Federal Energy Regulatory Commission ("FERC") Form-1 annual report for 2011. This analysis focuses on total salaries and wages as compared to total operations and maintenance expense and is expressed as a percentage. Document No. 5 of my exhibit demonstrates Tampa Electric's relative position at the median as compared to this benchmark group for 2011.

Q. Are the level of salaries and wages appropriate considering the recent economic downturn and current unemployment levels?

A. Yes. One of the many challenges facing the utility industry, including Tampa Electric, is attracting and retaining a qualified workforce. A significant portion of Tampa Electric's workforce consists of the following types of employees:

- Technical/professional team members, many of whom are in jobs requiring a college degree.
- Highly skilled craft team members most of whom were trained in-house through various on the job and classroom training programs.

Without competitive salaries and wages, the company would lose many well-qualified and talented team members and have a difficult time attracting prospective talent. Excessive turnover would be costly and negatively affect service to our customers.

Q. Describe Tampa Electric's annual merit pay process.

A. Tampa Electric's annual merit pay process is designed to provide team members an opportunity to earn an increase in base salary each year, in order to reward performance and to stay competitive with market compensation levels. This process is closely tied to Tampa Electric's performance management system, which requires team member performance to be monitored and documented throughout the year. At the end of each year, a final performance review is conducted with each team member, resulting in an overall performance rating. Following the year-end performance review, supervisors recommend an appropriate merit adjustment for each non-covered team member within their organization. These recommendations are then approved by each higher level of management through the officer level.

The first step in the annual merit pay process is establishing a salary increase budget based on market data. The following factors are then considered to determine each team member's eligibility for and level of merit increase:

- Available merit increase dollars as a percentage of total company base salaries. The overall merit increase percentage is approved by senior management based on a recommendation from Human Resource personnel, who predominately use the projected average salary increase percentage from the most recent WorldatWork Salary Budget Survey as the data source.
- Final overall performance review rating.
- Team member's current base salary relative to the market for their position's grade level.

- Appropriateness of a merit increase. Depending on the individual situation, recently hired team members, recently promoted team members, or team members not performing at or above the overall rating of effective may not receive a merit increase during the annual merit pay process.

Based on these factors, a team member may receive a merit award in the form of a base salary increase, a merit award in the form of a one-time lump sum payment, a combination of the two, or no merit increase.

Team members covered by a CBA do not participate in Tampa Electric's merit process. The company vigorously negotiates with each union during each contract cycle, and an annual base wage adjustment is normally included in the final overall agreement. Document No. 6 of my exhibit summarizes the base wage adjustments for each union during the period 2008 to 2013. Given that the base wage adjustment for IBEW Local Union 108 for 2013 is not yet known and the base wage adjustments for both IBEW Local Union 108 and OPEIU Local Union 46 for 2014 are not yet known, a three percent increase was used in the company's budget projections for 2013 and 2014. Three percent represents the final year base wage adjustment in each current CBA and provides a reasonable budget assumption until the next CBA is negotiated. The current IBEW base wage amounts are valid through March 31, 2013. Tampa Electric and IBEW Local Union 108 are currently in contract negotiations and expect to reach a final agreement on a new CBA sometime in April. The current OPEIU base wage amounts are valid through December 31, 2013. Negotiations with OPEIU Local Union 46 will take place in the fourth quarter of 2013.

Q. Describe Tampa Electric's Performance Sharing Program.

A. PSP is the same basic variable compensation reward program as the company's Success Sharing program that was approved as part of the company's 1992 and 2008 rate cases. The program was re-named after the company's reorganization in 2009 as part of a goal to bring consistency to all of the compensation and benefit programs covering the company's Florida team members (Tampa Electric, Peoples Gas, and TECO Energy, Inc.). PSP provides for a potential annual incentive payout based on achieving key operational and financial goals. The intent of the program is to maintain Tampa Electric's position relative to the market in total annual compensation while putting a portion of this pay "at risk" to drive and motivate team members to achieve high levels of performance. Overall, the program emphasizes safety, cost control and resource optimization through a link with business performance and personal contributions. PSP goals are established at the beginning of each year, and therefore, the specific goals for 2014 have not yet been determined. However, 2014 goals are expected to be consistent with the 2013 PSP goals, which include the following targets:

- Limit the company-wide Occupational Safety and Health Administration ("OSHA") recordable incidence rate to 0.80 or less. This normalized rate is calculated by multiplying the number of OSHA recordable incidents times 200,000 then dividing by the number of team member hours worked. This results in an incidence rate equivalent to the number of recordable incidents per 100 team members working for an entire year.
- Achieve near miss reports totaling at least 6,200. Given the operating environment most utility team members experience on a daily basis, the company developed the Near Miss program to encourage team members to recognize potential hazards in their day-to-day jobs and to eliminate these hazards before the occurrence of a safety incident. This program also provides the company with a method to document events

which have a safety learning opportunity so that other team members can benefit by these safety related experiences.

- Complete at least ten LEAN projects. LEAN projects are continuous improvement efforts that are broad in nature and usually address inter-department processes.
- Develop and implement four customer-centric solutions that support the improvement of customer satisfaction in reliability, price, customer solutions and corporate citizenship.
- Achieve a 100 percent team member skill gap analysis. Develop a strategy and project plan to close any skill gaps.

The PSP target payout included for cost recovery in the company's rate request is five percent for most team members. The target portion of PSP includes goals related to safety, process improvements, customer satisfaction and team member skill or knowledge enhancement. An additional seven percent potential payout relates to financial performance, but it is not included in the company's rate request. The average actual payout for PSP for the period 2008 to 2012 was 4.54 percent with a range of 2.0 percent to 10.19 percent.

For officers and key employees, the PSP target payout included for cost recovery in the company's rate request varies by position and level but maintains total annual compensation at the market median for the exempt employee group and includes both operational and financial components. In Tampa Electric's 2008 rate proceeding Final Order No. PSC-09-0283-FOF-EI, issued on April 30, 2009 in Docket No. 080317-EI, operating expenses were reduced for the portion of incentive compensation tied directly to TECO Energy Inc.'s results. While the regulated companies make up the large majority of TECO Energy Inc.'s diversified interests, and incentives tied to the parent company are highly dependent on the operating performance of Tampa Electric, the company acknowledges that a small fraction of incentive compensation is tied to the performance of a non-regulated affiliate. As such, consistent with the methodology adopted by the Commission in the prior rate case, $1,247,000 of Tampa Electric officer and key employee target incentives directly related to TECO Energy, Inc. results have been excluded from the company's 2014 test year rate request. This includes 100 percent of incentive compensation for officers and 20 percent for key employees. Any payout above target levels is not included in the company's rate request and based on exceeding net income targets for that year.

BENEFITS

Q. Describe Tampa Electric's benefits package.

A. Tampa Electric's benefits package is designed to maintain a competitive position within the market in order to attract, retain, and develop competent and qualified team members. These benefits include a comprehensive package including health and welfare benefits, retirement and post-employment benefits, various employer provided benefits required by law and other miscellaneous benefits.

Employer provided benefits that are required by law include social security taxes, Medicare taxes, federal and state unemployment taxes and workers' compensation insurance. Other miscellaneous benefits include long-term stock based compensation, tuition assistance, service awards, carry-over vacation liability and adoption assistance.

Q. What is Tampa Electric's projected benefits cost for 2014?

A. Tampa Electric's total benefits cost is projected to be $81,242,375 in 2014 with the following breakdown:

• Health and welfare	$25,826,000
• Retirement and post-employment	$29,481,000
• Various benefits required by law	$19,333,605
• Other miscellaneous benefits	$ 6,601,770

Q. How does Tampa Electric evaluate the design and cost of its benefit programs?

A. Tampa Electric uses the Towers Watson BENVAL study, a nationally recognized and accepted actuarial tool that compares the value of a company's overall benefit plan and its various components with other companies' plans contained within the Benefits Data Source - United States database. Specially, Tampa Electric used the 2011 Energy Services BENVAL revenue grouping B as its comparator group. This group includes 15 utility companies with revenues in the range of $1.5 billion to $6.0 billion.

BENVAL uses consistent actuarial methods applied to a fixed population in order to determine a relative value index for each benefit plan component. As a result, the differences in value among employer plans are exclusively a function of differences in the plan provisions. A relative value index score for each company's benefit plan component is calculated by analyzing and determining the value of each company's benefit plan component and then dividing each company's value by the average benefit plan value for each component among all of the companies in the benchmark group. A relative index of 100 represents the average company's relative value index. BENVAL data is presented for both non-union (Exempt and NC/NE) and union employee groups.

As shown in Document No. 7 of my exhibit, Tampa Electric's BENVAL Index score for its total benefit program is 91.3 for non-union (Exempt and NC/NE) team members and 90.7 for union team members. Both are below the index average of 100. This means that the company's total benefit program is below the average while still providing a value that is competitive within the industry.

HEALTHCARE BENEFITS

Q. What is Tampa Electric's projected healthcare cost for the test year?

A. Tampa Electric's total 2014 healthcare cost, including medical and dental expenses, is projected to be

$20,072,200 for active team members and $9,413,000 for post-retirement benefits based on the actuarial healthcare expense associated with both active team members and current retirees.

Q. How does Tampa Electric's healthcare plan compare to industry standards?

A. As shown in Document No. 8 of my exhibit, based on the results from the Towers Watson BENVAL study, Tampa Electric's relative value index score for medical and dental is 94.0 for non-union (Exempt and NC/NE) team members and 88.2 for union team members. Both are below the index average of 100. This means that the company's medical and dental plans are below the average while still contributing to an overall benefits program that is competitive within the industry. Tampa Electric's medical and dental plan index score is below the average driven predominately by the elimination of retiree medical for new hires effective April 1, 2010.

Q. What has been Tampa Electric's experience in managing its healthcare costs?

A. Tampa Electric recognizes that healthcare costs continue to be a major expense within its benefits program. As such, the company strives each year to provide team members with a quality medical and dental offering that is competitive in the market while recognizing the importance of controlling the company's expense growth in this area. The company is committed to controlling healthcare spending while minimizing plan design changes that are reductions in coverage and increases in the cost share paid by team members.

Q. What specific initiatives has Tampa Electric pursued to control its healthcare costs?

A. Healthcare cost control is a key strategic initiative for Tampa Electric. The company considers the appropriate design and administration of its healthcare programs each year. In 2009, Tampa Electric implemented a full replacement of its medical plan offerings for active team members with two new consumer driven health plan options. These new options drive team member healthcare engagement by putting more responsibility and flexibility into the hands of team members to ensure that they make the most appropriate, cost-effective decisions when it comes to their healthcare.

expenses, the company determined that numerous components for the system required replacement or refurbishment to ensure that the solid fuel handling system would be viable for at least an additional 20 years. Thirty separate components of the system were identified and the maintenance work has been ongoing since 2011. The system must continue to operate to support plant operation during this project which requires prudent scheduling and sequence of project activities. Units of property are being placed in-service as the work is completed, and the total cost of this project is expected to be $62.2 million.

Completion of the Big Bend Flue Gas Desulfurization ("FGD") reliability and gypsum storage program - This program was necessary to ensure that the FGD system will continue to operate in a reliable fashion and maintain compliance with environmental regulations for the four coal units at Big Bend Power Station. The FGD reliability activities are expected to be completed in 2014 at a total cost of $59.5 million. This program also included the addition of a second gypsum storage area that was needed to effectively manage the production, quality and storage of high grade gypsum. This gypsum is marketed and sold for beneficial reuse to program through 2012.

- A comprehensive wellness program that includes recognition of the importance of safety initiatives on the overall welfare of team members.
- Continuation of disease management programs for the most prevalent chronic diseases among the company's medical plan participants.

These changes have contributed to Tampa Electric healthcare costs per employee for active team members remaining below the national average between 2008 and 2012. Document No. 9 of my exhibit demonstrates Tampa Electric's average healthcare cost per active team member compared to the national average based on Mercer survey data.

For 2014, Tampa Electric's medical and dental costs for active team members are projected to be $20,072,200 or $8,176 per team member. In the company's 2008 rate proceeding, the projected 2009 test year medical and dental expense approved by the Commission was $7,397 per team member. This is a 10.5 percent increase per team member over the five year period or an average increase of 2.1 percent per year. This is well below the national average medical trend according to PricewaterhouseCoopers

("PWC"). PWC reports that the national medical cost trend between 2009 and 2013 averaged an increase of 7.4 percent per year with no plan changes, or 5.8 percent per year including plan changes. During this period, Tampa Electric's medical expense increase for active employees was significantly less than the national average with only one minor plan design change in 2011.

Q. What factors are driving the substantial increases in healthcare costs projected to occur over the next few years in the U.S.?

A. There are a number of factors influencing the continuing rising cost of health care in the United States. In September 2012, the Bipartisan Policy Center ("BPC") released a new report, "What is Driving U.S. Health Care Spending? America's Unsustainable Health Care Cost Growth." The BPC is a Washington, D.C. based think tank actively promoting bipartisanship and was founded in 2007 by four former Senate Majority Leaders. It focuses on issues related to health care, energy, national and homeland security, transportation and the economy.

The 2012 BPC report identified the following key cost drivers:

- Aging population growth.
- Fee-for-service reimbursement that generates a strong incentive to perform a high volume of tests and services.
- Fragmentation of care delivery, where providers are paid for volume rather than patient outcomes.
- Administrative burdens resulting from a complex system of payment and delivery.
- A rapid increase in the number of individuals affected by chronic diseases.
- Medical technology advances that can both increase health system efficiency and encourage unnecessary utilization of expensive treatments.
- Unit prices that continue to increase throughout the U.S.
- Medical malpractice concerns causing many physicians to significantly drive up costs by ordering unnecessary tests and treatments.

In addition to the cost drivers outlined in the BPC's report, Tampa Electric has been exposed to several other significant factors affecting health care cost increases which are worthy of mention. They include the following:

- The implementation of government mandates like the 2010 Patient Protection and Affordable Care Act.

- Continued focus on direct consumer advertising especially by pharmaceutical companies.
- Increased utilization and pricing of prescription drugs especially in the specialty drug category.
- Physician and hospital groups leveraging their size to maximize their profits in negotiations with insurance companies, *i.e.,* third party administrators and network providers for self-insured plans.

Q. What is the impact of these cost factors that you have identified on Tampa Electric's future healthcare costs?

A. Given the cost control initiatives discussed previously, the impact of these cost factors results in projected Tampa Electric active and post-retirement medical and dental benefits expense of $29,485,200 for 2014. This represents an increase over the 2013 budgeted expense of 4.4 percent and a decrease of 9.6 percent from Tampa Electric's 2009 test year projection in Docket No. 080317-EI.

PENSION AND RETIREMENT SAVINGS BENEFITS

Q. What is Tampa Electric's projected retirement expense for pension and retirement savings in the test year?

A. The total projected retirement expense for 2014 is $20,068,000. The pension plan (Defined Benefit) expense is $14,495,000 and is based on Mercer's actuarial study. The retirement savings plan or 401k (Defined Contribution) company match expense is $5,573,000 and is based on internal projections of 401k team member contributions and the resulting fixed company match.

Q. How does Tampa Electric's pension plan and retirement savings plan compare to industry standards?

A. Tampa Electric offers both a defined benefit pension plan and a defined contribution retirement savings plan as part of its overall benefits package. The company's defined benefit plan for new hires utilizes a pension equity formula based on age and service credits for each year of employment and final average earnings. The pension equity formula was adopted in 2001, replacing a more expensive traditional pension plan formula. Tampa Electric's defined contribution plan is a traditional 401k plan. As shown in Document No. 10 of my exhibit, based on the results from the Towers Watson 2011 BENVAL study, Tampa Electric's relative value index score for the combination of the defined benefit and defined contribution plans is 76.6 for non-union (Exempt and

NC/NE) team members and 81.0 for union team members. Both are below the index average of 100. This means that the company's defined benefit and defined contribution plans are below the average while still contributing to an overall benefits program that provides a competitive value within the industry. Tampa Electric's defined benefits and defined contribution index score is below the average driven predominately by the company's retirement savings plan (401k) fixed company match.

Q. Is it common to use an independent actuarial firm to compute pension and post-retirement benefit costs?

A. Yes. It is routine, necessary, and an accepted business practice at Tampa Electric and in the electric utility industry to rely on reports prepared by an independent actuary to establish pension and post-retirement benefit expense and funding amounts. Tampa Electric's pension cost is computed as part of the annual TECO Energy, Inc. actuarial valuation performed by Mercer in accordance with Financial Accounting Standards Board ("FASB") standards.

Q. How are Tampa Electric's pension benefit costs calculated, taking into account pension-related common costs allocated from the parent company, TECO Energy, Inc.?

A. Most of Tampa Electric's pension costs, including projected benefit obligation, service cost and interest cost components, are computed directly based on the demographics of the company's actual team members and retirees. Other components, such as expected return on assets and amortization of gains or losses, use an allocation method to allocate TECO Energy, Inc.'s total expense across its subsidiaries. Expected return on assets and amortization of gains or losses are computed for each company based on their beginning of the year allocated assets, allocated contributions, and expected benefit payments. Asset values are brought forward each year based on allocated contributions, actual benefit payments and actual return on assets allocated pro rata based on beginning of the year asset values. As a result, each TECO Energy, Inc. company receives its appropriate and equitable share of expected return on assets and amortization of gains or losses. This method of determining Tampa Electric's pension cost is reasonable, fair and equitable and results in no cross-subsidization of cost between Tampa Electric and its affiliates.

Q. Do the actuarial assumptions and methods provide a reasonable basis for determining the level of pension costs to be included in the company's operating cost?

A. Yes. The actuarial assumptions and methods are reasonable and consistent with FASB standards and industry practice and provide a reasonable basis for determining the level of pension cost included in Tampa Electric's cost of service studies.

AGING WORKFORCE

Q. What specific initiatives has Tampa Electric pursued to address the aging workforce?

A. The aging workforce is an important issue facing most utilities across the nation. Tampa Electric views the "graying" of the workforce as an issue that needs to be proactively addressed with more specific emphasis in certain areas of the company. The areas of technology and the skilled trades are of particular concern. The company implemented the following initiatives over the past few years:

- Continuation of a comprehensive succession plan for leadership and technical positions identified as strategic or critical to the continued success of the company. Over the past two years, this included a comprehensive talent review of every director-level and manager-level team member to discuss career aspirations and potential for succession.

- Established a goal in 2012 for 100 percent of all exempt and NC/NE team members to have an active Individual Development Plan.
- Developed a pilot knowledge-transfer program, using technology to capture and store technical information and knowledge from a small number of the most critical technical positions.
- Targeted-mentoring, cross-training, management level development programs and job rotation programs.
- Continuation of a four-year apprentice program for developing and transferring knowledge and skills acquired by journeyman linemen.
- Establishment of a Skills Training group within the Energy Supply business unit for technical training. This effort is similar to the long established technical training group within the Energy Delivery business unit.
- Continuation of a partnership with Hillsborough Community College to further develop the company's skilled workers (*e.g.*, linemen) by granting college credit for in-house training programs. The credits can

be applied to the Associate in Applied Science Degree in Industrial Management.

- Partnerships with several local colleges and universities for classes at Tampa Electric's Skills Training Center to facilitate ease of attendance.

Q. Have Tampa Electric's efforts in dealing with an aging workforce been reviewed recently?

A. Yes. In its June 2011 report entitled *Review of the Aging Workforce of the Florida Electric Industry*, the Commission's Office of Auditing and Performance Analysis, citing a number of Tampa Electric's initiatives in this area, concluded that the company has proactively taken steps to address the risks associated with the aging workforce. The staff further determined that the company's succession planning efforts are also adequate.

SUMMARY

Q. Please summarize your direct testimony.

A. My direct testimony outlines the major aspects of Tampa Electric's compensation and benefits programs. Tampa Electric's total compensation and benefit costs are projected to be $295,381,075 in 2014 and are both reasonable and prudent based on market comparisons. The company's workforce strategy is to attract, retain and develop motivated, skilled team members who are dedicated to controlling costs and driving key performance metrics while supporting Tampa Electric's core values: Safety, Integrity, Respect and Concern for Others, Achievement with a Sense of Urgency and Customer Service. Tampa Electric continues to aggressively manage its healthcare programs in order to maintain annual cost increases at rates below the national average. From a compensation standpoint, Tampa Electric maintains fixed and variable compensation at or just below the market median, providing a means to competitively reward team members while controlling compensation-related costs.

Overall, Tampa Electric's total compensation and benefits philosophy has served the company and its customers well. Moving forward, Tampa Electric must continue to provide similar levels of compensation and benefits in order to stay competitive within the marketplace. This is necessary to retain the company's current high performing team members and attract similar new team members in the future. The 2014 projected level of compensation and benefits expense is reasonable and necessary to accomplish this goal.

Q. Does this conclude your direct testimony?

A. Yes, it does.

TAMPA ELECTRIC COMPANY
DOCKET NO. 130040-EI
FILED: 08/08/2013

BEFORE THE PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

BRAD J. REGISTER

Q. Please state your name, business address, occupation and employer.

A. My name is Brad J. Register. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Director, Compensation and Benefits.

Q. Are you the same Brad J. Register who filed direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address errors and shortcomings in the prepared direct testimony of witness Schultz, testifying on behalf of the Office of Public Counsel ("OPC") and witness Kollen, testifying on behalf of the WCF Hospital Utility Alliance. I also address one additional issue on Supplemental Executive Retirement Plans that was not the subject of intervener testimony, but was added to the issues list for this case.

Q. Have you prepared an exhibit supporting your rebuttal testimony?

A. Yes. My Exhibit No.___ (BJR-2) contains one document that was prepared by me or under my direction and supervision and is entitled "Details of Headcount Increase by Position."

Q. Please summarize the key concerns and disagreements you have regarding the substance of witness Schultz's testimony.

A. My key concerns and disagreements with the interveners are as follows:

1. The recommended 2014 test year headcount by witness Schultz is not the appropriate level based on the 2014 workload needs of Tampa Electric to appropriately serve its customers. The projected headcount in MFR Schedule C-35 of 2,455 is the appropriate level for the test year based on the

company's workload projections.

2. Witness Schultz's perspective on Tampa Electric's annual incentive program does not appropriately recognize the company's annual compensation benchmark analysis and the importance of the Performance Share Program to maintain total annual compensation near the market median enabling the company to continue to attract and retain high caliber team members.

3. Witness Schultz mischaracterizes the company's stock compensation program, including who participates in the plan, and his testimony does not recognize the appropriateness of this approach to compensation for the company's officers and key employees in order to hold their total remuneration near the market median enabling the company to continue to attract and retain the high caliber team members in this group.

HEADCOUNT

Q. Are there any inconsistencies in the headcounts in the company's filing and its responses to discovery requests?

A. No. Witness Schultz points to inconsistencies that simply do not exist. For example, he inappropriately compares the company's responses to Staff's Sixth Set of Interrogatories No. 95 and Office of Public Counsel's ("OPC") Eleventh Set of Interrogatories No. 141. These two interrogatories ask two different questions from two different time perspectives. Therefore, two different answers were submitted in response to these two interrogatories which should not be a surprise when someone analyzes the details of each question and answer. Staff's Sixth Set of Interrogatories No. 95 requests a comparison based on average headcounts, and OPC Eleventh Set of Interrogatories No. 141 requests a comparison based on specific reference months (December 2012 and December 2014). Headcounts within Tampa Electric and most companies change almost daily due to new hires, terminations, retirements and voluntary resignations. As a result, a meaningful headcount analysis requires more than simply subtracting two numbers to get the resulting difference.

Q. Are there any fundamental differences in the headcount numbers contained within MFR Schedule C-35 for certain years that affect the responses to the interrogatories addressed in witness Schultz's testimony?

A. Yes. On MFR Schedule C-35, the headcount numbers, *i.e.* average number of employees, for the years before and including 2012 are based on the actual number of team member ("employees") at Tampa Electric. The average headcounts for these years do not include budgeted positions that are not yet filled each month ("vacancies"). For the future years of 2013 and 2014, the headcount numbers include currently filled positions at the end of 2012, unfilled positions at the end of 2012 that were budgeted in 2012, and new positions for 2013 and 2014 which are needed based on the workload projections of the various business units. The appropriate number of positions, whether budgeted and managed in dollars as the company did prior to 2013 or budgeted by headcount (and managed in dollars) as the company implemented after its ERP system project in 2012, is determined by each department based on their projected workload and responsibilities.

Q. Do you agree with witness Schultz's assertion that there is an issue with the way the company budgets payroll?

A. No. While I do agree that employee count is an important component of determining an individual department's budgeted payroll needs, I do not agree that headcount is the most appropriate and correct way to track and monitor actual payroll expenses. At Tampa Electric, all department head leaders are held accountable for the expenditures within their respective areas. From a payroll perspective, the company does not simply count heads to manage the business, but manages the expenses associated with overall workforce labor. This includes managing not only the base salary of team members, but all labor resource expenditures including overtime, temporary employees, contractors, etc.

Q. Do you agree with witness Schultz's position that the addition of an average of 114 employees for the rate case test year compared to 2012 actuals is questionable?

A. No. Witness Schultz makes a number of assertions and conclusions all intended to support his position related to Tampa Electric's requested headcount additions. However, none of his issues really address the most important question, namely whether Tampa Electric's headcount for 2014 is a reasonable and prudent level based on the workload in the test year? Below I address a number of items spread throughout his testimony that are incorrect or misrepresentations of the facts.

Witness Schultz suggests that the 2,548 headcount approved by this Commission for the 2009 test year during the company's last base rate proceeding (Docket No. 080317-EI) never materialized. In fact, considering the first six months of 2009, the average headcount at Tampa Electric was 2,533, almost equal to the approved test year headcount. As discussed in my direct testimony, the company undertook a reorganization in mid to late 2009 which affected the overall headcount at Tampa Electric. This reorganization was a business management decision necessary to maintain a reasonable and prudent cost profile given the changing electric revenue profile taking place at that time. As a result, a substantial number of team members left the company in late 2009 resulting in an actual headcount for the full year below the Commission approved level. The downsizing which occurred during the 2009 reorganization was a difficult response to a serious revenue situation; it caused individual team members to significantly increase their workload and responsibilities, which is potentially sustainable in the short-term but not in the long-term. Witness Schultz's reliance on the full year average for 2009 is misleading, especially since the company's actual headcount for the first six months, before the reorganization, was within one percent of the number approved by the Commission.

Witness Schultz points to the March 31, 2013 actual headcount being below the projected headcount budget for March 2013 as another reason to question the test year request. In fact, the actual headcount in a particular month will almost always be below the budgeted headcount for that month because actual headcount numbers do not include vacant positions while budgeted headcounts do. Budgeted payroll is based on the team member resources needed to complete all work as projected by the individual department heads. Currently, at any given time, an average of about 30 positions will be vacant at Tampa Electric as the company's Recruitment and Staffing group works to fill these positions. In essence, there will always be transitional vacancies since new vacancies constantly result from team members leaving the company, as well as from team members filling internal vacancies, which in turn causes a vacancy in their former position. Even though some positions are vacant, all the work must still be completed to safely and reliably serve all of our customers. This means that the dollars budgeted during the period when a position is vacant will be used to ensure that the work associated with that position is completed. This is accomplished via a number of methods to complete the required work including the use of temporary employees, contractors, increased overtime of existing team members, and spot bonuses for exempt team members being asked to carry a substantially greater workload resulting in substantially increased work hours. Just recently, Tampa Electric transferred one of its existing Human Resources team members into the Recruitment and Staffing area to work on reducing the average number of vacancies and the average time to fill a job. This addition increases the number of recruiters by 33 percent and should have a positive future impact on reducing transitional vacancies.

Witness Schultz suggests the company has not provided sufficient support for the additional positions requested. As detailed in response to Staff's Sixth Set of Interrogatories No. 95 and Document No. 1 of my exhibit, a total of 82 new positions are being added in 2013 and 2014. Of these positions, 94 percent are in the front line areas of Customer Service, Energy Delivery, and Energy Supply. The need for these positions is discussed in detail by Tampa Electric witnesses Karen J. Lewis, S. Beth Young, and Mark J. Hornick.

Witness Schultz also states that "Tampa Electric has a history of requesting significant amounts of additional positions that never are filled, yet ratepayers are supporting these unfilled positions" but offers no testimony in support. His statement is simply not correct. It is a misplaced view of the broader concept of vacancies somehow suggesting that we are always talking about the same positions always being vacant. That couldn't be further from the truth. Positions become vacant and are filled, thus eliminating that vacancy. At the same time, other positions become vacant due to team members leaving the company or transferring to a different job creating a new, but distinctly different vacancy. In addition, witness Schultz completely missed the important concept that even though a position is vacant, the work associated with that position still has to be accomplished requiring resource dollars which are available from the original budget associated with the position.

An analysis of the positions that contribute to the 114 average headcount increase between the 2014 budget average and the 2012 actuals average shows that they are roughly split into three equal parts. About 1/3 of the positions are vacancies that were unfilled at the end of

2012, about 1/3 are new positions for 2013, and about 1/3 are new positions for 2014. Of the 2012 hold over vacancies and the 2013 new positions, 85 percent have already been filled, 4 percent are in the process of being filled, and 11 percent will be filled during the remainder of 2013. This demonstrates Tampa Electric's vigilance in filling the positions which are budgeted based on the business units' workload requirements.

Q. What specific new positions has Tampa Electric proposed to add during 2013 and 2014 and what is the justification for these new positions?

A. In response to Staff's Sixth Set of Interrogatories No. 95 and Document No. 1 of my exhibit, Tampa Electric details the 82 new positions which it plans to add in 2013 and 2014. While additional details and justifications on most of the new positions are provided in the testimony of witnesses Lewis, Hornick and Young, I would like to provide a few summary comments. It is important to note that these new positions have a much lower average gross salary ($58,720) than the company's overall employee population average ($87,226) and that no officer, director, or managerial additions are included in this group with the exception of one supervisor over the new Water Plant Operations group. Quite a few of these new positions are administrative or frontline starting positions with over half of the proposed new positions being Customer Service Professional's ($34,000 base salary) or Apprentice Linemen / Apprentice Substation Electricians ($45,000 base salary).

Ten new positions are in Customer Service. Eight of these positions are directly supporting customers as Customer Service Professionals or Billing Specialists and two are new staff support positions in areas currently without adequate administrative support. These additions will improve service to our customers and should improve overall Call Center metrics.

Forty-six new positions are in Energy Delivery. Thirty-two are Apprentice Linemen, eight are Apprentice Substation Electricians, and two are Cable Splicers. These are all front line craft positions supporting the operation of Tampa Electric's Energy Delivery system. These positions are needed to support increased capital including the Polk 2-5 Combined Cycle Conversion Project, to maintain the company's aging infrastructure, and to prepare for future linemen and substation electrician retirements. The remaining four positions are needed due to increased workload in the areas of Energy Delivery training (DDT Training Administrator), relay testing requirements (Relay Specialist), and Volt/Var Smart Grid new technology (Associate ESE and Systems Engineer).

Twenty-one new positions are in Energy Supply. Thirteen are needed for Water Plant Operations at the new waste water treatment facility to support the current and future operation of the Polk Power Station site. Seven are new internal positions directly supporting the Polk 2-5 Combined Cycle Conversion Project. One final engineer position is in the Energy Supply Planning, Strategy and Compliance group, due to new workload associated with expanded NERC/CIP reliability standards compliance.

The remaining five new positions are: Power Originator - needed due to increased workload related to wholesale power market activity; Smart Grid Administrator - needed by the Information Technology department to support the Energy Delivery Smart Grid implementation; Senor Account Manager - needed to provide increased support to Commercial and Industrial customers; Telecom Apprentice

Electricians (2) - needed to support system expansion and supplement the existing workforce to prepare for future retirements of Telecom Electricians beyond the four year apprentice training period.

Overall, these incremental positions are needed due to capital expansion including the Polk Project, increased workload associated with the company's aging infrastructure, to prepare for future retirements, to maintain system reliability, to improve direct customer service including Call Center metrics, to address compliance requirements, and to address workload additions due to new technologies like Smart Grid.

Q. In addition to the detailed headcount justifications provided by company witnesses, is there an overall headcount measure which shows that the company's proposed headcount is reasonable?

A. Yes. The ratio of customers served per team member shows that the company's proposed level of staffing as reflected in its headcount is reasonable. For 2009, the company's previous test year, the Commission approved a headcount of 2,548 when the company's average customer count was 666,750. This results in a customer to team member ratio of 262. For 2014, the test year in this case, the requested headcount is 2,455 with a projected customer count of 701,415. This results in a customer to team member ratio of 286. Given the improvement in this ratio and the more significant detailed headcount related testimony provided by Tampa Electric's witnesses, the Commission should approve the 2014 test year headcount request of 2,455 to be reasonable and prudent.

Q. Does the history discussion in witness Schultz's testimony justify his recommendation of 2,351 positions in the test year?

A. No, for several reasons. First, witness Schultz suggests that looking back at actual headcount increases during the entire period before the company's last rate case (1992 to 2007) is appropriate and somehow supports his position on Tampa Electric's 2014 test year headcount. This approach is arbitrary and unreasonable because it is unaccompanied by any proof that operating conditions for the company from 1992 to 2007 are similar to current and future expected operating conditions, which they are not.

If looking back at headcount during the period of 1992 to 2007 were an appropriate measure, one might suggest that the average headcount in this entire period (1992 to 2007) somehow demonstrates the appropriate headcount in the 2014 test year. That would result in a request for 2,778 positions based on the 1992 to 2007 average, substantially above Tampa Electric's actual request of 2,455 for 2014. This flawed logic is simply not an appropriate comparison in either case. Headcount for the test year should be based on a prudent and reasonable current year headcount including vacancies and new additions to address increased workload as anticipated in the test year due to new technologies, capital expansion, increased customers, increased maintenance, improved reliability, improved customer service, etc.

Second, witness Schultz seems to suggest that Tampa Electric's decline in the average number of positions in 2009, 2010, and 2011 somehow supports his position that no headcount increase is needed between 2012 and the 2014 test year. As previously discussed, the headcount numbers during the 2009 through 2011 period were driven by the company's reorganization in 2009 and a conscious decision to refrain from adding new positions and from filling some vacant positions in order to address revenue shortfalls. This was a very difficult position for management to take given the stress it placed on team members to deliver on all of their increased job responsibilities while continuing to contribute to the delivery of reliable service to our customers as the company' system continued to expand and the total number of customers continued to increase. To suggest that this hard work somehow demonstrates and justifies no need for future headcount increases is flawed logic. If you remove this extraordinary period of 2009 to 2011 and focus on the remaining most recent years (2006, 2007, 2008, and 2012), Tampa Electric's required headcount grew an average of 50 positions per year on an actual basis. The growth rate during these more normal business times closely aligns with the average headcount increase of 114 requested for the two-year period between 2012 and the 2014 test year. Again, it is important to remember that the new positions added over this two-year period total only 82 (41 per year average) with the remaining resulting from filling vacant positions budgeted in 2012 to eliminate the replacement resource expenditures discussed previously.

Finally, witness Schultz tries to suggest that the headcount of 2,548 approved for 2009 by the Commission is somehow flawed causing an improper over-recovery of payroll expense from 2009 to 2012. He further seems to suggest that somehow the previously approved level of headcount somehow helps to justify his position that headcount from 2012 to 2014 should only be increased by 10.

This logic is flawed. While Tampa Electric's total payroll expense not including the expenses associated with the corporate restructuring in 2009, in the period 2009 to 2012 was below the Commission approved level set in 2009, any over-recovery argument only considers this topic in a vacuum. During this same period, Tampa Electric's benefit expense was higher than the 2009 Commission approved level resulting in an under-recovery in this area. Both of these arguments individually are still looking at the issue of appropriate cost recovery in a vacuum. The meaningful point is that at no time during this period was Tampa Electric earning above its allowed rate of return. In other words, Tampa Electric was managing its total budget and resources in a manner consistent with overall Commission approved levels at a time when Commission approved expected revenue never materialized. Overall, during this time period, Tampa

Electric undertook the appropriate actions to control its cost profile in order to avoid another rate case during this period.

Q. What is the significance of the apprenticeship program discussed in witness Schultz's testimony?

A. Witness Young has discussed these programs in great detail in her testimony, but I would like to offer one additional thought on the program's importance to Tampa Electric's overall aging workforce strategy. The lineman and substation electrician apprenticeship programs and their new entrants are very important to the successful operation of the company's energy delivery system. In addition to providing additional needed lower cost manpower for upcoming capital projects and supporting increased maintenance needs, these programs are also feeder programs with a four year training cycle which are used to populate a number of critical jobs including linemen, substation electricians, troublemen, system dispatchers, and operations supervisors. The people who serve in these positions are directly involved in ensuring the company's electric system will reliably and safely deliver power to our customers. It is critically important that Tampa Electric continue to add to these ranks to mitigate the effects of the aging work force given the potential retirements of the experienced and knowledgeable team members in these areas within the next five years. Absent a workable apprenticeship program for these key positions, the company will likely find itself in a position in the future where it cannot fill positions that are vital to good customer service. In this regard, witness Schultz's criticism of the company's "continuation" of an apprentice hiring and training program is misguided, short sighted and fails to consider the realities we are facing in the labor market.

Q. Do you agree with the adjustment witness Schultz recommends to the employee complement and the associated calculation methodology included in witness Schultz's Exhibit ___ (HWS-2), Schedule C-1?

A. No. Witness Schultz has provided no testimony to demonstrate the reasonableness of his projected headcount in 2014 which would eliminate 104 positions from Tampa Electric's proposed 114 average headcount increase which results from the addition of 82 new positions in 2013 and 2014 and the filling of the vacant budgeted positions which existed at the end of 2012. Further, any use of his disallowance calculation is flawed as it uses the overall gross average salary of all positions included in the 2014 test year as its starting point. A proper calculation should use the gross compensation for the actual positions that are proposed to be eliminated. Given that we really don't know exactly which positions witness Schultz is proposing to eliminate, there is no possible way to make this calculation. However, to demonstrate how far off witness Schultz's methodology really is, I would offer the following. The gross average salary in the test year as shown on MFR C-35 is $87,226. This includes both base salary (fixed) and PSP (variable pay). For the 82 new positions proposed to be added in 2013 and 2104, the average gross compensation is just over $59,000. Therefore, the method used by witness Schultz in Schedule C-1 is over-stated by approximately 32 percent.

PERFORMANCE SHARING PROGRAM

Q. Does witness Schultz correctly characterize Tampa Electric's Performance Sharing Program?

A. No. Throughout witness Schultz's testimony, there are numerous mischaracterizations and misstatements about the appropriateness of Tampa Electric's Performance Sharing Program ("PSP") and its design as presented in my direct testimony. Most of the arguments center on the design of the PSP program. I believe that the details of the PSP design should be left up to the company's management. They are the ones responsible for maintaining the financial integrity of the company and for providing safe and reliable electric service over the long-term and they are in the best position to determine the most efficient way to run the company from year to year as conditions change. From a regulatory perspective, the inquiry should be whether the total expense of Tampa Electric's overall compensation program is reasonable and prudent and whether the level of PSP included in this analysis contributes to an appropriate total annual compensation level.

Q. Why is PSP an important part of Tampa Electric's overall compensation program?

A. All positions are initially evaluated relative to the market median for that position to determine the appropriate average total annual compensation level. The company then performs benchmark studies for a core group of jobs to ensure that the company's compensation keeps pace with the market median level. As demonstrated in my direct testimony, Tampa Electric was just below the market median for total annual compensation as tested in the 2012 benchmark analysis. This compensation analysis includes both a fixed component and a variable component. Tampa Electric's annual merit pay process is designed to provide team members an opportunity to earn an increase in base salary (fixed compensation component) each year in order to reward individual performance and to stay competitive with appropriate market fixed compensation levels. Tampa Electric's PSP program is the variable component of pay intended to maintain total annual compensation levels at the market median.

Q. Is the annual incentive pay really "at risk"?

A. Yes. Witness Schultz incorrectly raises the idea that the PSP incentive is not "at risk" by stating that almost every employee gets the payout each year. This totally misses the point of this program. For over 93 percent of the company's team members, not including officers and key employees, PSP is "at risk" as to the amount paid each year not to the percentage of individuals who receive PSP as all team members in good standing receive the same payout percentage. PSP is an overall team incentive program. Witness Schultz also suggests that PSP is a *de facto* annual bonus. Again, the target level for PSP is included in all of the company's compensation benchmark studies. Therefore, on average, Tampa Electric expects to pay the target level to maintain its total annual compensation position relative to the market median. As discussed in my direct testimony, PSP has paid out 4.54 percent on average for the period 2008 through 2012 for the non-officer/non-key group, which is keeping the company tracking just below the market median during this period.

Q. If variable pay is part of total annual compensation, why not just increase base pay and eliminate this program?

A. That is certainly an option, but not one favored by Tampa Electric. However, most companies in the electric utility industry including Tampa Electric utilize a variable pay component which is at risk each year to drive and motivate team members to achieve high performance levels through the attainment of various goals usually centered around areas including safety, cost control, resource optimization, reliability, customer centric solutions, etc. Further, a variable pay component allows management the opportunity to react to revenue and expense conditions each year as part of good management of the company.

Q. Is witness Schultz correct in his assessment that the company has requested five percent for incentive payments in addition to an across-the-board three percent base pay increase?

A. No. This characterization fails to recognize that the five percent annual incentive target is part of the company's total annual incentive compensation that is benchmarked to the market median and is currently below this level. Also, the comment of an "across-the-board" increase implies that all team members receive this same increase no matter their performance. While this concept is true for the company's union covered team members due to their collective bargaining agreement, it is not true for all exempt and NC/NE team members. The merit program is based on performance of the individual, not an across-the-board increase.

Q. Does witness Schultz correctly explain target and goal levels for incentive compensation plans correctly?

A. No, he does not. For 93 percent of Tampa Electric's team members, those who are not officers or key employees, there are no minimum, threshold, or maximum levels within the program. Each goal has an absolute level for achievement. For example, if the absolute safety goal is not met, this goal will pay out zero. If the goal is met or exceeded, it will pay out a two percent, not a higher amount as suggested by witness Schultz.

Q. Are the various concerns with the company's incentive plan objectives raised by witness Schultz valid?

A. No. Witness Schultz suggests that the operational goals have been tied to the financial goals which benefit the shareholders, not the rate payers. This logic is flawed. For the past several years, as Tampa Electric worked hard to control its costs given almost no revenue growth, a difficult management decision was made to add a self-funding mechanism to the three percent operational goals beginning in 2010. These operational goals were still earned based on operational parameters, which benefit ratepayers, but would only be paid if net income above budgeted net income levels was available to fund the payout. To suggest that this somehow makes the operational goals *de facto* financial goals, which only benefit the shareholders is simply incorrect.

The company's 2010 decision to add a self-funding mechanism to the operational goals was very difficult and has placed Tampa Electric in a position where the average payout for PSP is reduced, driving the company's total annual compensation further below the market median. Given a two percent average payout for most team members over the past few years, far below the five percent target included in the company's compensation benchmark analysis, it was necessary for the company to remove this self-funding mechanism in 2014 in order to maintain its relative benchmark position. The difficult action taken by management in the PSP program has affected team member morale and is not sustainable. Being below the market median for total annual compensation will damage the company's ability to attract and retain a highly skilled workforce especially as the economy continues to improve and offer choices which have not been available during the past two years. For this reason, the company needs to eliminate the self-funding mechanism associated with the operational goals.

It has also been suggested that incentive goals should not include financial goals, including parent company financial goals, since there is no benefit to the ratepayer and only the shareholder sees a benefit. This misses the point that financial goals, including parent financial goals, which are directly tied to the company's performance, also benefit customers by encouraging team members to find ways to keep costs down and find more efficient ways of doing things that ultimately result in lower cost profiles for future rate cases.

Q. How will the company's overall compensation relative to the market be affected by the Commission not granting the PSP amount included in Tampa Electric's rate request?

A. The real issue here is the reasonableness of Tampa Electric's overall compensation program. As demonstrated in my direct testimony Document No. 2 of my Exhibit No. ___ (BJR-1), Tampa Electric's total annual compensation analysis for 2012 shows the company to be five percent below the market median. This analysis looks at total annual compensation and includes both base salary and PSP at the target level. For non-key employees and non-officers, representing 93 percent of the company's overall team member population, this target level is five percent. For key employees and officers, the PSP is set at the appropriate target level for each position. If PSP is reduced to two percent for all employees as suggested by witness Schultz, Tampa Electric's total annual compensation as referenced above will drop to 12 percent below the market median which is unacceptable from a team member attraction and retention perspective.

Q. Why is $12.383 million the correct and appropriate level of variable pay in Tampa Electric's PSP program for 2014, if the 2013 budget is only $7.168 million?

A. The 2014 budget of $12.383 million was determined by using the 2013 budget as a starting point, adjusting for a three percent average salary increase across the employee population, and then adding $5.0 million to fund the three percent of operational goals to allow the removal of the self-funding mechanism for the non-officer and non-key employees. Witness Schultz suggests that "it is inappropriate to ask ratepayers to cover such expenses (PSP) during a rate case, when the company is unwilling to make the same payment outside a rate case". This perspective is not correct. The proper perspective is whether are not the PSP amount in conjunction with base pay in the test year is appropriate and consistent with the market median which establishes the norms for compensation. It is imperative that Tampa Electric's PSP target for 93 percent of the company's team members be returned to the five percent level without a self-funding mechanism to help ensure this target level is more attainable in a normal financial year to be consistent with the variable pay level used in the company's benchmark market median analysis.

Q. Witness Schultz offers two alternative calculations for incentive pay in the test year. Are there problems with his primary recommendation and associated calculations as presented in HWS-2 Schedule C-2?

A. Yes. I do not agree with witness Schultz's primary or secondary recommendations since they do not support the appropriate PSP level for 2014 to maintain the company's jobs at the market median for total annual compensation.

In addition to that concern, there is a significant flaw in his primary calculation and methodology.

Q. What is the flaw in his calculation?

A. In his primary adjustment calculation, an overall two percent PSP allowance is used for all employees resulting in an expense of $2.5 million. From witness Schultz's testimony this is based on the two percent safety PSP paid in 2012. However, he fails to recognize the appropriate level of PSP for officers and key employees as paid in 2012 since he is using that year to establish his baseline. As presented by the company in response to OPC's Eleventh Set of Interrogatories No. 147, the total PSP expense (O&M) for 2012 was $4.5 million with a total PSP amount of approximately $7 million.

Q. Are there any other problems with witness Schulz's alternative methodology?

A. Yes. In his alternative methodology witness Schultz suggests that the ratepayers and the shareholders should share the cost of the PSP program. His position fails to recognize how the PSP program works and how it is integral to Tampa Electric's total annual compensation program. At the program's target payout levels, it is intended to maintain the company's total annual compensation at a level consistent with the market median. Therefore, as an appropriate and reasonable expense associated with the normal course of business, the target payout amounts for PSP should be recovered though rates. PSP payouts above the target level are not included in this rate request. Therefore, any payout expense above target levels will appropriately be borne by the shareholders.

Q. Is witness Schultz's position to disallow TECO Energy incentive compensation allocated to Tampa Electric correct?

A. No. In its Final Order (PSC-09-0283-FOF-EI) issued on April 30, 2009 in Docket No. 080317-EI, the Commission did not make any adjustment to the TECO Energy incentive program allocation to Tampa Electric. This was the proper treatment as these allocations are related to TECO Energy team members and the correct question should be whether or not their total annual compensation is consistent with the market median and therefore reasonable and prudent. Since on average TECO Energy pay is just below the market median, all of the incentive in question should be allowed to flow through the company allocation mechanism.

ADDITIONAL BENEFIT ADJUSTMENTS INCLUDING STOCK COMPENSATION

Q. Do you agree with the benefit reduction calculation included in witness Schultz's Exhibit ___ (HWS-2), Schedule C-3?

A. No. As stated previously, no adjustment to the projected team member headcount for 2014 should be made. However, if the Commission does decide to make an adjustment to headcount, the calculation contained in the referenced schedule is flawed. It assumes that all benefits should be allocated evenly across all positions. This is not true for pension plan, post-retirement medical, and stock compensation expenses as the amounts contained in MFR Schedule C-35 do not include any additional costs associated with the new positions to be added in 2013 and 2014. Therefore, these expenses should be subtracted out from witness Schultz's calculation to determine the average expensed cost per employee. Since retiree medical and pension plan total cost in 2014 of $23,908,000 represents 40 percent of the Net Employee Benefit cost in witness

Schultz’s Schedule C-3 line 4, his overall calculation methodology yields a result that is over-stated by 40 percent.

Q. Is witness Schultz’s characterization of the company’s stock compensation plan correct?

A. No. Witness Schultz states that this is an executive-type plan limited to five highly compensated executives and is discriminatory since it only applies to these select executives. While the company’s stock compensation plan does include all of the Tampa Electric and TECO Energy officers, it also includes key employees. In fact, the program is not limited to five individuals; there are just over 200 employees participating in this program at Tampa Electric and TECO Energy.

As to the reference to highly compensated executives, the real point is whether or not an officer’s overall compensation is appropriately market based. As provided in Tampa Electric’s confidential discovery, the company’s external consultant to the Board Compensation Committee benchmarks each officer’s total remuneration on an annual basis to position these employees at the market median on average based on their position and responsibilities. Total remuneration includes base salary, annual incentive, and stock compensation. Based on the company's last Steven Hall & Partners market study, the group of Tampa Electric and TECO Energy officers was just below the market median in base salary, total cash compensation (base salary plus annual incentive) and total remuneration. For key employees, Steven Hall & Partners performs an analysis of long-term stock compensation based on key employee grade levels and average salaries to target marketplace median. The long-term stock compensation for each grade level is then set exactly at the market median. Based on the analysis performed by Steve Hall & Partners as outlined above, the Commission should allow all of the stock compensation expense for Tampa Electric and TECO Energy as outlined in the company's rate case filing in this case as a reasonable and appropriate expense based on current market benchmarks.

Q. Does your rebuttal testimony above adequately address other intervener testimony in these same areas?

A. Yes, it does. In addition to the specific intervener testimony that I address above, witness Kollen raises some of the same general issues in the areas of PSP and stock compensation and there is no need for me to repeat my testimony.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

Q. Does the company have a Supplemental Executive Retirement Plan?

A. Yes. The company maintains a Supplemental Executive Retirement Plan ("SERP"), which includes twenty-four current and former executives at Tampa Electric and TECO Energy. The company's SERP is a non-qualified retirement plan providing benefits to some executives beyond those provided in the qualified retirement plan and represents a portion of the participating executive's overall compensation and benefits package.

Similar to the company's Performance Sharing Program and stock based compensation program (i.e., Long-Term Incentive Plan), SERPs are provided to some executives based on market studies for the purpose of ensuring that the company's participating executives are compensated at a market level and in a manner similar to the way other similar executives in the market are being compensated. Fundamentally, a SERP is provided as an attraction and retention tool to ensure a high caliber workforce at the executive level. Not all current or former executives participate in the SERP, since an officer's position is analyzed using market data to determine if a SERP is warranted for an individual position and level. SERPs at the executive level have been a prevalent compensation program tool for companies throughout the United States over the past twenty or more years, but their use for new executives has significantly decreased in recent years. In the past nine years, there have been no new SERP participants added at Tampa Electric and only one new SERP participant has been added at TECO Energy, which took place in 2009.

Q. Should an adjustment be made to pension expense associated with the SERP for the 2014 projected test year?

A. No. As a preliminary matter, no party has proposed any such adjustment or presented any testimony or exhibits supporting any such adjustment.

The jurisdictional amount of pension expense associated with the SERP for the 2014 projected test year including both current and former Tampa Electric executive participants is $793,000. This amount is included in the Pension Plan line item on MFR C-35. Given that some current and former TECO Energy executives also participate in the SERP, an additional SERP expense of $1.6 million is allocated to Tampa Electric by TECO Energy. These amounts are based on actuarial analysis of the SERP shown in various Mercer reports provided on a confidential basis in the company's discovery.

A SERP is one component of an overall compensation and benefits package designed to help recruit and retain talented, highly motivated and effective executive leadership. As I stated earlier, the real point is whether or not an officer or key employee's compensation is appropriately market-based. In this regard, the company has always and will continue to ensure through studies provided by the Board's Compensation Committee consult that a SERP is appropriate to maintain a particular executive at the market median for their position and level. No adjustment should be made for SERP benefit expenses for these reasons, which are consistent with my direct testimony on why it is inappropriate to reduce test year O&M expenses for the company's PSP and stock based compensation program.

SUMMARY OF REBUTTAL TESTIMONY

Q. Please summarize your rebuttal testimony.

A. A number of issues were raised through intervener testimony in the areas of headcount, PSP, and stock compensation. The interveners suggest that specific adjustments should be made to Tampa Electric's rate case request in these areas. However, the expenses associated with headcount, PSP, and stock compensation are reasonable and prudent and should be allowed by the Commission at the levels contained in Tampa Electric's rate request.

In fact, in the area of headcount, witness Schultz proposes that the 2014 test year headcount should be reduced by 104. However, he provides no testimony as to the specific positions that should be eliminated. Does he propose eliminating the Customer Service Professionals needed to improve the frontline Contact Center interface with our customers? Does he propose eliminating the Water Plant Operators needed to reliably and safely operate the new waste water treatment facility, which will support the current and future operation of the Polk Power Station site? Does he propose to eliminate the Apprentice Linemen, Apprentice

Substation Electricians, or Cable Splicers who are needed to complete planned capital projects necessary to reliably serve our customers, to complete maintenance work in support of the company's aging infrastructure, and to prepare for future retirements? Does he propose to eliminate the engineers and support personnel needed to complete the Polk Power Plant expansion? I could go on but in fact, witness Schultz has not proposed one specific position elimination based on the positions being added in 2013 and 2014.

Finally, no intervener presented any evidence or analysis to demonstrate the reasonableness of Tampa Electric's total compensation program. Given that Tampa Electric did present such evidence demonstrating its overall compensation program to be reasonable and prudent, the company should be allowed to retain all compensation related expenses, including stock compensation as proposed in the this rate proceeding.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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FILED: 04/05/2013

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

STEVEN P. HARRIS

ON BEHALF OF TAMPA ELECTRIC COMPANY

Q. Please state your name and business address.

A. My name is Steven P. Harris. My business address is EQECAT, INC. ("EQECAT"), 475 14th Street, Oakland, California 94612.

Q. Who is your employer and what is your position?

A. I am a Vice President with EQECAT, Inc., an affiliated company of ABS Consulting, both of which are subsidiaries of the ABS Group of Companies. Together these two companies are leading global providers of catastrophic risk management services, including software and consulting, to major insurers, re-insurers, corporations, governments and other financial institutions. In addition, these companies develop and license catastrophic underwriting, pricing, risk management and risk transfer models that are used extensively in the insurance industry. The companies provide the financial, insurance and brokerage communities with a science and technology-based source of independent quantitative risk information.

Q. Please describe your educational background and business experience.

A. I received Bachelors and Masters Degrees in engineering from the University of California at Berkeley. I am a licensed civil engineer in the State of California. Over the past 30 years, I have conducted and supervised independent risk and financial studies for public utilities, insurance companies and other entities both regulated and unregulated. My areas of expertise include natural hazard risk analysis, operational risk analysis, risk profiling and financial analysis, insurance loss analysis, loss prevention and control, business continuity planning and risk transfer.

A significant portion of my consulting experience has involved the performance of multi-hazard risk studies, including earthquake, ice storm and windstorm perils, for electric, water and telephone utility companies, as well as insurance companies.

I have performed or supervised windstorm (tropical storm or hurricane) loss, and reserve analyses for utilities including Tampa Electric Company ("Tampa Electric" or "company"), Florida Power & Light, Progress Energy Florida, Gulf Power Company, and others. Additionally, I have performed loss analyses for earthquake hazard for utilities including the Los Angeles Department of Water and Power, the Sacramento Municipal Utility District, and British Columbia Hydro.

For energy companies that have assets in a wide array of geographic locations, I have performed or supervised multi-peril analyses for all natural hazards, including earthquakes, windstorms and ice storms.

Q. Are you sponsoring an exhibit in this case?

A. Yes. I am sponsoring Exhibit No. ___ (SPH-1), entitled "Exhibit of Steven P. Harris on Behalf of Tampa Electric Company", which was prepared under my direction and supervision. It consists of one document, "Transmission and Distribution Assets - Storm Loss and Reserve Performance Analysis".

Q. What is the purpose of your direct testimony?

A. My direct testimony presents the results of EQECAT's independent analyses of risk of uninsured losses to Tampa Electric's transmission and distribution assets and insurance retentions from hurricanes and tropical storms. These studies include storm loss analysis and reserve performance analysis.

Q. Please briefly describe the studies performed for Tampa Electric.

A. EQECAT performed two analyses relative to the reserve: The Storm Loss Analysis ("Loss Analysis"), and The Reserve Performance Analysis ("Performance Analysis"). The Loss Analysis is a probabilistic windstorm analysis that uses proprietary software to develop an estimate of the expected annual amount of uninsured windstorm losses to which Tampa Electric is exposed. The Reserve Performance Analysis is a dynamic financial simulation analysis that evaluates the performance of the reserve in terms of the expected balance of the reserve and the likelihood of positive reserve balances over a five-year prospective period, given the potential uninsured losses determined from the Loss Analysis, at various annual accrual levels.

Q. Please summarize the results of your analyses.

A. The Loss Analysis was performed to estimate the level of annual damage that Tampa Electric is exposed to from hurricanes and tropical storms. The Reserve Performance Analysis was performed to test three levels of possible annual accrual to the reserve. This analysis tests the performance of the reserve against the potential storm losses determined from the Loss Analysis. The accrual levels tested are the company's current $8 million per year accrual as well as two other higher levels of $12 million and $20 million. The study estimated the total expected average annual uninsured cost to Tampa Electric from all storms to be $21.9 million.

The Reserve Performance Analysis demonstrated that an accrual level of $8 million would result in an expected reserve deficit of negative ($5.6 million) and a probability of negative reserve balances of 32 percent within the five-year simulation time horizon. The Reserve Performance Analysis also demonstrated that an accrual level of $12 million would result in an expected reserve balance of $14 million and a probability of negative reserve balances of 26 percent within the five-year simulation time horizon. Finally, the Reserve

Performance Analysis demonstrated that an accrual level of $20 million would result in an expected reserve balance of $55 million and a probability of negative reserve balances of 18 percent within the five-year simulation time horizon.

LOSS ANALYSIS

Q. Please summarize the Loss Analysis.

A. The Loss Analysis determined the expected annual magnitude of windstorm losses to Tampa Electric's transmission and distribution ("T&D") system. Windstorm losses include costs associated with service restoration and repair of Tampa Electric's T&D system as a result of hurricanes and tropical storms. Also included are estimates of the costs of windstorm insurance deductibles attributable to non-T&D assets.

Q. Please describe the computer software used to perform the Loss Analysis.

A. USWIND^{TM} is a probabilistic model designed to estimate damage and losses due to the occurrence of storms. EQECAT's proprietary computer software USWIND^{TM} is one of only four models evaluated and determined acceptable by the Florida Commission on Hurricane Loss Projection Methodology for projecting hurricane loss costs.

Probabilistic annual damage and loss is computed using the results of over 100,000 random variable storms. Annual damage and loss estimates are developed for each individual site and aggregated to overall portfolio damage and loss amounts. USWIND™ climatological models are based on the National Oceanic and Atmospheric Administration's ("NOAA") National Weather Service Technical Reports.

Q. Does USWIND™ take into account storm frequency and severity?

A. Yes. The analysis is based on storm frequency and severity distributions developed from the entire 109-year historical record. USWIND™ also allows the estimation of frequency of storms in the current period of heightened hurricane activity.

Q. Please describe the current period of heightened hurricane activity.

A. Hurricanes are known to occur in multi-year cycles. The recent decades of the 1970s through the mid-1990s had significantly lower activity than the 109-year long-term average. Other decades have had periods of higher activity. NOAA has expressed its belief that we entered a period of increased hurricane formation around 1995.

There is the emerging consensus that changes in the El Niño/Southern Oscillation and North Atlantic Oscillation variables indicate we have entered a more active period for hurricane formation, like that experienced in the 1920s and 1940s. Therefore, Tampa Electric may expect to experience higher damage to its T&D assets over the next several years than would be predicted by the long-term hurricane hazard.

The Loss Analysis is based on hurricane frequency and severity distributions that are reflective of the relatively more active periods of the 1920s and 1940s. The length of these active periods is thought to be about 25 to 40 years or more, and the recent period of higher activity is believed to have begun over a decade ago.

The hurricane hazard cases analyzed therefore represent frequencies associated with the current period that may be associated with a higher frequency of hurricane formation. If the view held by NOAA and other meteorological experts is correct, we may expect to see larger numbers of hurricanes form and larger numbers of landfalls in the coming decades than we have in the pre-1995 period.

Q. Do the storm frequency assumptions include the possibility of having multiple hurricane landfalls within Florida in any given year?

A. Yes. USWIND™ does include the possibility of having multiple hurricane landfalls within Florida in any given year, including the impact of such landfalls on aggregate losses, consistent with the 2004 hurricane season when multiple landfalls in Florida occurred.

Q. Did the Loss Analysis take into account the frequency of storms during the 2004 and 2005 storm seasons?

A. The current analysis takes into account the hurricane history including the 2004 and 2005 storm seasons.

Q. What were the results of the Loss Analysis?

A. The total expected annual uninsured cost to Tampa

Electric's system from all storms is estimated to be $21.9 million.

Q. What does this expected annual loss estimate represent?

A. The expected annual loss estimate represents the average annual cost associated with damage to T&D assets, insurance deductibles for damage to other assets such as generating plants and substations, and service restoration activities resulting from windstorms over a long period of time.

Q. Is the Loss Analysis performed for Tampa Electric the same analysis performed for insurance companies to price an insurance premium?

A. Yes. The natural hazards loss modeling and analysis would be similar for an insurance company, electric utility or other entity. The expected annual loss is also known as the "pure premium". When insurance is available, the pure premium is the insurance premium level needed to pay just the expected losses. Although insurance companies would add their expenses and profit margin to the pure premium to develop the premium charged to customers, those costs are not reflected in EQECAT's analyses results.

RESERVE PERFORMANCE ANALYSIS

Q. Please summarize the Reserve Performance Analysis.

A. EQECAT performed a dynamic financial simulation analysis of the impact of the estimated windstorm losses on the reserve for specified levels of annual funding. The starting assumption for the Reserve Performance Analysis was a reserve balance of $50.2 million. This Performance Analysis performed 10,000 simulations of windstorm losses within the Tampa Electric service territory, each covering a five-year period, to determine the effect of the charges for loss on the reserve.

The analysis technique used relies on repeated sampling to model multiple storm seasons and simulates variable storm losses consistent with the results of the Loss Analysis. Because storm seasons and losses are highly variable, 10,000 five-year simulations are performed to estimate the performance of the reserve with various accrual levels and ensure an adequate number of samples of rare storm events. Monte Carlo simulations were used to generate damage samples for the analysis.

The simulations were used to generate loss samples consistent with the expected annual loss from the Loss Analysis results. $17.6 million of the $21.9 million Expected Annual Loss determined in the Loss Analysis is assumed to be an obligation of the reserve annually. The analysis provides the expected balance of the reserve in each year of the simulation accounting for the annual accrual and losses using a financial model.

Q. How are the results of the Loss Analysis used in the Reserve Performance Analysis?

A. Both the likelihoods and amounts of uninsured annual losses determined in the Loss Analysis are used to simulate losses in each of the five years in the Performance Analysis in order to determine the likelihood of the reserve having positive balances.

Q. Please describe the assumptions that were included in the Reserve Performance Analysis.

A. All computations were performed with an initial reserve balance of $50.2 million and all results are shown in constant 2012 dollars. The analysis also assumed future growth of the customer base and system assets and inflationary cost increases for new T&D assets of 4.5 percent annually.

Q. Please summarize the results of the Reserve Performance Analysis.

A. Reserve performance can be viewed in terms of the expected or mean balance of the reserve and the likelihood of positive reserve balances occurring within the five-year period. Based on the simulated loss distributions, there is some likelihood of negative reserve balances for each of the annual accrual levels analyzed. Higher accrual levels will result in a lower probability of negative reserve balances, and will have a higher probability of a positive reserve balance at the end of the five-year simulation period. If the annual accrual levels are smaller, there is a greater chance of negative reserve balances, especially in the early years.

TAMPA ELECTRIC'S RECOMMENDED ACCRUAL

Q. Did you make a recommendation for Tampa Electric's annual level of accrual?

A. No. My role was not to recommend an annual level of accrual. It was to present probabilities to Tampa

Electric regarding reserve performance based on various levels of annual accrual. There are large uncertainties associated with the hurricane hazard and the specific storm outcomes have large variances. There could be hurricane seasons with no loss at all and hurricane seasons with hundreds of millions of dollars in losses. The Performance Analysis presents information about the likelihood of the adequacy of funding that can be used to make decisions about the reserve.

Q. Did you analyze a range of annual accrual levels in your evaluation?

A. Yes. My evaluation included analyses of the reserve performance at the current annual accrual level of $8 million, and at the annual accrual levels of $12 million and $20 million.

Q. What is the likelihood of the company's reserve having an inadequate balance at the current annual accrual level of $8 million?

A. At the current annual accrual level of $8 million, the likelihood of the reserve having negative balances within the five-year period is 32 percent, and it is estimated that the reserve would have a deficit of negative ($5.6 million) at the end of five years.

Q. What did your evaluation show with respect to a $20 million accrual?

A. At an annual accrual level of $20 million, the likelihood of the reserve having negative balances within the five-year period is 18 percent, and the expected balance of the reserve at the end of five years would be approximately $55 million.

Q. Would a $20 million accrual cover all potential storm loss outcomes?

A. No. The expected or mean balance of $55 million has a 50 percent chance of being exceeded. The analysis also provides estimates of the fifth percentile and ninety-fifth percentile reserve balances. At the fifth percentile reserve balance, only five percent of the simulated outcomes have smaller values. Similarly, for the ninety-fifth percentile reserve balance, only five percent of simulated outcomes have values which would be greater than that value. The fifth percentile represents an extremely adverse five years of storm experience where the losses would far exceed the reserve levels. Conversely, the ninety-fifth percentile line would represent an extremely favorable five years of storm experience where only five percent of simulated reserve outcomes would be greater than the estimated balance, or five years of very small or no storm damage.

Q. What is your conclusion with respect to the $8 million annual level of accrual selected by Tampa Electric?

A. My analysis indicates that, with an expected annual loss obligation of $17.6 million and an annual accrual of $8 million, the balance of the reserve at the end of five years is expected to be a negative ($5.6 million). This represents a significant decrease in reserve from the initial balance of $50.2 million. There is about a one in three chance that storm losses would create a deficit in the reserve within the five-year period. Additionally, even with an extremely favorable five-year storm experience there is no chance that the reserve balance would reach $100 million. Tampa Electric's recommendation appears reasonable and appropriate.

Q. Does this conclude your direct testimony?

A. Yes.

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BEFORE THE PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

STEVEN P. HARRIS

ON BEHALF OF TAMPA ELECTRIC COMPANY

Q. Please state your name, business address, occupation and employer.

A. My name is Steven P. Harris. My business address is ABSG Consulting, Inc. ("ABS Consulting"), 475 14th Street, Oakland, California 94612. I am a Vice President with ABS Consulting, an affiliated company of EQECAT, Inc. both of which are subsidiaries of the ABS Group of Companies, Inc.

Q. Did you previously submit direct testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address errors in the prepared direct testimony of witness Helmuth W.

Schultz III, who is testifying on behalf of the Office of Public Counsel, ("OPC") and witness Jeffry Pollock, who is testifying on behalf of The Florida Industrial Power Users Group ("FIPUG").

Q. Please summarize the key concerns and disagreements you have regarding the substance of witnesses Shultz's and Pollock's testimonies.

A. My key concerns and disagreements are as follows:

1. I disagree with the Historical loss average approach proposed by witness Shultz and witness Pollock.
2. I disagree that the hurricanes of 2004 should be excluded from my evaluation of storm damage costs.
3. I disagree with witness Shultz that my Study does not comply with Florida Public Service Commission ("Commission" or "FPSC") rules on storm cost recovery.

Q. Is the Historical loss average approach used by witnesses Schultz and Pollock a more accurate approach to predicting future storm loss cost than catastrophe simulation modeling approach?

A. No. Calculating an actual or simulated expected annual storm damage amount that selectively excludes any possible damage events, whether large and infrequent or small and frequent, is not meaningful. This methodology cannot, and does not, provide probabilities of damage. Any reliable estimate of the expected annual damage (EAD) must include the most complete and full damage distribution, including the frequency of occurrence of storm that can be determined both from actual hurricane experience and from simulated possible hurricane damage.

Hurricane simulation modeling is the standard methodology used in the insurance industry to estimate storm damage. The Florida Commission on Hurricane Loss Projection Methodology, an independent panel of experts to evaluate computer models and actuarial methodologies for projecting hurricane losses, goes to great lengths to ensure that all models used in the State for insurance rating purposes appropriately capture the full range of the hurricane hazard.

Q. Do you agree that a more reliable estimate of annual storm loss would be based on actual 2000 to 2012 data, excluding the year 2004 as extraordinary?

A. No. Not all years will experience damage equal to or greater than any estimate of the expected annual damage. Many years may experience no loss and others larger losses. Therefore, in developing expected annual damage estimates, the most reliable methodology is to utilize the longest, most complete historical record available. Since Florida's hurricane history is just over 110 years, insurers rely on simulation modeling to extend this "known" history into thousands of simulated years for the purpose of estimating likely damage. The period for 2000 to 2012 is too short to determine a reliable estimate of annual storm damage. The simulated expected annual damage to Tampa Electric's system is the best estimate of the annual damage considering all possible future hurricanes.

The reason that Tampa Electric's annual accrual appears to have been sufficient between 2000 and 2003 (excluding the real losses from the hurricanes of 2004) is Tampa Electric's favorable storm history. There have been no hurricanes with direct landfalls in Tampa Electric's service territory from 2000 up until the present. The hurricanes of 2004 made landfall outside of the Tampa Electric's service territory and the wind speeds within the service territory were only at tropical storm levels. Considering that the 2004 storms had sub-tropical winds in the Tampa area, their effects are certainly ordinary for Florida, even though the losses for Tampa Electric were large.

Tampa Electric's management and the Commission would be ill-advised to rely on Tampa Electric's recent good luck over a selective and short number of years considered by witness Schultz and Pollock. Over Florida's 110-year hurricane history, there have been many more hurricane landfalls and damaging events than in the last 12 years. The EQECAT Storm Loss Analysis model considers the broader and longer storm history.

Q. Do you agree with witness Schultz that the study does not comply with the Commission's rule on storm cost recovery?

A. No. The Storm Study is composed of two separate but related analyses. The Storm Loss Analysis provides a hurricane loss simulation considering all of the historical data on hurricane landfalls, estimates the expected annual damage to restore service in Tampa Electric territory, and provides the loss non-exceedance probabilities, measures of the likelihood of damage exceeding a given amount. The expected annual damage from this analysis is estimated to be $21.9 million.

The second part of the Study is the Reserve Performance Analysis. The Reserve Performance Analysis is a cash balance simulation analysis over a prospective five year period starting with an initial reserve balance of $53 million in this case. An annual accrual of $8 million is added to the cash balance. Annual storm losses are simulated and deducted, consistent with the Storm Loss Analysis, for each of the five years. The storm losses are randomly simulated, but over a long period of time they have an average of $17.6 million in damage to Tampa Electric's system for each of the five years in the reserve performance simulations. The $17.6 million is an estimate of the portion of the full $21.9 million expected annual damage determined in the Storm Loss Analysis.

The Reserve Performance Analysis provides a tool that Tampa Electric's management and policymakers can use to determine the performance of the reserve and to test appropriate annual accrual amounts to meet their objectives. One criterion to consider is the target reserve balance to achieve and maintain. This provides a metric to evaluate against possible storm loss events. Another criterion is rate stability. As a policy objective, the questions to ask are: what reserve balance should Tampa Electric seek to achieve, how quickly should it be reached to provide funds for storm damage events, and what is the likelihood that the reserve will have inadequate funds over the prospective five year period that requires cost recovery and results in rate volatility? Once an appropriate reserve balance is determined, an accrual that will maintain this level in the reserve can be established.

The analyses performed and the results provided for Tampa Electric's reserve are consistent with the intent of the FPSC rule and provide appropriate metrics to consider for the reserve's performance.

Q. What did your evaluation show with respect to a $50.2 million initial reserve balance and an $8 million annual accrual?

A. It showed that the reserve value of $50.2 million combined with annual accruals of $8 million is too small to pay for most storm damage. In fact, it is too little to pay for all SSI 1, also referred to as Category 1 (SSI 1) or Category 2 (SSI 2, also referred to as Category 2) single storm events.

Figures 4-2 through 4-5 of the Storm Study show the mean (or average) damage from single hurricane events of the same intensity category SSI 1 through SSI 4 that make landfall within 10 mile intervals along the Gulf Coast in and around Tampa Electric's service area. Also shown are the initial (Year 0) and final (Year 5) balance values of the reserve from the EQECAT Reserve Performance Analysis for comparison with the potential hurricane damage. The reserve analysis shows the reserve balance to decline in each year from its initial value of $50.2 million until it reaches a negative ($5,575,080) at Year 5. The reserve will have about a one in three chance of having inadequate funds over the five year period.

With a reserve balance of $50.2 million the reserve would be inadequate to cover all single average SSI 1 hurricane landfall damage. The damage values from these figures are the mean or average of all hurricane events in the intensity category. The <u>maximum</u> hurricane damage levels at milepost 1,210 (near St. Petersburg) for SSI 1 and SSI 2 events are approximately $62 million and $178 million, respectively. A reserve balance of $50.2 million at Year 0, or a negative ($5,575,080) at Year 5, is inadequate to cover either of these worst case SSI 1 and SSI 2 events.

The potential damage from Category 1 through Category 4 storms in the Storm Study at these landfall mile posts show that the projected reserve would not be adequate to cover the maximum estimated damage associated with Category 1 through Category 4 storms.

Even if Tampa Electric has favorable storm experience over the following five years, the reserve balance could only grow to $83,374,000. This reserve value is larger than the maximum Target Range of $64,000,000 authorized by the FPSC. More significantly, a $83,374,000 reserve balance would be less than half of the expected damage from the worst SSI 2 storm at landfall 1,210.

The reserve will not, however, be able to fund all SSI 1 or SSI 2 storms without higher accruals for the reserve, or a higher Target Range than currently authorized, along with more years of favorable storm experience.

Were the reserve to be adequately funded for SSI 1 and SSI 2 storms, it would still be far below the levels of damage that might be expected from SSI 3 and SSI 4 storms. Average damage from these events as shown in Figure 4 and 5 can be in excess of $250 million to $500 million with the maximum damage being much greater than these average values.

Q. Why didn't you factor the Storm Hardening activity into the damage estimates in the Storm Study?

A. The Tampa Electric Storm Study did not evaluate the effects of the Storm Hardening Program. The decisions on the scope of the Storm Study were made in 2011 when Tampa Electric was formulating the scope for planning and budgeting purposes. At the time, the Storm Hardening Program was less than half way through implementation of the decade long program. It is believed that the Storm Hardening Program will, when completed, reduce the impact of hurricane damage on the system. At the time, Tampa Electric had experienced six consecutive storm years without any significant losses, and therefore data on the effectiveness of the Storm Hardening Program was not available.

At present, in the absence of actual hurricane experience with storm hardening to the system, a reliable estimate of the possible impact of the Storm Hardening Program on hurricane damage to Tampa Electric's transmission and distribution system is speculative.

For the sake of illustration, a rough order of magnitude estimate of the impact of the storm hardening activities might look like the following. At present, the total, actual and planned, expenditures for the Storm Hardening Program are expected to be $458 million, or about 11 percent of the 2011 replacement value of Tampa Electric's transmission and distribution system assets. By making a large assumption, that the storm hardening activities will preclude any future hurricane damage to the assets involved in the Program, this could represent up to about a 10 percent reduction in damage, once the Program implementation is completed. This hypothetical illustration would represent about a maximum of $2 million per year reduction in the expected annual damage to the system of $21.9 million.

With these assumptions, the best case outcome might be an expected annual damage reduction from $21.9 million to $19.7 million, with $15.8 million of the expected annual damage being an obligation to the reserve. This illustration is, speculative, and a more reliable estimate of the effects of the Program would require further simulation modeling analyses that would incorporate the details of the Storm Hardening Program activities, and data from actual hurricane events with storm hardening to the system.

Q. Please summarize your rebuttal testimony.

A. The averaging method proposed by witnesses Shultz and Pollock, considering only the 2000 to 2012 hurricane seasons, excluding the 2004 storm season, does not provide a meaningful estimate of annual damage to Tampa Electric's transmission and distribution system, and does not provide probabilities of damage.

The EQECAT Storm Loss Analysis performed for Tampa Electric's transmission and distribution system uses a storm simulation model, which is the current and most reliable methodology in the insurance industry, to estimate storm damage costs and probabilities of occurrence. The expected (or average) annual storm damage is estimated to be $21.9 million.

The damage estimates and probabilities are used to simulate the financial performance of the reserve over a prospective five year period given an initial balance, annual accruals, and losses that would be paid from the reserve with an average of $17.6 million per year consistent with FPSC rules. The result of this simulation analysis shows that the mean reserve balance will decline from the initial $50.2 million at Year 0, to a negative ($5,575,080) at Year five.

The reserve will have about a one in three chance of having inadequate funds over the five year period. The reserve, in the early years of the simulation, would cover the cost of some but not all single Category 1 storms that might affect Tampa Electric's system. At year five of the simulation, the reserve will likely have inadequate fund to cover storm damage.

Q. Does this conclude your rebuttal testimony?

A. Yes.

TAMPA ELECTRIC COMPANY
DOCKET NO. 130040-EI
FILED: 04/05/2013

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

EDSEL L. CARLSON, JR.

Q. Please state your name, business address, occupation and employer.

A. My name is Edsel L. Carlson, Jr. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am the Risk Manager for Tampa Electric Company ("Tampa Electric" or "company").

Q. Please provide a brief outline of your educational background and business experience.

A. I graduated from the University of South Florida with a Bachelor of Arts degree in Criminology and from Saint Leo University with a Masters of Business Administration degree. I hold the Associate in Risk Management designation from Insurance Institute of America and a Fellow in Risk Management designation from Global Risk Management Institute, Inc. I have approximately 20 years of experience working in the Risk Management Department, where I have held the positions of Claims Adjuster and

Risk Analyst. I have held my present position as Risk Manager since 2000.

Q. Have you previously testified before the Florida Public Service Commission ("Commission" or "FPSC")?

A. Yes. I testified before the Commission in Docket No. 080317-EI, Petition for Rate Increase by Tampa Electric Company.

Q. What is the purpose of your direct testimony?

A. My direct testimony supports the need for Tampa Electric's annual storm damage accrual and an increase in the target amount for its storm damage reserve.

Q. Have you prepared an exhibit to support your direct testimony?

A. Yes, Exhibit No. ___ (ELC-1) entitled "Exhibit of Edsel L. Carlson, Jr." was prepared under my direction and supervision. It consists of one document, "List Of Minimum Filing Requirement Schedules Sponsored Or Co-Sponsored By Edsel L. Carlson, Jr.".

Q. Please summarize Tampa Electric's proposed annual accrual and target amount for its storm damage reserve.

A. Based upon Tampa Electric's history and experience, increases in its asset values and the results of a detailed storm study conducted by Tampa Electric's witness Steven P. Harris of EQECAT, an affiliated company of ABS Consulting, both of which are subsidiaries of the ABS Group of Companies, Inc. ("EQECAT"), Tampa Electric requests that it be allowed to maintain the current $8 million annual accrual and increase the target reserve amount from $64 million to $100 million. The proposed accrual is designed to manage the cost of damage to Tampa Electric's uninsured transmission and distribution ("T&D") assets and property deductibles associated with damage to insured assets such as substations and generating facilities. This conclusion was based on three fundamental objectives that were considered essential by Tampa Electric as it evaluated its needs for a storm damage reserve: 1) achieve an effective balance of rate stability and long-term cost for customers; 2) build a reserve sufficient to cover the majority of loss events in order to mitigate the need for a surcharge to customers immediately after such an event; and 3) design a reserve to cover the higher probability events and not the low probability high severity events.

Q. Please describe the history of Tampa Electric's existing storm reserve.

A. Prior to Hurricane Andrew in 1992, Tampa Electric was able to purchase commercial insurance coverage for its T&D facilities. Shortly after Hurricane Andrew, this insurance became unavailable, leaving utilities in Florida with crucial assets that were uninsurable. Florida's investor-owned utilities ("IOUs") approached the Commission with a proposal to establish a self-insurance program by creating a reserve for each utility to provide for uninsured property losses.

A limited proceeding was held in early 1994. In Commission Order No. PSC-94-0337-FOF-EI, the FPSC authorized Tampa Electric a $4 million annual storm damage accrual and required the submittal of a storm damage study. In Tampa Electric's 2008 base rate proceeding, Docket No. 080317-EI, the Commission increased the annual storm damage accrual to $8 million and adjusted the target amount of the reserve to $64 million and provided that the accrual could be readdressed if the target amount was achieved, which has not occurred as I later describe in my testimony.

Q. What is Tampa Electric's history of expense charges against its reserve?

A. Prior to 2004, only named storms and annual expenses exceeding $3.5 million (the amount of the insurance deductible available at the time) could be charged to the reserve. As a result, the reserve that was established in 1994 accrued $4 million annually without any charges against the reserve until 2004. Between August 13, 2004 and September 26, 2004, Hurricanes Charley, Frances and Jeanne hit Tampa Electric's service territory causing damage to its system. The cost to repair the system was approximately $73.4 million. At that time, the company's storm damage reserve balance was only $42.3 million, an amount insufficient to cover the entire damage. The Commission, in 2005, approved incremental storm restoration costs, which would be recovered from the storm reserve. In 2008, Tampa Electric charged approximately $1.6 million against the reserve for losses associated with Tropical Storm Fay, in 2011 approximately $1.9 million was charged for restoration costs arising from the April No Name Storm and in 2012 approximately $1.2 million was charged for Tropical Storm Debby.

Q. Did Tampa Electric seek a surcharge to recover the damages in excess of the reserve in 2004, as did other Florida IOUs?

A. No. In Order No. PSC-05-0675-PAA-EI issued June 20, 2005, the Commission approved a Stipulation and Settlement ("the Stipulation") between Tampa Electric, the Office of Public Counsel and Florida Industrial Power Users Group which avoided imposing a customer storm surcharge as the result of the 2004 hurricanes. The Stipulation allowed the company to charge $34.5 million of the storm damage costs to the reserve and capitalize the remaining storm restoration costs. After this charge, the reserve had a balance of $7.8 million.

Q. What is Tampa Electric's current status regarding insurance and its storm reserve?

A. Traditional commercial property insurance for T&D assets is still not available in the market today at deductible levels and prices that would make it cost effective. I recently obtained a price indication from the company's property insurance broker who indicated that for a policy with $50 million in limits and a $100 million deductible, the cost would be between $6 million and $7.5 million annually. Clearly, this is not cost effective. Since the last base rate proceeding the company has continued to accrue $8 million annually. As of December 31, 2012, the storm damage reserve balance is approximately $50,209,000.

Q. What is the overall regulatory framework considered when evaluating the storm-related accrual amount?

A. Electric utilities in Florida will incur costs to restore service after tropical storms and hurricanes. These costs are an integral part of the cost of providing electric service in Florida, a region susceptible to tropical storms and hurricanes. It is essential that utilities realistically plan for these events and reserve sufficient funds so that surcharges are less likely to be required when storm damage occurs. Adequate accruals minimize the need for surcharges in the future.

The Commission has recognized the need for storm restoration cost recovery and previous actions acknowledge this and established a regulatory framework for such cost recovery consisting of three major components: 1) an annual storm accrual, adjusted over time as circumstances change; 2) a storm reserve adequate to accommodate most, but not all storm years; and 3) a provision for utilities to seek recovery of costs that go beyond the storm reserve. These three components act together to allow Florida utilities, over time, to recover the full costs of storm restoration, while at the same time balancing the impact on customers. The storm damage reserve is especially essential to utilities such as Tampa Electric with a relatively small service territory. Unlike Florida Power & Light and Progress Energy Florida, who have a substantially larger service territory with assets and customers spread throughout the state, Tampa Electric has a higher probability that if a storm hits the service territory, a higher percentage of customers will be affected. The storm damage reserve methodology has functioned as designed and the Commission's basic approach has proven to be a cost-effective way to finance storm damage risk while keeping customer impacts stabilized.

Q. Why does Tampa Electric believe it is important to mitigate the need for storm damage surcharges?

A. It is important to mitigate, if not avoid altogether, imposing a storm surcharge subsequent to storms because a surcharge compounds the effects of the storm on customers at a time when they are likely to have experienced property damage from the same event. This is especially true in Tampa Electric's condensed service territory, since there is a higher probability that a higher percentage of customers will be affected by the same storm event.

Q. After three hurricanes hit Tampa Electric's service territory in 2004, was the storm damage reserve adequate to cover the actual costs for system restoration and repairs?

A. No. As I indicated above, the reserve balance at that time was $42.3 million and the costs associated with damages were $73.4 million. The Stipulation allowed the company to avoid a negative reserve balance and customer surcharge. It is important to note that the damage experienced in 2004 was small relative to what it could have been if any of these three storms had hit Tampa directly.

Q. Does this indicate a failure in the Commission's current regulatory framework?

A. No, quite the opposite. In general, I think it supports the conclusion that the current regulatory framework is sound. For the most part, the damages Tampa Electric incurred in 2004 were of a nature that the reserve is designed to cover and the Commission has shown flexibility in permitting customer surcharges when companies' reserves are inadequate. The annual accruals would be adequate to cover the restoration costs associated with events other than the low probability high severity storms. However, the increase in asset balances that I later describe, as well as the expected impacts from a Category 1 or 2 storm, support the company's recommendation that the target reserve level should be adjusted.

The Commission recognized the need to periodically reexamine accrual and reserve levels in Order No. PSC-07-0444-FOF-EI issued in May 2007, and the Commission required IOUs to conduct a new storm damage study every five years. Tampa Electric, in this proceeding, is supplying the FPSC with its most recent study completed in 2013. Witness Harris, who conducted the study for EQECAT, details the results of this study in his direct testimony.

Q. Why was EQECAT selected to conduct the storm damage study?

A. Tampa Electric selected EQECAT because of their experience and qualifications. They have been conducting storm loss analyses in Florida since 1993, not only for Tampa Electric but also for Florida Power & Light, Progress Energy Florida and Gulf Power Company. EQECAT uses an advanced computer model simulation program, USWIND™, which is one of only four models evaluated and determined acceptable by the Commission on Hurricane Loss Projection Methodology for projecting hurricane loss costs. Witness Harris has over 30 years of experience in conducting various risk assessments for utilities throughout the United States, the Caribbean and Europe.

Q. What direction was provided by Tampa Electric to EQECAT in the preparation of the study?

A. Consistent with Order No. PSC-07-0444-FOF-EI, issued on May 23, 2007, the company directed EQECAT to perform analyses of Tampa Electric's T&D assets for both hurricane and tropical storm loss exposures. Tampa Electric asked EQECAT to conduct the analysis on a near-term view of hurricane risk because there is a consensus among experts that the Atlantic Basin, which includes Florida, is in a period of increased storm activity and the near-term analysis is an appropriate indicator of Tampa Electric's exposure. The company also requested that EQECAT include insured Tampa Electric property such as generating plants and substations to determine the amount of un-recovered property deductibles. Finally, Tampa Electric asked EQECAT to model and analyze the performance of the storm reserve to assist in estimating the expected annual reserve balance over a multi-year period.

Q. What conclusions did EQECAT reach regarding the expected annual long-term cost for service restoration and repair of storm damage to Tampa Electric's assets?

A. As described in the direct testimony of witness Harris, the analysis concludes that the expected average annual cost for windstorm losses in the current environment of increased storms is approximately $21.9 million. This represents average losses per year over time. Of course, there will be years where there are no losses like 2006, 2007, 2009 and 2010, but there will also be years where losses will be higher like 2004. Over time, losses will average about $21.9 million per year; the loss could be in excess of $600 million as demonstrated by witness

Harris. However, the company recognizes the need to balance an adequate reserve amount with the rate impact associated with raising the storm accrual to cover high severity low probability events and is proposing that the company maintain its current reserve accrual amount of $8 million annually.

Q. Does the study's conclusions support a specific target reserve level?

A. No. There is no single correct target reserve balance. The study does supply a table that shows the probability of loss exceeding a particular dollar amount in any given year. The target reserve level depends largely on tolerance for risk. The company believes the target reserve level should be set to cover most storm events (higher probability and lower severity events) but not all storms (low probability and high severity). The higher the storm damage reserve balance level, the lower the probability that a storm will exceed the reserve and thus less likely the company would need to request a surcharge from customers at a time that they are likely suffering from the hardships associated with storm damages.

Q. How were the proposed target reserve level and annual accrual determined?

A. The total targeted amount of the reserve and the annual accrual to reach the target is a function of the total loss that could occur to the company's system as a result of storm activity and the probability of occurrences of various levels of storm activity in Tampa Electric's service area. Once EQECAT assessed these values and probabilities, professional judgment was applied to determine an appropriate level for the annual accrual and target level for the reserve. In applying this judgment, the company considered the Commission's rationale and basis for its decision to increase the target reserve level and annual accrual in the last base rate proceeding. The company also considered the current reserve balance and the need to balance rate stability and long-term costs to customers. In addition, the company considered the increase in T&D asset value from the previous base rate proceeding. It is fair to say no one knows when storm damage will occur and the exact extent of damage, but it is reasonably certain that storms will cause damage to Tampa Electric's system in the future and the company should make reasonable plans to provide for the costs of this damage with a minimal impact to customers after a storm occurs.

Q. How were the results of the EQECAT study used to determine the requested annual accrual and targeted total reserve amounts?

A. The EQECAT study was an important tool that helped assess storm damage risk. As previously explained, the study results were one of several factors that the company considered in developing the requested annual accrual and targeted total reserve amounts. The company carefully considered the overall O&M expense profile.

The study shows the expected annual loss to be higher than the requested annual accrual and thus could support a request for a higher accrual. The study's reserve analysis shows that at the requested reserve level the expected balance at five years would be negative, but within a manageable amount.

When developing the annual accrual, the company took into account the Commission's rationale in the previous base rate proceeding, where the company's annual accrual and target amount were increased to the current levels. The previous study showed an expected annual loss amount to be $17.8 million and the company requested a $20 million annual accrual. The Commission approved an increase in the accrual from $4 million to $8 million and increased the target from $55 million to $64 million. Since that decision, the reserve balance has increased from $21.6 million to $50.2 million. However, as previously stated this reserve balance would be insufficient to cover the costs if the company were to experience a year like 2004 again.

Based on the proposal in this case, the result will likely be that the reserve will not grow as large as the proposed new target but should be adequate to maintain the reserve at a manageable level as long as the company continues to have favorable loss experience. Given Tampa Electric's desire to manage its cost profile and its ability to seek recovery of storm damage costs that may exceed the reserve, the current $8 million annual accrual is appropriate.

In establishing the target reserve amount the company took into account the increase in asset value from the previous study of $3.4 billion to $4.1 billion. The company also considered the Hurricane Landfall Analyses in the EQECAT Study, which shows that a $100 million reserve will cover the majority of the Category 1 and Category 2 storms. Tampa Electric's target amount should be increased to $100 million to cover the higher frequency lower severity storms events such as Category 1 and Category 2 storms. This target reserve level should adequately protect customers from the chance of rate increases after a storm event.

Q. How can the company ensure that the requested annual accrual continues to be appropriate over time?

A. Based on the current study and associated probabilities, there is a 32 percent probability that a reserve based on an $8 million annual accrual will be depleted by the end of five years. To ensure the reserve accrual and target are still reasonable, the company will submit an updated study for Commission review within five years as required.

Q. How does the proposed reserve compare to insurance premiums?

A. The study conducted by EQECAT that was used to establish a proposed reserve is similar to studies insurers use as a foundation to develop premium charges. The expected annual loss amount is the starting point an insurer uses to calculate an annual premium. Thus, in determining an annual accrual amount, Tampa Electric's approach is similar to that used by an insurance company to determine a premium. This is appropriate, considering that the reason the storm damage reserve and accrual exist is that insurance is not available at cost effective pricing for T&D assets. The advantage of the reserve is that the annual accrual, in a year where no losses occur, will remain in the reserve, in contrast to insurance where, even if there are no losses, the insurer retains the premiums paid. The obvious advantage of insurance is that if you have a large loss event, the insurance policy will pay the loss up to the limits of the policy with usually no other obligation on the insured's part. In contrast, a reserve may be insufficient to absorb the loss, particularly if it occurs before the reserve has a chance to accumulate. The practical reality, however, is that insurance is not available at cost-effective pricing for T&D assets in wind-exposed locations like Florida.

Q. What is the status of Tampa Electric's efforts to obtain commercial T&D Insurance?

A. The property insurance markets for T&D insurance coverage remain very restrictive, especially for Gulf and Atlantic coast locations. In the last several years, Tampa Electric has requested a price indication from its property insurance broker for commercial property insurance to cover its T&D facilities from storm related damage. Based on discussions with the broker, property insurance for the company's T&D facilities at reasonable costs and deductible levels continues to be unavailable.

Q. Does the company have property insurance on other portions of its property?

A. Yes, Tampa Electric has property insurance on all of its assets with the exception of its T&D assets. The company has included its non-recovered windstorm deductible losses for substation and generating assets as a part of its proposed $8 million annual accrual.

Q. Please summarize your direct testimony.

A. Following Hurricane Andrew, property insurance coverage for T&D assets became unavailable in Florida. To provide for uninsured storm losses, Tampa Electric accrued annually to a reserve $4 million from 1994 to 2008 and $8 million from 2008 to present. Tampa Electric's annual storm damage accrual should remain at $8 million in order to build its storm damage reserve to a level sufficient to provide for most, but not all, storms and the target reserve balance should be increased to $100 million. While the EQECAT study supports a larger accrual, the company acknowledges the need to balance rate stability and long-term costs to customers and therefor a larger accrual has not been requested.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

EDSEL L CARLSON, JR.

Q. Please state your name, business address, occupation and employer.

A. My name is Edsel L. Carlson, Jr. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am the Risk Manager for Tampa Electric Company ("Tampa Electric" or "company").

Q. Are you the same Edsel L. Carlson, Jr. who filed direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address errors and shortcomings in the prepared direct testimony of witness Helmuth W. Schultz III, who is testifying on behalf of the Office of Public Counsel, ("OPC") and witness Jeffry Pollock, who is testifying on behalf of

The Florida Industrial Power Users Group ("FIPUG").

Q. Please summarize the key concerns and disagreements you have regarding the substance of witnesses Shultz's and Pollock's testimonies.

A. My key concerns and disagreements are as follows:

1. I disagree with witness Shultz that the company's requested storm accrual amount and reserve target is not supported by historical storm activity.
2. I disagree with witnesses Shultz and Pollock that the effects of storm hardening should have an impact on the requested $8 million accrual amount and that improper assumptions were used.
3. Although I do agree with witness Shultz that other options exists to recover storm costs, the surcharge option provided by witness Shultz is more costly and less beneficial to customers than the company's proposed reserve.
4. I disagree with witness Pollock's assertion that "It is clear that customers prefer to pay when the damage occurs…" Additionally, witness Pollock's statement that "TECO is seeking to establish the reserve at a level designed to provide for coverage for all storm damage" is erroneous.

STORM DAMAGE RECENT STORM HISTORY

Q. Do you agree with witness Schultz that historical storm activity does not support maintaining the $8 million annual accrual and the requested $100 million target reserve amount?

A. No. As a preliminary matter, I disagree that the company's 10-year storm loss history should be used to set the company's storm damage expense accrual or storm damage reserve. The Storm Study ("Study") performed by witness Steven P. Harris on behalf of Tampa Electric is the kind of study used by the insurance industry and its underwriters and is the best tool available to evaluate the company's proposed storm accrual and reserve target. Witness Harris' rebuttal testimony explains this further.

However, if the Commission wants to use historical averages as a high level test of the reasonableness of the company's proposed accrual, Tampa Electric's 10-year storm loss history supports maintaining the current $8 million accrual. As described in my direct testimony on page 5 and including a recent charge to the reserve in 2013 for Tropical Storm Isaac, the annual amounts charged against the reserve for storm damage in the last ten years have been as follows:

2004 = $73.4 million
2008 = $1.6 million
2011 = $1.9 million
2012 = $1.2 million
2013 = $0.9 million
Total = $79 million

The $79 million total translates to approximately $8 million a year on average over the last ten years. Although the study performed by witness Harris suggests that a higher annual accrual amount would be reasonable, the company is proposing to maintain its annual accrual at the $8 million approved by the Commission in Tampa Electric's last rate proceeding.

Q. Do you believe that the amounts incurred by the company in 2004 should be disregarded when computing the 10-year average?

A. No. While the 2004 storm season certainly has the greatest impact on the on the 10-year average, that year was not unusual. As shown in witness Harris' Storm Study there is an 8.68 percent probability that there will be damage in any one year that exceeds $60 million. Likewise, as witness Pollock acknowledges, the Storm

Study statistically supports the notion that a storm inflicting damage in an amount in excess of $60 million is likely to occur once every 11.5 years. This probability supports Tampa Electric's need to increase its target from $64 million to $100 million because if the company were to experience this level of storm damage today the current reserve would be inadequate.

Q. Do you agree with witness Schultz that the 2004 storms were an anomaly and are not the type of storms to be covered by the reserve?

A. No. Three hurricanes affected Tampa Electric in 2004, but none of the storms made landfall in Tampa Electric's service territory; they were glancing blows. All three storms had wind speeds in Tampa Electric service territory that were near or below the threshold of hurricane strength and Tampa Electric still experienced over $73 million in storm damage. These events are exactly the type of storms that should be covered by the reserve. The company's experience in 2004 supports Tampa Electric's request to increase its target reserve to $100 million. That target level will allow the company to cover most but not all storms events and to adequately protect customers from surcharges after storm events.

If any of the three 2004 storms had made landfall in or tracked directly through Tampa Electric service territory, the storm losses in 2004 would have been significantly greater. For example, Hurricane Charley actually hit near Punta Gorda, approximately 50 miles south of Tampa Electric's service territory. If Charley had made landfall closer to the mouth of Tampa Bay, the loss to Tampa Electric's transmission and distribution ("T&D") system could have been in the hundreds of millions of dollars. Tampa Electric is not proposing an accrual or reserve patterned around this type of event but the reality is that a significant exposure to loss from hurricanes exists for the company.

STORM HARDENING AND OTHER ASSUMPTIONS IMPACT ON STORM STUDY

Q. Do you agree that the proposed accrual amount should be adjusted for the effects of storm hardening?

A. No. The Study prepared by witness Harris is reasonable based on the historical information available at the time the Study was prepared. As witness Harris explains in his rebuttal testimony, it may be possible to factor the impact of storm hardening activities into future studies, but the estimated impact of doing so would not be material to the decision in this case, because the company's proposed annual accrual level is less than half of the estimated annual loss reflected in the Study.

Q. Do you agree with witness Schultz that the 4.5 percent annual cost increase for T&D assets contained in the Study is too high?

A. No. Witness Shultz's criticism has no merit. He fails to consider system growth, and bases his criticism on recent rates of inflation that are low from a historical perspective.

Q. Please explain how the company developed the 4.5 percent annual cost increase for T&D assets and why that assumption is reasonable and appropriate.

A. The basis for the 4.5 percent annual cost increase for T&D assets was Tampa Electric's five year average annual historical replacement cost increase to its total T&D assets from 2007 to 2012. Tampa Electric computed this percentage by comparing its total T&D replacement value in 2007 to the values in 2012 and calculated that the values increased due to inflation and system growth by a little over 22 percent over the five year period, or an average of approximately 4.5 percent a year. Tampa

Electric assumes that its system's replacement value will grow in the next five years similarly to how it did in the last five years. It is important to note that the 4.5 percent includes both inflation and system growth. Tampa Electric believes this assumption is reasonable.

CUSTOMER IMPACTS AND OTHER OPTIONS

Q. Do you agree with witness Pollock that Tampa Electric's Customers do not benefit from a higher Reserve Target and that there are other options besides a storm reserve?

A. No. Tampa Electric believes that its customers are better served by an adequate reserve built gradually over time than by an emergency surcharge after a catastrophic event. Tampa Electric believes it is very important to try to avoid imposing a surcharge to a customer that has been affected by a storm event. After a storm event, customers will be dealing with their own storm recovery efforts and may incur substantial cost associated with insurance deductibles and increased insurance premiums that will usually follow for several years into the future. This makes right after a storm the worst time to impose a surcharge and increase costs to customers.

As noted in my direct testimony, the company has a storm reserve because T&D insurance is unavailable at reasonable terms and pricing. If the company could purchase T&D property damage insurance at reasonable prices, the company would pay a premium each year that would be part of our cost of doing business and properly included in cost of service. The insurance premium cost would be paid by all customers regardless of a loss event or not, just like the other insurances that Tampa Electric is able to purchase. The annual storm accrual is very much like the T&D insurance premium it has replaced, and is a cost of doing business in Florida and should be paid by the customers receiving the benefit from the protection of the reserve.

Q. Do you agree with witness Pollock that customers would prefer to pay a surcharge after the storm event?

A. No. First, witness Pollock's view is not supported by any real evidence of customer preferences, but rather a statement from intervenors representing customers that they would rather pay to fund the reserve to a lower level now and risk future rate volatility. Second, based on the reaction that customers have when electric rates increase due to fuel cost increases and other similar items, the company believes that a post-storm surcharge would face opposition from many customers.

Q. Witness Schultz noted that Tampa Electric is now requesting a target of $100 million and in 2008 it requested $120 million. Please explain the reduction in the requested target amount.

A. Tampa Electric believes that it is important to establish a reserve target level that will cover the higher probability lower severity storm events. The company believes this to be primarily Category 1 and 2 hurricane storm events. Tampa Electric used the information supplied in the Storm Studies to establish the requested storm target reserve. The hurricane landfall analyses in the 2013 Study showed that the average loss for a Category 2 hurricane directly hitting the company's service area would be approximately $118 million. In the 2008 Study, the estimate was approximately $130 million. The reduction in the requested target amount was based on the results of the landfall analysis in the Storm Studies.

Q. Do you agree with witness Pollock's statement that Tampa Electric is seeking to establish the reserve at a level designed to provide for coverage for all storm damage?

A. No. Tampa Electric is requesting a target reserve level adequate to cover most Category 1 and 2 hurricane events. The company is not proposing an accrual or reserve patterned around low probability events like a Category 3 or 4 direct hit. The potential for average damage in those events is over $300 million for a Category 3 hurricane and could be over $600 million for a Category 4 hurricane.

Q. What is the target reserve Tampa Electric is requesting and what is the basis for that amount?

A. Tampa Electric is requesting that the target reserve be increased from $64 million to $100 million. The basis for this request is that T&D values have increased by more $700 million since the Commission established the reserve target in 2008. Also, and more importantly, the result of witness Harris' Study demonstrates that the reserve should be increased to adequately cover most but not all storm events (Category 1 and Category 2 events). Figure 4-3 of The Hurricane Landfall Analyses contained in the Storm Study shows that if a Category 2 hurricane event directly hits the company's service area the average amount of damage to Tampa Electric would be approximately $118 million. It is important to note, that this estimated loss amount is the average amount of all simulated storm events hitting a particular mile post marker. It is my understanding, in discussions with witness Harris, that the range on those losses is large. He explains in his rebuttal testimony that the maximum hurricane damage from a Category 1 hurricane directly hitting Tampa Electric's service territory is approximately $62 million and $178 million for a Category 2.

Summary of Rebuttal Testimony

Q. Please summarize your rebuttal testimony.

A. Tampa Electric's annual storm damage accrual should remain at $8 million in order to build its storm damage reserve to a level sufficient to provide for most, but not all, storms and the target reserve balance should be increased to $100 million. While a larger accrual amount is supported by the Storm Study prepared by witness Harris, the $8 million annual accrual minimizes customer rate impacts. Despite a 10-year period of favorable storm experience and no direct hits from a hurricane to the company's service area, the company has still incurred $79 million in storm damage losses over that period, which translates to approximately $8 million per year. Finally, I believe the intent of the reserve is to cover most but not all storm events, which represents tropical storms as well as Category 1 and Category 2 hurricanes. As such, the company has requested to increase the target reserve amount to $100 million since witness Harris' Study shows the average amount of damage to Tampa Electric from a Category 2 hurricane would be approximately $118 million.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

TAMPA ELECTRIC COMPANY
DOCKET NO. 130040-EI
FILED: 04/05/2013

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

JEFFREY S. CHRONISTER

Q. Please state your name, address, occupation and employer.

A. My name is Jeffrey S. Chronister. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am the Controller for Tampa Electric Company ("Tampa Electric" or "company").

Q. Please provide a brief outline of your educational background and business experience.

A. I graduated from Stetson University in 1982 with a Bachelor of Business Administration degree in Accounting. Upon graduation I joined Coopers & Lybrand, an independent public accounting firm, where I worked for four years before joining the company in 1986. I started in Tampa Electric's Accounting department, moved to TECO Energy's Internal Audit department in 1987, and returned to the Accounting department in 1991. I am a Certified Public Accountant in the State of Florida and

I am a member of both the American Institute of Certified Public Accountants ("AICPA") and the Florida Institute of Certified Public Accountants. I have served in my current position as Controller of Tampa Electric since July 2009.

Q. Please describe your duties as Controller.

A. I am responsible for maintaining the financial books and records of the company and for the determination and implementation of accounting policies and practices for Tampa Electric. I am also responsible for budgeting activities within the company.

INTRODUCTION

Q. What is the purpose of your direct testimony in this proceeding?

A. My direct testimony presents the calculation of Tampa Electric's revenue requirement request for the 2014 projected test year. I will explain the key drivers of the need for a base rate increase. I will describe how the company prepared the budget used to calculate the revenue requirement, explain key components of the company's budgeted financial statements, show the company's performance against the Florida Public Service Commission's ("Commission" or "FPSC") operations and maintenance ("O&M") expense benchmark and discuss details of the revenue requirement calculation such as regulatory and pro forma adjustments.

Q. Have you prepared an exhibit to support your direct testimony?

A. Yes, I am sponsoring Exhibit No. ____ (JSC-1) entitled "Exhibit of Jeffrey S. Chronister" consisting of 17 documents, prepared under my direction and supervision. These consist of:

Document No. 1	List of Minimum Filing Requirement Schedules Sponsored or Co-Sponsored By Jeffrey S. Chronister
Document No. 2	MFR Schedule A-1 Full Revenue Requirements Increase Requested
Document No. 3	MFR Schedule F-5 Forecasting Models MFR Schedule F-8 Assumptions
Document No. 4	Forecasted Income Statement Twelve Months Ended December 31, 2014
Document No. 5	Forecasted Income Statement Twelve Months Ended December 31, 2014 Budget Methodology

Document No. 6	Forecasted Income Statement Twelve Months Ended December 31, 2013
Document No. 7	Actual Income Statement Twelve Months Ended December 31, 2012
Document No. 8	Forecasted Monthly Balance Sheet 2014
Document No. 9	Forecasted 13-Month Average Balance Sheet as of December 31, 2014
Document No. 10	Forecasted 13-Month Average Balance Sheet as of December 31, 2014 Budget Methodology
Document No. 11	Forecasted 13-Month Average Balance Sheet as of December 31, 2013
Document No. 12	Actual 13-Month Average Balance Sheet as of December 31, 2012
Document No. 13	Forecasted Statement of Cash Flows for the Period Ended December 31, 2014
Document No. 14	MFR Schedule C-37 O&M Benchmark Comparison by Function
Document No. 15	Bonus Depreciation Chronology
Document No. 16	MFR Schedule C-2 Net Operating Income Adjustments
	MFR Schedule C-3 Jurisdictional Net Operating Income Adjustments

	MFR Schedule C-4 Jurisdictional Separation Factors - Net Operating Income
	MFR Schedule C-5 Operating Revenues Detail
Document No. 17	MFR Schedule B-4 Two Year Historical Balance Sheet
	MFR Schedule B-5 Detail of Changes in Rate Base
	MFR Schedule B-6 Jurisdictional Separation Factors - Rate Base

Q. Are you sponsoring any sections of Tampa Electric's Minimum Filing Requirements ("MFRs")?

A. Yes. I am sponsoring or co-sponsoring the MFRs listed in Document No. 1 of my exhibit.

Q. What is the source of the data contained in your direct testimony and exhibit you sponsor in this proceeding?

A. The historical data presented in my direct testimony and exhibit is based on the books and records of the company. These books and records are maintained under my supervision and are kept in the regular course of business in accordance with Generally Accepted Accounting Principles and the Uniform System of Accounts as prescribed by the FPSC and the Federal Energy Regulatory Commission ("FERC").

The company's books and records are audited annually by PricewaterhouseCoopers, Inc., the company's independent auditors. These annual financial statement audits, in conjunction with internal control testing required by Sarbanes-Oxley legislation, have shown that the company has a consistent, reliable system of internal controls over the company's accounting and financial reporting. The company's continuous internal control compliance gives financial statement users assurance of the quality and reliability of the information contained in the company's books and records as well as all Tampa Electric financial reports.

In addition, the company is audited on a regular basis by the FPSC and the Internal Revenue Service ("IRS"), and, from time to time, by a number of other governmental agencies, including FERC. The company makes regular monthly, quarterly and annual reports to the FPSC and FERC and periodic, quarterly and annual reports to the Securities and Exchange Commission

("SEC").

The budgeted data presented in my direct testimony and exhibit is derived from the company's comprehensive budget process, which I will discuss in detail later.

Q. What are the key factors driving the company's request for a $134.8 million rate increase?

A. A substantial portion of the company's request for an additional $134.8 million in annual revenues is caused by the investments made in utility plant since the company's last rate proceeding.

The company projects that its net rate base in the 2014 test year will be $4,339,974,000 as compared to the $3,569,099,597 amount used by the Commission to set the company's current base rates. Considering the company's continuing need to invest in infrastructure to serve customers, management devoted a great amount of effort to limit and prioritize that spending. The primary reasons for the increases are the additions to rate base necessary to operate the business that are described in the direct testimonies of Tampa Electric witnesses Mark J. Hornick and S. Beth Young. This increase, when multiplied by the proposed overall rate of return of 6.74 percent (which assumes an 11.25 percent return on equity), yields approximately $85 million of additional revenue requirements caused by rate base growth.

As the electric plant in service and jurisdictional adjusted rate base have increased, so has the company's projected level of depreciation expense. The company projects that its annual depreciation expense will be $42.5 million higher in the 2014 test year than the amount used by the Commission to set the company's current rates. This increase in depreciation expense is caused only by increases in plant investment and is not due to increases in depreciation rates.

The additional investments in plant made by the company have also resulted in additional ad valorem property tax payments to local governments. Due to rate base growth, the company projects that ad valorem property taxes will be roughly $9 million higher in the test year than the amount used by the Commission to set the company's current rates.

The total impact of return on new rate base, depreciation expense and property taxes account for the vast majority of the company's requested revenue requirement.

Q. Please summarize the rate relief Tampa Electric is requesting.

A. Tampa Electric seeks a permanent base rate increase of $134,841,000 as shown in MFR Schedule A-1, Full Revenue Requirements Increase, and as Document No. 2 of my exhibit. This increase will give the company an opportunity to recover all of its prudently incurred costs to provide cost-effective and reliable service to its customers, including the opportunity to continue earning an 11.25 percent return on common equity ("ROE") and an overall rate of return of 6.74 percent on its 2014 average jurisdictional rate base of $4,339,974,000.

Q. What is meant by "opportunity to earn an 11.25 percent ROE"?

A. While Tampa Electric is requesting that the Commission set the company's base rates using an approved ROE of 11.25 percent, such approval will only give the company an opportunity to earn at that level but does not guarantee that the company will. As investments and operating costs change over time, the base rates approved by the Commission in this proceeding will remain the same. If a corresponding change in the volume of sales does not materialize, revenue growth may lag behind the growth of the costs to serve Tampa Electric's customers. If this occurs, the company's ROE could fall below the ROE percentage used to set rates in this proceeding.

Q. What test year did the company use to determine its revenue requirement in this proceeding?

A. Tampa Electric's requested rate increase is based on a 2014 projected test year. The test year is appropriate because it reflects the conditions under which Tampa Electric will operate in the future and the company's anticipated capital and operating costs when new rates go into effect. A 2014 projected test year is also appropriate because it will best demonstrate the required level of revenues necessary to recover projected cost of service, including an appropriate return on the related level of investment necessary to provide customers with reliable service when the company's new prices are in effect.

Q. What would be the resulting ROE for the 2014 projected test year absent the company's requested rate relief?

A. Without the requested rate relief, the projected earned 2014 ROE is 6.74 percent, far below the fair and reasonable ROE of 11.25 percent supported in the direct testimony of Tampa Electric witness Robert B. Hevert. The 6.74 percent projected earned ROE for 2014 reflects a significant decline in return that will continue to worsen without rate relief. Continuing investments in the company's infrastructure and increasing costs to serve customers reliably have outpaced revenues, thus driving test year returns below levels needed to maintain Tampa Electric's financial integrity. This has resulted in the need for rate relief. The company's need to maintain financial integrity is discussed in more detail in the direct testimony of Tampa Electric witness Sandra W. Callahan.

BUDGET PROCESS

Q. Is the company's process for producing the budget for the projected test year the same as in years past?

A. Yes. Although technological tools the company uses to prepare budgets have evolved, the basic process used to make projections has not. The company's budget continues to be based on operating information. The experience and expertise of the company's operating team members form the foundation of forecasted information. Front line operating personnel and members of management work together to project necessary projects and activities - and the corresponding costs. Long-term planning, prioritization of resource needs and finding available efficiencies drive the schedules and forecasts that support the company's budget. Operating personnel provide not only cost projections but also projections of other operating revenues that reduce the revenue requirement.

Q. Please describe the process that Tampa Electric used to prepare the 2014 test year budget.

A. The 2014 budget was prepared using an integrated process that combined the goals and objectives of the company with economic and financial conditions. Based on the company's obligation to serve and expectations of the requirements and challenges associated with that obligation, plans were developed for projects and activities. These plans for projects and activities were developed within each department, and then consolidated into company projections. Each department quantified its projects and activities into specific requirements in its respective budgets. This process is described in more detail in Document No. 3 of my exhibit.

Q. What primary economic and financial conditions were considered in developing the test year budget?

A. The primary economic and financial conditions considered when Tampa Electric prepared the 2014 budget were revenue growth, or lack thereof, which includes growth in number of customers and usage per customer and the impact of inflation, escalation and other cost increases. The company's Customer, Demand and Energy forecasts are explained in the direct testimony of Tampa Electric witness Lorraine L. Cifuentes. The company used a variety of indices and factors to estimate the effect of inflation and cost increases in the 2014 budget.

Q. How is the budget created?

A. The generation of the budget is an integrated process that results in a complete set of budgeted financial statements: income statement, balance sheet, and statement of cash flows. The income statement is constructed using various sources to determine revenues and expenses. The balance sheet is budgeted by starting with beginning balances. Then accounts on the balance sheet are budgeted by either forecasting monthly balances for the remainder of the year or forecasting monthly activity in the account for the remainder of the year, depending on the type of account. Once the balance sheet and income statement have been constructed, a resulting statement of cash flows is generated. This then determines the capital structure needs of the company and the required debt and equity needed during the budget year.

Q. Please describe the most material components of the 2014 budgeted balance sheet and income statement.

A. The largest component of the 2014 budgeted balance sheet is net utility plant-in-service. In-service balances reflect the capital expenditures for property, plant and equipment already invested as well as the construction cost contained in the near-term capital budget. With the exception of the fuel and interchange expenses, which are recovered through the fuel, purchased power and capacity cost recovery clauses and are not a subject in this proceeding, the largest cost component of the 2014 budgeted income statement is O&M expense.

Q. What other key elements are used to develop the budgeted financial statements?

A. In addition to the O&M and capital expenditure budgets, other fundamental elements utilized in the development of the budgeted financial statements include the Customer, Demand and Energy forecasts, the revenue budget, the generation/outage schedule, and the fuel budget.

Q. Please discuss the Customer, Demand and Energy forecasts and the revenue budget.

A. The Load Research and Forecasting section of the company's Regulatory Affairs department produces the Customer, Demand and Energy forecasts, which reflect customer growth projections as well as load and consumption projections. Witness Cifuentes is responsible for this function and discusses key assumptions used to develop the forecasts in more detail in her direct testimony. The revenue budget is derived by applying current tariffed rates to electricity sales contained in the Customer, Demand and Energy forecasts by customer rate class. Detailed revenue data by month is generated and provided for inclusion in the income statement.

Q. Please describe the company's overall O&M and capital budgeting process.

A. Considering forecasted demand, Tampa Electric determines the required capital investment necessary to serve the load reliably as well as the O&M needed to provide the high quality of service customers require. The company also considers factors such as environmental and regulatory compliance, reserve requirements and other items. After determining the projects and activities needed to build, operate and maintain a reliable system, the company estimates the costs associated with those projects and activities. The costs are determined by analyzing the resources to be utilized and the price of those resources.

The company uses different tools to determine the costs of the resources needed, depending on the type of resource. For example, as described in the direct testimony of Tampa Electric witness Brad J. Register, compensation amounts are driven by conditions in the job market.

Q. How are the detailed O&M and capital budgets developed?

A. Each operating department within the company develops detailed budgets for O&M and capital by month. Operating departments distinguish between O&M and capital based on the nature of the activity involved with consideration of the company's accounting policies and practices. Each operating department budgets according to its specific requirements and objectives, weighing its options regarding how to perform O&M and capital work in the most cost-effective manner. Each department submits a detailed operating budget to the Accounting department.

The Accounting department combines all of the previously discussed budgets and data to produce a total projected amount of O&M and capital expenditures for the company. The activities and projects that are necessary to provide safe and reliable service to customers are planned by the departments that perform them and the costs are developed using consistent assumptions. The officers of the company examine these totals for reasonableness as well as consistency and alignment with overall corporate objectives and initiatives. The President of Tampa Electric Company is ultimately accountable for the financial and operational performance of the company.

This includes decisions related to capital and O&M spending once the budget has been approved by the Board of Directors.

Q. Was the company's 2014 test year budget prepared consistent with the company's normal annual budget process?

A. Yes. The 2014 budget contained the same steps and oversight as the company's normal annual budget process.

Q. Has Tampa Electric's budgeting process proven to be reliable in the past?

A. Yes. Actual results have historically tracked to budgeted amounts for company controllable items. The company's budgets are used for investor presentations, business planning and key decision-making. Monthly budget-versus-actual analyses are prepared and these monthly variance analyses are part of the internal control system that has facilitated the company's compliance with Sarbanes-Oxley.

Q. What other factors impact the reliability of the company's budget process?

A. Tampa Electric uses a process that incorporates the AICPA guidelines for preparing prospective financial information. The company's process conforms with all of the guidelines, including those related to quality, consistency, documentation, the use of appropriate accounting principles and assumptions, the adequacy of review and approval, and the regular comparison of financial forecasts with attained results.

Q. In your opinion, does Tampa Electric's 2014 budgeting process result in a fair and reasonable projection of amounts necessary for the company to provide safe and reliable service?

A. Yes. Tampa Electric used a reasonable, reliable and time-proven process to produce its 2014 company budget.

BUDGETED INCOME STATEMENT

Q. How was Tampa Electric's 2014 budgeted Income Statement developed?

A. The 2014 budgeted Income Statement was prepared by the Accounting department under my direction and supervision. The Accounting department assembled forecasted data prepared by numerous team members who specialize in different areas of the company's operations. The same accounting principles, methods and practices which the company employs for historical data were applied to the forecasted data to arrive at the budgeted Income Statement. Senior management approved the Income Statement budget after a thorough review, including final review and approval by the president of Tampa Electric and the Board of Directors.

The income statement is developed using all forecasted revenues and other types of income, largely base revenues and the revenues from the four cost recovery clauses. The income statement also contains projections for off-system sales and other operating revenues such as rent revenues and miscellaneous service revenues.

To complete the income statement, all operating expenses are accumulated including O&M expense, depreciation expense and property taxes. Interest expense and interest income, as well as all below-the-line items are also considered. Once all pre-tax components are determined, income taxes are calculated to determine final net income.

Q. Were the depreciation rates used in the 2014 budget those most recently approved by the Commission?

A. Yes. The depreciation expense in the 2014 budget reflects the rates approved in the company's 2011 Depreciation Study in Commission Order No. PSC-12-0175-PAA-EI, issued on April 3, 2012 in Docket No. 110131-EI.

Q. Please describe the documents in your exhibit that relate to the budgeted Income Statement.

A. Document No. 4 of my exhibit entitled "Forecasted Income Statement Twelve Months Ended December 31, 2014" shows the expected results of operations for Tampa Electric under current rates. Document No. 5 of my exhibit entitled "Forecasted Income Statement Twelve Months Ended December 31, 2014 Budget Methodology" sets forth line-by-line the source or budget methodology for each item included in the 2014 budgeted Income Statement. Document Nos. 6 and 7 of my exhibit provide the same information for forecasted 2013 and actual 2012, in the same format as Document No. 4 of my exhibit.

Q. What were the underlying methods and assumptions used to develop Tampa Electric's 2014 Income Statement budget?

A. A summary of the methods is provided on MFR Schedules F-5 and F-8, which are included in Document No. 3 of my exhibit. Projects and activities are developed and appropriate cost assumptions are applied. As I stated earlier, inputs into the income statement budgeting process are supplied by various personnel who specialize in specific areas of the company's operations.

Q. In your opinion, does Tampa Electric's 2014 budgeted Income Statement fairly and reasonably reflect the revenues and expenses expected for the company in 2014?

A. Yes. The 2014 budgeted Income Statement is based on supportable levels of revenues and expenses, with expenditures reflecting appropriate and necessary projects and activities at reasonable and prudent cost levels.

BUDGETED BALANCE SHEET

Q. How was Tampa Electric's 2014 budgeted Balance Sheet developed?

A. The company's Accounting Department prepared the 2014 budgeted Balance Sheet under my direction and supervision. Certain data used in the process was provided by various other departments. Each line item was developed using the same accounting principles, methods and practices used in accounting for historical data. Senior management approved the budgeted Balance Sheet after a thorough review, including final review and approval by the president of Tampa Electric and the Board of Directors.

A projected balance sheet is a representation of projected account balances at a point in time. Therefore, the development of the company's projected balance sheet starts with establishing the beginning balances for the prior year. The 2014 budgeted Balance Sheet was derived from the 2013 budgeted Balance Sheet. The 2013 budgeted Balance Sheet was originally prepared as part of the company's annual budget process in late 2012, with an estimated 2012 year-end Balance Sheet. In January 2013, the company began the process of finalizing the 2013 budget using actual 2012 year-end balances as the starting point. The 2013 and 2014 budgets were completed in March 2013.

The company projected monthly balances for each month of the year for certain accounts. For all other accounts, the change or activity in the account was forecasted and then applied to the beginning balance in sequence each month to produce monthly balances. For instance, the company budgeted property, plant and equipment balances using the projected timing of expenditures included in the capital budget and projected timing of in-service dates for assets. Some balance sheet accounts, such as accrued interest and deferred clause balances, were budgeted based on the activity reflected in the income statement. Because balance sheet account changes were applied in sequence, budgeted balance sheet data for each month of the year was prepared (as reflected in Document No. 8 of my exhibit) and used to compute the 13-month average Balance Sheet. Document No. 9 of my exhibit reflects the result of that averaging process.

Q. How was Tampa Electric's 2014 budgeted Statement of Cash Flows developed?

A. The budgeted cash flows were a function of the overall change in all items included in the budgeted Balance Sheet for the company. Cash needs dictated the extent of debt and equity necessary to operate the business, given the timing of cash inflows and outflows. Long-term debt issuances and equity infusions were projected. Then short-term debt was forecasted to reflect the expected balance of cash needs for each month.

Q. Please describe the documents in your exhibit that relate to the budgeted Balance Sheet and budgeted Statement of Cash Flows.

A. Document No. 8 of my exhibit is the budgeted Balance Sheet for 2014. Document No. 9 of my exhibit, entitled "Forecasted 13-Month Average Balance Sheet as Of December 31, 2014", presents the 13-month average per books Balance Sheet. Document No. 10 of my exhibit consists of four pages and is entitled "Forecasted 13-Month Average Balance Sheet as Of December 31, 2014 Budget Methodology". This document provides line-by-line the source or budget methodology for each item included in the 2014 budgeted Balance Sheet. Document Nos. 11 and 12 of my exhibit provide the same information for forecasted 2013 and actual 2012, respectively in the same format as Document No. 9 of my exhibit. Document No. 13 of my exhibit presents the "Forecasted Statement of Cash Flows for the Period Ended December 31, 2014".

Q. In your opinion, does Tampa Electric's 2014 budgeted Balance Sheet fairly and reasonably reflect the account balances expected for the company in 2014?

A. Yes, it does. It is based on supportable levels of capital structure, plant in service and working capital, with expenditures reflecting appropriate and necessary projects and activities at reasonable and prudent cost levels.

RATE BASE

Q. Is the rate base that supports the revenue requirement calculation reasonable?

A. Yes. The projected rate base investment reflects appropriate amounts of net plant in service and working capital as well as the expected costs of the net assets required to reliably serve customers. The amount of rate base the company is projecting in the 2014 test year represents investments and spending that is reasonable and prudent and that will be used and useful to provide electric service to customers.

Q. Is it reasonable for Tampa Electric's rate base to grow at its current pace?

A. Yes. The company's investment in rate base is driven by many factors beyond growth in the total number of customers. A key driver is asset replacement. This results from the need to maintain the utility system considering the company's obligation to serve all customers in its service territory. Each year, the company replaces equipment that has been in service for many years and has reached the end of its useful life. The company must also make investments in assets that allow the company to keep pace with changes in safety, environmental, security and reliability requirements – as well as technology and community needs. The total growth in Tampa Electric's rate base is both necessary and reasonable.

Q. Why are the 2014 FPSC Adjusted amounts for Plant In-Service and Construction Work In Progress ("CWIP") greater than the amounts used by the FPSC to set the company's current rates.

A. Witnesses Young and Hornick will explain the details of the company's capital spending since the company's 2008 rate case and why that level of capital spending was and is reasonable and prudent. The capital spending over time has naturally produced higher balances of Plant In-Service. The higher CWIP balance in 2014 is a function of timing. The 13-month average of the CWIP that does not earn AFUDC nor is recovered through a clause reflects the cash flow timing of the capital projects as explained by the operating witnesses identified above. The 2014 CWIP balances do not include CWIP related to the Polk 2-5 Conversion Project, because that project will accrue AFUDC. Both projected Plant In-Service and CWIP are reasonable and prudent.

NET OPERATING INCOME

Q. Are the operating revenues that support the revenue requirement calculation reasonable?

A. Yes. The projected operating revenues reflect a reasonable forecast of the conditions expected for the test year of 2014. Other operating revenues - which include items such as by-product sales and rent revenue - are projected to be higher than the amounts used by the Commission to set the company's current rates. Long-term separable off-system sales are forecasted to be zero in 2014 due to the fact that the company's single off-system energy sales contract expired in 2012. The company currently has no long-term wholesale energy sales contracts in place for 2014 and is not forecasting any new contracts for 2014 at this time.

Q. Are the operating expenses that support the revenue requirement calculation reasonable?

A. Yes. The projected operating expenses reflect a reasonable, sustainable level of activities that will allow the company to continue to provide safe, reliable and cost-effective electric service to customers. Forecasted expenses also reflect the expected costs to conduct these activities.

Q. Is it reasonable for Tampa Electric's operating expenses to increase in the current economic conditions?

A. Yes. As discussed earlier, the company has continued to invest in rate base to reliably serve all customers in Tampa Electric's service area. Prudent investments in assets result in depreciation and property tax expenses that are also prudent. In addition, the company incurs O&M expenses to operate and maintain the new rate base as well as previously existing rate base. Operating expenses logically grow as investment in rate base grows and existing rate base ages.

Q. Please discuss property tax expense further.

A. Property tax expense represents payments made by the company to county governments for ad valorem taxes. The projected expense is a function of forecasted tax rates and the projected values that will be used by the counties to assess the company's plant assets. As investment in assets grows, property tax expense also grows. Due to rate base growth, the company projects that ad valorem property taxes will be roughly $9 million higher in the test year than the amount used by the Commission to set the company's current rates.

Q. Please discuss income tax expense.

A. Income tax expense for the test year was computed in the same manner used for ratemaking purposes over the last three decades. Consistent with the company's last two rate proceedings and long-standing Commission precedent, the company computed its test year income tax expense on a stand-alone basis. Projected total income tax expense is a function of forecasted taxable income coupled with the IRS rules expected to be in place during the test year. All net operating income and capital structure amounts reflect reasonable budget projections, consistent regulatory treatments and compliance with the normalization requirements of the Internal Revenue Code.

Deferred taxes and the related accumulated deferred income tax are computed based on the projected book/tax temporary differences for the forecasted period.

Q. Why were O&M expenses in 2011 and 2012 less than the amounts being projected for 2014?

A. As explained in the direct testimony of witness Cifuentes and Tampa Electric witness Gordon L. Gillette, the company faced a period of uncertainty from 2009 to 2012 during which revenues did not grow consistent with historical growth patterns. The company's 2011 and 2012 base revenues were $902.7 million and $897.1 million, respectively, which were far below the projected $969 million of base revenues used to set the company's current base rates. Given the much lower than expected revenues for 2011 and 2012, and the uncertainty the company was facing, the company needed to control costs to produce earnings that would maintain the company's financial health. Consequently, as explained by witnesses Hornick and Register, the company took proactive steps to reduce O&M expenses from budgeted amounts. This was done by deferring or modifying a number of projects and activities. However, as those witnesses explain, these scope reductions and maintenance deferrals are not sustainable over the long term. The 2014 O&M amounts reflect the company's return to a reasonable and sustainable level of activity to operate and maintain the company's electric system.

Q. What steps has the company taken to ensure that 2014 spending levels are as low as they can be given the return to sustainable projected levels of activity?

A. The company has taken measures to keep the size of its workforce as low as practical - as discussed in witness Register's direct testimony. Also, as discussed in witness Hornick's direct testimony, the company has executed cost control efforts throughout its production, transmission and distribution functions. Finally, the company has made significant system and work process improvements throughout the last five years. One example is the company's implementation of a new SAP Enterprise Resource Planning ("SAP ERP") system, which came into service in July of 2012.

Q. What are the benefits of the recently implemented SAP ERP System?

A. This new system allowed the company to retire 26 computer applications - some of which were mainframe applications that were implemented over 30 years ago. The new integrated system ensures all procurement, payroll and general ledger processing is done on the same platform. This not only produces cost-efficiency from an information technology perspective, but it also facilitates standardization of procedures and work flow, which in turn enhances the accuracy, completeness and controls associated with all financial transactions. Finally, the most significant benefit is that the system will enable the company to reduce outside spending. The system provides tools and techniques, such as vendor consolidation and procurement analysis, which lead to the reduction of total dollars paid to vendors for goods and services.

Q. Some utilities have faced challenges in implementing new larger financial systems. Did Tampa Electric encounter these types of challenges?

A. No. In fact, the company is proud to say the ERP Project was completed both on time and on budget. The company was committed to guiding principles that have produced successful projects in the technology arena. Some of these guiding principles included no customization and disciplined control of project scope. The project won SAP's 2012 award for Project of the Year.

Q. You referred to Tampa Electric's efforts to optimize workforce size. Please explain what the company did and how it benefits customers.

A. As explained by witness Register in his direct testimony, the company completed a restructuring that reduced the number of team members by 169 in the third quarter of 2009. Although it was a difficult decision, the workforce reduction was a key factor that has allowed the company to avoid seeking rate relief until now and helped the company navigate through the period of uncertainty described in the direct testimony of witnesses Gillette and witness Cifuentes. The primary benefit to customers was a recurring reduction of annual labor and benefit costs. This restructuring facilitated an on-going decrease to the cost profile of the company. Tampa Electric's operating expenses in the 2014 projected test year are lower than they would have been in the absence of the 2009 workforce reduction. Customers have benefitted from this action through the deferral and lessening of the revenue requirement in this proceeding.

Q. Is the projected O&M expense for 2014 reasonable?

A. Yes. As noted earlier, uncertain economic conditions and customer usage and growth patterns compelled the company to keep O&M expenses generally flat from 2007 to 2012. However, looking ahead, the company must increase its O&M expense spending levels to a sustainable and reasonable level consistent with the amount of plant in service and the needs of customers to obtain safe and reliable electric service. The 2014 O&M expense amount is reasonable.

FPSC O&M BENCHMARK

Q. Please explain what the Commission's O&M benchmark is and how it is used.

A. Since the early 1980s, the Commission has compared companies' O&M costs to a benchmark computed by escalating a base year to the year being reviewed. For production O&M, the base year allowed costs are escalated by inflation as measured by the CPI-U plus costs related to additional capacity additions since the base year. All non-production costs are escalated by inflation as measured by the CPI-U compounded by customer growth. Costs that are greater than this calculated benchmark require justification before being considered a prudent cost of service.

Q. How did you calculate the O&M benchmark for 2014?

A. The company used the same general approach used in its 2009 rate proceeding. Specifically, the company calculated the O&M benchmark for 2014 by applying the appropriate Commission-established multiplier to the 2007 actual O&M amounts. A compound multiplier was calculated using historical CPI-U and customer growth amounts plus estimates for the 2013 and 2014 periods based on Tampa Electric's customer, demand and energy forecasts. The company then applied the compound multiplier of customer growth and CPI-U inflation to transmission, distribution, customer accounts, customer service and information systems, sales expenses, and administrative and general. For production accounts, only CPI-U was applied.

Q. Why did the company use 2007 as the base year for purposes of the O&M Benchmark test on MFR Schedule C-37?

A. In addition to being consistent with the methodology used in Tampa Electric's last base rate proceeding, the use of the historical prior year allows for more detailed benchmarking analysis. Using 2007 allows the company to capture historical data by FERC expense account - which enables functionalization of prior expenses. Therefore, in addition to applying the benchmark analysis to total O&M, benchmark analysis can also be applied to O&M expenses for Production, Transmission and the rest of the functional categories.

Q. What is the company's overall performance relative to the benchmark expected to be for the 2014 test year?

A. As shown on MFR Schedule C-37, Document No. 14 of my exhibit, the company's total 2014 O&M costs are expected to be under the benchmark by $23,570,000. Also, each functional expense category is below the benchmark. This is despite many challenges the company has faced since its last rate proceeding and demonstrates that the company's cost control efforts have effectively offset increasing cost pressure over time.

Q. Did the company perform an O&M Benchmark calculation using any other base year?

A. Yes. In addition to the calculation shown on MFR Schedule C-37, the company performed an O&M Benchmark calculation using 2008 actual expenses. The company's proposed level of O&M Expenses in the 2014 test year is below the O&M benchmark calculated using this alternative approach. The results of the O&M comparisons relative to both 2007 and 2008 reflect the efforts implemented by the company over the last several years to control costs.

Q. Are there any major expense items in the company's 2014 O&M total that were not present in 2007? If so, how does this impact the benchmark results?

A. Yes. In the company's last rate proceeding, the Commission approved an additional $4 million annual accrual for storm damage expense, bringing the annual accrual to $8 million. This approved additional expense was incorporated into the company's benchmark calculations.

CAPITAL STRUCTURE

Q. Is the capital structure that supports your revenue requirement calculation reasonable from an accounting perspective?

A. Yes. The forecasted amounts for items such as zero cost deferred taxes reflect proper, audited financial records. Customer deposit projections reflect both forecasted balances and the low cost rates implemented recently by the Commission. Finally, forecasted short and long-term debt balances and rates reflect cash flow projections and cost rates that are documented in the company's transaction detail.

Q. Witness Callahan discusses $575 million of growth in the balance of deferred taxes in the capital structure through 2014. What were the key drivers of this growth?

A. There are two significant tax items that have contributed to the increase of the deferred tax liability balance through 2014. First, approximately $311 million of the growth in deferred taxes is related to bonus depreciation deductions provided under Internal Revenue Code section 168(k), including the recent Fiscal Cliff legislation which extends bonus depreciation into 2014. Second, approximately $239 million is related to tax deductions for unit of property repair associated with generation as well as transmission & distribution activities, including the estimated additional impact of the upcoming expected technical guidance on repair deductions for generation activities.

Q. Please explain bonus depreciation further.

A. As an incentive to encourage capital investment, the Economic Stimulus Act enacted in February 2008 allowed businesses to deduct as first year depreciation 50 percent of the cost of tangible property purchased and placed in service in 2008. Bonus depreciation was extended by subsequent legislation enacted in 2009, 2010, and most recently in January 2013. Document No. 15 of my exhibit details the chronology of enacting legislation and the bonus depreciation percentage allowed.

Since depreciation on most utility property in the first year an asset is placed in service under the normal MACRS depreciation rules that apply to utility property is 3.75 percent, bonus depreciation obviously had a significant impact in reducing a utility's taxable income during the years that bonus depreciation was in effect.

Q. Please explain the "repairs" deductions further.

A. IRS guidance in 2009 effectively allowed tax expense deductions for certain repairs that were previously capitalized for tax purposes. Repairs tax deductions are pursuant to Section 162 and 263(a) of the Internal Revenue Code. These code sections allowed the company to review its tax property records and to take a current tax deduction for amounts previously capitalized as plant additions for tax purposes.

Q. What accounting and tax activities facilitated the company's ability to generate deferred taxes?

A. The company maintains complete and accurate plant accounting records in a very timely manner. The fact that the company's property records can be examined and validated in a time efficient fashion - at any stage of the asset cycle - allows the company to have successful tax filings as well as corresponding IRS approvals of them through the IRS Compliance Assurance Program ("CAPS"). Tampa Electric was one of the first utilities to go on the IRS' CAPS program back in 2005, which allows close to real-time settlement with the IRS on what would otherwise be prolonged IRS tax audit processes. Second, and equally important, the company decided to pursue taking advantage of the code section that allows the company to review its tax property records retroactively to take a current tax deduction for amounts previously capitalized as plant additions for tax purposes. The company went back 10 years (to 2000) and - using new technology and extensive research - found $171 million of repairs deductions. This produced over $66 million of deferred taxes into the company's capital structure. In addition to these amounts, additional look-back efforts are planned and projected to generate $157 million more deductions, resulting in $61 million more of deferred taxes forecasted in the 2014 test year.

REVENUE REQUIREMENT

Q. Please describe the calculation of the company's revenue requirement for 2014.

A. Tampa Electric's 2014 Budgeted Income Statement and 13-Month Average Balance Sheet are the starting points for calculating the revenue requirement. Tampa Electric's 2014 budgeted Income Statement and Balance Sheet are the basis for the Per Books net operating income as well as the 13-month average rate base and capital structure calculations. Certain regulatory adjustments are then applied. The regulatory adjustments fall into two categories: 1) those that are necessary to comply with Commission directives, policies and decisions

(Commission adjustments) and 2) those that are necessary to produce a test year that is indicative of on-going revenue and expenditure levels (company pro forma adjustments). Jurisdictional separation factors, supported in the direct testimony of Tampa Electric witness William R. Ashburn, are then utilized to derive the jurisdictional amounts upon which the revenue requirement is calculated.

As shown on MFR Schedule A-1, the 6.74 percent required cost of capital is first applied to the jurisdictional adjusted average rate base of $4,339,974,000 resulting in a required jurisdictional net operating income of $292,514,000. Comparing the required jurisdictional net operating income to the jurisdictional net operating income based on the company's 2014 projected test year of $209,901,000, the net operating income deficiency is $82,613,000. After adjusting for taxes, there is a jurisdictional revenue deficiency for 2014 of $134,841,000.

Q. What Commission adjustments were made to the company's 2014 budget for the purpose of calculating the revenue requirement?

A. The Commission adjustments to the 2014 budgeted Income Statement and a description of the jurisdictional amount and the impact on the revenue requirement of each adjustment are shown in Document No. 16 of my exhibit, which is a compilation of MFR Schedules C-2, C-3, C-4 and C-5. The rate base adjustments and the jurisdictional amount of each adjustment are presented in Document No. 17 of my exhibit, which includes MFR Schedules B-4, B-5 and B-6.

Q. Please list the Commission adjustments made to Net Operating Income as shown in Document No. 16 of your exhibit.

A. The Commission adjustments described in Document No. 16 of my exhibit reflect Commission directives, policies and decisions from previous rate proceedings. Specifically, these adjustments are: 1) remove from base rates the revenues and expenses which are recoverable through the four cost recovery clauses, 2) remove franchise fee revenues and expenses, 3) remove gross receipts tax revenues and expenses, and 4) remove expenses that have been deemed non-utility or non-recoverable through retail base rates. Examples of these items include stockholder relations expenses, incentives based on parent company financial performance and charitable contributions.

Q. Please describe the Commission adjustments to rate base as shown in your Document No. 17 of your exhibit.

A. The Commission adjustments to rate base, as shown in Document No. 17 of my exhibit, reflect Commission directives, policies and decisions from previous rate proceedings. Specifically, these adjustments are: 1) remove from net plant-in-service the effect of items recoverable through the cost recovery clauses, 2) remove from net plant-in-service construction work in progress ("CWIP") balances that earn allowance for funds used during construction ("AFUDC"), 3) remove from working capital the effect of items for which a return is provided elsewhere, including deferred debits for clause-related under-recovery balances, 4) remove from working capital the effect of items which are part of capital structure (dividends declared) for ratemaking purposes, and 5) remove from rate base items that have been deemed non-utility or non-recoverable through retail base rates.

Q. Did the company make any company pro forma adjustments to its 2014 revenue requirement?

A. Yes. After the company prepared its 2014 budget, it was then necessary to make pro forma adjustments to identify circumstances during the test year that impact the on-going expenditures or revenues of the company. The only pro forma adjustments that the company made were material changes that were generally known and measurable and are needed to produce a test year that is representative of conditions that are expected on a normal basis in the years succeeding the test year.

Q. Please list the company pro forma adjustments made to the 2014 test year.

A. The pro forma adjustments made to the 2014 revenue requirement consist of three adjustments to NOI and one adjustment to Capital Structure.

The first NOI adjustment is to residential revenues to be more reflective of actual consumption within the existing two-tiered structure. Actual billing determinant data demonstrates that actual consumption is occurring at a 68.8/31.2 split rather than the 65/35 percent split utilized when the company budgeted revenues. The second NOI adjustment is to remove wheeling revenues associated with the Auburndale Purchased Power Agreement ("PPA") with Progress. Auburndale was recently sold to Quantum Energy and the contract is not expected to be renewed when it expires at the end of 2013. Lastly, the Calpine PPA is set to expire at the end of May 2014. Tampa Electric has not been informed that any portion of that 526 MW transmission agreement will be extended beyond that date. As such, the transmission revenues for the first five months have been pro forma adjusted out and the company proposes that any earnings for the first five months be spread out over a 12-month period and credited back through the fuel clause. If Calpine or Auburndale extend or partially extend their agreements, the company will calculate the appropriate amount of associated revenues and appropriately pro forma adjust them back to revenues.

For the purpose of determining the maximum amount of Accumulated Deferred Income Taxes ("ADIT") to be included in Capital Structure as zero-cost capital, Treasury Regulation 1.167(I)-1 requires the ADIT balance at the beginning of the future test period be adjusted by the pro rata portion of any projected monthly increase or decrease charged to the reserve. Per certain Private Letter Rulings, the proration begins in the month of the test year that the new rates are expected to take effect. The rulings also set forth a model for calculation of the adjustment. Failure to follow the normalization requirements under IRC Section 167(I) for public utility property may result in the forfeiture of accelerated depreciation tax deductions.

Q. After applying these adjustments, what is the total for the 13-month average rate base?

A. The jurisdictional adjusted 13-month average rate base, considering all of the adjustments, after applying the jurisdictional separation factors provided by witness Ashburn, is $4,339,974,000.

Q. Please describe the capital structure adjustments made in the revenue requirement calculation.

A. Capital structure adjustments reflect Commission precedent for most items, such as the specific adjustment that shows dividends declared as common equity. The traditional pro rata treatment was used for many of the adjustments, such as the removal of CWIP and rate base items associated with the cost recovery clauses. For the net under-recovery balance related to the four cost recovery clauses, the under-recovery was removed from short-term debt and deferred taxes because these are the components of the capital structure that are impacted by the shortfall between the clause expense incurred and the clause revenues collected.

Q. What other adjustments were made to net operating income?

A. After all these adjustments were made, income tax expense was adjusted to reflect the appropriate amount of interest expense based on the amount and cost of debt in the capital structure that was synchronized to the rate base.

Q. Did the company properly reflect in its 2014 revenue requirement calculation the impact of accounting pronouncements that were issued since the company's last rate proceeding?

A. Yes. The Financial Accounting Standards Board's Accounting Standards Updates and other accounting guidance have been properly reflected in the revenue requirement calculation. It should be noted that there have been no accounting pronouncements issued since the company's last rate proceeding that impact the company's 2014 revenue requirement calculation.

Q. Did the company make a parent debt adjustment as contemplated in Rule 25-14.004, F.A.C.?

A. No. As shown on MFR Schedule C-24, TECO Energy retired the last of its parent company debt in 2012, so no adjustment is required or necessary.

Q. Did the company include rate proceeding expenses in the revenue requirement?

A. Yes. The company included rate proceeding expense in its 2014 budget - based on an amortization over a 3 year period starting in January 2014. As detailed in MFR C-10, the company included $733,333 of rate proceeding expense in the 2014 test year, which represents one-third of the total anticipated rate proceeding expenditures.

Q. In your opinion, do Tampa Electric's MFRs fairly present the company's financial condition and requested revenue increase based on the projected results for the 2014 test year?

A. Yes. The MFRs accurately represent historical, current and projected activities and associated expenditures and assumptions.

SUMMARY

Q. Please summarize your direct testimony.

A. I have discussed the calculation of the revenue requirement supporting the increase of $134.8 million requested by Tampa Electric in this proceeding. The company's efforts in long-term debt refinancing and tax areas have helped mitigate the size of the company's request. The primary driver of the company's need for additional revenue is rate base growth. Costs are outpacing revenues as the company continues to invest in rate base to serve customers. Projected revenue levels, coupled with projected cost increases and the increasing demands of operating the utility, result in low forecasts for net operating income and return on equity. The projected degradation of ROE hurts the company's financial integrity.

I have discussed the process for budgeting the expenses required to operate and maintain a reliable electric system. The company's proposed expenditures, which should be included in cost of service, represent reasonable and prudent amounts for sustainable levels of projects and activities. The reasonableness of 2014 O&M expense is emphasized by the fact that the company's O&M is significantly under the Commission's benchmark despite extreme cost pressure and new operating requirements and challenges.

Despite the cost control efforts I have discussed, as well as the significant reduction in the weighted cost of capital used to determine revenue requirements in this proceeding, an increase in base rates is needed to provide a fair rate of return. Considering the growth in rate base and the related cost profile, the company is requesting a reasonable and appropriate revenue requirement.

Q. Does this conclude your direct testimony?

A. Yes.

TAMPA ELECTRIC COMPANY
DOCKET NO. 130040-EI
FILED: 08/08/2013

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

JEFFREY S. CHRONISTER

Q. Please state your name, business address, occupation and employer.

A. My name is Jeffrey S. Chronister. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as its Controller.

Q. Are you the same Jeffrey S. Chronister who filed direct testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address errors and improper conclusions in the prepared direct testimonies of Steve Chriss, testifying on behalf of the Florida Retail Federation ("FRF"); Michael Gorman, testifying on behalf of the Federal Executive Agencies

("FEA"); Lane Kollen, testifying on behalf of the WCF Hospital Utility Alliance ("HUA"); Helmuth Schultz, Jacob Pous and Donna Ramas, testifying on behalf of the Office of Public Counsel ("OPC"); and Jeffry Pollock, testifying on behalf of the Florida Industrial Power Users Group ("FIPUG").

KEY CONCERNS

Q. Please summarize the key concerns and disagreements you have regarding the substance of the testimonies of witnesses Chriss, Gorman, Kollen, Schultz, Pous, Ramas, and Pollock.

A. My key concerns and disagreements relate to the following topics:

- Projected Test Year
- Capital Structure Adjustments
- Interest Synchronization
- Construction Work in Progress ("CWIP") in Rate Base
- Other Operating Revenues
- Intangible Plant - Software Amortization
- O&M Expense
- Bad Debt Expense/Reserve for Uncollectable Accounts
- Rate Case Expense
- Injuries & Damages ("I&D") Expense

- Legal Expenses
- Other Post-Retirement Employee Benefits
- Stock Compensation Expense
- Parent Allocation

PROJECTED TEST YEAR

Q. FRF witness Steve W. Chriss indicates concern regarding the company's use of a projected test year. Do you agree with his position?

A. No. Although the use of a projected test year is not required by rule or statute, the Commission has extensive experience using projected test years going back to the 1980's. Most recently, the Commission approved Tampa Electric's use of a projected test year in the company's last base rate proceeding in Docket No. 080317-EI.

Q. Is use of a projected test year consistent with decisions made by the Commission for other utilities?

A. Yes. The Commission has used projected test years for Tampa Electric's 1992 base rate proceeding, Gulf Power Company's 2011 base rate proceeding and many others. The Commission authorized Florida Power & Light ("FPL") to implement a revenue increase based on a projected test year (2013) in Order No. PSC-13-0023-S-EI, issued on January 14, 2013 in Docket No. 120015-EI.

Q. Why is the use of a projected test year appropriate in general and in this case?

A. Using a projected test year properly matches revenues with the capital and operating costs to be incurred in future periods. Basing a request on a projected test year is appropriate because the test year best represents operational and business conditions that will be present during the time the new rates will be in effect.

Q. Does the financial information for 2014 presented to the Commission in the minimum filing requirements form a reasonable basis for calculating the company's 2014 revenue requirement and for setting customer base rates?

A. Yes. I provide a detailed explanation of the company's budget process in my direct testimony.

CAPITAL STRUCTURE ADJUSTMENTS

Q. FEA witness Gorman proposes on pages 17 through 20 of his testimony a revised capital structure that allocates pro forma adjustments across only investor sources of capital. Do agree with this approach?

A. No. This approach is not appropriate nor is it consistent with recent decisions by the Commission.

Q. Please explain.

A. In the Motion for Reconsideration from the company's last base rate proceeding, Order No. PSC-09-00571-FOF-EI, the Commission concluded that rate base plant adjustments should be removed by a pro rata adjustment over all sources of capital.

Q. What was the Commission's treatment for non-plant adjustments in the company's 2008 base rate proceeding?

A. Non-plant items were removed through a pro rata adjustment over investor sources of capital.

Q. Has the Commission ruled on non-plant adjustments more recently?

A. Yes. More recently, the Commission has ruled that all pro rata adjustments should be made over all sources of capital. This approach was approved by the Commission in the most recent rate proceedings for Progress Energy Florida ("PEF") and Gulf Power Company ("GPC"). The PEF ruling was in Order No. PSC-10-0131-FOF-EI, issued on March 5, 2010 in Docket Nos. 090079-EI, 090144-EI, and 090145-EI. The GPC ruling was in Order No. PSC-12-0179-FOF-EI, issued on April 3, 2013, Docket No. 110138-EI.

Q. What was the rationale for the Commission's decisions to make pro rata adjustments over all sources of capital?

A. The Commission's primary rationale is to avoid a tax normalization violation. The Commission decisions also reflect the regulatory efficiency associated with making all pro rata adjustments over all sources of capital. Witness Terry Deason provides additional information and historical context on this issue in his rebuttal testimony on behalf of Tampa Electric Company.

Q. Do you have any other issues with witness Gorman's proposed capital structure as reflected on his exhibit MPG-1?

A. Yes. Witness Gorman has inappropriately omitted the capital structure adjustment to adjust equity for common dividends payable (which is shown in Column 2 of Schedule D-1a in the amount of $13.4 million). This amount represents the 13-month average of the dividends declared but not yet paid. Since the cash payments have not yet been made, it is proper to reflect this amount as equity.

Q. Does this treatment reflect prior Commission decisions?

A. Yes. The Commission has consistently supported this adjustment for ratemaking purposes because it properly reflects the actual equity position of the company. The Commission included this adjustment in the calculations supporting their Order in the company's 2008 base rate proceeding. Also, the Commission indicated the following in its Order for Tampa Electric's 1992 base rate proceeding (Order No. PSC-93-0165-FOF-EI, issued February 2, 1993, Docket No. 920324-EI):

> The Commission has consistently increased equity and the working capital allowance reversing the average balance of common stock dividends payable. TECO has filed its request consistent with this method, treating common stock dividends as a component of capital structure.

INTEREST SYNCHRONIZATION

Q. OPC witness Donna Ramas indicates on page 29 of her testimony that an interest synchronization adjustment is needed since OPC's proposed amounts differ from the company's proposed amounts. Do you agree with the dollar amount of her interest synchronization adjustment?

A. No. However, I do agree with witness Ramas's position that after final rate base and weighted cost of debt decisions are made by the Commission a new interest synchronization adjustment will need to be made. It appears that all parties agree on the consistent method of synchronization.

CONSTRUCTION WORK IN PROGRESS (CWIP) IN RATE BASE

Q. Is Tampa Electric's requested level of CWIP in the amount of $174,146,000 for the 2014 projected test year appropriate?

A. Yes. It is reasonable and necessary. It properly reflects the budgeted amount for the 2014 test year.

Q. FRF witness Steve W. Chriss states on page 8 of his testimony that the Commission should reject the company's request to include $174.1 million of construction work in progress in rate base. Do you agree with this statement?

A. No. Witness Chriss's position is contrary to long-standing Commission practice and inconsistent with sound regulatory policy. The long-standing practice of the Commission has been to allow CWIP in rate base for the short-term CWIP that is not eligible for Allowance for Funds Used During Construction ("AFUDC") under Florida Administrative Code ("F.A.C.") Rule 25-6.0141 Allowance for Funds Used During Construction (New Rule 8/11/86). I will refer to this type of CWIP as "CWIP Not Eligible for AFUDC" hereinafter. Witness Terry Deason provides additional information and historical context on this issue in his rebuttal testimony on behalf of Tampa Electric Company.

Q. Please provide more detail on the rule and the Commission's historical practice.

A. The rule limits AFUDC eligibility to projects that are: (a) not included in rate base, (b) involve gross additions to plant in excess of 0.5 percent of the sum of the total balance in Account 101 - Electric Plant In

Service, and Account 106 - Completed Construction Not Classified, at the time the project commences and (c) are expected to be completed in excess of one year after commencement of construction. The Commission practice of allowing CWIP Not Eligible for AFUDC in rate base and limiting AFUDC to very large projects minimizes rate base in the long-term. Surveillance reporting includes CWIP Not Eligible for AFUDC in rate base and excludes CWIP earning AFUDC from rate base. As witness Terry Deason explains further in his rebuttal testimony on behalf of Tampa Electric, sound regulatory policy recognizes that if CWIP Not Eligible for AFUDC is not allowed in rate base, this CWIP should be provided a return by making it eligible for AFUDC. However, the Commission practice has been to include CWIP Not Eligible for AFUDC in rate base (rather than including it in AFUDC calculations) to provide the return.

Q. Has the Commission previously approved including CWIP Not Eligible for AFUDC projects in rate base as proposed by the company?

A. Yes. Including CWIP Not Eligible for AFUDC in rate base has been the Commission's practice for many years and the Commission approved that approach in the company's last rate proceeding. The company's proposed treatment of CWIP Not Eligible for AFUDC in this case is consistent with the Commission's ruling in the company's last rate proceeding.

OTHER OPERATING REVENUES

Q. OPC witness Ramas states on page 10 of her testimony that she is not recommending an adjustment for Auburndale Power Partner wheeling revenue. Do you agree with this position?

A. Yes. There is no change to date to the Auburndale Power Partner ("APP") commitment and there is no indication from APP that this will change. At this time the company does not expect any additional revenue from APP and no adjustment is necessary.

Q. While discussing proposed adjustments related to the change in the status of the Calpine contract, witness Ramas notes on line 1 of page 9 of her testimony that the reason for some revenue treatments are not clear. Can you provide a clarifying explanation?

A. Yes. In Tampa Electric's initial filing, for the year 2014, the company wanted to provide a more transparent presentation of revenues from wholesale transmission agreements. The final retail jurisdictional other operating revenues of $42,854,000 should not include (and do not include) wholesale transmission revenues. In an effort to clearly delineate amounts, the company included in "Per Books" (Column 1) of Schedule C-5 the wholesale transmission revenues. The company then removed from lines 26 and 29 the Calpine and Auburndale revenues (Columns 10 and 11) as Jurisdictional Adjustments. On Schedule C-2 page 3 of 7 (Columns 2 and 3), these jurisdictional adjustments are reflected as "Company Adjustments" - due to the company's decision to have a more transparent presentation.

Q. Are there references in witness Ramas' testimony to your MFR treatments that need to be corrected?

A. Yes. At the top of page 9 of witness Ramas' testimony she indicates that Calpine revenues were reflected as jurisdictional revenues in Tampa Electric's filing. As stated above, the wholesale transmission revenues are not part of jurisdictional other operating revenues. I recognize that the company's MFR presentation described above left room for confusion. However, I think that the statements made in witness Ramas' testimony reflect her position that normal treatment for wholesale transmission revenue is exclusion from jurisdictional amounts. Tampa Electric agrees with that position.

Q. Are any other clarifications needed?

A. Yes. The company proposed (and continues to propose) to adjust separation factors to properly reflect the costs which should be associated with Tampa Electric's wholesale transmission agreements - and their most recently confirmed volumes. Wholesale transmission revenues should be excluded from retail revenue requirement calculations. But retail revenue requirement calculations should be adjusted by the most recently known information about volumes that impact cost separation. It appears that all parties agree on these concepts.

INTANGIBLE PLANT - SOFTWARE AMORTIZATION

Q. OPC witness Pous on page 3 lines 4 through 19 of his testimony under "what is the purpose of your testimony?" proposes (1) a 15-year amortization period for all software and (2) an increase from $3.327 million to $5.271 million for the amortization reserve for the Enterprise Resource Planning ("ERP") software system.

Do you agree with these proposals?

A. No. In describing the purpose of his testimony, witness Pous addresses two issues. The first issue witness Pous addresses is the company's proposal for continuation of a five-year amortization period for the vast majority of the investments in its software systems and a request for a 10-year amortization for its newly installed ERP software system. Witness Pous recommends adjusting these amortization periods to 15 years. Witness Pous provides no study or support for his recommendation. The second issue witness Pous addresses relates to the level of amortization reserve associated with the company's newly installed ERP software system. He states that the company has booked amortization expense into the accumulated provision for amortization through the end of 2014 based on a 10-year amortization period. He asserts that the Commission has only approved a five-year amortization period for software in prior proceedings.

Q. Do you agree with these positions?

A. No. The five-year amortization period was not at issue in the company's last rate proceeding. The Commission has not addressed amortization of software in the company's depreciation orders or studies. The amortization periods proposed by the company in this case were filed with the Federal Energy Regulatory Commission ("FERC") and were accepted in two wholesale settlement agreements. The company's proposed amortization over 10 years is reasonable and appropriate.

Q. Why did the company not seek approval of a 10-year amortization period for the new ERP system when it filed its depreciation study with the Commission in April 2011?

A. The company follows the long-standing practice of the Commission that the Depreciation Rule 25-6.0436, F.A.C. applies to depreciable tangible property and not to intangible property like rights, consents and software. The company has never requested an amortization period for software in its petitions to change depreciation rates and the Commission and staff have never requested such proposals. To its knowledge, the company has not seen any other Florida electric investor-owned utility file proposals for software amortization in their depreciation studies.

The company believes that the Commission's exclusion of software amortization periods from depreciation study requirements is appropriately based on the fundamental differences between tangible and intangible assets. Tangible assets require physical removal and disposal. Depreciation studies can use that activity to analyze service lives and net salvage factors. Software is a set of computer codes that does not require physical removal when taken out of service. To more efficiently account for software additions and retirements, the company adds new software systems or upgrades to Account 303 (Intangible Property) and amortizes the cost over the amortization period. The cost is retired when the intangible asset is fully amortized.

Q. What period has the company historically used for amortizing software?

A. The company has historically used a five-year amortization period and this period is still appropriate for most software systems. Software upgrades occur about every five years and often replace initial configuration and add new functionality. Support of the system by vendors is dependent on implementing new versions of the software.

Q. Then why has the company proposed using a 10-year period for amortizing the cost of its new ERP system?

A. The new ERP system is significantly different from previous software systems in the magnitude and breadth of its functional scope. The company - through industry surveys - has seen that many investor-owned utilities ("IOU") use between 10 to 12 year amortization periods for major ERP Systems and five years for smaller software systems. Witness Pous recognizes the 10 to 12-year amortization periods used by other companies on page 20 lines 13 and 14, referring to them as: "…the realistic lower-end level 10- to 12-year life proposed by some other utilities for major software systems."

Q. What has the Commission accepted in other cases for software amortization lives?

A. In PEF's Docket No. 090079-EI, the company proposed the following rates/lives for software systems: Corporate – Misc. Intangible 303 – 20 percent (5 years), CSS Intangible 303 – 10 percent (10 years) and Transmission Intangible 303 – 14.29 percent (7 years) (MFR Schedule B-7 Plant Balances by Account and Sub-Account, page 10 of 28, rows 5 through 8, column B). In Order No. PSC-

10-0398-S-EI, issued on June 18, 2010 [Order Approving Stipulation and Settlement] the proposed amortization lives were not changed.

On page 20 lines 5 through 8, witness Pous states that FPL, in its recent rate proceedings, proposed changing the amortization lives from 5 years to 20 years for its new general ledger accounting software system; however, he fails to mention that FPL continues to use five years for all other software systems.

GPC has consistently used seven years for their software amortization period.

The Commission has recognized the impact on technological tangible assets of technological obsolescence in its approval of lives between three to seven years for personal computer workstations, servers, telecommunication equipment and even tools, furniture and fixtures. Witness Pous's proposed 15-year amortization period for all software projects is inconsistent with the amortization periods approved in other Orders.

Q. On pages 9 through 11, witness Pous opines, "the company's admission that it has not performed any such studies demonstrates not only the lack of support for the company's proposal, but also a violation of FERC's current requirement guidelines." Do you agree with this position?

A. Absolutely not. Throughout his testimony, witness Pous quotes requirements for depreciation and substitutes the word software as if they are synonymous. As mentioned previously, the F.A.C. Rule 25-6.0436 [Depreciation] does not mention "amortization". F.A.C. Rule 25-6.04361 [Subcategorization of Electric Plant for Depreciation Studies and Rate Design] does not list Account 303 - Miscellaneous Intangible Plant as a required category for depreciation studies. The company has filed depreciation studies since the late eighties and has never filed an engineering study for software assets. No Florida IOU has filed an engineering study for software assets. The Commission has accepted all of Tampa Electric's depreciation studies as being in compliance with the depreciation rules. The company filed Section 205 filings to get FERC approval for the Commission Order on change in depreciation rates as well as the 5- and 10-year software amortization periods for two wholesale rate cases. Neither FERC nor the interveners objected to the company's amortization periods for software. That is strong proof that the company did not violate any FERC or Florida rules associated with this issue.

O&M EXPENSE

Q. Several intervener witnesses have suggested that the operations and maintenance ("O&M") requested in this proceeding should be reduced because it is higher than historical amounts from the last three years. Is this approach reasonable?

A. No. Witness Kollen proposes to adjust generation O&M based on a 3-year historical average level of expenses. Witness Kollen also proposes to adjust transmission and distribution ("T&D") expenses based on the 2012 historical level of expenses. This backward-looking approach results in a negative outcome for positive business practices.

Q. Please explain.

A. The company has worked hard to control costs. If historical costs are used to set future rates, then the company is negatively impacted by its own efforts to take steps to benefit the customer. More importantly, making a backwards looking adjustment based on historical averages using years of abnormally low spending effectively locks in spending levels that are not sustainable.

Q. How do company cost control efforts benefit customers?

A. In two ways: (1) In periods of low revenue, cost control efforts allow the company to maintain financial health; thus, the company can go longer without asking the Commission to increase rates. (2) Many cost control efforts eliminate or temper future cost increases. Cost control efforts that lower future costs in turn lower future revenue requirements.

Q. Can you give an example of this?

A. Yes. The company implemented several process and system improvements that significantly lowered bad debt expense. The Commission approved $8 million for this expense in the company's base rate proceeding five years ago. In that year, the company incurred over $7.5 million of expense. In this proceeding the company is asking to recover 2014 expense of $3.6 million. Tampa

Electric's efforts to reduce bad debt expense are detailed in rebuttal testimony Tampa Electric witness Karen J. Lewis. She also explains why the Commission should not make an adjustment to lower bad debt expense in the 2014 projected test year.

Q. Various intervener witnesses have criticized the total level of the company's 2014 O&M expenses as well as specific components of 2014 O&M expenses. Do you agree with their observations and criticisms?

A. No. I believe the intervener witnesses have improperly evaluated the company's proposed O&M expense levels for 2014.

Q. Please explain.

A. First, I think it would be helpful to put the company's proposed level of O&M spending in the proper perspective. In the company's last base rate proceeding, the Commission approved a total jurisdictional amount of O&M expense of approximately $355 million for the 2009 test year. The company's proposed total jurisdictional O&M expenses for the 2014 test year in this proceeding is $364 million, only $9 million more than the level approved for 2009. I hope the Commission will consider this overall level of spending for 2014 to be reasonable and to keep this overall spending level in mind as it evaluates the specific O&M adjustments proposed by the interveners.

Second, as I mentioned above, I believe that the interveners have inappropriately relied on historical averages when calculating the dollar amounts of certain adjustments. The Commission should reject this approach to evaluating and adjusting proposed O&M expense levels because the historical averages used by the interveners include two atypical years - 2011 and 2012 - when the company dramatically cut spending to unsustainably low levels in light of unforeseen and unprecedented revenue shortfalls. Including these unusually low spending years in the average and computing an adjustment based on the average yields a result that "locks in" unsustainably low spending levels and will impair the company's ability to provide safe and reliable service to its customers.

Third, as explained by rebuttal witness Terry Deason on behalf of Tampa Electric, the "looking backwards" approach to evaluating O&M expense spending levels is inconsistent with the idea of a projected test year.

Finally, I am concerned about the high level approach to adjusting O&M expense levels advocated by the interveners. Although averages and benchmarks can be useful tools for organizations to use in high-level analysis of spending, the intervener witnesses have not identified any particular operational activity that the company should forego. For example, while witness Schultz is proposing that the company's headcount be reduced by 114 people, he has not identified a single position that the company should not add. Likewise, in the operations areas, the intervener witnesses have not identified any particular aspect of generation maintenance, call center operation or any other particular business activity that the company should not pursue. I would suggest that the company's operational witnesses are in the best position to assess and explain the level of spending the company needs to provide safe and reliable service to our customers.

BAD DEBT EXPENSE/RESERVE FOR UNCOLLECTIBLE ACCOUNTS

Q. HUA witness Kollen states on pages 28 and 29 of his testimony that the increase in uncollectable accounts expense is excessive and should not be recovered. Do you agree with this position?

A. No. First, the budget for bad debt expense increases less than $600,000 from 2013 to 2014. More importantly, the 2014 projected amount is well below actual annual expense incurred from 2007 to 2011. It is true that the 2012 expense was low as the company implemented new processes and technology to capture substantial uncollected dollars. However, focusing on the unique low expense in one year does not make sense. Instead, the 2014 budget of $3.6 million can be put into context by examining the following actual amounts:

2007 -	$5.5 million
2008 -	$6.8 million
2009 -	$7.5 million
2010 -	$7.8 million
2011 -	$4.1 million

Finally, the bad debt expense proposed by Tampa Electric is actually $4.3 million lower than the amount used by the Commission to set rates five years ago. Tampa Electric's projected expense is reasonable and appropriate.

Witness Lewis explains the activities undertaken by the company in the last several years to manage bad debt expense.

RATE CASE EXPENSE

Q. OPC witness Schultz asserts that the company's rate case expense request is excessive. He argues that since the company is not small it should be able to assemble a rate filing without significant assistance. Do you agree with this statement?

A. No. Much like the interveners, who have retained outside resources to assist in preparing their case, Tampa Electric has retained consultants to serve as expert witnesses and assist in case preparation. With the significant discovery submitted by interveners in this particular proceeding, the need for outside help has been even greater. The company is staffed to handle on-going, day-to-day responsibilities, so the additional workload of the rate filings requires supplementing the existing team. To do otherwise would be costly to customers.

Q. Witness Schultz recommends that rate case expense should be amortized over five years rather than three. Do you agree?

A. No. Based on the Need Determination approved by the Commission in Docket No. 120234-EI in Order No.PSC-13-0014-FOF-EI, issued on January 8, 2013, Tampa Electric will be investing in base load generation at the Polk Power Station. This will likely require the company to seek rate relief within three years to recover prudent costs associated with this significant project. Given the timing of the company's next base rate proceeding filing, three years is an appropriate amortization period for rate case expense and no adjustment should be made.

INJURIES & DAMAGES EXPENSE

Q. HUA witness Kollen states on page 25 of his testimony that injuries and damages expense should be reduced by $1.728 million to reflect historical experience. Do you agree with this position?

A. No. First, injuries and damages ("I&D") expense - both actual and budgeted - is the result of recommendations from outside actuaries. The actuaries use historical loss experience but also consider many current and future factors that would properly go into an analysis of this type of liability. In addition, the I&D expense proposed is only about $250,000 higher than the 2012 actual amount - and about $400,000 lower than the amount used by the Commission to set rates five years ago. Tampa Electric's projected expense is reasonable and appropriate.

LEGAL EXPENSES

Q. HUA witness Kollen states on pages 29 and 30 of his testimony that the increase in legal expense is excessive and proposed recovery should be reduced by $1.521 million. Do you agree with this position?

A. No. First, the budget for legal expense increases less than $200,000 from 2013 to 2014. The 2014 projected amount is reflective of circumstances that will be present during the time that future rates will be in effect. They also involve on-going efforts to reduce costs to be borne by customers - as well as protect revenues that lower revenue requirements for customers. Legal expense projected for 2014 is reasonable considering actual expense over the last five years. Finally, the legal expense proposed by the company is less than $900,000 greater than the amount used by the Commission to set rates five years ago. Tampa Electric's projected expense is reasonable and appropriate.

Q. HUA witness Kollen and OPC witness Ramas suggest that $520,000 included in projected test year expenses for the pending litigation with Verizon regarding pole attachment charges be removed. Do you agree with this position?

A. No. The company expects to continue incurring legal expenses associated with efforts to collect Verizon pole attachment revenue. It is very important to note that the 2014 test year contains approximately $3.8 million of pole attachment revenues from Verizon that are currently being disputed. The requested revenue requirement is $3.8 million lower as a result. Customers are benefitting by the inclusion of this disputed revenue amount in the company's filing. It is only reasonable that the litigation costs to capture these revenues be recovered through proposed operating expense. Including the requested Verizon legal fees is both balanced and appropriate.

Tampa Electric witness S. Beth Young discusses this issue further in her rebuttal testimony.

<u>OTHER POST-RETIREMENT EMPLOYEE BENEFITS</u>

Q. Should an adjustment be made to rate base for unfunded

Other Post-Retirement Employee Benefits ("OPEB") liability and any associated expense?

A. No. The company has consistently recorded OPEB liability and expense over time. OPEB includes certain post-retirement health care and life insurance benefits. The accounting for OPEB incorporates the future defined benefit for both active employees as well as those already retired. The present value of future benefits are calculated and provided by Tampa Electric's actuaries. The company records expense while recognizing the recommended liability as a reserve. The company pays retiree medical claims as incurred and charges the reserve. The reserve amount serves to reduce working capital and therefore rate base in the company's proposed revenue requirement as filed.

Q. Would an adjustment be consistent with the Commission's previous decisions for Tampa Electric?

A. No. In Tampa Electric's last base rate proceeding (Order No. PSC-09-0283-FOF-EI, issued April 30, 2009, in Docket No. 080317-EI), the Commission found that the company's OPEB balances and expenses were reasonable:

We find that there is sufficient record evidence to demonstrate that Tampa Electric's unfunded OPEB liability is reasonable and has been included in rate base. Thus, no adjustment to the company's rate base concerning unfunded OPEB liability is warranted. (Page 22) We find that TECO has presented sufficient information to demonstrate that its Other Post Employment Benefits Expense is reasonable. (Page 54)

STOCK COMPENSATION EXPENSE

Q. OPC's witness Schultz, III states on page 24 lines 13-17 that "I would then recommend that the $5,084,200 of expense for the Tampa Electric stock compensation be reduced by $1,881,154 so that only 63 percent is expensed. This would be consistent with the company's expense factor for pensions and other employee benefits." Do you agree with this treatment?

A. No. The company does not capitalize stock compensation expense. To use 63 percent would ignore the actual manner in which this expense is reflected in the cost profile of the company.

PARENT ALLOCATION

Q. HUA witness Kollen and OPC witness Ramas suggest the test year expenses be reduced by $2.9 million to reflect the projected annual impact of the proposed TECO Energy acquisition of New Mexico Gas Company ("NMGC") that was provided by the company. Do you agree with this suggestion?

A. No. The acquisition of NMGC is still pending and uncertain. Therefore, it would not be appropriate for the company to make any adjustment to parent allocation due to the timing and uncertainty of this acquisition. The company's uncertainty of completing the NMGC acquisition is driven by the company's inability to guarantee the final outcome.

Q. OPC witness Ramas states on page 24, line 17, an additional $378,082 of allocated cost be removed to account for shifting of costs from other current subsidiaries of TECO Energy to Tampa Electric in the test year. Do you agree with this statement?

A. No. The parent company has consistently applied the current Modified Massachusetts Method to calculate the allocation of parent cost to its subsidiaries since 2002. TECO Energy is a publicly traded company that is subject to certain compliance costs. Many of these costs are not dependent on the financial profiles or number of affiliates that are supported by these corporate level services. Therefore, future changes in the subsidiary earnings or asset profiles will not change the total allocable expenses projected at the parent company and thus should not result in any adjustment to Tampa Electric's portion of parent allocations.

SUMMARY OF REBUTTAL TESTIMONY

Q. Please summarize your rebuttal testimony.

A. I have delineated the concerns and disagreements I have regarding the substance of the testimonies of witnesses Chriss, Gorman, Kollen, Schultz, Pous, Ramas, and Pollock. Their assertions contain a variety of points that are not accurate, not logical, not appropriate and/or not in agreement with the Commission's regulatory policies in a number of areas. I have presented facts and information that support the company's petition, the reasonableness and prudence of amounts and positions presented by Tampa Electric, and the appropriateness of the revenue requirement contained in the company's filing.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, CRR, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 10th day of September, 2013.

Linda Boles

LINDA BOLES, CRR, RPR
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