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FILE COPY

July 12, 1996

HAND DELIVERY

Kay Flynn, Chief
Bureau of Records
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 950379-EI -- Tampa Electric Company Surveillance Audit Report - Period Ending December 31, 1995
Audit Control # 96-060-2-1

Dear Ms. Flynn:

In response to your letter of June 27, 1996, to Angela Llewellyn, we enclose Tampa Electric Company's response to the above-referenced Audit Report. We would appreciate Staff's consideration of this response in the preparation of a recommendation for this case.

Please acknowledge receipt of this filing by date stamping and returning the attached copy of this transmittal letter to the undersigned.

Thank you for your assistance in connection with this matter.

Sincerely,

James D. Beasley csu

James D. Beasley

JDB/csu

Enclosure

cc: John Slemkewicz (w/encl.)
Denise Vandiver (w/encl.)
Ann Bouckaert (w/encl.)

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Tampa Electric Company
Surveillance Report Review
Docket Number 950379-EI
Audit Control Number 96-060-2-1
DISCLOSURE No. 1

FPSC STATEMENT OF OPINION:
Prior FPSC rulings sometimes allow acquisition adjustments to be included in the rate base and sometimes they are not allowed, depending on the circumstances. TEC's 1995 Return on Equity (ROE) would not be materially affected if this acquisition adjustment was not allowed. This is because the 13 month average amount included in rate base was only $1.4 million. In 1996, however, the effect on ROE could be material because approximately $6 million would be included in rate base and $199,440 of amortization expense would be included in NOI.

FPSC CONCLUSION:
The FPSC should make a determination if this acquisition adjustment will be allowed in rate base. The amount of Deferred Income required in 1996 will depend on this determination.

Company Response:
As noted in the auditor's Statement of Facts, the Federal Energy Regulatory Commission (FERC) has approved this purchase and exchange of facilities and the recording of the acquisition adjustment in Account 114. It should be noted that the purchase price listed in the Statement of Facts includes $1,884,900 associated with the rights to the Osceola line which were ultimately credited to the Osceola plant amount in rate base and, thus, should be a reduction in the acquisition adjustment being discussed.

The Florida Public Service Commission (FPSC) has granted positive acquisition adjustments where the transaction was reasonable, prudent and results in net benefits to ratepayers. Tampa Electric Company entered into the transmission line sharing agreement that resulted in this acquisition adjustment in order to provide long-term benefits to ratepayers. The transmission line sharing agreement was the more cost effective alternative for ratepayers compared to building a duplicate transmission line. The $14,000,000 projected cost of building a duplicate transmission line was far in excess of the $5,575,039 cash paid for the sharing of the OUC line. Finally, this sharing arrangement also allowed Tampa Electric to avoid additional construction through environmentally sensitive lands.

As discussed above, this was a reasonable and prudent transaction. The company is currently operating under FPSC Commission Order No. PSC-95-0580-FOF-EI (Docket No. 950379-EI). That order states "All reasonable and prudent expenses and investment will be allowed in the calculation and no annualized or proforma adjustments will be made." Any proforma entry to remove the acquisition adjustment would be inappropriate and inconsistent with this order.

Therefore, the current treatment by the company should stand and this audit disclosure should be considered resolved.