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May 26, 2000

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Ms. Blanca S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
Room 215J – Gerald L. Gunter Building  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

Re: Generic investigation of cost allocation and affiliated transactions for electric utilities; FPSC Docket No. 980643-EI

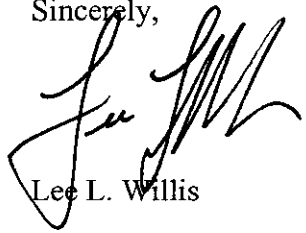
Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of Tampa Electric Company's Comments on the proposed rule amendments.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,



Lee L. Willis

APP	<u>Delton</u>	
CAF	<u>  </u>	
CMP	<u>  </u>	
COM	<u>  </u>	
CTR	<u>  </u>	
DDR	<u>  </u>	
LEG	<u>  </u>	LLW/pp
ENC	<u>  </u>	Enclosures
PAI	<u>  </u>	
REG	<u>  </u>	
SEC	<u>  </u>	
SER	<u>  </u>	
OTH	<u>  </u>	

cc: All Parties of Record (w/enc.)

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TAMPA ELECTRIC COMPANY'S COMMENTS  
DOCKET NO. 980643-EI

Tampa Electric requests that the matter underlined below be added to the proposed rule:

(3) Non-Tariffed Affiliate Transactions

(A) The purpose of subsection (3) is to establish requirements for non-tariffed affiliate transactions impacting regulated activities. The requirements in this subsection do not apply to allocations of corporate overhead between a regulated utility and its parent company; to the provision of administrative services, including, but not limited to shared administrative functions such as accounting, tax and information technology services; or to transactions valued at less than \$500,000.

Comments

As written, the proposed rule can be interpreted to require each overhead allocation and each administrative service to be compared to market prices, and also to require each transaction, regardless of the relevance of the price of the transaction to be compared to market price. As proposed, the rule creates an administrative and cost burden for utilities, without considering whether there is commensurate offsetting benefit to ratepayers. Tampa Electric's modifications clarify that the company would not be required to maintain databases of market pricing for overhead allocations provided by or to TECO Energy, Inc. for transactions involving the provision of administrative services or for transactions that would not significantly impact rates.

The parent of a regulated company should not be regarded as an "affiliate" of the regulated company for purposes of the proposed rule as long as the parent is not, itself directly engaged in the sale of goods or services to the public. Treating a regulated utility's parent as an "affiliate" for purposes of the proposed rule, under the circumstances described above, would needlessly deprive ratepayers of the cost savings associated with the synergies and the economies of scale resulting from the exchange of services between the holding company and its regulated subsidiary. This principal has been recognized in California and other states.

Furthermore, as currently drafted, the proposed rule apparently would require Tampa Electric to determine a market price for each and every transaction regardless of whether a market actually exists for that product or service. In order to conduct this analysis for each of the thousands of transactions that would be covered under the unnecessarily broad sweep of the current version of the proposed rule, Tampa Electric would need to create and maintain an elaborate database of market pricing for a staggering array of goods and services in order to constantly compare market prices against fully allocated and incremental costs. For small, routine transactions, the cost of developing and maintaining the required database would not be justified on a cost/benefit basis.

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There are costs associated with gathering market-pricing data. For large projects, for example, above the \$500,000 threshold suggested by Tampa Electric, spending significant dollars on a bid and application process can be expected to result in several competing bids within a relatively small range of prices. However, it is more difficult to find meaningful pricing data for smaller expenditures. On small contracts for services, relatively firm price data simply does not exist. If requests for proposals have been issued, prices sometimes vary by orders of magnitude and lower bids do not necessarily meet acceptable quality standards.

Even on larger projects, initial bid information is often revised over the life of the project. Bidders sometimes intentionally submit bids that are lower than expected actual costs, with the intent of effectively raising prices later as adjustments are made in deliverables under a contract. More often, there is simply incomplete understanding of the nature of a project and bid, which requires later modifications to deliverables, with concomitant changes in price. Therefore, even in larger projects, bids do not necessarily represent a true market price of the service being bid upon.

Tampa Electric and TECO Energy have made significant capital investment in information technology equipment and applications software, for example, investments that support administrative services over time. That investment is balanced against a useful life of the equipment and software, reflecting the fundamental accounting concept of matching. Tampa Electric cannot determine from the proposed rule whether the Company would be required to reassess long-term decisions each year or even more often. Finally, market pricing information will be difficult to gather for many services without issuing requests for a proposal from several vendors. Tampa Electric does not want to abuse its relationship with its vendors merely so the Company can appropriately benchmark its internal transfer prices.

Unless clarified, the proposed rule, as currently drafted, will increase costs to ratepayers without any appreciable offsetting benefit. The modifications to the rule proposed by Tampa Electric will provide the Commission with the information that it needs to assure itself that the interests of ratepayers are adequately protected without unnecessarily creating significant additional ratepayer cost.