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Public Service Commission

October 18, 2011

Paula K. Brown
Administrator, Regulatory Coordination
Tampa Electric Company
Post Office Box 111
Tampa, FL 33601

Re: Docket No. 110131-EI: Tampa Electric Company's Petition for Approval of its 2011 Depreciation Study and Annual Dismantlement Accrual Amounts

Dear Ms. Brown:

Enclosed is the Staff Report regarding your depreciation study filed in the above referenced docket. Please provide your response to the attached report by November 23, 2011. In your response, please identify areas of concurrences or differences, and feel free to provide additional input.

If there are any questions, please contact Sue Ollila at (850) 413-6540.

Sincerely,

Dave Dowds
Supervisor, Cost Analysis Section

Attachment
cc: **Office of the Commission Clerk**
General Counsel (Klancke)
Office of Public Counsel
Division of Economic Regulation (Dowds, Higgins, Ollila, Wu)
James D. Beasley
J. Jeffry Wahlen

Tampa Electric Company
2011 Depreciation Study
Docket No. 110131-EI
Staff Report

As a general statement, the only areas addressed in the staff report are those areas where staff disagrees with Tampa Electric Company's (TECO or Company) proposals, or where there is a need for further clarification or information. Staff notes that TECO proposed reserve transfers, which staff will address in the recommendation.

Production Plant

1. Please refer to TECO's depreciation study, Bates-stamped page 3, Big Bend CT 4. TECO explains that it used the 4.3 percent depreciation rate "approved in past depreciation orders by the FPSC." For example, according to Order No. PSC-00-0603-PAA-EI issued in Docket No. 990529-EI, pages 16-17, a 26-year average service life (ASL) and a net salvage (NS) of (11) percent were used to develop the 4.3 percent rate. The 4.3 percent rate was to be used for new combustion turbines (CT) and Polk Unit No. 2 (natural gas-fired) when the units went into service. According to TECO's 2011 Ten-Year Site Plan, filed on April 1, 2011, Schedule 9, three CT units, each with a projected 25-year book life, have proposed in-service dates between 2013 – 2015.

    a. Please explain the difference between book life and average service life.

    b. Does TECO propose that the Commission establish a depreciation rate for these new CT units that would be applicable until the next depreciation study? If yes, what are the underlying parameters (average service life and net salvage) and resulting depreciation rate that TECO proposes? Please explain TECO's basis for choosing these parameters. If no, please explain TECO's plan to address the need for a depreciation rate for each new unit.

    c. If the Commission orders a depreciation rate to be used for units put into service between the date of this study and the next study, does TECO believe that this rate should be updated as part of the next depreciation study? Please explain your answer.

2. Please refer to Order No. PSC-00-0603-PAA-EI in Docket No. 990529-EI, page 18, Production Plant. The order states, "We believe that the same retirement assumptions used in the development of life factors should be used in the net salvage analyses." Please state whether TECO agrees or disagrees and explain your answer.

3. Please refer to TECO's response to Staff's First Data Request, No. 17. Please explain how the 2011 study factors are used with the future interim retirements to develop net salvage. For example, TECO is proposing (8) percent in the short (lived) category; however, Bates-stamped page 146, Big Bend 3&4 FGD System, Account 311 displays a future net salvage rate of (5) percent for the 20-year life category.

4. Please refer to Bates-stamped pages 117, 129, and 303. For each of the accounts displayed on these pages the average age is greater than the average service life. For example, Big Bend Unit 4, Miscellaneous Power Plant Equipment, has an average age of 25.5 years with an average service life of 20.0 years. Has TECO studied these accounts to determine whether the life category needs to be changed? Please explain your answer.

5. Please refer to Bates-stamped page 3 for the following questions. In its discussion of Big Bend Units 1, 2, 3, and 4, TECO states that "truncation caused by shorter remaining life spans is more prevalent at Big Bend Unit 1" compared to the other units.

   a. In Order No. PSC-08-0140-PAA-EI, issued in Docket No. 070284-EI, the Commission approved TECO's request to increase the life categories for the Big Bend units by 15 years. Four years later, in the 2011 study, TECO asserts that truncation caused by "shorter remaining lives result[s] in increasing depreciation rates." Please explain the factors that cause shorter remaining lives and increasing depreciation rates four years after a 15-year life increase.

   b. To the extent not explained in TECO's response to the above question, please explain what effect, if any, TECO's proposal to establish new accounts for the SCR units has had on the age, proposed average service life, proposed average remaining life, and proposed reserve (including transfers) for each account in Big Bend Units 1–4.

Transmission Plant

Account 350.01 Land Rights

6. On its face, a 75-year ASL may be reasonable if land rights are perpetual. Are transmission land rights, Account 350.01, treated as perpetual property?

7. What accounted for the growth in this account?

Account 352 Structures and Improvements

8. The retirement rate for the past five years is under one percent, thus relying on the industry average for an ASL is a must. TECO's currently approved ASL is within the industry range. What is the justification for TECO proposing to increase the account's ASL from 50 to 60 years?

Account 355 Poles and Fixtures

9. The Company is proposing to remain at a (40) percent net salvage. The data suggests this is a conservative amount. Please elaborate on why TECO wishes to retain a (40) percent net salvage.

10. What is the basis for TECO proposing to extend the lives of its transmission poles from 34 to 38 years?

Account 356 Overhead Conductors and Devices

11. A net salvage of (45) percent appears more in line with the most recent account activity. What is the basis for only proposing a net salvage of (40) percent?

Distribution Plant

Account 361 Structures and Improvements

12. What was the cost of removal for Account 361, Distribution Structures and Improvements, in 2010?

Account 370 Meters

13. Staff is contemplating whether to create a separate sub-account for TECO's AMR meters. To this end, does TECO anticipate having all its electro-mechanical meters ultimately replaced with AMR meters? If so, approximately when will this occur?

General Plant

Account 390.00 – Structures and Improvements

14. The Company proposes changes in average service life (ASL) from 38 years to 40 years, curve shape from R5 to R2, and net salvage (NS) from (20) percent to (10) percent. Staff believes that a 40-year ASL is within the range of reasonableness and is acceptable. In terms of the curve shape, TECO stated in its response to No. 64, page 218, of Staff's First Set of Data Requests, that the proposed change is based upon statistical analysis. This account has experienced retirement rates of 1.49 percent during the 1995-2010 period, 1.82 percent during the 2007-2010 period, and 1.77 percent for the 2007-2011 period. Taken with an average age of 17.1 years, staff believes that an L3 curve shape used with the 40-year ASL more closely depicts the account activity rather than the R2 curve shape. This results in an average remaining life (ARL) of 24 years.

15. Regarding the NS, staff notices that this account experienced 1.3 percent NS during the 1995-2010 period, (4.7) percent during the 2007-2010 period, and (3.8) percent for the 2007-2011 period. Staff proposes (4) percent of NS as being in line with the recent activity in this account.

Account 397.25 – Communication Equipment-Fiber

16. This account has experienced minimal retirements, with the most recent five years averaging less than 1 percent. This volume of data thus yields unreliable statistical results, and reliance on industry averages for life and salvage determinations is therefore necessary. TECO's proposed 16-year ASL is within the range of average service lives of the Florida industry and is acceptable. Taken with an average age of 11.0 years and an R2 curve shape, the 16-year ASL results in a 7.3-year ARL.

17. With respect to net salvage, the Company proposes to retain the current (10) percent NS. Staff observes that the range of NS percentages for this account adopted by the electric companies in Florida is from (10) percent to 0 percent with TECO's parameter being at the lower end. Recognizing the minimal retirement activity of this account during the 2007-2010 period and for the 2007-2011 period, staff proposes (5) percent NS to bring TECO's parameter closer to the industry average.

Account 392.02 – Light Trucks-Energy Delivery

18. The Company proposes to retain a 10-year ASL and to change the curve shape from an L2 to an R2. Staff notes that the average age of this account is 9.2 years, and the Company has no firm plans to retire any assets in this account in the near-term. According to its response to No.70b, page 224, of Staff's First Set of Data Requests, TECO's proposed curve shape is a result of statistical analysis. The retirement rates of this account were 4.2 percent during the 2007-2010 period, and 3.3 percent for the 2007-2011 period. Taken with an average age of 9.2 years, staff believes that an S4 curve shape used with a 13-year ASL more closely depicts the account activity rather than the R2 curve shape. This results in a 4.0-year ARL.

19. The Company proposes a change in NS from 15 percent to 10 percent. Based on TECO's depreciation study, staff observes that this account has experienced very high NS with more than 80 percent during the 2007-2010 period and for the 2007-2011 period. Furthermore, in its response to No. 5 of Staff's First Supplemental Data Request, page 5, TECO acknowledged that "the presentation of the RWIP allocation on the 2009 Annual Status Report was in error." It appears that this error affects not only the 2009 NS data but also the 2010 NS data presented in TECO's Annual Status Reports. To resolve the issue, the Company should retain its currently prescribed 15 percent NS.

Account 392.03 – Heavy Trucks-Energy Delivery

20. The Company proposes changes in ASL from 15 to 12 years and in the curve shape from L2 to R3. Given that the average age of this account is 13.2 years and the Company has no firm plans to retire any assets in this account in the near-term, staff proposes a 17-year ASL. According to its response to No.71b, page 227, of Staff's First Set of Data Requests, TECO's proposed curve shape is a result of statistical analysis. The retirement rates of this account were 3.0 percent during the 2007-2010 period, and 2.4 percent for the 2007-2011 period. Taken with an average age of 13.2 years, staff believes that an S5 curve shape used with a 17-year ASL more closely depicts the account activity rather than the R3 curve shape. This results in a 3.9-year ARL.

21. The Company also proposes a change in NS from 12 percent to 10 percent. Recognizing the average age of the vehicle assets in this account, staff believes that there is little likelihood to realize much salvage upon the vehicles' retirements. Therefore reducing the current NS to 10 percent is reasonable.

Account 392.04 – Medium Trucks-Energy Delivery

22. The Company proposes to retain an 11-year ASL but to change the curve shape from an L2 to an L3. Staff notes that the average age of this account is 8.7 years, and the Company has no firm plans to retire any assets in this account in the near-term. According to its response to No.70b, page 224, of Staff's First Set of Data Requests, TECO stated that its proposed curve shape was a result of statistical analysis. The retirement rates of this account were 4.6 percent during the 2007-2010 period, and 3.7 percent for the 2007-2011 period. Taken with an average age of 8.7 years, staff believes that an L5 curve shape with a 12.5-year ASL more closely depicts the account activity rather than the L3 curve shape. This results in a 3.9-year ARL.

23. The Company proposes a change in NS from 15 percent to 10 percent. Based on TECO's depreciation study, staff observes that this account has experienced more than 66 percent of NS during the 2007-2010 period and for the 2007-2011 period. Furthermore, in its response to No. 5 of Staff's First Supplemental Data Request, page 5, TECO acknowledged that "the presentation of the RWIP allocation on the 2009 Annual Status Report was in error." It appears that this error affects not only the 2009 NS data but also the 2010 NS data presented in TECO's Annual Status Reports. To resolve the issue, the Company should retain its currently prescribed 15 percent NS.

Account 392.12 – Light Trucks-Energy Supply

24. The Company proposes to retain a 10-year ASL but to change curve shape from an L2 to an R2. Staff notices that the average age of this account is 7.0 years, and the Company has no firm plans to retire any assets in this account in the near-term. According to its response to No.70b, page 224, of Staff's First Set of Data Requests, TECO's proposed curve shape is a result of statistical analysis. The retirement rates of this account were 10.8 percent during the 2007-2010 period, and 8.7 percent for the 2007-2011 period. Taken with an average age of 7.0 years, staff believes that an R3 curve shape used with an 11.5-year ASL more closely depicts the account activity rather than the R2 curve shape. This results in a 5.2-year ARL.

25. The Company proposes a change in NS from 15 percent to 10 percent. Based on TECO's depreciation study, staff observes that this account has experienced more than 24 percent of NS during the 2007-2010 period and for the 2007-2011 period. Furthermore, in its response to No. 5 of Staff's First Supplemental Data Request, page 5, TECO acknowledged that "the presentation of the RWIP allocation on the 2009 Annual Status Report was in error." It appears that this error affects not only the 2009 NS data but also the 2010 NS data presented in TECO's Annual Status Reports. To resolve the issue, the Company should retain its currently prescribed 15 percent NS.

Account 392.13 – Heavy Trucks-Energy Supply

26. The Company proposes changes in ASL from 15 to 12 years and in the curve shape from L2 to R3. The average age of this account is 21.1 years and the Company has no firm plans to retire any assets in this account. A review of the aged data shown on page 254 of TECO's response to Staff's First Set of Data Requests indicates that 54 percent of the investment in this account is over 29 years of age. Staff is contemplating a 25-year ASL. As stated in its response to No.71b, page 227, of Staff's First Set of Data Requests, TECO's proposed curve shape is a result of statistical analysis. Staff observes that the retirement rates of this account were 8 percent during the 2007-2010 period and for the 2007-2011 period. Taken with an average age of 21.1 years, staff believes that an S5 curve shape used with a 25-year ASL closely depicts the account activity. This results in a 4.4-year ARL.

27. The Company also proposes a change in NS from 12 percent to 10 percent. Recognizing the average age of the vehicle assets in this account, staff believes that there is little likelihood to realize much salvage upon those vehicles' retirement. Reducing the current NS to 10 percent is therefore reasonable.

Account 392.14 – Medium Trucks-Energy Supply

28. The Company proposes changes in ASL from 15 to 11 years and in the curve shape from L2 to L3. Staff observes that the average age of this account is 14 years old, and the Company has no firm plans to retire any assets in this account in the near-term. A review of the aged data, shown on page 254 of TECO's response to Staff's First Set of Data Requests, indicates that 41 percent of the investment in this account is over 15 years of age. Given an average age of 14 years and the retirement rate the account experienced over the last 4 years, staff believes that an R3 curve shape used with a 18-year ASL more closely depicts the account activity. This results in a 5.9-year ARL.

29. The Company proposes a change in NS from 15 percent to 10 percent. Based on TECO's depreciation study, staff observes that this account has experienced more than 24 percent of NS during the 2007-2010 period and for the 2007-2011 period. Furthermore, in its response to No. 5 of Staff's First Supplemental Data Request, page 5, TECO acknowledged that "the presentation of the RWIP allocation on the 2009 Annual Status Report was in error." It appears that this error affects not only the 2009 NS data but also the 2010 NS data presented in TECO's Annual Status Reports. To resolve the issue, the Company should retain its currently prescribed 15 percent NS.