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TAMPA ELECTRIC

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 07_____-EI
IN RE: TAMPA ELECTRIC'S
PETITION TO DETERMINE NEED FOR
POLK POWER PLANT UNIT 6

TESTIMONY
OF
CHRYS A. REMMERS

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

CHRYS A. REMMERS

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

A. My name is Chrys A. Remmers. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Manager, Regulatory Financial Analysis in the Regulatory Affairs Department.

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

A. I received a Bachelor of Science with a major in Finance and a minor in Economics in 1998 from the University of South Florida. In June 1984, I joined Tampa Electric and I have held various positions in Human Resources, Corporate Tax, Finance, and Regulatory Affairs. In October 2000, I became Manager, Financial Analysis in the Regulatory Affairs department. My present responsibilities include the areas of regulatory financial analyses including preparing economic studies and analyses of investment, sales and purchase options for the company, and developing Tampa Electric's financial and regulatory models. I also coordinate policy development for financial-related regulatory issues for senior management of Tampa Electric and develop and represent the company's positions on financial issues before the Florida Public Service Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the treatment of the tax credits available to Tampa Electric associated with building an integrated gasification combined cycle ("IGCC") generating unit. I will explain at what phase of construction the tax credits become available as well as the accounting treatment of those credits. Additionally, I will describe how the tax credits are dependent on Tampa Electric's achievement of certain construction milestones. Finally, I will present Tampa Electric's timeline associated with meeting those critical dates.

Q. Are you sponsoring any sections of Tampa Electric's Determination of Need Study for Electrical Power: Polk Unit 6 ("Need Study")?

A. Yes. I sponsor a portion of the section entitled "Background and Assumptions", specifically I sponsor sections III.E.1 "Section 48 Tax Credit", III.E.2. "Tax Credit Requirements", III.E.3. "Financial Impact of the Tax Credit".

Q. Please explain the genesis of the IGCC related tax credits.

A. The Federal Energy Policy Act of 2005 ("EPAct") authorized the United States Department of the Treasury ("DOT") to allocate tax credits as incentives to move advanced generation technologies into the marketplace, including certain coal technologies. DOT worked closely with the Department of Energy ("DOE") to evaluate each applicants' technology for compliance with the EPAct requirements. The coal technologies fall under two different tax credit programs; one for "Qualifying Advanced Coal Projects," under Internal Revenue Code Section 48A, and the second for "Qualifying Gasification Projects," under Internal Revenue Code Section 48B. Congress authorized a total of $1.65 billion in tax credits for advanced clean coal projects, including $350 million in tax credits for advanced gasification projects.

Q. How did Tampa Electric go about securing the tax credits?

A. In June 2006, Tampa Electric filed two applications with DOT and DOE describing the proposed Polk Unit 6 IGCC project and requesting the maximum amount of credits available to an applicant under both Section 48A and Section 48B.

Q. What were the maximum allowable tax credits available for an IGCC project from DOT under those sections?

A. Taxpayers could qualify for either the Section 48A credit or the Section 48B credit but not both at the same time. The maximum allowable credit to a single applicant under Section 48A was $133.5 million and under Section 48B, it was $130 million.

Q. How much of the available tax credits did Tampa Electric receive?

A. Tampa Electric was awarded the maximum Section 48A tax credits of $133.5 million for Polk Unit 6. Tampa Electric's Polk Unit 6 project was one of nine proposed projects awarded the credits out of a total of 49 applicants. The tax credits were awarded to Tampa

Electric in November 2006.

Q. When will Tampa Electric start accruing/earning the credits?

A. The tax credits will be earned during the construction phase when money is spent on "eligible property". Current estimates indicate that the full $133.5 million will be generated during the first four years of construction.

Q. What is "eligible property"?

A. "Eligible property" as defined by the provisions of EPACT is essentially the gasification portion of the construction expenditures which is approximately 50 percent of the overnight direct construction cost of Polk Unit 6.

Q. Can the credits be sold or transferred should Tampa Electric not build Polk Unit 6?

A. No, Tampa Electric cannot sell the credits. The credits were awarded to Tampa Electric, specifically to build Polk Unit 6. If Tampa Electric decided not to build Polk

Unit 6 as described in the application to the DOT, the credits would be forfeited by Tampa Electric or recaptured by the Internal Revenue Service ("I.R.S.").

Q. Are there any deadlines imposed on the company by the government to secure the tax credits?

A. Yes. No later than November 2008, Tampa Electric is required to have: 1) secured all federal and state environmental authorizations or reviews necessary to commence construction of Polk Unit 6; 2) purchased or entered into binding contracts to purchase the main steam turbines; and, 3) submitted required documentation to the I.R.S. for certification. Additionally, to be eligible for the tax credits, Polk Unit 6 must be placed in service within five years of the date of the issuance of the I.R.S. certification. The in-service deadline is expected to be November 2013. Failure to meet any of these deadlines means the tax credits must be forfeited in their entirety.

Q. What operating conditions are imposed on Polk Unit 6 as a result of the tax credits?

A. To qualify for the tax credits, the gasifiers at Polk

Unit 6 must burn more than 50 percent bituminous coal, and at least 75 percent coal for five years after the unit is first placed into service. If these conditions are violated, the credits are subject to recapture and Tampa Electric would lose all or a percentage of the credits depending upon when the violations occur.

Q. Describe the financial benefit of the tax credits on Tampa Electric and the Polk IGCC project during construction.

A. As the credits are earned during construction, Tampa Electric's current tax obligation and payments are reduced. The reduced tax payments will increase Tampa Electric's available cash to construct Polk Unit 6.

Q. When will Tampa Electric's customers benefit from the credits?

A. Tampa Electric's customers benefit by lower revenue requirements as the tax credits are amortized in tax expense over the 25 year life of the gasifier, beginning in 2013 when the unit is placed in service. The deferral and amortization over the life of the asset is an I.R.S. prescribed treatment and is consistent with the

Commission's past regulatory policy and determinations for similar tax credits. The amortization to the income statement effectively lowers the cumulative present worth revenue requirement for the new IGCC unit by approximately $63 million. The lower revenue requirement is expected to reduce customer rates.

Q. Please summarize your testimony.

A. Tampa Electric was awarded $133.5 million in tax credits for the Polk Unit 6 project which was the maximum allowable tax credits awarded for an IGCC project. The tax credits will be earned and accrued during the construction phase of the project but are subject to certain construction and operational requirements by the I.R.S. The tax credits provide a financial benefit in the form of reduced tax obligations and payments which aid in funding construction. Additionally, the tax credits benefit customers in the form of lower revenue requirements over the life of the project.

Q. Does this conclude your testimony?

A. Yes, it does.