BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080317-EI

In the Matter of:

PETITION FOR RATE INCREASE BY TAMPA ELECTRIC COMPANY.
_______________________________________/

VOLUME 10

Pages 1398 through 1544

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PROCEEDINGS: HEARING

BEFORE: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Wednesday, January 28, 2009

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

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

APPEARANCES: (As heretofore noted.)

INDEX

EXHIBITS

NUMBER:		ID.	ADMTD
25		1404	
109	(Late-Filed) Actual Expenses of all Witnesses to Date by Witness	1511	

P R O C E E D I N G S

(Transcript continues in sequence from Volume 9.)

CHAIRMAN CARTER: Call your next witness.

MR. WAHLEN: Tampa Electric Company calls Jeffrey S. Chronister.

CHAIRMAN CARTER: While he's coming, Commissioner Argenziano, I think this is the -- okay. Okay.

JEFFREY S. CHRONISTER

was called as a witness on behalf of Tampa Electric Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. WAHLEN:

Q Would you please state your name, occupation, business address and employer.

A My name is Jeff Chronister. My business address is 702 North Franklin Street, Tampa, Florida, and I'm the Assistant Controller for Tampa Electric Company.

Q Mr. Chronister, did you prepare and caused to be prefiled in this proceeding on August 11th, 2008, prepared direct testimony consisting of 47 pages?

A Yes, I did.

Q And on October 3rd, 2008, did you cause to be filed in this docket revised pages 37 through 40 of your prepared direct testimony?

A Yes, sir.

Q Are there any changes to your prepared direct testimony other than those reflected on revised pages 37 through 40?

A No, there are not.

Q If I were to ask you the questions contained in your prepared direct testimony as revised today, would your answers be the same?

A Yes, they would.

MR. WAHLEN: Mr. Chairman, we would ask that Mr. Chronister's prepared direct testimony as revised on October 3rd be entered into the record as though read.

CHAIRMAN CARTER: The revised prepared prefiled testimony of the witness will be entered into the record as though read.

BY MR. WAHLEN:

Q Mr. Chronister, attached to your direct testimony did you include a composite exhibit premarked as Exhibit JSC-1 and hearing Exhibit Number 25 consisting of 16 documents?

A Yes, I did.

Q And was Document 1 of that exhibit a list of MFR schedules that you sponsor?

A Yes, it was.

Q And did you file revisions to MFR Schedules D-2 and D-9 on October 3rd, 2008?

A Yes, I did.

Q And have you also made revisions to the answers to OPC's Interrogatories Number 87 and 134?

A Yes.

Q And also made revisions to staff's interrogatories Number 1, 2 and 14, which are now reflected in staff's composite Exhibit 13?

A Yes.

Q Are there any other changes to your exhibit?

A No, there are not.

Q Okay. Did you also prepare and caused to be prefiled in this proceeding on December 17th, 2008, prepared rebuttal testimony consisting of 52 pages?

A Yes, I did.

Q Are there any changes or corrections to your prepared rebuttal testimony?

A No, there are not.

Q If I were to ask you the questions contained in your prepared rebuttal testimony today, would your answers be the same?

A Yes, they would.

MR. WAHLEN: Mr. Chair, we would ask that the prepared rebuttal testimony of Mr. Chronister be inserted into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be entered into the record as though read.

BY MR. WAHLEN:

Q Mr. Chronister, was there an exhibit to your rebuttal testimony?

A Yes, there was.

Q There was? Are you sure?

A I'm sorry. To my rebuttal?

Q Rebuttal.

A I'm sorry. I thought you said deposition. No, there was not.

(Exhibit 25 marked for identification.)

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 Assistant 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 a member of the American Institute of Certified Public Accountants ("AICPA") and the Florida Institute of Certified Public Accountants. I have served in my current position as Assistant Controller of Tampa Electric since September 2003.

Q. Please describe your duties as Assistant 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 2009 projected test year. 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 Commission's operations and maintenance ("O&M") expense benchmark, discuss details of the revenue requirement calculation such as regulatory and pro forma adjustments, and present the company's proposed regulatory treatment for a transmission base rate adjustment ("TBRA").

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 16 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	Income Statement Twelve Months Ended December 31, 2009
Document No. 5	Income Statement Twelve Months Ended December 31, 2009 Budget Methodology
Document No. 6	Forecasted Income Statement Twelve

	Months Ended December 31, 2008
Document No. 7	Actual Income Statement Twelve Months Ended December 31, 2007
Document No. 8	Monthly Balance Sheet 2009
Document No. 9	13-Month Average Balance Sheet As Of December 31, 2009
Document No. 10	13-Month Average Balance Sheet As Of December 31, 2009 Budget Methodology
Document No. 11	Forecasted 13-Month Average Balance Sheet As Of December 31, 2008
Document No. 12	Actual 13-Month Average Balance Sheet As Of December 31, 2007
Document No. 13	Statement Of Cash Flows For The Period Ended December 31, 2009
Document No. 14	MFR Schedule C-37 O&M Benchmark Comparison By Function
Document No. 15	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. 16	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 Florida Public Service Commission ("FPSC" or "Commission") and the Federal Energy Regulatory Commission ("FERC").

The company's books and records are audited annually by

PricewaterhouseCoopers, the company's independent auditors. These annual financial statement audits, in conjunction with internal control testing required by Sarbanes-Oxley legislation, have shown 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.

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

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

A. Tampa Electric seeks a permanent base rate increase of $228,167,000 as shown in MFR Schedule A-1, Full Revenue Requirements Increase, as Document No. 2 of my exhibit. This increase will afford 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 earn a 12.00 percent return on common equity ("ROE") and an overall rate of return of 8.82 percent on its 2009 average jurisdictional rate base of $3,656,800,000.

Q. What is meant by "opportunity to earn a 12.00 percent ROE"?

A. While Tampa Electric is requesting an ROE of 12.00 percent, this request only affords the company the opportunity to earn at that level but does not guarantee the return. 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 2009 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. Projected test year 2009 is also appropriate because it will best show the required level of revenues necessary to recover the 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 2009 projected test year absent the requested rate relief?

A. Without the requested rate relief, the earned 2009 ROE would be 4.38 percent, far below the fair and reasonable ROE of 12.00 percent supported in the direct testimony of Tampa Electric witness Donald A. Murry, Ph.D. The 4.38 percent projected earned ROE for 2009 reflects a significant decline in return that will continue unabated without rate relief. Slowing customer growth combined with increasing costs to serve customers reliably are driving returns below levels needed to maintain Tampa Electric's financial integrity, necessitating the need for rate relief. The need to maintain financial integrity is discussed in more detail in the direct testimonies of Tampa Electric witnesses Gordon L. Gillette and Susan D. Abbott.

BUDGET PROCESS

Q. Please describe the process that Tampa Electric used to prepare the 2009 test year budget.

A. The 2009 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 resource 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 2009 budget were customer growth, which includes number of customers and usage per customer, and inflation or 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 to estimate the effect of cost increases in the 2009 budget.

The company used specific indices or price trends for certain fundamental raw materials (e.g. concrete and steel), equipment and property. The Handy-Whitman Index was used to estimate price increases for certain utility-specific property items. The Handy-Whitman Index provides the level of costs for different types of utility construction. It is used by utilities, service companies, valuation engineers and equipment industries. Handy-Whitman Index numbers are widely used to trend earlier valuations and original cost at prices prevailing at a certain date.

When specific indices were not available for certain cost categories, the company used the CPI-U, an index to estimate price increases for general goods and services. The Commission has approved the use of CPI-U for this purpose in the past and the CPI-U used in this proceeding is shown in MFR Schedule C-33. Payroll cost assumptions are based on appropriate compensation levels given expected conditions on the job market.

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 transactions needed during the budget year.

Q. Please describe the most material components of the 2009 budgeted Balance Sheet and Income Statement.

A. The largest component of the 2009 budgeted Balance Sheet is net plant-in-service. In-service balances reflect the capital expenditures for property, plant and equipment investments over time 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 and purchased power and capacity cost recovery clauses and are not a subject in this proceeding, the largest cost component of the 2009 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 and Interchange budget.

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

A. The Load Research and Forecasting section of the 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 tariff 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 have come to expect. The company also considers factors such as environmental and regulatory compliance, reserve requirements and other items. Once the required projects and activities have been determined, 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.

Different tools are used 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 Dianne S. Merrill, compensation amounts are driven by conditions in the job market. As described in the direct testimony of Tampa Electric witnesses Mark J. Hornick and Regan B. Haines, materials and equipment are projected taking into account market conditions and cost trends that are relevant to each specific item.

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

A. Each operating department within the company develops detailed resource budgets for O&M and capital, by month and by FERC account. 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 individual needs, weighing its options regarding how to perform O&M and capital work in the most cost-effective manner. Each detailed operating department budget is then entered into the budget system.

All of the previously discussed factors are combined 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 and consistency. The president of Tampa Electric is ultimately accountable for managing the budget once it has received Board of Director approval.

Q. Was the company's 2009 test year budget prepared consistently with the company's normal annual budget process?

A. Yes. The process was the same; however, due to the timing of filing the company's petition for a base rate increase, the timing of the process was different. First, the steps needed to create the budget, as well as the finalization of the budget itself, were done earlier in the calendar year than usual. In addition, certain steps were performed concurrently rather than in sequence. For example, demand and outage projections were performed simultaneously with initial O&M and capital projections. However, despite changes in the time frames involved, the process for generating the 2009 budget contained the same steps and oversight as the company's normal annual budget process.

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

A. Yes. Actual results have historically tracked to budgeted amounts. The budgets are used for investor presentations, business planning and key decision-making. Monthly budget-versus-actual analyses are performed 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 financial forecasts. The company's process reflects 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 2009 budget process result in a fair and reasonable projection of amounts necessary for the company to provide safe and reliable service?

A. Yes. I believe Tampa Electric used a reasonable, reliable and time-proven process to produce its 2009 company budget.

BUDGETED INCOME STATEMENT

Q. How was Tampa Electric's 2009 budgeted Income Statement developed?

A. The 2009 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. Approval of the Income Statement budget was then obtained after a thorough review by senior management, 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, which I discuss later, 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 2009 budget those most recently approved by the Commission?

A. Yes. The depreciation expense in the 2009 budget reflects the rates approved in the company's 2007 Depreciation Study in Docket No. 070284-EI in Commission Order No. PSC-08-0014-PAA-EI issued on January 4, 2008.

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

A. Document No. 4 of my exhibit entitled "Income Statement Twelve Months Ended December 31, 2009" shows the expected results of operations for Tampa Electric under current rates. Document No. 5 of my exhibit entitled "Income Statement Twelve Months Ended December 31, 2009 Budget Methodology" sets forth line-by-line the source or budget methodology for each item included in the 2009 budgeted Income Statement. Document Nos. 6 and 7 of my exhibit provide the same information for forecasted 2008 and actual 2007, in the same format as Document 4 of my exhibit.

Q. What were the underlying methods and assumptions used to develop Tampa Electric's 2009 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 2009 budgeted Income Statement fairly and reasonably reflect the revenues and expenses expected for the company in 2009?

A. Yes. The 2009 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 2009 budgeted Balance Sheet developed?

A. The 2009 budgeted Balance Sheet was prepared by the Accounting Department under my direction and supervision. Certain data used in the process were provided by various other departments. Each line item was developed using the same accounting principles, methods and practices used in accounting for historical data. Approval of the budgeted Balance Sheet was then obtained after a thorough review by senior management, including final review and approval by the president of Tampa Electric and the Board of Directors.

The balance sheet is a continuous representation of account balances through time. Therefore, the development of any balance sheet starts with establishing the beginning balances. The 2009 Balance Sheet was derived from the forecasted 2008 Balance Sheet. The 2008 budgeted Balance Sheet was originally prepared as part of the company's annual budget process in late 2007, with an estimated 2007 year-end Balance Sheet. In January 2008, the company then produced the final 2008 budget using actual 2007 year-end balances as the starting point. The 2009 budget was completed in June 2008. At that time, the company reforecasted budgeted 2008 balances to reflect the most current information as a basis for beginning the company's 2009 Balance Sheet.

For certain accounts, the monthly balances were projected for the remainder of the year. For all other accounts, the change or activity in the account was forecasted and then applied to the previous balance in sequence each month to produce monthly balances. For instance, plant, property and equipment balances were budgeted 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 driven by the activity reflected in the income statement. Because activity was 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 2009 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 2009. Document No. 9 of my exhibit, entitled "13-Month Average Balance Sheet As Of December 31, 2009", presents the 13-month average per books Balance Sheet. Document No. 10 of my exhibit consists of four pages and is entitled "13-Month Average Balance Sheet As Of December 31, 2009 Budget Methodology". This document provides line-by-line the source or budget methodology for each item included in the 2009 budgeted Balance Sheet. Document Nos. 11 and 12 of my exhibit provide the same information for forecasted 2008 and actual 2007, in the same format as Document No. 9 of my exhibit. Document No. 13 of my exhibit presents the Statement of Cash Flows for the period ended December 31, 2009.

Q. In your opinion, does Tampa Electric's 2009 budgeted Balance Sheet fairly and reasonably reflect the account balances expected for the company in 2009?

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.

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 2009?

A. The O&M benchmark for 2009 was calculated by applying the appropriate Commission-established multiplier to the 1991 actual O&M amounts from the last base rate proceeding. A compound multiplier was calculated using historical CPI-U and customer growth amounts plus estimates for the 2008 and 2009 periods based on Tampa Electric's customer, demand and energy forecasts. The compound multiplier of customer growth and CPI-U inflation was applied to transmission, distribution, customer accounts, customer service and information systems, sales expenses, and administrative and general. For production accounts, only CPI-U was applied and then adjustments were made for additions and retirements of generating units from 1991 through 2009.

Q. What is the company's overall performance relative to the benchmark expected to be for the 2009 test year?

A. As shown on MFR Schedule C-37, Document No. 14 of my exhibit, the company's total 2009 O&M costs are expected to be under the benchmark by $23,955,000. This is despite the many challenges the company has faced since its last rate case and it demonstrates that the company's cost control efforts have been able to offset increasing cost pressure over time. Cost control is one of the many factors that have allowed the company to continue meeting the needs of its customers for the past 16 years without seeking base rate relief.

Q. Although the company's total O&M expense is below the benchmark, are there specific categories of 2009 expense that exceed the benchmark?

A. Yes, there are. Budgeted expenses for Distribution and Sales Expenses were above the benchmark. Distribution expense, which is $657,000 above the benchmark, is discussed in witness Haines' direct testimony. Additionally, Sales Expense (FERC accounts 911 to 916) in 2009 totaled $2,459,000 compared to the benchmark amount of $641,000 due to a change in the classification of expenses. Included in the Sales Expense total is

$901,000 for economic development (reflected in FERC account 912 - Demonstration and Selling Expenses); in 1991, these expenses were mainly posted to FERC accounts 908 and 921. The change to using account 912 for economic development expenses was prescribed by the Commission in 1995 in Order No. PSC-95-0583-NOR-PU, Docket No. 930165-PU. Also included in the 2009 Sales Expense total is $1,182,000 for wholesale sales and marketing (reflected in FERC account 912); in 1991, these expenses were posted to FERC account 561 - Load Dispatching. The change to using account 912 for wholesale sales and marketing expenses was prescribed by FERC in 1996 in FERC Order No. 888. Excluding these reclassifications of expense items that were previously included in other FERC account groupings, the 2009 Sales Expense amount is under the benchmark amount.

Q. Is a historical prior year the only starting point used by the Commission in prior proceedings for benchmark calculations?

A. No. Although there is Commission precedent for using a historical prior year, projected test year data from the last rate case has also been used in determining the O&M benchmark.

Q. If Tampa Electric had made benchmark calculations on the 1993 and 1994 test year O&M used by the Commission to calculate the revenue requirements in the company's last rate case, what would the resulting performance have been in comparing the benchmark to 2009 expenses?

A. The results would show the 2009 O&M expenses are well below the benchmark. Tampa Electric's 2009 O&M expense is $33 million below a benchmark based on 1993 test year O&M and $39 million below a benchmark based on 1994 test year O&M.

Q. Are there any major expense items in the company's 2009 O&M total that were not present in 1991? If so, how does this impact the benchmark results?

A. Yes. In 1994, after the company's last rate proceeding, the Commission approved the accrual of a $4 million annual storm damage expense in Docket No. 930987-EI in Order No. PSC-94-0337-FOF-EI. The amount of storm damage expense included in Tampa Electric's requested O&M is $20 million for 2009. As stated earlier, 2009 O&M is $24 million below the Commission benchmark. If this new storm accrual expense, which was zero in 1991, was added to the benchmark amount, Tampa Electric's 2009

O&M would be $44 million below the benchmark.

REVENUE REQUIREMENT

Q. Please describe the calculation of the company's revenue requirement for 2009.

A. Tampa Electric's 2009 Budgeted Income Statement and 13-Month Average Balance Sheet are the starting points for calculating the revenue requirement. Tampa Electric's 2009 budgeted Income Statement and Balance Sheet are the basis for the per books 13-month average rate base, net operating income and capital structure calculations. Certain regulatory adjustments are then applied. The regulatory adjustments fall into two categories: those that are necessary to comply with FPSC directives, policies and decisions (adjustments) and those that are necessary to produce a test year that is indicative of on-going revenues and expenditure levels (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 8.82 percent required cost of capital is first applied to the jurisdictional adjusted average rate base of $3,656,800,000 resulting in a required jurisdictional net operating income of $322,530,000. Comparing the required jurisdictional net operating income to the jurisdictional net operating income based on the company's 2009 projected test year of $182,970,000, the net operating income deficiency is $139,560,000. After adjusting for taxes, there is a jurisdictional revenue deficiency for 2009 of $228,167,000.

Q. What Commission adjustments were made to the company's 2009 budget for the purpose of calculating the revenue requirement?

A. The Commission adjustments to the 2009 test year Income Statement and a description of the jurisdictional amount and the impact on the revenue requirement of each adjustment are shown in Document No. 15 of my exhibit, which is a compilation of MFR Schedules C-3, C-4 and C-5. The rate base adjustments and the jurisdictional amount of each adjustment are presented in Document No. 16 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. 15 of your exhibit.

A. The Commission adjustments described in Document No. 15 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, 4) remove revenues and expenses related to interruptible rate optional provision, 5) remove job order revenues and costs related to work performed for individual customers, and 6) remove expenses that have been deemed non-utility or non-recoverable through retail base rates such as industry association dues, civic club meals, stockholder relations expenses, charitable contributions and the portion of TECO Plaza lease expense associated with the Solaris and the atrium waterfall, which were disallowed in Docket No. 830012-EU in Order No. 12663.

Q. Please describe the Commission adjustments to rate base as shown in your Document No. 16 of your exhibit.

A. The Commission adjustments to rate base as shown in Document No. 16 of my exhibit reflects 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 environmental cost recovery clause, 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, 5) adjust working capital for work orders related to jobs performed for individual customers (job order receivables) and 6) remove from rate base items that have been deemed non-utility or non-recoverable through retail base rates, such as acquisition adjustments.

Q. Did the company make any company pro forma adjustments to its 2009 revenue requirement?

A. Yes. After the company prepared its 2009 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 when the new rates go into effect.

Q. Please list the company pro forma adjustments made to the 2009 test year.

A. The pro forma adjustments made to the 2009 revenue requirement are: 1) annualization of five simple cycle units to be placed in service in 2009, 2) annualization of rail facilities to be placed in service in 2009, 3) amortization of channel dredging expenses, 4) increase in annual storm reserve accrual, 5) amortization of rate case expenses, 6) inclusion of Customer Information System ("CIS") expenditures associated with required rate case modifications, 7) adjustment of revenues due to the expiration of a Commercial/Industrial Service Rider ("CISR") contract, 8) elimination of the $36,171,000 of CWIP in rate base that was authorized in the company's last rate proceeding, 9) adjustment to common equity to offset the off balance sheet debt obligation of purchased power agreements and 10) IRS prescribed deferred income tax adjustment.

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 $3,656,800,000.

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 Environmental Cost Recovery Clause. For the under-recovery balance related to the Fuel and Purchased Power Cost Recovery Clause ("fuel clause"), the under-recovery of $64,304,000 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.

For certain adjustments, such as the annualization of the five simple cycle units and the rail facilities, any applicable deferred tax and investment tax credit impacts were identified and adjusted first, then the remaining adjustment was prorated over all other sources of capital. These adjustments are discussed in more detail later in my direct testimony.

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

A. After all of 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 2009 revenue requirement calculation the impact of accounting pronouncements that were issued since the company's last rate case?

A. Yes. Financial Accounting Standards Board Statements of Financial Accounting Standards ("FAS") and other accounting guidance have been properly reflected, including the impact of FAS No. 133, Accounting for Derivative Instruments and Hedging Activities, FAS No. 143, Accounting for Asset Retirement Obligations, and FAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. Accounting treatments reflect the Commission's instructions, as delineated in Docket No. 011605-EI in Order No. PSC-02-1484-FOF-EI, Docket No. 030304-PU in Order No. PSC-03-0906-FOF-PU, Docket No. 060733-EI in Order No. PSC-06-1040-PAA-EI, as well as other communications from the Commission and its Staff.

Q. Please describe the nature and rationale for the pro forma adjustment related to annualization of five simple cycle units to be placed in service in 2009.

A. As described in the direct testimony of witness Hornick, five simple cycle combustion turbines are to be placed in service in 2009. Two will go in service in May 2009 and three in September 2009. Because these units will be generating electricity for customers for the period of time covered by new rates, it is appropriate for the revenue requirement requested to reflect the significant investment and operating costs associated with these assets. The pro forma adjustment includes an impact on operating expenses as well as an impact on net plant-in-service to bring the company's total cost profile to an amount that reflects a full year of operation for these units. The jurisdictional net operating income adjustments are decreases of $2,352,000 for the May units and $4,864,000 for the September units. The jurisdictional rate base adjustments are increases of $36,125,000 for the May units and $94,562,000 for the September units.

Q. Please describe the nature and rationale for the pro forma adjustment related to annualization of rail facilities to be placed in service in 2009.

A. As described in the direct testimony of witness Hornick, Tampa Electric, in 2007, issued a request for proposal for solid fuel transportation because its existing contract will expire on December 31, 2008. Based upon final contract negotiations, the company has contracted for bimodal transportation: water and rail. Since there are no operable rail facilities at Big Bend Power Station, they must be constructed in 2008 and 2009 for deliveries to begin by January 1, 2010. The pro forma adjustment includes an impact on operating expenses as well as an impact on net plant-in-service to bring the company's total cost profile to an amount that reflects a full year of operation for these units. The jurisdictional net operating income adjustment is a decrease of $1,195,000. The jurisdictional rate base adjustment is an increase of $44,754,000.

Q. Please describe the nature and rationale for the pro forma adjustment related to amortization of the channel dredging expense.

A. As described in the direct testimony of Tampa Electric witness Hornick, the company included in its 2009 budget an expense of $6.9 million to dredge the Big Bend Power Station channel, an event that occurs every five years. The dredging is necessary to provide appropriate passage for vessels to deliver solid fuel for use at the company's generating facilities. Since this expense is only incurred every five years, it is appropriate for the revenue requirement requested to reflect an adjustment to operating and investment costs to amortize the impact of this expenditure over five years. The jurisdictional net operating income adjustment is an increase of $3,267,000. The jurisdictional rate base adjustment is an increase of $2,657,000.

Q. Please describe the nature and rationale for the pro forma adjustment related to the increase in annual storm reserve accrual.

A. Based upon the storm study results and direct testimony of Tampa Electric witnesses Steven P. Harris and Edsel L. Carlson, Jr., it is appropriate to adjust the company's annual accrual from $4 million to $20 million. Accordingly, $16 million of expense was added to the O&M expense for calculating the 2009 revenue requirement. The jurisdictional net operating income adjustment is a decrease of $9,828,000. The jurisdictional rate base adjustment for working capital is a reduction of $8,000,000.

Q. Please describe the nature and rationale for the pro forma adjustment related to amortization of rate case expenses.

A. The company did not include rate case expense in its 2008 and 2009 budget, so an adjustment is necessary to include the estimated expense in the test year. The incremental expense associated with this rate case will be incurred in 2008 and 2009 but deferred to better match a longer period of time that new rates will be in effect. The company estimates rate case expense to be $3,153,000 and is proposing to amortize the expense over a three-year period beginning in 2009. The jurisdictional net operating income adjustment is a decrease of $645,000. The jurisdictional rate base adjustment for working capital to reflect the unamortized balance is an increase of $2,628,000.

Q. Please describe the nature and rationale for the pro forma adjustment related to amortization of CIS costs associated with required rate case modifications.

A. The company did not include capital expenditures in its 2008 or 2009 budgets associated with the numerous and necessary modifications to update CIS. The incremental expenditures are projected to be $2,792,000. It is appropriate to depreciate these expenditures over a five-year period. The jurisdictional net operating income adjustment is a decrease of $342,000. The jurisdictional rate base adjustment is an increase of $2,445,000.

Q. Please describe the nature and rationale for the pro forma adjustment related to additional revenues due to the expiration of a CISR contract.

A. In 1998, this Commission approved a pilot program that enabled the company to enter into negotiated contracts with potential customers whose load was "at risk" of being relocated or located outside of Tampa Electric's service territory. The company was permitted to negotiate a discount on the base energy and/or base demand charges with commercial and industrial customers who could show they had viable alternatives to taking electric service from Tampa Electric. The company entered into one such contract that will expire in 2009. The customer will transfer from that CISR rate to the appropriate commercial rate. The proposed pro forma eliminates the discount and reduces the revenue requirement to account for the difference between the CISR rate and applicable tariff rate. The requested jurisdictional net operating income adjustment is an increase of $893,000.

Q. Please describe the nature and rationale for the pro forma adjustment to remove CWIP from rate base.

A. In the company's last rate proceeding, the revenue requirement calculation included $36,171,000 of CWIP normally eligible for AFUDC in rate base. This was done to maintain specific financial integrity levels given the capital spending plan the company faced in 1992. Given Tampa Electric's current capital spending plan, financial integrity is again important for the company in this rate proceeding. However, the company is not requesting additional CWIP in rate base in this proceeding as discussed in the direct testimony of witness Gillette. For the budgeted test year 2009, this amount was included in rate base but was removed in the 2009 revenue requirement calculation through a pro forma adjustment and has no effect on the current petition for rate relief. Had this amount of CWIP been included in rate base, the revenue requirement would have been higher by $4,316,000.

Q. Please describe the nature and rationale for the pro forma adjustment related to adjusting common equity to offset purchased power debt imputation.

A. As described in the direct testimony of witness Gillette, it is appropriate to make an adjustment to common equity to reflect the debt imputation made by the rating agencies associated with off balance sheet obligations for purchased power agreements. Accordingly, common equity was increased by $77,000,000 for this adjustment.

Q. Were there any other pro forma adjustments?

A. Yes. A further pro forma adjustment was made to comply with IRS normalization requirements as discussed in Tampa Electric witness Alan D. Felsenthal's direct testimony.

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 2009 test year?

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

TRANSMISSION BASE RATE ADJUSTMENT

Q. What is the purpose of Tampa Electric's proposed Transmission Base Rate Adjustment or TBRA?

A. As described in the direct testimony of witness Haines, Tampa Electric is expecting to make significant investments in transmission projects for peninsular Florida that will ultimately benefit retail customers. Due to the uncertainty of cost and timing, the company is proposing a TBRA. The TBRA would allow Tampa Electric to timely recover its transmission costs for 230 kV and above transmission projects submitted for Florida Reliability Coordinating Council ("FRCC") review.

Q. What is the company's proposed regulatory treatment for these capital expenditures?

A. Similar to the Generation Base Rate Adjustment clause approved by the Commission in Docket Nos. 050045-EI and 050078-EI, the TBRA is established to recover the costs of 230 kV transmission additions required pursuant to FRCC transmission need studies, which are not already being recovered through base rates or a cost recovery clause. Specifically, the company would be entitled to receive the annualized base revenue requirement for the first 12 months of operation, reflecting the actual costs incurred once the asset is placed in service. The TBRA will be calculated utilizing the ROE and capital structure determined in this proceeding. Tampa Electric will calculate and submit for Commission confirmation the amount of the TBRA using a methodology similar to that used in calculating the Capacity Cost Recovery Clause.

Q. What is the company's proposed regulatory approval and cost recovery process that would take place as new transmission investments are placed into service?

A. Once transmission projects and associated costs have been identified by the FRCC in its regional planning process, the company will provide to the Commission its specific construction plans, estimated construction costs and its expected in-service date. In the year the transmission project is expected to be substantially complete, Tampa Electric will file for cost recovery using a methodology similar to the Capacity Cost Recovery Clause projection filing. In the event that the actual capital costs of transmission projects are higher or lower than projected, the difference will be flowed back via a true-up to the Capacity Cost Recovery Clause.

SUMMARY

Q. Please summarize your direct testimony.

A. I present and discuss the calculation of the revenue requirement supporting the rate increase of $228,167,000 requested by Tampa Electric. This is the level of revenue required to recover reasonable, prudent and necessary operating expenses and provide a fair return on the level of investment supporting the company's rate base.

I address the budgeted financial statements of Tampa Electric for 2009, which I believe provide the best estimate at this time of the most probable financial position, results of operations and changes in financial position for the projected period. The 2009 test year represents the appropriate period for this Commission to determine Tampa Electric's revenue requirement.

My direct testimony includes support of the proposed expenditures, which should be included in cost of service, representing reasonable and prudent levels for Tampa Electric in the test year. This 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. I also present and discuss accounting and ratemaking issues which adjust the 2009 budgeted financial statements to reflect the appropriate rate base, capital structure, rate of return, net operating income, proposed adjustments and the resulting revenue requirement.

I also discuss the procedures for calculating a TBRA which is an appropriate cost recovery mechanism given the need and nature of transmission investment beyond the test year. I believe that the MFRs fairly present Tampa Electric's financial condition and requested revenue increase based on the projected results for the 2009 test year.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE 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 Assistant 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 serious errors and improper conclusions reached in the prepared direct testimonies of Messrs. Hugh Larkin and Helmuth Schultz, testifying on behalf of the Office of Public Counsel ("OPC"), Mr. Jeffry Pollock, testifying on behalf of the Florida Industrial Power Users Group, Mr. Stephen Stewart, testifying on behalf of AARP, and Mr. Kevin O'Donnell, testifying on behalf of the Florida Retail Federation.

Q. Please summarize the key concerns and disagreements you have regarding the substance of the testimonies of Messrs. Larkin, Schultz, Pollock, Stewart and O'Donnell.

A. My key concerns and disagreements relate to the following rate base, operating expenses and other topics:

- Annualization of Combustion Turbines and Rail Facilities
- Plant In Service Projections
- Customer Information System Upgrades
- Plant Held for Future Use
- Construction Work in Progress
- Working Capital Adjustments
- Storm Damage Accrual
- Bad Debt Expense
- Dredging Expense
- Payroll and Incentive Compensation
- Directors and Officers' Liability Insurance Expense
- Rate Case Expense

- Office Supplies and Expense
- Fuel Under-recovery
- Transmission Base Rate Adjustment

ANNUALIZATION OF COMBUSTION TURBINES AND RAIL FACILITIES

Q. Mr. Larkin argues that the company's requested annualization of the five combustion turbines ("CTs") and Big Bend Station rail facilities that will be placed in service in 2009 is a violation of the basic ratemaking principle of matching costs with benefits and that "the cost of the new plant would be put in rates without accounting for the new customer growth that would otherwise support those costs." Do you agree with his arguments?

A. No. The company's proposed annualization adjustments are proper and should be accepted by the Commission. Tampa Electric's proposal does not violate the matching principle and the new plant is not being put in rates without accounting for new customer growth. As Tampa Electric witness Mark Hornick describes in his rebuttal testimony, the five CTs and the rail facilities are being placed in service to address issues other than customer growth and increased sales. The five CTs are primarily needed to ensure the reliability of the system, not to increase the sales of electricity. These peaking units will serve the demand of customers at peak periods of time. The energy sales revenue from these machines will be relatively small and has been included in the test year projections for energy revenue. The CTs are also being installed for improved reliability since some of the CTs will be engineered to provide black start and quick start capability.

The Big Bend Station rail facilities are needed to cost effectively and reliably transport solid fuel by rail as described in Tampa Electric witness Joann Wehle's rebuttal testimony. The reduction in fuel costs would have very little, if any, impact on the sales of energy. The facilities are not being constructed to enhance electric sales; they are being constructed to help ensure the lowest delivered cost for coal and petroleum coke. Such benefits will be reflected through the fuel and purchased power adjustment clause.

Q. Mr. Larkin claims there are cost savings associated with the CTs that are not reflected in the annualization of the units. Is this correct?

A. No. As Mr. Hornick describes in his rebuttal testimony, the benefits he referred to in his direct testimony come to customers by way of fuel savings, which are not the subject of this proceeding. These savings are made possible by enabling the company to more efficiently operate its overall generating system by keeping large units running. There are no O&M savings to capture in 2009 projections as Mr. Larkin suggests.

Q. Is it possible to precisely match significant revenue producing plant in service with corresponding revenues as suggested by Mr. Larkin?

A. No. Mr. Larkin's approach ignores the "lumpiness" of making large electric utility investments. There can never be an exact match between new investment and corresponding revenues.

Q. Mr. Larkin states, "The end result in setting rates should be an appropriate matching of the period used for forecasting generally coinciding with the period in which rates would become effective, there would be a matching of investment and operating revenues and expenses." Do you agree with his statement?

A. Yes I do. Tampa Electric annualized the CTs and rail facility for this exact reason. These substantial investments are known and measurable. Failure to recognize these investments in their entirety by prorating them over the forecasted test year would result in a mismatch on a go-forward basis and would deprive the company of an opportunity to earn a fair rate of return on property that will be used and useful during the period when the proposed rates will be in effect. All of the benefits of these investments, including enhanced reliability and decreased fuel costs, will likewise be available to customers during the period proposed rates will be in effect. The company's recommended adjustments to annualize the five CTs and rail facility appropriately account for the investment in rate base.

Q. Has the Commission previously approved the annualization of assets being placed in service during a projected test year?

A. Yes. In Docket Nos. 830470-EI and 910890-EI, the Commission accepted adjustments Progress Energy (formerly Florida Power Corporation) made to its projected test years to annualize the impacts of new units being placed into service. Also, in the most recent base rate proceeding for Florida Public Utilities Company in Docket

No. 070300-EI, the Commission determined that it was appropriate to include the full 13-month average amount of a new asset and associated accumulated depreciation and depreciation expense in the test year for ratemaking purposes because it was representative of the future. Similarly, it is appropriate to annualize the CTs and rail facility in 2009.

PLANT IN SERVICE PROJECTIONS

Q. Is Mr. Larkin's proposal to reduce Plant In Service for the projected test year 2009 by $53,958,000 justified?

A. No. Mr. Larkin bases his proposal on an analysis that is simplistic, flawed, and unsubstantiated. Mr. Larkin first incorrectly assumes that differences between projected and actual plant in service balances for the months January through September of 2008 are relevant to the projected test year. He states, "The 13-month average for plant in service balance for the test year ended December 31, 2009, starts out with the same balance for December resulting from the projections for the prior year ended December 31, 2008. Any inaccuracies in 2008 are carried forward into the 2009 test year because the December 31, 2008, balance becomes the first month in the 13-month future test year average, and the same projection methodology is used." Simply stating his assumption does not prove it.

In fact, Mr. Larkin's own exhibit does not support his statement. In Exhibit No.___HL-1, Schedule B-3, page 1 of 1, line 9, the September 2008 projected Plant In Service of $5,472,308,000 is only $625,000 higher than the actual Plant In Service of $5,471,683,000 on September 30, 2008, a difference of only one one-hundredth of one percent. Even if his assumption is correct, which the company disputes, Mr. Larkin's own exhibit shows that an adjustment for a carry forward to 2009 would produce a reduction of only $625,000, not $53,958,000. In any event, no adjustment is warranted. The company's 2009 projected Plant In Service is appropriate.

Q. Are there other flaws in Mr. Larkin's methodology?

A. Yes. His methodology has a basic flaw in that he incorrectly assumes that variances from budget in a particular prior month or year automatically carry forward to all future periods. Many capital projects catch up from delays and some projects can ultimately cost more than projected. It is incorrect to assume that temporary variances are permanent differences or are indicative of the future. The 2009 projections are appropriate and Mr. Larkin presents no factual evidence that Tampa Electric's projected capital expenditures will not be incurred as projected.

Another major flaw in Mr. Larkin's proposal is his simplistic comparison of differences between projected and actual Total System Plant In Service. His proposal ignores that a part of the Total System Plant In Service is adjusted out of jurisdictional rate base for Plant In Service that has a return provided for through the Environmental Cost Recovery Clause ("ECRC") and the Conservation Cost Recovery Clause. This analysis should only be performed using jurisdictional balances that are recovered through base rates.

For example, the company had an ECRC project, the Big Bend Unit 3 selective catalytic reduction equipment installation, expected to go in service in May 2008 for $76,780,773. This ECRC project actually went in service in July 2008 for $78,635,423. The ECRC timing variance has a significantly large impact for the May and June balance differential amounts but not to the test year rate base used to calculate base rates.

Mr. Larkin's calculation for the percentage difference over actual on Exhibit HL-1, Schedule B-3 is incorrect. He inappropriately calculates the difference amount divided by the actual balance. The appropriate calculation should be the difference amount divided by the projected balance. After comparing the two versions of the calculation, Mr. Larkin's adjustment is overstated.

If Mr. Larkin's approach is used, which the company disputes, the ECRC asset removal alone applied to his methodology results in actual balances and revised calculations that are $16 million lower, not the $54 million proposed by Mr. Larkin.

Q. Is Mr. Larkin's proposal to reduce the accumulated reserve and depreciation expense for the projected test year 2009 by $8.5 million justified?

A. No. Mr. Larkin should not have performed this calculation modeled after the proposed Plant In Service balance adjustment and this calculation contains the same errors as described above with respect to ECRC removal and difference percentages. His proposed changes to Plant In Service balances multiplied by the 3.5 percent composite rate of depreciation yields the effective accumulated reserve and depreciation expense adjustments. Based on the corrections to his proposed Plant In Service adjustment discussed above, this adjustment should be ($35,671,000) x 3.5% = ($1,248,485) in depreciation expense reductions and a corresponding accumulated reserve offset in the amount of $1,248,485. However, as with his adjustment to Plant In Service, this "fall out" adjustment is completely inappropriate and depends on his inappropriate adjustment to Plant in Service discussed above. Moreover, if any adjustment were made using Mr. Larkin's faulty logic, it would be inaccurately calculated.

CUSTOMER INFORMATION SYSTEM UPGRADES

Q. Do your agree with Mr. Larkin's assertion that the Customer Information System ("CIS") upgrade includes costs that would be incurred in the normal course of business in any year base rates or fuel rate changes are made and does not justify a separate adjustment?

A. No. The CIS modifications are necessary to reflect proposed changes in the company's base rate filing. Many of the customer rate schedules will be designed differently as a result of this proceeding and the CIS and its sub-systems must be programmed in advance to ensure accurate billings upon Commission approval of the company's proposed rate design in April 2009. The modifications include, but are not limited to: inverted energy rates for residential customers, demand rate changes, new service charges, new lighting schedules, and changes to interruptible customer rate schedules. These rate design changes are substantial.

The company began making the modifications to CIS in the second quarter of 2008 and expects to complete the modifications in early 2009. To make these changes, the project needed to be properly scoped, resources secured, requirements identified and outlined, changes programmed and tested, and Customer Service Professionals and other company team members trained. The changes are extensive and the company has estimated it will require about 40,000 hours of resources. Because the modifications are dependent on Commission approval in April 2009, the company could not have completed the changes prior to the projected test year.

The CIS modifications are not the types of changes that are typically made in the normal course of business as Mr. Larkin implies. The cost has not been included in base projections and normal budgets of the past.

Q. Do you agree with Mr. Larkin's proposal to disallow $2,445,000 of rate base and reduce amortization expense $558,000?

A. No. The cost of this very significant modification to CIS functionality is solely due to changes proposed in this proceeding and is appropriately recovered as a cost of service. Alternatively, if this cost was not considered as a rate base adjustment, Plant In Service should be increased by $2,445,000 and depreciation expense should be increased by $558,000 since these modifications are properly charged as a capital project. Either approach has the same end result for revenue requirements.

PLANT HELD FOR FUTURE USE

Q. Do you agree with Mr. Larkin's assertion that "it is obvious that the Company did not project monthly additions and uses during either the projected prior year ending December 31, 2008 or the projected test year ended December 31, 2009" and that if the company "had projected monthly, the PHFU balance would not have remained the same for each month except for December of each of the years."?

A. No. The company did project the monthly expenditures for land acquisition requirements - in Account 107, Construction Work In Progress. The annual budgeted expenditures are forecasted to close from Account 107 to Account 105, Property Held for Future Use, in December for 2008 and 2009. Land acquisitions, like construction, take a period of time as work in progress until the purchase is finalized at closing. The balances noted by Mr. Larkin are simply the result of reflecting a normal Account 107 to Account 105 transfer process.

Q. Is Mr. Larkin's proposal to decrease the investment in Plant Held for Future Use by $2,328,354 justified?

A. No. The adjustments related to Plant Held for Future Use would be offset by a corresponding increase in Electric Plant In Service resulting in no change to total system rate base since both Property Held for Future Use and Electric Plant In Service are components of rate base. The transfer of costs from Property Held for Future Use to Electric Plant In Service is simply a balance sheet transfer or reclassification with no impact to total system rate base. Mr. Larkin's proposal to reduce

Property Held for Future Use incorrectly reflects only the credit side of the two-sided journal entry.

CONSTRUCTION WORK IN PROGRESS

Q. Do you agree with Mr. Larkin's proposed increase in jurisdictional Construction Work In Progress of $2,608,000?

A. No. Despite this proposal being an increase to jurisdiction rate base, I would echo the same objections discussed related to Plant In Service. Mr. Larkin repeats his errors related to variance extrapolation, lack of ECRC removal and incorrect calculations.

WORKING CAPITAL ADJUSTMENTS

Q. Mr. Larkin proposes a working capital jurisdictional adjustment of $10,959,000 for Account 143 - Other Accounts Receivable because he alleges the company has not shown that these accounts are related to utility service. Is this an appropriate adjustment?

A. No. All of the balances contained in Account 143, except for the previously identified Commission adjustment for job orders, reflect activities related to utility service for jurisdictional customers. They include receivables for off-system sales, pole attachment revenue, rent revenue from fiber optic, by-product sales, and residual revenues. All revenues for these balances are properly reflected in net operating income.

Q. Mr. Larkin is proposing a working capital jurisdictional adjustment of $6,309,000 for Account 146 - Accounts Receivable from Associated Companies contending that the utility should be required to show that the entire balance is a necessary working capital requirement for ratepayers to bear and is directly related to provisions of utility services. Is this an appropriate adjustment?

A. No it is not. The balance includes $5,919,000 for services Tampa Electric provides to its utility affiliate, Peoples Gas System ("Peoples Gas") and is directly related to the provision of utility services. The company provides information technology support, facility management services, and payroll and accounts payable services. The associated revenues and expenses are appropriately included in test year projections. Therefore, it is appropriate for these transactions to remain in working capital. Correspondingly, Peoples Gas' balance for intercompany payables is appropriately included in working capital as well. The remaining jurisdictional balance of $390,000 is for non-utility intercompany receivables

Q. Is Mr. Larkin's proposed working capital adjustment to reduce fuel stock appropriate?

A. No. Mr. Larkin makes an arbitrary 10 percent reduction to fuel inventory citing recent market price changes. In her rebuttal testimony, Tampa Electric witness Joann Wehle demonstrates that market price changes have not affected fuel inventory amounts largely because much of the fuel inventory is coal, the prices for which have remained relatively stable. Consequently, such an adjustment is not warranted.

Q. Are Mr. Larkin's proposed working capital adjustments associated with other parts of his testimony appropriate?

A. No. Mr. Larkin has proposed inappropriate working capital adjustments associated with storm damage accrual, dredging amortization, and rate case expense. I will discuss these adjustments in the operating expense section of my rebuttal testimony.

STORM DAMAGE ACCRUAL

Q. Do you agree with Mr. Larkin's statement "that the current level of $4 million of storm damage accrual is adequate given the Company's past history and the current guarantee by the Commission that costs incurred over the storm damage accrual would be reimbursed to the Company through future surcharges on ratepayers"?

A. No. The company's past history does not support his claim of adequacy. The storm damage reserve balance in 2004 was more than the charges ultimately posted against it only as the result of a stipulation with OPC and other interested parties. If the current Commission rule had been applied to the 2004 storm costs incurred by Tampa Electric, the reserve would have been millions of dollars below the costs properly chargeable to it. Also, there is no surcharge "guarantee" provided by the Commission as suggested by Mr. Larkin.

Q. Please describe the impact of the 2004 storm costs on the company's storm damage reserve.

A. As indicated in Order No. PSC-05-0675-PAA-EI issued June 20, 2005, Tampa Electric had accumulated $42.3 million in its property damage reserve prior to the 2004 storms. Initially, total storm damage costs of $74.6 million were charged to the reserve. To avoid a surcharge to account for costs and to restore the storm reserve balance, the company negotiated a creative settlement with OPC and other interested parties. By proposing to remove $38.9 million from the storm reserve and capitalize asset additions and removal costs, the storm reserve was restored with a positive balance. If the company had followed the accounting subsequently prescribed by Commission Rule 25-6.0143 after the settlement was approved, then only the normal capital costs of $14.1 million would have been capitalized; the storm reserve would have been deficient by $18.2 million.

Q. But Mr. Larkin states, "While I do agree that the value of the Company's transmission and distribution system has increased since 1994, it is clear that the reserve was adequate in the year 2004 to cover the higher value of assets damaged by the storms which struck in that year." Do you agree?

A. No. Again, the reserve was not adequate in 2004. The company avoided a negative reserve balance and a customer surcharge only through a stipulation that allowed costs normally charged to the reserve to be charged to capital. Tampa Electric's request to change the target reserve from $55 million to $120 million is, in fact, partly predicated on the growth in the value of the company's transmission and distribution ("T&D") system. In 1994, the system had a gross investment value of $1.045 billion and a net book value of $730 million; the amounts projected for 2009 are $2.375 billion and $1.488 billion, representing increases of $1.330 billion and $758 million, respectively. The requested accrual increase, as well as the requested target itself, is very reasonable given the increased system value and the projected hurricane cycles identified by Tampa Electric witness Stephen Harris. The good fortune of past storm seasons is not a reasonable basis on which to ignore real probabilities for future storm costs.

Q. Do you agree with Mr. Larkin's statement, "The Commission should continue with that [$4 million] level of storm accrual and when, and if, a storm occurs which is in excess of the reserve the Commission should then deal with that through a surcharge on rates."?

A. No. Tampa Electric serves an area that is vulnerable to tropical and hurricane force storms. By approving a reserve and annual accrual in 1994, the Commission has recognized the appropriateness of recovering the expected costs of storm damage on a levelized basis similar to paying an insurance premium. That fundamental policy remains as sound today as it was when first adopted by the Commission.

Mr. Larkin's proposed approach is actually contrary to the interests of the customers he is representing, because it substantially increases the likelihood that they will be faced with a storm damage surcharge sometime in the future at a time when the effects of a storm on other parts of their lives may make paying a surcharge undesirable. The Commission and Tampa Electric's longstanding approach has supported the use of a provision for storm damage that levelizes the cost over time and mitigates the need for "one-time" impacts to customers. While surcharges were granted to other utilities after the impacts from the 2004 storm season, the associated proceedings in no way "guaranteed" recovery as Messrs. Larkin and Stewart imply. In fact, OPC and other intervenors vehemently opposed the proposed surcharges and argued that accounting for storm damage expense is a base rate item.

Mr. Larkin's position relies on surcharges as the preferred method to provide cost recovery, apparently based on an unrealistic assumption that they will never be necessary or, if necessary, will be someone else's problem. The recommended reliance on surcharges poses numerous problems for the Commission, its Staff, the company, and, most importantly, customers. The impact of surcharges, on top of the impact of a catastrophic storm, far exceeds the impact of a reasonable allowance in rates.

Q. Do you agree with Mr. Stewart's statement that "the Securitization legislation guarantees the recovery of all reasonable and prudent expenses for storm damage."?

A. First of all, neither surcharges nor securitization "guarantee" cost recovery. Like with any type of cost recovery, there are differing opinions on the appropriate mechanism for recovery and I would not expect recovery of storm costs to be any different. This is evidenced by the duration of the Commission's hearings and rulemaking workshops associated with 2004 statewide hurricane activity.

While in theory securitization is an option available to utilities and may be an effective recovery mechanism, there are fixed and administrative costs associated with this financing alternative that undermine the cost-effectiveness of securitization for a company the size of Tampa Electric. Tampa Electric witness Gordon Gillette describes this in more detail in his rebuttal testimony.

Q. Do you agree with Mr. Stewart's concerns regarding the Commission's ability to review storm damage costs?

A. No. Mr. Stewart states, "A large storm damage reserve will allow a utility to charge larger storm-related losses against the reserve without having to prove the expenses were reasonable and prudent." This is inaccurate. In fact, the Commission rule states: "All costs charged to Account 228.1 are subject to review for prudence and reasonableness by the Commission." Thus, Mr. Stewart is incorrect in his position that a lower reserve level increases "the likelihood for closer scrutiny." The Commission maintains the ability to scrutinize any storm charge as it sees fit. This is supported by this statement from the Commission's rule: "The records supporting the entries to this [storm reserve] account shall be so kept that the utility can furnish full information as to each storm event included in this account." The Commission's monitoring capabilities are further enhanced by this statement from the rule: "The utility shall notify the Director of the Commission's Division of Economic Regulation in writing for each incident expected to exceed $10 million." Clearly, the size of each utility's reserve is not relevant to the Commission's ability to examine storm costs charged to it.

Q. Do you have other concerns regarding Mr. Stewart's testimony regarding the Commission's ability to review storm charges?

A. Yes. Mr. Stewart states, "Forcing a hearing for all but the most minimal storm damage occurrences guarantees a more thorough review and the reduced likelihood that inappropriate expenditures will be charged to the reserve." This is precisely the type of inefficient use of Commission and company resources that the Commission was trying to avoid by establishing the storm cost rule, with thresholds and defined allowable charges that it approved in 2007.

Q. Is Mr. Larkin's portrayal of an unfunded storm damage reserve appropriate?

A. Not entirely. He states that since Tampa Electric has an unfunded storm reserve this means that the company will not have the funds on hand when needed. He is correct that with an unfunded reserve, the funds are not set aside in a dedicated fund. However, he is not correct in stating that funds will not be available. Tampa Electric's credit lines are more than sufficient to provide immediate access to cash equal to the proposed $120 million reserve. In effect, the cash received from customers over time associated with the storm accrual reduces the amount Tampa Electric would otherwise need to borrow in the normal course of business, and thus frees up credit capacity. It is also important to note that because an unfunded reserve does not result in a rate base increase, it has a lower revenue requirement than a funded reserve.

Q. Are Messrs. Larkin and Stewart's positions beneficial to customers?

A. No. There are several advantages to customers to have a reasonable storm reserve: costs are spread over a longer period of time, overall costs are lower in the long term, and rate shock is mitigated or avoided when a storm does hit. Tampa Electric's proposed annual accrual and target for storm damage costs are appropriate and no adjustment is warranted.

BAD DEBT EXPENSE

Q. Do you agree with Mr. Larkin's assertion that for 2008 and 2009, "the company also included as sales subject to bad debt write-off account 447 - Sales for Resale, Account 456 - Unbilled Revenues and Accounts - 407.3 and 407.4 - Deferred Clause Revenues"?

A. No, he is incorrect. The revenues used to calculate uncollectible expense did not include Account 447 - Sales for Resale, Account 456 - Unbilled Revenues, and Accounts 407.3 and 407.4 - Deferred Clause Revenues. The company properly used Accounts 440 through 446 - Retail Revenues Billed and Account 451 - Miscellaneous Service to calculate uncollectible expenses.

Q. How did Mr. Larkin reach this incorrect conclusion?

A. It appears that Mr. Larkin is pointing out a discrepancy that only exists on MFR C-11 and that MFR does not impact the projection of bad debt expense contained in the 2009 test year. The only impact that MFR C-11 has is on the Bad Debt Factor that is used for calculating the ultimate revenue requirement.

Q. If the discrepancy on MFR C-11 were corrected, what would be the impact to the company's revenue requirement?

A. The correction, which would change the factor by less than one one-hundredth of one percent, would cause the revenue requirement to increase by $7,000. The company is not proposing to make this adjustment due to its lack of materiality.

Q. Do you agree with Mr. Larkin's recommendation to decrease uncollectible expenses by $2,409,000?

A. No. This is not an appropriate adjustment due to several factors. First, the proposed adjustment ignores reality. The present economic downturn is not a theoretical concept. More customers are, in fact, not paying their bills. As a result, the actual bad debt write-offs are increasing rapidly despite the company's numerous efforts to manage the increase. Second, Mr. Larkin bases his position simply on the observation that the projected 2009 bad debt expense is higher than it has been in previous years. He is correct it is higher than in the past and for good reason.

Q. Please elaborate.

A. Bad debt expense first peaked in 2007. It peaked again in 2008, and is expected to be at its highest level ever in 2009. However, Mr. Larkin's contention that a peaking expense should be disallowed unilaterally is not appropriate. He ignores a broader view that all expenses are either increasing or decreasing. Blindly cutting an increasing expense in isolation, without considering whether other expenses should be increased if they are well below previous high points, is one-sided and unfair.

Q. Do you have examples where the company is recommending a lower expense for 2009 than recent years?

A. Yes. In 2001, FAS 112 expense peaked at $8.6 million, but the company is only proposing a 2009 expense of $5.4 million. Although FAS 106 expense peaked in 2003 at $15.1 million, the company is only proposing a 2009 expense of $13.1 million. Finally, although injuries and damages expenses peaked in 2004 at $10.2 million, the company is only proposing 2009 expenses of $7.2 million.

Q. How does this relate to Mr. Larkin's bad debt adjustment?

A. The ultimate adjustment that Mr. Larkin proposes for bad debt simply causes the 2009 amount to revert back to a number based on historical averages. If 2009 expenses should be adjusted to match historical averages, then, in order to be fair, Mr. Larkin needs to make similar adjustments for expenses like FAS 106 and 112 and injuries and damages expenses. This targeted isolated approach is obviously unfair and imbalanced and should not be the basis for an adjustment to revenue requirements. Bad debt expense, as well as the other expenses I have discussed, should not be adjusted. The expenses in question are based on reasonable and prudent cost projections based on the facts and circumstances that are expected to exist in the 2009 test year.

DREDGING EXPENSE

Q. Mr. Larkin states that based on the company's past sharing arrangements with other entities for dredging the Big Bend Station channel, "at most only half the requested dredging cost should have been included in the request or $665,000 (jurisdictional expense $1,330,000/2 = $665,000). Additionally, he claims that this amount "should be amortized over five years and only $133,000 included in the test year." Are these calculations accurate?

A. No. Mr. Larkin's calculations contain two errors.

First, the 50/50 sharing assumption is not based on fact. Mr. Hornick states in his rebuttal testimony that there are currently two users of the channel and many, but not all, of the costs are expected to be shared. However, only the company's portion of dredging costs is reflected in its 2009 projections. Therefore, dividing the expense in half is not appropriate.

Additionally, the $1,330,000 Mr. Larkin uses to make his adjustment is an amount that is already the result of a five-year amortization. Mr. Larkin erroneously performs a second five-year amortization, thus producing a 25-year amortization. By combining the division and the double amortization, Mr. Larkin's suggested test year amount of $133,000 is $1/50^{th}$ of the projected dredging cost.

Q. Mr. Larkin states, "I have removed from the rate base the Company's deferred dredging cost balance of $2,657,000 (jurisdictional) and I have also removed from operating expenses the remaining amount which the Company did not remove of $1,330,000." Is this appropriate?

A. No. Although there is historical variation in the timing and amount for dredging expense, it is certain that dredging must be done and that costs will be incurred in

2009 that should support five years of shipping requirements. As Mr. Hornick describes in his rebuttal testimony, the dredging costs are both prudent and necessary. Accepting Mr. Larkin's recommendation would effectively deny recovery for 100 percent of these costs.

PAYROLL AND INCENTIVE COMPENSATION

Q. Mr. Schultz expresses concern with the company's requested payroll because "the overtime dollars included in the filing have not been identified or tracked by the company." Is this a valid concern?

A. No. Overtime dollars are most certainly tracked by the company in its actual accounting records. Tampa Electric's general ledger, along with its internal control systems, contains time data and payroll transactions with a well-documented audit trail. The same level of detail is not generated for budget purposes because it is not necessary to perform a simulated time entry process. This approach is not the result of an "unsophisticated" budget system as Mr. Schultz suggests, but rather it is the result of a practical and efficient budget process. Overtime is properly estimated and included in projected expense based on the expertise and experience of the departments creating their budgets.

Contrary to Mr. Schultz's assertion, the company can and does "measure performance" by comparing both actual overtime and total payroll to budgeted amounts.

Q. Is Mr. Schultz correct that "100% of incentive compensation is expensed" and therefore, a portion of it should be adjusted from revenue requirements?

A. No. Incentive compensation is allocated to expense, capital and other activities based on the company's normal labor distribution. It appears that Mr. Schultz failed to consider that total expense reflects transactions posted to all expense accounts. It is true that incentive compensation is initially charged to as an expense but it is then allocated to capital and other accounts based on internal labor charges. Total expense reflects the net expense after allocations. Only about $7 million of the $11.6 million of projected incentive compensation is included in O&M for 2009. Mr. Schultz's recommended disallowance is not appropriate and it is not even calculated correctly.

Q. Mr. Pollock recommends 100 percent disallowance of officer and key employee short-term incentive plan expense because "those payments are contingent upon TECO

Energy achieving a specific level of net income." Is he correct and is his recommendation appropriate?

A. No. He is not correct and the recommendation is not appropriate. While officers' payout is contingent upon TECO Energy achieving certain financial results, key employee payout is not and the overall focus of all programs remains on Tampa Electric's operational and financial results. Incentive goals for officers, key employees and general employees are focused on performance that benefits Tampa Electric customers.

All incentive compensation is appropriate and, even if a portion were deemed inappropriate, it is not as Mr. Pollock suggests. Twenty percent of Tampa Electric officers' and 15 percent of key employees' short-term incentives are based on TECO Energy financial targets. For total projected incentive compensation, only five percent is attributable to officers' incentive compensation and 20 percent is for key employees with the remaining 75 percent being attributable to general employees' Success Sharing.

Q. Based on this, how would Mr. Pollock's disallowance recommendation change?

A. First, the amount to be adjusted would be based on total projected compensation of $11.6 million, not the 2007 amount of $12.9 million that Mr. Pollock erroneously uses. Second, only $7 million of the $11.6 million is in 2009 operating expenses as I noted above. Of the $7 million, only a portion is attributable to TECO Energy financial results. Since the payout for officers is contingent upon the parent company's financial results, up to 100 percent could be disallowed according to Mr. Pollock's approach. However, it is not a trigger for a key employee payout and only 15 percent of their incentive compensation is tied to TECO Energy results. Following Mr. Pollock's logic, only five percent (5% x 100% for officers) and three percent (20% x 15% for key employees) of total projected incentive compensation expense, or $560,000, would be subject to disallowance. While no disallowance is appropriate, it is certainly nowhere near the $6.45 million Mr. Pollock recommends.

Q. In her rebuttal testimony, Tampa Electric witness Dianne Merrill discusses the Success Sharing program and she notes that the financial goals, which make up 7 of the 12 percent (58 percent of the "at-risk" amount), are "self-funding." What does that mean?

A. "Self-funding" means that a payout for achieving financial goals only occurs when net income targets are exceeded, not met, to account for the actual expense associated with achieving the goals. The company does not budget for a potential payout and, accordingly, there is no amount related to Success Sharing financial goals included in its 2009 test year expenses.

Q. Does this explain the differences that Mr. Schultz raised that "in each of the years 2004-2007 the incentive payout exceeded the target even though there were goals that were not achieved."?

A. Yes, it appears so. In her rebuttal testimony, Ms. Merrill clarifies the actual annual payout percentages compared to potential maximum payout percentages. Mr. Schultz erroneously compares the "target", or budgeted, payout dollars to the actual incentive expenditures without recognizing that the company budgets for potential achievement of operational goals only. In other words, even though Success Sharing currently has a maximum payout potential of 12 percent, only the five percent tied to operational goals is budgeted. Again, the incentive expense included in the test year is reasonable and prudent.

DIRECTORS AND OFFICERS LIABILITY INSURANCE

Q. Do you agree with Mr. Schultz's assertion that the cost of directors and officers liability insurance ("D&O insurance") is inappropriate because the 2007 expense is higher than the 2003 expense?

A. No. The D&O insurance expense requested by the company is reasonable and prudent based on expected 2009 costs.

Q. Do you agree with Mr. Shultz's statement, "The increase began to occur after 2002 as a result of the claims against officers and directors."?

A. No. D&O insurance premiums fluctuate as a result of the same market forces that impact property, liability, workers' compensation, and other insurance policies. The D&O insurance market rapidly shifted from a very "soft" pricing environment in the late 1990's into a difficult or "hard" market in the early 2000's. The primary drivers for the significant change in market conditions included the very negative claim experience of D&O insurance underwriters resulting from the Dot-com stock market bubble, the negative influence of the 9/11 terrorist event on the entire insurance market, increasing and significant claim activity related to energy companies such as Enron and a general increase in attention and scrutiny surrounding corporate governance, including the passage of Sarbanes-Oxley legislation. A significant contraction in the availability and pricing for D&O coverage is directly attributed to these factors.

Since 2007, Tampa Electric's premiums have stabilized to a point that represents the current "market" pricing level for D&O insurance. The company anticipates that the sustainability of pricing at or near the 2009 budget forecast will be challenging in the future due to the negative insurance market influences that are expected given the current financial market distress.

Q. Do you agree with Mr. Schultz's position that D&O insurance should be treated differently than other insurance?

A. No. D&O insurance is a cost of doing business that is every bit as essential as traditional property and liability insurance. It is a necessary and prudent cost of providing electric service to customers and is appropriately included in the company's revenue requirement in this case.

Q. In Mr. Schultz's testimony he states, "In other proceedings where I have testified, companies have claimed that ratepayers benefit because the insurance is necessary to attract and retain competent directors and officers." Do you agree?

A. Yes. D&O insurance is clearly a necessary part of conducting business for any large corporation. In light of the growing risk exposures related to corporate governance, it would be impossible to attract and retain competent directors and officers without the protections afforded by a D&O insurance program. Corporate surveys indicate that virtually all public entities maintain D&O insurance, and the company is not aware of any investor-owned electric utilities that do not maintain D&O insurance.

Q. Do you agree with Mr. Schultz's assertion that D&O insurance provides no benefit to ratepayers?

A. No. To the contrary, D&O insurance enables the company to assemble an effective team of directors and officers to manage and oversee the conduct of the electric business. Furthermore, D&O insurance provides a significant source of balance sheet protection from losses due to lawsuits, thereby safeguarding the utility from financial stress and preserving capital for uses that ensure the efficient delivery of electric service to ratepayers.

Q. Please comment on Mr. Schultz's final statement, "If the Commission can identify a benefit that ratepayers receive then I would recommend that the Company's request be limited to the 2003 expense."

A. This is totally inappropriate. Mr. Schultz has arbitrarily chosen a year, this time six years prior to the test year, that reflects an amount lower than the requested amount. Interestingly, he neglects to point out that the test year expense is actually lower than each of the previous four years' amounts. The requested amount of $1,700,908 is the lowest of the five-year period 2005 through 2009, including 2006 when the expense peaked at $2,115,321. The requested amount is reasonable and prudent, not because of its relationship to historical levels that happen to be favorable, but rather because it is a well-supported projection of the cost of this type of insurance based on the expected market conditions.

RATE CASE EXPENSE

Q. Mr. Schultz asserts that Tampa Electric's rate case expense is excessive. He argues that since the company is not small, it should not need consultants to assist in assembling a rate filing. Do you agree?

A. No. At this stage in the rate proceeding, I doubt the Commission Staff or any interested party would disagree that assembling such a filing requires resources that are incremental to day-to-day business operations. Much like the intervenors have hired resources to assist in preparing their case, Tampa Electric has hired consultants to assist in case preparation and to serve as expert witnesses. The company is staffed to handle ongoing, day-to-day responsibilities and the additional workload of the rate filings requires supplementing the existing team. To do otherwise would be costly to customers.

Q. Mr. Schultz is especially critical of the services Huron Consulting Services ("Huron") is providing. He argues that their contract is only for $468,000, yet the company has included $1.31 million in its rate case expense. Please explain.

A. Tampa Electric's contract with Huron includes numerous tasks to be performed including MFR review, tax analysis and support, testimony preparation, review of pro forma adjustments and revenue requirement components, and responding to discovery requests. In order to manage the consultant's time and scope of work, the company divided the tasks into groups and Huron is not authorized to proceed with certain tasks until specifically approved by Tampa Electric. The first grouping of tasks was for services estimated to cost $468,000. Since then, additional tasks have been authorized and the company's estimate of $1.31 million for Huron's services for the remainder of this proceeding remains appropriate.

Q. Both Mr. Schultz and Mr. O'Donnell argue that rate case costs for J.M. Cannell for $116,000 should be removed since the company has not entered into a contract for her services. Please comment on this.

A. Tampa Electric erroneously included rate case expenses for Ms. Cannell's services because it was not until intervenor testimony was filed on November 26 that it became clear her services were not needed.

Q. Mr. Pollock believes that "TECO should be required to provide actual rate case expenditures, with the actual expenditures being used to set the level of rate case expense to be recovered from customers." Is that practical?

A. No, it is not. As with all other costs of service, Tampa Electric has provided its best estimate for rate case expense based on the best available cost support. His recommendation is not reasonable.

Q. Messrs. Schultz and Pollock recommend that rate case expense should be amortized over five years rather than three. Do you agree?

A. No. While it is difficult to predict when Tampa Electric will file its next base rate case, I am relatively certain it will be sooner than five years. With the rapidly increasing costs associated with infrastructure investment and overall energy policies that suggest more investment, it is likely the company will need to file on a more frequent basis. Three years is an appropriate amortization period for rate case expense and no adjustment should be made.

OFFICE SUPPLIES AND EXPENSE

Q. Do you agree with Mr. Schultz's statement, "the Company failed to provide sufficient justification for the increase" in office supplies and expense?

A. No. The company provided a detailed breakdown of the $3.1 million increase in this expense in OPC's Sixth Set of Interrogatories No. 116. Along with other details, the company explained how there was a $216,000 increase in expense for security associated with its facilities, a $979,000 increase in information technology costs, a $461,000 increase in building maintenance expenses, and a $530,000 increase in training and development costs.

Q. Do you agree with Mr. Schultz's proposed $2.363 million reduction to expense because the test year amount is an "increase of 39% over the 2007" expense?

A. No. Again, it is inappropriate for Mr. Schultz to pick and choose certain expenses that may be higher than in a selected previous year and call for their reduction, while ignoring many other expenses that are lower than previous years. For example, he calls for a disallowance of Account 921 expenses because the 2009 amount is $11.2 million and the 2007 amount was $8.1 million. He fails to point out that pension expense is $6.8 million in 2009 but was $10.6 million in 2007. Following his logic, he should recommend an adjustment to increase expense by $3.8 million as a result of these facts.

Q. Is it still appropriate for the Commission to review the company's expenses in an isolated and detailed fashion?

A. Yes, of course. However, it should be done in a fair and balanced way. While some costs have increased, examination of individual expenses should also include recognition that the company has achieved reductions in costs over the years through efficiencies and other cost savings efforts. Although no single expense is justified or rejected based on the Commission's benchmark analysis, it is still helpful to put expense changes in the context of the company's entire cost profile. As I state in my direct testimony, total O&M expense for 2009 is $24 million below a benchmark based on 1991 actual O&M. The 2009 expense is also $33 million and $39 million below benchmarks based on the 1993 and 1994 O&M amounts, respectively.

Q. Are the company's proposed office supplies and expenses reasonable and prudent?

A. Yes. All of the projected costs included in Account 921 are necessary and appropriate for providing reliable electric service to customers in a safe, efficient manner. Therefore, Mr. Schultz's suggested disallowance is not appropriate.

FUEL UNDER-RECOVERY

Q. Mr. Larkin asserts that to reflect the rate base exclusion of fuel under-recoveries in the company's capital structure is a "gimmick." Do you agree?

A. No. Mr. Larkin appears to reach his conclusion simply because the adjustment results in an increase to the overall cost of capital. The company made this adjustment to more accurately reflect that the fuel under-recovery is primarily financed through deferred taxes and short-term debt. The company's proposal does so.

Q. Mr. Larkin states that the company's proposed treatment of fuel under-recovery is inappropriate and that it is not consistent with the Commission's treatment of fuel under-recoveries. Please explain the Commission's approach.

A. The Commission's treatment is to remove the under-recovery amount from working capital and, in order to reconcile capital structure to rate base, prorate the amount over all sources of capital. My understanding is that this approach is meant to "incent" companies to project fuel costs as accurately as possible and to avoid fuel under-recoveries. The "incentive" is that prorating under-recoveries over all sources of capital has a punitive impact.

Q. What about the adjustment is punitive?

A. Because the interest rate applied to the under-recovery in the fuel clause is based on commercial paper, it is much lower than the overall cost of capital. The effect of the difference in rates results in a disallowance ("below-the-line" adjustment) which has a punitive impact.

Q. Why is the company proposing a different adjustment?

A. When the Commission adopted its treatment, fuel was a much smaller and more predictable component of Tampa Electric's overall costs. Since then, fuel prices have been extremely volatile especially since natural gas has become a large percentage of the company's overall fuel expense. What was a modest impact is now significant. For example, under the Commission's historic treatment and using the company's 13-month average fuel under-recovery of $65 million, the amount effectively results in a "below-the-line" impact of approximately $7 million. While I have an appreciation for what the Commission is trying to incent, I am not sure how putting a permanent disallowance of the company's capital costs provides an incentive to avoid fuel under-recoveries.

Q. Please explain the company's proposed treatment for under-recovered fuel expense.

A. The company is proposing that its fuel under-recovery continue to be excluded from working capital, but its treatment in the capital structure should be changed. Since fuel under-recoveries result in a deferred tax timing related item, the company is recommending that this deferred tax amount be removed from the capital structure and short-term debt be adjusted. By not making this deferred tax adjustment, the Commission would be setting rates based on a deferred tax amount that will not exist once the under-recovery is recovered. However, by adjusting the short-term debt balance, it is more reflective of the most likely source of capital to finance the under-recovery.

Q. Is this proposed treatment consistent with the Commission's goal to "incent" companies to project fuel costs as accurately as possible and to avoid fuel under-recoveries?

A. Yes. The company is still motivated to avoid fuel under-recoveries primarily because it is still very likely that the cost of funding the under-recovery will be higher than the commercial paper rate earned in the fuel clause. While short-term debt is the most likely source, the company typically would not use short-term debt to fund the entire amount over the entire timeframe that the under-recovery exists. Since the company attempts to keep its credit lines free for hurricanes and other unexpected events, long-term debt issuances and equity infusions that were planned for future permanent financings are, in many cases, advanced to draw down short-term debt. This effectively funds the under-recovery with a higher cost of capital. Under this approach, the company is still incented to manage its fuel expenses to avoid an associated "below-the-line" adjustment.

TRANSMISSION BASE RATE ADJUSTMENT

Q. Is Mr. Larkin's characterization of the Transmission Base Rate Adjustment ("TBRA") as an "automatic adjustment clause" appropriate?

A. No. As I stated on page 44 of my direct testimony, the TBRA would be similar to the Generation Base Rate Adjustment clause approved by the Commission in Docket Nos. 050045-EI and 050078-EI. Recovery of costs would be based on prudent, required investments approved by the Commission, and would certainly not be "automatic". The company would expect a thorough review by the Commission as it does with all cost recovery clauses. There are no "automatic adjustment clauses" in Florida.

Q. Mr. Larkin points out differences between the TBRA and existing cost recovery clauses. Are there also similarities?

A. Yes. There are similarities to all of the clauses but especially with the ECRC. The Federal Energy Regulatory Commission, North American Electric Reliability Corporation and the Florida Reliability Coordinating Council's increased requirements associated with reliability and transmission planning are analogous to mandates similar to environmental compliance requirements. Just as it is difficult to manage required environmental investments, the company will not be able to entirely manage the need and timing of transmission investments to coincide with rate cases as suggested by Mr. Larkin. However, the Commission will maintain the capability to judge and monitor the prudence of expenditures associated with these large-scale transmission projects, just as it does with ECRC projects.

Q. What similarities are there with other cost recovery clauses?

A. There are also parallels with the Capacity Cost Recovery Clause. Mr. Larkin defends the Capacity Cost Recovery Clause because "capacity costs related to Purchased Power are difficult to predict and control on a long-term basis and cannot be accurately anticipated". Similarly, the new transmission requirements help ensure this same capacity can be delivered.

Q. Mr. Pollock argues that: "costs that are subject to recovery outside of a general rate case should be *material*, *volatile*, and *beyond the utility's control*."

Do you agree with him?

A. Yes I do. Based upon the new requirements and the way costs will be allocated on a regional basis as described in Tampa Electric witness Regan Haines' direct and rebuttal testimony, transmission investment is likely to be *"material, volatile, and beyond the utility's control"*.

Q. Are Mr. Larkin's comments regarding customer benefits contradictory?

A. Yes. Mr. Larkin defends other clauses on the basis that they "provide benefit to ratepayers through the reduction of costs." However, the projects that will be eligible for cost recovery via the TBRA will lower costs by facilitating coordinated and cost-effective means of planning and constructing transmission for the entire peninsular Florida region. Moreover, these investments will result in improved reliability and lower fuel costs by enhancing dispatch for the entire region.

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 Larkin, Schultz, Pollock, Stewart and O'Donnell. Their assertions contain a variety of points that are not accurate, not logical, not appropriate and/or not in agreement with the Commission's handling of various topics. 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 its filing.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BY MR. WAHLEN:

Q Okay. Thank you. Very well. Would you please summarize your prepared direct and rebuttal testimony.

A Sure. Good morning, Commissioners. My direct testimony supports the calculation of the $228 million revenue requirement for the test year 2009 contained in our company's filing in this proceeding. I support our projected rate base, net operating income and capital structure. I also support the proposed adjustments to those items, both company adjustments and Commission adjustments.

Commission adjustments reflect decisions made by the Commission in prior proceedings. Company adjustments reflect the revenue requirements associated with known and measurable circumstances that will exist at the time our proposed rates go into effect.

I support the budgeted balance sheet income statement and cash flows, as well as the process used to generate the budget. This budget process is the same consistent, reliable process used by our company over time.

I believe the operating costs and investment amounts contained in our case are reasonable and prudent and represent the operating and financial circumstances that will exist for our company during the time our proposed rates are in effect.

As you've heard from our witnesses, we've explained cost increases and slowing revenue growth which has caused a decline in our rate of return. We've worked hard to control our costs, as evidenced by our expenses being significantly below the benchmark and the fact that we have not been in for a price increase in 16 years. But recent return on equity declines create the need for this request. Without the rate relief we seek in this case, ROE in 2009 will be 4.4 percent. The calculations I support will allow the company an opportunity to earn a fair rate of return and provide reliable electric service at an appropriate price.

My rebuttal testimony addresses improper conclusions and adjustments submitted in the direct testimonies of the Intervenors. I support the appropriate calculations and treatments for the company's pro forma adjustments, rate base and net operating income. This concludes my summary.

MR. WAHLEN: The witness is tendered for cross-examination.

CHAIRMAN CARTER: Thank you.

Commissioner Argenziano.

COMMISSIONER ARGENZIANO: Thank you. Good morning.

THE WITNESS: Good morning.

COMMISSIONER ARGENZIANO: I have a few questions right now and I'm sure I'll have some later that you might be able to help me with.

THE WITNESS: Okay.

COMMISSIONER ARGENZIANO: I want to go back to something I asked yesterday. And, Chuck, again, nothing personal. I'm just trying to figure out how TECO pays for its lobbyists and the State Government Affairs Officer.

THE WITNESS: Yes.

COMMISSIONER ARGENZIANO: And I know it's a small amount, but I'm trying to separate the two.

THE WITNESS: Sure. Sure. No. That makes sense.

COMMISSIONER ARGENZIANO: And find out if they are two separate positions.

THE WITNESS: Sure. There is a federal position and there is a state position. They're both lobbying positions, and every dollar of lobbying is below the line. It's not included in the ratemaking process, so ratepayers don't pay a penny for that.

COMMISSIONER ARGENZIANO: So then there is a separate component for the lobbyist. So Mr. Hinson would work for you at two different, two different positions.

THE WITNESS: Yes. Exactly.

COMMISSIONER EDGAR: So the one at State Government Affairs that does get, the ratepayers do have, they do pay for is separated. Are the duties different?

THE WITNESS: Well, I guess what I would say is that anything that Mr. Hinson does that's lobbying related would be excluded from the operating costs that we use for ratemaking purposes. So there may be a few activities that he does a small percentage of his time that's just normal operations and that would be in the, in the regulatory equation. But all the rest of his costs would be out. Ratepayers wouldn't bear it.

COMMISSIONER ARGENZIANO: Okay. And then moving on to -- I guess the questions I have and I had asked for Mr. Felsenthal also were -- he was paid $1,310,000 or his company was paid.

THE WITNESS: Yes.

COMMISSIONER EDGAR: And that is for his consulting review, analysis and testimony?

THE WITNESS: Yes.

COMMISSIONER ARGENZIANO: Is there -- is any of this kind of work done in, you know, staff that you have? Isn't, aren't taxes worked on every year in staff?

THE WITNESS: Well, yes, they are. But there are additional analyses that have to be performed for the rate case specifically. As well, we did have our Director of Taxes on a medical leave during the time of the rate case, so.

COMMISSIONER ARGENZIANO: Okay. And could you explain to me what the other category encompasses?

THE WITNESS: The idea is that the fee that's originally contracted had a scope of services, and there can be activities that are beyond the scope identified in the contractual fee. And to that extent we projected the costs associated with those additional activities that were beyond the scope of the core fee.

COMMISSIONER ARGENZIANO: I figured they were additional activities. I was trying to figure out what kind of additional activities. Is there any kind of a breakdown of -- because I guess in this case it's $210,000 more of additional activities.

THE WITNESS: Yeah. I don't have that information with me, but I --

COMMISSIONER ARGENZIANO: Okay. And travel expenses, am I correct they are $50,000 added on top of the $210,000 and the $1.3 million?

THE WITNESS: Yes.

COMMISSIONER ARGENZIANO: How do -- I'm going to ask this as simply as I can. How do I as a Commissioner determine whether those were prudent, that money was prudently spent?

THE WITNESS: Right.

COMMISSIONER ARGENZIANO: I mean, how do I know?

THE WITNESS: I think the judgment is in comparison to the marketplace, and I think that it's, it's normal for companies to need assistance during a rate case preparation and they're going to call on contracted services. And then it would be a comparison of those contracted services to the market.

COMMISSIONER ARGENZIANO: That's what I'm having a hard time with, trying to figure out how comparable they are, how many people out there can do the same thing, and I think I've asked staff to try to help me on some of that.

But, I mean, even on -- and I know it sounds like a small amount when you're talking about a million here, a million there, but $50,000 for travel, I'm just trying to figure out how does a Commissioner know if that was, you know, spent wisely? I mean, was anybody housed up in a penthouse in a hotel? Or, you know, I don't know.

THE WITNESS: No. You know, I think part of the process, you know, you have an audit that's performed, and there was an audit performed extensively by the staff's auditors and they didn't have any findings. And I think that's part of the process is to examine those costs, those invoices that come in and make sure that those expenses are proper. I think that's part of what you can rely on.

COMMISSIONER ARGENZIANO: And then I guess with -- let me go down the line here. So it would be the same thing for all of these salaries that I'm looking at, the $202,000 for Mr. Harris and the $32,000 for other would just be other extended services.

THE WITNESS: Yes.

COMMISSIONER ARGENZIANO: Which I have no clue on what they are, so I don't know how I'm asked to find out if they're prudently spent if I don't know what they are. And I guess that's the dilemma I have sitting here right now. And if someone could shed some light on how I determine those things, that would be most helpful. Can anyone?

MR. YOUNG: Madam Commissioner, what we'd like to do to aid you in the process and aid the Commission in the process is to ask TECO to provide a breakdown of the additional fees for Mr. Felsenthal.

COMMISSIONER ARGENZIANO: Okay. Well, that would give me some kind of an idea of what the money was spent on. And I know it may just be ordinarily things that are done in the ordinary practice of the services that were asked.

THE WITNESS: Sure.

COMMISSIONER ARGENZIANO: But it would just give me some type of better idea and a little comfort level.

CHAIRMAN CARTER: Okay. Commissioner, that will be Late-Filed 109.

Staff, give me a title, please.

MR. YOUNG: Mr. Chairman, if I can add a caveat to that, to that late-filed, it will be Number 109. It's all actual expenses of all witnesses to date by witnesses, by each witness.

CHAIRMAN CARTER: I think that, that's what Commissioner Argenziano was asking.

THE WITNESS: Outside witnesses?

MR. YOUNG: Yes, sir.

Well, let me ask, Madam Commissioner, do you want all witnesses, inside, internal and external witnesses for the company; correct?

COMMISSIONER ARGENZIANO: Yes. Yes.

MR. YOUNG: Yes.

THE WITNESS: Okay.

CHAIRMAN CARTER: So it would be all witnesses.

COMMISSIONER ARGENZIANO: That would be most helpful and I appreciate that. And I think I'll, I'll just save the other questions for later, if I have any. They may get answered along the way.

THE WITNESS: I might add that the rate case expenses that we've been talking about are only external expenses. All of the internal costs are just part of our normal operating costs.

COMMISSIONER ARGENZIANO: Okay. Thank you.

MR. WAHLEN: And that's Late-Filed 109?

CHAIRMAN CARTER: 109.

MR. WAHLEN: Very well.

(Late-Filed Exhibit 109 identified for the record.)

CHAIRMAN CARTER: Okay. Thank you. Anything further from the bench?

Okay. Mr. Rehwinkel, good morning to you.

MR. REHWINKEL: Good morning, Mr. Chairman. Thank you.

CROSS EXAMINATION

BY MR. REHWINKEL:

Q Good morning, Mr. Chronister. My name is Charles Rehwinkel with the Office of Public Counsel.

A Good morning.

Q Let me start off a little bit differently than I had planned, then follow up on Commissioner Argenziano's question. I wanted to ask you a few questions about specifically Huron. Can you state to the Commission today whether Huron Consulting is an affiliated or an unaffiliated company relative to Tampa Electric Company?

A They're not an affiliated company.

Q Does Huron share any common directors?

A Yes.

Q With Tampa -- TECO Energy?

A Yes.

Q Okay. But you don't, they don't consider them to be affiliated?

A No. We don't have any ownership or affiliation with them corporately.

Q But you have common directorship; correct?

A Yes.

Q Okay. Do you have your MFR Schedule C-31 with you?

A Yes.

Q Actually -- yeah.

A C-31?

Q Yes. In MFR Schedule C-31 do you disclose to the Commission the affiliations of your officers and directors?

A Yes, we do.

Q Do you also disclose therein which officers and directors have business contracts with the company?

A Yes, we do. I would point out that these particular documents are for the years 2005 through 2007.

Q Okay. I understand that. But my question is as to today.

A Uh-huh.

Q On Page 24 of C-31, Item 35, the transactions with the Ausley & McMullen law firm are disclosed as an affiliated transaction; correct?

A That's correct.

Q Okay. For the year, the calendar year 2007.

A Right. And let me be clear, it's business contracts with officers, directors and affiliates, so there's a little bit of a difference between an affiliated company and someone who shares a director.

Q Okay. So if this same question was asked of the company, i.e., what is in the form that is in, that makes up C-31 for calendar year 2008, and I assume that has not become due to be filed yet with the Commission --

A Right.

Q -- would Huron Consulting be listed in here?

A For -- if this -- for 2008, yes, they would be listed on here.

Q Okay.

A Yes.

Q Can you tell me what hourly rate Mr. Felsenthal has billed?

A I don't know the answer to that question.

Q Would you accept, subject to check, that it's $425 an hour?

A Subject to check, yes.

Q Okay. Didn't the company assume internally responsibility for assembling and overseeing the majority of its last base rate filing; i.e. the 1992/93 timeframe case?

A Can you repeat the question?

Q Didn't the company internally assume responsibility for assembling and overseeing the majority of its last base rate filing?

A I'm not aware of the amount of involvement of outsiders in the last rate case.

Q Was Huron Consulting hired in the last case?

A And, again, I'm not sure, so, you know, this is subject to check, but principal members of Huron have been helping Tampa Electric with rate cases for years, and that's really one of the reasons why we asked Huron to help in this particular case was their familiarity with TECO. And so they've actually, principal members of Huron have assisted us even back into the '80s.

Q But it wasn't as Huron Consulting; is that correct?

A Correct.

Q In fact, Mr. Felsenthal used to be with Arthur Andersen?

A Yes, that's correct.

Q Okay. And that was the role in which he worked for Tampa Electric Company?

A Yes. Arthur Andersen helped out in previous rate cases.

Q Okay. And would you agree, subject to check, that at the end of 2007 Tampa Electric had 2,487 employees, give or take a couple?

A Subject to check, sure.

Q Okay. And I think there's a discovery request that has that information in it.

Is it your opinion that the company employees are not capable of handling a rate case filing?

A No, that's not my opinion.

Q Okay. And the company employees did do substantial work in preparation of the filing in this case; is that right?

A Yes, they did.

Q Okay. Who prepared the MFRs that were filed in this case?

A The MFRs were prepared by a number of individuals within the company.

Q Did Huron Consulting have a role in the preparation of the MFRs?

A They had a role in it, yes.

Q Was it a significant role?

A It's, it's difficult to describe it as a particular word. You know, they reviewed and checked and, and advised us on all of the MFRs. So that would be significant if you looked at every MFR.

Q Okay. I'm leaving that line of questioning, Mr. Chairman.

You're identified in the prehearing officer (sic.) -- I want to ask you a little bit about the Big Bend Station rail facility.

A Yes.

Q And you're identified in the prehearing officer (sic.) as a witness on Issues 6 and 7; correct?

A Yes.

Q And in your direct and rebuttal testimony you provide testimony about the appropriate treatment of that facility in this rate case; is that right?

A Yes.

Q And in the rate case filing you have included $46,937,000 on MFR Schedule B-11 as a pro forma adjustment to the test year rate base; is that correct?

A You said B-11?

Q I think so.

A Yes. Did you say 46,468?

Q Well, I said 46,937. But I have to wear glasses to read that kind of print, so.

A Yeah. So do I.

Q Okay. I may be looking at -- has this schedule been revised?

A No.

Q I'm looking in Column 4, Line 13, $46,937,000.

A Yes. Hang on just a sec. I was looking at the adjustment summary on B-2, so let me get to B-11.

Q Okay. It's Page 102 Bate stamp.

A What line are you on?

Q I'm looking on Line 13 in Column 4.

A Yes. That's the, that's the capital additions number.

Q Okay. And if the company's proposed accounting treatment for that facility is adopted by the Commission, the company's ratepayers would pay for that through rates through a return on that investment, depreciation expense and certain related tax expense; is that correct?

A Yes, that's correct.

Q And you contend, do you not, in your testimony that this facility will go into service sometime in December of 2009?

A Yes, that's correct.

Q Okay. If hypothetically it went into service in January of 2010, say 30 or so days later than you expect, would you still be proposing the same treatment?

A I would still propose the same treatment because our expectation is it has a December in-service date and is still representative of an asset that's going to be in place during the time our proposed rates are in effect.

Q But if the, if the in-service date slipped 30 days, would that affect how you request the Commission to treat it in this rate case?

A I guess what, what I would say is the hypothetical that you're presenting doesn't, doesn't make sense to me because what we did is we looked at the 2009 test year and said what major items exist that will exist during the time that our new rates are in effect, and we, those were the ones that we proposed for annualization. So I still believe in, in the appropriateness of the adjustment.

Q But my question was if it went into service in January of 2010, what would your proposed treatment be?

A The same.

Q Okay. The depreciation period for this facility is 20 years; is that correct?

A That's correct.

Q Okay. On Page, on your rebuttal testimony on Page 5 and 6 you state that this investment in addition to the five CT plants are included appropriately because they are known and measurable; isn't that right?

A That's correct.

Q Okay. Tampa Electric Company and TECO Energy utilize a type of document called a Capital Leadership Review Team Project Review in order to seek and obtain executive or board approval for large capital projects; is that right?

A Yes.

Q You're familiar with these documents, are you not?

A Yes.

MR. REHWINKEL: Mr. Chairman, I'd like to pass out an exhibit for cross-examination purposes.

CHAIRMAN CARTER: Okay.

MR. REHWINKEL: And this is, it is a POD response that the Public Counsel received from the company. It's called Capital Leadership Team Project Review Big Bend Station Rail/Coal Unloading System and it's dated July 23rd, 2008.

CHAIRMAN CARTER: Okay. You may proceed.

BY MR. REHWINKEL:

Q Mr. Chronister, are you -- has your attorney gotten the document? Are you familiar with this document?

A I would note that you had asked me am I aware of this process. I am aware of the process. I'm not a member of the Capital Leadership Team and I haven't seen these documents.

Q You've never seen this document before?

A No.

Q Would this document -- in that you are familiar with the process --

A Yes.

Q -- and if this document is the one that was provided for approval of this project, is this a document that the board and/or the executive team would use to approve the project that you're testifying about?

A I think the executive team would use this. Yes.

Q Okay. This document under the project description describes the total costs of the project at $64 million; is that correct? And that's on page, the first page of the document under project description.

A That's how it reads. Yes.

Q Okay. I'd like to ask you on the second page of the document, and I'll use for convenience Bate stamp page 41052 at the bottom. Do you see that?

A Yes.

Q On the third full paragraph of that page there is a contingency amount of 10.6 percent. Do you see that?

A Yes.

Q Is this a standard contingency amount for capital budgeting purposes within Tampa Electric Company?

A No. We don't have a standard contingency amount.

Q So this would have been project specific?

A Yes.

Q Can you tell me, if you know, under the paragraph entitled Contribution of Project Corporate Objectives what the reference to Guatemalan operations is there?

A No, I don't, I don't know what that reference is to.

Q Are Guatemalan operations a regulated operation of the, of Tampa Electric Company?

A No.

Q All right. Under the paragraph of availability of capital, this discusses, about halfway through that paragraph there's a sentence that reads, "Tampa Electric proposes that the CSXT discount would first be used to fund the additional $15 million of project costs, and once the deficit has been met (approximately two years or 5 million tons), the remaining $30 million of discounts would be flowed through to customers through the fuel clause." Do you see that sentence?

A Yes, I do.

Q Does that represent your understanding of the proposed treatment of this plant?

A Yes.

Q Okay. Do you have, do you have any reason to disagree with this assessment that it would take two years for the CSXT discount to offset the, the amount above, the capital outlay above the $46 million included in this case?

A That's probably a better question for Witness Wehle. But I think she testified to that yesterday or last night.

Q But you have no reason to, to disbelieve this number that was presented to the board.

A Correct.

Q Okay. And just again so I understand what the company is proposing in this case, the -- you're proposing for rate setting purposes in this base rates case that the $46 million investment cost and some amounts of O&M be included in the rate setting process and that in May or so of 2009 customers would start paying for that investment and those O&M expenses.

A Yes. Except there's no O&M expenses that we included in the pro forma adjustment for the rail.

Q Okay. So, so absent the O&M part of my question, you agree with the rest of it.

A Yes.

Q Okay. Are you familiar with the concept of contributions in aid of construction or CIAC?

A Yes.

Q Would you agree that the FERC USOA, the Federal Energy Regulatory Commission USOA that the Commission has adopted specifies that any contributed capital should be recorded as a reduction to the plant account which the contribution relates?

A Well, this isn't CIAC because it's not --

Q I'm just asking about FERC accounting right now.

A Okay. FERC accounting for CIAC? Yes.

Q Okay. Would you agree that the CSX amounts -- well, let me start again and ask did you hear the testimony of Joann Wehle yesterday?

A Some of it, yes.

Q Okay. Do you agree with her assessment that this is not a discount to fuel expense or fuel transportation expense but is instead a capital contribution, this meaning the CSXT, what has been described as a rebate? Do you agree that that is a capital contribution?

A I agree that it's a construction reimbursement. Yes.

Q Okay. Would you also agree that that is -- let me ask you this question. Are you familiar with the property tax accounting of the company?

A No. That's not an area of expertise for me.

Q Okay. Do you have any idea how this plant would be shown on the property tax returns of the county in which it resides once all the CSX contributions are received?

A No. I don't know the answer to that.

Q Okay. Fair enough.

Is your understanding of the proposed accounting treatment that is, is proposed by the company that the -- well, let me strike that, Mr. Chairman, and ask the question a different way.

Did CSX agree to provide contributions in the form of rebates over the life of the, of the solid fuel transportation contract for the amount, the entire amount of the rail facility cost above what's included in the rate case?

A I want to be real careful here. I heard enough of Witness Wehle's testimony to know there's a lot of confidential information associated with this and I really don't feel comfortable, you know, talking about what amounts are in reference to your question.

Q Well, I'm not using a dollar amount. I asked for the entire amount above what -- you've included $46 million in the case; correct?

A That's correct.

Q 46.9.

A Yes.

Q And it's not confidential that the total cost of the plant is now projected by the company to be $64 million; correct?

A Correct.

Q Okay. So somewhere between $46 million and $64 million is around 18 million or so dollars.

A Yes.

Q Of costs applicable to the plant that you are not asking for recovery in this base rate case; right?

A That's correct. That's correct.

Q And we also have testimony that when the funds are received from CSX, that the first, that first those funds will be used to pay for the amount that is not included, the capital amount that is not included in the rate case; is that right?

A That's correct.

Q Would it be fair to say that those capital costs to which these, the CSX contributions would first be applied are the same dollars that CSX would not agree to fund through the, through the contribution?

A I need you to repeat that question.

Q Okay. The 18 million or so dollars.

A Right.

Q Okay. CSX agreed to fund the $46 million at least, is that correct, through --

A I mean, again, I want to be real careful because I'm not an attorney and I don't want to mistakenly say something that's confidential. There has been discussions of the fact that CSX is making a construction reimbursement.

Q Okay. All right. Let's just go back to the exhibit I passed out, the capital, the leadership team project review.

A And can I ask a question on this?

Q Yes.

A There are some dollar amounts in this exhibit that talk about commitments from CSX, and I think that's that red folder type of stuff.

Q Well --

A So I want to, I want to be careful because I don't want to say something I'm not supposed to.

Q My understanding --

MR. WAHLEN: Can I jump in here for just a second? The numbers that are in this document are preliminary, tentative. They were not agreed to, they were just ideas, discussions. They are not what was agreed to. All of what was agreed to was discussed yesterday in the red folder.

THE WITNESS: Okay.

MR. REHWINKEL: I have proceeded under the assumption that these are estimates in here and none of these numbers represent a number that is part of a contracted amount that is confidential. Am I correct?

MR. WAHLEN: Yes.

MR. REHWINKEL: Okay.

THE WITNESS: So I can talk about the numbers that are in here?

MR. WAHLEN: Yes. With the understanding that these are not the actual numbers. These are preliminary discussion items.

THE WITNESS: Okay. Very good.

BY MR. REHWINKEL:

Q So let me ask my question again. What I'm trying to get at is, is under project description on Page, on Bate stamp 41051, in the second full paragraph it states there that in recognition that deliveries by rail would require -- well, let me step back and say this document is dated July 23rd, 2008; right?

A Yes.

Q And the contract was actually signed on October 1st, 2008. Would you agree with that, subject to check?

A Subject to check.

Q Okay. And I think Ms. Wehle confirmed that yesterday. So, again, this is prior to that contract.

A Okay.

Q And I'm just trying to get at that the, that this document reflects that more or less the entire $46 million that's included in this rate case was -- is -- would be covered by the amount that CSXT at the time here during negotiations agreed to provide a credit for; is that right?

A No. My view of it is that there's $64 million that we expect. If there was a reimbursement of 45, you'd still have roughly $20 million that wasn't reimbursed. And so really you're kind of talking about $60 million and what you should do for ratemaking purposes. And what our proposal is is that you have $45 million in rate base. And then to the extent that the reimbursement exceeds, you know, the amount necessary to take you to $45 million, that that would flow through the fuel clause and be a benefit to our customers. So to answer your question, if you started with 64 and you got a $45 million reimbursement, you'd be looking at, you know, about $20 million of benefit to our customers through the fuel clause.

Q But CSXT originally agreed to contribute up to a certain amount and the excess above that was something they did not agree to provide a funding mechanism for; isn't that correct?

A Yes. And I'm not sure how much CSX was aware of what we ultimately projected the project to be.

Q There was an initial assessment by a firm whose name escapes me, but I think it was Williams Shaeffer (phonetic). Are you familiar with that?

A No.

Q No?

A I'm sorry.

Q But in any event, they did not agree to the full, to reimburse Tampa Electric for the full amount, correct, for the full projected amount of the project?

A I'm not familiar with that.

Q Okay.

MS. HELTON: Madam Chairman?

COMMISSIONER EDGAR: Ms. Helton.

MS. HELTON: I'm just wondering, it seems to me we're spending a lot of time on one small area where it seems like the witness might not have that much knowledge about it, and I'm just wondering whether it would be appropriate to move on in light of what we still have to cover.

MR. REHWINKEL: This is a, this is a multimillion dollar issue. It's not a small issue whatsoever. And this witness is -- he started off his testimony saying his testimony supports the rate base and adjustments that the company is requesting, and this is a $46 million adjustment that the company's requesting.

COMMISSIONER EDGAR: Mr. Rehwinkel, about how many more questions do you have along this line?

MR. REHWINKEL: It was actually my last one. I had already concluded.

COMMISSIONER EDGAR: All right. Well, then let's finish up and move along.

MR. REHWINKEL: I just don't, I don't agree that this is a small issue whatsoever.

BY MR. REHWINKEL:

Q Okay. Let's turn now to working capital. It may be an easier subject to discuss. And I want to talk about Account 143, other accounts receivable.

A Okay.

Q Okay. That account includes receivables related to the sale of electricity to other utilities; is that right?

A Yes.

Q Okay. And in your test year working capital calculation, would you agree that the majority of this account is made up of sales to other utilities?

A Yes.

Q And the sales of utilities to other, of electricity to other utilities are not included in the sales or revenue categories for which rates are based upon by the Florida PSC; would you agree with that?

A That's correct. But from a working capital perspective both fuel inventory and receivables from off-system sales have always been included in rate base for ratemaking purposes. In other words, there's not a lot of volatility and therefore those receivable amounts are just standard ratemaking. They're not included in the fuel clause or in the off-system sales calculations.

Q And on MFR Schedule B-6, Line 3 of 9 -- Page 3 of 9, Line 23, the company has through the application of a jurisdictional factor excluded $427,000 of the balance in this other accounts receivable account; is that right?

A Yes. What page were you on?

Q This would be Page 3 of 9 in the schedule MFR B-6.

A Uh-huh.

Q On Line 23.

A Line 23. Yes.

Q Okay. Through the application of a jurisdictional factor $427,000 or so dollars is excluded. Would you agree with that, subject to check, that that's how the factor hits the account balance?

A Yes.

Q Okay. And you would also agree that annual sales to other utilities amounts to significantly more than $427,000?

A Yes.

Q Wouldn't you also agree that if $427,000 is all that is excluded, then the retail customers of Tampa Electric would pay a return on substantially all the revenues related to these nonjurisdictional, on all of the receivables related to these nonjurisdictional revenues?

A The answer to your question is yes. However, when you think about it, the receivable is an appropriate asset, so there has to be a return provided on an appropriate asset. If you don't provide the return in rate base, you know, like we're proposing, you would then shift it over to the fuel clause and then that asset would be recovered through the fuel clause, which is not traditionally what the Commission has done.

Q Okay. Thank you.

Let me turn to Account 146. Okay. And you're familiar with that account.

A Yes, sir.

Q Would you agree that that account includes receivables from associated companies for services such as accounting and tax services?

A Yes.

Q And are the associated companies -- does the associated companies that relate to this account include TECO Peoples Gas?

A Yes, it does.

Q Would you agree that that's primarily the accounting and tax services that are provided and for which receivables relate in this account?

A Primarily, yes. I mean, there's others.

Q Okay. And by proposing to include these receivables in working capital and thus in the regulated rates of Tampa Electric Company customers in the Tampa Bay region you are effectively requesting that these ratepayers, that the ratepayers of Peoples Gas subsidize these affiliated companies; is that right?

A No.

Q I said that -- let me strike that question and ask it a different way.

By proposing to include these receivables in the working capital calculation and thus in the regulated rates of Tampa Electric customers in the Tampa Bay region, you are requesting that these Tampa Bay area, Tampa Electric customers subsidize the costs of Peoples Gas customers.

A No, I would not call it a subsidization. I think what it is is a balance. If you think about it this way, you have rate base for Tampa Electric and it has a receivable in it. You have rate base for Peoples Gas and it has a payable in it. Their payable reduces rate base, ours increases it. When you set rates for the two companies, you come out with, with, really it nets to zero and it works the same way in the opposite direction. So I think it's appropriate, if you're talking about two regulated affiliates, that any accounts receivable and accounts payable makes sense to be in rate base.

Q Okay. Would you agree, subject to check, or maybe you even know as a fact that Peoples Gas has customers in Daytona Beach, Eustis, Orlando, Palm Beach, Southwest Florida, Dade and Broward Counties, St. Petersburg, Lakeland, Avon Park, Sarasota, Jacksonville, Panama City and Ocala?

A Yes.

Q Okay. And they do have customers in Tampa. But all those other areas that I mentioned are not Tampa Electric service areas?

A Yes.

Q I want to talk about payroll now and ask you to -- on Page 31 of your rebuttal testimony, if you could turn there.

CHAIRMAN CARTER: I thought you said that was your last question 20 questions ago.

MR. REHWINKEL: It was my last question on that area.

CHAIRMAN CARTER: That's not what you said though.

MR. REHWINKEL: That's what I intended, Mr. Chairman, in all seriousness.

CHAIRMAN CARTER: Okay. All right. Let's move along now. Let's move along. Let's make some progress today.

MR. REHWINKEL: Mr. Chairman, Mr. Chronister is the primary accounting witness.

CHAIRMAN CARTER: Ask your questions.

MR. REHWINKEL: This is the meat and potatoes.

CHAIRMAN CARTER: Ask your questions. Ask your questions, just ask them one time.

BY MR. REHWINKEL:

Q On Page 31 of your rebuttal testimony, isn't it correct that you contend that Mr. Schultz is wrong about the overtime dollars included in his filing not being identified or tracked by the company?

A Specifically what I say is that we do not track it during our budgeting process. We track it during our actual activities.

Q Do you have Public Counsel Interrogatory Number 35 in front of you?

A I can get --

Q I can pass -- I have an exhibit, Mr. Chairman, that I can pass out for ease.

A It would probably be easier.

CHAIRMAN CARTER: Let's do that for ease.

MR. REHWINKEL: Okay. Mr. Chairman, I'm passing out a hand-numbered 12-page exhibit comprising of portions of interrogatories and late-filed deposition exhibits that are part of the composite exhibits identified and admitted at the beginning of this hearing.

CHAIRMAN CARTER: You may proceed.

BY MR. REHWINKEL:

Q Okay. Interrogatory number -- I've hand-numbered these at the bottom. Page 7 of this exhibit I think contains Interrogatory Number 35. Mr. Chronister, do you have that?

A Page 7. Yes.

Q Yes. Can you identify using that interrogatory the amount of overtime that is listed for 2009?

A No. Well, it shows zero.

Q Okay. And that's not because there is no overtime, it's because it's not separately identified; is that right?

A That's correct. What we do is we budget for the labor dollars, not -- we don't simulate a time submission process in the budgeting process.

Q Okay. In the Footnote 1 down there says that the company's budget system does not have a detailed breakdown, breakout of overtime and other pay; is that right?

A That's right.

Q Okay. Now on Page 31 of your rebuttal testimony there is a question that is asked of you, and in quotes, the quote contained there is, is directly taken from a concern identified in Mr. Schultz's testimony; is that right?

A That's correct.

Q Okay. And in Mr. Schultz's testimony, if you could look on Page 4.

A Is that in this package you handed me?

Q It is not. Do you have his testimony with you? I can give you a copy of it.

A I do way back.

MR. REHWINKEL: Okay. If I may approach the witness.

CHAIRMAN CARTER: You may.

THE WITNESS: Okay. Okay.

BY MR. REHWINKEL:

Q Can you read the question on Line 2 of that, of Mr. Schultz's testimony?

A "What is the problem with overtime dollars in the projected test year?"

Q Okay. And Mr. Schultz's testimony, isn't it true, expresses a concern that the 2009 projected overtime dollars are not identified; is that right?

A That's right.

Q Okay. Now in your response to Mr. Schultz in your rebuttal on Page 31 on Lines 13 through 17 your response addresses the actual accounting for overtime and not the budgeted overtime dollars identified by Mr. Schultz; is that right?

A That's correct for Lines 13 through 17. But if you look at my entire answer, I do address Mr. Schultz's concern.

Q Okay. And you, and therein you state that the level of overtime detail for budget purposes is not generated; is that right?

A Which line are you on?

Q Well, on Line 17 through 19.

A Yes. On 17 through 19 that's correct. I mean, on Line 23 I state, "Overtime is properly estimated and included in projected expense based on the expertise and experience of the departments creating their budgets."

Q My point here is there's nothing in here that details or identifies for the Commission to see what the overtime projection is so that they compare it to prior periods over time; is that right?

A That's correct. That's not contained in my answer because it doesn't exist.

Q Okay. All right. Can you -- I wanted to turn to incentive compensation for a moment. Can you refer on your, in your rebuttal testimony to Page 32?

A Yes.

Q Okay. And therein you contend that Mr. Schultz is incorrect that 100 percent of the incentive compensation is expense; is that right?

A That's correct.

Q Okay. And in that same handout that I, that I passed out, on Page 1 can you, can you read the question and answer and tell me what the actual expensed amount is for 2007?

A Sure. "Incentive compensation, provide for each of the years 2003 to 2007 the target incentive compensation and the actual paid and actual expensed."

Answer, "The target incentive compensation and the actual amount paid and the actual amount expensed for each year from 2003 through 2007 are provided below." And then in the last line, "Actual expense 2007, $12,762,948."

Q Okay. And on Page 7 of the handout the amount for incentive compensation for 2007 incentive pay, there is that same 12,000 -- $12,762,948; is that right?

A Yes.

Q Okay. And for 2009 it's $11,574,843; is that right?

A Yes.

Q Okay. And that's the same $11,574,843 that Mr. Schultz references in his direct testimony; is that right?

A Yes, it is. And really to be clear, this is gross payroll, which is the total labor dollars we incur. And then what happens is the labor dollars are charged into expense, they're charged into capital, they're charged into other accounts. We have a fringe allocation process that takes fringe costs such as incentive costs and it has them allocated into the same accounts that the labor dollars go to.

So what we presented in this was a depiction of the whole payroll and also the whole expense back on your Page 1, which represents the original booking of the incentive expense. Subsequently there are journal entries that take dollars out of that expense bucket and post them to all these accounts where labor is charged to. So it doesn't stay in expense. It starts there and then it's allocated out to O&M, capital and other accounts.

Q Okay. That process is not reflected discretely anywhere in the MFRs. You're saying that it's a, that these post allocation expenses are the ones that are recorded in the, in the income statements that are reflected in the MFRs?

A Right. Post allocation, and that's both our actual and budget process.

Q Okay. But there's, there's nothing to show the Commission that you removed approximately $4.6 million from the, the expense amounts on the basis shown in these discovery exhibits in order to come up with the expense amounts that are in the MFRs; is that right?

A That's correct. But you kind of mentioned two things. The MFRs, the structure of the MFRs don't really present an opportunity to talk about this fringe allocation process but it is proper accounting. And then as far as the interrogatory responses go, we really thought that the questions were being asked to find out all incentive pay rather than send you an answer that was just the incentive piece that stayed in O&M. So we were trying to be more complete with our answer.

Q Okay. Let's move to Page 35 of your rebuttal testimony.

Is it true therein that you state that the 2009 test year expense has no amount related to financial goals?

A What line are you on? Are you up around Line 5?

Q Yes.

A Near the top?

Q Yes.

A That's only -- this is an answer to a question about the self-funding goals, not all the goals, but just the self-funding piece. And the idea is that those are not budgeted for in, in any budget that we put together. I think Ms. Merrill explained that self-funding process.

But the idea is that we only pay those out if we exceed certain targets. And obviously since they're paid to our employees, that comes out of the pocket of the shareholders.

Q Okay. I want to move on to directors and officers liability insurance. On Page 36 of your rebuttal --

CHAIRMAN CARTER: One second. Mr. Rehwinkel, when I interrupted you earlier, did I disrupt your flow? Did you have another question on that line when I interrupted you? I want to make sure that you get an opportunity to complete your questions.

MR. REHWINKEL: No. No. I asked every question I wanted.

CHAIRMAN CARTER: Okay. You may proceed. I don't want you to lose your train of thought or anything like that.

MR. REHWINKEL: Thank you.

CHAIRMAN CARTER: You may proceed.

BY MR. REHWINKEL:

Q On Page 36 of your rebuttal testimony isn't it correct that you disagree with Mr. Schultz's testimony that increases in the cost of directors and officers liability insurance began to occur after 2002?

A Help me see that.

Q I'm sorry. On Line 10 through 12 there's the question that's asked there. And Mr. Schultz contended that after 2002 is when these, these premium increases began to occur, and I'm asking you if you disagree with that.

A Yes. I disagreed with Mr. Schultz's statement.

Q Okay. But you also go on to explain that in the early 2000, 2000s market conditions changed as a result of the dot.com market bubble, Enron and corporate governance issues;

isn't that right?

A No, not completely. On Line 18 right above it you'll see I mentioned the late '90s as well.

Q Okay. Mr. Schultz is not recommending that the company not obtain D&O insurance coverage, is he?

A I don't know the answer to that question.

Q Well, he's only recommending that the shareholders and not the customers pay for the increases there.

A I know he's recommending that. Yes.

Q Okay. But there's nothing in his testimony where he's, he's recommending that the company not get this insurance, is there, is he?

A No.

Q Okay. The shareholders appoint the board of directors of the company; isn't that right?

A Yes.

Q Okay. And the board of directors approved the hiring designation of officers within the company; isn't that right?

A Yes.

Q Okay. Aren't the shareholders also the primary parties who file claims that are covered by D&O insurance?

A Generally, but I'm not really a D&O insurance expert.

MR. REHWINKEL: Okay. All right. Mr. Chairman, I'm going to move to plant budgeting, and I'd like to pass out my final exhibit and wrap this thing up.

CHAIRMAN CARTER: No. I want you -- you know, we've got the lunch at 11:30, but I still want you to be able to complete your line of questioning with this witness.

MR. REHWINKEL: Yes, sir.

CHAIRMAN CARTER: Because we are, we're down to this witness. I think you mentioned earlier --

MR. REHWINKEL: I shouldn't take too much longer.

CHAIRMAN CARTER: Someone mentioned to me, I think it may have been Mr. Twomey or you, about some information that you wanted from this witness, so I do want to give you ample opportunity to get your questions asked.

MR. REHWINKEL: I'm about to wrap this up.

(Transcript continues in sequence with Volume 11.)

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

I, LINDA BOLES, RPR, CRR, 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' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 29th day of January, 2009.

Linda Boles

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