



DEPARTMENT OF THE AIR FORCE
HEADQUARTERS AIR FORCE LEGAL OPERATIONS AGENCY

August 9, 2013

USAF Utility Law Field Support Center
139 Barnes Drive
Tyndall AFB FL 32403

Ms. Martha Brown, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 130040-EI; Prehearing Statement of the Federal Executive Agencies

Dear Ms. Brown,

Pursuant to Order No. PSC-130040-EI, on behalf of the Federal Executive Agencies, I am enclosing for filing in the above docket an original and 7 Copies of the prehearing statement.

Please let me know if you have any questions or concerns regarding these documents.

Sincerely,

A handwritten signature in black ink, appearing to read "Gregory J. Fike".

GREGORY J. FIKE, Lt Col, USAF
Chief

Attachment: cc Counsel for Parties of Record

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for increase in rates by)
Tampa Electric Company)

DOCKET NO.: 130040-EI
FILED: 9 August 2013

PREHEARING STATEMENT OF FEDERAL EXECUTIVE AGENCIES

Federal Executive Agencies, through the undersigned attorney, pursuant to the Order Establishing Procedure in this docket, Order No. PSC-13-0150-PCO-EI, issued April 8, 2013, hereby submit this Prehearing Statement.

APPEARANCES:

Gregory J. Fike, Lt Col, USAF
Chief, Utility Law Field Support Center
Air Force Legal Operations Agency
139 Barnes Drive
Tyndall AFB, FL 32403
850-283-6348
On behalf of Federal Executive Agencies

1. WITNESSES:

FEA intends to call the following witnesses, who will address the issues indicated:

<u>NAME</u>	<u>TOPICS</u>
Michael Gorman	Rate of Return/ Return on Equity/ Revenue

2. EXHIBITS:

Incorporated into the pre-filed written testimony of the above-mentioned witness, Federal Executive Agencies intend to introduce the following exhibits, which can be identified on a composite basis for the witness:

<u>Witness</u>	<u>Exhibit</u>	<u>Title</u>
Michael Gorman	App A	Qualifications of Michael P. Gorman
Michael Gorman	MPG-1	Rate of Return
Michael Gorman	MPG-2	Proxy Group
Michael Gorman	MPG-3	Consensus Analysts' Growth Rates
Michael Gorman	MPG-4	Consensus Analysts' Constant Growth DCF
Michael Gorman	MPG-5	Payout Ratios
Michael Gorman	MPG-6	Sustainable Growth Rate
Michael Gorman	MPG-7	Sustainable Growth Rate Constant Growth DCF
Michael Gorman	MPG-8	Electricity Sales Are Linked to US Economic Growth

Michael Gorman	MPG-9	Multi-Stage Growth DCF Model
Michael Gorman	MPG-10	Common Stock Market/Book Ratio
Michael Gorman	MPG-11	Equity Risk Premium-Treasury Bond
Michael Gorman	MPG-12	Equity Risk Premium-Utility Bond
Michael Gorman	MPG-13	Bond Yield Spreads
Michael Gorman	MPG-14	Treasury & Utility Bond Yields
Michael Gorman	MPG-15	Value Line Beta
Michael Gorman	MPG-16	CAPM Return
Michael Gorman	MPG-17	Standard and Poor's Credit Metrics
Michael Gorman	MPG-18	Hevert Revised Constant Growth DCF Analysis
Michael Gorman	MPG-19	Hevert Constant Growth DCF Analysis
Michael Gorman	MPG-20	Hevert Multi-Stage Growth DCF Analysis
Michael Gorman	MPG-21	Valuation Metrics
Michael Gorman	MPG-22	Residential Sales Revenue Adjustment

3. STATEMENT OF BASIC POSITION

The Federal Executive Agencies (FEA) has filed testimony on rate of return, return on equity, and expected revenue that will provide Tampa Electric Company with an opportunity to realize cash flow financial coverages and balance sheet strength that conservatively support Tampa Electric's current bond rating. The FEA recommendation represents fair compensation for Tampa Electric's investment risk, and will preserve the Company's financial integrity and credit standing, while finding an equitable balance between customers and shareholders.

FEA firmly maintains that the appropriate ROE for Tampa Electric is 9.25%. The 9.25% ROE figure falls within the range of 9.15% to 9.30% which was supported by FEA witness Gorman's Discounted Cash Flow Models and Risk Premium studies. FEA also firmly recommends the Commission approve a Minimum Distribution System ("MDS") costing method. Furthermore, FEA recommends a 12-CP and 1/13 average demand methodology to allocate production costs to the rate classes.

The FEA maintains that some portions of Tampa Electric's filing are not appropriate. For example, the FEA maintains that Tampa Electric's forecast has understated usage per residential customer for the 2014 test year. It is the FEA's position that a more appropriate estimate would increase Tampa Electric's annual residential sales revenues by \$12.5 million. Additionally, Tampa Electric's proposed capital structure misallocates customer-supplied capital in the development of the overall rate of return for jurisdictional operations. The FEA maintains that all customer supplied capital (including deferred taxes and customer deposits) should be fully allocated to jurisdictional cost of service to ensure customers get the full benefit of the low cost capital they provide the Company.

FEA final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

4. STATEMENT OF FACTUAL ISSUES AND POSITIONS

TEST PERIOD AND FORECASTING

ISSUE 1: Is Tampa Electric's projected test period of the 12 months ending December 31, 2014 appropriate?

FEA: No position at this time.

ISSUE 2: Are Tampa Electric's forecasts of customers, KWH, and KW by revenue and rate class, for the 2014 projected test year appropriate?

FEA: No. Tampa Electric's forecast has understated usage per residential customer for the 2014 test year. FEA witness Gorman states in his testimony that a 14.25MWh annual usage per residential customer is a more appropriate forecast. The use of this more appropriate estimate would increase Tampa Electric's annual residential sales revenues by \$12.5 million.

ISSUE 3: What are the appropriate inflation factors for use in forecasting the test year budget?

FEA: No position at this time.

ISSUE 4: How should the Calpine contract renewal be treated for ratemaking purposes?

FEA: No position at this time.

ISSUE 5: Should revenues be adjusted for the renewal of the Calpine contract?

FEA: No position at this time.

ISSUE 6: Is the proposed Jurisdictional Separation Study appropriate?

FEA: No position at this time.

QUALITY OF SERVICE

ISSUE 7: Is the quality of electric service provided by Tampa Electric adequate?

FEA: No position at this time.

RATE BASE

- ISSUE 8:** Has the Company removed all non-utility activities from rate base?
FEA: No position at this time.
- ISSUE 9:** Is Tampa Electric's requested level of Plant in Service in the amount of \$6,506,194,000 (\$6,516,443,000 system) for the 2014 projected test year appropriate? (FALLOUT)
FEA: No position at this time.
- ISSUE 10:** Should Tampa Electric's amortization periods for computer software and ERP system be changed, and if so, what are the resulting impacts on rate base, expense, and amortization rates?
FEA: No position at this time.
- ISSUE 11:** Is Tampa Electric's requested level of accumulated depreciation in the amount of \$2,436,895,000 (\$2,439,935,000 system) for the 2014 projected test year appropriate? (FALLOUT)
FEA: No position at this time.
- ISSUE 12:** Is Tampa Electric's requested level of Construction Work in Progress in the amount of \$174,146,000 (\$174,529,000 system) for the 2014 projected test year appropriate? (FALLOUT)
FEA: No position at this time.
- ISSUE 13:** Is Tampa Electric's requested level of Property Held for Future Use in the amount of \$35,409,000 (\$35,859,000 system) for the 2014 projected test year appropriate?
FEA: No position at this time.
- ISSUE 14:** Should an adjustment be made to Tampa Electric's requested storm damage reserve, annual accrual, and target level?
FEA: No position at this time.
- ISSUE 15:** Should an adjustment be made to rate base for unfunded Other Post-retirement Employee Benefit (OPEB) liability and any associated expense?
FEA: No position at this time.
- ISSUE 16:** Should any adjustments be made to Tampa Electric's fuel inventories?
FEA: No position at this time.
- ISSUE 17:** Has Tampa Electric properly reflected the net over recoveries or net under recoveries of fuel and conservation expenses in its calculation of working capital?

FEA: No position at this time.

ISSUE 18: Is Tampa Electric's requested level of Working Capital in the amount of \$61,118,000 (\$61,053,000 system) for the 2014 projected test year appropriate? (FALLOUT)

FEA: No position at this time.

ISSUE 19: Is Tampa Electric's requested rate base in the amount of \$4,339,972,000 (\$4,347,949,000 system) for the 2014 projected test year appropriate? (FALLOUT)

FEA: No position at this time.

COST OF CAPITAL

ISSUE 20: What is the appropriate amount of accumulated deferred taxes to include in the capital structure?

FEA: The appropriate amount of accumulated deferred taxes to include in the capital structure is approximately \$957,248,000. Please refer to Exhibit MPG-1.

ISSUE 21: What is the appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure?

FEA: The appropriate amount and cost rate of the unamortized investment tax credits to include in the capital structure is \$9,167,000 and 7.45%, respectively. Please refer to Exhibit MPG-1.

ISSUE 22: What is the appropriate cost rate for short-term debt for the 2014 projected test year?

FEA: The appropriate cost rate for short-term debt is 1.47%. Please refer to Exhibit MPG-1.

ISSUE 23: What is the appropriate cost rate for long-term debt for the 2014 projected test year?

FEA: The appropriate cost for long-term debt is 5.40%. Please refer to Exhibit MPG-1.

ISSUE 24: What is the appropriate capital structure for the 2014 projected test year?

FEA: Tampa Electric's proposed capital structure is not reasonable. As FEA witness Gorman's testimony points out, Tampa Electric's proposed capital structure misallocates customer-supplied capital in the development of the overall rate of return for jurisdictional operations. All customer supplied capital (including deferred taxes and customer deposits) should be fully allocated to jurisdictional cost of service to ensure customers get the full benefit of the low

cost capital they provide the Company. Please refer to Exhibit MPG-1 for the appropriate capital structure for Tampa Electric.

ISSUE 25: Should the Commission approve Tampa Electric's request to reflect flotation costs in the allowed ROE? (HUA CONTESTED ISSUE)

FEA: No. Tampa Electric's flotation cost estimate of .14% is flawed and it should not be taken into consideration when considering a fair return for Tampa Electric.

ISSUE 26: What is the appropriate ROE to use in establishing Tampa Electric's revenue requirement?

FEA: The appropriate ROE for Tampa Electric is 9.25%. The 9.25% ROE figure falls within the range of 9.15% to 9.30% which was supported by FEA witness Gorman's Discounted Cash Flow Models and Risk Premium studies.

ISSUE 27: What is the appropriate weighted average cost of capital including the proper components, amounts and cost rates associated with the capital structure? (FALLOUT)

FEA: The appropriate weighted average cost of capital is 5.65%. Please refer to Exhibit MPG-1 for the appropriate amounts and cost rates associated with the capital structure.

NET OPERATING INCOME

ISSUE 28: Has Tampa Electric correctly calculated the revenues at current rates for the projected test year?

FEA: No. Tampa Electric has substantially understated the annualized level of residential sales revenues at present rates.

ISSUE 29: Should revenues be adjusted for the extension of the Auburndale agreement?

FEA: No position at this time.

ISSUE 30: Is Tampa Electric's projected level of Total Operating Revenues in the amount of \$950,663,000 (\$951,811,000 system) for the 2014 projected test year appropriate? (FALLOUT)

FEA: No position at this time.

ISSUE 31: Should any adjustments be made to Tampa Electric's requested vegetation maintenance expense?

FEA: No position at this time.

ISSUE 32: Should any adjustments be made to Tampa Electric's requested level of generation maintenance expense?

FEA: No position at this time.

ISSUE 33: Has Tampa Electric made the appropriate test year adjustments to remove fuel revenues and fuel expenses recoverable through the Fuel Adjustment Clause?

FEA: No position at this time.

ISSUE 34: Has Tampa Electric made the appropriate test year adjustments to remove conservation revenues and conservation expenses recoverable through the Conservation Cost Recovery Clause?

FEA: No position at this time.

ISSUE 35: Has Tampa Electric made the appropriate test year adjustments to remove capacity revenues and capacity expenses recoverable through the Capacity Cost Recovery Clause?

FEA: No position at this time.

ISSUE 36: Has Tampa Electric made the appropriate test year adjustments to remove environmental revenues and environmental expenses recoverable through the Environmental Cost Recovery Clause?

FEA: No position at this time.

ISSUE 37: Should any adjustment be made to incentive compensation?

FEA: No position at this time.

ISSUE 38: Should an adjustment be made to Tampa Electric's requested level of Salaries and Employee Benefits for the 2014 projected test year?

FEA: No position at this time.

ISSUE 39: Should an adjustment be made to Pension Expense associated with the Supplemental Executive Retirement Plan for the 2014 projected test year?

FEA: No position at this time.

ISSUE 40: Should adjustments be made for the net operating income effects of allocated costs and charges with affiliated companies for Tampa Electric?

FEA: No position at this time.

ISSUE 41: Are Tampa Electric's Call Center expenses just and reasonable?

FEA: No position at this time.

ISSUE 42: Should an adjustment be made to the accrual for storm damage for the 2014 projected test year?

FEA: No position at this time.

ISSUE 43: Should an adjustment be made to the accrual for the Injuries & Damages reserve for the 2014 projected test year?

FEA: No position at this time.

ISSUE 44: Should any adjustments be made to Directors and Officers Liability Insurance?

FEA: No position at this time.

ISSUE 45: Should any adjustments be made to Outside Services - Legal Expense?

FEA: No position at this time.

ISSUE 46: What is the appropriate amount and amortization period for Tampa Electric's rate case expense for the 2014 projected test year?

FEA: No position at this time.

ISSUE 47: Should an adjustment be made to Bad Debt Expense for the 2014 projected test year?

FEA: No position at this time.

ISSUE 48: Is Tampa Electric's requested level of O&M Expense in the amount of \$363,832,000 (\$364,130,000 system) for the 2014 projected test year appropriate? (FALLOUT)

FEA: No position at this time.

ISSUE 49: What is the appropriate amount of depreciation and fossil dismantlement expense?

FEA: No position at this time.

ISSUE 50: Should an adjustment be made to Taxes Other Than Income Taxes for the 2014 projected test year? (FALLOUT)

FEA: No position at this time.

ISSUE 51: Should an adjustment be made to Income Tax expense for the 2014 projected test year? (FALLOUT)

FEA: No position at this time.

ISSUE 52: Is Tampa Electric's projected Net Operating Income in the amount of \$209,901,000 (\$210,244,000 system) for the 2014 projected test year appropriate? (FALLOUT)

FEA: Please refer to issue 28.

REVENUE REQUIREMENTS

ISSUE 53: What are the appropriate revenue expansion factor and the appropriate net operating income multiplier, including the appropriate elements and rates, for Tampa Electric?

FEA: No position at this time.

ISSUE 54: Is Tampa Electric's requested annual operating revenue increase of \$134,841,000 for the 2014 projected test year appropriate? (FALLOUT)

FEA: Tampa Electric's operating revenue increase should be reduced by a minimum of \$88 Million. This figure does not include recognition of other parties' adjustments which the FEA may support.

COST OF SERVICE AND RATES

ISSUE 55: Should Tampa Electric's proposed Minimum Distribution System ("MDS") costing method be approved?

FEA: The MDS costing method should be approved.

ISSUE 56: What is the appropriate Cost of Service Methodology to be used to allocate production costs to the rate classes?

FEA: FEA supports the use of a 12-CP and 1/13 average demand methodology to allocate production costs to the rate classes.

ISSUE 57: What is the appropriate Cost of Service Methodology to be used to allocate transmission costs to the rate classes?

FEA: No position at this time.

ISSUE 58: How should any change in the revenue requirement approved by the Commission be allocated among the customer classes?

FEA: No position at this time.

ISSUE 59: What is the appropriate treatment of the IS schedules?

FEA: No position at this time.

ISSUE 60: Should TECO's proposal to reinstitute the Commercial/Industrial Service Rider (CISR) tariff be approved?

FEA: No position at this time.

ISSUE 61: Should the "Transformer Ownership Discount" be renamed the "Delivery Voltage Credit" and should the credits provided reflect full avoided distribution costs?

FEA: No position at this time.

ISSUE 62: What are the appropriate service charges (normal reconnect, same day reconnect, reconnect at meter/pole, field visit, tampering charge, temporary service charge)?

FEA: No position at this time.

ISSUE 63: What is the appropriate emergency relay power supply charge?

FEA: No position at this time.

ISSUE 64: What are the appropriate contributions-in-aid for time-of-use rate customers opting to make a lump sum payment for a time-of-use meter in lieu of a higher time-of-use customer charge?

FEA: No position at this time.

ISSUE 65: What changes in allocation and rate design should be made to Tampa Electric's rates established in Docket Nos. 130001-EI, 130002-EG, and 130007-EI to recognize the decisions in various cost of service rate design issues in this docket?

FEA: No position at this time.

ISSUE 66: What are the appropriate monthly rental factors and termination factors to be approved for the Facilities rental Agreement, Appendix A? (Tampa Electric to check if can be dropped.)

FEA: No position at this time.

ISSUE 67: What are the appropriate customer charges and should "customer charge" be renamed "basic service charge"?

FEA: No position at this time.

ISSUE 68: What are the appropriate demand charges?

FEA: No position at this time.

ISSUE 69: What are the appropriate energy charges?

FEA: No position at this time.

ISSUE 70: What are the appropriate lighting charges?

FEA: No position at this time.

ISSUE 71: What are the appropriate Standby Charges?

FEA: No position at this time.

OTHER

ISSUE 72: What is the appropriate effective date for Tampa Electric's revised rates and charges?

FEA: No position at this time.

ISSUE 73: Should Tampa Electric be required to file, within 90 days after the date of the final order in this docket, a description of all entries or adjustments to its annual report, rate of return reports, and books and records which will be required as a result of the Commission's findings in this rate case.

FEA: No position at this time.

ISSUE 74: Should this docket be closed?

FEA: No position at this time.

5. STIPULATED ISSUES:

None at this time.

6. PENDING MOTIONS:

None.

7. STATEMENT OF PARTY'S PENDING REQUESTS OR CLAIMS FOR CONFIDENTIALITY:

None.

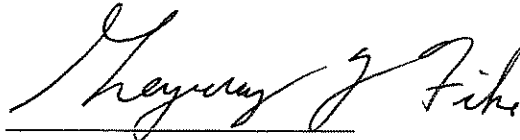
8. OBJECTIONS TO QUALIFICATION OF WITNESSES AS AN EXPERT:

None at this time.

9. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:

There are no requirements of the Order Establishing Procedure with which Federal Executive Agencies cannot comply.

Dated this 9th day of August, 2013



Gregory J. Fike, Lt Col, USAF
Chief, Utility Law Field Support Center
Air Force Legal Operations Agency
139 Barnes Drive
Tyndall AFB, FL 32403
850-283-6348
On behalf of Federal Executive Agencies

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and foregoing **PREHEARING STATEMENT OF FEDERAL EXECUTIVE AGENCIES** has been furnished by electronic mail on this 9th day of August, 2013, to the following:

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