



DEPARTMENT OF THE AIR FORCE  
HEADQUARTERS AIR FORCE LEGAL OPERATIONS AGENCY

August 16, 2013

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

Ms. Ann Cole, Director  
Office of Commission Clerk  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0850

RECEIVED FPSC  
18 AUG 19 AM 9:41  
COMMISSION  
CLERK

Re: Docket No. 130040-EI; Petition for Rate Increase by Tampa Electric Company

Dear Ms. Cole,

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 15 copies of pages 2, 4, 18, 20 and exhibits MPG-1 and MPG-17 with revisions and additions from Federal Executive Agency witness Michael P. Gorman direct testimony pre-filed on 15 July 2013.

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

Sincerely,

GREGORY J. FIKE, Lt Col, USAF  
Chief

2 Attachments:

- 1. Revised Testimony of FEA witness Michael P. Gorman
- 2. Certificate of Service

COM	5
AFD	1
APA	1
CO	5
ENG	1
ECL	1
DM	
EL	
x	1 Cf. Rep

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY Errata pages 2, 4, 18, 20 and Exhibits MPG-1 and MPG -17 of Pre-filed Direct Testimony of Michael P. Gorman has been furnished by electronic mail on this 16<sup>th</sup> day of August, 2013, to the following:

**WCF Hospital Utility Alliance**

c/o Andrews Kurth LLP  
Kenneth L. Wiseman, Esquire  
1350 L Street NW, Suite 1100  
Washington, DC 20005  
Phone: 202-662-2700  
Email:  
[Kwiseman@andrewskurth.com](mailto:Kwiseman@andrewskurth.com)

**Office of Public Counsel**

J.R. Kelly/P. Christensen/  
J. McGlothlin  
c/o The Florida Legislature  
111 W. Madison Street, Rm. 812  
Tallahassee, FL 32393-1400  
Phone: (850) 488-9330  
Email:  
[Christensen.patty@leg.state.fl.us](mailto:Christensen.patty@leg.state.fl.us)

**Ausley Law Firm**

James D. Beasley  
P.O. Box 391  
Tallahassee, FL 32302  
Phone: 850-224-9115  
Email: [jbeasley@ausley.com](mailto:jbeasley@ausley.com)

**Tampa Electric Company**

Gordon L. Gillette, President  
Paula K. Brown, Manager,  
Regulatory Af  
P.O. Box 111  
Tampa, FL 33601-0111  
Phone: (813) 228-1444  
Email:  
[Regdept@tecoenergy.com](mailto:Regdept@tecoenergy.com)

**Florida Industrial Power Users Group**

Jon C. Moyle Jr.  
c/o Moyle Law Firm  
118 North Gadsden Street  
Tallahassee, FL 32301  
Phone: (850) 681-3828  
Email: [jmoyle@moylelaw.com](mailto:jmoyle@moylelaw.com)

**Florida Retail Federation**

c/o Gardner Law Firm  
Robert Scheffel Wright/  
John T. La via,  
1300 Thomaswood Drive  
Tallahassee, FL 32308  
Phone: (850) 385-0070  
Email: [schef@gbwlegal.com](mailto:schef@gbwlegal.com)

By: *s/Gregory Fike*  
Gregory J. Fike, Lt Col, USAF  
Chief, Utility Law Field Support Center

1 Q ARE YOU SPONSORING ANY EXHIBITS IN CONNECTION WITH THIS  
2 TESTIMONY?

3 A Yes. I am sponsoring Exhibit MPG-2 through Exhibit MPG-22.  
4

5 Q WHAT IS THE SUBJECT OF YOUR DIRECT TESTIMONY?

6 A In my testimony I make several recommendations concerning Tampa Electric  
7 Company's ("Tampa Electric" or "Company") rate filing in this proceeding. These  
8 recommendations include the following:

- 9 1. I recommend a fair overall rate of return and return on common equity  
10 used to set Tampa Electric's revenue requirement in this proceeding.  
11 2. I recommend an adjustment to the residential sales revenue at current  
12 rates.  
13

### 14 SUMMARY

15 Q PLEASE SUMMARIZE YOUR RATE OF RETURN RECOMMENDATIONS.

16 A I recommend the Florida Public Service Commission (the "Commission") award  
17 Tampa Electric a return on common equity of 9.25%, and an overall rate of return  
18 of 5.66~~5~~%. Exhibit MPG-1.

19 My recommended overall rate of return also reflects a revised  
20 synchronization of rate base and capital structure used to develop the overall  
21 rate of return. The Company's proposed capital structure allocates rate base pro  
22 forma additions across all capital components, both investor capital and  
23 ratepayer-supplied capital, in proportion to their mix of the overall capital. In my  
24 proposed capital structure, I allocate all customer-supplied capital to the capital  
25 structure used to develop rates and allocate the pro forma rate base adjustments

1    **Q    HOW DID YOU ESTIMATE TAMPA ELECTRIC’S CURRENT MARKET COST**  
2    **OF EQUITY?**

3    A    I performed analyses using three Discounted Cash Flow (“DCF”) models, a Risk  
4    Premium study, and a Capital Asset Pricing Model (“CAPM”). These analyses  
5    used a proxy group of publicly traded companies that have investment risk  
6    similar to Tampa Electric. Based on the results from these assessments, I  
7    estimate Tampa Electric’s current market cost of equity to be 9.25%.

8  
9    **Q    WHAT IS THE IMPACT ON TAMPA ELECTRIC’S REVENUE REQUIREMENT**  
10   **BASED ON YOUR RECOMMENDED RETURN ON EQUITY AND CAPITAL**  
11   **STRUCTURE ADJUSTMENT?**

12   A    The Florida revenue requirement impact of my recommended 9.25% return on  
13   equity and revised capital structure is \$73.675.5 million.

14  
15   **Q    PLEASE SUMMARIZE YOUR PROPOSED ADJUSTMENT TO RESIDENTIAL**  
16   **SALES REVENUE AT CURRENT RATES.**

17   A    I am proposing an increase in residential sales revenue at current rates of  
18   \$12.5 million. This adjustment reflects my assessment that Tampa Electric has  
19   understated the amount of sales for the 2014 test year for an increased number  
20   of residential customers.

21  
22  
23  
24  
25



1 structure by spreading these adjustments equally over both investor-supplied  
2 capital and customer-supplied capital.

3 Customer-supplied capital includes deferred taxes and customer  
4 deposits. Deferred taxes are a zero-cost capital component, and customer  
5 deposits have a relatively low interest rate as prescribed by the Commission.  
6 These low-cost customer-supplied capital components should be used  
7 exclusively to fund jurisdictional rate base. If they are not, then a portion of the  
8 customer-supplied low-cost capital components will be used to benefit investors  
9 rather than exclusively jurisdictional customers.

10  
11 **Q HOW DO YOU PROPOSE TO ADJUST THE COMPANY'S PROPOSED**  
12 **CAPITAL STRUCTURE?**

13 **A** The Company develops its proposed capital structure on its Schedule D-1a, page  
14 1. On that schedule under column 6, the Company proposes to spread its pro  
15 rata adjustments equally over investor capital and customer-supplied capital. I  
16 recommend to modify this spread of pro rata adjustments to only investor-  
17 supplied capital. All customer-supplied capital should be fully allocated to  
18 jurisdictional cost of service to ensure customers get full benefit of the low-cost  
19 capital they provide the Company.

20 I developed this revised capital structure on my Exhibit MPG-1. As  
21 shown on this exhibit, this revised capital structure mix produces a common  
22 equity ratio of total capital of 40.5135%. In comparison, the Company's  
23 proposed capital structure produces a common equity ratio of 42.26%. Again,  
24 the difference in capital structures reflects my recommendation to allocate 100%  
25 of the customer-supplied low-cost capital to jurisdictional cost of service.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

**TABLE 3**

**Proposed Capital Structure**

<u>Description</u>	<u>Percent of Total Capital</u>
Long-Term Debt	33.708%
Customer Deposits	2.989%
Common Equity	40.5135%
Short-Term Debt	0.545%
Deferred Income Tax	22.0642%
Investment Tax Credit	0.21%
Total Capital Structure	100.00%

Source: Exhibit MPG-1, page 1.

**Q WILL YOUR PROPOSED CAPITAL STRUCTURE SUPPORT TAMPA ELECTRIC'S FINANCIAL INTEGRITY AND CREDIT RATING?**

A Yes. As I will discuss later in my testimony, my proposed capital structure is consistent with Tampa Electric's current credit rating and will support Tampa Electric's financial integrity.

**RETURN ON EQUITY**

**Q PLEASE DESCRIBE WHAT IS MEANT BY A "UTILITY'S COST OF COMMON EQUITY."**

A A utility's cost of common equity is the return investors require on an investment in the utility. Investors expect to achieve their return requirement from receiving dividends and stock price appreciation.

## Tampa Electric Company

### Rate of Return Adjusted Capital Structure 2014 Test Year

Line	Description	Amount (000) (1)	Common Dividends (2)	Specific Adjustments (3)	Pro Rata Adjustments (4)	Juris Adjusted Amount (5)	Weight (6)	Weighted	
								Cost (7)	Cost (8)
1	Long-Term Debt	\$ 1,750,463	\$ -	\$ 1,104	\$ (286,477)	\$ 1,462,403	33.70%	5.40%	1.82%
2	Customer Deposits	\$ 129,515	\$ -	\$ 82	\$ -	\$ 129,359	2.98%	2.20%	0.07%
3	Common Equity	\$ 2,091,067	\$ 13,422	\$ 1,328	\$ (344,416)	\$ 1,758,170	40.51%	<b>9.25%</b>	3.75%
4	Short-Term Debt	\$ 31,024	\$ -	\$ (2,725)	\$ (4,628)	\$ 23,627	0.54%	1.47%	0.01%
5	Deferred Income Tax	\$ 962,726	\$ -	\$ (3,719)	\$ -	\$ 957,248	22.06%	0.00%	0.00%
6	Investment Tax Credit	\$ 9,184	\$ 1	\$ -	\$ -	\$ 9,168	0.21%	7.46%	<u>0.02%</u>
7	<b>Total</b>	<b>\$ 4,973,979</b>	<b>\$ 13,423</b>	<b>\$ (3,930)</b>	<b>\$ (635,522)</b>	<b>\$ 4,339,976</b>	<b>100.00%</b>		<b>5.66%</b>

### Investor Capital Structure

Line	Description	Investor Capital		Pro-Rata Allocation (3)
		Amount (000)* (1)	Weight (2)	
8	Long-Term Debt	\$ 1,751,567	45.08%	\$ (286,477)
9	Short-Term Debt	\$ 28,299	0.73%	\$ (4,628)
10	Common Equity	\$ 2,105,817	54.19%	\$ (344,416)
11	<b>Total</b>	<b>\$ 3,885,683</b>	<b>100.00%</b>	<b>\$ (635,522)</b>

Source:  
Schedule D-1a.

\* Sum of Columns 1 and 2, Lines 1, 3, and 4.

## Tampa Electric Company

### Standard & Poor's Credit Metrics

<u>Line</u>	<u>Description</u>	Retail	S&P Benchmark <sup>1/2</sup>		<u>Reference</u> (4)
		Cost of Service <u>Amount</u> (1)	<u>Intermediate</u> (2)	<u>Significant</u> (3)	
1	Rate Base	\$ 4,339,974			Schedule A-1.
2	Weighted Common Return	5.01%			Page 2, Line 3, Col. 4.
3	Pre-Tax Rate of Return	10.63%			Page 2, Line 4, Col. 5.
4	Income to Common	\$ 217,562			Line 1 x Line 2.
5	EBIT	\$ 461,211			Line 1 x Line 3.
6	Depreciation & Amortization	\$ 233,881			Schedule C-1.
7	Imputed Amortization	\$ 1,200			FEA's First Set of IRRs, IRR No. 3.
8	Deferred Income Taxes & ITC	\$ 41,822			Schedule C-22, page 3 of 6.
9	Funds from Operations (FFO)	\$ 494,465			Sum of Line 4 and Lines 6 through 8.
10	Imputed Interest Expense	\$ 3,455			FEA's First Set of IRRs, IRR No. 3.
11	EBITDA	\$ 699,747			Sum of Lines 5 through 7 and Line 10.
12	Total Debt Ratio	47%	35% - 45%	45% - 50%	Page 3, Line 4, Col. 2.
13	Debt to EBITDA	2.9x	2.0x - 3.0x	3.0x - 4.0x	(Line 1 x Line 12) / Line 11.
14	FFO to Total Debt	24%	30% - 45%	20% - 30%	Line 9 / (Line 1 x Line 12).

Sources:

<sup>1</sup> Standard & Poor's: "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," May 27, 2009.

<sup>2</sup> S&P RatingsDirect: "U.S. Regulated Electric Utilities, Strongest to Weakest," April 20, 2011.

Note:

Based on the April 2012 S&P metrics, Tampa Electric has an "Excellent" business profile and a "Significant" financial profile.



## Tampa Electric Company

### Standard & Poor's Credit Metrics (Pre-Tax Rate of Return)

<u>Line</u>	<u>Description</u>	<u>Amount (000)</u> (1)	<u>Weight</u> (2)	<u>Cost</u> (3)	<u>Weighted Cost</u> (4)	<u>Pre-Tax Weighted Cost</u> (5)
1	Long-Term Debt	\$ 1,462,403	45.08%	5.40%	2.43%	2.43%
2	Short-Term Debt	\$ 23,627	0.73%	1.47%	0.01%	0.01%
3	Common Equity	\$ <u>1,758,170</u>	<u>54.19%</u>	<b>9.25%</b>	<u>5.01%</u>	<u>8.18%</u>
4	<b>Total</b>	<b>\$ 3,244,200</b>	<b>100.00%</b>		<b>7.46%</b>	<b>10.63%</b>
5	Tax Conversion Factor*					1.6322

Sources:

Exhibit MPG-1.

\* Schedule A-1.

## Tampa Electric Company

### Standard & Poor's Credit Metrics (Financial Capital Structure)

<u>Line</u>	<u>Description</u>	<u>Amount (000)</u> (1)	<u>Weight</u> (2)
1	Long-Term Debt	\$ 1,462,403	44.31%
2	Short-Term Debt	\$ 23,627	0.72%
3	Off Balance Sheet Debt*	\$ 56,100	1.70%
4	<b>Total Debt</b>	<b>\$ 1,542,130</b>	<b>46.73%</b>
5	Common Equity	\$ 1,758,170	53.27%
6	<b>Total</b>	<b>\$ 3,300,300</b>	<b>100.00%</b>

Sources:  
Exhibit MPG-1.

\* FEA's First Set of IRRs, IRR No. 3.