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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 130040-EI

PETITION FOR RATE INCREASE
BY TAMPA ELECTRIC COMPANY.
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VOLUME 1

Pages 1 through 103

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN RONALD A. BRISÉ
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Monday, September 9, 2013

TIME: Commenced at 9:37 a.m.
Concluded at 10:01 a.m.

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

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

APPEARANCES:

JAMES D. BEASLEY, J. JEFFRY WAHLEN, KENNETH R. HART, and ASHLEY M. DANIELS, ESQUIRES, Ausley & McMullen, 123 South Calhoun Street, Tallahassee, Florida 32301, appearing on behalf of Tampa Electric Company.

J.R. KELLY, PUBLIC COUNSEL, and PATRICIA A. CHRISTENSEN and CHARLES REHWINKEL, ESQUIRES, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of Florida.

JON C. MOYLE, JR., and KAREN PUTNAL, ESQUIRES, c/o Moyle Law Firm, P.A., 118 North Gadsden Street, Tallahassee, Florida 32301, appearing on behalf of Florida Industrial Power Users Group.

ROBERT SCHEFFEL WRIGHT, and JOHN T. LAVIA, III, ESQUIRES, Gardner, Bist, Wiener, Wadsworth, Bowden, Bush, Dee, LaVia & Wright, P.A., 1300 Thomaswood Drive, Tallahassee, Florida 32308, appearing on behalf of the Florida Retail Federation.

APPEARANCES (Continued):

LIEUTENANT COLONEL GREGORY J. FIKE, ESQUIRE, USAF, Utility Law Field Support Center, Air Force Legal Operations Agency, 139 Barnes Drive, Suite 1, Tyndall Air Force Base, Florida 32403, appearing on behalf of the Federal Executive Agencies.

LISA M. PURDY, KENNETH L. WISEMAN, MARK F. SUNBACK, WILLIAM M. RAPPOLT, BLAKE R. URBAN, and ALLISON E. HELLREICH, ESQUIRES, Andrews Kurth LLP, 1350 I Street, Suite 1100, Washington DC 20005, appearing on behalf of WCF Hospital Utility Alliance (HUA).

MARTHA F. BARRERA and SUZANNE BROWNLESS, ESQUIRES, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission Staff.

MARY ANNE HELTON, Deputy General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, Advisor to the Florida Public Service Commission.

I N D E X

WITNESSES

E X H I B I T S

NUMBER:	MARKED	ADMITTED
1 through 239 (as fully described on Comprehensive Exhibit List - Exhibit 1)	22	22
240 Kevin O'Donnell Errata Sheet	22	22

P R O C E E D I N G S

CHAIRMAN BRISÉ: Good morning. I'm going to convene this hearing and call it to order. Today is September 9th, and we are going to look at Docket Number 130040-EI.

Staff, would you read the notice, please?

MS. BARRERA: This proceeding was noticed for -- on the Docket Number 130040-EI. The petition for a rate increase by Tampa Electric Company was noticed for a hearing to begin September 9th and continue through the 13th, 9:30 a.m, Room 148 of the Betty Easley Building.

CHAIRMAN BRISÉ: Thank you, Ms. Barrera.

At this time we will take appearances.

MR. BEASLEY: Good morning, Commissioners. I'm James D. Beasley, appearing with J. Jeffry Wahlen, Kenneth R. Hart, Ashley M. Daniels, all of the law firm of Ausley, McMullen in Tallahassee, appearing on behalf of Tampa Electric Company. With us today at counsel table is Mr. T. J. Szelistowski, who is the Managing Director of Regulatory Affairs for Tampa Electric.

CHAIRMAN BRISÉ: Thank you.

LIEUTENANT COLONEL FIKE: Good morning. Lieutenant Colonel Gregory Fike appearing on behalf of the Federal Executive Agencies.

CHAIRMAN BRISÉ: Thank you.

MR. MOYLE: Jon Moyle with the Moyle law firm appearing, along with Karen Putnal of our firm, on behalf of the Florida Industrial Power Users Group, FIPUG.

CHAIRMAN BRISÉ: Okay. Thank you.

MS. PURDY: Lisa Purdy on behalf of the WCF Hospital Utility Alliance with the law firm Andrews Kurth. I'd also like to enter the appearance of Kenneth L. Wiseman, Mark F. Sunback, William M. Rappolt, Blake R. Urban, and Allison E. Hellreich.

CHAIRMAN BRISÉ: Thank you.

MR. WRIGHT: Robert Scheffel Wright and John T. LaVia, III, on behalf of the Florida Retail Federation.

CHAIRMAN BRISÉ: Thank you.

MS. CHRISTENSEN: Patricia Christensen on behalf of the Office of Public Counsel. With me today and putting in an appearance for J. R. Kelly, the Public Counsel, as well as Charles Rehwinkel with the Office of Public Counsel. Thank you.

CHAIRMAN BRISÉ: Thank you.

MS. BARRERA: Martha Barrera on behalf of staff, and with me today is Suzanne Brownless also on behalf of staff.

MS. HELTON: And Mary Anne Helton, advisor to the Commission.

CHAIRMAN BRISÉ: Thank you. Is there anyone else who needs to make an appearance that either was omitted or they just didn't appear as of yet? All right. Seeing none, thank you.

Are there any preliminary matters that we need to deal with?

MS. BARRERA: Yes, Chairman. Tampa Electric has filed a motion to hold the case in abeyance for consideration of a global settlement of the case. Late Friday Tampa Electric also filed a joint motion for approval of the stipulation and settlement agreement. We received the exhibits to the joint motion about an hour ago today.

Counsel for HUA filed a motion requesting excusal. But they're here today, so no order [sic] needs to be heard.

Staff is recommending that the motion to hold the case in abeyance be considered as a motion for continuance, and at this time the Commission may want to hear argument of counsel for Tampa Electric and the parties on behalf of the motion for continuance.

CHAIRMAN BRISÉ: Thank you, Ms. Barrera.

At this time I'm inclined to hear from the parties. So, TECO, you may go first.

MR. BEASLEY: Thank you, Commissioners.

We filed our motion on September 4th after weeks of discussion among all of the parties to this proceeding. We filed it with the concurrence of all of the parties to the proceeding in order to give us an opportunity to try to reduce to writing a principle, agreement in principle that we entered into the day prior to September 4th and present it to you. We were able to do that. That is the subject of our joint motion to be heard later.

But I want to say that it was only because of the professionalism of all of the Intervenors, and I say that with heartfelt thanks to them, that we were able to fashion this, this settlement agreement. And the motion for -- to hold the case in abeyance, which we're happy to consider a motion for continuance, was done just to allow us to get the other document before you and focus on it and make sure that we got it right the first time.

So we would urge that you grant the motion to hold the case in abeyance and continue the proceeding so that we can proceed to address our joint stipulation.

CHAIRMAN BRISÉ: Okay. Any of the other parties wish to address the Commission with respect to the motion?

MS. CHRISTENSEN: I guess -- Patty Christensen on behalf of the Office of Public Counsel. We would echo the company's sentiments that we would ask that the Commission grant the motion for continuance to allow time for the, for the Commission to look at the joint stipulation that I believe all of the parties worked very hard to craft and present to the Commission prior to the start of this hearing. And we think that this is a good outcome. The continuance allows us to not have to bring in our witnesses and incur additional litigation costs, which I think is to the benefit of the citizens of the State of Florida as well as the utility.

And as we said, we all worked very, very hard and well together to come to this joint settlement, and I think that it's a settlement that eventually the Commission will approve. And, therefore, I think the continuance is appropriate and should be granted. And I guess at some point the Commission will have to determine how long it needs to continue this matter to consider the settlement that's been presented, but we would strongly support continuing that for those reasons. Thank you.

CHAIRMAN BRISÉ: Thank you.

Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman.

I'd like to say I agree completely with the comments of Mr. Beasley and Ms. Christensen. This was a tough negotiation but an extremely candid and professional negotiation with lots of give and take, as you'll see in the settlement agreement which we all support.

Likewise, we support the motion for a continuance, and we'd just simply ask that you do grant the continuance today and then process the settlement as expeditiously as possible consistent with your needs to review the settlement. We think it's a fair, balanced settlement agreement in the public interest and look forward to participating further. Thank you.

CHAIRMAN BRISÉ: Thank you.

Ms. Purdy.

MS. PURDY: Good morning. HUA strongly supports the settlement. We believe it's in the best interest of the ratepayers and it's a good comprehensive package.

Similarly, HUA strongly supports the motion to hold the settlement in abeyance or continue -- sorry -- hold the hearing in abeyance or continue the hearing. One of the benefits of the settlement is the avoidance of the risk of litigation and the avoidance of litigation cost. So for that reason, in addition to the other reasons espoused by the parties here, we also strongly support the motion to hold the hearing in continuance.

CHAIRMAN BRISÉ: Okay. Thank you.

Mr. Moyle.

MR. MOYLE: Yes, thank you. FIPUG wholeheartedly endorses both the motion and the settlement agreement. The negotiations were tough but fair and marked by mutual respect and give and take. And I know you'll -- if you grant the motion for continuance, we'll be hearing more about the settlement. But, but we believe it is a fair settlement that should, should be approved consistent with this Commission's policy of, of looking at fair settlements and making judgments as to whether they're in the, in the public interest. But thank you, Mr. Chairman.

CHAIRMAN BRISÉ: Thank you.

Colonel Fike.

LIEUTENANT COLONEL FIKE: FEA supports both the motion and the settlement. We think the settlement provides fair and reasonable rates for all ratepayers and is in the public interest.

CHAIRMAN BRISÉ: All right. Thank you very much.

At this time, we'll bring it back over here to the Commissioners.

Commissioner Brown.

COMMISSIONER BROWN: Thank you, Mr. Chairman.

First, I would like to thank the parties for their professionalism and courteousness that you showed to all the other parties throughout the entire process. As I said during the prehearing, this makes the whole process just run very smoothly, and it's been a very smooth rate case thus far. So thank you. And I'm looking forward to reviewing the settlement in greater detail, but from first blush it does look to be a comprehensive resolution of all the issues in the rate case. So thank you for bringing it to us. I really don't know how you all had time to negotiate the settlement agreement, but we will definitely give it ample and due consideration. So thank you very much for bringing it to our attention.

CHAIRMAN BRISÉ: Okay. Thank you.

Commissioner Balbis.

COMMISSIONER BALBIS: Thank you, Mr. Chairman.

I have a question for staff. What is before us is a motion to hold the case in abeyance, and staff has indicated that we should consider this a motion for continuance. What are the distinctions between those two and what is actually before us today?

MS. BARRERA: Commissioner, the distinction is that rather than a motion to abate, the motion for continuance would maintain the hearing open and it would allow the Commission to reschedule it soon. We don't see -- normally a motion to abate sort of presupposes that the hearing will be rescheduled, that everything stops pending some additional negotiations. At least that's been my experience. So at this point what we're saying is if the Commission grants the motion and reschedules this hearing, then just consider it a motion for continuance.

COMMISSIONER BALBIS: One of the concerns I have if we grant the motion is that the motion we have is a motion to abate the hearing, and also included in provision 5 of the motion is that all witnesses be excused. But you're not, you're not insinuating that we're to excuse all the witnesses, because wouldn't we do that if we grant the motion? Wouldn't it be better to deny the motion and then just vote on continuing the hearing and rescheduling it to allow them additional time as needed?

MS. BARRERA: Well, if you deny the motion, then -- if we treat it as a motion for continuance, and that would be the proper procedure, you wouldn't have to deny the motion and you could reschedule the hearing. In order to reschedule the hearing, you'd have to vote to approve the motion, you know, vote in favor of the motion. If you deny the motion, then the, the circumstances of that would be that you then continue with the hearing.

MR. BEASLEY: Mr. Chair, we're happy to have our motion treated as a motion for continuance, if that would facilitate things.

CHAIRMAN BRISÉ: Okay. Thank you.

COMMISSIONER BALBIS: Yeah. Thank you, Mr. Chairman.

And maybe that will alleviate the concerns that I have. My, my concerns are that with the provision in this motion before us of excusing the witnesses and then we consider the settlement agreement, if for whatever happens that gets denied, that we do not have an opportunity then to continue with the hearing since all the witnesses have been excused. So however we get there procedurally, that would alleviate at least that one concern that I have, but I look forward to hearing from my other colleagues on that.

MS. BARRERA: Excuse me. Commissioner, the parties have been advised that if today the motion for continuance is denied, that -- to have their witnesses present and, if it's the Commission's wish to do so, reconvene the hearing for tomorrow, the full hearing, rather than -- so it just depends.

CHAIRMAN BRISÉ: Commissioner Balbis.

COMMISSIONER BALBIS: Thank you, Mr. Chairman.

That, that is not my concern.

MS. BARRERA: Oh, okay.

COMMISSIONER BALBIS: My concern is that if we approve the motion that's before us and one of the provisions is that the witnesses be excused, I don't want to lose the opportunity, if the settlement agreement is denied, to have the hearing with the witnesses. That is my concern, and hopefully I was clear on that.

MS. BARRERA: Okay. I'm sorry.

CHAIRMAN BRISÉ: I'm going to let Mary Anne address this.

MS. HELTON: One thing that may have been implicitly said but I'll say it explicitly, I believe that treating the motion as a motion for continuance will give the Commission much more flexibility with respect to scheduling further days. And if you're concerned about witness presence, then that can be one of the conditions that you place upon granting or denying a continuance for this proceeding.

CHAIRMAN BRISÉ: Thank you. Sure.

COMMISSIONER BALBIS: I have a question for TECO. As we all know, the scheduling of hearing dates is difficult with all of the other things that we have going on at the Commission, and what's looming over our heads is the statutory time frame associated with a filing.

And one -- the concern I have is that if we give up these hearing days and schedule it later, does that put us into a position where we cannot meet the 8-month statutory time frame, and is TECO willing to waive that so that we can consider the settlement?

MR. BEASLEY: We would be willing to waive the 8-month clock, assuming that our proposed rates in the stipulation could be implemented as provided for in the settlement agreement, subject to refund under corporate undertaking to ensure that the ratepayers are properly protected. I think that would be consistent with the settlement, assuming that you approve it, and at the same time protect the ratepayers' interests.

COMMISSIONER BALBIS: Okay. That's all I had at this time.

CHAIRMAN BRISÉ: Okay. All right. Commissioners, any other questions?

Okay. All right. So at this point I think we, we can have some discussion as to what we want to do or how we want to dispose of the motion that is before us, and so at this time we'll open the floor for that conversation.

Commissioner Edgar.

COMMISSIONER EDGAR: Thank you, Mr. Chairman.

And I also echo the comments of my colleagues to my right and left. I'm very appreciative of the work that the parties did together towards a settlement. I know that sometimes those discussions are fruitful and sometimes they are not, that's part of the process, but I appreciate the work that went into this.

I, Mr. Chairman, am in support at this time of granting the motion for continuance. I would like additional time to review the provisions that are in the proposed settlement, recognizing that it did just come in full form to us late last week -- Friday, I believe. I would like additional time to review it.

I do find the fact that all parties are signatories to it and presenting it together to be compelling but not necessarily conclusive in and of itself, and I do believe that we have a responsibility to review, and for our staff to have the time that they need also so that we'll be -- we are all clear and they are all clear.

CHAIRMAN BRISÉ: All right. Thank you.

Commissioner Brown.

COMMISSIONER BROWN: Thank you. I concur with Commissioner Edgar and echo her comments.

And wanted to see what the pleasure is of the Chair to, if we do grant this motion to continue, what day that would be appropriate?

CHAIRMAN BRISÉ: And that's an excellent question. Since we are scheduled for, for this whole week, I think that we can probably continue on the 11th, which is Wednesday, which gives us an opportunity to meet with our staff and get briefings and so forth and we can begin to have the discussions here in the hearing room at 9:30 or 10:00 on Wednesday, Wednesday morning.

COMMISSIONER BROWN: Okay. Thank you.

CHAIRMAN BRISÉ: Okay. Any further questions or discussion?

All right. All right. If there -- Commissioner Brown.

COMMISSIONER BROWN: I will make the motion to approve the continuance until, of this hearing until September 11th, commencing at 9:30 a.m.

COMMISSIONER EDGAR: Second.

CHAIRMAN BRISÉ: Okay. It's been moved and seconded. Any further discussion, amendments? Okay. All in favor, say aye.

(Vote taken.)

All right. Thank you very much.

So with that, we are going to convene to take up the settlement on September 11th at 9:30 a.m.

There is a question of exhibits that we need to address, and I understand that parties have requested to have the exhibits entered into the record. So -- that's my indication from staff, so we will address that at this time.

MR. BEASLEY: Mr. Chair, we would, we would request that the testimony and exhibits of all witnesses be entered into the record of this case.

CHAIRMAN BRISÉ: Okay. Are there any objections?

MR. MOYLE: No objections. When, when Mr. Beasley says all witnesses, I think, I think he's being inclusive in including all of our witnesses too. I just wanted to make sure on that.

MR. BEASLEY: That's correct.

MS. CHRISTENSEN: Yes. And with that clarification, yes.

CHAIRMAN BRISÉ: Okay. I just want to make sure that everyone wants to enter their own witnesses.

MS. CHRISTENSEN: Correct. We want our witnesses and prefiled testimony and exhibits admitted into the record.

CHAIRMAN BRISÉ: All right.

MS. BARRERA: At this point staff would also request that Exhibits 132 through 230, which are staff exhibits, be admitted into the record. Further, staff has a late-filed exhibit which is the errata sheet to Kevin O'Donnell's testimony of July 15th. So we request that that exhibit be numbered 240.

CHAIRMAN BRISÉ: All right. Thank you. We will enter Exhibits 132 through 230 into the record as, as requested by staff. And also 240, which is the errata sheet for Witness O'Donnell.

(Exhibits 1 through 240 marked for identification and admitted into the record.)

Okay? With that, all of the exhibits from all of the parties have been entered into the record at this point, and there were no objections to that.

TAMPA ELECTRIC COMPANY
DOCKET NO. 130040-EI
FILED: 04/05/2013

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

GORDON L. GILLETTE

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

A. My name is Gordon L. Gillette. My business address is 702 N. Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as President.

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

A. I received a Bachelor of Science degree in Mechanical Engineering in 1981 and a Master of Science degree in Engineering Management in 1985 from the University of South Florida. In 2007, I completed the Advanced Management Program at Harvard Business School. I am a registered professional engineer in the State of Florida.

I joined Tampa Electric in 1981 as an engineer and worked in the production and planning areas. I was promoted to Manager of Generation Planning in May 1986 and later served as Manager of Bulk Power and Generation Planning. In January 1991, I became Director of Project Services for TECO Power Services, responsible for fuel procurement, environmental permitting and compliance and power sales contract administration.

In November 1994, I was promoted to Vice President of Regulatory Affairs for Tampa Electric, and in November 1995, I was named Vice President of Regulatory and Business Strategy for Tampa Electric. In March 1998, I was appointed Vice President of Finance and Chief Financial Officer of TECO Energy and Tampa Electric. In 2001, I was appointed Senior Vice President and Chief Financial Officer for TECO Energy. In July 2004, I was promoted to Executive Vice President and Chief Financial Officer of TECO Energy and President of TECO Guatemala.

In July 2009, I was promoted to President of both Tampa Electric and Peoples Gas. As President, I am responsible for the operation of the utilities, including Energy Supply, Energy Delivery, Customer Care, Community Relations, Fuels Management and Regulatory Affairs.

Q. What is the purpose of your direct testimony?

A. After extensive and careful analysis, Tampa Electric is requesting approval by the Florida Public Service Commission ("FPSC" or "Commission") for an increase in the company's retail base rates and service charges. The purpose of my direct testimony is to provide an overview of Tampa Electric's need for rate relief beginning in January 2014 and to describe the efforts we have taken to avoid or defer seeking adjustments to our base rates and charges. I will also introduce the other witnesses who have filed direct testimony in support of the company's petition and briefly describe the subject matter each witness will cover.

Q. Have you prepared an exhibit to support your direct testimony?

A. Yes. Exhibit No. ___ (GLG-1) entitled "Exhibit of Gordon L. Gillette" was prepared under my direction and supervision. It consists of two documents, as follows:

Document No. 1: List Of Tampa Electric Witnesses And Purpose Of Their Direct Testimony

Document No. 2: List Of Minimum Filing Requirement Schedules Sponsored Or Co-Sponsored By Gordon L. Gillette

Q. Please describe Tampa Electric.

A. Tampa Electric was incorporated in Florida in 1899 and was reincorporated in 1949. In 1981, Tampa Electric became a wholly owned subsidiary of TECO Energy, Inc. The company is a public utility regulated by the Commission and the Federal Energy Regulatory Commission ("FERC"). The company provides retail electric service to approximately 684,000 customers over an approximate 2,000 square mile service territory within Hillsborough and portions of Polk, Pasco and Pinellas counties.

The company maintains a diverse portfolio of generating facilities with a net winter capability of approximately 4,700 Megawatts. Tampa Electric operates three major electric generating stations that include fossil steam units, combined cycle units, combustion turbine peaking units, and an integrated gasification combined cycle unit. These units are located at Big Bend Power Station, H.L. Culbreath Bayside Power Station and Polk Power Station.

Tampa Electric's transmission system consists of over 1,300 miles of overhead facilities, 25,500 towers and poles and 15 miles of underground facilities. The company's distribution system consists of approximately 6,300 miles of overhead facilities, 393,000 poles and 4,800 miles of underground facilities. Tampa Electric's transmission and distribution systems are connected through 220 substations throughout its service territory.

Q. Please summarize the company's position in this case.

A. Tampa Electric's primary goal is to safely provide reliable electric service at the lowest reasonable long-run cost. While the goal is simple to state, it is difficult to achieve. We are constantly challenged by changes in the economy, shifting needs of our customers and variations in weather. The company is also challenged by the ever-increasing need to protect our environment and to comply with new laws and regulations.

I believe that Tampa Electric has met these challenges. Between the company's last base rate proceeding and December 2014, the company will have increased electric plant-in-service by approximately $1.1 billion for generating facilities, new environmental equipment, transmission and distribution facilities and other infrastructure necessary to comply with regulations and reliably serve our customers. As a result, the company's

2014 projected total rate base includes approximately $770 million that is not reflected in the company's current base rates.

Like other utilities around the nation, the economic slowdown over the past four years has adversely impacted the company. We have worked diligently to manage our way through the slowdown and resulting lower revenues. We have controlled operations and maintenance ("O&M") expenses, refinanced long-term debt at lower rates and taken advantage of federal income tax incentives that have resulted in substantially higher levels of zero-cost capital in our capital structure. Nevertheless, the demands of providing safe and reliable service to our customers have not diminished and, in fact, have grown. Tampa Electric needs rate relief now to ensure that we are in a position to preserve our financial integrity so we can continue to provide good service to our customers at fair, just and reasonable rates. Further, with our Polk 2-5 Conversion Project underway, the company needs to be strong financially to attract needed capital from the market at the best rates.

RELIEF REQUESTED

Q. What is the company's specific base rate relief request in this case?

A. Based on the considerations I will describe, Tampa Electric is requesting a $134.8 million increase in base rates and service charges effective January 1, 2014, based on a 2014 projected test year. This increase will cover the reasonable costs of providing service and allow the company an opportunity to earn an appropriate return on rate base.

I am proud of our team members' efforts in managing all categories of expenses, and I am pleased with the benefits we have provided to our customers. Unfortunately, the results of our efforts are no longer sufficient to cover our costs to provide service. For 2013, the company filed a forecasted surveillance report with this Commission with an expected 8.75 percent rate of return on equity ("ROE"), which is well below the bottom of our authorized range. For 2014, without the revenue requirements sought in this case, we expect the company's ROE to be at 6.74 percent. It is critical over the short- and long-term for our customers to have a financially solid electric utility with access to the capital markets to fund the required capital program to serve customers reliably going forward. A projected ROE of 6.74 percent for 2014 does not provide the level of financial integrity needed to accomplish this goal and is not in the best interest of customers or shareholders.

On behalf of Tampa Electric, witness Robert B. Hevert will testify that the requested ROE of 11.25 percent is fair and reasonable. Tampa Electric witness Jeffrey S. Chronister will discuss the company's budgeted O&M expenses, income statement, balance sheet and ongoing capital budget along with the calculation of Tampa Electric's revenue requirement for 2014.

EVENTS SINCE TAMPA ELECTRIC'S LAST BASE RATE PROCEEDING

Q. When was the company's last full revenue requirements proceeding?

A. The company's last full revenue requirements proceeding was filed August 11, 2008. The Commission issued its Order No. PSC-09-0283-FOF-EI in Docket No. 080317-EI on April 30, 2009 granting Tampa Electric a rate increase.

Q. What has been the company's experience since its last base rate proceeding?

A. The company's experience from 2009 to 2012 has been unusual, at least compared to historical trends. During the middle of 2009, it became clear that the country was heading into a period of unusual uncertainty and an economic downturn that many refer to now as the "Great Recession." This unforeseen recession generated a period of slow or negative economic growth and, for electric utilities like Tampa Electric, slower customer growth and lower average customer energy usage.

The recent recessionary period was unprecedented. Over the last five decades, during past recessions, it has taken an average of 26 months to return to "pre-recession" unemployment rates. However, as of March 2013, or 62 months after the "Great Recession" began, unemployment has not yet returned to pre-recession unemployment levels in our service territory, in Florida, or the nation. In addition, in past recessions, our service territory had fared better than Florida as a whole, and Florida had fared better than the nation in terms of unemployment. For the majority of this past recession, the opposite has been the case.

As a result, a significant portion of the energy sales we forecasted in the company's 2009 base rate proceeding never materialized. The total base revenues approved by the Commission in 2009, including the step increase revenues, were approximately $970 million. However, from 2009 to 2012, base revenues have averaged about $900 million per year and have never exceeded $933 million. Annual retail energy sales have declined in four of the last five years. In fact, the company's forecasted adjusted jurisdictional base revenues for the 2014 test year are $908 million, a significant reduction from the level of base revenues approved by the Commission in our 2008 base rate proceeding.

Other key statistics illustrate that customer growth during the period from 2009 to 2012 was different than previously experienced. Tampa Electric currently serves approximately 684,000 customers, or only about 17,000 more customers than in 2008. This computes to an average growth in the number of customers of 0.6 percent from 2008 to 2012, which is substantially lower than the steady annual growth of 2.5 percent the company experienced from 1995 to 2007. During 2008 and 2009, the company actually experienced an unprecedented five quarters of negative customer growth.

Fortunately, 2012 ended with a customer growth rate of 1.2 percent, which the company believes shows that the period of unusual uncertainty is over and that Tampa Electric is now poised for a period of more steady customer growth, albeit at a rate much lower than historical averages. Adding to the revenue growth challenges, although the number of customers connecting to our system is now expected to grow, creating demand for new infrastructure, we expect average customer usage to decline as it has been doing since 2005. In fact, the company is now experiencing and projecting weather normalized residential customer monthly average usage levels below 1,200 kWh, a decline from a weather normalized peak of over 1,300 kWh per residential customer in 2005. The company's expectations of customer growth and average usage are shown in the demand and energy forecast, which in turn serves as the foundation for the 2014 test year revenue forecast. The methodologies and assumptions utilized in the company's demand and energy forecast are discussed by Tampa Electric witness Lorraine L. Cifuentes. In addition, on behalf of Tampa Electric, witness Eric Fox will also support the load forecast as well as the methodologies and assumptions supporting the company's filing.

Q. What actions did the company take to deal with the unusual uncertainty it faced since its last base rate change?

A. The last four years have been far from "business as usual" for Tampa Electric. The company navigated through this unsettled period by a series of management actions that included controlling capital and O&M expenses, implementing new efficiencies in its operations through organizational changes, benchmarking, continuous improvements and the use of technology. I am very proud of the company's many efforts over the last four years to manage our cost profile in the interest of avoiding requesting a rate increase for as long as possible.

Q. In addition to the measures mentioned above, what other measures did the company take to delay or mitigate the need for this rate request?

A. The company also managed the challenges of a growing rate base and the revenue shortfall by taking significant and important steps to reduce the weighted average cost of capital from the 8.29 percent approved in the 2008 base rate proceeding to the 6.74 percent proposed in this case. The company achieved these savings by refinancing long-term debt at much lower rates, and by taking advantage of a special federal program providing for bonus depreciation for tax purposes, and by taking opportunities to deduct plant repairs that were previously capitalized for tax purposes. These tax related initiatives have significantly increased the amount of cost-free deferred income taxes in the capital structure.

Deferred taxes represent a significant benefit to customers since deferred taxes are a zero-cost source of capital when determining the rate of return and, therefore, allow Tampa Electric to utilize cash tax savings to help fund its capital needs. Witness Chronister, as well as Tampa Electric witness Sandra W. Callahan will discuss these activities in their direct testimony. In addition, witness Callahan will describe the capital structure of the company and the importance of maintaining the company's financial integrity and current credit rating.

Q. Have these efforts been enough to avoid the need for a rate increase?

A. Unfortunately, no. Although the economy in both the United States and Florida has slowed, the long-term demands of operating an electric utility and meeting customer needs have continued unabated. The company was able to weather the economic downturn by managing employee headcount, developing and implementing operating efficiencies and using technology. The company also made temporary reductions of recurring O&M expenses to deal with the revenue shortfalls and increased uncertainty we faced. Witness Chronister, as well as Tampa Electric witnesses Mark J. Hornick, S. Beth Young and Brad J. Register will explain the details of these efforts, which have allowed the company to keep annual O&M expenses essentially constant since 2007. They will also explain why the company needs to increase its O&M spending to more sustainable and reasonable levels that are in line with the O&M expense levels approved by the Commission at the time of our last base rate proceeding. Witness Chronister will also explain that the company's projected O&M expenses for 2013 and 2014 will remain below the Commission's O&M expense benchmark.

Tampa Electric managed O&M spending in an efficient and effective way. Tampa Electric did the same with its capital spending. Since 2009, the company has faced the need to make significant incremental capital investments in its electric system to keep it in good working order for the long-term, and to meet the ever increasing environmental, safety and reliability requirements of our business. The company has strived to make these investments in the most efficient and effective manner possible. Since the last base rate proceeding the company will have invested approximately $1.1 billion in new electric plant in service by 2014, which, net of accumulated depreciation and including working capital, will yield an increase in net adjusted jurisdictional rate base of approximately $770 million by 2014.

Unfortunately, the level of capital spending that has been required and the resulting rate base growth has not been matched by customer and revenue growth. In the past, growth in the number of customers and average energy use per customer has been sufficient to pay for improvements to the electric system and cumulative depreciation expense, recurring maintenance and general inflation. However, due to the significant slowdown in customer growth and the reversal in average customer usage, revenue growth has not been adequate to keep pace with the increases in the company's rate base and the related revenue requirements that are essential to serve customer needs.

Q. What are the primary drivers of the revenue requirement request being made in this proceeding?

A. The primary driver of our need for additional revenue are incremental capital costs and related depreciation expense associated with rate base growth. The growth in investment related to these costs has not been supported by a corresponding growth in revenues. Projected revenue levels, coupled with projected cost increases and the increasing demands of operating a public utility, have reduced the company's projected return on equity to the point that will impair the company's financial integrity unless we are granted rate relief.

Q. How does the company's proposed base revenues for 2014 compare to the base revenues provided for by the Commission in current rates?

A. Jurisdictional adjusted base revenues for 2014 are $908 million. The company's projected base revenues approved by the Commission in our 2008 base rate proceeding were approximately $969 million.

Q. Why does Tampa Electric need rate relief now?

A. It is always fair to ask why a rate increase is needed;

however, given the conditions the company has faced, it is remarkable that the company managed to delay its request for new rates until now. The economic downturn that resulted in significant revenue shortfalls and the needed investments in infrastructure in order to provide safe and reliable electric service since the last rate proceeding are driving the need for new rates. The significant steps we took to lower cost of capital and be as efficient as possible have significantly benefited customers by delaying and reducing the size of the rate relief needed.

LOOKING FORWARD

Q. Does the company expect to continue growing in the future?

A. Yes. We believe the period of unusual uncertainty caused by the Great Recession is over. The company expects customer growth in the service area will continue, although at a slower pace than the steady growth experienced in the past. Looking to the future, the company anticipates that the costs of complying with environmental and reliability standards will continue to increase. While increased efficiencies and aggressive management of costs have allowed the company to operate effectively, the current base rates will not be sufficient to allow Tampa Electric to continue to meet the electric needs of existing and new customers in a safe and reliable way. The company projects that without rate relief, the 2014 return on equity will fall to 6.74 percent, a level that is insufficient to attract capital and continue to provide safe and reliable electric service.

Q. Will Tampa Electric need to continue to invest in its electric system given the slowdown in growth?

A. Yes. The company will continue to connect new customers to our system at an expected rate of about 1.5 percent per year; however, average customer usage is forecasted to decline by 0.3 percent, due to energy efficiency and conservation measures. As witnesses Hornick and Young explain in their direct testimonies, the company will need to continue to invest in its system to serve new and existing customers and to provide safe, reliable service to customers. Witness Callahan will explain that the company will have capital spending needs of $1.4 billion between 2013 and 2016 in order to maintain normal operations.

On top of these capital requirements for our ongoing operating needs, the company will be making a substantial investment between 2014 and 2016 for the conversion of Polk Units 2-5 to a more efficient combined cycle unit and the construction of associated transmission facilities. The Commission approved the need for the Polk 2-5 Conversion and the associated transmission in December 2012. The project will rely principally on waste heat, which is essentially "free fuel", making it the most efficient plant in our system. Through the need determination process, the Commission determined that the Polk 2-5 Conversion Project was the most cost-effective option to address customer demand. Witness Hornick provides more detail on the project in his direct testimony. Witness Callahan will explain how this project will impact our need for added capital and how the decisions the Commission makes in this case will affect the company's financial integrity at the time significant capital spending for the Polk 2-5 Conversion project begins.

Q. What other efforts has the company made to avoid or mitigate the need for a rate increase and to run its operations safely and efficiently?

A. In addition to managing O&M costs and reducing its cost of capital, the company has made significant efforts and achieved significant positive results in the areas of environmental stewardship, reliability, safety and employee compensation and benefits. The company has installed new information technology in many areas making it more efficient and effective. Additionally, the implementations of continuous improvement programs and benchmarking activities have produced cost savings that are described in the testimonies of witness Hornick and Young. The company is also proposing a reasonable approach for storm damage expenses in this case.

Q. Please describe the company's ongoing environmental commitments to limit emissions and maximize beneficial re-use.

A. In April 2010, Tampa Electric completed installing the Selective Catalytic Reduction systems at Big Bend Power Station. This was part of a 10-year, $1.2 billion environmental improvement plan signed in 1999 with the United States Environmental Protection Agency. Additionally, more than 97 percent of combustion byproducts generated at Big Bend and Polk Power Stations are sold to third parties for beneficial re-use. The company's byproduct marketing efforts have been recognized by the Commission Staff as among the best in Florida and help the company protect the environment and reduce the net cost of operating Big Bend and Polk Power Stations.

Q. What have been the benefits of Tampa Electric's emission control activities?

A. Since 1998, Tampa Electric has reduced annual SO_2, NO_x and particulate matter emissions from its generating facilities by 94 percent, 91 percent and 87 percent, respectively. In addition to the reductions in regulated emissions listed above, the company has reduced system-wide emissions of CO_2 by over 20 percent since 1998. Furthermore, the company has worked with several local communities and agencies to develop and implement mutually beneficial solutions to maximize the beneficial re-use of reclaimed water and to reduce the use of groundwater.

Q. How has the company performed in the areas of reliability and safety?

A. Despite significant pressure to control O&M spending, the company has performed very well in the areas of reliability and safety. Reliability is achieved by minimizing service interruptions by maintaining adequate supply and availability of generating capacity and maintaining the energy delivery system with sufficient capacity and availability for the timely recovery of the system in the event of an outage. The total interruption time for the average Tampa Electric customer is lower than many other utilities and is in the top quartile of performance for southeastern utilities. Within Florida, Tampa Electric's five-year average of total interruption time for the average customer is the second lowest in the state compared to the other investor-owned utilities, despite our company's location in one of the most lightning prone areas in Florida.

The performance of Tampa Electric's generating units has also been very good and has helped the company defer its need for an increase in base rates while reducing customer bills each consecutive year by reducing fuel and purchased power expenses. The company has improved the performance and availability of its existing generating units since the last base rate proceeding. These improvements have provided, in effect, additional generation at a relatively low cost compared to the costs of constructing new and more expensive units. Witness

Hornick explains how the company's generating performance has improved in his direct testimony. Tampa Electric witness J. Brent Caldwell describes how the company manages its fuel procurement and transportation strategies to maintain plant reliability in a cost-effective way.

Tampa Electric continues to excel in the area of safety. For 2012, the company was ranked second among participating members of the Southeastern Electric Exchange for its Occupational Safety and Health Administration recordable injury rate. The company's incidence rate was 0.58, its lowest ever rate and the first time the company achieved an incidence rate below 1.0. The company achieved these outstanding results while also doing its best to manage its costs during an economic downturn, demonstrating the company's commitment to balance the needs to manage costs while continuing to improve its internal processes for the benefit of its employees and customers. Witnesses Young and Hornick explain both the company's reliability measures and safety practices and results in their testimonies.

Q. What has the company done to manage employee compensation and benefit costs?

A. The company has aggressively managed its total employee headcount, compensation levels and employee benefit expenses. Witness Register will discuss the company's employee benefit costs, its record of controlling health care costs and the gross payroll expenses for the company.

Q. What is the company's proposal for the annual storm damage accrual and reserve target in this case?

A. Consistent with the Commission's decision in our 2008 rate proceeding, the company is proposing to maintain the annual storm damage accrual amount at $8 million, but to increase the storm damage reserve target to $100 million. Tampa Electric witness Edsel L. Carlson Jr. will address the appropriateness of the proposed annual storm reserve accrual and the target level for the storm reserve. In addition, on behalf of Tampa Electric, witness Steven P. Harris will present his study supporting our proposed annual storm reserve accrual.

RATE DESIGN

Q. Please discuss Tampa Electric's proposed overall rate design.

A. The rates and service charges proposed by Tampa Electric in this case have been designed to produce the company's requested additional annual revenues of $134.8 million. Tampa Electric's proposed rate design accurately reflects the cost to serve each of the various classes. Cost of service is a major consideration in the rate design, as is rate stability and continuity. The rate for the residential class has been designed to provide conservation-oriented price signals through the continued use of tiered pricing. In addition, the company is proposing to use a cost allocation methodology that places equal emphasis on demand and energy. Tampa Electric witness William R. Ashburn will discuss the jurisdictional separation and retail cost of service studies, billing determinants, billed electric revenue budgets and rate design.

Q. Has Tampa Electric considered its customers before filing for an increase in rates?

A. Yes, we have. A major tenet of Tampa Electric's operating philosophy is a focus on our customers. The company has carefully evaluated all options before making this request. We understand that the recession has been tough on families, businesses, and government institutions. Most of our team members are customers. The company is keenly aware of the impacts that a price increase has and we remain committed to continuing to implement efficiencies and other prudent cost-cutting measures that mitigate the need for higher rates. Given the existing lower fuel clause expenses, total customer bills after the proposed rate increase will still be lower than the resulting bills from the prior rate case and lower than bills in 2007.

Q. Does the company have any programs designed for customers facing difficult financial challenges in paying their electric bill?

A. Yes. The company's special needs programs include our 62+ program and other assistance we provide to a variety of social services programs, such as our SHARE program, a program that helps customers who have low-incomes and/or who are medically disabled and unable to pay their energy-related bills. Commission-approved conservation related credits and cash incentives are also provided to customers to encourage them to use electricity wisely. The company communicates with customers in multiple forums and media on energy issues in an effort to help our customers be more educated consumers and to understand the value of our product.

SUMMARY

Q. Please summarize your direct testimony.

A. Tampa Electric has worked very hard to establish itself as a low-cost provider of high quality electric service, while being sensitive to the interests of our customers and the environment in which we live. We are extremely proud of our reliability and safety performance, as well as our environmental commitments, as evidenced by our strong performance relative to our peers in all these areas. Our accomplishments reflect the efforts of a strong management team and dedicated team members throughout the company. Collectively, our efforts to manage costs have succeeded in delaying the necessary increase in the company's retail base rates and service charges as long as possible. The central element in Tampa Electric's operating philosophy is to provide customers with reliable electric service at a reasonable price. We know price increases put economic pressures on our customers, but the declining financial condition of the company, coupled with our obligation to provide reliable service, gives us no choice other than to request an increase in our prices. Having the ability to earn a fair return on our investments in plant and equipment, both in the near term and over time is beneficial to customers. The company's proposed ROE level will continue to yield benefits to customers by ensuring that we maintain access to capital markets in order to secure the necessary funding for current and future investments at a reasonable cost. The proposed increases in retail base rates are necessary to ensure that Tampa Electric can continue to provide reliable, cost-effective electric service at the levels its customers have come to expect.

Q. Does this conclude your direct testimony?

A. Yes, it does.

TAMPA ELECTRIC COMPANY
DOCKET NO. 130040-EI
FILED: 04/05/2013

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

SANDRA W. CALLAHAN

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

A. My name is Sandra W. Callahan. My business address is 702 N. Franklin Street, Tampa, Florida 33602. I am Vice President and Chief Financial Officer of Tampa Electric Company ("Tampa Electric" or "company") and Senior Vice President and Chief Financial Officer of TECO Energy, Inc. ("TECO Energy" or "Parent Company").

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

A. I received a Bachelor of Science in Finance in 1976 from the University of Baltimore. I have been a Certified Public Accountant in Florida since 1983, and I was engaged in the practice of public accounting with the Tampa office of Coopers & Lybrand from 1982 to 1988.

I joined TECO Energy in 1988 as Director of Internal

Audit. I was promoted to Assistant Treasurer in 1991 and Treasurer in 1995, responsible for capital raising, cash management, investor relations, rating agency and banking relationships, and funded benefit assets.

In July 2000, I was appointed Vice President-Treasury and Risk Management and Treasurer, at which time my responsibilities were expanded to include risk management and insurance. In 2005, I also assumed responsibility for energy risk management. In January 2007, the role of Chief Accounting Officer was added to my previous responsibilities, and I became responsible for the Securities and Exchange Commission ("SEC") Reporting section of the corporate accounting function of TECO Energy.

In July 2009, I was appointed Vice President-Finance and Accounting and Chief Financial Officer (Chief Accounting Officer), responsible for treasury, risk and energy risk management, corporate taxes, investor relations, and all utility accounting and corporate accounting functions including SEC reporting.

In February 2011, I was promoted to my current position of Senior Vice President-Finance and Accounting and Chief

Financial Officer (Chief Accounting Officer). In addition to the functions previously described, my responsibilities currently include internal audit and oversight of TECO Energy's foundation. I also serve as the Vice President-Finance and Accounting, Chief Financial Officer and Chief Accounting Officer of Tampa Electric. As Chief Financial Officer, I am responsible for financial planning and reporting, financing strategies and activities and contact with the financial community, including investors and rating agencies.

Q. What is the purpose of your direct testimony?

A. My testimony will discuss why it is important for Tampa Electric to maintain its financial integrity. I will describe Tampa Electric's credit ratings and the role of strong credit ratings in providing unimpeded access to capital at reasonable costs and on reasonable terms. I will address the impact of the company's future significant construction program on its need for capital and the importance of the requested rate relief to maintain Tampa Electric's financial integrity and credit ratings. Finally, my testimony will support Tampa Electric's capital structure.

Q. Have you prepared an exhibit for presentation in this proceeding?

A. Yes. Exhibit No. ___ (SWC-1) entitled "Exhibit of Sandra W. Callahan", was prepared under my direction and supervision and consists of nine documents. These documents include:

Document No. 1	List of Minimum Filing Requirement Schedules Sponsored Or Co-Sponsored By Sandra W. Callahan
Document No. 2	Tampa Electric Debt Activity and Equity Contributions
Document No. 3	Tampa Electric 13-Month Average Long-Term Debt Cost Rate
Document No. 4	Tampa Electric Credit Metrics
Document No. 5	Rating Agency Conventions and Scales-Senior Unsecured Notes (Long-Term Debt)
Document No. 6	Utility Senior Unsecured Credit Ratings
Document No. 7	Standard & Poor's Corporate Ratings Matrix
Document No. 8	Moody's Credit Rating Factors – Regulated Utilities

Document No. 9 Public Utility Commission Rankings – RRA

TAMPA ELECTRIC'S FINANCIAL POSITION

Q. Why has Tampa Electric requested a base rate increase at this time?

A. Tampa Electric last requested a base rate increase in 2008. Since then, the economy has gone through a prolonged recessionary period. Utilities were not immune to the downturn. Slower customer growth and lower average per customer usage caused Tampa Electric to experience a significant shortfall in revenues from the levels expected after the company's prior base rate proceeding. Despite the revenue shortfall, the company continued to invest in order to maintain normal operations and meet its obligation to reliably serve existing and new customers. While the company has taken numerous steps to control costs, there are simply not enough cost cutting measures that can be implemented without jeopardizing the company's ability to deliver safe and reliable electric service while simultaneously maintaining the company's financial integrity.

The company must continue to invest in its system to replace infrastructure that is nearing the end of its useful life and to ensure the continued availability of its generating units for many more years. By 2014, Tampa Electric will have increased plant in-service by over $1.1 billion since Tampa Electric's last base rate proceeding. That will result in an increase to net adjusted jurisdictional rate base of over $770 million necessary to provide reliable electric service to Tampa Electric's customers not reflected in the company's current base rates.

The combined impact of these factors has eroded Tampa Electric's projected earnings. Tampa Electric currently projects that its earned return on common equity ("ROE") will be 6.74 percent in 2014, without rate relief. This level is not sufficient to allow the company to maintain its financial integrity and attract the capital necessary to continue to provide safe and reliable electric service.

Q. What has Tampa Electric done to mitigate the need for a base rate increase?

A. As described in the testimony of Tampa Electric witnesses Gordon L. Gillette and Jeffrey S. Chronister, Tampa

Electric has taken actions to hold down operating costs and capital spending, improve efficiencies and enhance generating unit availability to mitigate the need for a base rate increase. The details of these efforts are also discussed in the direct testimony of Tampa Electric witnesses Brad J. Register and Mark J. Hornick.

On the finance and accounting side, Tampa Electric has also taken advantage of tax incentives and opportunities to refinance approximately $850 million of long-term debt. The company effectively refinanced half of its long-term debt balance from 2010 to 2012. The refinancing activity and resulting improvement in interest expense are outlined in Document Nos. 2 and 3 of my exhibit, respectively. As witness Chronister describes in his testimony, Tampa Electric's accounting and tax teams completed extensive research to identify retroactive tax repair deductions, which contributed to a significant deferred tax benefit. He also describes the beneficial impact of bonus depreciation deductions through the 2014 test year. Both of these tax items and the refinancing by Tampa Electric of half of its long-term debt have substantially lowered the company's 13-month average cost of capital.

As a result of higher deferred taxes at a zero cost rate, lower debt costs and the lower customer deposit interest rate established by the Florida Public Service Commission ("FPSC" or "Commission") in 2012, Tampa Electric's 13-month average cost of capital has declined from the 8.29 percent approved in its 2008 base rate proceeding to 6.74 percent in its 2014 test year, an improvement of 155 basis points. Higher deferred taxes in the capital structure at a zero cost rate accounts for 95 basis points and the refinancing of long-term debt accounts for 49 basis points. The remaining 11 basis point reduction is made up primarily by the lower customer deposit rate.

Q. What is the company's requested revenue requirement increase and what are the key financial components of the increase?

A. The company is requesting a base revenue increase of $134.8 million. The increase represents the amount necessary to raise the company's projected 2014 net operating income ("NOI") level to the required amount of $292.5 million. The required NOI is based on the company's projected 2014 13-month average jurisdictional adjusted rate base of $4.3 billion and a weighted average cost of capital of 6.74 percent. The 6.74 percent weighted cost of capital assumes a jurisdictional adjusted 13-month average capital structure consisting of 54.2 percent equity based on all investor sources of capital. It also is based on an ROE of 11.25 percent, a long-term debt rate of 5.40 percent, and a short-term debt rate of 1.47 percent. On behalf of Tampa Electric, witness Robert B. Hevert provides the support for the company's requested ROE in his direct testimony. Tampa Electric requests the Commission to follow its long-standing policy of applying a 100 basis point range above and below the mid-point ROE, a policy that has worked well in the past and is understood and expected by the investment community. Tampa Electric witness Chronister's direct testimony explains the details of the company's revenue requirement based on the 2014 projected test year, as well as the budget process used to develop sound and reliable projected test year financial statements.

Q. Please describe Tampa Electric's overall construction program.

A. Tampa Electric's construction program for 2013 through 2016 will total over $2 billion. This very substantial capital spending program compares to a 2012 per books gross utility plant balance of $6.6 billion (13-month average). Included in the construction program is $1.4 billion of expenditures associated with the normal replacement and improvement of generation, transmission, distribution and other facilities required to enable Tampa Electric to continue providing efficient and reliable service to its growing customer base. These facilities must be added at today's higher costs as the company's existing facilities age and wear out. The construction program also includes $600 million for the company's major generation project involving the conversion of Polk Units 2-5 from simple cycle combustion turbines into a more efficient combined cycle facility, scheduled to be placed in service in 2017. However, the revenue requirement in the proposed base rate proceeding does not include any increase related to the Polk Conversion Project. The testimonies of witnesses Chronister, Hornick, and S. Beth Young describe and support the company's construction estimates.

Q. How will Tampa Electric fund its construction requirements?

A. Because of the size of its construction requirements, Tampa Electric cannot generate all of the required funds from operations. Without an increase in base rates, internal generation of funds averages only 60 percent of construction capital expenditures for 2013 through 2016, and in 2015, the year in which the company is at the peak of construction spending for the Polk Conversion Project, internal generation of funds falls to a low point of only 47 percent of the estimated construction expenditures. Even with the increased rates requested in this proceeding, internally generated funds for the period 2013 through 2016 will account for an average of only 73 percent of the estimated construction expenditures. The balance of the needed funds must be obtained from investors, primarily through the issuance of long-term debt and equity infusions from the parent company.

FINANCIAL INTEGRITY

Q. What is financial integrity?

A. Financial integrity refers to a relatively stable condition of liquidity and profitability in which the company is able to meet its financial obligations to investors while maintaining the ability to attract investor capital as needed at reasonable costs and on reasonable terms. If the company and its regulators act in ways that maintain or enhance the company's financial integrity, customers will ultimately benefit.

Q. How is financial integrity measured?

A. The primary indicators are the company's earned return on common equity, cash coverage of interest expense and fixed obligations, the amount and percentage of internally generated cash flows in relation to construction requirements, and maintenance of favorable debt ratings.

Q. Why is financial integrity important to Tampa Electric and its customers?

A. Financial integrity is essential to support capital expenditure requirements - both planned and unplanned - which are necessary to serve and in times of emergency, to restore power to Tampa Electric's customers. Tampa Electric competes in a global market for capital, and a strong balance sheet with appropriate rates of return attracts capital market investors. Financial strength and flexibility enable Tampa Electric to have ready access to capital on reasonable terms for the benefit of its customers.

Customers benefit directly from the investments Tampa Electric continues to make to improve its infrastructure. For example, transmission and distribution system investments enhance service reliability by mitigating storm damage and facilitating efficient service restoration, generating fleet modernization investments improve fuel efficiency thus lowering fuel costs for customers, and new technology projects improve the efficiency of the company's operations. Maintaining a strong financial position allows the company to finance infrastructure investments at a lower cost than would otherwise be possible.

Financial integrity is also important to ensure access to capital at all times. As a regulated utility, Tampa Electric has a statutory obligation to serve all customers. This obligation requires the company to have the flexibility to enter into the financial markets and access capital when needed, even at times when it may not be ideal from a market perspective. Tampa Electric's balance sheet strength and financial flexibility are important factors influencing its ability to finance major infrastructure investments as well as manage unexpected events.

Q. How will the company's proposed base rate increase affect Tampa Electric's financial integrity?

A. The requested base rate increase will place Tampa Electric in an appropriate financial position to fund its significant capital program and continue providing a high level of reliable service to its customers. In order to raise the required capital, the company must be able to provide fair returns to investors commensurate with the risks they assume. A strong financial position ensures a reliable stream of external capital and allows the company's capital spending needs to be met in the most cost-effective and timely manner.

Q. Please discuss the company's projected financial integrity indicators.

A. Document No. 4 of my exhibit shows Tampa Electric's credit parameters on a historical and projected basis. I have provided the information both with and without the impacts of bonus depreciation and one-time repair deductions, for comparability between years. It is important to recognize that the temporary tax benefits have enhanced Tampa Electric's credit metrics in recent years, but those benefits will probably not be available in the future. As I described previously, Tampa Electric's substantial construction program will result in a significant decline in the proportion of capital expenditures funded by internally generated funds. The requested rate relief would maintain other key credit metrics at levels similar to the recent levels that have supported the company's current credit ratings. Without rate relief, these metrics would deteriorate in 2014, as the exhibit illustrates, and would continue to deteriorate beyond 2014 as capital spending increases and earned returns decline. Such deterioration would not support Tampa Electric's current credit ratings and would have negative implications for the company's credit ratings, borrowing costs and access to capital.

CREDIT RATINGS

Q. What are Tampa Electric's current credit ratings?

A. Tampa Electric's senior unsecured debt is currently rated A3 by Moody's Investor Service ("Moody's"), BBB+ by Standard & Poor's ("S&P") and A- by Fitch Ratings ("Fitch").

Q. When did the current ratings become effective?

A. The rating agencies responded positively to the Commission's decisions in Tampa Electric's 2008 base rate proceeding, in which the Commission approved a capital structure, base rates and returns supportive of strong credit metrics.

In March 2009, Moody's placed Tampa Electric's credit ratings on review for upgrade and in May 2009, Moody's upgraded the company's senior unsecured credit ratings to Baa1 when the rates approved in the company's 2008 base rate proceeding took effect. Moody's upgraded the company's credit ratings again in May 2012 to their current credit rating of A3, citing "a more certain and predictable regulatory environment" and stating that "the company's credit metrics are strong and stable and more reflective of an A rated utility."

Fitch revised the rating outlook to Watch Positive in October 2010 and upgraded the rating one notch in March 2011 to its current A- level, stating "results at Tampa Electric are expected to continue to strengthen as a result of higher base rates as well as continuing control of O&M costs." Fitch also stated in March 2011 that it "expects the utility to earn at or near its authorized return on equity" and believes "the state political environment and FPSC have stabilized."

S&P raised its ratings on Tampa Electric to BBB in May 2009 indicating that "improvement in credit metrics by 2010 tied to rate increases at Tampa Electric support the higher rating." In March 2011, S&P revised the outlook to Positive, and in May 2011, upgraded Tampa Electric's rating to its current level of BBB+ citing that "the utilities exhibit excellent credit characteristics, such as relatively healthy service territories, a supportive regulatory environment, and stable cash flows and earnings."

Q. Why is it important that Tampa Electric continue to maintain its current ratings?

A. It is important for two reasons. First, Tampa Electric is facing significant capital spending requirements and strong debt ratings ensure Tampa Electric has adequate credit quality to raise the capital necessary to meet these requirements. Second, Tampa Electric's current ratings provide a reasonable degree of assurance that ratings will not slip below investment grade in the event of a catastrophe, such as a hurricane or other unforeseen event.

Q. Why is it so important to protect against non-investment grade ratings?

A. Given the capital-intensive nature of the utility industry, it is critical that utilities maintain credit ratings sufficiently above the investment grade threshold to retain uninterrupted access to capital. The breakpoint between investment grade and non-investment grade is shown on Document No. 5 of my exhibit, which describes the three rating agency conventions and scales for senior unsecured notes (long-term debt). A company raising debt that has non-investment grade ("speculative grade") credit ratings is subject to occasional lapses in availability of debt capital, onerous debt covenants and higher borrowing costs. In addition, companies with non-investment grade ratings are generally unable to obtain unsecured commercial credit and must provide collateral, prepayment or letters of credit for contractual agreements such as long-term gas transportation agreements, fuel purchase and fuel hedging agreements.

Given the high capital needs, obligation to serve existing and new customers, and significant requirements for unsecured commercial credit that electric utilities have, non-investment grade ratings are unacceptable.

Tampa Electric's current ratings should provide sufficient room if an unanticipated event occurs for the ratings to slip before becoming non-investment grade.

The importance of this is well-recognized in the electric utility industry, as illustrated in Document No. 6 of my exhibit, which shows the distribution of ratings for the overall industry along with the ratings of the southeastern U.S. utilities. The importance is particularly evident in the preponderance of A ratings among utilities in the southeast, where companies have experienced the higher capital requirements associated with integrated utilities, higher than average customer growth, and a long-recognized exposure to the potential impacts of tropical windstorm events.

Q. Why are strong ratings important in light of the company's future capital needs?

A. In order to reliably serve its customers, Tampa Electric will invest over $2 billion from 2013 through 2016 for its substantial construction program as I have previously described. Tampa Electric will need to access the capital markets to support this program.

A strong credit rating is important because it affects a company’s cost of capital and access to the capital markets. Credit ratings indicate the relative riskiness of the company's debt securities. Therefore, credit ratings are reflected in the cost of borrowed funds. All other factors being equal, i.e., timing, markets, size and terms of an offering, the higher the credit rating, the lower the cost of funds.

Secondly, companies with lower credit ratings have greater difficulty raising funds in any market, but especially in times of economic uncertainty, credit crunches, or during periods when large volumes of government and higher grade corporate debt are being sold.

As a result of the positive ratings actions following the Commission’s decisions in the 2008 base rate proceeding, Tampa Electric was able to access the debt capital markets in a very difficult economic period, and the company has been able to achieve very attractive pricing on its debt that will benefit the company’s customers over many years. Specifically, the company has reduced its embedded cost of long-term debt from 6.78 percent in 2009 to 5.40 percent in the 2014 test year.

Q. Can the financial credit market be foreclosed by unforeseen events extraneous to the utility industry?

A. Yes. Market instability resulting from the sub-prime mortgage problems affected liquidity in the entire financial sector, and there were periods of time in 2008 and 2009 when the debt markets were effectively closed to all but the highest rated borrowers. This is a good example of how access to the marketplace can be shut off for even creditworthy borrowers by extraneous, unforeseen events, and it emphasizes why a strong credit rating is essential to ongoing, unimpeded access to the capital markets.

Maintaining unimpeded access to the capital markets is particularly important for a utility like Tampa Electric with an obligation to its customers to finance very significant infrastructure investments and manage unforeseen events. Being unable to access funds could place the completion of critical infrastructure construction in jeopardy and undermine reliability of service.

Q. How are credit ratings determined?

A. The process the rating agencies follow to determine ratings involves an assessment of both business risk and financial risk. Moody's and S&P each publish information on their ratings criteria. S&P's Corporate Ratings Matrix is shown in Document No. 7 of my exhibit. Moody's Rating Factors for Regulated Utilities are shown in Document No. 8 of my exhibit.

Q. How does regulation affect ratings?

A. The primary business risk the rating agencies focus on for utilities is regulation, and each of the rating agencies have their own views of the regulatory climate in which a utility operates. Regulatory Research Associates ("RRA"), a firm that focuses primarily on regulation of utilities, ranks the FPSC as "Above Average 3" on a scale that runs from Above Average 1 to Below Average 3. The RRA rankings are presented in Document No. 9 of my exhibit. The maintenance of constructive regulatory policies and practices that support the creditworthiness of the utilities is one of the most important issues rating agencies consider when deliberating ratings.

A key test of regulatory quality is the ability of companies to earn a reasonable rate of return over time, including through economic and construction cycles, and to maintain satisfactory financial ratios supported by good quality of earnings. The fact is, regulated utilities cannot materially improve or even maintain their financial condition without regulatory support. Thus, regulators have a very dramatic impact on the company, its customers and its investors.

Regulation in Florida has historically been supportive of maintaining the credit quality of the state's utilities, and that has benefited customers by allowing utilities to provide for their customers' needs consistently and at a reasonable cost. This has been one of the factors that has helped Florida utilities maintain pace with the growth in the state, which has been essential to economic development.

Q. What are recent concerns expressed by the rating agencies for the industry?

A. All of the rating agencies currently characterize the electric utility industry outlook as stable, reflecting a general expectation that major challenges facing the industry, including slow sales growth, significant capital spending requirements, and reduced cash flows when tax incentives expire, will be mitigated by a continuation of low gas commodity prices and regulatory support. The stable outlooks are not without risk, however, as illustrated by recent comments from Moody's.

Moody's, in its February 2013 Industry Outlook report for the U.S. Regulated Utilities, expressed concern about "the industry's ability to pass through base rate increases (aided by low commodity costs) without the benefit of robust organic growth in customers or usage per customer. Flat to declining demand growth represents yet another risk to the stability of our outlook, as it places the full amount of rising cost pressure on a static amount of customer use."

In the same report, Moody's notes that "utilities have elected to take advantage of favorable tax policies which boost near term cash flow in exchange for reduced rate base growth in the future." The report further states, "this inflation due to one-time benefits is a risk, as utilities will likely have lower cash flow when bonus depreciation ends, all else being equal."

Tampa Electric faces the same challenges cited by the agencies as risks to ratings stability, and this underscores the importance of maintaining strong and stable credit metrics during the years ahead.

CAPITAL STRUCTURE

Q. What capital structure is Tampa Electric proposing in its request for increased base rates?

A. Tampa Electric is projecting, for the 2014 test year, a jurisdictional adjusted 13-month average financial capital structure consisting of 45.8 percent debt and 54.2 percent common equity. This test year equity ratio of 54.2 percent based on investor sources (equivalent to 42.3 percent based on all sources) is appropriate. It is consistent with the equity ratio deemed appropriate by the Commission in 2009 and was a key factor in the ratings upgrades that occurred following the Commission decision. Tampa Electric's requirements for financial strength continue, and therefore the maintenance of the equity ratio is of key importance. If coupled with an adequate ROE and base rates that properly reflect the true cost of service, the combination of this capital structure and the resulting coverage ratios should provide adequate financial strength and credit parameters to maintain the company's credit ratings and assure continued access to capital.

Q. What is Tampa Electric's current equity ratio?

A. Tampa Electric's equity ratio at December 31, 2012 was 54.6 percent.

Q. How has Tampa Electric's capital structure been impacted since its last base rate proceeding?

A. Since its last base rate proceeding, Tampa Electric and its customers have benefited from significant new tax incentives, primarily bonus depreciation and additional tax deductions for repairs. As witness Chronister describes in his direct testimony, Tampa Electric has taken full advantage of these tax incentives, which as he describes, will have added a total of $575 million to its deferred tax balance through the 2014 test year. This additional accumulation of zero cost capital is, of course, very beneficial for the company and its customers as I described previously in my direct testimony. Since the last base rate proceeding through the end of 2012, these tax benefits provided Tampa Electric with approximately $350 million of cash it had not anticipated. As a result, during this period, equity infusions to Tampa Electric totaled $148 million while debt balances decreased by $121 million as shown in Document No. 2 of my exhibit. Because of the additional cash provided by these tax benefits, Tampa Electric needed only limited additional equity capital until 2012 when debt maturities increased the need for equity infusions.

Q. What are the expectations of the rating agencies with respect to Tampa Electric's equity ratio?

A. The rating agencies are well aware of the impacts of bonus depreciation and other tax incentives on the utility industry. Increased cash flow resulting from lower current taxes has helped to significantly offset capital needs for many utilities, including Tampa Electric. While acknowledging the positive impact of the tax benefits, the rating agencies recognize that the benefits are temporary and have incorporated into their credit assessments an expectation that Tampa Electric would achieve an equity ratio in line with the authorized 54 percent through equity contributions from its parent.

In May 2012, Moody's stated, "We believe Tampa Electric will continue to maintain a very high payout ratio but we also expect that the company will maintain its regulatory equity ratio of approximately 54-55 percent via equity infusions from TECO Energy." Similarly, in April 2012, Fitch stated, "The Company's authorized equity ratio for ratemaking purposes is 54 percent. Fitch would expect distributions from Tampa Electric to its parent to be balanced with capital contributions as needed to maintain the capital structure as capex ramps up in the next several years."

SUMMARY

Q. Please summarize your direct testimony.

A. Maintaining a strong financial position, or financial integrity, is critical to allow Tampa Electric to attract capital on reasonable terms and continue to provide a safe and reliable electric system for its customers. Financial integrity helps ensure uninterrupted access to capital markets to finance required capital spending as well as to manage unforeseen events.

Tampa Electric's capital spending requirements over the next several years will be significant, including $1.4 billion for normal replacement and improvement of its facilities and $600 million for the Polk 2-5 Conversion

Project. The company cannot fund all of this internally and must access external capital to support its construction program.

The requested capital structure of 54.2 percent equity and the return on equity of 11.25 percent recommended by witness Hevert will provide the financial strength and credit parameters needed to maintain the company's credit ratings and assure continued unimpeded access to capital. The proposed equity ratio is consistent with Tampa Electric's actual sources of capital, with its actual equity ratio of 54.6 percent at year-end 2012, and with the 54 percent equity ratio approved in 2009.

Tampa Electric's rate request, which includes the continued appropriate levels of ROE and equity ratio, will maintain the company's financial integrity and place Tampa Electric in an appropriate financial position to fund its significant capital program and continue providing the high level of reliable service to its customers.

Q. Does this conclude your direct testimony?

A. Yes.

TAMPA ELECTRIC COMPANY
DOCKET NO. 130040-EI
FILED: 08/08/2013

BEFORE THE PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

SANDRA W. CALLAHAN

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

A. My name is Sandra W. Callahan. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am Vice President and Chief Financial Officer of Tampa Electric Company ("Tampa Electric" or "company") and Senior Vice President and Chief Financial Officer of TECO Energy ("TECO Energy" or "Parent Company").

Q. Are you the same Sandra W. Callahan 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 issues in the prepared direct testimony of witnesses Kevin W. O'Donnell, testifying on behalf of the Office of Public Counsel ("OPC"), Richard A. Baudino and Lane Kollen, testifying on behalf of the WCF Hospital Utility Alliance ("HUA"), and Mike Gorman, testifying on behalf of the Federal Executive Agencies ("FEA").

Q. Have you prepared an exhibit supporting your rebuttal testimony?

A. Yes, I have. My Exhibit No. ___ (SWC-2) consists of one document that was prepared under my direction and supervision and is entitled "Tampa Electric 2008 to 2014 Regulated Capital Structure Including ADIT".

Q. Please summarize the key concerns and disagreements you have regarding the substance of the various witnesses' testimony.

A. My key concerns and disagreements are with the following matters:

- Witness O'Donnell's and witness Gorman's claim that OPC's and FEA's recommendations in this case will result in financial parameters that rating agencies associate with strong financial integrity and will result in Tampa Electric maintaining its current credit ratings;

- Witness O'Donnell's proposal that the company's capital structure requested in this case should be modified to 50.0 percent common equity, 49.21 percent long-term debt and 0.79 percent short term debt;
- Witness O'Donnell's and witness Baudino's characterization of the changes in the company's equity ratio since its last rate case;
- Witness O'Donnell's claim that TECO Energy is using "double leverage" to subsidize its unregulated operations and that the Commission should consider the consolidated capital structure in setting rates; and
- Witness Kollen's proposed incentive mechanism to reduce Tampa Electric's common equity ratio.

FINANCIAL INTEGRITY

Q. Witness O'Donnell and witness Gorman claim that their recommendations in this case will result in financial parameters that rating agencies associate with strong financial integrity and that will allow the company to maintain its' current credit ratings. Do you agree?

A. No. Both witnesses discuss substantial reductions to the company's proposed rate increase (and even a rate decrease) and resulting estimates of credit metrics that the witnesses improperly assert are consistent with Tampa Electric's current credit ratings. Witness Gorman's are based on a fundamentally flawed capital structure allocation, as addressed by Tampa Electric rebuttal witness Jeffrey S. Chronister, and are calculated in a manner inconsistent with methods used by the rating agencies and therefore, produce results that would be meaningless to a ratings analyst.

Witness O'Donnell did not provide the calculations of his credit metrics. However, comparing his results to credit metrics reflected in Document 4 of my Exhibit No. ___ (SWC-1) of my Direct Testimony in this case shows that his metrics were also not calculated in accordance with the rating agencies methodology and should be rejected.

Q. Please explain further.

A. In Document 4 of my Exhibit No. ___ (SWC-1) of my Direct Testimony in this case, I calculated and showed what Tampa Electric's credit metrics would be in 2014 if the company does not obtain any rate relief in this case. The resulting metrics, which were prepared consistent with the method used by Standard & Poors ("S&P"), show a sharp deterioration from metric levels achieved over the last several years to lower levels that likely will not support the company's current credit ratings. The metrics shown in my exhibit are significantly lower than the corresponding amounts presented by witness O'Donnell, even though his metrics purportedly assume a revenue reduction of $5.6 million and higher levels of debt. Based on Document 4 of my Exhibit No. ___ (SWC-1) of my Direct Testimony in this case and absent supporting calculations from witness O'Donnell, his statements that a revenue decrease of $5.6 million as proposed by OPC will allow the company to maintain its current ratings should be rejected as unsupported.

Q. What other reactions will the rating agencies likely have if the commission adopts the recommendations of OPC and FEA in this case?

A. In addition to the sharp decline in credit metrics, the most important factor that the witnesses fail to consider is what the rating agencies' reactions would be to a Commission decision that is not credit-supportive or is inconsistent with previous Commission decisions. For instance, the return on equity ("ROE") percentages proposed by OPC and FEA are 200 to 225 basis points below the company's request and 125 to 150 basis points below the Commission's most recent ROE decision in the Florida Power & Light ("FPL") case. Taking into account that interest rates have actually increased between 70 and 80 basis points since the FPL case was decided, for the Commission to adopt OPC or FEA's proposed ROEs would be viewed as highly inconsistent and a dramatic reversal of the Commission's history of decisions that are supportive of financially healthy utilities in Florida. The impact of this inconsistent and non-credit supportive decision would be even more damaging than the sharp decline in credit metrics as the agencies reassess the increased business risk associated with a perceived change in the regulatory environment.

Q. Do you agree with the assertions of witnesses O'Donnell and Gorman that Tampa Electric could maintain its current credit ratings if the Commission adopted the recommendations of OPC and FEA?

A. No. Tampa Electric currently has a "stable outlook" on its credit ratings. This means that a rating agency does not anticipate a change in a company's ratings over the next 12 to 24 months. The stable outlooks from the three rating agencies reflect their views that credit metrics will remain supportive of current ratings over the foreseeable future, that the regulatory environment in Florida will remain supportive, and that Tampa Electric will likely receive a fair and balanced decision in this case that is consistent with other recent rate decisions in Florida. If the Commission adopts the recommendations of the OPC and FEA, clearly none of these expectations will be met. A Commission decision considered to be unsupportive of financial integrity at a time when Tampa Electric is entering a period of a significant capital spending will likely result in ratings downgrades.

Q. How would a rating downgrade impact Tampa Electric and its customers?

A. A rating downgrade would likely increase the interest rates Tampa Electric would need to agree to pay when issuing long-term debt. Over a 30 year maturity period, even small increases in interest rates matter. Of course, the impact of a credit downgrade on the company's long-term interest rates would be only part of the negative impact. Tampa Electric spends millions of dollars each year on commodities like fuel, on large and complicated pieces of machinery and equipment and on services like transportation. Market perceptions of Tampa Electric's creditworthiness impact the willingness of counterparties and vendors to extend credit to the company as well as the terms on which credit is granted. Likewise, it was not too many years ago that the markets were disrupted and only the most creditworthy companies had ready access to the capital markets. The time to have a strong credit rating is before economic and market disruptions or other unforeseen events occur, not after, because by then it will be too late.

Q. Witness O'Donnell claims that Tampa Electric's credit ratings are lower than they would be as a stand-alone company, and that its ratepayers are subjected to incrementally higher interest rates as a result. Is he correct?

A. No. Witness O'Donnell apparently draws that false conclusion based on his incorrect belief that all ratings of Tampa Electric are based on the consolidated financial profile of TECO Energy. The fact that he incorrectly identifies Tampa Electric's rating from Moody's Investor Service ("Moody's") as Baa2, when Baa2 is actually TECO Energy's rating, is simple proof that he is confused and his conclusion is incorrect. Tampa

Electric's rating is two notches higher at A3, which shows that rating agencies can and do look at Tampa Electric's credit on a specific company basis.

His assertion that credit rating agencies look to the consolidated TECO Energy risk and credit profile when setting the credit ratings for the utility is not correct. Moody's and Fitch Ratings ("Fitch") evaluate Tampa Electric on its stand-alone credit metrics and business risk profile to determine the credit profile and rating for the regulated business. Tampa Electric's unsecured credit ratings from Moody's and Fitch are A3 and A-, respectively, while the unsecured ratings of TECO Energy are Baa2 and BBB, respectively. Only S&P uses a consolidated method in establishing the credit ratings of the utility, and thus, the S&P ratings of Tampa Electric (BBB+) and TECO Energy (BBB) are more closely linked.

Based on our experience pricing debt issuances, debt investors clearly understand the methodology difference and tend to discount the one notch difference in the S&P rating. We know this because Tampa Electric's debt prices are more in line with the A3/A- ratings that Moody's/ Fitch assign to Tampa Electric than with the

BBB+ rating assigned by S&P. To illustrate, the credit spreads on Tampa Electric's 4.10 percent bonds issued in 2012 and due 2042 have traded in line with "A" rated peers in 2013.

CAPITAL STRUCTURE

Q. Do you agree with witness O'Donnell's recommendation that the Commission approve an equity ratio of 50 percent for Tampa Electric?

A. No. The Commission in Tampa Electric's last base rate proceeding authorized an equity ratio of 53.96 percent. This credit-supportive Commission decision in 2009 has contributed to Tampa Electric achieving strong credit metrics, much needed credit rating upgrades, stable ratings outlooks, and unimpeded access to capital at very competitive rates, which customers have benefited from. The company's actual equity ratio is at the approved 54 percent. Absent a compelling reason, which witness O'Donnell fails to provide, the Commission should not reverse its support of Tampa Electric's financial integrity and require a reduction in the company's existing and requested equity ratio of 54.2 percent.

Q. Please provide a brief summary of witness O'Donnell's recommendation as it relates to the company's capital structure.

A. Witness O'Donnell recommends that the Commission adopt a capital structure that is comprised of 50.0 percent equity, 49.21 percent long-term debt and 0.79 percent short-term debt. Witness O'Donnell arrives at his recommendation based upon a premise that a capital structure more reflective of the TECO Energy consolidated capital structure is appropriate for setting rates based on his assertion that there is clear evidence of "double leverage." He also provides a calculation of the average common equity ratios granted by state regulators from 2010 through 2012 and for 2013 to-date, calculated by witness O'Donnell to be 49.19 percent and 49.64 percent, respectively, as support for his recommendation.

Q. What role does the notion of "double leverage" play in witness O'Donnell's conclusion regarding the use of TECO Energy's consolidated capital structure for guidance in establishing the equity ratio for Tampa Electric?

A. Witness O'Donnell suggests that because there is more debt at the consolidated level than at Tampa Electric, the subsidiary's equity includes a mixture of both debt and equity. To reflect this so-called "double leverage", witness O'Donnell is recommending that the consolidated capital structure be considered in setting rates in this case.

Q. Do you agree with witness O'Donnell's position that the capital structure should be adjusted to reflect the presumed effect of double leverage?

A. No. Witness O'Donnell's approach is contrary to the Commission's longstanding practice. He fails to substantiate his claim that TECO Energy used debt to fund equity infusions to Tampa Electric. His argument of "double leverage" is unsubstantiated and it is inconsistent with sound regulatory theory and precedent. Additionally, his recommendation to use the consolidated capital structure is inconsistent with the widely accepted practice of using the actual capital structures of the utility operating companies. This approach is referred to as the "Stand-Alone Approach". The Alberta Energy and Utilities Board described the stand-alone principle as follows:

"This first application of the stand-alone principle is designed to remove the effects of diversification by utilities into non-regulated activities. Using the stand-alone principle in this case, a utility is regulated as if the provision of the regulated service were the only activity in which the company is engaged. This application of the principle is not influenced up or down by the operations of a parent or "sister" company. Thus, the cost (or revenue requirement) of providing utility service reflects the expenses, capital costs, risks and required returns associated with the provision of the regulated service." (Alberta Energy and Utilities Board, Decision 2001-92, December 12, 2001, at page 25)

Q. Are there other examples where the use of double leverage has been rejected?

A. Yes, there are many other cases where double leverage has been rejected based on the concept of a stand-alone approach. For example, FERC's position on the use of double leverage is as follows:

"The FERC does not embrace the concept of double leverage. For purposes of calculating rate of return for wholly owned subsidiaries, FERC uses the stand-alone capital structure and return on equity of the subsidiary so long as the subsidiary issues its own debt, maintains its own credit ratings and meets other standards related to equity ratio. The courts have upheld this policy." *See Missouri Pub. Serv. Comm'n v. Federal Energy Reg Comm'n, 215 F.3d 1, 342 U.S.App. D.C.(D.C. Cir. June 27, 2000)*

Q. How does this concept apply to the use of TECO Energy's consolidated capital structure for purposes of setting rates for the utility?

A. It is a classic example of what FERC and others who have applied the stand-alone approach were attempting to avoid and that is using consolidated parameters in setting rates such that the unregulated operations of a holding company negatively impact the utility.

TECO Energy's consolidated capital structure does contain more debt than the utilities' capital structure for reasons I explain below. However, if the Commission accepts witness O'Donnell's recommendation to use the consolidated capital structure which has higher leverage, that would be harmful to Tampa Electric's credit rating and the concept of protecting the regulated operations from unregulated activity would be compromised. This supports the long standing position of this Commission and other regulatory jurisdictions to embrace the stand-alone concept and avoid any application of a double leverage adjustment.

Q. Did witness O'Donnell support his claim that TECO Energy is using debt proceeds to finance equity contributions to Tampa Electric?

A. No. He relies on his exhibit KWO-3 which compares the total of the common equity balances of Tampa Electric, Peoples Gas System ("PGS") and TECO Energy's unregulated businesses to TECO Energy's consolidated equity and exhibit KWO-5 which is a comparison of the capital structures of those businesses to support his conclusion that TECO Energy is using debt proceeds to finance equity contributions to Tampa Electric. TECO Energy's consolidated capital structure does contain more debt than the utilities' capital structures. However, this is a direct result of an investment in an unregulated merchant power business more than ten years ago that was initially funded with a balanced capital approach.

However, the investment failed and substantial losses were sustained, effectively eliminating the equity capital supporting the investment, while the debt remained. The result was a levered position that ultimately caused the rating agencies to lower TECO Energy's credit ratings to below investment grade. Over time, this debt has been reduced substantially and the investment grade ratings have been reinstated. Although it is usually impossible to "trace funds", in this case, the non-utility debt in the TECO Energy capital structure clearly relates to TECO Energy's failed investment in merchant power and does not support the equity of Tampa Electric.

Q. Do you agree that witness O'Donnell's calculation of approved equity ratios in other regulatory jurisdictions is an appropriate proxy for the company's requested 54.2 percent?

A. No. Witness O'Donnell's exhibit KWO-7 includes a history of decisions from around the country from 2010 to 2012 that comprise the average 49.19 percent equity ratio he uses as a comparison. However, this exhibit contains lower equity ratios computed using other items of capital beyond investor sources, primarily

Accumulated Deferred Income Taxes ("ADIT"). Although I did not investigate every entry in his exhibit, I did determine that the results included in the exhibit for the Florida, Michigan, Indiana and Arkansas jurisdictions that are in the 40 percent range are calculated using other sources of capital, not just investor sources. These lower equity ratios are not comparable to Tampa Electric's requested 54.2 percent equity ratio, which is calculated only using investor sources of capital. Hence, witness O'Donnell's calculation of an overall 49.19 percent average equity ratio is not comparable to the 54.2 percent requested equity ratio and should be rejected.

Q. Witness O'Donnell alleges that TECO Energy can "lean on Tampa Electric" to take cash withdrawals to sustain operations in its non-regulated companies, pointing to the varying level of dividends that have been paid as presented in KWO-6. Does KWO-6 support witness O'Donnell's premise that the Commission should look to TECO Energy's capital structure in setting a capital structure for Tampa Electric?

A. No. There is no basis for witness O'Donnell's claim that TECO Energy "leaned on" Tampa Electric to support its unregulated operations and, in fact, the opposite is true. The "cash withdrawals" that witness O'Donnell refers to are actually Tampa Electric's dividend payments to its parent company, TECO Energy. These dividend payments were based on a consistent dividend policy which has been in effect since the holding company was formed in 1981. This dividend policy, which applies to all operating companies, provides for a quarterly dividend tied to the level of net income achieved during the quarter. Any variation in amount is simply a reflection of a variation in net income. Separately, TECO Energy infuses equity into Tampa Electric as needed to meet external funding needs and maintain an appropriate capital structure. From 2006 to 2012, TECO Energy infused $573 million of equity into Tampa Electric. During that same period, TECO Energy's unregulated businesses returned $686 million of cash to the parent company in excess of dividends. Far from TECO Energy being able to "lean on Tampa Electric," it is Tampa Electric that is able to lean on TECO Energy when its investment needs exceed its internal cash generation.

Q. Please describe how witness O'Donnell and witness Baudino characterize the changes in the company's equity ratio since the last base rate proceeding in 2008.

A. Witnesses O'Donnell and Baudino assert or imply that equity infusions were increased in 2012 to achieve a 54 percent equity ratio based only on the timing of Tampa Electric's base rate filing.

Q. Are their assertions correct?

A. No. The timing of the equity contributions was not, as asserted by witnesses Baudino and O'Donnell, influenced by the timing of Tampa Electric's base rate proceeding. As I stated on page 26 of my direct testimony, bonus depreciation and additional tax deductions for repairs provided $350 million of unanticipated cash benefits to Tampa Electric which displaced and delayed the company's anticipated need for equity infusions. These cash tax benefits added a substantial amount of zero cost capital to Tampa Electric's regulatory capital structure, reduced the weighted cost of capital by almost one percent, and helped delay the need for rate relief. It was not until 2012, when Tampa Electric had significant debt maturities which increased its need for external capital, that it had the opportunity to replace debt with equity and increase its equity ratio to 54 percent.

Q. Is there any additional support that you can provide that will illustrate how these tax benefits offset the necessity for other capital since the last base rate proceeding?

A. Yes. Using the regulated system per books capital structures as reported on the company's Surveillance Report, Document No. 1 of my exhibit shows the percentage that each source of capital represents in the overall capital structure from 2008 to 2014. The sources of capital include ADIT. As demonstrated in Document No. 1 of my exhibit, the ratio of ADIT increases 9.2 percent during this timeframe while long-term debt declines 7.1 percent and common equity declines 2.2 percent. This equates to an increase in ADIT of $0.6 billion, representing 50 percent of the overall $1.2 billion increase in total capital. The fact that ADIT provided half of the capital required reflects the magnitude of the unanticipated funding provided by the additional tax benefits after the company's last base rate proceeding and shows why the company relied on zero cost capital from deferred taxes before adding more expensive equity capital.

Q. Does the company expect similar levels of tax benefits from additional bonus depreciation or tax repairs to occur in the future?

A. No. While the company and customers benefited from what amounted to an additional and unprecedented interest-free source of cash, the company does not expect benefits of that magnitude to continue. The bonus depreciation enacted in the Economic Stimulus Act of 2008 has been extended by a series of economic stimulus legislation for six years now. This six-year period of stimulus has lasted twice as long as any prior bonus depreciation legislation. Also, the bonus allowance, at 50 percent and 100 percent, has been significantly more generous than any prior bonus depreciation legislation. Recent improvements in the economy have reduced the need for stimulus, and current congressional committee discussions of corporate tax reform have considered reducing preference items such as accelerated depreciation. Against this backdrop, it seems unlikely that bonus depreciation will be extended beyond the already unprecedented levels. While tax repair deductions will occur on an annual basis and provide an annual cash benefit of approximately $35 million, the benefit of the 10-year "lookback" provided a significant one-time cash benefit of $127 million and will not reoccur.

The likelihood that future federal tax policy will not be yielding additional significant opportunities to increase the amount of zero cost deferred taxes in our capital structure is but another reason why the Commission should approve the company's requested equity ratio in this case.

Q. Do you believe the option proposed by witness Kollen to incentivize the company to reduce its common equity ratio is appropriate?

A. No, I do not. As I have testified, I believe that Tampa Electric's current equity ratio is an important element of its financial strength. The goal of incentive compensation should be to incent achievements that are beneficial - such as safety, reliability, and financial performance. It strikes me as counterproductive and very poor policy to provide incentives to do something that is clearly not good for the company. Rebuttal witness Terry Deason discusses this point further in his testimony on behalf of Tampa Electric Company.

SUMMARY OF REBUTTAL TESTIMONY

Q. Please summarize your rebuttal testimony.

A. My rebuttal testimony has addressed the primary concerns and disagreements I have regarding the testimony of the interveners' witnesses O'Donnell, Baudino and Gorman regarding Tampa Electric's capital structure and financial integrity. The most important elements of their testimonies that my rebuttal shows to be incorrect and unsupported are witnesses' assertions that intervener recommendations would allow Tampa Electric to maintain its current credit ratings, assertions about double leverage, and characterizations of the timing of equity contributions. The Commission's credit supportive decisions in Tampa Electric's last base rate proceeding allowed the company to achieve needed improvements to its financial integrity and credit ratings. The witnesses have provided no compelling reasons for the Commission to take actions that would diminish Tampa Electric's existing financial integrity and credit ratings.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

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

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

DATED THIS 10th day of September, 2013.

Linda Boles

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