

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Application for a rate) DOCKET NO. 920324-EI
increase by TAMPA ELECTRIC) ORDER NO. PSC-93-0664-FOF-EI
COMPANY.) ISSUED: 4/28/93
_____)

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON, Chairman
LUIS J. LAUREDO

ORDER REVISING 1994 REVENUE REQUIREMENT
AND CLARIFYING SHAREHOLDER INCENTIVE

BY THE COMMISSION:

By Petition filed May 22, 1992, Tampa Electric Company (TECO or the company) requested an annual revenue increase of 49.7 million dollars in 1993 and a step increase of 33.5 million dollars to be effective January 1, 1994. On January 4, 1993 we established the 1993 rates based on the \$1,163,000 increase approved at the December 16, 1992 special agenda conference. The Final Order reflecting these rates (Order No. PSC-93-0165-FOF-EI) was issued on February 2, 1993. No party requested reconsideration of that Order. The rates for 1994 have not yet been set.

In that Order, we included in TECO's 1994 rate base the amount of Construction Work In Progress (CWIP) that would correspond to a 3.75 times interest coverage ratio in 1994 for Tampa Electric Company. On January 12, 1993, the company filed a letter (with copies to all parties) stating that the staff possibly made a mathematical error when computing the 3.75 times interest coverage ratio. After review, we find that the amount of CWIP in 1994 should be increased by \$6,947,000 to maintain a 3.75 times interest coverage.

When calculating the interest coverage estimate, staff failed to recognize the rate base impact of the Commission's decision to increase the coal inventory amount to be included in rate base above the staff recommended level. The Commission's decision to increase the amount of coal inventory allowed in rate base was not accounted for by staff when calculating the interest coverage ratio. Based on this oversight, we find that \$5,859,000 of additional CWIP shall be allowed in TECO's rate base for 1994.

In addition, the 1994 interest coverage calculation did not reflect the full amount of interest on the oil backout debt. In its letter to the Commission, the company recommended using a 1994

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oil backout interest amount of \$2,133,000. Based on the record, though, we believe the correct amount of interest to be utilized is \$2,033,000, as outlined on page two of Hearing Exhibit No. 123. Applying this cost to the interest coverage calculation increases the amount of CWIP recommended in 1994 by \$1,088,000. Based on this correction, we find that \$1,088,000 of additional CWIP shall be allowed in TECO's rate base for 1994.

In establishing the amount of CWIP to include in TECO's 1994 rate base, we target the achievement of a 3.75 times interest earned ratio. To maintain this interest coverage, we increase the 1994 CWIP amount by \$6,947,000 based on the two above-mentioned adjustments. The total amount of allowed CWIP in 1994 therefore increases from \$48,017,000 to \$54,964,000. This balance represents \$18,793,000 of short-term CWIP and \$36,171,000 of CWIP subject to Allowance for Funds Used During Construction. From January 1, 1994 until ordered to modify or cease, the \$36,171,000, which is earning a return from this proceeding, shall offset CWIP balances that accrue AFUDC.

At the December 16, 1992 Agenda Conference, we approved staff's recommendation that the Commission exclude \$3,888,000 of off-system sales O&M revenue for the 1994 test year from the calculation of the 1994 revenue requirement. On January 12, 1993 Tampa Electric Company filed a letter stating that the staff possibly made a mathematical error when computing the 1994 off-system O&M revenues.

Tampa Electric's original rate case request included off-system O&M revenues as a credit to base rates. We voted to accept staff's recommendation to remove these revenues from base rates and credit them to the Fuel and Purchase Power Clause because of their variability from year to year. When calculating the appropriate O&M revenues to move from base rates to the Fuel and Purchased Power Clause, an incorrect amount was used.

Late Filed Exhibit 106, Schedule C-10 Page 60, reflects \$3,888,000 in off-system sales revenues, which included both off-system O&M revenues (\$1,349,000) and capacity revenues (\$2,539,000). The correct amount of O&M revenues from off-system sales credited to the retail jurisdiction should have been \$1,349,000, not \$3,888,000.

The appropriate adjustment to remove the capacity revenues from the O&M revenues which are to be credited to the Fuel and

Purchased Power Clause is to exclude the \$2,539,000 in capacity revenues from the calculation. This adjustment results in \$1,349,000 of O&M revenues credited to the Fuel and Purchased Power Clause for 1994.

Therefore we find that the amount of off-system sales O&M revenue for 1994 should be reduced from \$3,888,000 jurisdictional to \$1,349,000 jurisdictional for a difference of \$2,539,000.

The net effect of these two corrections (to the amount of CWIP and off-system sales O&M revenue) is a reduction of the 1994 revenue requirement by \$1,456,000. Tampa Electric Company shall submit a 1994 compliance cost-of-service study within 10 days of this Order reflecting the revised revenue requirement.

We take this opportunity to amend Order No. PSC-93-0165-FOF-EI to clarify the incentive established for TECO's stockholders to maximize off-system sales of excess capacity.

The discussion of the incentive for off-system sales begins at page 85 of the Order Granting Certain Increases. The changes are intended to clarify the scope and duration of the incentive. The following section is substituted for the discussion found under the same heading in Order No. PSC-93-0165-FOF-EI

H. Appropriate Treatment Of Revenues Associated With Off-System Sales, Incentives

Staff recommended that all capacity revenues from off-system sales should be credited to the Capacity Cost Recovery Clause and that all off-system O&M revenues credited to the Purchased Power and Fuel Cost Recovery Clause. Staff proposed this treatment because of the variability of off-system revenues, which depend on the needs of Tampa Electric's neighboring utilities, the prevailing market conditions, and competing fuel prices. Uncertainty in projecting off-system revenues presents a problem when determining base rates in a rate case.

If in future years, actual revenues are greater than the forecasted amount included in base rate determination, the ratepayers are

penalized and the company retains the excess revenues for its stockholders. The opposite is true if actual revenues are less than the forecasted amount benefiting the ratepayers. Since forecasting the revenue impact of future off system sales revenues is difficult because of the numerous assumptions contained in the forecast which may or may not prove accurate over time, staff recommended crediting off-system capacity revenues to the Capacity Cost Recovery Clause, and removing the projected off-system O&M revenues of \$2.75 million in 1993 and a revised amount of \$1.349 million in 1994 from base rate revenues and crediting these amounts to the Fuel Cost Recovery Clause.

Forecasting levels of off-system sales is far from an exact process. In his testimony, Tampa Electric's witness, Mr. Ramil, projects \$11.9 million of nonfuel revenues from off-system transactions in 1993 not including the Sebring and TECO Power Services sales. This is roughly half of the 8 month actual/4 month forecast amount of \$23 million of nonfuel revenues for the current year 1992. Tampa Electric will likely have the opportunity for additional off-system sales starting in 1993 when the Hardee Power Station capacity of 295 MW comes on-line.

The revenue effect of incorrectly forecasting off-system sales from year to year will be eliminated if the revenues are credited through the Capacity Cost Recovery and Fuel and Purchased Power Clauses. Our treatment eliminates the potential inaccuracy from forecasting the level of off-system sales to be included in the calculation of base rate revenues.

All revenues and expenses associated with the firm Schedule D sales (for the cities of New Smyrna Beach, St. Cloud and Wauchula, the Reedy Creek Improvement District and the

Florida Municipal Power Association), and the City of Sebring and TECO Power Services contracts have been removed from the retail jurisdiction in the stipulated jurisdictional separation study.

Accordingly, we find that all nonfuel revenues from off-system sales not allocated to the wholesale jurisdictional shall be included as credits in the Capacity Cost Recovery and Fuel and Purchased Power Cost Recovery Clauses. The capacity revenues shall be credited to the Capacity Cost Recovery Clause with O&M revenues credited to the Fuel and Purchased Power Cost Recovery Clause. We remove projected O&M revenues from off-system sales of \$2,750,000 jurisdictional in 1993 and \$1,349,000 jurisdictional in 1994 from base rate revenues.

Tampa Electric has proposed a sharing of the benefits of certain off-system sales described in Mr. Ramil's testimony (modified in accordance with the revised jurisdictional separation), in order to preserve an incentive for engaging in off-system sales which was incorporated in Tampa Electric's last full rate proceeding in Docket No. 850050-EI. TECO claims that retention of this incentive will directly benefit Tampa Electric's retail Customers.

Tampa Electric proposes to retain 60 percent of the capacity revenues from off-system sales other than those in the wholesale jurisdiction for the benefit of their stockholders and flow the remaining 40 percent of these revenues through the Capacity Cost Recovery clause for the benefit of the ratepayers.

Staff recommended that the Commission reject Tampa Electric's proposed 60/40 stockholder/ratepayer sharing of off system sales capacity revenues as unnecessary.

Staff suggested that a prudently managed utility would use its best efforts to market this capacity and energy irrespective of whether it receives an additional incentive for doing so.

If the Commission decides to explore incentives, staff recommended that this issue be investigated in a generic docket. At that time, the Commission can explore the issue of off-system sales incentives as well as penalties for low levels of off-system sales or continued high levels of surplus capacity. This proceeding would allow the Commission the opportunity to adopt a uniform approach for all companies if it determines that incentives and penalties are needed for levels of off-system sales of generating capacity.

We believe that a generic proceeding to consider this issue is appropriate. We direct staff to initiate a docket to investigate and consider stockholder incentives for off-system sales.

By our decision to credit the nonfuel revenues associated with off-system sales through the Capacity Cost and Fuel and Purchased Power cost recovery clauses, we have not maintained the status quo for Tampa Electric Company. In addition to the imputation of 37.1 million dollars of nonfuel revenue in the last rate case, in that case we established a sharing of the annual revenues in excess of that amount. The stockholders would have received 20% of the revenue above that level and the ratepayer 80%. Since the target level of off-system sales was never achieved, no sharing ever occurred.

We believe that incentives can be useful in maximizing the level of off-system sales. Maximizing off-system sales makes the best use of the available capacity and can help minimize rates. The time necessary to conduct

and decide a generic proceeding to determine an appropriate, industry-wide policy is likely to yield an effective date of October, 1993 at the earliest. This means that there will be less incentive for TECO to pursue off-system capacity sales and the carrying cost of any unused capacity will be paid by the ratepayer.

As an interim method to maximize the potential off-system revenues between the effective date of this Order and the decision in the generic proceeding, we establish the following incentive for Tampa Electric Company: We establish an \$18 million dollar 1993 annual revenue target for nonfuel revenues from off-system sales of excess jurisdictional capacity. Below that level, all the revenues will be credited, as discussed, through the Capacity and Fuel and Purchased Power Cost Recovery Clauses. Above \$18 million dollars; 80% of the nonfuel revenues shall be credited through Capacity and Fuel and Purchased Power Cost Recovery Clauses and 20% of the nonfuel revenues shall be retained by the shareholders. This incentive shall be in effect until the decision is reached in the generic docket. The \$18 million dollar target shall exclude TECO's commitments to the Utilities Commission of the City of New Smyrna Beach, the Reedy Creek Improvement District, the City of Wauchula and the Florida Municipal Power Association (the previously identified Schedule D sales), the City of Sebring and TECO Power Services for 1993, and the City of St. Cloud in subsequent years.

Accordingly, it is

ORDERED by the Florida Public Service Commission that \$5,859,000 of additional Construction Work In Progress above the amount approved at the December 16, 1992 agenda conference shall be allowed in Tampa Electric Company's rate base for 1994 to reflect the approved level of coal inventory. It is further

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ORDERED that \$1,088,000 of additional Construction Work In Progress above the amount approved at the December 16, 1992 agenda conference shall be allowed in Tampa Electric Company's rate base for 1994 to reflect the full amount of interest on the oil backout debt. It is further

ORDERED that the amount of off-system sales O&M revenue for 1994 used in calculating the jurisdictional revenue requirement shall be reduced from \$3,888,000 to \$1,349,000. It is further

ORDERED that Tampa Electric Company shall submit a 1994 compliance cost-of-service study within 10 days of this Order reflecting the revised revenue requirement.

ORDERED that Order No. PSC-93-0165-FOF-EI is amended to substitute the discussion in this Order concerning the shareholder incentive for the discussion beginning at page 85 of the Order Granting Certain Increases. The changes are intended to clarify the scope and duration of the incentive.

By ORDER of the Florida Public Service Commission, this 28th day of April, 1993.



STEVE TRIBBLE, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Civil Procedure. The notice of appeal must be in the form specified in Rule 9.900 (a), Florida Rules of Appellate Procedure.