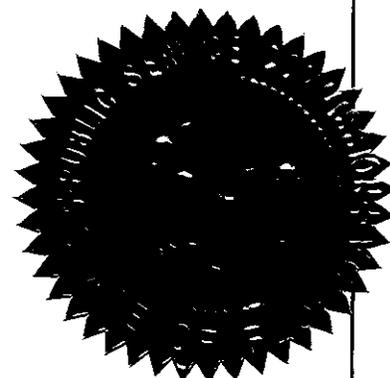


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080317-EI

In the Matter of:

PETITION FOR RATE INCREASE BY
TAMPA ELECTRIC COMPANY.



VOLUME 8

Pages 1081 through 1263

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PROCEEDINGS: HEARING

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

DATE: Wednesday, January 27, 2009

TIME: Recommended at 9:30 a.m.
Recessed at 7:26 p.m.

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

REPORTED BY: LORI DEZELL, RPR, CCR

APPEARANCES: (As heretofore noted.)

DOCUMENT NUMBER - DATE

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FPSC-COMMISSION CLERK

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P R O C E E D I N G S

1
2 **CHAIRMAN CARTER:** We're back on the record.

3 Ms. Christensen, you're recognized.

4 **CROSS-EXAMINATION**

5 **BY MS. CHRISTENSEN:**

6 **Q** Thank you. Now to my last line of
7 questioning, regarding the FRCC, can you tell us what
8 the FRCC stands for?

9 **A** It's the Florida Regional Reliability Council.

10 **Q** Okay. And you would agree that the Florida
11 Regional Reliability Council includes investor-owned
12 utilities along with others?

13 **A** Yes, it does.

14 **Q** And is it correct that Tampa Electric, in
15 fact, is one of the investor-owned utilities that's part
16 of the FRCC?

17 **A** Yes, we are.

18 **Q** Okay. And Tampa Electric as part of the FRCC
19 has a voice in the process of determining what, when,
20 and how transmission is developed in the state; is that
21 correct?

22 **A** Yes, we do.

23 **Q** Okay. And it would also be correct that Tampa
24 Electric has a role in approving the transmission plan?

25 **A** We are one of the members that sits on the

1 FRCC planning committee and also the board of directors
2 of the FRCC that reviews annual transmission plans and
3 does have a vote in approving those plans.

4 **Q** Okay. So the answer to the last question was
5 yes?

6 **A** Yes.

7 **Q** Okay. And you would agree that FERC and NERC,
8 or the FRCC, cannot order Tampa Electric to build
9 transmission absent approval of the Florida Public
10 Service Commission, correct?

11 **A** Directly they cannot force us to construct
12 transmission, but as I outlined in my rebuttal
13 testimony, that there are significant penalties and
14 fines associated with not being compliant with the NERC
15 reliability standards, upwards of a million dollars a
16 day for noncompliance issues.

17 **Q** Okay. And you would agree that you are not
18 aware of any other utility in the United States that has
19 a transmission base rate adjustment mechanism, correct?

20 **A** I'm not aware of anybody that has one in place
21 right now, but I do believe that other states are
22 looking at implementing some kind of transmission-based
23 rate adjustment clause or transmission rider to account
24 for the uncertainty with the -- with the amount of
25 transmission that's going to be required in the nation

1 transmission investment in between rate cases, correct?

2 **A** That is correct.

3 **Q** Mr. Haines, how long does it typically take to
4 permit, site, and construct a transmission line?

5 **A** There's, you know, depending on the length of
6 the project, the area where the project is going to be
7 sited, it can really vary. It can go anywhere from two
8 years to six years or more.

9 **Q** So you would agree with me that it's certainly
10 a multi-year process to get through the PSC, to get
11 through DEP, to get through the Transmission Line Siting
12 Act?

13 **A** Well, not all 230 kv lines require
14 Transmission Line Siting Act. That's only if it's over
15 15 miles and crosses county lines. So there's potential
16 for 230 kv and above transmission facilities that don't
17 fall into that category. So I can -- I can envision a
18 230 kv transmission project that could be done in one
19 year if it's all within our footprint and maybe it's on
20 road right of way or our established corridors. But
21 typically it might be a year or more, two years or more.

22 **Q** Yes. Certainly the one-year scenario would
23 not be typical in siting a transmission line?

24 **A** It would not be typical, that's correct.

25 **Q** Okay. Would you agree with me that Tampa

1 Electric has control over the physical construction of
2 transmission facilities within its footprint?

3 **A** Yes, we do.

4 **Q** And would you also agree with me that you
5 certainly have some control over the cost of the
6 construction of those facilities within your footprint?

7 **A** Yes. We have control over the costs as far as
8 the design and the construction. What's really dictated
9 or established by the FRCC regional transmission
10 planning process is there's a need to go from point A to
11 point B. How we get there as far as the route, the type
12 of facilities, that is under Tampa Electric's control.

13 **Q** Right. And it's this multi-year process
14 typically that we've already discussed.

15 Take a look at your rebuttal, please, on page
16 19, lines 11 to 12. Let me know when you get there.

17 **A** Okay.

18 **Q** In that passage there you're talking about the
19 fact that there's new requests that are requiring the
20 construction of new transmission facilities, correct?

21 **A** That's correct.

22 **Q** And when we talked about this in your
23 deposition, you weren't aware of one new request, were
24 you?

25 **A** As far as a transmission service request?

1 for you relates to your testimony regarding the O&M
2 benchmark comparison. I don't think you need to refer
3 to it. As I understand your testimony, the company's
4 transmission O&M costs are slightly below what the
5 benchmark would indicate and distribution costs are
6 slightly above; is that correct?

7 **A** That's correct.

8 **Q** Would it be your understanding and expectation
9 that the benchmark is simply a first cut tool to look at
10 where the company is relative to the defined variables
11 of customer growth and -- and CPI inflation?

12 **A** Yes, that's my understanding. It's an
13 indicator that the Commission uses to get a gauge for
14 how a utility is controlling its costs.

15 **Q** Just because a company is over the benchmark
16 doesn't mean it gets -- it's subject to automatic
17 disallowance, and just because it's under the benchmark
18 doesn't mean it's subject to automatic allowance of the
19 cost, correct?

20 **A** I'm not -- I don't know the exact rules and
21 I'm not a regulatory person, but that's probably better
22 asked of someone else. But it's my understanding again
23 that it's just an indicator, a gauge that the utility
24 uses to -- or that the Commission uses to understand how
25 a utility's controlling its costs.

1 **Q** Thank you. You do go on in your testimony to
2 talk about steps the company is taking to manage its O&M
3 costs. My question for you is simply, aren't there
4 other factors besides customer growth and company
5 management, for example, market conditions in the labor
6 market and input markets that influence the -- the
7 increase in -- or decrease in O&M costs over time?

8 **A** Yes, absolutely.

9 **Q** Thank you.

10 **MR. WRIGHT:** That's all the questions I have,
11 Mr. Chairman.

12 **CHAIRMAN CARTER:** Thank you, Mr. Wright.
13 Mr. Twomey?

14 **MR. TWOMEY:** I have no questions,
15 Mr. Chairman.

16 **CHAIRMAN CARTER:** Commissioners? Commissioner
17 Argenziano, you're recognized.

18 **COMMISSIONER ARGENZIANO:** Thank you.
19 Mr. Haines, can you refresh my memory what the
20 company's position was before all of the storm
21 hardening discussion came about as to what the
22 trimming -- tree trimming cycle should have been or
23 what the company thought it was to be -- should be?

24 **THE WITNESS:** The cycle that the company was
25 approved for in its last rate case and what it

1 strived to meet over a period of time was a
2 four-year tree trim cycle. There was a lot of
3 discussion and debate, I think if you recall during
4 the storm hardening workshops as far as what is
5 that appropriate cycle. And it's a balance between
6 how much do you invest in day-to-day trimming
7 versus how much benefit are you going to get
8 following a major storm event. And we supported it
9 from the beginning and what was our filing was a
10 three-year tree trim cycle for all our overhead
11 distribution facilities.

12 **COMMISSIONER ARGENZIANO:** Can I ask a
13 question -- I ask this question I guess because I'm
14 still struggling myself with a three-year. I know
15 out of safety and, you know, precaution we want to
16 make sure that, you know, we have these trimmings
17 done. But after a number of years, let's say after
18 nine years of the three-year cycles, aren't you
19 down to like stubs? Sorry. That's the only way I
20 can -- is there -- is there that much of a
21 difference between --

22 **THE WITNESS:** Our customers would not be very
23 happy with that one.

24 **COMMISSIONER ARGENZIANO:** Right. Well, I hear
25 from some of them now, trust me. I mean, is there

1 much of a difference between a three-year and a
2 five-year for safety purposes?

3 **THE WITNESS:** The way I look at it is a
4 three-year tree trim cycle, just like I believe the
5 city of Tallahassee has a two-year tree trim cycle,
6 so they only cut two years of growth when they go
7 out to trim the trees. That is to maintain the
8 aesthetics and -- so that -- and it's only going to
9 grow back in two years, it's only going to grow
10 back to where you still have clearance between our
11 facilities.

12 So our goal is when we get to a three years
13 one, we'll only cut three years' worth of growth.
14 To get the true benefit, for example, with a
15 six-year, if we were to do laterals on a six-year,
16 you'd have to cut six years' worth of growth.
17 That's going to have a huge impact on the
18 aesthetics and on customer issues. So we believe
19 that a three-year is the right balance.

20 **COMMISSIONER ARGENZIANO:** I guess so. And I
21 guess the reason I ask that is because I -- I mean,
22 I like the aesthetics of the trees and everything
23 also. But I guess the goal is to keep the trees
24 and branches and the leaves and things away from
25 the lines, and I wonder wouldn't it be maybe more

1 company's transmissions and associated costs have
2 significantly changed in recent years, and I was
3 wondering if you could explain a little more
4 specifically how those costs have changed, for the
5 Commission's benefit.

6 **A** Well, the costs will potentially change,
7 depending on the amount of transmission facilities that
8 are identified through the FRCC regional transmission
9 planning process. What has significantly changed that's
10 causing the impact is the process itself, and it started
11 back in 2003 when we had the northeast blackout and the
12 emphasis that FERC put on the reliability and security
13 of the transmission grid.

14 And then what followed that was the Energy
15 Policy Act of 2005, which gave FERC the ability to
16 mandate and require that certain standards be met. And
17 they have since delegated their authority to NERC, which
18 is more of the reliability oversight corporation that
19 regulates the utilities, and NERC has since delegated
20 that to the FRCC at the Florida level.

21 So the FRCC has the ability to monitor
22 compliance and, for those utilities that are not within
23 compliance of those standards, to assess penalties or
24 fines, which I mentioned before upwards of a million
25 dollars a day for the significant fines for

1 noncompliance.

2 So that's kind of the environment that we're
3 in now, which is significantly different than the
4 environment that we were in pre 2005 time frame.

5 **Q** All right. Thank you. TECO considers other
6 factors in transmission planning besides reliability,
7 correct?

8 **A** Yes.

9 **Q** Can you describe those for the Commission,
10 those other factors?

11 **A** Some of the other factors would be generating
12 interconnection, allowing a generator to get power onto
13 the grid, to get it to the load or to where it's going
14 to be consumed. And that's where I talked about earlier
15 where we foresee an increase in those activities with
16 renewable generation sources and the emphasis that we're
17 going to be placing on developing that type of
18 technology and getting that implemented and out onto the
19 grid.

20 So that's not really reliability-based.
21 That's more facilitating getting generation from the
22 source to the load. That's another example.

23 **MS. CARTER BROWN:** All right. Thank you. We
24 have no further questions.

25 **CHAIRMAN CARTER:** Commissioner Argenziano.

1 **COMMISSIONER ARGENZIANO:** Again on the tree
2 trimming. When you indicated that the company had
3 previously been doing the four-year cycles, how
4 close to the -- to that four-year cycle were they,
5 or were they behind?

6 **THE WITNESS:** We talked a little bit about
7 that earlier, and in certain years we were ahead of
8 that. We were doing close to a third of the
9 system, which would be more equivalent to a
10 three-year cycle. Some years we were doing maybe
11 20 percent of the system. So it kind of
12 fluctuated. As we prioritize our maintenance
13 activities every year, we would have some
14 flexibility and we would adjust on that.

15 But since we went through the hardening
16 initiative and those workshops, we now have more
17 defined requirements for pole inspections, for tree
18 trimming, and so it's a lot more defined now than
19 it was prior to -- to 2005.

20 **COMMISSIONER ARGENZIANO:** So a more defined
21 schedule.

22 **THE WITNESS:** So it kind of varied.

23 **COMMISSIONER ARGENZIANO:** Okay. But before it
24 was -- you were fluctuating, not for any specific
25 reasons other than just maintenance --

1 **THE WITNESS:** Prioritizing maintenance
2 dollars.

3 **COMMISSIONER ARGENZIANO:** Okay. Thank you.

4 **CHAIRMAN CARTER:** Thank you, Commissioners.
5 Anything further? Redirect?

6 **MR. HART:** No, no redirect. But Tampa
7 Electric would move Exhibits No. 24 and 84 into the
8 record.

9 **CHAIRMAN CARTER:** Are there any objections?
10 Without objection show it done, Exhibit No. 24 and
11 Exhibit No. 84.

12 (Exhibits 24 and 84 were admitted.)

13 **CHAIRMAN CARTER:** And I think this witness was
14 both rebuttal and direct; is that correct?

15 **MR. HART:** That's correct.

16 **CHAIRMAN CARTER:** You may be excused. Call
17 your next witness.

18 **MR. WAHLEN:** Tampa Electric Company calls
19 Dianne S. Merrill.

20 **CHAIRMAN CARTER:** Has Ms. Merrill been sworn?

21 **MR. WAHLEN:** I do not believe so but I can
22 check.

23 **CHAIRMAN CARTER:** Have you been sworn?

24 **THE WITNESS:** I have not.

25 **CHAIRMAN CARTER:** Would you please stand and

1 raise your right hand.

2 **DIANNE MERRILL**

3 was called as a witness on behalf of Tampa Electric
4 Company, and having been duly sworn, testifies as
5 follows:

6 **THE WITNESS:** I do.

7 **CHAIRMAN CARTER:** Please be seated. You may
8 proceed.

9 **DIRECT EXAMINATION**

10 **BY MR. WAHLEN:**

11 **Q** Would you please state your name, occupation,
12 business address, and employer?

13 **A** Dianne Merrill. My occupation is director of
14 development and staffing. My employer is Tampa
15 Electric, 702 North Franklin Street, Tampa, Florida.

16 **Q** Ms. Merrill, did you prepare and cause to be
17 prefiled in this proceeding on August 11th, 2008,
18 prepared direct testimony consisting of 22 pages?

19 **A** I did.

20 **Q** Any changes or corrections to your prepared
21 direct testimony?

22 **A** No.

23 **Q** If I asked you the questions contained in your
24 prepared direct testimony today, would your answers be
25 the same?

1 **A** Yes.

2 **MR. WAHLEN:** Tampa Electric requests that
3 Ms. Merrill's prepared direct testimony be inserted
4 into the record as though read.

5 **CHAIRMAN CARTER:** Prefiled testimony of the
6 witness will be entered into the record as though
7 read.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

DIANNE S. MERRILL

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

A. My name is Dianne S. Merrill. My business address is 702 N. Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Director, Staffing and Development.

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

A. I have a Bachelor of Science degree in Marketing from the University of South Florida. I have been employed by Tampa Electric for 27 years working in a variety of positions in the areas of Customer Service, Productivity and Quality Improvement, and for the last 11 years in various management positions in Human Resources. From 1996 to 1998, I was the Director of Organizational Change and Development for TECO Transport. In February of 1999, I transferred to TECO Power Services as Director of Human Resource, where my responsibilities included recruitment

1 and staffing, relocation, international compensation and
2 team member communications. In 2003, I transferred to
3 Tampa Electric and was responsible for the Human Resource
4 Communications and Technology System. In 2005, I assumed
5 responsibility for benefits, which included benefits
6 administration, design and financial oversight for
7 medical, pension, retirement savings plan and life
8 insurance. In 2007, I moved into Development and
9 Staffing. I am responsible for the development and
10 execution of human resource strategies including
11 recruitment and staffing, training and development, and
12 testing and assessment. I am certified as a Senior Human
13 Resource Professional from the Society for Human Resource
14 Management.

15
16 **Q.** What is the purpose of your direct testimony?
17

18 **A.** My direct testimony provides an overview of the gross
19 payroll and benefits expenses as shown in Minimum Filing
20 Requirements ("MFRs") Schedule C-35, and demonstrates the
21 reasonableness of Tampa Electric's forecasted gross
22 payroll and benefits expense of \$278,937,000 for 2009.
23 My direct testimony also supports MFRs Schedules C-17,
24 C41 and F-08.
25

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

3
4 A. Yes, I am sponsoring Exhibit No. ___ (DSM-1) entitled
5 "Exhibit of Dianne S. Merrill", that was prepared under
6 my direction and supervision consisting of eight
7 documents:

8 Document No. 1 List Of Minimum Filing Requirement
9 Schedules Sponsored Or Co-Sponsored By
10 Dianne S. Merrill

11 Document No. 2 Total Compensation Analysis - Exempt
12 And Non-Exempt (2007)

13 Document No. 3 Merit Budget History - Exempt (1992 -
14 2007)

15 Document No. 4 Merit Budget History - Non-Covered/Non-
16 Exempt (1992 - 2007)

17 Document No. 5 Utility Comparison - Total Salaries And
18 Wages As A Percent Of Operations And
19 Maintenance Expense (2006)

20 Document No. 6 2007 BENVAL Study - Entire Benefit
21 Program

22 Document No. 7 2007 BENVAL Study - Medical Plan
23 Comparison

24 Document No. 8 Average Health Benefit Costs Per
25 Employee: Tampa Electric Vs. National

1 **Q.** What is Tampa Electric's basic philosophy with respect to
2 its team members (employees)?

3
4 **A.** Tampa Electric's vision is to be a company where people
5 want to work, an organization that is an asset to the
6 community and a business in which investors want to
7 invest. Its basic philosophy with respect to its team
8 members includes four strategies:

- 9 • Provide a competitive benefit and compensation
10 program;
- 11 • Enhance processes to attract and select talented
12 team members;
- 13 • Align team member development with company and
14 career goals; and,
- 15 • Implement processes to retain and engage talented
16 team members.

17
18 These strategies and values provide a framework for
19 achieving the company's vision.

20
21 **Q.** What is Tampa Electric's projected total compensation and
22 benefits costs and projected team member count for 2009?

23
24 **A.** Tampa Electric's total compensation and benefits costs
25 are projected to be \$278,937,000 for 2009. The projected

1 number of team members forecasted for 2009 is 2,638.

2

3 **Q.** What are the objectives of Tampa Electric's total
4 compensation and benefits program?

5

6 **A.** There are three primary objectives. First, the company
7 strives to offer a compensation and benefits program that
8 will attract, retain and competitively reward its team
9 members based on national and local comparative markets.
10 Second, Tampa Electric's compensation program reflects a
11 success sharing philosophy, linking total compensation to
12 the attainment of company, business unit and individual
13 goals. Third, the company strives to keep its total
14 compensation and benefit program expenses at a
15 competitive level by targeting the market median for
16 total compensation.

17

18 **Q.** Are Tampa Electric's total compensation and benefits
19 costs reasonable?

20

21 **A.** Yes. Since Tampa Electric's last base rate proceeding in
22 1992, efficiency improvements have enabled the company to
23 reduce its total workforce. During a period when
24 customers grew by over 200,000 or 42 percent, Tampa
25 Electric was able to reduce its workforce by 18 percent

1 from approximately 3,200 team members at the end of 1992
2 to 2,638 projected in 2009 due to an ongoing focus on
3 continuous improvement and cost management. The
4 company's workforce management has had a direct impact on
5 maintaining total compensation and benefits costs at a
6 reasonable level.

7
8 **Q.** When discussing compensation and employee population
9 segments, what terminology is used?

10
11 **A.** There are some general classifications of employees that
12 I describe in my direct testimony. These classifications
13 are consistent with the U.S. Department of Labor's
14 overtime exemptions, as described in the Fair Labor
15 Standards Act ("FLSA"). Exempt employees are those
16 employees that are exempt from the FLSA overtime rules
17 that apply to non-exempt employees. Several white-collar
18 exemption tests help employers identify each employee's
19 job exemption status. Non-exempt employees are eligible
20 for one and one-half times their hourly pay rate for
21 hours worked in excess of 40 hours in a workweek as
22 outlined in the regulations. There are two unions, the
23 International Brotherhood of Electrical Workers ("IBEW"),
24 Local 108 and Office and Professional Employees
25 International Union ("OPEIU"), Local 46, to which some of

1 Tampa Electric's team members belong or are "covered"
2 under.

3
4 **Q.** What resources does Tampa Electric use to evaluate its
5 compensation program?

6
7 **A.** Tampa Electric uses national resources to evaluate its
8 compensation program. The company's recruiting
9 department searches nationally for personnel to fill
10 managerial, professional and technical positions. In
11 addition, because many key positions cannot be filled
12 from the local labor pool, Tampa Electric must remain
13 competitive in national as well as local markets. Tampa
14 Electric utilizes nationally recognized third-party
15 survey sources to aggregate and provide comparative data
16 from national and regional employers, generally and
17 utility specific. It is important to utilize both
18 general and utility comparative market information since
19 the company's workforce encompasses multi-industry
20 talents.

21
22 The primary information resources that Tampa Electric
23 relies upon include:

24 • Towers Perrin, a national human resources consulting
25 firm and the company's independent actuary,

- 1 • WorldatWork, a global not-for-profit association of
- 2 more than 26,000 compensation, benefits and human
- 3 resources professionals,
- 4 • William M. Mercer Incorporated ("Mercer"), a
- 5 national human resources consulting firm,
- 6 • Hewitt Associates LLC ("Hewitt"), a national human
- 7 resources consulting firm,
- 8 • Watson Wyatt Worldwide, an international human
- 9 resources consulting firm, and
- 10 • Gartner, Inc., a global information technology
- 11 research and advisory company.

12

13 **Q.** How does Tampa Electric's total compensation program

14 compare to the market?

15

16 **A.** Tampa Electric's total compensation levels are comparable

17 to those of its competitors for team members performing

18 similar jobs and with similar skill sets. Tampa Electric

19 performs a detailed annual benchmarking analysis of its

20 pay rates to those of its competitors to determine

21 "position to market". Benchmark jobs are defined as jobs

22 that are pure matches to the market and are common from

23 company to company. The most recent market analysis

24 completed in 2007 included market survey data from

25 national third-party survey sources, including Towers

1 Perrin, Hewitt, Mercer and Watson Wyatt. Document No. 2
2 of my exhibit demonstrates that Tampa Electric has
3 maintained its average total compensation for benchmarked
4 exempt and non-exempt jobs at or below the market
5 average.

6
7 In addition, Tampa Electric's annual salary budget has
8 consistently trended below the average rates of key
9 market indices as demonstrated in Document Nos. 3 and 4
10 of my exhibit. Tampa Electric has managed to keep
11 compensation expense increases below a blend of indices
12 across general and utility industries.

13
14 Furthermore, Tampa Electric's salary and wage levels are
15 comparable to those of other utilities as reported in the
16 Federal Energy Regulatory Commission ("FERC") Form-1
17 annual report. Tampa Electric has reviewed its total
18 salaries and wages and compared it to that of other
19 comparable utilities. As shown on Document No. 5 of my
20 exhibit, Tampa Electric continues to be an efficient
21 utility when comparing salaries and wages as a percent of
22 operations and maintenance expense.

23
24 **Q.** Describe Tampa Electric's annual merit pay program.
25

1 **A.** There are two components to Tampa Electric's annual pay
2 program. The first component is a merit award determined
3 by a team member's performance level and salary position
4 relative to market. The second component is a variable
5 incentive pay program known as "Success Sharing" that
6 provides an annual one-time payment based on the
7 achievements of the team member and company against pre-
8 established goals. These performance indicators include
9 safety, environmental, customer favorability,
10 reliability, cost recovery management, capital
11 expenditures and net income.

12
13 **Q.** Describe Tampa Electric's Success Sharing Plan.

14
15 **A.** The objective of the Success Sharing plan is to attract,
16 retain and motivate high performing goal-oriented team
17 members. Payments are tied directly to corporate
18 performance goals that enhance operational efficiencies
19 and financial stability of the organization, which in
20 turn reduces the ultimate cost to customers. Specific
21 examples from the 2008 plan included targets for:
22 service reliability as measured by the average outage
23 duration and the average number of momentary interruption
24 events and customer favorability that measures customers'
25 opinion of service quality and performance. Success

1 Sharing goals are established annually, accomplishments
 2 are monitored throughout the year and payouts based on
 3 accomplishments are made annually. This "at risk"
 4 component of total compensation has been a win-win for
 5 team members and customers.

6
 7 **Q.** Describe Tampa Electric's benefits package.

8
 9 **A.** Tampa Electric's benefits package includes four primary
 10 components: health and welfare benefits, retirement and
 11 post employment benefits, various benefits required by
 12 law and other benefits.

13
 14 **Q.** What is Tampa Electric's projected benefits cost for
 15 2009?

16
 17 **A.** Total benefits cost is projected to be \$73,804,000 in
 18 2009 consisting of the following:

19	• Health and welfare benefits	\$26,136,000
20	• Retirement and post employment	
21	Benefits	\$25,466,000
22	• Benefits required by law	\$18,066,000
23	• Other benefits	\$ 4,136,000

24
 25 Benefits required by law include social security tax,

1 federal and state unemployment taxes, Medicare tax and
2 workers' compensation insurance.

3
4 **Q.** How does Tampa Electric evaluate the design and cost of
5 its benefit programs?

6
7 **A.** Tampa Electric uses the Towers Perrin BENVAL Study, a
8 nationally recognized and accepted actuarial tool that
9 compares the value of benefit plans. The study
10 methodology first analyzes the value of each benefit plan
11 and then converts the plan values to a series of relative
12 value indices by applying a standard set of actuarial
13 methods and assumptions. This method of comparison
14 neutralizes the effects of differences in team member
15 demographics, geographic differences and related
16 influences. Towers Perrin's Employee Benefit Information
17 Center analyzes the competitiveness of participating
18 companies' benefit programs and produces the BENVAL
19 Study.

20
21 As shown in Document No. 6 of my exhibit, Tampa
22 Electric's BENVAL Index for the total benefit program is
23 rated 91.5, which is below the index average of 100.
24 This means that the company's total benefit program is
25 slightly below the national average, yet it is comparable

1 and competitive.

2

3 **Q.** What is Tampa Electric's projected medical cost for the
4 test year?

5

6 **A.** Tampa Electric projects medical and dental costs to be
7 \$19,513,000 for active team members and \$13,110,000 for
8 post-retirement benefits for 2009.

9

10 **Q.** How does Tampa Electric's medical plan compare to
11 industry standards?

12

13 **A.** On a comparative basis, the relative value of Tampa
14 Electric's medical plan is below the average based on the
15 Towers Perrin BENVAL Study, as illustrated in Document
16 No. 7 my exhibit. Tampa Electric's BENVAL Index for
17 medical is rated 95.2, which is below the index average
18 of 100. This means that Tampa Electric's medical plan is
19 comparable and the company is competitive relative to the
20 national average.

21

22 **Q.** What has been Tampa Electric's experience in managing
23 health care costs?

24

25 **A.** Tampa Electric continues to focus on managing the growth

1 of healthcare costs while providing team members with
2 quality medical plans. Document No. 8 of my exhibit
3 illustrates Tampa Electric's average medical cost per
4 team member compared to national trends based on a Mercer
5 survey. The chart shows that even though Tampa
6 Electric's average health care benefits continue to
7 increase, they are increasing at a lower rate than the
8 national level.

9
10 **Q.** What specific initiatives has Tampa Electric pursued to
11 control health care costs?

12
13 **A.** Tampa Electric has made health care cost control a key
14 strategic initiative, applying a continuous improvement
15 process to develop an integrated health strategy that
16 will optimize value and control costs for both the
17 company and its team members.

18
19 The company's successful cost control strategy has
20 included a variety of initiatives, including:

- 21 • Pricing strategy to encourage cost-effective plan
22 selections;
- 23 • Annually adjusting team member contribution amounts;
- 24 • Annual indexing of deductibles, co-payments and out-
25 of-pocket amounts to stay current with the medical

- 1 consumer price index;
- 2 • Emphasis on team member and retiree awareness and
- 3 consumer responsibility by implementing a wellness
- 4 program and making team members aware that by
- 5 focusing on prevention, they can promote better
- 6 health and help control high claim costs;
- 7 • Comprehensive disease management program to
- 8 facilitate the effective medical treatment of plan
- 9 participants with specific diseases that, if not
- 10 properly managed, can generate expensive claim costs
- 11 • Aggressive vendor management; and,
- 12 • Restructuring of prescription drug program to
- 13 encourage increased utilization of generic
- 14 medication and retail refill allowance programs.

15

16 **Q.** Are there other initiatives Tampa Electric has taken to

17 control health care costs?

18

19 **A.** Yes. Tampa Electric has aggressively promoted team

20 member's responsibility for his or her own health and the

21 creation of a healthy work environment, as evidenced by

22 the company's comprehensive program, which includes a

23 strong wellness initiative and linkage to safety.

24

25 **Q.** What factors are driving the substantial increases in

1 health care costs projected to occur over the next few
2 years in the U.S.?

3
4 **A.** There are a number of factors affecting increases in
5 national medical costs that will continue to cause costs
6 to climb including:

- 7 • Growth of the aging population,
8 • Growing number of uninsured individuals putting
9 pressure on the health care system,
10 • Technological enhancements in medical treatments and
11 services driving greater utilization and cost,
12 • Continued focus on direct consumer advertising by
13 pharmaceutical companies,
14 • Increased utilization and pricing of brand name
15 prescription drugs,
16 • Increased inpatient costs, and
17 • Outpatient utilization increases.

18
19 **Q.** What is the impact of these cost factors that you have
20 identified?

21
22 **A.** The impact of these cost factors is a projected increase
23 in medical and dental costs for 2009 of approximately
24 \$1,612,000 over 2008's medical costs for team members.
25 These medical costs have increased 26 percent for the

1 period from 1992 to 2007 going from \$12.6 million to
2 \$15.9 million. Pharmacy costs are rising at a higher
3 rate than medical costs. This is attributable to an
4 aging workforce. However, health care cost inflation is
5 a national concern in both the public and private
6 sectors. The company expects total annual health care
7 costs to increase by nine percent in 2009.

8
9 **Q.** What is Tampa Electric's projected retirement expense for
10 pension and savings in the test year?

11
12 **A.** The projected retirement expense for 2009 is \$12,356,000.
13 The pension plan expense is \$7,379,000 based on the
14 Towers Perrin actuarial study, and the 401(k) retirement
15 savings plan expense is \$4,977,000.

16
17 **Q.** Is it common to use an independent actuarial firm to
18 compute pension and post-retirement benefit costs (FAS
19 106)?

20
21 **A.** Yes. It is a routine, necessary and accepted business
22 practice at Tampa Electric and in the electric utility
23 industry generally to rely on the results of actuarial
24 reports prepared by an independent actuary to establish
25 pension and post-retirement benefit cost (FAS 106) and

1 funding amounts. Tampa Electric's pension cost is
2 computed as part of an annual TECO Energy actuarial
3 valuation performed by Towers Perrin, in accordance with
4 Financial Accounting Standards Board standards.

5
6 **Q.** How is Tampa Electric's pension benefit cost computed
7 from TECO Energy valuation?

8
9 **A.** Most of the company's pension benefit cost is computed
10 directly based on the specific demographics of the
11 company's actual team members and retirees; therefore,
12 assignment of a portion of total cost of the Tampa
13 Electric plan is not necessary. However, investment
14 return and the amortization of actuarial gains and losses
15 are assigned to the company and other subsidiaries based
16 on each company's directly computed liability versus the
17 total plan liability; as a result, each entity receives
18 its appropriate and equitable share of investment return
19 and amortization of actuarial gains and losses. This
20 method of determining the company's pension cost is
21 reasonable, fair and equitable and results in no cross-
22 subsidization of cost between the company and its
23 affiliates.

24
25 **Q.** Do the actuarial assumptions and methods provide a

1 reasonable basis for determining the level of pension
2 cost to be included in cost of service?

3
4 **A.** Yes. The actuarial assumptions and methods used for the
5 pension valuation are reasonable both individually and in
6 the aggregate.

7
8 **Q.** What specific initiatives has Tampa Electric pursued to
9 address the aging workforce?

10
11 **A.** The aging workforce is a national challenge facing all
12 corporations and is particularly acute in the utility
13 industry. In 2007, Tampa Electric created a formal
14 Workforce Planning Process to improve the identification
15 of future workforce gaps and develop proactive solutions
16 that can address these challenges and identify and
17 develop future leaders for the company. Tampa Electric
18 has been an active member of the Florida Energy Workforce
19 Consortium ("FEWC") since its inception in 2006. The
20 FEWC is a group of utility companies, educational
21 institutions, workforce boards and labor organizations
22 and companies that directly support the utility industry.
23 The purpose of this consortium is to collectively
24 identify and develop solutions to meet the current and
25 future workforce needs of utilities in Florida.

1 Tampa Electric has also been a member of the Center for
2 Energy Workforce Development ("CEWD") since its inception
3 in 2006. The CEWD is a national, non-profit organization
4 whose mission is to focus on the need to build a skilled
5 workforce pipeline that will meet future utility industry
6 needs.

7
8 The company has pursued several initiatives to help
9 increase career awareness within local schools, such as
10 an on-site showcase for teachers and counselors and
11 development and distribution of job trading cards.

12
13 Tampa Electric has also partnered with Hillsborough
14 Community College to help improve retention and
15 engagement of existing personnel by developing a program
16 that allows skilled trade workers, such as linemen, to
17 receive credit for in-house training that can be applied
18 to the Associate in Applied Science Degree in Industrial
19 Management.

20
21 Tampa Electric believes these initiatives collectively
22 will help the company to continue attracting and
23 retaining talented and dedicated team members despite the
24 increasing average age of the company's workforce.
25

1 Q. Please summarize your direct testimony.

2
3 A. My direct testimony outlines the major aspects of Tampa
4 Electric's compensation, benefits and workforce planning
5 process. Tampa Electric's total compensation and benefit
6 costs are projected to be \$278,937,000 for 2009. The
7 company strives to offer a compensation and benefits
8 package that attracts and retains talented and dedicated
9 team members by targeting total compensation and benefits
10 at competitive levels. The company's attraction and
11 retention goals have been achieved while maintaining
12 overall benefits and healthcare plan costs below the
13 average. Tampa Electric has aggressively managed health
14 care costs through pricing strategies, annual
15 contribution adjustments, annual indexing of deductibles,
16 co-payments, and out-of-pocket amounts and prescription
17 drug restructuring. Growing healthcare costs will
18 continue to be a national concern for the public and
19 private sector. It is expected to grow at an annual rate
20 of nine percent from 2008 to 2009 for Tampa Electric.
21 The company's 2009 projected level of expense is
22 reasonable and necessary to support this effort.

23
24 Tampa Electric's total compensation and benefits
25 philosophy has served the company and its customers very

1 well and costs have been prudently incurred. As Tampa
2 Electric moves forward, it must continue to compensate
3 and provide competitive benefit programs to its team
4 members in order to attract and retain the best talent.
5 The 2009 projected level of compensation and benefits
6 expense is reasonable and necessary to attract and retain
7 the caliber of team members that create a high-
8 performance organization.

9
10 **Q.** Does this conclude your direct testimony?

11
12 **A.** Yes, it does.
13
14
15
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25

1 **BY MR. WAHLEN:**

2 **Q** Ms. Merrill, attached to your direct testimony
3 did you include a composite exhibit premarked as Exhibit
4 DSM-1 and hearing Exhibit No. 25, consisting of eight
5 documents?

6 **A** I did.

7 **Q** Any changes to your exhibit?

8 **A** No.

9 **Q** And in that exhibit you had a list of MFR
10 schedules that you sponsored. Are there any changes to
11 the MFR schedules that you sponsored?

12 **A** No, there are not.

13 **Q** Ms. Merrill, I believe during the course of
14 this proceeding you also submitted a revised
15 Interrogatory No. 1 and 2, which is a response to
16 staff's first set of interrogatories, and I believe that
17 was on November 10th; is that correct?

18 **A** That's correct.

19 **Q** And do you understand that those answers were
20 included in a composite exhibit prepared by staff and
21 supplemented by the other parties?

22 **A** Yes.

23 **MR. WAHLEN:** Mr. Chairman, we request that the
24 record is clear and that her revised answer to
25 interrogatory be included in that exhibit, and I

1 believe it is. I just want to be clear.

2 **CHAIRMAN CARTER:** All parties are familiar,
3 all parties have received a copy?

4 **BY MR. WAHLEN:**

5 **Q** Thank you. Did you also prepare and cause to
6 be prefiled in this proceeding on December 17th, 2008,
7 prepared rebuttal testimony consisting of 21 pages?

8 **A** Yes, I did.

9 **Q** And are there any changes or corrections to
10 that?

11 **A** No.

12 **Q** If I were to ask you the questions contained
13 in that testimony today would your answers be the same?

14 **A** They would be.

15 **MR. WAHLEN:** Tampa Electric Company requests
16 that Ms. Merrill's rebuttal testimony be inserted
17 into the record as though read.

18 **CHAIRMAN CARTER:** The prefiled testimony of
19 the witness will be inserted into the record as
20 though read.

21

22

23

24

25

BEFORE THE PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

DIANNE S. MERRILL

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

A. My name is Dianne S. Merrill. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Director, Staffing and Development.

Q. Are you the same Dianne S. Merrill who filed direct testimony in this proceeding?

A. Yes I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to address serious errors and shortcomings in the prepared direct testimonies of Helmuth W. Schultz, III, testifying on behalf of the Citizens of the State of Florida and Jeffrey Pollock, testifying on behalf of the Florida Industrial

1 Power Users Group.

2

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

5

6 **A.** Yes I have. I am sponsoring Rebuttal Exhibit No. __ (DSM-
7 2), consisting of two documents, prepared by me or under
8 my direction and supervision. These consist of:

9 Document No. 1 2007 BENVAl Study - Defined Contribution

10 Document No. 2 2007 BENVAl Study - Defined Benefit and
11 Defined Contribution

12

13 **Q.** Please summarize the key concerns and disagreements you
14 have regarding the substance of Messrs. Schultz and
15 Pollock's testimony.

16

17 **A.** My key concerns and disagreements with Messrs. Schultz
18 and Pollock's testimonies relate to their conclusions
19 that 1) certain costs in the company's incentive
20 compensation plan should be excluded, 2) the 401(k) fixed
21 match expense should be reduced, and 3) stock
22 compensation should be excluded from cost of service.

23

24 **Q.** What is Tampa Electric's compensation philosophy?

25

1 **A.** Tampa Electric's philosophy is to provide a compensation
2 system that aligns with business strategies and offers
3 competitive rewards for outstanding accomplishments
4 toward the success of the organization. Total
5 compensation is designed to be competitive so that the
6 company can attract and retain the most qualified
7 individuals.

8
9 **Q.** Please describe Tampa Electric's compensation plan.

10
11 **A.** For all employees of Tampa Electric, there are two parts
12 of compensation; base salary, which is the fixed portion
13 of total compensation and short-term incentive, which is
14 the cash portion of compensation that is "at risk". The
15 company targets total compensation at the 50th percentile
16 when comparing external market data to similar company
17 positions.

18
19 For officers and key employees, there is a third
20 component, long-term incentive, which is the equity
21 portion of total compensation. The company considers
22 these components to be key elements of its total rewards
23 plan, which also includes other benefits such as health
24 care and life insurance benefits. Each of these
25 components plays an important role in enabling Tampa

1 Electric to remain competitive with other companies
2 seeking to attract similarly qualified employees.

3
4 **Q.** Please describe the company's three short-term employee
5 incentive plans.

6
7 **A.** Tampa Electric has three types of incentive plans; an
8 officer short-term incentive plan, a key employee short-
9 term incentive plan, and a general employee short-term
10 incentive plan known as Success Sharing.

11
12 The officer's short-term incentive plan provides a
13 consistent framework for applying annual incentive pay to
14 officers of Tampa Electric. Each participant is assigned
15 a target award amount, expressed as a percentage of
16 annual base salary. The target award levels are
17 established at a level that, when combined with each
18 participant's base salary, provides a competitive total
19 cash compensation opportunity. The incentive portion
20 reflects compensation "at risk" which is directly related
21 to performance and results achieved. Performance is
22 measured, in part, against a combination of quantifiable
23 financial and operational goals. Each participant has a
24 "business plan" goal, which reflects the participant's
25 contribution to achieving initiatives in support of the

1 business plan and overcoming any business changes by
2 mitigating the impact of unexpected adverse business
3 developments or enhancing profitability through effective
4 management initiatives beyond the business plan.

5
6 The key employee short-term incentive plan works
7 virtually identically to the incentive plan for officers.
8 As with officers, key employees have both financial and
9 operational goals.

10
11 The general employee short-term incentive plan is known
12 as Success Sharing and it is available to all other
13 employees working at least 20 hours per week. For 2008,
14 the plan is comprised of customer-focused operational and
15 financial goals. The maximum payout percentage is
16 applied to the higher of the employee's total earnings or
17 job market value for the calendar year.

18
19 The incentive plans put a portion of employees'
20 compensation "at risk". This means that if performance
21 goals are not met, the payout is not made. If certain
22 performance results are achieved, a predictable award
23 will be earned based upon objective criteria. The actual
24 amount of the award depends upon the achieved results.

25

1 All of the incentive plans are designed to emphasize key
2 operational and financial goals; link pay with business
3 performance and personal contributions to results;
4 motivate participants to achieve high levels of
5 performance; and reinforce desired business behaviors and
6 results. Incentive plans such as these encourage cost
7 control and resource optimization, both of which benefit
8 customers. While there is no empirical evidence to
9 support it, the company attributes its incentive plans to
10 helping manage costs for so long without a base rate
11 increase and to performing favorably under the
12 Commission's O&M benchmark.

13

14 **Q.** On page 7, lines 1 through 3 of his direct testimony, Mr.
15 Schultz claims that the company has failed to document
16 the need to include incentive pay above employee base
17 salaries to retain or motivate its employees. Do you
18 agree?

19

20 **A.** No, I do not agree. Incentive pay is a key component of
21 total compensation. The company uses market data and
22 benchmarking results for similarly situated companies to
23 measure the competitiveness of its compensation. In a
24 time when the electric industry is facing workforce
25 challenges while numerous industry-wide initiatives are

1 required, it is critical for Tampa Electric to attract
2 and retain talented individuals. Its total compensation
3 plan, including incentive compensation, is designed to do
4 so.

5
6 **Q.** How does the company determine reasonable and appropriate
7 compensation levels?

8
9 **A.** The company uses market data and benchmarking results to
10 measure the competitiveness of its compensation. For
11 each company position, it matches essential job functions
12 to those found in external market surveys. These same
13 surveys show that incentive compensation programs like
14 Tampa Electric's are commonly used by similarly situated
15 companies. Based on the *World At Work 2008/2009 Annual*
16 *Salary Budget Survey*, over 80 percent of the 2,375
17 companies surveyed use an incentive pay program.

18
19 Incentive compensation plans are not new. In fact, Tampa
20 Electric's Success Sharing plan has been in place since
21 1990 and its appropriateness was approved by the
22 Commission in the company's last rate case in 1992. In
23 Gulf Power Company's ("Gulf") most recent base rate
24 proceeding (Docket No. 010949-EI), Mr. Schultz made
25 similar arguments about their incentive compensation plan

1 as he does about Tampa Electric's, but the Commission did
2 not agree with him and made no adjustment. The
3 Commission noted that Gulf offers a plan consisting of
4 base salary and incentive compensation and that only
5 receiving a base salary would mean Gulf employees would
6 be compensated below employees at other companies. While
7 I am not familiar with the details of their plan, their
8 approach to utilize market data appears to be similar.
9 One apparent difference is that Gulf's philosophy is to
10 pay employees at the 75th percentile while Tampa
11 Electric's is to target the 50th percentile.

12
13 **Q.** Would Tampa Electric need to consider restructuring its
14 total compensation package if any incentive compensation
15 expenses were excluded?

16
17 **A.** Yes. Tampa Electric would need to consider raising base
18 salaries while decreasing or eliminating the "at-risk"
19 incentive compensation component. It is inappropriate to
20 single out the incentive component of an employee's total
21 compensation for scrutiny just because it is called
22 "incentive" compensation. Tampa Electric's total
23 compensation package, including the portion that is
24 contingent on achieving incentive goals, is set near the
25 median level of benchmarked compensation, which is the

1 relevant level of cost that should be considered for
2 ratemaking purposes. Accepting Mr. Shultz's
3 recommendation to disallow incentive compensation would
4 adversely affect the company's ability to compete in
5 attracting and retaining a high quality and skilled
6 workforce. Otherwise, total compensation would be below
7 the median for comparable jobs. Under this scenario, it
8 would not be reasonable to expect that the company could
9 continue to attract and retain quality employees.

10
11 Using incentive compensation programs is less costly than
12 increasing base salaries because incentive compensation
13 is "at risk" and, by definition, not guaranteed. The "at
14 risk" component motivates employees to perform at high
15 levels and results in more efficiency, which translates
16 to direct benefits for the company's customers.

17
18 **Q.** On page 7, lines 13 and 14 of his direct testimony, Mr.
19 Schultz claims that the goals set by the company and the
20 determination of eligibility payments under the plan are
21 seriously flawed, particularly from a ratemaking and
22 ratepayer prospective. Do you agree?

23
24 **A.** No. Although it is not clear from Mr. Schultz's
25 testimony which plan he is referencing, his examples

1 relate to Success Sharing goals. The goals are
2 established each year to focus the organization on the
3 most important customer-oriented operational and
4 financial challenges. The goals are designed to be
5 measurable and attainable but still represent a
6 significant challenge to achieve. The goal setting
7 process includes a review of historical results and
8 achievements, the challenges of the goal and the
9 applicability to the upcoming year's operational and
10 financial objectives. The goals are set to have a
11 reasonable chance of achievement while requiring efforts
12 that challenge the organization's employees and balance
13 the cost to provide targeted levels of service. The
14 goals have been appropriately set and have helped Tampa
15 Electric accomplish overall operational and financial
16 objectives over the years.

17
18 **Q.** Describe in more detail how Success Sharing goals are
19 currently structured.

20
21 **A.** The maximum annual payout under Success Sharing is 12
22 percent; five percent is tied to customer-focused
23 operational goals, five percent is tied to Tampa Electric
24 net income, and two percent is tied to TECO Energy net
25 income. The two net income goals are self-funding.

1 Tampa Electric witness Jeffrey Chronister describes what
2 is meant by "self-funding" in his rebuttal testimony.

3

4 **Q.** Mr. Schultz asserts the company's operational goals and
5 targets, specifically related to customer favorability,
6 SAIDI, safety and environmental, are set so that
7 employees are not required to improve performance in
8 order to receive payout. How do you respond to this?

9

10 **A.** As I stated above, the goals are set to have a reasonable
11 chance of achievement but require focus on all employees'
12 parts and require them to achieve high levels of
13 performance given all of the other operational and
14 financial challenges before them. The targets and goals
15 are not driven by continuous improvement as Mr. Schultz
16 suggests they should be but instead are focused on
17 providing quality service for customers. If the goals
18 and targets were set to focus on continuous improvement
19 year over year, the cost of providing service would be
20 significantly higher than what the company is currently
21 proposing in this proceeding.

22

23 The goal setting process is not taken lightly by the
24 company and there are numerous factors that go into
25 setting goals and targets each year, including past

1 achievements, organizational changes, and system
2 enhancements. In the rebuttal testimony of Tampa
3 Electric witness Regan Haines, he explains the types of
4 factors that have impacted the SAIDI goal over the past
5 years.

6
7 **Q.** On pages 9 and 10 of his direct testimony, Mr. Schultz
8 claims that the company failed to achieve its target for
9 five of the seven Success Sharing goals in 2003. He also
10 claims that two of seven goals were not achieved in 2004,
11 five of seven goals were not achieved in 2005, two of
12 seven goals were not achieved in 2006 and two of seven
13 goals were not achieved in 2007; yet, despite the fact
14 that goals were not achieved in each of the five years,
15 the company still expensed and paid 18 to 49 percent more
16 than the target level of incentive compensation budgeted
17 during the years 2004 through 2007. Is this true?

18
19 **A.** It is unclear what data Mr. Schultz used to derive his
20 conclusion, but his assertion is incorrect. For 2002 and
21 2003 when eligible employees could earn up to 10 percent
22 incentive compensation, payout was 9.25 to 10 percent and
23 3.83 to 4.43 percent, respectively. For 2004 through
24 2007 when the maximum achievement was 12 percent, actual
25 payout was 4.94 percent, 6.03 percent, 4.86 percent and

1 6.41 percent, respectively.

2

3 **Q.** Mr. Schultz also asserts that the 2005 Success Sharing
4 results showed that the company failed to meet five of
5 seven targets (safety, environmental, SAIDI, cost
6 recovery clauses, and Tampa Electric net income), yet its
7 incentive compensation expense was more than 49 percent
8 above the target incentive amount. Is this true and if
9 so, does it mean that the incentive plan is flawed or
10 that the related costs should be excluded from the
11 company's cost of service?

12

13 **A.** No, it is not true. In 2005, when the maximum
14 achievement was 12 percent, the payout was only 6.03
15 percent. The incentive plan is not flawed and the costs
16 related to the plan are appropriately included in
17 calculation of the company's revenue requirement for the
18 test year.

19

20 **Q.** On page 12, lines 6 through 8 of his direct testimony,
21 Mr. Pollock claims that any Success Sharing "payout to
22 all participants is zero if TECO Energy's income
23 threshold set for that year by the Compensation Committee
24 is not achieved." Is this correct?

25

- 1 **A.** No. The Success Sharing payout is not contingent upon
2 TECO Energy achieving certain financial goals. If the
3 TECO Energy net income goal is not met, two percent of
4 the eligible 12 percent is not paid.
5
- 6 **Q.** Messrs. Pollock and Schultz assert that only 50 percent
7 of the Success Sharing payout should be included in
8 operating expenses because both shareholders and
9 ratepayers benefit equally. Do you agree?
10
- 11 **A.** No, I do not agree. The Success Sharing operational and
12 financial performance measures are heavily weighted
13 toward providing benefits to customers. They promote
14 safety, reliable service, cost containment and financial
15 soundness of Tampa Electric among other things. The
16 entire amount of this program should be allowed because
17 it is designed to achieve favorable customer results.
18
- 19 **Q.** Describe in more detail how the 2008 officer and key
20 employee short-term incentive plan goals are structured.
21
- 22 **A.** Tampa Electric officers' short-term incentive plan
23 consists of 60 percent financial and 40 percent
24 operational goals. Two thirds of the financial goals are
25 focused on Tampa Electric net income with the remainder

1 on TECO Energy results. For key employees, 50 percent of
2 their goals are operational and 50 percent are financial.
3 Seventy percent of the financial goals are focused on
4 Tampa Electric net income with the remainder on TECO
5 Energy results.

6
7 **Q.** Mr. Pollock recommends 100 percent disallowance of
8 officer and key employee short-term incentive plan
9 expense because "those payments are contingent upon TECO
10 Energy achieving a specific level of net income." Is he
11 correct and is his recommendation appropriate?

12
13 **A.** He is not correct and the recommendation is not
14 appropriate. While officers' payout is contingent upon
15 TECO Energy achieving certain financial results, key
16 employee payout is not and the overall focus of both
17 programs remains on Tampa Electric's operational and
18 financial results. Participants in these plans help
19 ensure the company's goals of providing customers with
20 safe and reliable service. The participants also focus
21 on ensuring an adequate return to shareholders. Both of
22 these objectives benefit the ratepayers. The first
23 directly benefits ratepayers who rely on electric service
24 to meet their needs and the second indirectly benefits
25 ratepayers by having a company that is able to attract

1 needed capital at a reasonable cost to provide safe and
2 reliable service. If the Commission were to agree with
3 Mr. Pollock on a policy basis, which it should not, the
4 amount of incentive compensation expense included in the
5 2009 test year associated with TECO Energy's financial
6 performance is only about eight percent, not 100 percent
7 as he proposes. Mr. Chronister addresses this in more
8 detail in his rebuttal testimony.

9
10 **Q.** Please describe the company's long-term incentive
11 compensation plan.

12
13 **A.** The company's long-term incentive plan is another
14 component of officers' and key employees' total
15 compensation packages. Through stock awards, the
16 company's plan is designed to reward long-term company
17 and individual success and, as such, it is used as a
18 retention tool. For eligible employees, the company
19 awards a mix of 70 percent performance and 30 percent
20 time-vested restricted shares based on an annual market
21 review conducted by outside consultants that compares the
22 value of the grants to salary levels to determine the
23 appropriate award amounts. The company's performance
24 must be strong and employees must remain employed by the
25 company for the duration of the vesting period to be

1 eligible for any possible payout.

2

3 For performance restricted shares, the company's
4 performance is measured against a set of peer companies.
5 The performance measurement period is three years and the
6 award depends on the company's total return as compared
7 to other peer companies. Performance-based restricted
8 stock vests anywhere from zero to 150 percent of the
9 grant amount.

10

11 Unlike performance restricted shares, time-vested
12 restricted shares are not measured against TECO Energy
13 total shareholder return but are used solely as a
14 retention tool. The eligible employee must be employed
15 at the end of a three-year vesting period in order to
16 receive payment of these shares.

17

18 **Q.** On page 16, lines 3 through 9 of his direct testimony,
19 Mr. Pollock proposes that the cost associated with
20 performance and time-vested restricted stock be removed
21 from cost of service. Do you agree?

22

23 **A.** No I do not. The long-term incentive program is part of
24 Tampa Electric's total compensation package and it
25 specifically allows the company to retain some of its key

1 talent. Accordingly, the associated costs are
2 appropriately included in its cost of service.

3
4 **Q.** Mr. Schultz asserts that effective April 2007, the fixed
5 company match for the 401(k) plan was increased from 30
6 to 50 cents and it is not appropriate for the company to
7 increase the contribution to its employees' second
8 retirement plan. Do you agree?

9
10 **A.** No, I do not agree. In April 2007, Tampa Electric did
11 change the company fixed match from 30 cents to 50 cents
12 to be more comparable to other utilities. Based on
13 Towers Perrin's 2007 Energy Services BENCAL study, the
14 employer contribution aspect of TECO Energy's 401(k) plan
15 ranked fourth from the bottom and significantly below the
16 industry average. The study also illustrates that the
17 majority of companies in the "Energy Services" category
18 have a defined benefit plan along with a defined
19 contribution plan. Among companies providing both a
20 defined benefit plan and a defined contribution plan,
21 TECO Energy is still next to last among "Energy Services"
22 companies. These results are shown in Documents No. 1
23 and 2 in my rebuttal exhibit.

24
25 **Q.** On page 16, lines 3 through 7 of his direct testimony,

1 Mr. Schultz criticizes the studies used to justify the
2 company's level of employee benefits. He claims they
3 reflect a limited sample of companies. Do you agree and
4 is it relevant that the surveys do not reflect the small
5 companies that offer limited health care and/or
6 retirement plans or do not offer any health care or
7 retirement plans?

8
9 **A.** I do not agree and Mr. Schultz is incorrect. The BENCAL
10 Study is used by a wide range of peer companies to
11 benchmark benefits. Forty-nine energy services companies
12 participated in the 2007 Energy Services BENCAL Study.
13 Of those 49 companies, 16 were benchmarked against TECO
14 Energy, Inc. These 16 companies were selected for
15 comparison based on similar revenue ranges. To benchmark
16 the company against small companies that are not in the
17 utility industry and without comparative benefits would
18 not provide meaningful information to determine the
19 reasonableness and competitiveness of overall benefits.

20
21 **Q.** Do you agree that a 40 percent downward adjustment for
22 401(k) expense should be made to adjust for a "special
23 add on"?

24
25 **A.** No. The company's change in its fixed match contribution

1 from 30 to 50 cents is not a "special add on". It was an
2 adjustment to get its plan closer to industry market
3 value. His recommended disallowance is totally improper.
4

5 **Q.** On page 18 of his direct testimony, Mr. Schultz claims
6 that employee medical costs may not reflect a proper
7 level of employee contributions. Do you agree?
8

9 **A.** No. Document No. 8 of Exhibit No. __ (DSM-1) in my direct
10 testimony illustrates that Tampa Electric's average
11 medical cost per employee in 2007 was \$6,377 compared to
12 the national average of \$7,983. The company attributes
13 this favorable result to successful cost control
14 strategies including designing employee contribution
15 amounts that encourage cost-effective plan selections
16 through annual adjustments and indexing of deductibles,
17 co-payments and out-of-pocket amounts. The company's
18 level of expense for employee healthcare is reasonable
19 and prudent.
20

21 **Q.** Please summarize your rebuttal testimony.
22

23 **A.** The criticisms raised by the intervenors regarding Tampa
24 Electric's compensation and benefits are without merit
25 and none of their proposed adjustments are warranted.

1 Total compensation, which includes short and long-term
2 incentive plans, is designed to be competitive so that
3 the company can attract and retain the most qualified
4 individuals. Incentive compensation includes customer-
5 focused operational and financial goals. The company's
6 total compensation plan and benefits are set at a level
7 that is comparable with the market. The associated
8 expenses are reasonable, prudent and appropriately
9 reflected in the 2009 test year budget.

10

11 **Q.** Does this conclude your rebuttal testimony?

12

13 **A.** Yes, it does.

14

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1 **BY MR. WAHLEN:**

2 **Q** Mrs. Merrill, attached to your rebuttal
3 testimony did you include a composite exhibit that's
4 been premarked as Exhibit DSM-2 and hearing Exhibit No.
5 85, consisting of two documents?

6 **A** Yes.

7 **Q** And do you have any changes to your Exhibit
8 No. 85?

9 **A** No.

10 **Q** Thank you very much. Would you please
11 summarize your direct and rebuttal testimony.

12 **A** Good afternoon, Commissioners. My direct
13 testimony outlines the major aspects of Tampa Electric's
14 compensation benefits and workforce planning. I support
15 Tampa Electric's total compensation of benefit costs for
16 2009 to be 278,937,000.

17 I explain Tampa Electric's continued efforts
18 to offer a compensation and benefits package designed to
19 attract and retain talent by targeting the total
20 compensation of benefits at competitive levels while
21 controlling our costs. I describe how the company's
22 attraction and retention goals have been achieved while
23 maintaining overall benefits, health care plan, and
24 retirement plan costs below the average, as reflected in
25 authoritative -- in just studies.

1 Based on these observations, I conclude that
2 Tampa Electric's total benefits and compensation
3 philosophy has served the company and its customers well
4 and the costs have been prudently incurred. The 2009
5 projected level of compensation and benefit expense is
6 reasonable and necessary to attract and retain the
7 caliber of team members that create a high performing
8 organization.

9 My rebuttal testimony addresses a number of
10 errors made and incorrect conclusions reached by OPC and
11 FIPUG's witnesses regarding certain aspects of our
12 compensation package. Our short-term incentive
13 programs, which are part of the overall total
14 compensation package, are designed to emphasize key
15 operational and financial goals, link pay with business
16 performance, and reinforce desired behaviors and
17 results. These plans encourage cost control and
18 resource optimization that benefit our customers.

19 Our 401(k) plan is a reasonable part of our
20 overall benefits package. The company's contribution
21 level is lower than those of other industries, as
22 demonstrated by the industry studies. The inclusion of
23 our stock compensation, which is a part of our overall
24 compensation, is necessary and appropriate for the
25 inclusion in the company's cost of service.

1 testimony do you state the short-term incentive
2 compensation is pay that is at risk?

3 **A** That is correct, the short-term incentive is
4 an at-risk part of the compensation.

5 **Q** And you would agree that at-risk means that if
6 goals are not achieved, then no success sharing payout
7 is made, correct?

8 **A** That is correct.

9 **Q** Okay. Referring to page 11 of your rebuttal
10 testimony, where you state the goals are set to have a
11 reasonable chance of achievement; is that correct?

12 **A** What line are you referring to?

13 **Q** Specifically lines 14 through 17.

14 **A** I'm not seeing where you're referring to. I'm
15 sorry.

16 **Q** Okay. In -- in -- well, let's start at the
17 top of your answer, line 10.

18 **A** Okay.

19 **Q** Through line 17. Would it be a fair
20 characterization of your testimony that goals are set to
21 have a reasonable chance of achievement?

22 **A** They are set to have a reasonable chance of
23 achievement, with focusing on the company's goals that
24 are the most priority to the company.

25 **Q** Okay. And you also indicated on page 11 that

1 the goals are not driven by continuous improvement. Is
2 that a fair characterization?

3 **A** That is -- that is correct.

4 **Q** Okay. You would agree that, based on the last
5 two answers, it could be stated that the goals are set
6 at levels that, once attained -- that, once attained,
7 future improvements may not be required?

8 **A** Can you repeat that question?

9 **Q** Certainly. You would agree that, based on
10 your two responses, that goals can be set at levels
11 that, once the employee has attained those levels, they
12 do not have to attain any future improvements?

13 **A** Well, let me describe the goal setting
14 process. It goes back and looks at historic
15 information, based on whatever the particular goal is.
16 It looks at what's required for the business plan that
17 year and it looks at what's required for the customer.
18 We have several goals that are very focused on the
19 employee focusing on achieving them and they're
20 difficult to achieve.

21 **Q** Okay. But you would agree that, based on your
22 responses, that you don't necessarily set the next
23 year's goal at a level higher than what was achieved in
24 the current year?

25 **A** It depends. In some cases there are goals

1 that are set that way. In other cases there are goals
2 that are set that may have the same target as the
3 previous year. It really depends on the historic and
4 what's happening within that particular goal.

5 **Q** Okay. And you would -- you would agree that
6 it -- that the company -- in your opinion, the company's
7 goals are set at reasonable levels, correct?

8 **A** They are set at reasonable levels, yes, I
9 would agree with that.

10 **Q** Okay. And on page 9 of your rebuttal
11 testimony you state that, because incentive compensation
12 is at risk, that by definition it is not a guarantee, or
13 not guaranteed?

14 **A** That is correct. It is an at-risk part of our
15 total compensation.

16 **Q** Okay. Do you have the company's response to
17 Interrogatory No. 53?

18 **A** I do.

19 **Q** Okay. In the beginning of 2007, how many
20 employees were eligible for incentive compensation?

21 **A** 2,647.

22 **Q** Okay. Is that 2007?

23 **A** I'm sorry, that's 2003.

24 **Q** Okay. For 2007?

25 **A** 2,522.

1 **Q** Okay. Of those 2,522, how many did not
2 receive an award?

3 **A** Zero.

4 **Q** Okay. And in 2006, how many employees were
5 eligible?

6 **A** 2,516.

7 **Q** And of those, how many did not receive an
8 award?

9 **A** Zero.

10 **Q** In 2005, how many employees were eligible?

11 **A** 2,429.

12 **Q** And of those, how many did not receive an
13 award?

14 **A** Zero.

15 **Q** In 2004, how many employees were eligible?

16 **A** 2,435.

17 **Q** Of those, how many did not receive an award?

18 **A** One.

19 **Q** And in 2003, how many employees were eligible?

20 **A** 2,647.

21 **Q** And of those, how many did not receive an
22 award?

23 **A** Five.

24 **Q** Okay. So in the total period from 2003 to --
25 through 2007, you would agree that a total of six

1 employees did not receive their compensation -- or
2 incentive compensation?

3 **A** They were not paid success sharing.

4 **Q** Okay. All right. Let me refer you to page 13
5 of your rebuttal testimony.

6 Okay. And you state that Mr. Schultz is wrong
7 when he states that the 2005 expense was 49 percent more
8 than target despite the company's failure to meet five
9 of its seven targets, correct?

10 **A** Yes.

11 **Q** Now, do you have a copy of the company's
12 response to Interrogatory No. 29?

13 **A** Yes, I do.

14 **Q** Okay. Would you agree that the amount for the
15 target incentive for 2005 indicated in the response is
16 7,842,388?

17 **A** Yes.

18 **Q** And you would agree that the amount of the
19 actual expensed incentive indicated for 2005 in the
20 response is 11,653,924?

21 **A** Yes.

22 **Q** And isn't it correct that the indicated amount
23 expensed for 2005 is approximately 49 percent higher
24 than the indicated amount of the target incentive for
25 2005?

1 **A** Well -- and let me go back to the rebuttal
2 testimony. What he was -- Mr. Schultz was referring to
3 was our goals for success sharing. And what's on this
4 interrogatory in front of us is our target incentive for
5 all of our short-term incentive plans.

6 **Q** Okay. But is it correct that it's 49 percent
7 higher?

8 **A** It is.

9 **Q** Okay. Now, speaking of the success sharing
10 goals, do you have a copy of Interrogatory Response No.
11 30 available to you?

12 **A** No. 30?

13 **Q** Correct.

14 **A** I do.

15 **Q** Okay. Specifically referring -- page 3 of 5
16 on this exhibit, or on this interrogatory response, now,
17 that specifically refers to the success sharing,
18 December 2005?

19 **A** That is correct.

20 **Q** Okay. And the whole document includes the
21 results for the success sharing program from
22 December 2003 through December 2007; is that correct?

23 **A** That is correct.

24 **Q** Okay. Now, I want to focus our attention
25 specifically on page 3 of 5, which is the December 2005

1 success sharing results. The first goal is safety,
2 correct?

3 **A** That is correct.

4 **Q** Okay. And the company's target for personal
5 injuries was 89, right?

6 **A** Yes.

7 **Q** But the actual result was 126?

8 **A** Well, let me explain that. The safety here in
9 the document that we're looking at is actually quarterly
10 safety, and so the numbers that are reflected there from
11 the company's numbers were to keep the team members
12 focused on the whole. So the way the actual plan
13 worked, not only just for 2005, for 2003, 2004, they
14 were paid quarterly to the team members.

15 So when you look at this number here, take the
16 89, the company actually had 126. What that means is
17 126 employees that -- sometime during that year did not
18 get their quarterly payout, because they had some kind
19 of preventable accident that didn't entitle them to
20 that.

21 So when we went back and asked for the other
22 interrogatory, the zero and the zero and the zero, they
23 may at some point during that year have been eligible
24 and had some payout, but they didn't have it every
25 quarter.

1 So when we answered that, it was did they get
2 nothing for the entire year. No. Zero. They -- the
3 employees got something. But when you look at the
4 actual goals here, 126 employees did not -- for some
5 time during that year didn't get their quarterly payout
6 because they had a preventable safety accident.

7 **Q** Okay. But the way that the interrogatory
8 response is, it's year-to-date targets and year-to-date
9 actual, correct?

10 **A** You're referring to Interrogatory 30 now?

11 **Q** Correct.

12 **A** It's year-to-date targets, year-to-date
13 actuals. We did not use the company numbers in here.
14 Those were to keep the employees focused on what's the
15 bigger picture.

16 **Q** And you would agree that the target was 89,
17 the actual was 126, and that that target was not met,
18 correct?

19 **A** Again, that number is there only for -- to
20 keep the entire organization focused on what's our
21 target and what's our actual. We did not use that
22 number in the goal calculation.

23 **Q** Okay. So -- but if -- looking at the numbers
24 based on your response to Interrogatory No. 30, the
25 safety goal was not achieved, correct?

1 **A** The safety goal was achieved by everybody but
2 126 employees in this particular year.

3 **Q** All right. Let me move on to the
4 environmental goal. The target level was zero
5 environmental goals and there were four actual
6 incidents?

7 **A** And I don't have the detail behind this, but I
8 believe they were quarterly, and we actually achieved
9 that goal also.

10 **Q** Okay. Is it indicated anywhere on this
11 interrogatory response that these are qualified as
12 quarterly results?

13 **A** The safety is the one that's paid quarterly.
14 The other ones are actually maybe measured quarterly.
15 Some of them are -- even the customer service is
16 measured quarterly. The answer is no, it does not
17 indicate that on this -- on this particular document.

18 **Q** Okay. So based on what the document is
19 saying, those are year-to-date results, correct?

20 **A** That's correct.

21 **Q** Okay. And you would agree that, based on
22 what's in the document for reliability, the SAIDI was
23 not met.

24 **A** SAIDI was not met in this time frame, that is
25 correct.

1 **Q** Okay. And based on the document, the goal
2 that was set for cost recovery clauses was also not met,
3 correct?

4 **A** That is correct.

5 **Q** And referring to the cash flow goal -- or,
6 excuse me, the net income goal, that, based on the
7 results that are contained in this document, that that
8 goal was not met as well, correct?

9 **A** For which company?

10 **Q** For Tampa Electric.

11 **A** That's correct.

12 **Q** Okay. And the two that this document shows
13 were actually met were the customer favorability goal
14 and the cash flow goals, correct?

15 **A** No. What this document is demonstrating is
16 the safety was met, the environmental was met, customer
17 favorability, the Mayfield (phonetic) was met, cash flow
18 was met, and the TECO Energy portion was met.

19 **Q** Okay.

20 **A** I can understand how this would be difficult,
21 because it's not straightforward to pick it up and say,
22 was that achieved, I can understand that.

23 **Q** Okay. So it's -- if you were looking at the
24 document based on the way the document -- the
25 information is presented in the document, it does not

1 appear that those goals were met, correct?

2 **A** It could lead you to some incorrect
3 conclusions.

4 **Q** Based on Tampa Electric's responses, correct?

5 Let me move to page 13 of your rebuttal
6 testimony again. And you pose the question as to
7 whether the amount was expensed above target; is that
8 correct?

9 **A** Okay. Can you refer me to the line you're
10 looking at?

11 **Q** Looking at the question that begins with
12 line 3 and ends with line 11, would it be a fair
13 characterization that the question you posed is whether
14 the amount expensed was above target?

15 **A** Yes.

16 **Q** And in your response to that question, you
17 stated that it was not true and indicated the maximum
18 achievement was 12 percent, correct?

19 **A** Again, it was unclear what Mr. Schultz was
20 referring to. He was picking information for success
21 sharing goals, and so I was answering in my rebuttal
22 that it was unclear what his -- how he was drawing that
23 conclusion, but I responded to, based on the questions,
24 based on what he was pulling for success sharing, that
25 his conclusions that he was drawing were not accurate.

1 **Q** Okay. But in your response is, that in 2005,
2 when the maximum was achieved, or the maximum
3 achievement was 12 percent; is that correct?

4 **A** For success sharing the maximum achievement is
5 12 percent, that is correct.

6 **Q** Okay. And you would agree that there's a
7 difference between a target and a maximum, correct?

8 **A** Yes.

9 **Q** Okay. Now, turning to page 6 of your
10 rebuttal, you state that the company uses market data
11 and benchmarking results for similarly situated
12 companies to measure competitiveness of its
13 compensation; is that correct?

14 **A** Are you on line 22?

15 **Q** That would be lines 21 through 23?

16 **A** Yes.

17 **Q** Okay. And this is part of Tampa Electric's
18 justification for including the incentive compensation
19 and rates, correct?

20 **A** Yes. We do market analysis on our jobs to
21 determine if they're competitive and we price them to
22 the market, and incentive compensation is part of our
23 total compensation.

24 **Q** Okay. But you don't identify the companies
25 used as the benchmarks in your rebuttal testimony, do

1 you?

2 **A** We use many surveys to determine market
3 competitiveness for our salaries. Some of them are
4 electric --

5 **CHAIRMAN CARTER:** You can say yes or no, then
6 explain your answer. That'll speed the process on.
7 So let's try it like that.

8 **A** No, I did not cite which particular companies
9 are used in this. We use many companies to determine
10 our competitiveness of our -- of our salaries and our
11 short-term incentive, and they are commonly used surveys
12 that help us look at where we stand within that and how
13 we should price our jobs competitively.

14 **MS. CHRISTENSEN:** I have no further questions.

15 **CHAIRMAN CARTER:** Thank you, Ms. Christensen.
16 Ms. Bradley.

17 **CROSS-EXAMINATION**

18 **BY MS. BRADLEY:**

19 **Q** Is making services more affordable for your
20 customers one of the priorities of your company?

21 **A** Yes. We look at constantly controlling our
22 costs to make sure they are prudently incurred and to
23 make that what we are doing benefits our customers in
24 the long run, yes.

25 **Q** I'm a little confused about incentive versus

1 success share. Which one is tied to meeting the
2 priorities of the company?

3 **A** Our success sharing is what we call our
4 short-term incentive program. It's just our name for it
5 for our general population.

6 **Q** So is it tied to meeting the priorities of the
7 company?

8 **A** It's tied to the operational and financial
9 goals, one of which we just talked about as an example
10 of what the operational goals would be. So it is tied
11 to meeting those objectives, yes.

12 **Q** What about the incentive pay?

13 **A** Success sharing and incentive pay are the same
14 thing.

15 **Q** Oh, okay. Would it be fair to say that with
16 this multi-million-dollar requested rate increase that a
17 number of your executives won't be entitled to incentive
18 or success share because they haven't met the goal of
19 making your rates more -- your services more affordable
20 for customers?

21 **A** Can you repeat the question?

22 **Q** Sure. Would it be fair to say that a number
23 of your executives will not be entitled to incentive or
24 success share because they have failed to make your
25 services more affordable in light of this requested

1 multi-million-dollar rate increase?

2 **A** No. Our incentive -- that's -- it's a
3 difficult question because it's not direct. Our
4 incentive plans are structured around achieving what we
5 need from a business standpoint. There are certain
6 thresholds within the business plan that have to be
7 achieved to make the goals payable. If those are not
8 achieved then they're not payable.

9 **Q** You indicated that making your services more
10 affordable for your customers was a priority of the
11 company. Is that not tied to incentive or success
12 share?

13 **A** Well, several of -- yes, they are. Several of
14 our goals are based on net income. if you look at the
15 results of net income you've got sides of that. It's
16 revenue and upper and O&M, and our officers and -- just
17 like our employees, are looking at how they control the
18 costs and influence those results. So the answer is
19 yes.

20 **Q** But you've asked for a multi-million-dollar
21 rate increase, so you haven't made it more affordable
22 for your customers, have you?

23 **A** We're asking for what we need to as -- as a
24 company to continue to serve our customers, our
25 obligation to serve and continue to make a fair return.

1 **Q** But that's not making it more affordable for
2 your customers, asking for this much money, is it?

3 **A** Again, I -- we have an obligation to serve and
4 an obligation to have a fair return, or a desire to have
5 a fair return. And I can't speak to what an individual
6 customer may or may not be able to do. I can speak to
7 what we need to do as an overall organization and serve
8 our customers.

9 **MS. BRADLEY:** I don't think I'm going to get
10 an answer to that question, Mr. Chairman, so I'll
11 let you move on.

12 **CHAIRMAN CARTER:** Okay. All right, then. Do
13 you want to try it another way?

14 **MS. BRADLEY:** No.

15 **CHAIRMAN CARTER:** All right, then. Thank you,
16 Ms. Bradley. Ms. Kaufman?

17 **MS. KAUFMAN:** Thank you, Mr. Chairman.

18 **CROSS-EXAMINATION**

19 **BY MS. KAUFMAN:**

20 **Q** I guess I can say good evening, Ms. Merrill.
21 You are the director of staffing development, right?

22 **A** That is correct.

23 **Q** And in your -- your job I would assume
24 includes responsibility for new hires, fires, layoffs,
25 things like that; is that correct?

1 **A** My responsibilities include our training and
2 development, recruitment and staffing and testing
3 assessment functions.

4 **Q** So do you -- do you have responsibility for
5 the staffing levels throughout the company?

6 **A** I do not have responsibility for the staffing
7 levels. I have responsibility once our business units
8 provide us a staffing request to help them achieve that
9 staffing request.

10 **Q** Okay.

11 **A** So I'm not -- the answer is no, I'm not
12 responsible for the staffing levels.

13 **Q** So each unit figures out what they need and
14 once they get that planned it comes to you; is that how
15 it works?

16 **A** That's correct.

17 **Q** Would you agree with me that 2008 has been
18 perhaps less than a stellar financial year?

19 **A** It has been a difficult economic year, yes.

20 **Q** And I think we've all heard about -- we
21 continue to hear today, don't we, about plants closing,
22 layoffs, just the tough economic times that we're all
23 facing?

24 **A** Yes, we continue to hear that.

25 **Q** Did Tampa Electric lay off any employees in

1 2008?

2 **A** No, we did not.

3 **Q** Okay. Did Tampa Electric have any employees
4 retire in 2008?

5 **A** Yes, we did.

6 **Q** And did Tampa Electric fill those vacancies,
7 or did Tampa Electric allow them to remain vacant?

8 **A** It depends. Our staffing for 2008, if they --
9 if the business unit could get the proper approval --
10 again, which is the normal part of business, we get the
11 proper approval to add the position, the position was
12 filled. If they didn't, they got the work done in
13 another way, temporary worker or contracted labor.

14 **Q** Well, do you know how many positions were left
15 vacant in 2008 for employees that either retired or left
16 or -- or were fired?

17 **A** We actually do not track vacancies. We track
18 actual head count but we do not count vacancies, so I do
19 not know the answer to that question.

20 **Q** So the simple answer is, you don't know how
21 many positions were vacant in 2008; is that what you're
22 saying?

23 **A** I know what our actual numbers are, I do not
24 know the vacancies. That's not a metric that we use to
25 run the business. We look at the total expense piece of

1 it. So I do not know -- I do not have the answer to
2 that.

3 Q Do you know if Tampa Electric plans on laying
4 off any employees in 2009?

5 A Not that I'm aware of.

6 Q Okay. Would you expect that if we don't see
7 an economic turnaround in 2009, that Tampa Electric
8 would consider laying off some employees?

9 A I do not have knowledge of that.

10 Q Is that within your area of responsibility or
11 does someone else make that decision?

12 A That decision would be made at a higher level.

13 Q Who would make that decision?

14 A It would be made by probably the senior
15 officers.

16 Q Do you have Mr. Schultz's testimony in front
17 of you, or with you?

18 A I do.

19 Q If you would turn to page 5 of his testimony.
20 And if you would look at -- the question begins on line
21 12 and goes through the answer on line 18.

22 A Okay.

23 Q Okay. If I'm understanding what Mr. Schultz
24 is saying, he's saying that in the test year basically
25 you've got about a hundred more positions than you had

1 in 2008. And I didn't see you take issue with that in
2 your rebuttal; is that correct?

3 **A** Well, if you --

4 **Q** Excuse me, if we could follow the yes or no
5 rule.

6 **A** I'm sorry. Yes, it is correct.

7 **Q** So you are projecting approximately a hundred
8 more positions in the test year than you currently have?

9 **A** The --

10 **Q** Yes or no?

11 **A** Yes. Between '07 -- or between '08 and '09.
12 In '09's test year the number of positions is 57. I
13 needed to clarify that.

14 **Q** Okay. But you don't -- you don't disagree
15 with Mr. Schultz's numbers on page 5 there that we just
16 looked at?

17 **A** Well, we --

18 **Q** Yes or no? I'm sorry.

19 **A** Yes, I do.

20 **Q** Okay.

21 **A** Okay. What Mr. Schultz did was take the
22 average from 2007, the budget for 2008, the budget for
23 2009, and took the difference. And if you look at the
24 actual ending at 2007, it's not his 151, it's 107.

25 **Q** It's not 2,531, as he shows on line 14?

1 **A** Just a minute. Let me get to that. Yes, we
2 ended the year in the 2007 with 2,531, and our test year
3 has 2,638 as the number of employees that are projected.

4 **Q** Thank you.

5 **MS. KAUFMAN:** Commissioners, I'm going to pass
6 out an exhibit. This is already in the record, but
7 just so everyone has it.

8 **CHAIRMAN CARTER:** It would just be used then
9 for cross-examination?

10 **MS. KAUFMAN:** Yes.

11 **CHAIRMAN CARTER:** Okay. You may proceed.

12 **BY MS. KAUFMAN**

13 **Q** I believe it's already in there as part of
14 FIPUG's Composite Exhibit 89. Ms. Merrill, you probably
15 have this. This is OPC's -- TECO's response to OPC's
16 third set of interrogatories, No. 31.

17 **A** Yes.

18 **Q** And I just want to spend a couple of minutes
19 talking about your incentive plan topic that you've
20 already had some discussion about. You're familiar with
21 Interrogatory No. 31?

22 **A** Yes.

23 **Q** And is it accurate?

24 **A** Yes, it is.

25 **Q** Okay. Now, as I understand your -- the

1 company's incentive plan, there are basically three
2 groups of employees, or you group your employees that
3 way; is that correct?

4 **A** That's correct.

5 **Q** Into officers, key employees, and then general
6 employees?

7 **A** That's correct.

8 **Q** And there are different incentive packages
9 that pertain to each group?

10 **A** That's correct.

11 **Q** Okay. I want to talk first about the
12 officers. And if you would turn to the second page,
13 which is Bates stamped 27 on the bottom. And first of
14 all, this page is relating to your officers, correct?

15 **A** Yes, it is.

16 **Q** Okay. And if you would go down to the section
17 that is headed "Establishing Performance Goals and
18 Weightings."

19 **A** Yes.

20 **Q** And then the second paragraph that begins,
21 "For each financial goal," is the paragraph I want to
22 look at.

23 **A** Okay.

24 **Q** If you would look at the last sentence of that
25 paragraph, it -- it -- I'll just read it. It says,

1 "Regardless of the degree of achievement of each
2 established goal, the payout to all participants is zero
3 if TECO Energy's income threshold set for that year by
4 the compensation committee is not achieved." Correct?

5 **A** That is correct.

6 **Q** And the "all participants" here is the
7 officers, correct?

8 **A** That is correct.

9 **Q** And so what is the goal, the TECO Energy
10 threshold that the officers have to achieve that this
11 response is referring to?

12 **A** The actual amount?

13 **Q** It's a percentage of net income, is it not?

14 **A** It is an 80 percent threshold, that's correct.

15 **Q** And would you agree with me, and I believe
16 this document states, that if your officers don't
17 achieve that threshold, they don't receive any incentive
18 compensation?

19 **A** That is correct.

20 **Q** Okay. So take a look at your rebuttal,
21 please, at page 4, and I'm going to look at lines 21 to
22 23. And you say there, "Performance -- performance is
23 measured in part against a combination of quantifiable
24 financial and operational goals," right?

25 **A** I'm sorry, let me get to that. I was on

1 direct.

2 Q I'm sorry.

3 A I'm sorry.

4 Q It's page 4 of your rebuttal, lines 21 to 23.

5 A Okay.

6 Q And I have already read the sentence into the
7 record. But essentially you're saying there that
8 performance is measured against a combination of
9 quantifiable financial and operational goals, right?

10 A That's correct.

11 Q However, if the officers don't meet that
12 financial net income target, they never -- we never even
13 look at the operational goals, correct?

14 A That is correct.

15 Q So would you agree that the officers will be
16 very interested in ensuring that the 80 percent net
17 income goal is met, because that's sort of a threshold
18 for them to receive any incentive, right?

19 A Well, it is --

20 Q Yes?

21 A Yes, yes, yes. It is what the industry calls
22 a circuit breaker, and it is a measurement that is very
23 common, that if a certain threshold, whatever it is,
24 whether it's -- in this case it's net income, it could
25 be something else, that if that isn't made, that then

1 the company -- then management hasn't done what it needs
2 to do to meet that threshold, and therefore they
3 shouldn't be rewarded for that.

4 **Q** I understand. My point is, however, you would
5 agree that -- that in terms of the officer compensation,
6 the operational goals and some things you discussed with
7 Ms. Christensen wouldn't even look at those until that
8 net income level is met, right?

9 **A** No, that's not correct. We watch those
10 operational goals as we normally do business. This
11 threshold comes in to -- at the end of the year. So
12 those operational goals would be their focus throughout
13 the entire year and at the end you would do this -- this
14 litmus test to see if you met the net income to
15 determine if they were payable.

16 **Q** That was a very inartfully worded question.
17 What I was trying to ask you was, until they meet the
18 80 percent, the operational goals are not a part of
19 deciding if they receive any compensation, unless and
20 until they meet it.

21 **A** They have to -- correct. They have to meet
22 the threshold to pay out any part of the other goals.

23 **Q** If you turn to your rebuttal, page 17, I'm
24 going to look at line 18 where you have some
25 disagreement with Mr. Pollock's recommendations.

1 **A** Okay.

2 **Q** And if I understand your testimony there, you
3 disagree with him that performance stock should be
4 removed from the incentive package, correct, as far as
5 the ratepayers paying for it?

6 **A** That is correct.

7 **Q** Now, that -- the performance shares are
8 addressed on page 30 of Interrogatory No. 31; is that
9 right?

10 **A** Oh, you're back on 31?

11 **Q** Yes.

12 **A** I'm sorry. And the Bates stamp --

13 **Q** It's Bates stamped 30 at the bottom.

14 **A** Bates stamped 30?

15 **Q** Yes, ma'am.

16 **A** Okay.

17 **Q** Okay. And right in the center there's a
18 discussion of these performance restricted shares that
19 the officers have an opportunity to receive, correct?

20 **A** That is correct.

21 **Q** And you don't disagree with Mr. Pollock, do
22 you, that the award of these shares is based on the
23 performance of the TECO Energy stock, do you?

24 **A** The performance shares vesting and award
25 calculation is based on TECO Energy, that is correct.

1 **Q** So it's not based on any operational goal or
2 any customer service, it's based on the stock price?

3 **A** It's based on the appreciation of the stock
4 price. And this is not an -- yes, the answer is yes to
5 that. This is not an unusual structure. It's
6 recognized that Tampa Electric is part of a bigger
7 corporation, and so this is tying -- Tampa Electric is
8 over 60 percent of TECO Energy and this is a very common
9 structure within long-term incentive plans that are in
10 place for corporations.

11 **Q** And this plan is based on the performance of
12 TECO Energy, not Tampa Electric?

13 **A** That is correct. Again, this is a very common
14 structure within the compensation of long-term
15 incentives.

16 **Q** Okay. Now, I want to move to the key
17 employees. That's I guess the second group of people
18 that your incentive plan addresses. And am I correct
19 that 50 percent of their incentive is based on financial
20 goals, 15 percent of that is based on the TECO Energy
21 net income target, and 35 percent is based on Tampa
22 Electric financial targets, correct?

23 **A** 35 percent is based on Tampa Electric's, and
24 you said 20 percent is --

25 **Q** I meant to say 15.

1 **A** Okay. 15 percent is based on the corporate
2 financial results, and then the other 50 percent is
3 based on operational goals.

4 **Q** The 15 percent that's based on TECO Energy's
5 income target, is that the same 80 percent net income
6 that the officers meet?

7 **A** They do not have a threshold requirement to
8 pay their incentives.

9 **Q** So is it a discretionary payout? I mean, how
10 do you decide if the TECO net income goal is met?

11 **A** It's a calculation. But it's not a threshold
12 which the officers have a threshold where they have to
13 achieve that or it's not payable.

14 **Q** I see.

15 **A** So if they didn't achieve the -- anything in
16 the corporate financials, they would pay the other part
17 of the plan.

18 **Q** So it's not a bar, it's just that they would
19 receive less?

20 **A** Correct.

21 **Q** If those goals are not met?

22 **A** That's correct.

23 **Q** Now, 35 percent is based on Tampa Electric
24 financial targets, right?

25 **A** That is correct.

1 **Q** What are those financial targets?

2 **A** It's net income.

3 **Q** So 50 percent of the key employees' incentive
4 is tied to the financial performance either of TECO
5 Energy or Tampa Electric, right?

6 **A** With the largest part of that -- yes, the
7 largest part of that being Tampa Electric.

8 **Q** And let's just talk about the last group. The
9 last group are -- I think you called them --

10 **A** We just called them general.

11 **Q** General employees? Okay. And a portion of
12 any incentive they might be eligible for is also tied to
13 financial goals, right?

14 **A** Their goals are the operational goals that we
15 talked about here just a minute ago, and those are what
16 drive most of their incentives, and that's actually
17 what's in the budget.

18 **Q** Isn't it correct that part of the goal is also
19 tied to the TECO net income and to TECO Energy net
20 income?

21 **A** Those are self-funding, so they would not be
22 in our 2009 year test year, but the answer is yes, there
23 is a part that is self-funding that is tied to Tampa
24 Electric net income and then a TECO Energy. Again,
25 those are not in the test year. What's in the test year

1 is the operational goals.

2 **Q** I just have one last line. If you would turn
3 to page 8 of your rebuttal, beginning at the question at
4 line 13.

5 **A** Line 13?

6 **Q** Yes. And that question and answer there
7 relates to the fact that -- if I understand what you're
8 saying, you're saying if the Commission were to disallow
9 any of the incentive compensation that Tampa Electric
10 has put forth in this case, that you would need to -- I
11 took it to mean raise everyone's salary; is that what
12 you're trying to say there?

13 **A** Well, what I'm trying to say there is we would
14 have to step back and look at restructuring how we do
15 total compensation, because these pieces are part of our
16 total compensation package. So if one of them is
17 disallowed, we would have to step back and say, how do
18 we design this that it makes sense to still be
19 competitive in our total expense package. That's what
20 that's referring to.

21 **Q** Well, you say there you would need to consider
22 raising base salaries. So are you suggesting that what
23 you will do is raise everyone's salary if any portion of
24 your incentive plan is disallowed?

25 **A** What I'm saying is we would step back and look

1 at some kind of redesign that looks at -- to make sure
2 that our total compensation would still be competitive.
3 And let me also say that having a part of our total
4 compensation at risk is actually more cost-effective
5 than having it all in base salaries, because then it
6 just does raise your costs and your O&M costs. So
7 having a part of it at risk that has to be earned every
8 year is more desirable than having it all in fixed
9 costs.

10 So this design actually is better for the
11 customers in the long run. These employees have to
12 re-earn this every year based on achieving their goals.
13 It's not just a given if it wasn't fixed in the base
14 salary piece.

15 Q And I think you discussed with
16 Ms. Christensen, if I recall, that for, what, about a
17 five-year period there were only five employees that did
18 not receive an incentive?

19 A And -- and what I said -- that was correct.
20 What I would add to that is, when we broke down to the
21 actual number of goals in the example we were using that
22 we already talked about, that there were 126 team
23 members who that year did not get their quarterly payout
24 for success sharing. So it is an at-risk part of it.
25 They have to do what they need to do to be able to -- to

1 be eligible, and it's not just showing up and fogging
2 the mirror. They have to do something and -- to earn
3 that part of the incentive.

4 **Q** Did Tampa Electric, given the financial
5 downturn we've heard so much about, did Tampa Electric
6 give any consideration to scaling back portions of its
7 incentive compensation plan when it filed this rate
8 case?

9 **A** No, we did not.

10 **MS. KAUFMAN:** Thank you. That's all I have.

11 **A** It's an incentive plan that's been in -- in
12 place for a long time. In fact, it was in place at the
13 last rate case, and it's -- I think it's very similar to
14 something that Gulf Power has in place. Again, it's
15 very common in the industry to have incentive structures
16 that tie to operational goals that drive the behavior
17 you're trying to incent.

18 The difference between Tampa Electric and Gulf
19 Power -- and I can't speak to Gulf Power's plant because
20 I do not -- I am not an expert in that, but they
21 actually target the 75th percentile for the market for
22 comparison. We targeted the 50.

23 **Q** Is Gulf Power --

24 **COMMISSIONER EDGAR:** Ms. Kaufman, I'm so
25 sorry. I thought I could jump in before --

1 **MS. KAUFMAN:** Absolutely. I'm sorry. I'm
2 looking there --

3 **COMMISSIONER EDGAR:** No, that's fine. Let me
4 ask you to hold that thought for a moment.

5 Commissioner Argenziano, why don't you --

6 **MS. KAUFMAN:** Absolutely. Go ahead,
7 Commissioner.

8 **COMMISSIONER ARGENZIANO:** I just thought you
9 were done. I could wait till you're done, if you
10 don't mind, and let her finish her question.

11 **MS. KAUFMAN:** I thought I was done until --

12 **BY MS. KAUFMAN**

13 **Q** Ms. Merrill, is Gulf Power in here seeking a
14 228-million-dollar rate increase?

15 **A** No, they are not. But it was part of
16 something that the Commission had already -- had
17 previously approved.

18 **Q** And do you know any of the circumstances
19 surrounding the Gulf Power rate increase?

20 **A** I cannot speak to the details of it, no.

21 **MS. KAUFMAN:** Thank you.

22 **COMMISSIONER EDGAR:** Commissioner?

23 **COMMISSIONER ARGENZIANO:** Thank you. Just a
24 couple of questions. First let me ask you, you are
25 you sponsoring all of the salaries or just some of

1 the issues in issue 48, some of the salaries that
2 are in issue 48? If I were to ask you of other
3 salaries --

4 **THE WITNESS:** I sponsored the -- some of the
5 other interrogatories. I'm not sure what issue 48
6 was. I'm sorry.

7 **COMMISSIONER ARGENZIANO:** Okay. All right.
8 Never mind. If I asked you a question that
9 pertains to a salary that you're not dealing with
10 right now, just refer me to who I should ask that
11 to.

12 **THE WITNESS:** Okay.

13 **COMMISSIONER ARGENZIANO:** Just out of
14 curiosity, I know it's a minimal amount -- first
15 let me ask this. Does lobbyist's payment come
16 from -- get down to the ratepayer? Are they paying
17 for the lobbyists?

18 **THE WITNESS:** Mr. Carlson can talk about the
19 allocation methodology. But the -- there are
20 several salaries that are not allocable and I
21 believe those are the lobbyists' salaries. A
22 portion of them are not allocable.

23 **COMMISSIONER ARGENZIANO:** So they would be
24 paid then by the shareholder?

25 **THE WITNESS:** They would -- right.

1 **COMMISSIONER ARGENZIANO:** And then -- and I
2 know Chuck's in the room and this is nothing
3 intentional, nothing personal to him, just out of
4 curiosity, a state government affairs salary, is
5 that, is that separate from a lobbyist's salary?

6 **THE WITNESS:** Can you -- can you refer me to
7 what you're looking at? I'm not.

8 **COMMISSIONER ARGENZIANO:** You have a vice
9 president of state government affairs that you pay.
10 That's the name of the officer who's Chuck. And
11 it's not directed to had. I'm just curious to know
12 if that's separate, separate from the lobbyists'
13 duties.

14 **THE WITNESS:** Vice president of state -- I'm
15 trying to get to --

16 **COMMISSIONER ARGENZIANO:** And maybe that's not
17 for you to answer. I don't know. I'm just trying
18 to figure out what the difference is. And if the
19 state government affairs is also paid separately or
20 does that go down to the ratepayer? It's a minimal
21 amount but I'm just curious.

22 **THE WITNESS:** We have a VP of federal affairs.
23 Is that what you're referring to?

24 **COMMISSIONER ARGENZIANO:** No, state government
25 affairs.

1 **THE WITNESS:** Oh, that -- that is Mr. Hinson,
2 if that's what you were referring to.

3 **COMMISSIONER ARGENZIANO:** Yeah, I know that.
4 I'm trying to find out is that separate --

5 **THE WITNESS:** I'm sorry.

6 **COMMISSIONER ARGENZIANO:** -- is that
7 separate -- is that a separate position from a
8 lobbying position or is that the same thing? And
9 how is that paid? Is that paid from the ratepayer,
10 does the ratepayer ultimately pay your state --

11 **THE WITNESS:** I can't speak to the lobbying.
12 I can speak to what's in the salaries and what gets
13 passed down. So -- so I don't know if there are
14 lobbying costs that are not in that.

15 **COMMISSIONER ARGENZIANO:** Maybe you can answer
16 that.

17 **THE WITNESS:** That may be a Mr. Chronister
18 question.

19 **MR. WAHLEN:** I was going to suggest that
20 Mr. Chronister would possibly be able to answer
21 that question.

22 **COMMISSIONER ARGENZIANO:** Okay. Then he's the
23 one I need to ask. Thank you.

24 **THE WITNESS:** Sorry about that.

25 **MR. WAHLEN:** And we'll make sure he's prepared

1 to answer it.

2 **COMMISSIONER ARGENZIANO:** Okay.

3 **COMMISSIONER EDGAR:** Ms. Kaufman, were you
4 finished?

5 **MS. KAUFMAN:** I'm done. Thank you.

6 **COMMISSIONER EDGAR:** Okay. Mr. Wright.

7 **MR. WRIGHT:** Thank you, Commissioner.

8 **CROSS-EXAMINATION**

9 **BY MR. WRIGHT:**

10 **Q** Good evening, Ms. Merrill. How much did Tampa
11 Electric's rates just go up in this month?

12 **A** Our fuel adjustment, I believe they went up
13 12 percent.

14 **Q** I think it would be correct that that's the
15 combined effect of all increases in your cost recovery
16 clauses, 12.3 percent. Does that sound about right?

17 **A** Sounds about right.

18 **MR. WAHLEN:** Mr. Chairman, if -- I don't think
19 that that is in the testimony. I don't know where
20 this is going. But if she's going to have to start
21 asking a bunch of questions about the fuel
22 adjustment clause, she's not going to be able to do
23 it.

24 **CHAIRMAN CARTER:** Let's -- let's see where
25 he's going. Let's let it ride for a minute here.

1 Let's see where he's going. You may proceed.

2 **MR. WRIGHT:** Thank you, Mr. Chairman. It's a
3 predicate question directed to her prior testimony
4 to the effect that Tampa Electric ostensibly
5 strives to keep its rates affordable for its
6 customers. That's where I'm heading with this.

7 **CHAIRMAN CARTER:** You may proceed.

8 **MR. WRIGHT:** Thank you.

9 **BY MR. WRIGHT:**

10 **Q** Do you have a ballpark estimate as to how much
11 the overall bottom line rate would go up if the
12 Commission were to grant the company's entire requested
13 increase in this case?

14 **A** I know we're asking for 220 million in
15 revenues. The actual percentage amount I do not know.

16 **Q** Okay. What, if any, specific incentives would
17 management have received in 2008 if Tampa Electric
18 management had reduced Tampa Electric's retail rates in
19 2008?

20 **A** I don't know.

21 **Q** Are you aware of any?

22 **A** If I understood the question correctly, if we
23 had reduced our retail rates what incentive would the
24 officers have gotten?

25 **Q** Yeah. Would the management officers have

1 received any incentive pay on the basis of the company
2 having reduced its retail rates?

3 **A** No.

4 **Q** Okay. I assume the answer would be the same
5 if I were to ask you the comparable question for 2009?

6 **A** Yes, that would be correct.

7 **Q** Okay. Does Tampa Electric have any corporate
8 goal tied to executive or officer compensation as to
9 being among the lower rate charging investor owned
10 utilities in Florida?

11 **A** No, not -- I am not aware of -- I am not aware
12 of all of the exact goals at the officer level. They
13 have individual goals that are based on corporate --
14 based on their business plan and based on other
15 individual goals. So I am not knowledgeable in every
16 single goal that ties into each officer's incentive
17 plan.

18 **Q** I have a follow-up question to something
19 Ms. Kaufman asked you. On page, Bates stamped page 27
20 of the response to Interrogatory No. 31, the statement
21 is made -- did you sponsor this interrogatory answer?

22 **A** I did.

23 **Q** Okay. The statement is made that regardless
24 of the degree of achievement of each established goal,
25 the payout to all participants is zero if TECO Energy 's

1 income threshold set for that year by the compensation
2 committee is not achieved. And my question for you is,
3 is there any corresponding constraint that would zero
4 out -- zero out bonuses if rates increased by any
5 certain amount?

6 **A** Again, I go back to -- I do not know all of
7 the actual goals that are in the officer's plan. I am
8 not -- I cannot speak to every particular goal.

9 **Q** Would it be true that there's no blanket
10 zeroing out of incentive pay even if Tampa Electric has
11 the highest rates of any investor-owned utility in
12 Florida?

13 **A** That -- that would be true. However, the
14 goals are set to make it so that it is based on a
15 business plan that makes it a company that is focused on
16 serving its customers and having operational goals that
17 focus on maintaining its O&M level and reaching its net
18 income thresholds.

19 **Q** Is there any corresponding constraint that
20 would zero out all management, all officers' incentive
21 pay if the company failed to meet any reliability
22 target?

23 **A** The reliability target is for the success
24 sharing plans which our success sharing plans cover
25 94 percent of the population. So they are focused on

1 the operational and reliability which is where they have
2 the line of site and the most impact.

3 Q Well --

4 A So is there an officer goal that has a
5 reliability and if it's in the corporate business plan
6 it would be? Do I have a specific one? I can't -- I
7 don't know.

8 Q So if the company failed to achieve a -- any
9 given reliability target, there would not be an
10 automatic zeroing out of -- of the incentive pay for the
11 officers; is that correct?

12 A Again, as I've stated before, the threshold
13 that would not make -- that would make officers'
14 incentive plans to be not paid is a net income
15 threshold.

16 Q And that's the only threshold?

17 A That is correct.

18 Q Thank you.

19 MR. WRIGHT: Thank you, Mr. Chairman. Thank
20 you, Mrs. Merrill.

21 CHAIRMAN CARTER: Thank you, Mr. Wright.
22 Mr. Twomey?

23 MR. TWOMEY: No questions.

24 CHAIRMAN CARTER: Commissioners, before I go
25 to staff, anything from the bench?

1 Staff, you're recognized.

2 **MR. YOUNG:** Thank you, sir. May we approach
3 the witness, sir?

4 **CHAIRMAN CARTER:** You're recognized. You may
5 proceed.

6 **CROSS-EXAMINATION**

7 **BY MR. YOUNG:**

8 **Q** Ms. Merrill, what we're handing out to you is
9 a copy of -- some copies of your responses to certain
10 interrogatories, TECO's responses to certain
11 interrogatories, okay? And mainly, Ms. Merrill, we're
12 looking at the --

13 **CHAIRMAN CARTER:** Hang on a sec. Let's make
14 sure all of the parties get a copy. You may
15 proceed.

16 **BY MR. YOUNG:**

17 **Q** All right. Ms. Merrill, just for
18 clarification purpose, these were marked -- some of
19 these responses were marked confidential but TECO
20 declassified them, correct?

21 **A** I don't think we were given the treatment to
22 keep them confidential. We requested that and were
23 denied that.

24 **Q** All right. Now, skipping the first page and
25 looking at the second page, okay, this is Tampa Electric

1 Company's response to staff's first set of
2 Interrogatories No. 2, right, correct, page 4 of 5? Do
3 you see it?

4 **A** Yes.

5 **Q** And it was filed September 15, 2008, correct?

6 **A** Yes.

7 **Q** And in the far left column you see the year
8 2008 projection -- projected, right?

9 **A** That's correct.

10 **Q** All right. Following the second page, this is
11 page 4 of 5 to Tampa Electric's response to staff's
12 first set of interrogatories No. 2. Correct?

13 **A** Correct. No, there were revised documents to
14 this.

15 **Q** Yes. And that leads me to this question. Are
16 these the -- have any of these numbers been revised?

17 **A** We filed revised for 2008, for -- is this
18 number 2? Hang on a second. Let me get to that sheet
19 here.

20 **Q** Let me see if I can help you out. You revised
21 the salaries to the parent, correct.

22 **A** We also revised staff's first set of
23 interrogatories No. 2, page 3 of 5, which was 2007.

24 **Q** Yes.

25 **A** Yes.

1 **Q** Okay. We're looking at 2008-2009 to TECO?

2 **A** Yes.

3 **Q** Not the parent. All right. Subject to check,
4 Ms. Merrill, would you agree that Mr. -- Mr. Black
5 received -- TECO's projected a 9.6 percent increase in
6 Mr. Black's salary from 2008 to 2009?

7 **A** Are you looking at total compensation?

8 **Q** Just base salary.

9 **A** I show it as 3-and-a-half.

10 **Q** Pardon me?

11 **A** I show it as 3-and-a-half. If you're looking
12 at line A compared to line A from Mr. Black, that's a
13 3-and-a-half percent increase for base salary.

14 **Q** Okay. 3-and-a-half percent. Same thing for
15 Ms. Brown; what's that increase in base salary?

16 **A** It's probably 3-and-a-half. It's 4 percent.

17 **Q** Okay. Mr. Christmas?

18 **A** The guideline for officers would have been
19 4 percent. So --

20 **Q** 4 percent?

21 **A** I mean, so we can go down the --

22 **Q** Let's skip that. 4 percent. Looking at the
23 last page of the -- of the handout I just gave you, this
24 is Tampa Electric's Response to Staff's Sixth Set of
25 Interrogatories No. 106, page 2 of 2, correct?

1 **A** It is.

2 **Q** Now, the third column where it says -- the
3 third number 3, line number 3, it says, "Gross payroll
4 (A) per employee." Do you see that?

5 **A** Yes.

6 **Q** What's that salary in 2009?

7 **A** The increase and decrease were .84.

8 **Q** Point 8 -- say again, please?

9 **A** Excuse me?

10 **Q** Can you repeat that?

11 **A** It's 4.84 percent.

12 **Q** 4.84 percent. Now, this number includes
13 executive salaries, correct, or no?

14 **A** It would if this is the extraction off of C35,
15 which it is. Yes, this would include -- this would
16 include salaries, incentives over time, yes.

17 **Q** Okay. Do you know a number offhand of the
18 increase in the rank -- the average rank in file
19 employee for TECO for 2008 through 2009?

20 **A** Let me answer that a couple of ways. The
21 answer is yes. 46 percent of our population is covered
22 by bargaining units, and their increase is 3.85. The
23 other ones, the guideline was 4 percent which is what
24 was in the test year.

25 **Q** Uh-huh.

1 **A** That would include the general population, the
2 officers and the key employees that we spoke about
3 earlier.

4 **Q** Let me ask you the final question. Do you
5 believe it's fair for TECO to seek an increase in
6 executive salaries given the current economic conditions
7 that we're facing?

8 **A** Let me tell you what we've done as regards to
9 that. We continue to do market intelligence to see what
10 other companies are doing in that arena and we have
11 adjusted our salaries based on what we found out in the
12 market.

13 **Q** But do you think it's fair for TECO to seek an
14 increase of executive salaries given the current
15 economic conditions?

16 **A** And what we've done -- let me further explain
17 what we've done for officers, their increase for 2009 is
18 zero.

19 **CHAIRMAN CARTER:** Please answer the question
20 yes or no, then explain it

21 **THE WITNESS:** I'm sorry.

22 **CHAIRMAN CARTER:** That's what we're trying to
23 do. You know, that will help us out a lot. Okay?

24 **THE WITNESS:** No, and we've looked at the
25 market. And when we looked at the market,

1 companies were doing many things to deal with the
2 economic conditions in front of us.

3 Our officers for 2009 received zero base
4 salary increase. We looked at our exempt
5 employees, they received a 2 percent -- this is a
6 guideline. Again that's not actually what everyone
7 would actually receive. But it would be based on
8 performance.

9 And then our -- our union which is again
10 46 percent, that's a contractual obligation, and
11 then our nonexempt, which are hourly employees,
12 their guideline was 3-and-a-half.

13 **BY MR. YOUNG:**

14 **Q** Is Mr. Black an officer of the company?

15 **A** He is.

16 **Q** And you just stated that officers receive zero
17 increase, correct?

18 **A** That is correct.

19 **Q** But if you look at the handout I'm giving you,
20 in 2008 Mr. Blacks' salary, his base salary is
21 \$370,000 -- \$370,240. Looking at 2009, TECO projected
22 his salary to be \$383,198. That's an increase, correct?

23 **A** That is correct. This interrogatory was filed
24 before the decisions were made based on what we do for
25 our merit increase. So this was filed prior to dealing

1 with 2009 merit increases.

2 **Q** So TECO is not -- so TECO has agreed not to
3 increase any exec salary for 2009, is that what you're
4 saying?

5 **A** Our 2009 executive salary increase is zero.

6 **MR. YOUNG:** Okay. No further questions.

7 **CHAIRMAN CARTER:** Is that for all -- I'll come
8 back to you, Commissioner. Is that for all
9 executive salaries in terms of the -- let me get my
10 notes here. We went across this list here with
11 Black, Brown, Christmas, Hernandez, Mincy, Whale.
12 Is that -- you're talking about the -- this would
13 be the -- what's the category, officers? Is
14 that --

15 **THE WITNESS:** All the Tampa Electric officers
16 and TECO Energy officers both.

17 **CHAIRMAN CARTER:** Okay. All right.
18 Commissioner Skop.

19 **COMMISSIONER SKOP:** Thank you, Mr. Chairman.
20 Good evening, Ms. Merrill.

21 **THE WITNESS:** Good evening.

22 **COMMISSIONER SKOP:** Just a quick question. I
23 was trying to follow along with respect to staff's
24 question with the Bates No. page 8,
25 Interrogatory No. 106, page 2 of 2 for column 3

1 showing the percent increase for 2009, and I
2 believe you clarified your statement to indicate
3 that this interrogatory was submitted prior to the
4 setting of compensation for various key executives
5 in 2009.

6 But I wanted to go back to a response that I
7 thought I heard you gave because I'm trying to
8 understand the percentage shown, the 4.84 percent.
9 I think that you stated that for -- under
10 collective bargaining agreements, that they're
11 contractually entitled to I think 3.6 percent, if I
12 heard that correctly, or somewhere in that range;
13 is that correct?

14 **THE WITNESS:** Our bargaining units is 3.85,
15 that's correct.

16 **COMMISSIONER SKOP:** 3.85.

17 **THE WITNESS:** And they're 46 percent of the
18 population.

19 **COMMISSIONER SKOP:** And then I think you also
20 stated that hourly was targeted at 3-and-a-half
21 percent; is that correct?

22 **THE WITNESS:** That's correct.

23 **COMMISSIONER SKOP:** And then I thought I heard
24 for exempt or managerial employees, the target was
25 4 percent; is that correct?

1 **THE WITNESS:** Our target was 2 but our actual,
2 our actual -- our target was 4 but our actual was
3 2.

4 **COMMISSIONER SKOP:** Okay. I guess, unless
5 there's something I'm missing trying to do the
6 numerical average of all of those various employee
7 groups, how did that come out to 4.84? Am I
8 missing something there?

9 **THE WITNESS:** No. This interrogatory was
10 filed also before we did our salary adjustments for
11 the year. We do our salary adjustments for the
12 year in late November to --

13 **COMMISSIONER SKOP:** Okay.

14 **THE WITNESS:** We do them and then once we
15 apply them. So this -- all of this was filed
16 before that was done.

17 **COMMISSIONER SKOP:** So subsequent to the
18 filing of the interrogatory, TECO then took action
19 to decrease the amount of any increases that were
20 given to its employees; is that correct?

21 **THE WITNESS:** That is correct.

22 **COMMISSIONER SKOP:** Thank you.

23 **CHAIRMAN CARTER:** Commissioner Argenziano.

24 **COMMISSIONER ARGENZIANO:** Yes. Well, we've
25 heard you say there will be no increases in 2009

1 for the officers. Is that just in base salary?
2 Will there be increases in any other packages that
3 they receive? You know, their total compensation
4 is pretty nice. Is that going to change anywhere
5 else or is it all at a halt? Are there any
6 additional stock awards or option awards or any
7 other compensation that will either increase on
8 that list?

9 **THE WITNESS:** I don't know that. We look at
10 this on a regular basis. The long-term incentive
11 is reviewed every year to determine what the market
12 is doing.

13 **CHAIRMAN CARTER:** But there hasn't been a
14 decision made?

15 **THE WITNESS:** There hasn't been a decision.

16 **CHAIRMAN CARTER:** So right now what you're
17 indicating is that just on the base salary, there
18 will be no increase?

19 **THE WITNESS:** That's correct.

20 **CHAIRMAN CARTER:** Okay. Anything further from
21 the bench?

22 **MR. YOUNG:** Mr. Chairman, one thing.

23 **CHAIRMAN CARTER:** You're recognized. You're
24 recognized.

25 **MR. YOUNG:** Given the fact what Ms. Merrill

1 just stated in terms of TECO's decision not to
2 increase salaries, it's not reflected here so can
3 we get a revised schedule?

4 **CHAIRMAN CARTER:** That would be real helpful.

5 **THE WITNESS:** We could do that.

6 **MR. YOUNG:** That reflects TECO's TECO decision
7 not to increase salaries?

8 **CHAIRMAN CARTER:** Yeah, we'd like to have
9 current information since you that -- I think you
10 said you wait until November to make this
11 calculation? So that would be very helpful to us.

12 **MR. WAHLEN:** Could we mark that as late filed
13 Exhibit --

14 **CHAIRMAN CARTER:** Late-filed, and let me give
15 you --

16 **MR. YOUNG:** That will be No. 107, sir.

17 **CHAIRMAN CARTER:** No. 107. And short title,
18 short title recommendation?

19 **MR. YOUNG:** TECO's Revised Salary.

20 **CHAIRMAN CARTER:** Good.

21 **COMMISSIONER ARGENZIANO:** Mr. Chair?

22 **CHAIRMAN CARTER:** Commissioner Argenziano.

23 **COMMISSIONER ARGENZIANO:** Someone will let me
24 know on the other question that I had about
25 everything else, if anything else will be

1 increasing?

2 **CHAIRMAN CARTER:** Right. And that would be
3 comprehensive to show that -- whether there's
4 salary, benefits, stock options, the whole shooting
5 match.

6 **COMMISSIONER ARGENZIANO:** In other words, is
7 everything at a standstill or is there going to be
8 increases somewhere else maybe to make the
9 decreases or, you know, whatever they've decided.

10 **CHAIRMAN CARTER:** Okay. All right.

11 **COMMISSIONER EDGAR:** Mr. Chairman, can I ask
12 when we would be receiving that approximately? I
13 guess during hearing or post hearing?

14 **CHAIRMAN CARTER:** What's the time frame you
15 guys can get that to us?

16 **MR. WAHLEN:** I don't know. We will caucus on
17 that and report back you to.

18 **CHAIRMAN CARTER:** Okay. Hang on one second.
19 Let me write this here. That will be Exhibit No.
20 107.

21 **MR. YOUNG:** And if I can add a caveat to that,
22 Mr. Chairman, based on what Commissioner Argenziano
23 requested. It would be TECO -- the title will be
24 TECO's Revised Salary and Incentive Plan.

25 **CHAIRMAN CARTER:** Revised Salary and Incentive

1 Plan. Okay. Good. That would encompass total.
2 Revised Salary and Incentive Plan. Okay. And that
3 would be Exhibit No. 107.

4 (Late-Filed Exhibit No. 107 was identified.)

5 **CHAIRMAN CARTER:** Okay. Anything further from
6 the bench or we'll go to redirect otherwise.
7 Redirect?

8 **MR. WAHLEN:** No redirect. Tampa Electric
9 Company moves Exhibits 25 and 85 into the record.

10 **CHAIRMAN CARTER:** Any objections? Without
11 objection, show it done, Exhibit No. 25 and Exhibit
12 No. 85. Any objections? Without objection show it
13 done. Also late-filed Exhibit No. 107.

14 **MR. WAHLEN:** Pending.

15 **CHAIRMAN CARTER:** Okay. And you'll let us
16 know -- as soon as possible you'll get it to us?

17 **MR. WAHLEN:** Yes, sir.

18 **CHAIRMAN CARTER:** So that will be entered into
19 the record then. But we'll get it as soon as
20 possible. Okay?

21 (Late-Filed Exhibit No. 107 was admitted.)

22 **MR. WAHLEN:** And may Ms. Merrill be excused?

23 **CHAIRMAN CARTER:** Since Ms. Merrill was both
24 offense and defense, she's released.

25 **MR. WAHLEN:** Thank you very much.

1 **CHAIRMAN CARTER:** Call your next witness.

2 **MR. WAHLEN:** Tampa Electric Company will call
3 Edsel L. Carlson, Jr.

4 **CHAIRMAN CARTER:** Mr. Carlson, have you been
5 sworn?

6 **THE WITNESS:** No, sir.

7 **CHAIRMAN CARTER:** Would you please remain
8 standing and raise your right hand.

9 **EDSEL L. CARLSON, JR.**

10 was called as a witness on behalf of Tampa Electric
11 Company, having been duly sworn, testifies as follows:

12 **THE WITNESS:** Yes, sir, I do.

13 **CHAIRMAN CARTER:** Thank you. You may be
14 seated.

15 **DIRECT EXAMINATION**

16 **BY MR. WAHLEN:**

17 **Q** Mr. Carlson, would you please state your name,
18 occupation, business address and employer?

19 **A** My name is Edsel Carlson, Jr., I'm the risk
20 manager for Tampa Electric Company. My address is 702
21 North Franklin Street, Tampa, Florida.

22 **Q** Did you prepare and cause to be prefiled in
23 this proceeding on August 11th, 2008 prepared direct
24 testimony consisting of 23 pages?

25 **A** Yes, I did.

1 **Q** Were there any changes or corrections to your
2 prepared direct testimony?

3 **A** No.

4 **Q** If I were to ask you the questions contained
5 in your prepared direct testimony today, would your
6 answers be the same as those contained in your
7 testimony?

8 **A** Yes, they would.

9 **MR. WAHLEN:** Tampa Electric Company requests
10 that Mr. Carlson's prepared direct testimony be
11 inserted into the record as though read.

12 **CHAIRMAN CARTER:** Prefiled testimony of the
13 witness will be inserted into the record as though
14 read.

15

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**2 **PREPARED DIRECT TESTIMONY**3 **OF**4 **EDSEL L. CARLSON, JR.**

5
6 **Q.** Please state your name, business address, occupation and
7 employer.

8
9 **A.** My name is Edsel L. Carlson, Jr. My business address is
10 702 North Franklin Street, Tampa, Florida 33602. I am
11 the Risk Manager for Tampa Electric Company ("Tampa
12 Electric" or "company").

13
14 **Q.** Please provide a brief outline of your educational
15 background and business experience.

16
17 **A.** I graduated from the University of South Florida with a
18 Bachelor of Arts degree in Criminology and from Saint Leo
19 University with a Masters of Business Administration
20 degree. I hold the Associate in Risk Management
21 designation from Insurance Institute of America and a
22 Fellow in Risk Management designation from Global Risk
23 Management Institute, Inc. I have approximately 15 years
24 of experience working in the Risk Management Department
25 where I have held the positions of Claims Adjuster and

1 Risk Analyst. I have held my present position as Risk
2 Manager since 2000.

3
4 **Q.** What is the purpose of your direct testimony?

5
6 **A.** My direct testimony supports the need for an increase in
7 Tampa Electric's annual accrual and target amount for its
8 storm damage reserve based on a comprehensive study
9 performed by ABSG Consulting, Inc. ("ABS Consulting").

10
11 **Q.** Have you prepared an exhibit to support your direct
12 testimony?

13
14 **A.** Yes, Exhibit No. ___ (ELC-1) entitled "Exhibit of Edsel
15 L. Carlson, Jr." was prepared under my direction and
16 supervision. It consists of one document, "List Of
17 Minimum Filing Requirement Schedules Sponsored Or Co-
18 Sponsored By Edsel L. Carlson, Jr.".

19
20 **Q.** Please summarize Tampa Electric's proposed annual accrual
21 and target amount for its storm damage reserve.

22
23 **A.** Based upon my experience and the results of a detailed
24 storm study conducted by Tampa Electric witness Steven P.
25 Harris of ABS Consulting, Tampa Electric's annual reserve

1 accrual should increase from \$4 million to \$20 million
2 and the target reserve amount should increase from \$55
3 million to \$120 million. The proposed increases are
4 designed to manage the cost of damage to Tampa Electric's
5 uninsured transmission and distribution ("T&D") assets
6 and property deductibles associated with damage to
7 insured assets such as substations and generating
8 facilities. This conclusion was based on three
9 fundamental objectives that were considered essential by
10 Tampa Electric as it evaluated its needs for a storm
11 damage reserve: 1) achieve an effective balance of rate
12 stability and long-term cost for customers; 2) build a
13 reserve sufficient to cover the majority of loss events
14 in order to mitigate the need for a surcharge to
15 customers immediately after such an event; and 3) design
16 a reserve to cover the higher probability events and not
17 the low probability high severity events.

18
19 **Q.** Please describe the history of Tampa Electric's existing
20 storm reserve.

21
22 **A.** Prior to Hurricane Andrew in 1992, Tampa Electric was
23 able to purchase commercial insurance coverage for its
24 T&D facilities. Shortly after Hurricane Andrew, this
25 insurance became unavailable, leaving utilities in

1 Florida with crucial assets that were uninsurable.
2 Florida's investor-owned utilities ("IOUs") approached
3 the Florida Public Service Commission ("FPSC" or
4 "Commission") with a proposal to establish a self-
5 insurance program by creating a reserve for each utility
6 to provide for uninsured property losses.

7
8 A limited proceeding was held in early 1994 and in
9 Commission Order No. PSC-94-0337-FOF-EI the FPSC
10 authorized Tampa Electric a \$4 million annual storm
11 damage accrual and required the submittal of a storm
12 damage study. Accordingly, Tampa Electric filed its
13 study in September 1994 and in February 1995, by Order
14 No. PSC-95-0255-FOF-EI, the Commission approved Tampa
15 Electric's storm damage study and affirmed the annual
16 accrual of \$4 million to Account 228.1, Accumulated
17 Provision for Property Insurance. This same order also
18 established a \$55 million target amount for the storm
19 damage reserve and ordered the company to use a
20 replacement cost approach to determine amounts to be
21 charged to the reserve.

22
23 Q. Has Tampa Electric ever charged expenses against its
24 reserve?
25

1 **A.** Yes, but not until recently. Between August 13, 2004 and
2 September 26, 2004, Hurricanes Charley, Frances and
3 Jeanne hit Tampa Electric's service territory causing
4 damage to its system. The cost to repair the system was
5 approximately \$73.4 million. At that time, the company's
6 storm damage reserve balance was only \$42.3 million, an
7 amount insufficient to cover the entire damage.

8
9 **Q.** Did Tampa Electric seek a surcharge to recover the
10 damages in excess of the reserve, as did other Florida
11 IOUs?

12
13 **A.** No. In Order No. PSC-05-0675-PAA-EI, the Commission
14 approved a stipulation ("the Stipulation") between Tampa
15 Electric, the Office of Public Counsel and other parties
16 which avoided imposing a customer storm surcharge as the
17 result of the 2004 hurricanes. The Stipulation allowed
18 the company to charge \$34.5 million of the storm damage
19 costs to the reserve and the remaining storm restoration
20 costs were charged to utility plant. After this charge,
21 the reserve had a balance of \$7.9 million. While the
22 Stipulation provided a practical solution at the time,
23 the 2004 and 2005 hurricane seasons and the predicted
24 increased storm activity emphasized Tampa Electric's need
25 to reevaluate the level of the annual storm accrual and

1 the total targeted reserve.

2

3 **Q.** What is Tampa Electric's current status regarding
4 insurance and its storm reserve?

5

6 **A.** Traditional commercial property insurance for T&D assets
7 is still generally not available in the market today at
8 deductible levels and prices that would make it cost
9 effective. Since the Stipulation the company has
10 continued to accrue \$4 million annually. As of June 30,
11 2008, the storm damage reserve balance is approximately
12 \$22,310,000.

13

14 **Q.** What is the overall regulatory framework that you
15 consider when evaluating the storm-related accrual
16 amount?

17

18 **A.** Electric utilities in Florida will incur costs to restore
19 service after tropical storms and hurricanes. These
20 costs are an integral part of the cost of providing
21 electric service in Florida, a region susceptible to
22 tropical storms and hurricanes. It is essential that
23 utilities realistically plan for these events and reserve
24 sufficiently so that surcharges are less likely to be
25 required when storm damage occurs. Adequate accruals can

1 minimize the need for surcharges in the future.

2

3 Storm damage accruals are an essential element of Tampa
4 Electric's cost to serve its customers. The Commission's
5 previous actions acknowledge this and have established a
6 regulatory framework consisting of three major
7 components: 1) an annual storm accrual, adjusted over
8 time as circumstances change; 2) a storm reserve adequate
9 to accommodate most, but not all storm years; and 3) a
10 provision for utilities to seek recovery of costs that go
11 beyond the storm reserve. These three components act
12 together to allow Florida utilities over time to recover
13 the full costs of storm restoration, while at the same
14 time balancing the impact on customers. The storm damage
15 reserve methodology has functioned as designed and the
16 Commission's basic approach has proven to be a cost-
17 effective way to finance storm damage risk while keeping
18 customer impacts stabilized.

19

20 **Q.** Why does Tampa Electric believe it is important to
21 mitigate the need for storm damage surcharges?

22

23 **A.** It is important to mitigate, if not avoid altogether,
24 imposing a storm surcharge subsequent to storms because
25 the surcharge compounds the effects on customers at a

1 time when they are likely to have experienced property
2 damage from the same event.

3

4 **Q.** After three hurricanes hit Tampa Electric's service
5 territory in 2004, was the storm damage reserve adequate
6 to cover the actual costs for system restoration and
7 repairs?

8

9 **A.** No. As I indicated above, the reserve balance at that
10 time was \$42.3 million and the costs associated with
11 damages were \$73.4 million. The Stipulation allowed the
12 company to avoid a negative reserve balance and customer
13 surcharge. It is important to note that the damage
14 experienced in 2004 was small relative to what it could
15 have been if these storms had hit Tampa directly.

16

17 **Q.** Does this indicate a failure in the FPSC's current
18 regulatory framework?

19

20 **A.** No, quite the opposite. In general, I think it supports
21 the conclusion that the current regulatory framework is
22 sound. For the most part, the damages Tampa Electric
23 incurred in 2004 were of a nature that the reserve is
24 designed to account for and the Commission has shown
25 flexibility in permitting customer surcharges when

1 companies' reserves are inadequate. However, recent
2 experience shows that previous estimates of appropriate
3 reserve levels and annual accruals are out of date and
4 should be increased.

5
6 The Commission recognized the need to periodically
7 reexamine accrual and reserve levels in Order No. PSC-07-
8 0444-FOF-EI issued in May 2007 and the Commission
9 supported a requirement to conduct a new storm damage
10 study every five years. Tampa Electric, in this
11 proceeding, is supplying the FPSC with its most recent
12 study completed in 2008 by ABS Consulting. Witness
13 Harris, who conducted the study for ABS Consulting,
14 details the results of this study in his direct
15 testimony.

16
17 **Q.** Why was ABS Consulting selected to conduct the study?

18
19 **A.** Tampa Electric selected ABS Consulting because of their
20 experience and qualifications. They have been conducting
21 storm loss analyses in Florida since 1993 not only for
22 Tampa Electric but also for Florida Power & Light,
23 Progress Energy Florida, and Gulf Power Company. ABS
24 Consulting uses an advanced computer model simulation
25 program (USWIND) which is one of only four models

1 evaluated and determined acceptable by the Florida
2 Commission on Hurricane Loss Projection Methodology for
3 projecting hurricane loss costs. Witness Harris has over
4 25 years of experience in conducting various risk
5 assessments for utilities throughout the United States
6 ("U.S."), Caribbean and Europe.

7
8 **Q.** What direction was provided by Tampa Electric to ABS
9 Consulting in the preparation of the study?

10
11 **A.** Consistent with Order No. PSC-07-0444-FOF-EI, the company
12 directed ABS Consulting to perform analyses of Tampa
13 Electric's T&D assets for both hurricane and tropical
14 storm loss exposures. Tampa Electric asked ABS
15 Consulting to conduct the analysis on a near-term view of
16 hurricane risk because there is a consensus among experts
17 that the Atlantic Basin, which includes Florida, is in a
18 period of increased storm activity and the near-term
19 analysis is an appropriate indicator of Tampa Electric's
20 exposure. The company also requested that ABS Consulting
21 include insured Tampa Electric property such as
22 generating plants and substations to determine the amount
23 of un-recovered property deductibles. Finally, Tampa
24 Electric asked ABS Consulting to model and analyze the
25 performance of the storm reserve to assist in estimating

1 the expected annual reserve balance over a multi-year
2 period.

3
4 **Q.** What conclusions did ABS Consulting reach regarding the
5 expected annual long-term cost for service restoration
6 and repair of storm damage to Tampa Electric's assets?

7
8 **A.** As described in the direct testimony of witness Harris,
9 the analysis concludes that the expected average annual
10 cost for windstorm losses in the current environment of
11 increased storms is approximately \$17.8 million. This
12 represents average losses per year over time. Of course,
13 there will be years where there are no losses like 2006
14 and 2007, but there will also be years where losses will
15 be higher like 2004. Over time, losses will average
16 about \$17.8 million per year; the loss could be as much
17 as \$650 million as demonstrated by witness Harris.

18
19 Windstorm losses include costs associated with service
20 restoration and system repair of Tampa Electric's T&D
21 system from hurricane and tropical storm losses and
22 windstorm insurance deductibles attributable to other
23 assets.

24
25 **Q.** Does the study's conclusions support a specific target

1 reserve level?

2

3 **A.** No. While there is no single correct target reserve
4 balance, the study is consistent and supports the target
5 we have selected. The study does supply a table that
6 shows the probability of loss exceeding a particular
7 dollar amount in any given year. The target reserve
8 level depends largely on one's tolerance for risk. I
9 believe the target reserve level should be set to cover
10 most storm events (higher probability and lower severity
11 events) but not all storms (low probability and high
12 severity). The higher the storm damage reserve balance
13 level, the lower the probability that a storm will exceed
14 the reserve and thus less likely the company would need
15 to request a surcharge from customers.

16

17 **Q.** How were the target reserve level and annual accrual
18 determined?

19

20 **A.** The total targeted amount of the reserve and the annual
21 accrual to reach the target is a function of the total
22 loss that could occur to the company's system as a result
23 of storm activity and the probability of occurrences of
24 various levels of storm activity in Tampa Electric's
25 service area. Once ABS Consulting assessed these values

1 and probabilities, I applied professional judgment to
2 determine an appropriate level for the annual accrual and
3 target level for the reserve. In applying this judgment,
4 I considered the company's actual experience in 2004 when
5 losses could have been substantially more than the
6 company actually incurred had the hurricanes made
7 landfall in closer proximity to Tampa. It is fair to say
8 no one knows when storm damage will occur and the exact
9 extent of damage, but it is reasonably certain that
10 storms will cause damage to Tampa Electric's system in
11 the future and the company should make reasonable plans
12 to provide for the costs of this damage with a minimal
13 impact to customers after a storm occurs.

14
15 **Q.** How did the results of the ABS Consulting study affect
16 your determination of an annual accrual and targeted
17 total reserve?

18
19 **A.** I relied heavily on the results of ABS Consulting's
20 study. The study showed that the appropriate level of
21 the annual accrual should be at least \$17.8 million
22 although this amount is not expected to occur each year.
23 Some years will have no damage; some years will have a
24 little damage; and some will have severe damage. The
25 \$17.8 million represents the average of all storm years

1 over a long period. However, the company is at risk for
2 losses for in excess of this amount as witness Harris's
3 exhibit illustrates. Consequently, considerations of all
4 factors lead to the conclusion that the annual accrual
5 should be \$20 million in order have an opportunity to
6 build a targeted total reserve of \$120 million gradually.
7 As the reserve builds each year, the company will
8 essentially be increasing the amount of self-insurance to
9 cover potential losses from storms. Of course, there is
10 a risk each year that a storm loss will occur and that
11 the reserve will be inadequate, but I believe the
12 proposed accrual level should give Tampa Electric a
13 reasonable chance to build a reserve that can accommodate
14 most events.

15
16 **Q.** Will the proposed annual accrual ensure that the storm
17 damage reserve will be adequate to cover all windstorm
18 losses?

19
20 **A.** No. Even with an increase in the annual accrual to \$20
21 million, there is still a 26.1 percent probability while
22 the reserve is being built up to the target level that
23 losses will exceed the value of the storm damage reserve
24 over a five-year period. Figure 4-5 on page 41 of
25 witness Harris' study (Document No. 1) shows that if an

1 SSI Category 4 storm hit milepost 1170, which is located
2 around Crystal River, the average loss to Tampa
3 Electric's T&D system would exceed \$650 million. In
4 fact, if such a Category 4 storm hit anywhere along a 70
5 mile coastline from milepost 1230 (20 miles south of St.
6 Petersburg) to milepost 1160 (50 miles north of St.
7 Petersburg), Tampa Electric's average losses would exceed
8 \$300 million. Even though my recommended target amount
9 might be insufficient to cover all windstorm losses,
10 Tampa Electric believes it provides an adequate level of
11 coverage and meets the Commission's objectives which
12 state that a reserve should be large enough to cover most
13 catastrophic weather events but at the same time
14 sufficiently low to prevent unbounded growth in the
15 reserve. An annual accrual of \$20 million will achieve
16 these objectives.

17
18 **Q.** How can the company ensure that the requested annual
19 accrual continues to be appropriate over time?

20
21 **A.** Based on the current study and associated probabilities,
22 there is only a 26.1 percent probability that a reserve
23 based on a \$20 million annual accrual will be depleted by
24 the end of five years. There is a 94 percent probability
25 that Tampa Electric will have at least \$20 million

1 remaining in the reserve in five years. To ensure the
2 reserve accrual and target are still reasonable, the
3 company will submit an updated study for Commission
4 review in five years as required.

5
6 **Q.** How does the proposed reserve compare to insurance
7 premiums?

8
9 **A.** The study conducted by ABS Consulting that was used to
10 establish a proposed reserve is similar to studies
11 insurers use as a foundation to develop premium charges.
12 The expected annual loss amount is the starting point an
13 insurer uses to calculate an annual premium. Thus, in
14 determining an annual accrual amount, Tampa Electric's
15 approach is similar to that used by an insurance company
16 to determine a premium. This is appropriate, considering
17 that the reason the storm damage reserve and accrual
18 exist is that insurance is not available at cost
19 effective pricing for T&D assets. The advantage of the
20 reserve is that the annual accrual, in a year where no
21 losses occur, will remain in the reserve, in contrast to
22 insurance where, even if there are no losses, the insurer
23 retains the premiums paid. The obvious advantage of
24 insurance is that if you have a large loss event, the
25 insurance policy will pay the loss up to the limits of

1 the policy with usually no other obligation on the
2 insured's part, while a reserve may be insufficient to
3 absorb the loss particularly if it occurs before the
4 reserve has a chance to accumulate. The practical
5 reality, however, is that insurance is not available at
6 cost effective pricing for T&D assets in wind-exposed
7 locations like Florida.

8
9 **Q.** Is it possible that cost effective T&D insurance may
10 become available in the future?

11
12 **A.** Yes. Tampa Electric is hopeful that reasonably priced,
13 cost effective T&D insurance may become available and
14 would like to be in a position to take advantage of it if
15 it occurs. Since 2006, Tampa Electric and the other
16 three Florida IOUs, in conjunction with other IOUs with
17 hurricane exposed T&D facilities, have been meeting to
18 investigate feasible risk financing alternatives to cover
19 T&D exposures including the formation of a mutual
20 insurance company and a risk purchasing group. The group
21 was able to spark the interest of some insurance markets;
22 however, the insurers were only interested in insuring
23 the low probability, high severity storms which
24 effectively only provides coverage at the 75 year
25 frequency category and above with costly pricing. At

1 this time, the alternatives are not particularly
2 attractive but the group purchasing and/or the mutual
3 concept might ultimately develop into viable options. If
4 the group is successful in developing a mutual insurance
5 company as the industry has done with other uninsurable
6 exposures, this could be a long-term component in
7 providing for T&D storm losses. Consequently, if this
8 were to occur, Tampa Electric seeks approval to charge
9 the cost of such insurance against the storm reserve if
10 insurance from either of the sources becomes viable and
11 cost effective.

12

13 **Q.** Does the company have property insurance on other
14 portions of its property?

15

16 **A.** Yes, Tampa Electric has property insurance on all of its
17 assets with the exception of its T&D assets. The company
18 has included its non-recovered windstorm deductible
19 losses for substation and generating assets as a part of
20 its proposed \$20 million annual accrual.

21

22 **Q.** How much are property insurance costs expected to
23 increase from 1991 to the 2009 test year?

24

25 **A.** The cost of property insurance premiums, as reflected in

1 Account 924, is expected to increase to \$11.1 million in
2 2009 from \$2.5 million in 1991. At the same time, the
3 premium increases represent decreased limits and
4 increased deductibles for specific risks such as wind and
5 flood as a result of changes in the insurance
6 marketplace.

7
8 **Q.** Are increases in insurance costs occurring globally?

9
10 **A.** Yes. There are three primary drivers that have
11 influenced insurance costs globally in the last decade:
12 1) catastrophic losses; 2) capacity for risks in
13 catastrophe prone areas; and 3) declining performance of
14 the returns on insurance companies' investment
15 portfolios.

16
17 Since 1991, insurance markets have weathered several
18 large catastrophic events that have significantly altered
19 the insurance market. The September 11, 2001 terrorist
20 attacks were, at the time, the largest insured loss event
21 in history, costing the insurance industry approximately
22 \$40 billion. In the period between August 2004 and
23 October 2005, seven of the 10 most expensive hurricanes
24 in U.S. history occurred. The year 2005 was by far the
25 worst year ever for insured catastrophic losses in the

1 U.S. with losses exceeding \$60 billion. Insurance
2 companies responded with substantial increases in
3 property insurance premiums especially in areas with wind
4 exposure like Florida.

5
6 An additional impact of these catastrophes was that
7 insurers began significantly restricting the total
8 amounts of coverage limits they would make available in
9 high wind exposure areas. With the limited capacity made
10 available in Florida and an increased demand for wind
11 coverage, property insurance premiums and deductibles
12 soared.

13
14 Although to a lesser extent, another factor affecting
15 insurance premium increases has been the decline of many
16 insurers' investment portfolio returns. Insurers have
17 traditionally relied on their returns from the investment
18 of premium dollars taken in to assist them in offsetting
19 any deficiencies in the rates they charge for a specific
20 risk. In the past several years, this investment income
21 has dwindled thus making the companies more reliant on
22 actual premiums to provide enough capital to pay losses.
23 That served to further focus insurers' attention on price
24 adequacy and resulted in rate increases for nearly every
25 line of insurance.

1 Q. In addition to the global drivers, has Tampa Electric had
2 any company-specific factors, which would cause the
3 significant increase in property insurance costs?
4

5 A. Yes. Tampa Electric has experienced a substantial
6 increase in the value of its insured assets in areas
7 exposed to wind loss. By year-end 2009, Tampa Electric
8 will have invested \$1.7 billion to add or repower
9 approximately 1,700 MW of generation since 1991,
10 significantly increasing its asset values. Property
11 insurers develop premiums based on the values exposed to
12 loss. In 2009, Tampa Electric is projected to have
13 approximately \$5 billion of insurance assets located in
14 coastal Florida, where insurers have reduced their
15 available capacity. Insurers are currently limited on
16 the amount of wind coverage they can write in a specific
17 area. As assets continue to be built in Florida's
18 coastal regions, there is a high demand for this coverage
19 with a limited supply, thus causing the price to
20 increase. It is estimated that over 50 percent of Tampa
21 Electric's current premium is for wind coverage compared
22 to approximately 10 percent or less in 1991.
23

24 Q. Please summarize your direct testimony.
25

1 **A.** Following Hurricane Andrew, property insurance coverage
2 for T&D assets became unavailable in Florida. Since 1994
3 Tampa Electric, as authorized by the Commission, has been
4 accruing \$4 million annually to a reserve to provide for
5 uninsured storm losses. The company believes and ABS
6 Consulting's study supports that the annual storm damage
7 accrual should be increased to \$20 million in order to
8 build its storm damage reserve to a level sufficient to
9 provide for most, but not all, storms and that the target
10 reserve balance should be increased to \$120 million.
11 Depending on the landfall location, a high-intensity
12 hurricane strike from 20 miles below St. Petersburg to
13 Crystal River, losses could average between \$300 and \$650
14 million.

15
16 Damage from windstorms is a fact of life in Florida, and
17 the cost associated with windstorm damage is an integral
18 part of the cost of providing electric service in the
19 state. Tampa Electric's objective is to reserve
20 appropriately for such damage so that surcharges are less
21 likely to be required when storm damage occurs. Although
22 the targeted reserve level is certainly not sufficient to
23 cover the low probability, high severity windstorm event,
24 Tampa Electric believes it provides a conservative level
25 of coverage to reduce the probability of a need for an

1 emergency surcharge.

2

3 Also related to Florida windstorm exposures, Tampa
4 Electric's premiums for property insurance have increased
5 significantly. Premiums have risen from \$2.5 million in
6 1991 to a projected \$11.1 million in 2009. This is due
7 to global factors affecting the insurance industry during
8 this period including significant catastrophic losses,
9 diminished coverage capacity in catastrophe-prone areas
10 and declining investment returns. The increase also
11 reflects Tampa Electric specific factors including the
12 higher insured values today and, more importantly, the
13 location of its assets in Florida with exposure to wind
14 loss.

15

16 **Q.** Does this conclude your direct testimony?

17

18 **A.** Yes, it does.

19

20

21

22

23

24

25

1 **BY MR. WAHLEN:**

2 **Q** Mr. Carlson, attached to your direct
3 testimony, did you include a composite exhibit premarked
4 as Exhibit ELC-1 and Hearing Exhibit 26 consisting of
5 one document?

6 **A** Yes, I did.

7 **Q** Do you have any changes to your exhibit?

8 **A** No, sir.

9 **Q** Thank you very much. Did you file rebuttal
10 testimony in this case?

11 **A** No, sir.

12 **Q** Very well.

13 **CHAIRMAN CARTER:** Did you say yes or no, sir?

14 **THE WITNESS:** No.

15 **CHAIRMAN CARTER:** Okay. Thank you.

16 **MR. WAHLEN:** He did not.

17 **BY MR. WAHLEN:**

18 **Q** Would you please summarize your direct
19 testimony.

20 **A** Good evening, Commissioners. My testimony
21 supports Tampa Electric's proposed annual accrual of
22 about \$20 million and the target reserve amount of
23 \$120 million to cover expected future storm damage cost.
24 The storm damage accrual is essentially a replacement or
25 a surrogate for insurance premiums we would be paying if

1 we could get insurance. But as you know, storm damage
2 insurance on our transmission distribution assets has
3 been unavailable since Hurricane Andrew hit Florida in
4 the early 1990s. But back when you could purchase this
5 insurance, the Commission recognized that it was
6 reasonable to have such insurance and allowed utilities
7 to recover premium costs at a reasonable cost of doing
8 business.

9 Since 1994, Tampa Electric was ordered to
10 accrue 4 million annually to establish a reserve. For
11 the purpose of this proceeding, the company has studied
12 possible impacts of hurricanes on its system.

13 The annual -- the annual amount of storm
14 damage accrual like the insurance premiums it replaces
15 is influenced by two primary factors. One, the
16 assets -- the value of the assets at risk; and, two, the
17 possibility those assets will be damaged by a storm in a
18 given period of time.

19 As to the first factor, our T&D assets are now
20 valued at approximately 3 times what they were worth
21 when the accrual level was originally set by the
22 Commission.

23 As to the second factor, Mr. Steven Harris of
24 ABS Consultant has prepared and he sponsors a study that
25 calculates the risk of damage from storms to our T&D

1 assets over time. To our knowledge, this is the best
2 tool available to predict our future loss exposures.
3 And we've relied on the study in determining appropriate
4 storm damage accrual. His approach and modeling is the
5 same approach used by the -- by the insurance industry
6 in Florida. It supports the company increasing its
7 annual accrual from 4 million per year to 20 million per
8 year.

9 It also supports the updated target of
10 120 million rather than the outdated \$55 million target.
11 The proposed storm damage accrual, like the insurance
12 premiums it takes the place of, is a reasonable cost of
13 doing business and should be approved. This concludes
14 my summary.

15 **CHAIRMAN CARTER:** Thank you. Ms. Christensen,
16 you're recognized.

17 **MS. CHRISTENSEN:** No questions.

18 **CHAIRMAN CARTER:** Ms. Bradley?

19 **MS. BRADLEY:** No questions.

20 **CHAIRMAN CARTER:** Mrs. Kaufman?

21 **MS. KAUFMAN:** Thank you, Mr. Chairman.

22 **CROSS-EXAMINATION**

23 **BY MS. KAUFMAN:**

24 **Q** Good evening, Mr. Carlson.

25 **A** Good evening.

1 **Q** I think you said in your summary that
2 currently Tampa Electric is authorized to collect
3 \$4 million a year for its storm reserve up to a target
4 of 55, correct?

5 **A** Yes, ma'am.

6 **Q** And you want to increase the 4 million five
7 times, fivefold, to collect 20 million a year, correct?

8 **A** That's correct.

9 **Q** And you want to double the reserve?

10 **A** That's correct.

11 **Q** Okay. Now, on page 5 of your direct, you talk
12 about the fact that after the storms of 2004 -- I'll let
13 you turn there.

14 **A** That's okay.

15 **Q** You talk about the fact that your reserve was
16 insufficient in 2004 to cover the storm damage?

17 **A** That's correct.

18 **Q** You would agree, would you not, that if such a
19 situation were to arise, you could certainly come to
20 this commission and seek a surcharge for such damages
21 assuming that they were legitimate and prudent and the
22 commission approved the surcharge?

23 **A** I agree.

24 **Q** And you could have done that in 2004, right?

25 **A** We could have -- yes, we could have -- we

1 could have requested a surcharge.

2 **Q** But instead, you were able to work out another
3 way to deal with the recovery, correct?

4 **A** My understanding is that we entered a
5 stipulation that allowed us to -- to avoid a surcharge
6 for our customers.

7 **CHAIRMAN CARTER:** Could you move a little
8 closer to your mic?

9 **THE WITNESS:** I'm sorry. Is that better?

10 **BY MS. KAUFMAN:**

11 **Q** And I think you say on page 5, line 22, that
12 that provided a practical and a workable solution for
13 the company and for the ratepayer as well, correct?

14 **A** I think for that particular situation it
15 was -- it was reasonable.

16 **Q** Okay. And you don't have any reason to
17 believe that should the need arise, you would not be
18 able to work out a similarly practical and reasonable
19 solution in the future, do you?

20 **A** I don't -- I don't have any reason not to
21 believe we could work out a reasonable solution. But I
22 think -- what I do believe is that what we're proposing
23 here is really the best approach for our -- for our
24 customer. You know, it allows us to kind of collect
25 rapidly over time as opposed to, you know, asking for a

1 surcharge at the time they -- they've incurred damage
2 from a catastrophic storm event?

3 **CHAIRMAN CARTER:** One moment, Ms. Kaufman.

4 One moment. Commissioner Skop.

5 **COMMISSIONER SKOP:** Thank you, Mr. Chairman.

6 Good evening, Mr. Carlson. Just a quick
7 question along this same line. I guess, you know,
8 I've looked at the prefiled testimony and, you
9 know, generally reserves are analogous to saving
10 for a rainy day to prevent rate impact later.

11 But in these difficult economic times, you
12 know, I think that we need to take a critical look
13 at where we have discretion or flexibility. And I
14 know that increasing a reserve amount is requested
15 for 4 million to 20 million. I mean, that's still,
16 you know, subject to discussion.

17 But again, if mitigating rate impact is -- is
18 important consideration for TECO's customers and
19 that knowing that the Commission does not really
20 have a wide range of discretion, only, you know,
21 pursuant to statute and controlling case law the
22 only discretion that we really seem to have other
23 than scrubbing the numbers are ROE and
24 discretionary accruals, would it not be appropriate
25 to take a critical look at whether we might want to

1 temporarily spend our reserve and bear -- have the
2 consumers bear that risk to the extent that some of
3 the methods that Ms. Kaufman has mentioned at the
4 appropriate time if there were a storm, that, you
5 know, TECO could come back in and ask for a
6 surcharge or adjustment as opposed to adding
7 additional cost onto the consumer now.

8 I'd just like to get your commentary. I
9 haven't formed that opinion but I am looking for
10 opportunities where the Commission has discretion
11 that are fiscally sound and prudently sound and
12 regulatory sound to try and look at ways to provide
13 rate relief.

14 **THE WITNESS:** Well, first of all, I'd like to
15 say that I believe what we proposed is -- is -- is
16 appropriate and well founded. But I -- but I
17 believe this -- the exact question or a similar
18 question was asked of Mr. Black, and I believe his
19 response was that this could be considered. And I
20 think he's probably a more appropriate person to
21 ask that type of question to.

22 But what I'm here to do is to, you know, kind
23 of support the -- the proposed accrual amount and
24 the target amount. And like I stated, I believe
25 it's --

1 **COMMISSIONER SKOP:** And thank you. I
2 appreciate the candor on that. I mean, like I
3 said, it's a difficult question for the Commission
4 to consider. And although the rate relief would
5 not be substantial in either case, I mean, at least
6 to me it's -- you know, anything is in play and
7 open for discussion as -- as we're in these current
8 economic conditions. Thank you.

9 **CHAIRMAN CARTER:** Ms. Kaufman?

10 **MS. KAUFMAN:** Thank you, Mr. Chairman.

11 **BY MS. KAUFMAN:**

12 **Q** Mr. Carlson, were you here or did you listen
13 to Mr. Gillette testify?

14 **A** No, I didn't.

15 **Q** Okay. Would you accept, subject to check,
16 that I believe he told the Commission that Tampa
17 Electric was able to -- had a line of credit in the
18 event that there were storm damages, that it was -- its
19 reserve was not able to cover; is that your
20 understanding?

21 **A** Could you repetition that, please?

22 **Q** Yes. I believe that Mr. Gillette testified
23 that Tampa Electric has available to it a line of credit
24 to cover storm damage. Is that your understanding?

25 **A** That is my understanding.

1 **Q** Okay. If you look at your testimony, page 8
2 at the bottom, line 24 and 25, you say that the
3 Commission has shown flexibility in permitting customer
4 surcharges, correct?

5 **A** Yes, I said that.

6 **Q** Okay. And you don't have any reason to doubt
7 that the Commission will veer from that policy, do you?

8 **A** No, I don't.

9 **MS. KAUFMAN:** That's all I have, Mr. Chairman.

10 **CHAIRMAN CARTER:** Thank you, Ms. Kaufman.
11 Mr. Wright?

12 **MR. WRIGHT:** Thank you, Mr. Chairman.

13 **CROSS-EXAMINATION**

14 **BY MR. WRIGHT:**

15 **Q** Good evening, Mr. Carlson. I have a few
16 underlying questions trying to understand your
17 testimony. You talk about the company's current target
18 level and your desire to increase that target level.
19 The current target level is \$55 million, correct?

20 **A** That's correct.

21 **Q** And you're asking that that be increased to
22 \$120 million?

23 **A** That's correct.

24 **Q** Did the company have a target level before
25 1994?

1 **A** Prior to 1994 we didn't have a storm reserve
2 fund.

3 **Q** Thank you. What would happen if -- if the
4 company's accrued amounts were to reach the target
5 level, if anything?

6 **A** Well, it -- currently we have around
7 \$20 million in our -- in our storm fund. And if we were
8 permitted to accrue \$20 million, that would get us close
9 to that five-year period of -- and that coincides with
10 the same time that we're resubmitting our study. The
11 Commission requires us to submit a study every five
12 years to -- to, you know, to reevaluate the
13 appropriateness of our storm fund.

14 **Q** Thank you for that explanation. I was trying
15 to ask you the question what would happen if you reached
16 the target level. Would you stop accruing if the
17 accrual in any year caused you to -- would otherwise
18 cause you to exceed the target level or would you just
19 keep on accruing?

20 **A** I'm not exactly sure. I think that's some --
21 the -- there's --

22 **MR. WAHLEN:** That's a question for
23 Mr. Chronister.

24 **CHAIRMAN CARTER:** While we're getting ready
25 for that, let me just kind of briefly allow

1 Commissioner Skop, he has a question. Commissioner
2 Skop. Then you can think about, Mr. Wright, the
3 next question for that witness.

4 **MR. WRIGHT:** Oh, yes, sir. Thank you.

5 **COMMISSIONER SKOP:** Thank you, Mr. Chairman
6 and Mr. Carlson.

7 Getting back to the follow-up question, on
8 page 6 of your prefiled testimony, lines 10 through
9 12, you state that as of June 30th, 2008, the storm
10 damage reserve balance is approximately 22 million
11 and some change. And I know that they've reset a
12 target amount of \$120 million.

13 If the requested reserve amount and the
14 \$20 million were not approved by the Commission but
15 it was kept at either 4 million or somewhere in
16 there, I guess I'm going to use 10 million as a
17 hypothetical example, over five years if it were
18 ten million, that would be 50,000 -- I mean
19 50 million additional dollars on top of the
20 22 million that exists now subject to check, would
21 you agree with that?

22 **THE WITNESS:** Yeah. As long as we don't have
23 any storms, yeah.

24 **COMMISSIONER SKOP:** And I guess -- and that's
25 an important caveat. I appreciate it. Knock --

1 knock on wood. We don't want any more storms.

2 But I guess what I was getting to or my point,
3 and I'm trying to be more concise as I gain
4 experience on the Commission, but I think that on
5 page 5, line 5 of your prefiled testimony, you
6 indicated that the previous balance to effect
7 storm -- effect repairs to the system was
8 73 million. So if I do some quick math, 50 million
9 over five years plus 22 million kind of gets you
10 close to what the repair cost was previously with
11 major storms.

12 Would there be a need for additional funds
13 over that to the extent that maybe the cost of
14 repairs are more due to, you know, cost of
15 materials or inflation over that? I mean, I'm just
16 trying to find options here.

17 **THE WITNESS:** Right. I think it's important
18 to note that those three storms that happened in
19 2004 were kind of glancing blows. They were not
20 direct hits. If you look at the study conducted by
21 ABS, it has a landfall analysis of -- and that
22 will -- that will tell you if you have a -- if you
23 have a category -- a particular category or storm
24 like a category 1 through 4 that hits a particular
25 mile post marker along Florida, it will tell you

1 what our average loss costs will be.

2 **COMMISSIONER SKOP:** Okay. Assume for sake of
3 discussion, and you may know, say, for example,
4 that the Tampa Bay area or TECO's service area took
5 a direct hit from a category 3 storm, do you have a
6 rough number offhand what that expected repair cost
7 would be?

8 **THE WITNESS:** Yeah. I believe I could tell
9 you exactly what the study says.

10 **COMMISSIONER SKOP:** Okay.

11 **THE WITNESS:** It's in excess of -- it's
12 hundreds of millions of dollars.

13 **COMMISSIONER SKOP:** Okay. All right. I'll
14 leave it that. Again, so that the people in the
15 audience, people may be watching, my fellow
16 colleagues appreciate this, I'm just looking at,
17 you know, we're faced with making difficult
18 decisions that have real time rate impacts to
19 consumers, and I think there's some merit as to
20 some things are more discretionary than others to
21 the extent that if you assume the risk, you can
22 always seek a surcharge later to cover storm
23 damages. Maybe that surcharge would happen at
24 better economic times where consumers would have
25 the ability to bear it. But again that's one of

1 those trade-offs that I think that we, as a
2 Commission, need to look critically at in terms of
3 where we have low hanging fruit and opportunities
4 to mitigate near-term rate impact to some regard.
5 But don't know what that answer is but just want to
6 have the fully-vetted discussion. Thank you.

7 **CHAIRMAN CARTER:** Thank you, Commissioner.

8 Mr. Wright, you may proceed.

9 **MR. WRIGHT:** Thank you, Mr. Chairman.

10 **BY MR. WRIGHT:**

11 **Q** Mr. Carlson, I just want to clarify something.
12 I've heard two numbers so far regarding the current
13 balance of the storm reserve. I think in your prior
14 answer to me, you said \$20 million or so, and I think
15 your direct testimony says \$22 million or so.

16 And I'm looking at the one MFR schedule B21
17 which you sponsored that says that at the beginning of
18 the period 2009, calendar year, the balance beginning of
19 the period is \$24,310,000. Is that the right number as
20 of January -- your best estimate as of January 1st,
21 2009?

22 **A** 2009. I think in my testimony was at that
23 particular point in time.

24 **Q** When you filed the testimony. I apologize for
25 interrupting you. Thank you.

1 Now, as I understand what happened in 2004,
2 you incurred some costs, some of which you charged
3 against the reserve and some of which you put into rate
4 base; is that correct?

5 **A** That's my understanding.

6 **Q** And even having put that -- what I think you
7 testified is a number in your testimony, 30-some million
8 dollars went into plant and service and into rate base?

9 **A** Yeah, I think it was closer to 38 million.

10 **Q** Thank you. Even having put that in rate base,
11 the company continued to earn healthy returns through
12 2008, did it not?

13 **A** I don't know.

14 **MR. WRIGHT:** Okay. I'm going to ask
15 Ms. Kaufman to pass out a document. I'd like this
16 marked?

17 **CHAIRMAN CARTER:** Are you using it for
18 cross-examination or you want --

19 **MR. WRIGHT:** I would like it marked for
20 identification as Exhibit 108, Mr. Chairman.

21 **CHAIRMAN CARTER:** Okay.

22 **MR. WRIGHT:** It's a report prepared for the
23 Edison -- prepared for and published by the Edison
24 Electric Institute relating to --

25 **CHAIRMAN CARTER:** Commissioners, that will be

1 Exhibit No. 108.

2 **MR. WRIGHT:** And if we can call it EEI Utility
3 Restoration Cost study, that would be great.

4 **CHAIRMAN CARTER:** EEI Cost Restoration Study.
5 You may proceed.

6 **MR. WRIGHT:** Thank you.

7 (Exhibit No. 108 was identified.)

8 **BY MR. WRIGHT:**

9 **Q** Mr. Carlson, you know what the Edison Electric
10 Institute is, do you not?

11 **A** Yes, I do.

12 **Q** Have you seen this report?

13 **A** I don't believe I've seen this report.

14 **Q** If I could direct your attention to page 12,
15 there's a table presenting costs incurred by the Florida
16 utilities in the 2004 storm season there.

17 **A** I see it.

18 **Q** Okay. In that table it says that Tampa
19 Electric's cost were \$60 million. Your testimony
20 indicates that it was some 73.4 million. You can
21 explain the difference?

22 **A** No, I can't.

23 **Q** Okay. The Edison Electric Institute normally
24 gets its information from its member utilities, does it
25 not?

1 **A** I believe so.

2 **Q** And Tampa Electric is a member of the EEI?

3 **A** Yes, we are.

4 **Q** Okay. Isn't it true that considering the
5 treatment that the company applied in -- after the 2004
6 storms, the company's storm reserve has never gone below
7 zero since its inception in 1994?

8 **A** That is correct.

9 **Q** Do you believe that there is any risk that the
10 Florida Public Service Commission would not allow Tampa
11 Electric Company to recovery in a timely manner its
12 reasonable and prudent storm restoration costs following
13 any storm or storm season?

14 **A** I'm not a -- I'm not a rate case witness. I
15 would -- I would hope -- hopefully would not allow that.
16 But I -- I -- I -- I don't know.

17 **Q** Have you looked at Florida Power & Light
18 Company's and Progress Energy Florida's experience
19 following the damages they sustained in the 2004 and
20 2005 season?

21 **A** I have read their stipulations.

22 **Q** Will you agree that they incurred hundreds of
23 millions of dollars worth of damages in those two
24 seasons?

25 **A** Yes, sir.

1 **Q** And will you agree that the Florida Public
2 Service Commission enabled them to recovery their
3 reasonable and prudent costs associated with restoring
4 service following those events?

5 **A** Yes, sir.

6 **MR. WRIGHT:** I just have one more brief line
7 of questioning, Mr. Chairman.

8 **Q** Beginning at the bottom of page 7 of your
9 prefiled testimony and the top of page 8, you make the
10 statement that -- that this is your testimony, that
11 you -- you desire a larger storm reserve to mitigate, if
12 not avoid altogether, a storm surcharge because, as you
13 put it, the surcharge would compound the effects on
14 customers at a time when they are likely to experience
15 property damage from the same event.

16 So is it basically your testimony you don't
17 want to hit customers with a surcharge when they're
18 already hurting following a storm?

19 **A** That's correct.

20 **Q** Now, are you familiar with Tampa Electric's
21 retail rates? You've been in the room.

22 **A** I've been in the room.

23 **Q** Are you aware that the rates just went up
24 12.3 percent?

25 **A** I heard you say that, yes.

1 **Q** Did you hear Ms. Merrill say that too? Did
2 you hear Ms. Merrill agree that that's true?

3 **A** I believe she -- she stated it was correct.

4 **Q** Thank you. Will you agree that a lot of
5 people in Tampa Electric's service area are hurting in
6 today's economy?

7 **A** I -- I -- I'll agree that it's tough economic
8 times.

9 **Q** In light of your prior agreement that you at
10 least reasonably expect the Florida Public Service
11 Commission would ensure that Tampa Electric timely
12 recovery its reasonable and prudent storm restoration
13 costs, wouldn't you agree that it would be entirely
14 reasonable to recognize the customers' strong preference
15 not to have the rates go up any more than they already
16 have in this real-world economy today?

17 **A** I believe that what we're proposing is --
18 is -- is -- is the best approach for our customers. I
19 think the pain of a -- of these tough economic times
20 is -- you know, it's real, and I don't disagree with
21 you. But I think the aftermath of a storm when people
22 are suffering from, you know, property damage to their
23 homes, you know, damages to their -- loss of their
24 business, I think that pain kind of outweighs the pain
25 of a reasonable accrual.

1 **Q** So you think it's more reasonable to hit
2 customers with an extra \$20 million a year starting in
3 May of this year in this economy than to wait, either
4 reduce it to \$4 million as we've advocated, or reduce it
5 to zero by temporarily spending it as suggested as a
6 possibility by Commissioner Skop?

7 **MR. WAHLEN:** Commissioners, he's answered that
8 question.

9 **MR. WRIGHT:** No, he hasn't answered the
10 question I'm going to ask him.

11 **CHAIRMAN CARTER:** Let's -- go ahead. Let's
12 see. Go ahead.

13 **BY MR. WRIGHT:**

14 **Q** Do you think it's better to hit customers with
15 \$20 million a year starting today than to go with a
16 lower amount as advocated by the consumer or suggested
17 by Commissioner Skop? Is that your testimony?

18 **A** Yes, sir.

19 **Q** Thank you.

20 **MR. WRIGHT:** That's all I have. Thank you,
21 Mr. Chairman.

22 **CHAIRMAN CARTER:** Thank you.

23 **MR. WAHLEN:** Tampa Electric Company moves
24 Exhibit 26.

25 **CHAIRMAN CARTER:** Hold, hold the phone.

1 **MR. WAHLEN:** I'm sorry.

2 **CHAIRMAN CARTER:** We have to go to the bench
3 and then we'll got to staff.

4 First Commissioner Skop and then
5 Commissioner Argenziano.

6 **COMMISSIONER SKOP:** Thank you, Mr. Chairman.
7 Again I don't want to be -- I don't want to have
8 my -- thinking out loud, I don't want to have my
9 prior comments be misconstrued. Perhaps suspension
10 was too harsh of a word. I do appreciate the
11 nature of a reserve again as we struggle as a
12 Commission to undertake a rate case, the first in a
13 long history, in tough economic times. Again, I'm
14 just looking for breathing room for consumers.

15 But I think that the exhibit that has been
16 provided that I think is about ready to be entered
17 into evidence, on page 12 of that, Figure 11, I was
18 going to ask Carlson to take a look at that if he
19 has that in front of him as the basis for --

20 **CHAIRMAN CARTER:** 108?

21 **COMMISSIONER SKOP:** Excuse me?

22 **CHAIRMAN CARTER:** This 108?

23 **COMMISSIONER SKOP:** Yes, sir.

24 And mr. Carlson, do you have that in front of
25 you?

1 **THE WITNESS:** Yes, sir.

2 **COMMISSIONER SKOP:** On Figure 11, would you
3 generally agree that the reserve balances before
4 the storm were less than the actual storm repair
5 costs for all the reflected utilities there?

6 **THE WITNESS:** Yes, sir.

7 **COMMISSIONER SKOP:** Okay. And I guess in that
8 nature or so, it would be fair to say that the
9 reserve amounts were underfunded at that time?

10 **THE WITNESS:** Yes, sir.

11 **COMMISSIONER SKOP:** Okay. So there may be a
12 little bit of a lesson learned there. But in light
13 of these difficult economic times, again the
14 current reserve accrual is 4 million per year. I
15 think TECO has requested 20 million in this rate
16 case. Would a lower reserve, perhaps 4 to
17 10 million, be more appropriate than the 20 million
18 in the current condition noting that, you know,
19 surcharges could be -- and the Commission's
20 policies have always been to be fair to the
21 utilities to allow recovery. I don't expect that
22 that would change. Again, I'm just one vote on the
23 Commission.

24 But would a more reasonable accrual, if any,
25 be more appropriate than stretching it in these

1 tough economic times up to 20 million?

2 **THE WITNESS:** Well, the 20 million was -- was
3 developed based on the study conducted by ABS
4 Consulting. And what the study stated was that,
5 you know, on average, we can expect almost
6 \$18 million of losses in a given year. That means
7 that that could occur -- you know, you could go
8 several years with no losses and then you could
9 have a -- you know, a big loss. But kind of over
10 the long-term on average.

11 So in order to build a reserve, you're going
12 to have to collect some amount in excess of the --
13 of the -- of the expected annual amount.

14 **COMMISSIONER SKOP:** And to be clear, again I
15 don't question your rationale or your reasoning. I
16 think it's extremely prudent to plan for
17 contingencies. But again, some of that I think is
18 mitigated by these difficult economic times. I
19 guess, you know, I'm driving a vehicle that's over
20 ten years old and I'm making due with it now
21 instead of going to buy a new car.

22 **THE WITNESS:** Right.

23 **COMMISSIONER SKOP:** So I guess -- I guess what
24 I'm asking is can we make due with something a
25 little bit less than what we'd like to hope for in

1 optimal conditions to -- to -- to provide at least
2 some rate relief in these difficult economic times?

3 **THE WITNESS:** Well, I think the higher --
4 obviously the more you accrue, the less the
5 probability you'll have to ask your customer for
6 at -- for an emergency surcharge.

7 **COMMISSIONER SKOP:** Well, there's opportunity
8 costs in everything and as a result of the decision
9 we may pay -- consumers may end up paying for it
10 later. But again it's a difficult decision we have
11 to weigh, and that's one of the areas where I think
12 the Commission has clear discretion in, to look at,
13 you know, innovative ways to make some judgment
14 calls. Thank you.

15 **CHAIRMAN CARTER:** Commissioner Argenziano.

16 **COMMISSIONER ARGENZIANO:** Thank you. If in
17 regards to -- I don't know if you can answer this
18 or not. So if not, just let me know.

19 **THE WITNESS:** Okay.

20 **COMMISSIONER ARGENZIANO:** But if you have no
21 money in the reserve fund and we have a storm and
22 you come to the PSC to get the extra funds,
23 surcharge or storm bonds or whatever, the PSC
24 reviews the costs for prudence and decides what to
25 allow. And currently I guess your bank account is

1 targeted at 55 million?

2 **THE WITNESS:** The target is 55 million,
3 correct.

4 **COMMISSIONER ARGENZIANO:** And what you're
5 looking for is 110 million, right?

6 **THE WITNESS:** 120 million.

7 **COMMISSIONER ARGENZIANO:** 120 million. Sorry.
8 If -- if you do have the money in the fund and a
9 storm hits and you spend the monies to repair, to
10 do repairs and so on, does the PSC -- would the PSC
11 still have the review of those dollars spent for
12 prudence or would it be a different level of
13 review.

14 **THE WITNESS:** I believe the order states that
15 any -- any cost over -- I think the -- maybe the
16 answer to your question is yes, the PSC would
17 review the cost for prudence.

18 **COMMISSIONER ARGENZIANO:** So it would remain
19 the same, you think?

20 **THE WITNESS:** Pardon me?

21 **COMMISSIONER ARGENZIANO:** We would have the
22 same prudence, the same review of prudence?

23 **THE WITNESS:** Yes, I believe so.

24 **COMMISSIONER ARGENZIANO:** Okay. Maybe,
25 Mr. Chairman, I don't want to cross the line in

1 asking staff questions, but is there a way to find
2 out if we would have that same review without
3 crossing any lines, finding out what we are able to
4 do?

5 **CHAIRMAN CARTER:** Let me just ask Ms. Helton,
6 Ms. Helton since she's not a party or --
7 Ms. Helton?

8 **MS. HELTON:** Can I have one minute to talk to
9 Mr. Willis?

10 **CHAIRMAN CARTER:** Sure, take a minute to talk
11 to Mr. Willis. And while you're taking a minute to
12 talk to Mr. Willis, let me just say, Commissioners,
13 anything further while she's -- one more?

14 **COMMISSIONER SKOP:** Yeah.

15 **CHAIRMAN CARTER:** You're recognized,
16 Commissioner Skop.

17 **COMMISSIONER SKOP:** Thank you, Mr. Chairman.
18 Mr. Carlson, with respect to the money in the
19 accrual, I know that TECO does not earn any
20 carrying costs or rates of return on that reserve
21 amount. But I would assume that that reserve's in
22 an interest-bearing account and would be --

23 **THE WITNESS:** It's an unfunded reserve. It's
24 an unfunded reserve.

25 **COMMISSIONER SKOP:** Excuse my ignorance. I'm

1 just -- so if you have a reserve account there that
2 you're accruing money in and collecting money in,
3 is there -- so it's unfunded reserve to the extent
4 that there's no real dollars in that account, it's
5 just --

6 **THE WITNESS:** That's right. It's just kind of
7 a liability on your books. So the cash is in kind
8 of --

9 **COMMISSIONER SKOP:** So it would not be -- I've
10 got it now. All right. Thank you.

11 **CHAIRMAN CARTER:** Okay. Everybody kind of run
12 in place for a minute. Don't anybody leave yet.
13 Ms. Helton?

14 **MS. HELTON:** Ms. Chairman, we think the answer
15 is in one of our rules, and we're looking that up
16 now. So I don't know if this is something,
17 Commissioner, that you want answered on the record
18 or if we could tell you at a break and then if you
19 want us to --

20 **COMMISSIONER ARGENZIANO:** Well, I think I
21 would like it on the record because it makes a big
22 difference.

23 **THE WITNESS:** I have the rule right here.

24 **COMMISSIONER ARGENZIANO:** Okay.

25 **CHAIRMAN CARTER:** Well, let's see then.

1 **MS. HELTON:** Then and perhaps, Commissioner,
2 the witness might be the better person to answer
3 the question.

4 **COMMISSIONER ARGENZIANO:** I think so.

5 **CHAIRMAN CARTER:** Mr. Carlson, you're it.

6 **THE WITNESS:** Yeah. It's Docket No.
7 070011-EI, Order No. PSC07-0444-FOF-EI issued
8 May 23rd, 2007. And --

9 **COMMISSIONER ARGENZIANO:** That's not the rule.

10 **THE WITNESS:** Okay. Let's see. It says, "All
11 costs charged to account 228.1 are subject to
12 review for prudence and reasonableness by the
13 Commission."

14 **CHAIRMAN CARTER:** Okay. Comfortable?

15 **COMMISSIONER ARGENZIANO:** Sorry you had to do
16 speed reading there.

17 **CHAIRMAN CARTER:** Commissioner Skop?

18 **COMMISSIONER SKOP:** Thank you, Mr. Chairman.
19 And Mr. Carlson, it's late in the day so my thought
20 process is not probably what it was earlier in the
21 morning. But I think that you mentioned that this
22 accrual is an underfunded reserve. I mean, can you
23 help me explain?

24 **THE WITNESS:** It's an unfunded reserve?

25 **COMMISSIONER SKOP:** Unfunded reserve.

1 **THE WITNESS:** Yeah. You know, the cash comes
2 and goes into Tampa Electric's general cash
3 account.

4 **COMMISSIONER SKOP:** Okay. But it's not
5 allocated into an interest bearing account, it's
6 just used for working capital or what have you?

7 **THE WITNESS:** That's correct.

8 **COMMISSIONER SKOP:** So I guess if we establish
9 a reserve about the consumers paying for it because
10 it's incorporated in terms of what they pay in the
11 bill, some component of that goes to -- to this
12 reserve account; is that correct? But it's -- I
13 tried to articulate this because it's -- there's no
14 pile of cash sitting around, it's just kind of
15 co-mingled, I mean, or -- I'm not doing good at
16 this because it's late.

17 But -- but I guess what I'm saying, it's
18 correct to understand there's no separate bank
19 account with this pile of cash bearing interest on
20 it, it's just -- you know, unidentifiable money
21 that's co-mingled with the -- with the cash flow
22 through the company; is that correct?

23 **THE WITNESS:** That is correct.

24 **COMMISSIONER SKOP:** Okay. Thank you.

25 **CHAIRMAN CARTER:** Thank you. Staff for

1 questions? Ms. Helton, you're recognized.

2 **MS. HELTON:** We have located the rule that I
3 think in part answers Commissioner Argenziano's
4 question. It's rule 25-6.0143, and in particular,
5 subsection (1)(d) and -- (1)(d). And the gist is
6 that the Commission, you know -- "All costs charged
7 to account 228.1 are subject to review for prudence
8 and reasonableness by the Commission." There's
9 obviously more to it but that gets to the heat.

10 **COMMISSIONER ARGENZIANO:** Right. And that's
11 just what I really wanted to be certain of. So
12 thank you very much.

13 **CHAIRMAN CARTER:** And that is on the record.
14 Commissioner Skop?

15 **COMMISSIONER SKOP:** Thank you, Mr. Chair. And
16 hopefully I won't cross the line on this one,
17 but --

18 **CHAIRMAN CARTER:** Don't cross the line. Why
19 don't you do this, Commissioner. While you're
20 thinking about that, let me go to staff and I'll
21 come back to you.

22 **COMMISSIONER SKOP:** Okay. All right. Thank
23 you.

24 **CHAIRMAN CARTER:** That way we'll make sure you
25 don't cross the line.

1 Staff?

2 **MR. YOUNG:** No questions.

3 **CHAIRMAN CARTER:** Uh-oh. Commissioner Skop.

4 **COMMISSIONER SKOP:** Thank you, Mr. Chairman.

5 I'm trying to get a handle on this. I mean, a lot
6 of discussion in the pretrial testimony of prior
7 witnesses is centered on some of the business
8 decisions hat had been made at the parent level and
9 the divestures that -- you know, some of the
10 historical issues that have arisen with investing
11 in unregulated type activities. And we'll leave
12 that where it is.

13 But if I understand the notion of unfunded
14 reserve, I think that's the correct terminology
15 or --

16 **THE WITNESS:** That's correct.

17 **COMMISSIONER SKOP:** So basically my make -- by
18 setting an amount, it impacts consumers' bills, and
19 the money that flows in is funds used for
20 continuing operations until such time as somebody's
21 on the hook for that money, to use it for a storm
22 repair; is that correct generally?

23 **THE WITNESS:** That's my general understanding.

24 **COMMISSIONER SKOP:** So there's nothing to be
25 said that that money coming in could not be -- like

1 if the parent company did a cash call, it could tap
2 that money until such time as it would have to be
3 responsible for providing an infusion later for the
4 storm repairs; is that correct?

5 **THE WITNESS:** That question is probably better
6 asked to witness Chronister. I can't talk the
7 accounting of it.

8 **COMMISSIONER SKOP:** Okay. Thank you.

9 **CHAIRMAN CARTER:** Thank you. Any redirect?

10 **MR. WAHLEN:** No redirect.

11 **CHAIRMAN CARTER:** Okay. Exhibits?

12 **MR. WAHLEN:** We'll move Exhibit 26 again.

13 **CHAIRMAN CARTER:** Thanks. No objection, show
14 it done. And this witness is not playing -- he's
15 just playing offense, he's not defense.

16 **MR. WAHLEN:** That's correct.

17 **CHAIRMAN CARTER:** And Staff's Exhibit No. 108.
18 Any objections? Mr. Wright?

19 **MR. WRIGHT:** It's the Retail Federation's
20 exhibit, Mr. Chairman. I move it. Thank you.

21 **CHAIRMAN CARTER:** Oh, yeah.

22 **MR. WAHLEN:** Mr. Chairman, with the
23 understanding that the witness had never seen this
24 and couldn't verify the numbers in it, for whatever
25 it's worth we don't object.

1 **CHAIRMAN CARTER:** Okay. Thank you. All
2 right. So the Retail Federation -- it's right
3 here, FRF. I guess it is getting late, heh?

4 **MR. WRIGHT:** It's got two Fs in it. So does
5 staff.

6 **CHAIRMAN CARTER:** Okay. Without -- without
7 objection -- with the necessary statement on the
8 record for -- from the party, and also -- it's
9 entered into the record. Commissioners, I think
10 we're beginning to make progress. You may be
11 excused.

12 **THE WITNESS:** Okay.

13 (Exhibit No. 108 admitted into the record.)

14 **CHAIRMAN CARTER:** I think we're beginning to
15 make progress, and hopefully tomorrow we'll have a
16 better feel for -- for whether or not we're making
17 any progress. So with that, staff, preliminary
18 matters before we adjourn?

19 **MR. YOUNG:** Yes, sir. There's one preliminary
20 matter as relates to Staff's Late-Filed Exhibit No.
21 107.

22 **CHAIRMAN CARTER:** 107.

23 **MR. YOUNG:** TECO is going to take that issue
24 up.

25 **CHAIRMAN CARTER:** Say again?

1 **MR. YOUNG:** TECO wants to speak on that
2 exhibit.

3 **MR. WAHLEN:** The question was raised --

4 **CHAIRMAN CARTER:** Oh, on the revised -- TECO
5 revised salary and incentive plan?

6 **MR. WAHLEN:** Yes. The question was posed when
7 we can provide the information.

8 **CHAIRMAN CARTER:** Yes, sir.

9 **MR. WAHLEN:** On line A of the exhibit, that
10 deals with the base salary, it is for certain --
11 for sure right now that the base salary for TECO
12 Energy and Tampa Electric officers for 2009 is a
13 zero increase.

14 On lines B through E, officers' short-term and
15 long-term incentive compensation based on 2008
16 results is being discussed with the board of
17 directors' compensation committee on February 3rd
18 and will be taken up by the full board on
19 February 4th. So in terms of timing, it's going to
20 be after that.

21 **CHAIRMAN CARTER:** So it really will be a
22 late-filed exhibit then.

23 **MR. WAHLEN:** Yes.

24 **CHAIRMAN CARTER:** Okay. All right. Duly
25 noted.

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MR. WAHLEN: Thank you.

CHAIRMAN CARTER: So Commissioners, as I said to you, I'll know tomorrow if we're beginning to make progress. I just -- I don't feel it yet but we'll be starting at 9:00 a.m. in the morning. And with that, we are adjourned.

(Hearing adjourned.)

* * *

CERTIFICATE OF REPORTER

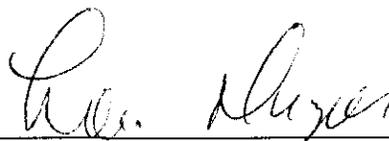
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STATE OF FLORIDA)
COUNTY OF LEON)

I, LORI DEZELL, RPR, CCR, certify that I was authorized to and did stenographically report the proceedings herein, and that the transcript is a true and complete record of my stenographic notes.

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.

WITNESS my hand and official seal this 28th day of January, 2009.



LORI DEZELL, RPR, CCR
2894-A Remington Green Lane
Tallahassee, Florida 32308
850-878-2221