BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of : **DOCKET NO. 991779-EI**

REVIEW OF THE APPROPRIATE APPLICATION OF INCENTIVES TO WHOLESALE POWER SALES BY INVESTOR-OWNED ELECTRIC UTILITIES.

VOLUME 2
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PROCEEDINGS:	HEARING
BEFORE:	CHAIRMAN JOE GARCIA COMMISSIONER J. TERRY DEASON COMMISSIONER SUSAN F. CLARK COMMISSIONER E. LEON JACOBS, JR. COMMISSIONER LILA A. JABER
DATE:	Wednesday, May 10, 2000
TIME:	Commenced at 9:30 a.m. Concluded at 4:05 p.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	JANE FAUROT, RPR FPSC Division of Records & Reporting Chief, Bureau of Reporting (850) 413-6732
APPEARANCES:	(As heretofore noted.)

I N D E X

E X H I B I T S

P R O C E E D I N G S

CHAIRMAN GARCIA: Mr. Stone.

MR. STONE: Thank you, Commissioner. Mr. Howell has taken the stand and he was present and sworn earlier today.

Whereupon,

M.W. HOWELL

was called as a witness on behalf of Gulf Power Company, and having first been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. STONE:

Q Mr. Howell, would you please state your name and occupation for the record.

A My name is M. W. Howell, I am Transmission and System Control Manager for Gulf Power Company, Pensacola, Florida. The address is One Energy Place, Pensacola. The zip is 32501.

Q And you are the same M. W. Howell who prefiled prepared direct testimony consisting of 11 pages dated March 1, 2000?

A Yes.

Q Do you have any changes or corrections to your prefiled prepared direct testimony?

A No.

Q If I were to ask you the questions contained in that set of testimony would your responses be the same?

A Yes.

MR. STONE: I would ask that Mr. Howell's testimony consisting of 11 pages dated March 1, 2000 be inserted into the record as though read.

CHAIRMAN GARCIA: It will be inserted.

GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
M. W. Howell
Docket No. 991779-EI
Date of Filing: March 1, 2000

Q. Please state your name, business address and occupation.
A. My name is M. W. Howell, and my business address is One Energy Place, Pensacola, Florida 32520. I am Transmission and System Control Manager for Gulf Power Company.

Q. Have you previously testified before this Commission?
A. Yes. I have testified in various rate case, cogeneration, territorial dispute, planning hearing, need determination, fuel clause adjustment, and purchased power capacity cost recovery dockets.

Q. Please summarize your educational and professional background.
A. I graduated from the University of Florida in 1966 with a Bachelor of Science Degree in Electrical Engineering. I received my Masters Degree in Electrical Engineering from the University of Florida in 1967, and then joined Gulf Power Company as a Distribution Engineer. I have since served as Relay Engineer, Manager of Transmission,

Manager of System Planning, Manager of Fuel and System Planning, and Transmission and System Control Manager. My experience with the Company has included all areas of distribution operation, maintenance, and construction; transmission operation, maintenance, and construction; relaying and protection of the generation, transmission, and distribution systems; planning the generation, transmission, and distribution systems; bulk power interchange administration; overall management of fuel planning and procurement; and operation of the system dispatch center.

I am a member of the Engineering Committees and the Operating Committees of the Southeastern Electric Reliability Council and the Florida Reliability Coordinating Council, and have served as chairman of the Generation Subcommittee of the Edison Electric Institute System Planning Committee. I have served as chairman or member of many technical committees and task forces within the Southern electric system, the Florida Electric Power Coordinating Group, and the North American Electric Reliability Council. These have dealt with a variety of technical issues including bulk power security, system operations, bulk power contracts, generation expansion, transmission expansion, transmission interconnection requirements, central dispatch, transmission system operation, transient stability, underfrequency operation, generator underfrequency protection, and system production costing.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to address the issues in this docket concerning the currently allowed 20 percent shareholder incentive for certain non-separated wholesale sales. At the November 1999 fuel hearing in Docket No. 990001-EI, the Commission decided that the incentive issues should be addressed in a separate proceeding.

Q. Should the Commission continue its present policy and provide for stockholder incentives to encourage non-separated, non-firm, wholesale sales?

A. Yes. The Commission should, at a very minimum, continue the existing direct 20% incentive to utilities for participating in the wholesale, non-firm, economy energy market. Retail customers of both a net purchasing utility and a net selling utility benefit from a vibrant economy energy market where selling utilities have both direct and indirect incentives to satisfy the market's demand for off-system economy energy. The lower cost of economy energy available from sellers allows the net purchasing utility to meet its customers' needs for energy without having to generate the energy from its higher priced units, while the 80% credit from economy sales gains allows the net selling utility to lower its retail customers' overall fuel cost.

Q. Were there any particular concerns which motivated the Commission to institute the 80/20 split that is the current incentive mechanism?

A. Definitely. In testimony filed on November 7, 1983 by the Commission Staff in Docket No. 830001-EU, their witness expressed a primary concern regarding the "potential for over-recovery or under-recovery of revenues associated with economy energy sales." Also, the Staff suggested "that a specific incentive provision be adopted to encourage utilities to maximize economy sales." In Order No. 12923, issued January 24, 1984, in Docket No. 830001-EU-B, the Commission adopted Staff's proposal and established the existing 20% direct shareholder incentive that recognized the need for and overall benefit to all of our customers of increased sales of economy energy.

The old system of including sales projections in base rates presented utilities an incentive to maximize economy sales by allowing them to keep 100% of the sales profits above the level included in the rate case test year. Therefore, the Commission's 1984 change in Order No. 12923 did not initiate an incentive, but rather improved the old incentive mechanism with one that also allowed the Commission to eliminate any concern that projections of economy sales might be manipulated to "game the system". This highlights the point that uncertainty regarding projections of economy sales existed in the 1980s. This uncertainty is even more pronounced in today's market. The current economy sales incentive program has produced a win-win situation for customers and stockholders of Florida's investor owned utilities and should be retained.

Q. Would utilities engage in economy sales transactions which benefit their customers but do not offer any benefits to their stockholders?

A. Yes. Utilities did this well before the existence of the 20% incentive, and they would continue to engage in these sales if the incentive were removed by this Commission. But the more important question is, "To what degree would these sales occur?" With the provision of the current shared direct incentives associated with economy sales, a net selling utility is motivated to closely monitor the wholesale power market and proactively seek out opportunities for increased economy energy sales in today's competitive wholesale power market. Therefore, if the Commission maintains its current policy and continues the direct incentive, the degree to which utilities enter into these beneficial market-based economy sales should be maximized.

Q. What happens if the Commission reverses its current incentive policy?

A. If the Commission were to reverse its current policy and remove the incentive, the current motivation for utilities to closely monitor the wholesale power market would be reduced or lost. Any decrease in this ability to track the market and know what opportunities are available would lead to a reduction in a selling utility's amount of economy energy sales, and thereby, reduce the fuel cost credit for its retail customers. Today, customers get to keep 80% of the profits of a relatively large pie. If the direct stockholder incentive is removed and the level of sales falls, that results in the customers getting 100% of a smaller pie, and the customers lose.

Q. Should this proceeding be focused exclusively on economy sales incentive issues?
A. Absolutely not. The same incentive that motivates utilities to know the market and be in a position to increase sales also results in the utilities' discovery of opportunities to purchase cheaper economy energy. All of the savings produced by these purchases go to the customer. Decreasing the incentive will also shrink the pool of available sellers, which hits the customer smack in the forehead with a double-whammy.

Q. If a stockholder incentive is maintained by the Commission, what types of non-separated, non-firm, wholesale sales should be eligible to receive the stockholder incentive?
A. In Gulf's case, all of its non-separated, non-firm, wholesale economy energy sales made under current FERC wholesale tariffs that utilize cost-based and market-based pricing should receive the stockholder incentive. It is irrelevant whether or not such sales are made on the Florida Energy Broker Network, because the benefits to the customer of economy sales are independent of whether or not they occur on the Broker. All non-firm

energy that is sold at a price that results in gains above incremental production costs, regardless of whether they are labeled as "economy", should receive the incentive. In a discussion between the Commissioners and the recommendation Staff at the November 1999 fuel hearing, it was acknowledged that today's wholesale market provides utilities an opportunity to make market-based economy sales that produce higher profit margins than are produced by traditional "split-the-savings" transactions. Thus, with market-based pricing for economy sales, the retail customer receives a greater overall benefit than with the traditional "split-the-savings" type of economy sales because the customer receives 80% of these higher margins as a fuel cost reduction.

If Gulf becomes a party to any new FERC schedules that offer economy-type, non-firm energy for sale, the resulting energy sales should also receive the 20% stockholder incentive.

Q. If a stockholder incentive is maintained by the Commission, how should the incentive be structured?

A. The existing system has well served the customers of Florida's investor owned utilities for over 15 years. The Commission's establishment of this incentive mechanism has resulted in a much higher level of wholesale transactions that have produced substantial savings for Florida's electric customers. Therefore, Gulf proposes that retail customers should continue to receive 80% of the economy sales gains produced by all non-separated, non-firm, wholesale economy sales as a reduction to their overall fuel cost, while utility stockholders should continue to keep 20% of the gains as an incentive to develop and maintain the capability to aggressively participate in the economy sales market.

Q. Should there be some minimum level of sales that do not qualify for the incentive?

A. No. At the last fuel hearing, the utility witnesses, and the Commission Staff during their recommendation, made clear that the level of available sales is dependent on buyers' needs, which vary widely depending upon a number of factors, none of which can be controlled or even determined in advance by the utility. The Commission agreed with that conclusion. Setting the "bar" either too low or too high would be unfair. Even having such a "bar" ignores the unchangeable fact that the incentive mechanism does just what the Staff said seventeen years ago - it provides the motivation for utilities to maximize such sales. The laws of human behavior cannot be repealed by setting artificial standards. An incentive provides a motivation. Motivation influences behavior. If any party to this docket wants to see sales and customer benefits maximized, retaining the incentive mechanism is their correct answer.

Q. Do the changes in the wholesale market over the last few years have an effect on the investor-owned utilities' ability to make economy sales?

A. Yes. The realities of the new wholesale market and of competition have had a profound effect on the investor-owned utilities in Florida. No one can really say what level of transactions would have taken place without the incentive, because it has been in place in recent years. But everyone agrees that it would have been less. Also, a new market exists today, with more players, many of them selling out of merchant facilities, but almost all of them selling under market-based tariffs. When there were no market-based tariffs, only split-the-savings opportunities, these new players were a small part of the business. But the level of wholesale transactions has literally exploded in the last few years, because now they can maximize profit. These new players get to keep 100% of their profits, so they have quite a powerful incentive to maximize sales. Giving utilities a 20% incentive at minimum allows them the motivation to compete with the new players and at the same time share these savings with customers.

Q. Why is this true?

A. If all incentive to make sales were removed, the competition that is now provided by investor-owned utilities will be diminished. The likely result would be that prices for economy purchases will increase. Thus, the customer risks not only being deprived of his 80% share of the profits on economy sales not made, but also risks having to pay even higher prices during times of economy purchases. This dual detriment to the customer can be avoided by keeping the current incentive.

I emphasize again that there now exists a win - win situation in Florida. Any reduction in the incentive will only hurt the customer. The Commission should appropriately resist any move to send the wrong market signals by such a major policy shift as eliminating the incentive.

Q. Does this conclude your testimony?

A. Yes.

BY MR. STONE:

Q Mr. Howell, would you please summarize your testimony?

A Yes. Good afternoon, Commissioners. We are convinced that the Florida Commission did the right thing when it established the 80/20 incentive mechanism on economy sales in 1984. Since then Florida's retail electric customers have received significant cost reduction benefits from their utility's participation in the economy sales market. We believe that you should, at a very minimum, continue the existing 20 percent incentive for these sales.

We have talked about it this morning and this afternoon that the Commission's order did not initiate a new incentive, rather it improved the old incentive system that allowed utilities to keep 100 percent of sales profits above the level included in their last rate case. It also removed the uncertainty of the projections which we have discussed.

We believe that the current incentive mechanism has produced a win/win situation for customers and shareholders and should be retained. The question has been asked many times: Would utilities engage in economy transactions that benefit their customers but not their shareholders? Absolutely, yes. We did it before the incentive, we would continue to do it regardless of what happens.

But the big question today is to what degree would a utility continue to monitor the market and capitalize on the opportunities to capture those sales? If the incentive is removed, we believe that the motivation to monitor the market and make sales and purchases would be reduced.

Currently our customers get to keep 80 percent of today's big pie. But if the pool of available sales shrinks, they will get 100 percent of tomorrow's smaller pie and they will come out on the short end of the stick.

If utilities don't know the market, then that would certainly reduce the opportunity to discover and purchase cheaper energy, and that is a big factor that has not been discussed much today. As we know the market and are able to purchase the economy from other utilities, our customers keep 100 percent of those benefits.

If utilities are discouraged from maintaining knowledge of the market because of the lack of incentive, you are going to have a smaller pool of available sellers, the price will go up, the customers will lose more than the utilities will lose.

The changes in the wholesale market in recent years have had a definite effect on Florida's utilities' ability to make the economy sales. There is more competition, more players in the market, many selling out of merchant facilities. With the sales being made under market-based tariffs, these new players have the ability to maximize their profits, keep 100 percent of them, giving the investor-owned utilities the opportunity to maintain at least 20 percent of their profits allows them to have the motivation to continue competing in this market to the benefit of our customers.

I think the real issue today is do you believe in incentives. The Commission years ago at the recommendation of the staff, and this was confirmed by the current Commission staff and the discussion had after last November's fuel hearing, said there was a difficulty back then as there is now in determining what is an appropriate level of sales.

We are going to establish, the Commission said, an incentive to give utilities the motivation to do that. If you all believe, as I do, that an incentive is truly that, an incentive is something that produces the motivation, and motivation changes human behavior, and humans are who work in these utilities, then there will be a response. We can't measure it, we can't estimate what it is; but if we believe in human behavior, we know the incentive will work and customers will continue benefitting.

This completes my summary.

MR. STONE: We tender Mr. Howell for cross-examination.

CHAIRMAN GARCIA: I'm assuming the companies don't have any questions. Mr. Burgess.

MR. BURGESS: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. BURGESS:

Q Mr. Howell, does Gulf Power have its own wholesale marketing department?

A No.

Q In fact, it is part of Southern Company, and Southern Company has the wholesale marketing department and makes all the decisions along these lines, is that correct?

A Southern Company Services, as agent for the individual operating companies, administers this. And they are under the direction of a body that includes executives from all the operating companies, yes.

Q I see. And in the decision of dispatching units and the decision of which units any wholesale sales will come out from the individual subsidiaries are not segregated into individual companies, are they, for those decisions?

A That is true as far as the decision to dispatch. When you say the decision, the decision is based on economics. We always determine what the most economical unit would be to make that sale regardless of which company might own the generation.

Q And that is made at the Southern Company level, that is made for all the operating subsidiaries?

A Correct; out of the pool. Pooling the resources, serving all the load.

Q Now the costs associated with this marketing department, are they allocated then back to the various subsidiaries?

A Yes.

Q On what basis?

A Load ratio basis.

Q What is Gulf Power's load ratio relative to the entire Southern Company?

A It is approximately 6 percent.

Q So --

A In big round numbers.

Q Okay. So that 6 percent would be the basis upon which Gulf Power would be allocated its portion of the wholesale marketing department's expenses, is that correct?

A Correct.

Q That 6 percent is also the basis upon which Gulf Power is allocated a portion of the gains from wholesale sales, is it not?
A Correct.
Q Even if, for example, all the sales for a particular period of time came from Gulf Power Company's units, Gulf Power Company would receive 6 percent of the gains, is that correct?
A Correct.
Q And if zero percent came from Gulf Power Company, it would receive 6 percent of the gains, is that correct?
A Correct.
Q So the 20 percent incentive that you are speaking of that you are asking the Commission to apply or continue in your case would apply to the 6 percent of Southern Company sales that is allocated back to Gulf, is that correct?
A The gain on those sales; yes, that's correct.
MR. BURGESS: Thank you. That's all I have.
MS. KAUFMAN: I have no questions.

CROSS EXAMINATION

BY MR. KEATING:
Q Mr. Howell, the staff has handed out, I believe, one exhibit and a copy of a Commission order. Do you have

those items in front of you?

A The one that says Witness M. W. Howell, description, composite exhibit, deposition and responses to certain interrogatories?

Q That's correct.

A I have that one, yes.

Q Are you familiar with those documents?

A Yes. The ones that we turned in at the deposition, yes, I am familiar with them. And I'm assuming that you have a true and correct copy of them.

Q I'm hoping so myself, unless the copy machine messed up.

A Okay. Yes, I am familiar with both of them.

MR. STONE: Commissioners, in the interest of time, we would stipulate to the identification of the deposition and the interrogatories listed on staff's composite exhibit. We would also like to supplement that with an errata sheet that has been distributed to all the parties. It is Mr. Howell's errata sheet to his deposition.

COMMISSIONER DEASON: It will be identified as Composite Exhibit 8.

MR. STONE: Would that include the errata sheet also, Commissioner?

COMMISSIONER DEASON: Yes, Composite Exhibit 8 including the errata.

(Exhibit 8 marked for identification.)

BY MR. KEATING:

Q Mr. Howell, I have a few questions. Does Gulf or Southern participate in the Florida Energy Broker Network?

A No.

Q Do you have a one-page exhibit in front of you with a table entitled, summary of current and proposed incentive treatment?

A Yes.

MR. STONE: Commissioners, once again in the interest of time, these exhibits are Exhibits 3 and 4, and Gulf would stipulate that the information contained in the columns headed Gulf is information that Gulf has provided to staff through various interrogatory responses.

MR. KEATING: Thank you.

BY MR. KEATING:

Q I just want to verify that the information -- well, looking at the cell under Gulf in the row, "Current treatment of incentives," you are applying the 20 percent incentive on all nonseparated sales, is that correct?

A That is correct, yes.

Q And then going down to the row titled, "Proposed treatment of incentives," you are proposing that there be no change in the incentive?

A Yes.

Q So Gulf is currently applying the 20 percent shareholder incentive to all of its nonseparated sales, correct?

A Yes.

Q And that includes both Schedule C and market-based sales?

A That's right.

Q Okay. Schedule C sales are of the split-the-savings variety, is that correct?

A Correct.

Q Are any of these sales considered firm?

A Well, certainly none of the split-the-savings are. The market-based, we have the ability to make those firm, but I would say 99 plus percent of our sales are energy sales and are classified by us as economy sales.

If there are any firm sales that have a capacity component, the capacity component is passed 100 percent to the customer through the capacity clause. Was that responsive?

Q I believe so.

A Okay.

Q Are you familiar with the Commission's Order Number 12923 that established the shareholder incentive that currently exists?

A Is that the January '84?

Q Yes, I believe we provided a copy of that.

A Yes, I am familiar with it.

Q Do you have that order in front of you?

A Yes, I do.

Q Could you read the first two sentences from that order?

A Okay, I am not a lawyer. The first sentence says pursuant to notice, is that --

Q I'm sorry, let's go down under the title, order approving treatment of gain on economy sales.

A Read the first two sentences?

Q Yes, sir.

A Surely. Economy energy transactions represent the sale of energy between electric companies. Gains are realized by the selling company as a result of the split-the-savings methodology used to calculate the selling price of economy energy.

Q Thank you. So would you agree that this order defines economy energy transactions as sales of energy with gains realized by split-the-savings pricing?

A Oh, no, I would agree that it does at this time. But as we have all seen, the market has changed significantly. And rather than utilities buying under the old cost-based method, FERC has encouraged us to go from cost-based to market-based, not only in economy energy, but in many facets of our operation.

And because of that, we are firmly convinced that the pricing might have changed, but the definition of the energy hasn't changed. So, no, I would not agree that that limits that to split-the-savings economy.

Q Are you aware of any portion of that order that would expressly approve application of the 20 percent incentive to anything other than economy sales made on the split-the-savings basis?

A Well, I would just speak to the first sentence under where it says therefore in consideration of the foregoing, and I don't know what page number that is. It is Page 3. And the first sentence there says ordered by the Florida Public Service Commission that the economy energy sales profits are being removed from base rates and being included in fuel and purchased power cost recovery clause effective April 1, 1984.

It is further ordered that the economy energy sales profits are to be divided between ratepayers and the shareholders on an 80/20 percent basis. And it doesn't say anything about any limitation or whatever. And I want to point out like I said earlier, you know, we didn't just do this and try to hide this. We were very aboveboard.

The economy market changed from a split-the-savings cost-based to a market-based market price. And we simply changed the way -- we simply adapted that to that. We have not changed anything about how we calculate the gain. The gain is calculated exactly the same way as it was before. So we don't have any qualms at all about including the market-based tariff in this.

Q Well, I don't want to argue on that order.

A Oh, no, I'm just saying that is our position. You know, if somebody else has a different position, they can talk to that.

Q Are you aware that Gulf is the only utility that currently applies the 20 percent shareholder incentive to its market-priced sales?

A If this summary you handed me is correct, I am now aware.

Q Are you aware that Tampa Electric Company has proposed a larger incentive for in-state sales as opposed to out-of-state sales?

A Yes, that is my understanding.

Q Okay. Do you believe that a utility would pursue a sale on which it would earn the highest gain rather than on which it would earn the highest incentive?

A We haven't really looked at that. I don't know what Tampa's rationale for that is. I will tell you all I can speak to is what Southern's philosophy is. And Southern's philosophy is we can't change our costs. We try to sell at the highest price, and that maximizes the gain on the transaction. That is our current policy and we have not, to my knowledge, looked at anything like TECO is proposing. I would prefer they speak to that.

MR. KEATING: Thank you. I have no further questions.

CHAIRMAN GARCIA: Commissioners. Mr. Stone.

REDIRECT EXAMINATION

BY MR. STONE:

Q Mr. Howell, in the transition from the traditional split-the-savings Schedule C type of economy to the market-based tariff type of economy sales, are there, in fact, savings accruing to both the seller and to the purchaser at the transaction price?

A Absolutely. The concept of an economy transaction hasn't changed. The concept of an economy transaction is, I can sell it, I can generate at X, it is going to cost you Y. If we can transact somewhere in between there, then I make more than my cost and you get the energy less than what you could generate it at.

So the philosophy, and concept, and result of a market-based transaction is exactly the same as the old split-the-savings. It is just that the savings may not be

50/50 between the parties, they will be some other amount. But the beauty of it is, is it is driven by the market. It is not driven by just cost or what utilities allege to be their costs.

Q And, in fact, Gulf and Southern still have Schedule C as an available tariff?

A Yes, we do. And we probably do some business under that, but it is extremely small, if at all.

Q And the reason for that would be what?

A Well, the whole industry is moving towards market-based tariffs. The FERC has encouraged that. In many cases the gain on a transaction is greater. I hasten to add that there are many cases where there is very small gains on transactions. But in many cases the gains are greater under a market-based than they would be under a split-the-savings.

Q So would it be fair to say that the transition from the traditional Schedule C type approach to the market-based tariff approach is in response to market demands?

A Absolutely.

MR. STONE: I have no further questions.

CHAIRMAN GARCIA: Okay. Staff.

MR. KEATING: Staff would move the introduction of Exhibit 8 into the record.

CHAIRMAN GARCIA: Okay. It will be so admitted.

(Exhibit 8 received in evidence.)

MR. BEASLEY: Tampa Electric calls Mr. Lynn Brown.

CHAIRMAN GARCIA: Just for your knowledge, we are going to conclude the hearing at 4:15. Now, just for your organization, if any of you have a better idea, but that means we are going have to continue the rest of the hearing if we don't get it all in now, okay?

Whereupon,

W. LYNN BROWN

was called as a witness on behalf of Tampa Electric Company, having first been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BEASLEY:

Q Would you please state your name and your business address for the record.

A Yes. W. Lynn Brown, 702 North Franklin Street, Tampa, Florida 33602.

Q Mr. Brown, were you in the room and sworn as a witness this morning with the other witnesses?

A Yes.

Q Have you prepared and caused to be filed in this docket a 10-page document entitled, testimony of W. Lynn

Brown?

A Yes.

Q If I were to ask you the questions contained in that testimony, would your answers be the same?

A Yes.

MR. BEASLEY: I would ask that Mr. Brown's testimony be inserted into the record as though read.

CHAIRMAN GARCIA: Yes. Go ahead and insert it.

BEFORE THE PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

W. LYNN BROWN

Q. Please state your name, address and occupation.

A. My name is Lynn Brown. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Director of Wholesale Marketing and Sales.

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

A. I received a Bachelor's degree in Electrical Engineering from Louisiana State University in 1972 and subsequently joined Tampa Electric. I held various engineering, operations and managerial positions in Energy Delivery from 1973 through March 1997. I became Manager of Short-Term Wholesale Trading in April 1997 and was promoted to my present position in August 1998. I am responsible for short-term and long-term wholesale power purchases and sales, including non-firm energy sales that are made both on and off the Energy Broker Network ("broker").

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to describe Tampa Electric's wholesale marketing activities, provide an overview of the wholesale market within and external to Florida, and explain the significance of company incentives for non-separated, non-firm wholesale sales.

Q. Have you prepared an exhibit supporting your testimony in this proceeding?

A. Yes. My Exhibit No. 1 (WLB-1) consists of one document entitled "Glossary to Wholesale Schedules and Terms."

Q. Please describe Tampa Electric's Wholesale Marketing and Sales Department.

A. Tampa Electric's Wholesale Marketing and Sales Department ("Wholesale Marketing and Sales" or "department") is comprised of 13 full-time employees and one part-time employee. The department's general responsibilities include monitoring the wholesale market, preparing analyses and forecasts, and negotiating short-term and long-term sales and purchases. The department is also responsible for the consummation of all wholesale transactions including negotiations of terms and conditions, energy scheduling, OASIS reservation, transaction tagging, transaction monitoring, and deal documentation for billing and auditing.

Wholesale Marketing and Sales operates a trading floor 24 hours a day, seven days a week and has contractual relationships with numerous utilities and power marketers for sales and purchases of power. The department's annual budget is approximately $1.3 million.

Q. Please describe the types of wholesale transactions Tampa Electric enters.

A. Tampa Electric enters into many types of wholesale transactions depending on the needs of its wholesale customers and Tampa Electric's available capacity and energy. The company utilizes several types of wholesale sales schedules as described in detail in my exhibit.

Q. For what types of wholesale sales is Tampa Electric currently receiving an incentive?

A. Tampa Electric currently applies the 20 percent company incentive on gains from all economy energy sales made under FERC-approved Schedule C and Schedule X. This includes sales made on and off the broker. The company has consistently applied the incentive since April 1984 upon approval by the Florida Public Service Commission ("Commission") in Docket No. 830001-EU-B.

Q. Please describe the types of wholesale sales to which Tampa Electric believes an incentive should apply.

A. It is appropriate to retain an incentive for <u>all</u> non-separated, non-firm wholesale sales. This should not only include Schedules C and X sales, but it should also include Service Schedule J and G sales and all non-firm, market-priced wholesale sales.

Q. Why should the company be incented to make non-separated, non-firm wholesale sales?

A. It has been proven that incentives work. Incentives provide a motivation to behave a certain way and to achieve a desirable result. Tampa Electric's ratepayers have benefited from the company making economy sales through rate offsets from gains on these sales. Over the last 16 years, the company has also benefited by being able to retain 20 percent of the net gains.

The incentive has encouraged Tampa Electric to be aggressive regarding the production and sale of economy energy. The company has optimized generating unit maintenance, operated generating units to make sales, optimized economic generation dispatch, and devoted time, effort and resources to consummating transactions. This has resulted in a win-win for the company and its retail ratepayers.

Conditions, however, have changed. The wholesale market, especially the short-term energy market, has changed considerably since 1984. Because of these changes, it is appropriate for the Commission to extend a company incentive to <u>all</u> non-separated, non-firm sales.

Q. Please describe the changes in the non-firm energy market in Florida.

A. Florida's energy market has changed considerably in recent years. Prior to 1997, most non-firm transactions were cost-based, next-hour sales and purchases involving two Florida utilities. Most transactions were accomplished on the broker and the power was retained in the state to benefit all Florida ratepayers. These transactions were mostly "split-the-savings" transactions providing equal economic benefits to the buyer and seller.

Since 1997 the players and trading methods have changed. FERC Orders 888 and 889 opened the wholesale power market by requiring transmission owners to provide standardized open access. This brought about new market participants, including power marketers. Power marketers are now party to many non-firm wholesale transactions nationwide. These entities have market-based pricing freedom and use it extensively to take advantage of supply and demand imbalances.

Until recently, the broker facilitated only cost-based transactions which marketers found to be too limiting. Most transactions today are made via market-based power exchanges and off-broker deals that are consummated via telephone. Furthermore, the market has become volatile due to regional generation shortages and transmission constraints. The Florida market is influenced by a transmission constraint at the Georgia border that limits both purchases and sales across the state line and can result in high in-state prices. Additionally, market spikes in other regions of the country can place a high demand on available power in Florida, which can result in higher volumes of high-priced power exported from the state or higher in-state prices. The combination of new market participants, commodity-demand fluctuations, transmission constraints and price volatility has resulted in a very different non-firm wholesale market.

Q. What incentive structure is Tampa Electric proposing?

A. Tampa Electric is proposing that a company incentive of 40 percent be applied for all non-separated, non-firm sales made within the state. A lower company incentive of 20 percent should be applied for all non-separated, non-firm sales made outside the state.

Q. What effect would this proposed company incentive have on retail ratepayers?

A. This incentive will continue to lower rates to retail ratepayers with enhanced system reliability. Eighty percent of the margins for all non-separated, non-firm sales made outside Florida and 60 percent of the margins for all non-separated, non-firm sales made inside Florida would be credited directly to retail ratepayers. The company incentive will encourage selling utilities to maximize transactions especially within the state.

Utilities that are willing to provide generation resources to serve the needs of its ratepayers and the Florida market due to changes in supply-side resources and/or customer demand should receive a greater incentive. Larger volumes of non-firm energy on the wholesale market will result in a more robust and competitive Florida market. Purchasers of energy benefit by having more resource options that provide competitively priced energy and increased reliability for firm and non-firm retail customers. Therefore, all Florida retail ratepayers (buyers and sellers) benefit by these types of transactions.

Q. Would Tampa Electric continue making non-firm sales absent an incentive?

A. Of course. Tampa Electric has always strived to provide its retail ratepayers with reasonably priced, highly reliable electric service and off-system sales have helped achieve this goal. By having an incentive in place, however, utilities are motivated to go above and beyond the norm in transacting non-firm sales. The incentive provides additional justification and encouragement to maintain a professional staff that understands and can track the highly competitive wholesale market, and that knows how to optimize transactions and maximize sales revenues.

Q. Please summarize your testimony.

A. Tampa Electric's Wholesale Marketing and Sales Department is responsible for monitoring the wholesale market, analyzing and forecasting the company's needs for purchased power and ability to sell energy, and making short-term and long-term sales and purchases. Because of recent changes in the Florida wholesale market, it is even more important to incent utilities to make off-system sales.

Tampa Electric proposes that the Commission extends company incentives to <u>all</u> non-separated, non-firm wholesale sales. A higher company incentive of 40 percent should be applied to all non-separated, non-firm sales made within the state and a lower incentive of 20 percent should be applied for all non-separated, non-firm sales made outside the state. The incentive will encourage utilities to retain knowledgeable marketers of wholesale energy, maintain competitive and reliable generation, and aggressively market excess non-firm energy. Incentives benefit ratepayers by encouraging wholesale sales and then sharing with retail ratepayers the majority of profits from these off-system sales. Purchasing utilities also benefit by obtaining competitively priced energy for their customers at a cost lower than other supply-side resources.

Q. Does this conclude your testimony?

A. Yes it does.

BY MR. BEASLEY:

Q Mr. Brown, did you also prepare the exhibit attached to your testimony consisting of one page?

A Yes.

MR. BEASLEY: Could I ask that Mr. Brown's exhibit be identified, please?

CHAIRMAN GARCIA: That would be 9.

MR. BEASLEY: Thank you.

(Exhibit 9 marked for identification.)

BY MR. BEASLEY:

Q Mr. Brown, would you please summarize your prepared direct testimony?

A Good afternoon, Commissioners. My direct testimony provides an overview of the wholesale market, addresses Tampa Electric's wholesale marketing activities, and explains the significance of incentives for nonseparated nonfirm wholesale sales.

Tampa Electric currently operates a wholesale trading floor where traders purchase and sell power both within and outside of Florida, 24 hours a day, 7 days a week. Wholesale transactions are consummated through a variety of FERC approved firm and nonfirm service schedules. Participation in the current volatile wholesale market requires knowledge, resources and effort.

This market has changed dramatically over the past few years. A quick overview reveals stark contrast between the past and present. For example, historically the majority of nonfirm nonseparated wholesale transactions were cost-based, whereas today's transaction prices are often negotiated based on current market conditions. Furthermore, the former cost-based split-the-savings Florida Energy Broker has recently been replaced with a market-based bulletin board. Times have indeed changed.

However, the primary obligations of investor-owned electric utilities have not changed; that is, providing reliable cost-effective electric service to their retail customers while providing value to their shareholders. Wholesale sales of surplus electric generation can create a revenue stream that serves both obligations.

Historically, Tampa Electric has shared revenues from economy energy sales which were transacted on and off the Florida Energy Broker. These sales were cost-based short-term nonfirm nonseparated transactions which were conducted under FERC Schedules C and X. Retail customers received 80 percent of the net revenues or margin while shareholders received 20 percent. The incentive encouraged Tampa Electric to make surplus energy available to other utilities when their decremental cost was higher than Tampa Electric's incremental cost. This benefitted retail ratepayers of both the buyer and the seller.

Tampa Electric believes that the time has come to modify the existing wholesale sales incentive that has been benefitted Florida for over 15 years. Specifically, we believe that all nonfirm nonseparated wholesale transactions should be incented.

It has been proven that incentives provide a positive motivation to behave a certain way and to achieve a desirable result. The desirable result in this case is an increase in the volume of nonfirm nonseparated wholesale sales transactions.

Tampa Electric proposes a two-fold incentive be applied to these sales, sales which are subordinate to firm retail load and interruptible service customers. Tampa Electric proposes a company incentive of 40 percent to be applied to sales made within Florida, and an incentive of 20 percent to be applied to sales made outside of Florida.

This will encourage Florida's investor-owned utilities to be aggressive regarding the production and sale of surplus energy and will further encourage these companies to make this energy available to in-state buyers. The incentive encourages utilities to maintain a professional staff who understand the highly competitive and volatile wholesale market, and who know how to optimize transactions and maximize sales revenues.

This will result in a win/win for the companies and their retail ratepayers. Benefits include the development of a more robust wholesale market which will result in higher system reliability for both firm and nonfirm customers. Purchasers benefit by having more resource options that provide competitively-priced energy. This incentive will motivate utilities to go above and beyond the norm. In short, to go the extra mile.

This concludes the summary of my direct testimony.

MR. BEASLEY: We tender the witness for questions.

CHAIRMAN GARCIA: Okay. Mr. Burgess.

CROSS EXAMINATION

BY MR. BURGESS:

Q Mr. Brown, as an employee of TECO, you undergo certain employment evaluations, is that correct?

A Yes.

Q And as part of your employment evaluation you are given an annual review of, I think you termed it a merit review for what has transpired the previous year?

A That's correct.

Q And part of that merit review, there are certain targets or goals that are preset for your performance, is that correct?

A That is correct.

Q And one of the goals is a total revenue from off-system sales, is it not?

A That's right.

Q So in doing that, what the company does for your performance is set a target for total revenue for these sales, is that correct?

A Actually, it is between myself and the company; but, yes, a target is set.

Q A target is set for your performance?

A That's correct.

Q Based on total revenue of these sales?

A That's correct.

Q And as I recall the nonfirm sales portion of this forecast is based upon the expected market situation?

A Certainly the market situation has an impact on the revenues from nonfirm sales.

Q And as I understand it, if there is a substantial achievement in the realm of these wholesale sales and you are responsible for this achievement, there is a possibility you could receive a bonus, is that correct?

A There is.

Q But it would require an achievement that exceeds a certain expected standard, is that correct?

A Yes.

Q And I think you said that there are people that work for you in your department that have a similar type arrangement where they have personal merit goals that they are expected to achieve?

A All employees have personal merit goals.

Q And you have some managers who report immediately to you, is that correct?

A That's correct.

Q And they have certain merit goals, some of which are quantitative in nature, is that correct?

A That's correct.

Q And one such example that you have given as a quantitative goal is the development of market forecasts, is that correct?

A Yes.

Q And then what you do in evaluating is on a historical basis you look back at the price that the power actually was and a quantitative goal is determined -- achieved based on how close they came to the forecast, is that correct?

A That's correct.

Q And to evaluate whether they have done a good job, you have to have a standard set as to how close they ought to be, is that correct?

A Yes.

Q As to how close they ought to be to the forecast that they have made?

A Yes.

Q And that standard is something that is difficult to establish, is that correct?

A It is.

Q But you do it anyway?

A Yes.

Q Because it seems to be the best way to determine whether they -- what their actual performance is, is that correct?

A For the qualitative goals, it is slightly different though than the quantitative. I think you are referring to quantitative here.

Q That's correct, I am.

A Yes, I would agree.

Q And if someone constantly achieves well below their merit goals, they are counseled and perhaps if necessary they may be terminated, is that correct?

A That's correct.

Q And it would be ludicrous to give them a positive incentive under the circumstances at which they underachieve the standard that has been set for them, would you agree with that?

A It depends on the individual situation, but certainly a pattern of underperformance would result in necessary actions by the company.

MR. BURGESS: Thank you, Mr. Brown. That's all we have.

MS. KAUFMAN: Mr. Chairman, I have several questions for Mr. Brown that relate to his interrogatories. And I don't know if it would be more efficient for the staff to distribute the entire package. I had made copies of just the ones I wanted to ask him about, but it might prevent duplication.

CHAIRMAN GARCIA: Let's do it that way. While they are passing it out, why don't you -- let's have him identify it first.

MS. KAUFMAN: Mr. Chairman, would you want to identify these?

CHAIRMAN GARCIA: Yes. Let's go ahead and identify Exhibit Number 9, which is a composite exhibit.

MS. KAUFMAN: I think we are on 10.

CHAIRMAN GARCIA: I'm sorry, 10.

(Exhibit 10 marked for identification.)

CROSS EXAMINATION

BY MS. KAUFMAN:

Q Mr. Brown, do you have a copy of what staff has distributed?

A Yes.

Q There is just a few of the interrogatories I want to ask you about, and the first is Number 22.

A Yes.

Q Was this interrogatory prepared by you or under your supervision and direction?

A Yes.

Q And I just wanted to be clear that I understand what this interrogatory is supposed to represent. As I understand it, the question was asked whether during any time you were curtailing or interrupting your interruptible customers you are also making wholesale economy sales. And would I be correct that you provided the information here -- I think I counted up the times, but approximately 20 times during this two-year time period you were making economy sales at the same time that there was an interruption, or curtailment, or buy-though, is that correct?

A That's correct.

Q And just to take one example, April 29, 1999, there were 344 megawatts that were interrupted or curtailed of your retail interruptible customers at the same time you were selling on the wholesale market?

A That's correct.
Q I also want to look, Mr. Brown at --
A Let me go back to that. That 344-megawatt hours is for the entire day --
Q I understand.
A -- of 4/29/99. Any individual hour that buying through and reselling would not necessarily occur.
Q But that is for the total 24-hour period of April 29th?
A Yes.
CHAIRMAN GARCIA: Let me make sure I understand your distinction. You are saying that that was the total day, what you sold on the whole day, but that may not have corresponded with when you were interrupting?
THE WITNESS: When we were buying through. As I recall we have not interrupted and sold at the same time, but in this particular case we were buying through in some portions of the day, and we were selling in other portions.
CHAIRMAN GARCIA: Got you.
BY MS. KAUFMAN:
Q There wouldn't be any reason for a customer to buy-though if they weren't in danger of being interrupted?
A That's true. In those hours that we may have been purchasing a large amount, we may not have needed all

of that for the interruptible customers, you are absolutely right, and the surplus we would have sold.

Q I understand.

CHAIRMAN GARCIA: Let me make sure I've got this right. You were having your customers buy-though at the same time that you were selling outside of the system?

THE WITNESS: That's correct.

BY MS. KAUFMAN:

Q And the other interrogatory I want to look at, Mr. Brown, is Number 35. And that interrogatory asked if you have ever sold nonseparated wholesale energy on a firm basis that had a recallable provision in the contract. And Tampa Electric's answer is yes. And then you go on to explain that otherwise you would have had to curtail your firm retail load spending reserve or another service to a prior wholesale service commitment, is that correct?

A Yes.

Q So can I take from this answer that the answer does not apply to curtailing or interrupting your interruptible customers, it only applies to your firm retail load?

A In this particular interrogatory we have entered into nonseparated sales whereby we would curtail our interruptible customers before we would curtail the sale. Is that what you are asking?

Q Yes, that is exactly what I'm asking. You have probably stated your answer better than my question. But you have curtailed or interpreted your interruptible customers in order to make wholesale sales?

A Yes.

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

CROSS EXAMINATION

BY MR. KEATING:

Q Mr. Brown, you have in front of you staff's exhibit identified as a composite exhibit consisting of your deposition taken April 25th and your responses to certain interrogatories?

A Yes.

Q Okay. And that, I believe, has been marked as Exhibit 10.

MR. BURGESS: Just for clarification from the Chairman, was the other exhibit handed out by staff marked as a composite along with 10?

CHAIRMAN GARCIA: That is fine. We will do that.

MR. KEATING: And that is the exhibit described as a late-filed exhibit to Mr. Brown's deposition.

CHAIRMAN GARCIA: Right.

BY MR. KEATING:

Q Mr. Brown, have you had the opportunity to read the transcripts of your deposition and make any corrections to it?

A I have read the deposition and I did make some changes on the errata sheet. And I see that that errata sheet is not attached.

MR. KEATING: I would suggest that the errata sheets for all the deposition transcripts that are included in staff's exhibits be included in the record. I believe we have got Gulf's in the record. I don't think we did that with Florida Power Corporation and Florida Power and Light's witnesses.

CHAIRMAN GARCIA: Very well.

BY MR. KEATING:

Q With regard to the interrogatory responses in the exhibit, did you prepare these responses or did someone under your supervision prepare them?

A Yes, I did. And I do have some changes.

Q What changes do you have to those responses?

A Number 4, under the second paragraph of the answer, the second line reads projected incremental fuel -- excuse me, incremental firm energy costs, in parentheses, fuel plus O&M. I would change the wording inside the parentheses to fuel, SO2, and O&M.

And also in that same paragraph there is a typo. In the second sentence the transaction price is the midpoint between the buyers and the sellers quotes, and "spit" should be changed to "split". Those are the changes to Interrogatory Number 4.

In addition to that, Interrogatory Number 6, the second to last word in the answer, "incremental" should be changed to "decremental".

And then the last change I have is to Interrogatory Number 19.

MR. STONE: Commissioners, in looking through the copy that staff distributed to me, I don't find that we have Interrogatory Response Number 6.

MR. KEATING: Commissioners, I believe we have included that in the composite exhibit for Tampa Electric's other Witness Brown, and I would like to verify that -- no, I don't believe we have included it there, either. It must have been lost in the copying.

THE WITNESS: I assume that all of these interrogatories that you just gave me were ones that I was responsible for?

MR. KEATING: That is correct.

BY MR. KEATING:

Q And you were responsible for preparing a response to Interrogatory Number 6?

A Yes.

MR. KEATING: I guess if we could somehow make sure that we get that in the record, as well. I can provide copies for the court reporter.

CHAIRMAN GARCIA: How long is the answer to Number 6, since we don't have it? What are we looking at? I don't have a copy.

I'm going to ask you since you are holding your interrogatories, Mr. Brown, how long is the answer to Number 6?

THE WITNESS: It is short.

CHAIRMAN GARCIA: Why don't you read the question and then read the answer. Let's get it in the record and that way we don't have to print this out.

THE WITNESS: The question is: Please describe how sales made under the FERC schedules listed in your response to Interrogatory Number 4 are currently priced; that is split-the-savings pricing, market-based pricing, or any other pricing methodology?

And the answer is: Schedules C and X sales are priced according to a split-the-savings methodology whereby the transaction price is the midpoint between a seller's incremental cost and a buyer's decremental cost.

CHAIRMAN GARCIA: Okay.

BY MR. KEATING:

Q Thank you, Mr. Brown. And you had a correction to Interrogatory Number 19 that is in the packet?

A Yes. The correction to Interrogatory Number 19 is in the second paragraph of the answer, the third line. The word incremental should be changed to decremental. Those are all of my changes to the interrogatories.

Q And with those changes are the interrogatory responses in this exhibit true and correct to the best of your knowledge and belief?

A Yes.

Q Do you have a copy of the exhibit previously identified as Exhibit Number 3, which a one-page table titled summary of current and proposed incentive treatment?

A Yes, I do.

Q Is the information under the column titled TECO in that table correct, or do you believe it requires any clarification?

A I do have two corrections. Under the column where it says, proposed treatment of incentives, I would add in parentheses, A and B sales are not included. And that is that -- our proposal is that the 20 percent and the 40 percent not be applied to A and B sales.

And the second correction I have is in the last column, applicable schedules. We list four schedules by letter type and then we state market-based. So there is five total schedules. I would just put in parentheses currently. And the point is that we believe that the incentives should be applied to all nonseparated nonfirm wholesale sales, regardless of schedule.

Q So with those corrections or those clarifications this table is correct under the column titled TECO?

A Yes.

Q I just have a few questions.

Does Tampa Electric currently have the authority to charge market-based rates?

A Yes.

Q How long has it had that authority?

A Since last April.

Q Has TECO applied the stockholder incentive to any of these sales?

A No.

Q Why does TECO believe that it is appropriate to apply a higher incentive to in-state sales than to out-of-state sales?

A Well, we believe that it would improve the robustness of the in-state market. It would provide also more energy and more options for those utilities who are buyers in Florida. It would increase the reliability to Florida ratepayers by encouraging utilities to sell in-state rather than shipping power out-of-state.

Q Referring to your Late-filed Deposition Exhibit Number 2, which is the small handout that you were given, do you have that exhibit?

A Yes.

Q Looking at the second row and the fourth row, or perhaps the first row and the third row, this provides sort of a comparison for us of the in-state and out-of-state nonseparated nonfirm sales that TECO has made since 1994, is that correct?

A Yes.

Q So would you agree, subject to check, that in 1999 approximately 95 percent of TECO's nonseparated sales were made in-state?

A Subject to check. Are you referring to the volume or the revenues?

Q I'm sorry, the revenues.

A Subject to check, I would say that the vast majority were done in-state, but I don't know the exact percentage.

Q Just to clarify a question I asked earlier, does TECO have authority to make market-based sales both in-state and out-of-state?

A Yes.

Q Do you also have in front of you a copy of what was previously identified as Exhibit Number 4, which is another one-page table titled, application of current and proposed stockholder incentive?

A Yes.

Q Could you verify the correctness of the numbers under the two columns labelled TECO actual and TECO proposed?

A Yes. To my knowledge those numbers are correct. It is simply an arithmetical calculation of -- that is the last column, Column 7, is an arithmetical calculation assuming that the volumes were exactly the same under our proposal as they would have been, or as they actually were under the actual. Based on that, I agree with the calculation.

Q Does TECO --

COMMISSIONER DEASON: Excuse me. What caused the drop in 1999?

THE WITNESS: We had less to sell. One of the issues was that the Gannon incident resulted in a considerably less amount of megawatts to sell.

COMMISSIONER DEASON: Your reserve margins also decreased?

THE WITNESS: Reserve margin was 15 percent or better in '99 to my understanding.

COMMISSIONER DEASON: With the Gannon units off-line, you still had a 15 percent reserve margin?

THE WITNESS: No.

BY MR. KEATING:

Q Mr. Brown, does TECO have any evidence that increasing -- or is aware of any evidence that increasing the stockholder incentive as it is proposed will encourage nonseparated wholesale energy sales to such a degree that ratepayers will receive a net benefit?

A We have not done any scientific analysis or calculation, no.

MR. KEATING: Thank you. I have no further questions.

MR. BEASLEY: I have some redirect briefly in the area of Ms. Kaufman's inquiry.

REDIRECT EXAMINATION

BY MR. BEASLEY:

Q Mr. Brown, has Tampa Electric ever made any nonfirm nonseparated wholesale sales while interrupting your interruptible customers?

A No, not to my knowledge.

Q Okay. Ms. Kaufman asked you if you have ever made nonfirm nonseparated wholesale sales at the same time you are purchasing buy-through power, and I believe your answer was yes?

A Yes.

Q Will Tampa Electric ever purchase buy-though power in order to make nonseparated nonfirm wholesale sales?

A We purchase buy-through power for our interruptible customers. That is the purpose of it. I guess I don't quite understand your question.

Q You don't purchase it in order to make wholesale -- nonseparated nonfirm wholesale sales?

A Occasionally we will purchase power and resell it, but it is on rare occasions.

MR. BEASLEY: Thank you. I would like to move the admission of Exhibit 9.

MR. KEATING: Staff would move the admission of Exhibit 10.

CHAIRMAN GARCIA: Okay. They are both entered.

(Exhibit 9 and 10 received in evidence.)

MR. BEASLEY: I would like to call our other Witness Brown, Ms. Deirdre Brown.

Whereupon,

DEIRDRE A. BROWN

was called as a witness on behalf of Tampa Electric Company, having first been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BEASLEY:

Q Ms. Brown, could you please state your name and address for the record.

A Yes. My name is Deirdre A. Brown, my address is 702 North Franklin Street, Tampa, Florida 33602.

Q And you were sworn this morning with the other witnesses?

A Yes, I was.

Q Ms. Brown, have you prepared a document consisting of 10 pages entitled prepared direct testimony of Deirdre A. Brown?

A Yes, I did.

Q If I were to ask you these questions, would your answers be the same?

A Yes, they would be.

MR. BEASLEY: I would ask that Ms. Brown's testimony be inserted into the record as though read.

CHAIRMAN GARCIA: Yes.

MR. BEASLEY: Thank you.

TAMPA ELECTRIC COMPANY
DOCKET NO. 991779-EI
FILED: MARCH 1, 2000

BEFORE THE PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

DEIRDRE A. BROWN

Q. Please state your name, address and occupation.

A. My name is Deirdre A. Brown. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") and am the Director of Electric Regulatory Affairs.

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

A. I received a Bachelor of Science Degree in Accounting in 1982 from Florida State University and a Masters of Business Administration in 1994 from the University of South Florida. In 1990 I joined TECO Energy's Audit Services Department as an Internal Auditor. I was promoted to Senior Auditor in 1991 and to Supervisor/Administrator in 1992. In 1994 I was promoted to Administrator, Health Plans where I was responsible for managing the administration of Tampa Electric's health plans, employee assistance program, and health fitness facilities. In 1995 I returned to Audit Services as Director and was responsible for auditing all functions of TECO Energy and for certain corporate compliance and code of ethics activities. In June 1998, I was promoted to my current position as Director, Electric Regulatory Affairs, where I am responsible for managing Tampa Electric's regulatory issues and policy related to base pricing, fuel, environmental, system planning, conservation, and wholesale transactions. I am a Certified Public Accountant and a Certified Internal Auditor.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain the appropriateness of incentives for utilities to make certain types of wholesale sales and to describe how these incentives should be structured.

Q. Does Tampa Electric currently receive incentives to make certain wholesale sales?

A. Yes. Tampa Electric receives incentives to make certain wholesale sales as approved by the Florida Public Service

Commission ("Commission") in Order No. 12923, issued January 24, 1984, in Docket No. 830001-EU-B. This order authorized utilities to retain 20 percent of the gains on economy sales while flowing 80 percent of these net benefits to ratepayers. In its order the Commission agreed with Staff witness testimony that a positive incentive is desirable for the purpose of maximizing the benefits of the Energy Broker Network:

> We believe Staff's witness was correct in stating that "a positive incentive will preserve current levels of economy sales and may result in increased sales and that a 20 percent incentive is large enough to maximize the amount of economy sales and provide a net benefit to ratepayers."

The Supreme Court of Florida affirmed the Commission's position in Citizens v. Public Service Commission, 464 So 2d 1194 (Fla. 1985). *It was clear then as it is now that* positive incentives play an important role in maximizing economy sales to provide net benefits to ratepayers.

Q. For what types of wholesale transactions is Tampa Electric currently applying the approved incentive?

A. Tampa Electric is currently applying the incentive to economy transactions as defined in the direct testimony of the company's witness Lynn Brown.

Q. Please describe the regulatory treatment currently applied to these types of transactions.

A. For generation costs associated with economy sales, revenues sufficient to cover the incremental fuel costs are credited through the Fuel and Purchased Power Clause ("Fuel Clause") and revenues sufficient to cover the associated incremental SO_2 costs are credited to the Environmental Cost Recovery Clause ("ECRC"). Revenues attributable to operating and maintenance costs ("O&M") are credited to operating revenues. Eighty percent of the gain on the sale, which is the difference between the transaction price and the associated incremental fuel, SO_2 and O&M costs, is credited through the Fuel Clause with the remaining 20 percent being retained by the company.

Transmission revenues from economy sales are separated on an energy basis pursuant to Order No. PSC-98-0073-FOF-EI issued January 13, 1998 and reconfirmed in Order No. PSC-98-1080-FOF-EI. Specifically, 80 percent of transmission revenues are credited to retail ratepayers through the

Fuel Clause. The company retains the remaining 20 percent.

Q. Should the Commission continue to provide for company incentives to encourage non-firm wholesale sales?

A. Yes. Not only should the Commission continue to provide company incentives for economy transactions, it should include incentives for all non-separated, non-firm wholesale sales as described by witness Mr. Brown and should increase the level of these incentives for sales made within Florida.

Q. How should the incentive be designed?

A. The incentive should be designed or accounted for in a similar manner as described above for economy transactions. Generally, the Commission should include all non-separated, non-firm transactions rather than only economy transactions. Specifically, the incentive should be applied to both demand and energy components of any gains from the transaction.

Gains from the transaction should be determined by taking the overall transaction price less incremental fuel costs, which should be credited to the Fuel Clause, less incremental SO_2 costs, which should be credited to the ECRC, and less O&M costs which should be credited to operating revenues. The remaining amount is comprised of reservation charges, call premiums, and associated transmission revenues ("capacity revenues") and energy revenues. According to Order No. PSC-99-2512-FOF-EI, dated December 22, 1999 for Docket No. 990001-EI, energy revenues for non-separated, non-firm transactions should be credited to the Fuel Clause. The same order acknowledged that if these sales include an identifiable capacity component, the capacity revenue should be credited to retail ratepayers through the Capacity Cost Recovery Clause ("Capacity Clause"). Accordingly, Tampa Electric proposes to credit 80 percent of the capacity revenues to the Capacity Clause and 80 percent of the energy revenues to the Fuel Clause for all sales made outside the state. The company proposes to credit 60 percent of the capacity revenues to the Capacity Clause and 60 percent of the energy revenues to the Fuel Clause for all sales made within the state. The company will retain the remaining 20 percent or 40 percent of the capacity and energy revenues, depending on whether the sales were made to customers within Florida.

Q. Why should utilities be incented to make non-firm wholesale sales?

A. Utilities have a general obligation to make prudent decisions and to take cost-effective actions to benefit their ratepayers. Incentives serve as a means to encourage beneficial actions above and beyond that general obligation. If beneficial actions are achieved, it is appropriate to reward the utility for its performance. Not only does the utility benefit, but its ratepayers benefit by these actions.

In the instance of non-firm wholesale sales, incentives will encourage utilities to continue to enter into prudent and cost-effective transactions and will encourage increased efforts to optimize transactions. By providing a greater incentive for utilities that make non-firm sales within the state, the Commission is recognizing those utilities that have acknowledged the need for appropriate reserve margins that benefit their own customers as well as all Florida ratepayers. These transactions will be accomplished without placing retail ratepayers at risk. In fact, incentives will encourage more energy to be made available on the Florida wholesale market, thereby increasing retail reliability.

Ratepayers of the selling utility will receive benefits through lower rates by these additional efforts while the utility also benefits. Ratepayers of the purchasing utility will also benefit because more energy will be made available to the Florida wholesale market, increasing the competitiveness of the market.

Q. Is it appropriate for the Commission to establish a "bar" or minimum level for non-firm sales whereby the incentive applies only after the utility meets the minimum level?

A. No. In Order No. 12923, the Commission agreed with Staff's testimony that establishing a "bar" or minimum level is a difficult issue. Up until this time, the selling utility was allowed to retain profits only from economy sales that exceeded the level approved in the company's last rate case. The Commission agreed to remove economy sales transactions from general rate proceedings and to include them in Fuel and Purchased Power proceedings because:

> Problems with the current treatment stem from the difficulty in projecting economy sales and the potential bias of a utility to under project their economy sales profits. The difficulty in

projecting economy sales profits is due to uncertainty associated with fuel prices, weather, and forced outages of generating units and transmission lines. These variables affect not only how much a utility can sell and at what price, but also how much other utilities will buy at different prices.

For these same reasons, it is not appropriate to establish a "bar" or minimum level for non-firm sales whereby the incentive applies only after the utility meets the minimum level.

Q. Theoretically, why should gains from non-firm sales offset fuel and purchased power costs?

A. Gains from non-firm sales should offset fuel and purchased power costs because the transactions are primarily energy-based. These non-firm sales are made when the company's generation is not needed to serve retail ratepayers. If the generation were needed, the sales would be terminated or recalled. Accordingly, it is appropriate to offset fuel and purchased power costs with these energy-based revenues.

Q. If the assets used to make non-firm sales are paid for by retail ratepayers, why shouldn't 100 percent of the gains be used to offset fuel and purchased power costs?

A. As described above, the use of positive incentives will likely increase non-firm sales. Even if only 80 percent or 60 percent of the gains associated with these sales are used to offset fuel and purchased power expenses, overall retail ratepayers will earn greater benefits through increased sales.

Q. Should all Florida utilities account for these types of transactions in the same manner?

A. Yes. Although utilities use different nomenclature when differentiating between the types of wholesale transactions, the nature of the sales are essentially the same and they should be accounted for similarly among Florida utilities.

Q. Does that conclude your testimony?

A. Yes, it does.

BY MR. BEASLEY:

Q Ms. Brown, would you please summarize your testimony?

A Yes.

Q Good afternoon, Commissioners. As Lynn Brown has described to you, Tampa Electric believes that the Commission should not only continue to provide company incentives for economy sales, or what Tampa Electric calls Schedules C and X sales, but that incentives should be provided for all nonseparated nonfirm sales. All of such sales provide the same types of benefits to our retail ratepayers or customers as the Schedules C and X sales.

Incentives should be designed and accounted for in a manner similar to how economy sales are treated today. Specifically, gains from these transactions should be determined by taking the overall transaction price less the incremental costs associated with making the sale. These costs include fuel, SO_2, and incremental O&M.

The remaining amount is defined as a sale gain which can be comprised of capacity revenues and energy revenues. Capacity revenues may include reservation charges, call premiums, and associated transmission revenues. Energy revenues are all other revenues associated with making these nonseparated nonfirm sales.

Tampa Electric proposes to credit 80 percent of the capacity revenues to the capacity clause and 80 percent of the energy revenues to the fuel clause for all sales made outside the state. The company proposes to credit 60 percent of the capacity revenues to the capacity clause and 60 percent of the energy revenues to the energy clause for all sales made within the state. The company will retain the remaining 20 percent or 40 percent of the capacity and energy revenues depending on whether the sales were made to customers within Florida.

Utilities have a general obligation to make prudent decisions and to take cost-effective actions to benefit the ratepayers. Incentives serve as a means to encourage beneficial actions above and beyond that general obligation. In the instance of nonfirm wholesale sales, incentives motivate utilities to enter into prudent and cost-effective transactions and encourage increased efforts to maximize these transactions. Both the utility and the ratepayers benefit by this.

Tampa Electric's proposal not only recognizes the importance and success of wholesale incentives, but it also recognizes the importance for improved retail reliability. By providing a greater incentive for energy to be retained within Florida, the Commission will recognize the need for more energy to be made available to benefit retail ratepayers of both the buying and the selling utilities in this state.

Ratepayers of the selling utility will receive benefit through lower rates by aggressive marketing efforts while the utility also benefits. Ratepayers of the purchasing utility will also benefit because more energy will be made available to the Florida wholesale market increasing the competitiveness of the market.

This concludes the summary of my direct testimony.

MR. BEASLEY: Thank you.

We would submit Ms. Brown for questions.

CROSS EXAMINATION

BY MR. BURGESS:

Q Ms. Brown, is it correct that Tampa Electric recovers the incremental O&M expenses from making these economy sales, for some schedules it recovers them in base rates and other schedules it recovers them in the fuel adjustment clause itself?

A That's correct.

Q Are there any instances in which these incremental O&M expenses are not charged to one or the other?

A I don't believe so.

Q On Page 7 of your testimony you reference the benefit of a utility's efforts to go above and beyond the normal effort that is a utility's obligation for making sales in the wholesale market, is that correct?

A I'm sorry, what page are you on?

Q I have this as referenced to Page 7 of your testimony.

A That's correct.

Q So you would agree with me that there is a normal effort that is part of the quid pro quo of being a monopolistic enterprise, is that correct?

A Yes, I would agree with that.

Q What do you think should happen to a utility that performs below that normal effort level?

A Well, like I said, I believe that a utility has a general obligation. And if for whatever reason the Commission believed that the utility was performing below the level that it should be performing, I believe that they have, through their normal process of review, the ability to evaluate that action and could possibly take action against the utility for being imprudent.

Q But the normal course of this particular incentive mechanism that various utilities have suggested does not contemplate any type of action along those lines, does it?

A No, it doesn't. It assumes that the utility is being prudent.

Q In fact, isn't it correct that by virtue -- by the mechanism that would be implemented under these incentive versions, under these incentive plans, that there would be a standard set, but it would be zero, is that correct?

A Well, I don't know if the standard set would be zero, but certainly with the incentives the utilities would have the incentive to go above and beyond and to improve and make as many sales as they possibly could in order to accomplish the incentive. And if, in fact, they chose to be lackluster and possibly not carry through with trying to execute as many sales as they could, they are, in fact, penalizing themselves and the ratepayers.

Q By virtue of not making as much money as they could by making more sales?

A By virtue of not taking advantage of the opportunities in the market in trying to make as many sales as they possibly could.

Q But under no circumstance would they be directly penalized for substandard performance, is that correct?

A The penalty is through the foregone gains that they could have accomplished had they gone forward and tried to make as many transactions as possible.

Q What would you think of a mechanism that imposed a penalty only incentive and deemed the reward to be the lowering of the penalty as one's performance increased?

A I think that is contradictory to what this Commission has tried to accomplish with these types of nonfirm nonseparated sales. And to impose a penalty means that you would have to establish what an appropriate level is, first of all, for the utility to take or make these types of sales. And I think we have gone through that process in the past, and the parties have agreed that determining that appropriate level is a very difficult task.

Q Sometimes determining a level being difficult does not necessarily mean that you don't need to do it in any event, is that correct?

A I would agree with that statement.

MR. BURGESS: Thank you, Ms. Brown. That is all I have.

MS. KAUFMAN: Chairman, if I could inquire of staff, I may not have any questions for Ms. Brown. I just want to be sure that Interrogatory Numbers 20 and 21 are included in their package.

MR. KEATING: Staff has prepared an exhibit for Ms. Brown that we would like to have her verify the authenticity of and simply move that in the record when that time comes, and that includes Interrogatories Number 20 and 21.

MS. KAUFMAN: Then I have no questions. Thank you.

CHAIRMAN GARCIA: Thank you. Staff.

CROSS EXAMINATION

BY MR. KEATING:

Q Ms. Brown, staff is going to provide you a copy of an exhibit identified as a composite exhibit consisting of your deposition transcript from April 25th, 2000, and responses that you sponsored to certain of staff's interrogatories. Are you familiar with those documents?

A One second.

Q Okay.

A I believe for Interrogatory Number 1 it is incomplete. It appears to be missing Page 1. The rest of the document I am familiar with.

Q With the exception of Interrogatory Number 1, do any of the interrogatory responses that you have provided require any corrections?

A I think that our response to Interrogatory 29 was refined so that we elaborated, I believe, on a later interrogatory on how the 20 percent versus 40 percent incentive should be applied. These interrogatories were provided to the Commission prior to the filing of our direct testimony. Other than that, they look correct.

Q Were these responses prepared by you or under your supervision?

A Let me step back one second. I think the same comment that I just made related to Number 9 applies to Number 15.

Q With that clarification -- first, let me ask you if those responses were prepared by you or under your supervision?

A Yes, they were.

Q Okay. With the clarifications you made, are they true and correct to the best of your knowledge and belief?

A Yes, they are.

Q And have you had the opportunity to read your deposition transcript and make any corrections to it?

A Yes, I have.

MR. KEATING: Staff would ask that this exhibit be marked for identification.

CHAIRMAN GARCIA: What number?

MR. KEATING: I think we are on Number 11.

CHAIRMAN GARCIA: Okay.

MR. BEASLEY: May I ask if staff intends to include the errata to Ms. Brown's deposition?

MR. KEATING: Yes, we would like to include the errata sheet.

MR. BEASLEY: Thank you.

(Exhibit 11 marked for identification.)

BY MR. KEATING:

Q Let me go ahead, I believe I need to go ahead with regard to Interrogatory Number 1 and verify some certain information since that was left out of our packet. And this will be the only questions I have for you.

The interrogatory asked for TECO to please explain how it currently calculates the 20 percent stockholder incentive on economy energy sales and to provide example A schedules in your explanation. I believe all the A schedules that you provided are included in this packet?

A Correct.

Q Is it correct that in calculating the 20 percent stockholder incentive that Tampa Electric first calculates the total cost of the sale by taking the transaction price and subtracting incremental SO_2?

A That's correct.

Q And the incremental SO_2 cost is credited through the environmental cost recovery clause?

A That's correct.

Q Is it also correct that the 20 percent gain on economy sales is obtained by first subtracting the sum of the incremental costs for fuel and O&M from the total costs arrived at in your first step and then multiplying that by 20 percent?

A That's correct.

Q Is it correct that Tampa Electric Company applies a jurisdictional separation factor at that point?

A Yes.

Q And is it also correct that the actual shareholder incentive is booked below-the-line?

A Yes.

MR. KEATING: Thank you. I have no further questions.

COMMISSIONER DEASON: Redirect.

REDIRECT EXAMINATION

BY MR. BEASLEY:

Q Ms. Brown, Mr. Burgess asked you a question about the bar being set at zero, do you recall that question?

A Yes, I do.

Q Are ratepayers required to bear any additional cost if a utility makes no wholesale sales?

A No, they are not.

MR. BEASLEY: Thank you.

MR. KEATING: Mr. Chairman, at this point staff believes it may be appropriate to request that Exhibit Number 4 be moved into the record.

CHAIRMAN GARCIA: Okay. Remind me what Exhibit 4 is -- oh, yours. Yes. Very well if there is no objection show it admitted.

(Exhibit 4 received in evidence.)

MR. BURGESS: Commissioner, Doctor Dismukes has taken the stand and we are prepared to go forward. I would ask him if he has been sworn when you had the rest of the witnesses sworn in?

THE WITNESS: Yes, I was sworn.

Whereupon,

DAVID E. DISMUKES, Ph.D.

was called as a witness on behalf of Office of Public Counsel, having first been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. BURGESS:

Q Doctor Dismukes, will you state your name and address, please.

A My name is David Dismukes, my address is 6455 Overton Street, Baton Rouge, Louisiana 70808.

Q Would you state your occupation, please?

A I am a consultant.

Q Doctor Dismukes, did you prefile testimony on March 29th consisting of 11 pages and an appendix attached to it consisting of ten pages which is a description of your qualifications as an expert witness?

A Yes, I did.

Q If I were to ask you the questions that are contained in your prefiled testimony today, would your answers be the same?

A Yes, they would.

MR. BURGESS: Commissioners, Chairman Garcia, I would ask that Doctor Dismukes' testimony be entered in the record as though read, and I would ask that we have his exhibit or Appendix 1 identified as an exhibit.

CHAIRMAN GARCIA: Okay. That would be Exhibit 12.

MR. KEATING: That is correct.

CHAIRMAN GARCIA: Okay.

MR. BURGESS: Chairman, normally the exhibit wouldn't be entered into the record at this point subject to cross-examination. It is, however, of a nature that I would believe to be noncontroversial, so I would submit --

CHAIRMAN GARCIA: Show it admitted. I don't think anyone is going to object.

MR. BURGESS: Thank you, Chairman.

(Exhibit 12 marked for identification and received into evidence.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NUMBER 991779-EI

DIRECT TESTIMONY OF DAVID E. DISMUKES, PH.D.

ON BEHALF OF THE CITIZENS OF THE STATE OF FLORIDA

Q. State your name and business address.

A. My name is David E. Dismukes. My business address is 6455 Overton Street, Baton, Rouge, Louisiana 70808.

Q. What is your current occupation?

A. I am a Consulting Economist and Principal in the Acadian Consulting Group.

Q. Have you prepared an appendix outlining your professional qualifications?

A. Yes, Appendix I was prepared for this purpose.

Q. What is the purpose of your testimony?

A. I have been retained by the Office of Public Counsel (OPC), on behalf of the Citizens of the State of Florida (the Citizens), to address the incentive treatment of gains on economy sales by Florida's investor-owned utilities.

Q. Would you please summarize your recommendations?

A. Yes. The Citizens have a primary and secondary recommendation in this proceeding. Our primary recommendation is to remove the current incentive treatment on gains from economy sales. Should the Commission decide to continue incentive returns on broker system sales, the Citizens would offer the alternative recommendation that the Commission establish an increasing scale incentive sharing mechanism that reflects a symmetrical treatment of both risks and rewards for participating in Florida Energy Broker Network (FEBN).

Primary Recommendation

Q Why should the Commission remove the 20 percent incentive return?

A. Over the past several years, the electric power industry has been faced with an increasing degree of competition at both the retail and wholesale level. This competition has forced utilities to reduce costs and to become more active in new and emerging markets. No utility today can afford to not participate aggressively in wholesale markets. The competitive nature of these markets, and the signals they send to market participants, provide Florida's utilities with numerous incentives to take full advantage of all available market opportunities.

Q. Do you think that incentives are unimportant in regulation?

A. No . Incentive-based regulation can be an effective tool for regulators. However, incentive-based regulatory mechanisms should be placed upon decisions that can be both influenced and measured. Any incentive mechanism that is tied to a decision that is beyond a utility's control, and a regulator's ability to measure, is unproductive. Economy sales are clearly one area where a utility has little ability to influence decisions, especially in the very short run. Mr. Howell, a witness for Gulf Power Company, noted in the fuel adjustment proceedings that has precipitated the current investigation that:

> ...whatever the market price is, it varies each hour and ***nothing that Gulf or Southern or any Commission or any utility can do to change that.*** It has to do with the relationship of whatever the loads and demands on the system are, which are mostly weather related, and how much generation the company may have, and what's happened with forced outages, that type of thing. So nobody can control the market. It is what it is. [Docket Number 990001-EI, Tr. 363-364: 18-25, 1, *emphasis added.*]

In that same proceeding, Mr. Hernandez, a witness for Tampa Electric Company, also noted the inability of utilities to influence economy transactions in his discussion on the potential for utilities to leverage their vertically integrated relationships between fuel supply and wholesale transactions:

> The scenario you're setting up is related to other additional incentives for moving more fuel or burning more fuel, that really from a business planning perspective opportunity sales are just that. They're not a firm commitment to make the transaction. We're not obligated to continue those transactions if we enter into them. They are simply opportunity or as available sales. So for any one of our operating companies to plan on that as a firm transaction, that's not what we do. We do not assume that we're going to be able to make these opportunity sales. We make an estimate related to business planning purposes but there is no guarantee. It's subject to our retail load. It's subject to our unit or resource availability. And also a willing market; a market that would enter into a wholesale transaction. So it's difficult to say if that really truly is an incentive for us from a corporate point of view. [*Ibid.* Tr. 441:8-25; 442:1-2.]

Thus, placing an incentive on behavior that is beyond a utility's control would not appear to be a mechanism that would genuinely encourage exceptional performance, except by chance.

Q. Won't the removal of these incentives discourage utilities from participating in competitive wholesale markets at all?

A. No. As I mentioned earlier, economy energy sales are opportunistic in nature and it is a questionable proposition as to whether utilities can strategically (and consistently) manipulate their economy sales for profit. In fact, it is important to keep in mind that the whole issue of the uncertainty associated with forecasting these gains was one of the main reasons for moving their ratemaking treatment from base rate setting to fuel adjustment proceedings.

However, even if you assume that utilities have a reasonable amount of control over the level of their economy sales, there are still a number of incentives to participate in these competitive wholesale markets including the Florida broker system. Indeed, the competitive nature of the industry gives Florida's utilities a number of incentives to participate in these markets without an additional incentive adder. These incentives include:

(1) Opportunities to reduce rates through credits to the fuel adjustment clause;

(2) The opportunity to enhance bulk power system efficiencies; and

(3) Increased experience and recognition as a reliable competitive player in bulk power markets.

Q. How will rates be reduced through increased economy energy sales, and if so, what incentives do utilities have to reduce rates when retail competition is currently not allowed in Florida?

A. Gains from economy energy sales are used to reduce fuel expenses within the fuel adjustment clause. If 100 percent of the gains from these sales were passed through to customers, average retail rates would be lowered via reductions in the fuel adjustment clause (other things being equal). Utilities should be in a position in the current environment to take full advantage of every opportunity to reduce rates. Two forms of competition, existing and anticipated, provide utilities with strong incentives to make rates as competitive as possible.

Existing competitive threats, while limited, typically take the form of self-generation and cogeneration opportunities. These opportunities have traditionally been restricted to large electricity users and particularly those that have combined heat and power applications. However, technological innovations, and the advent and rapid promotion of small scale generation capabilities at the 1 MW level and less, are providing utilities with a greater number of threats at the distribution level as well. Failure to address rate competitiveness with commercial customers and potentially residential customers could lead to a loss of these customers through self-generation opportunities available with distributed energy resources (DER).

The threat of future competition gives utilities additional incentives to reduce their rates. Rate comparisons between utilities within and between various regions are being made on an almost daily basis. In some states, these comparisons have been used to sound the clarion call for retail restructuring. Utilities must be cognizant of this fact, particularly those that have rates that may be greater than state, regional, and national averages.

Other competitive threats include the potential siting of competitive merchant facilities. The power industry trade press report regularly on the legal battles in Florida over the siting of competitive merchant facilities. In most all cases, Florida's investor-owned utilities (IOUs) have protested these applications. I believe that it is unreasonable for Florida's IOUs to, on the one hand, protest these competitive wholesale merchant facilities, and on the other hand, ask for incentives to participate in wholesale power markets. It would appear from recent events that if Florida's IOUs are unwilling to participate in these markets without an incentive, there are plenty of other competitors that will do so without a regulatory entitlement.

Q. How would enhanced operating efficiencies serve as an incentive to utilities to make economy wholesale transactions?

A. The possibilities of increasing economy sales, over time, will have the effect of providing utilities with a number of incentives to continue to increase system operating efficiencies. No sales can be made in a vacuum. If utilities want to become sellers in wholesale markets then, other things being equal, their operations will have to become more efficient. This efficiency gain, in addition to allowing utilities to make a greater number of sales, will also result in added benefits to utility shareholders. In the absence of a base rate case proceeding, regulatory lag would have the effect of allowing utilities, within certain boundaries, to flow through these gains to shareholders. Thus, utilities that make additional economy sales have the potential to offer their retail customers additional rate decreases through reduced fuel adjustments and their shareholder higher earnings through increased profits. If utilities are serious about getting ready for competition, then they should need no additional incentives to take advantage of this "win-win" opportunity.

Q. Why would gaining experience in wholesale markets be important to a utility?

A. Wholesale and retail markets are becoming more and more competitive on a daily basis. New entrants enter and old participants are merging into new players. More and more we see electric utility companies advertising and coming up with creative tag lines to define themselves as competitive and full service energy providers, even in wholesale operations. Actively participating in wholesale markets, whether it is through sales in the Florida broker system, other spot transactions, forward market, or other long term wholesale contracts, establishes Florida's utilities as experienced, flexible, and reliable providers of wholesale electricity. Utilities in Florida can point to their expertise and historic participation in the Florida broker system as evidence of their credibility as a wholesale power provider. This name recognition can be used as a signal of experience. This experience and reputation is an "intangible" asset in many respects, but clearly participation in a wholesale market like the broker system at the least helps to maintain this solid reputation, and at best, only serves to enhance it. For instance, in a recent press release issued by Southern Company announcing its decision to construct a 500 MW plant, Charles McCrary, president of Southern Company Generation, the business unit responsible for developing and operating all non-nuclear Southern Company generating plants in the southeast, noted:

> ...Southern Company's experience in power production and demonstrated skills in wholesale marketing offer unique capabilities in pursing these growth opportunities.
>
> [PMA Online Power Report, November 15, 1999.]

Alternative Recommendation

Q. Would you please discuss your alternative recommendation?

A. Yes. Should the Commission decide to continue incentive returns on broker system sales, the Citizens support a two-way (symmetrical) sliding scale incentive mechanism, rather than the current on-sided (asymmetrical) 80/20 split. Rather than defining the scale in dollar terms, we would propose to benchmark performance on energy sales. Our specific recommendation would be to establish an incentive mechanism based upon a five year moving average of sales made on the Florida Energy Broker Network. Our proposed benchmark would be based upon the following scale:

(1) There would be a "dead band" ranging from 75 percent of the benchmark to 125 percent of the benchmark, wherein both the utility and its customers would be held harmless. This dead band simply reflects the fact that sales can increase or fall as the result of a certain level of exogenous changes in the market. All gains from sales in this range would be credited back to ratepayers.

(2) (a) Utilities would credit to ratepayers 90 percent of the gains on all sales between 125 to 130 percent of the benchmark. Utilities would be allowed to keep 10 percent of these gains as an incentive.

(b) Utilities would incur a 10 percent penalty for all sales between 70 to 75 percent of the benchmark.

(3) (a) Utilities would credit to ratepayers 85 percent of the gains on all sales between 130 to 135 percent of the benchmark. Utilities would be allowed to keep 15 percent of these gains as an incentive.

(b) Utilities would incur a 15 percent penalty for all sales between 65 to 70 percent of the benchmark.

(4) (a) Utilities would credit to ratepayers 80 percent of the gains on all sales greater than 135 percent of the benchmark. Utilities would be allowed to keep 20 percent of these gains as an incentive.

(b) Utilities would incur a 20 percent penalty for all sales less than 65 percent of the benchmark.

Q. What is the basis for this recommendation?

A. We believe that this method offers three advantages over the existing sharing mechanism. First, the mechanism is symmetric: if offers proportional risks and rewards to both ratepayers and shareholders alike. Second, by basing the benchmark on a five year moving average, utilities are not penalized in any given year by exceptional performance. In other words, excellent performance in any given year does not drastically shift the bar for utilities. Third, the scale is set on an increasing basis and gives utilities the opportunity to increase their returns for better performance.

Q. Has the Commission facilitated any similar sharing mechanisms in the past?

A. Yes. In Order 20162 the Commission authorized a "rate of return incentive sharing plan" for Southern Bell Telephone Company. During this period, the telecommunications business was undergoing dramatic changes and restructuring itself into a more competitive industry, much like the electric power industry is today. The Commission noted:

> We thus believe that the incentive aspects of this plan will assist in this transition process. We hope it will result in a wider array of services at the lowest possible cost to ratepayers. [88 FPSC 10:316]

Thus the incentive regulation plan facilitated by the Commission was a method of both improving regulatory oversight and helping utilities transition themselves for a more competitive environment. The Commission authorized an increasing sharing scale during these proceedings for a reason. It noted that an increasing scale would:

> ...give the company a reason to reduce costs and introduce new services in order to reach the sharing threshold. Upon reaching the threshold, fresh incentives occur because the company shares in the earnings after that point. We seek to improve incentives for economic behavior to encourage the company to make decisions which are consistent with the best overall interests of the ratepayers. [Ibid.]

The Citizens believe that similar tools could be used for the electric power industry and a sharing mechanism for gains on economy sales in the energy broker system is one such way this incentive regulation tool could be used.

Q. Aren't the benchmarks and sharing levels in these types of plans somewhat arbitrary and difficult to set?

A. Yes. But this was not an issue that prevented the Commission from establishing a similar mechanism for Southern Bell. The Commission noted in this proceeding that setting benchmarks would be difficult because of the difficulty in identifying gains that may result from industry productivity versus those that were the result of exogenous changes in the industry. With regards to the sharing ranges, the Commission noted:

> ...the percentage amount that is split between the company and its ratepayers is necessarily a judgment call infused with policy considerations. Southern Bell proposed a 50/50 split, but conceded that the percentages were arbitrary. Other parties argued for an initial 80/20 split in the ratepayers' favor, to be phased to a 50/50 split as the percentages of overall earnings on equity increased. We have deliberately tilted the balance in favor of ratepayers because of our inability to precisely identify earnings that result exclusively from productivity improvements generated by Southern Bell. [Ibid]

Q. Are the Citizen's taking the position that a move towards incentive-based regulation would be appropriate for Florida's utilities?

'A. No. I have simply presented the Southern Bell example to highlight the point that the Commission has dealt with both establishing relatively arbitrary benchmarks and sharing mechanisms in the past. These sharing mechanisms were established in a manner that gave utilities, in this case Southern Bell, incentives to operate in an exceptional, rather than average, manner.

Q. Would you be willing to consider alternative benchmarks, sharing ranges, and percentages?

A. Yes, provided that some general principles in establishing these ranges and percentages are followed. First, benchmarks should be set in a manner that is fair, but challenging, to Florida's utilities. Averaging past performance is one simple method of smoothing year-to-year variations in sales that should not overly penalize utilities for one-time changes.

Second, risks and rewards should be symmetrical. Today, Florida's utilities get an incentive return on all gains on economy energy sales, but do not incur any risks for sub-optimal performance. The Citizens would like to see this practice discontinued.

Third, sharing mechanisms should be set on an increasing basis with some "dead-band" that recognizes that some sales just happen due to exogenous changes in the market and utilities should not be rewarded for market changes that are outside of their control. Increasing the sharing mechanism beyond this dead-band gives utilities additional incentives to reach new levels of sales. Today, Florida's utilities are getting a fixed level of rewards on all of the gains they make in economy energy sales. While this gives utilities the incentive to make economy energy sales, it doesn't necessarily send the best signals for them to maximize those economy energy sales.

Q. Should these incentives be extended to all economy sales outside of the broker system?

A. No. The Florida Energy Broker System was developed to encourage mutually beneficial trades between Florida's utilities with the gains of these trades being ultimately shared with Florida's ratepayers. Despite the fact that over the years new players have entered this system, it has continued to have a relatively strong Florida orientation. Thus, policy mechanisms that encourage this increased interaction, and are directed at benefitting the state of Florida, and not wholesale activities in general, are not completely unreasonable. However, extending the policy of incentive returns to sales outside the broker system (to all wholesale economy energy transactions) has a number of very serious policy and jurisdictional issues that the Citizens would recommend the Commission seek to avoid.

Q. Would you please summarize your testimony?

A. Yes. The Citizens are recommending that the Commission discontinue the incentive returns on gains from economy sales in the Florida broker system. We believe that the industry is increasingly more competitive than it was in 1984, and there are a number of market signals that will encourage utilities to participate actively and aggressively in these markets. Should the Commission decide that the policy of incentives should be continued, we have provided the alternative recommendation that a sharing mechanism be instituted that offers utilities rewards for enhanced performance, and balances the risk and rewards for participating in the Florida broker system between ratepayers and shareholders. I have proposed a general range for sharing in my pre-filed testimony, but recognize that alternative ranges, as well as benchmarks, could be considered provided that these general principles are followed.

A. Does this conclude your testimony pre-filed on March 29, 2000?

A. Yes.

BY MR. BURGESS:

Q Would you provide a summary of your testimony, please, Doctor Dismukes?

A Yes. Good afternoon, Commissioners. The purpose of my testimony is to recommend the discontinuation of the 20 percent incentive return that are given to utilities for the gains on wholesale economy energy sales.

I believe that wholesale markets have become increasingly competitive since the promulgation of Order 888, and as a consequence of this policy, there are a number of new participants in the market and a number of transmission access barriers to wholesale trade that have been substantially reduced. It is this increased competition and opportunity that create a number of incentives for utilities to participate in these wholesale markets.

In order to compete in these wholesale markets, utilities will have to become increasing more cost-effective. In addition, experience will be a prerequisite for effectively participating in these markets. Thus, it seems unlikely to me that these utilities would want to forego the opportunities for becoming more cost-effective and gaining this experience by sitting out of the market without the 20 percent incentive gain.

One of the things I would like to keep in mind -- for you to keep in mind is the policy question here about whether these incentive returns should be continued in light of the changing market conditions, and what those goals or those incentives should be. Whether, you know, it should be to increase those sales or increase the profitability of those sales.

A number of things to keep in mind. One is that I believe, and maybe I have a different interpretation than my other colleagues today, that the energy broker system was established in a period of energy uncertainty to help facilitate the trade of cost-effective in-state generating resources when competitive markets and alternative supply resources weren't available or were limited. It wasn't necessarily to create new profit centers for utilities.

The goal of the incentive policy was to increase the opportunity for beneficial trade between Florida's utilities. Since that time I think the wholesale opportunities have increased dramatically, particularly since the passage of Order 888. And I think that these markets have become so competitive that you see today the Florida Energy Broker Network, which was the premise for the incentive to begin with, is no longer operating as we knew it in the past.

There are numerous opportunities for wholesale trade in the business today, and I don't believe that the Commission needs to provide an explicit incentive to encourage utilities to participate in this market.

I would also like you to keep in mind that there has been a certain amount of ambiguity about this policy that really makes it difficult to assess whether or not it has been highly effective or not. I think one of the things that you have heard is that every utility in the state, I think, has interpreted this policy a little differently from one another. And some have applied the incentives to transmission revenues, some have not. Some have applied them to energy broker cost-based sales, some have not. This is not to suggest that there has been any opportunism on behalf of the utilities, but I think it makes it difficult to evaluate really the successfulness of this policy unequivocally.

In addition, I think the Commission has a number of other incentive-based mechanisms like the GPIF, and earnings, and revenue programs that I wonder how these kind of .interact with this incentive policy as well. And whether or not this just may be another free rider issue in the sense that utilities already have plenty of incentives for cost-effective behavior, and this is just an additional payment back to the utilities for some of the incentives that they are already getting.

We also have an alternative recommendation should the Commission decide that incentive returns should be continued. This alternative recommendation is that utilities' economy energy sales be benchmarked and that incentive returns increased as utilities exceed their benchmark level. The reward structure should be symmetrical with both rewards and penalties that it offers to utilities for their performance.

I would like to thank you for the opportunity for my summary, and that concludes my summary.

MR. BURGESS: Thank you. We would tender the witness.

MR. BEASLEY: Commissioners, staff and FIPUG have taken positions that are more aligned with the views expressed by Doctor Dismukes. And in the past the Commission has adopted the convention of having friendly cross-examination precede adversarial cross-examination, and I would ask that be done in this proceeding.

CHAIRMAN GARCIA: I was not of the opinion that staff had taken any position.

MR. KEATING: We haven't taken a position in this proceeding. We have taken a position on similar issues in past proceedings, but we do not have any cross-examination for Mr. Dismukes.

CHAIRMAN GARCIA: Okay. Do you have any questions, Ms. Kaufman?

MS. KAUFMAN: I have no cross, friendly or otherwise.

CHAIRMAN GARCIA: Okay. Very good. We will start with you, Mr. Childs, and work our way that way. Is that all right?

MR. CHILDS: Whichever.

CROSS EXAMINATION

BY MR. CHILDS:

Q Good afternoon, Doctor.

A Good afternoon.

Q As I understand it, you don't oppose incentives as a general principal, do you?

A That's correct.

Q Would you turn to Page 2 of your prepared testimony?

A I'm there.

Q And I'm looking at the first question on that page where you have the recommendation. You answer there why you don't believe the 20 percent incentive should be continued or provided in Florida. And in answering that, I asked you to look specifically at the sentence beginning on Line 6 which says, "No utility today can afford to not participate aggressively in the wholesale markets."

A I see that.

Q That is sum and substance of your answer to this question, isn't it?

A I believe so.

Q And, in fact, isn't it correct that what you are saying is that you don't oppose incentives, but you believe that other factors have put pressure on utilities to participate in the wholesale market, and therefore the utilities don't need the additional incentive of a part of the gain?

A That's correct.

Q All right. Now, I think your testimony also indicates that in order to participate in the wholesale market, utilities would have to improve their efficiency?

A That's correct.

Q And if the efficiency were improved, then I take it that would serve to increase, potentially, the ability to make a sale from time to time, is that right?

A I would agree with that.

Q And it would also increase the amount of the gain on the sale, would it not, to the extent that gain is the difference between the cost and the revenue received?

A That's correct.

Q So that is good, too, right?

A That's correct.

Q And in addition, by increasing the efficiency of its operations, the ratepayers would benefit whether there were any wholesale sales at all, wouldn't they?

A That's correct.

Q So day-in/day-out the greater efficiency of operation would flow directly to retail ratepayers?

A I think so. And to the shareholders, as well, to the extent that revenues are increasing, their earnings are increasing as a consequence of that.

Q How are their earnings increasing as a consequence of the decline in the -- or improvement in their efficiency?

A Well, if you are assuming -- I am assuming that you are making those sales with those --

Q Correct, making sales.

A So your revenues are at least constant to increasing. And costs are, at least given what you have discussed, going down. So profits would be increasing.

Q Well, but you have increased your efficiency, but isn't the sale, isn't it a necessary condition for making the off-system sale that the gain is the difference between the cost and the revenue received from making the sale?

A That's correct.

Q So in every instance, if there is no sharing of the gain, there is nothing in it for the utility at all?

A Well, if you have increased your efficiency throughout all production, what about the remaining 90-some-odd percent that is left with the retail customers?

Q So the utility, if it increased its efficiency and therefore was cheaper in operation, then that would flow to the stockholders?

A It would be my interpretation that that would give the utility the ability to achieve higher earnings as a consequence of that.

Q I don't understand. Because I think in this context aren't we talking about efficiency as it relates to fuel cost?

A No, I'm talking about efficiencies in production overall, to be able to make those generating assets more efficient to be able to go out and sell the output from those facilities.

Q That may take more costs, don't you agree? In other words, that the utility may have to have its plant maintained at a higher level of availability to improve the potential to make off-system sales?

A There is the possibility for increased costs.

Q That would increase its costs, right?

A Possibly. But what we are talking about here is to improve efficiency; that is, to lower your costs, to get more output for lowering your costs or the same level of cost.

Q Doesn't that in every instance, in terms of participation in the market, result in a lowering of the cost to generate the kilowatt hour that is sold to someone at wholesale, isn't that what happens?

A Yes, sir.

Q And that may be that by improving the efficiency of the heat rate, for instance, of a generating unit, that decreases the fuel cost, is that correct?

A That's correct.

Q But it may take other O&M expenses to achieve that improvement in heat rate?

A That is correct.

Q Okay. And similarly, you may improve your availability so that you have that lower-cost unit available to make that wholesale sale?

A That's correct.

Q But there is not necessarily any improvement in the revenue to the utility from taking that action, is there?

A Assuming that there are no sharing on the gains from those sales?

Q Absolutely.

A I'm sorry, could you repeat the question. There is no incentive?

Q Assuming there is no sharing of the gains that when the utility incurs expense to improve the availability of its generating units so that they are potentially available to make off-system sales, that doesn't increase the earning of the utility's stockholders, does it?

A No.

Q I want to ask you --

COMMISSIONER JABER: Mr. Childs, would you do me a favor and speak into the mike for me. Thank you.

MR. CHILDS: I'm sorry.

BY MR. CHILDS:

Q I want to ask you some other questions about the market, but let me just ask this. I would ask if you would accept as a general proposition that utilities should take reasonable efforts to decrease their costs of operation consistent with their ability to provide reliable service to their customers?

A I would agree with that.

Q Okay. As to the market, the wholesale market in Florida, you speak about that in general and you speak about the increase in competition, but it is correct that you really didn't make any independent evaluation of the wholesale market in Florida in preparing your testimony, did you?

A That's correct.

MR. CHILDS: Thank you. That's all I have.

COMMISSIONER DEASON: Mr. Stone.

MR. STONE: Thank you, Commissioner.

CROSS EXAMINATION

BY MR. STONE:

Q Am I correct that you believe that the 80 percent, 20 percent split when it was adopted by this Commission was a Florida-specific type of provision or policy?

A Yes.

Q And in your view it was applicable only to Florida, sales in Florida on the Florida Broker?

A That is my interpretation, yes.

Q And do you also understand that that policy was initiated by this Commission when it adopted Order Number 12923 in 1984?

A That is my understanding.

Q Have you reviewed that order?

A Not in awhile.

Q Have you ever reviewed it?

A Yes.

Q Do you have a copy of it?
A No.
MR. STONE: Commissioners, may I approach the witness?
Commissioners, it is my understanding that staff has distributed a copy of that order to all the parties earlier today.
BY MR. STONE:
Q And since you have a copy of it in front of you, I would ask you to please show me where in that order the policy was limited to economy sales in the State of Florida.
A I don't see explicitly in here where it says that.
Q Okay. And would you also agree that there is no mention of the Florida Broker in that order?
A There is not. But I think if you go back and look at --
Q There is no mention in this order of the Florida Broker?
A No. But if you go back and look at the transcripts that were done as a consequence of this proceeding and for this order, I think it is very clear that they were talking about the Florida Broker Network.
Q Well, that is interesting. Let me ask you

another question. Do you see in that order that it applies to Gulf Power Company, or at least would you agree that Gulf Power Company was a party to this proceeding?

A I would agree they were a party, yes.

MR. STONE: Commissioners, I have another order that was actually introduced that was -- I'm sorry, an order that was entered by this Commission that implemented this order that I would like to distribute to the parties. And I apologize for the time it will take to do that. The order I'm referring to now is Order Number 13092 that was issued in both Docket 830001 and 840001.

BY MR. STONE:

Q If you were to turn to Page 7 of that order, this is Order Number 13092, at the bottom you will see a heading, economy energy sales profits, parens, Schedule C.

A Okay.

Q Would you mind reading -- that section is only two paragraphs. And then I would refer you to a Schedule C attached on Page 13 of the order.

A "In Docket Number 830001-EU-B, Order 12923, issued January 24th, 1984, we determine that the profits from economy energy sales --"

Q I'm sorry, I meant for you to refresh your -- for you to read it.

A When you said you wanted me to read it, I was like --

Q When you are ready I will have a few questions.

(Pause.)

A Okay.

Q Okay. Would you agree then that this Order 13092, at least in that part that I have asked you to refer to, actually implemented the direction of the Commission that was adopted in 12923?

A Yes.

Q Okay. Turning back to 12923 for just a moment, would you refer to Page 2 of that order?

A Okay.

Q Do you see down at the second full paragraph on that page?

A Uh-huh.

Q It starts out Public Counsel's witness.

A Yes.

Q Do you see that in that order the Public Counsel proposed that 100 percent of the gain be retained by the ratepayers and that zero percent of the gain be shared with the shareholders?

A Yes.

Q Do you also see in there that Gulf Power's witness proposed a 50 percent split between ratepayers and shareholders?

A That's correct.

Q Would you assume, then, from that that Gulf thought that there was some basis for their participation in the docket, that they would have some sort of gains to make that they would be able to share on a 50 percent basis if they would make that proposal?

A Yes.

Q You don't think Gulf would participate in an academic exercise if they were not making the type of economy sales that would be eligible for this type of sharing?

A That is correct.

Q Would it surprise you to learn that Gulf Power Company was not a participant in the Florida Broker in 1984; and, in fact, has not been a participant in the Florida Broker at any time?

A No.

Q It would not surprise you?

A It was my understanding that they do not make broker system sales.

Q Okay. So you are now willing to agree that this order was not limited to Florida Broker sales, despite your testimony earlier?

MR. BURGESS: Excuse me, I don't think Mr. Stone has accurately characterized the testimony that this witness has given.

MR. STONE: I believe the witness' testimony said that if I were to go back and read the transcript I would conclude that this order was limited to the Florida Broker sales. And what I'm suggesting to you is that the order, within the four corners of the document itself, does not lend itself to that interpretation.

MR. BURGESS: Mr. Stone's question has been does it appears that Gulf Power believed that it applied to Gulf Power. And the witness answered yes.

MR. STONE: All right. Well, then let's go on a little bit further.

BY MR. STONE:

Q Turning to the other order, 13092, and I ask you to look at the Schedule C attached to that order. That was again Page 13. Do you see that the third row is a listing for Gulf Power Company?

A That's correct.

Q Okay. Do you also see that it makes an adjustment to Gulf Power Company's base rates to remove the effect of the economy energy sales that were previously included in its base rates so that you could make the change directed by the Commission in 12923?

A That is correct.

Q And so there was actually an increase to Gulf

Power Company's base rates as reflected on this Schedule C to Order Number 13092, that would be the fourth column over showing the increase in base rates for Gulf Power?

A 696,000?

Q Well, I was referring to the cents per kilowatt hour column for Gulf Power.

A All right.

Q And that was the increase in base rates, to remove the effect of the economy sales in base rates?

A Okay.

Q Do you also see two columns over from that that there was -- 80 percent of the amount of economy sales was identified by Gulf for this particular recovery period, which in that case was April 1 through September 30, 1984?

A That's correct.

Q And that 80 percent is what was passed through to Gulf Power's ratepayers as a result of the implementation of the Commission's policy in 12923?

A That's correct.

Q And you have agreed that Gulf Power Company did not participate in the Florida Broker in 1984?

A That's correct.

Q And would you agree, then, that the Commission was aware that this policy was being applied to Gulf Power Company just as it was to the other three investor-owned utilities?

A Well, it appeared it was applied to Gulf. I don't know for a fact what those reasons were. And I think even to this day there have been some ambiguities associated with what those sales would be, whether they should be in there or not. So I don't know that that time period would have been any different than today.

Q But the fact of the matter is it has been applied to Gulf Power Company since the very beginning of the policy?

A That is what it appears here, yes.

Q If a utility such as Gulf were to make out-of-state economy energy sales that covered its marginal costs plus a contribution to fixed costs, would this be beneficial to Gulf's retail customers?

A Yes.

MR. STONE: I have no further questions.

CROSS EXAMINATION

BY MR. McGEE:

Q Good afternoon, Doctor Dismukes. I just have a few questions for you.

Would you look at Page 2, actually Page 2 and 3 of your testimony. You have an answer there that goes from Line 11 on Page 2 through Line 17 on Page 3. And as I understand the essence of this response to the question posed, you are developing your contention that a utility incentive for economy sales is either unproductive or unnecessary because a utility's ability to make economy sales is largely beyond its control.

Is that a fair characterization?

A I think the point I was trying to make, in today's environment it is determined by the market whether -- and your ability to have effective resources to participate in that market. And the prices are determined by that market, not by you. It is not anything that you can control.

Q All right. And then if you will look back up at the top of Page 2, to the sentence that Mr. Childs had asked you about at Lines 6 and 7, "No utility today can afford not to participate aggressively in wholesale markets"?

A That's correct.

Q Why is it that a utility has to be an aggressive market participant if it simply takes what opportunities are given to it with little ability to actually influence the outcome?

A I think to the extent that in the longer run that you have that -- you are able to make more resources available in this market, that you can sell those, that you want to expand business opportunities and new profit opportunities that you would want to be in those wholesale -- in those competitive wholesale markets.

Q So do I take it from that then that your earlier comment that I asked you about in terms of the utilities' inability to control the market is a short-term phenomena, and that when the long-term is taken into account that you would agree that the utilities do exert some positive ability on being able to work the market in a productive way from both a ratepayer and a stockholder standpoint?

A I think over the long-run dynamically.

Q If you would turn back to Page 10 of your testimony. Actually I think this begins at the bottom of Page 9 where you indicate that there are some general principles that you expound upon if alternative incentive mechanisms were to be developed by the Commission. And at the top of Page 10, you indicate that one of these on Line 3 is that risk and reward should be symmetrical. And I take it that you contrast that principle with the situation in Florida today when you say, "Today Florida's utilities get an incentive return on all gains on economy energy sales, but do not incur any risk for suboptimal performance." Do you see that sentence?

A That's correct.

Q And I also assume that when you say that utilities today get a return on all gains on economy sales, you are limiting that to those economy sales that take place on the broker?

A That's correct.

Q I wanted to ask you if you would agree that at least compared with the economy sales market that existed through the mid-1990s with the Florida Broker where relatively uncomplicated one hour ahead split-the-savings sales were the vast majority of all transactions, that compared to that situation today's economy market imposes a greater risk on utilities that they will, in fact, earn a gain from which an incentive can be derived? Is there a risk, a greater risk in today's market that the utility may, in fact, incur a loss?

A It was my understanding that few utilities will make a sale to earn a loss. The only one that I have heard of has been Florida Power Corporation that has even suggested that that could happen.

Q And did you hear Mr. Wieland's testimony when he indicated that in terms of risk, that that factor increases either by the length of the sale or further out into the future when that sale takes place?

A Yes.

Q Do you --

A Yes, I agree with that.

Q So compared to the situation that existed on the old Florida Broker where transactions took place one hour in advance, the utility is incurring a greater degree of risk that transactions will either be less profitable or, in fact, perhaps unprofitable depending on the accuracy of the estimates that they use when they enter into these transactions?

A I would agree that they would be more complicated. I don't know necessarily that there would be any greater risk to the utility if these are passed through to ratepayers, though, through the fuel adjustment clause, if these losses were.

Q Have you read the portion of Mr. Wieland's testimony where he describes the symmetrical approach that Florida Power has injected into its proposed incentive mechanism where the risk of -- that the incentive that would be given to utility shareholders for profitable sales would be matched by a corresponding penalty in an equal amount on sales that are unprofitable?

A Well, that is true if there is a loss. But I think the point that we were making here, that I was making here was not necessarily a loss/gain situation, but we were thinking more in terms of a gain and good performance and what we would expect to be standard good performance, not losses. Positive.

Q And I assume that your reference just now was to the latter portion of your sentence where you say that the utilities do not incur any risk for suboptimal performance, and I wanted to ask you about that. Whether or not a utility also incurs a risk for, as you put it, suboptimal performance in the economy sales market in the form of a corresponding suboptimal incentive return?

A You lost me again there.

Q Well, let me simply rephrase that. If a suboptimally performing utility could have earned, for example, an additional $10 million per year in economy sales gains --

A Uh-huh.

Q -- then wouldn't its performance have cost it $2 million?

A That's correct.

Q And so does that mean that that suboptimally -- sort of difficult to pronounce -- performance by the utility is not reflected and imposed on the utility in a meaningful economic sense?

A It would lower the gains, overall gains for that company, as I understand what you are saying.

Q Well, the effect is to leave $2 million on the table --

A Right.

Q -- then wouldn't you agree that many utilities would regard that as a penalty in terms of income they could have received but didn't because of their own poor performance?

A Yes.

Q And, therefore, an incentive would motivate them to capture those gains. And for every dollar that they would gain for their stockholders they would, by necessity, have to gain four for the ratepayers?

A Correct.

MR. McGEE: Those are all the questions I have. Thank you.

MR. BEASLEY: I had questions for this witness, but now I have no questions for this witness.

COMMISSIONER JABER: Mr. Chairman, may I ask a couple of questions?

Doctor Dismukes, you have an economic degree. As a matter of fact, a doctorate in economics, right?

THE WITNESS: That is correct.

COMMISSIONER JABER: So you have studied and researched the pure economic theory of competitive markets, supply and demand, all of those theories?

THE WITNESS: That's correct.

COMMISSIONER JABER: Where do artificial incentives fit into a competitive environment in your opinion?

THE WITNESS: I think the way that these -- that the incentives work today in this competitive environment is that it gives the utilities an additional opportunity to earn a return on these sales that goes beyond the normal rate of return that we look at in the regulatory process that we try to mimic in that process or at least we have tried to mimic in that process as a competitive or normal rate of return.

To the extent you got something beyond that, you know, from a strict economic definition that is potentially monopoly profits or additional profits. Now, in the past commissions have used those profits and allowed utilities to have greater earnings to promote other types of public policy agendas, like demand-side management, energy conservation, solar energy, whatever.

I think the problem today is that in the past those were in regulated environments, today and in the future we are looking at offering incentives to participate in a competitive environment, and that is where I think I have a bit of a problem with that.

COMMISSIONER JABER: Why?

THE WITNESS: Because the risks associated with utilities participating in that wholesale market are different than a lot of their competitors would have. And so to the extent that they are able to earn something above the normal rate of return that they would have otherwise gives them an additional opportunity that they would not have if they weren't in a regulated position, I believe.

COMMISSIONER JABER: The two orders that we have referred to today, were they issued prior to the wholesale competitive market?

THE WITNESS: That is my understanding, yes, ma'am.

COMMISSIONER JABER: Does that effect your opinion at all?

THE WITNESS: Yes, ma'am, it does.

COMMISSIONER JABER: How so?

THE WITNESS: Well, the fact that those incentives at that time they were applied to industries that were both regulated both on the wholesale and the retail side. Today we have got a regulated retail side and an unregulated wholesale side. And you are applying an incentive to encourage a utility to participate in that competitive wholesale side of the business. And that seems to be problematic in an area that is -- in my opinion, if in Order 888 the Federal Energy Regulatory Commission had wanted utilities to participate aggressively in those markets, maybe they would have allowed some incentive returns for utilities in that order, but you don't see that.

COMMISSIONER JABER: Your rationale, I think, is that you hold true to the theory that the marketplace provides the necessary incentive?

THE WITNESS: Yes, ma'am.

COMMISSIONER JABER: All right. In your economic studies, what happens to companies or corporations that cannot actively compete in any market?

THE WITNESS: They go out of business.

COMMISSIONER JABER: Is that what this -- is that what the marketplace in the wholesale level would provide?

THE WITNESS: Yes, ma'am.

COMMISSIONER JABER: You made reference in your testimony to how the IOUs are unreasonable in making -- have been unreasonable in making the argument that they can't actively compete at the wholesale level on the one hand, but on the other hand they are actively protesting the applications filed by merchant plants. Elaborate for me why that is an unreasonable position for them to hold.

THE WITNESS: Well, we heard earlier today, I think Mr. Howell said that if they did not get the incentives that there would be a decreased availability of supply resources out there, and that they needed it to make those available. I think there are competitors today that if they could get beyond the barriers to entry would be more than willing to participate in the Florida market. And as a consequence of that, if they could get through those barriers would be happy to serve those customers.

COMMISSIONER JABER: How does the recent Duke decision change your testimony?

THE WITNESS: I don't think the decision, in itself, changes my testimony. I think that these markets are competitive out there. It certainly creates, I think, more problems for certain types of merchant facilities to be here and to compete in this wholesale market. But one of the things that I have found is that markets tend to find ways around these things. And as a consequence of that, I think the market will probably react. Maybe not in the most efficient manner as it would have without that decision, but it will react to that.

COMMISSIONER JABER: If we were to accept the theory that some incentive is appropriate, you alternatively have provided to us what I have dubbed a range incentive.

THE WITNESS: That's correct.

COMMISSIONER JABER: In your own words, describe that for me a little bit more.

THE WITNESS: What we would like to see is maybe some benchmark level set. And there would be a bound, kind of a dead band above and below that benchmark that essentially says that certain opportunities happen and utilities should be able to take advantage of those, but they may be -- the consequence of changes in the market or different circumstances and things happen. Sales may be down for a particular reason or they may be up for a particular reason, but there is kind of a hold harmless region within a bound for that benchmark.

As you move above that benchmark, you get increasingly higher levels of incentive returns as you surpass the standard benchmark. And as a consequence of that, your incentive returns would increase as you move further and further out into those bounds.

COMMISSIONER JABER: And this is a change from OPC's position in the 1984 proceeding that I thought advocated that ratepayers were to receive 100 percent of the benefit?

THE WITNESS: I believe it does differ from that earlier position.

COMMISSIONER JABER: Thank you.

MR. BURGESS: Commissioner, since that is addressing the OPC's position, I wonder if I could have the liberty to address that. The position here is that there is not a need for an incentive and the Commission should dispense with this. Our point is, though, if you do feel compelled --

CHAIRMAN GARCIA: I think you are testifying. He gave your position, you gave your opening statement, we have the record there. I don't think that is necessarily called for here.

COMMISSIONER JABER: And for the record, I understand that it is an alternative position.

CHAIRMAN GARCIA: All right.

MR. BURGESS: May I have redirect?

CHAIRMAN GARCIA: Yes.

MR. BURGESS: Thank you.

CHAIRMAN GARCIA: And maybe you could develop it there.

MR. BURGESS: I don't think so.

REDIRECT EXAMINATION

BY MR. BURGESS:

Q You had some questions by Mr. McGee, Doctor Dismukes, about $10 million in sales, in off-system sales and $2 million in 20 percent incentive as a hypothetical?

A That's correct.

Q And do you recall the hypothetical being that if a company didn't make those sales that it would be harmed to the extent of the $2 million it left on the table?

A That's correct.

Q Under that scenario, would the company, this hypothetical utility, in any fashion otherwise -- reduce below what it would otherwise earn in its base rates?

A It is my understanding they would not.

MR. BURGESS: Thank you very much. That's all I have.

CHAIRMAN GARCIA: Thank you. All we have got left is rebuttal, correct?

MR. KEATING: That's correct.

CHAIRMAN GARCIA: That was my next point. Are there are any questions in the rebuttal?

MR. KEATING: Staff has no questions.

MR. BURGESS: We have no cross.

CHAIRMAN GARCIA: Okay.

MS. KAUFMAN: I guess we don't have any cross, either.

CHAIRMAN GARCIA: Good, good, good. So we will just move Mr. Howell's testimony into the record, as well as Mr. Brown's.

MR. BEASLEY: Commissioners, we do have a revised exhibit to distribute for Mr. Brown's rebuttal testimony, and that is the redacted version of his exhibit taking out all of those materials that were objected to by --

CHAIRMAN GARCIA: Do you want to just give that an exhibit number and maybe it will be a little bit quicker? And that would be --

MR. KEATING: I believe we are on Exhibit 13.

CHAIRMAN GARCIA: 13. And if there is no objection, that is moved into the record. That is admitted into the record.

(Exhibit 13 marked for identification and entered into the record.)

MR. KEATING: Commissioner, if I have not already moved Exhibit 11, I would like to do so.

CHAIRMAN GARCIA: I don't think you did, and we will move Exhibit 11 into the record.

(Exhibit 11 received in evidence.)

CHAIRMAN GARCIA: What was Exhibit 12?

MR. BURGESS: Exhibit 12 was the appendix attached to Doctor Dismukes, and you moved it.

CHAIRMAN GARCIA: Yes, it was, Mr. Burgess. Thank you for reminding me.

MS. KAUFMAN: Mr. Chairman, I don't know that we moved Exhibit 3.

CHAIRMAN GARCIA: Yes, we did. Or did we?

MR. KEATING: I didn't believe that we did. I believe that all the information of that exhibit is otherwise in the record.

CHAIRMAN GARCIA: All right. But let's go ahead and move it into the record.

(Exhibit 3 received in evidence.)

MR. BEASLEY: Mr. Chairman, I apologize, I didn't get the exhibit number you assigned to this revised?

CHAIRMAN GARCIA: 13.

MR. BEASLEY: 13. And I move 13 if you haven't admitted it already.

CHAIRMAN GARCIA: Very good. 13, yes, it was admitted.

GULF POWER COMPANY

Before the Florida Public Service Commission
Rebuttal Testimony of
M. W. Howell
Docket No. 991779-EI
Date of Filing: April 19, 2000

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

A. My name is M. W. Howell, and my business address is One Energy Place, Pensacola, Florida 32520. I am Transmission and System Control Manager for Gulf Power Company.

Q. Have you previously testified before this Commission?

A. Yes. I have testified in various rate case, cogeneration, territorial dispute, planning hearing, need determination, fuel clause adjustment, and purchased power capacity cost recovery dockets. I have prefiled direct testimony in this proceeding dated March 1, 2000.

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. The purpose of my testimony is to rebut portions of the testimony of David E. Dismukes.

Q. What is a significant area that needs to addressed in rebuttal?

A. Witness Dismukes is proposing that this Commission accept the troubling thesis that the 20% shareholder incentive currently associated with economy energy sales does not provide an inducement or incentive for utilities to continue their efforts to maximize economy sales. This thesis is in conflict with a basic characteristic of human nature. An incentive is just that - a motivation to produce certain behavior. Incentives are effective mechanisms to encourage the performance of desired actions.

Q. Is his thesis flawed?

A. Yes. Witness Dismukes has confused the concept of an incentive and would have the Commission believe that as long as a utility is interested in keeping its rates to retail customers low, additional direct incentives supporting the goal of lowering customer costs are inappropriate. The fallacy in this thesis is that it deems the general motivation to keep rates low to be equivalent in impact to the more focused incentive provided by the 20% shareholder incentive currently associated with economy energy sales.

Q. Do utilities have an incentive to keep rates low?
A. I certainly agree that utilities today have an incentive to keep rates as low as reasonable. But if an additional incentive is provided, certainly companies will respond positively to that incentive whenever they have the opportunity. In the case of the 20% shareholder incentive associated with economy energy sales, the response takes the form of increased effort to maximize these sales. Conversely, removal of an existing incentive will send a signal that utility resources devoted to this activity are not as important to the Commission today as they once were, and they should be shifted to other activities. We do not believe that this is the signal that the Florida Commission wants to send to the market.

Q. Has Witness Dismukes properly characterized the relationship of incentives to the competitive market?
A. No. Witness Dismukes has either misunderstood or mischaracterized the relationship of today's more competitive market with the need for an incentive. His testimony asserts that the more competitive market negates the need for an incentive. I submit that the opposite is true. The primary reason a more competitive wholesale market exists today is that the sellers have a

direct incentive to make these sales. That direct incentive is the opportunity to make a profit. In fact, for any of the new non-utility players in the wholesale arena, profit is the only driver behind these sales. They certainly are not motivated to keep prices low simply for the sake of low prices.

I assert to you that if these new players knew they would not make any profits from their efforts, they clearly would not be in the game. The primary driving force behind the more competitive market in Florida today is the opportunity for increased profits. If profits are okay for non-regulated players who find ways to increase sales, then it hardly seems fair to deny a portion of the profit margin to regulated utilities. And it is not only unfair to the utility, it also is not good for the customer, considering that most of the additional profits go to him.

Q. What is missing from Witness Dismukes' proposal to do away with the incentive mechanism?

A. Witness Dismukes carefully avoids any mention of the fact that if utilities have any added incentive to make sales, it will be just that - an added incentive, which will increase sales, and likely provide lower rates to the retail customer. Giving the customer 80% of a larger pie is better than 100% of a smaller pie. In fact, if the existing direct shareholder incentive were removed, then utilities facing an immediate need to control costs would have an incentive to shut down bulk power marketing departments and avoid these "unproductive" costs. This is clearly an example of how the general motivation to keep rates low is not necessarily equivalent to the direct incentive associated with the opportunity to share the profits on economy sales. The benefits associated with short-term economy sales may be lost to ratepayers due to the change in focus that would come with the loss of the direct shareholder incentive.

Q. Are you saying that if the direct shareholder incentive were removed, a utility might stop making these sales?

A. Absolutely not. Clearly, a utility has a motivation to keep rates low, and it will certainly pursue some level of sales absent a direct shareholder incentive. But today's market requires knowledge of market prices and conditions that only comes from experience. It requires money and effort to acquire that knowledge. Without the direct incentive, a utility is not encouraged to spend the money and develop the resources to more aggressively pursue sales. Without the existing direct incentive, utilities are essentially being encouraged to reduce their efforts to further control costs for the benefit of shareholder and ratepayers alike. This is not a desirable situation when we are in competition with players who keep all the profits. It becomes increasingly difficult to justify programs when only indirect incentives are associated with successful efforts.

Q. Do you believe Witness Dismukes' testimony correctly portrays a utility's ability to control economy sales?

A. No. Witness Dismukes states that "[e]conomy sales are clearly one area where a utility has little ability to influence decisions," implying that a utility has little ability to affect the level of economy transactions. His testimony then goes on to quote two witnesses out of context from a previous docket in an effort to support his contention. It is true that both witnesses were making the point that utilities who make economy sales have very little ability to unilaterally affect the market price or increase the demand for economy energy. Witness Dismukes completely missed the point, in full context, that without knowledge of the market, utilities cannot take advantage of the opportunities that do exist.

Q. What is the correct portrayal?

A. Clearly, the inability to reliably forecast gains does not diminish the need for incentives. To the contrary, this inability is the very reason this Commission instituted the incentive mechanism. Witness Dismukes has confused an inability to forecast what opportunities will occur in the market with the need to provide an incentive to learn the market and take advantage of the opportunities. Simply stated, we cannot change the opportunities that do exist, but we can change how much of these opportunities we take advantage of if we have the market knowledge.

Q. What else has Witness Dismukes offered on this issue?

A. Witness Dismukes has, in fact, offered a contradiction within his own testimony. On the one hand, he quotes witnesses out of context in an effort to bolster his assertion that utilities have no control over the level of sales. Yet, on the other hand, he later asserts that there ought to be a penalty if a utility does not achieve an arbitrary level of sales over which they have no control. I assert that such internally conflicting logic should be rejected as a basis for making decisions.

Q. How does your opinion differ from Witness Dismukes regarding the competitive nature of the wholesale market?

A. Witness Dismukes asserts that a more competitive Florida market today sends signals to market participants that should be enough to encourage taking advantage of all available market opportunities. This assertion ignores two important points. First, the market is more competitive because there are now more participants, all of whom are driven by a profit motive. Their incentive to make these sales is profit. They will attempt to maximize that profit by setting as high a price as possible, while still making the sale. It is particularly noteworthy that the non-utility participants keep 100% of the profits for their shareholders, not just 20%.

Second, if we remove the incentive that is currently available to utilities to make these sales, we are aggravating an already uneven playing field. This change in policy would serve to discourage regulated utilities from taking reasonable risks in making sales, resulting in lower shared profits for our customers from the sales. Such discouraged participation would reduce the pool of economy energy being sold, thereby placing at risk the benefits from economy purchases that flow entirely to the customers.

Q. How does competition affect price?
A. Increased competition has the effect of driving down prices. As prices drop, so do the profit margins on the sales. If any incentive for regulated utilities to make these sales were eliminated, then utilities would have a counter incentive to not offer sales that might marginally bring a profit, and the customer would likely lose.

Q. Is Witness Dismukes correct in his discussion of bulk power efficiencies?
A. No. His discussion of bulk power efficiencies shows a misunderstanding of system operations and the cost accounting involved in economy energy transactions.

Q. Please explain why this is true.
A. His assertion is that economy sales would have the effect of increasing system operating efficiencies. His testimony then offers no explanation or support as to how this would occur. Witness Dismukes must be thinking along the lines expressed in his filed direct testimony on this issue in Docket No. 990001-EI dated October 18, 1999. That prior testimony made this same assertion,

then went on to explain how this would be accomplished by reducing average system heat rates. In fact, the opposite occurs. Many economy sales occur when loads are high and capacity is short. It is the more efficient units that operate to serve base load, and the less efficient units that are called on in times of high demand. Increasing the demand on our generating units through economy sales will call on more generation from the less efficient units, raising average system heat rates.

Q. Are there other flaws in his bulk power efficiency argument?

A. Yes. Witness Dismukes makes the remarkable statements that "[t]his efficiency gain . . . will also result in added benefits to utility shareholders", and that ". . . utilities that make additional economy sales have the potential to offer their shareholder higher earnings through increased profits." My response to these assertions is that there cannot be increased profits for the shareholder if, as he proposes, 100 % of the profits are flowed to the customer." I simply don't understand the premise that giving away 100% of profits results in higher earnings.

Q. Has Witness Dismukes' testimony in this regard omitted any other significant considerations?

A. Yes. What is missing from his discussion is that if utilities have an additional profit incentive to make sales in a competitive market where prices are tight, there is a compelling additional incentive to reduce overall costs to make all generation more competitive. This benefits the customer on every kilowatt-hour generated, not just the relatively small portion that makes up off system sales. In other words, elimination of the direct incentive currently associated with economy sales may result in a reallocation of resources, such that customers lose the savings that the incentive generates.

Q. What is your opinion of the witness' testimony on name recognition?

A. Witness Dismukes throws out a novel assertion that increased name recognition will be an incentive for utilities to engage in wholesale sales. This position confuses utilities' efforts at name recognition with how the bulk power market really operates. Any market player is well aware that the Southern Company, FP&L, FPC, and TECO are known by all in the electricity market, with a proven reputation to deliver what is promised. The competitive market for economy energy is interested primarily in only two things - deliverability and price. The Florida utilities have the reputation for deliverability. But if, in any hour, they are not competitive on price, then they do not get the business. The result will be that their customers do not get the 80% savings, and every customer in Florida loses to unregulated players who profit from the lost opportunity of the regulated utility.

Q. What are the fallacies behind Witness Dismukes' alternative recommendation?

A. His alternative recommendation is mired in the past and fails to recognize today's energy market. The proposal to limit the incentive to the Florida Energy Broker Network (EBN) discriminates against Gulf for not participating in the EBN. Also, it ignores the reality that all the other Florida companies are now making very limited use of the EBN, since the industry has long since moved to market-based transactions rather than cost matching. Even if the proposal were modified to include other sales, the wide dead band recommended for no shareholder participation simply guarantees that the shareholder will never gain. This is much akin to being on the low end of an unlevel playing field with the deck stacked against you.

Q. Is Witness Dismukes' comparison of his alternative to the FPSC's approach used in the telecommunications area appropriate?

A. No. The telecommunication program was targeted to providing new services and the reduction in costs associated with technological innovation applicable to that industry. When this incentive mechanism created for the telecommunications industry was adopted, it was not used to replace an existing incentive mechanism that was tied to short term non firm opportunity sales for a commodity service such as economy energy sales that has been a part of the business for a long time.

Q. Witness Dismukes asserts that extending the policy of incentive gains to sales outside the broker system "has a number of very serious policy and jurisdictional issues that the Citizens would recommend the Commission seek to avoid." Is there any foundation for this statement?

A. No. Witness Dismukes makes this sensational assertion, and yet he doesn't even list, much less explain, a single one. If he had insight, he should have been open and forthcoming, rather than make such an incredible statement with no attempt at substantiation.

In fact, Gulf has applied the 80/20 sharing of gains to economy sales outside the EBN since the inception of the incentive mechanism. Contrary to Witness Dismukes' implication that ratepayers will be harmed, Gulf's ratepayers have benefited handsomely by enjoying 80% of the profits associated with these sales as a direct reduction in their electric service costs.

Q. Should the Commission eliminate the 20 % shareholder incentive?

A. No. The Commission should not take any action to remove or reduce the existing direct incentives to utilities for participating in this market. By establishing the existing 20% direct shareholder incentive in 1984, the Commission recognized the need for and overall benefit of increased sales of economy energy. The competitive market changes that have recently occurred have only increased the importance of this incentive to encourage electric utilities to continue participation in this market, to give Florida's retail customers an opportunity to receive greater short term benefits than if this incentive were removed.

Q. Does this conclude your testimony?
A. Yes.

TAMPA ELECTRIC COMPANY
DOCKET NO. 991779-EI
FILED: April 19, 2000

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED REBUTTAL TESTIMONY

OF

W. LYNN BROWN

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

A. My name is Lynn Brown. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Director of Wholesale Marketing and Sales.

Q. Are you the same Lynn Brown who submitted testimony in this proceeding on March 1, 2000?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to point out that certain positions advanced by the Office of Public Counsel's witness David E. Dismukes regarding incentives and his alternative recommendation are flawed and fail to recognize the overall benefits of incentives to ratepayers of Florida utilities.

Q. Have you prepared an exhibit supporting your testimony?

A. Yes. My Exhibit No. 1 (WLB–2) consists of one document entitled "Excerpts from the Prepared Rebuttal Testimony of Thomas L. Hernandez filed in Docket No. 990001-EI."

Q. What is the first issue in Dr. Dismukes' testimony that you would like to discuss?

A. On page 2, lines 6-7 of Dr. Dismukes' testimony, he states "no utility today can afford to not participate aggressively in wholesale markets." Further on page 2, lines 11-14 he states "incentive-based regulation can be an effective tool for regulators. However, incentive based regulatory mechanisms should be placed upon decisions that can be both influenced and measured." Finally he states that such a mechanism that is not tied to a decision that is within the utilities' control is unproductive. Tampa Electric agrees with these points. The company has invested resources to participate in the volatile non-firm, wholesale power market. Tampa Electric's participation has provided benefits to retail customers in the form of economic power purchases and off-system sales revenues. Further, the level of a seller's participation in the market at any given time is influenced by its operating decisions, market forecasting capabilities, generation cost, and innovativeness. Incentives have also influenced seller's participation in the market.

Q. Are there related points regarding market influence that Dr. Dismukes makes that you do not agree with?

A. Yes. On page 2, lines 14-15 of his testimony, Dr. Dismukes states "Economy sales are clearly one area where a utility has little ability to influence decisions, especially in the very short run." On page 3, lines 20-22, he states "it is a questionable proposition as to whether utilities can strategically (and consistently) manipulate their economy sales for profit." Although Dr. Dismukes never defines "economy sales," Tampa Electric has defined them to mean Schedules "C" and "X" transactions that are cost-based and offer equal benefits to the buyer and seller. It is true that utilities cannot "manipulate" the price of a cost-based product. However they can modify their operations to maximize sales volume when product demand is high. Factors such as robustness of market activity, incremental cost of generation, transmission system constraints, and weather influence the market price at any given time. Utilities certainly cannot control the weather but they do influence these other factors.

Q. Please comment on the three incentives that Dr. Dismukes claims exist in Florida's wholesale market "without an additional incentive adder."

A. On page 4, lines 2-8 of Dr. Dismukes testimony, he describes three incentives for Florida utilities to participate in the current wholesale market. Tampa Electric agrees with Dr. Dismukes that all utilities should strive to provide their customers with quality electric service at a reasonable price, however, incentives have proven to encourage certain behavior and such incentives can benefit both customers and companies. Tampa Electric has proposed that the current 20 percent incentive (applied only to economy sales) also be applied to other non-firm, non-separated sales. This proposal will encourage Florida utilities to maximize sales of their available energy in the market place without any reduction in retail customer reliability. In fact, Tampa Electric's proposal for incentives should result in increased market participation which will provide economic benefits to all Florida retail customers.

In his rebuttal testimony filed on November 1, 1999 in Docket 990001-EI and attached as my exhibit, Tampa Electric witness Thomas L. Hernandez directly addressed two of the three incentives listed by Dr. Dismukes. Mr. Hernandez accurately assesses why reduced rates and increased name recognition are important but do not mitigate the need for appropriate incentives.

Q. Do you believe, as Dr. Dismukes does, that Tampa Electric and other Florida IOUs have contradictory points of view when it comes to merchant plants?

A. No. Dr. Dismukes states on page 5, lines 8-12 that Florida's IOUs are asking for incentives while opposing merchant plants within the state. Florida IOUs have expressed their desire to continue participating in Florida's wholesale market. Dr. Dismukes fails to acknowledge that merchant plants are incented to make wholesale sales. Merchant plant owners don't simply retain 20 percent of the profits, they retain 100 percent. In fact, merchant plant owners are anxiously anticipating lucrative sales opportunities in Florida. From time to time, Florida utilities experience a loss of generation, which can effectuate escalated market prices. Merchant plants stand to take advantage of these situations and retain 100 percent of the wholesale transaction profits.

Another important consideration is that merchant plants do not contribute to Florida's planning, operating or spinning reserves requirements unless the host control area includes an obligation to serve these requirements in their operating agreement. Merchants are not required to serve Florida retail customers but are free to market their power without constraint. In contrast, a Florida utility's primary obligation is to serve Florida's retail customers. Incentives that encourage wholesale power transactions above this basic obligation are appropriate.

Q. Please comment on Dr. Dismukes' alternative recommendation.

A. Dr. Dismukes describes an alternative incentive recommendation that includes a "dead band" benchmark accompanied by incentives and penalties for performance levels that are over/under the benchmark. The benchmark is based on a five-year moving average of sales made on the Florida Energy Broker Network ("EBN"). There are several flaws in his recommendation.

Dr. Dismukes apparently is unaware that the Florida EBN has recorded little activity over the past year. Furthermore, this cost-based, split-the-savings matching program was discontinued on March 20, 2000. Most wholesale sales are off-broker, non-firm, non-separated energy transactions. The EBN now includes numerous out of state participants and is principally market-based transactions. Products are offered both at the Florida-Georgia border and in-state.

Dr. Dismukes argues that "the whole issue of the uncertainty associated with forecasting these gains was one of the main reasons for moving their ratemaking treatment from base rate setting to fuel adjustment proceedings." I agree with Mr. Hernandez's analysis of this issue in his rebuttal testimony from Docket No. 990001-EI, that although it was a consideration in the change of treatment, it was not the main reason for the change. One of the main reasons for incentives was to encourage utilities to engage in economy transactions to benefit Florida ratepayers, not simply to change ratemaking treatment because it was difficult to forecast sales.

Q. Do you have any other comments regarding Dr. Dismukes' alternative proposal?

A. Yes. Dr. Dismukes advocates that risks and rewards should be symmetrical. Tampa Electric believes the Commission's current process along with the company's proposal is fair and symmetrical. If a utility pursues opportunities and is able to effect incremental economy sales, the utility currently retains 20 percent of the gain. If this utility is complacent and foregoes sales that might otherwise have been attainable, the utility's shareholders lose their 20 percent share of the foregone gain. This incentive is symmetrical and avoids the pitfalls previously recognized by the Commission, associated with any attempt to project an optimal or appropriate level of economy sales.

Tampa Electric's proposal of a 40 percent shareholder incentive for in-state sales and a 20 percent shareholder incentive for out-of-state sales encourages more energy to be made available to in-state buyers thereby increasing in-state market liquidity which benefits Florida retail customers. This simple, straightforward proposal does not depend on historical benchmarks, dead bands or annual deviations from a benchmark. It provides encouragement for non-firm, non-separated off-system sales.

Q. Does this conclude your testimony?

A. Yes, it does.

CHAIRMAN GARCIA: Thank you, gentlemen, for moving this along, and ladies.

Staff, do you want to give out any dates, or we've still got a ways on this?

MR. KEATING: Sure. We have got -- we should have transcripts available within a week or by the 17th; briefs would be due May 31st; with the staff recommendation on June 29th for the July 11th agenda.

CHAIRMAN GARCIA: Very good. Thank you. This hearing is adjourned.

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STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, FPSC Bureau of Reporting FPSC Commission Reporter, do hereby certify that the Hearing in Docket No. 991779-TP was heard by the Florida Public Service Commission at the time and place herein stated.

It is further certified that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript, consisting of Pages 172 through 325, Volume 2 constitutes a true transcription of my notes of said proceedings and the insertion of the prescribed prefiled testimony of the witness(s).

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' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 17TH DAY OF MAY, 2000.

JANE FAUROT, RPR
FPSC Division of Records & Reporting
Chief, Bureau of Reporting
(850) 413-6732

EXHIBIT NO. ı

Staff Exhibit 1

OFFICIAL RECOGNITION LIST

Docket No. 991779-EI

Florida Commission Orders

1. Florida Public Service Commission Order No. 12923, Docket No. 830001-EI-B, issued January 24, 1984.

2. Florida Public Service Commission Order No. 14546, Docket No. 850001-EI-B, issued July 8, 1985.

3. Florida Public Service Commission Order No. 20271, Docket No. 880001-EI, issued November 7, 1988.

4. Florida Public Service Commission Order No. PSC-97-0262-FOF-EI, Docket No. 970001-EI, issued March 11, 1997.

5. Florida Public Service Commission Order No. PSC-97-1273-FOF-EU, Docket No. 970171-EU, issued October 15, 1997.

6. Florida Public Service Commission Order No. PSC-99-2512-FOF-EI, Docket No. 990001-EI, issued December 22, 1999.

Louisiana Commission Order

7. Louisiana Public Service Commission Order U-23327, Docket No. U-23327, issued July 28, 1999.

FERC Orders

8. FERC Order No. 2000, Docket No. RM99-2-000, issued December 20, 1999.

9. FERC Order No. 888, Docket No. RM94-7-001, issued April 24, 1996. pages 1-11

Federal Act

10. The Energy Policy Act of 1992

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 991779-EI EXHIBIT NO. 1
COMPANY/
WITNESS: Staff
DATE: 05-10-00

EXHIBIT NO. __________

DOCKET NO: 991779-EI

WITNESS: JOSEPH P. STEPENOVITCH

PARTY: FLORIDA POWER & LIGHT COMPANY

DESCRIPTION: COMPOSITE EXHIBIT: 1) DEPOSITION OF JOSEPH P. STEPENOVITCH TAKEN ON APRIL 20, 2000; AND 2) RESPONSES TO STAFF'S INTERROGATORY NOS. 1 - 22, 24 - 26, 30, 33 - 36, 38 - 43, AND 45 - 47.

PROFERRED BY: STAFF

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 991779-EI EXHIBIT NO. 2
COMPANY/ WITNESS: Stepenovitch
DATE 5-10-00

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of	:	**DOCKET NO. 991779-EI.**
REVIEW OF THE APPROPRIATE APPLICATION OF INCENTIVES TO WHOLESALE POWER SALES BY INVESTOR-OWNED ELECTRIC UTILITIES.	:	

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TELEPHONIC DEPOSITION OF:	JOSEPH P. STEPENOVITCH
TAKEN AT THE INSTANCE OF:	The Staff of the Florida Public Service Commission
CONDUCTED FROM:	Gerald L. Gunter Building Room 362 2540 Shumard Oak Boulevard. Tallahassee, Florida
TIME:	Commenced at 1:15 p.m. Concluded at 2:45 p.m.
DATE:	Thursday, April 20, 2000
REPORTED BY:	KORETTA E. STANFORD, RPR Official FPSC Reporter

APPEARANCES:

MATTHEW M. CHILDS, Steel Hector & Davis, 215 South Monroe Street, Suite 601, Tallahassee, Florida. 32301-1804, appearing on behalf of Florida Power & Light, participating telephonically.

JAMES D. BEASLEY, Ausley & McMullen, Post Office Box 391, Tallahassee, Florida 32302, participating telephonically.

STEPHEN C. BURGESS, Office of Public Counsel, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the State of Florida, participating telephonically.

WILLIAM COCHRAN KEATING, Florida Public Service Commission, Division of Legal Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, appearing on behalf of the Commission Staff.

ALSO PRESENT:

Don Hale, Office of Public Counsel

Sally Hill, Florida Power & Light, participating telephonically.

Korel Dubin, Florida Power & Light, participating telephonically.

I N D E X

WITNESSES

MISCELLANEOUS

PROCEEDINGS

MR. KEATING: We can go ahead and get started and have the notary swear them in.

MR. STEPENOVITCH: Okay. I'm going to be -- just for your information, I'm going to be taping this, so I'll cut the tape on.

JOSEPH P. STEPENOVITCH

called as witness telephonically, and having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KEATING:

Q Okay. Mr. -- I hope I don't mispronounce your last name. Could you pronounce it for me again?

A It's Stepenovitch.

Q Could you say your complete name and your address for the record.

A Yes. My name is Joseph P. Stepenovitch, and my business address is 11770 U.S. Highway One, North Palm Beach, Florida 33408.

Q And your position with FPL is director of wholesale operations and energy marketing and trading division?

A That's correct.

Q I assume you're familiar with the Florida energy broker network?

A Yes, I am.

Q Is the energy broker network still in existence, as far as matching a buyer and a seller and producing a transaction with a split the savings price?

A The split the savings matching component of the system is now not in place. It's not being used.

Q When was that discontinued?

A I don't remember the exact date, but it was about a month and a half ago, maybe two months ago.

Q Does the broker system still exist in some other form?

A It exists in a new format, what we are now calling a bid offer system.

Q Did that system come into existence when the previous one was discontinued?

A Yes, it came on-line for testing -- and again, I'm not quite sure of the date, but I believe it was in mid February.

Q It came on-line for testing in mid February. Was there a subsequent date where it was operational?

A It was operational on March 1st, and continues on to this date.

Q Okay. Could you explain how that new system works, the bid offer system?

A Sure. Very simply put, it is an anonymous bid offer quoting system, until the match is -- until the fire lifts a deal on the system. Basically, what happens is there's a number of participants, just like the former broker system worked, where it has -- I believe we have somewhere in the vicinity of 30 to 31 participants at this point.

You can put a bid or an offer in the amount of megawatts on to the system where it acts very similar to a bulletin board. And the quote or the bid or the offer goes on the system immediately. And anytime -- and that bid or offer can be from one hour to really infinity. There's no time limit on the system anymore.

You could put a one-month deal, two-month deal or a 10-year deal, whatever you'd like. And you dictate or stipulate what hours, whether it's a Monday through Friday type deal, 5 by 16, 8:00 in the morning until 5:00 in the afternoon or anything of that nature you could put it in there. It's completely -- how do I say, whatever you want to put in.

Now, the other party, whether it's a bid or an offer, the buyer of either side, when he lifts -- when he or she lifts that deal, then only at that time, when the deal is consummated, do you find out who the other party is and at what delivery point -- oh, excuse me, that's one thing I forgot to tell you before.

Also, in the input data, you put in the delivery point. And we have every delivery point programmed into the system now through really throughout the southeast United States. So, there is no automatic matching anymore.

Q Who can participate in the new system?

A Well, of course, any of the participants that have joined the system and anyone else that would like to join, meaning marketers, utilities, so on and so on.

Q Are there any requirements for joining?

A No, just that you pay an up-front fee.

Q Were all the previous broker participants, are they all still involved in the new system?

A The -- it's hard to say. It's hard for me to tell you that, because there has been many companies or entities that have -- not many, I should say, a few entities that have decided to move away from the system, and some have rejoined. I think all of the original -- in-state utilities, I believe all of the original in-state utilities, are still on it.

Q Do you know if Southern Company's a participant in the new system?

A No, they are not.

Q The transactions -- you may have mentioned this already, but of the transactions that are made on the new system, do any of those include market price sales?

A Yes. Some utilities have market-based pricing, so they are market-based sales. I shouldn't say utilities, some entities. It's more than utilities.

Q In your testimony, you mentioned that the economy sales that were the subject of the Commission's Order 12923 are practically nonexistent today. What types of sales do you believe that that order applied to?

A I'm speaking of -- what you're referring to, I'm speaking of on-broker type schedules, Schedule C.

Q Are you aware that Gulf Power had applied the 20% stockholder incentive to all of its nonseparated sales, including market priced sales?

A No, I'm not.

Q Do you believe that applying the 20% stockholder incentive to market priced nonseparated sales would go beyond the original intent of Order 12923?

MR. CHILDS: Cochran?

MR. KEATING: Yes.

MR. CHILDS: Would you restate that question, please?

MR. KEATING: Sure.

BY MR. KEATING:

Q The question I asked was do you believe that applying the 20% stockholder incentive to market priced nonseparated sales goes beyond the original intent of Order 12923?

A No, I don't.

Q If not, why did FPL not apply the incentive to those same types of sales?

A I'm not responsible for applying that incentive. So, I think we should probably refer that to Ms. Dubin.

Q In your testimony, you stated that the costs of making wholesale sales have increased in recent years. And in response to Staff's Interrogatory Number 11, you estimated these costs at $3.8 million in 1999; is that correct?

A I don't have that in front of me.

MR. STEPENOVITCH: Do you have the interrogatories?

MR. CHILDS: Cochran?

MR. KEATING: Yes.

MR. CHILDS: Question 11 referred to marketing and administrative expenses.

MR. KEATING: Correct, that's what I'm referring to.

A I have that now in front of me. And --

MR. KEATING: Matt, just to clarify, when I'm saying costs in this question, that's what I'm referring to, the marketing and administrative expenses.

MR. CHILDS: Okay. I just -- I thought your question initially said O & M, but it may have been my error to what I heard.

A Yes, I do have number 11 in front of me and yes, I did answer them marketing and administrative expenses directly associated with marketing wholesale sales were approximately 3.8 million in 1999.

BY MR. KEATING:

Q Was that -- is that amount for all wholesale sales or only nonseparated sales?

A That would be for all wholesale sales.

Q Do you know what it would be for only the nonseparated sales?

A No, I don't.

MR. CHILDS: Could we have -- Cochran, could we have perhaps a definition? I'm not sure he understands what you mean by that.

MR. KEATING: A definition on --

MR. CHILDS: I don't know that the witness knows what the distinction is between separated and nonseparated, and I don't want it to be left vague, if that's correct. On the other hand, I don't want to interrupt your questioning either.

MR. STEPENOVITCH: Matt, can I tell you what I think it is?

MR. CHILDS: Well, let Mr. Keating decide whether he wants to pursue that.

MR. KEATING: Matt, can we go off the record for a moment, and I'll let Staff let you know exactly what we're referring to?

MR. CHILDS: Yeah.

MR. KEATING: Okay.

(Off the record)

MR. KEATING: Back on the record.

BY MR. KEATING:

Q Can you break out from the $3.8 million, for all wholesale sales, those costs that are associated with -- with the types of sales that you proposed the 20% incentive applied to?

A No, I can't, but I can tell you that the two tariffs that we have mentioned in our testimony are the two tariffs that we do most of our business under. I don't know what the percentage would be, but I will tell you that my estimate would be that 90% of our business is done over those tariffs.

Q So, we can conclude that roughly 90% of that $3.8 million is associated with sales under those tariffs?

A That's my estimate; yes, that's correct.

Q How much was included in FPL's last rate case for marketing costs for wholesale sales?

A I'm going to refer that question to Ms. Dubin. I do not know.

Q In your response to Interrogatory Number 14, you state that marketing employees are not paid a commission based on sales; is that correct?

A Yes, that is the first sentence, employees are not paid on a commission.

Q And in that response, you indicate how those employees are compensated. Could you elaborate on that further on just what's -- on the incentive that employees receive?

A Elaborate in a sense of how it works or -- I'm not sure I understand.

Q Yes.

A Well, we have -- as in all of FPL, we have KRAs that we all really kind of negotiate with our, either manager or supervisor at the beginning of the year. And those KRAs are key responsibility areas. And in those key responsibility areas, you have different indicators or different functions, different goals that you are to meet during that year.

It could be signing 25 contracts with certain parties, it could be making no errors on any deal sheets, it could be purchasing power for the utility, and it could be making sales off of excess generation. So, it's a number of different responsibility areas that are negotiated in each and every year.

There is a -- of course, a base salary increase. And there is also certain incentives given out, whether you meet certain areas and goals. Now, the -- I would say that the amount of incentives is based on how have you done your job. So, it's not -- if you're still asking is it commission; no, it's not a commission. It is purely an incentive for employees to do better and do more and for creativity and innovation.

Q Does the incentive relate at all to the number of wholesale sales made or the volume sold for the gain on any of the sales?

A There is no set performance indicator for a gain. There is performance indicators for certain types of sales that we would like to pursue, but no set volumes, no set gains.

Q What types of sales are those that you mention that you would like to pursue?

A Well, each entity that is in the wholesale market, as I'm sure -- I shouldn't say each, what we do, we have a business plan that we try to follow. We take a portfolio approach for excess generation. And some are short term, some are midterm and some are longer-term type transactions. Some transactions we make to sell some ancillary type services. So, those are the transactions that I'm talking about.

Q In your testimony, you stated that competition has increased in the wholesale market; is that correct?

A That's correct.

Q Could you elaborate on the changes in the market that have encouraged competition?

A Well, as we talked about a few minutes ago when talked about the broker system, the automated split the savings cost-based wholesale market is, again, practically nonexistent; whether it be on-broker or off-broker.

What's changed in the market is that, as we all know, transmission has created us an opportunity for competition in the wholesale market. And there are many new players, as I'm sure everyone knows. I don't know how many marketers actually have certificates now, but last I knew there was in the vicinity of 2 to 300. There are many, many competitors competing for the same sale.

And what entities are looking for, whether they be utilities or marketers or traders, they're usually looking for negotiated type of transactions where they can actually either get a fixed price, a fixed amount, or some ancillary services to go along with it. They're usually looking for them -- they're usually looking for them during peak hours.

What I mean by that is there are transactions that are negotiated that are what they call 5 by 16s, which is five days a week, 16 hours a day; 7 by 24s, that are seven days a week, 24 hours a day; and there are all different types of transactions. There's a lot of option type transactions that are being negotiated now where one party has an option to call on either a specific unit or megawatts that are for sale.

So, what I'm saying is, hopefully I'm setting the flavor of that, it's no more of the old days where it's automated, cost-based. It's now all negotiated. And how many different types of bells and whistles that you could put on your transactions to make them different than anybody else's so your deal will get picked, because of all the competition out there.

Q So, would you agree that an interested buyer has more available suppliers today?

A Oh, yes.

Q And since there are more options for buyers, would you agree that FPL is more at risk today of losing a wholesale sale, if the price is high, relative to your competitors?

A Of losing wholesale sales? Meaning --

Q Of not being able to make the sale.

A Yes, you have to be more competitive. And like

I just said, you have to have -- not very technical words, but you have to have more bells and whistles or different types of ancillary type services that go along with your trends, your deals, to hopefully, you know, capture that market.

Q Is it safe to say that there are more incentives in the wholesale market to keep prices low today than there were when Order Number 12923 was issued?

A It has the same theme to it in a sense that it is creating -- it is creating more opportunities for individuals or different entities to buy more power, that's correct.

Q Do you believe that it's a public utility's obligation to keep rates as low as possible for its rate payers?

A Yes.

Q Would you agree that flowing the gains from a nonseparated sale, as a credit through a cost-recovery clause, gives an immediate benefit to rate payers?

A That's really not my area. I think I should turn it over to Ms. Dubin to answer.

Q Do you feel that Florida Power & Light is under added pressure today to keep retail rates low due to recent changes in regulatory policy; for example, the move in several states to allow retail competition and discussions of retail competition at the federal level?

A Let me make sure I understand the question.

Are you asking that the wholesale sales that we're making today, that competition is driving us to keep rates low?

Q I'm asking, if considering the move among several states to move towards retail deregulation or retail competition and discussions at the federal level to move towards retail competition, are public utilities such as Florida Power & Light under added pressure today to keep its retail rates low due to these recent regulatory changes?

A I think we have an obligation to keep our rates as low as possible. I don't know if it's the -- all these outside forces that you're talking about driving us to that. And my feeling is that we must keep our rates low.

Q Do you believe that Florida Power & Light's large retail customers have more cost-effective options to self-generate today than when Order Number 12923 was issued?

A I don't know that.

Q Does Florida Power & Light have any evidence that increasing the stockholder incentive, as Florida Power & Light has proposed, will encourage nonseparated wholesale energy sales to such a degree that rate payers will receive a net benefit?

In other words, that those sales will increase beyond the level necessary to make up for the 20% of gains that would be shifted from rate payers to the stockholders.

A Let me make sure I understand again.

You're saying that the 20% -- are we going to make enough sales to offset that 20%?

Q Correct.

A Okay.

Q To create a net benefit for rate payers.

A Well, that's a very hard question to answer. There's so many factors that could come into play. Incentives -- in my mind, incentives have been around for many, many years. Incentives are there for just that, to incent people or incent entities to be more creative, be more innovative, be more active, communicate more with other parties. There's always so much generation to go around.

So, and there's only so much excess generation to go around. So, can I say that for sure? I would say that the incentive would definitely help, as it always has been, to prosper more sales to go on, but I can't tell you that there will be enough sales to offset that 20%.

Q And would you agree that there are other factors, besides the incentive, that would effect the level of those sales?

A Definitely. There's more factors that will effect it, that's correct.

Q In your testimony, I believe it's on page 7. And I'm not sure if this is the original version of the the reformatted version that was filed recently. I'm told it's the reformatted version.

A I have that in front of me.

Q You state in the testimony that gains on off-system sales have increased from $5.5 million in 1996 to approximately $59.1 million in 1999; is that correct?

A That is correct.

Q What are the primary factors that have caused this increase in the gains?

A Simply, there's been a more aggressive approach to enter the wholesale market, as stated in other parts of my testimony, as the market became more active. As more participants entered the market, FPL built a larger marketing and trading division that would help us compete in that market.

And the addition of new people, different types of transactions that were being offered, as I stated before; and, again, more entrants, we've been able to capture more of the market.

Q Was the majority of that increase based on types of sales that were not -- that did not have the 20% incentive applied to them?

A Yes. Most of the sales were on the other tariffs that we do business under, not under Schedule C.

Q How does Florida Power & Light calculate the gain on a specific sale?

A When you say gain, we looked at our -- all the costs associated with the transaction minus the costs that we -- minus the costs that we charge the customer, and you come up with a net gain.

Q What are those costs that go into the transaction of Florida Power & Light side?

A Typically, fuel costs, any transmission costs and, in some cases, variable O & M.

Q How does Florida Power & Light determine what those costs are for a particular sale?

A We have computerized programs in our -- on our trading floor that monitor fuel costs, other costs associated that I just mentioned. And basically, the -- we know what generation's on-line, we know all the associated load factors, penalty factors, anything else we have associated with the transaction. And it's automatically calculated for us.

Q If the sale is a longer-term sale, say longer than an hour, are those costs based on forecasts?

A Yes, they are.

Q What types of sales -- excuse me, just a second.

What types of sales involve an O & M charge and what type don't?

A We have -- when we make sales out of our peaking units, we have a O & M charge within those sales.

Q Is there a specific schedule that those sales are associated with, the sales from peaking units?

A No, there isn't. It could be done under all of our tariffs.

Q Okay. If the Commission wished to audit those gains, how would it do so?

A I'm not sure. When you say how would they do so, I -- they would have to come to our facilities and audit our information.

Q Would the data be available at a later point and time so that we could -- so that the Commission could audit the cost at the time of the sale, at the time the sale was made?

A Yes, I believe so. That is not my area, so -- and I don't know if it's Ms. Dubin's either, but I believe the answer would be yes.

Q You've also stated in your testimony that an incentive should apply to capacity sales; is that correct?

A That's correct.
Q Specifically, what types of sales are you referring to?
A I'm referring -- I'm still referring to the same two tariffs that we mentioned in the testimony. And those two tariffs do have an opportunity to charge for capacity.
Q Okay. So, those are the only two types of sales you're referring to when you refer to the capacity sales?
A Well, at this point; there could always be others in the future.
Q How do you define the term exempt wholesale generator?
A Exempt wholesale generator, in my definition, is a generator that is outside of all service -- I mean, outside of FPL's ownership. It's owned by another party and producing their generation for profit.
Q In general, what impact of exempt wholesale generators had on the wholesale generation market in the United States?
A I'm not sure.
Q Would you say that they've caused the wholesale generation market to become more competitive?
A I think the old energy policy act of 1992 has helped that.
Q And in general, what impact would you -- what

impact have EWGs had on the -- in the southeast?

A I'm not sure how to answer that.

Q Does Florida Power & Light compete with EWGs for wholesale energy sales?

A I believe in certain circumstances they do.

Q In what circumstances?

A I'm not sure of any EWGs out there that are actually competing in the wholesale market that we have just been talking about. I think they're more on the -- competing for longer-term transactions.

Q In some circumstances though would they compete with Florida Power & Light for the shorter term, the nonseparated wholesale sales?

A I don't know of any.

Q But they could compete with Florida Power & Light for those sales; is that correct?

A I'm assuming if they haven't contracted out their full entitlement to anyone that they could come in and -- with their merchant megawatts and go ahead and sell them into the open market.

Q Let me ask also, how do you define the term broker and the term marketer?

A Well, a marketer is one that originates physical type transactions. And if I'm -- when you ask for broker, I believe you're talking about over-the-counter type brokers, and those are more of the financial market and also really act as a middle man.

Q Do EWGs marketers or brokers have retail end-use customers similar to Florida Power & Light?

A I don't know that.

Q Do they have any retail end-use customers in the state of Florida?

A I don't know that either.

Q If Florida Power & Light needs to buy short-term nonfirm energy on the wholesale market and Florida Power, Tampa Electric or the Southern Company is unable or unwilling to sell that power, do other market participants exist that could sell energy to Florida Power & Light?

A Many others.

Q And what types of market participants are those?

A It could be municipalities, it could be cooperatives, it could be marketers, any of those entities.

Q I've got a few questions here that ask you to assume a certain set of facts. So, perhaps, for reference, you could jot them down quickly. They're pretty straightforward.

A Sure.

Q Okay. I've got utility "A" and utility "B" and "A" is willing and able to buy energy on the wholesale market. Utility "B" is willing and able to sell energy on the wholesale market. "B's" incremental cost is $20 per megawatt hour and "A's" decremental cost is $30 per megawatt hour.

Given those assumptions, what is the minimum price that utility "B" would be willing to sell the energy to utility "A" for?

A The minimum price would be whatever the market is.

Q Even if that was below these incremental costs?

A Not in our circumstance. It may be in others.

Q And what is the maximum price that utility "A" would be willing to buy the energy from utility "B" for?

A I would think it would be $30.

Q And why is that?

A If he could generate -- if that entity could generate it at $30, I'm assuming that he would buy it no higher than that.

Q As long as the price for the energy is between $20 and $30 per megawatt hour, what's the total gain that could be achieved between utilities "A" and "B," if the transaction occurred?

A In this case here with no transmission, it would be $10.

Q And as long as that price is between $20 and $30 per megawatt hour, does the total gain between the two utilities change, if the transaction price changes?

A If the transaction price changes. Why would that change?

Q That was the question. Would it change, as long as the price is between $20 and $30 per megawatt hour?

A I'm sure -- I don't understand the question. I'm assuming, in this case, the transaction price was the $30 or something less than the $30 that was negotiated. And in our case, when we consummate a deal with someone, we do not change the prices.

Q Assuming the same scenario, say, a day later and the market has created a different transaction price, is the total gain between the two utilities going to change?

A If the market is different? That's a question. Is that what you said?

Q Correct.

A Okay.

Q But you're still assuming that one utility's incremental cost is $20 per megawatt hour and the other's decremental cost is $30 per megawatt hour.

A If the transaction price, again, is $30, whether market changes or not and the costs of producing and the buyer's cost has not changed, then the gain would not change.

Q As long as the price for the energy is between $20 and $30 a megawatt hour, should the Commission have any concern about what the transaction price is?

A No.

Q Why not?

A I'm not sure what concern there would be if, as long as the two entities stayed between their buy and their sell, what concern would there be?

Q Well, I'll move on from that set of assumptions.

Are you familiar with any other jurisdiction that allows a utility to charge retail end-use customers to flow a portion of the profits from nonseparated wholesale energy sales to the utility's shareholders.

A I'm not aware of it. I've been told that they may possibly be doing it in Texas, but I don't know that for certain.

Q Do you know any of the details or have you heard any of the details, I guess, about how Texas has applied an incentive?

A No, I don't. I've just been told that they do it in Texas.

Q Okay. Do you believe that the Commission should make a distinction between wholesale energy sales made for economic reasons and those made for reliability reasons and determine how an incentive on those sales is established?

A No, I don't.

Q Why do you believe that?

A I believe it's up to the entity to decide whether it's for reliability purchases or for economic.

Q Do you believe it is appropriate for an IOU to sell nonseparated wholesale energy while simultaneously interrupting or curtailing nonfirm retail customers?

MR. CHILDS: Excuse me. Cochran?

MR. KEATING: Yes.

MR. CHILDS: Would you please say what you mean by separated or nonseparated.

MR. KEATING: Can we go off the record again?

MR. CHILDS: Sure.

(Off the record)

BY MR. KEATING:

Q I believe before we went off the record my question was do you believe it is appropriate for an IOU to sell nonseparated wholesale energy while the IOU is simultaneously interrupting or curtailing nonfirm retail customers?

A Florida Power & Light has made the business decision not to do that. I don't know what other companies do.

Q Do you believe it would be appropriate to do that under any conditions?

A I'm not sure whether it's I believe. I'm talking about my company has made a business decision not to do that. We haven't talked about other types of -- other times that we would do it.

Q Are there any exceptions to that policy?

A Not that I'm aware of.

Q Do you believe it is appropriate for an IOU to sell nonseparated wholesale energy while it implements load management procedures on eligible retail customers?

A If I understand what you just said, it almost sounds like a repeat of the same question. When you said nonfirm customers, I look at that as demand-side management. And again, Florida Power & Light has taken -- made a business decision not to make any wholesale sales, nonfirm wholesale sales, when demand-side management or nonfirm customers are being utilized.

Q Okay. So, that policy is the same for interruptible customers and for load-management customers?

A That's correct.

Q What incentive does Florida Power & Light have to maximize savings derived from its purchases of short-term nonfirm wholesale energy?

A It's the same as sales or purchases. We are -- our charge is to do what is best, whether it's saving money or making money, what is best for the utility.

Q Florida Power & Light doesn't have any other -- its shareholders don't have any other financial incentive for maximizing savings from purchases, correct?

A Not to my knowledge.

Q Do you believe that Florida Power & Light dedicates sufficient resources to maximize FPL's purchases of short-term nonfirm wholesale energy?

A My answer would be yes.

Q How does FPL determine that the resources used to maximize its purchases of short-term nonfirm wholesale energy are utilized effectively?

A I'm sorry, I missed the first part of that. I apologize.

Q Okay. I'll repeat it.

How does Florida Power & Light determine that the resources used to maximize its purchases of short-term nonfirm wholesale energy are utilized effectively?

A Again, we -- within our performance indicators, we have certain KRA indicators that we are to meet within our company. And we look at whatever the person's responsibilities are. If the person's responsibilities are buying power for the utility, buying gas for the utility, that is inside, that is a negotiated indicator with their superiors. And then, so, what I'm saying is that those people would be responsible and would have goals to meet.

Q How are you evaluated, as far as maximizing those purchases?

A How am I personally evaluated?

Q Yes.

A Well, that is part of my responsibilities. And each and every year I try to exceed my goals, and that is part of my goals, the purchases for the utility; part of my responsibilities, I'm sorry.

Q Assuming that the Commission decides that a shareholder incentive is no longer necessary or appropriate and further assuming that, say, a year later an EWG gained some market share of short-term nonfirm wholesale energy at FPL's expense, what would be FPL's long-term response to this loss of market share?

A I'm not sure how I could answer that with those few assumptions.

Q Given those assumptions, and given that there's no incentive, would you believe that that situation would warrant a response?

A I'm not sure that, again, I can answer that question either. There's so many factors that are involved in a decision such as that it just doesn't fall under me to say.

Q Assuming that the Commission decides that the shareholder incentive on the gains from nonseparated wholesale energy sales is necessary and appropriate, should a distinction be made whether the sale takes place within the state or not?

A No.

Q Why not?

A As in anyone that makes sales in the state of Florida, all of the entities that were mentioned before, my understanding is they all react just like us; whenever you have excess generation, you would go to the highest market. And if the highest market was outside the state of Florida, then it would be outside the state of Florida; if it was inside, then it would stay inside.

Q Should the level of the shareholder incentive increase as the volume of nonseparated wholesale energy sales increase?

A Yes.

Q And why do you believe that?

A I'd like to refer that one to Ms. Dubin.

Q Should the level of the shareholder incentive increase as the profits from nonseparated wholesale energy sales increase?

A I believe that's the same question, and it's answered in Ms. Dubin's testimony.

Q It was a slightly different question. Rather than the volume, I was referring to the profits or gains from those sales increasing.

A Then, I missed something. Could you repeat that again, then, please?

Q Sure.

Should the level of the shareholder incentive increase as the gains from nonseparated wholesale energy sales increase?

A The answer is yes. And again, it's answered in Ms. Dubin's testimony.

Q So, I should ask Ms. Dubin why?

A Yes, it's stated in her testimony.

Q Should a Commission base the incentive on something other than profits from nonseparated wholesale energy sales?

A My belief overall is that incentives are correct, and there's a number of different varieties of ways that the Commission could come up with an incentive.

Q So, you're saying there could be other bases for the incentive?

A Yes.

Q Are there any particular bases that you had in mind?

A I believe the one in Ms. Dubin's testimony is appropriate.

Q Under what conditions would a shareholder incentive on gains from nonseparated wholesale energy sales not be necessary or appropriate?

A I think they're appropriate on all types.

Q Under all conditions?

A The condition -- one of the conditions that we have said that incentives do not apply is under emergency type sales.

Q Are there any other conditions where the incentive would not be necessary or appropriate?

A No. My belief is that all types of sales take as much interaction, as much information, as much negotiations as stated in my testimony. So, they should all be applied to sale, except for emergency.

Q And why shouldn't it be applied to the emergency sales?

A It's just been a business decision on FPL's part that there would be no incentive in making that sale. It's truly an entity in need and that we would not make any profit off of -- any incentive off of that, not profit, those types of sales.

Q Does FPL have a policy which prevents it from making a sale, if the gain is very small?

A There is no policy per se. Again, we look at it as if we save money or make money for the company. And so there's no policy in place for that.

Q Is there a range -- I suppose, a range in which Florida Power & Light, the gain is not going to fall within that range, would not make the sale?

A Can you say that again, repeat that?

Q Would Florida Power & Light not make the sale, if the gain from that sale did not fall within a certain range?

A Again, there are no minimum guidelines. There's no policy. The only policy that is set forth by the company is that we make money or save money for the company above -- if it's a sale, then we have to make money. If it's a purchase, then we have to save money. So it would be below that cost. There's no set value.

Q Thank you. I have no further questions.

A Thank you.

MR. BURGESS: Matt, this is Steve. I had a few questions for Mr. Stepenovitch, if you don't have any objections, and if he has none.

MR. CHILDS: I don't. Go ahead.

CROSS EXAMINATION

BY MR. BURGESS:

Q Mr. Stepenovitch, this is Steve Burgess with the public counsel's office.

A Hello.

Q How are you?

A I'm doing well.

Q Very good.

I have first a question with regard to your testimony. I have the original version, and so I'm on page 6, but where you speak of the off-system sales, the gains from off-system sales, increasing from 5.5 million to 59 million.

A I have that in front of me.

Q Do you have a light number that would demonstrate the decrease in gains from the ex-broker system sales for the same period of time?

A Yes, we do.

Q Can you tell me what that is, please?

A I'm not sure I have that handy with me. Could you hang on one second?

Q Sure, thanks.

MR. CHILDS: Is that an interrogatory response?

MR. STEPENOVITCH: I believe, Matt, it's an interrogatory response.

MR. CHILDS: 7 and 8.

MR. BURGESS: 7 and 8, Interrogatories 7 and 8? Very good.

MR. CHILDS: I think it may be.

MR. BURGESS: Okay.

BY MR. BURGESS:

Q Mr. Stepenovitch, I have some questions now that stem from the testimony you've given that I have on page 3.

A Okay.

Q Okay. Excuse me, before we go to that, I just overheard that the understanding is that the interrogatory response references the sales, but does not reference the gains on those sales. And what I'm looking for is something that could reasonably be compared to the numbers that are in the testimony, which I understand to be gains.

A You are correct. The gains are not there.

MR. BURGESS: Matt, can we get --

MR. CHILDS: Yeah, I'm sorry. I was simply making the middle -- I thought there was a listing of the amount of the -- I thought there was a gain. Isn't that -- I'm sorry, go to --

MR. BURGESS: Oh, okay. It could just be five times the 20% stockholder incentive then, I guess.

MR. CHILDS: I'm not sure. Go to number 10. I guess, that's a different question, huh? Number 8, number 8, I'm sorry. Number 8 says for the years '94 through '99, FPL applied the 20% stockholder incentive on Schedule C and ex-broker sales only, those megawatt hour sales, and

20% stockholder incentive.

MR. BURGESS: So, we should be able to multiply that by 5, I guess. The number's on the right-hand column.

MR. CHILDS: Well, -- okay, yeah, that's what I thought.

MR. STEPENOVITCH: Ms. Dubin says that's correct.

MR. BURGESS: Okay, thank you.

BY MR. BURGESS:

Q I want to go to page 3, and I don't guess that has changed in the reformatting. And I want to talk about the notion that you raised about the need to protect against disincentives, such as increased O & M expenses, like wear and tear on generation assets, that sort of thing?

A Yes.

Q Are the -- when you wrote this, are you envisioning any O & M costs that are institutionally excluded from your base rates?

A If I understand the question correctly, there is incremental -- in a wear and tear incremental O & M that is occurring is what I'm referring to.

Q Okay. What about the variable O & M costs that you spoke of when you were responding to Mr. Keating.

What -- can you give me anything that characterizes the type of O & M costs that would be variable here?

A The type of variable O & M costs?

Q Right, right.

A I cannot -- I'm not responsible for coming up with that number, so I can't give you exactly what is in it.

Q Okay. Let me, maybe, give you a little bit more of an idea of what I'm concerned about.

When you speak of incremental O & M costs, I'm trying to make certain that we're talking about O & M costs that by the way the base rates and surveillance reports are calculated they are systemically excluded from recovery through those base rates, rather than any type of reallocation, based on the fact that you've got a greater number of sales.

So, what I'm trying to understand is what kind -- if these are nonseparated sales, what kind of O & M expenses would be variable? I understand the idea of greater wear and tear on the generation assets, I understand that. What other types of O & M expenses would be incremental?

A If I give you an answer, I would purely be guessing. I am not responsible for calculating that number. And I can tell you that what I'm referring to in my testimony is that when I say disincentives, increased O & M, just like you said wear and tear on the unit, I look at it almost like an automobile where if you don't run the automobile, there's not a whole lot of maintenance, and it lasts a long time. If you do run the automobile, you do have to do a lot of maintenance on it, and it may not last as long.

So, what I'm referring to is wear and tear of the unit, loss of life of the unit. And again, I'm not a mechanical engineer either, but that's where I'm coming from in my testimony.

Q Okay. I guess my question would be -- and if this is an area you're not comfortable answering, I understand that, but how is it that those are not already collected in the base rates, if it's nonseparated?

A Again, that's way out of my area of expertise.

Q Okay.

You had indicated as well, and again, feel free to defer this as well, but you had indicated, I believe you were speaking to some of additional administrative expenses?

A That's correct.

Q Would those be administrative expenses that would be in your office under your supervision?

A I believe it would be both. And I'm directly referring to my office, yes. And also, again, when you say added increase in O & M charges, with that comes -- you know, manpower, that becomes paperwork, and that's what I'm referring to, that bigger-picture items.

Q Okay. Now, are those excluded from base rate calculation for surveillance reports? Is all the expenses associated with your office excluded from --

A I believe they're included, but I'm not positive.

Q Okay. One of the things -- then, the next paragraph down, you speak of the need to maximize opportunity sales requires additional effort on the part of the utility. I'm trying to understand what you mean by additional effort.

And so, I'll ask the question is do you mean that some effort is required just because you're a regulated utility exempt from competition to some large extent and you receive a rate of return?

A No. Again, what I'm referring to in my testimony is the additional effort in today's more competitive market to capture the transaction that you're going after --

Q I see.

A -- the number of transactions. That's what I'm referring to.

Q Okay, thank you.

I have some questions -- one more area that I have some questions on involve that key responsibility area that you spoke of.

A Yes.

Q And as I took down notes, one of the things you indicated was that those are goals that people are expected to meet; is that right?

A Yes, they are.

Q And this is something that applies to people in your area as well as other areas of Florida Power & Light; is that right?

A That is correct.

Q Okay. And do I understand from what you're saying that you get to the end of the year and the supervisor of a particular employee evaluates that employee's performance and, to some extent, is quantitative?

A That is correct, it is quantitative. There is value set for the performance. Just an example would be a zero nonperformance; five being exceeding performance.

Q I see. So, one of the things that you said was, let's say, what a goal is. One of the examples you used is, say, 25 contracts.

A Yeah, I was referring to -- what I meant by that was if I were in the contract administration group, this person may have a goal of putting in place 25 different -- 25 contracts with different entities.

Q Okay.

A That was my example.

Q Okay. Let's take that as an example. And so, what happens, you get to the end of the year and what, if they're at 30, then they receive an exceeds expectation or something like that?

A They would have exceeded their goals and probably be rated very highly, depending on other factors.

Q Right.

A I mean, you know, again, I'm just pulling this out of my hat but, you know, are there typos in the contract, were there misspellings? I don't know what they would be, but I'm just saying, as an example, they might have hit 30 other than 25, but there might have been other problems with it, so they may not have exceeded in all areas.

Q Well, let's say instead of that direction, let's say they get 10, and there's no legitimate excuse, so to speak, in the subjective opinion of the supervisor for that failure to meet goal.

Do you have, like, a category of deficiency or something like that that they're rated?

A Again, yes, there would be as you rate them numerically. There are also competency type things that they have to meet, and they would be rated on those. Also, it also comes up to a satisfactory or unsatisfactory or favorable or exceeding review.

Q Okay. So, if in this example, they might end up with some number and it's determined to be unsatisfactory or deficient?

A It's possible, that's correct.

Q Okay. Now, would they receive some additional reward, if they were found to be unsatisfactory, if their numbers came in unsatisfactory?

A I would assume not.

Q Perhaps even some type of a penalty on an ongoing basis -- on a going-forward basis?

A The penalty would be, in this case, no increase; or some other -- I mean, I -- there's other things in rules and regulations in our H.R. group but, you know, in this case here, in this pure example, I would think that the penalty would be no increase.

Q Okay. So, you wouldn't give them a reward for every contract that they entered into, starting from zero on up?

A That's correct. They do not work on commission.

Q Okay. Thank you, that's all I had. Thank you very much.

MR. CHILDS: Cochran?

MR. KEATING: Yes.

MR. CHILDS: Before we start with Ms. Dubin, can I ask you to take about five minutes?

MR. KEATING: I was going to ask the same thing. That will work fine.

MR. CHILDS: I'm going to leave my line open.

MR. KEATING: Okay. I will, too.

SPEAKER: We will as well.

(Deposition concluded at 2:45 p.m.)

- - - - -

ERRATA SHEET

DO NOT WRITE ON TRANSCRIPT - ENTER CHANGES HERE

IN RE: DOCKET NO. 991779-EI
NAME: JOSEPH P. STEPENOVITCH
DATE: Thursday, April 20, 2000

Page	Line	Change

Under penalties of perjury, I declare that I have read my deposition and that it is true and correct subject to any changes in form or substance entered here.

DATE:______ ____________________________________
JOSEPH P. STEPENOVITCH

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

I, KORETTA E. STANFORD, FPSC, Official Commission Reporter, do hereby certify that I was authorized to and did stenographically report the foregoing telephonic deposition of JOSEPH P. STEPENOVITCH.

I FURTHER CERTIFY that this transcript, consisting of 45 pages, constitutes a true record of the testimony given by the witness over the telephone.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 25TH DAY OF APRIL, 2000.

Koretta E. Stanford

KORETTA E. STANFORD, RPR
Official FPSC Reporter

Florida Power & Light Company
Docket No. 991779-EI
Staff's First Set of Interrogatories
Questions Nos. 1 through 18

Q1.

Please explain how FPL currently calculates the 20 percent stockholder incentive on economy energy sales. Please provide example A schedules in your explanation.

A.

FPL calculates the 20% stockholder incentive on Schedule C and X Broker Sales only. (However, in the past FPL has rarely made sales pursuant to Schedule X and has not made any sales pursuant to Schedule X since 1997.) FPL currently calculates the 20% gain, by taking 20% of the difference between the Total Cost "Col. 4b" and the $ Fuel Cost "Col. 4a" of the A6a Schedule. Both columns 4a and 4b contain transmission service revenues associated with the Schedule C (Broker Sales) transactions. The A6a Schedule for October 1999 is attached.

Example: October 1999 A6a reflects:

Total Cost "Col. 4b"	=	$44,753	
Fuel Cost "Col. 4a"	=	$39,506	
Gain "Col. 6"	=	$ 5,247	
80% of Gain	=	$ 4,198	Flows through the Fuel Clause
20% of Gain	=	$ 1,049	Stockholder Incentive

SCHEDULE A6a

GAIN ON ECONOMY ENERGY SALES
COMPANY: FLORIDA POWER & LIGHT COMPANY
FOR THE MONTH OF OCTOBER 1999

(1)	(2)	(3)	(4)		(5)		(6)
			$		cents/KWH		
SOLD TO	TYPE & SCHEDULE	TOTAL KWH SOLD (000)	(a) FUEL COST	(b) TOTAL COST	(a) FUEL COST	(b) TOTAL COST	GAIN ON ECONOMY ENERGY SALES
ESTIMATED:							
	C	7,103	233,348	268,866	3.285	3.785	35,518
80% OF GAIN ON ECONOMY SALES							x .80
TOTAL		7,103	233,348	268,866	3.285	3.785	28,414
ACTUAL:							
CITY OF HOMESTEAD	C	432	15,558	16,828	3.601	3.895	1,270
CITY OF LAKE WORTH UTILITIES	C	315	11,701	14,710	3.715	4.670	3,009
UTILITIES COMMISSION, CITY OF NEW SMYRNA BEACH	C	105	4,360	5,328	4.152	5.074	968
TAMPA ELECTRIC COMPANY	C	0	7,887	7,887	0.000	0.000	0
SUB-TOTAL		852	39,506	44,753	4.637	5.253	5,247
80% OF GAIN ON ECONOMY SALES							x .80
TOTAL		852	39,506	44,753	4.637	5.253	4,198
CURRENT MONTH:							
DIFFERENCE		(6,251)	(193,842)	(224,113)	1.352	1.467	(24,216)
DIFFERENCE (%)		(88.0)	(83.1)	(83.4)	41.1	38.8	(85.2)
PERIOD TO DATE:							
ACTUAL		10,592	232,507	274,092	2.195	2.588	33,268
ESTIMATED		58,238	1,610,822	1,890,482	2.766	3.246	223,728
DIFFERENCE		(47,646)	(1,378,315)	(1,616,390)	(0.571)	(0.658)	(190,460)
DIFFERENCE (%)		(81.8)	(85.6)	(85.5)	(20.6)	(20.3)	(85.1)
NOTE: TOTAL C SCHEDULE TRANSMISSION SERVICE INCLUDED IN FUEL COST =			10,480				

Q2.

Please provide the accounting entries reflecting FPL's current treatment of the 20 percent stockholder incentive.

A.

Please see response to Question No. 3.

Q3.

Please explain how FPL documents, for auditing purposes, the gain on economy energy sales to which FPL applies the 20 percent stockholder incentive.

A.

The gains on economy sales made pursuant to Schedule C using the Energy Broker Network ("EBN") are captured in a separate portfolio for accounting purposes. These figures are loaded directly from the EBN to the FPL tracking system.

Economy Energy Invoices are kept and summaries are developed to calculate the gain and record the transaction in the A6a schedule. The total gain is initially recorded to revenue account 447.110 (Recoverable Interchange Power Sales). The 20% and 80% portions of the gain are then reclassified from ledger account 447.110 to the ledger account 447.220 (Non-Recoverable Power Sales 20% Gain) and ledger account 447.115 (Recoverable Power Sales 80% Gain on Schedule C Sales).

Therefore, both the 20% and 80% portions of the gain on Schedule C (Broker Sales) are currently being captured in separate ledger accounts.

The following illustrates the accounting for the Gain on Economy (Broker) Sales using the amounts from the A6a Schedule for October 1999 (see Q1.):

Initial Entry

Debit Receivable Account	$5,247	
Credit Revenue Account 447.110		$5,247 (100% of Gain)

Reclassification Entry

Debit Revenue Account 447.110	$5,247	
Credit Revenue Account 447.115		$4,198 (80% of Gain)
Credit Revenue Account 447.220		$1,049 (20% of Gain)

Q4.

Please list and provide a brief description of each FERC schedule under which FPL currently makes wholesale sales to which FPL applies the 20 percent stockholder incentive. In your response, please provide the year FPL began applying the 20 stockholder incentive to sales made under each schedule and indicate when each schedule became available to FPL.

A.

FPL currently applies the 20% stockholder incentive to Schedule C Economy Broker Sales and, prior to 1998, FPL also applied the 20 % stockholder incentive to Schedule X sales. Schedule C sales are non-firm economic exchanges of hourly energy that result in fuel savings. Schedule X sales are extended economy sales and are no longer used by FPL. Schedule C and X sales became available to FPL prior to 1984. FPL began applying the 20 percent stockholder incentive to these sales in 1984.

Q5.

Please indicate which, if any, of FPL's wholesale sales made under the FERC schedules listed in your response to Interrogatory No. 4, include a capacity component.

A.

None

Q6.

Please describe how sales made under the FERC schedules listed in your response to Interrogatory No. 4 are currently priced, i.e., split-the-savings pricing, market-based pricing, or any other pricing methodology.

A.

The economy broker sales made pursuant to Schedule C and X are priced on a "split-the-savings" methodology.

Q7.

For the years 1994 through 1999, please provide FPL's annual wholesale sales, in dollars and megawatt-hours (MWh), made over Florida's Energy Broker Network.

A.

Year	MWh	$ Sales
1994	1,140,021	34,449,231
1995	470,951	16,206,099
1996	958,539	32,550,206
1997	353,831	12,872,351
1998	161,435	5,121,063
1999	10,603	274,565

Q8.

For the years 1994 through 1999, please provide FPL's annual wholesale sales, in dollars and MWh, made under each FERC schedule on which FPL applied the 20 percent stockholder incentive. For each year, please indicate the portion of these sales that were made over the Energy Broker Network. For each year, please also indicate the amount retained by FPL as a 20 percent stockholder incentive for wholesale sales made under each applicable FERC schedule.

A.

For the years 1994 through 1999 FPL applied the 20% stockholder incentive on Schedule C and X, Economy Broker Sales only.

Year	MWh	$ Sales	20% Stockholder Incentive
1994	1,140,021	34,449,231	2,100,903
1995	470,951	16,206,099	943,070
1996	958,539	32,550,206	1,210,050
1997	353,831	12,872,351	331,229
1998	161,435	5,121,063	151,993
1999	10,603	274,565	8,332

Q9.

Please list each type of wholesale sale to which, in FPL's opinion, the 20 percent stockholder incentive should apply. In your response, please indicate the FERC schedule under which each type of sale is made.

A.

In addition to the current treatment of Schedule C and X, Broker Sales, FPL believes that sales transactions made pursuant to Tariff No. 1 and the Market Based Rates Tariff should also be eligible for a shareholder incentive. Both of these types of transactions are commonly referred to as opportunity sales. FPL believes that the 20 percent stockholder incentive should also apply to any new opportunity type sales developed in the future. Although FPL recommends that the shareholder incentive should be extended to opportunity sales, FPL believes that the shareholder incentive should not be applied to Emergency Sales such as Schedules AF and DF.

Q10.

If your response to Interrogatory No. 9 includes any FERC schedule not listed in your response to Interrogatory No. 4, please provide FPL's annual wholesale sales, in dollars and MWh, made under each such schedule for the years 1994 through 1999. For each year, please indicate the amount that would have been retained by FPL as a 20 percent stockholder incentive for wholesale sales made under each such FERC schedule.

A.

For the years 1994 through 1996, FPL's annual opportunity sales made pursuant to Tariff No. 1 are provided below. For the years 1997 through 1999, the figures below provide FPL's annual opportunity sales made pursuant to both Tariff No. 1 and the Market Based Rates Tariff. None of the figures below reflect any emergency sales.

Year	MWH	$ Sales	20% Stockholder Incentive $
1994	292,899	8,015,211	339,317
1995	326,781	10,191,045	482,198
1996	742,473	23,597,521	1,106,241
1997	929,306	50,278,909	3,483,136
1998	2,132,596	116,529,164	12,303,248
1999	2,153,348	117,532,108	11,828,300

Q11.

Please identify and quantify FPL's marketing and administrative expenses directly associated with making wholesale sales under the FERC schedules listed in your response to Interrogatories No. 4 and No. 9. Please indicate where each of these costs are currently booked and how they are recovered, if at all.

A.

The marketing and administrative expenses directly associated with making wholesale sales were approximately $3.8 million in 1999. These expenses are included in O & M expenses and recoverable through base rates.

Q12.

Please describe the organizational structure of FPL's wholesale power marketing department. In your response, please provide the following: the total number of employees in the department; a list of each position in the department, including the salary and responsibilities associated with each position; the number of employees in the department devoted to marketing full-time; the number of employees in the department devoted to marketing part-time; the number of employees devoted to administrative/support activities full-time; and the number of employees devoted to other responsibilities and a brief statement of their responsibilities.

If FPL does not have a separate wholesale marketing department, please provide the following: the number of FPL employees devoted full-time to wholesale power marketing, and the position and salary of each such employee; the number of FPL employees devoted part-time to wholesale power marketing, and the position and salary of each such employee; and the number of FPL employees devoted full-time to administrative/support activities for wholesale power marketing, and the position and salary of each such employee.

A.

FPL's power marketing department is part of FPL's Energy Marketing & Trading Division. The total number of employees whose primary responsibility is performing tasks related to FPL's power marketing department is 11. Of that number eight are devoted to front office power marketing for FPL on a full-time basis, including five who work the hourly desk 24 X 365. One person acts as a scheduler, one as a supervisor and one as an originator. One back office person is devoted to FPL power marketing 100% of the time, and there are six middle/back office people who's time is devoted 25 to 75% of the time to power marketing, these people work in Contracts, Accounting and Risk Management. Of these people, the remainder of their time is devoted to other responsibilities, including utility fuel purchase activity, and other duties. These employees are compensated based on the annual comparative salary surveys performed by FPL's Human Resources Department for comparable positions in the industry.

Q13.

Please describe the office space and equipment that FPL currently has devoted for use by its wholesale power marketing department. If FPL does not have a separate wholesale marketing department, please describe the office space and equipment that FPL currently has devoted for use by the employees listed in your response to Interrogatory No. 12.

A.

FPL's wholesale power marketing department takes up a part of the fourth floor in the Energy Marketing & Trading Division located at 11770 US. One, North Palm Beach, Fl. Each person described in the Response to Interrogatory 12 has a desk, computers, phones, and software pertinent to carrying out the assigned functions.

Q14.

Please describe how FPL's wholesale power marketing employees are compensated. In your response, please indicate whether these employees receive an incentive or a commission for making sales under any of the FERC schedules listed in your response to Interrogatories No. 4 or 9 and indicate which FERC schedules such an incentive or commission is associated with. Please explain how the incentive is calculated and booked.

A.

Employees are not paid a commission. Employees are compensated based on the annual comparative salary surveys performed by FPL's Human Resources Department for comparable positions in the industry. Compensation is based on a number of criteria such as bias for action, customer focus, flexible/adaptable teamwork, and technical/functional excellence. Compensation is calculated on a numeric scale by which each employee receives a score, which is then used to calculate an incentive based on an available pool. These incentives are booked to Accounts 557.000 and 920.000.

Q15.

If the Commission approves a reward/penalty mechanism for economy energy sales, please indicate how, in FPL's opinion, such a mechanism should be designed.

A.

FPL believes that consideration should be given to increasing the percentage for shareholder incentives. For example, a sliding scale could be used where the shareholder incentive on the first $20 million in gains on sales could be shared 80% to retail customers and 20% to shareholders. The next $20 million could be shared 60% to retail customers and 40% to shareholders, and any gains over $40 million could be shared 50%/50%.

Q16.

Please state the total dollars booked below the line by FPL as a result of the 20 percent stockholder incentive since it was approved in 1984.

A.

FPL's total shareholder incentive (booked below the line) for the period April 1984 through December 1999 is $12,991,858. The 80% share returned to customers through the fuel clause for the same time period is $51,967,432.

Q17.

Please provide FPL's annual non-separated wholesale sales, in dollars and MWh, for the years 1994 through 1999.

A.

FPL's total Broker Sales and sales made pursuant to Tariff No. 1 and the Market Based Rates Tariff (including emergency) for the years 1994 through 1999 are as follows:

Year	**MWh**	**$ Sales**
1994	1,445,393	43,923,775
1995	807,549	27,154,241
1996	1,706,181	56,644,903
1997	1,283,137	63,151,260
1998	2,345,488	126,139,957
1999	2,170,066	118,766,394

Q18.

Please provide FPL's annual economy energy purchases, in dollars and MWh, for the years 1994 through 1999.

A.

Year	**MWh**	**$ Purchases**
1994	2,041,145	37,391,215
1995	3,190,991	60,539,076
1996	3,471,657	71,598,514
1997	2,424,188	50,084,742
1998	1,067,125	27,792,531
1999	1,481,790	39,426,340

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF PALM BEACH)

BEFORE ME, the undersigned authority personally appeared J. P. Stepenovitch who, being first duly sworn, deposes and says:

That he occupies the position of Director of Wholesale Operations for the Division of Energy, Marketing and Trading of Florida Power & Light Company, 11770 U.S. Highway One, North Palm Beach, Florida and is the person who has sponsored responses with co-sponsor Korel M. Dubin to Staff's First Set of Interrogatories Nos. 1-18, in Docket No. 991779-EI and further says that said answers are true and correct to the best of his knowledge and belief.

J. P. Stepenovitch

SWORN TO AND SUBSCRIBED before me this 28th day of February, 2000, by J. P. Stepenovitch who is personally known to me or who has produced ________________ (type of identification) as identification and who did take an oath.

Judith C. Sanchez
Notary Public
State of Florida
Commission or Serial No.
My Commission Expires:

JUDITH C. SANCHEZ
Notary Public - State of Florida
My Commission Expires Apr 11, 2003
Commission # CC 825044

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF MIAMI-DADE)

BEFORE ME, the undersigned authority personally appeared Korel M. Dubin who, being first duly sworn, deposes and says:

That she occupies the position of Manager, Regulatory Issues in the Rate Department of Florida Power & Light Company, 9250 West Flagler Street, Miami, Florida and is the person who co-sponsored responses with sponsor Joseph Stepenovitch, to Staff's First Set of Interrogatories Nos. 1-18, in Docket No. 991779-EI and further says that said answers are true and correct to the best of her knowledge and belief.

Korel M. Dubin

SWORN TO AND SUBSCRIBED before me this 28th day of February, 2000, by Korel M. Dubin, who is personally known to me or who has produced ________________ (type of identification) as identification and who did take an oath.

Bertila Estopinales
Notary Public
State of Florida
Commission or Serial No.
My Commission Expires: 1/14/03

Bertila Estopinales
MY COMMISSION # CC802392 EXPIRES
January 14, 2003
BONDED THRU TROY FAIN INSURANCE, INC.

Q.

Please indicate how FPL defines an economy energy sale. In your response, please list all conditions that must be present for a wholesale sale to meet the definition of an economy energy sale.

A.

FPL defines an economy sale as a sale that occurs when there is a willingness of two or more parties to enter into a simultaneous discretionary sale and purchase of electric energy when the cost of the seller is less than that of the purchaser.

Q.

For the period 1998 through 1999, please list each instance when FPL interrupted or curtailed electric service to non-firm, non-residential customers. For each instance listed, please provide the date of the interruption or curtailment; the number of non-firm, non-residential customers affected; and the amount of energy interrupted or curtailed.

A.

Date	Program/Rate	Customers (1)	MW's Interrupted (2)
6/12/98	Business On Call	7543	10
6/15/98	Business On Call	3550	5
6/22/98	Business On Call	6369	8
6/23/98	C/I Load Control	504	618
6/23/98	Business On Call	1623	2
7/1/98	Business On Call	4095	5
8/15/98	C/I Load Control	502	607
8/15/98	Curtailable	70	24
8/27/98	Business On Call	8103	11
4/5/99	Business On Call	4022	2
4/6/99	C/I Load Control	505	524
4/6/99	Curtailable	72	45
4/15/99	C/I Load Control	505	537
4/15/99	Curtailable	74	45
4/23/99	Business On Call	3179	2
7/29/99	Business On Call	10813	14
7/30/99	C/I Load Control	493	588
7/30/99	Curtailable	58	41
9/4/99	Business On Call	10991	14
9/29/99	Business On Call	3032	4

(1) Customers for Business On Call is the number of program participants in the operating area that was used for interruption.
For other programs, customers is the number of program participants.

(2) CILC and Curtailable load interrupted is the difference between the sum of the billing demands and sum of the highest coincident firm demand for all program participants.

Q.

For the period 1998 and 1999, please list each instance when FPL purchased "buy-through" energy for non-firm, non-residential customers in lieu of interruption or curtailment. For each instance listed, please provide the date that such "buy-through" energy was purchased; the number of non-firm, non-residential customers affected; and the amount of energy purchased.

A.

FPL did not purchase any "buy-through" energy during this period.

Q.

For each instance listed in your response to Interrogatories 20 and 21, above, please provide the amount of economy energy sold by FPL during these interruptions, curtailments, or "buy-through" periods.

A.

None.

Florida Power & Light Company
Docket No. 991779-EI
Staff's Second Set of Interrogatories
Interrogatory No. 24

Q.

For each year from 1994 through 1999, please indicate, in dollars and megawatt hours (MWh), the amount of economy energy sold by FPL that was priced at market-based rates.

A.

FPL first started making sales at market based rates in 1998. In 1998, the total MWhs sold were 1,291,479 and the gross revenue from these sales were $88,628,310. In 1999, the total MWhs sold were 1,265,555 and the gross revenue from these sales were $87,477,242.

Q.

Please indicate whether FPL has analyzed the impact that shareholder incentives based upon the gains from economy energy sales may have on any of the following:

a) economy energy transactions (number, dollars, and MWhs);
b) gains from economy energy sales;
c) levelized fuel cost recovery factor;
d) generation expansion plan;
e) capital costs;
f) fixed operation and maintenance costs;
g) variable operation and maintenance costs;
h) system dispatch;
i) ability to serve firm and non-firm retail load;
j) ability to serve firm wholesale load;
k) transmission expansion plan;
l) seller's incremental costs;
m) buyer's decremental costs; and
n) return on equity.

If so, please indicate the results of any such analyses.

A.

No quantitative analysis was prepared on the above referenced items. However, in J.P. Stepenovitch's Testimony, filed in this Docket on March 1, 2000, it is clear there would be additional benefits to FPL's customers. Shareholder incentives would:

- Provide incentives for utilities to maximize sales
- Reduce overall costs through greater asset utilization
- Protect against disincentives such as increased O & M costs (wear and tear on generating units)
- Allow retail customers to more fully realize benefits
- Increase frequency of, and duration of sales, that will benefit customers and shareholders

Q.

What is the minimum gain on an individual sale that FPL must obtain in order for an economy energy sale to occur?

A.

There is no set minimum gain, decisions are simply based on whether FPL is earning a profit on the sale (i.e. sale price is greater than the projected cost of producing the energy).

Q.

For each type of wholesale sale listed in FPL's response to Interrogatories 4 and 9 from Staff's First Set of Interrogatories to Florida Power & Light Company, please indicate whether FPL includes a separately identified transmission charge.

A.

For broker sales (Schedule C), there is a separate billing for FPL transmission charges. Except for certain long-term contracts, billings for non-broker opportunity sales do not separately identify the FPL transmission charge.

Q.

Please indicate whether an outside auditor can replicate the necessary calculations to determine incremental costs as they existed at the instant FPL made a wholesale energy sale. Please explain your response: if yes, please explain how those calculations can be replicated by an outside auditor; if no, please explain why those calculations can not be replicated by an outside auditor.

A.

At the moment the deal is made, as opposed to when energy flows, decisions are made using a number of real time components, such as penalty factors and fuel allocations to specific units. An outside auditor would not be able to precisely replicate the necessary calculations to determine incremental costs of a sale as they existed at the instant FPL entered into the transaction due to the lack of real time data, however, an auditor could approximate the actual cost using estimated real time data.

Q.

If a wholesale energy sale does not include a capacity component, can the Commission infer that the sale is non-firm? Please explain your response.

A.

No. Sales do not necessarily have to include a separate capacity component. Energy sales made on a daily basis may not include capacity but can still be firm.

Q.

Has FPL ever sold non-separated wholesale energy on a firm basis that had a recallable provision? If so, please describe the conditions that were necessary for FPL to recall this energy.

A.

No.

Q.

During 1999, did FPL make any sales of non-separated wholesale energy where the incremental costs associated with the energy sold were greater than the revenues received from the sale?

A.

At the time the transaction was consummated a gain was anticipated. However, there were a few instances where the actual costs exceeded the forecasted costs.

Q.

For each year from 1994 to 1999, please state all expenses that FPL incurred in its power marketing department.

A.

FPL's Energy Market and Trading Department as it exists today, was established in July 1997. Expenses incurred for this department from July through December 1997 were $1,900,000. Expenses for 1998 and 1999 are $6,100,000 and $5,700,000 respectively. Please see response to Interrogatory No. 37.

Q.

When calculating gain on its wholesale energy sales, does FPL subtract incremental SO2 emission allowance costs associated with such sales from the revenues derived from such sales?

A.

Yes. To the extent such costs are included in revenues from such sales, they are subtracted because the cost, as reflected in response to Interrogatory No. 40, are independently passed through to the retail customers through the fuel clause.

Q.

If your response to Interrogatory 39, above, is affirmative, please indicate the regulatory treatment that FPL applies to these incremental SO2 emission allowance costs. In your response, please indicate which orders of the Florida Public Service Commission authorize that regulatory treatment.

A.

When SO_2 emission allowances costs are recovered through wholesale sales, the revenues are classified as a component of the fuel cost recovered and are passed to the retail customers through the fuel clause.

Q.

When calculating gain on its wholesale energy sales, does FPL subtract incremental O & M costs associated with such sales from the revenues derived from such sales?

A.

Yes, FPL subtracts the incremental O & M costs associated with running its gas turbine peaking units.

Q.

If your response to Interrogatory 41, above, is affirmative, please indicate the regulatory treatment that FPL applies to these incremental O & M costs. In your response, please indicate which orders of the Florida Public Service Commission *authorize* that regulatory treatment.

A.

When FPL makes off system sales from its gas turbine (GT's) peaking units, the incremental O & M cost from these units is recognized in determining the gain. GT's are intended to operate for a limited period of time. The recognition of O & M as a cost for the use of the GT's is appropriate because it reflects the added cost for the use of these facilities to make such sales.This treatment is consistent with Order No. PSC-97-0262-FOF-EI in Docket No. 970001-EI dated March 11, 1997 which states "Because non-separated sales are sporadic, a utility does not commit long-term capacity to the wholesale customer. Non-separable sales are not assigned cost responsibility through a separation process, therefore the retail ratepayer supports all of the investment that is used to make the sale. In exchange for supporting the investment, the retail ratepayer receives all of the revenues, both fuel and non-fuel, that the sale generates through a credit in the fuel and capacity cost recovery clauses."

Q.

When calculating gain on its wholesale energy sales, does FPL subtract any costs from revenues other than incremental fuel costs, incremental SO2 emission allowance costs, or incremental O & M costs? If so, please list all such costs.

A.

Transmission costs paid to third parties are subtracted from the gain.

Q.

For each FERC schedule under which FPL makes non-separated wholesale energy sales, please describe the characteristics of the wholesale capacity and energy sold under each schedule.

A.

Characteristics of Cost Based sales, Market Based sales and Economy Energy sales include, but are not limited to:

- Energy sales can be firm or non-firm
- Individually negotiated
- May be on a must sell or take
- May be on an energy call option or energy put option
- May be a fixed price or a floating price
- Are normally within two transmission wheels

Q.

Before FPL makes a non-separated wholesale energy sale, how does FPL calculate the incremental costs associated with making that sale?

A.

The incremental costs associated with this type of transaction are generated by a computer model that includes items such as:

- Heat rates
- Load
- Incremental fuel costs (including SO_2 allowance costs)
- Variable O&M costs on gas turbine peaking units
- Start-up costs (on day ahead only, not hourly)
- Shut-down costs (on day ahead only, not hourly)
- Line losses
- Unit efficiency factors

Q.

Does FPL maintain records that separately identify non-separated wholesale energy sales made within Florida and non-separated wholesale energy sales made outside of Florida? If so, please identify the criteria that FPL uses to distinguish these two types of sales.

A.

Yes. As a general rule, the criteria that distinguishes the sales made within Florida to those made outside of Florida, is the physical location of the delivery point. If the delivery point is outside the State of Florida or at the Florida/Georgia border, the energy is considered going out-of-state. Also, the sales made within Florida are made pursuant to FPL's cost-based tariff while those sales made outside of Florida are made pursuant to FPL's market-based tariff.

Exhibit Number 3
Docket No. 991779-EI

SUMMARY OF CURRENT AND PROPOSED INCENTIVE TREATMENT

	FPC	FPL	GULF	TECO
Current Treatment of Incentives	20% on 'split-the-savings' Broker sales	20% on 'split-the-savings' Broker sales	20% on all non-separated sales, including 'split-the-savings' and market-priced sales	20% on all 'split-the-savings' economy sales made both on and off the Broker.
Applicable Schedules (current)	C, X	C, X	C, Market Based Rate Power Sales	C, X
Employee Compensation Linked to Sales?	Yes	Yes	Gulf has no marketing department; Southern acts as Gulf's agent.	Yes
Proposed Treatment of Incentives	20% on all non-separated, except emergency (A,B)	sliding scale on all 'opportunity' sales except emergency (AF, DF); 20% on \$20 million gains; 40% on \$20-\$40 million gains; 50% on > \$40 gains	20% on non-separated, non-firm, economy sales	All non-separated, non-firm sales 20% on out-of-state; 40% on in-state sales
Applicable Schedules (proposed)	C, X, CR-1, MR-1	C, X, Tariff No. 1; Market-based tariff	C, Market Based Rate Power Sales	C, X, J, G, Market-Priced

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 991779-EI EXHIBIT NO. 3
COMPANY/
WITNESS: Stepenovitch
DATE: 5-10-00

Exhibit Number 4
Docket 991779-EI

APPLICATION OF CURRENT AND PROPOSED STOCKHOLDER INCENTIVE
(Based on 1994-1999 sales)

	FPC Actual[1]	FPC Proposed[2]	FPL Actual[3]	FPL Proposed[4]	Gulf Actual[5]	Gulf Proposed[5]	TECO Actual[6]	TECO Proposed[7]
1994	$294,491	$372,540	$2,100,903	$2,400,000	$64,169	$64,169	$1,154,440	$2,583,509
1995	$530,892	$638,762	$943,070	$1,400,000	$31,578	$31,578	$1,566,129	$3,323,040
1996	$194,118	$328,792	$1,210,050	$2,300,000	$17,352	$17,352	$2,119,812	$4,468,985
1997	$107,494	$815,182	$331,229	$3,800,000	$148,152	$148,152	$1,146,154	$3,508,969
1998	$104,250	$2,553,771	$151,993	$23,100,000	$185,355	$185,355	$1,490,692	$2,064,181
1999	$57,620	$2,786,982	$8,332	$21,600,000	$177,910	$177,910	$12,203	$316,814
TOTAL	**$1,288,865**	**$7,496,029**	**$4,745,577**	**$54,600,000**	**$624,516**	**$624,516**	**$7,489,430**	**$16,265,498**

1 Florida Power Corporation's Interrogatory No. #16
2 Florida Power Corporation's Interrogatory #16 and Late-filed Deposition Exhibit #1
3 Florida Power & Light Company's Interrogatory #8
4 Florida Power & Light Company's Late-filed Deposition Exhibit #1
5 Gulf Power Company's Interrogatory #8
6 Tampa Electric Company's Interrogatory #16
7 Tampa Electric Company's Late-filed Deposition Exhibit #2

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 991779-EI EXHIBIT NO. 4
COMPANY/ WITNESS: Stepanovich
DATE: 5-10-00

5

EXHIBIT NO. ___________

DOCKET NO: 991779-EI

WITNESS: KOREL M. DUBIN

PARTY: FLORIDA POWER & LIGHT COMPANY

DESCRIPTION: COMPOSITE EXHIBIT: 1) DEPOSITION OF KOREL M. DUBIN TAKEN ON APRIL 20, 2000; AND 2) RESPONSES TO STAFF'S INTERROGATORY NOS. 23, 28, 29, 31, 32, 37, AND 44.

PROFERRED BY: STAFF

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 991779-EI EXHIBIT NO. 5
COMPANY/
WITNESS: Dubin
DATE: 5-10-00

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

REVIEW OF THE APPROPRIATE APPLICATION OF INCENTIVES TO WHOLESALE POWER SALES BY INVESTOR-OWNED ELECTRIC UTILITIES.

DOCKET NO. 991779-EI.

****
* ELECTRONIC VERSIONS OF THIS TRANSCRIPT *
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* AND DO NOT INCLUDE PREFILED TESTIMONY. *
****

TELEPHONIC DEPOSITION OF:	KOREL M. DUBIN
TAKEN AT THE INSTANCE OF:	The Staff of the Florida Public Service Commission
CONDUCTED FROM:	Gerald L. Gunter Building Room 362 2540 Shumard Oak Boulevard. Tallahassee, Florida
TIME:	Commenced at 2:50 p.m. Concluded at 3:20 p.m.
DATE:	Thursday, April 20, 2000
REPORTED BY:	KORETTA E. STANFORD, RPR Official FPSC Reporter

I N D E X

WITNESSES

MISCELLANEOUS

P R O C E E D I N G S

MR. KEATING: Is there a notary to swear in Korey or was she sworn in before?

SPEAKER: She was sworn in at the same time as Joe Stepenovitch.

MR. KEATING: Okay.

KOREL M. DUBIN

called as witness a telephonically, and having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KEATING:

Q Ms. Dubin, this is Cochran Keating with the Commission Staff, and I just have a few questions this morning, and a couple that were deferred to you from Mr. Stepenovitch.

A Okay.

Q In your testimony, you proposed an increase in the stockholder incentive to include sales made pursuant to tariff number one and the market based rate tariff, correct?

A Yes.

Q Could you describe the types of sales made under those two tariffs?

A There are what we would consider to be, I think, they're commonly called opportunity sales.

Q What's the difference between those two sales under those two types of tariffs?

A One's market and one's cost.

Q I guess the market based rates tariff is the market and tariff number one is cost.

A Yes.

Q Could you provide a copy of those two tariffs?

A Yes.

MR. CHILDS: Why don't we call it -- we'll furnish it by correspondence.

MR. KEATING: I think that would be fine.

MR. CHILDS: Okay.

BY MR. KEATING:

Q Are there any other distinction between those two tariffs, the types of sales that can be made under them?

A The market base is out of the state, and the cost is in state.

Q And when you say an opportunity sale, what exactly does that involve?

A It is a -- it's a short-term -- a short-term energy sale.

Q Are all of Florida Power & Light's opportunity sales made under those two tariffs now?

A Yes.

Q In your testimony, you also mentioned that stockholder incentives should be applied along with tariff number one and the market based rates tariff to any new opportunity type sales developed in the future; is that correct?

A Yes, that's true. I believe Mr. Stepenovitch said that in his testimony.

Q Is Florida Power & Light currently developing any other opportunity type sales?

A Not to my knowledge.

Q Has Florida Power & Light sought approval of any other such offerings?

A Not to my knowledge.

Q Do you believe that applying the 20% stockholder incentive to market-priced nonseparated sales goes beyond the original intent of Order 12923?

A No. I believe it goes to the intent of the order, that incentives are a good thing and they help to extend sales.

Q Why did FPL not apply that order -- apply the incentive approved in that order to those types of sales at anytime since the order was issued?

A Mr. Keating, I've gone back through the records back in the '83 and '84 orders, and it doesn't say specifically Schedule C, although that's what FPL applied it to. I just believe that perhaps it's because those are the types of sales that we were making at the time that that order was issued.

Q And I believe you've looked through the order recently. I believe it says split the savings type sales?

A Yes.

Q Should the level -- let's say, assume that the Commission decides that a shareholder incentive on gains from nonseparated wholesale energy sales is necessary and appropriate, should the level of the shareholder incentive increase as the volume of nonseparated wholesale energy sales increases?

A The volume of sales?

Q Yes.

A I think that's one way that it could be done.

Q You think that it should increase as the profits from those sales increase?

A Yes, we've suggested that consideration be given to increasing the percentages and perhaps using some type of a sliding scale approach.

Q Referring to that approach that's in your testimony, how did you develop that the sliding scale proposal?

A It's a subjective approach.

Q So that -- subjective in determining the dollar values that you chose for the sliding scale?

A Yes.

Q What factors were considered in choosing those numbers or in developing that scale?

A They were looking at just consideration to be given to perhaps increasing it. In going back and looking, the 20% was a subjective type of an approach also, and we were just looking at various ways that maybe we could take that, perhaps more incentives to do -- to make sales.

Q So, there was no specific reason why, for example, looking at the scale that you proposed, why at $20 million in gains and up, the shareholder incentive would increase, and then again at $40 million and up?

A No. We were just looking at that perhaps consideration be given to increasing the incentive amount.

Q Do you believe that those threshold values, the $20 million and the $40 million levels, should be modified based on the size of the utility?

A Yes. I believe what I was proposing is something that I think applied to FPL and not necessarily the other utility.

Q Did FPL perform any study in the development of the proposal, which would indicate the benefit to rate payers of using that sliding scale?

A No.

Q Has FPL calculated how that sliding scale would apply to its 1999 nonseparated wholesale sales?

A On the 1990 sales, the sliding scale --

Q I'm sorry, I didn't hear you.

A I'm sorry, could you ask the question again, please?

Q Yes. Has FPL calculated how its sliding scale proposal would apply to its 1999 nonseparated wholesale sales? That is, has Florida Power & Light determined, based on that scale, how much would be credited back to rate payers and how much should be kept by the shareholders?

A I mean, we worked the math out, yes.

Q What's that?

A We worked the math out, yes. Then, again, I'd also assume that if you have an incentive in place that you would have more sales than you, otherwise, would have without the incentives.

Q Did you say earlier ya'll worked the math out on that?

A Mr. Keating, I don't have it in front of me, but I --

Q Okay. Could we get a late-filed exhibit that would show the credit to rate payers and the stockholder incentive based on the sliding scale proposed by FPL, based on its sales in the years 1998 and 1999?

A Yes.

Q In that exhibit, could you also provide -- could you also show the credit to rate payers and the stockholder incentive for those sales made in 1998 and 1999, what the credit and the incentive would have been or what it was under Order Number 12923. And please stop me, if you need clarification.

A Under order number 12923?

Q Right.

A Do you mean --

Q It's the actual credit to the rate payers for 1998 and 1999 and the incentive.

A Well, we -- Mr. Keating, we applied those -- that order to the Schedule C sales. And I believe that it's the reverse, it's the stockholder that is part of the interrogatory responses.

Q Okay. Yeah, I see that it's in the interrogatory responses. I'm not sure if we have this in the interrogatory responses. Perhaps this would be something that can be included in that exhibit is what the credit to rate payers and the stockholder incentive would have been for the years 1998 and 1999 with a 20% stockholder incentive on the types of sales that FPL has proposed for an incentive.

A Okay.

Q That would -- never mind. I do believe that's in the interrogatories as well, I'm sorry.

A Okay.

Q So, just to clarify, the late-filed deposition exhibit we'd be looking for would include only -- would show the credit to rate payers and the stockholder incentive based on 1998 and 1999 sales that FPL would apply its sliding scale to.

A Okay.

Q Could I -- let me ask you to make one more modification to that.

A Okay.

Q If you can do that for the years 1994 through 1999.

A Okay.

Q That will be late-filed exhibit number one.

Got a question that Mr. Stepenovitch referred to you, and that was how much was included in FPL's last rate case for marketing costs for wholesale sales.

A Well, the energy marketing and trading department was established in 1997.

Mr. Keating, could you ask the question one more time, please?

Q Yes. I'm looking for the amount that was included in FPL's last rate case for marketing costs for wholesale sales.

A I don't know the answer to that. I do know that the department, as it exists today, was established in 1997, but if it's -- I also do know that we're currently working on an interrogatory response, I believe, that asks the same question.

Q Okay. Well, we will just wait for the interrogatory response, then.

A Okay.

Q I think that's all we've got. Thank you.

A Thank you very much.

MR. BURGESS: Matt, this is Steve Burgess again. I had a couple of questions, if I could.

CROSS EXAMINATION

BY MR. BURGESS:

Q Ms. Dubin, were you present for Mr. Stepenovitch's deposition?

A Yes, I was.

Q Okay. And so, you heard some of the questions about O & M expenses and O & M expenses on wear and tear on the generating assets?

A Yes.

Q Are you -- given your position, are you aware or are you conversant in whether these types of expenses would be included in the calculation of base rates for -- or base rate profits for surveillance purposes?

A I don't do the calculation on the surveillance reports. I'm not involved in that but, generally speaking, we believe that there are certain disincentives associated with these sales, which include items such as the wear and tear on the generating unit, O & M, the trading floor itself, the personnel there, the computer equipment, the computer software, the phone systems, and those types of things.

Q Yeah. And I guess what I -- I can understand, I mean, I'm following the logic unless, of course, that is already covered for the company somewhere else. And that's all I'm trying to find out is whether it -- and, I guess, my question would be if it is, in fact, included in the calculation of base rates for surveillance purposes, it no longer would be a disincentive, would it, for it to be there for the -- created by these off-system sales?

A Mr. Burgess, I'm not the person who does this surveillance report, but from my understanding of it, it's that there's -- it's a recoverable expense, but there's necessarily no guarantee of recovery of it, that these costs are specifically associated with making these sales.

Q So, as far as your understanding of it, what you're saying is it's not systemically excluded in the calculation of base rates, but as these sales increase from one year to the next, then perhaps the additional usage is what you're referring to here?

A That's correct.

Q So, if the sales are staying constant in a particular area, then the O & M -- well, you've already said you're not comfortable in that area. So, I'll withdraw any questions along those lines.

You had indicated in the last page of your testimony that there are certain sales, AF Schedule, DF Schedule, that shareholder incentives should not be applied to. What is characteristics about that, that lead you to conclude that shareholder incentives should not be applied to those?

A We find that those types of sales are, say, for use of a better word, for emergency and therefore, wouldn't be appropriate in a calculation of incentives.

Q Okay.

A The stockholder shouldn't benefit at somebody else's expense.

Q Okay, okay. That's all I have. Thank you very much.

A Thank you.

MR. CHILDS: Okay. I'd like to -- this is Matt

Childs. I'd like to make sure that we get a copy of the transcript.

MR. KEATING: Okay.

MR. CHILDS: Do I need to make personal contact to accomplish that?

MR. KEATING: I don't think so.

MR. CHILDS: Okay. That's what I need.

MR. BEASLEY: Cochran?

MR. KEATING: Yes.

MR. BEASLEY: And Steve, in particular, we may or may not, I don't know that we will, have a few questions for David Dismukes Monday afternoon. I just wondered if I could avoid having to do a Notice of deposition to tack on to the end of the Staff deposition as ya'll did today.

MR. KEATING: Well, I'm glad you brought that up, because we are going to be rescheduling Mr. Dismukes for Friday afternoon at 1:00 p.m. He is unable to be here Monday afternoon.

MR. BEASLEY: Okay.

MR. BURGESS: But you can ask all the questions you want on Monday.

SPEAKER: When you say Friday, do you mean tomorrow or the following week?

MR. KEATING: I'm sorry, the following, Friday, the 28th.

SPEAKER: Okay.

MR. KEATING: Yeah, I have not had the chance to renotice that yet.

MR. BURGESS: The answer, Jim, is no, I will have no objection to you or any other party asking questions, assuming there's time and variables like that.

MR. BEASLEY: Sure. I'm just looking to avoid the paperwork of a notice is all.

MR. BURGESS: Absolutely, and I appreciate that.

MR. BEASLEY: Okay.

MR. CHILDS: All right, are we done?

MR. KEATING: I believe so.

MR. CHILDS: Thank you very much.

MR. KEATING: Thank you.

(Deposition concluded at 3:15 p.m.)

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ERRATA SHEET

DO NOT WRITE ON TRANSCRIPT - ENTER CHANGES HERE

IN RE: DOCKET NO. 991779-EI
NAME: KOREL M. DUBIN
DATE: April 20, 2000

Page	Line	Change

Under penalties of perjury, I declare that I have read my deposition and that it is true and correct subject to any changes in form or substance entered here.

DATE:________ ______________________________
KOREL M. DUBIN

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

I, KORETTA E. STANFORD,RPR, FPSC Official Commission Reporter, do hereby certify that I was authorized to and did stenographically report the foregoing telephonic deposition of KOREL M. DUBIN.

I FURTHER CERTIFY that this transcript, consisting of 16 pages, constitutes a true record of the testimony given by the witness over the telephone.

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' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED this THIS 25TH DAY OF APRIL, 2000.

Koretta E. Stanford

KORETTA E. STANFORD, RPR
Official FPSC Reporter

Q.

For each year from 1994 through 1999, please provide the number of individual market participants that either bought economy energy from or sold economy energy to FPL.

A.

Broker Transactions (Schedule C)

YEAR	NUMBER OF MARKET PARTICIPANTS	
	Purchases	Sales
1994	12	20
1995	15	19
1996	17	18
1997	17	20
1998	16	20
1999	10	15

Non-Broker Transactions

YEAR	NUMBER OF MARKET PARTICIPANTS	
	Purchases	Sales
1994	4	11
1995	14	13
1996	24	27
1997	27	40
1998	34	38
1999	33	43

Q.

For each state, other than Florida, in which FPL or an affiliate of FPL is a participant in the wholesale energy market, please indicate whether that state's public utility commission provides a shareholder incentive to encourage non-separated wholesale energy sales.

A.

FPL has participated in transactions in other states, however, FPL does not know whether these states' public utility commissions provide a shareholder incentive to encourage non-separated wholesale energy sales.

Q.

For each state listed in your response to Interrogatory 28 as providing a shareholder incentive, please describe the shareholder incentive provided by the public utility commission in that state to encourage non-separated wholesale energy sales.

A.

Not applicable. Please see response to Interrogatory No. 28.

Q.

When FPL includes a separately identified transmission charge for a wholesale energy sale, what regulatory treatment does FPL apply to these transmission revenues? In your response, please indicate the relevant orders of the Florida Public Service Commission which authorize that regulatory treatment.

A.

When FPL has made Schedule C, Broker Sales, FPL's transmission service charges are billed separately. For these Broker Transactions, the transmission revenues are credited to the Fuel Cost Recovery Clause pursuant to Order No. PSC-98-0073-FOF-EI in Docket No. 980001-EI dated January 13, 1998 which states that:

> "We define the gains from broker sales as the total revenue minus incremental system cost and any transmission charge which is separately billed to the buyer. The gains from broker sales shall be split 80%-20% between ratepayers and shareholders pursuant to Order No. 12923, issued January 24, 1984, Docket 830001-EU-B. Any additional transmission revenues which are separately billed to the buyer shall be credited to the fuel clause of the selling utility. These additional transmission revenues shall be separated based on energy in accordance with the normal procedure established for the fuel clause of the selling utility. Each utilities' fuel clause shall be adjusted to reflect our decision in this docket effective January 1, 1997, for all broker transactions."

Q.

If FPL does not include a separately identified transmission charge for a wholesale energy sale, what regulatory treatment does FPL apply to the portion of the gain that represents the transmission charge? In your response, please indicate the relevant orders of the Florida Public Service Commission which authorize that regulatory treatment.

A.

When FPL makes non broker opportunity sales, there is not a separate bill for transmission. For these non-broker opportunity sales, the transmission component included in the total revenues is credited to the Capacity Cost Recovery Clause. This treatment is consistent with Order No. PSC -99-2512-FOF-EI, Docket No. 990001-EI dated December 22, 1999 which states:

"Appropriate Treatment for Transmission Revenues from Non-Separated, Off-Broker, Wholesale Energy Sales

The investor-owned electric utilities ("IOUs") are not consistent in their treatment of transmission revenues from non-separated wholesale energy sales not made through the Energy Broker Network ("EBN"). Florida Power Corporation (FPC) currently treats these transmission revenues as a credit to operating revenues. Florida Power & Light Company (FPL) currently treats these revenues as a credit to the capacity cost recovery clause ("capacity clause"). Gulf Power Company (Gulf) and Tampa Electric Company (TECO) currently treat these revenues as a credit to the fuel and purchased power cost recovery clause ("fuel clause").

We find that FPC, FPL, Gulf, and TECO should treat these revenues in a consistent manner as a credit to retail ratepayers through the capacity clause. In the capacity clause, costs are allocated based on each class' contribution to peak demand. This allocation method conforms with the method used to allocate transmission costs in a base rate proceeding."

Q.

During FPL's most recent general rate proceeding, what amount was assigned to FPL's power marketing activities during its test year?

A.

FPL's last general rate proceeding was based on the 1988 Tax Savings Docket. The expenditures for power marketing activities today are significantly different in amount and nature than they were in 1988. The power marketing activities in 1988 were limited primarily to broker network transactions that do not exist today.

Q.

If your response to Interrogatory 43, above, is affirmative, please indicate the regulatory treatment that FPL applies to each of the costs listed. In your response, please indicate which orders of the Florida Public Service Commission authorize that regulatory treatment.

A.

Revenues and expenses for third party transmission are reflected in the Capacity Cost Recovery Clause. This treatment is consistent with Order No. PSC -99-2512-FOF-EI, Docket No. 990001-EI dated December 22, 1999. Please see response to Interrogatory No. 32.

EXHIBIT NO. ____________

DOCKET NO: 991779-EI

WITNESS: KOREL M. DUBIN

PARTY: FLORIDA POWER & LIGHT COMPANY

DESCRIPTION: LATE-FILED EXHIBIT TO DEPOSITION OF KOREL M. DUBIN TAKEN ON APRIL 20, 2000

PROFERRED BY: STAFF

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 991779-EI EXHIBIT NO. 6
COMPANY/ WITNESS: Dubin
DATE: 5-10-00

INCENTIVE TREATMENT ON ECONOMY SALES *
PROPOSED SLIDING SCALE APPROACH IF USED 1994 through 1999
$ Millions

1999	Gains on Economy Sales	Customer			Shareholder		
	$20.0	80%	$	16.0	20%	$	4.0
	$20.0	60%	$	12.0	40%	$	8.0
	$19.2	50%	$	9.6	50%	$	9.6
TOTAL	$59.2	64%	$	37.6	36%	$	21.6

1998	Gains on Economy Sales	Customer			Shareholder		
	$20.0	80%	$	16.0	20%	$	4.0
	$20.0	60%	$	12.0	40%	$	8.0
	$22.3	50%	$	11.1	50%	$	11.1
TOTAL	$62.3	63%	$	39.1	37%	$	23.1

1997	Gains on Economy Sales	Customer			Shareholder		
	$19.1	80%	$	15.3	20%	$	3.8
	$0.0	60%	$	-	40%	$	-
	$0.0	50%	$	-	50%	$	-
TOTAL	$19.1	80%	$	15.3	20%	$	3.8

1996	Gains on Economy Sales	Customer			Shareholder		
	$11.6	80%	$	9.3	20%	$	2.3
	$0.0	60%	$	-	40%	$	-
	$0.0	50%	$	-	50%	$	-
TOTAL	$11.6	80%	$	9.3	20%	$	2.3

1995	Gains on Economy Sales	Customer			Shareholder		
	$7.1	80%	$	5.7	20%	$	1.4
	$0.0	60%	$	-	40%	$	-
	$0.0	50%	$	-	50%	$	-
TOTAL	$7.1	80%	$	5.7	20%	$	1.4

1994	Gains on Economy Sales	Customer			Shareholder		
	$12.2	80%	$	9.8	20%	$	2.4
	$0.0	60%	$	-	40%	$	-
	$0.0	50%	$	-	50%	$	-
TOTAL	$12.2	80%	$	9.8	20%	$	2.4

* These figures show broker and non-broker economy interchange transactions.

EXHIBIT NO. __________

DOCKET NO: 991779-EI

WITNESS: KARL H. WIELAND

PARTY: FLORIDA POWER CORPORATION

DESCRIPTION: COMPOSITE EXHIBIT: 1) DEPOSITION OF KARL H. WIELAND TAKEN ON APRIL 27, 2000; AND 2) RESPONSES TO STAFF'S INTERROGATORY NOS. 1 - 26 AND 28 - 48.

PROFERRED BY: STAFF

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 991779-EI EXHIBIT NO 7
COMPANY/ WITNESS: Wieland
DATE: 5-10-00

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of REVIEW OF THE APPROPRIATE APPLICATION OF INCENTIVES TO WHOLESALE POWER SALES BY INVESTOR-OWNED ELECTRIC UTILITIES.	DOCKET NO. 991779-EI

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DEPOSITION OF:	KARL H. WIELAND
TAKEN AT THE INSTANCE OF:	The Staff of the Florida Public Service Commission
CONDUCTED FROM:	Gerald L. Gunter Building Room 362 2540 Shumard Oak Boulevard Tallahassee, Florida
TIME:	Commenced at 10:05 a.m. Concluded at 11:48 a.m.
DATE:	Thursday, April 27, 2000
REPORTED BY:	TRICIA DeMARTE Official FPSC Reporter

APPEARANCES:

JAMES McGEE, Florida Power Corporation, Post Office Box 14042, 3201 34th Street South, St. Petersburg, Florida 33733, appearing on behalf of Florida Power Corporation.

STEPHEN C. BURGESS, Office of Public Counsel, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the state of Florida.

WILLIAM COCHRAN KEATING, Florida Public Service Commission, Division of Legal Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, appearing on behalf of the Commission Staff.

Also Present:

DON HALE, Office of Public Counsel
LARRY B. TITTLE, Florida Power Corporation

I N D E X

WITNESSES

EXHIBITS

NUMBER		IDENTIFIED
1	(Late-Filed)Application Of Proposed Incentive To Nonseparated Wholesale Sales For Years 1994 Through 1999	33

KARL H. WIELAND

called as a witness, and having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KEATING:

Q Good morning, Mr. Wieland.

A Good morning.

Q For the record, could you state your name and business address?

A Karl H. Wieland; business address is Post Office Box 14042, St. Petersburg, Florida 33733.

Q You're familiar with the Florida Energy Broker System, correct?

A Yes.

Q Has it recently been changed or undergone any changes?

A Well, my understanding is that it is in the process of almost disappearing. In other words, I believe it's going to be done away with.

Q Okay. And that's the system where transactions were made on sort of a split-the-savings price basis?

A Right.

Q Has the broker system evolved into some other type of system?

A Not the broker system that you're talking about, the one that was essentially a Florida-only broker. I think that's just going to be going away. There is a very active power market that's developed over the last couple of years which is not related to the Florida broker at all.

Q Okay. Can market-based transactions still be made over the Florida Energy Broker System?

A Market transactions in the sense that they're based on market prices rather than cost prices were never made over the Florida broker system. The broker was strictly an incremental cost to generate plus incremental or decremental cost for the purchase. If you divide it by two, that was our cost based. Most of the transactions today are done on a market basis; however, regulated utilities, at least ones that have market power, are constrained to not charge a price more than their cost.

Q Well, I guess what I'm getting at, I talked to some of the other witnesses in the case in deposition, and it's my understanding that the broker system that was previously limited to split-the-savings transactions is pretty much nonexistent, but that there is a broker, that the broker system remains for market-based transactions and maybe some cost-based transactions as sort of a bulletin board. Do you have any knowledge of how that system operates now?

A Okay. Well, I guess when you said, "the broker system," I was sort of thinking of, you know, the actual computer system that we had back when Schedule Cs were being traded. I mean, there is a trading system in place, and I guess you could call it a broker system, but it's very different from what we had before. You know, there is communication going on in a lot of different ways, be it bulletin boards, phone calls, and a whole host of other ways for different entities to talk to each other and makes trades. Does that make more sense?

Q Is Power Corp a participant in that new system?

A Absolutely, yes.

Q Is the new system being widely used? And by widely used, I mean by several market participants.

A Yes. It's really the only system that's being used these days that's viable.

Q So as, I guess, to what degree would you say that Power Corp is using that system?

A I would say almost exclusively. I know that when I looked at our A Schedules, there were still some sales being made over what we would call the old Florida broker system, EBN, but beyond that and going forward, I think it would be exclusively the new system.

Q When you refer to the new system, I just want to be clear, are you referring to the, I guess, the new broker system or sort of the new broker system along with picking up the phone and arranging for --

A Well, it's not a system, you know, in a sense that there's one computer program or one exchange. I mean, I guess I would prefer to call it the market, which takes a whole variety of different ways to communicate. The old broker system was actually a computer system. It was very specific, and it existed for us, but the new market is just a market in a sense that, you know, people call each other by phone. They may have some -- you know, I'm not even sure exactly how they trade all their information. But it's not a system in the sense that it's a very well defined kind of process like the old one was. It's just a market.

MR. KEATING: Can we go off the record a second?

MR. McGEE: Uh-huh.

(Discussion off the record.)

BY MR. KEATING:

Q Just to go over a couple of things again. It's your understanding that the split-the-savings based price broker system is essentially nonexistent?

A Right.

Q And that broker system has been reinvented to a certain degree; is that correct?

A Yes, to try to conform or be a little bit more like today's markets.

Q What is your understanding of Florida Power Corporation's participation in that reinvented broker system?

A We are participants. We hope that it may lend some value, but at this stage, our participation is -- or the activity itself has been pretty minimal.

Q Do you know what percentage of your total transactions would be conducted over that new broker system versus just through, I guess, what you refer to as picking up the telephone and calling?

A So far it's been in the neighborhood of perhaps one transaction out of 100.

Q Is it correct that Florida Power Corporation currently applies the 20 percent stockholder incentive approved by the Commission in Order 12923 to Scheduled C and X sales?

A Yes.

Q Are there any other schedules that Power Corp currently applies that incentive to?

A At this stage, no.

Q Both of those schedules, you split-the-savings pricing; is that correct?

A Yes.

Q Do you believe that Order 12923 that authorized the 20 percent incentive that it authorized it for market-based sales or market-priced sales?

A It did not specifically authorize market-priced sales. Although, I believe that's largely because they didn't exist at the time. So, you know, it may not be a matter of intentionally not allowing it. It's simply the only thing that existed at the time was the split-the-savings.

Q Does Florida Power Corporation currently have the authority to charge market prices for nonseparated sales?

A We do, but only out of state, I believe. Can I add something to my last statement?

Q Sure.

A If the market price happens to be below our cost, then we would charge that price. So we're capped and we can charge no more than our cost. But if the market price happens to be lower than our cost cap, then we would sell at that price.

Q Florida Power Corporation's market-priced out-of-state sales, are any of those sales made to the Southern Company?

A I would think so, yes.

Q Could you provide a copy of the tariff under which Florida Power Corporation makes its market-priced sales?

A I would think so. I'm surprised you don't have one already, but that certainly can be provided.

Q And perhaps you all could make that a late-filed through correspondence. We can have that late-filed.

A We can do that.

Q In response to one of the Staff's interrogatories, Number 11, you estimated annual marketing and administrative expenses associated with making wholesale sales at $2.5 million; is that correct?

A Which number was that?

Q Number 11, I believe.

A That number rings a bell. The first set?

Q Yes.

A Yes, that's right.

Q Is that number for all wholesale sales?

A I believe so, yes.

Q I guess as opposed to simply nonseparated sales?

A Right, for all of them.

Q Do you recall the dollar value that Florida Power Corporation used for these costs in its last rate case?

A No, I don't know that we could ever establish that, because at that point in time, that was, what, 1992, '93, we didn't really have a power marketing department, per se. The activities were done primarily by dispatchers as part of their regular job, and there was no reason to carve out any costs. So I don't know that there's ever been a dollar value associated with what was in our rate case last time.

Q So the costs of marketing and the administrative support costs for marketing were basically split up into other, I guess, categories or other departments?

A Yeah. You might say that incrementally there probably was no cost because you had a dispatcher there that was doing a whole bunch of stuff, and he was doing that as part of his job.

Q Of the $2.5 million, what portion of that is attributable to making nonseparated sales?

A I would guess the vast portion of it.

Q Could you estimate about how much of that would be or could --

A I'd have to guess. Maybe about 70 percent.

Q Would it be reasonable to reach an estimate based on the percentage of the total wholesale sales that are nonseparated?

A I'm not sure I follow you. You mean megawatt hours separated versus megawatt hours nonseparated?

Q Nonseparated versus total.

A Probably not, because in a lot of ways, if you look at the separated sales, you can have fairly substantial sales that are made between utilities that have a lot of megawatt hours that really don't take a whole lot more effort than making just a couple of separated transactions. There's no comparison in terms of the amount of effort that it takes. So splitting it on a megawatt hour basis I don't think would be a good way to do that.

Q In that same interrogatory response, you've estimated the cost of the risk management department at $400,000?

A Right.

Q Could you describe the function of that department and how it relates to Power Corp's marketing department?

A Let me inquire about that one, if we could.

MR. McGEE: Could we go off the record for a second?

MR. KEATING: Sure.

(Discussion off the record.)

BY MR. KEATING:

Q I guess before we went off the record, I had asked about the 400,000 that you said is estimated as costs of the risk management department, and I wanted to find out just how that department relates -- or what its function is in relationship to the power marketing department.

A Well, the vast portion of that $400,000, virtually all of it, is dedicated to supporting the day-to-day market-based transactions.

Q Could you elaborate just a bit more on what the risk management department's role is in assisting in those transactions?

A Their primary role is to make sure that the transactions that the marketers undertake, that the traders undertake, have some bounds on them to where the risk isn't excessive with respect to the potential returns. So they would, first of all, set a lot of general guidelines in terms of what kinds of transactions, what kinds of risks they can take, and also, in some cases, have a call on making a judgment on individual transactions as to whether they exceed those risk profiles or not.

Q In your interrogatory -- or in Florida Power Corporation's interrogatory response to Staff's Number 11, you have also included $500,000 in costs for the back office. Could you describe how this office interacts with the marketing department and how those costs are related to what the power marketing department does?

A The back office is predominately a billing function. They keep track of all of the transactions, make sure that they're billed properly, that they're recorded in our books. And again, from a volume standpoint, the largest volume that they deal with is generated by the individual power marketing transactions, but they also do transactions and billings for separated sales.

Q Staff also asked an interrogatory concerning the compensation for marketing employees.

A Uh-huh.

Q I believe that was Interrogatory 14. The response to that interrogatory indicates the marketing employees receive a base salary plus an incentive for achieving financial targets related to short-term trading and long-term marketing and sales; is that correct?

A Right.

Q I believe the response also indicates that the heaviest weight is placed on those areas where the employee has the most direct impact. Is that also correct?

A Right.

Q How does Florida Power Corporation determine the areas over which each employee has the most impact?

A Well, predominately it relates to the kinds of trades that he's engaged in. If an employee is a trader and most of his activities are doing day trades, it would be weighed towards that. If he is predominately engaged in marketing long-term separated types of wholesale sales, it would be weighted in that direction.

Q Does the incentive that goes to each employee -- or is the incentive that goes to each employee determined based on whether the department meets its goals rather than the performance of the individual employee?

A I believe it's both.

MR. KEATING: We can go off the record.

(Discussion off the record.)

BY MR. KEATING:

Q Before we went off the record, I had asked if the incentive that goes to each employee is determined based on whether the department meets its goals rather than the performance of that individual employee.

A It is predominately based on departmental goals, but there is some consideration given to individual contributions.

Q Is it correct that those goals are based on, I guess, the standard is set in terms of the gains on those transactions?

A Yes.

Q Are administrative employees also eligible for the incentive?

A I think --

MR. TITTLE: What was the question?

MR. KEATING: The question was: Are administrative employees eligible for the incentive as well as the marketers themselves?

MR. TITTLE: Yes.

THE WITNESS: Yes.

BY MR. KEATING:

Q Does that include the employees in the risk management department and the back office department?

A No.

Q Okay.

A That is not to say, however, there are very broad incentive goals that everyone in the company participates in. They're just not those specific power marketing goals, but there is a company-wide sharing the success, and every department has its own set of incentive provisions.

Q Just to clarify, the administrative employees that are in the marketing department also receive an incentive based on whether the department meets its goals --

A Yes.

Q -- in terms of whether they -- in terms of the gains on those sales?

A Yes.

MR. TITTLE: It's a much smaller percentage of their total compensation, but they do currently.

Q Is the gain achieved on those sales a greater factor in determining the incentive provided to, say, a marketer rather than an administrative assistant in the marketing department?

A A marketer would have a greater portion of its incentive tied to those gains.

Q I believe in your testimony, you've stated the wholesale market in Florida has changed significantly in the past several years; is that correct?

A Yes.

Q Would you characterize the market as more competitive today than it was when the Commission approved the 20 percent stockholder incentive?

A Yes.

Q Would you agree that there are more players in the wholesale market today than at the time the stockholder incentive was approved?

A Yes, I would.

Q So would you also agree that an interested buyer has more available suppliers today?

A Yes.

Q Because there are more options for buyers in the wholesale market today, would you agree that Florida Power Corporation is more at risk of sort of losing out on making a wholesale sale if its price is high relative to other available suppliers?

A Yes, I'd say that's right.

Q Do you believe that it is the public utility's obligation to keep rates as low as possible for its ratepayers?

A I believe so, yes.

Q Would flowing the gains from a nonseparated sale through a cost recovery clause give an immediate benefit to ratepayers?

A Yes.

Q Considering the moves in several states towards retail competition and discussions at the federal level concerning retail competition, do you believe that public utilities are under added pressure today to keep retail rates low?

A That's difficult to say, but I think I would generally agree with that.

Q Do Florida Power Corporation's large retail customers have more cost-effective self-generation options available today than they did when the 20 percent stockholder incentive was approved?

A I don't believe so. I mean, they have always had the ability to self-generate. I don't know that that's changed, but they don't have the ability to purchase from anyone other than their providing utility.

Q Are the self-generation options available today, though, more cost-effective than they were at the time the incentive was approved?

A That I wouldn't know. It depends too much on the individual circumstances of their business and the cost of that equipment. I would have no idea.

Q In your testimony, you described Florida Power Corporation's proposed incentive which would apply to all nonseparated wholesale sales; is that correct?

A Right.

Q Could you list for me the FERC schedules under which those sales would be made that are included in your proposal? And I understand your proposal is not limited to those. It's open-ended, but the current schedules under which Florida Power Corporation makes the sales that would be subject to the incentive.

A I think I have a list of those. I'm just not quite sure which interrogatory. Let me take a look for a minute.

MR. KEATING: Could we go off the record for a minute?

MR. McGEE: Uh-huh.

(Discussion off the record.)

BY MR. KEATING:

Q I believe the question I asked that led to the extensive off-the-record discussion was, if you could, list the FERC schedules that were included in your proposal, sales under which schedules you would apply the stockholder incentive to.

A The FERC schedules would be CR1 which, is a cost-based tariff; MR1, which is a market-based tariff; and OS, which are opportunity sales tariffs.

Q Could you perhaps briefly explain the differences in those schedules?

A As the name implies, MR allows us to sell at market-based rates outside of the State. CR1 is strictly a cost based. It's a cap. We cannot sell above our cost, but we can sell below it.

Q Can you make those in-state and out of state?

A Yes; although typically we would do those in-state. And the opportunity sales, I believe, is also a cost based or cost capped type of sale.

Q And can Florida Power Corporation make the opportunity sales in-state and out of state?

A I believe so, yes.

Q What exactly is the cost that you're referring to when you state that you can make the sales at cost or below?

A Well, when we go to FERC to have these tariffs approved, there was actually a cost allocation in the cost basis methodology that FERC uses which is not unlike what the Commission uses to establish a transaction cost. And it simply says, a regulated utility that has market power cannot sell above that. But obviously, if we have authority to sell something for as high as $50 a megawatt hour, but the market is only paying 40, then we would take 40 assuming that that's above our incremental cost.

But if the market is at 60, then 50 is all we can charge if that's the capped rate or the cost-based rate. And cost based includes things like facility costs, generation costs, fixed and variable, and those kind of things.

Q Just to clarify, the FERC schedules that you listed, CR1, MR1 and OS, are those schedules under which Florida Power Corporation currently does not apply the 20 percent stockholder incentive to?

A That's right.

Q Under which of those schedules could Florida Power Corporation make sales and include a capacity component?

A I would say under all of them.

Q Is there any maximum term for sales under those schedules?

A I don't believe so.

MR. KEATING: We can go off the record.

(Discussion off the record.)

BY MR. KEATING:

Q Is there a maximum term for sales under these schedules?

A Not that I'm aware of.

Q So they could be longer than one year?

A They could.

Q Does your proposal include applying the incentive to sales under those schedules that are for longer than one year?

A I would say generally, no, because we follow the practice that's been set by the Commission to separate anything longer than a year, and we're not intending to apply the incentive to separated sales.

Q And I believe you proposed the incentive would apply to new FERC schedules as they are approved; is that correct?

A Yes.

Q If a new FERC schedule was approved and Florida Power Corporation intended to apply a stockholder incentive to sales made under that schedule, would it first seek approval from the Commission?

A We would if that's what the Commission requires.

Q Under your proposal is there -- would Commission approval be required, or would the incentive simply be applied to those new sales as they came into existence?

A Under my proposal, any nonseparated sale that falls in the category of being reported on Schedule A6, I believe it is, would qualify. And I would further propose that only by exception would a sale be disqualified.

Q Does Florida Power Corporation intend to apply the incentive to sales that have any sort of capacity component?

A Yes. And I say that because in today's market, there's not that much of a distinction between what is capacity and what is energy, and to try to make that distinction, I think, would be somewhat artificial.

Q How would it apply the incentive? Would it apply to the total gain from that sale?

A Yes. You would take the total gain less its incremental cost and -- I mean, the total selling price less the incremental cost. That would be the gain.

Q Does Florida Power Corporation have any evidence or has it performed analyses that would show the stockholder incentive will encourage nonseparated wholesale sales to such a degree that ratepayers would receive a net benefit?

A We've not made any studies to that -- in that regard, and I think it would be very difficult to do. I think incentive regulation is as much a philosophy that I'm not sure can ever be proved scientifically.

Q Would you agree that if the Commission increases the incentive, that there's a potential for the credit to retail ratepayers through the fuel clause to be reduced?

A I think that possibility always exists. I think the job of the Commission would be to find the right balance between having an incentive that is large enough to bring benefit to the customers, but not so large as to actually harm it. And it's very difficult to establish exactly what that level is, but from sort of a conceptual standpoint, that's the way you'd like to land.

Q Are you aware of TECO's proposal that the stockholder incentive apply to in-state sales differently than out-of-state sales; that is, that out-of-state sales would receive a 20 percent stockholder benefit, in-state sales would receive a 40 percent stockholder benefit?

A Yes, I'm aware of that.

Q Would you agree that under this proposal there's a potential for an in-state sale with a lower gain than an out-of-state sale to result in a higher incentive for the seller?

A I'm not sure I totally follow you. You're talking about the TECO proposal, right?

Q Yes.

A Okay.

Q For example, if TECO's proposal was adopted --

A And their proposal is 40 percent for in-state, 20 for out of state?

Q Correct.

A Okay.

Q If that proposal was adopted and Florida Power Corporation had the opportunity to sell to Southern Company and could make a gain of $8 on that sale or sell it to TECO and earn a gain of $5 on the sale, which transaction would Florida Power Corporation pursue?

A Well, it's difficult to say what any particular trader would do, but clearly, they would at least have an eye on the fact that in one case they could get, what, 40 percent of 5 versus 20 percent of 8. And they might incentivize (phonetic) to take the one that gives you the bigger gain. But then I think you have to step back a little bit more and say, well, is that good or bad?

The only reason in my view that you would adopt an incentive like that to begin with is because you would want to encourage in-state sales. You know, maybe there's some greater good because you're sharing more within, you know, the State utilities rather than out-of-state utilities. So, you know, that would be something -- you would have that incentive because that's what you were trying to achieve. And if that's what you were trying to achieve and would maximize in-state sales, then that will be the right incentive to do. So you have to really begin almost with your objectives in terms of, you know, setting the right kind of incentive.

Q Do you believe that an incentive based on whether the sales are in-state or out of state having different levels of incentive is appropriate?

A We're not proposing that. So, I mean, in our view, we don't really have any reason to differentiate between those two. It does not cost us any more or less. So if you're looking at it from a cost basis standpoint, there's no need to differentiate. So our proposal doesn't have that.

Q Do you agree that increasing the incentive for in-state sales would have any sort of effect on reliability?

A I would say minimal because most of those sales are not what we would traditionally call firm. So I don't know of any reason right offhand why that would impact reliability.

Q In your response to Staff Interrogatory Number 1, you give an example of how Florida Power

Corporation calculates the 20 percent stockholder incentive on a sale.

A Uh-huh.

Q And is it correct that to calculate the gain, you're using estimates of incremental fuel and O&M?

A No. I believe the way the gain is calculated is -- I suppose you could still characterize it as an estimate, but it's calculated with all the actual data that you have at your disposal. In other words, there's a computer model that's run with all the actual fuel, load, and other information that you have at that time, and then you could argue, you know, that running those two models is still an estimate of sorts. But it's based on all the actual data that you have at your disposal.

Q Is that data that supports the incremental cost determination available at a later date for audit purposes?

A Yes, it is. In fact, I believe one of the interrogatories, the second set, asked that and our response was that, yes, it can be audited.

Q Does that interrogatory response explain how it can be audited?

A Yes.

Q Does Florida Power Corporation have a policy in place that prevents a marketing employee from making a sale on which the gain is very small?

A I don't believe we have a policy, per se, but I think as a matter of practicality, we don't engage in sales where the margin is less than about a dollar a megawatt hour.

Q I guess to follow up on that, I just want to get a feel for perhaps what sort of gains are earned on these sales to see relatively how much a dollar gain is.

A Are you talking about an average per megawatt hour gain?

Q Sure, just sort of a ballpark.

MR. McGEE: Could we go off the record for just a second?

MR. KEATING: Sure.

(Discussion off the record.)

BY MR. KEATING:

Q Before we went off the record, I had asked -- you had responded to my previous question by stating that, I believe, there was about a dollar gain on a sale that was sort of a minimum threshold that typically Florida Power Corporation would not make a sale, but would only yield that gain or lower; is that correct?

A That's right.

Q And what I want to find out is, typically what type of gain Florida Power Corporation makes on a sale.

A Typically, it's about 25 percent of the -- our incremental cost, which is somewhere in the neighborhood of $5 per megawatt hour.

Q In your testimony, you proposed that unprofitable sales or those sales for which incremental costs exceed revenues should receive a 20 percent stockholder penalty, correct?

A Yes.

Q Based on forecasts that would have been made at the time such a sale was made, I would assume that those sales were expected to be profitable?

A Certainly. We would expect every sale to be profitable, but at the same time, you realize that when you make a commitment into the future, there's always some uncertainty and some risk that it may not be.

Q And how would Florida Power Corporation propose that the penalty be implemented?

A Well, it would fall out automatically by simply netting all of the profits and losses together.

Q So it would be on the aggregated numbers rather than on individual sales?

A Yes.

Q How does that provide a different result than the way that we're currently operating with the 20 percent shareholder incentive?

A I don't know that it does, other than the fact that the hourly market, which was Schedule C, I think was a very, very low risk, and by the same token at perhaps a lower margin business than today. So the risk of having a loss an hour or two in advance were fairly minimal, but they still exist to some extent.

Q Can you estimate the percentage of the sales included in your proposal; that is, the sales that Florida Power Corporation proposes to apply the 20 percent incentive to that turn out to be unprofitable?

A I've not done any analysis to see how -- you know, when you look at the net aggregate profits that we've had or the gains that we have had over the last year, you know, what the gross pluses were less the gross minuses. So I don't really have a good feel for that.

Q Would you agree that the longer the term of the sale, the greater the probability that forecasted costs will be incorrect?

A Yes, I would. But to offset that, we would typically require higher expected margins so that the overall risk is about the same.

Q The overall risk that the sale would become unprofitable?

A Right.

Q Okay. In Staff's interrogatories, we asked -- I think it is Interrogatory Number 17 -- we asked Florida Power Corporation to provide for the years 1994 through 1999 its annual nonseparated wholesale sales in dollars and megawatt hours.

A Uh-huh.

Q And just to clarify, these numbers represent the types -- all of the types of nonseparated wholesale sales that you would propose the incentive apply to?

A Yes, I believe so. The only types of sales that may be included in the numbers that we gave you might be Schedules A and B. Those tend to be very, very small. And, of course, in those we're not asking for the incentive to be applied. So to the extent that these sales might include some of those transactions, they may not be exactly what we're asking for, but by in large they are.

Q I just was looking through the interrogatory. I think I misspoke. I believe that interrogatory just includes the nonbroker transactions.

A Well, 17 speaks to nonseparated, and 18 are annual economy purchases only. So 18 is out. Seventeen is what you're talking about.

Q I see. There's another interrogatory that includes the response for broker transactions. It's Number 7.

A Okay.

Q In any event, has Florida Power Corporation calculated what the stockholder incentive would have been in each of those years based on what it has proposed; that is, for 1994 through 1999 what the stockholder incentive would be if it was applied to all nonseparated wholesale sales as you had proposed?

A I don't recall right offhand whether we have done that or not. Has there been an interrogatory that asked for that?

Q I don't believe there has.

A In that case, I'm not aware of any calculation that we have done that -- we have, I believe, in one of the interrogatories for the year 2000, I think we gave an example as what the gain, what the 20 percent would represent, but not for the historical years that are listed here.

Q Could you provide that information or calculate that for us and provide it as a late-filed deposition exhibit?

A I would think so, yes. Yes.

MR. KEATING: Identify that as late-filed Deposition Exhibit 1, application of proposed incentive to nonseparated wholesale sales for years 1994 through 1999.

(Late-Filed Deposition Exhibit Number 1

identified.)

MR. McGEE: And the figures you want us to use are those listed in Interrogatory 17?

MR. KEATING: Looking through this, I think it would probably be numbers in Interrogatory 17 combined with those in response to Number 7. Essentially all of the sales that your proposal --

MR. McGEE: Seven being broker, and 17 being nonbroker?

THE WITNESS: On 7, the calculation has actually been done.

MR. KEATING: Right.

THE WITNESS: Okay.

MR. KEATING: If you could, also include in that exhibit the gain for each year.

THE WITNESS: Okay.

BY MR. KEATING:

Q Your proposal includes applying the incentive to firm sales, correct?

A Yes, assuming they're nonseparated.

Q And you believe that this will eliminate the need for the Commission to define what a firm sale is or risk inconsistent interpretation?

A Yes, because my understanding of the market these days, the market doesn't really distinguish between a firm and an economy sale. They're just sales. And in many ways, if we sell to someone like Enron, for example, I have no idea who they're going to resell that power to, whether they're selling it firm or nonfirm. We just know that, you know, we sell so many megawatts for so many dollars per megawatt hour. And in many cases, they're firm to the extent that if we don't deliver, we have to pay a penalty or deliver the power some other way.

So there's so many degrees and definitions of firmness. I think for the Commission to try to identify what those are would be a pretty hopeless task, and quite honestly, also one that would not be advisable. And I say that because firm sales typically create more value than a nonfirm sale. And to set an incentive that would discourage a utility from making a sale where it could have a $10 gain because the customers were willing to pay more as opposed to one, you know, that was less firm and only made a $5 gain would not be good policy.

Q So how would you define a firm sale?

A Well, I wouldn't in that sense because I'm not really sure I know exactly how to define a firm sale anymore.

Q And that's because there are varying levels of firmness in these sales?

A Yes.

Q Is there a certain level at which you could say it was firm or that it -- is there a certain level at which it's no longer nonfirm completely?

A Well, many of the sales we're making these days are called firm LD, meaning firm with liquidated damages. Now, how that relates to what we traditionally think of as a firm sale, for example, to our retail or wholesale customers is a hard judgment call to make.

I mean, you could argue that if we have a capacity shortfall and we have to shut off retail customers, they don't get paid for that. Yet if we have a firm LD to Enron and we don't deliver, we do. So I'm not sure how to tell you which one is actually more firm. And I think that is the best example I can give you as to why saying something should be firm versus nonfirm is just a very difficult task these days.

Q Could Florida Power's interruptible retail customers be interrupted due to a firm, nonseparated sale?

A I think that's possible, but to date, they have not been. And we certainly never enter into a transaction that would put us in jeopardy, but it's conceivable that something could break down. But in most cases, what we would do is to simply pay liquidated damages and not let the transaction go forward.

Q Are the firm, nonseparated sales that you're proposing the incentive apply to, do those have -- are they recallable?

A Well, as a matter of practicality, I think the vast majority, if not all, of the sales that we have made are recallable in some form or another.

Q It's just a matter of whether you pay a penalty?

A It's just a matter of whether you pay or whether you deliver the power from some other source if you run into a problem, and in which case it may become unprofitable. The main reason I'm including what we would normally call firm is, again, you get into this definitional issue, and you wind up excluding something that may rarely ever take place.

But most of what we do is recallable in a sense that either we specify it to be less than firm. I believe subordinate term is one term that we use, or it's firm with liquidated damage to where we still don't deliver, we just have to pay. But in either case, we have yet to have a situation where we interrupted interruptible customers in order to deliver those kind of sales that we have made much less retail customers.

Q Are you familiar with the regulatory treatment for revenues from nonseparated wholesale sales prior to the Commission's order approving the stockholder incentive?

A I believe so, yes.

Q Could you, I guess, just briefly describe what that treatment was?

A You're talking about prior to 1984 when the Commission instituted the 20 percent?

Q Correct.

A Well, essentially at that point in time, utilities would include a certain level of gain in base rates. And in that sense, customers would get their credit up front, so to speak, through rates, but then after that, utilities would keep 100 percent of any actual gains that they actually made.

So, for example, if base rates contained a $10 million per year gain, that's essentially given to customers right up front. If the utilities made no sales whatsoever, you could say they were out $5 million. If they made $20 million in sales, they were hit by 15. But I think the point was that 100 percent of every dollar of gain went to the shareholder.

Q So before these sales were removed from general rate proceedings, the utility was at risk of an underrecovery, but did not make the level of sales identified in its last rate case?

A Yes.

Q So, in essence, if the utility did not achieve that level of sales, it suffered a penalty?

A Yes.

Q You may have partly answered this in response to another question. Do you believe it is appropriate for a utility to sell nonseparated wholesale energy while it is interrupting or curtailing its nonfirm retail customers?

A I think you have to make a distinction between the various types of nonfirm customers. We typically do not make it a practice to plan to interrupt even load management customers, for example, in order to make a sale much less interruptible customers. But by the same token, I would argue that load management customers are being paid to be interrupted for good reason. And I don't believe that the tariff precludes you from interrupting those customers even if there is no shortage.

And let me give you an extreme example. If we haven't exercised residential load management a great deal, and we have one of those ridiculous midwest summers where somebody is paying $5000 a megawatt hour, and we have an opportunity to curtail residential load management for a couple of hours and bring a huge amount of value to them as well as all of the other retail customers, then I would have to say in that particular set of circumstances we probably should shut them off. I mean, balancing the need for customers to have their lights on all the time as opposed to bringing a lot of value to them. But by the same token, if we ourselves had been experiencing a lot of difficulty with generation being down and we've been interrupting them a lot, then we might take the view of saying, no, we've exercised load management too much, and we are just going to pass on that opportunity.

But it's a judgment call, and all I'm really saying is that for load management in particular I would not say that we should never, ever interrupt them for any kind of sale. And rule one is never say never anyway.

Now, interruptible customers, their tariff operates differently, and I'm not that familiar with it, but I believe that they can only be interrupted for emergencies. So I think a totally different set of rules would apply to them. And the rule being that we would not exercise interruptible customers and curtail them in order to make an off-system market-based sale.

Q Just to clarify a question I asked regarding the power marketing department expenses earlier. Are Florida Power's power marketing expenses incremental since its last rate case?

A Yes.

Q I just have a few more questions. Are you familiar with the generating performance incentive factor?

A Somewhat.

Q Do you understand that that incentive factor offers an incentive for utilities to operate certain units efficiently?

A Yes.

Q And do you understand that the savings to ratepayers are in the form of fuel savings?

A Right.

Q So a utility that is more -- that is operating its units more efficiently would have more excess energy available to sell to the wholesale market, correct?

A I think that's generally true.

Q Considering that the Commission has already provided utilities an incentive to the GPIF that encourages efficiency in turn making more energy for sale on the wholesale market, is it appropriate for the Commission to provide another incentive for utilities to make that sale?

A Oh, I believe so, absolutely.

Q And why is that?

A Well, for the simple reason that just because a fleet is running efficiently doesn't necessarily give a utility a huge incentive to make a lot of sales. Granted, they have a statutory obligation to do that, but whether they will do that to the maximum ability or not is not necessarily related to the fact that they have the power available. And for one, it costs them money to do that. It costs money and effort to set up the kind of departments that we have. And the whole idea of an incentive is to incentivize people to do more than they might otherwise do under sort of a nonincentivize basis.

Q That's all the questions I have. Excuse me. I have just been reminded. Do you recall that Florida Power Corporation previously requested from the Commission permission to retain 20 percent of nonfuel revenues associated with Schedules D, F, and J sales? I think that was a proceeding in roughly the 1988 time frame.

A Yes, I remember that.

Q Okay. And the outcome of that proceeding was that the Commission did not allow the incentive to be applied to those sales; is that correct?

A That's right.

Q I just want to clarify. First, I'd like to find out more about what types of sales those Schedule D, F, and J sales were.

A Well, a Schedule D tended to be firm sales. Schedule F, if I recall, was something less than firm. I forget exactly the designation or the rule, but it was a little bit more of what you might call an opportunity-type sale, but I believe it was less firm than Schedule D, but that's stretching my recollection ability.

But they were sales that we were making at the time, and we viewed them as opportunity sales. You know, just the fact that they were firm and not Schedule C, we thought for the very same reason that we are making the argument today that those other kinds of things ought to be considered as part of the incentive mechanism.

Q And what about the Schedule J sales?

A Schedule J is the same type of thing. Sometimes firm, sometimes not firm depending on the specific arrangements, but it's in the same category.

Q And the sales under these schedules were all the same types of that under your proposal the 20 percent incentive would apply to, correct?

A Yes.

MR. KEATING: Okay. That's all the questions I have. Thanks.

MR. BURGESS: Jim, I have a few questions. Do you want to go ahead and proceed?

MR. McGEE: Yeah.

CROSS EXAMINATION

BY MR. BURGESS:

Q Mr. Wieland, in your testimony on Page 5, you say that one of the things that you cite at the top of the page has been the incentive that you have been applying, that Power Corp has been applying by keeping transmission revenue; is that right?

A Right.

Q And did the last Commission order and fuel adjustment affect that?

A Yes. It essentially required us to flow those revenues back through the, I believe, capacity clause, back through customers at any rate.

Q And at what point was that actually affected as far as Power Corp's sales? At what approximate date would that have been?

A I would think effective January 1 of this year. That's when the order was effective.

Q Okay. Are the sales that -- what type of sales were affected by the transmission revenue issue -- by the transmission revenue?

A Virtually all of the sales that we were making under those tariffs that we're talking about, which we're now talking about including CR, MR, OS.

Q Are those sales projected to increase in the year 2000 from what they had been or from --

A From what they have been, no. If I recall, we had a larger net gain in 1999 than we were predicting for the year 2000. And that's simply because we felt that 1999 had some very unusual couple of months where margins just got to be very huge, and we didn't believe that that will replicate itself. But again that's -- it's difficult to predict what the market is going to do in any given year.

Q Do you have any projections for the year 2001?

A Nothing I'm aware of. There may be some in-house projections, but we haven't done the year 2001 forecast yet, so nothing official that we have filed. But generally speaking, you know, I don't have any reason it's going to increase or decrease greatly from what the year 2000 projection was.

Q From what I understood your answer to be for the year 2000, the sales reduction does not have anything to do with a reduced aggressiveness with which the Florida Power Corp intends to pursue the wholesale market?

A No, I would not say that we're planning on scaling back our operations at this time.

Q And have you scaled back your operations at all?

A No.

Q Have you changed the incentives that apply to the traders and the other workers that work in the marking department?

A That I'm not aware of. I don't believe so.

Q With regard to these incentives that you discussed with Mr. Keating, these goals, are you at all familiar with what the goals actually are that establish short-term goals, primarily department-wide goals, but also including some individual goals for --

A For the power marketing department?

Q Yes.

A I don't know specifically what they are, no.

Q So you couldn't offer an opinion as to whether they're difficult to set, whether it's somewhat difficult to establish what the goals are that are used for --

A Well, I can tell you that typically when we set goals, not just for that group but in general, we like to make them stretch goals, you know, things that are not easy to make but that take effort to make.

Q And then the employees are not rewarded unless they achieve that goal, are not rewarded in addition to their base salary?

A If they don't make the goal at all, right, there would be no reward, but there is different levels of reward. It's not all or nothing. The rewards are typically structured to match the level of achievement. For example, if you get 100 percent of your goal, you get a certain amount. If you make 150 percent, you get more. If you make 50 percent, you get less. And then there's typically some level where you don't get anything.

Q Is there a level at which below which you might actually consider the employee to be less than satisfactorily performing?

A Well, that is a different issue I think in a lot of ways. Again, if you recall, the goals and the rewarding of the goals is typically done on the departmental level. If a department manager feels that a particular employee is not contributing at all, then, I mean, that would be cause for disciplinary action. That's different from the incentives.

Q Even if some sales are being made?

A Right. That's an individual employee performance issue.

Q The costs of this marketing department, you indicated that it basically was nonexistent in the last rate case.

A Right.

Q What about for surveillance reports? Do you know if the calculation of base rates incorporates the expenses associated with this marketing department?

A Yes, it would.

Q The entirety of the marketing costs?

A. Yes.

Q If the Public Service Commission does extend the incentives to nonbroker sales, do you know, are there any changes or plans for this marketing department?

A That's something I can't tell you, but I think what you have to think about long term is that if you have an incentive versus not having an incentive, will the activity and the incentives that are given to power markets change over time. I mean, there's no plan in place to do that, but you have to ask yourself whether they will. It's just a matter of human behavior.

And our position is that we believe it will. You will have a different response if you have incentives as opposed to not having incentives. I just can't tell you exactly what form that change will take place or when it will happen.

Q And you agree that for your proposal to be a success, it would call for the additional sales to be such that the total amount of gain that is credited to the customers in their 80 percent would need to exceed the amount of 20 percent increment that they are losing? In other words, that the total sales would have to increase by an amount that would overcome the 20 percent that the customers would be giving up?

A Yes, I would agree with that. If the Commission felt that giving incentives would not bring more benefit to the customer, if they did not believe that, then they shouldn't have incentives.

Q And that's that judgment that you were speaking of earlier?

A That's a judgment call. And I will tell you that we have incentive plans for all employees, and we would not have those incentive plans for our employees if management didn't have the same conviction that it brings benefit. We're not doing that because we want to take stockholder money and give it to the employees. We want to do that because we think everyone, including the company shareholders, will benefit. And it's the same exact principle.

Q With regard to those kinds of incentives that you have for employees, are they sometimes quantitative?

A They're very quantitative.

Q And an employee generally does not receive a positive incentive, a reward, unless he achieves somewhere in the range or exceeds a particular preset goal?

A Well, typically, the incentive system that we have throughout the company for all employees, management and nonmanagement, are departmental-wide. So, for example, if there's an earnings goal or a rate goal, you know, everyone can contribute to that to some extent even though one particular individual may not be able to do that. So I'd say even though there may be some individuality, the goals are set on a very broad departmental-wide almost company-wide basis with the idea that everyone is very aware of that, which they are, and they will try to do whatever they can to contribute to the goal that they can contribute to most.

Q But my question is more along the lines of -- that you wouldn't give them a reward at the end of whatever period of time unless some goal were achieved?

A Oh, absolutely. Right.

MR. BURGESS: Okay. That's all I have. Thanks a lot, Jim. I appreciate it. Thank you, Mr. Wieland.

(Deposition concluded at 11:48 a.m.)

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ERRATA SHEET

DO NOT WRITE ON TRANSCRIPT - ENTER CHANGES HERE

IN RE: DOCKET NO. 991779-EI
NAME: KARL H. WIELAND
DATE: Thursday, April 27, 2000

Page	Line	Change

Under penalties of perjury, I declare that I have read my deposition and that it is true and correct subject to any changes in form or substance entered here.

DATE:________ ______________________________
KARL H. WIELAND

F L O R I D A)
: CERTIFICATE OF OATH
COUNTY OF LEON)

I, the undersigned authority, certify that KARL H. WIELAND personally appeared before me and was duly sworn.

WITNESS my hand and official seal this 27th DAY OF APRIL, 2000.

Tricia DeMarte
TRICIA DeMARTE
Notary Public - State of Florida

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

I, TRICIA DeMARTE,, Official FPSC Commission Reporter, do hereby certify that I was authorized to and did stenographically report the foregoing deposition of KARL H. WIELAND.

I FURTHER CERTIFY that this transcript, consisting of 50 pages, constitutes a true record of the testimony given by the witness.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS FIRST DAY OF MAY, 2000.

Tricia DeMarte

TRICIA DeMARTE
Official FPSC Reporter
(850) 413-6736

Q.1. Please explain how FPC currently calculates the 20 percent stockholder incentive on economy energy sales. Please provide example A schedules in your explanation.

A.1. In Table 2 below you will find the relevant section of the A-6 schedule used to report the 80% ratepayer share of broker sales. The 20% shareholder incentive is calculated as follows (Table 1.):

Table 1.

		CURR MTH	
GAIN ON ECONOMY SALES		96,236.73	schedule A6 divided by .8 to grossed up gain
RETAIL PORTION	X	95.15%	current month retail rate from Fuel Revenue Spreadsheet
FPC PORTION	X	20.00%	Amount that goes to stockholders
NON OPERATING INCOME		18,314.00	this is the amount that goes to the schedule above and gets reclassed into the 421.40 G/L Account which is the account below the line

Table 2.

FLORIDA POWER CORPORATION
SCHEDULE A6

POWER SOLD
FOR THE MONTH OF:
DEC 1999

(1) SOLD TO	(2) TYPE & SCHEDULE	(3) TOTAL KWH SOLD (000)	(4) KWH WHEELED FROM OTHER SYSTEMS (000)	(5) KWH FROM OWN GENERATION (000)	(6a) FUEL COST C/KWH	(6b) TOTAL COST C/KWH	(7) FUEL ADJ TOTAL $	(8) TOTAL COST $	(9) 80% GAIN ON ECONOMY ENERGY SALES
ESTIMATED		110,000	0	110,000	1.842	1.974	2,026,200	2,171,400	116,160
ACTUAL:									
Florida Power & Light Company	Schedule C	16,576		16,576	1.437	2.017	238,177	334,413	76,989
SubTotal - Gain on Economy Energy Sales		16,576		16,576			238,177	334,413	76,989

Q.3. Please explain how FPC documents, for auditing purposes, the gain on economy energy sales to which FPC applies the 20 percent stockholder incentive.

A.3. Each economy transaction entered into is denoted as 'Schedule-C' (Hourly Economy), or 'Schedule-X' (Next-day Economy). This identification is maintained through our trade settlement and financial reporting systems.

Q.4. Please list and provide a brief description of each FERC schedule under which FPC currently makes economy energy sales to which FPC applies the 20 percent stockholder incentive. In your response, please provide the year FPC began applying the 20 percent stockholder incentive to sales made under each schedule and indicate when each schedule became available to FPC.

A.4. FPC currently applies the 20 percent stockholder incentive payment to two Service Schedules associated with FPC's Contract for Interchange Service. These two agreements are Service Schedule C, "Economy Interchange Service" and Service Schedule X, "Extended Economy Interchange Service". Schedule C is used for hourly non-firm economy sales. Schedule X is similar to Schedule C however can be up to seven days duration and while the power is firmer than Schedule C it is not system capacity. These sales are priced as cost-based, split-the-savings transactions between Florida utilities. FPC began applying the 20 percent stockholder incentive in 1985. Schedule C was in effect since 1977 and Schedule X became effective in 1984.

Q.5. Please indicate which, if any, of FPC's wholesale sales made under the FERC schedules listed in your response to Interrogatory No. 4, include a capacity component.

A.5. Neither Service Schedule includes a capacity pricing component.

Q.6. Please describe how sales made under the FERC schedules listed in your response to Interrogatory No. 4 are currently priced, i.e., split-the-savings, market-based pricing, or any other pricing methodology.

A.6. All transactions are priced according to split-the-savings methodology.

Q.7. For the years 1994 through 1999, please provide FPC's annual wholesale sales, in dollars and megawatt-hours (MWh), made over the Florida Broker Network.

A.7.

Year	Sales (MWh)	Broker Revenue	80% of Profit
1994	500,759	$9,757,622	$1,221,981
1995	851,013	$17,701,344	$2,208,051
1996	318,206	$7,227,750	$822,210
1997	159,669	$3,396,028	$444,900
1998	165,875	$3,053,922	$432,972
1999	50,267	$1,117,728	$240,707

Q.8. For the years 1994 through 1999, please provide FPC's annual wholesale sales, in dollars and MWh, made under each FERC schedule on which FPC applied the 20 percent stockholder incentive. For each year, please indicate the portion of these sales that were made over the Energy Broker Network. For each year, please indicate the amount retained by FPC as a 20 percent stockholder incentive for wholesale sales made under each applicable FERC Schedule.

A.8. As discussed in FPC's response to question 4, the 20 percent incentive is only taken on Energy Broker Network transactions, FERC Schedule C and X. The majority of the sales during the time period in question were Schedule C. Please refer to response 7 and 16 for annual wholesale sales in dollars and MWh in total for Energy Broker Network transactions.

Q.9. Please list each type of wholesale sale to which, in FPC's opinion, the 20 percent stockholder incentive should apply. In your response, please indicate the FERC schedule under which each type of sale is made.

A.9. With the exceptions of emergency schedules A and B, the 20% stockholder incentive should apply to all non-separated wholesale sales reported on Fuel Adjustment Schedule A-6. Limiting the incentive to specific schedules would require constant updating of the list of qualifying schedules and could result in inconsistent application between utilities that use different schedules for similar transactions or the same schedule name for different types of transactions.

Q.10. If your response to Interrogatory No. 9 includes any FERC schedule not listed in your response to Interrogatory No. 4, please provide FPC's annual wholesale sales, in dollars and MWh, made under each such schedule for the years 1994 through 1999. For each year, please indicate the amount that would have been retained by FPC as a 20 percent stockholder incentive for wholesale sales made under each such FERC schedule.

A.10. See FPC's response to Interrogatory # 17.

The amounts listed in the response to interrogatory 17 includes small amounts of emergency schedules A and B which Florida Power proposes to exclude from the incentive. Sales are not sub-totaled by individual FERC schedule because the company does not have a data base that contains data by FERC schedule. The majority of sales today are made under FERC schedules CR-1 (Cost-based wholesale power sales tariff), MR-1 (Market-based wholesale power sales tariff), and OS (Opportunity sales tariff).

Q11. Please identify and quantify FPC's marketing and administrative expenses directly associated with making wholesale sales under the FERC schedules listed in your response to Interrogatories No. 4 and No. 9. Please indicate where each of these costs are currently booked and how they are recovered, if at all.

A.11. We do not track marketing and administrative costs by FERC schedule. For the power marketing organization that is described in the answer to No. 12 below the 2000 budgeted expense is $2.5 million. The Risk Management department budget is $0.4 million and the Back Office budget is $0.5 million. Additionally, members of the Controller's department provide administrative support to Power Marketing. These costs have not been quantified. All of the costs incurred above are classified as base operations and maintenance expense and are included for earnings surveillance reporting.

Q.12. Please describe the organizational structure of FPC's wholesale power marketing department. In your response, please provide the following: the total number of employees in the department; a list of each position in the department, including the salary and responsibilities associated with each position; the number of employees in the department devoted to marketing full-time; the number of employees in the department devoted to marketing part-time; the number of employees in the department devoted to administrative/support activities full-time; and the number of employees devoted to other responsibilities and a brief statement of their responsibilities.

A.12.

Answer: The following is a breakdown of FPC's Power Marketing Department

Titles	Count	Base Salary	Responsibilities	Function	Commitment
Director	1	[redacted]	Manage all wholesale power marketing activity	Administrative	Full time
Staff Marketing Specialist	3	[redacted]	Initiate and manage long term sales contracts	Marketing	Full time
Energy Trader	2	[redacted]	Buy and sell power in forward markets (beyond today)	Marketing	Full time
Power Trader	5	[redacted]	Buy and sell power during the current day	Marketing	Full time
Energy Portfolio Manager	2	[redacted]	Manage cost efficient use of system generation	Support	Full time
Energy Portfolio Analyst	1	[redacted]	Assist Energy Portfolio Managers	Support	Full time
Systems Consultant	1	[redacted]	Develops and maintains computer systems and software	Support	Full time
Contract Management Specialist	1	[redacted]	Develop, evaluate and maintain contractual obligations	Support	Full time
Department Support Administrator	1	[redacted]	Provides administrative and secretarial support to Dept.	Support	Full time
	17				

Q.13. Please describe the office space and equipment that FPC currently is devoted for use by its wholesale power marketing department. If FPC does not have a separate wholesale marketing department, please describe the office space and equipment that FPC currently has devoted for use by the employees listed in your response to Interrogatory No. 12.

A.13. FPC's Power Marketing Department is located on the third floor of the Bayboro Office Building in St. Petersburg. The department is grouped together in a space of approximately 2,000 square feet. The seventeen Power Marketing employees are provided with the normal array of office equipment such as, personal computers, a fax machine, printers, telephones and office furniture. In addition, the department operates a sophisticated energy trading center which uses a semi-dedicated computer server, multi-line recorded phone system and electronic data wall information system. A variety of propriety software packages have been developed and are incorporated to tie the operation together.

Q.14. Please describe how FPC's wholesale power marketing employees are compensated. In your response, please indicate whether these employees receive an incentive or a commission for making sales under any of the FERC schedules listed in your response to Interrogatories No. 4 or 9 and indicate which FERC schedules such an incentive or commission is associated with. Please explain how the incentive is calculated and booked.

A.14. FPC's Power Marketing Department utilizes an incentive program as part of its compensation program which rewards employees for creating value for both customers and shareholders. Incentives are not tied to specific FERC interchange schedules. Each year, financial targets are established related to short-term trading and long-term marketing and sales. While each employee has a vested interested in hitting all targets, the heaviest weight is placed on those areas where the employee has the most direct impact. Incentives are paid out once each year and are booked as base O&M.

Financial results are calculated based the margin produced (plus or minus) relative to cost for each transaction. For short-term sales (less than one year in duration) the basis is FPC's incremental production cost (fuel, variable O&M and purchased transmission service). The difference between the sales price and the cost basis is the margin used towards meeting the short-term department goal.

The incentive portion of an employee's total compensation varies from approximately 30% for traders to 8% for administrative personnel. The amount earned by an employee depends on three things: the amount of salary "at risk", the relative weight of each goal for that employee, and the financial results of the department.

For example, assume that a trader earns a base salary of $50,000 and has an additional 20% salary at risk. Further, assume his incentive is based on a weight of 75% related to short-term trading and 25% related to long term marketing and sales. If the department achieves 100% of its short-term goal and 80% of its long-term goal, the employee's incentive pay will be $9,500.

Q.15. If the Commission approves a reward/penalty mechanism for economy energy sales, please indicate how, in FPC's opinion such a mechanism should be designed.

A.15. The existing mechanism of sharing the profits and losses on an 80%/20% basis between ratepayers and shareholders should be applied to all qualifying sales. Similarly, shareholders should absorb 20% of any losses resulting from such sales. The incentive should continue to be booked below the line.

Q.16. **Please state the total dollars booked below the line by FPC as a result of the 20 percent stockholder incentive since it was approved in 1984.**

A.16.

Year	Amount	Year	Amount	Year	Amount	Year	Amount
1984	None	1988	$570,931	1992	$235,700	1996	$194,118
1985	$518,301	1989	$288,036	1993	$213,382	1997	$107,494
1986	$866,462	1990	$480,898	1994	$294,491	1998	$104,250
1987	$688,123	1991	$353,262	1995	$530,892	1999	$57,620

Q.17. Please provide FPC's annual non-separated wholesale sales, in dollars and MWh, for the years 1994 through 1999.

A.17. Please refer to question #7 for broker transactions and refer to the table below for non-broker transactions.

Year	Sales (MWh)	Non -Broker Revenue
1994	19,692	$890,030
1995	205,689	$4,448,480
1996	300,776	$7,294,066
1997	522,157	$16,235,094
1998	1,358,875	$43,097,864
1999	1,539,264	$47,250,352

Q.18 Please provide the FPC's annual economy energy purchases, in dollars and MWh, for the years 1994 through 1999.

A.18

Year	Purchases (MWh)	Broker & Non - Broker Economy Energy Purchases
1994	1,459,939	$36,713,946
1995	492,009	$13,870,448
1996	1,392,256	$40,131,819
1997	1,665,662	$45,795,053
1998	838,773	$39,732,478
1999	532,868	$23,073,045

Q19. Please indicate how Florida Power defines an economy energy sale. In your response please list all conditions that must be present for a wholesale sale to meet the definition of an economy sale.

A.19 Florida Power does not have a rigorous definition for an economy energy sale. Sales that are sometimes called economy, have certain characteristics:

1. They are less firm than retail and wholesale firm load.
2. They are typically less than a year in duration
3. The Company does not plan generation or transmission capacity for them.
4. They are served from capacity that is not needed to meet firm load requirements.
5. They are made in order to maximize the use of existing facilities and thus lower cost.

Q20. For the period 1998 through 1999, please list each instance when Florida Power interrupted or curtailed electric service to non-firm, non-residential customers. For each instance listed, please provide the date of the interruption or curtailment; the number of non-firm, non-residential customers affected; and the amount of energy interrupted or curtailed.

A20.

DATE	NUMBER OF CUSTOMERS	AMOUNT OF ENERGY (mwh)
6/02/98	142	1065
6/15/98	142	961
6/17/98	142	831
6/18/98	142	497
6/22/98	142	1395
6/23/98	142	1362
6/24/98	142	1078
6/29/98	142	849
8/28/98	140	735
1/06/99	136	361
4/05/99	143	170
4/23/99	143	431
4/26/99	143	1672
8/02/99	143	627

Q21. For the period 1998 and 1999, please list each instance when Florida Power purchased "but-through" energy for non-firm, non-residential customers in lieu of interruption or curtailment. For each instance listed, please provide the date that such "buy through" energy was purchased; the number of non-firm, non-residential customers affected; and the amount of energy purchased.

A21. In 1998 there were four such events, June 3, 11, 15 and 17. There were 145 accounts affected and a total of 1,468 mwh's of energy was purchased on their behalf. In 1999 there were three events, April 23, 26 and 27. In these cases there was a total of 1,206 mwh's purchased for 142 accounts.

Q22. For each instance listed in your response to Interrogatories 20 and 21, above, please provide the amount of economy energy sold by Florida Power during these interruptions, curtailments, or "buy through" periods.

A22. None

Q23. For each year from 1994 through 1999, please provide the number of individual market participants that either bought economy energy from or sold economy energy to Florida Power.

A23. FPC's Trading Center records go back only to mid 1996 when the department was created. The following are the number of market participants which economy energy was either bought or sold annually since then.

1996 (partial year) - 22
1997 - 43
1998 - 44
1999 - 44

Q24. For each year from 1994 through 1999, please indicate, in Dollars and megawatt hours (MWh), the amount of economy energy that Florida Power has sold that was priced at market-based rates.

A24. FPC received approval to sell power at market-based rates (outside of Florida) in 1997. Since then the following activity has occurred:

DATE	MWh	NOTIONAL VALUE	
1997	30,622	$778,535	$25.42
1998	565,390	$22,937,095	$40.57
1999	402,000	$24,015,870	$59.74

Q25. Please indicate whether Florida Power has analyzed the impact that shareholder incentives based upon the gains from economy energy sales may have on any of the following:

A) economy energy transactions (number, Dollars, and MWhs);
B) gains from economy energy sales;
C) levelized fuel recovery factor;
D) generation expansion plans;
E) capital costs;
F) fixed operation and maintenance costs;
G) variable operation and maintenance costs;
H) system dispatch;
I) ability to serve firm and non-firm retail load;
J) ability to serve firm wholesale load;
K) transmission expansion plan;
L) seller's incremental costs;
M) buyer's decremental costs, and
N) return on equity

A25. Florida Power has not performed any analysis of the impact that shareholder incentives based upon the gains from economy energy sales may have on any of the above factors. We can however, estimate the general effect of these sales on these same factors:

A) Economy energy transactions (number, Dollars, and MWhs):
Florida Power believes the level of economy transactions (number, Dollars, and MWh) will increase as a result of incentives.

B) Gains from economy energy sales:
Florida Power believes gains from economy sales will increase as a result of incentives.

C) Levelized fuel recovery factor:
Increased gains from sales will decrease the fuel recovery factor.

D) Generation expansion plans:
Florida Power does not plan capacity for economy sales, therefore generation expansion plans are unaffected.

E) Capital costs:
No effect.

F) Fixed operation and maintenance costs:
No effect.

G) Variable operation and maintenance costs:
Variable operation and maintenance costs will increase and decrease in proportion with the change in economy sales.

H) System dispatch:
Economy sales are made at incremental cost, therefore the cost for native load customers is unaffected.

I) Ability to serve firm and non-firm retail load:
The ability to serve firm load is unaffected. The ability to serve non-firm load could be reduced by some economy sales.

J) Ability to serve firm wholesale load:
The ability to serve firm wholesale load is unaffected.

K) Transmission expansion plan:
Florida Power does not plan capacity for economy sales, therefore transmission expansion plans are unaffected.

L) Seller's incremental costs:
The seller's incremental cost after a sale is generally higher than before the sale.

M) Buyer's decremental costs:
The buyer's decremental cost should decrease.

N) Return on equity:
The impact of incentives on the return on equity depends on the nature of the incentive. Under Florida Power's proposal, gains would be reported below the line and thus not affect the regulatory return on equity.

Q26. What is the minimum gain on an individual sale that Florida Power must obtain in order for an economy energy sale to occur?

A26. There is no minimum gain required for an economy energy sale, however, in practice our traders consider a margin of one dollar per mwh to be threshold.

Q28. For each state, other than Florida, in which Florida Power or an affiliate of Florida Power is a participant in the wholesale energy market, please indicate whether that state's public utility commission provides a shareholder incentive to encourage non-separated wholesale energy sales.

A28. Florida Power does not know what incentives utility commissions in other states provide to encourage non-separated wholesale energy sales.

Q29. For each state listed in your response to Interrogatory 28 as providing a shareholder incentive, please describe the shareholder incentive provided by the public utility commission in that state to encourage non-separated wholesale energy sales.

A29. See Florida Power's answer to Interrogatory 28.

Q28. For each state, other than Florida, in which Florida Power or an affiliate of Florida Power is a participant in the wholesale energy market, please indicate whether that state's public utility commission provides a shareholder incentive to encourage non-separated wholesale energy sales.

A28. Florida Power does not know what incentives utility commissions in other states provide to encourage non-separated wholesale energy sales.

Q31. When Florida Power includes a separately identified transmission charge for a wholesale energy sale, what regulatory treatment does Florida Power apply to these transmission revenues? In your response, please indicate the relevant orders of the Florida Public Service Commission which authorize that regulatory treatment.

A31. Florida Power flows the retail jurisdictional portion of transmission revenues on unbundled non-separated wholesale sales through the Capacity Cost Recovery Clause and the wholesale portion through Other Operating Revenues. Florida Power is following the order of this Commission issued in Docket 990001-EI, Order PSC-99-2512-FOF-EI.

Q32. If Florida Power does not include a separately identified transmission charge for a wholesale energy sale, what regulatory treatment does Florida Power apply to the portion of the gain that represents the transmission charge? In your response, please indicate the relevant orders of the Florida Public Service Commission which authorize that regulatory treatment.

A32. FERC Order 888 requires companies to identify the transmission component for all sales. Please refer to Florida Power's response to Interrogatory 31 for the regulatory treatment.

Q33. Please indicate whether an outside auditor can replicate the necessary calculations to determine incremental costs as they existed at the instant Florida Power made a wholesale energy sale. Please explain your response: if yes, please explain how those calculations can be replicated by an outside auditor; if no, please explain why those calculations can not be replicated by an outside auditor.

A33. Yes, FPC retains the production cost modeling files which support all wholesale energy sales. These files contain all the inputs as well as the results in sufficient detail for an outside auditor to either verify or replicate the cost basis used for any transaction. These files go back to at least 1996 when FPC's Power Marketing Trading Center began.

Q34. If a wholesale energy sale does not include a capacity component, can the Commission infer that the sale is non-firm? Please explain your response.

A.34. No. Prior to the evolution of the contemporary power trading market place power was either sold as firm or non-firm. Further, the terms firm and capacity where closely aligned in the sense that a firm sale was one that was backed by specific generating capacity (either a unit or a system of units). The buyer and seller agreed that the power would not be interrupted as long as those units were able to operate.

However, in today's market while the term "capacity" still denotes a commitment of one or more generation resources the term" firm" does not necessarily mean capacity. For example, A common product today is something called "firm LD". This is a commitment to sell power which is backed monetarily. If a seller fails to deliver on a firm LD commitment then the seller is obligated to reimburse the buyer for the cost incurred in replacing that power from other sources. The seller may choose to liquidate the sale regardless of the status of generation under their control. Further, as described in FPC's response to Interrogatory No. 35, FPC offers another product called "subordinate firm" power which can be withheld whenever FPC supply resources become limited.

Q35. Has Florida Power ever sold non-separated energy on a firm basis that had a recallable provision? If so, please describe the conditions that were necessary for Florida Power to recall this energy.

A35. Yes, FPC sells a product called subordinate firm energy. The primary distinction of this product from firm or non-firm is that it can be recalled for specific situations on FPC's system. For example, FPC would have the right to recall the power if system conditions were such that implementation of demand side management would be required to support the sale.

Q36. During 1999, did Florida Power make any sales for non-separated wholesale energy where the incremental costs associated with the energy sold were greater than the revenue received from the sale?

A36. Yes, Florida Power entered into sales that at the inception of the sale the transaction created savings but by the time the transaction was executed circumstances had changed such that the incremental costs associated with the energy sold was greater than the revenue received from the sale.

Q37. During Florida Power's most recent general rate proceeding what amount was assigned to Florida Power's power marketing activities during its test year?

A37. During Florida Power's most recent general rate proceeding it did not have a power-marketing department. The Energy Control Center Dispatchers performed these activities as time permitted.

Q38. For each year from 1994 to 1999, please state all expenses that Florida Power incurred in its power marketing department.

A38. For the period requested above Florida Power's direct power marketing department expenditures are as follows:

Year	Amount $
1994	333,514
1995	519,167
1996	1,641,859
1997	2,489,050
1998	3,225,706
1999	2,295,150

Q39. Does Florida Power differentiate between a non-separated wholesale energy sale made within Florida and a non-separated wholesale energy sale made outside of Florida? If so, please explain how and why Florida Power makes that distinction.

A39. Florida Power does not differentiate between a non-separated wholesale energy sale made within Florida and a non-separated wholesale energy sale made outside of Florida. Florida Power does, however, maintain records that identify in-state and out-of-state sales. See FPC's response to Interrogatory 48.

Q40. When calculating gain on its wholesale energy sales, does Florida Power subtract incremental SO_2 emission allowance costs associated with such sales from the revenue derived from such sales?

A40. No.

Q41. If your response to interrogatory 40, above, is affirmative, please indicate the regulatory treatment that Florida Power applies to these incremental SO_2 allowance costs. In your response, please indicate which orders of the Florida Public Service Commission authorize that regulatory treatment.

A41. Not applicable.

Q42. When calculating gain on its wholesale energy sales, does Florida Power subtract incremental O&M costs associated with such sales from the revenues derived from such sales?

A42. Yes, starting in the year 2000 Florida Power will subtract incremental O&M costs associated with such sales from the revenues derived from such sales. Prior to the year 2000 Florida Power had not performed the necessary detailed study to accurately quantify the incremental O&M costs that should have been subtracted from such sales. Since prior to this time the Company had only included a minimal amount of incremental O&M cost in the determination of gain from non-separated wholesale sales it was decided that the customer should be credited with these revenues until such time as a study could be performed.

Q43. If your response to Interrogatory 42, above, is affirmative, please indicate the regulatory treatment that Florida Power applies to these incremental O&M costs. In your response, please indicate which orders of the Florida Public Service Commission authorize that regulatory treatment.

A43. Revenues attributable to O&M will be credited to operating revenues. We are unaware of any order that prohibits this practice.

Q44. When calculating gain on its wholesale energy sales, does Florida Power subtract any costs from revenues other than incremental fuel costs, incremental SO2 emission allowance costs, or incremental O&M costs? If so, please list all such costs.

A44. Yes, effective January 1, 2000 Florida Power subtracts transmission revenues on unbundled non-separated wholesale sales and flows the retail jurisdictional portion through the Capacity Cost Recovery Clause and the wholesale portion through Other Operating Revenues.

Q45. If your response to Interrogatory 44, above, is affirmative, please indicate the regulatory treatment that Florida Power applies to each of the costs listed. In your response, please indicate which orders of the Florida Public Service Commission authorize that regulatory treatment.

A45. Please refer to interrogatory 44 for the treatment of transmission revenues on unbundled non-separated wholesale sales. Florida Power is following the order of this Commission issued in Docket 990001-EI, Order PSC-99-2512-FOF-EI

Q46. For each FERC schedule under which Florida Power makes non-separated wholesale energy sales, please describe the characteristics of the wholesale capacity and energy sold under each schedule.

A46. FPC's non-separated wholesale energy sales can be described by the following characteristics:

- Quantity (mw's)
- Level of firmness (capacity backed, system backed, subordinate to load management, non-firm)
- Schedule (hourly, multi-hour, on-peak, off-peak)
- Term (1 day, multi-day, weekly, monthly, quarterly)
- Point of delivery
- Customer

Q47. Before Florida Power makes a non-separated wholesales energy sale, how does Florida Power calculate the incremental costs associated with making that sale?

A47. FPC has a group of three analysts dedicated to projecting the system cost basis for all power purchasing and sales activity. They use the production cost modeling program called Couger (by ABB) to develop hourly costs estimates of system incremental and decremental cost. System cost simulations are done at least twice a day and anytime a major event occurs such as unplanned plant outage. Simulation modeling of the up-coming 12 months is also maintained to support market opportunities beyond the next seven to ten day, short term market.

FPC also conducts after-the-fact post analysis production cost simulation in order to true-up the cost estimates associated with individual transactions. This reduces the potential forecast error associated with cost projections by better representing actual conditions (ie load, unit dispatch, off-setting spot purchases).

Q48. Does Florida Power maintain records that separately identify non-separated wholesale energy sales within Florida and non-separated wholesale energy sales made outside of Florida? If so, please identify the criteria that Florida Power uses to distinguish these two types of sales.

A48. Yes. The distinction is based on where the change in ownership occurs at the point of delivery. For example, if power was sold to Georgia Power Company and delivered into the Southern system the it would be identified as an out-of-state transaction. If Enron bought power from FPC at our busbar but ultimately wheeled it to Georgia Power, it would be consider an in-state transaction from FPC's perspective.

EXHIBIT NO. ___________

DOCKET NO: 991779-EI

WITNESS: KARL H. WIELAND

PARTY: FLORIDA POWER CORPORATION

DESCRIPTION: LATE-FILED EXHIBIT TO THE DEPOSITION OF KARL H. WIELAND TAKEN ON APRIL 27, 2000

PROFERRED BY: STAFF

Florida Power Corporation
Docket No. 991779-EI
Deposition of Mr. Karl Wieland
Late File Exhibit - Shareholder Incentive on Non-Broker Sales

	System	
Year	Savings on Non-Broker Sales	Shareholder Incentive
1994	$ 390,247	$ 78,049
1995	$ 539,352	$ 107,870
1996	$ 673,368	$ 134,674
1997	$ 3,538,439	$ 707,688
1998	$ 12,247,605	$ 2,449,521
1999	$ 13,646,812	$ 2,729,362

EXHIBIT NO. ___________

DOCKET NO: 991779-EI

WITNESS: M.W. HOWELL

PARTY: GULF POWER COMPANY

DESCRIPTION: COMPOSITE EXHIBIT: 1) DEPOSITION OF M.W. HOWELL TAKEN ON APRIL 25, 2000; AND 2) RESPONSES TO STAFF'S INTERROGATORY NOS. 1 - 23 AND 25 - 44.

PROFERRED BY: STAFF

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 991779-EI EXHIBIT NO. 8
COMPANY/WITNESS: Gulf Power / Howell
DATE: 5-10-00

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of : DOCKET NO. 991779-EI

REVIEW OF THE APPROPRIATE APPLICATION OF INCENTIVES TO WHOLESALE POWER SALES BY INVESTOR-OWNED ELECTRIC UTILITIES.

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* AND DO NOT INCLUDE PREFILED TESTIMONY. *
****

DEPOSITION OF: M. W. HOWELL

TAKEN AT THE INSTANCE OF: The Staff of the Florida Public Service Commission

CONDUCTED FROM: Gerald L. Gunter Building
Room 362
2540 Shumard Oak Boulevard
Tallahassee, Florida

TIME: Commenced at 2:00 p.m.
Concluded at 3:24 p.m.

DATE: Tuesday, April 25, 2000

REPORTED BY: TRICIA DeMARTE
Official FPSC Reporter

APPEARANCES:

RUSSELL A. BADDERS, Beggs and Lane, P. O. Box 12950, Pensacola, Florida 32576-2950, representing Gulf Power.

STEPHEN C. BURGESS, Office of Public Counsel, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the state of Florida.

WILLIAM COCHRAN KEATING, Florida Public Service Commission, Division of Legal Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, appearing on behalf of the Commission Staff.

Also Present:

DON HALE, Office of Public Counsel

I N D E X

WITNESSES

M. W. HOWELL

called as a witness, and having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KEATING:

Q Good morning, Mr. Howell.

A Good morning, Cochran. How are you doing?

Q Pretty good. For the record, could you state your complete name and business address?

A It's M. W. Howell, One Energy Place, Pensacola, Florida 32501.

MR. BADDERS: Before we go any further, I'd like to reserve the typical stipulations, and we'd like to reserve reading and signing.

BY MR. KEATING:

Q Mr. Howell, you've stated, I believe, in your testimony that neither Gulf nor Southern participates in the broker system; is that correct?

A The Florida broker system, that's correct.

Q That's right, the Florida Energy Broker system.

A The EBN, they call it. Yes, sir, that's correct.

Q Are you aware that the broker system has recently undergone some changes in the way that -- in the types of transactions that are conducted over the broker?

A My understanding is that they have undergone some, but I'm not familiar with exactly what the changes are.

Q So neither Gulf nor Southern is a participant in the newly evolved broker system?

A That's right.

Q I believe in your interrogatory response to Interrogatory Number 4, you stated that Gulf currently applies the 20 percent stockholder incentive to Schedule C sales and the market-based rate power sales tariff; is that correct?

A That's right.

Q Do those two types of sales represent all of Gulf's nonseparated energy sales?

A Yes, at this time, that's true.

Q Are any of these sales considered firm?

A I'm not sure if they're considered -- generally, they're not firm. The market-based tariff does allow us to put orders of firmness into the energy sales, but all of them have a recallable provision. Before we would interrupt our own customers, we would interrupt that, but basically they're all opportunity-type sales.

Q So do any of the Schedule C sales have any firm component that you're aware of?

A I don't think they do.

Q But the market-based --

A You could put that in. It has the freedom to do that. And of course, we make very few sales anymore on the split-the-savings Schedule C. The great preponderance of it is on the new market-based tariff.

Q Under the market-based tariff, can Gulf make market-based sales both in-state and out of state?

A There's no restriction. Of course, Southern makes the sales on -- Southern Company Services is agent for all the operating companies, and there's no restriction on where we can market them. So we could make them within Florida or outside of Florida.

Q How does that work? Does Southern have the tariff with FERC, or does Gulf have a separate improved tariff?

A It's a single tariff filed by Southern Company Services on behalf of the operating companies, and the Southern Company Services acts as agent to arrange for the sales, and all the operating companies get a share of those sales.

Q And when the Commission issued its Order 12923 back in the 1984-'85 time period that established the stockholder incentives, Gulf did not have the authority to charge market-based prices on those types of sales, correct?

A That's correct. That didn't come about until the mid '90s.

Q To your knowledge, did any of Florida's IOUs have the authority to make market-based sales at the time that that order was issued?

A I don't know. It's my understanding that the market-based concept came along after the incentive was established, but I don't know for sure.

Q Are you aware that Gulf is the only Florida IOU that applies the 20 percent incentive to market-priced sales?

A No, I wasn't. I know we've had a lot of hearings and all on that, and I probably knew it at one time, but I haven't kept up with it.

Q Do you believe that including market-priced, nonseparated sales and the 20 percent stockholder incentive goes beyond what was originally approved in Order 12923?

A Is that the order that was approved and issued in '84?

Q Yes.

A It's been our interpretation that it would apply to that, and that's why we went ahead and applied the split to it. Of course, we haven't shielded that information from the Commission and the Staff. They have been aware of it, but when the market-based concept first came along, it was an economy energy type transaction which we understood it did apply to. So that's what we have been doing. And, of course, the customer has benefited by that because he has gotten 80 percent of those gains.

Q And this may be in your testimony or in one of the discovery responses, but when did Gulf's market-based power sales tariff -- or when did Southern's market-based power sales tariff become effective?

A It was around 1996, probably -- that's within a year of the first year of it. I think that is the year, but I'm not real sure.

Q So you wouldn't know what part of 1996?

A No, I don't know when in '96. I believe that is the correct year, but I don't remember exactly when.

Q When did Gulf begin applying the stockholder incentive to sales made under that tariff?

A As soon as we started making them. We viewed those as economy-type transactions, so we would have applied it on the very first ones.

Q Would you agree that incentives should be provided only if those incentives are tied to a decision within the utility's control?

A In general, yes.

Q Is it correct that whether Gulf or Southern can make an economy sale is determined by available capacity?

A That's one of many factors.

Q Okay. What other factors?

A Don't hold me to naming all of them, but the need for capacity in the market. If we have capacity that is cheaper than what other utilities could generate for, then we expect that -- and we are aware of that situation, then we expect we would make the sale. Does that answer the question?

Q I think so.

A Okay.

Q But at least one of the factors is available capacity?

A At the right price, yes, sir.

Q Can Gulf or Southern increase capacity, available capacity in the short run?

A I'm not sure what you mean.

Q They can't make more capacity available in the short term?

A Well, our total capacity is made up of owned resources and what we might purchase, and you can purchase short-term capacity. Now, whether or not we would do that for the sole purpose of making economy transactions would depend on all the economic factors at the time. I'm not aware that we have ever done that, but I'm just saying I wouldn't make the blanket statement.

Q Would you agree that to an extent -- and I think you might have covered this partly in your previous answer -- that the level of transactions and the profit margin on sales are dependent upon the needs of market purchasers?

A Well, the available market is certainly determined by who has capacity to sell and who has a need for capacity. And the level of sales is dictated not only by that, by whether or not you know the market and are able to participate in the market, so it's a combination of those.

Q Gulf doesn't have a separate wholesale marketing department; is that correct?

A Yes, that's correct.

Q And Southern acts as its agent?

A Yes.

Q Is it safe to say that Southern determines when to make a nonseparated sale and dispatches the system accordingly?

A As agent for the operating companies, that's true.

Q How do the revenues from the sales that Southern determines to make get allocated to Gulf?

A The sales are based on a load ratio basis. Depending on our relative size compared to the other operating companies, it's basically allocated on company size.

Q And once those revenues are allocated to Gulf, then Gulf applies the 20 percent stockholder incentive to the gains?

A Right. The gains that Gulf has, we would apply the 80/20 split to them.

Q In response to one of Staff's interrogatories, it was Number 11, you stated that Gulf's administration and marketing expenses for 1999 were, I believe, $107,122, correct?

A Correct, that's right.

Q Is that the portion of Southern's expenses that's allocated to Gulf?

A Right.

Q Are those costs only for nonseparated sales, or are those for all wholesale sales?

A That's for the -- that's for nonseparated sales and purchases that we make in the economy market. It's basically costs associated with making economy transactions. We're not able to determine, you know, what percent of the time they're arranging for a sale and what percent of the time they're arranging for a purchase. So certainly the cost associated with making sales would be something less than that number.

Q Do the employees in Southern's marketing department receive any type of salary incentive based on the number of sales or the gain on the sales that they make?

A I don't know. I don't know the answer to that.

Q Now, you stated that the wholesale market in Florida has changed significantly in the past several years; is that correct?

A Yes.

Q Would you characterize the wholesale market as more competitive today than it was, say, in 1984 when the Commission issued its order approving the stockholder incentive?

A Yes.

Q And would you agree that there are more players in the wholesale market today than there were at that time?

A Yes.

Q So would you agree that an interested buyer has more available suppliers today?

A In general, yes.

Q Since there are more options for buyers in the wholesale market, would you agree that Southern is more at risk today of not being able to make a wholesale sale if its price is high relative to alternative suppliers?

A Say that again now.

Q Because there are more options for buyers in the wholesale market today generally, would you agree that Southern is more at risk today of not being able to make a wholesale sale if Southern's price is high relative to the price of alternative suppliers?

A Certainly, that's true. If our price is high relative to others who may have a lower price, then one would expect that we would not make a sale that we might otherwise make.

Q Is it safe to say also that there is more pressure today for a supplier in the wholesale market to keep prices low than there was when Order 12923 was issued?

A Well, I would hesitate to agree with that because everything has to do with supply and demand, and we are seeing prices today that are relatively high because there's a high demand for economy energy. I really don't recall the capacity market during that time, but typically, if there is a surplus of capacity in general in the industry, you're going to see lower prices just from basic economics, and that really is what's going to drive it, is the supply and the demand.

Q So it's not necessarily the number of suppliers, but the total supply?

A Yeah. And if you had a number of suppliers, say, five times as many suppliers, but there's still a low reserve margin and capacity is tight, it's tighter than if you had a smaller number of suppliers but lots of capacity, and the capacity and demand relationship is really more of what drives that than the number of players in it.

Q Does Gulf have any evidence or has it performed any analyses to show that 20 percent stockholder incentive encourages sales to such a degree that ratepayers receive a net benefit?

A We have not done any analysis, no. It's a judgment call.

Q So we don't know for sure if the 20 percent shareholder incentive is what drives the sales to the level that they're at?

A I don't think we know the right number. I think we have had experience with that number that it's a number that's probably in the ballpark. I don't know of a way -- how you would do a study like that, really. The qualitative concept is what we believe in. We're not able to quantify exactly what the number might be.

Q In response to Staff's Interrogatory Number 1, provide an example of how Gulf calculates the 20 percent stockholder incentive on a sale.

A Uh-huh.

Q And to calculate the gain, you're using estimates of incremental fuel, O&M; is that correct?

A That's correct.

Q Could you explain how Gulf or Southern estimates those incremental costs?

A What we do is, we have our production cost programs that tell us what it's going to cost to serve the estimated load in the next hour. And if we are looking at the possibility of selling "X" megawatts of economy, we would put that much more load in the model, and the model then will estimate for us what the additional production cost would be. And based on that information then, the people that do the marketing would determine what they felt they could sell that for depending on the market conditions at the time, and they would strike a deal.

And when you strike a deal, it's for a firm price. But that's all you have to go on at the time, are the estimates, because you don't know what's going to happen in the future.

Q So those are Southern's cost estimates?

A Yes. We sell out of the Southern units.

Q And does that computer model give you a separate estimate for incremental fuel and incremental O&M?

A Yes.

Q For sales that last more than an hour, are the costs based on forecasts?

A Well, for sales that last an hour, it's based on a forecast. It's an estimate of what's going to happen, you know, the next hour. And we have various models that estimate what the load is going to be, you know, in any hour depending on weather and other factors. So the same models are used to estimate sales longer than one hour.

Q In determining these incremental costs, is the data available at a later date for audit purposes?

A Yes.

Q How would you propose to set up an audit trail on the calculation of gains if the Commission were to extend -- or to continue the stockholder incentive?

A I think the best thing to do is to do like we do now, is do a sample audit. Certainly, there is no way practical to audit every single transaction that we make because a lot of the information is buried in the computer. But an auditor could satisfy himself that the computer is making the correct calculations in tracking it correctly, and then pick some transactions to see that it is doing what it says. And I think that's typically what the auditors do, is a sample test to satisfy themselves that our systems are operating correctly. And that would be, you know, a way that I would suggest. Certainly, a professional auditor would know if he were satisfied or not with the process.

Q Does Southern have a policy in place that would -- to prevent a marketing employee from making a sale on which the gain is very small or does not meet some minimum threshold?

A No. At this point in time, we haven't established a minimum threshold. It's a judgment call.

Q In your testimony, you described the regulatory treatment for nonseparated wholesale sale revenues prior to the issuance of Order 12923 back in 1994.

A Uh-huh.

Q I believe you stated the utility was allowed to retain profits only from economy sales that exceeded the level approved in the utility's last rate case; is that correct?

A That's the way it works out. At that time, the Commission in doing a test year, whatever assumed level of economy took place would be in the Commission's calculation of how much additional rate relief were needed. So if you did not sell as many kilowatt hours of economy as was in the test year and the test data, then you came up short revenue-wise and profit-wise. If you sold more, then you were long or came up higher.

Q So, in essence, if the utility did not achieve the level --

A Estimated in the test year.

Q -- the level estimated, exactly, then it suffered a penalty?

A Yes, a profit penalty.

Q Do any other states in which Southern's operating companies do business provide a direct shareholder incentive for a utility's nonseparated wholesale energy sales?

A I'm sure they do. I know at one time the -- certainly, the states that Southern operates in had different levels of percentage of the gains that they were allowed to keep. I really don't know what other states might do, but I would imagine that states have differing levels of amounts that they let them keep on it, but I'm not familiar with that.

Q You don't know for certain if any of those states do?

A No, I don't. When we make a sale, we just tell them what we're willing to sell at. Well, actually in those states, it would be a case where we're buying, because when we make a sale -- let's take the situation where Gulf is buying. When they're making the sale and we're buying, we include the entire cost of the purchase as a fuel charge because it's cheaper than what we could generate it at, and that's a case where they are making the sale. When we make the sale, I assume that they also can include that entire cost as a recoverable cost; otherwise, they would have a disincentive to buy from us. So the situation really would apply when we are making a purchase from them. And, of course, then we're only interested in who's got the best price if we need it.

Q But you don't know for certain if any of the other -- if any of Southern's other operating companies can receive a percentage shareholder incentive to make nonseparated wholesale energy sales?

A Just from talk I hear, like I said, there are differing levels, but I do not know of today, right now, exactly what each state allows.

Q For this question, I'm going to ask you to assume a few facts.

A Okay.

Q First, Gulf is in the market to buy power for their nonfirm retail customers.

A Okay. These are, assume these assumptions, right?

Q Yes.

A Okay.

Q To avoid interruption, Gulf is in the market to buy power for their nonfirm retail customers, and Gulf can buy power --

A Nonfirm retail. Is that what you said?

Q Yes. I've just been reminded that Gulf doesn't have nonfirm customers, so we'll -- just retail customers.

A So we need power to serve our retail load. Okay.

Q Yes.

A All right.

Q And Gulf buys that power through Southern through, say, Florida Power & Light.

A Okay.

Q With the stockholder incentive in place, Florida Power & Light would keep 20 percent of the gain on that sale, correct?

A That's my understanding.

Q Now, if the demand -- it turns out that the demand from Gulf's retail customers is not as great as expected and Gulf can sell some of that power, Gulf would also receive an incentive on the sale of that power; is that correct?

A Is this in the same hour, or is this different hours, or what?

Q It's essentially the same energy.

A Okay. Let's take the case of one hour, the next hour. It looks like we need energy. Okay. We would not be buying and selling if we were short. If we were short, we would be buying. And if we had some to sell, we would be selling. But I guess I don't understand the question in the next hour.

Q Could there be a situation where Gulf agrees to buy that power and when the time comes, it's not necessarily all needed?

A And we could turn around and sell it?

Q Right.

A Then I assume we would do that, and if there's an opportunity to do that, yes, we could keep 20 percent of that for the stockholder and credit the other 80 percent of the gain to the customer. Of course, the other option is, don't sell it and nobody benefits.

Q Do you think it would be appropriate for the incentive to apply twice to essentially the same energy?

A Well, in the situation you described, I surely do because Florida Power & Light is able to make a sale that they otherwise couldn't make if we didn't have the need, and if we, say, bought it for two hours ahead, and then an hour ahead a big thunderstorm hit Atlanta or something like that, and we didn't need as much, and there was a market out there for it, then certainly we would go ahead and try to sell that. And, yes, I think it would be appropriate for us to take 20 percent of that and give that to our stockholders, and as we are proposing, the other 80 percent to the customer.

Q Does Gulf Power receive a shareholder incentive when it provides excess capacity to other operating companies of Southern Company?

A No. The way we operate the pool is, all the resources are dispatched to serve all the load. We forget about who owns which units and who has which load. We just measure all the load in the entire Southern Company area. We put all the units in as if they were a single generating company owing all of them and dispatch the generation to serve the load.

And, of course, typically in every hour then, an operating company is either going to be providing energy or receiving energy. And that is transacted at cost among the operating companies. There's no gain or anything like that within the pool. And that, of course, is in accordance with our arrangement with FERC to operate the pool that way. It's only when -- as a system we sell to another entity that we have the -- what we call the opportunity transactions of which we apply the split.

Q Outside of the Southern system?

A Outside of Southern, yes, that's right.

Q Assuming that Southern Company has the opportunity to sell 500 megawatt hours from Gulf Power's resources to either Georgia Power or the City of Tallahassee, would the presence of a shareholder incentive, if the energy is sold to Tallahassee, have an impact on whether the sale is made to Georgia Power or to Tallahassee?

A That can't happen, because like I say, go back to the way we dispatched the system, all the load in the Southern Company is added up as a single load that we must serve. And let's just take one hour as an example. We take all the generation resources that we have at our disposal, and we then apply that to that load. So by default, all of the Southern Company load -- Gulf's, Georgia's, Alabama's, Mississippi's -- has to be satisfied before you see if you have anything left to sell off-system.

So if it's a case of serving Georgia's load or Tallahassee's load, we automatically serve Georgia's first. We have to, and then if we have some left over, then we would compete with other people to try to sell to Tallahassee. Is that responsive to the question?

Q Yes, it is. Thanks.

A Okay.

Q So, essentially, the presence of the shareholder incentive in that situation is not relevant. You're going to make the sale to Georgia Power first --

A Well --

Q -- or Georgia Power is served from the resources first?

A That's correct, a shareholder incentive or whatever. I mean, we have a federal obligation to do that because that's what we proposed in our pooling arrangement with FERC, and they have accepted that.

Q Do you believe it is appropriate for an investor-owned utility to sell nonseparated wholesale energy while simultaneously interrupting or curtailing a nonfirm retail customer?

A Would you repeat that, please.

Q Sure. Do you believe it's appropriate for an investor-owned utility to sell nonseparated wholesale energy while simultaneously interrupting or curtailing nonfirm retail customers?

A Nonfirm. I think it would be depending on what kind of rate tariff -- if the utility, and again I'm speaking on my understanding because I'm not intimately familiar with any company's nonfirm tariff, but if they have a nonfirm tariff that allows them to interrupt for economic reasons, then I think that would be appropriate.

If they have a tariff that only allows them to interrupt for reliability purposes, then I think it would not be appropriate. And that's just my thinking. You'll find much opinion on both size of that. So a lot of it depends on what the individual tariff says and limits on hours of interruption and that type of thing. But I've shared with you my opinion.

Q What would be your opinion in a situation where an investor-owned utility can sell nonseparated wholesale energy while implementing load management procedures?

A Load management, like cutting off pool pumps and cycling air conditioners?

Q Yes.

A Again, it would depend on what arrangement they have with the customers who are on that, if that's allowed or not, and what arrangement they had with the Commission. We haven't done that yet.

Q For the purposes of a shareholder incentive, should a distinction be made for wholesale energy sold for economic reasons versus energy sold for reliability reasons?

A Okay. It's a situation where Southern is selling, correct?

Q (Nodding head affirmatively.)

A That would be difficult to determine in today's market because generally today we don't make -- well, we make few, if any, transactions under the Schedule Cs but the savings arrangement. The great bulk, if not all, of our transactions are the market-based tariff. And in that, we try to assess the market, as everybody else does, and know if we have something for sale. If we are in a buying mode, you know, it's a different situation, but if we have something for sale, we try to assess what the market is willing to pay for the energy.

And I don't think we ask them, is this for economic reliability. We just say, you know, what are you willing to pay for it. And I know they don't do that. I don't know how they get their market intelligence, but they determine what the market is willing to pay. And if we can make that transaction and make a profit, then we will make the sale. And we are indifferent in making that sale whether this utility is making a reliability or an economic purchase from us.

Q I guess in theory, do you think that distinction should be made?

A No, because we're indifferent. If they're willing to buy -- I think that's a decision that that utility is making, and that's up to them as to whether or not they are willing to pay that price for it, and we're indifferent as to what they want to do with it. If they want to buy the energy, then we will sell it to them.

Q Do you believe that the distinction between a firm and a nonfirm sale should govern whether that sale is eligible for the shareholder incentive?

A Well, I guess it depends on what we mean by firm or nonfirm. Most of the firm transactions have a capacity or reservation charge associated with it. And when we make those kind of sales, that reservation charge we consider a capacity component all of which is passed to the customer through the capacity clause.

If there were some firm energy that we were selling that was energy only, then we would consider that an energy sale. It depends on whether there's a capacity component there. All the capacity component, today's regulatory arrangement goes to the customer. And if it's an energy sale and it is an opportunity transaction, then would we pass 80 percent of those gains to the customer and 20 percent to the stockholder.

Q Do any of your market-based sales have a capacity component? Those are the sales that you're applying the stockholder incentive to?

A No. If they have a capacity component, it's classed as a capacity sale, and we pass all the capacity revenue to the customer, 100 percent of it to the capacity clause.

Q And the Schedule C sales are the same?

A Well, Schedule Cs are strictly split-the-savings on energy. They don't have any capacity component associated with them. And we may sell a few, if any, of those, and it really wouldn't be a factor anyway.

MR. KEATING: Can we go off the record just for a moment?

MR. BADDERS: Sure.

(Discussion off the record.)

BY MR. KEATING:

Q To try to, I guess, bring some of our off-the-record discussions back up, I have a couple of questions. Could your market tariff be firm, the price on an energy basis, and still receive an incentive?

A Yes.

Q How would that work?

A In a case of -- do you want to cover with a capacity reservation and without, or just a firm energy?

Q We can do just the firm energy.

A Okay. If we make a transaction that's a firm energy sale, it will be for a fixed price. So many dollars a megawatt hour, and then all the parameters of how many hours and days and that type of thing. We will then make that sale. And if our actual costs -- which you assume your actual costs are going to be less than what you've agreed to sell at; otherwise, you wouldn't make the sale -- if your actual costs do indeed come as you expect it and are less than what you agreed to sell at, then whatever the gain, the actual gain is on that sale would be subject to the 80/20 split. And do you want to cover what's -- if there is a loss?

Q Yes.

A Okay. If, in fact, something changes from your forecast and you are not able to make the sale at the price you specified without incurring more production costs than what the price you specified, then you're going to lose money on that transaction. And that loss then would also be subject to the 80/20 split.

And, of course, as we said off the record, the goal is, and if you're a good marketer, you're going to make money. But there are definitely going to be some transactions that you're going to lose on because you're basing the pricing on estimated cost, and overall, you should be making money, but you will have some that you will lose money on. And those that are energy-based would have an 80/20 split on the gains or losses on the transaction. Did that cover what you wanted to get in?

Q Yes.

A Okay.

Q Is it correct that when economy sales were part of rate base, the only way, I guess, to meet the goal set in the last rate proceeding was to make kilowatt hour sales?

A Say that again now.

Q When economy sales were part of rate base --

A Back in the '80s before the --

Q Correct.

A Okay. All right.

Q The only way to meet goals set in rate proceedings was to make kilowatt hour sales?

A Correct.

Q And the gains, I guess the gains were pretty much set. I mean, it was going to be a split-the-savings type sale?

A That's all we had back then, yes, that's correct. We didn't have the market-based tariff in the mid '80s.

Q Under market rates, say, a goal for gains could be met in one transaction or at least in less transactions; is that correct?

A Are you saying if there was a goal established --

Q Correct.

A -- for, say, annual, could this be met in one transaction? Not likely.

MR. KEATING: We can go off the record for just a second.

(Discussion off the record.)

BY MR. KEATING:

Q So under today's market rates, there's more flexibility in the pricing that would allow a utility to achieve greater gains than in the split-the-savings scenario?

A That's correct. There's greater flexibility, and depending on the market, you could make more than under the old system or you could make less depending on what the market supply and demand was at the time. But the key is correct. There's more pricing flexibility, which means upward pricing as well as lower pricing flexibility.

Q Is the wholesale market still dominated primarily by traditional utilities?

A I really don't know.

Q Would you agree that most new entrance or marketers and brokers that don't necessarily have any generation of their own?

A I know a lot of them are, Cochran, but I wouldn't say most because there are a lot of people out there with capacity to back these up, and I just don't know if most of them -- you know, what most of them are. But there certainly are a lot of marketers, a lot of brokers out there, and there are a lot of utility regulated -- or traditional utility spinoffs that also were doing that, and they have access to actual capacity. There are just a lot more players out there today.

Q I just have one other question. TECO has proposed a system where the incentive would be 20 percent on nonseparated wholesale energy sales made out of state, and 40 percent on those sales that are made within the State. Suppose Gulf had the opportunity to make a sale under what TECO has proposed, suppose Gulf had the opportunity to make a sale to the City of Tallahassee or to Duke and Gulf knew that it would get 40 percent of the gain on the sale of Tallahassee and 20 percent on the sale to Duke -- let me make sure I guess this right -- would that difference in the percentage that Gulf could keep for its stockholders influence the sale more than what the total gain would be on the sale?

A I don't really think that would impact it because we're only 6 percent of Southern, and there are probably a lot considering 94 percent of that is outside the state of Florida, then probably it would not matter at all to Southern. They would try to maximize the gain on the sale. They wouldn't look at the profits.

Q So Southern would look at the total gain of the sale?

A Yes. If Southern -- let me say this -- if Southern has in an hour, and our assumption in this is Southern has capacity to sell, what we would be looking to do is sell it at the highest price. And that means the highest markup, the highest margin, the highest gain, the highest profit, all of that. That's what we would do.

Q So if the total gain on, say, a sale to Tallahassee that Southern could keep or Gulf could keep 40 percent of that gain on, say, if it was $5, and the total gain on the sale to Duke which Southern could keep 20 percent was $8, which sale would Southern make?

A Tell me the selling prices. Go off the record.

(Discussion off the record.)

A We'd sell to Duke.

MR. KEATING: Okay. That's all the questions I have.

(Discussion off the record.)

CROSS EXAMINATION

BY MR. BURGESS:

Q I heard you explain the dispatch arrangement within the Southern system. My question is, then when you get to Southern system selling off-system, selling in the wholesale market, is the dispatch arrangement still, or not dispatch, but crediting back to the company still based within Southern as a whole?

In other words, what I'm getting at is, once you've served your own retail load for Southern Company and you're about to make a wholesale sale and you identify the incremental cost as a result of the plant that's available for that, is that identified in its ownership within the Southern subsidiary, or is it simply Southern's for the purpose of crediting back the gain on the sale from that plant?

A The latter.

Q Okay.

A Southern's.

Q So then on every sale that's made off the Southern system, Gulf gets 6 percent of the gain?

A Correct. And every -- whoever -- Gulf might be the one to pick up the wholesale. We might pick up Crist 7 and make a 100 megawatt sale, maybe 500 megawatts out of Georgia, but every company recovers its incremental production costs. You pay those off. Then you look up here, what did you sell at, and that difference is the gain, and that's allocated on the low ratio basis. That's what we do today in accordance with FERC.

Q As I understand it, then you spoke of -- that Southern has some type of wholesale sales department, or something like that, that studies the market and determines the best approach to marketing off-system?

A Yes.

Q And is that what you have in your rebuttal testimony? Do you have a copy of your rebuttal testimony?

A Sure.

Q You refer to -- at the top of Page 5 or on Line 6, Page 5 -- unproductive costs. And you were talking about, they would be unproductive under a certain scenario.

A Okay. Page 5, where now?

Q Yes, on Line 6.

A Let me read the question and the answer, okay?

Q Okay. Yes.

A Okay. I'm up to speed. Repeat the question, please.

Q Yes. I'm trying to take your meaning on unproductive costs. Are you referring to what would be the costs of this marketing department under the scenario that you've described here? Is that the unproductive costs you were referring to?

A As it is in quotes, yes.

Q Right. And I assume what you're saying is, if there were no incentive this, to the utility, would be unproductive, and therefore, you would be disinclined to make the investment?

A Yeah, if there were no incentive, there's no way to make a profit off this and you're under pressure to control costs, then you'd expend these costs, but yet you would get nothing to show for it. Some would consider that unproductive. You're expending costs with no possibility of any recovery of those costs much less a profit that would be viewed as unproductive.

Q I just wanted to make sure I was properly identifying the cost as being a wholesale marketing department.

A Yes.

Q Okay. Do you know how these costs are allocated here? I assume Gulf bears 6 percent of the cost?

A Well, roughly 6 percent, whatever the ratio is.

Q Do you know how the costs are treated in the establishment of base rates, Gulf's 6 percent?

A The last rate case we had was, I think, around 1990, and whatever costs we had at that time would have been what was included in base rates. And we would assume that if we have a rate case again that these would also be based rate based.

Q And for surveillance purposes, as far as you know, they are included in there for the calculation of your return, Gulf's return?

A Yes.

Q And is what you're saying -- and I want to make sure I've got this right. What you're saying is, if this Commission were to remove 20 percent incentive factor on 6 percent of the gains, that this marketing department would lose some aggressiveness in trying to make sales?

A Well, I didn't characterize it that way. I characterized it I think the way in the testimony is if you have no chance to make a profit and you're having to expend dollars and you're under pressure to control costs, management might view that as unproductive.

Q Yeah, I understand that. Although, you've indicated that the costs are recovered in base rates. So it's not costs that are spent without recompense. But my question is more to the proportionality of this, that you're saying that for the gain that overall Southern Company would receive on 6 percent of the gain would be such that it would drive the decision-making at this Southern Company corporate level marketing department?

A I think we have to do what we do in load management in looking at incremental contribution. And certainly, if we're only going to get one customer to put in some installation in a house, that is not going to avoid a generating unit, but if you look at all those that do that, it might avoid a generating unit, and we've used that philosophy in the goal setting, and the same way here.

If the Gulf Commission does it and all the other commissions do it, then absolutely, yes. I think that would be something management will look at. We're expending customer dollars here that are offering no return. You know, should we continue to do that? That would be something they would look at.

Q I need to then understand on Page 4 of the testimony --

A The same testimony, the rebuttal?

Q Yes. I'm sorry. The same testimony, the rebuttal.

A Okay.

Q Your answer -- I'm particularly interested in your answer that begins, the sentence that begins on Line 11 and goes through Line 17. And I want you to --

A Let me read the whole question and answer, okay?

Q Yes.

A Okay. What's the question?

Q I'm trying to understand your use of the term "profit margin" and the denial of the profit margin in the scenario that you've described here. It seems to me that if you have a nonseparated asset, we're talking about nonseparated sales, so if the asset receives a full rate of return and the expense is fully loaded into the base rates, I'm trying to understand what you're referring to as the portion of the profit margin that's being denied the utility.

A   Okay. You confused me there about the rate of return and assets. In Gulf's case, these assets most likely are not even in our territory. They are in somebody else's territory. There is 94 percent probability in big terms that the assets are somewhere else.

Q   These are on sales that are nonseparated, so that means that all Gulf's contribution to these sales are from assets that are fully recovered from the retail customers and base rates, aren't they?

A   Any contribution that we would make, yes, would be from assets that are in the rate base.

Q   Okay. So from Gulf's standpoint, I'm trying to understand what profit margin is being denied that you're referencing here. If your assets are fully funded or the carrying costs on your assets are fully funded by retail ratepayers and the expenses associated with making the sales are fully funded by retail ratepayers, what is the profit margin that's being denied that you're referencing here?

A   Well, the Commission set rates with this incentive in place. The rates that they set are with this incentive in place. If you remove part of the revenue that we now have, I would think you're denying us profit that we're eligible for.

Q So the profit that you're saying you're being denied, that you're referencing here that you're being denied, is the 20 percent that you're getting now?

A Yes.

Q Okay. And I think on Page 14 of the same testimony, I have a question about the handsome benefits, that the Gulf's ratepayers that have benefited handsomely.

A Line 6?

Q Line 6, yes, sir.

A Go ahead and ask the question.

Q Is this the judgment that you're referring to when you were answering questions by Mr. Keating and he asked you, do you have any way to tell whether there's been a benefit, and you said, well, it's a judgment on your part that there's been a benefit?

A No, it had nothing to do with Mr. Keating's question. It had to do with the testimony, a question here, and there was a recommendation that the incentive gains not be extended to anything outside the broker.

Q Right.

A And if that were the case, then whatever level of gains that we now have, since they're not broker transactions, would go 100 percent to the stockholder, but in fact, we have applied the 80/20 split to those.

Q 100 percent to the stockholder?

A Yeah, because once you set rates, you set rates. And then whatever additional revenue you get after you set rates goes 100 percent to the stockholder until you have a new rate case. And so the customer has gotten 80 percent of all those gains, and that's what I'm referring to as a handsome benefit.

Q I'm afraid I'm missing entirely the point here then. What you're saying is, assume -- if Gulf received -- if Gulf did not have to credit back through fuel adjustment, any of the gains received from its economy sales--

A Off the broker.

Q -- off the broker --

A Uh-huh.

Q -- if you did not have to reflect those in fuel adjustment, then Gulf's stockholders would receive 100 percent of that gain?

A Yeah. You've got a gain. It's got to go somewhere. It's going to the stockholder or the customer. And that was my point, is if we didn't apply the 80/20 split to a non-EBN sales, then the customer would get zero percent of those gains. Well, he's got 80 percent, and that's the handsome benefit.

Q You didn't take it that Dr. Dismukes was assuming that the entirety of the gain from this would be credited to the fuel adjustment clause in the form of a revenue credit?

A I'm sorry. Did I do what now?

Q Are you taking it that Dr. Dismukes is suggesting that the entirety of these sales not be reflected in the fuel adjustment as revenue credit?

A Well, his testimony was that it should not be extended to economy sales outside the EBN. And if we then have a rate set at a certain level and then we make increased economy transactions such that we increase the gains, then 80 percent of those are going to go to the customer, if we've applied them to that. If we don't apply them to it, then zero percent of those gains go to the customer. And that's what I was referring to.

Q Unless 100 percent of the gain is credited to the fuel adjustment clause as a reduction of the cost that would otherwise be born or that would otherwise be collected from the retail ratepayers?

A If 100 percent of it were returned to them, then we would benefit even more handsomely, yes.

Q Okay. I think I understand what you're saying.

A Okay. I apologize if I'm not clear.

Q No, that's quite all right.

MR. BURGESS: That's all I have. Thank you.

MR. KEATING: Can I ask one more question?

MR. BADDERS: Sure.

MR. KEATING: Actually, it's related to a question I previously asked regarding the existence of any similar-type stockholder incentive in other states where Southern's operating companies do business. I wanted to see if I could get a late-filed exhibit, if you can find that information?

MR. BADDERS: Actually, I believe this witness has testified that he has no knowledge, so he really can't provide a late-filed exhibit if he has no knowledge.

MR. KEATING: I understand that we sent an interrogatory on that, so we will check that.

(Deposition concluded at 3:24 p.m.)

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ERRATA SHEET

DO NOT WRITE ON TRANSCRIPT - ENTER CHANGES HERE

IN RE: DOCKET NO. 001779-EI
NAME: M. W. HOWELL
DATE: Tuesday, April 25, 2000

Page	Line	Change

Under penalties of perjury, I declare that I have read my deposition and that it is true and correct subject to any changes in form or substance entered here.

DATE:________ ______________________________
M. W. HOWELL

FLORIDA)
: CERTIFICATE OF OATH
COUNTY OF LEON)

I, the undersigned authority, certify that M. W. HOWELL personally appeared before me and was duly sworn.

WITNESS my hand and official seal this 25th DAY OF APRIL, 2000.

Tricia DeMarte
TRICIA DeMARTE
Notary Public - State of Florida

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

I, TRICIA DeMARTE, Official FPSC Commission Reporter, do hereby certify that I was authorized to and did stenographically report the foregoing deposition of M. W. HOWELL.

I FURTHER CERTIFY that this transcript, consisting of 43 pages, constitutes a true record of the testimony given by the witness.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS FIRST DAY OF MAY, 2000.

Tricia DeMarte

TRICIA DeMARTE
Official FPSC Reporter
(850) 413-6736

1. Please explain how Gulf currently calculates the 20 percent stockholder incentive on economy energy sales. Please provide example A schedules in your explanation.

ANSWER:

Gulf Power Company (Gulf) calculates the 20% incentive on economy sales after completion of several preliminary steps. First, Gulf's total gains on economy sales are determined by subtracting all incremental production costs and all transmission charges associated with its economy sales transactions from its total economy sales revenues. Next, Gulf multiplies the gains on economy sales by 80%, and credits this amount to its retail customers through the fuel clause. Completion of these steps leaves 20% of the economy sales gains for Gulf's stockholders. The following A schedule example illustrates the result of the above described process.

Example

POWER SOLD
GULF POWER COMPANY
FOR THE MONTH OF: DECEMBER 1999

CURRENT MONTH

	(1) SOLD TO	(2) TYPE AND SCHEDULE	(3) TOTAL KWH SOLD	(4) KWH WHEELED FROM OTHER SYSTEMS	(5) KWH FROM OWN GENERATION	(6)(a) ¢ / KWH FUEL COST	(6)(b) ¢ / KWH TOTAL COST	(7) (5) x (6)(a) TOTAL $ FOR FUEL ADJ.	(8) (5) x (6)(b) TOTAL COST $
	ESTIMATED								
1		So. Co. Interchange	107,144,000	0	107,144,000	1.41	1.59	1,512,000	1,705,000
2	Various	Unit Power Sales	39,070,000	0	39,070,000	1.83	1.93	716,000	755,000
3	Various	Economy Sales	5,190,000	0	5,190,000	1.54	1.66	80,000	86,000
4		80% Gain on Econ. Sales		0	0	N/A	N/A	14,400	18,000
5	Various	Other Sales	1,690,000	0	1,690,000	2.19	2.25	37,000	38,000
6		SEPA		0	0	N/A	N/A		
7	TOTAL ESTIMATED SALES		153,094,000	0	153,094,000	1.54	1.70	2,359,400	2,602,000
	ACTUAL								
8	Southern Company Interchange		275,523,369	0	275,523,369	2.10	2.24	5,777,354	6,175,505
9	CAJUN	External	3,651	0	3,651	1.45	2.60	53	95
10	CPL	External	10,884	0	10,884	1.48	1.85	161	201
11	DETM	External	0	0	0	#N/A	#N/A	0	0
12	DETROIT	External	0	0	0	#N/A	#N/A	0	0
13	DUKE POWER	Economy	56,172	0	56,172	1.50	2.20	843	1,236
14	ECI	External	56,172	0	56,172	1.61	2.45	905	1,376
15	ELPASO	External	0	0	0	#N/A	#N/A	0	0
16	ENGAGE	External	0	0	0	#N/A	#N/A	0	0
17	ENRON	External	408,176	0	408,176	1.49	2.52	6,087	10,299
18	ENTERGY	Economy/Other	98,301	0	98,301	1.79	2.65	1,757	2,602
19	EPMC	External	31,528	0	31,528	1.59	2.17	500	684
20	FPC	UPS, Economy	20,661,433	0	20,661,433	1.78	1.90	367,561	392,906
21	FPL	UPS, External	60,775,909	0	60,775,909	1.76	1.89	1,071,824	1,148,646
22	JEA	UPS, Economy	15,562,857	0	15,562,857	1.77	1.89	275,131	294,309
23	KOCH	External	7,232	0	7,232	1.48	2.50	107	181
24	LPM	External	303,691	0	303,691	1.78	2.34	5,403	7,105
25	OPC	Economy	280,172	0	280,172	1.74	2.11	4,874	5,914
26	RELIANT	External	17,624	0	17,624	1.58	2.19	279	386
27	SCE&G	Economy, External	161,503	0	161,503	1.57	2.14	2,531	3,463
28	SONAT	External	322,152	0	322,152	N/A	N/A	5,914	6,334
29	TAL	UPS	150,637	0	150,637	2.20	2.35	3,317	3,546
30	TEA	External	650,991	0	650,991	1.80	2.36	11,741	15,354
31	TVA	Economy	393,214	0	393,214	1.61	2.33	6,349	9,165
32	Less: Flow-Thru Energy		(2,354,116)	0	(2,354,116)	1.87	1.87	(44,021)	(44,021)
33	Hydro-Loss		0	0	0	#N/A	#N/A	0	0
34	AEC/BRMC		692,721	0	692,721	1.76	1.76	12,199	12,199
35	SEPA		805,376	805,376	0	0.00	0.00	0	0
36	U.P.S. Adjustment		0	0	0	N/A	N/A	(40,351)	(40,351)
37	Economy Energy Sales Cr. (80%)		0	0	0	N/A	N/A	9,006	9,006
38	Transmission Revenues		0	0	0	N/A	N/A	4,043	4,043
39	Other transactions including adj.		29,378,477	28,755,634	622,843	0.06	0.06	16,720	16,720
40	TOTAL ACTUAL SALES		403,998,126	29,561,010	374,437,116	1.86	1.99	7,500,287	8,036,903
41	Difference in Amount		250,904,126	29,561,010	221,343,116	0.32	0.29	5,140,887	5,434,903
42	Difference in Percent		163.89	#N/A	144.58	20.78	17.06	217.89	208.87

2. Please provide the accounting entries reflecting Gulf's current treatment of the 20 percent stockholder incentive.

ANSWER:

There are no accounting entries specifically related to the 20 percent incentive related to the gains on economy sales. Gulf records all economy sales revenues in FERC account 447. The gain is calculated as discussed in response to Interrogatory No. 1, and 80% of the gain is credited to the customer in the fuel clause calculations as a reduction in recoverable fuel expense. This in effect will reduce an under-recovery or increase an over-recovery for the period. The over/under-recovery entries are made to FERC accounts 456 (revenues) and 182 (under-recoveries) or 253 (over-recoveries).

3. Please explain how Gulf documents, for auditing purposes, the gain on economy energy sales to which Gulf applies the 20 percent stockholder incentive.

ANSWER:

The calculation of the gains on economy sales is computed in accordance with the response to Interrogatory No. 1. The economy sales amounts for computing the gains are obtained from the Interchange bill and transmission invoices, and the computations are made on a spreadsheet which is retained as backup information.

4. Please list and provide a brief description of each FERC schedule under which Gulf currently makes economy energy sales to which Gulf applies the 20 percent stockholder incentive. In your response, please provide the year Gulf began applying the 20% stockholder incentive to sales made under each schedule and indicate when each schedule became available to Gulf.

ANSWER:

Gulf, in association with the Southern electric system (SES), currently has two FERC schedules that are available for economy energy sales:

1. Market Based Rate Power Sales Tariff, FERC Electric Tariff, Original Volume No. 4
2. Service Schedule C of interchange agreements with other non-associated companies.

Gulf has applied the 20% stockholder incentive to the economy sales gains derived from transactions under each of these FERC schedules. The Market Based Rate Power Sales Tariff, which was made effective upon acceptance by FERC in April 1996, allows non-firm energy sales at market-based rates. The purchasing entity and the SES negotiate all of the rates, terms, and conditions for each transaction. This schedule became available to Gulf in 1996, and Gulf then began applying the 20% stockholder incentive to the sales gains under this schedule.

Service Schedule C, associated with some interchange agreements dating back as far as 1979, specifies non-firm energy sales at a "split-the-savings" cost-based rate. This service schedule became available to Gulf prior to 1980, and Gulf began applying the 20% stockholder incentive to gains from sales under this schedule immediately after the Commission issued Order No. 12923 on January 24, 1984. Although, this schedule is still effective and available, very few, if any sales are expected pursuant to this schedule under the current conditions.

5. Please indicate which, if any, of Gulf's wholesale sales made under the FERC schedules listed in your response to Interrogatory No. 4, include a capacity component.

ANSWER:

None of Gulf's wholesale economy sales made under the FERC schedules listed in Interrogatory No. 4 include a capacity component.

6. Please describe how sales made under the FERC schedules listed in your response to Interrogatory No. 4 are currently priced, i.e., split-the-savings pricing, market-based pricing, or any other pricing methodology.

ANSWER:

Gulf's economy sales under the Market Based Rate Power Sales Tariff, FERC Electric Tariff, Original Volume No. 4 utilize a market-based pricing methodology, whereas Service Schedule C economy sales utilize a split-the-savings pricing methodology.

7. For the years 1994 through 1999, please provide Gulf's annual wholesale sales, in dollars and megawatt-hours (MWH), made over Florida's Energy Broker Network.

ANSWER:

None of Gulf's wholesale sales from 1994 through 1999 were made over Florida's Energy Broker Network.

8. For the years 1994 through 1999, please provide Gulf's annual wholesale sales, in dollars and MWH, made under each FERC schedule on which Gulf applied the 20 percent stockholder incentive. For each year, please indicate the portion of these sales that were made over the Energy Broker Network. For each year, please also indicate the amount retained by Gulf as a 20 percent stockholder incentive for wholesale sales made under each applicable FERC schedule.

ANSWER:

Listed below are Gulf's annual wholesale sales made under both FERC schedules on which Gulf applied the 20 percent stockholder incentive. Gulf does not differentiate the amount of economy sales that are made under the individual schedules. All sales for years 1994 and 1995 were Service Schedule C sales, since the Market Based Rate Power Sales Tariff was not effective until accepted by FERC in 1996. None of Gulf's economy sales listed below were made over the Energy Broker Network.

	Mwh	$	20% of Gains
1994	101,900	3,166,783	64,169
1995	44,339	1,327,585	31,578
1996	32,850	969,109	17,352
1997	138,185	4,062,660	148,152
1998	79,813	2,872,745	185,355
1999	77,056	4,510,426	177,910

9. Please list each type of wholesale sale to which, in Gulf's opinion, the 20 percent stockholder incentive should apply. In your response, please indicate the FERC schedule under which each type of sale is made.

ANSWER:

Gulf's opinion is that the 20% stockholder incentive should continue to be applied to the gains derived from economy sales made under its existing Market Based Rate Power Sales Tariff, FERC Electric Tariff, Original Volume No. 4, and Service Schedule C of interchange agreements with other non-associated electric utilities. However, if any new FERC schedules that offer economy-type energy (non-firm energy sold at a price that results in gains above its costs) become available to the Company, Gulf would propose that shareholders receive at least 20% of those gains as well.

10. If your response to Interrogatory No. 9 includes any FERC schedule not listed in your response to Interrogatory No. 4, please provide Gulf's annual wholesale sales, in dollars and MWH, made under each such schedule for the years 1994 through 1999. For each year, please indicate the amount that would have been retained by Gulf as a 20 percent stockholder incentive for wholesale sales made under each such FERC schedule.

ANSWER:

This interrogatory is not applicable since Gulf's response to Interrogatory No. 9 includes no existing FERC schedule not listed in our response to Interrogatory No. 4.

11. Please identify and quantify Gulf's marketing and administrative expenses directly associated with making wholesale sales under the FERC schedules listed in your response to Interrogatories No. 4 and No. 9. Please indicate where each of these costs are currently booked and how they are recovered, if at all.

ANSWER:

Southern Company Services, Inc. (SCS), as agent for Gulf and the other SES operating companies, directly markets and administers sales made under the FERC schedules listed in responses to Interrogatories No. 4 and No. 9. Gulf's 1999 expenses directly associated with these sales and where they are booked are shown below. These expenses are recovered through base rates and are included in Gulf's surveillance report.

Expense Type	($)	FERC Account
Marketing	92,382	557-00010
Administration	14,740	556-00010
TOTAL	107,122	

12. Please describe the organizational structure of Gulf's wholesale power marketing department. In your response, please provide the following: the total number of employees in the department; a list of each position in the department, including the salary and responsibilities associated with each position; the number of employees in the department devoted to marketing full-time; the number of employees in the department devoted to marketing part-time; the number of employees devoted to administrative/support activities full-time; and the number of employees devoted to other responsibilities and a brief statement of their responsibilities.

    If Gulf does not have a separate wholesale marketing department, please provide the following: the number of Gulf employees devoted full-time to wholesale power marketing, and the position and salary of each such employee; the number of Gulf employees devoted part-time to wholesale power marketing, and the position and salary of each such employee; and the number of Gulf employees devoted full-time to administrative/support activities for wholesale power marketing, and the position and salary of each such employee.

ANSWER:

Gulf does not maintain a separate wholesale power marketing department. SCS directly markets and administers SES wholesale sales, as agent for and on behalf of all SES operating companies. In addition, Gulf does not have any personnel devoted full-time or part-time to wholesale power marketing. Also, Gulf has no personnel devoted full-time to administrative/support activities for wholesale power marketing.

13. Please describe the office space and equipment that Gulf currently has devoted for use by its wholesale power marketing department. If Gulf does not have a separate wholesale marketing department, please describe the office space and equipment that Gulf currently has devoted for use by the employees listed in your response to Interrogatory No. 12.

ANSWER:

This interrogatory is not applicable to Gulf. Please see Gulf's response to Interrogatory No. 12.

14. Please describe how Gulf's wholesale power marketing employees are compensated. In your response, please indicate whether these employees receive an incentive or a commission for making sales under any of the FERC schedules listed in your response to Interrogatories No. 4 or 9 and indicate which FERC schedules such an incentive or commission is associated with. Please explain how the incentive is calculated and booked.

ANSWER:

This interrogatory is not applicable to Gulf. Please see Gulf's response to Interrogatory No. 12.

15. If the Commission approves a reward/penalty mechanism for economy energy sales, please indicate how, in Gulf's opinion, such a mechanism should be designed.

ANSWER:

Gulf's opinion is that a fair reward/penalty mechanism cannot be designed, since the level of transactions and the profit margins on sales are so dependent upon the needs and desires of market purchasers and therefore cannot be estimated to any measure of accuracy. The current system of allowing a 20% shareholder incentive is a reasonable mechanism to support efforts to maximize economy sales to the benefit of Gulf's customers.

16. Please state the total dollars booked below the line by Gulf as a result of the 20 percent stockholder incentive since it was approved in 1984.

ANSWER:

Gulf has recorded $1,479,471 from 1984 through 1999 for the 20% stockholder incentive. This amount is booked in FERC account 447 and adjusted out of jurisdictional expenses for surveillance reporting purposes.

17. Please provide Gulf's annual non-separated wholesale sales, in dollars and MWH, for the years 1994 through 1999.

ANSWER:

The total non-separated wholesale sales for 1994 through 1999 are listed below.

	Energy $	MWH	Capacity $	Total $
1994	3,537,363.58	113,910	0.00	3,537,363.58
1995	1,921,866.59	64,806	0.00	1,921,866.59
1996	2,866,397.41	120,768	88,843.71	2,955,241.12
1997	5,075,028.99	187,185	254,395.12	5,329,424.11
1998	3,630,064.20	106,950	194,389.02	3,824,453.22
1999	5,541,101.43	110,467	1,060,036.36	6,601,137.79

**Excludes associated, UPS, and territorial wholesale sales

18. Please provide Gulf's annual economy energy purchases, in dollars and MWH, for the years 1994 through 1999.

ANSWER:

The total economy purchases for 1994 through 1999 are listed below.

	Total Economy Purchases	
	$	MWH
1994	2,595,289.40	99,071
1995	4,832,736.05	237,977
1996	5,702,743.15	193,431
1997	5,874,860.07	206,378
1998	8,603,501.75	311,932
1999	9,996,655.25	463,844

Staff's First Set of Interrogatories
Docket No. 990001-EI
GULF POWER COMPANY
May 26, 1999
Item No. 5
Page 1 of 1

5. Please explain how Gulf defines or characterizes an "economy energy" transaction.

ANSWER:

For purposes of determining whether the 80%/20% split of the gain on such sales is applicable, Gulf defines an economy energy transaction as a non-separated wholesale energy transaction in which customers of both the buying and selling parties receive economic benefit because the purchasing party buys energy from the selling party at a price lower than the purchasing party can supply the energy itself while the selling party sells energy at a profit.

20. For each year from 1994 through 1999, please provide the number of individual market participants that either bought economy energy from or sold economy energy to Gulf.

ANSWER:

The number of market participants purchasing or selling economy energy from/to Gulf as a member of the Southern electric system (SES), is shown below:

	1994	1995	1996	1997	1998	1999
Participants Purchasing	10	13	36	59	50	44
Participants Selling	10	18	43	64	62	61

21. For each year from 1994 through 1999, please indicate, in dollars and megawatt-hours (MWh), the amount of economy energy sold by Gulf that was priced at market-based rates.

ANSWER:

Please see the attached response to Item No. 8, Staff's First Set of Interrogatories, Docket No. 991779-EI. The sales made by the SES were not tracked by the FERC schedule on which they were made. Since the effective date of SES market based tariff in 1996, it is assumed that most, if not all, such sales are being made under the market-based tariff.

8. For the years 1994 through 1999, please provide Gulf's annual wholesale sales, in dollars and MWH, made under each FERC schedule on which Gulf applied the 20 percent stockholder incentive. For each year, please indicate the portion of these sales that were made over the Energy Broker Network. For each year, please also indicate the amount retained by Gulf as a 20 percent stockholder incentive for wholesale sales made under each applicable FERC schedule.

ANSWER:

Listed below are Gulf's annual wholesale sales made under both FERC schedules on which Gulf applied the 20 percent stockholder incentive. Gulf does not differentiate the amount of economy sales that are made under the individual schedules. All sales for years 1994 and 1995 were Service Schedule C sales, since the Market Based Rate Power Sales Tariff was not effective until accepted by FERC in 1996. None of Gulf's economy sales listed below were made over the Energy Broker Network.

	Mwh	$	20% of Gains
1994	101,900	3,166,783	64,169
1995	44,339	1,327,585	31,578
1996	32,850	969,109	17,352
1997	138,185	4,062,660	148,152
1998	79,813	2,872,745	185,355
1999	77,056	4,510,426	177,910

22. Please indicate whether Gulf has analyzed the impact that shareholder incentives based upon the gains from economy energy sales may have on any of the following:

A) economy energy transactions (number, dollars, and MWhs);

B) gains from economy energy sales;

C) levelized fuel cost recovery factor;

D) generation expansion plan;

E) capital costs;

F) fixed operation and maintenance costs;

G) variable operation and maintenance costs;

H) system dispatch;

I) ability to serve firm and non-firm retail load;

J) ability to serve firm wholesale load;

K) transmission expansion plan;

L) seller's incremental costs;

M) buyer's decremental costs; and

N) return on equity.

If so, please indicate the results of any such analyses.

ANSWER:

No such analyses have been made.

23. What is the minimum gain on an individual sale that Gulf must obtain in order for an economy energy sale to occur?

ANSWER:

There is no established minimum gain that Gulf must obtain for an economy energy sale to occur.

Staff's Second Set of Interrogatories
Docket No. 991779-EI
GULF POWER COMPANY
April 21, 2000
Item No. 25

25. For each state, other than Florida, in which Gulf or an affiliate of Gulf is a participant in the wholesale energy market, please indicate whether that state's public utility commission provides a shareholder incentive to encourage non-separated wholesale energy sales.

ANSWER:

The SES subsidiaries participate in wholesale energy markets throughout the United States. Knowledge of individual state public service commission treatment of these transactions is not necessary to effect the sales, and is not known.

26. For each state listed in your response to Interrogatory 25 as providing a shareholder incentive, please describe the shareholder incentive provided by the public utility commission in that state to encourage non-separated wholesale energy sales.

ANSWER:

Please see Gulf's response to Item No. 25.

27. For each type of wholesale sale listed in Gulf's response to Interrogatories 4 and 9 from Staff's First Set of Interrogatories to Gulf Power Company, please indicate whether Gulf includes a separately identified transmission charge.

ANSWER:

Yes.

28. When Gulf includes a separately identified transmission charge for a wholesale energy sale, what regulatory treatment does Gulf apply to these transmission revenues? In your response, please indicate the relevant orders of the Florida Public Service Commission which authorize that regulatory treatment.

ANSWER:

As of January 2000, transmission revenue related to wholesale economy energy sales is credited to the retail ratepayers through the Capacity Cost Recovery Clause per the Commission's ruling in Order No. PSC-99-2512-FOF-EI, Docket No. 990001-EI. In 1998 and 1999, Gulf credited transmission revenue to the retail customers through the fuel clause pursuant to Commission Order No. PSC -98-0073-FOF-EI in Docket No. 980001-EI. Also as a result of that order, Gulf made a retroactive adjustment to credit the fuel clause for transmission revenue received in 1997.

29. If Gulf does not include a separately identified transmission charge for a wholesale energy sale, what regulatory treatment does Gulf apply to the portion of the gain that represents the transmission charge? In your response, please indicate the relevant orders of the Florida Public Service Commission which authorize that regulatory treatment.

ANSWER:

Gulf does include a separately identified transmission charge for all of its wholesale economy energy sales. Please see Gulf's response to Item No. 28.

30. Please indicate whether an outside auditor can replicate the necessary calculations to determine incremental costs as they existed at the instant Gulf made a wholesale energy sale. Please explain your response: If yes, please explain how those calculations can be replicated by an outside auditor; if no, please explain why those calculations can not be replicated by an outside auditor.

ANSWER:

Yes. Each estimated incremental cost record of the unit or resource that was projected to make the sale must be multiplied by actual unit participation percentages in order to verify the actual incremental costs of each sale. Actual unit participation percentages must be derived using customized computer runs. Southern Company Services, Inc. (SCS), as agent for Gulf and the other SES operating companies, maintains these estimated cost records its offices in Birmingham, Alabama.

31. If a wholesale energy sale does not include a capacity component, can the Commission infer that the sale is non-firm? Please explain your response.

ANSWER:

The Commission should not infer that an energy sale without a capacity component is non-firm because contractual terms specifying the delivery of firm energy can be negotiated under any utility's market based tariffs.

32. Has Gulf ever sold non-separated wholesale energy on a firm basis that had a recallable provision? If so, please describe the conditions that were necessary for Gulf to recall this energy.

ANSWER:

Yes. Although energy that is truly "firm" in nature can have no "recallable" provisions, there are energy products available in today's market with varying degrees of "firmness" that are spelled out in the terms and conditions of the products' contracts. Gulf, as a member of the SES, has sold "recallable" wholesale energy products under its market-based tariff that are known in the industry as "system firm". The term "system firm" means that the SES will stop the delivery of scheduled energy under such an agreement just before interrupting SES native load customers.

33. During 1999, did Gulf make any sales of non-separated wholesale energy where the incremental costs associated with the energy sold were greater than the revenues received from the sale?

ANSWER:

It is possible that individual non-separated wholesale economy energy sales may have occurred where the incremental cost associated with the energy sold was greater than the revenues received from the sale. Because transaction prices quoted to the purchaser are based on estimated production and transmission costs, there may have been some small number of transactions in which the actual costs incurred to make the sale exceeded the estimated costs on which the quoted price was based.

34. *During Gulf's most recent general rate proceeding, what amount was assigned* to Gulf's power marketing activities during its test year?

ANSWER:

In the 1990 test year, used in Gulf's last general rate proceeding, approximately $142,286 was included by Gulf for power marketing activities.

35. For each year from 1994 to 1999, please state all expenses that Gulf incurred in its power marketing department.

ANSWER:

Through its agent, SCS, Gulf incurred estimated expenses for power marketing as follows:

($)

	1994	1995	1996	1997	1998	1999
Power Marketing Expenses	147,496	192,272	575,425	944,234	1,153,158	1,314,019

36. When calculating gain on its wholesale energy sales, does Gulf subtract incremental SO_2 emission allowance costs associated with such sales from the revenues derived from such sales?

ANSWER:

Yes. Gulf subtracts incremental SO_2 emission allowance costs associated with wholesale economy energy sales solely for the purpose of calculating the gain on such sales. This subtraction for the calculation of gain does not otherwise affect the revenues from economy sales that are passed to the retail customer through the fuel clause.

37. If your response to Interrogatory 36, above, is affirmative, please indicate the regulatory treatment that Gulf applies to these incremental SO_2 emission allowance costs. In your response, please indicate which orders of the Florida Public Service Commission authorize that regulatory treatment.

ANSWER:

Please see Gulf's response to Item No. 36.

38. When calculating gain on its wholesale energy sales, does Gulf subtract incremental O&M costs associated with such sales from the revenues derived from such sales?

ANSWER:

Yes.

39. If your response to Interrogatory 38, above, is affirmative, please indicate the regulatory treatment that Gulf applies to these incremental O & M costs. In your response, please indicate which orders of the Florida Public Service Commission authorize that regulatory treatment.

ANSWER:

Incremental, or variable, O & M costs are recovered through base rates. In Docket No. 850001-EI-B, Order No. 14546, issued July 8, 1985, the Commission outlined a list of items recoverable through the fuel clause. Other items, including O & M expenses were specifically categorized as "types of fossil fuel-related costs . . . more appropriately considered in the computation of base rates."

40. When calculating gain on its wholesale energy sales, does Gulf subtract any costs from revenues other than incremental fuel costs, incremental SO_2 emission allowance costs, or incremental O&M costs? If so, please list all such costs.

ANSWER:

Yes. Transmission costs are also subtracted when calculating the gain.

41. If your response to Interrogatory 40, above, is affirmative, please indicate the regulatory treatment that Gulf applies to each of the costs listed. In your response, please indicate which orders of the Florida Public Service Commission authorize that regulatory treatment.

ANSWER:

Please see Gulf's response to Item No. 28.

42. For each FERC schedule under which Gulf makes non-separated wholesale energy sales, please describe the characteristics of the wholesale capacity and energy sold under each schedule.

ANSWER:

Please see the attached response to Item No. 4, Staff's First Set of Interrogatories, Docket No. 991779-EI, for FERC schedules under which Gulf makes non-separated wholesale energy sales. The characteristics for sales made under Gulf's market-based tariff are determined on a case-by-case basis.

4. Please list and provide a brief description of each FERC schedule under which Gulf currently makes economy energy sales to which Gulf applies the 20 percent stockholder incentive. In your response, please provide the year Gulf began applying the 20% stockholder incentive to sales made under each schedule and indicate when each schedule became available to Gulf.

ANSWER:

Gulf, in association with the Southern electric system (SES), currently has two FERC schedules that are available for economy energy sales:

1. Market Based Rate Power Sales Tariff, FERC Electric Tariff, Original Volume No. 4
2. Service Schedule C of interchange agreements with other non-associated companies.

Gulf has applied the 20% stockholder incentive to the economy sales gains derived from transactions under each of these FERC schedules. The Market Based Rate Power Sales Tariff, which was made effective upon acceptance by FERC in April 1996, allows non-firm energy sales at market-based rates. The purchasing entity and the SES negotiate all of the rates, terms, and conditions for each transaction. This schedule became available to Gulf in 1996, and Gulf then began applying the 20% stockholder incentive to the sales gains under this schedule.

Service Schedule C, associated with some interchange agreements dating back as far as 1979, specifies non-firm energy sales at a "split-the-savings" cost-based rate. This service schedule became available to Gulf prior to 1980, and Gulf began applying the 20% stockholder incentive to gains from sales under this schedule immediately after the Commission issued Order No. 12923 on January 24, 1984. Although, this schedule is still effective and available, very few, if any sales are expected pursuant to this schedule under the current conditions.

43. Before Gulf makes a non-separated wholesale energy sale, how does Gulf calculate the incremental costs associated with making that sale?

ANSWER:

The megawatt amount of a non-separated wholesale economy energy sale is modeled as a load to be served and the model simulates a resource dispatch to serve the sale. Then, a production cost analysis run is made to estimate the incremental costs associated with the system resource from which the energy sale will be made.

44. Does Gulf maintain records that separately identify non-separated wholesale energy sales made within Florida and non-separated wholesale energy sales made outside Florida? If so, please identify the criteria that Gulf uses to distinguish these two types of sales.

ANSWER:

No.

9

TAMPA ELECTRIC COMPANY
DOCKET NO. 991779-EI
WITNESS: W. LYNN BROWN
EXHIBIT NO.____ (WLB-1)

TAMPA ELECTRIC COMPANY

EXHIBIT OF W. LYNN BROWN

INDEX

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 991779-EI EXHIBIT NO. 9
COMPANY/
WITNESS: W. Lynn Brown
DATE: 5-10-00

Glossary of Wholesale Schedules and Terms

Schedule or Term	Description
Schedule A Emergency	Used to replace generation due to an unplanned deficiency (forced outage). Price is based on fuel plus an hourly adder from the highest cost on-line generating unit at the time of the sale. The sale is limited to a 72-hour period, and is and non-separated.
Schedule B Scheduled/ Short – Term	Scheduled for short-term use to cover capacity deficiencies due to a unit outage. Is often used after the 72-hour time limitation has expired for Schedule A. The price for capacity and non-fuel energy is based on the embedded cost of the unit(s) most likely to provide the service.
Schedule C Economy	Sold to buyers wanting to avoid use of their own higher cost generation. Is offered on an hourly basis and priced based on the mid-point between the seller's and buyer's cost for generation for incremental system energy. Buyer must have its own back-up generation available. Sales are non-separated.
Schedule D	Normally a one-year or longer commitment to provide a specified amount of capacity and energy at a forecasted level of availability. Price typically carries a non-negotiable capacity charge and an incremental energy charge. The most common types of Schedule D power sales are unit power sales, station power sales or system power sales. Sales are typically separated.
Schedule G Back-up	Allows the buyer to provide required reserve capacity margin by contracting for it rather than building it. The buyer pays a negotiated reservation fee for this service plus a negotiated capacity and incremental energy charge when capacity is actually called upon. Sales are typically short-term, non-separated.
Schedule J Negotiated	Normally a short-term commitment to provide a specified amount of capacity and energy at a forecasted level of availability. Price may include a negotiable capacity charge and negotiable energy charge. Energy charges are typically based on the type of generating resource used to serve the sale. Normally offered with less availability than Schedule D. Sales may be firm or non-firm and are typically non-separated.
Schedule X Extended Economy	Similar to Schedule C, but commitment is longer than one hour. A majority of Schedule X sales are packaged within one-hour blocks totaling up to 7 days. Sales are not separated.
Market-Based Sales	Market-based price rather than cost-based sale that is typically executed similar to Schedules J and G. Sales can be firm or non-firm for varying terms and are typically short-term and non-separated.
Schedule AR or PR All or Partial Requirements	All or a portion of the total buyer's load is served at the same availability level as the seller's firm retail load. Pricing is based on the seller's net embedded cost of providing the requirement service to the customer. Fuel is billed at the seller's system average fuel cost. These agreements are normally long-term, separated contracts.
Broker or EBN	Florida Energy Broker Network which utilizes hardware and software to match buyers and sellers. Transactions have historically been cost-based and "split the savings" in nature, however on October 7, 1999, broker members approved the use of for market-based pricing.
Economy Sales	Schedule C and X sales made on or off the broker.
Non-firm Sales	Sales that can be interrupted to serve firm and non-firm retail customers.
Non-separated Sales	Sales that are made and supported by the utility's retail jurisdictional assets.

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EXHIBIT NO. ___________

DOCKET NO: 991779-EI

WITNESS: W. LYNN BROWN

PARTY: TAMPA ELECTRIC COMPANY

DESCRIPTION: COMPOSITE EXHIBIT: 1) DEPOSITION OF W. LYNN BROWN TAKEN ON APRIL 25, 2000 AND 2) RESPONSES TO INTERROGATORY NOS. 4 - 6, 11 - 14, 19, 22 - 24, 26, 30, 33 - 36, 38 - 39, AND 42 - 43.

PROFERRED BY: STAFF

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 991779-EI EXHIBIT NO. 10
COMPANY/ WITNESS: W. Lynn Brown
DATE 5-10-00

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of — DOCKET NO. 991779-EI

REVIEW OF THE APPROPRIATE APPLICATION OF INCENTIVES TO WHOLESALE POWER SALES BY INVESTOR-OWNED ELECTRIC UTILITIES.

`*******************************************`
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`*******************************************`

DEPOSITION OF: W. LYNN BROWN

TAKEN AT THE INSTANCE OF: The Staff of the Florida Public Service Commission

CONDUCTED FROM: Gerald L. Gunter Building
Room 362
2540 Shumard Oak Boulevard
Tallahassee, Florida

TIME: Commenced at 9:00 a.m.
Concluded at 10:48 a.m.

DATE: Tuesday, April 25, 2000

REPORTED BY: TRICIA DeMARTE
Official FPSC Reporter

APPEARANCES:

JAMES D. BEASLEY, Ausley & McMullen, Post Office Box 391, Tallahassee, Florida 32302, appearing on behalf of Tampa Electric.

STEPHEN C. BURGESS, Office of Public Counsel, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the state of Florida.

WILLIAM COCHRAN KEATING, Florida Public Service Commission, Division of Legal Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, appearing on behalf of the Commission Staff.

Also Present:

DEIRDRE BROWN, Tampa Electric Company

DON HALE, Office of Public Counsel

TODD BOHRMANN, FPSC Division of Electric & Gas

I N D E X

WITNESSES

EXHIBITS

NUMBER		IDENTIFIED
1	(Late-Filed) Costs For Nonseparated Wholesale Sales	10
2	(Late-Filed) Calculation Of Incentive Under TECO Proposal	22

W. L. BROWN

called as a witness, and having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KEATING:

Q Good morning, Mr. Brown. I'm Cochran Keating on behalf of Commission Staff. Could you state your name and business address for the record?

A Yes. William Lynn Brown, III; 702 North Franklin Street, Tampa, Florida 33601.

Q Mr. Brown, you're familiar with the Florida Energy Broker Network?

A Yes.

Q Is the Energy Broker Network system, that matches buyers and sellers and creates a transaction price on the split-the-savings basis, is that system still in existence?

A No.

Q When was it discontinued?

A March the 20th, 2000.

Q Has the system been changed?

A Yes.

Q Could you tell me a little bit about how the changes work?

A Sure. The broker presently is a market-based bulletin board system whereby sell and by quotes are posted on that bulletin board. It's an Internet-based system that has an open membership to utilities and power marketers, and you can quote inside the State as well as outside the State on the system. It is still an energy-based system as opposed to capacity and energy.

Q When did the new system come into existence?

A Late last year. I don't recall the exact date, but it was late last year.

Q When did TECO first begin doing business on the new system, or through the new system?

A It was last fall that the existing system allowed market-based quotes. However, the new system that exists today, I don't recall when we first participated in it. I believe it was January, February, or March of this year, to the best of my recollection.

Q Is there a name for the new system?

A It's still called the Energy Broker Network.

Q Does the new system include transactions that are for more than one hour?

A Yes.

Q You said that there's open participation. Is there a fee to become a part of that system?

A Yes, there is.

Q Would you say that the system, the new system is being fairly widely used?

A So far, it is not widely used; however, it is new. We have not participated heavily on the system.

Q Are all of the members of the previous Energy Broker Network system members of the new system?

A To my knowledge, the majority of them are, but I don't know if every one of them is.

Q Do you know how many participants are on the new system, or how many members?

A Approximately 25.

Q Why hasn't TECO participated very heavily in the new system?

A We have posted a few sell quotes and a few buy quotes; however, we haven't had a lot of power to sell since the new system began. Most of our activities have been off-broker purchases since the new system began.

Q So when you say, "off broker," that means off of the new system as well --

A That's correct.

Q -- since it's still called the broker? I think we said around here that it sounded like the broker was dead, but I guess it's not. That would be inaccurate. It's just a different animal.

A Right.

Q In your testimony, you've stated that TECO has consistently applied the 20 percent stockholder incentive authorized in the Commission's Order Number 12923 to Schedules C and X; is that correct?

A That's correct.

Q In these schedules, you split-the-savings pricing; is that correct?

A Yes.

Q Are you aware that Gulf Power has applied the 20 percent stockholder incentive to all of its nonseparated sales including market-priced sales?

A As I recall from previous testimony from, I believe, Mr. Howell, he indicated that they had.

Q Do you believe that including market-priced, nonseparated sales and the 20 percent stockholder incentive goes beyond what the Commission approved in Order Number 12923?

A To my knowledge, their intent was to encourage utilities to make nonfirm, short-term sales in that order. Market-based, nonfirm, nonseparated sales are of that type. They are similar to C and X. The only difference is the pricing mechanism.

Q So you think it's consistent with the intent of the order?

A I believe it is.

Q But do you believe it's what the Commission approved in the order?

A At the time the order was approved, and I believe it was back the early '80s, C and X transactions were the schedules by which these sales were made. Market-based sales essentially did not exist at that time. So to the extent that you're asking me are these exactly the same as C and X, they are not. However, they are surplus energy. They are nonfirm, and they are nonseparated, which are similarities to C and X.

Q Does TECO currently have the authority to charge market-based rates?

A Yes.

Q How long has it had that authority?

A Since April or May of last year.

Q Has TECO applied the 20 percent stockholder incentive to any of those sales?

A No.

Q And why not?

A We have continued to apply them only to C and X sales because that was our interpretation of what was allowed at the time.

Q Okay. Are there any limitations on TECO's authority to make the market-based out-of-state sales?

A No.

Q No?

A No.

Q In response to one of the Staff's interrogatories, you estimated the annual marketing and administrative expenses associated with making wholesale sales at $1.3 million; is that correct?

A That's correct.

Q Is that for all wholesale sales or for the nonseparated sales only?

A That's for all wholesale sales and purchases.

Q Do you know what portion of those costs is attributable to nonseparated sales only?

A Not offhand. I could get that information if you so desire.

Q Okay. Could we get that as a late-filed deposition exhibit?

A Sure.

MR. KEATING: It would be late-filed deposition Exhibit 1, costs for nonseparated wholesale sales.

(Late-Filed Deposition Exhibit Number 1 identified.)

THE WITNESS: The late-filed deposition will be an approximation.

BY MR. KEATING:

Q Do you know how you would reach that approximation?

A We would estimate the percentage of time that we spent during that particular function. We do not document the time based on our time sheets on nonfirm, short-term sales, long-term sales, firm sales, purchases and so forth. It would simply be an estimate of what percentage of time we had spent.

Q What percentage of your wholesale sales are nonseparated, in dollars?

A I don't know that number right offhand. I can get that information.

Q Yeah, I think if you can include that with --

A Sure.

Q -- the late-filed deposition Exhibit 1.

In your response to another of Staff's interrogatories, it's Interrogatory 14, you stated that marketing employees receive a base salary plus an incentive for achieving company-based goals?

A That's correct.

Q Could you explain how that incentive is determined in perhaps a little more detail?

A Sure. The incentive -- actually, there are two incentives. The first one is a company based goal incentive called success sharing, and I think I mentioned that in one of the interrogatory responses. It's based on achievement of company-wide; that is, Tampa Electric

Company goals. Some of those goals are impacted directly by wholesale marketing, and some are not.

The marketing employees are treated the same as other departmental employees of Tampa Electric Company toward -- regarding achieving those goals. In other words, if the company achieves a certain goal, everyone within the company regardless of what department they work in benefits on that achievement.

The second incentive is a merit raise incentive, and I believe I mentioned that also in my response to that particular interrogatory. It is an individual employee incentive that is based on their individual achievements, their goals for that calendar year.

Q So for the marketing employees, do any of their individual goals relate to the number of wholesale sales they make?

A They could.

Q They could. So the goals are set individually?

A They are set individually based on the employees' primary responsibilities.

Q So the marketing employees whose job is limited pretty much directly to making these sales, their individual goals would presumably be related to the amount of those sales?

A They may be. Although, we do not have any marketing employees who spend all of their time doing these sales. They actually do many different jobs.

Q When employees' individual goals are related to wholesale sales in some way, is it the amount of the sales that the goals are based on or gains on the sales?

A It could be either or both.

Q Does an employee receive a direct incentive for making a sale?

A No.

Q There's no commission?

A No.

Q I believe in your testimony, you stated the wholesale market in Florida has changed significantly in the past several years; is that correct?

A Yes.

Q Would you characterize the market as more competitive today than it was in the time frame when Order Number 12923 was issued? I believe that was in 1985 or '84.

A I would say so.

Q Would you agree that there are more players in the wholesale market today, participants?

A Yes.

Q Would you agree that an interested buyer has more available suppliers today?

A Yes.

Q Since there are more options or more available suppliers for buyers in the wholesale market, would agree that TECO is more at risk today of not being able to make a wholesale sale if its price is high relative to alternative suppliers?

A If our price is higher than alternative suppliers, I do not believe today's market is any different than yesterday's market. We're not going to make the sale if our price is higher.

Q Do you believe that it is a public utility's obligation to keep its rates as low as possible for ratepayers?

A It's certainly an obligation to serve our customers with reliable service at a reasonable price. Striving to keep our rates low is part of that.

Q Would you agree that flowing the gains from a nonseparated sale through a cost recovery clause gives an immediate benefit to ratepayers?

A Yes.

Q Considering the moves in several states towards retail competition and discussion at the federal level concerning retail competition, do you believe that public utilities are under added pressure today to keep retail rates low?

A There is some pressure to keep retail rates low, yes, or at least competitive. And that depends on low compared to what?

Q Do your large retail customers have more cost-effective options to self-generate today than they did when Order Number 12923 was issued?

A I'm not aware of what self-generating options they had back then. I do know that today our customers do have generation, self-generation options. How cost-effective those are, I'm not aware of.

Q Do you believe that having those additional options provides added pressure for TECO to keep its rates low to retain those customers?

A It may. It depends on the cost of those options.

Q In your testimony, you described TECO's proposed incentive which would apply to all nonseparated wholesale sales, correct?

A No.

Q Could you correct what was erroneous about that statement?

A Our proposal is to apply an incentive to all nonseparated, nonfirm wholesale sales.

Q And this includes TECO sales under Schedules C, X, J, G, and market-based sales; is that correct?

A Yes, all nonfirm sales under those schedules.

Q I guess I don't know if I should ask for this as a late-filed exhibit, but we would be interested in getting a copy of the market-based sales tariff --

A Sure.

Q -- that you referred to.

A Sure.

Q Why does TECO believe that in-state sales should receive a higher incentive than out-of-state sales?

A We believe an incentive for in-state sales that is higher than out-of-state sales would encourage sellers to keep the energy or encourage them to sell the energy, maintain it within the State thereby benefiting customers within the State as opposed to shipping it out of state.

Q How did TECO develop those two different incentive levels, the 40 percent level for out of state sales, and 20 percent for in-state?

A We used the existing incentive, the 20 percent that has applied to C and X sales for many years, as a benchmark for all sales that are nonfirm, nonseparated as I described before. And we simply gave it some thought as to what would be a reasonable increase in that incentive to further encourage utilities to keep the power within the State thereby providing an increased amount of market liquidity inside the State benefiting all customers within the State making more purchase options available, and thereby increasing in-state reliability for both nonfirm as well as firm customers.

Q Did TECO perform any type of analysis to determine that those two levels for in-state and out-of-state sales were appropriate?

A Not to my knowledge.

Q Does TECO have any evidence that increasing the stockholder incentive will encourage the sales that you wish to apply the incentive to, to such a degree that ratepayers will receive a net benefit?

A We have not done any calculations to that effect.

Q So you haven't performed any analyses that would show that sales will increase beyond the level necessary to make up for the 20 percent gains that would be shifted from ratepayers to the shareholders?

A Not to my knowledge. That area of questioning really belongs in Dee Brown's arena.

Q Would a wholesale energy sale that was firm for one hour and nonfirm for all other hours be considered a firm or a nonfirm sale?

A If a wholesale sale is defined for a period of hours, let's say for five hours, and for that first hour, frankly, I've never seen this happen, but for that first hour, if it were firm, then the transaction would be considered firm for the five hours.

Q Does TECO make nonseparated wholesale sales that do have a nonfirm portion in a firm portion?

A Not to my knowledge.

Q Could TECO make such a sale?

A Yes, I suppose we could. And if we did, I would think that we would break it up into two sales. One would be the firm sale, and one would be the nonfirm sale.

Q But you wouldn't be required to do that?

A No.

Q I think it's in your response, in TECO's response to Interrogatory Number 1, there's an example of how TECO calculates the 20 percent stockholder incentive on a sale.

A Let me check.

Q That may be a response that Ms. Brown put together.

A Yes, that's Dee Brown's interrogatory.

Q Perhaps my question will need to go to Ms. Brown, but I'll give it a shot first, and let me know. To calculate the gain of TECO uses estimates of incremental fuel, O&M, and S02 allowances, how does TECO estimate those incremental costs?

A The incremental costs are estimated with a computer program, and the answer to this question is in another interrogatory, by the way. I don't recall what number it is, but I believe it is in the second set, but the computer program has the updated fuel cost, updated heat rates, updated dispatch information. And it calculates what units are providing the sale for every given hour, and it produces that incremental cost.

Q I think I recall seeing that briefly, that interrogatory response. For sales that last more than an hour, are these incremental costs based on forecasts?

A Yes.

Q I don't recall. This may be in the interrogatory response you referred to. Is the data concerning these incremental costs available at a later date for audit purposes?

A Yes.

Q How could the Commission set up -- or how could TECO set up an audit trail on the calculation of gains if the Commission were to extend the stockholder incentive as TECO has proposed?

A Are you referring to the 20 percent and 40 percent?

Q Right. How would the Commission audit the gains?

A Every sale is documented regarding what the gains are based on the estimated cost and the price; the gains, of course, being the difference. In addition to that, the sale is documented as to whether or not it was done in-state or out of state. Sufficient documentation is there to indicate whether the sale would qualify for an in-state incentive or out-of-state incentive.

Q Does TECO have a policy in place that prevents a marketing employee from making a sale on which the gain is very small?

A No.

Q Is there any minimum gain at which TECO will not make the sale?

A We will cover our cost, but above our cost, there is no minimum margin that we must receive.

Q In your response to Staff's Interrogatory 17, you stated that the megawatt hour sales in 1998 and '99 were substantially smaller than in previous years; is that correct?

A In 1998, the total megawatt hours were 900,000. In 1999, the total megawatt hours were approximately 300,000. And, yes, that is a reduction from previous years.

Q Why was there a reduction in sales in those years?

A We had less to sell.

Q Any other reasons?

A Not that I'm aware of.

Q Would that explain the decline in economy sales shown in that interrogatory response as well?

A The substantial decrease from '97 to '98 to '99 was in the economy portion. The totals that I was referring to included Schedules J, G, D, and market-based. However, as you've just indicated, the substantial decrease was in the economy section. And the answer is, yes, we had less economy to sell.

Q In the column listed "economy" in that interrogatory response, those are specifically the types of sales that TECO has applied the 20 percent stockholder incentive to?

A Yes.

Q Can TECO make market-based sales in-state?

A Yes.

Q Does TECO have any affiliates located in other states who sell nonseparated wholesale energy?

A Currently, not to my knowledge.

Q Have you calculated the stockholder incentive in each year for '94 through '99, given the situation where the proposed incentive had been in place for those years?

A I believe that was calculated in response to one of the interrogatories. I'd have to find it. Give me a minute.

Q Okay.

A I believe it's Interrogatory Number 10.

Q Okay.

A And we simply did the calculation based on a 20 percent stockholder incentive. We did not do the calculation using 20 percent for out of state and 40 percent in-state. If that's your question, then the answer is, no, we did not do that calculation.

Q Could you provide that as a late-filed deposition exhibit?

A Sure.

MR. KEATING: That would be a late-filed Number 2, calculation of incentive under TECO proposal.

(Late-Filed Deposition Exhibit Number 2 identified.)

BY MR. KEATING:

Q In that late-filed deposition exhibit, could you separate out the gains from in-state versus out-of-state sales?

A Yes.

Q In general, what impact have exempt wholesale generators had on the wholesale generation market in the U.S.?

A Within Florida, I have only limited knowledge about exempt wholesale generators. Primarily in Florida, they are cogenerators, and we pay a rather high price for that power as do other utilities.

Outside of that, specifically outside of Florida, merchant plants have been introduced in some regions. And although we do not track the market prices that closely in the areas where merchant plants are located; that is, if there is a proliferation of merchant plants, I assume that they would increase market liquidity and thereby increase the effectiveness of it.

Q And how would you define an exempt wholesale generator?

A To me, it's a generator that does not have a responsibility to serve retail customers.

Q And you stated that the only exempt wholesale generators that you're familiar with in Florida are cogeneration facilities?

A That's primarily what I'm familiar with. I am aware that there is one power plant in Florida that is now owned by an entity outside of Florida. However, a majority of that plant's output is committed under firm contracts to a local utility.

Q Would you say that EWGs have made the wholesale generation market in the FRCC region more competitive?

A I wouldn't necessarily say that because of the fact that cogenerators exact a rather high price for their power.

Q How do you define a nonseparated wholesale energy sale?

A A nonseparated sale is one that is made from assets that are part of the utility's plant that are paid for; that is, the capacity of which the capital charges are paid out of rates, retail rates.

Q I think you've used the term, either one or both, broker and marketer. What are the characteristics of a broker?

A Well, the terms broker and marketer sometimes are used interchangeably. Technically, a broker is someone who normally deals in the financial markets; that is; the financial energy markets. And a marketer is one who deals primarily in the physical market; that is, the purchase and sale of physical power; that is, energy and capacity. But I have heard the terms used interchangeably.

Q Do EWGs marketers or brokers have retail end use customers in Florida?

A Not to my knowledge.

Q Assuming that TECO needs to buy short-term, nonfirm energy on the wholesale market, if Florida Power & Light, Florida Power Corporation, or Southern Company is unable or unwilling to sell that wholesale energy to TECO, are there other market participants that exist that could sell energy to TECO?

A Yes.

Q Who would those market participants be?

A The energy authority who represents JEA and others outside the State, the City of Tallahassee, FMPA who is actually represented by OUC who markets for FMPA and they market for themselves as well, Seminole, Reliant Energy. And from time to time, various power marketers will purchase a firm position in Florida; that is, they will purchase a certain amount of capacity and energy for generally short periods of time, and they will remarket those positions on a short-term market.

MR. BEASLEY: Cochran, could we go off the record for a second?

MR. KEATING: Sure.

(Discussion off the record.)

BY MR. KEATING:

Q I previously asked you a few questions concerning exempt wholesale generators. I had asked what impact exempt wholesale generators had on the wholesale generation market in the U.S. and in the FRCC region. I'd like to clarify that, or I'd like to, I guess, ask the question: What impact do you believe that nontraditional utilities have had in the wholesale generation market in the FRCC region, not only EWGs?

A I don't believe they have had a great impact.

Q Do any of the nontraditional utility participants that are participating in the wholesale generation market have retail end use customers similar to Tampa Electric?

A Not to my knowledge.

Q I've got just about three or four questions that are based on the same set of facts that I want you to assume, and they're fairly straightforward. I'll go through them. If you want to stop me to write them down, please do. First, we have Utility A and Utility B. "A" is willing and able to buy energy on the wholesale market, and "B" is willing and able to sell energy on the wholesale market.

"B" has an incremental cost of $20 per megawatt hour, and that incremental cost is all inclusive. Utility A has a decremental cost of $30 per megawatt hour. Given those assumptions, what is the minimum price that Utility B would be willing to sell the energy to Utility A for?

A Well, the minimum price that Utility B would be willing to sell would be $20, which is their cost.

Q And what is the maximum price that Utility A would be willing to pay to buy the energy from Utility B?

A If $30 is truly their total decremental cost and the energy that they could supply themselves instead of purchase is indeed available immediately, then $30 would be the maximum.

Q As long as the price is between $20 and $30 per megawatt hour, what is the total gain that could be achieved between Utilities A and B if the transaction occurs?

A The maximum gain, assuming what we've already said concerning minimum and maximum costs, would be a maximum of $10, which is the difference between the two quotes.

Q So that gain would be the same regardless of what the transaction price would be as long as that price is between $20 and $30 per megawatt hour?

A No. I assumed that the maximum gain possible would be $10, which is the maximum difference or the difference between those two quotes. The transaction price may be different than $30. The transaction may be $28. In that case, the gain is $8.

Q But the total gain that could be achieved between the two utilities, would that change if the transaction price stays between $20 and $30 per megawatt hour?

A Oh, I see your question. I'm sorry. I misunderstood. The transaction price will determine the gain.

Q I'm not sure if you answered it. The total gain on the transaction then would remain the same regardless?

A No, it depends on the transaction price. If the transaction price is $26, then the gain is $6. We're speaking of the gain of the seller.

Q Right.

A It's the difference between his cost and the transaction price.

Q Okay. And perhaps I'm using the term "gain" when I should be using the term -- or the total -- let me find the right term.

MR. KEATING: Can we go off the record for a moment?

MR. BEASLEY: Sure.

(Discussion off the record.)

BY MR. KEATING:

Q Just to rephrase the question. If the transaction price is between $20 and $30 per megawatt hour, anywhere within that range, is the total benefit for the transaction going to change? And when I say, "the total benefit," I'm referring to the gain on the sale for the seller and the savings of the buyer.

A The total benefit would be $10 regardless of where the transaction price, and of course, you have to assume that the cost of making the transaction is zero.

Q Given that scenario, as long as the price for the energy is between $20 and $30 per megawatt hour, should the Commission have any concern over the transaction price?

A I guess I don't understand your question.

Q If the total benefit from the sale is going to be $10, and again that's the gain to the seller and the savings to the buyer, if the price of the transaction is between $20 and $30 per megawatt hour, should the Commission be concerned with where the transaction price falls?

A Well, my understanding of the issue before the Commission at this time is incentives on sales gains, not incentives on purchase gains, and so to that extent, I would think the transaction price does make a difference. Although, if the Commission wants to consider incentives for both purchasers and sellers, then it would not make a difference.

Q Are you familiar with any other jurisdiction that allows a utility that serves retail end use customers to flow a portion of the profits from nonseparated wholesale energy sales to the utility's shareholders?

A I'm not familiar with other states or other regions, no.

Q For the purposes of providing an incentive, do you believe that a distinction should be made for wholesale energy sales made for economic reasons versus those made for reliability reasons?

A Our proposal is that all nonfirm, nonseparated sales be considered or qualified for incentives regardless of what purpose they are used for.

Q So you do not believe that there should be a distinction?

A That's correct.

Q And why is that?

A Nonfirm, nonseparated energy is surplus energy. It is not firm; that is, it does not have a capacity call component that puts any of the selling utility's customers at risk. It is only sold after you supply power to both your firm and your nonfirm customers. And should you be at risk of cutting your nonfirm customers, you have to cut the nonfirm sale first.

Q Is it appropriate for a utility to sell nonseparated wholesale energy while it is simultaneously interrupting or curtailing nonfirm retail customers?

A It would be inappropriate. However, occasionally there are certain times when it may happen, and I believe in our response to one of the interrogatories we documented those occasions and the reasons for it.

Q Similarly, would it be appropriate for a utility to sell nonseparated wholesale energy sales, wholesale energy while it implements load management procedures on eligible retail customers?

A We do make nonfirm, nonseparated sales while operating load management from time to time.

Q Under what conditions does that occur?

A If we are receiving a substantial profit from those sales, we will operate load management. Residential load management is what I'm referring to.

Q Is there a threshold for when that substantial -- when the profit becomes that substantial?

A It's a rule of thumb. It's certainly around $100 a megawatt hour.

Q What incentives does TECO have to maximize the savings derived from its purchases of short-term, nonfirm wholesale energy?

A Could you please repeat that question.

Q Sure. What incentives does TECO have to maximize the savings from its purchases of short-term, nonfirm wholesale energy?

A The incentive is to maintain reasonable customer rates through the fuel clause.

Q Do you believe that TECO dedicates sufficient resources to allow you to maximize TECO's purchases of short-term, nonfirm wholesale energy?

A We have a marketing department that's staffed at we believe an adequate level to make those purchases, to do the market research, to make the appropriate contacts, just to do the basic work that's required to aggressively get the best priced power available, yes.

Q On what basis does TECO determine that the resources used to maximize its purchases of short-term, nonfirm wholesale energy are utilized effectively?

A Well, I'm responsible for managing the department, and each employee is monitored, their accomplishments; that is; their goals and targets, and behavioral dimensions are assessed on a regular basis. It is a part of people management. It's simply an issue of managing the department properly and making sure that all employees are challenged sufficiently.

Q Assuming that the Commission decides the shareholder incentive on gains from nonseparated wholesale sales, energy sales is no longer necessary or appropriate, and further assuming that one year later, one of the nontraditional utilities gain market share of the short-term, nonfirm wholesale energy market at TECO's expense, what would be your long-term response to this loss of market share?

A Let me make sure I understand your question.

Q Okay.

A First of all, you're stating that we do not have an incentive to make sales, or the incentive was taken away.

Q No. The assumption is that the Commission decides that a shareholder incentive is appropriate.

A Okay. I'm sorry.

Q No, I'm sorry. You're right. You're right.

A Could you repeat the question?

Q Yes, I better repeat the question. I think I just confused things more. Assuming that the Commission decides that an incentive on the gains from nonseparated wholesale energy sales is no longer necessary or appropriate, and further assuming that one year later, a nontraditional or a nonutility or nontraditional market participant gained market share of the short-term, nonfirm wholesale energy market at TECO's expense, what would be your long-term response to that loss of market share?

A The one part about the question that I don't quite understand is "at TECO's expense." What do you mean by that?

MR. KEATING: Perhaps we could go off the record for a moment?

MR. BEASLEY: Sure.

(Discussion off the record.)

A My understanding of the question is that we no longer have an incentive. Secondly, there is a new market participant that has taken away our share of the market, or at least the majority of our share of the market. And the question asked one year later, you know, what would we do. I would think that we would assess, first of all, how competitive we are in the new market and determine whether or not we can effectively sell in that market. And if we cannot, then we would do something perhaps to make ourselves competitive, or we would get out of the business altogether. It depends on the numbers, frankly.

Q Are the savings from short-term, nonfirm wholesale energy purchases a factor that TECO uses to evaluate your performance in your position?

A Yes.

Q How do the purchases come into play in TECO's evaluation of your performance?

A One of the success sharing goals that I had mentioned earlier is a fuel and purchase power cost goal. The goal is defined as a certain amount per megawatt hour for the year, and further is defined on a monthly basis, and the number is a cap; that is, we don't want to go over that. That same goal is one of my personal goals, one of my merit goals.

Q Are the profits from short-term, nonfirm wholesale energy sales a factor that TECO uses to evaluate your performance as well?

A Yes.

Q And how do those come into play in that evaluation?

A One of my goals relates to total revenues from off-system sales, and that includes firm as well as nonfirm sales.

Q Assuming that the Commission decides that a shareholder incentive on the gains from nonseparated wholesale energy sales is necessary and appropriate, should a distinction be made whether the sale takes place within the State?

A We believe it should for the reasons mentioned earlier. It increases the liquidity of the Florida market. It increases reliability for Florida retail customers; that is, it makes more power available to the market thereby providing the purchasers more options.

Q Do you believe that the level of the shareholder incentive should increase as the volume of nonseparated wholesale energy sales increases?

A No.

Q Do you believe that the level of the shareholder incentive should increase as profits for nonseparated wholesale energy sales increase?

A I don't quite understand the term "profits." We believe that a straight incentive such as has been applied in the past to C and X sales is supple; it's straightforward. And that same concept should be considered for the future for not just C and X sales but also those other sales that we discussed earlier, and then in-state sales should receive an additional incentive.

MR. BEASLEY: Can I ask a clarifying question?

MR. KEATING: Yes.

MR. BEASLEY: When you say, "the level of the incentive," do you mean the absolute dollar amount of the incentive as volume increases, or do mean the percentage applied to the gain? How do you define "level"?

MR. BOHRMANN: The percentage that accrues to the shareholders.

MR. BEASLEY: Okay.

BY MR. KEATING:

Q In answer to my last question, you said you weren't -- you may not have been entirely clear as to what I was getting at. If I substituted the word "gains" on the sales with "profits," would that change your answer? I could restate the question.

A Could you please restate or repeat the question.

Q Should the level of the shareholder incentive increase as the gains from nonseparated wholesale energy sales increase?

A No.

Q Do you believe that the Commission should base the incentive on anything other than gains from nonseparated wholesale energy sales?

A We believe the incentive should simply be based on gains. And going back to your previous question, naturally as the gains increase from sales, if you apply the same percentage across the board to your gains regardless of what level the gain is, associating gain with profit, of course, then your dollars of incentive increases. The percentage remains the same. So to that extent, the answer to the previous question could be, yes.

Q Are there any future conditions you can think of that would make a shareholder incentive on gains from nonseparated wholesale energy sales unnecessary or not appropriate?

A We do not feel that an incentive is necessary for Schedule A or B sales or firm sales that are separated -- or firm sales, period, whether they are separated or not separated.

The incentive that we're proposing is for nonfirm, nonseparated sales, as I mentioned before. And as far as anything in the future is concerned that might change the incentive or might make it unnecessary, I'd have to think about that. Perhaps there would be a possibility of something that could happen in the future that I just can't recall or think of right now.

Q *Why did TECO distinguish Schedule A and B sales* from the types of sales that it proposes to apply the incentive to?

A Schedule A and B sales are used for an exclusive reason, and that is where a purchasing utility has already operated their interruptible load and they are on the verge of operating their firm customers. The seller is somewhat obligated to sell them that power so that they do not have -- the purchasing utility does not have to operate their firm load. The power is cost-based, and so under that circumstance, we did not feel that an incentive was appropriate for the seller.

Q So in that circumstance, TECO is required to make the sale?

A There is a mutual agreement with Florida utilities that if one of them gets into trouble, others will come into their assistance rather than get into the situation of operating firm load.

Q In response to Staff's Interrogatory 26, you stated that the minimum gain that must be obtained for an economy sale, you specifically refer to Schedules C and X, but the minimum gain that must be obtained for the sale to occur is the cost of transmission through TECO's system; is that correct?

A That's correct.

Q Must the minimum gain also be enough to cover SO2 emission allowance costs?

A In that particular interrogatory, the gain is defined as the difference between the transaction price and the sell quote, and the sell quote includes fuel, SO2, and O&M. So it is covered in the sell quote.

Q And you said O&M costs were covered in the sell quote?

A They are included in the sell quote, yes.

Q In your response to Interrogatory Number 27, I believe you and Ms. Brown were identified as providing this response. I just needed to get a clarification, and perhaps your attorney can answer my question. There are certain columns of information that are missing. I know TECO had filed a request for confidential treatment recently, and I need to find out if that information was covered under the request, because I honestly haven't been able to look at it in detail yet.

MR. BEASLEY: It is, and it's on file in the

Division of Records and Reporting under a request -- or a notice of intent to seek confidential classification.

MR. KEATING: Okay. So that's the reason that these columns are missing.

MR. BEASLEY: That's right.

MR. KEATING: Okay.

BY MR. KEATING:

Q I just have, I believe, one other question. The scenario for this question is that TECO is in the market to buy power for their nonfirm retail customers to avoid interruption. TECO can buy that power from Florida Power & Light and does. Under TECO's proposal, Florida Power & Light would keep 40 percent of the gain on that sale, correct?

A Yes.

Q Now, if the demand from TECO's nonfirm customers happens to be not as great as expected and TECO can resell some of that power, they would also get to keep 40 percent of the gain on that sale or 20 percent if the sale is out of state; is that correct?

A That's correct.

Q Do you believe it's appropriate for an incentive to be applied twice to the same power?

A I don't know. I'd have to think about that. This does occasionally happen. It is not something that happens often, though. So perhaps not. I would have to think about it, though. But offhand, what we have proposed is a simple straightforward mechanism where all sales, nonfirm, nonseparated sales would receive the same incentive, but there could be a case made for power that is resold or sold twice within the State.

MR. KEATING: Okay. I believe that's all I have. Thank you.

MR. BEASLEY: Can we take about three or four minutes?

MR. KEATING: Sure.

(Brief recess.)

CROSS EXAMINATION

BY MR. BURGESS:

Q Mr. Brown, my name is Steve Burgess from the Public Counsel's Office. I have a few questions that Mr. Beasley has agreed to allow us to participate in this deposition as opposed to filing notice and establishing our own, hopefully being efficient for both you all and for us. Some of the questions are by way of follow up to what Mr. Keating has already asked. And let me go ahead and start with one of those.

One of the things you indicated was that O&M costs are included in the sell quotes. What sort of O&M costs are included in the sell quote?

A It's variable O&M that's incremental to the sale.

Q What I want to find out is in what way it's variable, so these questions -- or in what way it is incremental, and these questions are geared toward that. What costs are disallowed for the purposes of surveillance reports and establishment of any kind of sharing or any kind of calculation of base rates? Are any of the costs associated with your operation disallowed from a base rate calculation?

A I really don't know. That question would be more appropriate for Dee Brown.

Q Okay. Are you able to go into any detail on discussing how the costs that are included in the sell quotes are incremental? Let me ask more specifically: Are you able to characterize what type of expenses are included?

A Are you speaking of O&M?

Q Yes.

A I'm not able to do that.

Q You spoke to some extent with Mr. Keating about goals and incentives for your particular operations and for your particular job itself, and you named a few. I tried to take some down. As I understood it, on the economy sales side, one of the targets or goals that you have is total sales for the company; is that correct?

A A goal is total revenues from off-system sales which includes all different types of sales, firm and nonfirm.

Q Okay. And as I understood what you were saying is, the way it's established is, you have a -- for your merit goals; is that right? There is something for determining your performance at the end of a year?

A That's correct.

Q I see. And that includes a total revenue as one of the --

A Yes.

Q Now, in doing that, I assume there is a target for total revenue?

A Yes.

Q Is this something that's -- how is this established? How is this target established?

A The firm sales are forecast based on expected energy usage. The capacity charges for firm sales are known. There is no forecast. They are simply contained within the contracts. So there is no -- there is nothing necessary as far as forecasting that income. The nonfirm sales are forecast based on expected market situation and expected energy that we can make available to the market.

Q I see. And what happens in the nature -- and I assume there's a good deal of blending of these various determinants, but what happens at the end if you exceed the merit goals?

A There is a -- the goals are based on me achieving them, all of them or a certain percentage of them. And if I exceed a goal, I can -- I will receive credit for exceeding it based on the percent by which I exceeded it.

Q When you say, "credit," you mean almost qualitatively in your evaluation that you would be rated somehow with greater merit or something; is that --

A Yes.

Q Okay. Is there a title? I mean, in the State process, we sit down with a supervisor, and we're told whether we've achieved or exceeded and that type of thing. Is there a name, a label that's put on this for exceeding the expectations?

A Not that I'm aware of. It's part of my annual review. It's a merit review for what has transpired the previous year.

Q Would you be given a bonus if you went into certain ranges above that which was set as a standard?

A No.

Q What if --

A I say, no; however, if there was a substantial achievement in the realm of wholesale sales that I was responsible for or that my department was responsible for, then there is the flexibility, there is the possibility that I could receive the bonus.

Q You said that the people that work in your department also have a similar-type arrangement where they have their personal merit goals and then they also have company goals; is that right?

A That's correct.

Q And are you responsible for evaluating each of these employees or these employees?

A I have two managers who report to me. Actually, I have four immediate reports. I am responsible for evaluating my immediate reports. The managers who report to me are responsible for evaluating their immediate reports.

Q When they have their personal merit goals, are these quantitative as well?

A They can be quantitative and qualitative in nature.

Q I see. What are the quantitative-type goals that the people that serve under you would have established for them?

A An example would be to define the market on a day-to-day basis. In other words, develop a market forecast of what the price of power will be tomorrow, and then in a historical fashion, look back at what the price of power actually was. And the quantitative goal would be how far or how close were we to our forecast.

Q I see. And so you'd have to -- to evaluate whether they have done a good job, you would have to have kind of a standard set as to how close they ought to be?

A That's correct.

Q I see. Is that something that's difficult to establish?

A Yes.

Q But you establish it anyway?

A We do the best we can.

Q What happens if somebody constantly achieves well below their merit goals?

A They are counseled, and if necessary, they are dismissed from the company.

Q Do you have a notion as to what changes you would intend to make to increase sales in your department if your proposal is approved?

A We believe that we would work harder and probably work longer. Not to say that we don't work hard already, but an incentive is just that. It encourages a certain type of behavior, just like my goals. My merit goals are my incentive to achieve certain levels. Myself as well as my people would go above and beyond, go the extra mile, if you will, be innovative, be creative, work at home, work on weekends and so forth, go above and beyond what you might expect of an employee.

Q I understand. But let me ask again about your personal merit goals. You're not rewarded though for achieving below the standard that's been established as the target for your merit performance, are you?

A I am rewarded to some degree, but it depends on how far below I am.

Q Well, like, for instance, these people who get fired after a period of time, they're not rewarded for something that's below standards?

A It depends on how far below they are. It's all relative. For example, if we set a goal at, say, $1000 revenue goal for the year, and we achieve $995, then I may still receive, in fact, I would still receive some merit raise. We didn't quite achieve the goal, but I wouldn't receive what the norm is. But if I only received $500, we only made $500, now that's a different story. So it's a relative thing.

Q Five hundred being below the norm of achievement?

A That's correct.

Q So you wouldn't be rewarded for every dollar that you had achieved up to $500?

A No.

Q I see. One of the things that you had spoken of as far as obligations of the utility is to provide your product at a reasonable price to your ultimate retail purchasers?

A Yes.

Q And would you agree that that reasonable price includes a reasonable effort to sell off-system the capacity that TECO has that it doesn't need to provide for its retail load?

A A reasonable effort, yes.

Q And would you agree that the company is already receiving by virtue of an overall rate of return on the assets that are not separated, the company is already receiving a monetary reward in exchange for at least a reasonable effort to make these sales off-system?

A Well, my understanding is, we're not selling these assets. We're simply selling the energy from these assets. I guess I don't quite understand your question.

Q Okay. If you are receiving 100 percent in the retail market, if you're receiving a return on 100 percent of assets from your retail customers, and you can use those assets to generate sales that are then sold off-system or sold wholesale, haven't you already in receiving a rate of return on the 100 percent of the assets received a quid pro quo for a reasonable effort to sell what you can off-system?

A Not necessarily. There is an investment that we have to make and time, energy, effort to sell surplus energy. You don't just do it automatically. And when we do sell, we recover all of the incremental cost, the energy cost of making those sales. The gains; that is, the profits from the sales, we are saying that should receive the 20 percent or 40 percent incentive would encourage us to do more of those sales as much as possible.

Yes, those are power plants, if you will, that are paid for by retail customers, but we're talking about incentives that encourage something more than what we would -- we would normally serve our retail customers regardless of whether we have incentive or don't have the incentive. We're going to serve our retail customers.

Q Well, maybe I'm not asking the question correctly. Suppose there is no incentive. Would you make an effort -- and suppose there were no incentive, no 20 percent, no 40 percent incentive, would you make some effort to sell off-system in order to meet your obligation to provide a reasonable priced product to the retail ratepayers?

A We may. It depends on the investment that we have to make to make those sales, the investment of time, energy, money.

Q Suppose the Commission says we will cover all costs associated with your effort and we expect an aggressive effort to sell off-system and provide the lowest price possible to your retail customers, would TECO make an effort to sell off-system?

A If the Commission said they would cover all the costs and that was their expectation of us and that we weren't going to get an incentive for doing it, then we would do what the Commission told us to do.

Q You would make a reasonable effort?

A Sure.

Q Would you agree that that would be your obligation for receiving a rate of return on the entirety of the assets that are included in the retail rate base?

A I don't know about that. It would be our obligation to follow the Commission's directive.

Q One of the things -- this is maybe more of a question for you, Jim. The Interrogatory 27 that had number of items, that was the 62 page interrogatory answer that had a number of items that you sought confidentiality on.

MR. BEASLEY: Uh-huh.

Q One of the things, I believe it's Staff's request for late-field Exhibit 2 to this deposition. It was 1994 through 1999, gains on the sales that you are seeking the 40 and 20 percent on. Okay. Now, I guess what I'm trying to understand is, would that exhibit then include the total numbers for 1999?

MR. BEASLEY: Let's go off the record for a minute.

MR. BURGESS: Okay.

(Discussion off the record.)

MR. BURGESS: That was resolved. My concern was resolved off the record.

MR. BEASLEY: Okay.

BY MR. BURGESS:

Q Mr. Brown, I just have one more question. This is referencing your rebuttal testimony where you spoke of the reasons for lack of activity, decline and usage of the former structure of the EBN. Would you elaborate on the reasons for the decline in interest and activity on TECO's part in the EBN in the form of the structure of EBN?

A The EBN originally was the primary tool by which nonfirm economy energy was bought and sold in the state of Florida, and that was the case for many, many years. In fact, up until about 1998, it was the primary tool. But the market began to change in about 1997, where the majority of transactions; that is, the majority of buyers and sellers in the market were doing their business not on the broker; that is, not on the EBN, but on the broker. The transactions were accomplished via telephone calls, and they were not only hourly transactions but multi-hour transactions. The EBN is an hourly -- strictly an hourly broker or was an hourly broker. Today, it is multi-hour as well.

In addition, a number of new players entered the market who have market-based pricing both inside and outside the State. The EBN was strictly cost-based, and you could not participate unless you bought or sold on a cost-based basis. And so the market began to change, we noticed, starting around 1997; that is, the players, the activity level, the megawatt hours of energy that was available began to shift away from the cost-based, split-the-savings EBN system to the market-based system that was an off-broker system where these transactions were done based on relationships with buyers and sellers in accomplishing those deals over the phone.

And so when you're buying or you're selling on the market, if you want to get the best price if you're a buyer or a seller, or do it for the cheapest price if you're buyer, the highest price if you're a seller, you go where the market is. You go where the participants are, and that is why we decreased our participation on the EBN.

In addition to that, last year, as I mentioned previously, we received market-based pricing authority both inside and outside the state of Florida. Prior to that, both Florida Power Corporation and Florida Power & Light have received market-based priced authority outside the state of Florida, not inside.

In addition to that, the other major players in Florida that I mentioned previously such as Jacksonville, Tallahassee, Seminole, OUC, FMPA have always had market-based pricing authority both inside and outside the State. And power marketers who are the newer players in the market, of course, have market-based pricing authority. They all utilize those schedules, those tariffs, and they simply don't do cost-based deals.

One of the main reasons they don't do cost-based deals is it reveals their cost. It's a confidentially issue. They strictly buy and sell based on the market clearing prices at a given hour, given day.

Q What I want to do is go into a little bit of the restructuring of the EBN, significant differences, and ask you whether you think that addresses a great deal of TECO's concerns for declining -- and other companies' concerns for declining interest and activity in the EBN. Previously, were out-of-state participants not allowed to participant in the EBN?

A Generally, they did not.

Q And market-based pricing was not used?

A It was prohibited.

Q Now, it is allowed?

A It is allowed. In fact, it is used almost exclusively.

Q Okay. What schedules were previously -- was the EBN previously limited to, and what schedules has it been opened up to with regard to your economy sales?

A Previously, the EBN was limited to Schedule C. Today, it's open to any schedule that the selling company is selling under, including market-based, OS, J, G; it doesn't matter.

Q Okay.

A It is still a nonfirm energy market.

Q Okay.

MR. BURGESS: That's all I have. Thanks very much. Jim, I appreciate you helping me out.

MR. BEASLEY: Uh-huh.

CROSS EXAMINATION

BY MR. BEASLEY:

Q Mr. Brown, you were asked for a late-filed Exhibit 1, the marketing costs for nonseparated wholesale sales for 1999, and I believe you said you would have to do an estimate of the percentage of time you spent during that time frame on those sales?

A Yes.

Q Would that snapshot of 1999 be expected to vary from year to year?

A Yes.

Q Or would that be representative of what you would expect in 2000, 2001?

A No.

Q Why is that?

A The market is changing constantly, and our generation picture is changing constantly.

MR. BEASLEY: I guess the only other thing I had was, there was one -- the tariff sheets you had requested, we will just supply those by correspondence, and we have got two late-filed exhibits.

MR. KEATING: That would be fine.

MR. BEASLEY: Okay.

(Deposition concluded at 10:48 a.m.)

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ERRATA SHEET

DO NOT WRITE ON TRANSCRIPT - ENTER CHANGES HERE

IN RE: DOCKET NO. 991779-EI
NAME: W. LYNN BROWN
DATE: Tuesday, April 25, 2000

Page	Line	Change

Under penalties of perjury, I declare that I have read my deposition and that it is true and correct subject to any changes in form or substance entered here.

DATE:________ ______________________________
W. LYNN BROWN

FLORIDA)
: CERTIFICATE OF OATH
COUNTY OF LEON)

I, the undersigned authority, certify that W. LYNN BROWN personally appeared before me and was duly sworn.

WITNESS my hand and official seal this 25TH DAY OR APRIL, 199__.

Tricia DeMarte
TRICIA DeMARTE
Notary Public - State of Florida

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

I, TRICIA DeMARTE, Official FPSC Commission Reporter, do hereby certify that I was authorized to and did stenographically report the foregoing deposition of W. LYNN BROWN.

I FURTHER CERTIFY that this transcript, consisting of 55 pages, constitutes a true record of the testimony given by the witness.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS FIRST DAY OR MAY, 2000.

Tricia DeMarte

TRICIA DeMARTE
Official FPSC Reporter
(850) 413-6736

Engineer	3	Perform market analyses, prepare contracts, provide technical support, interface with customers and perform project studies.
Analyst	2	Provide technical and administrative support to managers, engineers and marketers.
Marketer	4 ½	Buy/sell power on the short-term market, including performing transmission reservations, transaction tagging, monitoring weather and market prices and performing deal documentation.
Administrative	1	Provide administrative support.

The Director and Managers are devoted to marketing part-time, regulatory/legal issues part-time and administrative/supervision part-time. The Marketers are devoted to marketing full-time. The Engineers and Analysts perform part-time marketing and part-time support functions. The Administrative position provides full-time support. The total amount budgeted for salaries in the wholesale marketing department is approximately $ 1.2 million annually.

4. Please list and provide a brief description of each FERC schedule under which TECO currently makes economy energy sales to which TECO applies the 20 percent stockholder incentive. In your response, please provide the year TECO began applying the 20 percent stockholder incentive to sales made under each schedule and indicate when each schedule became available to TECO.

A. Tampa Electric currently makes and applies the 20 percent company incentive from economy energy sales under two schedules: Schedule C and Schedule X. Both schedules became available to Tampa Electric on July 15, 1977. The Commission issued Order No. 12923 on January 24, 1984 (Docket No. 830001-EU-B), which initiated the application of the 20 percent incentive to sales made under these schedules. Tampa Electric began applying the incentive in April 1984.

Schedule C - This is an hourly, non-firm sales schedule where both the buyer and seller quote their projected incremental firm energy cost (fuel plus O&M) for the coming hour. The transaction price is the midpoint between the buyer's and the seller's quotes (spit-the-saving). A transaction occurs when there is a sufficient seller margin to pay for transmission service.

Schedule X - This is a multi-hour Schedule C transaction which can be used for up to 7 days. It is sometimes referred to as "extended economy."

5. Please indicate which, if any, of TECO's wholesale sales made under the FERC schedules listed in your response to Interrogatory No. 4, include a capacity component.

A. None.

11. Please identify and quantify TECO's marketing and administrative expenses directly associated with making wholesale sales under the FERC schedules listed in your response to Interrogatories No. 4 and No. 9. Please indicate where each of these costs are currently booked and how they are recovered, if at all.

A. Tampa Electric's annual marketing and administrative expenses associated with making wholesale sales and purchases are approximately $1.3 million. A significant portion of this amount is incremental to the amounts approved in Tampa Electric's last rate case. This includes payroll (salaries plus fringe benefits), office expenses, travel, meals and other miscellaneous costs. These costs are currently booked in the following FERC accounts:

90801 – *Customer Service Information Demo*
91201 – *Demonstrating and Selling Expenses*
92001 – *Administrative General Salaries - Regular*
921XX – *Office Related Expenses*
926XX – *Fringe Related Expenses (Medical, Pension, Savings)*

12. Please describe the organizational structure of TECO's wholesale power marketing department. In your response, please provide the following: the total number of employees in the department; a list of each position in the department, including the salary and responsibilities associated with each position; the number of employees in the department devoted to marketing full-time; the number of employees in the department devoted to marketing part-time; the number of employees devoted to administrative/support activities full-time; and the number of employees devoted to other responsibilities and a brief statement of their responsibilities.

If TECO does not have a separate wholesale marketing department, please provide the following: the number of TECO employees devoted full-time to wholesale power marketing, and the position and salary of each such employee; the number of TECO employees devoted part-time to wholesale power marketing, and the position and salary of each such employee; and the number of TECO employees devoted full-time to administrative/support activities for wholesale power marketing, and the position and salary of each such employee.

A. Tampa Electric's wholesale power marketing department is comprised of the following:

Position	# Employees	Position Description
Director	1	Oversee all departmental functions. Establish marketing strategies and lead department in achieving goals/ targets.
Manager	2	Manage sales and purchases, including performing market analyses, contract origination and negotiation, purchase/sales decisions, and employee supervision.

Engineer	3	Perform market analyses, prepare contracts, provide technical support, interface with customers and perform project studies.
Analyst	2	Provide technical and administrative support to managers, engineers and marketers.
Marketer	4 ½	Buy/sell power on the short-term market, including performing transmission reservations, transaction tagging, monitoring weather and market prices and performing deal documentation.
Administrative	1	Provide administrative support.

The Director and Managers are devoted to marketing part-time, regulatory/legal issues part-time and administrative/supervision part-time. The Marketers are devoted to marketing full-time. The Engineers and Analysts perform part-time marketing and part-time support functions. The Administrative position provides full-time support. The total amount budgeted for salaries in the wholesale marketing department is approximately $ 1.2 million annually.

13. Please describe the office space and equipment that TECO currently has devoted for use by its wholesale power marketing department. If TECO does not have a separate wholesale marketing department, please describe the office space and equipment that TECO currently has devoted for use by the employees listed in your response to Interrogatory No. 12.

A. Tampa Electric's wholesale power marketing department currently leases 2,427 square feet of office space at a total cost of $4,000/month including utilities. Investment in furniture, computers and telecommunications equipment totals approximately $146,000.

TAMPA ELECTRIC COMPANY
DOCKET NO. 991779-EI
STAFF'S 1st SET
INTERROGATORY NO. 14
WITNESS: W. BROWN

14. Please describe how TECO' s wholesale power marketing employees are compensated. In your response, please indicate whether these employees receive an incentive or a commission for making sales under any of the FERC schedules listed in your response to Interrogatories No. 4 or 9 and indicate which FERC schedules such an incentive or commission is associated with. Please explain how the incentive is calculated and booked.

A. Tampa Electric's power marketing employees receive a base salary plus an incentive for achieving company-based goals. This incentive program is referred to as "Success Sharing" in which all Tampa Electric employees participate. Additionally, each power marketing employee's performance is evaluated annually against goals and targets which are specific to his/her particular position. Each employee's annual merit raise is based on this evaluation. Individual performance goals and targets may include individual, team, and/or company financial achievements. Depending on each particular employee's duties, base pay, merit pay, and "Success Sharing" will be booked to FERC Accounts 91201, 92001 and 90801.

19. Please indicate how Tampa Electric defines an economy energy sale. In your response, please list all conditions that must be present for a wholesale sale to meet the definition of an economy energy sale.

A. Historically, Tampa Electric has referred to sales and purchases made under service Schedules C and X as economy transactions. A glossary of terms was provided as an exhibit to W. Lynn Brown's testimony filed March 1, 2000 which includes an explanation of service Schedules C and X. Also Tampa Electric provided definitions for economy sales in its response to Staff's 1st Set of Interrogatories No. 4.

An economy energy sale is a cost-based transaction initiated by a seller whose incremental resource (generation or purchased power) cost is lower than the buyer's incremental cost. The transaction price is the mid-point between the two costs. A sale occurs when the margin between the sell price and the transaction price is sufficient to pay for the seller's transmission costs.

TAMPA ELECTRIC COMPANY
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INTERROGATORY NO. 22
WITNESS: W. L. BROWN

22. For each instance listed in your responses to Interrogatories 20 and 21, above, please provide the amount of economy energy sold by Tampa Electric during these interruptions, curtailments, or "buy-through" periods.

A. The following table reflects economy energy sold by Tampa Electric during the interruptions, curtailments, or "buy-through" periods indicated in Tampa Electric's responses to Staff's 2nd Set of Interrogatories Nos. 20 and 21. Although there are occasions of overlay, there are operational issues that must be considered. One of these considerations is that when interruptions, curtailments, or "buy-through" transactions first occur, there is a period of time needed to ramp out of economy sales. There are also instances when "buy-through" transactions have been arranged and load is less than originally forecast resulting in excess purchased power available to sell on the economy energy market. For each of the applicable instances, Tampa Electric has provided a definitive operational explanation.

LEGEND:

A	Ramping out of previous hour's schedule (sales)
B	Ramping out of previous hour's schedule (purchases)
C	Prescheduled block purchase - load dropped - selling excess
D	Purchased energy to supply sale

DATE	MWh	EXPLANATION
02/22/1998	60	D
05/16/1998	5	A
05/26/1998	2	A
06/18/1998	51	C
06/19/1998	513	C
06/23/1998	34	C
07/17/1998	250	D
07/19/1998	3	A
07/24/1998	4	A
07/30/1998	71	C
08/31/1998	10	B
10/05/1998	20	A
04/23/1999	2	A
04/29/1999	344	C
06/14/1999	45	C
07/05/1999	20	B
07/12/1999	1	A
07/25/1999	9	A
08/02/1999	26	C
08/18/1999	200	C

23. For each year from 1994 through 1999, please provide the number of individual market participants that either bought economy energy from or sold economy energy to Tampa Electric.

A. The chart below reflects the number of market participants that either bought economy energy from or sold economy energy to Tampa Electric during the period 1994 through 1999 (service Schedules C or X only).

1994	1995	1996	1997	1998	1999
20	19	18	21	20	10

24. For each year from 1994 through 1999, please indicate, in dollars and megawatt hours (MWh), the amount of economy energy sold by Tampa Electric that was priced at market-based rates.

A. Since all economy sales, service Schedules C & X, have cost-based rates, Tampa Electric has never sold economy energy at market-based rates. Please refer to Tampa Electric's response to Staff's 1st Set of Interrogatories No. 10 that provides the total megawatt-hours and associated revenues for market-based sales transactions during the years 1994 through 1999.

26. What is the minimum gain on an individual sale that Tampa Electric must obtain in order for an economy energy sale to occur?

A. The minimum gain that must be obtained for an economy sale (service Schedules C & X) to occur is the cost of transmission through Tampa Electric's system.

30. For each type of wholesale sale listed in Tampa Electric's response to Interrogatories 4 and 9 from Staff's First Set of Interrogatories to Tampa Electric Company, please indicate whether Tampa Electric includes a separately identified transmission charge.

A. Tampa Electric has not identified or charged a separate fee for transmission charges for service Schedules C and X wholesale economy transactions. For all other non-firm, non-separated wholesale sales which include service Schedules J and G and market-priced tariff sales, a separate transmission charge is identified and is included in the sell quote.

33. Please indicate whether an outside auditor can replicate the necessary calculations to determine incremental costs as they existed at the instant Tampa Electric made a wholesale energy sale. Please explain your response: if yes, please explain how those calculations can be replicated by an outside auditor; if no, please explain why those calculations can not be replicated by an outside auditor.

A. Yes. For non-economy energy sales, an auditor can utilize a computer program similar to those used by power marketers in the "non-economy energy mode" to calculate the incremental fuel cost for the amount, or "block", of megawatts available for sale. In the "non-economy energy mode" the computer program adjusts the incremental fuel cost for Tampa Electric transmission system losses and includes the cost of SO_2 allowances. The auditor can calculate the minimum cost to be recovered for the sale as the incremental fuel cost (which includes SO_2 allowances costs) plus the variable O&M cost plus the transmission cost.

For economy energy sales, the auditor can use the same computer program in an "economy energy mode" to calculate the incremental fuel cost for the amount, or "block", of megawatts available for sale. In the "economy energy mode" the computer program adjusts the incremental fuel cost for Tampa Electric transmission system losses and includes the cost of SO_2 allowances and the cost of variable O&M to produce the sell quote required for economy sales. The cost of transmission is not included in the sell quote but is recovered from the sale margin.

The production costing computer programs used by power marketers use the current (present day) input assumptions at the time the computer program is run to price a sale. Information such as the daily projected status of each generating unit on the Tampa Electric system, daily forecast of all firm power sale transactions scheduled to be served, current fuel prices, variable O&M cost, and current transmission system loss factor are computer program inputs. Current fuel prices include the current cost of SO_2 allowances. The marketer then runs the computer program to calculate the incremental fuel costs, adjusted for Tampa Electric transmission system losses, for each sale. The inputs and outputs of the computer program reside in individual electronic files. The output of the computer program is printed and saved.

34. If a wholesale energy sale does not include a capacity component, can the Commission infer that the sale is non-firm? Please explain your response.

A. No. While firm sales normally include a capacity component, it is not a requirement. An example of a firm sale without a capacity component is a take-or–pay energy sale where the capacity costs are included in the energy price. Further, a non-firm sale may include a capacity component. This component is often referred to as a capacity charge, call (option) premium or reservation charge. The firmness of a sale is normally defined in the terms and conditions of the contract.

35. Has Tampa Electric ever sold non-separated wholesale energy on a firm basis that had a recallable provision? If so, please describe the conditions that were necessary for Tampa Electric to recall this energy.

A. Yes. Recall provisions may be uniquely addressed in each wholesale sale contract. Tampa Electric has entered into non-separated wholesale contracts that include recall provisions during circumstances when Tampa Electric's system was deficient and it would otherwise have had to curtail its firm retail load, spinning reserve requirements and/or service to prior firm wholesale service commitments in order to maintain the schedule for the non-separated wholesale contract.

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INTERROGATORY NO. 36
WITNESS: W. L. BROWN

36. During 1999, did Tampa Electric make any sales of non-separated wholesale energy where the incremental costs associated with the energy sold were greater than the revenues received from the sale?

A. No. During 1999, Tampa Electric did not make any sales of non-separated wholesale energy where the incremental costs associated with the energy sold were greater than revenues received over the transaction period.

38. For each year from 1994 to 1999, please state all expenses that Tampa Electric incurred in its power marketing department.

A. The following table reports the estimated expenses that Tampa Electric incurred related to wholesale power marketing activities for each year 1994 to 1999. These expenses include payroll (salaries plus fringe benefits), office expenses, travel, meals and other miscellaneous costs. From 1994 to 1999, some of the functions previously performed by other departments (e.g., market analyses, technical support, hourly purchases/sales, etc.) are now consolidated within a single department. Tampa Electric analyzed the expenses by the functions that are currently the responsibility of its wholesale power marketing department and prepared an estimated composite of all such expenses.

Year	Amount (millions)
1994	$0.8
1995	$1.0
1996	$1.4
1997	$1.3
1998	$1.4
1999	$1.3

39. Assuming that the Commission approves Tampa Electric's proposal as stated on page 6 of Deirdre Brown's prefiled direct testimony, how would Tampa Electric determine that a non-separated, non-firm wholesale energy sale takes place within or outside Florida?

A. Each sale is documented through the tagging requirements mandated by the North American Electric Reliability Council. This documentation provides the buyer's identity and delivery point. Energy that is sold out of state is normally delivered to the Florida-Georgia interface or beyond.

TAMPA ELECTRIC COMPANY
DOCKET NO. 991779-EI
STAFF'S 2nd SET OF INTERROGATORIES
INTERROGATORY NO. 42
WITNESS: W. L. BROWN

42. Before Tampa Electric makes a non-separated wholesale energy sale, how does Tampa Electric calculate the incremental costs associated with making that sale?

A. Please refer to the response to Staff's 2nd Set of Interrogatories No. 33.

43. Does Tampa Electric maintain records that separately identify non-separated wholesale energy sales made within Florida and non-separated wholesale energy sales made outside of Florida? If so, please identify the criteria that Tampa Electric uses to distinguish these two types of sales.

A. Yes. Please refer to the response to Staff's 2nd Set of Interrogatories No. 39.

EXHIBIT NO. ___________

DOCKET NO: 991779-EI

WITNESS: W. LYNN BROWN

PARTY: TAMPA ELECTRIC COMPANY

DESCRIPTION: LATE-FILED EXHIBIT NOS. 1 AND 2 TO DEPOSITION OF W. LYNN BROWN TAKEN ON APRIL 25, 2000

PROFERRED BY: STAFF

TAMPA ELECTRIC COMPANY
DEPOSITION OF W. L. BROWN
DEPOSED ON APRIL 25, 2000
DOCKET NO. 991779-EI
STAFF'S LATE-FILED EXHIBITS

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Costs for Non-Separated Wholesale Sales

1. Provide the following:

a) The marketing costs attributable to non-firm, non-separated wholesale sales for 1999.

b) The percentage of wholesale sales that are not separated along with the dollar amount of such sales.

A. a) It is important to note that to prorate or allocate marketing costs attributable to wholesale purchases and sales based upon one year of activity can be misleading. The percentage varies from year to year depending on many variables including Tampa Electric's generation availability for making sales and the company's purchased power needs. Specifically for 1999 and as depicted in response to Late-Filed Exhibit No. 2, Tampa Electric did not have significant energy available for non-firm sales due to its higher retail demand and energy, lower unit availability and lower operating reserves. Therefore, a historical review is not appropriate for assessing the potential marketing costs for making non-firm, non-separated wholesale sales especially when future reserves and available capacity are increasing as a result of the recently approved transition to a 20 percent planning reserve margin. However, an estimate of the marketing costs attributable to making non-firm, non-separated wholesale sales in 1999 is $54,500. This represents approximately 4% of total wholesale marketing expenses for that year.

b) The percentage of 1999 wholesale sales that are not separated compared to total wholesale sales is 24% based upon MWh of sales. This represents revenues of $8.9 million or 14% of total wholesale revenue. (Note: This includes firm and non-firm sales but excludes Tampa Electric's wholesale sales agreement between the company and FMPA which was served through purchased power rather than from Tampa Electric's generation.)

Calculation of Incentives Under Tampa Electric's Proposal

2. Provide the calculation of the shareholder incentives for 1994 through 1999, assuming the 40% and 20% shareholder proposal had been in place for those years, separated by in-state versus out-of-state gains.

A. The following is a summary of the shareholder incentives for 1994 through 1999 for non-separated, non-firm sales, assuming the 40% and 20% shareholder proposal had been in place for those years, separated by in-state versus out-of-state gains. It is important to note that this is based purely on a mathematical calculation and should in no way serve as an estimate. Had the incentives been in place as proposed by Tampa Electric, the company believes the non-separated, non-firm sales would have been higher than the historical levels.

Non-Separated, Non-Firm Sales Incentives

	1994	1995	1996	1997	1998	1999
In-State MWh	1,434,051	2,075,056	2,267,506	1,724,859	808,840	206,538
In-State ($)	2,561,020	3,261,144	4,402,251	3,505,220	1,120,449	276,538
Out-State MWh	29,138	28,576	30,313	3,144	27,095	11,656
Out-State ($)	22,489	61,896	66,734	3,749	943,732	40,276

EXHIBIT NO.____ (WLB-2)
TAMPA ELECTRIC COMPANY
DOCKET NO. 991779-EI
WITNESS: L. BROWN

TAMPA ELECTRIC COMPANY

EXHIBIT OF W. LYNN BROWN

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FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. ______ EXHIBIT NO. ______
COMPANY/
WITNESS: ______
DATE: ______

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED REBUTTAL TESTIMONY

OF

THOMAS L. HERNANDEZ

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

A. My name is Thomas L. Hernandez. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am the Vice President of Regulatory Affairs for TECO Energy, Tampa Electric Company's ("Tampa Electric" or "company") parent.

Q. Are you the same Thomas L. Hernandez who submitted testimony in this proceeding on October 1, 1999?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to point out that the positions advanced by FPSC Staff witness Judy Harlow, Office of Public Counsel ("OPC") witness David E. Dismukes, and Florida Industrial Power Users Group ("FIPUG") witness Kent D. Taylor regarding the 20 percent incentive for economy transactions are flawed and are short-sighted in failing to recognize the overall benefits of the incentive to ratepayers of Florida utilities. I will also point to inaccuracies made by Mr. Taylor in his direct testimony relative to the FMPA wholesale agreement and other wholesale generalizations.

__Incentives__

Q. What issues do you disagree with in Staff witness Harlow's testimony?

A. Ms. Harlow accurately acknowledges that changes have occurred in the wholesale market and that making wholesale sales is an important function within utilities' organizations. She also acknowledges that economy transactions have declined over the years as utilities have engaged in more off-broker, non-firm wholesale sales. These sales are entered into with buyers both within and outside Florida. What she fails to acknowledge are the benefits that would accrue if this energy could be retained within the state, especially now during times of potential generation deficiencies within Florida, and that this could be accomplished through incentives. In the past, the broker accomplished this as Florida utilities were encouraged to make economy transactions within the state via appropriately established incentives by this Commission. This certainly does not suggest eliminating incentives; it suggests that incentives may need to be revised and enhanced to keep lower cost energy in the state for the overall benefit of Florida's ratepayers.

A key point Ms. Harlow argues is that Florida Power and Light Company ("FP&L") and Florida Power Corporation ("Florida Power") treat economy transactions made off-broker differently than Gulf Power Company ("Gulf") and Tampa Electric and, therefore, by eliminating the 20 percent incentive, this will eliminate the difference in treatment. Her conclusion is not accurate since she seems to confuse the term "economy" transactions. Economy transactions can be accomplished through several types of transaction schedules. It appears that Tampa Electric and Gulf refer to Schedule C and X transactions as "split the savings" or "economy" transactions whereby FP&L and Florida Power include Schedule OS and J transactions in their definition of "economy" transactions. It appears that all utilities consistently retain the 20 percent incentive on transactions made through the broker. It also appears that all utilities flow gains from Schedule OS and J back to ratepayers at

100 percent. The only "economy" transactions that the Florida utilities may be treating differently are Schedule C and X transactions conducted off-broker. In Order No. 12923, the Commission ordered that:

> . . . economy energy sales profits are to be divided between ratepayers and the shareholders on an 80%/20% basis, respectively . . .

Clearly Tampa Electric's treatment of economy "split the savings" sales is consistent with that ordered by this Commission regardless of how other utilities choose to treat them. To suggest that incentives should be eliminated to ensure consistent treatment between utilities is invalid and unreasonable.

Q. Why should economy transactions made off-broker include an incentive for the seller?

A. As discussed in Tampa Electric witness Brown's and my prefiled testimony, these "split the savings" transactions simply by-pass the automated system and allow the selling utility to obtain the best price for its ratepayers. There are no other differences.

Q. What do you disagree with in OPC witness Dismukes' testimony?

A. Mr. Dismukes arguments against the 20 percent incentive are flawed. He argues that "the whole issue of uncertainty associated with forecasting these gains was one of the main reasons for moving their ratemaking treatment from base rate cases to fuel adjustment proceeding." Although it was a consideration in the change of treatment, it was not the main reason for the change. In 1983 when this Commission recognized the need and importance of an incentive for utilities to engage in short-term, non-firm transactions within Florida, one of the main reasons for this action was to encourage utilities to engage in these types of transactions to benefit Florida ratepayers, not simply to change ratemaking treatment because it was difficult to forecast sales.

Mr. Dismukes inaccurately concludes that since Florida utilities have protested "competitive wholesale merchant facilities" proposed to be built within the state, they are contradicting themselves by suggesting incentives remain appropriate. He ignores the fact that until the capacity is committed on a firm basis to serve Florida ratepayers, the merchant energy could be exported and sold without any benefit to Florida's ratepayers while using Florida's natural resources, utilizing allocated imported fuels, and impacting the state's environment.

Another inaccurate conclusion by Mr. Dismukes is that increased economy sales yield increased overall system capacity utilization which yields lower heat rates which yields higher earnings for shareholders. It is clear by these statement that Mr. Dismukes does not fully understand Florida broker and economy transactions. To enter into an economy transaction, both seller and buyer must have the capacity available since the transaction is non-firm and immediately recallable upon notice. Therefore, the capacity factor, or utilization, of the aggregate system is unchanged. On page 6, lines 7 and 8 of his testimony, Mr. Dismukes makes a broad generalization that "increased capacity utilization will increase overall operating efficiencies by reducing average system heat rates." Once again, he confuses theory with practical applications. The economy transaction is based on incremental costs for both buyer and seller. These costs are determined using the product of <u>incremental</u>, not average unit heat rates and fuel prices, to determine the energy costs. Therefore, a generating unit with a lower fuel price but higher heat rate (i.e. less efficient) could displace a generating unit that is more efficient but higher cost to operate due to higher fuel prices. In addition, the most efficient (thermal) operating point for numerous generating units is not at the maximum capacity factor. Therefore, further loading of these units could result in operating inefficiencies. What he ignores is that economy wholesale transactions generally yield the lowest margins for utilities.

In his testimony, Mr. Dismukes infers that Florida developed a broker system as a means, in part, to improve reliability. Given the dynamics of an economy transaction and in the absence of an incentive for the selling utility, there is no reliability benefit. As discussed earlier, economy transactions are capacity neutral in that both seller and buyer must have the capacity available to enter into the transaction. In other words, a potiential buyer, in the absence of available capacity under a "split the savings" transaction, must purchase power under a different schedule at a higher cost. The selling utility, in the absence of incentives, is likely to manage firm reserve margins to minimize as-available capacity to keep base rates as low as possible. Incentives encourage utilities in the state with the obligation to serve its customers to carry additional capacity reserves that provide opportunities to make energy transactions that benefit the ratepayers of both seller and buyer. These additional capacity reserves are also helpful in mitigating the use of non-firm load resources during weather extremes and/or system power supply interruptions.

Another inaccurate conclusion by OPC's witness is that utilities should be motivated by name recognition, not profitability for both ratepayers and shareholders. He suggests that utilities can simply "point to their expertise and historic participation in the Florida broker system" and this serves as an intangible incentive. Tampa Electric is not driven to "name recognition" but it is driven to providing reliable electric service to its ratepayers and to providing a fair return to its shareholders. This balance is supported by incentives like those currently provided by the Commission-approved 20 percent incentive on economy transactions. Incentives such as these are important to encourage benefits to ratepayers and should not be eliminated.

Both Staff and OPC argue that utilities should be motivated to reduce rates by crediting the fuel clause with 100 percent of economy sales gains. Tampa Electric has taken many actions to keep its rates competitive well beyond what the parties are now suggesting. The company does not agree that the removal of incentives is appropriate since this action would be shortsighted and fails to weigh overall benefits of economy transactions.

Q. What do you disagree with in FIPUG witness Taylor's testimony regarding incentives?

A. Mr. Taylor concludes that because there are no risks to utilities relative to economy sales, there should not be a "reward." Although risks for economy transactions are not as significant as other types of wholesale transactions, the conclusion that there are no risks and therefore utilities should not be allowed a return to shareholders is erroneous. The seller does in fact incur additional costs and face alternatives that, without the appropriate incentive, could lead both the seller and buyer to conclude that to enter into economy transactions is too risky from a reliability and competitive perspective. FIPUG's conclusions ignore, as do Staff's and OPC's, the importance of retaining a competitive wholesale market within Florida by incenting capacity and energy to remain within the state for the benefit of all ratepayers.

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EXHIBIT NO. ___________

DOCKET NO: 991779-EI

WITNESS: DEIRDRE A. BROWN

PARTY: TAMPA ELECTRIC COMPANY

DESCRIPTION: COMPOSITE EXHIBIT: 1) DEPOSITION OF DEIRDRE A. BROWN TAKEN ON APRIL 25, 2000; AND 2) RESPONSES TO INTERROGATORY NOS. 1 - 3, 7 - 10, 15 - 18, 20 -21, 25, 28 - 29, 31 - 32, 37, AND 40 - 41.

PROFERRED BY: STAFF

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 991779-EI EXHIBIT NO. 11
COMPANY/
WITNESS: Deirdre
DATE 5-10-00

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of REVIEW OF THE APPROPRIATE APPLICATION OF INCENTIVES TO WHOLESALE POWER SALES BY INVESTOR-OWNED ELECTRIC UTILITIES.	DOCKET NO. 991779-EI

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DEPOSITION OF:	DEIRDRE A. BROWN
TAKEN AT THE INSTANCE OF:	The Staff of the Florida Public Service Commission
CONDUCTED FROM:	Gerald L. Gunter Building Room 362 2540 Shumard Oak Boulevard Tallahassee, Florida
TIME:	Commenced at 10:49 a.m. Concluded at 11:20 a.m.
DATE:	Tuesday, April 25, 2000
REPORTED BY:	TRICIA DeMARTE Official FPSC Reporter

APPEARANCES:

JAMES D. BEASLEY, Ausley & McMullen, Post Office Box 391, Tallahassee, Florida 32302, appearing on behalf of Tampa Electric.

STEPHEN C. BURGESS, Office of Public Counsel, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of the state of Florida.

WILLIAM COCHRAN KEATING, Florida Public Service Commission, Division of Legal Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0870, appearing on behalf of the Commission Staff.

Also Present:

DON HALE, Office of Public Counsel

W. LYNN BROWN, Tampa Electric Company

I N D E X

WITNESSES

DEIRDRE A. BROWN

called as a witness, and having been duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KEATING:

Q Good morning, Ms. Brown.

A Good morning.

Q Could you please state your full name and business address for the record.

A My name is Deirdre A. Brown. My business address is 702 North Franklin Street, that's Tampa, Florida 33602.

Q In your testimony, you describe TECO's regulatory treatment for nonseparated sales, and you state that TECO credits O&M costs from these sales to operating revenues; is that correct?

A Are you talking about our existing treatment, the existing regulatory treatment for nonfirm sales?

Q Yes.

A That is correct for economy transactions, economy sales as defined as Schedules C and X. That is not true for other nonfirm, nonseparated-type sales. In those particular type sales, we credit the O&M back through the fuel clause.

Q Why did TECO choose to implement that treatment for its economy sales?

A I don't believe it was a choice that Tampa Electric made. I believe that that was governed by our last rate proceeding.

Q So that treatment was authorized in the last rate proceeding?

A We actually had been using that treatment. And again, when you're referring to that treatment being for all kinds of nonfirm sales?

Q Specifically just for the economy sales.

A For the economy, that had actually been the treatment before our last rate proceeding. And through our rate proceeding, there was actually nothing that I have seen through research, and I was not a participant in that process that indicated that that was an inappropriate treatment. So Tampa Electric has consistently treated economy sales O&M in that manner.

Q Do you know if the Commission specifically authorized that treatment?

A I don't believe that there is a specific order by the Commission that that authorizes that treatment. I can say, however, that our fuel clause and these kinds of transactions, as I understand it, go through periodic audits by the Commission Staff as well as we go through, as you know, annual fuel proceedings, and there has never been any indication through those processes that this treatment is not appropriate.

So in a way, I believe that is the authority that Tampa Electric has continued to apply the O&M on a consistent basis.

Q Also, in your testimony, I believe you stated that 80 percent of the transmission revenues from -- let me make sure I'm -- let me look at this quickly and make sure I'm referring to the correct types of sales, and correct me if I'm wrong. I believe you stated in your testimony that 80 percent of the transmission revenues from economy sales were credited to retail ratepayers through the fuel clause?

A Essentially, that's what happens. The way that our transmission revenues are treated is, they are actually a part of the margin. And this is consistent with our schedules as approved and authorized by the FERC. And so as a result of this being a part of our margin, it is essentially passed through the fuel clause prior to the most recent order by the Commission, 80 percent.

Q And TECO is not taking the 80 percent on transmission revenues from any other nonseparated sales but economy sales; is that correct?

A That's correct. Again, it's part of the split-the-savings type formula, and it's part of the margin. So, by the nature of that, that's why the 80 percent is treated that way for just Cs and Xs.

Q So, in effect, is TECO taking a stockholder incentive on the transmission revenues?

A TECO is not specifically charging a transmission charge when it's making its C and X sales. So there is no revenue to flow back 100 percent. Again, it's part of the margin. And as Lynn Brown indicated, in order for us to make the sale, our margin, we have to be able to cover the transmission portion of the cost. So --

Q In describing the incentive that TECO is proposing, in your testimony, you state that the incentive should be applied to both demand and energy components of any gains from the transaction; is that correct?

A That's correct.

Q Are you saying that TECO's proposed incentive should apply to sales that do have a capacity component?

A There may be -- as virtue by the type of transaction, there could be a capacity-type component associated with the sale. And for those sales where there is a capacity-type component, we're proposing that that should be passed through the capacity clause, that portion of it, on either an 80/20 basis or a 60/40 basis depending on where that sale actually occurs. And I believe that is consistent with what the Commission ordered as a result of

Docket 990001 in November.

Q And the schedules that TECO has proposed the incentive apply to are Schedules C, X, J, G, D, and market-based sales; is that correct?

A Nonseparated Ds, nonfirm; they all need to be nonfirm. A "J," for example, could be firm in nature, and we're not proposing that an incentive be made an a firm type of sale. So there's a little bit of a caveat on that.

Q Under which of those schedules might TECO make a sale that included a capacity component?

A I'm really not the best witness to answer that.

Q Under which of those schedules could firm energy be sold?

A I believe that under those schedules firm energy could be sold under Schedules J, G, and market-based.

Q Do utilities plan for nonseparated sales when determining the appropriate level of reserves?

A No.

Q Do you believe that the availability of nonfirm energy increases reliability?

A I believe that it can increase reliability as long as there's a market. For example, for reliability from this perspective of the state of Florida, it can increase it based on our proposal if there's an incentive for the utilities that have available energy to sell within the State. If there is no such incentive, those utilities may be inclined to sell out of the State, and from a reliability perspective, that does not help the Florida market. So there's not the availability or the liquid market that does enhance reliability.

Q Could the same benefit be achieved by adding so-called merchant plants to the wholesale market?

A The same benefits being what?

Q The reliability benefits of having more nonfirm energy available.

A Well, by definition merchant facility had -- the capacity is not committed. So if the capacity is not committed, it's very hard to pull from that or extract from that that's going enhance the reliability of any particular market. They are simply another player.

Q In your testimony, you described the regulatory treatment for nonseparated revenues from nonseparated sales prior to Order Number 12923. Can you state that the utility was allowed to retain profits only from economy sales that exceeded the level approved in the utility's last rate case; is that correct?

A I don't know that I did say that.

Q Okay.

A Could you point out where that is?

Q I believe it's Page 9. I'm sorry. That's on Page 8 at Lines 14 to 16.

A Okay.

Q And that states, I guess, going back to Line 12, you refer to Order Number 12923, and then on Line 14, you start the sentence, "Up until this time, the selling utility was allowed to retain profits only from economy sales that exceeded a level approved in the company's last rate case."

A Thank you. That refreshes my memory.

Q Okay. Would you agree that before these sales were removed from general rate proceedings, the utility was at risk of under recovery if it did not make the level of sales identified in its last rate case?

A Yes.

Q So, in essence, if the utility did not achieve the level of sales it predicted in its last rate proceeding, it suffered a penalty?

A That's correct.

Q In your testimony -- I'm hesitant to cite a page -- you stated that gains from nonfirm sales should offset fuel and purchase power costs because the transactions are primarily energy based?

A That's correct.

Q Would you agree that the capacity used to support these sales was paid for by TECO's ratepayers?

A Generally speaking, I would say, yes, because of the time since our last rate proceeding all of the assets are not necessarily being recovered through base rates.

Q Could those be recovered through another rate proceeding?

A Yes.

Q Has TECO performed any research or analysis that has determined that the incentive it's proposed would provide a net benefit to ratepayers?

A TECO has not performed any type of quantitative analysis or detailed analysis to make that determination.

Q Would you agree that if the Commission increases the incentive, as TECO has proposed, that there is a potential for the credit to retail ratepayers through the fuel clause to be reduced?

A I think theoretically that could be the case. However, based on what incentives are all about and the driver to change behavior, I believe that Lynn Brown and his team would be focussed on making these particular types of sales, as he indicated, past the usual eight to five workday, on the weekends and that kind of thing. So that we believe that ultimately there would be actually net benefits for ratepayers, but there is no quantitative analysis that can prove that.

Q How would TECO be able to increase the level of its sales that the incentive would apply to?

A TECO would go, again, using Lynn Brown's words "the extra mile," and although they work very hard currently to make those kinds of sales and those kinds of transactions, I believe that they would gain even greater knowledge of the market and they would spend more time maybe taking away time from other activities that they are doing now and focussing specifically on this activity in order to increase the number of transactions that are made.

Q Would you agree there comes a point when the market cannot bare any more wholesale energy in the market?

A There most likely is a point where that occurs, but again, I couldn't say what that point is.

Q Are you familiar with any other jurisdiction that allows a utility that serves retail end use customers to flow a portion of the profits from its nonseparated wholesale energy sales to utility shareholders?

A I'm only aware of it through, I believe it was the testimony of Gulf Witness Howell as he was describing Gulf system in the last fuel proceeding. He indicated that there is some type of incentive that's applicable to the other companies that are within Southern Company system. So through that, I assume that that does exist. I will say, however, that from a Florida perspective, Tampa Electric's proposal is based on what we think is appropriate specifically for the Florida market.

So although that's interesting to know, I don't know that that's a significant driver of the proposal that we've made.

Q But you don't have any firsthand knowledge of those types of incentives in other states?

A No, I don't.

MR. KEATING: Okay. That's all the questions I have. Thank you.

MR. BURGESS: Jim, I have a few questions.

CROSS EXAMINATION

BY MR. BURGESS:

Q Ms. Brown, I'd like to return to the issue of the O&M expenses.

A Yes.

Q As I understand it, at least what I thought I heard you say was that you recover Schedule C and X incremental O&M expenses through the fuel adjustment clause, but incremental O&M expenses applicable to any of the other nonfirm, noneconomy, nonseparated sales, you recover through base rates?

A No. We recover the O&M portion, the O&M revenue associated with economy transactions as operating revenues.

Q As operating revenues and base rates?

A That's correct.

Q Okay.

A And we recover all other O&M associated with nonseparated, nonfirm transactions through the fuel clause.

Q Okay. So I had it just backwards.

A That's correct.

Q Okay. I'm sorry. How do you allocate expenses that are common to these different schedules? How do you allocate to the different schedules?

A The O&M, the variable O&M, or the incremental O&M that we associate with making these incremental sales is based on historic O&M costs, and it's only the variable O&M portion. So it's based on the prior year and its weighted average and calculated on a megawatt hour basis. So it's purely driven by the sales, the megawatt hour sales at a fixed cost that we've established based on prior years' costs.

Q Okay. Maybe I haven't asked the right question. What I'm trying to understand is: Are any of the expenses that are considered incremental, are any of them expenses that are allocated that cannot be measured direct to the different schedules, but rather are common to all the schedules and allocated to each of them?

A I don't follow your question.

Q Okay. What types of O&M expenses are considered incremental for the purposes of these sales?

A A variable O&M component of our total O&M costs, production O&M.

Q And what type of production O&M would you have? I mean, does this include like --

A Well, there's a variable O&M piece, and there's a fixed O&M piece to total our total production O&M costs in any particular year.

Q Okay. Let's go to a base rate case, and you're establishing production O&M expenses. Now, what is calculated that then is incremental in a subsequent fuel sale?

A What is calculated -- and as I understand I've never done this calculation myself, but it's according to a FERC formula -- we extract what our total variable O&M costs were for Tampa Electric's system from the prior year and determine the number of megawatt hours sold in that particular year, so we come up with a dollar per megawatt hour, which is representative of our incremental O&M cost. That is applied to all of our sales on an equal basis per megawatt hour regardless of whether it's a C, J.

Q So it is basically allocated in to each megawatt hour. So each megawatt hour is loaded with a particular variable O&M cost?

A That's correct.

Q And are you saying that then in the calculation of base rates, those that are attributable to C and X megawatt hours are then -- those would be the ones that, no, I'm sorry, the non-C and X sales are removed from the calculation of base rates?

A They are removed for surveillance purposes and flowed through the fuel clause.

Q And those are the expenses you're speaking of when you say the O&M expenses that you would add to the fuel cost and the transmission cost for establishing your cost in a particular nonfirm transaction?

A That's correct.

Q I want to see if I understand -- if I can understand a little better some of your response to Mr. Keating's question about the transmission revenues attributable to the nonfirm sales. Let me try some numbers, and tell me if I'm -- if I can get there from here, so to speak.

Let's say you have a particular transaction that takes place at 25 market driven, and the cost to TECO was 18 fuel, 2 to this variable O&M, and 4 transmission. And

I realize these are probably not very reflective of the ratios, but what -- so then you have a 24 total cost. As I understand it from what you were saying, that you just -- transmission would be part of the cost that would go into the determination as to whether you could make the sale, and market gives you 25, so you make the sale.

Now, what comes back -- what do you credit back to fuel -- what do you charge back to the fuel clause, and what do you credit back to the fuel clause, and what do you credit back to the base rates?

A Okay. If I follow this, our transaction price is $25. Our incremental cost under your example are $20. So we're left with a $5 margin. In that, $18 is credited to the fuel clause. What type of sale is this?

Q Let's say it is a noneconomy, nonfirm.

A Okay. O&M would be credited to the fuel clause, and transmission would be credited to the fuel clause.

Q When you say, "credit," you mean charged as an expense?

A Well, this is revenue that you're receiving from --

Q Okay. You're talking about the revenue to cover it.

A Right.

Q Okay. I wanted to do both. I wanted to make sure of both. Okay.

A But the cost is equal to the revenue.

Q Okay.

A Okay. So --

Q That I want to make sure of too.

A Okay. With that you have a dollar remaining, according to my calculations, and that gain is passed through the fuel clause.

Q Okay. As a revenue credit?

A That's correct.

Q Okay. And you would suggest -- under your process, you would suggest that if it were in-state, that TECO would keep 40 cents of that and credit 60 cents of that into fuel?

A That's correct. And let me step back because I misspoke. If we're talking about a 2000 transaction, that $4 associated with the transmission revenue would then flow back through the capacity clause based on the Commission's recent order.

Q Okay. And so what you're saying is, the entirety of that $4 would flow back through the capacity clause?

A That's correct.

Q Okay. And if this were a C or X, you're saying the $2 would be credited back into base rate for surveillance purposes?

A That's correct.

Q One of the things that you spoke of was with incentives that Lynn Brown's team could go beyond normal efforts or go beyond even current admirable efforts and could go the extra mile. Couldn't TECO apply the same -- couldn't TECO apply the same incentives that would drive the behavior of that operation without receiving incentives from the Commission?

A And I think TECO does that to some extent. However, if the incentive were greater, I think the drivers in their focus would probably be greater.

Q With this -- and you reference the issue of efforts above and beyond in your prefiled testimony on Page 7 similar to what we were just talking about. You agree that there is a general obligation to make a reasonable effort at this point just based on the regulatory quid pro quo?

A Yes, I do.

Q And you would agree that TECO would make that with or without any incentive?

A Yes, I do.

Q What do you think should happen to a company that makes an effort that's below that level, that level that you consider to be reasonable in exchange for the quid pro quo?

A I would assume that the Commission has a process to evaluate that and determine if they are not acting in a prudent manner. But my expectation is, as I just answered for you, that our company would do what is reasonably expected of it. And I think too, below can be driven by just the nature of the market. So it's not always the company's fault, if you will, for not achieving or being able to make these types of sales.

Q And you say the Commission should have some mechanism. What do you --

A I believe that the Commission probably does have a mechanism to have oversight and determine that we are operating our company in general terms in a prudent manner. I know that they have the opportunity to audit our activities, and in fact, we responded in one of Staff's interrogatories on how they could go back and verify and validate the nature of all of the wholesale transactions we're proposing should be eligible for the incentive.

Q On Page 8, you indicated that you don't like the idea of trying to set a bar, and you gave several reasons. You gave a reason or two why you thought it was a bad idea to try to establish a bar, a standard. Wouldn't you agree that under the incentive plan that you've offered that there is, in fact, a bar, but the bar is zero? If you receive a positive incentive for every sale above zero, then effectively the bar is zero, isn't it?

A I think effectively the bar is zero.

MR. BURGESS: Thank you, Ms. Brown. I appreciate it. Thank you, Jim. I appreciate your indulgence.

(Deposition concluded at 11:20 a.m.)

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ERRATA SHEET

DO NOT WRITE ON TRANSCRIPT - ENTER CHANGES HERE

IN RE: DOCKET NO. 991779-EI
NAME: DEIRDRE A. BROWN
DATE: Tuesday, April 25, 2000

Page	Line	Change

Under penalties of perjury, I declare that I have read my deposition and that it is true and correct subject to any changes in form or substance entered here.

DATE:________ ______________________________
DEIRDRE A. BROWN

F L O R I D A)
:
COUNTY OF LEON)

CERTIFICATE OF OATH

I, the undersigned authority, certify that DEIRDRE A. BROWN personally appeared before me and was duly sworn.

WITNESS my hand and official seal this 25th DAY OF APRIL, 2000.

Tricia DeMarte

TRICIA DeMARTE
Notary Public - State of Florida

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

I, TRICIA DeMARTE, Official FPSC Commission Reporter, do hereby certify that I was authorized to and did stenographically report the foregoing deposition of DEIRDRE A. BROWN.

I FURTHER CERTIFY that this transcript, consisting of 21 pages, constitutes a true record of the testimony given by the witness.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THE FIRST DAY OF MAY, 2000.

Tricia DeMarte

TRICIA DeMARTE
Official FPSC Reporter
(850) 413-6736

POWER SOLD
TAMPA ELECTRIC COMPANY
FOR THE MONTH OF: JANUARY 1999

(1)	(2)	(3)	(4)	(5)	(6)		(7)	(8)	(9)
SOLD TO	TYPE & SCHEDULE	TOTAL MWH SOLD	MWH WHEELED OTHER SYSTEM	MWH FROM OWN GENERATION	—cents/KWH— (A) FUEL COST	(B) TOTAL COST	TOTAL $ FOR FUEL ADJUSTMENT (5)X(6)(A)	TOTAL $ FOR TOTAL COST (5)X(6)(B)	80% GAIN ON ECONOMY ENERGY SALES
ESTIMATED:									
VARIOUS	ECON.	321,698.0	0.0	321,698.0	1.843	2.384	5,930,000.00	7,868,700.00	1,390,960.00
VARIOUS JURISDICTIONAL	SCH. -D	5,625.0	0.0	5,625.0	1.936	1.936	108,900.00	108,900.00	
VARIOUS SEPARATED	SCH. -D	20,354.0	0.0	20,354.0	1.751	2.024	356,400.00	412,000.00	
VARIOUS	CONTRACT	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
HARDEE POWER PARTNERS SEPARATED	CONTRACT	18,100.0	0.0	18,100.0	2.488	3.353	450,400.00	606,900.00	
VARIOUS	SCH. -D	78,120.0	78,120.0	0.0	0.000	0.000	0.00	0.00	
VARIOUS JURISDICTIONAL	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
TOTAL INCLUDING VARIABLE O & M COSTS	-	443,897.0	78,120.0	365,777.0	1.872	2.405	6,845,700.00	8,798,500.00	1,390,960.00
LESS TRANSMISSION COSTS	-						(16,600.00)		
LESS VARIABLE O & M COSTS	-						(553,300.00)		
PLUS 80% OF ECON. ENERGY SALES PROFIT	-						1,390,960.00		
TOTAL EXCL. VARIABLE O & M COSTS AND INCL 80% OF ECON. ENERGY SALES PROFITS	-	443,897.0	78,120.0	365,777.0	2.096	2.405	7,666,560.00	8,796,500.00	1,390,960.00
ACTUAL:									
FLA. PWR. CORP.	ECON.-C	168.0	0.0	168.0	1.785	2.003	2,998.44	3,365.22	293.42
FLA. PWR. & LIGHT	ECON.-C	160.0	0.0	160.0	1.741	1.733	2,785.70	2,772.21	(10.80)
CITY OF LAKELAND	ECON.-C	944.0	0.0	944.0	1.660	1.648	15,668.86	15,553.47	(92.31)
FT. PIERCE UTIL. AUTH.	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
CITY OF GAINESVILLE	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
CITY OF HOMESTEAD	ECON.-C	12.0	0.0	12.0	1.772	2.048	212.64	245.70	26.45
JACKSONVILLE ELEC. AUTH.	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
KISSIMMEE ELEC. UTIL.	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
LAKE WORTH UTILITIES	ECON.-C	145.0	0.0	145.0	1.728	2.248	2,505.17	3,260.17	604.00
CITY OF NEW SMYRNA BCH.	ECON.-C	8.0	0.0	8.0	1.876	4.188	150.08	335.04	147.97
ORLANDO UTIL. COMM.	ECON.-C	884.0	0.0	884.0	1.704	1.765	15,063.76	15,599.00	428.19
SEMINOLE ELECTRIC CO-OP	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
CITY OF ST. CLOUD	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
CITY OF STARKE	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
TALLAHASSEE	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
CITY OF VERO BEACH	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
FMPA	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
KEY WEST	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
REEDY CREEK	ECON.-C	3,601.0	0.0	3,601.0	1.643	1.821	59,174.39	65,575.16	5,120.62
SONAT	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
THE ENERGY AUTHORITY, INC.	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
NP ENRGY, INC.	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
OGLETHORPE	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
KOCH	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
TENN, VALLEY AUTH.	ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
FLA. PWR. & LIGHT SEPAR.	SCH. -D	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
FMPA SEPAR.	SCH. -D	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
KISSIMMEE ELEC. UTIL. SEPAR.	SCH. -D	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
CITY OF NEW SMYRNA B SEPAR.	SCH. -D	8,952.0	0.0	8,952.0	1.753	1.904	156,888.63	170,417.27	
REEDY CREEK SEPAR.	SCH. -D	11,160.0	0.0	11,160.0	1.379	1.655	153,896.40	184,698.00	
WAUCHULA SEPAR.	SCH. -D	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
FT. MEADE SEPAR.	SCH. -D	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
CITY OF ST. CLOUD SEPAR.	SCH. -D	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
HARDEE POWER PARTN SEP CONTRACT		9,312.0	0.0	9,312.0	2.192	2.824	204,119.04	262,970.88	
SEMINOLE ELECTRIC CO JURISD.	SCH. -D	4,537.0	9.9	4,527.1	1.600	1.600	72,432.41	72,432.41	
SEMINOLE ELECTRIC CO JURISD.	SCH. -D	769.0	0.0	769.0	1.539	1.539	11,832.16	11,832.16	

POWER SOLD
TAMPA ELECTRIC COMPANY
FOR THE MONTH OF: JANUARY 1999

SCHEDULE A6
PAGE 2 OF 3

(1) SOLD TO		(2) TYPE & SCHEDULE	(3) TOTAL MWH SOLD	(4) MWH WHEELED OTHER SYSTEM	(5) MWH FROM OWN GENERATION	(6) —cents/KWH— (A) FUEL COST	(B) TOTAL COST	(7) TOTAL $ FOR FUEL ADJUSTMENT (5)X(6)(A)	(8) TOTAL $ FOR TOTAL COST (5)X(6)(B)	(9) 80% GAIN ON ECONOMY ENERGY SALES
FLA. PWR. CORP.	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
FLA. PWR. & LIGHT	JURISD.	SCH. -J	50.0	0.0	50.0	1.996	1.996	998.20	998.20	
CITY OF HOMESTEAD	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
KEY WEST	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
KISSIMMEE ELEC. UTIL.	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
CITY OF LAKELAND	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
ORLANDO UTIL. COMM.	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
REEDY CREEK	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
SEMINOLE ELECTRIC CO	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
CITY OF NEW SMYRNA B	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
WAUCHULA	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
CITY OF VERO BEACH	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
LAKE WORTH UTILITIES	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
OGLETHORPE	JURISD.	SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
FMPA		SCH. -D	78,120.0	78,120.0	0.0	0.000	0.000	0.00	0.00	
HARDEE POWER PART. TO FLA. PWR. CORP.		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO FLA. PWR.& LT.		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO REEDY CREEK		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO GAINESVILLE		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO JACKSONVILLE		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO KISSIMMEE		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO NEW SMYRNA BCH.		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO ORLANDO		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO STARKE		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO FMPA		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO HOMESTEAD		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO SEMINOLE		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO FT. PIERCE		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO TALLAHASSEE		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO LAKELAND		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO LK. WORTH		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO KEY WEST		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO VERO BEACH		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO ENERGY AUTH		ECON.-C	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00 *
HARDEE POWER PART. TO FPC		SCH. -J	0.0	0.0	0.0	0.000	0.000	0.00	0.00	0.00
SEMINOLE ELECTRIC CO-OP		SCH. -G	0.0	0.0	0.0	0.000	0.000	0.00	0.00	
OGLETHORPE		SCH. -G	0.0	0.0	0.0	0.000	0.000	0.00	0.00	

TAMPA ELECTRIC COMPANY
DOCKET NO. 991779-EI
STAFF'S 1st SET
INTERROGATORY NO. 1
WITNESS: D. BROWN
PAGE 4 of 5

POWER SOLD
TAMPA ELECTRIC COMPANY
FOR THE MONTH OF: JANUARY 1999

SCHEDULE A6
PAGE 3 OF 3

(1)	(2)	(3)	(4)	(5)	(6)		(7)	(8)	(9)
SOLD TO	TYPE & SCHEDULE	TOTAL MWH SOLD	MWH WHEELED OTHER SYSTEM	MWH FROM OWN GENERATION	—cents/KWH— (A) FUEL COST	(B) TOTAL COST	TOTAL $ FOR FUEL ADJUSTMENT (5)X(6)(A)	TOTAL $ FOR TOTAL COST (5)X(6)(B)	80% GAIN ON ECONOMY ENERGY SALES
ADJUSTMENTS TO PREV MON/YR TYPE	SCHED.								
HARDEE POWER PARTN 12/98 SEPAR.	CONTRACT	(4,804.0)	0.0	(4,804.0)	2.531	3.325	(121,569.24)	(159,733.00)	
HARDEE POWER PARTN 12/98 SEPAR.	CONTRACT	4,804.0	0.0	4,804.0	2.139	2.824	102,757.56	135,664.96	
SUB-TOTAL ECONOMY POWER SALES		5,922.0	0.0	5,922.0	1.664	1.802	98,559.04	106,705.97	6,517.54
SUB-TOTAL SCHEDULE D POWER SALES-SEPAR.		20,112.0	0.0	20,112.0	1.545	1.766	310,785.03	355,115.27	
SUB-TOTAL SCHEDULE D POWER SALES-JURISD.		5,306.0	9.9	5,296.1	1.591	1.591	84,264.57	84,264.57	
SUB-TOTAL SCHEDULE J POWER SALES-JURISD.		50.0	0.0	50.0	1.996	1.996	998.2	998.2	
SUB-TOTAL HARDEE PWR. PART.CONTRACT SALES-SEPAR.		9,312.0	0.0	9,312.0	1.990	2.566	185,287.36	238,902.84	
SUB-TOTAL OTHER D POWER SALES		78,120.0	78,120.0	0.0	0.000	0.000	0.00	0.00	
SUB-TOTAL SCHEDULE G POWER SALES-JURISD.		0.0	0.0	0.0	0.000	0.000	0.00	0.00	
TOTAL INCLUDING VARIABLE O & M COSTS		118,822.0	78,129.9	40,692.1	1.671	1.932	679,894.20	785,986.85	6,517.54
LESS VARIABLE O & M COSTS							(9,889.74)		
LESS VARIABLE O & M COSTS - HARDEE							0.00		
LESS TRANSMISSION COSTS SCH. D (SEP.)							(16,792.00)		
PLUS 80% OF ECON. ENERGY SALES PROFITS -							6,517.54		
TOTAL EXCL. VARIABLE O & M COSTS AND INCL. 80% OF ECON. ENERGY SALES PROFITS -		118,822.0	78,129.9	40,692.1	1.621	1.932	659,730.00	785,986.85	6,517.54
CURRENT MONTH:									
DIFFERENCE	-	(325,075.0)	9.9	(325,084.9)	(0.475)	(0.473)	(7,006,830.00)	(8,010,513.15)	(1,384,442.46)
DIFFERENCE %	-	(73.2)	0.0	(88.9)	(22.7)	(19.7)	(91.40)	(91.10)	(99.5)
PERIOD TO DATE:									
ACTUAL	-	118,822.0	78,129.9	40,692.1	1.621	1.932	659,730.00	785,986.85	6,517.54
ESTIMATED	-	443,897.0	78,120.0	365,777.0	2.096	2.405	7,666,560.00	8,796,500.00	1,390,960.00
DIFFERENCE	-	(325,075.0)	9.9	(325,084.9)	(0.475)	(0.473)	(7,006,830.00)	(8,010,513.15)	(1,384,442.46)
DIFFERENCE %	-	(73.2)	0.0	(88.9)	(22.7)	(19.7)	(91.40)	(91.10)	(99.5)

* No Economy Sales to Hardee Power Partners for Others in the month of January 1999.

COMPARISON OF ESTIMATED AND ACTUAL
FUEL AND PURCHASED POWER COST RECOVERY FACTOR
TAMPA ELECTRIC COMPANY
MONTH OF : JANUARY , 1999

SCHEDULE A1

	$				MWH				cents/KWH			
	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%	ACTUAL	ESTIMATED	DIFFERENCE AMOUNT	%
1. Fuel Cost of System Net Generation (A3)	25,576,800	33,831,916	(8,255,116)	(24.4)	1,223,822	1,634,897	(411,076)	(25.1)	2.08991	2.06936	0.02055	1.0
2. Spent Nuclear Fuel Disposal Cost	0	0	0	0.0	0	0	0	0.0	0.00000	0.00000	0.00000	0.0
3. Coal Car Investment	0	0	0	0.0	0	0	0	0.0	0.00000	0.00000	0.00000	0.0
4a. Adj. to Fuel Cost (Ft.Meade/Wauch. Wheeling Losses)	(3,863)	(3,000)	(863)	28.8	1,223,822 (a)	1,634,897 (a)	(411,076)	(25.1)	(0.00032)	(0.00018)	(0.00014)	77.8
4b. Adjustments to Fuel Cost (1)	(606,674)	0	(606,674)	0.0	1,223,822 (a)	1,634,897 (a)	(411,076)	(25.1)	(0.04957)	0.00000	(0.04957)	0.0
4c. Adjustments to Fuel Cost (2)	0	0	0	0.0	1,223,822 (a)	1,634,897 (a)	(411,076)	(25.1)	0.00000	0.00000	0.00000	0.0
5. TOTAL COST OF GENERATED POWER (Lines 1 through 4c)	24,966,263	33,828,916	(8,862,653)	(26.2)	1,223,822	1,634,897	(411,076)	(25.1)	2.04002	2.06918	(0.02916)	(1.4)
6. Fuel Cost of Purchased Power - Firm (A7)	1,663,944	526,200	1,137,744	216.2	44,183	9,149	35,034	382.9	3.76603	5.75145	(1.98542)	(34.5)
7. Energy Cost of Sch C,X Econ. Purch. (Broker) (A9)	0	5,500	(5,500)	(100.0)	0	113	(113)	(100.0)	0.00000	4.86726	(4.86726)	(100.0)
8. Energy Cost of Other Econ. Purch. (Non-Broker) (A9)	0	0	0	0.0	0	0	0	0.0	0.00000	0.00000	0.00000	0.0
9. Energy Cost of Sch. E Economy Purchases (A9)	0	0	0	0.0	0	0	0	0.0	0.00000	0.00000	0.00000	0.0
10. Capacity Cost of Sch. E Economy Purchases	0	0	0	0.0	0 (a)	0 (a)	0	0.0	0.00000	0.00000	0.00000	0.0
11. Payments to Qualifying Facilities (A8)	643,900	661,100	(17,200)	(2.6)	36,467	37,876	(1,409)	(3.7)	1.76571	1.74543	0.02028	1.2
12. TOTAL COST OF PURCHASED POWER (Lines 6 through 11)	2,307,844	1,192,800	1,115,044	93.5	80,650	47,138	33,512	71.1	2.86155	2.53044	0.33111	13.1
13. TOTAL AVAILABLE KWH (LINE 5 + LINE 12)					1,304,472	1,682,035	(377,564)	(22.4)				
ETS												
14. Fuel Cost of Economy Sales (A6)	88,669	5,376,700	(5,288,031)	(98.4)	5,922	321,698	(315,776)	(98.2)	1.49728	1.67135	(0.17407)	(10.4)
15. Gain on Economy Sales - 80% (A6)	6,518	1,390,960	(1,384,442)	(99.5)	5,922 (a)	321,698 (a)	(315,776)	(98.2)	0.11006	0.43238	(0.32232)	(74.5)
16. Fuel Cost of Sch. D Separ. Sales (A6)	293,993	339,600	(45,607)	(13.4)	20,112	20,354	(242)	(1.2)	1.46178	1.66847	(0.20669)	(12.4)
17. Fuel Cost of Sch. D Jurisd. Sales (A6)	84,265	108,900	(24,635)	(22.6)	5,296	5,625	(329)	(5.8)	1.59111	1.93600	(0.34489)	(17.8)
18. Fuel Cost of Sch. G Jurisd. Sales (A6)	0	0	0	0.0	0	0	0	0.0	0.00000	0.00000	0.00000	0.0
19. Fuel Cost of Sch. J Jurisd. Sales (A6)	998	0	998	0.0	50	0	50	0.0	1.99600	0.00000	1.99600	0.0
20. Fuel Cost of HPP Sch. D Separ. Sales (A6)	185,287	450,400	(265,113)	(58.9)	9,312	18,100	(8,788)	(48.6)	1.98977	2.48840	(0.49863)	(20.0)
21. Fuel Cost of Other Power Sales (A6)	0	0	0	0.0	0	0	0	0.0	0.00000	0.00000	0.00000	0.0
22. TOTAL FUEL COST AND GAINS OF POWER SALES (LINE 14 + 15 + 16 + 17 + 18 + 19 + 20 + 21)	659,730	7,666,560	(7,006,830)	(91.4)	40,692	365,777	(325,085)	(88.9)	1.62128	2.09597	(0.47469)	(22.6)
23. Net Inadvertant Interchange					(91)	0	(91)	0.0				
24. Wheeling Rec'd. less Wheeling Delv'd.					(1,692)	0	(1,692)	0.0				
25. Interchange and Wheeling Losses					1,398	5,500	(4,102)	(74.6)				
26. TOTAL FUEL AND NET POWER TRANSACTIONS (LINE 5 + 12 - 22 + 23 + 24 - 25)	26,614,377	27,355,156	(740,779)	(2.7)	1,260,599	1,310,758	(50,160)	(3.8)	2.11125	2.08697	0.02428	1.2
27. Net Unbilled	(371,010) (a)	81,788 (a)	(452,798)	(553.6)	(17,573)	3,919	(21,492)	(548.4)	(0.02943)	0.00624	(0.03567)	(571.6)
28. Company Use	83,289 (a)	70,957 (a)	12,332	17.4	3,945	3,400	545	16.0	0.00646	0.00545	0.00101	18.5
29. T & D Losses	(307,018) (a)	13,732 (a)	(320,750)	(2,335.8)	(14,542)	658	(15,200)	(2,310.0)	(0.02382)	0.00105	(0.02487)	(2,368.6)
30. System KWH Sales	26,614,377	27,355,156	(740,779)	(2.7)	1,288,769	1,302,781	(14,013)	(1.1)	2.06510	2.09975	(0.03465)	(1.7)
31. Wholesale KWH Sales	(273,668)	(222,761)	(50,907)	22.9	(13,252)	(10,609)	(2,643)	24.9	2.06511	2.09974	(0.03463)	(1.6)
32. Jurisdictional KWH Sales	26,340,709	27,132,395	(791,686)	(2.9)	1,275,517	1,292,172	(16,656)	(1.3)	2.06510	2.09975	(0.03465)	(1.7)
33. Jurisdictional Loss Multiplier - 1.00068												
34. Jurisdictional KWH Sales Adjusted for Line Losses	26,358,621	27,150,845	(792,224)	(2.9)	1,275,517	1,292,172	(16,656)	(1.3)	2.06651	2.10118	(0.03467)	(1.7)
35. Peabody Coal Contract Buy-Out Amort. Jurisd.	402,159	403,028	(869)	(0.2)	1,275,517	1,292,172	(16,656)	(1.3)	0.03153	0.03119	0.00034	1.1
35a. Fuel Credit Differential - FMPA Sale	0	0	0	0.0	1,275,517	1,292,172	(16,656)	(1.3)	0.00000	0.00000	0.00000	0.0
35b. Oil Below the Discharge Valve	0	0	0	0.0	1,275,517	1,292,172	(16,656)	(1.3)	0.00000	0.00000	0.00000	0.0
36. True-up *	(438,426)	(438,426)	0	0.0	1,275,517	1,292,172	(16,656)	(1.3)	(0.03437)	(0.03393)	(0.00044)	1.3
37. Total Jurisdictional Fuel Cost (Excl. GPIF)	26,322,354	27,115,447	(793,093)	(2.9)	1,275,517	1,292,172	(16,656)	(1.3)	2.06366	2.09844	(0.03478)	(1.7)
38. Revenue Tax Factor									1.00072	1.00072	0.00000	0.0
39. Fuel Cost Adjusted for Taxes (Excl. GPIF)									2.06515	2.09995	(0.03480)	(1.7)
40. GPIF * (Already Adjusted for Taxes)	(15,679)	(15,679)	0	0.0	1,275,517	1,292,172	(16,656)	(1.3)	(0.00123)	(0.00121)	(0.00002)	1.7
41. Fuel Cost Adjusted for Taxes (Incl. GPIF)	26,306,675	27,099,768	(793,093)	(2.9)	1,275,517	1,292,172	(16,656)	(1.3)	2.06392	2.09874	(0.03482)	(1.7)
42. Fuel FAC Rounded to the Nearest .001 cents per KWH									2.064	2.099	(0.035)	(1.7)

* Based on Jurisdictional Sales (a) Included for informational purposes only

TAMPA ELECTRIC COMPANY
DOCKET NO. 991779-EI
STAFF'S 1st SET
INTERROGATORY NO. 1
WITNESS: D. BROWN

2. Please provide the accounting entries reflecting TECO's current treatment of the 20 percent stockholder incentive.

A. The 20 percent approved stockholder incentive is credited to FERC account, 447-02, *Non-Recoverable Sales for Resale*. *Point-To-Point Transmission Service* is credited to FERC account 447-05. *Point-To-Point Transmission Service-Ancillary and Point-To-Point Transmission Service-Reactive Power* are credited to FERC accounts 447-06 and 447-07, respectively. The offsetting FERC account is 143-XX, *Interchange Receivables*.

3. Please explain how TECO documents, for auditing purposes, the gain on economy energy sales to which TECO applies the 20 percent stockholder incentive.

A. Tampa Electric provides documentation in the form of journal entries and supporting workpapers on the gain calculation. Additionally, the Energy Control Center operational staff maintains records on the bid and sell price of each economy transaction.

7. For the years 1994 through 1999, please provide TECO's annual wholesale sales, in dollars and megawatt-hours (MWh), made over Florida's Energy Broker Network.

A. Tampa Electric has not differentiated between economy sales made on the Florida Energy Broker Network (EBN) broker versus economy sales made off the EBN, and could not obtain this information in total. All of the energy broker sales data included below was obtained from the EBN. The EBN also provided revenue data for the years 1994, 1998 and 1999. Neither energy data nor revenue data was available from the EBN for 1995 through 1997. Only energy data was available in 1998.

	EBN Sales Schedule C Only		Off-Broker Sales Schedule C and X		Total Economy Sales Schedule C and X		20 Percent Shareholder Incentive
Year	(a) MWh	(b) $	(c) MWh	(d) $	(a + c) MWh	(b + d) $	$
1994	1,290,109	26,262,927	88,084	1,754104	1,378,193	28,017,030	1,154,439
1995	N/A	N/A	N/A	N/A	2,069,566	39,220,713	1,566,129
1996	N/A	N/A	N/A	N/A	2,220,521	42,499,518	2,119,812
1997	N/A	N/A	N/A	N/A	1,658,267	32,903,050	1,146,154
1998	459,448	N/A	284,631	N/A	744,079	20,448,507	1,490,692
1999	11,999	286,298	11,408	264,622	23,407	550,920	12,203

8. For the years 1994 through 1999, please provide TECO' s annual wholesale sales, in dollars and MWh, made under each FERC schedule on which TECO applied the 20 percent stockholder incentive. For each year, please indicate the portion of these sales that were made over the Energy Broker Network. For each year, please also indicate the amount retained by TECO as a 20 percent stockholder incentive for wholesale sales made under each applicable FERC schedule.

A. Please see the table and the response to Interrogatory No. 7.

9. Please list each type of wholesale sale to which, in TECO's opinion, the 20 percent stockholder incentive should apply. In your response, please indicate the FERC schedule under which each type of sale is made.

A. Tampa Electric believes that it is appropriate to apply the 20 percent stockholder incentive to all non-separated, non-firm wholesale sales. This includes the FERC approved Schedules C and X sales as well as Service Schedule J and G sales and all non-firm market priced wholesale sales.

TAMPA ELECTRIC COMPANY
DOCKET NO. 991779-EI
STAFF'S 1st SET
INTERROGATORY NO. 10
WITNESS: D. BROWN

10. If your response to Interrogatory No. 9 includes any FERC schedule not listed in your response to Interrogatory No. 4, please provide TECO's annual wholesale sales, in dollars and MWh, made under each such schedule for the years 1994 through 1999. For each year, please indicate the amount that would have been retained by TECO as a 20 percent stockholder incentive for wholesale sales made under each such FERC schedule.

A. For the years 1994 through 1999, Tampa Electric only applied the shareholder incentive to Schedule C and X sales. Tampa Electric believes it is appropriate that a 20 percent shareholder incentive should have also included other non-separated, non-firm sales such as Service Schedule J sales, Service Schedule G sales and sales made under the company's FERC approved Market-Based Sales Tariff. Listed below for each of these additional wholesale transactions is the historical energy sold, the total revenues and an approximation of the 20 percent incentive.

	MWh			
Year	Schedule J	Schedule G	Market Based	Total
1994	63,975	21,021	N/A	84,996
1995	31,455	2,611	N/A	34,066
1996	96,349	949	N/A	97,298
1997	69,676	60	N/A	69,736
1998	91,781	75	N/A	91,856
1999	18,446	0	176,341	194,787

	Total Revenues ($)			
Year	Schedule J	Schedule G	Market Based	Total
1994	1,220,604	871,236	N/A	2,091,840
1995	1,227,117	265,229	N/A	1,492,346
1996	1,980,137	272,076	N/A	2,252,213
1997	1,614,089	1300	N/A	1,615,389
1998	2,594,741	3508	N/A	2,598,249
1999	603,250	0	4,894,481	5,497,731

	Estimated 20 Percent Incentive ($)			
Year	Schedule J	Schedule G	Market Based	Total
1994	42,108	98,774	N/A	140,882
1995	94,144	43,639	N/A	137,783
1996	103,696	50,655	N/A	154,351
1997	90,023	13	N/A	90,036
1998	183,615	80	N/A	183,695
1999	43,772	0	222,706	266,478

15. If the Commission approves a reward/penalty mechanism for economy energy sales, please indicate how, in TECO's opinion, such a mechanism should be designed.

A. A shareholder incentive should be applied to all non-separated, non-firm wholesale transactions including Schedules C, X, J, G and Market-Based Sales. The incentive should be applied to both demand and energy components of any gains from the transaction. The gains would be determined by taking the overall transaction price less incremental fuel, which is credited through the Fuel and Purchased Power Clause, less incremental SO_2, which is credited to ratepayers through the Environmental Cost Recovery Clause and, finally, less O&M, which is credited to operating revenues. The remaining revenues are comprised of reservation charges, call premiums, and associated transmission revenues (capacity revenues) and energy revenues. Tampa Electric proposes to credit 80 percent of the capacity revenues through the Capacity Cost Recovery Clause and 80 percent of the energy revenues through the Fuel and Purchased Power Clause. The remaining 20 percent of the capacity and energy revenues will be retained by the company.

16. Please state the total dollars booked below the line by TECO as a result of the 20 percent stockholder incentive since it was approved in 1984.

A. Tampa Electric began booking the 20 percent stockholder incentive in April 1984.

YEAR	$
1984	1,156,826
1985	1,895,731
1986	1,189,566
1987	2,286,011
1988	1,162,405
1989	2,069,537
1990	1,437,922
1991	1,221,817
1992	344,751
1993	1,139,626
1994	1,154,440
1995	1,566,129
1996	2,119,812
1997	1,146,154
1998	1,490,692
1999	12,203

17. Please provide TECO's annual non-separated wholesale sales, in dollars and MWh, for the years 1994 through 1999.

A.

	MWh					
Year	Economy	Schedule J	Schedule G	Juris Sch D	Market Based	Total
1994	1,378,193	63,975	21,021	49,302	N/A	1,512,491
1995	2,069,566	31,455	2,611	51,326	N/A	2,154,958
1996	2,200,521	96,349	949	101,707	N/A	2,399,526
1997	1,658,267	69,676	60	82,316	N/A	1,810,319
1998	744,079	91,781	75	60,182	N/A	896,117
1999	23,407	18,446	0	73,551	176,341	291,745

	Total Revenues ($)					
Year	Economy	Schedule J	Schedule G	Juris. Sch. D	Market Based	Total
1994	28,017,030	1,220,604	871,236	1,650,082	N/A	31,758,952
1995	39,220,713	1,227,117	265,229	1,719,224	N/A	42,432,283
1996	42,499,518	1,980,137	272,076	3,460,031	N/A	48,211,762
1997	32,903,050	1,614,089	1,300	2,318,195	N/A	36,836,634
1998	20,448,507	2,594,741	3,508	2,118,239	N/A	25,164,995
1999	550,920	603,250	0	2,862,733	4,894,481	8,911,384

Note: Jurisdictional Schedule D sales are firm, non-separated transactions.

18. Please provide TECO's annual economy energy purchases, in dollars and MWh, for the years 1994 through 1999.

A.

YEAR	MWH	DOLLARS
1994	59,426	2,026,437
1995	35,095	1,140,297
1996	63,457	2,453,937
1997	101,048	3,919,706
1998	10,882	322,283
1999	14	578*

*Does not reflect adjustments due to refunds associated with transmission charges.

20. For the period 1998 through 1999, please list each instance when Tampa Electric interrupted or curtailed electric service to non-firm, non-residential customers. For each instance listed, please provide the date of the interruption or curtailment; the number of non-firm, non-residential customers affected; and the amount of energy interrupted or curtailed.

A. The following chart reflects the dates of interruption or curtailment and an estimated amount of energy interrupted or curtailed. The data pertains to every non-firm, non-residential customer and includes voluntary curtailments.

Date of Interruption or Curtailment	No. of Customers Affected	Energy Interrupted or Curtailed (MWh)
04/03/98	34	18
06/19/98	34	36
06/22/98	34	237
06/23/98	34	959
01/06/99	33	253
04/03/99	33	250
04/05/99	33	317
04/06/99	33	429
04/15/99	33	25
04/23/99	33	1,340
04/24/99	33	1,252
04/26/99	33	483
05/06/99	32	88
07/29/99	32	940
07/30/99	32	279
07/31/99	32	485
08/02/99	32	333
09/04/99	32	27
09/28/99	32	151
10/20/99	32	306

21. For the period 1998 and 1999, please list each instance when Tampa Electric purchased "buy-through" energy for non-firm, non-residential customers in lieu of interruption or curtailment. For each instance listed, please provide the date that such "buy-through" energy was purchased; the number of non-firm, non-residential customers affected; and the amount of energy purchased.

A. The following chart reflects the dates and times that Tampa Electric was purchasing power on behalf of non-firm customers in lieu of interruption and the amount of energy purchased on behalf of those customers. Since every non-firm customer has elected for Tampa Electric to buy-through on their behalf rather than be interrupted, the data pertains to every non-firm, non-residential customer.

Date	Energy (MWh)		Date	Energy (MWh)
02/22/98	321		06/18/98	1,361
03/22/98	434		06/19/98	884
03/30/98	904		06/22/98	981
03/31/98	148		06/23/98	2,691
04/15/98	424		06/24/98	150
05/03/98	242		06/29/98	860
05/06/98	170		07/01/98	753
05/07/98	310		07/02/98	1,880
05/08/98	1,858		07/03/98	554
05/09/98	871		07/04/98	993
05/12/98	331		07/05/98	932
05/13/98	1,829		07/06/98	164
05/14/98	2,173		07/09/98	223
05/15/98	2,787		07/11/98	1,646
05/16/98	1,470		07/12/98	1,310
05/17/98	277		07/17/98	178
05/18/98	1,569		07/18/98	870
05/19/98	1,258		07/19/98	580
05/20/98	538		07/20/98	773
05/21/98	1,633		07/24/98	38
05/22/98	2,665		07/25/98	1,263
05/23/98	1,593		07/26/98	118
05/24/98	2,547		07/27/98	474
05/25/98	1,356		07/28/98	483
05/26/98	2,114		07/29/98	1,231
05/29/98	137		07/30/98	1,405
05/31/98	1,729		07/31/98	1,906
06/02/98	635		08/01/98	913

Date	Energy (MWh)		Date	Energy (MWh)
08/02/98	471		04/01/99	976
08/03/98	1,329		04/02/99	1,010
08/04/98	342		04/03/99	1,194
08/05/98	1,964		04/04/99	1,033
08/06/98	1,394		04/05/99	1,008
08/07/98	1,695		04/06/99	1,263
08/08/98	1,204		04/07/99	134
08/09/98	1,603		04/08/99	1,898
08/10/98	1,464		04/09/99	2,717
08/11/98	1,722		04/10/99	2,522
08/12/98	1,598		04/11/99	2,722
08/13/98	472		04/12/99	553
08/14/98	1,093		04/13/99	150
08/29/98	657		04/14/99	389
08/30/98	52		04/15/99	1,312
08/31/98	192		04/16/99	15
09/01/98	916		04/19/99	1,311
09/04/98	441		04/21/99	1,163
09/06/98	536		04/22/99	1,535
09/14/98	739		04/23/99	1,165
09/21/98	2,713		04/24/99	856
09/22/98	2,493		04/25/99	1,438
09/23/98	2,177		04/27/99	2,133
09/24/98	416		04/28/99	3,376
09/26/98	1,620		04/29/99	3,656
09/27/98	1,558		05/05/99	669
09/28/98	113		05/06/99	1,046
10/01/98	1,044		05/07/99	1,719
10/03/98	2,064		05/08/99	2,765
10/04/98	488		05/10/99	305
10/05/98	110		05/25/99	507
10/06/98	1,548		05/26/99	651
10/07/98	1,426		05/27/99	1,015
10/08/98	515		05/28/99	969
10/11/98	145		05/29/99	2,030
10/15/98	177		05/30/99	2,290
10/16/98	731		05/31/99	1,665
10/19/98	78		06/01/99	2,437
10/20/98	102		06/02/99	1,848
10/21/98	670		06/03/99	1,637
11/11/98	699		06/04/99	2,316
11/20/98	266		06/05/99	1,104
12/17/98	233		06/07/99	1,465
			06/08/99	14
01/05/99	332		06/09/99	589
01/06/99	548		06/10/99	1,994

Date	Energy (MWh)		Date	Energy (MWh)
06/11/99	2,270		08/19/99	878
06/12/99	2,169		08/20/99	700
06/13/99	2,734		08/21/99	2,691
06/14/99	2,315		08/22/99	2,512
06/15/99	625		08/24/99	1,886
06/22/99	1,263		08/25/99	631
06/23/99	544		08/26/99	21
06/27/99	1,332		08/27/99	1,569
07/03/99	1,883		08/28/99	1,860
07/04/99	685		08/29/99	1,738
07/05/99	1,605		08/30/99	1,664
07/06/99	1,266		09/01/99	331
07/07/99	2,096		09/02/99	521
07/08/99	911		09/04/99	1,216
07/11/99	220		09/11/99	1,297
07/12/99	338		09/12/99	855
07/13/99	1,402		09/13/99	985
07/14/99	485		09/14/99	119
07/15/99	785		09/21/99	932
07/16/99	1,913		09/22/99	514
07/19/99	1,153		09/24/99	885
07/20/99	1,060		09/25/99	1,441
07/21/99	1,505		09/28/99	1,345
07/22/99	877		09/29/99	523
07/23/99	417		10/01/99	519
07/24/99	224		10/02/99	1,111
07/25/99	550		10/03/99	969
07/26/99	265		10/07/99	446
07/27/99	80		10/08/99	1,452
07/28/99	741		10/09/99	1,588
07/29/99	1,204		10/10/99	2,144
07/30/99	1,194		10/11/99	1,481
07/31/99	2,672		10/12/99	704
08/01/99	3,518		10/13/99	2,432
08/02/99	2,833		10/14/99	3,209
08/03/99	3,113		10/15/99	2,972
08/04/99	159		10/18/99	1,309
08/09/99	1,692		10/19/99	2,075
08/11/99	2,175		10/20/99	2,148
08/12/99	498		10/21/99	963
08/13/99	1,889		10/30/99	1,487
08/14/99	3,015		10/31/99	1,543
08/15/99	1,708		11/01/99	721
08/17/99	2,720		12/01/99	709
08/18/99	1,578		12/08/99	536

25. Please indicate whether Tampa Electric has analyzed the impact that shareholder incentives based upon the gains from economy energy sales may have on any of the following:

A) economy energy transactions (number, dollars, and MWhs);
B) gains from economy energy sales;
C) levelized fuel cost recovery factor;
D) generation expansion plan;
E) capital costs;
F) fixed operation and maintenance costs;
G) variable operation and maintenance costs;
H) system dispatch;
I) ability to serve firm and non-firm retail load
J) ability to serve firm wholesale load;
K) transmission expansion plan;
L) seller's incremental costs;
M) buyer's decremental costs; and
N) return on equity.

If so, please indicate the results of any such analyses.

A. Tampa Electric has not performed any quantitative analyses that would assess impacts resulting from either the elimination of shareholder incentives or an increased application of a shareholder incentive.

Tampa Electric has previously stated its position that elimination of the 20% shareholder incentive may cause Florida's net seller investor-owned utilities to evaluate alternatives other then making cost-based capacity available in the economy market. This could, in turn, have a negative impact on customers of the net seller utility who have benefited from these sales assuming another type of sale is not made with its benefits returned to ratepayers. The economy sales revenue sharing incentive encourages sellers to offer their surplus energy within the state and provides mutual benefits for the customers of both buyers and sellers. (*see* Tampa Electric's response to Staff's 1st Set of Interrogatories No. 4 in Docket 990001-EI).

28. For each state, other than Florida, in which Tampa Electric or an affiliate of Tampa Electric is a participant in the wholesale energy market, please indicate whether that state's public utility commission provides a shareholder incentive to encourage non-separated wholesale energy sales.

A. Tampa Electric does not have this information available and has had no contact with the public service commissions in other states regarding the issue of wholesale incentives. Tampa Electric's recommendation for wholesale incentives is based primarily upon the needs of Florida's wholesale market, therefore, the requested information is not pertinent.

29. For each state listed in your response to Interrogatory 28 as providing a shareholder incentive, please describe the shareholder incentive provided by the public utility commission in that state to encourage non-separated wholesale energy sales.

A. Please see the response to Staff's 2nd Set of Interrogatories No. 28.

TAMPA ELECTRIC COMPANY
DOCKET NO. 991779-EI
STAFF'S 2nd SET OF INTERROGATORIES
INTERROGATORY NO. 31
WITNESS: D. A. BROWN

31. When Tampa Electric includes a separately identified transmission charge for a wholesale energy sale, what regulatory treatment does Tampa Electric apply to these transmission revenues? In your response, please indicate the relevant orders of the Florida Public Service Commission which authorize that regulatory treatment.

A. When a separately identified transmission charge is included in the sell quote for a wholesale energy sale, Tampa Electric flows the entire jurisdictional amount through the capacity cost recovery clause. This is pursuant to Florida Public Service Commission (FPSC) Order No. 99-2512-FOF-EI, issued December 22, 1999 in Docket No. 990001.

32. If Tampa Electric does not include a separately identified transmission charge for a wholesale energy sale, what regulatory treatment does Tampa Electric apply to the portion of the gain that represents the transmission charge? In your response, please indicate the relevant orders of the Florida Public Service Commission which authorize that regulatory treatment.

A. In the case where a separately identified transmission charge is not included in a sell quote (service Schedules C and X transactions) the transmission is considered part of the margin and split on an 80/20 ratio between ratepayers and shareholders.

37. During Tampa Electric's most recent general rate proceeding, what amount was assigned to Tampa Electric's power marketing activities during its test year?

A. Since some of the power marketing functions that are now consolidated within a single wholesale power marketing department were previously performed by other departments (e.g., market analyses, technical support, hourly sales/purchases, etc.), Tampa Electric cannot specifically identify the amount that was assigned to wholesale power marketing activities during its test year. In addition, since the last rate case, the responsibilities of the wholesale power marketing department have been expanded to meet the requirements of FERC orders and the needs of the evolving market.

In the absence of specific information, Tampa Electric has attempted to reconstruct the total expenses for its wholesale power marketing activities by analyzing the costs, by function, to prepare an estimated composite for all such expenses that were contained within the forecast for its test year. The estimated cost for all wholesale power marketing activities was $0.7 million, which included payroll (salaries plus fringe benefits), office expenses, travel, meals and other miscellaneous costs.

40. In witness Brown's prefiled direct testimony in this docket, at page 4, the witness states that "revenues sufficient to cover the associated incremental SO_2 costs are credited to the Environmental Cost Recovery Clause." Please indicate which order(s) of the Florida Public Service Commission authorize this regulatory treatment.

A. Tampa Electric has proposed and identified in the Environmental Cost Recovery Clause (ECRC) proceedings, through depositions, informal discussion with FPSC Staff, and audit reviews, that revenues associated with incremental SO_2 expenses should be credited to the ECRC in order to offset costs borne by ratepayers also charged through the ECRC.

Order No. PSC-95-0450-FOF-EI issued on April 6, 1995 in Docket No. 950001-EI, stated the FPSC's position that costs and revenues associated with SO_2 emission allowances are appropriately recovered through the ECRC and that any SO_2 emission allowance dollars shall be removed from the fuel clause and placed in the ECRC upon a company's participation in the ECRC. Also, Order No. PSC-97-1273-FOF-EU issued October 15, 1997 in Docket No. 970171-EU, stated that Tampa Electric should credit its ECRC with all incremental SO_2 allowance costs incurred as a result of the FMPA and Lakeland sales. Based on these orders, it is Tampa Electric's position that it is appropriate to apply the same treatment to economy energy sales. The Commission has reviewed and approved Tampa Electric's environmental factors that include, within the calculations, the flow back of revenues associated with incremental SO_2 allowance costs.

41. In witness Brown's prefiled direct testimony in this docket, at page 4, the witness states that "[r]evenues *attributable to operating and maintenance costs (O&M) are* credited to operating revenues." Please indicate which orders of the Florida Public Service Commission authorize this regulatory treatment.

A. Since October 1991, Tampa Electric has identified on its monthly fuel schedules the treatment of the revenues associated with incremental O&M expenses. Tampa Electric has undergone annual and bi-annual field audits, as well as annual fuel clause proceedings before the Commission, since that time without exceptions related to this regulatory treatment. Tampa Electric believes that it is appropriate that ratepayers receive the gains from non-firm, non-separable sales but that making these sales come at a cost to the company. Therefore, it is appropriate that the company retain associated O&M revenues.

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APPENDIX 1

QUALIFICATIONS OF DAVID E. DISMUKES, PH.D.

EDUCATION

Ph.D., Economics, Florida State University, 1995.
M.S., Economics, Florida State University, 1992.
M.S., International Affairs, Florida State University, 1988.
B.A., History, University of West Florida, 1987.
A.A., Liberal Arts, Pensacola Junior College, 1985.

Master's Thesis: *Nuclear Power Project Disallowances: A Discrete Choice Model of Regulatory Decisions*

Ph.D. Dissertation: *An Empirical Examination of Environmental Externalities and the Least-Cost Selection of Electric Generation Facilities*

PROFESSIONAL EXPERIENCE

Econ One Research, Inc., Houston, Texas and Baton Rouge, Louisiana

2000-	Senior Economist

Acadian Consulting Group, Baton Rouge, Louisiana

1995-	Consulting Economist/Principal

Florida Public Service Commission, Tallahassee, Florida
Division of Communications, Policy Analysis Section

1995	Planning & Research Economist

Division of Auditing & Financial Analysis, Forecasting Section

1993	Planning & Research Economist
1992-1993	Economist

Project for an Energy Efficient Florida &
Florida Solar Energy Industries Association, Tallahassee, Florida

1994	Energy Economist

Ben Johnson Associates, Inc., Tallahassee, Florida

1991-1992	Research Associate
1989-1991	Senior Research Analyst
1987-1989	Research Analyst

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 991779-EI EXHIBIT NO. 12
COMPANY/ WITNESS: Dismukes
DATE: 5-10-00

ACADEMIC APPOINTMENTS

Louisiana State University, Baton Rouge, Louisiana
Center for Energy Studies

2000-	Senior Research Fellow/Adjunct Assistant Professor
1999-2000	Managing Director, Distributed Energy Resources Initiative
1995-2000	Assistant Professor

E.J. Ourso College of Business Administration
Department of Economics

1999-2000	Adjunct Assistant Professor

Florida State University, Tallahassee, Florida
Department of Economics

1995	Instructor

PUBLICATIONS: PEER REVIEWED ACADEMIC JOURNALS

"The Demand for Long Distance Telephone Communication: A Route-Specific Analysis of Short-Haul Service." (1996). *Studies in Economics and Finance* 17:33-45.

"A Comment on Cost Savings from Nuclear Regulatory Reform" (1997). *Southern Economic Journal.* 63:1108-1112.

"Oil Spills, Workplace Safety, and Firm Size: Evidence from the U.S. Gulf of Mexico OCS." (1997). With O. O. Iledare, A. G. Pulsipher, and Dmitry Mesyanzhinov. *Energy Journal* 4: 73-90.

"Capacity and Economies of Scale in Electric Power Transmission" (1999). With Robert F. Cope and Dmitry Mesyanzhinov. *Utilities Policy* 7: 155-162.

"Cogeneration and Electric Power Industry Restructuring" (1999). With Andrew N. Kleit. *Resource and Energy Economics.* 21:153-166.

"Modeling Regional Power Markets and Market Power." (1999). With Robert F. Cope. *Managerial and Decision Economics. (Under Review)*

"Efficiency Opportunities in Restructured Electric Power Generation." (1999). With Williams O. Olatubi. *Energy Journal (Under Review)*

"A Data Envelopment Analysis of Levels and Sources of Coal Fired Electric Power Generation Inefficiency." (1999). With Williams O. Olatubi. *Utilities Policy. (Under Review)*

PUBLICATIONS: PEER REVIEWED PROCEEDINGS

"Comparing the Safety and Environmental Records of Firms Operating Offshore Platforms in the Gulf of Mexico." (1996). With Allan Pulsipher, Omowumi Iledare, Dmitry Mesyanzhinov, William Daniel, and Bob Baumann. *Proceedings of the American Society of Mechanical Engineers: Offshore and Arctic Operations 1996*, January.

"Safety Regulations, Firm Size, and the Risk of Accidents in E&P Operations on the Gulf of Mexico Outer Continental Shelf" (1996). With Allan Pulsipher, Omowumi Iledare, and Bob Baumann. *Proceedings of the American Society of Petroleum Engineers: Third International Conference on Health, Safety, and the Environment in Oil and Gas Exploration and Production*, June.

"New Paradigms for Power Engineering Education." (1997). With Fred I. Denny. *Proceedings of the International Association of Science and Technology for Development.* October: 499-504.

"Power System Operations, Control, and Environmental Protection in a Restructured Electric Power Industry" (1998). With Fred I. Denny. *IEEE Proceedings: Large Engineering Systems Conference on Power Engineering.* June: 294-298.

PUBLICATIONS: OTHER PROCEEDINGS

"Comparing the Safety and Environmental Performance of Offshore Oil and Gas Operators." (1995). With Allan Pulsipher, Omowumi Iledare, Dmitry Mesyanzhinov, William Daniel, and Bob Baumann. *Proceedings of the 15th Annual Information Transfer Meeting.* U.S. Department of Interior, Minerals Management Service: New Orleans, Louisiana.

"Assessing Environmental and Safety Risks of the Expanding Role of Independents in E&P Operations on the Gulf of Mexico OCS." (1996). With Allan Pulsipher, Omowumi Iledare, Bob Baumann, and Dmitry Mesyanzhinov. *Proceedings of the 16th Annual Information Transfer Meeting.* U.S. Department of Interior, Minerals Management Service: New Orleans, Louisiana: 162-166.

"Modeling Electric Power Markets in a Restructured Environment" (1998). With Robert F. Cope and Dan Rinks. *Proceedings of the International Association for Energy Economics: Technology's Critical Role in Energy and Environmental Markets.* October: 48-56.

"Asymmetric Choice and Customer Benefits: Lessons from the Natural Gas Industry." (1999). With Rachelle F. Cope and Dmitry Mesyanzhinov. *Proceedings of the International Association for Energy Economics: The Only Constant is Change* August: 444-452.

PUBLICATIONS: BOOKS AND MONOGRAPHS

Distributed Energy Resources. (2000) With Ritchie Priddy. London: Financial Times Energy. (*forthcoming*)

Power System Operations and Planning in a Competitive Market. (2000) With Fred I. Denny. New York: CRC Press. *(In Progress, Anticipated Completion December 2000)*

PUBLICATIONS: BOOK CHAPTERS

"Electric Power Generation." (1999). In the *Macmillan Encyclopedia of Energy.* Edited by John Zumerchik. New York: Macmillan Reference. (*forthcoming*)

"The Hydropower Industry of the United States." (2000). With Dmitry Mesyanzhinov. In *Renewable Energy: Trends and Prospects.* Edited by E.W. Miller and A.I. Panah. Lafayette, PN: The Pennsylvania Academy of Science. (*forthcoming*)

PUBLICATIONS: BOOK REVIEWS

Review of ***Electric Cooperatives on the Threshold of a New Era*** by Public Utilities Reports. (Vienna, Virginia: Public Utilities Reports, 1996) pp. 232. ISBN 0-910325-63-4. *Energy Journal* 17 (1996): 161-62.

Review of ***Electricity Transmission Pricing and Technology***, edited by Michael Einhorn and Riaz Siddiqi. (Boston: Kluwer Academic Publishers, 1996) pp. 282. ISBN 0-7923-9643-X. *Energy Journal* 18 (1997): 146-148.

PUBLICATIONS: TRADE AND PROFESSIONAL JOURNALS

"Electric Utility Mergers and Acquisitions: A Regulator's Guide." (1996). With Kimberly H. Dismukes. *Public Utilities Fortnightly.* January 1.

"Reliability or Profit? Why Entergy Quit the Southwest Power Pool." (1998). With Fred I. Denny. *Public Utilities Fortnightly.* February 1: 30-33.

"Stranded Investment and Non-Utility Generation." (1999). With Michael T. Maloney. *Electricity Journal* 12: 50-61.

"Slow as Molasses: The Political Economy of Electric Restructuring in the South." (1999). With K.E. Hughes II. *Oil, Gas, and Energy Quarterly.* 48: 163-183.

"Coming to a Neighborhood Near You: The Merchant Electric Power Plant." (1999). With K.E. Hughes II. *Oil, Gas, and Energy Quarterly.* 48:433-441.

"Distributed Energy Resources: The Next Paradigm Shift in the Electric Power Industry." (2000). With K.E. Hughes II *Oil, Gas and Energy Quarterly.* (forthcoming, March).

"Issues and Opportunities for Small Scale Electricity Production in the Oil Patch." (2000). With Ritchie D. Priddy. *American Oil and Gas Reporter.* (forthcoming).

"The Post-Restructuring Consolidation of Nuclear-Power Generation in the Electric Power Industry." (2000) With K.E. Hughes II. *Oil, Gas and Energy Quarterly.* (forthcoming, June).

PUBLICATIONS: REPORTS AND OTHER PUBLICATIONS

Restructuring the Electric Utility Industry: Implications for Louisiana. (1996). With Allan Pulsipher and Kimberly H. Dismukes. Baton Rouge, LA: Louisiana State University, Center for Energy Studies.

Assessing the Environmental and Safety Risks of the Expanded Role of Independents in Oil and Gas E&P Operations on the U.S. Gulf of Mexico OCS. (1996). With Allan Pulsipher, Omowumi Iledare, Dmitry Mesyanzhinov, William Daniel, and Bob Baumann. Baton Rouge, LA: Louisiana State University, Center for Energy Studies.

Energy Conservation and Electric Restructuring In Louisiana. (2000). With Dmitry Mesyanzhinov, Ritchie D. Priddy, Robert F. Cope III, and Vera Tabakova. Baton Rouge, LA: Louisiana State University, Center for Energy Studies.

PUBLICATIONS: INTERNET HOMEPAGES

Electric Restructuring In Louisiana. Louisiana State University, Center for Energy Studies. HTTP://WWW.ENRG.LSU.EDU

GRANT RESEARCH

Co-Principal Investigator. "Assessing the Environmental and Safety Risks of the Expanded Role of Independents in Oil and Gas E&P Operations on the U.S. Gulf of Mexico OCS." (1996). With Allan Pulsipher, Omowumi Iledare, Dmitry Mesyanzhinov, William Daniel, and Bob Baumann. U.S. Department of Interior, Minerals Management Service, Grant Number 95-0056. Total Project Funding: $109,361. Status: Completed.

Principal Investigator. "The Industrial Supply of Electricity: Commercial Generation, Self-Generation, and Industry Restructuring" (1996). With Andrew Kleit. Louisiana Energy Enhancement Program, LSU Office of Research and Development. Total Project Funding: $19,948. Status: Completed.

Principal Investigator. "Energy Conservation and Electric Restructuring in Louisiana." (1997). Louisiana Department of Natural Resources. Petroleum Violation Escrow Program Funds. Total Project Funding: $43,169. Status: Completed.

Principal Investigator. "An Economic Impact Analysis of OCS Activities on Coastal Louisiana." (1998). With Dmitry Mesyanzhinov and David Hughes. U.S. Department of Interior, Minerals Management Service. Total Project Funding: $190,166. Status: Awarded, In Progress.

Principal Investigator. "Cost Profiles and Cost Functions for Gulf of Mexico Oil and Gas Development Phases for Input Output Modeling." (1998). With Dmitry Mesyanzhinov and Allan G. Pulsipher. U.S. Department of Interior, Minerals Management Service. Total Project Funding: $244,956. Status: Awarded, In Progress.

Co-Principal Investigator. "Deepwater OCS-Related Infrastructure in the Gulf of Mexico." (1999). With Allan G. Pulsipher, Omowumi Iledare, and Dmitry Mesyanzhinov. U.S. Department of Interior, Minerals Management Service. Total Project Funding: $474,582/CES Award level $62,875. Status: Awarded, In Progress.

ACADEMIC CONFERENCE PRESENTATIONS

"A Cross-Sectional Model of IntraLATA MTS Demand." (1995). Southern Economic Association, Sixty-Fifth Annual Conference. New Orleans, Louisiana.

"Empirical Determinants of Nuclear Power Plant Disallowances." (1995). Southern Economic Association, Sixty-Fifth Annual Conference. New Orleans, Louisiana.

"Comparing the Safety and Environmental Performance of Offshore Oil and Gas Operators." (1995). With Allan Pulsipher, Omowumi Iledare, Dmitry Mesyanzhinov, William Daniel, and Bob Baumann. U.S. Department of Interior, Minerals Management Service, 15th Annual Information Transfer Meeting. New Orleans, Louisiana.

"Spatial Perspectives on the Forthcoming Deregulation of the U.S. Electric Utility Industry." (1996) With Dmitry Mesyanzhinov. Southwest Association of American Geographers Annual Meeting. Norman, Oklahoma.

"Recovery of Stranded Investments: Comparing the Electric Utility Industry to Other Recently Deregulated Industries" (1996). With Farhad Niami and Dmitry Mesyanzhinov. Southern Economic Association, Sixty-Sixth Annual Conference. Washington, D.C.

"Input Price Fluctuations, Total Factor Productivity, and Price Cap Regulation in the Telecommunications Industry" (1996). With Farhad Niami. Southern Economic Association, Sixty-Sixth Annual Conference. Washington, D.C.

"Empirical Modeling of the Risk of a Petroleum Spill During E&P Operations: A Case Study of the Gulf of Mexico OCS." (1996). With Omowumi Iledare, Allan Pulsipher, and Dmitry Mesyanzhinov. Southern Economic Association, Sixty-Sixth Annual Conference. Washington, D.C.

"Assessing Environmental and Safety Risks of the Expanding Role of Independents in E&P Operations on the Gulf of Mexico OCS." (1996). With Allan Pulsipher, Omowumi Iledare, Dmitry Mesyanzhinov, and Bob Baumann. U.S. Department of Interior, Minerals Management Service, 16th Annual Information Transfer Meeting. New Orleans, Louisiana.

"The Unintended Consequences of the Public Utilities Regulatory Policies Act of 1978." (1997). National Policy History Conference on the Unintended Consequences of Policy Decisions. Bowling Green State University. Bowling Green, Ohio. June 5-7.

"Cogeneration and Electric Power Industry Restructuring." (1997). With Andrew N. Kleit. Western Economic Association, Seventy-fifth Annual Conference. Seattle, Washington. July 9-13.

"New Paradigms for Power Engineering Education." (1997). With Fred I. Denny. International Association of Science and Technology for Development, High Technology in the Power Industry Conference. Orlando, Florida. October 27-30

"A Non-Linear Programming Model to Estimate Stranded Generation Investments in a Deregulated Electric Utility Industry." (1997). With Robert F. Cope and Dan Rinks. Institute for Operations Research and Management Science Annual Conference. Dallas Texas. October 26-29.

"Benchmarking Electric Utility Transmission Performance." (1997). With Robert F. Cope and Dmitry Mesyanzhinov. Southern Economic Association, Sixty-seventh Annual Conference. Atlanta, Georgia. November 21-24.

"Power System Operations, Control, and Environmental Protection in a Restructured Electric Power Industry." (1998). With Fred I. Denny. IEEE Large Engineering Systems Conference on Power Engineering. Nova Scotia, Canada. June.

"Benchmarking Electric Utility Distribution Performance." (1998) With Robert F. Cope and Dmitry Mesyanzhinov. Western Economic Association, Seventy-sixth Annual Conference. Lake Tahoe, Nevada. June.

"Modeling Electric Power Markets in a Restructured Environment." (1998). With Robert F. Cope and Dan Rinks. International Association for Energy Economics Annual Conference. Albuquerque, New Mexico. October.

"Empirical Issues in Electric Power Transmission and Distribution Cost Modeling." (1998). With Robert F. Cope and Dmitry Mesyanzhinov. Southern Economic Association. Sixty-Eighth Annual Conference. Baltimore, Maryland. November.

"Economic Impact of Offshore Oil and Gas Activities on Coastal Louisiana" (1999). With Dmitry Mesyanzhinov. Annual Meeting of the Association of American Geographers. Honolulu, Hawaii. March.

"Modeling Regional Power Markets and Market Power." (1999). With Robert F. Cope. Western Economic Association Annual Conference. San Diego, California. July.

"Asymmetric Choice and Customer Benefits: Lessons from the Natural Gas Industry." (1999). With Rachelle F. Cope and Dmitry Mesyanzhinov. International Association of Energy Economics Annual Conference. Orlando, Florida. August.

"Parametric and Non-Parametric Approaches to Measuring Efficiency Potentials in Electric Power Generation." (1999). With Williams O. Olatubi. International Atlantic Economic Society Annual Conference, Montreal, October.

"Applied Approaches to Modeling Regional Power Markets." (1999.) With Robert F. Cope. Southern Economic Association Sixty-ninth Annual Conference. New Orleans, November 1999.

"Estimating Efficiency Opportunities for Coal Fired Electric Power Generation: A DEA Approach." (1999). With Williams O. Olatubi. Southern Economic Association Sixty-ninth Annual Conference. New Orleans, November.

"Distributed Energy Resources, Energy Efficiency, and Electric Power Industry Restructuring." (1999). American Society of Environmental Science Fourth Annual Conference. Baton Rouge, Louisiana. December.

ACADEMIC SEMINARS AND PRESENTATIONS

"The Empirical Determinants of Cogenerated Electricity: Implications for Electric Power Industry Restructuring." (1997). With Andrew N. Kleit. Florida State University. Department of Economics: Applied Microeconomics Workshop Series. October 17, Tallahassee, Florida.

"Electric Restructuring and Nuclear Power." (1997). Louisiana State University. Department of Nuclear Science. November 7, Baton Rouge, Louisiana.

"Electric Restructuring and the Environment." (1998). Environment 98: Science, Law, and Public Policy. Tulane University. Tulane Environmental Law Clinic. March 7, New Orleans, Louisiana.

PROFESSIONAL AND CIVIC PRESENTATIONS

Panelist, "Deregulation and Competition." American Nuclear Society: Second Annual Joint Louisiana and Mississippi Section Meetings, Baton Rouge, Louisiana, April 20, 1996.

Roundtable Moderator, "Stakeholder Perspectives on Electric Utility Stranded Costs." Louisiana State University, Center for Energy Studies Seminar on Electric Utility Restructuring in Louisiana, Baton Rouge, May 29, 1996.

"Electric Utility Restructuring." Sunshine Rotary Club Meetings, Baton Rouge, Louisiana, August 8, 1996.

"Electric Utility Restructuring -- Background and Overview." Louisiana Public Service Commission, Baton Rouge, Louisiana, August 14, 1996.

"Electric Utility Restructuring" Louisiana Electric Cooperative Association, Baton Rouge, Louisiana, August 27, 1996.

"Electric Utility Restructuring in Louisiana." Entergy Services, Transmission and Distribution Division, Energy Centre, New Orleans, Louisiana, September 12, 1996

"Electric Utility Restructuring in Louisiana." Jennings Rotary Club, Jennings, Louisiana, November 19, 1996.

"Deregulating the Electric Utility Industry." Eighth Annual Economic Development Summit, Baton Rouge, Louisiana, November 21, 1996.

"Restructuring the Electric Utility Industry." Louisiana Propane Gas Association Annual Meeting, Alexandria, Louisiana, December 12, 1996.

"Electric Restructuring: Louisiana Issues and Outlook for 1997." Louisiana State University, Center for Energy Studies Industry Associates Meeting, Baton Rouge, Louisiana, January 15, 1997.

"The Electric Utility Restructuring Debate In Louisiana: An Overview of the Issues." Annual Conference of the Public Affairs Research Council of Louisiana. Baton Rouge, Louisiana. March 25, 1997.

"Electric Utility Restructuring: Issues and Trends for Louisiana." Opelousas Chamber of Commerce, Opelousas, Louisiana. June 24, 1997.

"Electric Utility Restructuring." Louisiana Association of Energy Engineers. Baton Rouge, Louisiana. September 11, 1997.

"Electric Utility Restructuring in Louisiana." Hammond Chamber of Commerce, Hammond, Louisiana. October 30, 1997.

"Reflections and Predictions on Electric Utility Restructuring in Louisiana." With Fred I. Denny. Louisiana State University, Center for Energy Studies Industry Associates Meeting. November 20, 1997.

"How Will Utility Deregulation Affect Tourism." Louisiana Travel Promotion Association Annual Meeting, Alexandria, Louisiana. January 15, 1998.

"The Implications of Electric Restructuring on Independent Oil and Gas Operations." Petroleum Technology Transfer Council Workshop: Electrical Power Cost Reduction Methods in Oil and Gas Field Operations. Shreveport, Louisiana, October 13, 1998.

"A Short Course on Electric Restructuring." Central Louisiana Electric Company. Sales and Marketing Division. Mandeville, Louisiana, October 22, 1998.

"What's Happened to Electricity Restructuring in Louisiana?" Louisiana State University, Center for Energy Studies Industry Associates Meeting. March 22, 1999.

"The Implications of Electric Restructuring on Independent Oil and Gas Operations." Petroleum Technology Transfer Council Workshop: Electrical Power Cost Reduction Methods in Oil and Gas Field Operations. Lafayette, Louisiana, March 24, 1999.

"The Dynamics of Electric Restructuring in Louisiana." Joint Meeting of the American Association of Energy Engineers and the International Association of Facilities Managers. Metairie, Louisiana. April 29, 1999.

"The Political Economy of Electric Restructuring In the South" Southeastern Electric Exchange, Rate Section Annual Conference. New Orleans, Louisiana. May 7, 1999.

Roundtable Discussant. "Environmental Regulation in a Restructured Market" The Big E: How to Successfully Manage the Environment in the Era of Competitive Energy. PUR Conference. New Orleans, Louisiana. May 24, 1999.

"Merchant Power Opportunities in Louisiana." Louisiana Mid-Continent Oil and Gas Association (LMOGA) Power Generation Committee Meetings. Baton Rouge, Louisiana. November 10, 1999.

"Distributed Energy Resources Initiatives." Louisiana State University, Center for Energy Studies Industry Associates Meeting. Baton Rouge, Louisiana. December 15, 1999.

"LSU/CES Distributed Energy Resources Initiatives." Los Alamos National Laboratories. Office of Energy and Sustainable Systems." Los Alamos, New Mexico. February 16, 2000.

"Electricity 101: Definitions, Precedents, and Issues." Energy Council's 2000 Federal Energy and Environmental Matters Conference. Loews L'Enfant Plaza Hotel, Washington, D.C. March 11-13, 2000

EXPERT WITNESS AND LEGISLATIVE TESTIMONY

Docket 920188-TL, (1992). Before the Florida Public Service Commission. On the Behalf of the Florida Public Service Commission Staff. Company analyzed: GTE-Florida. Issues: Telephone Demand Forecasts and Empirical Estimates of the Price Elasticity of Demand for Telecommunication Services.

Docket 920260-TL, (1993). Before the Florida Public Service Commission. On the Behalf of the Florida Public Service Commission Staff. Company analyzed: BellSouth Communications, Inc. Issues: Telephone Demand Forecasts and Empirical Estimates of the Price Elasticity of Demand for Telecommunication Services.

Docket 940448-EG -- 940551-EG, (1994). Before the Florida Public Service Commission. On the Behalf of the Legal Environmental Assistance Foundation. Companies analyzed: Florida Power & Light Company; Florida Power Corporation; Tampa Electric Company; and Gulf Power Company. Issues: Comparison of Forecasted Cost-Effective Conservation Potentials for Florida.

Docket 950495-WS (1996). Before the Florida Public Service Commission. On the Behalf of the Citizens of the State of Florida. Company analyzed: Southern States Utilities, Inc. Issues: Revenue Repression Adjustment, Residential and Commercial Demand for Water Service.

Louisiana House of Representatives, Special Subcommittee on Utility Deregulation. (1997). On Behalf of the Louisiana Public Service Commission Staff. Issue: Electric Restructuring.

Docket 990001-EI (1999). Before the Florida Public Service Commission. On the Behalf of the Citizens of the State of Florida. Companies analyzed: Florida Power & Light Company; Florida Power Corporation; Tampa Electric Company; and Gulf Power Company. Issues: Regulatory Treatment of Incentive Returns on Gains from Economic Energy Sales.

EDITORIAL APPOINTMENTS

Referee, *Energy Journal*
Contributing Editor, *Oil, Gas and Energy Quarterly*

PROPOSAL TECHNICAL REVIEWER

California Energy Commission, Public Interest Energy Research (PIER) Program

PROFESSIONAL ASSOCIATIONS

American Economic Association, American Statistical Association, Econometric Society, Southern Economic Association, Western Economic Association, and the International Association of Energy Economists.

HONORS AND AWARDS

Omicron Delta Epsilon
1995, Staff Achievement Award, Florida Public Service Commission

TEACHING EXPERIENCE

Principles of Microeconomic Theory
Principles of Macroeconomic Theory

Lecturer, Electric Power Industry Environmental Issues, Field Course on Energy and the Environment. (Dept of Environmental Studies).
Lecturer, Electric Power Industry Trends, Principles Course in Power Engineering (Dept of Electric Engineering).

Continuing Education. Electric Power Industry Restructuring for Energy Professionals.

THESIS/DISSERATIONS COMMITTEES

3 Thesis Committee Memberships (Environmental Studies)
1 Doctoral Committee Memberships (Information Systems & Decision Sciences).

FLORIDA PUBLIC SERVICE COMMISSION
DOCKET
NO. 991779-EI EXHIBIT NO. 13
COMPANY/
WITNESS: Hernandez
DATE: 5-10-00

EXHIBIT NO. 13 (WLB-2)
TAMPA ELECTRIC COMPANY
DOCKET NO. 991779-EI
WITNESS: L. BROWN

EXCERPT FROM REBUTTAL TESTIMONY OF THOMAS L. HERNANDEZ FILED IN DOCKET NO. 990001-EI ON 11/1/99

<u>**Incentives**</u>

Another inaccurate conclusion by OPC's witness is that utilities should be motivated by name recognition, not profitability for both ratepayers and shareholders. He suggests that utilities can simply "point to their expertise and historic participation in the Florida broker system" and this serves as an intangible incentive. Tampa Electric is not driven to "name recognition" but it is driven to providing reliable electric service to its ratepayers and to providing a fair return to its shareholders. This balance is supported by incentives like those currently provided by the Commission-approved 20 percent incentive on economy transactions. Incentives such as these are important to encourage benefits to ratepayers and should not be eliminated.

Both Staff and OPC argue that utilities should be motivated to reduce rates by crediting the fuel clause with 100 percent of economy sales gains. Tampa Electric has taken many actions to keep its rates competitive well beyond what the parties are now suggesting. The company does not agree that the removal of incentives is appropriate since this action would be shortsighted, and fails to weigh overall benefits of economy transactions.