

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

 In the Matter of : DOCKET NO. 960001-EI
 :
 Fuel and Purchased Power :
 Cost Recovery Clause and :
 Generating Performance :
 Incentive Factor. :



FIRST DAY - MID-MORNING SESSION

VOLUME 2

Pages 197 through 343

PROCEEDINGS: HEARING

BEFORE: COMMISSIONER J. TERRY DEASON
 COMMISSION JULIA L. JOHNSON
 COMMISSIONER JOE GARCIA

DATE: Thursday, August 29, 1996

TIME: Commenced at 9:30 a.m.

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

REPORTED BY: JOY KELLY CSR, RPR
 Chief, Bureau of Reporting
 ROWENA NASH HACKNEY
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 Official Commission Reporters

APPEARANCES:

(As heretofore noted.)

DOCUMENT NUMBER - DATE

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P R O C E E D I N G S

1
2 (Transcript continues in sequence from
3 Volume 1.

4 COMMISSIONER DEASON: The next witness for
5 Issue 9, I believe, is Mr. Ramil.

JOHN B. RAMIL

6
7 was called as a witness on behalf of Tampa Electric
8 Company and, having been duly sworn, testified as
9 follows:

D I R E C T E X A M I N A T I O N

10
11 BY MR. BEASLEY:

12 Q Mr. Ramil, would you please state your name
13 and business address and position?

14 A My name is John B. Ramil. My business
15 address is 702 North Franklin Street, Tampa, Florida
16 33602, and I'm vice-president of energy services and
17 planning for Tampa Electric Company.

18 Q Mr. Ramil, did you prepare and cause to be
19 filed in this docket an 18-page document entitled
20 "Prepared Direct Testimony of John B. Ramil"?

21 A Yes, I did.

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

25 A Yes, they would be.

1 MR. BEASLEY: I would ask that Mr. Ramil's
2 prepared direct testimony be inserted into the record
3 as though read.

4 COMMISSIONER DEASON: Without objection, it
5 will be so inserted.

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DOCKET NO. 960001-EI
TAMPA ELECTRIC COMPANY
SUBMITTED FOR FILING 06/24/96

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 PREPARED DIRECT TESTIMONY

3 OF

4 JOHN B. RAMIL

5

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

7

8 A. My name is John B. Ramil. My business address is 702 North
9 Franklin Street, Tampa Florida 33602. I am employed by
10 Tampa Electric Company in the Position of Vice President -
11 Energy Services & Planning.

12

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

15

16 A. I was educated in private schools of Tampa, Florida. I
17 graduated from the University of South Florida in June of
18 1978 with a Bachelor of Science degree in Engineering. I
19 am a registered Professional Engineer in the State of
20 Florida.

21

22 I joined Tampa Electric Company in March of 1976 as a
23 cooperative education student and began full-time
24 employment with the Company in June of 1978. I was
25 responsible for various engineering assignments prior to

1 being promoted to Manager, Environmental Planning in 1982.

2

3 From June 1984 until April 1994 when I was promoted to my
4 present position, I held the positions of: Manager,
5 Generation Planning; Manager, Fuel Planning and Operations;
6 Assistant Director, Power Resource Planning; and Director,
7 Resource Planning. Currently I am Vice President - Energy
8 Services, responsible for the company's customer service,
9 energy services, bulk power and planning functions.

10

11 Q. Have you testified previously before the Florida Public
12 Service Commission ("FPSC" or "the Commission")?

13

14 A. Yes. I have testified on behalf of Tampa Electric in a
15 number of proceedings before this Commission. I testified
16 in Docket No. 870001-EI, having to do with Tampa Electric's
17 off-system sales, Big Bend Unit 4 power sales contract
18 modifications, and the appropriate fuel prices for dispatch
19 and interchange pricing. I submitted direct and rebuttal
20 testimony in Docket No. 870408-EI in support of Tampa
21 Electric's request for approval of its proposed non-firm
22 load methodology and annual targets. I also testified in
23 support of determinations of need for the Hardee Power
24 Station (Docket No. 880309-EI) and Tampa Electric's Polk
25 Unit One (Docket No. 910883-EI). In addition, I testified

1 on the subject of as-available energy payments to
2 cogenerators and small power producers (Docket No. 880001-
3 EI) and in the Commissions annual planning hearing (Docket
4 No. 880004-EU). I testified on issues related to system
5 planning, fuel inventory planning, wholesale sales,
6 acquisitions and system construction in the companys last
7 rate case (Docket No. 920324-EI). Most recently, I
8 testified in Docket No. 930676-EI, regarding the proposed
9 construction of 69kV transmission facilities to serve the
10 Cities of Fort Meade and Wauchula.

11
12 Q. What is the purpose of your testimony in this docket?

13
14 A. The purpose of my testimony is to address an issue which
15 was deferred from the February 1996 fuel adjustment
16 hearing. I am referring to Issue 9 contained in the
17 Florida Public Service Commissions ("FPSCs") Order No.
18 PSC-96-0241-PHO-EI, which was the Prehearing Order issued
19 February 19, 1996, in the fuel adjustment docket. This was
20 a generic issue raised by the Office of Public Counsel
21 ("OPC" or "Public Counsel") in its Prehearing Statement. At
22 the Prehearing, the parties agreed to defer the issue to
23 allow the opportunity to file testimony. Public Counsel's
24 issue reads as follows:

25

1 Should an electric utility be
2 permitted to include, for retail fuel
3 cost recovery purposes, fuel costs of
4 generation at any of its units which
5 exceed, on a cents-per-kilowatt-hour
6 basis, the average fuel cost of total
7 generation (wholesale plus retail) out
8 of those same units?
9

10
11 OPCs position on the issue was:
12
13

14 "No. The fuel cost assigned to the
15 retail jurisdiction from any
16 generating unit should never exceed
17 the average cost of fuel actually
18 burned at the unit to meet both
19 wholesale and retail loads times the
20 amount of energy allocable to the
21 retail jurisdiction. Stated
22 differently, a utility's decision to
23 offer a wholesale customer less-than-
24 average fuel costs out of a single or
25 multiple generating units should not
26 cause the fuel cost responsibility of
27 the retail jurisdiction to be greater
28 than average."
29

30 Q. What is your view of OPCs position?
31

32 A. OPCs position is incorrect and merely reflects another
33 attempt to revisit an issue that has been decided in a
34 manner opposed by OPC in the past.
35

36 It appears that OPC is challenging the recovery of costs
37 associated with off-system sales that are based on
38 incremental fuel costs to the extent that the incremental
39 fuel cost is lower than average fuel cost for the unit(s)

1 out of which the energy was generated. The error of OPCs
2 position can be illustrated by reference to the Florida
3 Economy Broker System. OPCs position, if affirmed, would
4 mean that utilities have been incorrectly pricing and
5 recovering fuel costs from most of the base load units in
6 the state that have contributed to sales on the Florida
7 Economy Broker from the time of the initiation of the
8 Broker.

9
10 Q. Please elaborate.

11
12 A. OPCs position, if affirmed, would require a change in the
13 pricing of the energy sales on the Florida Broker System
14 that would likely increase the overall level of the prices
15 paid for transactions on the Broker and would likely reduce
16 the number of beneficial transactions occurring. The
17 Broker rules require that utilities quote their incremental
18 cost of generation. Incremental costs for base load
19 generation are generally lower than average costs of
20 generation from these units. This is due to two factors;
21 the incremental efficiency or "heat rate" versus the average
22 heat rate of the units and the incremental fuel price
23 versus the average fuel price. The dispatch or
24 "incremental" heat rates of these generating units are
25 generally lower than the average heat rates of the units.

1 The second factor, incremental versus average fuel price,
2 contributes in the same direction, because incremental fuel
3 prices for baseload generation are generally lower than
4 average.

5
6 Thus, if utilities were required to charge average
7 generation costs on the Broker, it would not represent the
8 incremental cost of the sale and would have the effect of
9 raising the quotes from base load capacity and in turn
10 would lower the savings from transactions and would lessen
11 the number of transactions.

12
13 It is well documented that the Florida Energy Broker has
14 saved Floridas customers many millions of dollars since
15 its inception in 1978 (\$797 million in 1995, as stated in
16 the FPSCs 1995 Annual Report). OPC is suggesting a
17 regulatory treatment in the fuel adjustment clause for
18 these and other sales that would diminish this benefit.

19
20 Q. Has the issue raised by OPC been previously addressed in
21 any proceedings that were specific to Tampa Electric?

22
23 A. Yes, this issue has been addressed in several proceedings
24 before this Commission. Accordingly, we do not believe it
25 is necessary or reasonable to revisit the issue for Tampa

1 Electric even putting aside the generic reasons why OPCs
2 position is wrong.

3

4 Q. Please explain the context in which this issue was
5 addressed by this Commission.

6

7 A. This issue was first directly addressed in 1987 by this
8 Commission in Docket No. 870001-EI where it reviewed
9 several issues related to the use of incremental fuel
10 pricing for off-system sales and most recently in 1992 in
11 our last rate case, Docket No. 920324-EI. I stress the
12 term directly because this Commission has appropriately
13 examined, for Tampa Electric, the overall effect of
14 wholesale prices on retail prices by looking at the net
15 effect of wholesale transactions on retail customers. As
16 further explained below, it would be inappropriate, as OPC
17 suggests, to examine an issue pertaining to average fuel
18 pricing practices without taking into account all the
19 effects of off-system sales and the overall benefits of
20 such sales. In Tampa Electric's case, these specifics have
21 already been reviewed and approved.

22

23 Q. Please describe specifically how the Commission reviewed
24 this issue in Docket No. 870001-EI.

25

1 A. In 1987, fuel market conditions had caused differences
2 between the pricing for spot coal and long-term contract
3 coal. As a result, issues were raised before the
4 Commission associated with the calculation of marginal cost
5 for purposes of dispatch, wholesale pricing, and payments
6 to Qualifying Facilities. In that proceeding, the
7 Commission found that it was appropriate to use the cost of
8 spot coal for incremental dispatch and pricing purposes.
9 The Commission specifically reviewed the pricing and
10 regulatory treatment for economy broker transactions by all
11 utilities and reviewed two of Tampa Electric's then
12 existing power sale agreements under Service Schedule J and
13 approved pricing based on incremental costs.

14
15 Q. Has the Commission examined pricing and regulatory
16 treatment for other types of sales?

17
18 A. Yes. In the same docket, the FPSC reviewed, and found
19 appropriate, an amendment to an agreement between Tampa
20 Electric and Florida Power & Light Company ("FP&L") for the
21 sale of energy and capacity from Big Bend Unit 4 ("BB4").
22 The original agreement contained a fuel charge based on the
23 average cost of fuel for BB4. The amendment enabled Tampa
24 Electric to charge the incremental cost of fuel for BB4,
25 which was lower than the average fuel cost for that unit.

1 Staff, in that docket, raised the following issue:

2

3 Should any increased fuel cost due to the
4 off-system sale of capacity be recovered
5 through the Fuel Cost Recovery Factor?
6

7 Because Tampa Electric's incremental fuel cost, which was
8 based on spot market coal, was lower than its average fuel
9 cost, Staff was concerned that crediting the incremental
10 cost of fuel through the fuel clause would cause an
11 increase in fuel costs for retail customers. In addressing
12 the issue, the Commission recognized that the pricing
13 amendment was necessary for Tampa Electric to sell any
14 energy under the agreement, and found that incremental
15 pricing and revenue crediting of incremental fuel revenues
16 would be appropriate. The Commission stated:

17

18 TECO defended its action by stating that
19 had it not made the price concession to
20 FP&L, FP&L would have purchased virtually
21 no energy pursuant to the contract. With
22 the revision to the contract, FP&L is
23 taking BB4 energy at approximately a 70%
24 capacity factor. We find for the company
25 on this issue.¹
26

27 Tampa Electric has continued to base the fuel pricing for
28 off-system sales on incremental costs in order to meet

¹ FPSC Order No. 18136, issued in Docket No. 870001-E1 in September, 1987. The amendment was also accepted for filing by the Federal Energy Regulatory Commission (Docket No. ER87-253-000).

1 market demands and encourage the most efficient utilization
2 of its resources, and has continued to apply this
3 Commission-approved treatment to the fuel revenues
4 associated with these sales. The Commission and OPC have
5 reviewed and agreed to this treatment in each biennial fuel
6 hearing since the ruling in 1987.

7
8 Q. How was Tampa Electric's treatment of revenues from various
9 types of off-system sales considered in the company's last
10 full rate case proceeding?

11
12 A. In Tampa Electric's last full rate case proceeding in 1992,
13 Docket No. 920324-EI, the Commission carefully considered
14 how to treat revenues associated with each type of off-
15 system sale in which Tampa Electric was currently engaging.
16 Upon the conclusion of this evaluation of off-system sales,
17 the Commission left intact the treatment for fuel revenues
18 associated with sales based on incremental fuel pricing as
19 previously approved in 1987.

20
21 Q. Please describe any additional concerns about Public
22 Counsel's position on this issue.

23
24 A. Public Counsel has focused solely on the impact of off-
25 system sales on costs recovered through the fuel cost

1 recovery clause. Tampa Electric believes full
2 consideration of this issue must take into account the
3 total economic benefits associated with off-system sales.
4

5 Q. Please describe what you mean by total economic benefit and
6 how this benefit impacts retail customers.
7

8 A. It is inappropriate to focus solely on the impact of fuel
9 pricing for off-system sales on the fuel cost recovery
10 clause without taking into consideration the entire
11 economic impact of the off-system sale on retail customers.
12 For instance, charges for broker sales include a non-fuel
13 energy component. Charges for unit power sales include
14 non-fuel energy components and capacity payments based on
15 the embedded cost of the unit(s) from which capacity and
16 energy is sold. These non-fuel revenues contribute to
17 Tampa Electric's recovery of its fixed costs. The amount
18 of revenue from a sale in excess of the incremental cost is
19 an additional contribution to fixed costs that retail
20 customers would otherwise bear. The result is a net
21 economic benefit to retail customers. Indeed, the revenue
22 requirements used in the cost of service determination upon
23 which Tampa Electric's current retail customers base rates
24 were established was reduced via the assignment of rate
25 base and expenses to the wholesale jurisdiction for the

1 off-system sales that were separated from the retail
2 jurisdiction.

3

4 The contribution to recovery of fixed costs associated with
5 off-system sales exceeds the magnitude of any effect of
6 incremental fuel pricing upon the fuel costs paid by Tampa
7 Electric's retail customers. Thus, on a total system
8 economic basis, retail customers benefit from these sales.

9

10 Q. The contribution to fixed costs from non-separated off-
11 system sales is credited to retail customers through the
12 adjustment clauses. How do Tampa Electric's retail
13 customers receive the benefits of the contribution to fixed
14 costs from separated off-system sales?

15

16 A. The separated off-system sales benefit retail customers
17 through the calculation of return on equity ("ROE") reported
18 in the monthly surveillance report. Every month, in a
19 procedure that we believe is unique to Tampa Electric, the
20 separation factors are adjusted to account for the current
21 level of capacity and energy being sold as separated off-
22 system sales. Since the additional off-system sales remove
23 rate base and expenses from the retail jurisdiction, the
24 retail ROE increases. All other things being equal, the
25 effect over time of this increase is to lower retail rates.

1 In fact, for Tampa Electric, the benefits to retail
2 customers are even more direct than is usually the case.
3

4 Q. Please elaborate on your last statement.
5

6 A. I refer to the deferred revenue plans that OPC and Tampa
7 Electric, along with the Florida Industrial Power Users
8 Group, have agreed upon, first for 1995 and then for 1996
9 through 1998. As a result of the regulatory structure
10 reflected in these plans, retail customers benefits are
11 more immediate than would be the case in the normal
12 situation, where off-system sales revenues serve to delay
13 future rate increases (and reduce their amount) or hasten
14 future rate decreases (and increase their amount).
15

16 Q. Please describe the regulatory structure applicable to
17 Tampa Electric.
18

19 A. On May 2, 1995, the Commission voted approval of a plan
20 that established a deferral mechanism for earnings in
21 excess of 11.75% through 1995². In a subsequent decision,
22 on April 30, 1996, the Commission voted approval of a joint
23 stipulation which included establishing a \$25 million
24 refund, a base rate freeze through 1998, and provisions for

²FPSC Order No. PSC-95-0580-FOF-E1, issued in Docket No. 950379-E1 on May 10, 1995

1 revenue deferrals contributing towards potential refunds in
2 1999³. In 1995, the beneficial effect on retail customers
3 of separating the rate base and expenses from the retail to
4 wholesale jurisdiction was approximately \$29 million. This
5 accounted for well over one-half of the deferred revenue of
6 \$48.8 million in 1995. These deferred revenues are being
7 used to offset the revenue requirements associated with
8 Polk Unit One, and have contributed to the \$25 million
9 refund beginning in October 1996. For 1996 through 1998,
10 the demand and energy from existing separated off-system
11 sales and any increase from future sales will contribute to
12 deferred revenues and any amount available for refunds to
13 customers in 1999.

14
15 In summary, revenues from off-system sales are contributing
16 and will continue to contribute directly to the
17 accumulation and disposition of deferred revenues and
18 potential refunds to retail customers pursuant to this
19 approved regulatory structure.

20
21 Q. Have other regulatory bodies recognized the validity of
22 considering the total economic impact of a transaction when
23 evaluating pricing?
24

³FPSC Order No. PSC-96-0670-S-E1, issued in Docket No. 950379-E1 on May 20, 1996

- 1 A. Yes. The Federal Energy Regulatory Commission ("FERC")
2 addressed this principle in the matter of *Tampa Electric*
3 *Co.*, 71 FERC ¶61,245 (1995) (*reh'g pending*), wherein fuel
4 pricing on an incremental cost basis was considered and
5 permitted. Consistent with previous decisions of the
6 Florida Public Service Commission, the FERC there found
7 that focusing solely on the fuel pricing component did not
8 capture the entire economic impact of the transaction, and
9 that the contribution to recovery of fixed costs through
10 demand charge revenues creates benefits to Tampa Electric's
11 customers that exceed the impact on fuel clause rates. The
12 FERC also recognized that the level of fuel pricing can
13 influence a utility's ability to market its energy and,
14 hence, generate the additional overall revenues that
15 contribute to fixed cost recovery, as well as recovering
16 incremental variable costs. The FERC has followed this
17 total economic benefit principle in other cases as well.
18 See *North Little Rock Cogeneration, L.P. v. Entergy*
19 *Services, Inc.*, 72 FERC ¶61,263 at 62,173 n. 8 (1995)
20 ("[Customers are better off if the utility obtains a price
21 that provides any contribution (to fixed costs) above
22 variable costs.").
23
- 24 Q. What, specifically, would be the harm if Tampa Electric
25 priced all sales based on average fuel costs?

1 A. As Tampa Electric found in its sale of BB4 capacity and
2 energy to FP&L in 1987, and this Commission has recognized,
3 the dispatchability of an off-system sale is critical to
4 making the sale attractive to the purchasing utility.
5 Tampa Electric has found that to be the case particularly
6 in todays increasingly competitive wholesale market.
7 Todays potential wholesale customers invariably indicate
8 that energy pricing must be low enough to dispatch at, or
9 near, one hundred percent of the time on the purchasing
10 utility's system in order for the purchase to be
11 attractive. Pricing sales at station average fuel would
12 likely eliminate, or greatly reduce, off-system sales and
13 the corresponding benefit to retail customers.

14
15 Q. What would the loss of wholesale sales mean to Tampa
16 Electric, its retail Customers, and other utilities in the
17 State of Florida that purchase power from Tampa Electric?

18
19 A. As stated previously, Tampa Electric and its retail
20 customers would be deprived of the total economic benefits
21 generated by these sales. Additionally, the purchasing
22 utilities would lose the savings achieved by purchasing
23 power from Tampa Electric's resources in place of running
24 their higher-cost, less efficient units.

25

1 Q. Please summarize your views regarding the appropriateness
2 of revisiting the regulatory treatment of revenues received
3 from off-system sales?
4

5 A. The Commission should not adopt OPCs position and change
6 the incremental pricing on the Florida Economy Broker
7 System and its regulatory treatment. Such a change from
8 procedures previously approved by the Commission would have
9 a negative effect on retail customers.
10

11 As to Tampa Electric specifically, we are treating fuel
12 revenues associated with off-system sales in accordance
13 with the methodology approved by this Commission in 1987,
14 and reviewed since then in the biennial fuel hearings and
15 in our last rate case. Off-system sales provide total
16 revenue in excess of the incremental cost to serve those
17 sales, and thus, all retail ratepayers benefit. The
18 Commission, along with the Office of Public Counsel, should
19 not take action to penalize Tampa Electric for its prudent
20 and successful efforts to lower costs for retail
21 ratepayers. Therefore, we do not believe it is necessary
22 or appropriate to revisit this issue for Tampa Electric in
23 the fuel adjustment hearing.
24

25 Q. Does this conclude your testimony?

1 A. Yes, it does.
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1 MR. BEASLEY: Mr. Ramil, would you please
2 summarize your direct testimony?

3 A Yes, I will. Good morning, Commissioners.
4 The Office of Public Counsel in raising this generic
5 issue has taken issue with Tampa Electric's use of
6 unit specific incremental fuel costs in pricing
7 certain off-system sales on the theory that such fuel
8 pricing creates a subsidy borne by retail ratepayers
9 for the benefit of wholesale customers.

10 However, as both this Commission and the
11 Federal Energy Regulatory Commission have determined,
12 off-system sales based on unit specific incremental
13 fuel costs are reasonable and desirable when they
14 result in net benefits to the remaining ratepayers.

15 This Commission's policies to this point
16 have been to consider the total economic benefits for
17 wholesale sales. This is sound policy and should not
18 be changed.

19 It is important for this Commission to note
20 that neither the OPC nor any other party to this
21 proceeding has taken the position that Tampa
22 Electric's specific transactions that would fall under
23 this issue do not yield significant financial benefits
24 to retail customers when all transaction related costs
25 and revenues, both fuel and nonfuel, are considered.

1 The record is also devoid of any evidence
2 suggesting that the sales at issue are uneconomic when
3 all relevant costs and revenues are considered. Under
4 these circumstances, it is difficult to understand why
5 this issue is being relitigated in this proceeding.

6 The retail ratepayer benefits associated
7 with Tampa Electric's off-system sales, including
8 those priced on the basis of unit specific incremental
9 fuel costs, are not speculative or theoretical. In
10 fact, those benefits have already been passed through
11 to ratepayers and are reflected in the current rates.

12 In Tampa Electric's 1992 rate case this
13 Commission approved the transfer of a significant
14 portion of Tampa Electric's revenue requirement from
15 the retail ratepayers to the wholesale customers to
16 reflect projected off-system sales. This rate relief
17 reflected in our current retail rates would not have
18 been possible in the absence of the sales in which OPC
19 takes issue.

20 The effect of incremental fuel pricing on
21 the fuel costs paid by Tampa Electric's retail
22 customers far outweigh the benefits received in
23 advance by our retail customers. On the other hand,
24 if we are to price these sales on the basis of average
25 fuel costs, as has been suggested, off-system sales

1 could be eliminated or reduced with a corresponding
2 erosion of ratepayer benefits. Such an outcome would
3 certainly be in no one's interest.

4 In addition, such an outcome would be
5 particularly unfair to Tampa Electric, which has
6 already lowered its rates to provide immediate
7 benefits to customers in anticipation of continuing to
8 go make off-system sales, a portion of which are based
9 on incremental fuel costs.

10 Therefore, I urge this Commission to
11 continue its existing policy of endorsing off-system
12 sales based on incremental fuel cost pricing so long
13 as the transaction as a whole results in net economic
14 benefits to retail ratepayers.

15 Tampa Electric has demonstrated to this
16 Commission on several occasions that its incrementally
17 priced sales do provide net benefits to its retail
18 customers, since and this Commission has approved the
19 current regulatory treatment. Thank you.

20 MR. BEASLEY: We submit Mr. Ramil for
21 cross-examination.

22 COMMISSIONER DEASON: Mr. Stone.

23 MR. STONE: Thank you, Commissioner.
24
25

CROSS EXAMINATION

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BY MR. STONE:

Q Good morning, Mr. Ramil.

A Good morning.

Q Is there anything in the wording of the issue that exempts economy transactions and beneficial long-term sales from being drawn within its scope?

A The wording of the issue?

Q That's correct.

A No. In fact, any unit participating in an economy sale would violate this issue if it was approved as is.

Q Is there anything in the OPC's position that would exempt economy transactions or beneficial long-term sales?

A No. The only reference there might be, to longer term sales, but economy sales can have longer terms than just an hour that people commonly think of them being.

Q Do you see anything in the Staff's position on this issue that would exempt economy transactions and benefit the long-term sales?

A No, not in the written word.

Q Based on what you understand OPC's position to be, what would happen to the Florida broker?

1 A Based on this position, with the
2 exemption -- without an exemption for economy sales?
3 That's what you're asking me?

4 Q Yes.

5 A There would be a problem with those sales, I
6 think.

7 Q Who is the main beneficiary of the Florida
8 broker, the retail or wholesale customers?

9 A Both; both are. The retail customers
10 receive the benefits from the gains on those sales,
11 and the wholesale purchaser receives the benefits from
12 the savings of -- rather than running higher cost
13 generation.

14 Q Who are the wholesale utilities
15 participating in the Florida broker?

16 A I believe it's all of the utilities in
17 peninsular Florida that have generation.

18 Q So the benefits that the wholesale
19 purchasers under the broker received would flow
20 through the Florida retail customers; is that correct?

21 A I would think so.

22 Q Well, then would you agree, then, that the
23 beneficiary of the Florida broker are the retail
24 customers in Florida?

25 A Yes.

1 Q Do you have any idea how much the Florida
2 retail fuel bill would go up if the OPC's position
3 prevails and the broker is killed?

4 A I don't have a figure on hand, but I know
5 that there have been reports that the number -- the
6 savings number is quite significant. In my direct
7 testimony I have a number indicating that since the
8 inception of the broker, there's been almost
9 \$300 million in benefits to customers.

10 Q Now, economy sales through the broker are
11 not the only type of beneficial sale that would be --

12 COMMISSIONER GARCIA: I'm sorry. What was
13 that number again?

14 WITNESS RAMIL: I said about 800 million.
15 The number I have is from the Florida Public Service
16 Commission's 1995 Annual Report. That is since the
17 inception of the broker.

18 COMMISSIONER GARCIA: I'm sorry. I thought
19 I heard something else.

20 Q (By Mr. Stone) There are other beneficial
21 sales besides broker transactions that would be
22 affected by OPC's position on this issue; is that
23 correct?

24 A Yes.

25 COMMISSIONER JOHNSON: Could I ask a

1 question, just because I don't know if I followed your
2 previous line of questioning.

3 Let me ask this of the witness: You were
4 suggesting that under OPC's proposal that the
5 brokerage system, the economy sales under the
6 brokerage system was somehow at risk if we applied
7 the -- I guess the approach stated by Mr. Wieland.
8 Because when you all started going into numbers as to
9 how retail customers would be impacted, I was assuming
10 that you were suggesting that this approach would
11 somehow limit us, limit what we've been doing in the
12 past with the economy energy sales.

13 **WITNESS RAMIL:** Let me say the question I
14 think I was answering, that I thought I heard that I
15 was answering, was relative to the Office of Public
16 Counsel's position: Is there anything in here that
17 would exclude the broker from this position. And my
18 answer to that was no.

19 **COMMISSIONER JOHNSON:** Okay. What about
20 under Mr. Wieland's Florida Power Corp's position?
21 Would that same rationale apply?

22 **WITNESS RAMIL:** If I might take a moment to
23 read it. (Pause)

24 Well, I think Mr. Wieland's position at the
25 end specifically excludes the economy broker.

1 COMMISSIONER JOHNSON: And I was probably
2 confused, because I thought Mr. Wieland and OPC had
3 the same position, but I'll have to review my notes a
4 bit more.

5 WITNESS RAMIL: And I'm basing my answer on
6 the parenthetical phrase at the end of the position.

7 COMMISSIONER JOHNSON: Of Mr. Wieland's
8 position?

9 WITNESS RAMIL: Yes, ma'am.

10 COMMISSIONER JOHNSON: Okay. But your
11 answer was just as it related to OPC's position?

12 WITNESS WIELAND: Correct.

13 COMMISSIONER JOHNSON: Okay. I was
14 confused. Thank you.

15 Q (By Mr. Stone) Mr. Ramil, I believe I
16 understand your testimony to be that the Public
17 Service Commission has approved transactions in which
18 the price for fuel has been at or above incremental
19 but below average cost; is that correct?

20 A Yes. Specifically for Tampa Electric, going
21 back to fuel adjustment hearings in 1987, is one
22 recollection where we had a contract with Florida
23 Power & Light, and the energy sales under that
24 contract were not being made.

25 We revised the contract to allow us to price

1 the fuel on incremental fuel price so that the sales
2 could be increased to bring that revenue into the
3 system, and the Staff raised the issue that might that
4 raise fuel costs to retail customers. And the
5 decision by the Commission was that the net economic
6 benefits far outweighed that potential for increase in
7 cost.

8 We have been doing this on occasions. We
9 don't exclusively make sales that way. We make the
10 sales that way when we think that's needed to get the
11 business and achieve those net benefits for our
12 system. We've been doing that since that time.

13 Further, the sales that we are making now
14 that have the incremental cost pricing were sales
15 along with the rest of our wholesale sales at issue in
16 our '92 rate case, and all those sales were examined
17 greatly in that case and were looked at, and we've
18 been complying with the regulatory treatment
19 implemented at that time up until now.

20 Again in 1995 at a fuel adjustment hearing,
21 because we had some of the original wholesale sales in
22 our rate case expiring and we had new ones replacing
23 it, the issue came up again. These sales were looked
24 at in '95 once again, and then here we are today in
25 '96 looking at them once again.

1 Q Would you categorize these sales, these
2 wholesale sales, if you will, as opportunities for
3 both the ratepayers and for Tampa Electric Company?

4 A Yes.

5 Q So characterizing these as opportunity
6 sales, it is my perception that your concern is the
7 policy statement that the Office of Public Counsel is
8 asking the Commission to adopt would foreclose those
9 opportunities for Tampa's customers and for the
10 customers in Florida?

11 A I think it would foreclose that opportunity.
12 These type of sales are not sales that Tampa Electric
13 is required to make by law. They're sales that we
14 make to have net positive economic benefits to our
15 system. As such, the accounting principles and the
16 average costs -- rate making principles associated
17 with requirement to serve type regulations are nice,
18 but they can get in the way of achieving those net
19 benefits to our customers.

20 Where we can price our wholesale sales at
21 average or at the highest amount that we can, of
22 course we do, but if we need to price a sale at
23 incremental cost and have assured ourselves of the
24 real standard in these instances, and that's total net
25 benefits to our system -- to our customers, then we

1 need to make those sales.

2 And it's our decision to make it. We take
3 the risk that we're making a prudent decision, as we
4 do with decisions that we make daily, but it is a
5 choice that we make in making the sales.

6 Q At this time I would like to hand out a
7 sheet with some assumptions for a hypothetical. It's
8 probably easier if everyone has a copy of the
9 assumptions in front of them before I ask the
10 questions.

11 **COMMISSIONER DEASON:** Mr. Stone, do you wish
12 to have this identified?

13 **MR. STONE:** At this point, Commissioner,
14 it's just a demonstrative aid. It may be helpful to
15 identify it and we may choose to introduce it later.
16 It's your pleasure.

17 **COMMISSIONER DEASON:** We will identify it as
18 Exhibit Number 37.

19 (Exhibit 37 marked for identification.)

20 **MR. STONE:** May I proceed?

21 **COMMISSIONER DEASON:** Yes.

22 Q **(By Mr. Stone)** Mr. Ramil, I've asked the
23 hypothetical -- I'm sorry we haven't gotten to the
24 rest of counsel. I'll wait just a moment. (Pause)

25 Now, that everyone has a copy, on this

1 sheet, which is entitled "Hypothetical," I'm asking
2 you to make the following assumptions: That at retail
3 you have sales of 100 kilowatt hours, and that your
4 fuel costs for those sales is 22 mills per kilowatt
5 hour, resulting in a total retail fuel cost recovery
6 issue of 2,200 mills. And that you have an
7 opportunity sale, proposed sale, of 25 kilowatt hours;
8 that as the selling utility, your incremental cost for
9 that sale is 12 mills; the buying utility's
10 decremental cost is 22 mills. And therefore the
11 resulting selling price by taking the two incremental
12 prices and dividing by two is 17 mills, a
13 split-the-difference type of approach.

14 Based on that set of assumptions, the
15 potential revenues from the opportunity sale, the
16 kilowatt hours times the selling price, is 425 mills.
17 Do you understand those assumptions as I've laid them
18 out?

19 **COMMISSIONER GARCIA:** May I ask you to --
20 maybe you can do it again for me real quick.

21 **MR. STONE:** I'll certainly try. I'm not
22 sure where to start, Commissioner.

23 **COMMISSIONER GARCIA:** From the top.

24 **Q (By Mr. Stone)** Okay. First we're assuming
25 we have retail sales of 100 kilowatt hours and that

1 the fuel cost for those sales are at 22 mills per
2 kilowatt hour, resulting in a total fuel cost
3 associated with those retail sales of 2,200 mills,
4 just -- it's multiplication of those.

5 The utility is presented with an opportunity
6 to make a sale of 25 kilowatt hours. The incremental
7 cost for fuel to make that sale is 12 mills. The
8 buying utility would be avoiding a cost of 22 mills if
9 it were to purchase from the selling utility, and the
10 price on a split-the-difference approach would be 17
11 mills, resulting in revenues from the opportunity sale
12 of 425 mills; again, multiplication of the selling
13 price, the 17 mills, times 25 kilowatt hours of
14 opportunity sale.

15 In that instance, if you were to take the
16 total fuel cost incurred by the utility, you would
17 come up with a figure of 100 kilowatt hours times the
18 22 mills plus the 25 kilowatt hours time 12 mills, the
19 actual incremental cost, for a total fuel cost of
20 2,500. Do you agree with the math?

21 A Yes. I wish you would have made the sale 10
22 kilowatt hours so it would better match my math
23 skills; but I've got it.

24 Q My apologies. I think it will work out
25 better when you get further on down the way.

1 A Okay.

2 Q If we also then take as a credit to the
3 retail fuel cost recovery the 25 kilowatt hours times
4 the 12 mills in order to back that out of the
5 equation, that would be 300 mills that's subtracted
6 from your total fuel cost.

7 A That is the cost associated with the sale is
8 what you're backing --

9 Q With the opportunity sale, yes.

10 A Yes, 300 mills.

11 Q Now, let's further assume, just for the sake
12 of our proposal, that the profit from the opportunity
13 sale is split between the ratepayers and the
14 shareholders on an 80%/20% basis. We would then have
15 an additional credit to the fuel cost recovery
16 associated with that profit, would we not?

17 A Yes. What you're assuming here is of the
18 different types of regulatory treatment that that gain
19 could have, that this is one that's in the 80/20
20 category?

21 Q Yes. And that we would flow that profit,
22 that sharing of the profit back through the fuel
23 clause, so that would be reflected as a credit to that
24 total fuel cost number that has to be recovered from
25 retail.

1 A Right.

2 Q Okay. Now, that the 80% times the
3 difference between the 17 mills and the 12 mills,
4 again, the selling price minus the cost of the sale
5 times the actual amount of sale, the 25 kilowatt
6 hours, .8 times 5 times 25 equals 100.

7 A Yes.

8 Q So that's 100 credit. If we take the 300
9 credit and the 100 credit and apply it to the 2,500
10 total fuel costs, we have a total retail fuel cost
11 recovery obligation of 2,100 simply taking the 2,500
12 minus 400.

13 A Okay. I agree.

14 Q Now, that is essentially revenues to the
15 company, isn't that correct? Fuel cost recovery
16 represents fuel cost recovery revenues to the company?

17 A Yes.

18 Q And we would add, then, from the company's
19 perspective, the revenues from the opportunity sales,
20 would we not, the 425 that was identified on the
21 hypothetical?

22 A Yes.

23 Q And so the sum of that would be 2,525?

24 A Yes.

25 Q Now, in order to know what the impact is on

1 the utility shareholders from all of this, we would
2 take that 2,525 in total revenues and subtract out the
3 \$2,500 in fuel costs that we identified earlier; the
4 100 kilowatt hours times the 22 mills plus the 25
5 kilowatt hours times 12 mills.

6 A Okay.

7 Q And that would result in a utility
8 shareholder benefit of 25 under this hypothetical?

9 A Okay.

10 Q Now, as you understand the OPC's proposal,
11 the retail fuel cost recovery would be limited to the
12 average that results from the total fuel cost divided
13 by the total sales, times the amount of retail sales;
14 is that correct?

15 A I'm sorry. Would you repeat that?

16 Q Yes, I will. Do you agree, or is it your
17 understanding that the methodology proposed by the
18 Office of Public Counsel is that the fuel cost
19 recovery in the instance of this hypothetical would be
20 limited to the result of taking the total fuel cost
21 divided by the total sales and multiplying that
22 resulting average times the retail sales?

23 A Yeah. The OPC position you asked me to look
24 at earlier?

25 Q Yes. That, in words, is what they have

1 described as taking that total cost divided by the
2 total sales and multiply it times the actual retail
3 sales to determine the amount that you could recover
4 from the retail customers in the fuel cost recovery.

5 A What I think you're focusing on is the
6 "should not cause the fuel cost responsibility of the
7 retail jurisdiction to be greater than the average."

8 Q Yes.

9 A Okay. Give me the number again.

10 Q Well, I was giving you the formula and then
11 I was going to ask you to give me the number.

12 A All right. Give me the formula.

13 Q The formula is the total fuel cost divided
14 by the total sales, and that resulting average would
15 then be multiplied by the retail sales.

16 A Okay. So the total fuel costs would be
17 2,200 mills plus --

18 Q I believe it would be 2,500 mills in this
19 instance.

20 A Well, I haven't finished. 2,200 plus 300.

21 Q That's correct. I'm sorry.

22 A For a total of 2,500, and divided by the
23 total sales, which are 100, plus 125 -- I mean, I'm
24 sorry; 25. Okay.

25 Q Would you agree that that results in a

1 figure of \$2,000?

2 A Yes.

3 Q And that compares to the \$2,100 that we
4 calculated earlier to be recovered when we take into
5 account the total costs less the incremental costs of
6 the wholesale, less the ratepayers' portion of the
7 profit from this opportunity sale.

8 A Correct; 2,000 versus 2,100.

9 Q That would give you the impression that the
10 Public Counsel's method was more favorable to the
11 ratepayers.

12 A Correct.

13 Q The opportunity sale revenues remain at 425,
14 because there's been no impact on the pricing of the
15 opportunity sale as a result of Public Counsel's
16 method.

17 A Correct.

18 Q So the total revenues to the company in that
19 instance would be 2,425; is that correct?

20 A Yes, 2,000 from --

21 MR. HOWE: Objection to the question. If he
22 means total revenues to the company, it would have to
23 be the sum total of total revenues from the retail
24 jurisdiction plus total revenues received from the
25 wholesale jurisdiction when they received payment for

1 the economy sale that's being described.

2 MR. STONE: Which under this hypothetical is
3 2,425.

4 COMMISSIONER DEASON: Is that correct?

5 MR. STONE: It's, as I understand --

6 COMMISSIONER DEASON: You need to ask the
7 witness that is what I'm saying.

8 Q (By Mr. Stone) Is that correct, Mr. Ramil?

9 A Yes, from the -- using the new average fuel
10 price for this unit.

11 Q Right.

12 A As per the position you asked me to look at,
13 the revenue coming from the retail jurisdiction is
14 2,000 mills and then if you add to it the 425 mills
15 coming from the opportunity sale, you get 2,425.
16 2,425 mills.

17 Q Okay. Now, has the cost to the company of
18 the fuel changed any between the method that we
19 described earlier and the method that's now being
20 resulted from the OPC's proposed methodology?

21 A No; the cost is -- the total cost of serving
22 everybody is 2,500 mills.

23 Q So the utility, then, would have its
24 revenues of 2,425 less its cost of \$2,500. That
25 results in a utility shareholder benefit or burden of

1 what?

2 A You're 75 mills short.

3 Q There's a burden on the shareholders of 75
4 mills. Would the utility then engage in that
5 opportunity sale given that is the end result?

6 A No.

7 Q So if we assume that the utility would not
8 engage in those sales, what would be the average price
9 paid by the retail customers? Would it be the 2,100
10 that results from the opportunity sale under the
11 current system, or the 2,200 that results from the
12 actual average cost for retail times the actual
13 average sales?

14 A I'm sorry. What were you asking me? Which
15 number were you asking me for?

16 Q Given that the utility would not engage in
17 the opportunity sale under the OPC's method because it
18 would lose \$75.00, what then would be the average --
19 or what would have been the total retail fuel cost
20 that you recovered?

21 A 2,200 mills.

22 Q Is that a number larger or smaller than what
23 the retail customer would pay had the company engaged
24 in the opportunity sale and been permitted to treat it
25 under the current system without OPC's proposed

1 change?

2 A The 2,200 versus 2,100, so 100 mills more
3 cost.

4 Q Retail customers, then, would be better off
5 under the current system with the opportunity sale
6 than they would be with the OPC system without the
7 opportunity sale?

8 A That looks that way in this example.

9 MR. STONE: Commission Deason, I have two
10 more handouts that basically document what Mr. Ramil
11 has testified to through this hypothetical that I'd
12 like to distribute.

13 COMMISSIONER DEASON: Please do so.

14 MR. STONE: Mr. Ramil, while I was handing
15 those out, did you have an opportunity to review the
16 two sheets I've just given you, entitled "Hypothetical
17 Case 1," and "Hypothetical Case 2."

18 A I've finished with 1. I'm still looking at
19 two.

20 Q Please take your time.

21 COMMISSIONER DEASON: Mr. Ramil, we're going
22 to give you a long time to look at that, because we're
23 going to break for lunch at this point. And I assume
24 Staff is still wanting to break at 11:30; is that
25 correct?

1 MS. JOHNSON: Yes.

2 COMMISSIONER DEASON: We're going to break
3 for lunch and will resume with Mr. Ramil's cross
4 examination at 12:30.

5 (Thereupon, lunch recess was taken from
6 11:30 a.m.)

7 - - - - -

8 COMMISSIONER DEASON: Call the hearing back
9 to order. Mr. Stone, I believe you have a preliminary
10 matter; is that correct?

11 MR. STONE: Yes, Commissioner Deason. If we
12 could return to the 0007 docket briefly. As I
13 indicated earlier this morning, we have revised
14 schedules that correspond with what has previously
15 been identified and introduced in the record as
16 Exhibit 5. These revised schedules incorporate our
17 new projection to accomplish an upgrade to the Crist 7
18 flow monitors. And the bottom line of these schedules
19 is that the factors have not changed, and we'd simply
20 like to have this additional packet, which I've
21 distributed to everyone, identified as a supplement to
22 Exhibit 5 for the record.

23 COMMISSIONER DEASON: We'll identify it as
24 Exhibit 5A. And is there any objection to the
25 acceptance of this into the record in the 07 docket?

1 MS. JOHNSON: Staff has no objection.

2 MR. HOWE: No objection.

3 COMMISSIONER DEASON: Very well. Mr. Stone,
4 you may continue with your cross examination in the 01
5 docket.

6 MR. STONE: Thank you, Commissioner.

7 Q (By Mr. Stone) Mr. Ramil, right before the
8 lunch break, I handed out two additional pages that
9 correspond with the hypothetical we've been working
10 through this morning in this morning's session. Have
11 you had a chance to review those two pages?

12 A Yes, I have.

13 Q And would you agree that those two questions
14 track the questions and answers that you had given
15 previously?

16 A Yes, they do.

17 MR. STONE: Commissioner Deason, it may be
18 appropriate to go ahead and identify these additional
19 two pages as part of the composite exhibit consistent
20 with the first page you identified earlier.

21 COMMISSIONER DEASON: Yes. It will be part
22 of Exhibit 37.

23 Q (By Mr. Stone) Mr. Ramil, I may have
24 already asked this question. If I have, please accept
25 my apology. I believe that these two cases

1 demonstrate that the total retail fuel cost recovery
2 would be lower under the current system of allocating
3 costs at \$2,100 with the opportunity sale than it
4 would be under either the current system or the OPC's
5 proposal without the opportunity sale; is that
6 correct?

7 A That's correct.

8 Q That difference, that \$100 difference in the
9 retail fuel cost recovery, that is a benefit from the
10 opportunity sale to the retail customers, is that
11 correct, under the hypothetical?

12 A Correct.

13 Q If the benefit came in some other fashion,
14 other than directly through the fuel clause, does that
15 diminish the benefit on the retail customers?

16 A No, it does not. And the example that you
17 asked me to go through was an example of an economy
18 sale transaction. There are other transactions, like
19 this, where the benefits may come through another
20 avenue other than the fuel clause.

21 Q Can you elaborate on that?

22 A For instance, the particular case that I'm
23 most familiar with, which is Tampa Electric's, for the
24 wholesale transactions that we are making and have
25 been engaged in and were part of our '92 rate case, a

1 portion of those transactions were sales based on the
2 incremental fuel pricing. In that rate case,
3 \$9 million of revenue requirement was removed from the
4 retail responsibility to the wholesale responsibility
5 for those types of sales. And those direct benefits
6 immediately began flowing to our customers when rates
7 were placed into existence following our '92 rate
8 case. So they are there, and they are flowing. And
9 whatever happens down the road, the customers are
10 assured to get them. And that is a distinction in
11 where those benefits are going verses the example that
12 you gave.

13 Q So if we characterize this example that
14 those benefits are flowing through the customers, not
15 necessarily through the fuel clause but in some other
16 fashion, the analysis would still hold the same?

17 A Yes. I think the point is that in looking
18 at this, that the pricing at incremental prices when
19 you look at total economics will yield -- given the
20 right deal will yield benefits to retail customers.
21 And that's the total economics principle which I think
22 has been used in looking at these types of sales
23 priced on the increment in the past and should be used
24 moving forward.

25 Q Would you agree that it appears that OPC's

1 position is focusing exclusively on fuel in isolation
2 from the total cost to the consumer?

3 A Yes, and I reached that conclusion. It
4 appears that they define fuel priced at less than
5 average as a noneconomic transaction, and that's just
6 incorrect.

7 Q Does the customer really care about anything
8 other than his total bill?

9 A I think that's the bottom line to customers.
10 That's what they end up paying. That's what they pay
11 for each month, is the sum of the total bill.

12 Q If fuel can be sold at incremental but other
13 benefits from the opportunity transaction reduce the
14 customer's total bill, isn't the retail customer
15 better off?

16 A Yes.

17 Q Are wholesale transactions regulated by the
18 Federal Energy Regulatory Commission?

19 A Yes, they are.

20 Q On Page 15 of your testimony you made
21 reference to a FERC determination that focusing
22 exclusively on fuel did not capture the entire
23 economic impact of the transaction. Do you recall
24 that testimony?

25 A Yes.

1 Q Could you elaborate on what the FERC was
2 determining? I believe it indicated it was consistent
3 with prior decisions of the Florida Public Service
4 Commission.

5 A Yes. This very issue was raised by Florida
6 Power Corporation at the FERC probably, my
7 recollection is about a year and-a-half ago. The FERC
8 ruled in this manner in favor of Tampa Electric, and
9 the bottom line of their decision was a strong
10 decision indicating you need to look at the total
11 economics of the transaction.

12 Q Has the Florida Public Service Commission
13 approved spot or incremental -- use of spot or
14 incremental fuel prices in the economic dispatch of
15 generating units in Florida?

16 A Yes. I believe earlier in my testimony here
17 today I made reference to the approval of a specific
18 long-term contract that Tampa Electric was involved in
19 that was approved in '87. At the same time in that
20 hearing, the Commission approved the use of
21 incremental fuel prices for dispatching units for
22 making economy sales and for some other sales that
23 Tampa Electric was involved in.

24 Q And was the basis of that finding in order
25 to minimize the overall production costs from those

1 units?

2 A Yes, it was.

3 Q In your opinion then, has the PSC determined
4 that the use of spot or incremental fuel prices for
5 dispatch costs captures -- let me rephrase that.

6 Do you know whether the PSC has determined
7 that spot or incremental dispatch costs represent the
8 correct incremental cost to pay cogenerators for
9 as-available energy?

10 A Yes.

11 Q Based on those two determinations then,
12 would you agree that the Commission has determined
13 that consistent with economic theory, that in an
14 incremental sale, the incremental cost, if that's
15 collected through that sale, captures all of the
16 additional cost of making that sale?

17 A Yes. And in my testimony and as I speak
18 out, I use the term "incremental" and "discretionary
19 sales" kind of in the same manner. Sales that you are
20 not required by law to make, but sales that you might
21 choose to make to improve the economics of your
22 system.

23 The issue of how the fuel is priced on a
24 wholesale sale also bears on how generating units are
25 dispatched in the state. If you price wholesale sales

1 only on average fuel costs as decisions are being made
2 throughout the state whether to buy under that
3 contract at the average fuel price or run the units at
4 their incremental dispatch price, you can get a
5 distortion in the economics. And if you have
6 wholesale sales offerings to potential customers where
7 you offer the incremental price, then it dispatches
8 well, verses other alternatives, and the customer is
9 more likely to be able to use it around the clock and
10 you can charge a higher margin on the total sale as a
11 result of that. So the decisions to use incremental
12 fuel prices for dispatching units in the state has a
13 bearing on how wholesale contracts are priced as well.

14 MR. STONE: Thank you. I have no further
15 questions for this witness.

16 COMMISSIONER DEASON: Mr. McGee.

17 CROSS EXAMINATION

18 BY MR. MCGEE:

19 Q I'd like to be clear on one point that -- I
20 was not following Mr. Stone's questioning. Were you
21 here when Mr. Wieland testified this morning?

22 A Yes, I was.

23 Q Do you disagree with his testimony that no
24 one in this proceeding is contending that the Florida
25 brokers shouldn't work just in the way that it's

1 working now?

2 A Well, I'm not sure. Because the testimony
3 doesn't always match the positions taken in my direct
4 testimony. Public Counsel's position on the issue at
5 that time was different than what it has evolved to.
6 And their position at that time clearly involved
7 effectively eliminating broker sales or requiring
8 utilities to price broker sales at average fuel costs,
9 which given that requirement would just eliminate
10 broker sales.

11 Q But that point has been clarified then,
12 hasn't it, in Public Counsel's subsequent testimony?

13 A I don't know if it has or has not. The
14 questions I was asked by Mr. Stone earlier were based
15 on Public Counsel's position.

16 Q Yes. And I'm wanting to know now that that
17 position has been elaborated on in the form of actual
18 prefiled testimony. Do you still have any doubt in
19 your mind that anyone wants to have the broker
20 adversely affected?

21 A I don't know. I mean, there's a mismatch.

22 Q Is there any question in your mind about
23 Florida Power's position?

24 A No. I think I heard Mr. Wieland say this
25 morning that the broker wouldn't be included which is

1 especially intriguing because if you are making a
2 discretionary sale, which the broker is, and you make
3 it on a short-term basis, what's the difference if you
4 make a longer term sale like the ones that have been
5 questioned with respect to Tampa Electric? In fact,
6 if it's good enough for the broker, it's questionable
7 as to why it wouldn't be good enough for longer term
8 sales.

9 As we look at our margins on the broker,
10 they are mostly less than \$5 per megawatt hour. As we
11 look at our margins on these type of sales, they are
12 up in the high teens or closer to \$20 so there's a lot
13 more benefits going to our customers from these types
14 of sales. So I fail to see why there's the
15 distinction. And why, okay, for one type of sale and
16 why not for the other.

17 Q And that was the purpose of my question,
18 that there may be some disagreement or perhaps
19 confusion on some of the applications of incremental
20 pricing. But I'm trying to establish whether there's
21 any disagreement that incremental pricing is
22 appropriate for broker sales.

23 Have you read the testimony of Public
24 Counsel's Witness Larkin?

25 A Yes.

1 Q And is it your understanding that he clearly
2 states in that testimony that Public Counsel does not
3 intend for his position to apply in a way that would
4 adversely affect the current use of the broker?

5 A That's what his testimony says. My
6 testimony this morning was a response to questions
7 asked about the OPC position.

8 Q You indicated earlier that there had been a
9 FERC decision concerning a similar issue that was
10 pending before them in a proceeding that involved
11 Florida Power Corporation. Is it your understanding
12 that that FERC decision is final?

13 A That FERC decision is final. There has been
14 a petition for rehearing which is set up at FERC for,
15 I think, in excess of 12 months now.

16 Q And that petition for rehearing has not been
17 acted on?

18 A That's correct.

19 MR. MCGEE: That's all I have. Thank you.

20 COMMISSIONER DEASON: Mr. Howe.

21 MR. HOWE: Thank you. Chairman Deason,
22 Mr. Larkin is going to distribute a document. I don't
23 think we need an exhibit number. I just want to use
24 it to address some questions to Mr. Ramil. It's Page
25 11 from Exhibit 28 which is already in the record.

CROSS EXAMINATION

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BY MR. HOWE:

Q Hello, Mr. Ramil.

A Good afternoon.

Q What we have handed out is Page 11 from Exhibit 28 which is the final true-up calculations for the period October 1995 through March 1996, a testimony exhibit sponsored by Tampa Electric's Witness Mary Joe Pennino. And I just want to use this as a vehicle to ask you a few questions.

Starting with Line 1, the Company calculates its fuel cost of system net generation on a weighted average inventory basis, does it not?

A I believe so.

Q And the Company actually expenses its fuel on that weighted average inventory basis on its books and records; isn't that correct?

A I believe so.

Q And that would be true for all sales, would it not? By that I mean retail sales, wholesale -- all wholesale: economy, separated wholesale, nonseparated wholesale, everything is expensed on the Company's books on a weighted average inventory basis?

A I don't know the answer to that.

Q If you'd look on Lines 16 through 19, it

1 reflects fuel cost of Schedule D separated sales,
2 Schedule D jurisdictional sales, G jurisdictional
3 sales and J jurisdictional sales. These are the
4 off-system sales that we are talking about in this
5 proceeding, is it not?

6 A The Tampa Electric sales which are priced at
7 incremental fuel?

8 Q Yes, sir.

9 A Yes.

10 Q And although the lines are labeled as fuel
11 costs of those various types of sales, in fact, what
12 Tampa Electric shows there is the revenues they
13 received from those types of sales; isn't that
14 correct?

15 A That's the revenues that the Company
16 receives from the sales. And the revenues are
17 calculated and priced based on the incremental cost of
18 fuel from the units that participate in the sale.

19 Q And we are speaking here of fuel revenues,
20 are we not?

21 A Yes.

22 Q So what we have, basically then, since the
23 entry on Line 22 is a subtraction from the total cost
24 of system net generation plus purchase power, the
25 smaller the deduction made for these off-system sales,

1 the larger the total fuel and net power transactions
2 that are going to be apportioned to the retail
3 jurisdiction; is that correct?

4 A The smaller this number --

5 Q The smaller the number shown on Line 22,
6 which is the total of fuel cost of economy sales, gain
7 on economy sales, and the fuel cost of the various
8 schedules where you impose incremental pricing --

9 A Yes.

10 Q -- all right, the smaller that number, the
11 larger the total fuel and net power transactions cost
12 that's going to be apportioned to the retail
13 jurisdiction. Would you agree?

14 A I would agree.

15 Q Mr. Ramil, in your prefiled direct testimony
16 on Page 4, at the bottom of the page, Lines 36 through
17 39, and it continues over to the first line on Page 5,
18 you refer to incremental fuel costs for certain
19 off-system sales to the extent that the incremental
20 fuel cost is lower than average fuel cost. Could you
21 explain what you mean by incremental fuel cost to the
22 extent that it's less than average?

23 A You are on Page 4?

24 Q Page 4 of your prefiled direct testimony.

25 A Okay.

1 Q At the bottom of the page, Lines 36 through
2 39.

3 A Yes. What was your question?

4 Q Let me phrase my question this way,
5 Mr. Ramil. Does Tampa Electric have some wholesale
6 customers which it charges either incremental fuel
7 cost or average fuel cost, whichever is lower?

8 A No.

9 Q Does it charge all of its -- let me label
10 them Schedule D customers -- incremental fuel cost?

11 A I think so. I think all those that are
12 characterized as Schedule D are incremental.

13 MR. HOWE: Chairman Deason, I'd ask for an
14 exhibit number.

15 Q (By Mr. Howe) Mr. Ramil, we are going to
16 pass out a document which I hope will help us identify
17 which of your sales are at incremental fuel cost.

18 COMMISSIONER DEASON: This will be
19 Exhibit 38.

20 (Exhibit 38 marked for identification.)

21 Q (By Mr. Howe) Mr. Ramil, this document is
22 the Company's responses to Interrogatory 7 from
23 Staff's first set of interrogatories in Docket
24 960409-EI. This was the recently concluded hearing on
25 the addition of the Polk Power Station to the

1 Company's rate base. And if you'd leaf through this,
2 you'll notice that it purports to give us a listing of
3 all of the wholesale customers. And I'd ask you to
4 refer first, please, to what is -- the Bate stamp, the
5 number at the bottom of the page is 28.

6 MR. BEASLEY: Can Mr. Ramil have a moment
7 just to run through the document and look at it in its
8 entirety.

9 COMMISSIONER DEASON: Certainly.

10 MR. BEASLEY: I might point out, Mr. Ramil
11 did not participate, to my knowledge, and he's not
12 shown as having participated in the preparation of
13 this docket. And I don't know personally the extent
14 to which he's comfortable in responding to any
15 questions based on this docket, but I would like to
16 certainly have any questions propounded to him
17 regarding this document asked in that vein.

18 MR. HOWE: I have no problem with that.

19 WITNESS RAMIL: Okay. I've thumbed through
20 it. What's your question?

21 Q (By Mr. Howe) Okay, Mr. Ramil with
22 reference to page Bate stamped 28, this document shows
23 a 10 megawatt sale to the Florida Municipal Power
24 Agency, service beginning on June 1, 1992, and
25 continuing through December 31, 1996, as a Schedule D

1 sale. Do you happen to know whether, in fact, Tampa
2 Electric is currently making such a sale?

3 A Yes, we are.

4 Q And is this a sale out of Big Bend station?

5 A Yes.

6 Q And are you charging -- is this what we
7 would refer to as a sale where the fuel cost is at the
8 incremental cost?

9 A Yes. If you look under "Charges," the
10 second paragraph, it says the fuel charge is
11 calculated using the cost of incremental coal
12 purchases for Big Bend station.

13 Q What kind of units are at Big Bend station?

14 A Coal fired.

15 Q And there are four coal-fired units at Big
16 Bend; is that correct?

17 A Yes.

18 Q Big Bend Units 1 through 4?

19 A Right.

20 Q How many coal piles do you have at Big Bend
21 station? Do you know?

22 A I have no idea.

23 Q Do you know whether you use a different fuel
24 supply or a different type of coal in terms of its
25 sulfur content, ash content, and so forth, for the

1 various units?

2 A I know that we keep a supply of different
3 fuels to meet our environmental requirements. We have
4 different fuel purchase contracts. We have different
5 piles that feed blending bins. But I don't know
6 specifically what is there.

7 Q Do you know whether Tampa Electric has some
8 of its coal supply for Big Bend station under
9 long-term contract and fulfills other needs there by
10 purchasing spot coal?

11 A Yes. We have, for the Company's coal needs,
12 about 60% to 70% of our retail requirements. Our
13 retail sales requirements is under contract. The
14 rest, including all that we use for discretionary
15 sales, is purchased on a spot market.

16 Q Is it the Company's position that the coal
17 at Big Bend station obtained under long-term contracts
18 is committed to its retail customers?

19 A Yes.

20 Q Would you refer, Mr. Ramil, to Bate stamp
21 29, what has been identified as Exhibit 38?

22 A Yes. I've thumbed through this. If you
23 want to move through it quicker, I can tell you which
24 ones are at the incremental fuel pricing if that's
25 what you're after.

1 Q Yes, sir.

2 A Okay. It's essentially the ones that say it
3 in the write-up. On Page 29, city of Fort Meade,
4 second paragraph under charges, "The fuel charge is
5 calculated using the cost of incremental coal
6 purchases."

7 Page 30, city of Wauchula, the same
8 paragraph, the same sentence.

9 Page 31, city of St. Cloud.

10 Q Excuse me. On 31, that one shows service
11 ending on May 31, 1996. Do you know whether that's an
12 active contract?

13 A That contract may have expired. We have
14 another one under our requirements service that starts
15 up with St. Cloud. I don't know if they are exactly
16 back to back.

17 Q All right. I'm sorry. Would you continue
18 with --

19 A Okay. Where was I? Page 31, St. Cloud.
20 The next page, Page 32, Reedy Creek improvement
21 district. And then the city of New Smyrna Beach.

22 Q And that would be on Page 33, correct?

23 A Correct. Now, those are all the longer term
24 separated sales that have the incremental fuel price
25 associated with them.

1 Q What other types of long-term wholesale
2 sales is Tampa Electric making out of Big Bend
3 station, or out of any of those specific units at Big
4 Bend station?

5 A Well, we are making the sale of capacity and
6 energy from Big Bend 4 to Hardee Power Partners and
7 ultimately to Seminole Electric under our Hardee Power
8 Station transaction. That's from Big Bend 4.

9 And we are also making some all requirements
10 type sales which would be serviced by all the units on
11 our system.

12 Q What is the capacity committed under the
13 Hardee Power Partners or Seminole Electric Cooperative
14 contract?

15 A The capacity committed is the limited use of
16 145 megawatts of the Big Bend 4 capacity.

17 Q Does Hardee Power Partners -- and through
18 Hardee Power Partners, Seminole Electric
19 Cooperative -- have first call on that 145 megawatts
20 at Big Bend 4 during the times that Seminole needs it?

21 A No, they don't.

22 Q Does anybody have a priority call on Big
23 Bend 4?

24 A I'm sorry. I thought you had asked about
25 Hardee Power station.

1 Q No, I'm sorry. I was speaking of Hardee
2 Power Partners. The 145 megawatts at Big Bend 4
3 committed to Hardee Power Partners, and through them
4 to the Seminole Electric Cooperative. Does Seminole
5 Electric Cooperative have a priority commitment for
6 that 145 megawatts?

7 A Seminole Electric can call on that
8 145 megawatts as long as they have not exceeded the
9 energy limitation in that agreement.

10 Q So if they have not exceeded the energy
11 limitation in the agreement for all your generating
12 capacity at Big Bend station, even these Scheduled D
13 sales to these various entities such as Florida
14 Municipal Power Agency, and the city Fort Meade, city
15 of Wauchula, those would be subject to the 145
16 megawatt commitment to Seminole, would they not?

17 A Those are coming from the four units at Big
18 Bend.

19 Q Yes, sir.

20 A And their availability is dictated by only
21 the availability of those four units.

22 Q And of those four units, Big Bend 4 has a
23 prior commitment to Seminole in the amount of 145
24 megawatts under certain conditions; is that correct?

25 A It has a concurrent commitment to Seminole.

1 Q All right. Do the Schedule D wholesale
2 customers have a priority claim to the Big Bend
3 station sales about the retail jurisdiction and the
4 full requirements wholesale customers?

5 A As long as there are megawatts available at
6 Big Bend station, these customers are served. If
7 there are no megawatts available at Big Bend station,
8 they are not served.

9 Q What would be the priority or the sequence
10 of interruption if you needed to interrupt retail
11 customers, wholesale customers under Schedule D, or
12 full requirements wholesale customers because of a
13 loss of capacity at Big Bend station?

14 A If capacity was lost at Big Bend station,
15 these customers would be interrupted first.

16 Q Which customers are interrupted first?

17 A All the ones that are Big Bend station sale
18 specific.

19 Q Would they be interrupted before your retail
20 customers?

21 A With the loss of Big Bend station, yes.

22 Q I guess -- I'm sorry, I phrased that wrong.
23 Let's assume you have a loss at another source. Let's
24 say at Gannon, Hookers Point, or some of your other
25 units, such that, basically, you do not have adequate

1 capacity but you have adequate capacity at Big Bend
2 station to meet your Schedule D and your Seminole
3 requirements for Big Bend 4. If it was necessary to
4 interrupt retail customers or Schedule D customers or
5 full requirements wholesale customers, what would be
6 the order of interruption?

7 A The order of interruption would be -- if
8 there's capacity still at Big Bend you are saying?

9 Q Yes, sir.

10 A The order of interruption would be -- of
11 course we'd exercise our interruptible service
12 customers. We'd exercise load management. We'd look
13 to buy. And if there was no power available to buy,
14 then we'd start to produce load among our full
15 requirements wholesale customers and our retail
16 customers.

17 Q Mr. Ramil, if you have long-term contract
18 coal at Big Bend station and if, when capacity is
19 available at Big Bend, you would interrupt firm retail
20 customers before you would interrupt your Schedule D
21 and your Seminole Electric Cooperative commitment,
22 doesn't that suggest that your retail and your full
23 requirements wholesale customers are your marginal
24 customers out of Big Bend station?

25 A Not necessarily. When you look at the

1 minimum loads you can carry at Big Bend station,
2 there's more than ample capacity to carry these small
3 sales that we are making to improve the system
4 economics.

5 Q But if Big Bend station is up and running
6 and you've got adequate capacity to meet these
7 Scheduled D sales out of Big Bend station, as well as
8 the Seminole Electric Cooperative commitment, you are
9 not going to interrupt those customers until after you
10 interrupt your firm retail and wholesale customers; is
11 that correct?

12 A If there's capacity at Big Bend station.
13 Now, I need to point out that your mixing different
14 kinds of sales, and, you know, we went through a lot
15 of these same questions when you were asking me about
16 the prudence of these very sales at our rate case.
17 And the question of the prudence, reliability, and
18 risk of making these sales does not have any bearing
19 on how fuel is priced.

20 The Big Bend 4 sale that you referred to,
21 the Hardee Power Partners, ultimately, the Seminole
22 Electric has made it average fuel pricing. And you've
23 lumped that together with the others and are asking me
24 kind of one set of questions common to all of them.

25 Q Let me rephrase it then. Let me rephrase it

1 this way. Would you agree that your wholesale
2 customers, other than your full requirements wholesale
3 customers, have a priority claim to the generation out
4 of Big Bend station over all of your retail customers?

5 A They have a priority claim to a certain
6 number of megawatts out of Big Bend station. They
7 have no claim to any megawatts out of the rest of our
8 station -- out of the rest of our system.

9 Q But you charge them based on the incremental
10 fuel cost at Big Bend station, do you not?

11 A Correct.

12 Q Doesn't incremental fuel cost suggest that
13 it's the cost of fuel above those who have a priority
14 claim?

15 A No. I think it reflects the pricing of the
16 fuel on those sales which you may choose to make as a
17 decision, the discretionary sales.

18 Q And those sales you are making out of Big
19 Bend station to your Schedule D customers receive an
20 incremental fuel cost in the pricing, your expensing
21 that fuel on a weighted average inventory basis on
22 your Schedule A-1, are you not?

23 A Which sales are you talking about?

24 Q Well, I guess I should say all of your sales
25 out of Big Bend station. In fact, all of your sales

1 out of all of your units are being expensed out of
2 your inventory on a weighted average inventory basis?

3 A Those were the fuel expenses you referred to
4 on the lines of this chart that you gave me?

5 Q Yes, sir.

6 A Yes.

7 Q With reference to the Schedule D sales shown
8 on Exhibit 38, for example, on Page 28, the sale to
9 the Florida Municipal Power Agency, it refers to the
10 actual cost of spot coal. How do you define actual
11 cost of spot coal for purposes of your Schedule D
12 sales?

13 A It's the spot coal that we are buying in the
14 given month.

15 Q Well, for example, is it necessarily some
16 spot coal you actually have, or one of the coal piles
17 at Big Bend station?

18 A It is the spot coal that you are buying at
19 that point in time. It's reflective of the price of
20 that fuel at that point in time.

21 Q For example, let's assume the spot price of
22 coal -- what would be a reasonable spot price of coal
23 for Big Bend station, say, today? Do you have an
24 approximation?

25 A \$1.50 a million Btus.

1 Q Okay. Let's say \$1.50 a million Btus.
2 Could that be a price then that you would charge to a
3 Schedule D customer subject to incremental pricing?

4 A Yes.

5 Q Would you necessarily have purchased any
6 coal for \$1.50 a million Btu and have it on the coal
7 pile, or would this possibly be the next increment of
8 coal that you are going to purchase?

9 A That is the most recent increment of coal we
10 have purchased.

11 Q Has it been delivered?

12 A It may have or it may be en route to the
13 plant.

14 Q Does it have any transportation costs in its
15 price to a Schedule D customer subject to incremental
16 cost pricing?

17 A Of course. It's the price delivered to the
18 plant.

19 Q And is that an averaged transportation cost,
20 or is that also an incremental transportation cost?

21 A That is an incremental transportation cost.
22 Our transportation contracts are structured so there's
23 base charges and incremental charges above a certain
24 volume.

25 Q So then is it assumed that these Schedule D

1 customers, for example, the Florida Municipal Power
2 Agency, even though they have a priority claim to the
3 generation out of Big Bend station, are receiving
4 incremental fuel costs including incremental
5 transportation costs?

6 **A** Same as economy's price, same as units are
7 dispatched.

8 **Q** Are units dispatched on the price of coal
9 that you actually have purchased, or are they
10 dispatched on the price of your next increment of coal
11 that you are going to purchase?

12 **A** The same method I just described for the
13 pricing of these sales.

14 **Q** Well, which is it? Is it the next increment
15 you are going to purchase or the last increment you
16 purchased, what you filed?

17 **A** What you just purchased.

18 **Q** Okay. Mr. Ramil, in answers to some earlier
19 questions, and I think in your summary also and in
20 your prefiled testimony, you referred to the treatment
21 the Company received in its last rate case.

22 **MR. HOWE:** Chairman Deason, I'm going to
23 distribute a few pages from Commission Order
24 PSC-93-0165-FOF-EI, which is the final order before
25 reconsideration in the Utility's last rate case. I

1 would just ask the Commission take official notice of
2 it.

3 **COMMISSIONER DEASON:** Very well.

4 **Q** (By Mr. Howe) Mr. Ramil, you testified on
5 behalf of Tampa Electric Company in their 1992 case,
6 did you not?

7 **A** Yes.

8 **Q** And have you had a chance in the past to
9 review this Commission Order 93-0165?

10 **A** Yes, I have, in the past.

11 **MR. BEASLEY:** Commissioner, if I could just
12 inquire. I'm assuming that you've requested official
13 notice of the entire order?

14 **MR. HOWE:** Yes, sir. This is just an
15 excerpt for purposes of questions. I don't believe
16 it's necessary to introduce as an exhibit, or I don't
17 even think it's really necessary to ask the Commission
18 to take official notice of one of its orders; I think
19 we can always do that in briefs or argument if we
20 choose to do so.

21 **MR. BEASLEY:** That's fine. And we may have
22 portions of this order we want to refer to later
23 ourselves.

24 **MR. HOWE:** Oh, certainly, certainly.

25 **MR. BEASLEY:** Thank you.

1 Q (By Mr. Howe) And the only reason I bring
2 this up is because, as I understand it, you referred
3 to the treatment the Commission gave in the last rate
4 case to certain off-system sales.

5 If you'd look at Page 13, Mr. Ramil. And
6 looking at -- let's see, one, two, three, four -- the
7 fifth full paragraph on that page. The Commission
8 separated the cost of the four firm Schedule D
9 customers you had at the time of your last rate case
10 on the basis of the investment in all generating
11 plant, did it not?

12 A Yes.

13 Q It did not make an incremental adjustment in
14 the separation; is that correct?

15 A No. The Company proposed different ways to
16 do it. Different ways were discussed. The Staff
17 ultimately wanted it done this way.

18 Q And the parties, including Tampa Electric,
19 stipulated to that treatment, did they not?

20 A Yes.

21 Q Currently, Mr. Ramil, is the incremental
22 cost of coal at Big Bend station less than the average
23 embedded cost of coal on the piles at that station?

24 A I'm not familiar with the term "average
25 embedded costs" relative to coal, but it's less than

1 the average cost.

2 Q Okay. Less than the average cost, and it
3 would also be less than the average weighted cost used
4 by this Commission to quantify the total fuel cost of
5 system net generation for Tampa Electric, would it
6 not?

7 A Yes.

8 MR. HOWE: I have no further questions.
9 Thank you very much.

10 COMMISSIONER DEASON: Ms. Kaufman.

11 MS. KAUFMAN: I have no questions.

12 COMMISSIONER DEASON: Staff.

13 CROSS EXAMINATION

14 BY MS. JOHNSON:

15 Q Good afternoon, Mr. Ramil.

16 A Good afternoon.

17 Q You testified that if utilities were
18 required to charge average generation of fuel cost,
19 then many of the benefits associated with the Florida
20 energy broker and other short term wholesale
21 transactions would be reduced; is that correct?

22 A Yes.

23 Q Having read the testimony of the other
24 witnesses on this issue, would it be fair to say that
25 most of the parties appear to be concerned with the

1 use of incremental fuel pricing in situations where
2 the sale results in a separation of rate base from
3 retail jurisdiction?

4 A Yes. I think we just went through that with
5 Mr. McGee, and I think the issue is that the testimony
6 says that the questions I was asked this morning was
7 on the OPC position which doesn't say that.

8 Q If I understand TECO's position, it's that
9 the use of incremental fuel pricing for separated
10 sales is appropriate for the Company to then discount
11 the fuel factor if doing so enables the Company to
12 make a sale that provides overall benefits to the
13 general body of ratepayers; is that correct?

14 A May I just state what our position is?

15 Q Sure.

16 A Our position is that the policy this
17 Commission has reviewed, going back to cases in 1987
18 with respect to these type of discretionary sales and
19 incremental fuel pricing, is that the standard for
20 prudence, should you do this or not, is a
21 demonstration of total net economic benefits to
22 customers. And that is the business policy that we
23 use at Tampa Electric in deciding whether to make
24 these sales or not.

25 If we can make the sale and do it in a

1 manner where we can get a high fuel cost, a higher
2 total cost than that, we are selling our product; we
3 love to do that. But if it requires that incremental
4 pricing to make the sale to achieve those benefits and
5 capture those benefits for our system and our
6 customers and their net benefits, then it should be
7 something that we ought to do.

8 Further, the issue of whether the Commission
9 has the opportunity to review these, the Commission
10 has. The Commission has back in '87, the Commission
11 has reviewed our field treatment. In fuel adjustment
12 hearings the Commission looked in great detail. Many
13 of the same questions that I was asked by Mr. Howe
14 today, I was asked for several hours in our 1992 rate
15 case reviewing all these sales. And some of those
16 sales have expired and new ones with the same entities
17 have replaced them. The issue came up again, should
18 we continue the same treatment of these sales, in the
19 fuel adjustment hearing. Last year, in 1995, they
20 were addressed again.

21 The summary of that is that the policy that
22 the Commission expressed before in demonstrating
23 benefits should continue to be the policy, and the
24 existing forms that the Commission has to look at
25 whether these sales make sense or are prudent or not

1 exists already.

2 Q Would you agree that in TECO's last rate
3 case the focus of the issues was on assigning capital
4 cost of the wholesale jurisdiction through a
5 jurisdictional separation factor for the purpose of
6 establishing base rates, retail base rates?

7 A I would agree that that was part of the
8 issues relative to our sales. There were a whole
9 series of issues related to prudence, should we be
10 making these sales, do they make sense. I can recall
11 in discovery producing all of the contracts, how all
12 the pricing was done. And I can recall answering
13 several questions along the lines of why are these
14 sales being made and what are the benefits of the
15 sales. So I think the separation was part of the
16 total issues related to the review of those sales.

17 Q But to the best of your recollection, was
18 there a specific issue in TECO's last rate case that
19 addressed the overall effect that separated sales had
20 on TECO's general body of ratepayers?

21 A I believe there was.

22 Q Did that include the fuel component?

23 A I think it included all components of the
24 sale. Again, the entire contracts were items of
25 discovery and of questions of me in the proceeding.

1 The contracts themselves, the length, the pricing, all
2 those were issues.

3 Q Do you have a copy of the entire Tampa
4 Electric order in the last rate case?

5 A No, I do not. I have the excerpts that
6 Mr. Howe provided me.

7 Q Can you refer us to a particular section in
8 the order that addressed the fuel component of your
9 wholesale sales?

10 A If you would like me to go through that
11 order now, I suppose I could.

12 Q We'll provide a copy for you.

13 A Okay. (Witness tendered document.)

14 How do you want me to go about this, there
15 are 99 pages here.

16 Q Have you found a reference? If you have
17 just -- I want you to point it out for the record,
18 that's all I'm asking.

19 A Okay. I'm on Page 2, though; that's what
20 I'm telling you.

21 Q Okay.

22 A Is there a particular place in the order
23 that references are made to these types of sales?

24 Q Yes.

25 COMMISSIONER DEASON: I think now would be a

1 good time to take a 10-minute recess, give the witness
2 an opportunity to review this order. We'll take 10.

3 WITNESS RAMIL: Thank you.

4 (Brief recess.)

5 - - - - -

6 COMMISSIONER DEASON: Call the hearing back
7 to order.

8 MS. JOHNSON: Commissioner Deason, in an
9 attempt to shorten Mr. Ramil looking through the
10 entire order, I just want to focus on what Staff is
11 really trying -- the point that we are trying to make,
12 and direct Mr. Ramil to look at Page 12, the last
13 paragraph on that page.

14 Q (By Ms. Johnson) Are you there?

15 A The bottom of Page 12?

16 Q Yes.

17 A Yes.

18 Q Isn't it correct that in TECO's last rate
19 case that the Commission's review of the
20 jurisdictional separation only included consideration
21 of capital and operating expense items and not fuel?

22 A I don't think that's correct.

23 Q Could you read the last paragraph beginning
24 with, "The jurisdictional separation study." Could
25 you read that into the record, please?

1 A "The jurisdictional separation study
2 allocates rate base and operating expense items
3 comprising the Company's total system cost of service
4 between those customers served under the jurisdiction
5 of the Public Service Commission, retailer
6 jurisdictional, and those served under the
7 jurisdiction of the Federal Energy Regulatory
8 Commission, wholesale or nonjurisdictional."

9 Q Since Tampa Electric's last rate case, has
10 the Company made additional long-term sales that it
11 considers separable from the retail jurisdiction?

12 A Yes, we have.

13 Q Do these sales use incremental fuel pricing?

14 A Some of them do.

15 Q Since the Company's last rate case, have you
16 amended contracts with existing companies that were
17 separated from the retail jurisdiction at the time of
18 the last rate case?

19 A Either we may have amended or just have new
20 contracts with some of them.

21 Q Has this Commission conducted a prudence
22 review that there are overall benefits to the general
23 body of ratepayers associated with those new and
24 amended contracts?

25 A My belief is that that's exactly what was

1 done in the rate case. The total contracts, all
2 pieces of those contracts, were reviewed. There were
3 questions, interrogatories, interrogations on all of
4 them.

5 I read what it says here on the bottom of
6 Page 12, and that speaks to what the jurisdictional
7 separation study says. It doesn't say any other
8 analysis that was performed by anyone. You know that
9 that was exclusively what was done.

10 Q In my last question I asked specifically
11 about the contracts that TECO had signed since the
12 last rate case. Has the Commission reviewed those?

13 A Oh, I'm sorry. There was a review of those
14 contracts in 1995. The issue I think that was brought
15 up was since these were new contracts from what was
16 separated in the '92 rate case, how should they be
17 treated. And the conclusion was that they were
18 effectively replacements to those contracts, and the
19 total amount that the Company still had was in line
20 with the what the Company had at the time of the '92
21 rate case, and the rates subsequent to that were
22 established. So the same separation treatment was
23 decided upon for those sales.

24 Q In the proceeding that you are referring to,
25 was there an issue specifically to address fuel?

1 A I don't know.

2 Q Can you turn to Page 5 of your direct
3 testimony?

4 A Okay.

5 Q I apologize, I'm going to have to strike
6 that and move on. I think we have just a couple of
7 questions left.

8 For all separated sales, would it be
9 reasonable for the Commission to require a utility to
10 demonstrate that there are overall economic benefits
11 to the general body of ratepayers before the utility
12 is allowed to credit anything less than system average
13 or unit average fuel costs through the fuel recover
14 clause?

15 A That's a long question. I think I've got it
16 all.

17 I think it would be appropriate for this
18 Commission to expect utilities to make decisions with
19 respect to wholesale sales the same way they expect
20 utilities to make other decisions in running their
21 business, and that's looking at what's the best total
22 net economics. The Commission should look at the
23 utilities' prudence of making off-system sales, making
24 sure there are net benefits to retail customers.

25 What I would caution, though, is that

1 there's the implication being made that the Commission
2 only needs to look at those sales that are being made
3 on incremental fuel pricing, and those are the only
4 ones that can result in a hurt to retail customers'
5 fuel costs, and that is not the case. You can make a
6 sale that is based on average fuel pricing. Depending
7 upon when the customer takes energy on that sale, you
8 can raise the average fuel cost to the retail
9 jurisdiction. A very real scenario and it does
10 happen.

11 If the concern indeed is wholesale
12 transactions driving up costs to retail ratepayers,
13 then there should be no distinction into how fuel is
14 priced; you should just be looking at all wholesale
15 transactions. Now, that's not to say that because
16 there are fuel impacts with a wholesale sale priced at
17 incremental or priced at average that they are not
18 good. Again, you have to go back to my original
19 policy of looking at the net benefits of any of the
20 transactions.

21 And let me further say that as the
22 Commission looks at those things, the forms exist for
23 looking at them. I've participated in them going back
24 to '87 where we had this very issue originally arise
25 with our contract for Big Bend 4 sales to Florida

1 Power and Light. That was done in a fuel adjustment
2 process. The issue came up; it was dealt with. The
3 decision was it made sense to do that because of net
4 benefits to the customer. We have forms for doing it.

5 The broad policy of net benefits is a good
6 and appropriate policy that this Commission should
7 carry forward to put a bunch of other arbitrary
8 constraints on the types of sales that get reviews and
9 don't get reviews is kind of nonsense if the real
10 issue is we are concerned about how wholesale sales
11 affect retail customers. If you don't have that as a
12 broad policy, then you allow people to insert into
13 those policies those things which protect the sales
14 that they prefer to make from their system.

15 Our suggested policy to the Commission is
16 simple; look at the total net benefits of the
17 transaction.

18 Q Out of which units does Tampa Electric
19 Company make wholesale sales that are priced using
20 incremental fuel prices?

21 A Big Bend station.

22 Q Does the Company intend to make wholesale
23 sales using incremental fuel prices from the Polk IGCC
24 Unit 1?

25 A No. We have none of those in our forecast,

1 and, in fact, we are hopeful that the wholesale sales
2 market improves and allows some different pricing. In
3 fact, our forecast of those types of sales that we
4 have right now, the ones that are priced at system
5 incremental peak this year, at effectively the level
6 that was at our '92 rate case and then they decline
7 and completely phase out by the end of 1999.

8 Q Does Tampa Electric Company collect revenues
9 from wholesale sales that are greater than the
10 incremental fuel prices?

11 A Of course, yes.

12 Q Does that represent O&M costs?

13 A Yes. The total revenue that we collect is
14 more than the incremental cost of making the sale or
15 it would not be an economical sale and we wouldn't
16 make it. And the components include not only the fuel
17 costs but O&M costs -- or O&M charges and capacity
18 charges as well.

19 Q What is the disposition of revenues received
20 that are more than the incremental fuel costs?

21 A Those revenues are retained by the Company
22 to support those expenses that were separated out in
23 the '92 rate case.

24 MS. JOHNSON: Staff has no further
25 questions.

1 COMMISSIONER DEASON: Commissioners.

2 Redirect.

3 MR. BEASLEY: Yes.

4 REDIRECT EXAMINATION

5 BY MR. BEASLEY:

6 Q Mr. Ramil, Mr. Howe referred to the last
7 rate case order for your Company, the 1992 rate case
8 order which the Commission has officially recognized.
9 Would you tell us what level --

10 COURT REPORTER: Excuse me. Would you check
11 your mike?

12 MR. BEASLEY: Thank you.

13 Q (By Mr. Beasley) Mr. Ramil, could you
14 tell us what level of revenue requirements associated
15 with your off-system sales were separated in total as
16 a result of that order?

17 A About \$34 million.

18 Q How much of that were, the Scheduled D
19 sales, based on Big Bend station?

20 A The ones that have been referred to as the
21 sale priced with the incremental fuel pricing?

22 Q Yes.

23 A \$9 million of that 35 million was associated
24 with those sales.

25 Q What was the effect of that in the rates

1 that were set in the 1992 case?

2 A The effect of that was lowering our
3 customers' rates by -- with total wholesale sales --
4 34 million. With those defined as the ones that use
5 incremental fuel pricing, lowering our customers' cost
6 by \$9 million.

7 Q What was the fuel adjustment affect? Let's
8 use 1995 for an example of the use of incremental fuel
9 price to achieve the \$9 million in reduced revenue
10 requirements for your general body of ratepayers.

11 A If you look at the fuel impacts to the
12 retail jurisdiction, all those numbers on that page
13 that Mr. Howe had me run through, if you look at the
14 total year '95, the fuel impact, the amount of fuel
15 costs that these sales caused our retail customers
16 fuel prices to increase by was \$1.1 million as opposed
17 to the \$9 million benefits that they got up front in
18 the reduction of their rates. So there's about an
19 eight-to-one benefit.

20 Q When you say "up front," does that mean that
21 your customers, your retail customers, got that \$9
22 million benefit one time back in 1992?

23 A No, sir. Our rates were set in 1992, and
24 they were set at a level lower to reflect that
25 \$9 million revenue requirement being separated to the

1 retail jurisdiction. And they receive that every year
2 moving forward.

3 Q I want to hand out a document and ask you if
4 you can identify it for me, please.

5 (Document tendered to witness.)

6 Mr. Ramil, you've been asked a number of
7 questions about how your 1992 rate case separation
8 effects the retail rates of your retail customers.
9 Can you identify for me what this document is that
10 I've distributed to you?

11 A Yes, sir. This is an illustration that I
12 had prepared to demonstrate the total economics of
13 Tampa Electric's transactions that include the
14 incremental fuel pricing.

15 Q Could you please walk through this document
16 and describe for the Commissioners the components that
17 are contained in it and what the affect is on your
18 retail customers?

19 A Yes, I can.

20 MR. HOWE: Chairman Deason, I'm going to
21 object. I know that we haven't gotten this exhibit
22 identified yet, I don't believe, but this is not
23 redirect. This is -- if anything, this is a graphical
24 representation of what the witness meant to say on
25 direct. It is outside the scope of any cross I heard

1 in this proceeding, and I object to this kind of
2 examination.

3 **COMMISSIONER DEASON:** Mr. Beasley, there's
4 been an objection raised.

5 **MR. BEASLEY:** Commissioner, there were
6 numerous questions asked of Mr. Ramil as to what the
7 benefits are to retail customers vis-a-vis the Company
8 itself, the wholesale customers. What this attempts
9 to do is to describe in very simple detail what the
10 affect is on a 1,000 kilowatt hour residential
11 customer as a result of the separation that Mr. Ramil
12 has been asked about. So it simply attempts to
13 respond and give his full and complete description of
14 what that affect is. Those questions have been asked.
15 This is simply in response to the questions having
16 been asked.

17 **COMMISSIONER DEASON:** I'm going to overrule
18 the objection. I believe the door was sufficiently
19 open to pursue this matter.

20 **WITNESS RAMIL:** Thank you, Commissioner. I
21 was going to use the chart and the hand-held
22 microphone, but it doesn't seem to be working. So
23 I'll just try to walk us through it from here.

24 The reason that this chart was prepared is
25 there's been a lot of focus in what has been filed in

1 this docket on the fuel. And in my position as a
2 witness for the Company, and the Company's position
3 has been, you need to look at the total economics of
4 the transaction. And we've put together this chart to
5 demonstrate how the fuel, the rate case treatment in
6 '92, all works together for the net benefit of our
7 customers.

8 If I start at the far side of the chart
9 which has the -- the bar chart -- that is meant to
10 demonstrate the revenue requirements that were
11 separated from the retail jurisdiction, i.e. costs
12 that were removed from our retail customers in our
13 1992 rate case. And if you add up 25 million and the
14 94 million, that's the \$34 million in revenue
15 requirements that I referred to earlier.

16 If you look at just those wholesale sales
17 that we were making at the incremental fuel price,
18 which is at issue in this issue before for us, that
19 piece is \$9 million worth of cost that was removed
20 from our retail customers and is a burden removed from
21 them. If you take that and put it in the context of
22 what is happening right now, if you would please move
23 to the other side of the chart and the bottom
24 right-hand of the chart shows the retail rate per 1000
25 kilowatt hours that our residential customers will be

1 paying on October 1.

2 I want to move from that number up to the
3 right-hand side of the chart. The \$1.78 is the refund
4 which will go into effect for our customers starting
5 October 1. If you back that out, that gets you to a
6 price of \$82.16. With the fuel adjustment factors
7 that you approve today and without the refund, it
8 starts October 1, that is the cost per 1000 kilowatt
9 hours that our residential customers would be paying.

10 Moving up the chart, there is, because of
11 the adjustments I'm about to tell you about, there is
12 a two-cent reduction in the gross receipt tax on that
13 bill. If you'll just hold that for a moment and move
14 a little bit further up. All of the discussion you've
15 heard this morning about increasing fuel costs to
16 customers, if we look at having not made, if Tampa
17 Electric did not have these contracts that have been
18 discussed this morning in place, yes, indeed, as my
19 testimony indicated, our fuel costs would be lower,
20 and they would be lower by 10 cents. 10 cents per
21 1000 kilowatt hours, and that's what is shown there.

22 If we move up one more line and we look at
23 the effect of the separation that was done as a result
24 of these sales, then \$9 million is worth 63 cents per
25 1000 kilowatt hours on our residential customers'

1 bill. See, we have incurred a 10 cent cost to get 63
2 cents worth of benefits. And that is the total net
3 benefit test that I have mentioned before and the
4 policy that this Commission has used before in
5 examining whether these sales should be done and
6 should be treated in the manner which they have been
7 treated since 1987.

8 If you put all these things together and
9 back up, if not for these sales, today we would be
10 asking you to approve a fuel adjustment factor that
11 would be \$82.71, clearly higher than we are now after
12 we have been able to make these sales using this
13 pricing.

14 **MR. BEASLEY:** Commissioner, can I ask that
15 that exhibit be marked for identification?

16 **COMMISSIONER DEASON:** Yes, it will be
17 identified as Exhibit 39.

18 **MR. BEASLEY:** 39.

19 (Exhibit 39 marked for identification.)

20 **Q** **(By Mr. Peasley)** Mr. Ramil, Ms. Johnson
21 asked you some questions regarding contracts that
22 you've entered into and what your experience on
23 off-system sales has been since your last rate case.
24 I'm going to hand you a document and ask you to
25 identify it and explain for me, please, what it

1 represents.

2 (Witness tendered document.)

3 MR. BEASLEY: Commissioner, I'd ask that
4 this one-page document be marked for identification as
5 well.

6 COMMISSIONER DEASON: Exhibit 40.

7 (Exhibit 40 marked for identification.)

8 Q (By Mr. Beasley) If you would, please just
9 describe for us, Mr. Ramil, what this chart
10 represents.

11 A This is our actual experience with our
12 separated wholesale sales for actual numbers for 1994
13 and '95, as well as our six month actual and six
14 months projected for 1996. It demonstrates that the
15 total amount of sales were less than the amount that
16 separated our last rate case. And indeed the Big Bend
17 station sales in particular, which are those that are
18 priced at incremental, have been below that \$9 million
19 revenue requirement separation. So if there's a
20 concern that we've somehow gone beyond what was looked
21 at and approved in our '92 rate case with respect to
22 the volume of these sales and the benefits and impacts
23 to customers, they have been within those projections.

24 Q If you don't make the sales that were
25 separated out in the 1992 case in any particular year,

1 who bears the risk of financial harm as a result of
2 that?

3 **A** If the revenues fall below the amount that
4 was separated in our '92 case, the Company
5 shareholders have that lost.

6 **Q** Is there any risk to the retail customers of
7 Tampa Electric resulting from your sale falling below
8 the amount separated in your last case?

9 **A** No, because the rates were set. And the
10 rates that they pay were set at the levels that I've
11 shown on the bar chart exhibit earlier, and those are
12 locked in, and they get those benefits.

13 **Q** I have one other one-page document I want
14 you to look at, please, showing projected level
15 separated sales 1996 through 1998. If you would,
16 please identify that for me.

17 **MR. BEASLEY:** I ask that this document be
18 marked for identification?

19 **COMMISSIONER DEASON:** Exhibit 41.

20 (Exhibit 41 marked for identification.)

21 **Q** **(By Mr. Beasley)** Mr. Ramil, could you
22 explain for us what this document shows?

23 **A** This shows 1996, '97, and '98, what our
24 expected separated sales are. This is the Company's
25 forecast of those sales.

1 **MR. BEASLEY:** I have a brief excerpt from a
2 Commission order, Commissioner Deason, from the fuel
3 adjustment hearing that was conducted last spring,
4 1995, the order is Order No. PSC-95-0450-POF-EI. I
5 would like to ask that you take official notice of
6 that and hand out a brief excerpt from it.

7 **COMMISSIONER DEASON:** Very well.

8 (Witness tendered document)

9 **Q** **(By Mr. Beasley)** Mr. Ramil, could you look
10 at Page 15 of the order excerpt that's been
11 distributed to you, the large paragraph in the middle
12 of that page. And please indicate for us what that
13 address is from a fuel adjustment standpoint relative
14 to your off-system sales.

15 **A** Middle of Page 15?

16 **Q** Yes.

17 **A** This indicates the Commission found that the
18 revenues the Company receives from its Scheduled D
19 sales should not be flowed back through the clauses
20 and should be retained by the Company in accordance
21 with the '92 rate case findings, and further notes
22 that by separating the class of customers and the
23 costs, the Company and its shareholders were
24 effectively required to carry all the risk associated
25 with the costs of making these sales.

1 Q Have your off-system sales been routinely
2 reviewed in each of the semiannual fuel adjustment
3 hearings since your rate case in 1992 and since the
4 proceedings that you referred to back in 1987 when
5 incremental fuel pricing was authorized to be used in
6 place of average fuel pricing?

7 A Yes. Those costs that were looked at on the
8 detail chart that I was asked about earlier have been
9 part of all those hearings.

10 Q Do those hearings, in your mind, represent a
11 form in which any issue relative to those off-system
12 sales can be raised at any time?

13 A Yes.

14 Q Did the Commission in your Company's last
15 rate case address the propriety of encouraging
16 utilities to sell power through higher margin
17 off-system sales?

18 A Yes, they did.

19 Q What was the Commission's position on that
20 point?

21 A The Commission's position was where we could
22 increase the economics to our system and generate more
23 benefits to off-system sales, we should be encouraged
24 to do so.

25 Q Mr. Howe asked you several questions about

1 the specific Schedule D sales listed in your Company's
2 interrogatory response in the Polk proceeding. Do you
3 recall that?

4 A Yes.

5 Q Were the sales listed in that response
6 considered in the last rate case as well as in Tampa
7 Electric's fuel adjustment proceedings in 1995?

8 A Yes.

9 Q Did Public Counsel inquire about these sales
10 in your Company's last rate case?

11 A Yes.

12 Q Did the Commission allocate a portion of
13 Tampa Electric's revenue requirements to wholesale and
14 reduce Tampa Electric's revenue requirements for the
15 retail customers as a result of these particular
16 contracts?

17 A Yes, by the \$9 million I mentioned earlier.

18 Q Okay. Is it your view that the Schedule D
19 sales referred to by Mr. Howe were separated based on
20 average costs?

21 A The rate base was separated based on system
22 average costs, yes. That's what the stipulated cost
23 of service study did.

24 Q What are the implications of this separation
25 at average cost with regard to the relative

1 reliability obtained by retail and Schedule D
2 customers?

3 A Well, I guess the way I would put it is that
4 the retail customers are enjoying an economic benefit
5 on a per unit basis for these sales that is equivalent
6 to the per unit basis for capacity or reliability
7 benefit that they pay for our entire system. Yet at
8 the same time, the customers that are buying the
9 wholesale power from us had the reliability of only
10 four units on our system.

11 Q Has Tampa Electric ever had to curtail
12 retail load in order to serve Schedule D contract
13 load?

14 A The contracts in question by Mr. Howe?

15 Q Yes.

16 A No, we have not.

17 Q What would have to happen on your system for
18 retail customers to be interrupted in order to serve
19 those Schedule D customers?

20 A The scenario would have to be one like we
21 encountered at Christmas '89.

22 Q During your cross examination, Commissioner
23 Johnson asked you about what the affect might be if
24 you were to price broker quotes based on average fuel
25 costs. How do you think the use of average fuel costs

1 in that scenario would affect your broker sales?

2 A I think the broker sales would be severely
3 curtailed.

4 Q Could you tell us how your broker sales
5 differ, if at all, from the longer term off-system
6 sales insofar as the ability to price them based on
7 incremental fuel costs is concerned?

8 A The broker sales are your last resort to
9 squeeze economics out of your system. So you may or
10 may not make them. And because they are -- can't be
11 depended upon by the buyer, your margins are quite
12 small, on the order of \$5.00 or less has been our
13 experience this year, \$5.00 per megawatt hour or less.
14 On the longer term sales, those that we have been
15 talking about, the margins on those sales are on the
16 order of \$15 to \$20 per megawatt hour, about three
17 times or better.

18 Q Mr. Ramil, do you offer incrementally priced
19 off-system sales routinely, or do you do it as a last
20 resort?

21 A We do it where we have to do it to get the
22 business if its economical for our system. Like I
23 said earlier, like anyone else in selling your product
24 in a discretionary sale like this, we'd like to get as
25 high a price as we can. And the way we have found in

1 today's market to get the highest price that we can is
2 to get the fuel priced just as low as we can so that
3 it dispatches very well on the customers' system, and
4 then we can get a higher price on the fixed charge
5 side, those revenues you are sure to get no matter
6 what the economic conditions turn out to be.

7 Q Do you think adoption of Public Counsel's
8 position on Issue 9 would help encourage electric
9 utilities to maximize their off-system sales?

10 A No, I think it won't. I think we heard this
11 morning that there is -- there may be some hesitancy
12 to make sales which benefit your system. And our
13 experience has been that, you know, we look at it, we
14 analyze the situation, and if we show that there are
15 net benefits to our system and to our customers, then
16 it's a decision that we ought to make. Sure we could
17 be subject to regulatory review after the fact, but
18 that's our business. And every decision we make every
19 day is really subject to that. And we are confident
20 we can pass that standard. It's a good deal to make.

21 Q What action do you think the Commission
22 should take in response to Question 9?

23 A I think the Commission should take no new
24 action but should continue its policy that these types
25 of sales should be encouraged to produce the net

1 RE CROSS EXAMINATION

2 BY MS. JOHNSON:

3 Q You indicated that this exhibit illustrated
4 the impact that your wholesale contracts have had on
5 your retail rates, correct?6 A I failed to write the exhibit numbers on all
7 these papers I have. Could you describe it for me?
8 Is that this chart?

9 Q It's the chart, yes.

10 A What was the question?

11 Q Isn't it correct that you indicated that
12 this chart indicates the impact that your wholesale
13 contract is having of retail rates?

14 A Yes.

15 Q Do you feel that the variables of the given
16 long-term contract, such as timing, length of the
17 contract, the rate, terms and conditions of the
18 contract, affect the overall benefits that a contract
19 can provide to the general body of ratepayers, retail
20 ratepayers?21 A Yeah. I think you are talking about can
22 conditions change from when you originally entered
23 into an agreement that might make it different? Is
24 that what you are asking?

25 Q No. The question I'm asking is: Isn't it

1 true that each contract is different in some respects,
2 unless they are standard contracts, and they may have
3 different net benefits?

4 A Potentially.

5 Q So should this type of analysis, that is the
6 analysis that's represented by Exhibit 39, be done for
7 each wholesale contract?

8 A By whom? I mean, the Company makes this
9 type of analysis before we would decide to offer such
10 a sale.

11 Q Was this type of analysis presented in the
12 last rate case for each contract?

13 A I don't know.

14 MS. JOHNSON: That's all that we have.

15 COMMISSIONER DEASON: Further redirect.

16 MR. BEASLEY: I have one. One moment,
17 please.

18 COMMISSIONER JOHNSON: Is this the type
19 analysis that you think should be done in order to
20 demonstrate the net benefit?

21 WITNESS RAMIL: This is the type analysis
22 that we do internally, and that's what I was
23 describing is the total economic benefit in making
24 these sales. And in answering the question I just
25 had, we did make for each of these sales, this type of

1 analysis internally. Whether other people made it or
2 other people reviewed it in the rate case, I don't
3 know.

4 **COMMISSIONER JOHNSON:** Let me be a little
5 more specific. By your proposal, and you state, that
6 we should adopt some more generic net total benefit
7 analysis. Are you suggesting that we would do this in
8 order to determine whether or not you met that test?
9 I thought you were suggesting that we had done it in
10 those other cases.

11 **WITNESS RAMIL:** I see.

12 **COMMISSIONER JOHNSON:** And that we had
13 reached a conclusion, and that that's kind of what we
14 do, although TECO is not on trial here.

15 **WITNESS RAMIL:** Right.

16 **COMMISSIONER JOHNSON:** But that's what we've
17 done in our previous cases, and that we continue to do
18 this. And when you put together this document, I
19 thought you were suggesting that that is what the
20 Commission had done in order to base its decision and
21 reach a conclusion.

22 **WITNESS RAMIL:** This is the effect of, I
23 guess, all that's been done and broadened as a scope
24 from what had been focused on by some of the parties
25 as just fuel and to "Let's look at the whole economic

1 picture," and that was the point of this.

2 What we have in place now is that
3 wholesale -- or wholesale activity, Tampa Electric is
4 fairly recent in the wholesale business. And the way
5 we got into the wholesale business is following our
6 1985 rate case the Commission left the Company short
7 of revenues and encouraged us to go and make up those
8 revenues in the wholesale market. And that's how we
9 got into the wholesale business. And we found it
10 wasn't something you could do one day and turn off the
11 next day. You either had to be in the business or not
12 be in the business.

13 In '92 there was a lot of interest in the
14 wholesale transactions that we were involved in. And
15 there was a lot of interest because people had never
16 seen these in our rate cases before, they had seen our
17 customers now in other people's rate cases, so there
18 was a lot of attention and a lot was new. So we
19 started what we hoped was better communication of
20 what's going on.

21 In fact, between the hearing and the final
22 decision on the rate case, we entered into a new
23 contract and that somehow became part of the analysis.
24 And rather than rely on the FERC to send those
25 contracts to the Public Service Commission Staff as

1 was the normal practice, we committed to whenever we
2 do one of these, we will communicate to the Staff so
3 you know what's going on. And we've tried to keep
4 that communication open so that when we're entering
5 into these things, those questions can be asked on a
6 routine basis and the issues can come up in the proper
7 forms when they are those issues.

8 When the hearing was held last year in, I
9 guess it was spring of '95, and the Commission
10 relooked at our sales and confirmed that these should
11 be treated the same way they had been set up in the
12 '92 rate case, the process got a little more
13 formalized. We are required to do certified letter
14 providing any new contracts to the Commission, and
15 that's fine. And we are glad to provide any
16 justification, economics, whatever we need to do for
17 these types of transactions. What we don't want to
18 see happen is that we have forms for new hearings to
19 address this. I think these issues can be looked at
20 within the administrative procedures we already have.
21 That is concern No. 1.

22 Concern No. 2 is we don't want these to turn
23 into hearings that are feeding frenzies for
24 competitors. Florida Power Corp and Tampa Electric
25 are competitors in the wholesale market, but we are by

1 no means the only players in that market. The world
2 has really changed. It's not like it was with just
3 the utilities competing. We have independent power
4 producers; we have power marketers. They don't have
5 any rules for the most part to play by. And I hate
6 these forms and these places where we need to disclose
7 all this information to be forms where they could get
8 information to use to their advantage and take away
9 types of sales that we could use to benefit our
10 customers, or the other investor-owned utilities can
11 use to benefit their customers. Those are some of the
12 concerns we have on any new avenues or new approaches
13 that you take with respect to examining wholesale
14 sales.

15 The last concern that I'll mention, if there
16 is a concern, if there are issues to be raised, and if
17 the concern is how do wholesale transactions affect
18 retail customers, then how you price fuel in those
19 wholesale transactions should not be an indicator
20 whether something is reviewed or not. If you are
21 concerned about the fuel impacts, then you are
22 concerned about the fuel impacts no matter how the
23 pricing is done.

24 **COMMISSIONER DEASON:** Any objection to
25 Exhibits 39, 40, and 41?

1 **MR. HOWE:** We'll move the admission of
2 Exhibit 38.

3 **COMMISSIONER DEASON:** First of all, 39, 40,
4 and 41 are admitted without objection. Exhibit 39,
5 any objection?

6 No objection, Exhibit 38 is admitted.

7 **MR. STONE:** Commissioner, we'd like to move
8 the admission of Exhibit 37.

9 **MS. KAUFMAN:** Commissioner, FIPUG has an
10 objection to Exhibit 37. The last two pages were
11 provided by Mr. Stone to Mr. Ramil. As I understand
12 it, Mr. Ramil did not prepare this document. I don't
13 know if he's even seen it before today. It's
14 basically an attempt to buttress his position here,
15 and it's not an appropriate cross examination exhibit.

16 **MR. STONE:** Commissioner, we went through
17 the entire exhibit. It was based on a hypothetical
18 and it supports the testimony and I believe it is an
19 appropriate cross examination exhibit.

20 **COMMISSIONER DEASON:** Objection overruled.
21 Exhibit 37 is admitted.

22 (Exhibits 37 through 41 received in
23 evidence.)

24 **MR. STONE:** Commissioner Deason, if I may,
25 at this time, we would also request that the

1 Commission take official notice of two of its order
2 and an order of the Florida Supreme Court. They are
3 Commission Order 19042 issued March 25, 1988 in
4 Docket 880001; Commission Order 20568 in 890001, which
5 is an order denying a motion for reconsideration of
6 the previous order. And finally, the Supreme Court's
7 decision in Monsanto Company verses Michael McKitrick
8 Wilson, etcetera, et al, Appellees. It's an order
9 issued January 25, 1990 and it's cited at 555 So2d
10 855. These three orders represent the litigation
11 history where a similar type of transaction
12 opportunity sale was challenged, and the Commission
13 endorsed the concept of incremental pricing. And the
14 benefits that flowed to Gulf's ratepayers. That was
15 frequently referred to as the Schedule R debate.

16 COMMISSIONER DEASON: Without objection, the
17 Commission will take notice of those orders.

18 Thank you, Mr. Ramil. I believe Mr. Larkin
19 is scheduled next.

20 (Witness Ramil excused.)

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1 HUGH LARKIN, JR.

2 was called as a witness on behalf of the Citizens of
3 the State of Florida and, having been duly sworn,
4 testified as follows:

5 DIRECT STATEMENT

6 BY MR. HOWE:

7 Q Would you please state your name and address
8 for the record?

9 A My name is Hugh Larkin, Jr. My business
10 address is 15728 Farmington Road, Livonia, Michigan
11 48154.

12 Q Are you the same Hugh Larkin, Jr. that
13 caused to be filed the prefiled direct testimony of
14 Hugh Larkin, Jr. consisting of 11 pages?

15 A Yes.

16 MR. HOWE: Chairman Deason, the Appendix to
17 Mr. Larkin's testimony is an appendix of his
18 qualification. It has been identified in the
19 prehearing order as Exhibit 36.

20 Mr. Larkin, if I were to ask you the same
21 questions asked in your prefiled direct testimony,
22 would your answers be the same?

23 A Yes.

24 Q Do you adopt that testimony at this time?

25 A Yes, I do.

1 MR. HOWE: Chairman Deason, we'd ask that
2 Mr. Larkin's prefiled direct testimony be inserted
3 into the record as though read?

4 COMMISSIONER DEASON: Without objection, it
5 will be so inserted.

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1 DIRECT TESTIMONY OF HUGH LARKIN, JR.
2 ON BEHALF OF THE CITIZENS OF FLORIDA
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4
5 DOCKET NO. 960001-EI

6 I. INTRODUCTION

7 Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

8 A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed
9 in the States of Michigan and Florida and the senior partner in the firm of
10 Larkin & Associates, Certified Public Accountants, with offices at 15728
11 Farmington Road, Livonia, Michigan 48154.

12 Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES.

13 A. Larkin & Associates is a Certified Public Accounting and Regulatory
14 Consulting firm. The firm performs independent regulatory consulting
15 primarily for public service/utility commission staffs and consumer interest
16 groups (public counsels, public advocates, consumer counsels, attorneys
17 general, etc.). Larkin & Associates has extensive experience in the utility
18 regulatory field as expert witnesses in over 400 regulatory proceedings
19 including numerous water and sewer, gas, electric and telephone utilities.

1 Q. HAVE YOU PREPARED AN APPENDIX WHICH DESCRIBES
2 YOUR QUALIFICATIONS AND EXPERIENCE?

3 A. Yes. I have attached Appendix I, which is a summary of my experience
4 and qualifications.

5 Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE
6 OF YOUR TESTIMONY?

7 A. Larkin & Associates was retained by the Florida Office of Public Counsel
8 (OPC) to make policy recommendations to the Florida Public Service
9 Commission regarding the effect of certain wholesale sales on retail fuel
10 cost recovery.

11 II. WHOLESALE SALES WHICH REQUIRE POLICY STATEMENT BY
12 FLORIDA PUBLIC SERVICE COMMISSION

13 Q. DOES THE OFFICE OF PUBLIC COUNSEL RECOMMEND THAT
14 ALL SALES ON A WHOLESALE OR ECONOMIC BASIS BE MADE
15 AT EITHER THE AVERAGE COST OF FUEL FOR THE SYSTEM
16 OR ON A SPECIFIC UNIT'S AVERAGE COST?

17 A. No, it does not. In initiating this generic issue, the Office of Public
18 Counsel desires to bring to the Commission's attention the possibility that
19 certain transactions might be termed as, or masquerade as, economic
20 transactions when, in reality, they are, or were, non-economic transactions

1 which are being subsidized by retail customers through the Fuel
2 Adjustment Clause. It is these types of transactions for which the Office of
3 Public Counsel desires to obtain a statement of policy from the Florida
4 Public Service Commission on how these transactions will be treated for
5 fuel cost recovery purposes.

6 Q. WOULD YOU PLEASE FIRST DISCUSS THOSE TRANSACTIONS
7 WHICH THE OFFICE OF PUBLIC COUNSEL DOES NOT TAKE
8 EXCEPTION TO OR AGREES SHOULD BE PRICED AT LESS THAN
9 AVERAGE OR AT INCREMENTAL FUEL COSTS?

10 A. Yes. There are transactions which take place either on a daily or on a
11 short-term basis which provide economic benefit both to the seller and the
12 purchaser of energy. These transactions are generally termed economy
13 sales. They are based on a comparison of fuel costs between two
14 generating units on different systems. The two units are compared to each
15 other in terms of generating fuel costs per kWh. If the purchasing utility's
16 unit operates at a higher fuel cost per kWh than the selling utility's unit,
17 then this transaction is consummated with the differential between the two
18 units being split between the seller and the buyer. As an example, if a
19 purchasing utility's next generating unit would generate energy at 35 mills
20 per kWh, and the selling utility had a generating unit which would generate
21 energy at 25 mills per kWh, then the selling utility would provide the

1 energy to the purchasing utility. The sales price would be at 30 mills per
2 kWh. Thus, the selling utility would profit by 5 mills per kWh while the
3 purchasing utility would save 5 mills per kWh. These types of transactions
4 are economic in nature and benefit both the seller and the buyer of energy.
5 Other similar types of transactions may occur on a longer term basis where
6 one utility is short of capacity or energy for a short period of time while
7 another utility is excess of capacity or energy for a short period of time.
8 The result may be a price which allows the selling utility to utilize unused
9 capacity or energy at a profit while, at the same time, saving capacity or
10 energy costs for the purchasing utility. Clearly, these types of transactions
11 are economic in nature where there is both a benefit to the seller and the
12 purchaser. The customers of both systems benefit by the utilization of both
13 systems at lower average or incremental costs. The Office of Public
14 Counsel does not seek to change or alter these kinds of economic
15 transactions.

16 Q. FOR WHICH TYPE OF TRANSACTION DOES THE OFFICE OF
17 PUBLIC COUNSEL SEEK A POLICY DETERMINATION BY THE
18 FLORIDA PUBLIC SERVICE COMMISSION?

19 A. The type of transaction for which the Office of Public Counsel desires to
20 obtain a policy statement from the Florida Public Service Commission
21 deals with the sale of energy and capacity to a customer, generally a

1 wholesale customer, where the price of the capacity is subsidized in part
2 through the fuel adjustment clause. In these types of transactions,
3 normally the capacity and energy can be provided by more than one
4 generating utility. There is, in effect, competition between two generating
5 utilities to provide the requirements to the customer. Since the customer
6 would not be consuming energy only for a short period of time, only at off-
7 peak hours, or when excess capacity was available, it is clear that it is not
8 an economy transaction. The contract may require service from a specific
9 unit or a slice of the system fuel cost but, absent competition for the
10 customer, no fuel concession would have been made by the selling utility.
11 The wholesale customer absorbs capacity throughout peak and off-peak
12 hours. It is the presence of competition for this customer that has
13 instigated the fuel concession by the selling utility and not the economics of
14 the transaction.

15 Since these transactions are not economic in nature, they should have no
16 adverse effect on retail fuel adjustment costs, absent any showing that they
17 provide true economic benefit to ratepayers. Under the methodology used
18 by the Florida Public Service Commission in calculating the fuel adjustment
19 clause, if wholesale sales are priced at less than average fuel cost, then
20 retail customers subject to the fuel adjustment clause absorb the
21 differential between average fuel cost and whatever might be charged

1 below-average to the customer involved. Thus, the fuel adjustment clause
2 becomes a methodology by which a utility may subsidize a type of
3 wholesale sale at the expense of retail customers who are subject to the
4 fuel adjustment clause.

5 Q. CAN'T THE TYPE OF TRANSACTION WHICH YOU DESCRIBE
6 ABOVE BE JUSTIFIED BY THE SELLING UTILITY BY SHOWING
7 THAT THE CUSTOMER ADDED IS INCREMENTAL TO THE
8 SYSTEM. IN OTHER WORDS, THAT THE SALE WAS OVER AND
9 ABOVE THE COMPANY'S NORMAL LEVEL OF WHOLESALE
10 SALES.

11 A. No. This does not justify the transaction adversely affecting retail
12 customers. Any sale can be designated as incremental. Even a new or
13 additional sale to an established customer could be designated as
14 "incremental." To use the designation of a new customer as justification
15 for using incremental cost in pricing fuel is not justified from an economic
16 standpoint. For instance, at some point in time, every customer was an
17 incremental sale or a new customer. If that customer were designated as
18 incremental and that designation used to justify the use of a lower fuel
19 cost, clearly other customers would be justified in complaining that the
20 timing of their entering the system does not justify discrimination through
21 the pricing of fuel. Wholesale sales which are discounted should not

1 impact retail fuel recovery. Any additional sale or incremental sale does
2 not justify a lower fuel cost unless the sale meets the criteria of an
3 economic purchase. Where the sale is of the nature of other long term
4 wholesale sales requiring capacity, both on and off peak, existing for long
5 periods of time and not interruptible, it is not proper to have the
6 discounted sale affect the retail cost recovery.

7 As an example, suppose a large wholesale customer located in Florida is in
8 need of additional capacity and energy. This large customer could take
9 service from either of two local generating utilities. The cost on either of
10 these competing generating utilities was essentially the same for fuel and
11 capacity. One utility decides to designate the customer as an incremental
12 customer to the system and price the fuel to this customer at a lower
13 incremental fuel price. Even though it would provide service to this
14 customer, both on and off peak, and for several years without interruption.
15 The selling utility, in determining its retail fuel cost, would reduce total fuel
16 costs by the price charged the wholesale customer. This would occur even
17 though the wholesale customer took service on average the same as retail
18 customers. Thus, the remaining or retail portion of the fuel would be
19 borne by retail customers. The utility would, in fact, capture the same level
20 of cost it would have captured had it charged average cost to the new
21 customer because the remaining retail customers would pay higher fuel

1 costs as a result of this transaction. These retail customers have, in fact,
2 subsidized this transaction which, in effect, benefits the Company's
3 stockholders.

4 Q. CAN THE FLORIDA PUBLIC SERVICE COMMISSION ANTICIPATE
5 ALL UTILITIES ADOPTING THIS PROCEDURE WHEN
6 COMPETING FOR WHOLESALE CUSTOMERS IF A POLICY IS
7 NOT ESTABLISHED?

8 A. Yes. Based on my example, there is no reason that the utility who did not
9 get the contract could not have done the same thing, that is, pass on to its
10 retail customers through the calculation of its fuel adjustment clause,
11 average fuel cost not recovered in this wholesale sale. If the Commission
12 does not establish policies pertaining to these types of transactions, it can
13 anticipate that every utility, when faced with having to discount services in
14 order to obtain a wholesale customer, will discount the fuel component of
15 the rate and merely pass on the non-recovered cost to the captive fuel
16 adjustment clause customers.

17 Q. DO YOU AGREE WITH THE CRITERIA SET OUT BY FLORIDA
18 POWER CORPORATION'S WITNESS KARL H. WIELAND AS IT
19 RELATES TO THE USE OF INCREMENTAL COST PRICING FOR
20 WHOLESALE SALES?

1 A. Yes, I do. It appears that these criteria would cover most of the situations
2 where incremental pricing would be justified. If there is a situation that
3 arises which is not covered by these criteria, then the utility desiring to use
4 incremental pricing could petition the Commission to show that the use of
5 incremental pricing would be beneficial to both the purchaser and the
6 seller.

7 Q. TAMPA ELECTRIC'S WITNESS JOHN B. RAMIL ATTEMPTS TO
8 CHARACTERIZE THE OFFICE OF PUBLIC COUNSEL'S POSITION
9 AS OPPOSING ECONOMIC BROKER TRANSACTIONS. IS HIS
10 CHARACTERIZATION OF THE OFFICE OF PUBLIC COUNSEL'S
11 POSITION CORRECT?

12 A. No, it is not. It is my understanding that the Office of Public Counsel's
13 position is that economic transactions should be continued, and that only
14 those transactions which are clearly designed to subsidize certain sales to
15 make them more competitive should be subject to a policy set forth by the
16 Commission.

17 Q. TAMPA ELECTRIC'S WITNESS ALSO STATES THAT RATEPAYERS
18 BENEFIT FROM OFF-SYSTEM SALES SUBSIDIZED THROUGH
19 THE FUEL ADJUSTMENT CLAUSE BECAUSE OF THE

1 CONTRIBUTION TO THE RECOVERY OF FIXED COSTS. WOULD
2 YOU PLEASE COMMENT?

3 A. Since rates are not re-established after, or during, each transaction which
4 affects the recovery of fixed costs, the benefit can only go to stockholders.
5 If rates are currently fixed, based on a prior determination of fixed costs,
6 any reduction or recovery through another sale of fixed costs previously
7 assigned to retail customers can only benefit the stockholders. This is true
8 because rates are not re-established regularly and any reduction or
9 additional contribution to fixed costs would then flow to the net income
10 line, which benefits stockholders directly.

11 Summary

12 Q. WOULD YOU PLEASE SUMMARIZE THE OFFICE OF PUBLIC
13 COUNSEL'S POSITION.

14 A. The Office of Public Counsel does not oppose true economic transactions
15 defined as those transactions that are based on a cost differential which
16 provides savings to both the seller and the purchaser of energy and capacity
17 or are sales for short periods of time generally out of a specific unit which
18 benefit both utilities. The Office of Public Counsel believes that there are
19 transactions which are competitive in nature in which fuel costs are used to
20 advantage one utility over another. This type of transaction is subsidized
21 by increasing fuel costs on retail customers subject to fuel adjustment

1 clauses. It is the position of the Office of Public Counsel that a policy
2 statement is necessary to ensure that this subsidization does not occur.

3 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

4 A. Yes, it does.

1 Q (By Mr. Howe) Mr. Larkin, would you please
2 summarize your testimony?

3 A Yes, I will. Let me start off by saying
4 that my testimony and the policy that the office of
5 the Public Counsel is sponsoring does not affect
6 economic transactions. Those transactions that I
7 describe in my testimony that are based on the
8 comparison of fuel costs from the next available unit
9 coming on line or a unit that is available and is
10 cheaper than another unit on a different system. Our
11 recommendation is designed to deal with longer term
12 contracts, and we think that the four criteria that
13 Mr. Wieland set out is an adequate way to start out by
14 trying to define what those contracts are, or what
15 those sales are. And that if a utility desires to
16 price at incremental cost that is lower than average,
17 that all we are stating is that they ought to come in
18 here and designate and say, "This contract does not
19 meet this policy, and therefore we want an exception
20 to the rule."

21 And everybody can look at the economics of
22 that transaction and Florida Power can say, "No, it
23 isn't an economic. It's taking one of our customers
24 and what you are in effect doing is passing on the
25 incremental fuel cost or the less than average fuel

1 cost to the retail customer." And that's why the
2 focus is on retail fuel costs. Because nothing else
3 changes in these sales.

4 Now, I want to talk for a minute about this
5 chart and about what happened in the 1992 rate case.
6 Tampa Electric has positioned themselves as saying we
7 did the ratepayer a favor. This isn't a favor to the
8 ratepayer. They had excess capacity that they wanted
9 to put in the rate base and offset that with these
10 lower than compensatory sales. And the Commission
11 says, "Let's separate them out and you guys be
12 responsible for this." That's not a favor to the
13 ratepayer. And jurisdictionalizing between wholesale
14 and retail is a requirement. It's not an option.

15 So this chart is misleading when it says we
16 did you a favor by giving you a \$9 million credit. We
17 could have done it the other way around; we could have
18 declared the entire excess rate base at the increment,
19 which would have been one of the Big Bend units, as
20 excess capacity, and the Company's rate base would
21 have been less.

22 MR. HART: Commissioner Deason?

23 COMMISSIONER DEASON: Yes.

24 MR. HART: I'd like to object to this. It's
25 way beyond his direct testimony. It may be

1 appropriate at sometime in the proceeding, but not in
2 the summary of his testimony. Some of it we didn't
3 object to, but it's now gone on quite some time and
4 quite extensively, and we would prefer that he just
5 summarize his testimony at this point.

6 **COMMISSIONER DEASON:** Mr. Howe, there's been
7 an objection.

8 **MR. HOWE:** Chairman Deason, this is our
9 direct case. In our direct case we have the right to
10 address anything the Company put on it its direct
11 case, whether it came up in its prefiled direct
12 testimony in response to cross examination questions
13 or in charts that, in my estimation, should have been
14 offered as part of their direct case. So in as much
15 this is our direct case and we have that opportunity,
16 I don't believe the witness can be limited to
17 summarizing what he said in his prefiled testimony.

18 If we followed that course of action,
19 Mr. Larkin would summarize his prefiled testimony. If
20 it didn't come out on cross examination, I would have
21 no opportunity, nor would this witness have any
22 opportunity, to address everything that came out in
23 the Company's direct case. And for that reason, I
24 think you should grant some latitude.

25 **COMMISSIONER DEASON:** Well, Mr. Howe, it is

1 customary to have a witness summarize his testimony
2 and that summary be limited to the prefiled testimony.
3 Now, I understand your concern is that there have been
4 matters brought out during cross examination or
5 perhaps redirect that has supplemented the Company's
6 direct case, but that was brought out on cross
7 examination, and I deemed it to be appropriate
8 redirect.

9 I'm going to ask the witness to limit his
10 summary to what was prefiled, and I'll give you the
11 latitude at the end if you need to expand your
12 redirect. I'll take that under consideration at that
13 time.

14 MR. HOWE: Thank you.

15 WITNESS LARKIN: In my direct testimony I
16 also pointed out that any benefit that flows from the
17 recovery of fixed costs through these additional
18 wholesale sales does not benefit the ratepayer
19 immediately, if at all. There's no adjustment in base
20 rates that reflects the reduction in cost because
21 capacity cost was paid in part through a wholesale
22 sale. The only thing that is affected is the fuel
23 cost, because the calculation of the fuel adjustment
24 clause takes the average fuel cost and deducts from
25 that revenues which are calculated based on the

1 recovery from the wholesale sale. Therefore, the
2 ratepayer bears any cost not recovered if that sale
3 was discounted in order to make it more economic.
4 That summarizes my testimony.

5 MR. HOWE: We tender Mr. Larkin for cross
6 examination.

7 COMMISSIONER DEASON: Mr. McGee.

8 MR. MCGEE: No questions.

9 COMMISSIONER DEASON: Okay. Mr. Hart.

10 CROSS EXAMINATION

11 BY MR. HART:

12 Q Mr. Larkin, on Page 4 of your testimony, you
13 defined two types of transactions that you refer to as
14 economy transaction. One is the broker transaction,
15 and the other is a short -- what you refer to as a
16 short term sale. One example you use is a utility
17 with excess capacity or energy; is that correct?

18 A Yes, but there could be others. I didn't
19 mean that to be universal.

20 Q But that portion of your testimony at least
21 says, or acknowledges, that incremental fuel pricing
22 can provide net benefits to retail ratepayers, and as
23 a matter of principle, incremental pricing of fuel is
24 not a bad thing.

25 A As a matter of principle when you are

1 comparing sales on a short term basis, I think that's
2 right.

3 Q Now, on Page 5 of your testimony, you start
4 to define what you refer to as noneconomic
5 transactions. And the only two characteristics you
6 list to identify noneconomic transactions are, one,
7 that it's longer, and that there's competition for the
8 sale; is that correct?

9 A No. I think I say that it's longer than the
10 shorts but only at off peak hours or when excess
11 capacity is available, but there might be other
12 definitions. I'm not trying to define for the
13 Commission what noneconomic sales are. What I'm
14 trying to say is that if you adopt the four principles
15 that Mr. Wieland set forth, and say, "If you are going
16 to sell at wholesale and credit the retail ratepayer
17 with just incremental sales, then you ought to come in
18 and justify that." Now, if you've credited it at the
19 average, then you can make that sale because there's
20 no detriment to the ratepayer.

21 Q So is it your testimony then that you are
22 not attempting to set up what the standard is for when
23 it's economic and when's it's not?

24 A Not really. All I'm saying is adopt this
25 principle, the four principles that Mr. Wieland set

1 out. And then if a utility chooses to make sales at
2 less than incremental cost, or less than average cost,
3 and they want to recover the difference from the
4 retail ratepayer, then you have to justify that to the
5 Commission or to the Commission Staff.

6 Q Well, let's talk about your testimony for a
7 minute, we'll ask you about Mr. Wieland's later. In
8 your testimony the only way you identify a noneconomic
9 sale is one of longer term and where competition for
10 the sale exists?

11 A Well, I also say there's -- two generating
12 utilities could provide it and that the customer would
13 not be consuming energy only for a short period and
14 only at off peak hours or when excess capacity is
15 available. I mean, there could be economic
16 transactions that would meet that.

17 Q Well, what I'm trying to determine, though,
18 we're talking about what you have testified to is
19 noneconomic transactions; and we are trying to
20 determine, at least in your prefiled testimony, what
21 you identified as the characteristics of such
22 transactions so that we'll know them when we see them.

23 A Okay.

24 Q In your testimony the only identifying
25 characteristic of a noneconomic transaction is that

1 it's longer and there's competition for the sale;
2 isn't that correct?

3 A No, I think I put some other -- that it's
4 made -- only -- well, that there wouldn't be -- since
5 the customers would not be consuming energy only for a
6 short period of time, only at off peak hours or when
7 excess capacity was available, it is clear that it is
8 not an economic transaction. That's my definition of
9 how you could look at --

10 Q But that definition would apply to short
11 term transactions, too?

12 I'm trying -- I mean, sales that meet those
13 terms, what's the definition of economic short term
14 sale, is one where you are selling excess capacity?

15 A No. I think in the sentence I said the
16 customer would not be consuming energy only for a
17 short term period, so I've exempted short term
18 periods.

19 Q Well, what I'm trying to -- we are talking
20 about sales where there's incremental fuel pricing?

21 A Yes.

22 Q Broker short term?

23 A No, no.

24 Q We are talking about transactions in this
25 proceeding. I know you have a position that the

1 broker sales are not within your policy. I'm not
2 disagreeing with that. I'm looking at these range of
3 transactions from the broker sale which you agree are
4 economic to the ones that you say are not economic and
5 the short ones in the middle that you say are
6 economic. I'm looking at all of those and trying to
7 come up with the characteristics that distinguish one
8 from the other.

9 . In that whole range of sales, we are talking
10 about transactions where the fuel is priced at
11 incremental prices; isn't that correct?

12 A Which is less than average.

13 Q Yes.

14 A Okay.

15 Q We are talking about it in all those sales?

16 A Yes.

17 Q So the fact that that exists is not a
18 distinguishing characteristic among those
19 transactions?

20 A That they are less than incremental -- or
21 less than average costs.

22 Q Right.

23 A That's right.

24 Q Now, there is also competition for all of
25 those sales; isn't there not?

1 A No, not necessarily.

2 Q Are you saying that the broker system is
3 note competitive or that there's not competition for
4 the short term sales?

5 A Probably not, because somebody's got the
6 lowest incremental cost. Somebody's unit is less
7 costly than somebody else's, so somebody else is not
8 going to come on and say my actual cost is 2.2 cents
9 per kilowatt hour. But since the broker can only sell
10 it at 1.5, that's what I'll bid, so the basis of the
11 economic transaction is that that's your actual
12 incremental. There might be two sellers that have the
13 same incremental cost.

14 Q Well, because -- are you saying that in your
15 definition of competition if there is a winner, that
16 is a person who is able to compete better, that there
17 is no competition?

18 A Well --

19 Q The fact of the matter is everybody can put
20 up and try to sell energy on the broker system, and
21 they are free to compete for all of those sales. And
22 they do compete for those sales, don't they?

23 A Yes. But you only make a sale if your price
24 is the most economic.

25 Q All right. And that's the definition of

1 competition, isn't it?

2 A Yes.

3 Q So then in all those sales there's
4 competition?

5 A I guess you could look at it that way, yeah.

6 Q So the existence of competition is not an
7 identifying factor with regard to whether or not
8 there's an economic sale; isn't that correct?

9 A Well, not in the broker's system.

10 Q Or in the short term sales; isn't that
11 correct?

12 A No. You're suggesting that everybody can
13 make a short term sale.

14 Q No. I'm suggesting that only the most
15 competitive person can actually make the sale, but
16 everybody is free to try; isn't that correct?

17 A Yes.

18 Q And that's the definition of competition?

19 A Well, yes.

20 Q So that if we are trying to identify
21 characteristics of transactions that you characterize
22 as noneconomic, it's not the fact that there's
23 incremental fuel pricing, and it's not the fact that
24 there's competition. In your definition and your
25 direct testimony, the only distinguishing character is

1 whether you call it short term or long term.

2 A Well, my definition would still be that
3 there's competition for that long-term sale.

4 Q Sure. And there's competition for the
5 broker, and there's competition for the short term?

6 A Yes. But that's based strictly on price,
7 and you are not passing the discount onto the retail
8 ratepayer.

9 Q I'm not sure I know what you mean by
10 "discounting." Some of the energy on the broker
11 system is the cheapest energy purchased in Florida.

12 A Yes. But if it's long term, you can't
13 segregate what incremental cost that's providing that
14 sale. So all you are doing is assuming that this is
15 the cost, and the ratepayer is subsidizing that
16 because the way the fuel clause is calculated.

17 Q What you mean by that is, isn't it, that you
18 can't look at the transaction and be sure that it's as
19 armed length as the broker system?

20 A Well, I think you could look at it that way,
21 and that's why I'm suggesting that if it meets
22 Mr. Wieland's four criteria and it's at less than
23 average cost, then you should get commission to make
24 that sale, otherwise you can make all the other sales
25 you want, or if you charge average cost. If you

1 credit the fuel clause with average cost, even though
2 you sold it at less than average cost, you can go
3 ahead and make that sale because clearly in that
4 situation, the company is bearing the risk. The
5 company is actually giving the discount and not the
6 retail ratepayer.

7 Q Let me ask you another question that you
8 mentioned in your early summary about what you
9 envisioned as some sort of proceeding, the type that
10 you would -- why the Commission needed to look at
11 that. And if I understood your summary correct, what
12 you were saying is that one of the things the
13 Commission should look at is who should get the
14 wholesale customer among the competing utilities. Is
15 that part of your idea of what the view process should
16 include?

17 A No. The process -- I don't care who gets
18 the customer. I just don't want the retail ratepayer
19 to subsidize the price that's being charged. Now, if
20 you want to make the sale at a loss and the
21 stockholder bears that, that's fine. Then the two
22 utilities are coming head to head and they are making
23 economic decisions on what their stockholders will
24 bear.

25 The situation that I'm describing is that

1 you discount the fuel, the retail ratepayer picks up
2 the price, and the Company in total is no worse off
3 than if it had charged average cost on that sale.
4 Because instead of getting it from the wholesale
5 customer, he's gotten it from the retail customer.

6 Q But that's the occurrence in the view of all
7 of the incremental price sales, isn't it?

8 A Yes. But there are incremental price sales
9 that the Commission looked at when it separated the
10 sales in the 1992 rate case, and they said this is
11 okay. Now, after that, I think that they ought to
12 review sales that are less than average cost. Once
13 they've built that into the base rates -- whatever has
14 been built into the base rates, that's a done
15 decision, and we are not attempting to go back and
16 say, "Well, here's a sale here. It's at less than
17 average cost, we think you ought to reverse that and
18 bring that up to average because then fuel costs will
19 fall for retail ratepayers."

20 But any incremental sale ought to go through
21 the four criteria, and if you want to continue to make
22 it and credit your fuel adjustment clause at average
23 cost, even though you are selling at less than
24 average, fine, go ahead. You don't have to ask
25 anybody's permission, because then your stockholders

1 have paid the price.

2 But if you want to charge incremental cost
3 that's less than average and credit that to the fuel
4 adjustment clause, then the retail ratepayer bears the
5 burden.

6 Q The retail ratepayer bears some cost only if
7 there's a choice about making the sale; isn't that
8 correct?

9 I mean if the incremental cost is the actual
10 cost of the fuel for the wholesale customer, the
11 retail ratepayer is in exactly the same position he
12 would have been without the sale; isn't that correct?

13 A Yeah. But you can't tell -- the only time
14 you can tell is if incremental cost is really the
15 actual cost is through a brokerage transaction, or a
16 short-term sale where you can say "This is the actual
17 capacity I have available" or "Here's the comparison
18 to two units," then you know.

19 But when you get to where the sale is long
20 term and they are taking it on and off peak, you have
21 no idea, and Mr. Wieland said you'd have to do a study
22 to figure out what the actual cost was, and that's
23 true. You can assume that it's the incremental cost
24 but that's just an assumption.

25 Q You can't tell the difference between a sale

1 that's nine months and one that is 14 months either,
2 can you?

3 A No. I think I agree with him. He says
4 that's an arbitrary period and it could be shorter and
5 it could be longer. But I think a year is a nice
6 little round number.

7 Q But if you had a contract that -- what if
8 it's -- so a contract that had exactly the same terms,
9 one was two years, one was nine months, you would
10 think one needed a review and one didn't?

11 A It's arbitrary, but in exactly the same
12 provision of service, the same fuel cost and
13 everything else, except for the length of the term.

14 Q Do you object to looking at all wholesale
15 transactions?

16 A I don't object to it but I don't think it's
17 necessary. I think the brokers -- I don't think it's
18 necessary to look at the broker sales. I don't think
19 it's necessary to look at short-term capacity and
20 energy sales or sales of opportunity. It's those
21 sales which smart of being a partial or full
22 requirement sale.

23 If you made a sale for ten years, and they
24 can take power on and off peak, and it was at
25 incremental cost, boy, I think the Commission ought to

1 look at that sale.

2 Q Well, would you object to using a ten year
3 standard instead of a one year standard?

4 A Ten years is too long. I think a one year
5 sale would be a reasonable approach.

6 Q Don't you also agree that a wholesale
7 customer who is getting average fuel may also be
8 raising the average fuel of the retail customers by
9 when he takes the power?

10 A A wholesale customer?

11 Q Yes.

12 A Then it should have been priced -- it could
13 happen, yes.

14 Q Don't you think the Commission should look,
15 if it's going to do this, to see if there's adverse
16 impact on the fuel clause for wholesale sales that it
17 should look at all of them?

18 A No, because I think if a company knew that
19 the sale they were going to make was going to be
20 always on peak, I think that they would price it that
21 way.

22 Q Well, why do you think that if you don't
23 think they'll price incremental sales appropriately?

24 A Well, I just don't think that there are
25 those kinds of sales out there that -- there may be --

1 that the Commission should look at, but I just doubt
2 that those are a concern.

3 Q Your answer on the one year and the ten
4 year, if you had a series of one year deals would that
5 concern you?

6 A Yes, because it would be an attempt to avoid
7 the policy.

8 Q There's been testimony today already that
9 there's a real live situation that wholesale
10 transactions with average fuel prices may have actual
11 cost above the fuel prices. But that doesn't concern
12 you and whether or not the Commission should examine
13 those transactions?

14 A If there are a lot of them they probably
15 should be looked at. But it doesn't make any sense to
16 me that a company would make sales at peak which may
17 require it to build additional units. I mean that's
18 just exactly the opposite of what you'd want to do.

19 Q You do agree, don't you, that in terms of
20 the analysis of whether or not a company should make a
21 specific sale that the benefits analysis is bigger
22 than just the fuel piece; it's an overall analysis of
23 the transaction?

24 A I might agree with that in the sense of how
25 the company might look at it. But in the sense of how

1 the retail ratepayer would look at it, he has to be
2 concerned with the only piece that he gets a benefit
3 from and that he pays, which is the fuel increment.

4 Now, the transaction might be a great
5 transaction in total, but as I pointed out, and as
6 this chart points out, the capacity cost, the
7 incremental O&M cost, are not passed on through any
8 automatic clause. So if the transaction were in total
9 a net benefit, but the fuel component was a net
10 detriment, then I'd say that the Commission ought to
11 look at that and say, "If you want to make this sale,
12 then you credit the fuel adjustment clause for the
13 average cost," average, or actual if it's higher than
14 average.

15 Q So you agree with Mr. Wieland then that this
16 is not a standard for whether or not you should do the
17 transaction but a standard for how it should be priced
18 in the fuel adjustment clause?

19 A Oh, yeah. I mean I don't think we've
20 ever -- we're not going to get in and try and run your
21 companies. What we want to do is protect the interest
22 of ratepayer.

23 Q And it is true, is it not, that in your
24 testimony you haven't identified any transactions that
25 you think are uneconomical?

1 A No. This is a policy, a generic, and it's
2 not directed at Tampa Electric or Gulf Power.

3 Q Are you aware of the testimony that's gone
4 on with Mr. Ramil that there's already substantial
5 benefits from the separated sale in the base rates?

6 A Yes. And that's where I tried to deal
7 with -- in the jurisdictional, and you objected to it,
8 so I tried to respond to that. But I don't think that
9 that's -- I mean the ratepayer was entitled to that.
10 I mean, you either did that or you took an excess
11 capacity adjustment. It was one or the other. So the
12 ratepayer wasn't responsible for excess capacity or
13 the fuel associated with that capacity.

14 Q Mr. Larkin, you don't know what the
15 Commission would have done and you don't know whether
16 or not the capacity was excess. In fact, the
17 Commission said that when you bring on large units
18 there's capacity for a short period of time but they
19 didn't say that it was not going to take those at
20 retail rates if you didn't make those sales.

21 A It was not going to. The fact of what they
22 did is an indication that they would not have done it.

23 Q But absent the sales there's no indication
24 that cost would not have been in retail rates.

25 A No. But the general principle is if you

1 have excess capacity, I mean you measure -- you take
2 the retail sales in an increment for line losses and
3 your term --

4 Q The fact of the matter is, you don't know
5 whether or not there was excess capacity at that
6 period of time?

7 A Well, it had to be or you wouldn't have been
8 able to make wholesale sales.

9 Q Just a large unit coming on line. The
10 Commission has never used that standard for
11 determining excess capacity.

12 A You would have had one or the other. That's
13 my opinion. You would either have to make this
14 jurisdictional separation or you would have gotten a
15 disallowance.

16 Q That is your opinion, though. There's no
17 basis for that in the Commission --

18 A It's my opinion, yeah.

19 MR. HART: We have no further questions.

20 COMMISSIONER DEASON: Mr. Stone, do you have
21 questions?

22 MR. STONE: Not for this witness.

23 COMMISSIONER DEASON: Does Staff have
24 questions for this witness?

25 MS. JOHNSON: Just one question.

CROSS EXAMINATION

1
2 BY MS. JOHNSON:

3 Q Mr. Larkin, do you think a reasonable
4 Commission policy would be to require the utility that
5 is making a long-term separable sale to demonstrate
6 the Commission that incremental pricing is beneficial
7 to the general body of ratepayers prior to crediting
8 anything less than average fuel cost through the fuel
9 clause?

10 A Absolutely.

11 COMMISSIONER DEASON: Mr. Howe, before you
12 do -- first off, do you have redirect?

13 MR. HOWE: No.

14 COMMISSIONER DEASON: Exhibits. I'm sorry,
15 Commissioners, questions? Exhibits.

16 MR. HOWE: We'd move the admission of
17 Exhibit 36.

18 COMMISSIONER DEASON: Without objection,
19 Exhibit 36 is admitted.

20 (Exhibit 36 received in evidence.)

21 COMMISSIONER DEASON: Thank you, Mr. Larkin.
22 We're going to take a break, but before we do. I need
23 to take assessment of where we stand as far as time
24 requirement to finish the hearing. I believe Mr.
25 Ramil has rebuttal testimony; is that correct?

1 MR. BEASLEY: Yes, sir.

2 COMMISSIONER DEASON: And that still relates
3 to Issue 9.

4 MR. BEASLEY: That's correct.

5 COMMISSIONER DEASON: That will be the last
6 witness on Issue 9. How long is his summary going to
7 be?

8 MR. BEASLEY: His rebuttal summary is just a
9 hair over two pages.

10 COMMISSIONER DEASON: Well, I mean sometime
11 summaries -- you can two pieces of paper and a summary
12 can be 30 minutes. I've seen that before. His
13 summary is going to be as short as his testimony.

14 MR. BEASLEY: That's correct, much shorter.

15 COMMISSIONER DEASON: Cross examination for
16 Ramil on rebuttal?

17 MR. MCGEE: Very little.

18 MR. HOWE: Very little.

19 MS. JOHNSON: Staff has none.

20 COMMISSIONER DEASON: Then we have the
21 remaining issues which are primarily Florida Power and
22 Light-specific issue. I'm just going to ask the
23 question as far as cross examination of those
24 witnesses, Mr. Howe.

25 MR. HOWE: I don't think I'm going to have

1 any questions for Florida Power and Light's witnesses.

2 MS. KAUFMAN: I have some, Mr. Deason, but
3 it will be very short.

4 COMMISSIONER DEASON: Staff has --

5 MS. JOHNSON: Approximately 45 minutes.

6 COMMISSIONER DEASON: Mr. Childs, summary of
7 testimony.

8 MS. CHILDS: THE summaries are fairly brief
9 and I'm sure with our discussion that they may be even
10 a little briefer.

11 COMMISSIONER DEASON: It is our intent to
12 try to finish this hearing today, but it is not our
13 intent to be working late. So just take that under
14 advisement.

15 We'll to a recess until 3:20.

16 (Brief recess.)

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18 (Transcript continues in sequence in

19 Volume 3.)

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