ORIGINAL
FILE COPY

AUSLEY & MCMULLEN

ATTORNEYS AND COUNSELORS AT LAW

227 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(904) 224-9115 FAX (904) 222-7560

April 25, 1997

BY HAND DELIVERY

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Determination of appropriate cost allocation and regulatory treatment of total revenues associated with wholesale sales to Florida Municipal Agency and City of Lakeland by Tampa Electric Company; Docket No. 970171-EU

Dear Ms. Bayo:

Enclosed for filing in the above docket on behalf of Tampa Electric Company are the original and fifteen (15) copies of the following:

1. Direct Testimony of John B. Ramil; —

2. Direct Testimony and Exhibit of Karen A. Branick; and 04234-97

3. Direct Testimony and Appendix of Douglas R. Bohi.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning the same to this writer.

Thank you for your assistance in this matter.

Sincerely,

Lee L. Willis

Boad LLW/bjm

1 St Agg Enclosures

cc: All Parties of Record

RECEIVED & FILED

FPSC-BUREAU OF RECORDS

AFA
APP
CAF
WAS
OTH

CERTIFICATE OF SERVICE
DOCKET NO. 970171-EU

I HEREBY CERTIFY that true and correct copies of Testimonies of John B. Ramil, Karen A. Branick and Douglas R. Bohi on behalf of Tampa Electric Company have been furnished by hand delivery(*) or U. S. Mail this 25th day of April, 1997 to the following:

Ms. Leslie Paugh*
Staff Counsel
Division of Legal Services
Florida Public Service
Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Mr. Gary Lawrence
City of Lakeland
501 East Lemon Street
Lakeland, FL 33801-5079

Vicki Gordon Kaufman*
McWhirter, Reeves, McGlothlin,
Davidson, Rief & Bakas, P.A.
117 South Gadsden Street
Tallahassee, FL 32301

Mr. Robert Williams
FMPA
7201 Lake Ellinor Drive
Orlando, FL 32809

John Roger Howe
Office of Public Counsel
c/o The Florida Legislature
111 West Madison St., Rm. 812
Tallahassee, FL 32399-1400

ATTORNEY

BEFORE THE PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

JOHN B. RAMIL

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

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

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

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

I joined Tampa Electric Company in March of 1976 as a cooperative education student and began full-time employment with the Company in June of 1978. I was responsible for various engineering assignments prior to being promoted to Manager, Environmental Planning in 1982.

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

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

A. Yes. I have testified on behalf of Tampa Electric in a number of proceedings before this Commission. I testified in Docket No. 870001-EI, having to do with Tampa Electric's off-system sales, Big Bend unit 4 power sales contract modifications, and the appropriate fuel prices for dispatch and interchange pricing. I submitted direct and rebuttal testimony in Docket No. 870408-EI in support of Tampa Electric's request for approval of its proposed non-firm load methodology and annual targets. I also testified in support of determinations of need for the Hardee Power Station, Docket No. 880309-EI and Tampa Electric's Polk Unit One, Docket No. 910883-EI. In addition, I testified on the subject of as-available energy payments to cogenerators and small power producers, Docket No. 880001-EI and in the Commissions annual planning hearing, Docket No. 880004-EU. I testified on issues related to system planning, fuel inventory planning, wholesale sales, acquisitions and system construction in the company's last rate case, Docket No. 920324-EI. I testified in Docket No. 930676-EI, regarding the proposed construction of 69kV transmission facilities to serve the Cities of Fort Meade and Wauchula. Most recently, I testified in Docket No. 960001-EI, on the wholesale fuel issue in the August Fuel Adjustment hearing.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to outline the Company's proposed retail regulatory treatment for the wholesale sales and to demonstrate that this proposal is consistent with well established economic theory, past commission precedents and sound public policy.

Q. Why is making wholesale sales important to Tampa Electric Company?

A. Making cost effective wholesale sales which provide revenues greater than the incremental cost of making such sales is good for the Company's retail customers as well as its shareholders. Since its 1985 rate case, when this Commission gave the Company an incentive to keep retail prices down by increasing wholesale revenue, the Company worked hard to optimize those sales. The current and anticipated levels of such wholesale revenue has been one of several significant variables that this Company has managed resulting in reduced prices to customers in spite of the pressure of increasing costs. Retail customers benefit through low prices and stockholders benefit in the increase in probability of the Company earning its allowed rate of return.

Q. Mr. Ramil, please give a brief description of the Tampa Electric wholesale sale to the Florida Municipal Power Agency.

A. Tampa Electric will provide firm base load capacity to the Florida Municipal Power Agency (FMPA) from December 16, 1996 through March 15, 2001. The capacity to be supplied will begin with 35 megawatts through 1997, increasing to 150 megawatts in 2000. Ms. Branick will describe this wholesale sale to FMPA in detail.

Q. Mr. Ramil, please give a brief description of the wholesale sale between Tampa Electric and the City of Lakeland.

A. Tampa Electric will provide 10 megawatts of peaking capacity to the City of Lakeland (Lakeland) from November 4, 1996 through September 30, 2006. Ms. Branick will describe this wholesale sale to Lakeland in detail.

Q. How do the characteristics of these sales differ from the characteristics of other wholesale sales made from Tampa Electric's system?

A. The most significant difference between the FMPA and Lakeland sales with the previous sales reviewed by this Commission is the dynamic market environment in which these sales were made. For example, in the 1980's and early 1990's, when the firm base load Big Bend Station sales were made, the market price for base load capacity was approximately equal to Tampa Electric's average system embedded cost. Thus, the non-fuel revenues received from these contracts were approximately equal to the cost allocated to the wholesale jurisdiction. Since that time, several things have occurred. The Florida wholesale market currently has some capacity and ample energy available at low prices, and out-of-state power marketers have become active players in the wholesale market. The combination of these factors has created a "buyers market" for capacity and energy. Buyers are faced with more wholesale power options than ever before and are in a position to secure competitive prices that are lower than previous years. Tampa Electric was able to compete successfully in the market to meet the needs of FMPA and Lakeland reliably and at a competitive price. The prices, while above the incremental costs, are below the Company's average embedded costs.

The FMPA and Lakeland agreements also differ from the bulk of Tampa Electric's previous wholesale sales because they contain a provision for supplemental service and are made from a different mix of resources. The vast majority of our existing wholesale sales come from our units at Big Bend Station. The FMPA sale is the only wholesale transaction by Tampa Electric that is served by individual units from both Tampa Electric's Big Bend Station and its Gannon Station. The Lakeland sale is a wholesale transaction supplied from all of Tampa Electric's generating resources.

Q. What makes Tampa Electric's wholesale sales such as those to FMPA and Lakeland competitive with other sales in the wholesale market?

A. Tampa Electric's system has low incremental fuel costs for most hours of the day. Over ninety percent of Tampa Electric's generation comes from low-cost, coal-fired generation. Thus, coal is on the margin a significant portion of the time enabling a sale priced from these types of units to dispatch well in the buying utility's system. Ms. Branick's testimony will discuss Tampa Electric's incremental costs in more detail.

Q. How should the revenues and costs associated with Tampa Electric's wholesale sale to FMPA and Lakeland be treated for retail regulatory purposes?

A. Tampa Electric Company proposes the following regulatory treatment for these sales:

1. These sales should not be separated either in the traditional system average cost manner or in a manner which recognizes market pricing as it has been done before.

Fuel Treatment:

2. The Fuel and Purchase Power Cost Recovery Clause (Fuel Clauses) should be credited with an amount equal to system incremental fuel costs.

Specified Non-Fuel Revenues:

3. The Environmental Cost Recovery Clause (ECRC) should be credited with an amount equal to incremental costs for SO_2 allowances.
4. Revenues associated with variable operating and maintenance costs should be credited above the line to the company's operating revenues.
5. Transmission revenues should be credited to the company's operating revenues above the line.

Remaining Non-Fuel Revenues:

6. The remaining sale proceeds should be divided 50/50 between retail rate payers through the Fuel Clause and the company as an addition to operating revenues.

Q. Why do you propose the system incremental fuel and SO2 allowance cost be credited to the clauses?

A. As Ms. Branick will discuss in more detail, by assessing a cost equal to the incremental fuel and SO2 allowance costs and crediting these costs to the Fuel and Purchased Power Cost Recovery Clause and the Environmental Cost Recovery Clause, any impact on making these sales on the retail customer has been eliminated. This would not be the case if system average fuel cost, which includes fixed fuel costs, were credited to the fuel clause, provided system average fuel cost and system incremental fuel cost were not equal for the time period over which the calculations were made. This would also not be the case if the fuel revenues from the sale were credited through the fuel clause. As explained by Ms. Branick, crediting to the retail fuel clause the system incremental fuel costs incurred to serve the wholesale sales ensures that retail fuel charges are no higher than they would been had the sale not been made.

Q. Please explain your proposal for the crediting of sale revenues to cover transmission and incremental variable operating and maintenance costs?

A. The Federal Energy Regulatory Commission (FERC) Orders 888 and 889 require a utility to charge itself for the use of its transmission system identically to the way it would charge any other user of its transmission system and to account for this revenue stream separately. Transmission revenues associated with wholesale sales were either separated (for separated sales), or revenue credited (for wheeling revenues from cogenerator use of the transmission system) in Tampa Electric's last rate case, Docket No. 920324-EI. Therefore, to operate in keeping with the direction of FERC Order 888 and 889, Tampa Electric should credit the transmission revenues, above the line for regulatory purposes just like it would do for transmission revenues from a cogenerator or other third-party.

Tampa Electric proposes to record, above the line, variable operating and maintenance expense revenues to cover the variable operating and maintenance costs associated with the sale. Since these costs are not currently being borne, through the cost recovery clauses, by the retail ratepayer, it would be inappropriate to return these revenues to the ratepayer through a clause mechanism.

Q. What are the ratepayer benefits associated with Tampa Electric's proposal?

A. Ratepayer benefits are as follows: Customers will recognize immediate benefits from their 50% share of the proceeds by the proposed credit through the clauses, and will also realize the benefits of the 50% credited to operating revenues in two ways. First, these revenues will indeed enhance the potential for refunds during the term of Tampa Electric's current rate Stipulation. Secondly, these sales will contribute to lowering the revenue requirement in Tampa Electric's next rate proceeding, or in postponing altogether a need for a rate case. In addition, the proposal on the treatment of our fuel costs ensures there will be no fuel impact to ratepayers as discussed above.

Q. What would the effect be of treating these sales in the same manner as Tampa Electric's Big Bend sales which are separated at system average embedded costs?

A. The FMPA and Lakeland sales are incremental or opportunity sales. Tampa Electric has no obligation to wholesale customers to make these kinds of sales and would only do so in those cases where net benefits accrue to the general body of ratepayers and the Company's shareholders are not harmed. As Dr. Bohi has explained, separating FMPA and Lakeland sales on an average cost basis, would create a tremendous disincentive to Tampa Electric to make these types of sales in the future and would not be consistent with sound economic theory. The resulting loss of benefits to our general body of ratepayers under that treatment would be in no one's best interest.

The impact of separating the rate base portion of these sales at system average embedded cost over the term of the sales, would lower retail non-fuel revenue requirements by $71.1 million, present value. The total non-fuel revenues from the sales are projected to be $14.8 million, present value. Thus, a $56.3 million present value of revenue requirements deficit would be left for the company. Imposing this revenue requirement deficit on the shareholders would be unfair under any circumstances, but would be especially unreasonable given the provisions of the comprehensive stipulation under which Tampa Electric is currently operating puts extremely tight constraints on the company's earnings. The ratepayer would enjoy the artificially high benefits from these transactions through separation at higher than the actual revenues from the sales while the shareholders would be left with no way to meet the revenue requirement deficit associated with meeting the market price.

Q. In the September 25, 1996 stipulation between Tampa Electric, Office of Public Counsel and FIPUG, reference is made to the regulatory treatment of existing and future wholesale sales. What is the impact of this reference on the treatment of the FMPA and Lakeland agreements?

A. Upon the filing of the September 25, 1997 stipulation the Commission staff pointed out that it believed that a sale from the Polk Power Station might warrant different treatment than the treatment afforded other sales in the stipulation. Consequently, an amendment to the stipulation was negotiated and approved by the Commission which provided that the Commission would review the treatment of any wholesale sale from the Polk Power Station. Like a potential sale from the Polk Power Station, tne FMPA and Lakeland sales are different sales and therefore require review for appropriate regulatory treatment. The Commission recognized the potential for a difference in regulatory treatment in sales of this type in Order No. PSC-97-0262-FOF-EI issued March 11, 1997. As per that order, if a utility can demonstrate that there are net economic benefits to retail ratepayers associated with sales like FMPA and Lakeland, then costs other than system average embedded costs could be credited to the retail clauses.

Q. Has the Commission acted in line with the premise set forth in Dr. Bohi's testimony and your proposal in determining regulatory treatment of Tampa Electric's sales in the past?

A. Yes. In the company's 1985 rate order, the Commission reduced the retail revenue requirement by $37 million based on Tampa Electric's existing sale of capacity and energy tc Florida Power & Light Company. In this proceeding, the Commission challenged the company to make up the deficit in revenue requirements by making up to $37 million in wholesale sales. The Commission treated the wholesale sales by allowing the company to credit 100% of the non-fuel revenue from such sales above the line in the retail jurisdiction. Apparently as a recognition of the wholesale market, in 1987, the Commission approved a proposal by the company to credit fuel revenues based on the incremental fuel cost from off system sales to the retail customer fuel adjustment clause. In the company's 1992 rate case, the Commission separated certain of the company's wholesale sales at system average cost, certain others at unit embedded cost, while still other sales were not separated from the retail jurisdiction. For those sales that were not separated from the retail jurisdiction, in some cases, revenues were shared 80/20 and in other cases revenues were flowed 100% to retail customers. There are good, sound policy reasons for this. Tampa Electric is not similarly situated compared with other utilities in the state. Its generation system, its retail customer mix, its service territory geographics, its cost structure, its regulatory situation, the types of sales it is capable of making within FERC guidelines are now and have been in the past, very different than other utilities.

Tampa Electric urges the Commission to continue its policy of reviewing regulatory treatment of wholesale sales on a case-by-case basis. Different sales have different costs and benefits. We all should take the time and effort in this proceeding to look at these unique and extremely beneficial sales in detail and make every effort to do the right thing both for the retail customers and the company.

Q. Based on Commission precedent, how should the Commission regard your proposal for the FMPA and Lakeland Agreements?

A. To the extent the Commission has assessed wholesale sales on a case-by-case basis with a view towards encouraging those sales which are consistent with both ratepayer benefits and market realities, I would submit that our proposal for the FMPA and Lakeland sales is entirely consistent with past Commission precedent and should be adopted in these proceedings.

Q. Will the Commission's treatment of the Lakeland and FMPA and wholesale sales have an impact on Tampa Electric's refund obligation approved by the Commission in Docket No. 960409-EI?

A. No, the obligation is not affected in any way, however, under certain circumstances, the amount of any potential 1999 refund could be increased by the existence of the sales and Tampa Electric's proposal on the treatment for the sales. Tampa Electric has guaranteed a total of $50 million in refunds under the most recent stipulation approved by the Commission in Docket No. 960409-EI. Only if the 60/40 sharing provision above 11.75% return on equity of the stipulation yields more than $25 million in 1998, will there be an additional refund in 1999. In the unlikely event that a 1999 refund occurs, the existence of sales combined with the Tampa Electric's proposal to credit certain revenues from the FMPA and Lakeland sales above the line for regulatory purposes would serve to increase the 1999 refund.

Q. Does this conclude your testimony?

A. Yes, it does.