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ORIGINAL
FILE COPY

May 19, 1997

HAND DELIVERED

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

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

Dear Ms. Bayo:

Enclosed for filing in the above docket are the original and fifteen (15) copies of Tampa Electric Company's Prehearing Statement.

Also enclosed is a 3.5" diskette containing the above Prehearing Statement in WordPerfect 5.1 format.

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

Thank you for your assistance in connection with this matter.

Sincerely,


James D. Beasley

ACK _____
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JDB/pp

Enclosures

cc: All Parties of Record (w/enc.)

DOCUMENT NUMBER-DATE

05009 MAY 19 97

FPSC-REC'D-RECORDS-REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL
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In re: Determination of appropriate)
cost allocation and regulatory)
treatment of total revenues associated)
with wholesale sales to Florida)
Municipal Power Agency and City of)
Lakeland by Tampa Electric Company.)

DOCKET NO. 970171-EU
FILED: May 19, 1997

PREHEARING STATEMENT OF TAMPA ELECTRIC COMPANY

A. APPEARANCES:

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Tallahassee, Florida 32302

and

HARRY W. LONG, JR.
TECO Energy, Inc.
Post Office Box 111
Tampa, Florida 33601-0111

On behalf of Tampa Electric Company

B. WITNESSES:

	<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
(Direct)			
1.	Douglas R. Bohi (TECO)	Testimony in support of proposed regulatory treatment	1 - 7
2.	John B. Ramil (TECO)	Testimony in support of proposed regulatory treatment	1 - 8
3.	Karen A. Branick (TECO)	Testimony in support of proposed regulatory treatment	1 - 8

DOCUMENT NO.
05009-97

(Rebuttal)

1. Douglas R. Bohi
(TECO)
2. Karen A. Branick
(TECO)
3. John B. Ramil
(TECO)

Note: Rebuttal testimony is due May 23, 1997. The company presently plans to submit rebuttal testimony of the above listed witnesses but reserves the right to present rebuttal testimony of other witnesses as well.

C. EXHIBITS:

<u>Exhibit</u>	<u>Witness</u>	<u>Description</u>
_____	Bohi	Appendix 1 to testimony
_____	Branick	Exhibit of Karen A. Branick

(KAB-1)

Note: Rebuttal testimony is due May 23, 1997. The company will specify additional rebuttal exhibits on the date of filing.

D. STATEMENT OF BASIC POSITION

Tampa Electric Company's Statement of Basic Position:

The overarching policy issue before the Commission in this proceeding is quite simple: Should the retail regulatory treatment of the Florida Municipal Power Agency (FMPA) and City of Lakeland (Lakeland) wholesale sales be structured in a manner which insures that sales of this nature will continue to be made for the benefit of the general body of ratepayers or should the regulatory treatment be based on a disregard of basic economic theory and prevailing wholesale market conditions, thereby insuring that wholesale sales which benefit ratepayers and which have been

encouraged by this Commission will not be made? Tampa Electric Respectfully suggests that the answer is obvious. In cases where wholesale sales are proven to yield net benefits to ratepayers the Commission should vigorously support such transactions through the regulatory treatment afforded.

Tampa Electric proposes that the wholesale sales to FMPA and Lakeland not be separated for retail ratemaking purposes. Instead, the Company suggests:

- A. That the costs associated with these sales remain with the retail jurisdiction;
- B. That the Fuel And Purchased Power Cost Recovery Clause ("Fuel Clause") be credited with revenues equal to system incremental fuel cost and the Environmental Cost Recovery Clause ("Environmental Clause") be credited with revenue equal to incremental SO₂ allowance costs from contract revenues;
- C. That contract revenues associated with variable O&M expense and transmission be credited to operating revenue, above the line; and
- D. That 50% of the remaining contract be credited to operating revenue, above the line, and 50% is flowed back to the ratepayers through the Fuel Clause.

If, as Tampa Electric will demonstrate, these sales are projected to produce net benefits to the general body of ratepayers and, that under the Company's proposal, the variable costs associated with these incremental opportunity sales will be covered, then the

Commission should embrace the Company's proposal. To impute average cost to these sales as Intervenor's suggest, when the wholesale market price for power is below Tampa Electric's average embedded cost, would create an insurmountable disincentive to an aggressive search for these kinds of market opportunities. As Staff witness Wheeler points out in his direct testimony, the regulatory treatment afforded the FMPA and Lakeland sales should not create a disincentive for Tampa Electric.

The Sales Produce Net Benefits

There is no question that the ratepayers are better off with the FMPA and Lakeland sales than they would be without them, which, when all is said and done, is one of the key issues in this proceeding. The total revenues associated with these sales will cover the total costs properly allocable to those sales and will help defray some of the fixed cost already being borne by retail ratepayers. There is no question that the revenues associated with these sales will not cover the average costs which might be allocated under the Intervenor's view of the world. However, this observation is of no consequence since these sales generate incremental rather than average costs and reflect the prices dictated by the competitive market for wholesale power in Florida.

Non-Requirements wholesale sales, in general, and the FMPA and Lakeland sales, in particular, are discretionary sales which can not be forecasted with any precision before the fact. The Company has no obligation to make new wholesale sales and wholesale

customers have no obligation to buy from the Company. Retail sales, on the other hand, are non-discretionary and must be planned for and served. These sales can be forecasted with reasonable precision because retail customers must look to the Company to satisfy their electric power needs. This distinction is of critical importance in understanding how basic economic principals should be applied in determining whether the FMPA and Lakeland wholesale sales produce net benefits to ratepayers.

Because non-requirements wholesale sales are discretionary and impossible to forecast with precision, there is no reasonable basis for allocating cost to these sales before the fact. To the extent that these potential sales are ignored in the retail cost allocation process which is based on average cost, no cost will be allocated to them. Therefore, to the extent that these potential non-requirements sales become actual sales subsequent to the retail cost allocation process, they become incremental sales which produce incremental revenue. It would make no sense to impute average embedded cost to these sales which, by definition, create only incremental costs. In the limited context of assessing the benefits of an incremental wholesale sale, the average embedded costs already being borne by the general body of ratepayers must be viewed as sunk costs and should not be factored into the assessment.

As Tampa Electric witness Bohi explains in his testimony, it is axiomatic, as a matter of basic economic theory, that such incremental sales produce net benefits to the general body of

ratepayers if the incremental revenues received are sufficient to cover the incremental costs associated with the sale and contribute to defraying the fixed costs already being borne by the general body of ratepayers. As Tampa Electric witnesses Bohi, Ramil and Branick demonstrate in their direct and rebuttal testimony, the incremental FMPA and Lakeland sales will generate sufficient revenue to cover the variable costs associated with the sales and reduce the fixed cost burden being borne by the general body of ratepayers by \$9.9 million, net present value, over the term of the contracts.

There Are Significant Net Benefits Associated With The FMPA and Lakeland Sales Which Flow To Ratepayers Under Tampa Electric's Proposal

As explained by Tampa Electric witness Branick, the variable costs associated with the FMPA transaction consist of incremental fuel cost, SO₂ allowance cost and O&M expense. Contract revenues above this amount represent a contribution to fixed cost. Under Tampa Electric's proposal FMPA and Lakeland contract revenues would be applied in the following sequence: system incremental fuel cost and SO₂ cost credited to the Fuel Clause and the Environmental Clause; O&M expense, credited to operating revenue above the line; transmission revenue, credited to operating revenue above the line; the remainder split equally, with half credited to the retail customer through the appropriate clauses and the other half credited to operating revenue above the line.

Tampa Electric proposes to credit the Fuel and Environmental Clauses with revenues equal to system incremental fuel cost and actual incremental SO₂ allowance costs, regardless of the level of contract revenues. Therefore, as Dr. Bohi and Mr Ramil explain, regardless of the unit or units which generate the electrons actually received by FMPA and Lakeland and regardless of the fuel used for generation at any particular plant on the system and regardless of Tampa Electric's level of average fuel cost, the ratepayers will feel no Fuel Clause or Environmental Clause impact as the result of these sales. As Dr. Bohi explains, so long as you are crediting revenues equal to system incremental fuel cost to the fuel clause for incremental sales, the average fuel cost borne by the other ratepayers will not change as the result of the incremental sale.

Fifty percent of the residual revenue under the Company's proposal would be credited to ratepayers on a more immediate basis through the appropriate adjustment clauses. The revenue credited to operating revenue above the line in Tampa Electric's proposal would inure eventually to the benefit of retail ratepayers in at least two ways. First, the credit to above the line operating revenue will either defer the need for a general rate case or serve to lower Tampa Electric's revenue requirement in its next general rate adjustment filing. Second, under the current rate stipulation which extends through 1999, these revenues would increase the potential for additional deferred revenues and the potential for additional refunds in 1999 and 2000 beyond the \$50 million in

refunds and credits which Tampa Electric will already provide during the stipulation period.

It would be artificial and seriously misleading to suggest that the Company's shareholders are somehow unjustly enriched by the company's proposed treatment of expected benefits. The proposal does provide an enhanced opportunity for the Company to earn its authorized rate of return. However, the reasonable opportunity to earn the authorized rate of return is a right guaranteed by law not a benefit or a matter of unjust enrichment.

The Earnings Of The Tampa Electric Affiliates From Whom Tampa Electric Buys Fuel And Transportation Service, At Prices Found Reasonable By The Commission, Should Not Be Used As A Basis For Denying Tampa Electric Fair Regulatory Treatment

Staff and Interveners imply in their testimony that the Commission should consider revenues earned by the Company's unregulated parent and affiliates in fashioning the regulatory treatment to be afforded the FMPA and Lakeland sales. The Commission has satisfied itself that the prices paid by Tampa Electric to its affiliates for fuel and transportation services are just and reasonable. Therefore, the level of earnings enjoyed by those affiliates is irrelevant to a determination of the proper rate treatment to be afforded the FMPA and Lakeland sales. Independent of the finances of its parent or affiliates, Tampa Electric has a right to an opportunity to earn its authorized rate of return. Tampa Electric's parent and unregulated affiliates have a right to their earnings. Their earnings should not be subject to the kind of expropriation that Staff and Interveners suggest.

It is against this background that Tampa Electric bases its position on the individual issues set forth below.

E. STATEMENT OF ISSUES AND POSITIONS

ISSUE 1: Does the off-system sale agreement to the Florida Municipal Power Agency provide net benefits to Tampa Electric Company's general body of rate payers?

TAMPA ELECTRIC: Yes. The net benefits from the FMPA sale are projected to be \$9.0 million net present value. The total revenues from this sale are projected to be \$77.2 million net present value and the total cost associated with this sale are projected to be \$68.2 million net present value. (Bohi, Branick, Ramil)

ISSUE 2: How should the non-fuel revenues and costs associated with Tampa Electric Company's wholesale schedule D sales to the Florida Municipal Power Agency be treated for retail regulatory purposes?

TAMPA ELECTRIC: Tampa Electric proposes the following regulatory treatment for this sale:

- These sales should not be separated and should remain in the retail jurisdiction;
- The Fuel and Purchased Power Cost Recovery Clause should be credited with an amount equal to system incremental fuel cost, eliminating any fuel clause impact associated with making this sale.
- The Environmental Cost Recovery Clause should be credited with an amount equal to incremental costs for SO₂ allowances;

- Revenues associated with variable operating and maintenance costs should be credited above the line to operating revenues.
- Transmission revenues should be credited to the company's operating revenues above the line.
- The remaining sale proceeds should be divided 50/50, with 50% credited through the Fuel Clause and 50% credited to operating revenues. (Bohi, Branick, Ramil)

ISSUE 3: How should the fuel revenues and costs associated with Tampa Electric Company's wholesale schedule D sales to the Florida Municipal Power Agency be treated for retail regulatory purposes?

TAMPA ELECTRIC: Tampa Electric proposes the following regulatory treatment for this sale:

- These sales should not be separated and should remain in the retail jurisdiction;
- The Fuel and Purchased Power Cost Recovery Clause should be credited with an amount equal to system incremental fuel cost, eliminating any fuel clause impact associated with making this sale.
- The Environmental Cost Recovery Clause should be credited with an amount equal to incremental costs for SO₂ allowances;
- Revenues associated with variable operating and maintenance costs should be credited above the line to operating revenues.
- Transmission revenues should be credited to the company's

operating revenues above the line.

- The remaining sale proceeds should be divided 50/50, with 50% credited through the Fuel Clause and 50% credited to operating revenues. (Bohi, Branick, Ramil)

ISSUE 4: Does the off-system sale agreement to the City of Lakeland provide net benefits to Tampa Electric Company's general body of rate payers?

TAMPA ELECTRIC: Yes. The net benefits from the sale to Lakeland are projected to be \$0.9 million net present value. Total revenues from this sale are projected to be \$4.2 million net present value and the total costs associated with this sale are projected to be \$3.3 million net present value. (Bohi, Branick, Ramil)

ISSUE 5: How should the non-fuel revenues and costs associated with Tampa Electric Company's wholesale schedule D sales to the City of Lakeland be treated for retail regulatory purposes?

TAMPA ELECTRIC: Tampa Electric proposes the following regulatory treatment for this sale:

- These sales should not be separated and should remain in the retail jurisdiction;
- The Fuel and Purchased Power Cost Recovery Clause should be credited with an amount equal to system incremental fuel cost, eliminating any fuel clause impact associated with making this sale.
- The Environmental Cost Recovery Clause should be credited with an amount equal to incremental costs for SO₂ allowances;

- Revenues associated with variable operating and maintenance costs should be credited above the line to operating revenues.
- Transmission revenues should be credited to the company's operating revenues above the line.
- The remaining sale proceeds should be divided 50/50, with 50% credited through the Fuel Clause and 50% credited to operating revenues. (Bohi, Branick, Ramil)

ISSUE 6: How should the fuel revenues and costs associated with Tampa Electric Company's wholesale schedule D sales to the City of Lakeland be treated for retail regulatory purposes?

TAMPA ELECTRIC: Tampa Electric proposes the following regulatory treatment for this sale:

- These sales should not be separated and should remain in the retail jurisdiction;
- The Fuel and Purchased Power Cost Recovery Clause should be credited with an amount equal to system incremental fuel cost, eliminating any fuel clause impact associated with making this sale.
- The Environmental Cost Recovery Clause should be credited with an amount equal to incremental costs for SO₂ allowances;
- Revenues associated with variable operating and maintenance costs should be credited above the line to operating revenues.
- Transmission revenues should be credited to the company's

operating revenues above the line.

- The remaining sale proceeds should be divided 50/50, with 50% credited through the Fuel Clause and 50% credited to operating revenues. (Bohi, Branick, Ramil)

ISSUE 7: How should the transmission revenues and costs associated with Tampa Electric Company's wholesale sales to the Florida Municipal Power Agency and the City of Lakeland be treated for retail regulatory purposes?

TAMPA ELECTRIC: Pursuant to Federal Energy Regulatory Commission Order 888 and 889, the company is required to charge itself for the use of its transmission system the same as it would charge a third party user. Tampa Electric must credit the transmission revenues associated with the wholesale sales to FMPA and Lakeland to operating revenues. These revenues will serve to offset transmission revenue requirements in a future rate case. Traditionally, transmission revenues have been credited against the Tampa Electric retail cost of service during base rate cases and Tampa Electric will continue the current treatment of such revenues. (Bohi, Branick, Ramil)

ISSUE 8: Will the Commission's treatment of the City of Lakeland and Florida Municipal Power Agency wholesale sales have an impact on Tampa Electric Company's refund obligation under the stipulation in Docket No. 950379-EI, Order No. PSC 96-0670-S-EI, approved by the Commission?

TAMPA ELECTRIC: No. As per the above referenced Order, Tampa Electric's commitment to refunds to the retail ratepayers remains unchanged under this proposal. (Branick, Ramil)

ISSUE 9: Would the Commission exceed its jurisdiction if it were to allow Tampa Electric Company to earn a return through retail rates for its wholesale sales to the Florida Municipal Power Agency and to the City of Lakeland?

TAMPA ELECTRIC: The FERC and the FPSC act independently in regulating the matters subject to respective jurisdictions. The FPSC certainly has the power to determine how Tampa Electric Company's wholesale sales will be reflected in retail rates. The issues in this proceeding have nothing to do with Tampa Electric earning a wholesale return on its wholesale sales. To the extent that the issue, as stated, represents an effort to relitigate the issue of whether average or incremental fuel cost should be credited to the fuel clause which was addressed in Order No. PSC-97-0262-FOF-EI, issued March 11, 1997, it should be dismissed as an untimely application for rehearing of that Order.

F. STIPULATED ISSUES

TAMPA ELECTRIC: None at this time.

G. MOTIONS


TAMPA ELECTRIC: None at this time.

H. OTHER MATTERS

TAMPA ELECTRIC: None at this time.

DATED this 19th day of May, 1997.

Respectfully submitted,



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ATTORNEYS FOR TAMPA ELECTRIC COMPANY

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Prehearing Statement, filed on behalf of Tampa Electric Company, has been furnished by U. S. Mail or hand deliver (*) on this 19th day of May, 1997 to the following:

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

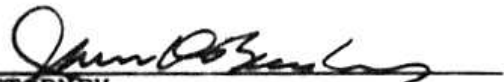
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