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June 9, 1997

VIA HAND DELIVERY

Blanca S. Bayo, Director
Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Drive
Gerald L. Gunter Building
Tallahassee, Florida 32399-0850

Re: FMPA/Lakeland - Docket No. 970171-EU

Dear Ms. Bayo:

Enclosed please find the original and 15 copies of revised pages 6, 7 and 8, and revised Document 1 for Jeffry Pollock. Please insert these corrected pages in Mr. Pollock's prefiled direct testimony filed on May 9, 1997.

Sincerely,

Vicki Gordon Kaufman

Vicki Gordon Kaufman

Goad

VGK/pw
Enclosures

5 + Orig

cc: All Parties (w/encls.)

customers' share of the projected benefits is small compared to the 80% that TECo's shareholders would retain. This sharing mechanism is virtually the opposite of the Commission's longstanding 20/80 sharing of margins from broker sales between the utility and its retail customers, respectively.

Second, and perhaps more importantly, whether any benefits will materialize at all will depend critically on the level of incremental fuel cost associated with the new wholesale sales. As the Commission is well aware, any forecast that depends on projections of fuel costs is speculative at best. It would not be good public policy to approve a proposed retail regulatory treatment for wholesale sales that relies so heavily on projected fuel costs that are subject to extreme fluctuation.

Q HOW DID YOU DETERMINE THAT RETAIL CUSTOMERS WOULD RECEIVE ONLY 22% OF THE NET BENEFITS FROM THE NEW WHOLESALE SALES?

A The analysis is provided in Exhibit ____ (JP-1), Document No. 1. All of the information presented in this exhibit was derived from TECo Exhibit ____ (KAB-1), Document Nos. 4, 5, 6 and 7. The amounts shown in Document No. 1 are stated on a net present value (NPV) basis.

The starting point for TECo's cost/benefit analysis is the assumption that the new wholesale sales will generate $81.4 million (NPV) of incremental revenues. TECo then proposes to determine the incremental cost of fuel, the cost of additional SO2 allowances consumed, and the variable O&M expense associated with these sales. These incremental costs total about $70 5 million (NPV). Fuel would comprise $65.9 million (NPV), or 93%, of the incremental costs of the new wholesale sales. In addition, because TECo is projecting to add peaking capacity during the duration of the Lakeland agreement, TECo has estimated the incremental cost of these capacity additions to be $0.8 million (NPV).

The total incremental cost of the new wholesale sales is projected by TECo to be $71.5 million (NPV). Thus, TECo would derive $9.9 million (NPV) of net benefits. Stated differently, the new wholesale sales would provide a contribution to fixed costs of $9.9 million (NPV), according to TECo's projections.

Q **WHAT PORTION OF THE $9.9 MILLION OF NET BENEFITS IS TECO PROPOSING TO RETAIN FOR ITS SHAREHOLDERS?**

A TECo is proposing to retain 100% of the transmission revenue ($5.9 million NPV) and 50% of the net non-fuel revenue ($2.0 million NPV). Thus, TECo would retain $7.9 million, or 80% of the $9.9 million of net benefits derived from the new wholesale sales. This inequity is exacerbated by the fact that prior to the wholesale transaction, TECo's holding company, TECo Energy, will derive a profit from the transaction from its coal company, its coal transportation company and its non-regulated generating company. None of these profits will be shared with retail customers.

Q **HOW WOULD RETAIL CUSTOMERS BE AFFECTED IF TECO'S PROJECTIONS OF INCREMENTAL REVENUES AND ASSOCIATED INCREMENTAL FUEL COSTS WERE TOO OPTIMISTIC?**

A The benefits to retail customers could very well disappear if TECo's 10-year forecast projection of profitability either overstates the incremental revenues or understates the corresponding incremental fuel costs associated with the new wholesale sales. As can be seen in Document No. 1, retail customers would receive $2.0 million (NPV) in net benefits based on TECo's projections. These benefits are only 2.5% of the projected incremental revenues and only 3.0% of the projected incremental fuel costs. In other words, if either the projected incremental revenues are overstated by 4.9% and/or the incremental fuel costs are understated by 6.1%, the net benefits to retail customers would disappear.

Q HAVE YOU HAD AN OPPORTUNITY TO EXAMINE EITHER THE REASONABLENESS OR THE SENSITIVITY OF TECO'S PROJECTIONS OF INCREMENTAL REVENUES AND FUEL COSTS ASSOCIATED WITH THE NEW WHOLESALE SALES?

A No. I am awaiting receipt of discovery responses to determine the reasonableness and sensitivity of the projected annual costs and benefits, how these sales are being modeled and which resources would operate on the margin.

Q WOULD A MORE IN-DEPTH ANALYSIS CHANGE YOUR RECOMMENDATIONS IN THIS PROCEEDING?

A No. First, TECo has the burden of proof to demonstrate that retail customers will gain a real benefit from the new wholesale sales. It has failed to do so. TECo should have provided the Commission with a sensitivity analysis to determine the likelihood that benefits will materialize in each year that the new wholesale agreements are in effect.

Second, even if the sensitivity studies were to demonstrate that retail customers are likely to benefit, TECo has not provided any guarantee that retail customers will save money. Given the speculative nature of any long-term forecast, the Commission should not assume, absent a guarantee from the utility,

TAMPA ELECTRIC COMPANY
DOCKET NO. 970171-EU
WITNESS: POLLOCK
EXHIBIT NO. ______
REVISED (JP-1)
DOCUMENT NO. 1

TAMPA ELECTRIC COMPANY

Analysis of TECO's Proposed Regulatory Treatment of the FMPA and Lakeland Sales (NPV $Millions)

Line	Description	Amount
1	Incremental revenues	$81.4
	Incremental costs:	
2	Fuel	$65.9
3	SO2 Allowances	$0.6
4	Variable O&M	$4.2
5	Capacity	$0.8
6	Subtotal	$71.5
7	Net Benefits	$9.9
	Benefits retained by TECo	
8	Transmission revenues	$5.9
9	50% of net non-fuel revenues	$2.0
10	Subtotal	$7.9
11	Percent of Benefits retained by TECo	80%
12	Benefits retained by retail customers	$2.0
13	Percent of Benefits retained by retail customers	20%