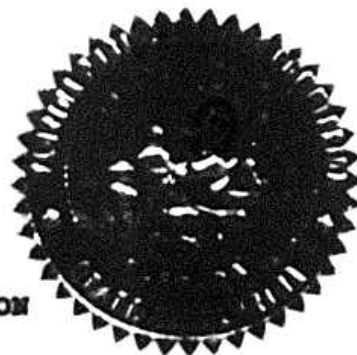


BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of : DOCKET NO. 970171-EU  
:  
Determination of appropriate cost :  
allocation and regulatory treat- :  
ment of total revenues associated :  
with wholesale sales to Florida :  
Municipal Power Agency and City of:  
Lakeland by Tampa Electric Company:



FIRST DAY - LATE EVENING SESSION

VOLUME 4

Pages 411 through 511

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN JULIA L. JOHNSON  
COMMISSIONER J. TERRY DEASON  
COMMISSIONER SUSAN F. CLARK  
COMMISSIONER DIANE K. KIESLING  
COMMISSIONER JOE GARCIA

DATE: Wednesday, June 11, 1997

TIME: Commenced at 9:30 a.m.  
Concluded at 8:27 p.m.

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

REPORTED BY: JOY KELLY, CSR, RPR  
Chief, Bureau of Reporting

APPEARANCES:

(As heretofore noted.)

DOCUMENT NUMBER DATE

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FPSC BUREAU OF REPORTING

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## P R O C E E D I N G S

(Hearing reconvened at 7:20 p.m.)

(Transcript follows in sequence from  
Volume 3.)

**CHAIRMAN JOHNSON:** We're going to go ahead  
and go back on the record.

**MR. LONG:** Chairman Johnson, I have just two  
questions on redirect.

**CHAIRMAN JOHNSON:** Okay. Let me -- another  
preliminary matter, did you all have a opportunity to  
go over the time that it might take just in case we're  
able to complete? We're trying to gauge whether we'll  
be able to stay and complete tonight.

**MR. WILLIS:** We think we'll be able to  
complete tonight.

**CHAIRMAN JOHNSON:** By 9 o'clock?

**MR. WILLIS:** Yes.

**MS. PAUGH:** Staff agrees.

**CHAIRMAN JOHNSON:** Very well.

20

21

22

23

24

25





1 Q What was meant by that last sentence?

2 A Well, Tampa Electric did not do any  
3 sensitivity analyses for the FMPA sale simply because  
4 the sale is taken around the clock for every hour. So  
5 the gross fluctuation potential in fuel that might be  
6 seen from a peaking sale was not a consideration here;  
7 it was not a concern. You noticed by the reserve  
8 margins in those years that there didn't seem to be a  
9 concern with inadequate reserve margins, and all of  
10 the costs that are associated with making the sale  
11 were included in the cost/benefit analysis of these  
12 sales, so I didn't feel it was necessary to run a  
13 sensitivity analysis for the FMPA sale.

14 MR. LONG: Thank you. Chairman Johnson, I  
15 have no further redirect.

16 CHAIRMAN JOHNSON: Exhibits?

17 MR. LONG: Yes. I move that Exhibits 10 and  
18 13 be admitted into evidence.

19 CHAIRMAN JOHNSON: Show those admitted  
20 without objection.

21 (Exhibits 10 and 13 received in evidence.)

22 MS. KAUFMAN: FIPUG would move Exhibit 9.

23 MR. HOWE: Public Counsel would move  
24 Exhibit 11.

25 CHAIRMAN JOHNSON: Show 9 and 11 admitted

1 without objection.

2 (Exhibits 9 and 11 received in evidence.)

3 MS. FAUGH: Staff would move Exhibits 12,  
4 14, 15 and 16.

5 CHAIRMAN JOHNSON: 14 is a late-filed, but  
6 we'll move 12, 15 and 16.

7 MS. FAUGH: Thank you.

8 MR. LONG: Chairman, I would object to  
9 Exhibit No. 12. If you'll recall, Exhibit 12 was the  
10 curve that Staff prepared for cross examination. And  
11 the witness indicated that the graph was incorrect,  
12 and in response to subsequent questioning, provided  
13 Exhibit 13, which was her understanding of how the QF  
14 payment is made.

15 Given that, I don't think that it would be  
16 appropriate to admit Exhibit 12 into evidence since it  
17 has no evidentiary value.

18 CHAIRMAN JOHNSON: Staff?

19 MS. FAUGH: In so far as the witness is  
20 going to provide us with the actual numbers we'll  
21 waive that exhibit.

22 CHAIRMAN JOHNSON: Show Exhibit 12 then  
23 withdrawn.

24 (Exhibits 12 withdrawn.)

25 (Exhibits 15 and 16 received in evidence.)

1           **CHAIRMAN JOHNSON:** Thank you. You can be  
2 excused.

3           (Witness Branick excused.)

4                                 - - - - -

5           **CHAIRMAN JOHNSON:** Mr. Larkin.

6                                 **HUGH LARKIN, JR.**

7 was called as a witness on behalf of the Citizens of  
8 the State of Florida and, having been duly sworn,  
9 testified as follows:

10                                 **DIRECT EXAMINATION**

11 **BY MR. HOWE:**

12           **Q** Mr. Larkin, would you please state your name  
13 and business address for the record?

14           **A** My name is Hugh Larkin, Jr. My business  
15 address is 15728 Farmington Road, Livonia, Michigan  
16 48154.

17           **Q** Have you been sworn in, Mr. Larkin?

18           **A** Yes, I have.

19           **Q** Are you the same Hugh Larkin who caused to  
20 be prepared the direct testimony of Hugh Larkin, Jr.,  
21 that's been filed in this docket?

22           **A** Yes, I am.

23           **Q** If I were to ask you the same questions --  
24 well, first I should ask, do you have any corrections  
25 to make to your testimony?

1           A     None that I know of.

2           Q     If I were to ask you the same questions, as  
3 shown in that testimony, Mr. Larkin, would your  
4 answers be the same?

5           A     Yes, they would.

6           Q     This testimony was prepared under your  
7 direction or supervision; is that correct?

8           A     It was.

9           MR. HOWE: Chairman Johnson, there's an  
10 appendix to the direct testimony of Hugh Larkin, Jr.,  
11 consisting of Mr. Larkin's qualifications. I'd ask  
12 that be assigned an exhibit number.

13           CHAIRMAN JOHNSON: Where is that?

14           MR. HOWE: The back of his testimony has an  
15 appendix consisting of his qualifications.

16           CHAIRMAN JOHNSON: We will identify that as  
17 Exhibit 17 and short title is, "Larkin  
18 Qualifications."

19           (Exhibit 17 marked for identification.)

20           MR. HOWE: Chairman Johnson, I'd ask  
21 Mr. Larkin's prefiled direct testimony be inserted  
22 into the record as though read.

23           CHAIRMAN JOHNSON: It will be so inserted.

24

25

1 DIRECT TESTIMONY OF HUGH LARKIN, JR  
2 ON BEHALF OF THE CITIZENS OF FLORIDA  
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
4 TAMPA ELECTRIC COMPANY  
5 DOCKET NO. 970171 - EU

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 in  
9 the States of Michigan and Florida and the senior partner in the firm of Larkin  
10 & Associates, Certified Public Accountants, with offices at 15728 Farmington  
11 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 YOUR  
2 QUALIFICATIONS AND EXPERIENCE?

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

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

7 A. Larkin & Associates was retained by the Florida Office of Public Counsel  
8 (OPC) to respond to Tampa Electric Company's request in this docket

9 Tampa Electric has requested that the Commission approve regulatory  
10 treatment of the wholesale sales at issue in this docket based on the following  
11 reasons:

- 12 1. The sales are consistent with well established economic theory
- 13 2. The sales are consistent with past Commission precedent
- 14 3. The sales are sound public policy.

15 My testimony will explain why the Company's testimony purportedly justifying  
16 the proposed regulatory treatment is incorrect

17 Consistent With Well Established Economic Theory

1 Q. HAVE BOTH MR. RAMIL AND DR. BOHI CONCLUDED THE  
2 WHOLESALE SALES AT ISSUE IN THIS CASE ARE CONSISTENT  
3 WITH ESTABLISHED ECONOMIC THEORY?

4 A. Yes, they have. Mr. Ramil and Dr. Bohi have concluded that these sales meet  
5 economic principles which justify their approval by the Commission. However,  
6 the theory which they have both concluded justifies these sales could not and  
7 would not be applied by this Commission in establishing rates to be charged  
8 retail customers, nor would they be applied by any business in completing sales  
9 to its customers.

10 Q. WOULD YOU PLEASE EXPLAIN?

11 A. As I understand it, the justification for the approval of the subsidy by retail  
12 customers, as proposed by the Company witnesses in this case, is as follows

13 When establishing base rates, the Commission covers all the fixed costs of  
14 operating the Company's utility system. It also separately establishes a fuel  
15 cost which flows through a recovery mechanism, which is charged to  
16 customers based on the average cost of fuel for all customers on the system  
17 Thus, the use of average cost in establishing base rates and the fuel cost  
18 mechanism is justified because customers on average utilize the system  
19 capacity, and customers, on average, incur average fuel cost or cause average  
20 fuel costs. Thus, in establishing base rates and the fuel clause, the average cost  
21 allows the Company to recover all of its fixed costs and its average fuel cost of  
22 providing service to ratepayers.

23  
24 However, after establishing base rates, any additional sale does not incur any  
25 fixed costs, because those fixed costs have already been covered by those  
26 ratepayers who are on the system or consuming a certain level of energy at the  
27 time the base rates were established. The same would be true for fuel costs,  
28 the average fuel cost would be recovered from those customers or cost causers  
29 at the time the fuel clause was established. Since additional sales after base



1 rates are established are in effect incremental, then the only costs that they  
2 bring to the system or cause the system is the incremental increase in O & M,  
3 transmission and other costs which might vary with increases in production.  
4 The Company's theory then concludes that if one were to make additional sales  
5 over and above those necessary to cover base rate costs, those sales would be  
6 economic if they covered their incremental costs and contributed anything to  
7 reducing fixed costs.

8 Q. WHAT IS WRONG WITH THIS JUSTIFICATION?

9 A. There are essentially two things wrong with this theory. The first is that the  
10 Commission, if it followed this theory, would allow every customer which  
11 entered the system after the establishment of base rates to pay only the  
12 incremental costs associated with that customer's addition to the system. This  
13 of course would be discriminatory because you would have retail customers,  
14 including residential, commercial and industrial, who would be added to the  
15 system after base rates were established and who could claim, under this  
16 economic theory, that they should be required to pay only incremental costs  
17 plus a margin of profit because all the fixed costs had already been covered by  
18 customers who were on the system at the time base rates were established. Of  
19 course, this Commission does not follow that theory because it discriminates  
20 against customers who happen to be on the system when base rates are  
21 established.

22 Clearly, incremental sales have to be determined on the same basis as sales to  
23 the original group of customers who were on the system when base rates were

1 established. This principle is also true when one looks at wholesale customers  
2 The same cost causative principles are necessary when establishing rates for  
3 those customers. While this Commission can not dictate to Tampa Electric  
4 how it establishes rates for wholesale customers, which are under the  
5 jurisdiction of the Federal Energy Regulatory Commission, it can establish how  
6 the segregation of fuel costs are determined as it affects retail customers under  
7 the jurisdiction of the Florida Public Service Commission. Under the  
8 Company's proposal, there would be a subsidy of these sales because costs  
9 would not be credited against fuel costs. Only revenues received would be  
10 credited against fuel costs, and those revenues would be at less than the  
11 average cost of fuel. This clearly would be discrimination against retail  
12 customers resulting in subsidies to wholesale customers.

13 Q. WHAT IS THE OTHER PROBLEM WITH THE THEORY BEHIND THE  
14 JUSTIFICATION?

15 A. The second reason that this theory is not workable is that, in a competitive  
16 business or one that is an oligopoly such as the automobile industry, prices of  
17 products are not established in this manner. For example, in the automobile  
18 industry capacity costs might be covered by the production of say 400,000  
19 Jeep Grand Cherokees. Chrysler Corporation does not price the next unit of  
20 product at its incremental costs because it has recovered all of its fixed costs in  
21 its sale of the first 400,000 units. It establishes a product price and charges

1 that price consistently for that product. Clearly, no one can go to a Chrysler  
2 dealer and argue that Chrysler has covered its fixed cost in its current level of  
3 sales, and therefore, should pay only the incremental cost plus a profit. That  
4 customer would clearly be laughed out of the showroom. Neither can a  
5 customer who lives next door to the Chrysler plant that manufactures Jeep  
6 Grand Cherokees argue that he should not pay the destination charge on such a  
7 vehicle because he lives next door and would be willing to walk over and drive  
8 his new purchase home. Automobile manufacturers, as do all manufactures,  
9 establish a price and generally maintain that price for all customers. This is the  
10 pricing policy that this Commission follows. It in effects says that demand will  
11 equal the price charged for this product at its average embedded costs, and  
12 therefore it establishes rates to recover that average embedded cost, both fuel  
13 and capacity cost. The only exception to this principle generally is for  
14 economic transactions which occur on an hourly basis and require no long-  
15 term commitment of capacity. The sale that is proposed in both instances by  
16 Tampa Electric are not economy sales. These sales do not meet any economic  
17 theory used to establish utility rates, either base rates or long-term capacity  
18 sales, which both of these transactions are.

19 While the economic theory that the Company witnesses expound is a theory  
20 that is applied when a company may be contemplating the sale of a waste  
21 product such as slag from coal units which might be utilized for cinder block

1 manufacturing, it is an economic theory that one would not utilize in  
2 establishing how sales would be made to additional customers consuming the  
3 same product in the same time period. If an automobile company were to  
4 apply this theory and sell automobiles at incremental costs plus profit at the  
5 end of a model year, no one would buy the product at the beginning of the year  
6 because it would be clear the price would drop as soon as the company  
7 covered its fixed costs.

8 Q. DO THE TWO SALES AT ISSUE IN THIS DOCKET REQUIRE THE  
9 COMMITMENT OF TAMPA ELECTRIC CAPACITY?

10 A. Yes, they do. Although it is not included in Dr. Bohi's discussion of economic  
11 principles, Tampa Electric is committing capacity to these sales, including both  
12 base load capacity and peaking capacity. The discussion by Dr. Bohi of the  
13 application of an incremental cost principle in determining whether these sales  
14 should be completed or not completely ignores the fact that the capacity which  
15 is committed to these sales will no longer be available for use by retail  
16 customers. Clearly, the commitment of capacity to any sale should require the  
17 assignment of cost related to that capacity to that sale

18 Q. SHOULD THE COMMISSION BE CONCERNED ABOUT HOW  
19 WHOLESALE PRICES ARE ESTABLISHED AS DISTINGUISHED FROM  
20 RETAIL PRICES?

1 A In general, no. The Florida Public Service Commission does not have the  
2 authority to establish wholesale prices, but, as I have previously pointed out,  
3 this Commission does have the authority to establish how wholesale prices  
4 might affect retail customers. That is, if such sales are impacting retail  
5 customers as a result of how costs are flowed through the fuel adjustment  
6 clauses or if capacity costs are borne by retail customers with profit going to  
7 stockholders, then the Commission should take action to protect ratepayers

8 Q. CAN THE THEORY ESPOUSED BY DR. BOHI BE RECONCILED WITH  
9 THE COMMISSION'S POLICY OF ESTABLISHING FUEL COSTS FOR  
10 RETAIL CUSTOMERS BASED ON THE AVERAGE FUEL COST  
11 INCURRED BY THE SYSTEM IN SERVING BOTH RETAIL AND  
12 WHOLESALE CUSTOMERS?

13 A. I do not believe it can. The Florida Public Service Commission establishes fuel  
14 costs for retail customers by calculating the total average fuel costs incurred by  
15 the entire system that serves both retail and wholesale customers. It does not  
16 calculate a cost to serve only retail customers based on attempting to segregate  
17 kilowatt hours generated from each unit which is utilized to serve retail  
18 customers. Customers on the retail system pay the average cost of fuel  
19 whether that fuel was utilized to serve a retail or wholesale customer. Retail  
20 customers do not pay incremental fuel cost based on the next increment which  
21 is utilized to serve them, rather they pay average fuel costs based on what the

1 system generates to serve either a wholesale or retail customer. Thus,  
2 incremental costs is not used in establishing fuel costs flowed through the fuel  
3 adjustment clause; average cost is used. To take a wholesale sale and attempt  
4 to segregate the cost by saying it is incremental and therefore less than the  
5 average would be directly opposite to what the Commission has done in  
6 establishing fuel costs for retail customers.

7 Q. ON PAGE 9, LINE 7, OF DR. BOHI'S TESTIMONY HE STATES  
8 "TAMPA ELECTRIC'S CAPACITY REQUIREMENTS ARE THE SAME  
9 WHETHER THE SALE TO FMPA IS CONSUMMATED OR NOT " DO  
10 YOU BELIEVE THAT STATEMENT IS CORRECT?

11 A. No, I do not. When additional sales are added to any utility system, even if  
12 capacity is available to service those sales, there are reserve requirements  
13 which must be met. If the sales are being made out of Tampa Electric's  
14 reserve requirements, then Tampa Electric must replace those reserve  
15 requirements by either finding new capacity within its own units or purchasing  
16 capacity from outside the system. Incremental sales will always affect reserve  
17 requirements, decreasing the amount of the reserve, and may require the  
18 addition of capacity or purchase power in order to maintain adequate reserves

19 Q. ON PAGE 10, LINE 9, DR. BOHI STATES: "THE FIRM SHOULD  
20 PRODUCE EACH INCREMENT OF OUTPUT THAT INCREASES ITS

1           PROFIT OR REDUCES ITS LOSSES." WOULD YOU PLEASE  
2           COMMENT ON THAT STATEMENT IN REGARD TO THESE  
3           TRANSACTIONS?

4           A.    If both Dr. Bohi and the Company believe every transaction which covers  
5           incremental cost and contributes something to fixed cost ought to be  
6           completed, then the Company should be satisfied with the profit it obtains from  
7           this transaction without asking for a subsidy through the fuel adjustment  
8           clause. The retail ratepayer would be subsidizing this transaction to the extent  
9           that fuel costs were not credited with the average fuel cost and to the extent  
10          that they are asked to subsidize the transaction via the payment through base  
11          rates of capacity costs, but were credited with only a portion of the incremental  
12          revenues which Tampa Electric received from this wholesale. If we are to  
13          believe Dr. Bohi's statement, then the wholesale transaction would be  
14          beneficial to the Company if it received only its incremental costs plus any  
15          margin of profit.

16          Q.    DR. BOHI, ON PAGE 13, LINE 14, STATES: "IN A REGULATED  
17          CONTEXT, THE FIRM'S AVERAGE COSTS ARE COVERED BY  
18          REVENUES FROM RETAIL SALES AND THE ISSUE IS WHETHER TO  
19          PRODUCE AN ADDITIONAL AMOUNT FOR SALES IN THE  
20          WHOLESALE MARKET IF INCREMENTAL COSTS OF WHOLESALE  
21          SALES ARE COVERED BY INCREMENTAL REVENUES, RETAIL

1 CUSTOMERS WILL NOT BE SUBSIDIZING WHOLESALE RATES " IF  
2 THE SALES UNDER CONSIDERATION IN THIS DOCKET ARE TRULY  
3 INCREMENTAL SHOULDN'T IT BE INCREMENTAL ONLY IN THE  
4 WHOLESALE JURISDICTION WITHOUT HAVING ANY EFFECT ON  
5 RETAIL JURISDICTIONAL CUSTOMERS?

6 A. I would think so. If these wholesale sales are being made out of separated  
7 capacity for wholesale customers, and the fuel costs are related to capacity not  
8 considered in the fuel adjustment clause, then there would truly be no subsidy  
9 by retail customers. However, that does not appear to be the case. Retail  
10 customers are apparently supporting the capacity which will be utilized to  
11 make these sales. In addition, fuel costs are calculated for fuel adjustment  
12 clause purposes in a manner that does not segregate wholesale sales.  
13 Therefore, the Company is asking that only incremental fuel revenue be  
14 credited to the fuel adjustment clause, requiring a subsidy by ratepayers who  
15 continue to pay average fuel costs while these wholesale sales would be  
16 charged something less than average. In addition, the capacity cost will be  
17 paid for to some extent by retail ratepayers, thus the sale will be subsidized  
18 both through fuel and capacity costs.

19 Q WON'T RATEPAYERS RECEIVE SOME CREDIT FOR CAPACITY  
20 COST THROUGH THE 50 / 50 SPLIT OF MARGINS FOR THESE  
21 SALES?



1 A. Yes, but they will still be subsidizing a sale to the extent that those capacity  
2 costs have not been completely removed from retail rates. The capacity will no  
3 longer be available for use by retail customers, yet they will still be paying  
4 carrying costs associated with the capacity.

5 Q. BASED ON DR. BOHI'S TESTIMONY, WOULD THE COMPANY NEED  
6 ANY INCENTIVE TO MAKE THESE SALES OTHER THAN COVERING  
7 ITS INCREMENTAL COST AND CONTRIBUTING SOME  
8 CONTRIBUTION TO FIXED COSTS?

9 A. No. Even though the Company is asking for a 50/50 split in the profit  
10 associated with these sales, if one were to follow the theory of Dr. Bohi's  
11 testimony, the Company would make this sale regardless of whether there were  
12 any split in the profit associated with these sales if it were able to cover its  
13 incremental costs and contribute some revenues to covering overhead. Thus,  
14 when the Company argues that it needs some incentive to make these sales  
15 through the sharing of margins, that does not comport with Dr. Bohi's  
16 testimony.

17 Q. ON PAGE 8 OF MR. RAMIL'S TESTIMONY, HE STATES THAT BY  
18 ASSESSING COSTS EQUAL TO INCREMENTAL FUEL AND  
19 CREDITING THAT TO THE FUEL AND PURCHASED POWER  
20 RECOVERY CLAUSE ... ANY IMPACT OF MAKING THESE SALES

1 ON THE RETAIL CUSTOMER HAS BEEN ELIMINATED." DO YOU  
2 BELIEVE THAT TO BE CORRECT?

3 A. No. Whenever additional sales are made or sales are lost, there is an impact on  
4 the average cost of fuel. When the capacity utilized to make these sales is  
5 unavailable to either the retail customer or the wholesale customer, additional  
6 capacity is utilized to service both the retail and the wholesale jurisdiction.  
7 Generally, if the system had been operating at an efficient level, additional sales  
8 will cause the average cost of fuel to increase because less efficient capacity  
9 would come on line to service increases in sales over and above the sales at  
10 question in this docket. Most likely, average fuel costs would increase. This  
11 would increase average fuel costs both to retail customers and full requirement  
12 wholesale customers such as Sebring.

13 Q. ON PAGE 10, LINE 22, OF MR. RAMIL'S TESTIMONY, HE STATES:  
14 "SECONDLY, THESE SALES WILL CONTRIBUTE TO LOWERING  
15 THE REVENUE REQUIREMENT IN TAMPA ELECTRIC'S NEXT RATE  
16 PRECEDING, ..." WHAT DOES THIS STATEMENT INDICATE TO  
17 YOU?

18 A. This is an indication that Tampa Electric is earning a retail rate of return  
19 through its retail customers on these sales. If they were in fact not being  
20 subsidized by retail customers, it would have no affect on future rate cases and

1 future retail rates. The fact that Mr. Ramil recognizes that it will be an  
2 indication to the Commission that there is cross-subsidization.

3 Q. ON PAGE 14, LINES 16 THROUGH 22, MR. RAMIL TRIES TO  
4 DIFFERENTIATE TAMPA ELECTRIC FROM OTHER FLORIDA  
5 UTILITIES. IS THERE ANY RELEVANT DIFFERENCE BETWEEN  
6 TAMPA ELECTRIC AND OTHER UTILITIES IN THE STATE OF  
7 FLORIDA, OR FOR THAT MATTER, ANYWHERE ELSE?

8 A. Not to my knowledge. Every utility has different cost structures, different  
9 units, and different mixes of customers. There is no uniqueness to Tampa  
10 Electric that would set it apart from other utilities who have differing  
11 geographic areas or cost structures. It is a distinction without a difference and  
12 should not be used to justify any special treatment.

13 Q. THE FMPA CONTRACT WILL BE SATISFIED FROM GENERATION  
14 OUT OF SPECIFIED GENERATING UNITS. WOULD YOU COMMENT  
15 UPON THE FUEL COSTS ASSOCIATED WITH THOSE SPECIFIED  
16 ASSETS?

17 A. It has been indicated that the FMPA contract will have a priority claim to  
18 generation coming out of certain specified generating units. Generally, Tampa  
19 Electric's fuel supply consists of a combination of long-term contract and spot  
20 market purchases. In the past, the long-term contracts have had higher fuel

1 costs because they provide reliable long-term supply and are subject to  
2 escalation clauses within the contract. The spot market price has generally  
3 been lower than the long-term coal price because spot market purchases are  
4 made for short-term periods and are based on buying coal at the lowest price at  
5 the time. Consequently, the cost of the coal on the spot market has, in general,  
6 been lower than the long-term contract price. These contracts, however, will  
7 always price fuel at a lower incremental fuel cost which would reflect the  
8 lowest spot market price, even though this contract will require a priority claim  
9 on these units by the FMPA contract. Therefore, one would think that since  
10 the capacity first used out of these units will be used to serve the FMPA  
11 contract, the fuel used would be that from a long-term higher price source  
12 rather than the spot market lower fuel costs. However, this is not the way the  
13 fuel is being priced.

14 Q. WHO WILL PAY FOR THE CAPACITY UTILIZED TO SERVE THE  
15 FMPA CONTRACT?

16 A. As I understand it, the capacity costs are currently being paid by the retail  
17 ratepayers. However, if the Commission were to approve the Company's  
18 proposal, the ratepayer would only receive 50% of the amount that the  
19 Company collects from the wholesales sales which exceed the purported costs  
20 associated with those sales. This would be true even though the retail  
21 ratepayers are paying 100% of the capacity cost. If Dr. Bohi's theory were

1 followed to its ultimate conclusion, then Tampa Electric would make this sale  
2 regardless of whether it received any of the profits. The only limitation would  
3 be that it must contribute something to reducing fixed costs. Thus, if all of the  
4 contract profits were credited to the retail ratepayer, it would meet Dr. Bohi's  
5 criteria; it would reduce fixed costs, and therefore, stimulating sales to that  
6 group of customers.

7

8 Q. IF THE COMMISSION WERE TO APPROVE THE SALE AS  
9 CURRENTLY REQUESTED BY TAMPA ELECTRIC, WILL TAMPA  
10 ELECTRIC RECEIVE A HIGHER RETURN ON THE CAPACITY  
11 UTILIZED IN COMPLETING THIS SALE THEN IT OTHERWISE  
12 WOULD?

13 A. Yes, it would. This is how it would occur. Assume currently that Tampa  
14 Electric is receiving a \$1,000 return on the capacity which will be utilized to  
15 complete this sale. That return is being provided by retail ratepayers. This  
16 same capacity is then utilized to make the wholesale sale at issue in this case.  
17 Assume the Company receives an additional \$500 return on this capacity from  
18 the wholesale customer. In total, the Company has received a \$1,500 return  
19 on this capacity. The Company agrees to split the return on this capacity by  
20 crediting half of the return it received from the wholesale ratepayer through the  
21 fuel adjustment clause. This would be \$250 under this example. Thus, the  
22 retail ratepayer provides a net return of \$750. However, Tampa Electric has

1 still received \$500 from the wholesale customer. It has, in total, after the  
2 credit, received \$1,250 in return. This is \$250 higher than the Commission  
3 determined was appropriate in the Company's last base rate case and above the  
4 wholesale return FERC intended when they approved the contract. The  
5 Company is \$250 better off than it was prior to this sale. Clearly, the full  
6 amount of the return received from the wholesale customer could be credited  
7 to the benefit of the ratepayer and Tampa Electric would still receive the full  
8 return requirement on this property.

9 The Sales Are Consistent With Past Commission Precedent

10 Q. THE SECOND ARGUMENT MADE IN MR. RAMIL'S TESTIMONY IS  
11 THAT THESE SALES ARE CONSISTENT WITH PAST COMMISSION  
12 PRECEDENT, DO YOU AGREE?

13 A. No, I do not. While in the Company's last rate case the Commission separated  
14 some capacity for wholesale sales and left some capacity in retail rates which  
15 was not being utilized by retail customers, there was no precedent set in that  
16 decision which would state that retail ratepayers should subsidize wholesale  
17 sales on an ongoing basis.

18 Q. HOW WILL THE RETAIL JURISDICTION SUBSIDIZE THESE SALES?

19 A. Ratepayers are providing a subsidy through the fuel adjustment clause in two  
20 ways. First, the FMPA contract gives FMPA the right to receive energy from

1 specific units on a priority basis while those units are running. This means that  
2 when these units are running at low capacity factors, they will be incurring high  
3 fuel costs because they are not running at their most efficient level. Thus, they  
4 will be incurring higher than average fuel costs for these units. FMPA will only  
5 pay incremental fuel cost or the high efficient costs of these units when they are  
6 running at high capacity factors. Thus, the difference between the lower  
7 capacity less efficient fuel costs incurred when these units run at a 30, 40, or  
8 50% capacity factor will be borne by the retail ratepayer while FMPA receives  
9 fuel costs charged at the incremental, or high efficiency level. Another way  
10 that the ratepayer is charged is that because the efficient use of these units,  
11 where the incremental fuel costs is at its lowest, is segregated for sale to  
12 FMPA. As a result, the average total fuel cost will be higher because lower  
13 fuel costs is taken out of total fuel costs, therefore, raising the average

14 The second way that the retail jurisdiction is subsidizing these sales is that  
15 retail ratepayers are currently paying the capacity cost associated with  
16 servicing these sales. They will receive some reduction through the sharing of  
17 revenue proposed by the Company. However, if one were to follow the  
18 Company's theory to its ultimate conclusion, retail ratepayers should receive  
19 100% of the credit because these sales meet the incremental cost recovery  
20 requirement and contribute something to overhead. That overhead is being

1           paid by retail ratepayers. Thus, retail ratepayers should receive the credit for  
2           the recovery of that cost.

3  
4           Additionally, if this contract has been approved by FERC, the return allowed in  
5           that contract should not be subsidized by recovering part of the cost through  
6           the fuel adjustment clause or having ratepayers pay part or all of the capacity  
7           cost.

8           The Sales Are Sound Public Policy

9           Q.     WOULD YOU DISCUSS THE PUBLIC POLICY ISSUES WHICH THESE  
10           SALE REPRESENT?

11          A.     Yes. If the Commission were to approve this type of sale, it would place itself  
12           in the business of making-up for lost returns in the wholesale market  
13           necessitated by competition. This is outside of the jurisdiction of the Florida  
14           Public Service Commission. The Florida Public Service Commission should  
15           not be concerned about wholesale contracts and whether or not the Company  
16           receives full compensation for such contracts. The Commission should be  
17           concerned that retail ratepayers are fully compensated for any utilization of  
18           capacity and that they never pay more than the average system-wide fuel costs  
19           Additionally, they should be concerned that there is no cross-subsidization of  
20           the wholesale market by retail customers.



1 As I have previously pointed out in the prior docket, if the Commission were  
2 to approve this type of cross-subsidization, there is no reason that every utility  
3 in the State of Florida would not engage in the same type of sale. If it is  
4 appropriate to reduce fuel costs for wholesale sales and to require the retail  
5 ratepayers to make-up for the difference between the incremental cost and the  
6 average cost by excluding the lower incremental fuel costs when calculating the  
7 average in determining the fuel recovery mechanism, then there is no reason  
8 that any utility should not engage in that type of sale. We would then have  
9 utilities competing with each other not on the basis of cost incurred to service  
10 the sale, but on the basis of how much of a subsidy they could get for the sale  
11 from retail customers. This is not good public policy, nor is it good economic  
12 policy.

13 The Commission should keep in mind that Tampa Electric conceded that it  
14 would always sell in the wholesale market at fully compensatory rates if it  
15 could, but that it must offer discounts to get the business. That should be the  
16 concern of the Company and not the concern of the Florida Public Service  
17 Commission. Ratepayers must be protected from subsidizing such sales.  
18 These contracts appear to be such a subsidy.

19 Q. HOW WOULD THE COMMISSION TREAT THESE SALES IN A RATE  
20 CASE PROCEEDING?

1       A.    The Commission would fully separate these amounts and would not permit any  
2            subsidy from retail ratepayers.

3       Q.    **DOES THAT CONCLUDE YOUR TESTIMONY?**

4       A.    Yes it does.

1           MR. HOWE: Mr. Larkin, would you please  
2 summarize your testimony?

3           A     Yes. Let me start out by not thanking you  
4 for not being here at 7:30 at night, but I will  
5 summarize my testimony.

6           Essentially, what my testimony says is that  
7 we really don't care what Tampa Electric sells power  
8 at to wholesale customers. What we do care, though,  
9 is how that sale is treated and how it affects retail  
10 customers.

11           We would say that if it looks like a duck,  
12 it walks like a duck and quacks like a duck, it's a  
13 duck. And this is a firm Schedule D sale; it should  
14 be separated and the cost related to it should not  
15 affect retail ratepayers in any way.

16           That when you commit capacity to a sale and  
17 you remove from the retail ratepayer the ability to  
18 use that capacity, even if he wasn't using it, then  
19 the fuel cost that should be assigned to that should  
20 be no less than the average fuel cost. And if the  
21 actual fuel cost is higher, then the actual fuel cost  
22 ought to be assigned to it.

23           To pretend that these sales are something  
24 like brokerage sales which are short term, which  
25 commit no capacity, which can be stopped or started at

1 any point in time, and give that benefit to -- or take  
2 that benefit away from the retail ratepayer of having  
3 that capacity available to them is not fair.

4           We would look at this as the ratepayer  
5 exchanging \$3 million, or \$3.1 million of brokerage  
6 sales for a guarantee of \$2 million with some  
7 possibility at some point maybe of receiving somewhere  
8 around 4 or \$4.5 million in credits if and when the  
9 return that the Company earns is over the return in  
10 the stipulation. That's not a guarantee and to give  
11 up the availability of having those units available to  
12 the retail ratepayer we don't think is fair.

13           And we would look at it in terms of you  
14 wouldn't treat an incremental customer on the retail  
15 system this way. You wouldn't let him have or pay  
16 only incremental cost. You would insist that he pay a  
17 fully allocated embedded cost, even though he's  
18 incremental and that all of the capacity cost had  
19 already been covered by other retail ratepayers.

20           There was also a comparison of what is  
21 happening on the telephone side with what is happening  
22 here with this sale. Well, as I understand it, I  
23 don't know what is going on in Florida, but most  
24 jurisdictions, the cost studies are called TSLRIC  
25 studies and that acronym stands for --

1           **MR. HART:** Madam Chairman, this is not in  
2 his testimony, and we haven't been very harsh about  
3 that. Most of his summary has not been in his  
4 testimcny. This is way beyond what's in his  
5 testimony.

6           **CHAIRMAN JOHNSON:** Mr. Howe?

7           **MR. HOWE:** Chairman Johnson, Mr. Hart is  
8 partially right. Mr. Larkin is putting on our case.  
9 He has the right to address anything that came out in  
10 the Company's direct case, whether in their prefiled  
11 direct, their answers to cross examination questions,  
12 their answers to questions from Commissioners, or  
13 their answers to redirect. This is our opportunity to  
14 confront everything they have put into the record.  
15 And on that basis I don't think Mr. Larkin is  
16 addressing anything that has not come out in the  
17 Company's direct case.

18           **MR. HART:** I would respectfully suggest the  
19 Commission not adopt such a policy. What it will mean  
20 in the future is that intervenors only need to file a  
21 couple of pages and then they could present all of  
22 their testimony live with regard to responding to the  
23 company and the Commissioners' questions. I mean, if  
24 we're going to continue to having prefiled testimony  
25 by intervenors as well as the other parties, then they

1 have to do it. Otherwise, there will be no point in  
2 prefiled testimony of intervenors.

3           **CHAIRMAN JOHNSON:** I'm going to sustain the  
4 objection as it relates to the TSLRIC discussion. To  
5 the extent that a Commissioner, or anyone, or Staff,  
6 would like to have that issue addressed, then I'm sure  
7 you'll get the question.

8           **WITNESS LARKIN:** All right. Then I guess  
9 I'm finished.

10           **MR. HOWE:** We tender Mr. Larkin for cross  
11 examination.

12           **MR. HART:** In an attempt to not ask any  
13 unnecessary questions, we would again request that our  
14 chance to cross examine after the parties who have the  
15 same position on these issues have asked their  
16 questions.

17           **CHAIRMAN JOHNSON:** Staff, do you have any  
18 questions?

19           **MS. PAUGH:** Staff has an objection to the  
20 characterization of Staff's position as being the same  
21 as the parties. Staff's role is advisory. Staff does  
22 not take a position. Staff is just trying to  
23 determine all of the facts. That's twice in these  
24 proceedings we have been characterized in that  
25 fashion, and I do take exception to that.

1           No, Staff does not have any cross. Thank  
2 you.

3           **CHAIRMAN JOHNSON:** Thank you.

4           **MR. HART:** I was simply referring to Staff's  
5 position in their prehearing statement and in the  
6 Prehearing Order, not Staff's role in a general sense.

7           **CHAIRMAN JOHNSON:** Certainly. Do you have  
8 any questions?

9           **MR. HART:** No, I do not.

10          **MS. KAUFMAN:** I have no questions,  
11 Chairman Johnson.

12          **CHAIRMAN JOHNSON:** Exhibits?

13          **COMMISSIONER DEASON:** Let me ask a question.  
14 Mr. Larkin, have you had any experience in the  
15 Telecommunications Act of 1996?

16          **WITNESS LARKIN:** Yes.

17          **COMMISSIONER DEASON:** The definition of  
18 incremental cost?

19          **WITNESS LARKIN:** We have advised the  
20 Delaware Staff, we're currently advising the --  
21 Delaware Commission -- the North Dakota Commission.  
22 We're participating in the dockets in Connecticut  
23 related to these issues.

24          **COMMISSIONER DEASON:** Explain to me why if  
25 incremental cost is good for developing competition in

1 telephone, utilization of incremental cost and  
2 incremental revenues are not appropriate for  
3 utilization in the electric industry in developing  
4 competitive markets or addressing competitive markets  
5 at the wholesale level.

6           **WITNESS LARKIN:** Sure. Well, first, you  
7 have to start with a definition of what is used in the  
8 telephone industry. And TSLRIC stands for total  
9 service long run incremental cost. That does not mean  
10 only the fuel component or that does not mean only the  
11 lines; that means the total capacity. That means  
12 central offices, switches and everything associated  
13 with it. That's unlike this at all.

14           **COMMISSIONER DEASON:** Let me interrupt you  
15 just a second. Now, are you saying total service in  
16 the sense of a total package of services as provided  
17 by the incumbent telephone company?

18           **WITNESS LARKIN:** Well, it can provide total  
19 service. You can buy pieces of it.

20           **COMMISSIONER DEASON:** Right. We have a  
21 TSLRIC cost that we've tried to establish for various  
22 components of the system depending upon what  
23 components an ALEC wishes to purchase from the  
24 incumbent LEC; is that correct?

25           **WITNESS LARKIN:** That's right. But that



1 includes only that component; it's not part of that  
2 component. It's not I'm going to use the central  
3 office but only pay for the lines. And that's what  
4 this is. This is a situation where you're going to  
5 get to use the capacity, but you're only going to pay  
6 the fuel cost. And the long run incremental cost is  
7 declining because --

8           **COMMISSIONER DEASON:** Who is only going to  
9 pay fuel costs?

10           **WITNESS LARKIN:** Well, these people. These  
11 two contracts are not going to have any capacity cost  
12 associated with them.

13           **COMMISSIONER DEASON:** But there are revenues  
14 being generated in excess of fuel cost or else there  
15 would not be any net present value benefit.

16           **WITNESS LARKIN:** Yeah. But that revenue is  
17 associated with transmission. The great majority of  
18 it is associated with transmission. There's a small  
19 piece that's over and above that, but that's not by  
20 any means the total capacity cost that would be  
21 assigned to the sale. It is not compensatory and  
22 that's been admitted by the Company time and time  
23 again.

24           **COMMISSIONER DEASON:** It's not compensatory  
25 if you do it on embedded average cost, is it?

1           **WITNESS LARKIN:** Well, if you assign any  
2 cost. If you -- as I understand it, they've assigned  
3 nothing for capacity to their analysis; and,  
4 therefore, it shows some margins above incremental  
5 cost.

6           **COMMISSIONER DEASON:** But their analysis is  
7 based upon the assumption -- and you may disagree with  
8 the assumption -- but it's based upon the assumption  
9 that the embedded capacity cost, embedded investment  
10 cost is a sunk cost and is not relevant in an  
11 incremental cost analysis. Is that correct?

12           **WITNESS LARKIN:** It is a sunk cost, but then  
13 that is true with every retail customer that comes on  
14 the system. That's a sunk cost, too, but we wouldn't  
15 say to that retail customer whether it's a -- an  
16 industrial retail customer, that you're entitled to  
17 only pay -- or you should only pay the incremental  
18 cost, but that's all that the Company is incurring.  
19 So the retail ratepayer should not be disadvantaged  
20 because the costs are sunk.

21           **COMMISSIONER DEASON:** TECO has to serve  
22 retail customers within its territory; has the  
23 obligation to serve. If they ask for service they  
24 have to provide it. If there's any extension of  
25 facilities, there may have to be a contribution, but

1 nevertheless, they have to provide service.

2           **WITNESS LARKIN:** I agree with that. And  
3 they also have to serve this sale. They're  
4 contractually obligated to serve it. So that in my  
5 mind there's no difference.

6           **COMMISSIONER DEASON:** But they didn't have  
7 to serve it before they decided that the contract  
8 offered benefits, incremental benefits above  
9 incremental cost. I mean, that was their decision,  
10 management's decision to do that.

11           **WITNESS LARKIN:** Yes, and we're not  
12 disputing that. We're just disputing how it is  
13 treated as it effects the fuel clause and how it is  
14 separated for regulatory purposes. They can do  
15 whatever they want. They can give it away. They just  
16 shouldn't be able to affect the fuel clause and it  
17 should be a separated sale.

18           **COMMISSIONER DEASON:** Well, do you agree  
19 that if from a regulatory perspective we required it  
20 to be accounted for and treated for regulatory  
21 purposes as if it were required to be done at full  
22 embedded cost, there's no incentive for management to  
23 enter into these type contracts?

24           **WITNESS LARKIN:** Why certainly there is.  
25 It's reducing -- they are getting incremental revenue;

1 they are just not getting the additional subsidy from  
2 the retail ratepayer.

3           **COMMISSIONER DEASON:** Well, assuming that  
4 the market is such that the incremental revenue would  
5 not cover an allocation of embedded cost, then there  
6 would be no incentive to enter into a contract.

7           **WITNESS LARKIN:** Well, if I understand your  
8 question, we don't care if they enter into the  
9 contract; they can make that decision. We just don't  
10 want that decision to impact the fuel adjustment  
11 clause. And if this sale is made out of assigned  
12 capacity from a unit that they have first call on,  
13 then the fuel cost that is assigned to it, or should  
14 be assigned to it, is not incremental, but it's the  
15 base fuel cost that that unit operates on and that  
16 should be taken out of the fuel clause; either that  
17 actual or the average.

18           **COMMISSIONER DEASON:** Even if --

19           **WITNESS LARKIN:** That's where we object.  
20 Then when you get to the separated side of it, we  
21 would say that you ought to separate it.

22           **COMMISSIONER DEASON:** So you disagree that  
23 even if it can be shown that the spot purchases has an  
24 affect of reducing the embedded average inventory  
25 price of fuel on a long-term basis.

1           **WITNESS LARKIN:** I mean, what it's done is  
2 \$2 million versus 3 million, that's the only thing  
3 that's guaranteed. They're saying if we would have  
4 used the brokerage system, we project that we would  
5 have had \$3 million worth of sales. But because we  
6 forced you, or because you guys forced us, we're going  
7 to guarantee you 2 million. But we wouldn't have even  
8 guaranteed you that had you not held our feet to the  
9 fire. And then the rest of this money is if they  
10 exceed their regulated rate of return, then the  
11 ratepayer would get 60% of that. But, boy, if I  
12 couldn't get rid of \$8 million in a company this size  
13 without having it flow to the bottom line, I'd turn in  
14 my CPA certificate.

15           **COMMISSIONER DEASON:** Would your  
16 recommendation be different or be indifferent if there  
17 were \$3 million guarantee as opposed to 2 million?

18           **WITNESS LARKIN:** No. I think when you take  
19 away from the ratepayer that capacity and you change  
20 the mix and you say this sale is not made out of the  
21 increment, that this capacity is not always available  
22 for the retail ratepayer, then you change the nature  
23 of the transaction and you make it a firm sale, and it  
24 should be treated the way you treat all firm sales and  
25 the way you treat firm retail customers. You should

1 separate it and assign a capacity cost to it, even if  
2 those capacity costs are already covered in retail  
3 base rates.

4           **COMMISSIONER DEASON:** But to the extent  
5 incremental revenue exceeds incremental cost there's  
6 the potential that there's going to be revenues that  
7 could be used to help cover those capacity costs which  
8 are already being funded by existing retail customers.

9           **WITNESS LARKIN:** Sure, but that potential is  
10 there from increased in growth in retail customers.

11           **COMMISSIONER DEASON:** Thank you, Mr. Larkin.

12           **CHAIRMAN JOHNSON:** TECO, did you have any  
13 follow-up?

14           **MR. HART:** No.

15           **CHAIRMAN JOHNSON:** Exhibits?

16           **MR. HOWE:** We would move the admission of  
17 Exhibit 17.

18           **CHAIRMAN JOHNSON:** Show it admitted without  
19 objection.

20           (Exhibit 17 received in evidence.)

21           **CHAIRMAN JOHNSON:** Thank you, Mr. Larkin.

22           (Witness Larkin excused.)

23           - - - - -

24           **CHAIRMAN JOHNSON:** Mr. Wheeler.

25

1                   **DAVID P. WHEELER**

2 was called as a witness on behalf of the Staff of the  
3 Florida Public Service Commission and, having been  
4 duly sworn, testified as follows:

5                   **DIRECT EXAMINATION**

6 **BY MS. FAUGH:**

7           **Q**     Please state your name for the record.

8           **A**     David Wheeler.

9           **Q**     And what is your business address, please,  
10 **Mr. Wheeler?**

11          **A**     2540 Shumard Oak Boulevard, Tallahassee  
12 32399.

13          **Q**     Are you the sponsor of eight pages of  
14 prefiled testimony in this proceeding?

15          **A**     Yes.

16          **Q**     Are there any changes or corrections to your  
17 prefiled testimony?

18                   **COMMISSIONER KIESLING:** Actually before you  
19 go any further, I have a problem. For some reason the  
20 copy that is in my file is only Pages 1, 3, 5 and 7.

21                   **MS. FAUGH:** I'll give you my copy. (Counsel  
22 Hands document to Commissioner.)

23                   **COMMISSIONER KIESLING:** Thank you.

24          **Q**     (By Ms. Faugh) Mr. Wheeler, are there any  
25 changes or corrections to your testimony?

1           **A**     I have two minor additions. The first one  
2 is on Page 7, Line 1, following the word "retaining,"  
3 I would like to add the phrase "through additions to  
4 operating revenues."

5           **Q**     Are there any other changes or corrections?

6           **A**     Yes. On Page 8, Line 3, after the first  
7 word "stockholders," I'd like to add the same phrase  
8 "through additions to operating revenue."

9           **Q**     Was this testimony prepared by you?

10          **A**     Yes.

11          **Q**     With these changes, if I asked you these  
12 questions today, would your answers be the same?

13          **A**     Yes.

14                 **MS. PAUGH:** Staff would request to move  
15 Mr. Wheeler's testimony into the record as though  
16 read.

17                 **CHAIRMAN JOHNSON:** It will be so admitted.

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## TESTIMONY OF DAVID P. WHEELER

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Q. Would you please state your name and business address?

A. My name is David P. Wheeler; 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850.

Q. By whom are you employed and in what capacity?

A. I am employed by the Florida Public Service Commission as a Regulatory Analyst in the Bureau of Electric Regulation, Division of Electric and Gas.

Q. Please give a brief description of your educational background and professional experience.

A. I graduated from the University of Kansas in 1982 with a Bachelor of Science Degree in Business Administration. In 1984 I was awarded a Master of Business Administration Degree with a concentration in finance by the University of Florida. From 1984 to January, 1990 I was employed by the Florida Department of Business Regulation as a financial analyst.

I began my employment with the Florida Public Service Commission in February of 1990, and have held various positions in the Bureau of Electric Regulation since that time. My primary job responsibilities are in the areas of electric utility cost of service and rate design.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss alternative regulatory treatments for Tampa Electric Company's (TECO) recent wholesale sales to the Florida Municipal Power Agency (FMPA) and the City of Lakeland (Lakeland), and to discuss TECO's proposed treatment of these transactions.

1 Q. Could you briefly describe the wholesale sale to Lakeland?

2 A. The sale to Lakeland began on October 19, 1996, and ends September  
3 30, 2006. The sale is a firm 10 MW sale under Long-Term Service Schedule  
4 D, and is made from TECO's system generating resources. The sale has  
5 priority equal to that of TECO's firm native load. There is also provision  
6 for an additional 10 MW with a priority subordinate to TECO's native load  
7 and existing wholesale commitments.

8 Q. Could you briefly describe the wholesale sale to the FMPA?

9 A. The sale to the FMPA began on December 16, 1996, and ends March 15,  
10 2001. This sale is a firm Schedule D sale of capacity and energy from  
11 TECO's Big Bend Units 2 and 3, and Gannon Units 5 and 6. The FMPA is  
12 entitled to this capacity any time these units are able to supply it. For  
13 the initial year of the agreement, the sale is for 35 MW of capacity, and  
14 increases annually over the term of the contract to a level of 150 MW by  
15 the end. The contract also makes provision for the supply of supplemental  
16 capacity at the same reliability as the base capacity, once it is  
17 scheduled.

18 Q. Has TECO made similar sales in the past?

19 A. Yes. TECO has made long-term firm Schedule D sales to various  
20 entities from its Big Bend Generating Station.

21 Q. How were these sales treated in TECO's last rate case in Docket No.  
22 920324-EI?

23 A. The sales were separated from the retail jurisdiction and placed in  
24 the wholesale jurisdiction. The separation allocated the generation and  
25 transmission rate base and non-fuel expenses (i.e. Operations and

1 Maintenance (O&M), depreciation, taxes, etc.) between the retail and  
2 wholesale jurisdictions, based primarily on each jurisdiction's  
3 contribution to the 12 monthly system peak demands. The variable O&M  
4 generation expenses were allocated on an energy, or per kilowatt hour,  
5 basis. Retail rates were then set based on the rate base and expenses  
6 allocated to the retail side, while on the wholesale side TECO's revenues  
7 and the resulting return were dictated by the agreements they negotiated  
8 with the separated wholesale customers, subject to the FERC's approval.  
9 Revenues from separated sales (with the exception of fuel revenues, which  
10 are addressed in the Fuel and Purchased Power Cost Recovery (Fuel) Clause),  
11 are retained by the stockholders.

12 Q. How are the fuel revenues from separated sales treated for regulatory  
13 purposes?

14 A. The fuel revenues are credited to the retail Fuel Clause to reduce  
15 the total system fuel costs paid for by the retail ratepayers. The  
16 Commission recently addressed the treatment of fuel revenues for wholesale  
17 sales in Docket 970001-ET, Order No. PSC-97-0262-FOF-EI, dated March 11,  
18 1997. The Commission established a policy for new separated sales which  
19 requires that the fuel revenues returned to the ratepayers be equal to the  
20 system average fuel cost, regardless of how the fuel was priced pursuant to  
21 the wholesale contract, unless the utility could demonstrate net benefits  
22 to the ratepayers from the sale.

23 Q. How did TECO propose to treat the Long-term Firm Schedule D  
24 transactions in the rate case in Docket 920324-EI?

25 A. TECO proposed that the sales be included in the retail jurisdiction.

1 | When wholesale sales are retained in the retail jurisdiction, the retail  
2 | ratepayers support through their rates the entire cost of the plant and  
3 | expenses associated with the sales.

4 |       In addition, TECO proposed that 60% of the non-fuel revenues from the  
5 | Big Bend Schedule D and other interchange sales be retained below the line  
6 | by TECO's stockholders, and that the remaining 40% be returned to the  
7 | ratepayers through the Fuel Clause.

8 | Q.    Did the Commission approve this treatment?

9 | A.    No. The Commission rejected TECO's proposed sharing of non-fuel  
10 | revenues in Order Nos. PSC-93-0165-FOF-EI and PSC-93-0664-FOF-EI. The Long-  
11 | term Firm Schedule D sales were separated, and their costs and revenues  
12 | were placed in the wholesale jurisdiction.

13 |       For those interchange sales which were retained in the retail  
14 | jurisdiction (with the exception of broker sales), the Commission ordered  
15 | TECO to credit all of the non-fuel revenues back to the ratepayers through  
16 | the adjustment clauses: the O&M revenues through the fuel adjustment  
17 | clause, and the capacity revenues through the capacity cost recovery  
18 | clause.

19 | Q.    Does TECO's proposed retail jurisdictional treatment of the FMPA and  
20 | Lakeland sales comport with existing Commission policy for these types of  
21 | sales?

22 | A.    Absent a demonstration that TECO's ratepayers benefit from the  
23 | proposed treatment, it does not. TECO's proposal would retain the sales in  
24 | the retail jurisdiction, which does not appear to establish a fair balance  
25 | between ratepayers and stockholders. The FMPA and Lakeland sales do not

1 differ substantially from those firm Schedule D sales which are currently  
2 separated into the wholesale jurisdiction. They are all firm, long-term  
3 (i.e. longer than one year) sales that require TECO to commit capacity from  
4 either specified units or system generating resources. The capacity thus  
5 committed is no longer available for use by the retail ratepayers.  
6 Further, since the revenues derived from the sales are less than the  
7 embedded average cost of the sales, inclusion of these sales in the retail  
8 jurisdiction allows TECO to subsidize its wholesale sales at the expense of  
9 the captive retail ratepayers.

10 Based upon Commission policy established in TECO's last rate case,  
11 any new long-term firm sales should be separated into the wholesale  
12 jurisdiction based upon average embedded costs. In addition, pursuant to  
13 the Commission's recent Order No. PSC-97-0262-FOF-EI in Docket 970001-EI,  
14 the retail ratepayers should be credited with no less than an amount equal  
15 to the system average fuel revenues from these sales, regardless of the  
16 actual fuel revenues received. Any exceptions to these policies should be  
17 addressed on a case-by-case basis, where it can be demonstrated that an  
18 alternative treatment is in the best interests of the ratepayers.

19 Q. Has TECO demonstrated that their proposed treatment of the FMPA and  
20 Lakeland sales is in the best interest of the ratepayers?

21 A. TECO has sought to include the FMPA and Lakeland sales within the  
22 retail jurisdiction because they believe that they can no longer compete in  
23 the wholesale market by pricing sales based upon their average embedded  
24 cost. With the addition of the Polk IGCC unit (which has resulted in a 58  
25 percent increase in TECO's total net generation plant in service between

1 | year end 1995 and 1996) future wholesale sales based on TECO's system  
2 | average cost appear to be particularly threatened. TECO believes that  
3 | requiring separation under these circumstances creates a strong  
4 | disincentive to make such sales, since the stockholders are required to  
5 | absorb the entire shortfall between average embedded costs and the revenues  
6 | from the sales.

7 |       TECO reasons that as long as the revenues from wholesale sales are  
8 | greater than the incremental cost of producing the energy sold, the  
9 | ratepayers are better off. TECO has filed a cost-effectiveness analysis of  
10 | the FMPA and Lakeland sales which purports to show that the sales will  
11 | produce net benefits to the ratepayers. However, this analysis is based on  
12 | projected incremental costs and revenues associated with the FMPA and  
13 | Lakeland sales and there is no assurance that they will continue to be  
14 | cost-effective throughout the terms of the contracts. I have further  
15 | concerns regarding TECO's estimate of the possible impact of these sales  
16 | upon TECO's generation expansion plan. Because of the need of further  
17 | discovery to determine the reasonableness of TECO's incremental cost-  
18 | benefit analysis, I cannot make a determination as to whether the sales  
19 | provide net benefits to TECO's retail ratepayers.

20 | Q.   Do you believe TECO's proposed stockholder sharing of the revenues  
21 | from these sales is appropriate?

22 | A.   Absolutely not. While it may be appropriate to remove the  
23 | disincentive caused by requiring TECO to separate the sales, it is entirely  
24 | inappropriate to provide any further incentive to make these sales.

25 |       Based on TECO's testimony, their proposed treatment of the revenues

*Through additions to  
operating revenues.*

1 for the FMPA sale result in the stockholders retaining \$11.2 million, of  
2 about 82% of the total \$13.7 million in NPV non-fuel revenues that are  
3 projected to be received over the life of the contract.

4 If the sales remain in the retail jurisdiction, the retail ratepayers  
5 are fully supporting the costs associated with these sales through their  
6 rates. As a consequence, they should receive the full benefit of all the  
7 revenues which result from them. All energy charge revenues, including  
8 fuel, should be credited to the ratepayers through the Fuel Clause. The  
9 capacity charge revenues should be credited through the Capacity Cost  
10 Recovery Clause.

11 It is incumbent upon a prudent utility to attempt to maximize  
12 wholesale revenues from temporary surplus capacity for the benefit of the  
13 retail ratepayers who are responsible for the costs of supporting that  
14 capacity. Pursuant to the "regulatory compact", TECO has been granted the  
15 exclusive right to serve the retail customers in its service territory, and  
16 the opportunity to earn a fair return on the investment required to serve  
17 those customers. In return, they must provide reliable service to all  
18 customers who request it at the lowest possible cost. TECO should not  
19 require additional incentive to fulfill this obligation to lower costs to  
20 its retail ratepayers by engaging in cost effective wholesale transactions.

21 Q. Are there any existing incentives for TECO to engage in wholesale  
22 transactions of this type?

23 A. Yes. The sales will result in benefits to wholly owned subsidiaries  
24 of TECO's parent company, TECO Energy, Inc. These affiliates provide coal  
25 and waterborne coal transportation to TECO. Increases in energy sales by



1 TECO will result in increased revenues to these affiliates.

2 Q. Do you believe it is appropriate for TECO to retain for its  
3 stockholders <sup>through additions to operating revenues</sup> all of the revenues attributable to transmission services?

4 A. No. Pursuant to Federal Energy Regulatory Commission (FERC) orders  
5 888 and 889, utilities are now required for wholesale sales to charge  
6 themselves for the use of their transmission systems just as they do any  
7 other user. Accordingly, a portion of the revenues from the FMPA and  
8 Lakeland sales must be identified as relating to transmission. This  
9 requirement does not justify TECO's proposed treatment under which its  
10 stockholders would retain all of the transmission revenues. Although the  
11 wholesale market for generation is now becoming more competitive, wholesale  
12 transmission rates remain a regulated monopoly, subject to the jurisdiction  
13 of the FERC. This would argue for the separation of all of these  
14 transmission related costs and revenues into the wholesale jurisdiction.

15 Q. Does this conclude your testimony?

16 A. Yes.

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1           Q        (By Ms. Paugh) Mr. Wheeler, would you  
2 please provide us with a summary of your testimony?

3           A        Yes. The purpose of my testify is to  
4 discuss alternative regulatory treatments for Tampa  
5 Electric's recent wholesale sales to the City of  
6 Lakeland and the Florida Municipal Power Agency.

7                    In addition, my testimony addresses how  
8 similar sales have been treated in the past and also  
9 the appropriateness of Tampa Electric's proposed  
10 treatment of these sales.

11                   The two sales which are the subject of this  
12 docket are long-term firm sales of capacity and  
13 energy. In Tampa Electric's last rate case they were  
14 required to separate such long-term firm sales into  
15 the wholesale jurisdiction. And the effect of  
16 separating sales in this manner results in the plant  
17 and expenses associated with the sales being removed  
18 from the retail jurisdiction, and then as a result the  
19 retail ratepayers do not support through their base  
20 rates the costs associated with those sales.

21                   For these sales, these separated sales the  
22 nonfuel revenues associated with the sales are  
23 retained by the Company.

24                   Fuel revenues from the sales are credited  
25 back to the ratepayers through the fuel adjustment

1 clause. TECO has contended in their testimony in this  
2 case that this separated treatment is no longer  
3 appropriate because in the increasingly competitive  
4 wholesale market TECO can no longer make these sales  
5 by pricing them at their full embedded cost.

6 Their testimony, in fact, indicates that the  
7 nonfuel revenues from the two sales cover only about  
8 21% of the full embedded costs of the sales. TECO  
9 also contends that if the Company is required to  
10 absorb this entire difference between the reduced  
11 revenues from the sales and their full embedded costs  
12 that they will not make such sales.

13 TECO has, thus, requested that they be  
14 allowed to retain these sales in the retail  
15 jurisdiction.

16 My testimony does acknowledge that requiring  
17 TECO to separate sales of this type into the wholesale  
18 jurisdiction does create a strong disincentive to them  
19 for making such sales given TECO's current high  
20 embedded cost relative to the prices at which they can  
21 obtain in the current wholesale market.

22 Accordingly, it may be appropriate to allow  
23 retention of these sales in the retail jurisdiction  
24 provided that Tampa Electric can demonstrate that the  
25 revenues from these sales exceed the incremental costs

1 associated with the sales.

2           However, once this disincentive is removed,  
3 I do not believe any further incentive should be  
4 accorded to TECO to make these type of sales.

5           By including these sales in the retail  
6 jurisdiction, the ratepayers are fully supporting  
7 through their base rates the costs of the facilities  
8 used to make these sales.

9           TECO's proposed treatment of the revenues  
10 from the sales represents a significant departure from  
11 the treatment ordered in their last rate case for  
12 those sales which are retained in the retail  
13 jurisdiction.

14           With the exception of broker sales, all of  
15 the revenues from TECO's nonseparated sales are flowed  
16 directly back to the ratepayers through the fuel and  
17 purchased power and capacity cost recovery clauses.  
18 This treatment provides immediate and certain rate  
19 reductions to the ratepayers who are supporting the  
20 cost of these sales through their rates.

21           TECO's treatment includes the crediting of a  
22 large percentage of the revenues from the sales to  
23 operating revenues. This treatment does not provide  
24 the sure and immediate ratepayer benefits which are  
25 provided by crediting the revenues through adjustment

1 clauses.

2           If it is determined that it is appropriate  
3 to allow TECO to retain these sales within the retail  
4 jurisdiction, it is my belief that all of the revenues  
5 from these sales be returned immediately to the  
6 ratepayers through adjustment clause mechanisms. The  
7 energy revenues from the sales should be credited to  
8 the fuel and purchased power cost recovery clause.  
9 The capacity revenue should be credited to the  
10 capacity cost recovery clause.

11           This concludes my summary.

12           **MS. FAUGH:** Thank you, Mr. Wheeler.

13           We offer him for cross.

14           **CHAIRMAN JOHNSON:** TECO? I believe Public  
15 Counsel and FIPUG said they had no questions.

16           **MR. HART:** We have no questions.

17           **CHAIRMAN JOHNSON:** Commissioners?

18           **COMMISSIONER CLARK:** Yes. Can I ask some  
19 questions?

20           Your rationale for -- it's correct to say  
21 that your rationale for allowing -- for a decision to  
22 allow it to remain unseparated is if you separate it  
23 then they are at risk for the difference in the  
24 incremental fuel and the average fuel?

25           **WITNESS WHEELER:** No. I think the rationale

1 for -- the case that TECO's presented is that the --  
2 they cannot recover anywhere near what the full  
3 embedded cost of these sales are. In other words, the  
4 rate --

5           **COMMISSIONER CLARK:** If you separate  
6 everything out, then you can't get what you would have  
7 gotten from the retail ratepayers.

8           **WITNESS WHEELER:** Right. and they are  
9 saying that by doing that you're creating a strong  
10 disincentive for them to make these types of sales.

11           **COMMISSIONER CLARK:** All right. So your  
12 suggestion is that we remove that disincentive by  
13 allowing it to remain in the retail rate base?

14           **WITNESS WHEELER:** Provided they can  
15 demonstrate -- again, their argument is predicated on  
16 the fact that the incremental -- the revenues from  
17 this sale are going to exceed the incremental costs of  
18 the transaction.

19           **COMMISSIONER CLARK:** Yes. That there are  
20 some net benefits.

21           **WITNESS WHEELER:** Right.

22           **COMMISSIONER CLARK:** They are better off  
23 that the sales are made than if they weren't made.

24           **WITNESS WHEELER:** Yes. It's basically the  
25 contribution to fixed costs argument that we've heard

1 before.

2 COMMISSIONER CLARK: Do you agree that what  
3 they have done here does represent a contribution to  
4 fixed costs?

5 WITNESS WHEELER: No. It's not the purpose  
6 of my testimony to make that judgment. I'm not in a  
7 position to express an opinion. I think the Company  
8 has developed their case through their witnesses and  
9 through cross and presumably that determination will  
10 be made in this docket. I'm not willing at this time  
11 to express an opinion whether they have made that case  
12 or not.

13 COMMISSIONER CLARK: Well, if they do make a  
14 contribution to fixed costs, then they should remain  
15 unseparated so you can --

16 WITNESS WHEELER: Remain unseparated. I'm  
17 trying -- right. Be retained in the retail  
18 jurisdiction.

19 COMMISSIONER CLARK: And that's for the  
20 purpose of removing a disincentive.

21 WITNESS WHEELER: Yes. I believe that that  
22 is a fairly convincing argument. I mean, it --  
23 forcing that separation and given what they can get  
24 from these sales, I believe it is highly unlikely that  
25 they will seek these types of sales.

1           **COMMISSIONER CLARK:** If that is, in fact,  
2 the case, do we also need to provide or to remove a  
3 disincentive to enter into this contract because --  
4 let me put it differently.

5           Is there also a disincentive for them to  
6 enter into this contract because they would get more  
7 money on a broker sale?

8           **WITNESS WHEELER:** Well, it's my testimony  
9 that they shouldn't require any other incentives.  
10 Once you've made that decision that these sales should  
11 remain in the retail jurisdiction, since the customers  
12 are paying for the plant and, in fact, these sales are  
13 a commitment of capacity, I believe it's incumbent  
14 upon the utility to utilize their best efforts to  
15 maximize the revenues from these types of sales. So,  
16 no, I'm not suggesting that they need any further  
17 incentive.

18           In terms of the broker, your question was  
19 would they be tempted to shift sales from these types  
20 of transactions to the broker? That may be the case,  
21 but then, again, that may be an argument for no longer  
22 incentive broker sales anymore. I think you could  
23 take care of the problem by eliminating the broker  
24 incentive.

25           **COMMISSIONER CLARK:** Okay.

1           **COMMISSIONER DEASON:** Well, let me follow up  
2 on that.

3           Under your recommendation you would, if  
4 there are net benefits, you would want those benefits  
5 to be immediately passed through to retail customers  
6 through the clause mechanism. Is that correct?

7           **WITNESS WHEELER:** Yes.

8           **COMMISSIONER DEASON:** Okay. Given that,  
9 what incentive does TECO or any other investor-owned  
10 utility have to pursue these type contracts?

11           **WITNESS WHEELER:** I believe it's part of  
12 their obligation as a well-managed utility, once they  
13 have come to the Commission and asked that this plant  
14 be included in rate base, and once they are allowed to  
15 recover the cost of that plant through the retail  
16 jurisdiction, I believe it's incumbent upon them at  
17 that point to try to do everything they can to  
18 minimize the rates to their customers. In this  
19 increasingly competitive environment I think everyone  
20 would agree that the utility has strong incentives to  
21 try to keep their retail rates as low as they can.

22           **COMMISSIONER DEASON:** What about, then -- I  
23 think you probably answered this in response to  
24 Commissioner Clark. There is an incentive under the  
25 current arrangement for broker sales. Why would the



1 company then just not continue to try to sell on the  
2 broker and not try to achieve the greater margins  
3 under some type of a contract which is in question in  
4 this case?

5           **WITNESS WHEELER:** Again, I feel very  
6 strongly that they, in fact, probably should not be  
7 receiving an incentive on the broker, either. And  
8 that may be something the Commission may investigate  
9 at some point; whether the broker incentive has  
10 outlived its usefulness in that regard.

11           **COMMISSIONER DEASON:** Well, from a practical  
12 standpoint, if we eliminated all incentives whatsoever  
13 and just relied upon TECO to pursue these because it  
14 helps keep their rates low, it's your testimony that  
15 you feel like the competitive pressures that are  
16 coming in this industry are enough incentive in and of  
17 themselves to incent TECO to pursue these type  
18 contracts?

19           **WITNESS WHEELER:** Yes, I believe utilities  
20 have made great strides in trying to keep their  
21 utility rates low. I think that is -- given the  
22 potential for changes in the structure of the industry  
23 that they do have a strong incentive to keep their  
24 rates low.

25           **COMMISSIONER DEASON:** TECO has testified, I

1 believe Mr. Ramil, that he believes his company has no  
2 stranded cost problem, which would seem to indicate to  
3 me that they must be a low cost provider, and that in  
4 a fully retail competitive situation that they  
5 probably could sell at market and create more revenue  
6 than they currently do. Do you have any feel for that  
7 situation?

8           **WITNESS WHEELER:** No. I really don't.

9           **COMMISSIONER DEASON:** If they have no  
10 stranded investment, that means apparently their  
11 generating is in line with the market. Would you  
12 agree with that? If you accept that they have no  
13 stranded investment liability.

14           **WITNESS WHEELER:** In terms of their embedded  
15 cost or incremental cost, or --

16           **COMMISSIONER DEASON:** I'm just going by the  
17 statement that TECO management believes that they  
18 don't have any stranded cost or will not have any  
19 stranded cost. Does that mean, then, that their  
20 generating is pretty much in line with what the market  
21 is going to be if and when we ever get to a fully  
22 competitive retail market?

23           **WITNESS WHEELER:** Hum.

24           **COMMISSIONER DEASON:** If you have no opinion  
25 just say that.

1           **WITNESS WHEELER:** At this time of night I  
2 have no opinion.

3           **COMMISSIONER DEASON:** Okay.

4           **CHAIRMAN JOHNSON:** And there were no  
5 exhibits?

6           **MS. FAUGH:** No exhibits.

7           **CHAIRMAN JOHNSON:** You're excused.

8           (Witness Wheeler excused.)

9

- - - - -

10           **MR. WILLIS:** Call Mr. Ramil.

11                           **JOHN B. RAMIL**

12 was called as a rebuttal witness on behalf of Tampa  
13 Electric Company and, having been duly sworn,  
14 testified as follows:

15                           **DIRECT EXAMINATION**

16 **BY MR. WILLIS:**

17           **Q**     Would you state your name and address?

18           **A**     My name is John B. Ramil. My business  
19 address is 702 North Franklin Street, Tampa, Florida  
20 33602.

21           **Q**     Did you prepare and caused to be prefiled  
22 the prepared rebuttal testimony of John B. Ramil?

23           **A**     Yes, I did.

24           **Q**     Did you also submit an exhibit which is  
25 attached to your testimony which was prepared under

1 your direction and supervision?

2 A Yes, I did.

3 MR. WILLIS: We request that Mr. Ramil's  
4 rebuttal exhibit be identified as Exhibit 18.

5 CHAIRMAN JOHNSON: It will be identified as  
6 Exhibit 18.

7 (Exhibit 18 marked for identification.)

8 MR. WILLIS: We would request Mr. Ramil's  
9 rebuttal testimony be inserted into the record as  
10 though read.

11 CHAIRMAN JOHNSON: It will be inserted as  
12 though read.

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TAMPA ELECTRIC COMPANY  
DOCKET NO. 970171-EU  
SUBMITTED FOR FILING 5/23/97

1                                   **BEFORE THE PUBLIC SERVICE COMMISSION**

2                                   **PREPARED REBUTTAL 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.**   Do you have any exhibits?

14

15   **A.**   Yes. I have one exhibit, Document No. 1 of Exhibit (JBR-  
16          1), summarizing Tampa Electric's proposal.

17

18   **Q.**   What is the purpose of your testimony?

19

20   **A.**   The purpose of my testimony is to dispel the notion  
21          suggested by Messrs. Pollock and Larkin that Tampa  
22          Electric's proposed regulatory treatment of the FMPA and  
23          Lakeland wholesale contract revenue sales causes retail  
24          ratepayers to subsidize wholesale sales transactions. The  
25          multiple errors in their respective positions are a

1 function of their fundamental misunderstanding of Tampa  
2 Electric's proposal, how it compares to Florida broker  
3 transactions, and a disregard of basic economic theory.  
4 The fact is that Tampa Electric's proposed treatment of the  
5 FMPA and Lakeland sales will yield significant benefits to  
6 the general body of ratepayers.

7

8 Q. You said that there was a misunderstanding of the proposal.  
9 Can you please explain your proposal?

10

11 A. Exhibit (JBR-1)\_\_\_, Document No. 1, illustrates our  
12 proposal.

13

14 Sharing Under Tampa Electric's Proposal Versus Broker Sharing

15 Q. Both Mr. Larkin and Mr. Pollock make a comparison of the  
16 FMPA and Lakeland sales to the Florida Energy Broker. How  
17 would you compare the Lakeland and FMPA sales with economy  
18 transactions?

19

20 A. The sales revenues associated with economy transactions  
21 from the Florida Energy Broker are shared 80/20 with 80% of  
22 the revenues credited through the fuel clause to lower  
23 retail rates, and 20% credited for the exclusive benefits  
24 of shareholders below the line. Tampa Electric's proposed  
25 treatment of the revenues associated with the FMPA and

1 Lakeland sales is to credit 50% of net revenues to retail  
2 clauses and 50% to operating revenues above the line after  
3 offsetting all expenses. This 50% treatment above the line  
4 cannot be compared with the 20% treatment from broker  
5 transactions. This is because ratepayers can and will  
6 benefit from the 50% above the line in Tampa Electric's  
7 proposal, but the 20% allocation in economy sales is  
8 exclusively for the benefit of the company's shareholders.  
9 In fact, Mr. Pollock goes so far as to say Tampa Electric  
10 Company has flip flopped the 80/20 formula to its benefit.

11

12 Q. Please elaborate.

13

14 A. On page 2 of Mr. Pollock's testimony, he claims 78% of the  
15 net benefits are retained by Tampa Electric Company and 22%  
16 would flow to retail customers.

17

18 Mr. Pollock has misinterpreted the data in these  
19 statements. He ignores the fact that Tampa Electric's  
20 proposal results in 100% of the sales revenue associated  
21 with these sales being either immediately passed through  
22 retail clauses or credited to operating revenues above the  
23 line and not below the line as in the case of economy  
24 broker sales. This above the line treatment serves to defer  
25 the need for a general rate increase, or potentially lower

1 revenue requirements in the next general rate adjustment  
2 filing. Under Tampa Electric's current rate stipulation,  
3 any contribution to operating revenue also contributes to  
4 potential additional refunds in 1999 and 2000, beyond the  
5 guaranteed \$50 million.

6  
7 In addition to this lack of understanding of the general  
8 formula proposed by Tampa Electric, Mr. Pollock does not  
9 understand how to calculate net benefits to retail  
10 customers.

11  
12 Q. Please elaborate.

13  
14 A. Mr. Pollock asserts later on page 8, that if incremental  
15 fuel costs are understated by 3.3%, the net benefits to  
16 retail customers would disappear. This is absolutely  
17 incorrect. He has misinterpreted the proposal and  
18 misapplied the mechanics of how the benefits are  
19 calculated. The system incremental fuel would have to  
20 increase over 6.5% before the retail customers' immediate  
21 50% share of benefits disappear. In fact, incremental fuel  
22 would need to increase 15% for all benefits to operating  
23 revenues to disappear. In Mr. Pollock's example, if  
24 incremental fuel is actually 3.3% higher over the term of  
25 the sale, the retail customers would in fact still receive



1 \$1.2 million as an immediate benefit under the clauses and  
2 a total of \$7.7 million net benefit taking into account  
3 above the line credits.  
4

5 Q. Other than the mathematics associated with Mr. Pollock's  
6 testimony, do you accept his analysis?  
7

8 A. No. His approach is too narrow. Weighing benefits and  
9 costs is the primary factor in business decision making.  
10 When the benefits and costs of the transaction are compared  
11 a benefit to cost ratio of 1.8 for the FMPA transaction and  
12 2.8 for the Lakeland transaction is calculated. Any ratio  
13 greater than 1.0 demonstrates benefits outweighing cost.  
14 The greater the ratio the greater the benefits and less  
15 risky the decision. This same approach is used in  
16 evaluating conservation programs. Conservation programs  
17 which have a benefit cost ratio greater than 1.0 are  
18 considered in the best interest of rate payers and are  
19 approved. The FMPA and Lakeland sales compare very  
20 favorably to this standard.  
21

22 Retail Ratepayers Fuel Costs Are Unaffected

23 Q. All of the intervenors express concern about the  
24 possibility of the retail customer paying higher rates  
25 through fuel due to the understatement of the system

1 incremental fuel in the forecast. Is this concern  
2 justified?

3  
4 A. No, it is not. These witnesses have misunderstood Tampa  
5 Electric's proposal to credit the actual system incremental  
6 fuel cost to the fuel clause. They have confused this  
7 credit with a credit for the fuel revenues collected from  
8 the wholesale customers. They have also confused the  
9 effects of crediting system incremental fuel costs with  
10 system average fuel cost.

11  
12 Q. Explain the difference between Tampa Electric's proposal  
13 and crediting the fuel clause with the actual wholesale  
14 fuel revenues received.

15  
16 A. Tampa Electric's proposal is quite simple, and guarantees  
17 that the retail customer will not pay higher rates through  
18 the fuel clause.

19  
20 Revenues equal to actual system incremental fuel cost will  
21 be credited to the fuel adjustment clause regardless of the  
22 fuel revenues actually collected from the wholesale sales  
23 or the projected level of system incremental fuel cost.  
24 Revenues equal to system incremental SO<sub>2</sub> allowance cost  
25 will also be credited to the environmental clause.

1           Therefore, retail ratepayers will pay fuel and  
2           environmental cost recovery clause rates NO higher than  
3           they would have been have had the sales not been made.  
4

5   Q.    Explain next, the difference between crediting to the fuel  
6           clause system incremental fuel cost and system average fuel  
7           cost.  
8

9   A.    In contrast to Tampa Electric's proposal, if revenues equal  
10           to system average fuel cost were credited in connection  
11           with these wholesale sales the retail customer would be  
12           affected. For example, in the sale to Lakeland, fuel is  
13           priced at system average fuel cost. If revenues equal to  
14           system average fuel were credited to the fuel clause as is  
15           suggested by Mr. Pollock, Mr. Larkin and Staff, the retail  
16           customers, would pay 1.0 million net present value more  
17           through the fuel clause over the period of this  
18           transaction, as shown in Document 5, Exhibit No. KAB-1.  
19           Lakeland is expected to be served during the peak periods  
20           of Tampa Electric's own native load. While Tampa Electric  
21           Company's overall incremental fuel cost is below system  
22           average fuel cost, during peak periods they may be higher  
23           than system average fuel cost.  
24  
25

1 Capacity Commitments

2 Q. Do the wholesale sales to FMPA and Lakeland require the  
3 commitment of Tampa Electric generating capacity?

4  
5 A. Yes. The sale of off-system energy and capacity obviously  
6 requires the commitment of generating resources, but as Ms.  
7 Branick has explained in her direct testimony, there were  
8 no changes to Tampa Electric's expansion plan as a result  
9 of serving these two sales. The next planned generation  
10 unit is scheduled for the year 2003. The sale to FMPA ends  
11 in the year 2001. The Lakeland sale does encompass a  
12 period of time during which new capacity will be added.  
13 However, expansion planning analysis has shown that the  
14 Lakeland sale does not affect the timing of the current  
15 Tampa Electric expansion plan. The 2003 planned capacity  
16 addition occurs, regardless of including the Lakeland sale  
17 or not. In a conservative approach, a cost for new  
18 capacity was incorporated in the analysis of the Lakeland  
19 sale.

20  
21 Q. What factors were considered in making the determination  
22 there was no need to add capacity to serve the FMPA and  
23 Lakeland sales?

24  
25 A. The factors considered were maintaining an adequate reserve

1 margin to serve Tampa Electric's native load and the impact  
2 of the FMPA and Lakeland sales on that margin. Tampa  
3 Electric monitors two criteria to assure reliable and cost-  
4 effective electric service for its retail rate payers.  
5 These two criteria include a 15% reserve margin and a 1%  
6 expected unserved energy guideline. The 15% reserve margin  
7 addresses peak load demand.

8  
9 The addition of these sales does not cause Tampa Electric  
10 to fall short of meeting these criteria. Thus, while the  
11 total level of reserves are reduced by the addition of  
12 these sales, the minimum reserve criteria have not been  
13 violated and are not affected. In essence, Tampa Electric  
14 has merely maximized the utilization of capacity above the  
15 required reserve margin. This utilization contributes to  
16 fixed costs thereby benefitting retail customers.

17  
18 Furthermore, there is no need to find replacement capacity  
19 either from the units on the system or through a purchase.  
20 It makes no sense to incur additional, unnecessary costs in  
21 optimizing capacity.

22  
23 **There is No Subsidy of these Sales by Retail Customers**

24 Q. Both Mr. Larkin and Mr. Pollock express concern that the  
25 company is proposing a subsidy by retail customers for

1 wholesale sales. Do you agree?  
2

3 A. No. If the FMPA and Lakeland sales suddenly went away, the  
4 rate paid by retail customers would not suddenly drop, by  
5 any supposed "subsidization" amount. Based on this fact,  
6 it is clear that the retail customers cannot be subsidizing  
7 these wholesale sales and Mr. Larkin and Mr. Pollock have  
8 clearly misinterpreted the facts. Specifically, Mr.  
9 Larkin's summary of the company's justification for its  
10 proposal on lines 24 through 29 on page 3, and lines 1  
11 through 7 on page 4 clearly demonstrates a misunderstanding  
12 of the basic economic theory outlined in Dr. Bohi's  
13 testimony. The economic theory of making incremental sales  
14 from the company's resources as long as incremental costs  
15 are covered is not being applied by the company where it  
16 has an obligation to serve. It is being applied to sales  
17 where there is a choice to serve or not to serve as in the  
18 case of wholesale power sales. Dr. Bohi has justified this  
19 application in his testimony. I simply want to add that  
20 any contribution wholesale sales make to embedded costs  
21 lessens the burden of retail customers.  
22

23 Flaw in Cost-Shifting Argument

24 Q. Are there flaws in Mr. Pollock's comparison of fuel costs  
25 in his Document No. 2 of Exhibit 1 where he claims there

1 is "cost-shifting" between competitive and regulated  
2 operations?

3  
4 A. Yes. Mr. Pollock's conclusion is based on the comparison  
5 of three numbers that are not "apples to apples". First,  
6 the system average fuel and net purchase power cost is for  
7 a system operating at a 60% load factor, compared to the  
8 purchased energy payments to Hardee for energy taken at  
9 approximately a 6% load factor. Secondly, the system  
10 average fuel costs include sunk costs associated with  
11 providing service to retail customers while supplemental  
12 fuel revenues from sales for resale are based on unit  
13 incremental fuel costs. Lastly, the energy component for  
14 the Hardee purchase contains the operation and maintenance  
15 expense, thereby inflating the value relative to the other  
16 two columns which are essentially fuel only.

17  
18 Mr. Pollock has made an invalid comparison of these rates  
19 to conclude "cost-shifting" exists. In following Mr.  
20 Pollock's logic further, one could conclude that "cost-  
21 shifting" exists since Tampa Electric's retail  
22 interruptible customers pay approximately \$39/MWh, far less  
23 than the average retail rate of approximately \$70/MWh.  
24 Clearly, this would be an invalid conclusion because of the

1 difference in the basis for the numbers. Further, Mr.  
2 Pollock's example is exacerbated by his error of including  
3 costs in one set of numbers that are not in the other  
4 numbers.

5

6 Clearly, Mr. Pollock's attempt to demonstrate "cost-  
7 shifting" between competitive and regulated operations must  
8 be discarded.

9

10 Incentive vs. Disincentive

11 Q. How do you respond to Mr. Pollock's recommendations on the  
12 regulatory treatment of these sales?

13

14 A. On page 3, line 8, and page 12, line 11, Mr. Pollock argues  
15 for separation. On page 15, line 8, Mr. Pollock argues  
16 that 100% of the non-fuel revenues from these sales be  
17 returned to retail customers.

18

19 There are two problems with Mr. Pollock's proposal. The  
20 first problem is an internal inconsistency. If wholesale  
21 sales are separated at average embedded cost, the revenues  
22 will not be available to the retail jurisdiction for flow  
23 through to retail customers because they will have been  
24 allocated to the wholesale jurisdiction.

25



1 The second problem is that there will be NO revenues to  
2 allocate to either jurisdiction because there will be NO  
3 wholesale sales under prevailing market conditions.  
4

5 Q. It appears all of the intervenors question the validity of  
6 an incentive for the company to make these types of sales.  
7 Basically, they say that a prudently managed utility should  
8 use its best efforts to market power irrespective of an  
9 incentive. How do you respond?  
10

11 A. The Florida Energy Broker is a very good analogy here. The  
12 broker is a voluntary system representing a real market  
13 based on incremental pricing and incentives. As mentioned  
14 earlier, the benefits to the customer are that 80% of the  
15 sales revenues are credited through the fuel clause.  
16 Significantly a 20% incentive exists that is credited below  
17 the line for the exclusive benefit of shareholders. I  
18 believe all parties would agree that the broker system has  
19 provided tremendous benefits, in excess of \$800 million, to  
20 retail ratepayers in Florida. The 20% incentive to  
21 stockholders has been a key to this record. We should  
22 learn from this success and recognize that the desirability  
23 of an incentive as presented in this proceeding.  
24

25 Q. Some intervenors have argued that an incentive would result

1 in a double recovery to Tampa Electric. How do you  
2 respond?

3  
4 A. These arguments reduce to an issue of allowed returns.  
5 They both ignore the fact that Tampa Electric's proposal  
6 credits all of the wholesale revenues to retail customers  
7 through "pass-through" clauses or above the line to  
8 operating revenues. Thus, there is no opportunity for  
9 Tampa Electric to earn an excessive or double return. Its  
10 incentive is limited to an improved chance to earn its  
11 allowed rate of return. As previously pointed out,  
12 moreover, the retail customer will benefit from these  
13 wholesale sales.

14  
15 Q. What will be the effect of rejecting Tampa Electric's  
16 proposal?

17  
18 A. The company will be disincented to make wholesale sales  
19 like FMPA and Lakeland where there are more benefits to be  
20 captured for the retail customer than in economy broker  
21 sales. This is so because the company will be incented to  
22 forego these types of sales in favor of broker transactions  
23 and thereby deny customers the benefit of selling capacity  
24 in addition to energy.

25

1 Q. Is the concept of generating additional revenue from  
2 wholesale sales to minimize retail rates new?

3  
4 A. No. As I just pointed out this Commission recognized the  
5 benefit of such activity when the energy broker and the  
6 associated revenue treatment policies were set. More  
7 specifically for Tampa Electric, in a 1985 rate order, the  
8 Commission provided for the company to aggressively market  
9 wholesale power and achieve revenues (retained 100% as  
10 operating revenues above the line) so that retail rates  
11 could be minimized.

12  
13 Q. What was the result of this action?

14  
15 A. The result of this Commission action was to spark an  
16 entrepreneurial spirit among the company employees to  
17 achieve additional revenues through the aggressive  
18 marketing of wholesale power. The Company has entered into  
19 good business transactions producing the best possible  
20 margins allowed by the competitive wholesale market. These  
21 margins help minimize retail prices.

22  
23 Moreover, in introducing this entrepreneurial spirit into  
24 the Company, our employees have sought many ways to  
25 increase revenue through other means, resulting in less

1 cost burden for our retail customers. For example, the  
2 Company aggressively markets steam from generating units,  
3 training programs developed for its T&D employees and  
4 premium lighting to new and existing electric customers.  
5

6 Q. How does Tampa Electric's proposal for the treatment of the  
7 FMPA and Lakeland wholesale sales revenue compare with the  
8 existing regulatory treatment of these other revenue  
9 generating activities which help to lower retail electric  
10 prices?

11  
12 A. Tampa Electric's proposal compares favorably and is totally  
13 consistent with the regulatory treatment of other sources  
14 of additional revenue. For example, the revenues from the  
15 activities listed in my previous example are credited 100%  
16 above the line.

17  
18 When Tampa Electric's proposal is viewed in this context,  
19 it is readily evident that Commission approval would be  
20 totally fair to all involved and consistent with existing  
21 revenue treatment. The intervenors have strived to create  
22 an illusion that "wholesale" sales carries with it severe  
23 complications and the need for extraordinary review. To  
24 our retail customers it is simply another source of revenue  
25 from a third party that helps to minimize their rates.

1 Q. Does this conclude your testimony?

2

3 A. Yes, it does.

4

5

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25

1           Q        (By Mr. Willis) Please summarize your  
2 rebuttal testimony.

3           A        Yes, sir. Good evening, Commissioners.  
4 I've scratched up my summary in hopes of being very  
5 brief. I know it's been a long day, so I'll try to  
6 get through it quickly.

7                   Commissioners, our benefit/cost analyses are  
8 based on sound assumptions using traditional  
9 analytical techniques and tools that have been proven  
10 in many proceedings. Our confidence in our analysis  
11 is demonstrated in our willingness to stand behind the  
12 \$2 million benefits guarantee that I gave this  
13 morning.

14                   In our proposal what we illustrated for you  
15 this morning, Tampa Electric is, indeed, foregoing its  
16 below-the-line Florida Economy Broker incentive of 20%  
17 without guarantee of any benefits to implement these  
18 FMPA and Lakeland sales. The Company is willing to do  
19 this because we believe the Lakeland and FMPA sales  
20 offer greater benefits than the broker. The resulting  
21 incentive to Tampa Electric, after foregoing that  
22 broker opportunity in our proposal, is the opportunity  
23 to, indeed, earn the returns that are allowed in our  
24 stipulation.

25                   Obviously, this incentive is much less

1 direct than the broker incentive. This Commission  
2 should not compound the Company's now foregone broker  
3 opportunity by also requiring separating these sales  
4 at average cost, as suggested by Mr. Pollock and  
5 Mr. Larkin. It makes no sense to take such action  
6 which is clearly punitive to shareholders as a result  
7 of company actions which produce benefits to  
8 ratepayers.

9           Let me just quickly summarize our proposal  
10 once again and highlight the key points. There will  
11 be no increase in fuel costs for the clauses to our  
12 retail customers. I believe this clearly meets the  
13 standard Mr. Larkin articulated just a few minutes  
14 ago. All of the variable O&M cost of the sales will  
15 be covered with a credit of operating revenues above  
16 the line.

17           As I mentioned this morning, we're prepared  
18 to guarantee and pay out over the next two fuel  
19 clauses a total of \$2 million in benefits that we  
20 project to be associated with these sales directly to  
21 customers.

22           This guarantee would leave unchanged our  
23 original proposal that 50% of those benefits would be  
24 returned to customers and when it exceeds \$2 million  
25 we'll do so.

1           The balance of the benefits being credited  
2 above operating revenues will be beneficial to  
3 customers in terms of helping increase the probability  
4 of potential refunds during a term of the stipulation  
5 and, again, in postponing the need for new rate  
6 proceedings.

7           Commissioners, I believe this proposal is  
8 fair and reasonable to all, and I, once again, stress  
9 that you approve it. Thank you.

10           **MR. WILLIS:** Tender the witness.

11           **COMMISSIONER CLARK:** Can I ask a question  
12 first? Mr. Ramil, how did these contracts come about?  
13 Did you go to FMPA and Lakeland or did they come to  
14 you?

15           **WITNESS RAMIL:** They were both issued  
16 request for proposals out into the market.

17           **COMMISSIONER CLARK:** Who bid on those or who  
18 responded besides you?

19           **WITNESS RAMIL:** My recollection with  
20 Lakeland is they had probably 8 or 10 bidders. I  
21 don't know who they all were. I know that ENRON and  
22 Tampa Electric Company made the short list. With FMPA  
23 they also received many bids. I believe ourselves,  
24 Orlando, and two other municipalities made the short  
25 list. But that's the best I can remember right now.



1           **COMMISSIONER CLARK:** Your estimate of  
2 potential broker sales --

3           **WITNESS RAMIL:** Yes.

4           **COMMISSIONER CLARK:** -- that you used in  
5 developing these contracts, did it assume that the  
6 amount of capacity that these two entities were  
7 requesting would no longer be in the market if you  
8 didn't get the contract?

9           **WITNESS RAMIL:** I can't say it specifically  
10 did because you know -- if you look at the state of  
11 Florida -- and it can be as much as, I think, a  
12 30,000-megawatt market to be able to define things so  
13 closely to identify if 100 megawatts was there or not.  
14 I'm not sure we can get that good in our estimates.

15           **COMMISSIONER CLARK:** Okay.

16           **WITNESS RAMIL:** But, you know, our  
17 expectation on broker sales is we do have low marginal  
18 costs, and we will be able to make them as more and  
19 more players come into the market, at least until that  
20 turnaround and the need for capacity in the state  
21 turns around, the margins are probably going to  
22 suffer.

23           **COMMISSIONER CLARK:** Thank you.

24           **CHAIRMAN JOHNSON:** FIPUG?

25           **MS. KAUFMAN:** Thank you, Chairman.

## CROSS EXAMINATION

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BY MS. KAUFMAN:

Q Mr. Ramil, I just have a few brief questions for you. You mention in your summary, and you also mention on the bottom of Page 3 of your rebuttal testimony that you believe that there's a benefit being given to the ratepayers, the retail ratepayers, by your crediting some of these revenues to operating revenues; is that correct? You think that's a benefit to the retail ratepayers?

A Yes.

Q And if I understand your testimony on Page 3 you think it's a benefit because it might defer the need for the next rate case. Is that one of the benefits you see?

A Yes.

Q And it might lower the revenue requirements in the next rate case if you have one. Is that another benefit that you see?

A Yes.

Q And the third benefit you see is that it might result in a refund under our earnings stipulation?

A Correct.

Q Now, if you were to flow these revenues

1 through to the retail ratepayers they would receive an  
2 immediate reduction in their fuel clause adjustment  
3 payments, wouldn't they?

4 A Of course.

5 Q I want to give you a copy of Order No. PSC  
6 970262 which the Commission has taken official  
7 recognition of. (Hands document to witness.)

8 You're familiar with this order, aren't you,  
9 Mr. Ramil?

10 A Yes.

11 Q This is the order from the past fuel  
12 adjustment case that addressed some of the issues  
13 we're talking about here, isn't it?

14 A Yes, I believe it is.

15 Q Would you turn to Page 3, please? Would you  
16 look at the second full paragraph that begins  
17 "Whenever a utility," and I'd like you to read into  
18 the record, please, the sentence and the remainder of  
19 the paragraph that begins "When fuel prices are  
20 discounted." I believe that's the second full  
21 sentence in that paragraph.

22 A Page 3?

23 Q Right. Page 3, second full paragraph.  
24 Start with the second sentence of that paragraph.

25 A "When fuel prices are discounted, and that

1 discount is automatically passed through to the retail  
2 ratepayer, and the other nonfuel revenues go to the  
3 utility's shareholders immediately, there's an  
4 increased possibility of gaming the system."

5 Q If you'd read the rest of the paragraph  
6 please?

7 A "This concern is heightened by the fact that  
8 the retail ratepayers' cost responsibility is reduced  
9 only at the time of the utility's next base rate case  
10 or when the utility is overearning and the continued  
11 monthly surveillance adjustment generate additional  
12 funds subject to Commission disposition. Absent a  
13 rate case or overearnings situation, the additional  
14 nonfuel revenue flow directly to the Company's  
15 shareholders."

16 MS. KAUFMAN: Thank you. We have no further  
17 questions.

18 CHAIRMAN JOHNSON: Public Counsel?

19 MR. HOWE: No questions.

20 CHAIRMAN JOHNSON: Staff?

21 CROSS EXAMINATION

22 BY MS. PAUGH:

23 Q Mr. Ramil, please turn to Page 9, Lines 4  
24 through 7 of your rebuttal testimony. In that section  
25 I believe you state that TECO monitors two criteria to

1 assure reliable and cost-effective electric service  
2 for its retail ratepayers. What are those two  
3 criteria?

4 A A 15% reserve margin and 1% EUE guideline.

5 Q And that's expected unserved energy?

6 A Correct.

7 Q And the higher that number is the worse it  
8 is for those served; is that correct?

9 A On the reserve margin the lower the number  
10 is the more you're impacting reliability. On EUE the  
11 higher the number is the more you're impacting  
12 reliability.

13 Q That's what I meant, but thank you for the  
14 clarification.

15 How long has TECO used these reserve margin  
16 criteria?

17 A We've used these criteria, developed them  
18 over the last several months. Previous to that we  
19 used a dual criteria of a 20% winter peak, and a loss  
20 of load probability criteria to handle the broader  
21 reliability view.

22 Q So you have reduced your reserve margin  
23 criteria from 20% to 15% in the last year; is that  
24 correct?

25 A Yes, we have, to bring it in line with what

1 other utilities are planning for.

2 Q Do you know if TECO has ever projected a  
3 reserve margin and not planned for expansion?

4 A Yes. We project reserve margins at least  
5 every year in the ten-year site plan and we don't plan  
6 expansion every year.

7 Q Have you ever projected a reserve margin  
8 below your criteria and not planned for expansion?

9 A I don't know. I don't know that we have.  
10 But let me explain how these criteria are used and  
11 always viewed.

12 They are guidelines, and they indicate when  
13 capacity should be added, but they are by no means  
14 hard, fast and absolute under all terms and  
15 conditions.

16 Q I understand that, Mr. Ramil. But my  
17 concern is that you've already reduced your reserve  
18 margin from what it was last year, and based on the  
19 testimony that was brought forth through Ms. Branick,  
20 we've indicated that you have violated this criteria.  
21 And I understand it's just a guideline, but our real  
22 concern is will this increase the probability that  
23 Tampa Electric Company will come back to this  
24 Commission for increased capacity, say, in the year  
25 2000 to 2001?

1           A     No. We've testified to that. In the  
2 interrogatory exhibit that you passed out during  
3 Ms. Branick's cross examination, I think that clearly  
4 shows that of all the ten years looked at as a result  
5 of these two sales, I think in two of those years the  
6 reserve margin is reduced by 1%. And in none of those  
7 years is the emergency unserved energy number even  
8 changed because the effect is so small you don't even  
9 see it in the calculations with or without the sale.

10           MS. PAUGH: Staff would request a late-filed  
11 exhibit that would reflect any instance where Tampa  
12 Electric Company has violated its reserve margin  
13 criteria and not asked for additional capacity.

14           CHAIRMAN JOHNSON: Can you provide that?

15           WITNESS RAMIL: How far in the history do we  
16 need to go? I'm confused by this, because I've  
17 testified in three need hearings and nobody has ever  
18 been worried about our reliability criteria being too  
19 low.

20           MS. PAUGH: Our concern here is -- our  
21 concern is, in fact, that you've violated your own  
22 criterion. The criterion has recently been reduced  
23 and we're trying to get a handle on whether you'll be  
24 back requesting more capacity here before this  
25 Commission essentially as a result of these sales.

1           If you could go back ten years and just show  
2 us that in instances where you have violated your  
3 criterion, whatever that is, even though it used to be  
4 higher, and not come to the Commission and request  
5 additional capacity, that's all we're looking for.

6           **WITNESS RAMIL:** Okay. We'll look back over  
7 ten years and see what that tells us.

8           **COMMISSIONER CLARK:** Let me ask something.  
9 As I read the exhibit there was only one -- wasn't  
10 there only one year, 2001, that you stand to violate  
11 that criteria by being at 14 or 15?

12           **WITNESS RAMIL:** Yes.

13           **COMMISSIONER CLARK:** But then after that it  
14 goes up.

15           **WITNESS RAMIL:** Right. Because the FMPA  
16 sale, it would not -- the reserve margin would not go  
17 from 15% without the sale to 14% with the sale, if not  
18 for the fact that the sale spills over three months  
19 into 2001. And we made the judgment that just for  
20 three months out of the year, and looking at the  
21 emergency unserved energy, which is a reliability  
22 criteria for the entire year -- it was very strong; I  
23 think it was only 60% of the standard that we look at  
24 -- we said this is a risk well worth taking. It's  
25 almost no risk to get the benefits.



1           **COMMISSIONER CLARK:** Okay.

2           **MR. WILLIS:** Is this exhibit necessary in  
3 light of that discussion?

4           It seems to me that all of Tampa Electric's  
5 capacity since Big Bend 4 has been determined to be  
6 needed by the Commission. It's subsequently been  
7 included, found to be prudently incurred investment.  
8 If we go back and request to build any additional  
9 plant it has to be subject to a determination of need.  
10 And I just see this as irrelevant.

11           **CHAIRMAN JOHNSON:** Staff?

12           **MS. PAUGH:** I believe we've made our point  
13 and we'll withdraw the request.

14           **Q**        **(By Ms. Paugh)** Mr. Ramil, what is your  
15 current return on investment?

16           **A**        Our current return on investment, I don't  
17 know.

18           **Q**        I'm sorry, return on equity. The hour is  
19 late. What is your current return on equity?

20           **A**        I believe, the midpoint of the range is  
21 11.75%. And any dollars that contribute to return  
22 above that are treated in the stipulation.

23           **Q**        I'm sorry, I don't understand your answer.  
24 Your current return is what?

25           **A**        I'm sorry. I'm answering what our current

1 allowed return is. What our current return is?

2 Q The actual, yes.

3 A I don't know.

4 Q Do you have any idea what impact on your  
5 return on equity would be if these sales were  
6 separated and fuel was credited at system average  
7 pursuant to current Commission policy?

8 A I know from my direct testimony our  
9 calculation is that that's about a \$50 million loss to  
10 the shareholders over the time of the contracts. I  
11 don't know how that translates into a return on equity  
12 effect.

13 MS. FAUGH: Thank you. No further  
14 questions.

15 COMMISSIONER CLARK: Mr. Ramil, can I just  
16 ask you a question? Have there been other requests  
17 for proposals for firm capacity in the state that you  
18 have not responded to?

19 WITNESS RAMIL: Yes, there have been.

20 COMMISSIONER CLARK: What were those?

21 WITNESS RAMIL: In the last month the City  
22 of Lakeland had one, I believe, requesting starting in  
23 the year 2002 and 2003 and going for ten years. We  
24 chose not to respond to that one because we think that  
25 people will be responding to that --

1           **COMMISSIONER CLARK:** Let me ask it a  
2 different way. Any near term requests. This one, the  
3 two requests that are the subject of this proceeding,  
4 they were fairly near term requests for firm capacity.

5           **WITNESS RAMIL:** Yes.

6           **COMMISSIONER CLARK:** Have there been any  
7 like that that you haven't responded to?

8           **WITNESS RAMIL:** That we haven't? I don't  
9 think there have been any we haven't responded to.  
10 There have been some that we have not been selected  
11 for.

12           **COMMISSIONER CLARK:** Would it be -- to the  
13 extent you have the excess capacity to provide that  
14 power, in your opinion, would it be imprudent for you  
15 not to respond?

16           **WITNESS RAMIL:** I think it would -- I think  
17 we should respond if we think we can handle the  
18 capacity, and if we feel we can be competitive and  
19 produce net benefits for the system.

20           Our dilemma, and, quite frankly, the reason  
21 we want this transaction to go on is to -- this  
22 hearing to go on and get a decision, is to see what is  
23 the proper regulatory treatment when we do that.  
24 We've got a dilemma. We're stuck between the  
25 separation and the broker and what do we do if the

1 sales don't fit either one of those two things?

2 COMMISSIONER CLARK: Thank you.

3 CHAIRMAN JOHNSON: Redirect?

4 REDIRECT EXAMINATION

5 BY MR. WILLIS:

6 Q Mr. Ramil, Ms. Kaufman directed you to Order  
7 No. PSC-970267 issued in Docket 970001-EI, and asked  
8 you to read a portion of that order. Do you have that  
9 order in front of you?

10 A Yes, I do.

11 Q Could you turn to Page 4 of that order?

12 A Yes.

13 Q Could you read the first two paragraphs of  
14 that order, please?

15 A "There's a significant amount of discussion  
16 in the record regarding the idea the utility may be  
17 hesitant to enter into a separable sale, even if that  
18 sale provides net benefits to the retail ratepayer  
19 because the imputation process has the effect of  
20 reducing shareholder earnings. Moreover, because the  
21 wholesale market has become increasingly competitive,  
22 it is difficult for a utility to collect the average  
23 embedded revenues.

24 Given these circumstances, some discounting  
25 of the fuel cost may be necessary to achieve overall

1 benefits for the retail ratepayers. To remedy this  
2 problem, Gulf Power and TECO advocated that the  
3 Commission adopt the generic policy that recognizes  
4 the overall net benefits that a separable sale  
5 provides to the retail ratepayer. Such an approach  
6 would compare the potentially negative impacts  
7 associated with crediting incremental fuel revenues  
8 through the fuel adjustment clause to the positive  
9 benefits to the retail ratepayers associated with  
10 selling capacity.

11            "We have a long history of providing  
12 utilities with the flexibility needed to maximize  
13 retail benefits. However, the utility bears the  
14 burden of showing that deviation from established  
15 policy is in the public interest. Thus, a utility  
16 shall credit average system fuel revenues through the  
17 fuel adjustment clause unless it demonstrates on a  
18 case-by-case basis that each new sale does, in fact,  
19 provide overall benefits to the retail ratepayers."

20            Q     Mr. Ramil, has Tampa Electric guaranteed  
21 that the Lakeland and FMPA sales will, in fact,  
22 provide overall benefits to the retail ratepayers?

23            A     Yes. We have done that in two ways. Number  
24 one, we've assured that there's going to be no impact  
25 to the fuel clause, and that goes to the first

1 paragraph that Ms. Kaufman had me read. And that  
2 paragraph, relative to what we've proposed, is  
3 irrelevant because we made retail customers whole; no  
4 impact as a result of these sales on the fuel  
5 adjustment clause.

6           The other thing that we've done is -- and  
7 the way we've proposed the treatment of the net  
8 benefits is, that we have indeed assured the customers  
9 with our guarantee proposal of at least \$2 million of  
10 benefits up front.

11           **MR. WILLIS:** Thank you. No further  
12 redirect.

13           **CHAIRMAN JOHNSON:** Okay. Exhibits?

14           **MR. WILLIS:** Move Exhibit 18.

15           **CHAIRMAN JOHNSON:** Show it admitted without  
16 objection.

17           (Exhibit 18 received in evidence.)

18           **CHAIRMAN JOHNSON:** You're excused.

19           (Witness Ramil excused.)

20           - - - - -

21           **MR. WILLIS:** Commissioner, I think there is  
22 one other item to conclude before we close the record.

23           The Order on Establishing Procedure has a  
24 the time for briefs two weeks after the transcript and  
25 it's estimated that that would be July 7th. July 7th

1 falls, I think, a Monday after the 4th of July  
2 holiday, and I think that it would be appropriate to  
3 set the filing of briefs for, say, July 10th.

4 **CHAIRMAN JOHNSON:** Staff?

5 **MS. PAUGH:** Staff has an objection to that  
6 because the recommendation is due, I believe, on the  
7 24th. That condenses the time much too short for us  
8 to accomplish our task.

9 **MR. WILLIS:** Well, that's all right then.

10 **CHAIRMAN JOHNSON:** We have two late-filed  
11 exhibits.

12 **MS. PAUGH:** We would request a time frame  
13 from the Company on those late-fileds. In addition,  
14 relative to late-filed or Exhibit No. 14, which is the  
15 late-filed fuel cost comparisons, we would request  
16 that the witness make that comparison in the form of a  
17 cost curve similar to what we were using as a  
18 hypothetical example.

19 **CHAIRMAN JOHNSON:** Any indication as to how  
20 long it will take to prepare those two late-fileds?

21 **MR. WILLIS:** I have no idea at this point.

22 **CHAIRMAN JOHNSON:** Why don't we do this,  
23 give the parties an opportunity to talk to the -- give  
24 the Company an opportunity to talk to the individuals  
25 that will be preparing that, and then Staff can get

1 back with me as to the time certain that we're going  
2 to have for those late-fileds, and we'll put everybody  
3 on notice.

4 MS. PAUGH: All right. Thank you,  
5 Chairman Johnson.

6 MR. WILLIS: Chairman Johnson, we would also  
7 request that the confidential documents that we have  
8 filed in the docket be returned to the Company in  
9 accordance with the Prehearing Order.

10 CHAIRMAN JOHNSON: I didn't hear the last  
11 part of that.

12 MR. WILLIS: In accordance with the  
13 Prehearing Order, the confidential materials which  
14 were not used and submitted should be returned to the  
15 Company.

16 CHAIRMAN JOHNSON: Staff.

17 MS. PAUGH: Staff has no objection to that.

18 CHAIRMAN JOHNSON: Certainly. Any other  
19 matters? Thank you very much; finished a half hour  
20 ahead of schedule.

21 MR. WILLIS: Thank you very much for  
22 staying. We really appreciate it.

23 (Thereupon, the hearing concluded at 8:27  
24 p.m.)

25

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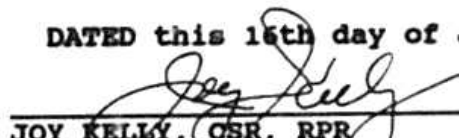
1 STATE OF FLORIDA)  
 : CERTIFICATE OF REPORTERS  
 2 COUNTY OF LEON )

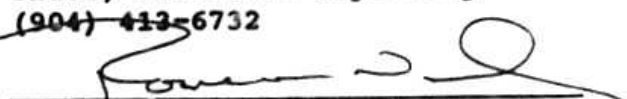
3 We, JOY KELLY, RPR, Chief, Bureau of  
 Reporting, ROWENA NASH, Official Commission Reporters,  
 4 and Nancy S. Metzke, RPR, CCR,

5 DO HEREBY CERTIFY that the Hearing in Docket  
 No. 970171-EU was heard by the Florida Public Service  
 6 Commission at the time and place herein stated; it is  
 further

7  
 8 CERTIFIED that we stenographically reported  
 the said proceedings; that the same has been  
 transcribed under our direct supervision; and that  
 9 this transcript, consisting of 510 pages, Volumes 1  
 through 4, constitutes a true transcription of our  
 10 notes of said proceedings and the insertion of the  
 prescribed prefiled testimony of the witnesses.

11 DATED this 16th day of June, 1997.

12  
 13   
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