



BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 010577-EI
IN RE: REVIEW OF TAMPA ELECTRIC COMPANY
AND ITS IMPACT OF ITS PARTICIPATION IN
GRIDFLORIDA, A FLORIDA TRANSMISSION COMPANY,
ON TECO'S RETAIL RATEPAYERS
TESTIMONY AND EXHIBITS
OF
WILLIAM R. ASHBURN
AUGUST 15, 2001

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FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

WILLIAM R. ASHBURN

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

7
8 A. My name is William R. Ashburn. My business address is
9 702 North Franklin Street, Tampa, Florida 33602. I am
10 Director, Pricing and Financial Analysis for Tampa
11 Electric Company ("Tampa Electric" or "the company").
12

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

15
16 A. I received a Bachelor of Science degree in Business
17 Administration with a concentration in economics from
18 Creighton University. Upon graduation, I joined Ebasco
19 Business Consulting Company where my consulting
20 assignments included the areas of cost allocation,
21 computer software development, electric system inventory
22 and mapping, cost of service filings and property record
23 development.
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..

1 In 1983, I joined Tampa Electric as a Senior Cost
2 Consultant in the Rates and Customer Accounting
3 Department. At Tampa Electric I have held a series of
4 positions with responsibility for embedded cost and
5 marginal cost of service studies, rate filings, marketing
6 planning, rate design, implementation of new conservation
7 and marketing programs, customer survey and various state
8 and federal regulatory filings. In March 2001, I was
9 promoted to my current position of Director, Rates and
10 Financial Analysis in Tampa Electric's Regulatory Affairs
11 department. I am a member of the Economic Regulation and
12 Competition Committee of the Edison Electric Institute
13 and the Rate Committee of the Southeastern Electric
14 Exchange.

15
16 Q. What is the purpose of your testimony in this proceeding?

17
18 A. The purpose of my testimony is to isolate and describe
19 the estimated impact on the company's retail rates
20 associated with the transfer of Tampa Electric's
21 transmission assets to the proposed GridFlorida RTO and
22 subsequent purchase of transmission service from
23 GridFlorida. In addition, I will describe the features
24 of the joint pricing plan filing made by Florida Power &
25 Light Company ("FPL") and Tampa Electric on June 1, 2001

1 at the Federal Energy Regulatory Commission ("FERC")
2 which sets forth a proposal for a phased-in transition to
3 system-average rates and how this is expected to impact
4 Tampa Electric's ratepayers.
5

6 Q. What exhibits are you sponsoring as part of your
7 testimony in this proceeding?
8

9 A. I am sponsoring Exhibit _____ (WRA-1), which consists of
10 two documents. Document No. 1 is a copy of an
11 interrogatory response provided by Tampa Electric in this
12 docket. Document No. 2 is a calculation of certain
13 percentages utilized later in this testimony.
14

15 Q. What methodology did you use in developing your estimate
16 of the impact on retail rates of the transfer of Tampa
17 Electric's transmission assets to GridFlorida and the
18 subsequent purchase of transmission service from
19 GridFlorida?
20

21 A. Since Tampa Electric is not requesting recovery of any
22 GridFlorida charges at the present time, the purpose of
23 my testimony is not to establish a transmission revenue
24 requirement and proposed rate adjustment for potential
25 GridFlorida transmission costs. Instead, my purpose is

1 to give the Commission a reasonable estimate of the
2 impact of the above-mentioned events on rates, all else
3 held constant. Therefore, in order to develop a
4 reasonable estimate, I first calculated Tampa Electric's
5 current annual transmission cost of service and compared
6 that cost to Tampa Electric's load ratio share of the
7 GridFlorida costs developed by Accenture as discussed in
8 GridFlorida Companies' witness, Mr. Brad Holcombe's
9 testimony in this proceeding.

10
11 Q. What method did you use to calculate the current annual
12 cost of transmission service to Tampa Electric's retail
13 customers?

14
15 A. Under my supervision and direction, an actual year 2000
16 retail cost of service study was performed. This study
17 utilized actual year 2000 booked costs to derive total
18 company cost of service and jurisdictional separation
19 utilizing actual loads and billing determinants to derive
20 a retail cost of service. Then a retail class cost of
21 service study was prepared to determine functionalized
22 costs, including the cost for transmission service. Those
23 transmission level retail class revenue requirements have
24 been provided in response to Staff's First Set of
25 Interrogatories, No. 19, which I have provided as

1 Document No. 1 of my Exhibit.

2

3 Q. Did Tampa Electric use this same method in its last full
4 rate proceeding (Docket No. 920324-EI)?

5

6 A. Yes. A cost of service study using this same methodology
7 was performed in Tampa Electric's last rate proceeding
8 and was used to support the bundled rate design currently
9 in place. That study was performed in 1992 but used a
10 1994 projected test period based in part on 1991
11 historical data.

12

13 Q. Would it have been reasonable simply to use the 1994 cost
14 of service study to calculate the current annual cost of
15 transmission service to Tampa Electric's retail
16 customers?

17

18 A. No. The data used to support that study are currently
19 over 10 years old and, during that time, changes have
20 occurred in both load shape and size of the different
21 classes of retail service, as well as the relationships
22 that provide functionalization of costs between the
23 production, transmission, distribution and other
24 functions. The ability of that study to accurately
25 represent the current costs of transmission service and

1 the estimated impact of GridFlorida transmission service
2 on current retail rates would be compromised.

3
4 Q. Since the first full year of GridFlorida operation may
5 not be until 2003, would a cost of service study based
6 upon 2002 costs be more representative for comparison
7 purposes?

8
9 A. Perhaps. However, the preparation of Tampa Electric's
10 2002 budget is currently underway and will not be
11 completed until later this year. While a projected 2002
12 study might be more representative, the lack of data and
13 time for analysis precluded preparation of such a study
14 in time to support this testimony. However the 2000 data
15 was available and therefore the 2000 study was prepared.
16 This study presents reasonable results, given the data
17 available and is a more representative analysis than the
18 1994 study that supported the current rates.

19
20 Q. On June 1, 2001, Tampa Electric and FPL filed at the FERC
21 a Request for Approval of Transmission Pricing Plan
22 ("Pricing Plan") to facilitate the divestiture of their
23 transmission facilities to GridFlorida. How will this
24 Pricing Plan impact retail ratepayers?

1 A. The Pricing Plan, if approved by FERC, would freeze, for
2 a transition period, Tampa Electric's revenue
3 requirements for the existing assets divested to
4 GridFlorida. The initial zonal revenue requirements for
5 these existing facilities would remain frozen for the
6 first five years of GridFlorida operations. Thereafter,
7 consistent with the phase-in plan approved for
8 GridFlorida, these zonal rates and revenue requirements
9 will be phased out in years six through ten. This will
10 be accomplished by moving 20 percent of the net plant
11 balances associated with Tampa Electric's existing
12 facilities to the Part II formula used in the GridFlorida
13 system-wide rate. The ten-year transition plan provides
14 substantial certainty about transmission costs that will
15 be reflected in retail rates over that ten-year period,
16 notwithstanding the formation of GridFlorida. Moreover,
17 the transition plan is designed to minimize cost shifts
18 so consumers will not be faced with abrupt or significant
19 changes in rates as a result of the formation of
20 GridFlorida.

21
22 Q. How was the impact on retail bills of Tampa Electric's
23 purchase of transmission service from GridFlorida
24 developed?
25

1 A. In the joint testimony I provided in this docket, I
2 introduced the various aspects of the Pricing Plan. In
3 that testimony I discussed the Grid Management Charge,
4 the Part I (including phase-in to Part II) and Part II
5 rates, the removal of pancaked transmission rates,
6 credits for Transmission Dependent Utility ("TDU")
7 facilities and charges for ancillary services. Estimates
8 for the Grid Management Charge for GridFlorida service
9 based in part on the analysis performed by Accenture,
10 Holcombe Exhibit BLH-3, Table 2. Those estimates reflect
11 the startup costs and ongoing operating cost components
12 of the Grid Management Charge. For Tampa Electric, the
13 estimates for startup costs are \$5.5 million and the
14 ongoing operating costs are estimated at \$7.6 million for
15 an approximate total of \$13 million per year for the
16 first five years of GridFlorida operations.

17
18 Q. Please discuss the impacts on Tampa Electric of the Part
19 I rate and its phase-in to the Part II rate.

20
21 A. Over the first five years, the revenue requirement
22 associated with existing transmission investment is
23 reflected in a zonal rate that mitigates cost shifts.
24 Moreover, the revenue requirement associated with
25 existing transmission investment (i.e., transmission

1 plant placed into service by December 31, 2000) will be
2 fixed at current cost levels. This will provide
3 certainty to ratepayers over a five-year period whereby
4 they will pay no more than year 2000 costs.

5
6 During the second half of the transition period (years
7 six through 10), the zonal rate and fixed revenue
8 requirement gradually will be transitioned to a system-
9 wide Part II rate, so that by year 10, all consumers
10 served by GridFlorida will face the same cost associated
11 with the 2000 investment base, and that cost component
12 will reflect the then-current cost of service. These
13 features will minimize cost shifts and consumers will not
14 be faced with abrupt or significant changes in
15 transmission-related rates as a result of the formation
16 of GridFlorida. Moreover, Tampa Electric's zonal rate is
17 expected to be roughly equal to the average of the zonal
18 rates, thus the transition in years six to 10 is not
19 expected to have a significant impact on Tampa Electric's
20 retail customers.

21
22 Q. Please discuss the impacts of the Part II rate on Tampa
23 Electric.

1 A. The proposed GridFlorida tariff calls for the Part I
2 charge to be based on year 2000 plant in service with
3 Part II based on plant put into service after December
4 31, 2000. The overall impact on the bill for Part II
5 costs is difficult to determine in part because it is a
6 system-wide charge reflecting system-wide new investment
7 and system-wide load growth. However, if the amount of
8 new investment in transmission plant correlates with the
9 growth in transmission load, then the overall unitized
10 cost should not increase significantly.

11
12 Q Please discuss the impacts of TDU credits and removal of
13 pancaked transmission rates on Tampa Electric.

14
15 A. Tampa Electric has no wholesale customers in its zone for
16 which TDU credits would apply, therefore there is no
17 impact on Tampa Electric. The impact to Tampa Electric
18 from the loss of short-term transmission revenues due to
19 the removal of pancaked transmission rates is slight and
20 subject to partial reimbursement from GridFlorida during
21 the first five years of operation. The impact to Tampa
22 Electric from the loss of long-term transmission revenues
23 due to the removal of pancaked transmission rates (which
24 begins in year six), is expected to be less than the
25 startup cost component of the Grid Management Charge

1 which ends after the fifth year. It is assumed that
2 Tampa Electric will self-provide all ancillary services
3 not included in Accenture's estimates of grid operating
4 expenses.

5
6 Q. What effect is the incremental GridFlorida charges
7 expected to have on retail rates?

8
9 A. The estimated increase in transmission cost applicable to
10 Tampa Electric retail customers as a result of obtaining
11 service from GridFlorida is estimated to be approximately
12 \$13 million all else held constant. This represents an
13 approximate 23 percent increase in the transmission cost
14 of service for retail customers over year 2000
15 transmission costs, but this represents less than a 1
16 percent increase in total retail revenue requirements, as
17 shown in Document No. 2 of my Exhibit. Assuming
18 production costs are approximately 50 percent of the
19 retail cost of service, that means if the benefits
20 described below produce even a minimal 2 percent savings
21 in production cost, ratepayers will be better off.

22
23 Q. Does the proposed treatment of existing transmission
24 investment provide other benefits to retail consumers?

1 A. Yes, these same features of the Pricing Plan provide
2 substantial revenue certainty to GridFlorida.
3 Accordingly, as discussed in GridFlorida Companies'
4 witness Mike Naeve's testimony, the pricing plan will
5 provide a platform for GridFlorida to attract capital at
6 reasonable rates, while at the same time providing an
7 incentive for GridFlorida to establish structures and
8 practices that minimize operating costs and maximize the
9 use of existing facilities. Minimizing capital costs and
10 encouraging efficient operating practices will have a
11 favorable impact on the rates paid by consumers in both
12 the short and long run. In addition, retail customers
13 will receive a benefit each year as a result of load
14 growth. Each year during the ten-year transition period,
15 Tampa Electric's zonal rate will be recalculated using
16 then-current billing determinants.

17
18 Q. How does the Pricing Plan's treatment of new investments
19 benefit Tampa Electric's retail ratepayers?

20
21 A. The Pricing Plan assesses to all load in GridFlorida the
22 costs of new facilities (through the Part II rate) in
23 order to smooth out rate impacts on consumers. Moreover,
24 because the cost of new investment is treated as a
25 system-wide cost, the Pricing Plan will be consistent

1 with regional planning which considers the combined needs
2 of Florida consumers and the most efficient and economic
3 investment plan, without regard to nominal service
4 territory boundaries within the state.

5
6 Q. Will the Pricing Plan provide other benefits to consumers
7 besides its impact on transmission costs?

8
9 A. Yes. It would not be appropriate to evaluate the
10 prudence of the Pricing Plan, or, for that matter, the
11 entire GridFlorida pricing protocol and rate design, in
12 isolation. Rather, the benefits of GridFlorida, and,
13 hence, whether it was prudent for the three utilities to
14 commit to the joint proposal, must be evaluated as a
15 total package within the parameters of FERC Order No.
16 2000. While the Pricing Plan is designed to address the
17 impact of transmission costs in the rates paid by
18 consumers, the transmission Pricing Plan also will
19 promote more efficient and competitive wholesale markets
20 that will benefit consumers in the form of generation
21 cost savings realized by their power supplier. The zonal
22 pricing approach will ensure that all zonal loads will
23 face the same transmission charge to access any supplier
24 in the region. This will have the effect of expanding
25 the scope, and, therefore, the competitiveness of the

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market. These benefits will flow through to consumers in the form of reduced power costs.

Q. Does this conclude your testimony?

A. Yes.

EXHIBIT NO. _____
DOCKET NO. 010577-EI
TAMPA ELECTRIC COMPANY
(WRA-1)
DOCUMENT NO. 1

EXHIBITS TO THE TESTIMONY OF
WILLIAM R. ASHBURN

DOCUMENT NO. 1

STAFF'S FIRST SET OF
INTERROGATORIES NO. 19

TAMPA ELECTRIC COMPANY
DOCKET NO. 010577-EI
STAFF'S 1ST SET OF INTERROGATORIES
INTERROGATORY NO. 19
PAGE 1 OF 1
FILED: JUNE 27, 2001

19. Using a fully allocated cost of service study, please provide the amount of transmission expenses associated with each rate class.
- A. Based on a year 2000 fully allocated retail cost of service study that reflects then current functionalization of plant to transmission and subtransmission functions (i.e., does not reflect any reclassification to production or distribution functions as a result of divestiture in a future period), the transmission revenue requirements associated with each rate class are as follows (\$000):

RS	GS	GSD	GSLD & SBF	IS & SBI	SL & OL
\$26,937	\$3,306	\$11,725	\$4,157	\$9,492	\$310

EXHIBIT NO. _____
DOCKET NO. 010577-EI
TAMPA ELECTRIC COMPANY
(WRA-1)
DOCUMENT NO. 2

EXHIBITS TO THE TESTIMONY OF
WILLIAM R. ASHBURN

DOCUMENT NO. 2

TAMPA ELECTRIC COMPANY'S
ESTIMATED IMPACT OF INCREASED
TRANSMISSION COSTS ON RETAIL CUSTOMERS

TAMPA ELECTRIC COMPANY
ESTIMATED IMPACT OF INCREASED TRANSMISSION
COSTS ON RETAIL CUSTOMERS
(\$ millions)

Estimated Incremental Charges from GridFlorida ⁽¹⁾:

Start-up Costs	\$	5.5
On-going Operating Costs		<u>7.6</u>
Total	\$	13.1

Incremental as a Percent of Transmission Revenues:

GridFlorida Incremental Charges	\$	13.1
Estimated Retail Transm Revenues ⁽²⁾	\$	55.9
Percent Increase		23%

Incremental as a Percent of Total Retail Revenues:

GridFlorida Incremental Charges	\$	13.1
Total Retail Revenues ⁽³⁾		\$1,242.0
Percent Increase		1%

Notes:

(1) Per W. R. Ashburn Exhibit WRA-2

(2) Based on Estimated 2000 Cost of Service Study filed with the response to Staff's 1st Set of Interrogatories, No. 18; included as Document No. 1 of this Exhibit

(3) Per TEC Rate of Return Report for December 2000, Schedule 2, page 2 of 3