ORIGINAL

JAMES E. "JIM" KING, JR.
PRESIDENT

JOHNNIE BYRD
SPEAKER

STATE OF FLORIDA
OFFICE OF THE PUBLIC COUNSEL

c/o THE FLORIDA LEGISLATURE
111 WEST MADISON ST.
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Charles J. Beck
Interim
Public Counsel

October 2, 2003

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VIA HAND DELIVERY

Ms. Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

RE: Docket No.030001-EI

Dear Ms. Bayó:

On behalf of the Citizens of the State of Florida (Citizens) is a highlighted version of the Direct Testimony and Exhibits of Michael J. Majoros, Jr. and **CONFIDENTIAL** version of the Direct Testimony and Exhibits of William M. Zaetz. Also enclosed for filing and distribution are the original and 15 copies of the following:

Please acknowledge receipt of the above on the duplicate of this letter and return it to our office. Thank you for your assistance.

Sincerely,

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Robert Vandiver
Associate Public Counsel

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Confidential
Majoros (Testimony)
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Zaetz (Testimony)
DOCUMENT NUMBER-DATE
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor	)	Docket No. 030001-EI
	)	Filed: October 2, 2003

REDACTED

DIRECT TESTIMONY

OF

MICHAEL J. MAJOROS, JR.

On Behalf of the Citizens of the State of Florida

Charles J. Beck
Interim Public Counsel

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c/o the Florida Legislature
111 W. Madison Street
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Attorney for Florida's Citizens

REDACTED DIRECT TESTIMONY

OF

MICHAEL J MAJOROS, JR.

DOCKET NO 030001-EI

INTRODUCTION

Q. Please state your name.

A. My name is Michael J. Majoros, Jr.

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

A. I am Vice President of Snavely King Majoros O'Connor & Lee, Inc. ("Snavely King"), an economic consulting firm with offices at 1220 L Street, N.W., Suite 410, Washington, D.C. 20005.

Q. Have you attached a summary of qualifications and experience?

A. Yes. Appendix A is a brief description of my qualifications and experience. It also contains a listing of my appearances before state and Federal regulatory bodies.

Q. At whose request are you appearing?

A. I am appearing at the request of Florida Office of Public Counsel ("OPC")

BACKGROUND OF CASE

Q. Please explain your understanding of the background in this case.

A. On February 24, 2003 Tampa Electric filed a petition before the Florida Public Service Commission requesting approval of its proposed modifications to its fuel and purchased power cost recovery factors. The Company claimed it faced an under-recovery of $60.6 million over the remainder of 2003. The projected under-recovery is due to several factors, including increased commodity costs in natural gas and oil, leading to increased purchased power costs and unusually cold weather. The

Company's projections reflect the shutdown of Gannon Units 1 and 2 and the tie-in of the repowered Bayside 1 unit.

The PSC did not accept the Company's request in its entirety. It allowed a portion of the costs to be recovered, but deferred recovery of $26.0 million in replacement power costs associated with the early shutdown of Gannon Units 1-4, until the Commission could determine the prudence of the decision.[1]

SUBJECT OF TESTIMONY

Q. What is the subject of your testimony?

A. My testimony addresses the benefits received by Tampa Electric's stockholders as a result of the early closure of Gannon Station, while ratepayers are correspondingly charged higher rates for fuel costs in this docket. Tampa Electric has failed to recognize the benefits it will achieve through lower operating expenses that stockholder's will enjoy, while its customers are charged higher fuel costs as a result of the Company's decisions. Since the closure of Gannon station earlier than planned was an economic decision that benefited the stockholders at the expense of the ratepayers, the Citizens are requesting that Tampa Electric's fuel cost recovery be offset by $9.1 million for 2003 and $16.0 million for 2004, so that Tampa Electric's stockholders are neither better nor worse off as a result of the early closure of the Gannon plants, while ratepayers receive some offset to the higher fuel costs. Tampa Electric proposes to charge these excess replacement fuel costs to its ratepayers through its Fuel and Purchased Power recovery charges. I disagree with Tampa Electric's proposal. The incremental O&M savings of $9.1 million for 2003 and

[1] Order Approving Mid-Course Correction to Fuel and Purchased Power Cost Recovery Factors, Docket No. 030001-EI, Order No. PSC-03-0400-PCO-EI, Issued March 24, 2003, at page 9.

$16.0 million for 2004 should be offset by the Commission in the fuel clause calculations in this docket.

Q. Please describe the circumstances behind the early shutdown of Tampa Electric's Gannon plant.

A. Tampa Electric has six coal fired units at its Gannon facility. On December 6, 1999 Tampa Electric entered into a Consent Final Judgment ("CFJ") with the Florida Department of Environmental Protection, and on February 29, 2000, a Consent Decree ("CD") with the United States Environmental Protection Agency, regarding Gannon Station. Under the CFJ and CD Tampa Electric agreed to cease coal-fired operations at Gannon by December 31, 2004. Additionally, the CD required Tampa Electric to repower coal-fired generating capacity at Gannon of no less than 200 MW by May 1, 2003.[2]

As part of its 2002 Ten Year Site Plan, Tampa Electric stated that it would operate Gannon 1-4 until the December 31, 2004 deadline and would repower Gannon 5 and 6 by May 2003 and May 2004 respectively.[3] The 2002 Tampa Electric budget process contemplated closure of Gannon's coal units in September, 2004, in compliance with the CFJ and CD agreements (Exhibit No. MJM-1). On February 6, 2003 the Company announced its decision to shut down the Gannon plant early. Tampa Electric anticipated that Gannon Units 1 and 2 would cease operations in mid-March 2003, and Gannon Units 3 and 4 would cease operations by October, 2003.[4]

Tampa Electric expected to lose 867,000 MWHs of coal-fired generation as a result of the early shutdown of Units 1-4. It also projected to spend $52/MWH to replace the lost generation. According to the Commission, the average fuel cost for

[2] Direct Testimony of William Whale ("Whale"), page 3.
[3] Order Approving Mid-Course Correction to Fuel and Purchased Power Cost Recovery Factors, Docket No. 030001-EI, Order No. PSC-03-0400-PCO-EI, Issued March 24, 2003, at page 6.
[4] Id.

coal-fired generation is approximately $22/MWH or $30/MWH less than Tampa Electric's estimated replacement power cost. Hence, staff estimated the incremental replacement power cost to be $26 million, i.e., 867,000 x $30. That is the amount of money that Tampa Electric proposed to pass-through to the ratepayers in its filing with the Florida PSC on February 24, 2003.

Q. What is the current status of the Gannon units?

A. Units 1 and 2 were actually shut down on April 7 and 8, 2003.[5] In May 2003 Gannon 1 and 2 were returned to service due to weather and other circumstances. They operated for several days and then were returned to long-term standby. According to Tampa Electric witness William Whale, Units 3 and 4 will be shut down around October 15, 2003, allowing Bayside Unit 2 to utilize the transmission facilities currently used by Gannon Unit 4.[6] Unit 5 was shut down on January 30, 2003 to allow conversion of its steam turbine generator to the Bayside Unit 1 combined cycle configuration.[7] According to the Company's website, Bayside Unit 1 went into commercial service in May 2003. Unit 6 is expected to shut down around September 30, 2003, in preparation for conversion to Bayside Unit 2. Although the website lists Bayside Unit 2 as scheduled for commercial service in May 2004, Mr. Whale's testimony gives a planned in-service date of January 15, 2004.[8]

CORPORATE DECISION TO SHUT DOWN GANNON STATION EARLY

Q. Did Tampa Electric make a corporate decision to shut down Gannon Units 1-4 early?

A. Yes. As discussed above, the Company was not obligated to shut these units down before December 31, 2004. In fact, the original plan appeared to be to run the units

[5] May 13, 2003 deposition of Buddy Maye, page 12.
[6] Whale, pages 3 and 4.
[7] Id., page 3.
[8] Id.

until sometime in September 2004, which would allow several months in which to accomplish the shutdown.

For example, Exhibit No. MJM-1 is an email from Bill Whale to Karen Sheffield, dated May 20, 2002. In this email Mr. Whale indicates that for the 2003/2004/2005/2006 budgets that are being asked for, Ms. Sheffield should assume that Gannon 1 through 4 will continue coal operation until September 30, 2004.

In another example, at page 17 of the May 13, 2003 deposition of Joann Wehle, Benjamin Smith and William Smotherman, Mr. Smotherman states "Prior to the mid-course correction our plan was to attempt to run the [Gannon] units through –through the summer of '04."[9]

Finally, Exhibit No. MJM-2, entitled "Tampa Electric Company Gannon Early Shutdown Issues Paper", states "Given the additions of Bayside 1 in May 2003 and Bayside 2 in December 2003, Tampa Electric does not need to run Gannon Units 1-4 through September 2004 as originally planned."

Q. When does the Company claim they made the decision to shut down the units early?

A. The Company claims that it "refined" the shutdown dates in late January and early February of 2003.[10]

Q. When do you believe Tampa Electric decided to shut down Units 1-4 early?

A. I believe that Tampa Electric made a corporate decision as early as October 2002 to shut down these units in 2003.

Q. Why do you believe that Tampa Electric made this decision in October 2002?

A. According to Bill Whale, the Company began planning an early shutdown in the fall of 2002. (Whale TR, p. 50). Bates page 3653, labeled "Key Strategies for 2003 –

[9] May 13, 2003 deposition of William Smotherman, page 17.
[10] Whale, page 8.

Gannon" is dated October 3, 2002. This document shows the Company's "base case" as assuming Gannon Units 1 and 2 would shut down on March 15, 2003, Units 3 and 4 would run until September 1, 2003 (or until the O&M dollars were gone), Unit 5 would shut down in February 2003 and Unit 6 in September 2003.

Although some of these dates have slipped, this is essentially the "early shut-down" time frame. This document demonstrates that as early as October 2002 the Company had made the decision that it would shut down its Gannon units earlier than called for in the Consent Decree. The finalized version of the Gannon Station Business Plan was completed in October 2002 and published with minor revisions on November 15, 2002. The October 2002 and November 15, 2002 versions of the business plan are based on the Company plan that was adopted in late September/early October 2002 for the early shut down of Gannon. This document is contained in the testimony of Public Counsel witness Zaetz (Exhibit No. WMZ-1).

Q. What was the basis of Tampa Electric's decision?

A. According to Mr. Whale:

> By late 2002, it became apparent that the units needed to be shut down in 2003. This realization was driven primarily by four factors: the declining availability and reliability of the units; the significant expenditures that would need to be incurred in an effort to keep the units running reliably; the potential for safety incidents; and, the short window of time until the units would be required to shut down under the CFJ and CD, regardless of how much the company might invest in an effort to keep them operating.[11]

Q. Of the reasons given for the early shut down, which do you feel was truly driving the decision?

A. I believe this was an economic decision. The Company shut the plants down in an effort to meet internal earnings goals.

[11] Whale, page 11.

Q. What is the basis of your conclusion that Tampa Electric decided to shut down Units 1-4 early to meet its internal earnings goals?

A. One only needs to read Mr. Whale's August 26, 2002 presentation to the corporate officers to understand how the Company plans to shut down Gannon in September 2004 were advanced to 2003. In this presentation to the Tampa Electric senior management Mr. Whale clearly articulates the economic advantages of the early shutdown of Gannon (Exhibit No. MJM-3). The Company would achieve substantial capital and O&M expense savings which would accrue to shareholders, and yet would pass the acknowledged higher purchased power costs through to ratepayers. As the Gannon plan evolved in 2003, all four units were required to run several weeks longer than originally planned. In the same presentation Mr. Whale laid out the adverse consequences that would directly impact customers, including the higher costs of purchased power (Exhibit No. MJM-3, page 20).

Q. How did Tampa Electric plan to meet its budget?

A. The presentation by Mr. Whale to the officers on August 26 included the specific wording (Exhibit No. MJM-3, page 15):

"Reductions to Achieve 2003 & 2004 Plug"

"Gannon – Accelerated Shutdown".

Through our depositions with Tampa Electric personnel, including Mr. Whale, we have determined that the phrase "Plug" means a budget reduction target.

Q. Were there other indicators that the decision was for economic purposes?

A. At a meeting of all the Tampa Electric officers on September 9, 2002, there was a discussion regarding business plans, described by Tampa Electric Vice President Phil Barringer in his deposition (P 20, L12-16) as "a business planning meeting, so we go through a process during the summer and fall of creating the business plan and going

through budgets." The agenda includes a wide variety of cost-cutting measures under consideration (Exhibit No. MJM-4, pages 1-2). Among the items included for discussion by Mr. Whale was "Operations: Implement items presented to achieve O&M of ***C***. Evaluate moving Gannon 3 & 4 closing up to May '03." Included in the agenda notes were five scenarios for the early closure of Gannon (Exhibit No. MJM-5).

Q. **Mr. Whale states that significant expenditures would need to be incurred to keep the units running reliably. Does he discuss these expenditures?**

A. Yes. On page 16 of his testimony he states: "Given the current condition of these units, Tampa Electric estimates that it would need to incur additional O&M expense of approximately $57 million to try to keep Gannon Units 1 through 4 operating somewhat reliably beyond the actual and currently planned shutdown dates and through 2004."

Q. What do you believe is the source of this estimate?

A. Exhibit No. MJM-6 is an estimate of the Total Project Costs needed to operate the Gannon units through 2004. The document was prepared March 3, 2003 for Bill Whale. It shows a cost of $53.94 million to run the plants through 2004 at 80% to 85% availability. This estimate was prepared by Buddy Maye, at the request of Bill Whale.[12] I believe this is similar to the source of Mr. Whale's figure in his testimony.

Q. **Is this a useful and fair estimate of the costs necessary to run the Gannon units through 2004?**

A. No. In his deposition, Mr. Maye was asked about the feasibility of running Gannon 1-4 at 80 to 85 percent availability (Exhibit No. MJM-6). He stated that it was not

[12] Maye deposition, page 80.

very realistic. The same analysis shown on page 3 reflects 60% availability. It shows a total cost of $36.94 million to run Gannon 1-4 through December 2004. Mr. Maye admitted that this is a more realistic scenario and the 60 percent availability more closely reflects the typical availability of the Gannon units.[13] This is discussed further in the testimony of my colleague, Mr. William Zaetz.

Q. What do you conclude?

A. The Company claims in part that it shut Gannon 1-4 down early because the costs to keep the units running reliably through 2004 would be $57 million. This is misleading assumption. To keep Gannon 1-4 running at the availability level they normally operate would cost far less.

RESULT OF EARLY SHUT-DOWN DECISION

Q. What is the result of Tampa Electric's decision to shutdown Units 1-4 early?

A. There was an early estimate of $26 million in February 2003. Based on the most recent response from Tampa Electric, it would appear that the combined costs of the more expensive fuel to run Bayside, plus additional purchased power costs to replace Gannon capacity is $116.4 million (Exhibit No. MJM-7).

SAFETY AND RELIABILITY

Q. You mentioned earlier that Tampa Electric cited safety and reliability concerns as the reasons for the early shut down. Do you believe Gannon was unsafe?

A. No, I do not believe Gannon was unsafe. The Company has not provided any evidence demonstrating this. Mr. Zaetz addresses the Company's safety claim in his testimony.

Q. Have you found any evidence that Gannon was unreliable?

[13] Id., pages 80-81.

A. Not necessarily. While it is true that Gannon was an aging plant, it still appeared to be meeting its performance goals. Any reliability issues can be traced to decisions made by the Company regarding maintenance issues. Mr. Zaetz addresses reliability and maintenance in his testimony.

BENEFITS TO COMPANY

Q. Did the Company believe that the early closure of Gannon Station would result in a reduction of O&M expenses?

A. Yes. In his August 26, 2002 presentation to the company officers that I discussed earlier, Mr. Whale included a slide indicating that the Company expected to achieve savings by accelerating the shutdown of Gannon Station. The 2003 savings are reported as being $11.2 million and the 2004 savings are reported as being $16.0 million (Exhibit No. MJM-3, page 16). According to Mr. Whale (Whale TR, p. 26) these savings amounts refer to O&M savings.

Q. Do increased earnings benefit shareholders?

A. Yes, as a general proposition increased earnings benefit shareholders.

Q. Did the Company expect to reduce its labor force by shutting down the plants early?

A. Yes. It appears that the Company would benefit from a reduced labor force. Labor is discussed in the July 29, 2003 deposition of Ms. Karen Sheffield. Based on the discussion it appears that at least 192 jobs have been/will be eliminated from Gannon, replaced by at least 42 positions associated with Bayside. Ms. Sheffield confirms that "it takes less people to operate Bayside and perform whatever has to be done at Gannon than it does to operate the six units at Gannon."[14]

IMPACTS TO RATEPAYERS

[14] July 29, 2003 deposition of Karen Sheffield, page 53.

Q. Did the Company envision any consequences in shutting down Gannon early?

A. Yes. In Mr. Whale's August 26 presentation there is a slide with the heading "Changes & Consequences." A subheading indicates this slide details the consequences related to the accelerated shutdown of Gannon. The bullet points are as follows: Higher Purchase Power Costs; Tampa Electric Transport coal movements reduced; Wholesale Sales Impact; At Big Bend, slower Unit turnaround times from outages (Exhibit No. MJM-3, page 20).

Q. **Was the Company aware that the early shutdown of Gannon would result in increased costs that would be passed on to the ratepayers?**

A. Yes. I have found several instances where the Company calculates an impact to customers due to the early shut down of Gannon Station.

For instance, when asked about the "higher purchase power costs" listed in his presentation as a consequence of the accelerated Gannon shutdown, Mr. Whale indicated that he was aware that consumers would bear that increased cost (Whale TR, page 27).

Perhaps one of the more important examples of the Company's assumptions regarding savings and customer impact can be found in the Scenario Analysis (Exhibit MJM-8) dates 9/16/02. This document shows the various scenarios for the Gannon shutdown, along with estimated O&M/NRF costs. It also shows the base O&M costs and the difference (savings). Scenario 5 most closely matches actual events, calling for Gannon 1 and 2 to shut down on March 16, 2003 and Gannon 3 and 4 to shut down on September 1, 2003. It shows an O&M/NRF savings of $10.4 million from the base case for 2003.

Likewise, Exhibit MJM-5 shows, for the most part, the same scenarios and numbers as Exhibit No. MJM-8, leading one to believe that it was prepared after

Exhibit No. MJM-8.[15] However, this document also shows "Clause Impacts" from fuel and purchased power, coal contracts and dead freight, along with an average customer bill impact. For scenario 5, the fuel and purchased power clause impact is ***CON***. The coal contracts impact is ***CON*** and the dead freight impact is ***CON***. The total clause impact is ***CON***. Directly below the Clause Impact section is a line showing "average customer bill impact". For scenario 5 this number is ***CON***. It is unclear as to whether this means ***CONFIDENTIAL***. Regardless, it is clear that at this point the Company expected to realize approximately ***C*** in net savings to operating income, while expecting a ***CONFIDENTIAL*** clause impact.

Q. Are you claiming the early closure of the Gannon units in and of itself harmed the ratepayers?

A. No. Our position is that the customers should see some of the benefits of these demonstrated savings rather than bearing all the related costs while stockholders realize all the benefits.

Q. Please discuss the fuel cost impacts of the decision.

A. The difference between the cost of coal, which is the fuel used by the Gannon units, and natural gas, the fuel used by the Bayside units, is substantial. At pages 57 and 58 of the deposition of Buddy Maye, he is asked about the approximate fuel costs for Bayside and Gannon. In the week the deposition was taken he stated that the cost of gas for Bayside was approximately $5.5 per MMBTU. He guessed that for Gannon, the fuel cost was in the range of $2 per MMBTU. Fuel costs for Bayside were over twice that of Gannon on a per MMBTU basis.

Q. Has the Company discussed this fuel cost difference in the recent testimony?

[15] This document includes an amount for Bayside CSA savings of ***CON***, bringing the scenario 5 net savings to ***CONFIDENTIAL***.

A. The Company does not detail the difference. However, in her testimony Ms. Joann Wehle discusses the Company's view of the reasonableness of the replacement fuel costs. She states that "the company procures the fuel to operate all units based on their economic dispatch" and "Tampa Electric follows its Commission-reviewed fuel procurement policies and procedures." She further states "Tampa Electric's decision to shut down Gannon Units 1 through 4 in 2003 was arrived at only after careful and deliberate evaluation of many dynamic, competing and complex factors" and "therefore, costs for replacement fuel due to the shutdown of Gannon Units 1 through 4 in 2003 are reasonable and prudently incurred."

Q. Please discuss the purchased power impacts of the decision.

A. Due to the early shutdown, Tampa Electric has projected an 867 thousand MWH decrease in coal fired generation through the year 2003. According to its petition the Company is projecting to spend approximately $52 per MWH on purchased power to replace this energy. Tampa Electric is requesting recovery of the additional cost of this purchased power that is required to replace its coal-fired capacity ($22/MWH), which is already factored into the fuel clause recovery calculations.

Q. Does the Company address this issue in the September 12 testimony?

A. Yes. Mr. Benjamin Smith addresses replacement power costs related to the early shutdown of Gannon at pages 5 through 7 of his testimony. He does not, however, provide an updated amount of these costs. In fact, he indicates that it is not possible to calculate the exact amount of replacement power purchased due to the early shutdown:

> Although Tampa Electric projects its system capacity and energy needs, the company also states that because of system dynamics, it is neither feasible nor appropriate to

isolate and then attribute costs to a single variable, such as the shutdown of the Gannon units, on an actual basis.[16]

Q. **What is the amount of the surplus coal purchase contracts that is being passed on to customers due to the 2003, rather than 2004, closing of Gannon?**

A. Earlier in the planning process the Company estimated that it would experience significant damages by the early closure of Gannon due to existing coal purchase contract damages. At the present time, it does not appear that the Company will request compensation for contract damages during this recovery period.

Q. **What dead freight costs were incurred and included in the fuel recovery clause due to the decision to retire Gannon in 2003 rather than 2004?**

A. The Company originally calculated a significant penalty that would be passed to ratepayers due to the early closure of Gannon because its contract with TECO transport (an affiliated company) required the Company to pay transport costs relating to the minimum compensation provisions of the contract. It is our understanding that the Company no longer seeks compensation for dead freight in this docket.

Q. **Did the Company realize that the benefit it would enjoy through the early shutdown of Gannon Station would be far less than the increased rates customers would pay through the fuel clause?**

A. Yes. The examples above clearly show that the Company was aware of this mismatch.

Q. **Does the decision to close Gannon 1-4 in 2003 for economic reasons represent an unavoidable expense on the part of the Company that is the type of expenditure the Commission has authorized for recovery through the fuel clause?**

[16] Direct Testimony of Benjamin Smith, page 6.

A. The decision to close even earlier was driven by internal economics. In general, I do not believe this type of cost would ordinarily be reflected in a fuel adjustment charge.

Q. Did the Company decide to take additional depreciation in 2003 to write off its Gannon investment?

A. Yes. The Company stated in early 2003 that it would write off its remaining depreciation for Gannon in 2003, consistent with the historical FPSC depreciation practices.

Q. Wouldn't the impact of additional depreciation in 2003 offset the O&M savings?

A. It provides a phantom offset. The Company keeps the O&M cash savings. The total depreciation recovery for Gannon did not change. The Company simply accelerated its recovery of its investment and that helped the Company's cash flow. Furthermore, the Company's most recent, June 30, 2003, Form 10-Q states the following:

> At Jan. 1, 2003, the estimated accumulated cost of removal and dismantlement included in net accumulated depreciation was approximately $442.0. At June 30, 2003, the cost of removal and dismantlement component of accumulated depreciation was approximately $451 million.[17]

This means that Tampa Electric has collected $451 million from its ratepayers to dismantle and remove its plant, even though it does not have any legal obligation to incur such costs. Otherwise, those amounts would have been capitalized to plant under the auspices of the Financial Accounting Standards Board's Statement of Financial Accounting Standard No. 143.

I find it very hard to imagine that Tampa Electric will actually spend $451 million to remove or dismantle any of its plants if it is not required to do so. That

[17] Tampa Electric Company June 30, 2003 Form 10-Q, Notes to Consolidated Financial Statements, Note 1, Depreciation.

would be "bad" internal economics. And given this Company's proclivity to enhance its positive internal economics I doubt that it would unnecessarily spend the $451 million. Furthermore, under the aforementioned accounting standard, the $451 million is a liability (amount owed) to ratepayers.

CONCLUSION

Q. What action should the Commission take in this case?

A. The Commission should require that both shareholders and ratepayers share the burden of the Company's decision to accelerate the Gannon Station retirement. The Commission should use the amount of O&M savings achieved by the Company in both 2003 and 2004 to offset the higher fuel costs associated with the Bayside natural gas plant. I calculate those savings as $9.1 million for 2003 and $16.0 million for 2004 (Exhibit No. MJM-9).

Q. Why have you included calculations for the 2004 O&M savings?

A. The issues regarding the Gannon Station early retirement are one-time issues, and the same principals that will apply in the current proceeding for 2003 should also be applied on a going-forward basis through the original, planned outage date of September 2004.

Q. Does this conclude your testimony?

A. Yes, it does.

MICHAEL J. MAJORES

INDEX OF EXHIBITS

EXHIBIT MJM-1
Page 1 of 1

From: Bill Whale
To: Karen Sheffield
Date: 5/20/02 10:58AM
Subject: Base Plan

Karen

For the 2003/2004/2005/2006 budgets that are being asked for use the following operating schdule as your base plan.

Gan 1 through 4 continue coal operation until Sept 30, 2004

Gan 5 will continue coal operation until Feb 7, 2003

Gan 6 will continue coal operation until August 31, 2003

Plan on building staffing, maintenance, and budget plans around this base plan. This is the same plan that has been put in the rate case.

Thanks

Bill

CC: Bill Smotherman; Charles R. Black; Charles Shelnut; Craig Cameron; Hugh Smith; John Knight; Scott A. Cannon; Tom Berry

DOCKET NO. 030001
EXHIBIT NO. MJM-2
PAGE 1

THIS INFORMATION CLAIMED

CONFIDENTIAL

EXHIBIT NO. MJM-2, PAGE 1

BY

TAMPA ELECTRIC

ENERGY SUPPLY

- What Are Our Resources, Where Do They Go?
- Operational Strategies
- Changes and Consequences

What Are Our Resources?

(2002 Budget) ($ millions)	O&M	NRF	Total Resources
Operations	$ 127.1	$ 13.9	$ 141.0
Trading & Services	8.3	-	8.3
Construction & Engineering	2.9	-	2.9
	$ 138.3	$ 13.9	$ 152.2

EXHIBIT MJM-3
Page 2 of 34

Where Do They Go?

- Station / Services
- Type (Labor, Services, Materials & Supplies, etc.)
- Activity (Operations Maintenance, Compliance, Services)

Resources - Stations

(2002 Budget) ($ million)	BIG BEND	GANNON / HOOKERS	POLK	SEBRING
O&M	$ 62.1	$ 37.4	$ 19.3	$ 1.3
NRF	5.0	4.4	4.3	.2
TOTAL	$ 67.1	$ 41.8	$ 23.6	$ 1.5

Resources - Services

	Support Services	Shared Services
O&M	$ 13.1	$ 5.1

Resources - Type

(O&M and NRF)

Energy Supply	Millions	Percentage
Payroll/Fringe	66.4	44%
Contractors/Services	44.7	29%
Materials / Supplies / Stores Issues	31.2	20%
Vehicles / Other Mobile Equipment	2.7	2%
Shared Service Allocation	5.1	3%
All Other	2.1	2%
Total	**$ 152.2**	**100%**

Resources - Activity

(O&M and NRF)

Administration			
Support Services	13.1		
Shared Services	5.1	18.2	12%
Plant Operations			
Labor / Fringe	19.9		
Consumables	3.8		
Non-recoverable Fuel	13.9		
Other	7.7	45.3	30%
Plant Maintenance			
Unit Specific	26.9		
CSAs	2.2		
Common	41.9	71.0	47%
FGD			
Operations	10.9		
Maintenance	6.8	17.7	11%
Total Activities		152.2	100%

EXHIBIT MJM-3
Page 7 of 34

Plant Operations

- Labor
  - Driver = Equipment / Safety
  - Cost Reduction Strategies
    - Contractor Usage
    - Shifts
    - Technology
- Consumables / NRF
  - Driver = Equipment Operations
  - Cost Reduction Strategies / Cost Increases
    - Efficiencies
    - Increase Performance Expectations
    - New Requirements

EXHIBIT MJM-3
Page 8 of 34

Plant Maintenance

- Forced Outages
- Planned Outages
  - Fuel Systems
  - Major Outages
- Routine Maintenance

Forced Outages

- Best Guess Estimate
  - $25,000 / Day - Gannon
  - $35,000 / Day - Big Bend
- Cost Reduction Strategies
  - Contractor Usage
  - No Overtime
  - Operational Strategies
  - Rule of Thumb
    - 1% Increase in EFOR ~ 3% Increase in Cost

Planned Outages

Fuel System Outages	vs	Major Outages
• Performed Annually		Performed once every 4 yrs.
• Duration of 14-21 Days		Duration of 50-70 Days
• Clean-Up		Clean-Up
• Inspection		Inspection
• Minor Repairs / Patches		Major Repairs
• O&M Intensive		Major Component Replacement
		O&M and Capital Intensive

Planned Outages

- Cost Guidelines
  - $45,000 / Day - Fuel Systems
  - $60,000 / Day - Major
- Cost Reduction Strategies
  - Increase Contractor Usage
  - Limit Overtime
    - No Outage Overlap
    - Time Between Majors
  - Component Replacement Timing

Forecasted Outages

		2002	2003	2004	2005	2006	2007
Big Bend	Fuel	2	3	4	2	2	3
	Major	2	0	0	2	1	1
Polk	Fuel	1	1	2	2		1
	Major	0	1	0	1	1	0

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Routine Maintenance

- Priority
  - Safety
  - Compliance with Law
  - Efficiency
  - Reliability Centered Maintenance
- Cost Reduction Strategies
  - Increased Contractor Usage
  - Run to Failure
  - Minimal Replacement Parts

S48

Operating Capital (millions)

	Big Bend	Gannon/ Hookers	Bayside	Polk	Sebring
Installed MW	1,934MW	1,165MW	1,750MW	615MW	18MW
2002 Fcst	$37.3	$4.3	$0.0	$18.9	$0.7
2003 Plug	18.1	2.3	7.2	12.0	0.2
2004 Plug	17.1	0.0	17.1	10.6	0.3

Changes & Consequences

Reductions to Achieve 2003 & 2004 Plug

Gannon - Accelerated Shutdown

550

Changes & Consequences

Gannon - Accelerated Shutdown (Implementation)

- Units 1 & 2 - Shutdown with Bayside 1 Start-up
- Units 3 & 4 - Shutdown September 1, 2003.

(Anticipates depletion of available funding)

- 2003 Savings $ 11.2 million
- 2004 Savings $ 16.0 million
- Big Bend to reduce Contractors, Overtime, Unit Header Pressures. 2003 Savings $ 2.0 million.

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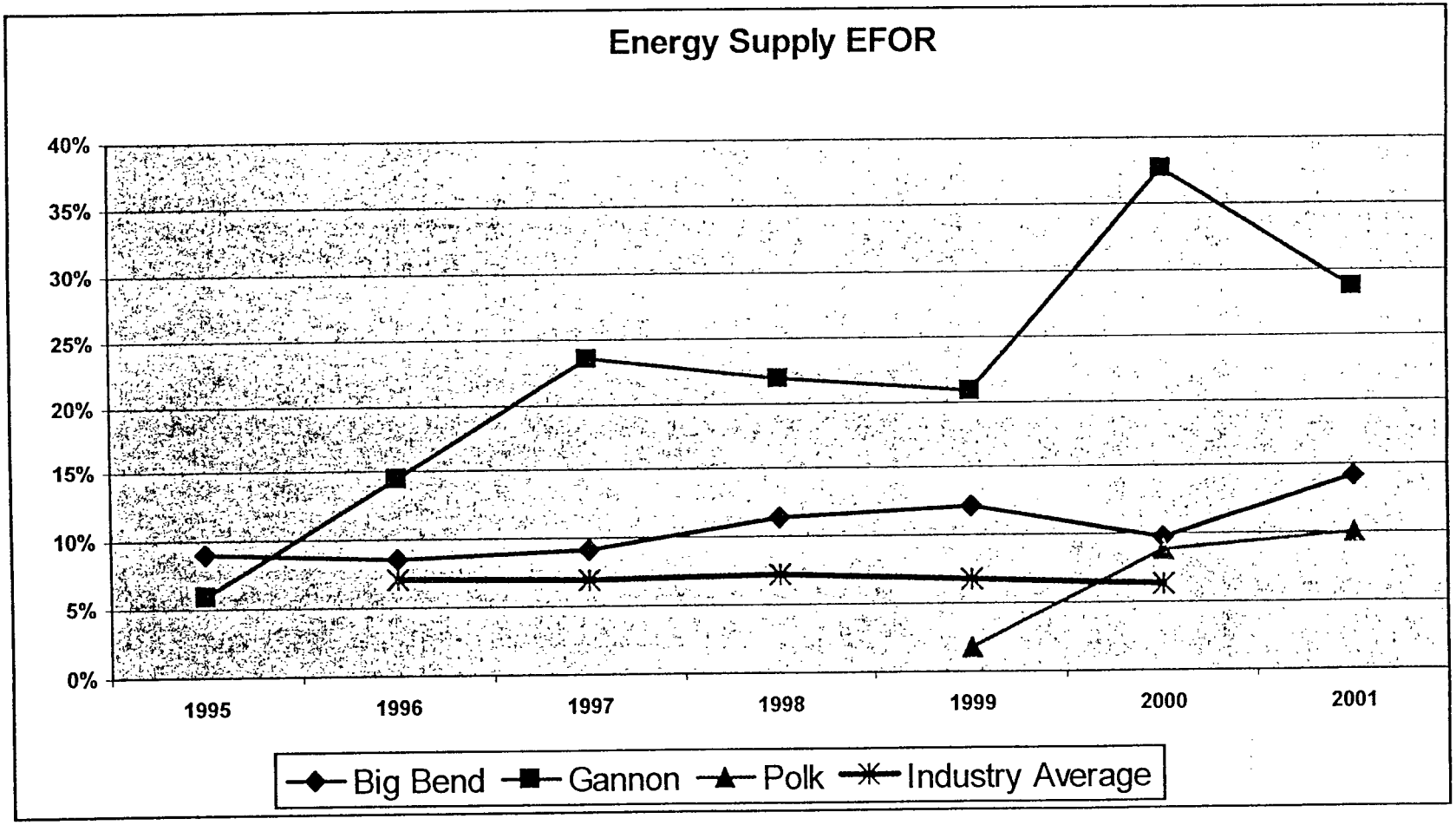
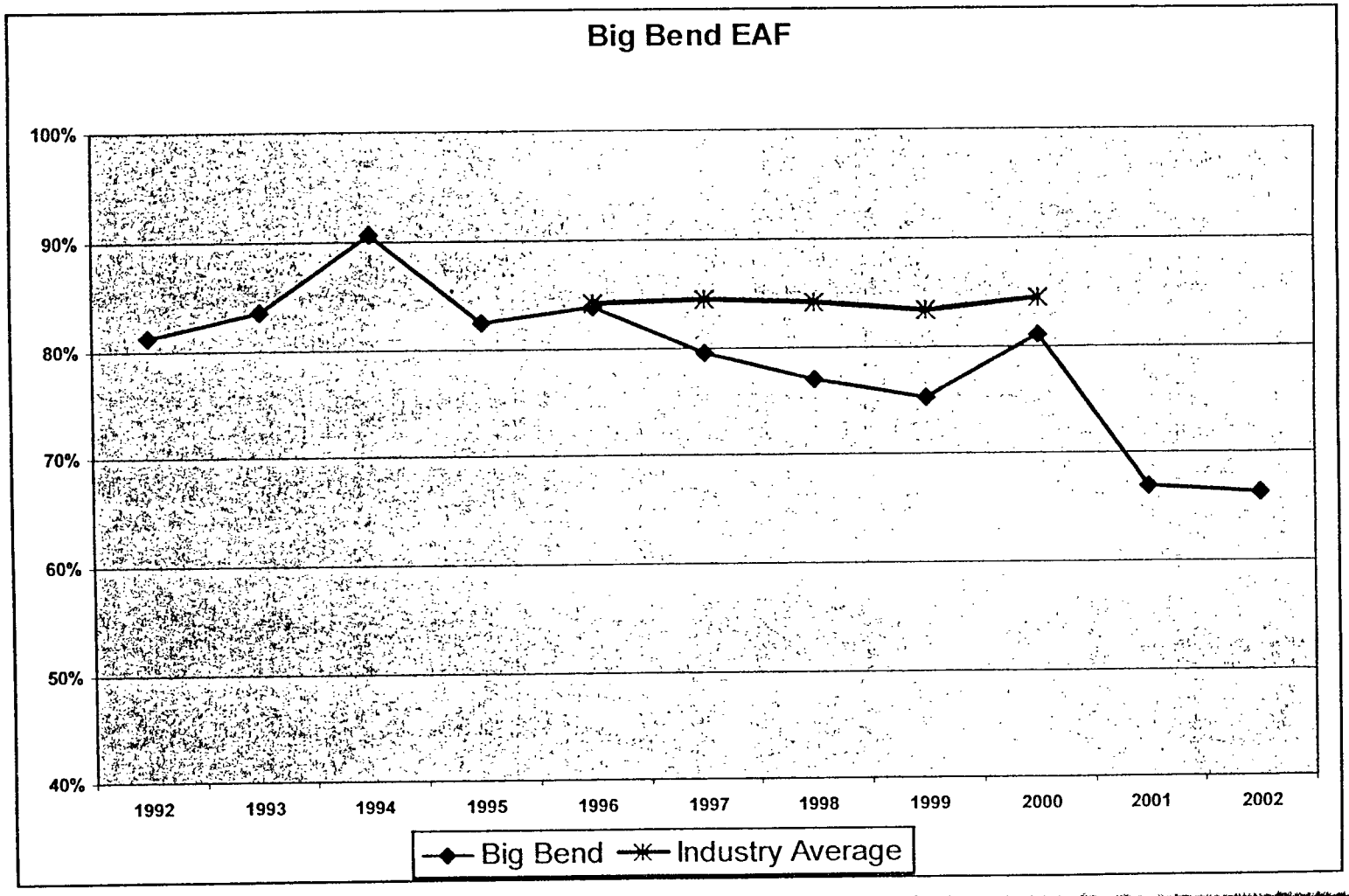
Station Performance



Station Performance



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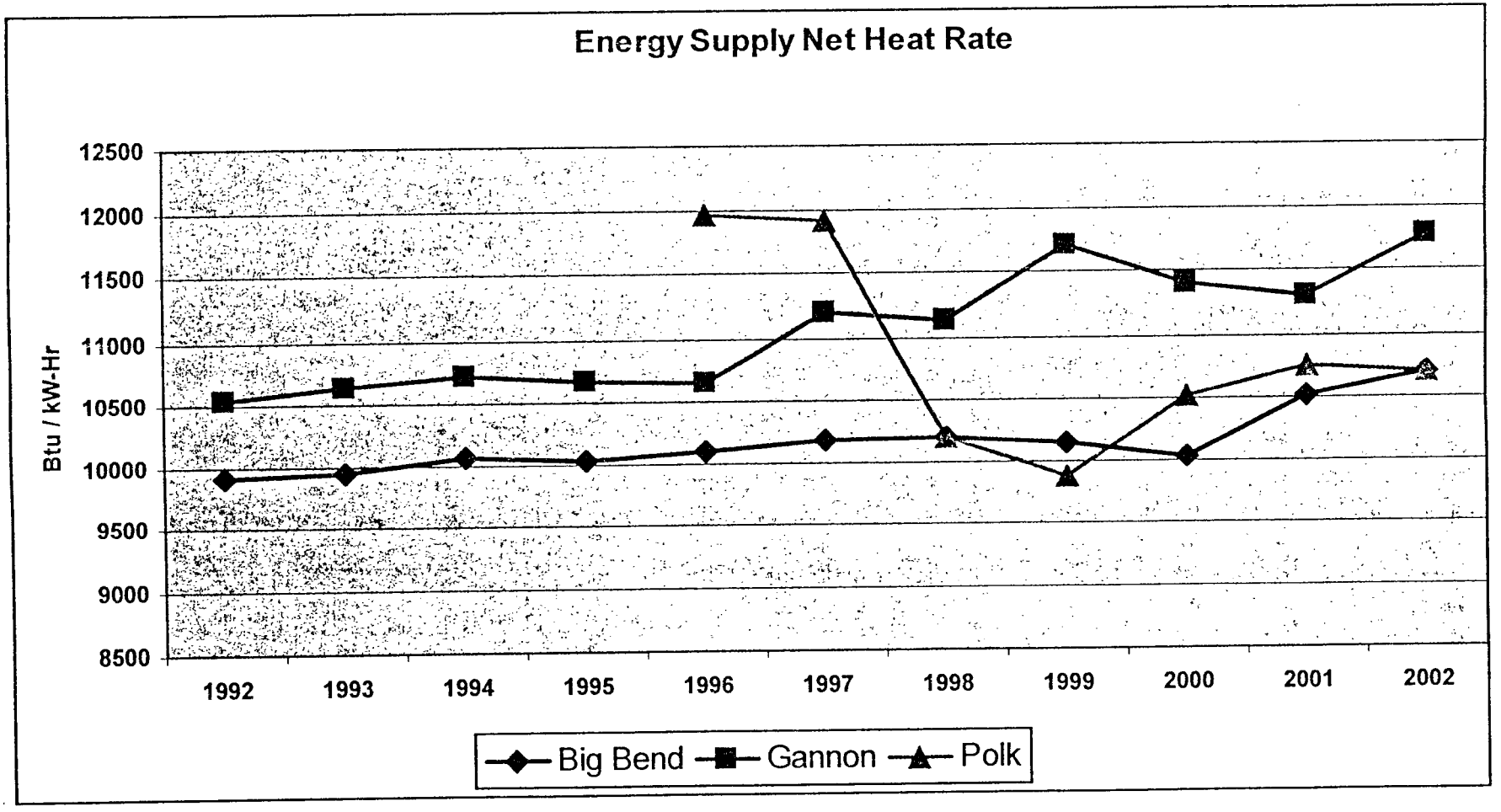
Station Performance



Changes & Consequences

Gannon - Accelerated Shutdown (Consequences)

- Higher Purchase Power Costs
- TECO Transport coal movements reduced
- Wholesale Sales Impact
- At Big Bend, slower Unit turnaround times from outages.

555

Resources - Stations

	BIG BEND	GANNON	POLK	SEBRING
Installed Capacity	1934	1165	615	36
(Summer Rating)				
Number of Units	4 Coal Fired	6 Coal Fired	1 Combined Cycle	2 Diesel Engines
	3 CTs		2 CTs	
Fuel Type	Coal	Coal	CC-Synfuel	Diesel
			CTs - Gas / Oil	
Constructed	1969	1957	1995	1982
Average Unit Age	27	40	3	20
Major Support Sys.	2 FGD Systems		Gasifier	
			Air Separation Unit	
			Acid Plant	
Operating Profile	Baseload	Baseload	Baseload / Peaking	Peaking
Operating Strategy	Sustain L-T	Patch and Go/	Unit 1 - Baseload	Peaking
	Reliability	Run to Failure	Unit 2/3 - Peaking	

Resources - Services

ENIRONMENTAL
Permitting
Monitoring
Communities
Legal / Compliance
Land & Water Projects

FUELS
By Products
Management

RESOURCE PLANNING
System
Planning

WHOLESALE MARKETING
Wholesale
Energy
Purchase/Sales

AUDIT MANAGEMENT
Administration
Finance
Human Resources
Safety
Technical Administration

ENGINEERING & CONSTRUCTION
Engineering
Project Management
Construction

Life Cycles & Outage Strategies

OPERATING STRATEGIES

• Big Bend	Baseload	10 year horizon SCR / Consent Decree FGD / Interlock
• Gannon	Intermediate	Patch & Go Run to Failure

Life Cycles & Outage Strategies (Continued)

OPERATING STRATEGIES

• Polk	Unit 1	Baseload
		Demonstrate Gasifier
		Low Cost Fuel Dispatch
	Unit 2 & 3	Peaking
• Sebring		Peaking

What Are Our Resources?

(2002 Budget) ($ millions)	O&M	NRF	Operational Capital	Total Resources
Operations	$ 127.1	$ 13.9	$ 62.3	$ 203.3
Trading & Services	8.3	-	6.1	14.4
Construction & Engineering	2.9	-	-	2.9
	$ 138.3	$ 13.9	$ 68.4	$ 220.6

Resources - Stations

(2002 Budget) ($ million)	BIG BEND	GANNON / HOOKERS	POLK	SEBRING
O&M	$ 62.1	$ 37.4	$ 19.3	$ 1.3
NRF	5.0	4.4	4.3	.2
Operational Capital	37.3	4.3	18.9	.7
	$ 104.4	$ 46.1	$ 42.5	$ 2.2

Resources - Type

Energy Supply	Millions	Percentage
Payroll/Fringe	69.9	32%
Contractors/Services	86.8	39%
Materials / Supplies / Stores Issues	53.9	25%
Vehicles / Other Mobile Equipment	2.7	1%
Shared Service Allocation	5.1	2%
All Other	2.2	1%
Total	**$ 220.6**	**100%**

Resources - Activity

Administration		
Support Services	14.2	
Shared Services	5.1	19.3
Plant Operations		
Labor / Fringe	19.9	
Consumables	3.8	
Non-recoverable Fuel	13.9	
Other	7.7	45.3
Plant Maintenance		
Unit Specific	54.5	
CSAs	15.6	
Common	53.3	123.4
FGD		
Operations	10.9	
Maintenance	15.6	26.5
Environmental Projects		6.1
Total Activities		220.6

Significant Capital Projects

Capital Budgeting Schedule - 2003

Project Title	Budget ($ Thousands)
BB Lined Solid Waste management unit	$ 4,000
Repair/Replace BB4 economizer ash liner	3,273
GE Combustion Turbine LSTA Agreements (unit 1)	2,543
GE Combustion Turbine LSTA Agreements (unit 2)	2,418
Close out DA2 Cell B	2,000
BB Dissolved Oxygen Environmental issues	2,000
BB Lined recycle pond	2,000
BB Gypsum conveyor relocation	2,000
FGD (3&4) REPL COMMON INLET DUCT RE	1,952
GE Combustion Turbine LSTA Agreements (unit 3)	1,841
POLK Cooling reservoir water	1,700
BB4 BOILER FURNACE FLOOR/SLOPE REPL	1,616
Water cannons or wall blowers BB3	1,134
BB Lined stormwater collection pond	1,000
BB Big Bend pipe replacements	1,000
BB1 Under Deck Fire protection Units (1-4)	1,000

Significant Capital Projects

Capital Budgeting Schedule - 2004

Project Title	Budget ($ Thousands)
Polk Cooling reservoir water quality study	$ 4,000
BB Lined Slag Sluice and settling ponds	4,000
BB lined recycle pond	4,000
BB Gypsum storage dome	3,000
GE Combustion Turbine LSTA Agreements (unit 1)	2,881
Polk Lined Landfill	2,713
SOFA BB4	1,900
GE Combustion Turbine CSA Agreements (unit 2)	1,725
GE Combustion Turbine CSA Agreements (unit 3)	1,712
BB WASTE MANAGE/LINING RECYLE POND	1,000
BB Lined stormwater collection pond	1,000

EXHIBIT MJM-3
Page 31 of 34

Operational Strategies

Maintenance

- Outages - Fuel System / Major
- Forced Outages - Return to Service ASAP without compromising safety or environmental compliance using Contractors.

Labor

- Hold the workforce to a minimal level, sustaining operations and keeping a preventative maintenance workforce. Use Contracted labor to handle increased workload (outages) and unique specialized services.

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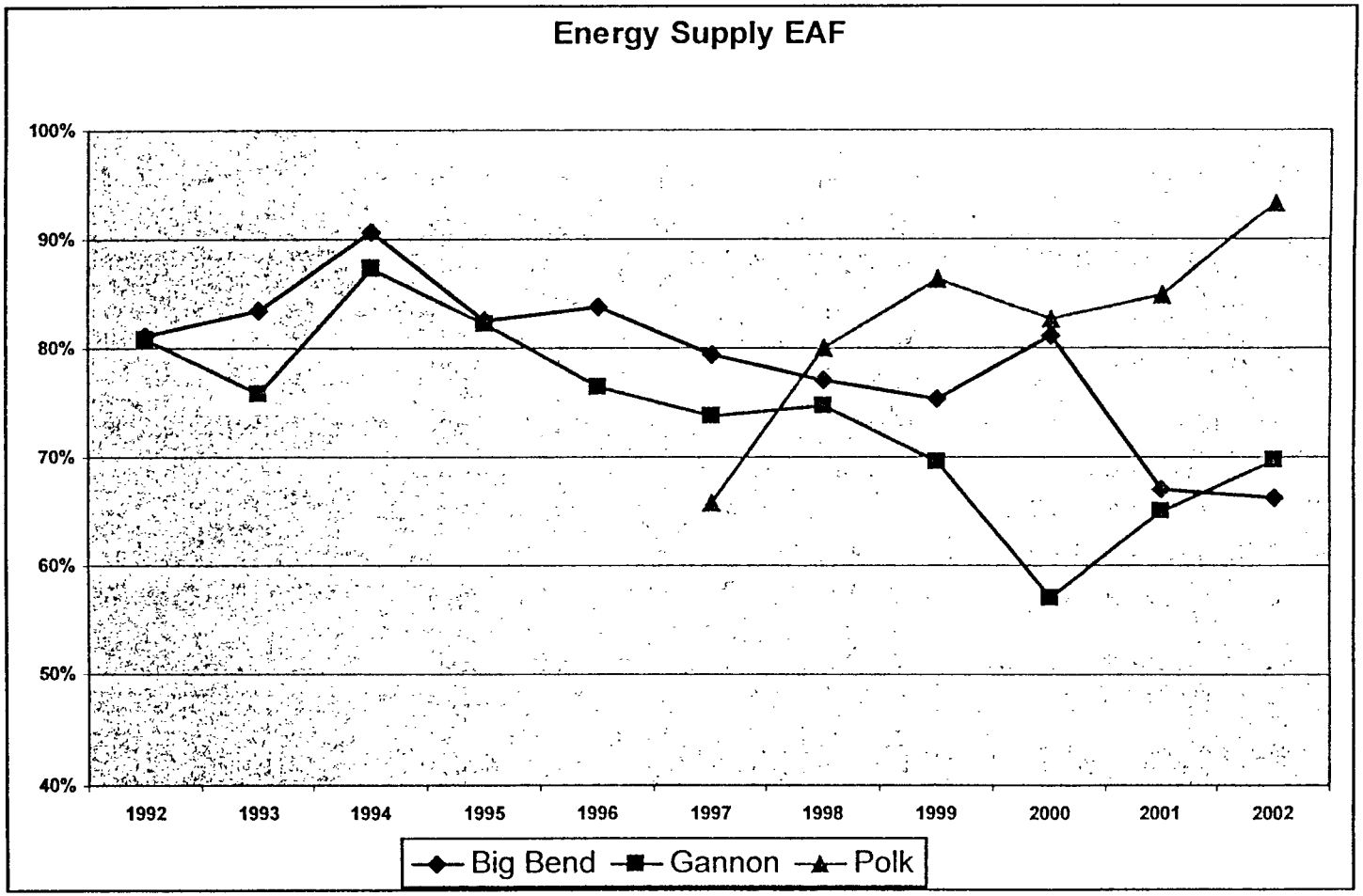
Station Performance



Labor Strategy

- **In-house Labor**
  - Operations
  - Preventative / Operational Maintenance Activities
  - Project and Cost Management Engineering
  - Management and Administration
- **Contracted Activities and Services**
  - Maintenance Activities
    - Clean-up / Grounds Maintenance "Core Contractors"
    - Forced Outage Maintenance
    - Planned Outage Maintenance
    - Specialized Activities (Painting, Insulation, Equipment Overhauls)
  - **Specialized Services**
    - Technical Services
    - Performance Engineering and Testing
    - Major Engineering

DOCKET NO. 030001
EXHIBIT NO. MJM-4
PAGE 1 & 2

THIS INFORMATION CLAIMED

CONFIDENTIAL

EXHIBIT NO. MJM-4 PAGE 1 & 2

BY

TAMPA ELECTRIC

THIS INFORMATION CLAIMED

CONFIDENTIAL

EXHIBIT NO. MJM-5 PAGE 1

BY

TAMPA ELECTRIC

From: John Knight
To: Bill Whale; Buddy Maye; Craig Cameron; Dee Brown; Denise Jordan
Date: Mon, Mar 3, 2003 4:24 PM
Subject: Gannon 1 - 4 (options)

Print each TAB. If you have any questions please call.

Energy Supply
Gannon Station - Operations Thru 2004
Achieve 80 - 85% Availability

Activities	Unit 1	Unit 2	Unit 3	Unit 4	Other	
Cyclone work (49 day outage)	4,500	4,500	6,000	6,000		21,000
Rear wall replacement		2,300				2,300
Expansion Joints	60	60	60	60		240
Insulation and Lagging	200	200	200	200		800
Slag Tank neck			150			150
Coal Field Eqp.					250	250
Additional Requirements	4,760	7,060	6,410	6,260	250	24,740
2003 28 day outage	500	500	250	250	-	1,500
2003 staff requirements	-	-	-	-	3,200	3,200
Stevedores	-	-	-	-	400	400
Required O&M (Consumables / Other)	-	-	-	-	1,600	1,600
Additional Ops. Costs	500	500	250	250	5,200	6,700
Total Costs 2003	**5,260**	**7,560**	**6,660**	**6,510**	**5,450**	**31,440**
2004 28 day outage	500	500	500	500	-	2,000
2004 staff requirements					12,200	12,200
Stevedores	-	-	-	-	1,200	1,200
Required O&M (Consumables / Other)					7,100	7,100
Total Costs 2004	500	500	500	500	20,500	22,500
Total Project Costs	**5,760**	**8,060**	**7,160**	**7,010**	**25,950**	**53,940**

Prepared March 3, 2003

Energy Supply
Gannon Station - Operations Thru 2004
Achieve 60% Availability

Activities	Unit 1	Unit 2	Unit 3	Unit 4	Other	
Rear wall replacement		2,300				2,300
Expansion Joints	60	60	60	60		240
Insulation and Lagging	200	200	200	200		800
Slag Tank neck			150			150
Coal Field Eqp.					250	250
Additional Requirements	260	2,560	410	260	250	3,740
2003 28 day outage	500	500	250	250	-	1,500
Forced outage costs (Cyclone driven)	500	500	500	500	-	2,000
2003 staff requirements	-	-	-	-	3,200	3,200
Stevedores	-	-	-	-	400	400
Required O&M (Consumables / Other)	-	-	-	-	1,600	1,600
Additional Ops. Costs	1,000	1,000	750	750	5,200	8,700
Total Costs 2003	**1,260**	**3,560**	**1,160**	**1,010**	**5,450**	**12,440**
2004 28 day outage	500	500	500	500	-	2,000
Forced outage costs (Cyclone driven)	500	500	500	500	-	2,000
2004 staff requirements					12,200	12,200
Stevedores	-	-	-	-	1,200	1,200
Required O&M (Consumables / Other)					7,100	7,100
Total Costs 2004	**1,000**	**1,000**	**1,000**	**1,000**	**20,500**	**24,500**
Total Project Costs	**2,260**	**4,560**	**2,160**	**2,010**	**25,950**	**36,940**

Prepared March 3, 2003

Tampa Electric Company

Calculation of Incremental Fuel and Purchased Power Costs
Related to the Early Shutdown of Gannon Units 1 Through 4

Line No.	2003 Total Fuel & Net Power Transactions	Amount
1	Per Denise Jordan, August 12, 2003 Schedule E2, Line 9 Assumes shutdown of Gannon 1 & 2 and tie-in of repowered Bayside 1	$ 680,265,173
2	Per Response to OPC Interrogatory, 3rd Set, Qustion No. 46. Assumes Gannon Units 1-4 run through December 31, 2003	$ 563,897,100
3	Difference Due To Early Shutdown Line 1 - Line 2	$ 116,368,073

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor	))))	DOCKET NO. 030001-EI FILED: AUGUST 25, 2003

TAMPA ELECTRIC COMPANY'S

ANSWERS TO THIRD SET OF INTERROGATORIES (NO. 46)

OF

THE OFFICE OF PUBLIC COUNSEL

Tampa Electric files this its Answers to Interrogatories (No. 46) propounded and served on July 21, 2003, by the Office of Public Counsel.

TAMPA ELECTRIC COMPANY
DOCKET NO. 030001-EI
INDEX TO OPC'S 3RD SET OF INTERROGATORIES (NO. 46)

Number	Witness	Subject	Page
46	William A. Smotherman	Total fuel costs and net power transaction costs using September 2002 assumptions if Gannon units were available through 2003	1

William A. Smotherman
Director, Resource Planning
Tampa Electric Company
702 N. Franklin Street
Tampa, FL 33602

TAMPA ELECTRIC COMPANY
DOCKET NO. 030001-EI
OPC'S 3RD SET OF INTERROGATORIES
INTERROGATORY NO. 46
PAGE 1 OF 2
FILED: AUGUST 25, 2003

46. Calculate the total fuel costs and net power transaction costs as if Gannon Units 1 - 4 were still dispatchable on Tampa Electric's system through year end 2003, using the same assumptions contained in Denise Jordan's testimony filed in September of 2002.

A. Tampa Electric prefaces its answer to this interrogatory with the observation that a number of significant factors negate the substantive value and usefulness of the results of the calculation requested in this interrogatory. The assumption that Gannon Units 1 - 4 could remain dispatchable on Tampa Electric's system through the end of 2003 is hypothetical and is premised on the highly doubtful assumption that these units could be safely and reliably operated on a dispatchable basis over the time frame in question. Before selecting its current shutdown schedule for Gannon Units 1 - 4, Tampa Electric's management carefully considered many factors including those relating to safety, reliability, employee utilization, the ages and condition of the units and the significant amount of delay and expense the company would risk in an effort to keep them operational for only a short period of time given the requirements of the Consent Decree and the Consent Final Judgment to shut down or repower all coal-fired generation units at Gannon Station by the end of 2004. Any hypothetical dispatchability of Gannon Units 1 - 4 beyond the current shutdown schedule would erroneously and without justification simply dismiss all of these factors as being irrelevant.

In addition, Interrogatory No. 46 asks Tampa Electric to perform the present day cost calculation using old assumptions that were fresh at one time but which are stale now and which do not reflect the current outlook or the intervening events which have shaped the current outlook. Tampa Electric properly updated all assumptions that had changed between the time it filed 2003 projections in September 2002 and its February 2003 revised mid-course correction filing, including the Gannon Units 1 - 4 shutdown dates. Applying historical assumptions in a cost calculation performed later in time invalidates the results of the calculation. Modeling tools such as those the company uses to estimate projected net fuel and power transactions are aids for considering potential impacts, but they do not reflect actual results. Therefore, conclusions drawn based on the hypothetical value requested here are likely to be incorrect.

Subject to these qualifications, Tampa Electric has estimated its system net fuel and power transaction amounts as requested, using the September 2002 filing assumptions, with the exception that the Gannon shutdown dates reflect the actual and current planned shutdown dates. The information filed in September 2002 was modeled with the assumption that Gannon Units 1 - 4 would be able to run through the end of 2003. The result of the requested

TAMPA ELECTRIC COMPANY
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OPC'S 3RD SET OF INTERROGATORIES
INTERROGATORY NO. 46
PAGE 2 OF 2
FILED: AUGUST 25, 2003

analysis is total fuel and net power transactions cost of $563,897,100[1] prior to jurisdictional separation or accounting for losses and taxes.

[1] The analysis assumes that Unit 6 is shut down October 1, 2003, and Units 3 and 4 are shut down October 15, 2003.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF HILLSBOROUGH)

Before me the undersigned authority, personally appeared J. Denise Jordan who deposed that the individuals listed in Tampa Electric Company's Index in response to Office of Public Counsel's Third Set of Interrogatories, (No. 46) and Third Set of Production of Documents, (Nos. 30-36), filed on July 21, 2003, in Docket No. 030001- EI, prepared or assisted with the responses to these interrogatories and production of documents to the best of her information and belief.

Dated at Tampa, Florida this 22nd day of August, 2003

J. Denise Jordan

Sworn to and subscribed before me this 22nd day of August, 2003

Paula K. Brown

My Commission expires December 4, 2004

Paula K Brown
My Commission DD0125068
Expires December 04, 2004

Gannon O / NRF
Scenario Analysis

CONFIDENTIAL

2003 (millions)	*Gannon O&M / NRF*	*Bayside Incremental*	*Total*	*Plan Savings*	
Scenario 1	$ 23.0	$ 0.9	$ 23.9	$ (14.5)	GN 1-4 May 1, 2003
Scenario 2	21.0	1.1	22.1	(16.3)	GN 1-4 March 16, 2003
Scenario 3	28.5	0.5	29.0	(9.4)	GN 1-2 May 1, 2003 and GN 3-4 Sept 1
Scenario 4	22.0	1.0	23.0	(15.4)	GN 1-2 March 16, 2003 and GN 3-4 May 1, 2003
Scenario 5	27.5	0.5	28.0	(10.4)	GN 1-2 March 16, 2003 and GN 3-4 Sept 1, 2003
2004					
All Scenarios	$ 9.0				No Gannon Units Operating (Includes Inventory Write-Off $3.3m, HP $0.3, Lay-up, Safety Demo $1.5, Facility Clean-up $.4) Labor / Fringe $1.3, Contingency $2.2)

	2003	*2004*	
Base Gannon	$ 38.4	$ 25.6	GN 1-4 Retired Sept 2004

705

Gannon O&M Scenario Savings.xls
09/16/2002

Tampa Electric Company

Calculation of O&M Savings
Related to the Early Shutdown of Gannon Units 1 Through 4

Line No.	Description		Amount
1	2003 Estimated O&M Savings		$ 11,200,000
2	Additional Cost to Run Gannon 1 & 2 per week	153,846	
3	Annualized for actual 3 week extension Line 2 * 3		461,538
4	Additional Cost to Run Gannon 3 & 4 per week	277,777	
5	Annualized for actual 6 week extension Line 4 * 6		1,666,662
6	Estimated 2003 O&M Savings Line 1 - Line 3 - Line 5		$ 9,071,800
7	Estimated 2004 O&M Savings		$ 16,000,000

Line 1 per Bill Whale's August 26, 2002 presentation to officers, B.S. 551.

Line 2 per B.S. 705.
Scenario 3 vs. 5 shows $1 million difference in savings, with Gannon 1 & 2 operational until May 1, 2003 (Scenario 3) versus Gannon 1 & 2 operational until March 16, 2003 (Scenario 5). Difference is 6.5 weeks @ $1 million, or 1 week =$153,846 per week.
3 weeks X $153,846 = $461,538 less savings than originally projected

Line 4 per B.S. 705.
Scenario 4 vs. 5 shows $5 million difference in savings, with Gannon 3 & 4 operational until May 1, 2004 (Scenario 4) versus Gannon 3 & 4 operational until September 1 (Scenario 5). Difference is 18 weeks @ $5 million or 1 week =$277,777
6 weeks X $277,777 = $1,666,662 less savings than originally projected.

Line 7 per Bill Whale's August 26, 2002 presentation to officers, B.S. 551.
Note: B.S. 705 shows the Base Case O&M expense for Gannon as $25.6 million in 2004, as opposed to $9.0 million expense for "All Scenarios" which produces $15.6 million in savings for year 2004.