

State of Florida



# Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

## -M-E-M-O-R-A-N-D-U-M-

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COMMISSION  
CLERK

**DATE:** April 12, 2013

**TO:** Office of Commission Clerk (Cole)

**FROM:** Division of Accounting and Finance (Lester, Barrett, Mouring, Prestwood)  
 Division of Engineering (Watts) *NTA*  
 Office of the General Counsel (Barrera) *CKL PV DS MB JSC*

**RE:** Docket No. 130024-EI – Petition for expedited approval of asset optimization incentive mechanism, by Tampa Electric Company.

**AGENDA:** 04/25/13 – Regular Agenda – Proposed Agency Action – Interested Persons May Participate

**COMMISSIONERS ASSIGNED:** All Commissioners

**PREHEARING OFFICER:** Graham

**CRITICAL DATES:** None

**SPECIAL INSTRUCTIONS:** None

**FILE NAME AND LOCATION:** S:\PSC\AFD\WP\130024.RCM.DOC

### Case Background

On January 23, 2013, Tampa Electric Company (“Tampa Electric” or “the Company”) filed a Petition for the Expedited Approval of the Company’s Proposed Asset Optimization Incentive Mechanism (the proposed “Incentive Mechanism”). The Company asserts that the proposed Incentive Mechanism is very similar to the plan approved for Florida Power & Light Company in Docket No. 120015-EI.<sup>1</sup> A full description of Tampa Electric’s proposed Incentive Mechanism is included in staff’s analysis in Issue 1.

<sup>1</sup> See Order No. PSC-13-0023-S-EI, issued January 14, 2013, in Docket No. 120015-EI, In re: Petition for increase in rates by Florida Power & Light Company. This order is on appeal.

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

By Order No. PSC-13-0067-PCO-EI, issued on January 30, 2013, the Commission acknowledged intervention by the Office of Public Counsel. No other party has intervened in this docket.

On February 6<sup>th</sup>, 14<sup>th</sup>, and 21<sup>st</sup>, staff issued Data Requests to Tampa Electric. On March 4<sup>th</sup>, staff held an informal meeting with the Company and interested parties, and a final Data Request (staff's fourth) was issued following the meeting.

Tampa Electric is seeking expeditious approval of its proposed Incentive Mechanism to potentially increase revenues derived from asset optimization during a trial period ending December 31, 2014. If approved, the Company asserts that the proposed Incentive Mechanism will create value for its customers, and on or after December 31, 2014, the Commission would have the opportunity to continue or terminate the Incentive Mechanism.

Regarding current incentive programs, Tampa Electric participates in an incentive plan (Shareholder Incentive) which was approved in Order No. PSC-00-1744-PAA-EI.<sup>2</sup> The current Shareholder Incentive plan uses a three-year moving average of gains on all non-separated wholesale power sales to set an annual threshold. All gains below the threshold are credited to ratepayers, and gains above the threshold are split 80 percent to the ratepayers and 20 percent to the shareholders. The Shareholder Incentive plan is reviewed in the annual Fuel Cost Recovery Clause docket (Docket No. 130001-EI for 2013). The Company also participates in the Generating Performance Incentive Factor (GPIF) which is an incentive mechanism designed to encourage Florida's generating Investor Owned Utilities (IOUs) to operate their base-load generating facilities efficiently. In this program, target metrics are set to evaluate thermal efficiency (a/k/a heat rate) and plant availability. The achieved performance results are compared to the targets in order to grant a reward or assess a penalty on an annual basis. The GPIF program is currently under review for all of Florida's generating IOUs in Docket No. 130001-EI.

Issue 1 addresses the approval of Tampa Electric's petition. Issue 2 addresses staff's recommended reporting requirements to monitor Tampa Electric's Incentive Mechanism, should the Commission approve Issue 1.

The Commission has authority in this matter pursuant to Sections 366.04, and 366.06, Florida Statutes (F.S.).

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<sup>2</sup> See Order No. PSC-00-1744-PAA-EI, issued September 26, 2000, in Docket No. 991779-EI, In re: Review of the appropriate application of incentives to wholesale power sales by investor-owned electric utilities.

### **Discussion of Issues**

**Issue 1:** Should the Commission approve Tampa Electric Company's request for an incentive mechanism?

**Recommendation:** Yes. Staff recommends that the Commission approve Tampa Electric Company's request for an incentive mechanism. On or after December 31, 2014, the Commission may review and, if continuing the incentive mechanism is deemed not to be in the public interest, terminate the incentive mechanism thereafter. (Lester, Barrett, Watts)

**Staff Analysis:** Tampa Electric foresees taking advantage of opportunities in its fuel supply chain to achieve additional gains and savings. These gains and savings would be allocated between customers and shareholders based on several thresholds. Tampa Electric's requested incentive mechanism is similar to the incentive mechanism the Commission approved for FPL as part of its rate case settlement. Tampa Electric's petition includes the following functions described below:

- Short-term wholesale power sales – The Company could sell power above cost for a gain when the power is not needed for its own requirements. This would include short-term power sales based on long term purchased power contracts.
- Short-term wholesale power purchases – The Company could buy power when it is less expensive than other sources of power. The Company would experience savings if the short-term purchase were less expensive than the Company's generation and other purchased power.
- Gas storage utilization – The Company could sell firm gas storage or sell stored gas during non-critical demand seasons.
- Delivered city-gate gas sales – The Company could sell gas in the Florida market using its gas transportation capacity when the gas is not needed for generation.
- Production area sales – The Company could sell gas in gas production areas when it is not needed to meet generation requirements.
- Capacity release of gas transport and electric transmission – The Company could sell temporarily available gas pipeline transportation and electric transmission when this capacity is not needed to meet load.
- Solid fuel purchasing, transportation, and storage optimization – The Company could sell coal and petcoke to a third party when it is not needed for generation requirements. The Company states the opportunity for these types of sales is limited due to the Company's utilization of solid fuel transportation.
- Asset Management Agreement (AMA) – The Company could outsource the optimization functions to a third party in exchange for a premium.

Based on Tampa Electric's petition, this incentive mechanism would be in effect through December 31, 2014. The Commission could terminate the incentive mechanism after this trial period. In addition, the Commission can audit and review the results of the incentive mechanism activities in the annual fuel clause proceedings. Furthermore, the Commission can accept or reject each asset optimization component individually.

According to Tampa Electric, customers would benefit from this incentive mechanism because the additional gains would be flowed through the fuel clause and reduce fuel factors. For example, gains from the incentive mechanism activities for 2013 will affect the final true-up for 2013 and, therefore, would reduce fuel factors for 2015.

As noted, the Company currently has an incentive mechanism for short-term wholesale sales, and it shares in gains above a threshold that is set annually in the fuel clause. This activity was approved by the Commission by Order No. PSC-00-1744-PAA-EI. Tampa Electric also engages in short-term wholesale power purchases. The savings from these transactions are calculated and benefit customers. These savings are not currently shared with shareholders.

Regarding short-term wholesale power sales, Tampa Electric represented to staff that Order No. PSC-00-1744-PAA-EI would continue to govern power sales transactions and the accounting for such transactions, except as modified by the petition. Therefore, the restriction excluding emergency sales from the gains calculation would continue.

The revenue from power sales transactions would continue to be accounted for as prescribed in Order No. PSC-00-1744-PAA-EI. Incremental fuel cost would be credited to the fuel cost recovery clause, incremental emission allowance cost would be credited to the environmental cost recovery clause, transmission revenue would be credited to the capacity cost recovery clause, and incremental O&M expense (associated with the power sale) would be credited to operating revenues. The petition, if approved, would modify the threshold methodology and sharing percentages for power sales.

In its petition, Tampa Electric stated that customers would receive 100 percent of the optimization gains for the first \$9 million in gains, and a sharing mechanism would be used for gains above that amount. According to the Company, the initial goal of \$9 million is comprised of 2 parts, a \$6.5 million threshold, and a \$2.5 million "stretch goal." The \$6.5 million figure was developed using an average of short-term economic sales and purchases from the prior 4 years. Gains above \$9 million and up to \$20 million would be shared with 60 percent being retained by the Company and 40 percent going to customers. For gains above \$20 million, the sharing percentages would be divided equally (50 percent retained by Tampa Electric and 50 percent going to customers). All shared gains would be reflected as a reduction to fuel costs that are recovered through the Fuel Cost Recovery Clause.

Tampa Electric represented to staff that it does not expect to generate enough gains and savings from the incentive mechanism functions over the next two years to exceed the \$9 million threshold. Based on this representation, only the Company's customers would benefit from the incentive mechanism through 2014.

Although the Company's proposed incentive mechanism is functionally very similar to the incentive mechanism approved by the Commission as part of FPL's settlement agreement, Tampa Electric's proposed incentive mechanism differs from the Commission-approved incentive mechanism in three material areas.

First, the methodology utilized by the Company in establishing the initial customer savings threshold uses a four-year historical average of short-term economic sales and purchases, whereas the FPL incentive mechanism threshold is based on one year of projected short-term economic sales and purchases. FPL used a projection due to changes in its fuel mix whereas Tampa Electric used historical gains and savings because, before 2009, the Company's coal units were undergoing improvements in environmental controls. Therefore, staff believes the most recent four year historical data is representative of future operations.

Second, Tampa Electric has proposed limiting the recovery of any incremental O&M expenses to the amount of total gains achieved under the proposed incentive mechanism. For example, if the Company were to only achieve \$100,000 in total gains, but incurred \$200,000 in incremental O&M expenses associated with the proposed incentive mechanism, it would only recover \$100,000 of incremental O&M expenses. The incentive mechanism approved in FPL's settlement agreement allowed for all incremental O&M expenses to be fully recovered regardless of total gains achieved.

Finally, Tampa Electric has specifically outlined solid fuel purchasing, transportation, and storage optimization as a potential asset optimization measure to be included in its proposed incentive mechanism. This proposed asset optimization measure would recognize gains derived from the purchase, transportation, and storage of solid fuels (coal and petroleum coke). These activities would function similarly to the natural gas optimization measures outlined earlier. Staff notes that although the incentive mechanism approved in FPL's settlement agreement does not specifically include any asset optimization measures involving solid fuels, it did include language that could allow the creation of a solid fuel asset optimization measure in the future. Both FPL's Commission-approved, and Tampa Electric's proposed, incentive mechanisms state that the incentive mechanisms are not limited to the asset optimization measures specifically enumerated in the respective petitions, but merely represent the most likely measures to be pursued in the near future. Staff also notes that FPL's incentive mechanism was reviewed in detail and was ultimately approved as a portion of a comprehensive settlement agreement. Tampa Electric's proposed incentive mechanism is not part of any proposed settlement agreement, and must be evaluated independently.

Staff notes a relationship that exists between Tampa Electric's proposed incentive mechanism and the GPIF program. It appears the two programs have the potential to overlap or duplicate each other. For example, the increased efficiency of generation units improves the company's ability to sell excess power to the wholesale market resulting in both the GPIF and the proposed Asset Optimization programs granting rewards. The proposed Asset Optimization program could also negate a GPIF penalty that could result from a decline in generation

efficiency. Staff is currently exploring this relationship as part of the examination of the GPIF within the 2013 fuel docket.<sup>3</sup>

### **Conclusion**

Staff believes the Commission should approve Tampa Electric's request for the incentive mechanism outlined in its petition. Staff believes the incentive mechanism would provide increased benefits to customers, with limited risks, through reduced fuel factors. By approving this incentive mechanism, the Commission would be encouraging innovation and efficiency. The Commission can change the mechanism or terminate it. The Commission can audit and review the incentive mechanism's gains, savings, and expenses annually in the fuel docket. On or after December 31, 2014, the Commission may review and, if continuing the incentive mechanism is deemed not to be in the public interest, terminate the incentive mechanism thereafter.

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<sup>3</sup> Docket No. 130001-EI In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.



**Issue 2:** If staff's recommendation in Issue 1 is approved, what reporting should be required for Tampa Electric?

**Recommendation:** Staff recommends the Company's "Total Gains Schedule" be expanded to include additional columns in Table 2-2 for each asset optimization component. (Barrett, Lester, Watts)

**Staff Analysis:** In its petition, Tampa Electric stated that its gains in the prior calendar year for all short-term wholesale sales, short-term wholesale purchases, and all forms of asset optimization undertaken in that period would be reported on the "Total Gains Schedule" in its annual true-up filing. In addition, the Company stated that its final true-up filing would include a description of each asset optimization measure for which a gain is included in the "Total Gains Schedule," and also a description of the Incremental Optimization Costs that Tampa Electric incurred. Tampa Electric stated that these costs are subject to Commission review and approval, and noted that the customers' portion of all gains would be reflected as a reduction to fuel costs recovered through the Fuel Cost Recovery Clause. Tampa Electric provided a sample "Total Gains Schedule" in response to a staff data request (See Attachment A).

The Company's "Total Gains Schedule" consists of 3 Tables. Tables 1 and 2 report gains from sales, purchases, and asset optimization savings, and Table 3 reports Incremental Optimization Costs. In Table 1, the Monthly Gains (Column 7) are calculated as the sum of Total Gains from Wholesale Sales (Column 3) plus Total Savings from Wholesale Purchases (Column 5) plus Asset Optimization Savings (Column 6).

Because there are several components or activities within Tampa Electric's Incentive Mechanism that are categorized as "asset optimization" (which are all recorded in Column 6), staff believes a detailed listing by component is needed for the Commission's review, rather than simply the reported total for Asset Optimization Savings. At the March 4, 2013 Informal Meeting, staff and Tampa Electric officials discussed the topic of reporting requirements. Because asset optimization includes gas storage utilization, city-gate gas sales, capacity release sales, AMA's, and optimizing activities related to solid fuels, staff believes the company's "Total Gains Schedule" should be expanded to include additional columns for each asset optimization component described in Tampa Electric's petition. At the Informal Meeting and in a data request provided after the meeting, the company stated that it is amenable to providing a breakdown of all gains/savings for all incentive mechanism functions.

For illustrative purposes, the following tables show where staff believes the Company's "Total Gains Schedule" should be expanded. Table 2-1 shows Tampa Electric's "Total Gains Schedule" as it currently is, and Table 2-2 shows staff's recommended expansion.

**Table 2-1**

**Pre-expansion version of the “Total Gains Schedule” (partial)**

(1) Month	(2) Wholesale Sales (MWh)	(3) Wholesale Sales – Total Gains (\$)	(4) Wholesale Purchases (MWh)	(5) Wholesale Purchases – Total Savings (\$)	(6) Asset Optimization Savings (\$)	(7) Monthly Gains (\$) (3)+(5)+(6)	(8) Cumulative Gains (\$)
January							
February							
(and continuing through December)							

Staff believes the Company’s “Total Gains Schedule” should be expanded between Columns 5 and 6 of the current version. Staff believes additional columns for each asset optimization component should be added, as shown in Table 2-2. Mathematically, the reported savings for each component (new columns 6-11) should still be summarized as the monthly total for Asset Optimization Savings (new column 12).

**Table 2-2**

**Staff’s recommended expansion of the “Total Gains Schedule” (partial)**

Columns (1) – (5) No Changes	(new 6) Gas Storage Utilization (\$)	(new 7) Delivered City-gate Gas Sales (\$)	(new 8) Production (upstream) Area Sales (\$)	(new 9) Capacity Release of Gas Transport & Electric Transm. (\$)	(new 10) Asset Management Agreement (\$)	(new 11) Solid Fuel Purch., Transp., and Storage Optimization (\$)	(new 12, formerly (6)) Asset Optimization Savings (\$) (6)+(7)+(8)+(9)+(10)+(11)



Staff believes expanding the Company's "Total Gains Schedule" will aid staff in reviewing Tampa Electric's proposed "Incentive Mechanism." The Company stated it can provide a breakdown of gains and savings by function, and staff believes its recommended expansion would provide this.

Additionally, the Company represented that it retains records of all executed transactions and that, to the extent applicable, it maintains records of telephone communications with parties for five years. The Company stated that these records would be available for review.

### **Conclusion**

Based on staff's analysis, staff recommends the Company's "Total Gains Schedule" be expanded to include additional columns in Table 2-2 for each asset optimization component.

**Issue 3:** Should this docket be closed?

**Recommendation:** Yes. If Issues 1 and 2 are approved, then this docket should be closed, unless a protest is filed within 21 days of the issuance of the order. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order. (Barrera)

**Staff Analysis:** If Issues 1 and 2 are approved, then this docket should be closed, unless a protest is filed within 21 days of the issuance of the order. If no timely protest is filed, this docket should be closed upon the issuance of a consummating order.

TAMPA ELECTRIC  
TOTAL GAINS SCHEDULE - TABLE 1

Actual for the Period: January through July 2012

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Wholesale Sales* (MWh)	Wholesale Sales Total Gains * (\$)	Wholesale Purchases** (MWh)	Wholesale Purchases Total Savings** (\$)	Asset Optimization Savings (\$)	Monthly Gains (\$)	Cumulative Gains ("CG") (\$)	Threshold 1	Threshold 2	Threshold 1 & 2
								CG ≤ \$6.5 M 100% Benefits to Customers (\$)	\$6.5M < CG ≤ \$9.0M 100% Benefits to Customers (\$)	Total Customer Benefit (\$)
						(3) + (5) + (6)				(9) + (10)
Jan.	19,592	38,463.99	3,494	15,953.28	26,946.94	81,364.21	81,364.21	81,364.21	-	81,364.21
Feb.	14,589	43,668.13	6,953	25,052.86	-	68,720.99	150,085.20	150,085.20	-	150,085.20
March	22,440	24,829.45	31,228	144,780.48	-	169,609.93	319,695.13	319,695.13	-	319,695.13
April	25,656	26,135.87	48,398	237,179.42	260.97	263,576.26	583,271.39	583,271.39	-	583,271.39
May	2,867	5,345.00	51,031	184,321.82	52,716.69	242,383.51	825,654.90	825,654.90	-	825,654.90
June	16,358	16,710.16	49,046	156,254.17	25,727.87	198,692.20	1,024,347.10	1,024,347.10	-	1,024,347.10
July	26,093	22,690.00	14,571	56,808.44	37,932.64	117,431.08	1,141,778.18	1,141,778.18	-	1,141,778.18
August through December not shown										
<b>Total</b>	<b>127,596</b>	<b>177,842.60</b>	<b>204,721</b>	<b>820,350.47</b>	<b>143,585.11</b>	<b>1,141,778.18</b>	<b>1,141,778.18</b>	<b>1,141,778.18</b>	<b>-</b>	<b>1,141,778.18</b>

\* Wholesale Sales and Wholesale Sales and Total Gains are taken from Tampa Electric's A6 Schedule.

\*\*Wholesale Purchases and Wholesale Total Savings are taken from Tampa Electric's A9 Schedule.

TABLE 2

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
				Threshold 3	Threshold 3	Threshold 4	Threshold 4
Month	Cumulative Gains ("CG")	Incremental Gains ("IG") \$9.0M < IG ≤ \$20M	Incremental Gains ("IG") IG > \$20M	\$9.0M < IG ≤ \$20M 40% Benefits to Customers	\$9.0M < IG ≤ \$20M 60% Benefits to TEC	IG > \$20M 50% Benefits to Customers	IG > \$20M 50% Benefits to TEC
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Table 1, Col (8)							
January	81,364.21	-	-	-	-	-	-
February	150,085.20	-	-	-	-	-	-
March	319,695.13	-	-	-	-	-	-
April	583,271.39	-	-	-	-	-	-
May	825,654.90	-	-	-	-	-	-
June	1,024,347.10	-	-	-	-	-	-
July	1,141,778.18	-	-	-	-	-	-
August through December not shown							
<b>Total</b>	<b>1,141,778.18</b>	-	-	-	-	-	-