



FILED 4/2/2024
DOCUMENT NO. 01509-2024
FPSC - COMMISSION CLERK

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April 2, 2024

ELECTRONIC FILING

Mr. Adam J. Teitzman, Commission Clerk
Office of Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket 20240026-EI; Petition for Rate Increase by Tampa Electric Company

Dear Mr. Teitzman:

Attached for filing on behalf of Tampa Electric Company in the above-referenced docket is the Direct Testimony of John Heisey and Exhibit No. JH-1.

Thank you for your assistance in connection with this matter.

(Document 15 of 32)

Sincerely,

A handwritten signature in blue ink, appearing to read 'J. Jeffrey Wahlen', with a long, sweeping flourish extending to the right.

J. Jeffrey Wahlen

cc: All parties

JJW/ne
Attachment



**BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION**

**DOCKET NO. 20240026-EI
IN RE: PETITION FOR RATE INCREASE BY
TAMPA ELECTRIC COMPANY**

**PREPARED DIRECT TESTIMONY AND EXHIBIT
OF
JOHN HEISEY**

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **PREPARED DIRECT TESTIMONY**

3 **OF**

4 **JOHN HEISEY**

5
6 **Q.** Please state your name, address, occupation, and employer.

7
8 **A.** My name is John Heisey. My business address is 702 North
9 Franklin Street, Tampa, Florida 33602. I am employed by
10 Tampa Electric Company ("Tampa Electric" or the "company")
11 as Director Origination and Trading.

12
13 **Q.** Please describe your duties and responsibilities in that
14 position.

15
16 **A.** I am responsible for directing all activities associated
17 with the procurement and delivery of energy commodities for
18 Tampa Electric's generation fleet. Such activities include
19 the trading, optimization, strategy, planning, origination,
20 compliance and regulatory oversight of natural gas, power,
21 coal, oil, byproducts, and wholesale renewable energy
22 credits ("RECs"). I am also responsible for all aspects of
23 the Asset Optimization Mechanism.

24
25 **Q.** Please provide a brief outline of your educational

1 background and business experience.

2
3 **A.** I graduated from Pennsylvania State University with a
4 Bachelor of Science in Business Logistics. I have over 25
5 years of power and natural gas trading experience,
6 including employment at TECO Energy Services, FPL Energy
7 Services, El Paso Energy, and International Paper. Prior to
8 joining Tampa Electric, I was Vice President of Asset
9 Trading for the Entegra Power Group LLC ("Entegra"), where
10 I was responsible for Entegra's energy trading activities.
11 Entegra managed a large quantity of merchant capacity in
12 bilateral and organized markets. I joined Tampa Electric in
13 September 2016 as the Manager of Gas and Power Trading. I
14 have held the position of Director Origination and Trading
15 since August 2021.

16
17 **Q.** What are the purposes of your direct testimony?

18
19 **A.** My direct testimony describes Tampa Electric's Asset
20 Optimization Mechanism and explains why it should be
21 continued after the company's 2021 Stipulation and
22 Settlement Agreement expires on December 31, 2024.

23
24 **Q.** Have you prepared an exhibit to support your direct
25 testimony?

1 **A.** Yes. Exhibit No. JH-1 entitled "Exhibit of John Heisey" was
2 prepared under my direction and supervision. The contents
3 of my exhibit were derived from the business records of the
4 company and are true and correct to the best of my
5 information and belief. It consists of one document, as
6 follows:

7
8 Document No. 1 Asset Optimization Mechanism Results
9 2018-2023

10
11 **Q.** Are you sponsoring any sections of Tampa Electric's Minimum
12 Filing Requirement ("MFR") Schedules?

13
14 **A.** No.

15
16 **Q.** How does your testimony relate to the testimony of other
17 Tampa Electric witnesses?

18
19 **A.** Tampa Electric witness Archie Collins explains how the
20 Asset Optimization Mechanism and the sale of RECs help lower
21 customer bills.

22
23 Tampa Electric witness Carlos Aldazabal explains how
24 proposed solar projects will fit into the generation
25 portfolio and lower customer fuel costs. He also details

1 the improved thermal efficiency in the generation
2 portfolio. Tampa Electric witness Kris Stryker describes
3 the proposed solar projects in detail.

4
5 My direct testimony proposes to add gains from the sale of
6 RECs produced by solar generating assets to the Asset
7 Optimization Mechanism where other optimization activities
8 occur for the benefit of customers. These proposed
9 additions to the Asset Optimization Mechanism, and their
10 associated gains, will offset declining optimization areas,
11 such as economic power purchases, as thermal efficiency
12 improves in the generation portfolio.

13
14 **ASSET OPTIMIZATION MECHANISM**

15 **Q.** What is the Asset Optimization Mechanism?

16
17 **A.** The Asset Optimization Mechanism is a regulatory tool that
18 incents Tampa Electric to achieve mutual benefits for the
19 company and its customers by engaging in activities such as
20 wholesale power transactions and sales of stored natural
21 gas during non-critical demand seasons. Under the Asset
22 Optimization Mechanism, gains on these and other similar
23 activities are shared between shareholders and customers.

24
25 **Q.** What is the history of the Asset Optimization Mechanism?

1 **A.** Tampa Electric operated under a Florida Public Service
2 Commission ("Commission") approved incentive program for
3 wholesale energy sales from 1984 to 2000. The initial
4 incentive program, adopted in 1984, authorized the company
5 to retain twenty percent of gains on wholesale energy sales.
6 In 2000, the Commission extended and modified the existing
7 wholesale energy sales incentive program in Order No. PSC-
8 2000-1744-PAA-EI.

9
10 On June 30, 2016, Tampa Electric filed a petition in Docket
11 No. 20160160-EI requesting the Commission to expand the
12 existing wholesale energy sales incentive to encompass
13 asset optimization activities such as gas storage
14 utilization and delivered gas sales. Before the Commission
15 issued an order addressing that petition, the company
16 entered into a settlement known as the 2017 Agreement with
17 several consumer parties. In the 2017 Agreement, the
18 parties consented to Commission approval of the program for
19 a four-year period beginning January 1, 2018. The
20 Commission approved the 2017 Agreement in Order No. PSC-
21 2017-0456-S-EI.

22
23 Tampa Electric resolved its last base rate case by entering
24 into the 2021 Stipulation and Settlement Agreement ("2021
25 Agreement"), which was approved by the Commission in Order

1 No. PSC-2021-0423-S-EI. Paragraph 12 of the 2021 Agreement
2 approved an extension of the Asset Optimization Mechanism
3 through December 31, 2024 with modifications to exclude the
4 release of natural gas pipeline capacity and the retirement
5 or release of railcars as activities eligible for the Asset
6 Optimization Mechanism.

7
8 **Q.** What is the current structure of the Asset Optimization
9 Mechanism?

10
11 **A.** Under the current Asset Optimization Mechanism, gains on
12 eligible activities up to \$4.5 million are retained by
13 customers. Gains between \$4.5 million and \$8 million are
14 split, with 60 percent of gains allocated to the company's
15 shareholders and 40 percent allocated to customers. Gains
16 above \$8 million are also split, with 50 percent of gains
17 allocated to shareholders and 50 percent of gains allocated
18 to customers.

19
20 **Q.** What activities are eligible for inclusion under the
21 current Asset Optimization Mechanism?

22
23 **A.** Gains on the company's wholesale sales, short-term
24 wholesale purchases, and optimization activities are
25 eligible for the program. Optimization activities include

1 efforts such as:

2
3 • **Gas Storage Utilization** - Release of contracted storage
4 space or sales of stored natural gas during non-critical
5 demand seasons.

6
7 • **Delivered Gas Sales Using Existing Transport** - Sales of
8 natural gas to Florida customers using Tampa Electric's
9 existing natural gas transportation capacity during
10 periods when it is not needed to serve the company's
11 native electric load.

12
13 • **Delivered Solid Fuel and/or Transportation Capacity**
14 **Sales Using Existing Transport** - Sales of coal and coal
15 transportation using Tampa Electric's existing coal and
16 transportation capacity during periods when it is not
17 needed to serve Tampa Electric's native electric load.

18
19 • **Production (Upstream) Area Sales** - Sales of natural gas
20 in the natural gas production areas using Tampa
21 Electric's existing natural gas transportation capacity
22 during periods when it is not needed to serve the
23 company's native electric load.

24
25 • **Asset Management Agreement** - Outsourcing of optimization

1 functions to a third party through assignment of power,
2 transportation, and/or storage rights in exchange for a
3 premium paid to Tampa Electric.
4

5 **Q.** Has Tampa Electric incurred incremental costs associated
6 with the incentive program?
7

8 **A.** Yes. Tampa Electric incurred incremental labor costs to
9 establish processes and manage the optimization activities.
10 In Tampa Electric's 2016 petition seeking approval of the
11 program, the company stated that it would not request cost
12 recovery for incremental expenses to implement the Asset
13 Optimization Mechanism. As a result, the company does not
14 track these costs separately.
15

16 **Q.** How are gains tracked and reported to the Commission?
17

18 **A.** Tampa Electric tracks and reports all gains achieved in the
19 prior year on a "Total Gains Schedule" that is included as
20 a part of the company's annual final true-up filing in the
21 fuel and purchased power cost recovery clause ("fuel
22 clause") docket. The company also includes a description of
23 each activity included in the Total Gains Schedule for the
24 prior year in the final true-up filing. The Commission
25 reviews the amounts and activities listed in the filing to

1 determine whether they are eligible for inclusion in the
2 program.

3

4 **Q.** What mechanism does the company use to apportion gains and
5 deliver the customers' share of those gains?

6

7 **A.** The Total Gains Schedule shows the customers' portion of
8 total gains which directly benefits customers in the
9 current period as a credit to the fuel clause. Tampa
10 Electric receives approval to recover its portion of the
11 total gains through adjustments to the fuel clause factors
12 during the following year and recovers its portion of the
13 gains during the year after that.

14

15 **Q.** Has the Asset Optimization Mechanism resulted in gains for
16 customers since its inception in 2018?

17

18 **A.** Yes. Exhibit JH-1 summarizes customer benefits and total
19 gains for the Asset Optimization Mechanism in 2018 through
20 2023.

21

22 **Q.** Has the Asset Optimization Mechanism achieved its original
23 goals?

24

25 **A.** Yes. The Asset Optimization Mechanism was designed to

1 create additional value for Tampa Electric's customers
2 while incenting the company to maximize gains on power
3 transactions and optimization activities. This program has
4 generated over \$45 million in benefits to customers over
5 the last six years, so Tampa Electric believes it was a
6 success.

7
8 **Q.** Should the Commission extend the Asset Optimization
9 Mechanism beyond the expiration of the 2021 Agreement?

10
11 **A.** Yes. Given the success of the Asset Optimization Mechanism
12 in generating benefits for Tampa Electric's customers, the
13 company believes the program should continue beyond the
14 expiration date of the 2021 Agreement on December 31, 2024.

15
16 **Q.** Is the company proposing any modifications to the Asset
17 Optimization Mechanism at this time?

18
19 **A.** Yes. Tampa Electric proposes two modifications to the
20 existing Asset Optimization Mechanism. First, the company
21 proposes to make the release of natural gas pipeline
22 capacity an eligible activity under the Asset Optimization
23 Mechanism, as it was prior to the 2021 Agreement. Second,
24 the company proposes to include the sale of RECs as an
25 eligible activity.

1 **Q.** Please describe the release of natural gas pipeline
2 capacity.

3
4 **A.** Tampa Electric could sell temporarily available gas
5 transportation capacity for short periods when it is not
6 needed to serve Tampa Electric's native electric load.

7
8 **Q.** How does release of natural gas pipeline capacity benefit
9 customers?

10
11 **A.** Tampa Electric has a portfolio of pipeline transportation
12 agreements on five interstate pipelines with various
13 durations and quantities of firm capacity. Any time Tampa
14 Electric has excess capacity that is not needed to serve
15 Tampa Electric's native electric load, Tampa Electric will
16 look for opportunities to release capacity, and flow those
17 gains generated by the capacity release back to our
18 customers through the Asset Optimization Mechanism. These
19 gains lower fuel expenses for our customers.

20
21 **Q.** What steps would the company take to mitigate fuel supply
22 risk from the release of natural gas pipeline capacity?

23
24 **A.** Tampa Electric would only release capacity for short-term
25 periods (less than one year) and on the basis that it is

1 recallable to serve Tampa Electric's native load if needed.
2 For the long-term release of capacity through an Asset
3 Management Agreement, the agreement would be structured to
4 ensure that Tampa Electric has access to the same firm gas
5 supply and transportation, that it would otherwise have, if
6 the Asset Management Agreement was not in place.

7
8 **Q.** Please describe RECs and explain how they can be monetized.

9
10 **A.** RECs are environmental attributes from renewable
11 generation. Each MWh of renewable generation equals one
12 RECs. Tampa Electric's solar generating assets produce
13 RECs. Currently, these RECs are sold by Tampa Electric to
14 companies or brokers in a voluntary market. Companies are
15 buying these RECs to meet their own renewable goals. Under
16 the terms of the 2021 Agreement, Tampa Electric currently
17 returns all revenues from the sale of these RECs to
18 customers through the Environmental Cost Recovery Clause.
19 Tampa Electric proposes that all revenues from the sale of
20 RECs would be included in the Asset Optimization Mechanism
21 after the 2021 Agreement expires on December 31, 2024.

22
23 **Q.** How would the sale of RECs benefit Tampa Electric customers?

24
25 **A.** Any revenue associated with RECs sales would flow to

1 customers as gains through the Asset Optimization
2 Mechanism. These gains lower fuel expenses for our
3 customers.

4
5 **Q.** What risks are there associated with the sale of RECs and
6 how would the company mitigate those risks?

7
8 **A.** Tampa Electric will only sell historical (or generated)
9 RECs that are not needed for a Tampa Electric retail
10 program. Also, Tampa Electric will not execute forward RECs
11 sales. Thus, if state or federal rules change surrounding
12 renewable portfolio standards, Tampa Electric can quickly
13 stop our RECs sales activity to comply with any mandates.

14
15 **Q.** Are other companies in Florida selling RECs?

16
17 **A.** Yes. The Commission approved Florida Power & Light's
18 ("FPL") modification to its Asset Optimization Mechanism to
19 include monetizing RECs in PSC Order No. PSC-2021-0446-S-
20 EI on December 2, 2021 in Docket No. 20210015-EI. FPL is
21 currently selling RECs and the gains are flowing into their
22 Asset Optimization Mechanism.

23
24 **Q.** Is the company proposing any changes to the revenue-sharing
25 thresholds for the Asset Optimization Mechanism?

1 **A.** No. Although selling RECs will provide some additional
2 benefits for customers, the value of RECs in the voluntary
3 market is low, and additional renewable energy penetration
4 will continue downward pressure on voluntary RECs values.
5 In addition, the gains from selling RECs will be offset
6 with a decrease in economic purchase power gains, as Tampa
7 Electric's fleet efficiency increases with the Big Bend
8 modernization and future solar generation. The value of
9 capacity release is uncertain, especially in a low fuel
10 price environment, but could provide some customer gains.
11 When capacity release was part of our Asset Optimization
12 Mechanism from 2018 to 2021, Tampa Electric was either not
13 in a position to release capacity or the value of the
14 capacity release market did not provide any incremental
15 benefit to our customers. Nevertheless, Tampa Electric
16 wants to be in a position to extract benefits for our
17 customers if market conditions change.

18
19 **Q.** What is Tampa Electric's proposed effective date for the
20 Asset Optimization Mechanism?

21
22 **A.** The proposed effective date is January 1, 2025.

23
24 **SUMMARY**

25 **Q.** Please summarize your direct testimony.

1 **A.** The Asset Optimization Mechanism provided customer benefits
2 of over \$45 million in the first six years of operation.
3 The addition of 1) capacity release of gas pipeline
4 transportation and 2) RECs sales to the Asset Optimization
5 Mechanism would allow customers to benefit from additional
6 forms of asset optimization. Tampa Electric believes the
7 program incents the company to engage in beneficial
8 transactions that result in lower fuel expense for our
9 customers. Tampa Electric believes the program should
10 continue until the Commission terminates or the company
11 proposes to modify or terminate the program.

12
13 **Q.** Does this conclude your direct testimony?

14
15 **A.** Yes, it does.
16
17
18
19
20
21
22
23
24
25

TAMPA ELECTRIC COMPANY
DOCKET NO. 20240026-EI
WITNESS: HEISEY

EXHIBIT

OF

JOHN HEISEY

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ASSET OPTIMIZATION MECHANISM RESULTS

| | Customer Benefits | Total Gains |
|------------------|--------------------------|--------------------|
| | (\$000) | (\$000) |
| 2018 | \$5,247 | \$6,367 |
| 2019 | \$5,287 | \$6,468 |
| 2020 | \$5,357 | \$6,642 |
| 2021 | \$8,619 | \$13,439 |
| 2022 | \$14,184 | \$24,569 |
| 2023 | \$6,922 | \$10,045 |
| 2018-2023 | \$45,616 | \$67,530 |