


Ms. Blanca S. Bayo
January 17, 1995
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- 550-94 6. Prepared Direct Testimony of D. M. Mestas, Jr. regarding option payment from Polk Power Partners, L.P.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,


James D. Beasley

JDB/pp
Enclosures

cc: All Parties of Record (w/encls.)

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **PREPARED DIRECT TESTIMONY**

3 **OF**

4 **ELIZABETH A. TOWNES**

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

7
8 **A.** My name is Elizabeth A. Townes. My business address is 702
9 N. Franklin St., Tampa, Florida 33602. I am the assistant
10 controller of Tampa Electric Company.

11
12 **Q.** Please describe you educational background and business
13 experience.

14
15 **A.** I received a bachelor of business administration degree in
16 accounting from Florida International University in 1978
17 and a Master of Business Administration degree from the
18 University of Tampa in 1982. I am a Certified Public
19 Accountant licensed in the state of Florida and a member of
20 the Florida and the American Institute of CPA's. I am also
21 currently a member of the Edison Electric Institute's
22 Corporate Accounting Committee.

23
24 Prior to joining Tampa Electric Company in January 1982, I
25 was employed by General Telephone Company of Florida in

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1 various accounting and regulatory functions. I was hired
2 by Tampa Electric Company in January 1982 in the position
3 of regulatory accountant. In September 1983, I was
4 promoted to manager Regulatory Control and subsequently in
5 February 1991, I was promoted to my current position as
6 assistant controller.

7
8 My current responsibilities include accounting for fuel
9 activities, conservation, oil backout and other regulatory
10 accounting areas, the revenue and financial reporting
11 functions, preparation of budgeted financial statements and
12 the monthly surveillance report. I am also responsible for
13 disbursements and bank reconciliation processes.

14
15 Q. Have you testified before this Commission in other
16 proceedings?

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18 A. Yes. I have provided written testimony in Docket No.
19 920001-EI, 930001-EI, and 940001-EI related to the
20 company's oil backout cost recovery clause and in Docket
21 No. 920324-EI which is Tampa Electric company's most recent
22 full rate case. I also testified in the Docket No.
23 930987-EI , Investigation into Currently Authorized Return
24 On Equity of Tampa Electric Company.

25

1 Q. What is the purpose of your testimony in this proceeding?
2

3 A. The purpose of my testimony in this proceeding is discuss
4 Tampa Electric Company's accounting treatment of long term
5 firm Schedule D sales which were separated and treated as
6 wholesale transactions during the company's last rate case.
7

8 Q. Have you testified on this issue previously?
9

10 A. Yes, in Docket No. 930987-EI I testified to our accounting
11 treatment for off system sales and described the method we
12 have used consistently on our surveillance report to
13 allocate between wholesale and retail.
14

15 Q. Please discuss the treatment of these sales in the last
16 case.
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18 A. In the company's last rate case, the Commission very
19 clearly established a philosophy which determines what
20 types of sales were to be separated to the wholesale
21 jurisdiction and which should be included in the retail
22 jurisdiction. The company's rate case test years were
23 projected for 1993 and 1994. The long term firm Schedule
24 D sales utilized for purposes of establishing rates were
25 estimated amounts based on prospective Customers and

1 transactions, just as all other items of revenue, expense
2 and rate base were estimated.

3
4 Since that time, new Customers were added and other
5 contracts which were anticipated during the case did not
6 materialize. This same phenomenon occurs within all
7 classes of Customers. However, Tampa Electric company
8 continues to treat all of this category of sales consistent
9 with the treatment accorded during the rate case.

10

11 Q. How does this treatment impact the reporting of the
12 company's earned return for surveillance purposes?

13

14 A. The Commission monitors Tampa Electric's earnings from
15 retail sales through Tampa Electric's monthly surveillance
16 report. Each month as the company calculates its earned
17 return to equity, the actual expenses and the rate base
18 amounts which are separated and allocated to wholesale
19 Customers are adjusted up or down to reflect the actual
20 level of wholesale sales. This treatment offers the
21 Commission a valid current picture of the regulatory return
22 being achieved in the retail jurisdiction.

23

24 Q. Could you describe your treatment in a little more detail?

25

1 **A.** The company's total actual rate base and expenses are
2 allocated between retail and wholesale utilizing the same
3 methodology as was ordered in our last rate case. We
4 adjust the separation factors used in the last rate case by
5 comparing the current demand and energy levels to the
6 amounts earlier estimated in the 1993 separation study
7 approved in Docket No. 920324-EI. Although this method
8 does not contain as much detail as a full separation study,
9 it does provide an appropriate and adequate estimate for
10 purposes of tracking consistently the current retail return
11 in the surveillance report.

12
13 **Q.** Is this the same treatment that other companies use?
14

15 **A.** It is my understanding that companies continue to treat
16 separated sales the same between rate cases and do not flow
17 revenues from new contract sales back to ratepayers. The
18 methodology which Tampa Electric has adopted for reporting
19 earnings on the surveillance report is different from that
20 utilized by other companies. Most companies do not change
21 separation factors between rate cases. Therefore, if the
22 relationship between wholesale and retail changes
23 significantly in between rate cases, no indication of that
24 change is reported.

25

1 Q. Do you believe that Tampa Electric's treatment of these
2 types of sales is fair and reasonable?
3

4 A. Yes, I do. The first reason I believe it is fair is that
5 the Commission established a category or type of sale which
6 they considered to be non-retail in nature. Therefore, in
7 order for symmetry to work, the company cannot be expected
8 to absorb any downside impacts without also benefitting
9 from any upside impacts. The company's treatment of these
10 sales maintains the symmetry of increases and decreases in
11 our wholesale activities. Second, the surveillance report
12 treatment affords the Commission a much clearer picture of
13 the company's actual earnings position with respect to the
14 retail contribution. Since the surveillance reporting
15 procedure is identical for increases and decreases, again
16 the symmetry is preserved. Third, I believe that this
17 treatment is consistent with all other items which are
18 considered in setting rates. Expenses and revenues go up
19 and down in between rate cases. However, the company
20 continues to report the earned return to the Commission
21 utilizing the same treatment of revenues and expenses as
22 was approved in the company's last rate case. In this way,
23 the surveillance report properly reflects current business
24 conditions, including changes which have taken place within
25 each and every Customer class.

1 It should be noted that if separated wholesale transactions
2 yield higher energy and demand than anticipated, retail ROE
3 will be shown as being higher through our method of
4 surveillance reporting. Thus, the efficiency and overall
5 benefit gained through greater off system sales levels is
6 reflected in the reported retail ROE. In effect, the
7 proper signals are sent through this accounting treatment -
8 increased wholesale sales lead to better utilization of
9 the "total ratebase" (retail and wholesale) and thus tend
10 to defer the timing of Tampa Electric's next retail rate
11 case.

12
13 Q. Why would it not be fair to flow these revenues back
14 through the fuel clause?

15
16 A. This treatment would penalize the company and would not
17 provide the right incentives. Not only would Tampa
18 Electric lose revenues from sales which do not materialize
19 -- it would also forfeit revenues from additional sales
20 which do occur. This is not a symmetrical treatment, nor
21 would it be fair. Shareholders would absorb the impact of
22 lost wholesale contracts and all other changes in revenues
23 and expenses. However, ratepayers would benefit from new
24 contracts while shareholders still absorb other changes in
25 revenues and expense.

1 Q. Does this conclude your testimony?

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3 A. Yes, it does.

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