

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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In the Matter of :
Prudence review to : DOCKET NO. 960409-EI
determine regulatory :
treatment of Tampa Electric :
Company's Polk Unit. :

SECOND DAY - MORNING SESSION

VOLUME 4

Pages 505 through 569



PROCEEDINGS: HEARING

BEFORE: CHAIRMAN SUSAN F. CLARK
COMMISSIONER J. TERRY DEASON
COMMISSIONER JULIA L. JOHNSON
COMMISSIONER DIANE K. KIESLING
COMMISSIONER JOE GARCIA

DATE: Thursday, July 18, 1996

TIME: Commenced at 8:30 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JOY KELLY, CSR, RPR
Chief, Bureau of Reporting
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Official Commission Reporters

APPEARANCES:

(As heretofore noted.)

WITNESSES - VOLUME 4

1			
2	NAME		PAGE NO.
3	THOMAS F. BECHTEL		
4	Direct Examination By Mr. Willis		507
5	Prefiled Direct Testimony Inserted		509
6	Cross Examination By Mr. Howe		523
7	Cross Examination By Ms. Culpepper		526
8	Redirect Examination By Mr. Willis		529

8	JOHN R. ROWE, JR.		
9	Direct Examination By Mr. Willis		531
10	Prefiled Direct Testimony Inserted		537

EXHIBITS - VOLUME 4

12	NUMBER		ID.	ADMTD.
13	27	(Rowe) JRR-1	536	

PROCEEDINGS

1
2 (Transcript follows in sequence from
3 Volume 3.)

4 **THOMAS F. BECHTEL**

5 was called as a witness on behalf of Tampa Electric
6 Company and, having been duly sworn, testified as
7 follows:

8 **DIRECT EXAMINATION**

9 **BY MR. WILLIS:**

10 **Q** Please state your name address and
11 occupation?

12 **A** Thomas F. Bechtel. My address is 3610
13 Collins Ferry Road, Morgantown, West Virginia. I'm
14 the director of the Department of Energy's Morgantown
15 Energy Technologies.

16 **Q** Mr. Bechtel, did you prepare and cause to be
17 prefiled in this docket a document entitled "Testimony
18 of Thomas F. Bechtel"?

19 **A** I did.

20 **Q** If I asked you the questions contained in
21 that document, would your answers be the same?

22 **A** Yes, they would.

23 **MR. WILLIS:** We'd request that Mr. Bechtel's
24 testimony be inserted into the record as though read.

25 **CHAIRMAN CLARK:** The prefiled direct

1 testimony of Mr. Thomas Bechtel will be inserted into
2 the record as though read.
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BEFORE THE PUBLIC SERVICE COMMISSION
PREPARED DIRECT TESTIMONY
OF
THOMAS F. BECHTEL

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5
6 Q. Please state your name, address, occupation.

7
8 A. My name is Thomas F. Bechtel. My business address is U.S.
9 Department of Energy, Morgantown Technology Center, 3610
10 Collins Ferry Road, Morgantown, WV 26505 and I am employed
11 by the United States Department of Energy in the position
12 of Director of the Morgantown Energy Technology Center.

13
14 Q. What is your educational background and business
15 experience?

16
17 A. As Director, I am responsible for the implementation of the
18 U.S. Department of Energy fossil energy research and
19 development programs in lead assignment areas designated
20 for the Morgantown Energy Technology Center. These areas
21 include research on coal conversion and utilization systems
22 involving coal gasification, fluidized-bed combustion, gas
23 turbine and diesel engine combustion, fuel cell
24 applications, and associated cleanup systems necessary for
25 system operations. I am also responsible for

1 unconventional natural gas resources, oil shale and tar
2 sands resource recovery. I am responsible for oversight of
3 the Clean Coal Technology projects that fall within my
4 technology assignment areas. I manage an organization of
5 about 280 Federal employees with an additional 250
6 contractor support personnel. A satellite office in
7 Laramie, Wyoming, is managed from the Morgantown Center.

8
9 From January 1986 to April 1990, I was Associate Director
10 of the Morgantown Energy Technology Center's office of
11 Technical Management. In that position, I was responsible
12 for management of the Department of Energy's R&D in coal
13 gasification, fluidized-bed combustion, unconventional gas
14 recovery, components, instrumentation and control, gas
15 stream cleanup, fuel cells, heat engines, oil shale, tar
16 sands, and underground coal gasification and for managing
17 the DOE's involvement in assigned clean coal projects.

18
19 From 1981 to 1986 I was Vice President, Engineering; Vice
20 President, Advanced Engineering and Technology; and Vice
21 President, Product Services for General Electric
22 Environmental Services, Inc., which was formed by the
23 acquisition of the Buell and Chemico Division of Envirotech
24 Corporation. Prior to that, I was a design engineering
25 manager for GE's gas turbine business.

1 I graduated from Lehigh University in 1958 with a BS in
2 Mechanical Engineering. In 1960, I graduated from the
3 University of Cincinnati, with a Masters Degree in Applied
4 Mechanics.
5

6 Q. Have you previously testified before this commission?
7

8 A. Yes, I testified before this commission in Tampa Electric
9 Company's Need for Power Hearing Docket No. 910883-EI in
10 late 1991.
11

12 Q. What is the purpose of your testimony?
13

14 A. The purpose of my testimony is to describe the Department
15 of Energy's (DOE) Clean Coal Technology Program and its
16 primary objective. I will also discuss how the Polk Power
17 Station Project is supporting these objectives. In
18 addition, I will review Tampa Electric Company's (TEC)
19 management of the Polk Power Station Project relative to
20 the other related on-going and completed Clean Coal
21 Technology projects.
22

23 Q. What were the Department of Energy's objectives in the
24 Clean Coal Technology program and specifically in the Polk
25 Power Station Project?

1 A. The Clean Coal Technology (CCT) Program is a unique
2 partnership between the federal government and industry
3 that has as its primary goal, the successful introduction
4 of new clean coal utilization technologies into the energy
5 marketplace. This program also intends to broaden the
6 range of technical solutions available to eliminate
7 environmental concerns associated with coal use. Moreover,
8 the program has evolved and has been expanded to address
9 the need for new, high efficiency power generating
10 technologies that will allow coal to continue to be a major
11 fuel option well into the 21st century.

12
13 For the Polk Power Station Project specifically, DOE's
14 primary objective was to conduct a cost-shared project that
15 would successfully demonstrate the Integrated Gasification
16 Combined Cycle (IGCC) Technology on a commercial sized unit
17 at a greenfield site.

18
19 From a technical standpoint, the objective of this IGCC
20 project is to show that the combination of an oxygen-blown
21 Texaco gasifier and the General Electric 7F Combustion
22 Turbine (CT) can achieve significant reductions in SO₂ and
23 NO_x emissions when compared to existing and future coal
24 burning power plants. This project also includes a
25 parallel slip stream system for the demonstration of Hot

1 Gas Clean-up (HGCU) system which is very important to DOE
2 in providing technically proven, highly efficient sulfur
3 removal systems that can be economically installed on these
4 future coal burning power plants.

5 Successful completion of this project will confirm that
6 IGCC can provide current, and future power plant projects
7 with a technology that can utilize the United States' most
8 abundant and economical fuel resource in an environmentally
9 acceptable and technically proven manner.

10
11 Q. Will the Polk Power Station Project achieve the Department
12 of Energy's objectives?
13

14 A. Yes, the Polk Power Station Project will achieve all the
15 Department of Energy's objectives. Based on DOE's
16 technical and economic reviews and analyses of the Polk
17 Power Station Project, DOE is firmly convinced that the
18 Polk IGCC unit will be one of the cleanest, coal fired
19 plants in the world. It will also achieve operating
20 efficiencies about 30% greater than current state-of-the-
21 art pulverized coal fired units.
22

23 The Polk unit is currently on schedule for a fall 1996
24 completion. This will support one of DOE's main goals of
25

1 having this technology available for utilities as they do
2 their planning for meeting the requirements of the second
3 phase of the Clean Air Act Amendments of 1990 which takes
4 effect in the year 2000.

5
6 DOE has monitored the cost of the Polk IGCC Unit
7 continuously from the original approval date of the
8 Cooperative Agreement. Our review indicates that the Polk
9 IGCC Unit is tracking very close to DOE approved costs and
10 that at the completion of the project, Polk is expected to
11 be at, or below, the currently approved DOE funding limits.

12
13 With all the above taken into account, DOE feels that the
14 Polk IGCC will be the success DOE is expecting and it will
15 result in a viable technology which will be commercially
16 available for future coal fired generating plants.

17
18 **Q.** Please describe the Department of Energy's view of Tampa
19 Electric's management of the environmental process.

20
21 **A.** In the Department of Energy's (DOE) view, Tampa Electric
22 has done a commendable job in managing the environmental
23 process related to the construction of the Polk Power
24 Station Project. In today's climate, receiving permit
25 approval for any new power facility is a major hurdle.

1 When it is considered that the Polk IGCC plant is a coal
2 fueled plant, reaching environmental accord with all the
3 different parties involved is a truly resounding success
4 story.

5 Many of the Clean Coal Projects faced strong opposition
6 from special interest groups. Some of the projects were
7 terminated due to efforts of these groups. Because of
8 Tampa Electric's thoroughness, presentation of credible and
9 supporting data, and dedication to community and
10 environmental concerns, the permitting process, including
11 the hearings themselves, were completed in an unprecedented
12 rapid fashion.
13

14 Tampa Electric's unique utilization of the Citizens Siting
15 Task Force provided a forum for all interested and involved
16 parties, including business, community, environmental, and
17 academic leaders, to voice their concerns and have their
18 concerns not only addressed, but also included in the
19 final site selected. The Task Force selected a very
20 environmentally disturbed existing site and converted the
21 selected site into a Power Station Project with which all
22 parties were satisfied. This is truly a win-win situation
23 of the highest magnitude.
24
25

1 DOE originally intended to coordinate all of the various
2 federal permits from the Morgantown Technology Center. As
3 the permitting requirements developed, it became apparent
4 that the permit cycle could add as much as one year to the
5 project's schedule. In order to mitigate the very real and
6 expensive project impacts of a one year permit delay, DOE
7 worked with Tampa Electric to successfully transfer the
8 lead agency status to the Environmental Protection Agency
9 (EPA) and achieved permit finalization with a less than
10 three (3) month delay to the in-service date. Tampa
11 Electric management and involvement, which included
12 continuous monitoring of the day to day permit process, was
13 instrumental in mitigating the project delay.

14
15 Q. Please describe the Department of Energy's view of the
16 management of the engineering, procurement and construction
17 of the project.

18
19 A. Tampa Electric has taken a very active role in the
20 management of the Polk Power Station Project and as a
21 direct result of their initiative and involvement, the
22 project is nearing an impressive successful completion.
23 Tampa Electric provided management oversight and even more
24 importantly, direct involvement in the procurement of all
25 project equipment and construction contracts. All equipment

1 was competitively bid and appropriately evaluated. Tampa
2 Electric sent a team of procurement personnel to Houston to
3 work with, and within, the A/E's procurement organization,
4 to ensure that appropriate and effective terms for cost,
5 delivery, and warranties were included in each and every
6 order.

7 DOE conducted annual engineering audits as the project
8 progressed. These audits were to confirm that Tampa
9 Electric was appropriately managing the project and that
10 the resulting design conformed to the requirements of the
11 Cooperative Agreement and the goals and objectives of the
12 Clean Coal Program. The results of these DOE audits
13 confirmed that TEC's management of the project did indeed
14 satisfy and support the DOE requirements.

15
16 The accomplishments noted above are even more remarkable
17 considering that this is the first commercial site unit of
18 this type to be installed and the technology being used in
19 many cases is developmental in nature.

20
21
22 Q. Please describe the Department of Energy's overall review
23 of Tampa Electric's management of the project.

24
25 A. Tampa Electric has faced significant permit challenges

1 related to the Polk Power Station Project including
2 permitting a new technology in an environmentally sensitive
3 area in an era of ever increasing regulatory involvement
4 and restrictions. They have met, addressed and
5 accommodated all these challenges admirably.

6
7 TEC has successfully managed a project which has had to
8 mesh the differing cultures of refinery, utility, and
9 chemical plant industries with technologies that are
10 developmental, recently established, and long used. The
11 new technologies included both equipment and processes
12 which further compounded the difficulty for the Polk IGCC
13 Unit.

14
15 Tampa Electric has confronted more than the usual number of
16 cost challenges on the Polk Project. Over the past few
17 years, the DOE Clean Coal Program has been under pressure
18 to reduce funding of the projects. Never-the-less, DOE has
19 invested over \$97,000,000, through March 1996 in this
20 project, because it continues to be very important to our
21 nation in developing technology that can use the United
22 States' most abundant fuel, coal, in a environmentally
23 acceptable and technically proven manner. DOE has approved
24 total funding of this project of over \$122,000,000 for
25 capital costs and \$20,100,000 for operating and maintenance

1 costs of the unit during its first two years of generation.

2 In addition to the previously noted schedule delays created
3 by late receipt of federal permits, the developmental
4 nature of this project forced TEC to continuously monitor
5 and evaluate other potentially serious schedule slippages
6 associated with completing the unexpected changes of a
7 developing technology. As a result of its experience and
8 expertise, TEC was able to successfully manage the project
9 to achieve the completion date that DOE expected.

10
11 Despite the formidable obstacles that TEC faced, TEC has
12 managed all aspects of the Polk IGCC project in a
13 professional and prudent manner.

14
15 The TEC project management has exceeded the Department of
16 Energy's expectations for successful and timely completion
17 of the project, and within budget limits based on DOE's
18 experience on other Clean Coal Projects utilizing a
19 developmental technology. The DOE has gained a great deal
20 of confidence in TEC's ability to manage such a complex
21 project.

22
23 The Polk Power Station Project is one of the shining stars
24 of the DOE's Clean Coal Technology Program. Tampa Electric
25

1 Company is to be commended for their successful
2 implementation of this very complex project.

3

4 Q. Do you have any recommendations for this Commission
5 regarding their decisions on the issues in this Docket?

6

7 A. Yes. I would recommend that this Commission recognize
8 DOE's conclusions as I have articulated regarding Tampa
9 Electric's performance in managing this project. With \$100
10 million invested, the DOE has taken great care in
11 overseeing this project and is confident in its conclusions
12 regarding Tampa Electric's management. This Commission
13 should treat Tampa Electric fairly for taking the risk and
14 successfully managing a project that the DOE feels is
15 extremely important to our nation's energy future.

16

17 Q. Please summarize your direct testimony.

18

19 A. The DOE has actively participated in this project from its
20 inception. DOE believes the project has been managed
21 effectively and that the costs incurred by Tampa Electric
22 on the Polk Power Station Project are reasonable and
23 prudent.

24

25 Q. Does this conclude your direct testimony?

1 | A. Yes, it does.
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1 Q (By Mr. Willis) Will you summarize your
2 testimony?

3 A The Department of Energy's primary objective
4 for participating in the Polk power station project is
5 to successfully demonstrate the integrated
6 gasification combined cycle technology on a
7 commercially sized unit.

8 Successful completion of this project will
9 confirm that IGCCs can provide current and future
10 power plant projects with a technology that can use
11 coal, the United States' most abundant and economical
12 fuel resource, in an environmentally acceptable and
13 technically proven manner.

14 Based on DOE's technical and economic
15 reviews and analysis of the Polk project, DOE is
16 firmly convinced that the Polk IGCC will become one of
17 the cleanest coal-fired plants in the world. It will
18 achieve operating efficiencies almost 30% greater than
19 current state-of-the-art pulverized coal units.

20 We've monitored the cost of the Polk IGCC
21 unit continuously from the original approval date of
22 the cooperative agreement. Our review indicates that
23 the Polk unit is tracking very close to our proof
24 cost, and at the completion of the project the unit
25 will be at the currently approved funding limits.

1 Despite some formal obstacles facing Tampa
2 Electric Company when they started, they've managed
3 all aspects of the project in an admirable fashion.
4 The Tampa Electric project management team has met all
5 of our expectations for successful and timely
6 completion of the project and within budget limits.

7 Based on our experience with other clean
8 coal projects using developmental technologies of this
9 type, we've gained a great deal of competence in
10 TECO's ability to manage complex projects of this
11 type.

12 That's all I have to say.

13 **CHAIRMAN CLARK:** Thank you.

14 **MR. WILLIS:** We tender the witness.

15 **MR. McWHIRTER:** I have no questions of this
16 witness.

17 **CHAIRMAN CLARK:** Mr. Howe.

18 **CROSS EXAMINATION**

19 **BY MR. HOWE:**

20 **Q** Hello, sir. How long have you been involved
21 with the Department of Energy's clean coal projects?

22 **A** I have been with the Department since 1986,
23 which is about the time the program was starting.

24 **Q** Were you involved at all in Phase II of the
25 project?

1 A In Phase II of this project or the program?

2 Q Phase II of DOE's program?

3 A Yes, I was.

4 Q Is Tampa Electric the first Florida utility
5 to propose to the Department of Energy the
6 construction of a demonstration IGCC project?

7 A I don't rightly remember. There were so
8 many proposals over the five rounds of competition
9 that I'm not sure.

10 Q In his deposition Mr. Waters of Florida
11 Power and Light stated that he was asked the question
12 "Were you aware at that time of the Department of
13 Energy's Clean Coal Technology Program?" And he
14 answered yes. This is at Page 58 to 59 of his
15 deposition. "In fact, of Phase II of that program, we
16 had submitted a project proposal that was basically to
17 construct an IGCC at Martin, which the DOE did not
18 chose to fund at that time. It was Phase II of the
19 DOE's solicitations." And Mr. Waters goes on to say
20 that Florida Power and Light proposed to build an IGCC
21 if the DOE would provide \$400 million of funding.
22 Were you at all involved in the FPL submittal at that
23 time?

24 A Yeah, you call it Phase II. We call it
25 Round 2 of the solicitations, just to be precise,

1 because we talk about our projects having phases.

2 Yeah, I was. My center did not do the
3 project selections. They were run in headquarters in
4 Washington. My people and staff were involved in the
5 evaluations because they were detailed to the proposal
6 evaluation teams. So I'm aware of it and I vaguely
7 remember that they did it using shell gasification
8 technology.

9 Q That's consistent with Mr. Waters'
10 deposition. Would you agree that DOE did not fund the
11 project because of the magnitude of the dollars
12 Florida Power and Light was requesting to support the
13 project?

14 A I think you could look at the public record
15 of the selection official. I think magnitude of
16 dollars probably was a factor because we committed on
17 the order of \$500 million per round of DOE funding.
18 And anybody asking for that much would have had to
19 have an extremely impressive proposal to be able to
20 take 80% of the available funds in a given round.

21 Q Mr. Bechtel, does your testimony go at all
22 to the question of whether an IGCC unit would be
23 economically advantageous on Tampa Electric's system
24 compared to other types of combined cycle technology,
25 specifically natural gas-fired?

1 A I can't comment on their system economics,
2 their dispatch economics because I don't know the rest
3 of their system.

4 MR. HOWE: Thank you very much, sir. I have
5 no further questions.

6 CHAIRMAN CLARK: Staff.

7 CROSS EXAMINATION

8 BY MS. CULPEPPER:

9 Q Good morning, Mr. Bechtel. I only have a
10 few questions for you.

11 First, if you would, looking at your
12 testimony over on Page 4, beginning on Line 24, you
13 state there that "This project also allows for the
14 demonstration of the hot gas cleanup system, a system
15 which is important to DOE in providing proven,
16 economical sulfur removal systems."

17 Was DOE concerned when TECO decided to
18 reduce the volume of the hot gas cleanup system?

19 A We were very, very committed to
20 demonstrating hot gas cleanup technology because of
21 the reasons that Mr. Black stated. Mainly, that the
22 potential of being able to increase the efficiency
23 even further of these plants, and possibly even reduce
24 the costs and create useful by-products and not have
25 liquid waste. But we had accepted the fact that when

1 we did this plant that we weren't ready -- the
2 developmental status of that technology was not at the
3 point where we can ask a utility that had to serve
4 customers reliably to let their whole system depend on
5 the developmental technology.

6 When the costs became greater than we had
7 expected, we negotiated with Tampa and with the
8 technology supplier to make sure that when we reduce
9 the size, that we would still be able to operate at a
10 scale where the results would allow us to use this
11 technology with competence on the next generation of
12 plants, but at the same time not impose more cost on
13 the Tampa Electric system than was rational to get
14 that data. So we made a choice to control the cost
15 and reduce the size.

16 **COMMISSIONER KIESLING:** Mr. Bechtel, the
17 question was how did DOE react to it, not what you
18 did.

19 **WITNESS BECHTEL:** I'm DOE in this case.

20 **COMMISSIONER KIESLING:** You're DOE in this
21 case.

22 **WITNESS BECHTEL:** Yes. I run a lab that's a
23 part of the DOE, and I represent the DOE in the
24 implementation of this project.

25 **COMMISSIONER KIESLING:** Okay.

1 Q (By Ms. Culpepper) Mr. Bechtel, is there
2 some point if TECO decides to reduce the volume of
3 that system even further, is there some point that DOE
4 would become concerned?

5 A If we got below the point where the
6 components were of commercial scale, then we probably
7 would have chosen to forgo that technology at all in
8 this demonstration. Because it would have added no
9 value from our perspective, and would have provided no
10 benefit to Tampa Electric.

11 Q One more question. Mr. Bechtel, could you
12 tell me whether you or anyone else under your
13 direction at DOE has ever reviewed the
14 cost-effectiveness of TECO's Polk IGCC unit vcrsus
15 that of an alternative technology?

16 A No. We reviewed the cost in great detail
17 during the program. But we, again, going to an
18 earlier question, I have no way to evaluate the
19 effectiveness because I don't know their system and
20 system dispatch characteristics.

21 Q Could you tell me what you compared those
22 costs to?

23 A We do what is called a reasonableness
24 review. We have sponsored the development of the
25 technology. We are funding gasification combined

1 cycle demonstrations based on other gasification
2 technologies, and have access to good engineering
3 practice. We hire consultants. We use the Corp of
4 Engineers on construction capabilities. We did
5 detailed design cost and construction cost based on
6 first principles.

7 MS. CULPEPPER: Thank you, Mr. Bechtel. We
8 have no more questions.

9 CHAIRMAN CLARK: Commissioners. Redirect.

10 REDIRECT EXAMINATION

11 BY MR. WILLIS:

12 Q Mr. Bechtel, Staff asked you a couple of
13 questions with regard to your position at DOE. Were
14 you given authority by the DOE to oversee this
15 project?

16 A Yes. The way the program worked, we did the
17 procurement activities and the selections at the
18 headquarters level. And then the DOE field sites,
19 mine in specific, was delegated the authority to
20 implement the project.

21 Q And were you given the authority to
22 represent the position of DOE in this proceeding?

23 A At full procurement authority.

24 CHAIRMAN CLARK: You said "full
25 procurement --"

1 **WITNESS BECHTEL:** Procurement authority,
2 which means I can approve contract changes and
3 represent the Department of Energy.

4 **CHAIRMAN CLARK:** And you can represent them
5 in this proceeding?

6 **WITNESS BECHTEL:** Yes.

7 **CHAIRMAN CLARK:** Okay.

8 **Q** **(By Mr. Willis)** Has the balance of the DOE
9 funding been appropriated?

10 **A** Yeah. This whole program was funded as part
11 of preappropriations, so as far as the appropriations
12 process in the Congress is concerned, full funding for
13 this project is available.

14 **MR. WILLIS:** I have nothing further.

15 **CHAIRMAN CLARK:** Thank you, Mr. Bechtel.

16 **MR. WILLIS:** Call Mr. Rowe.
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1 **JOHN R. ROWE, JR.**

2 was called as a witness on behalf of Tampa Electric
3 Company and, having been duly sworn, testified as
4 follows:

5 **DIRECT EXAMINATION**

6 **BY MR. WILLIS:**

7 **Q** Will you please state your name, address and
8 occupation?

9 **A** Yes. My name is John R. Rowe, Jr. I'm Vice
10 President-Staff, Regulatory and Business Strategy for
11 Tampa Electric Company, 702 North Franklin Street,
12 Tampa, Florida 33602.

13 **Q** Did you prepare and cause to be prefiled in
14 this docket a document entitled "Testimony of John R.
15 Rowe, Jr."?

16 **A** Direct testimony, yes, sir.

17 **Q** Do you have any corrections to your
18 testimony?

19 **A** Yes, I do.

20 **MR. WILLIS:** Commissioners, there are
21 several minor errors and it would be easier to --

22 **CHAIRMAN CLARK:** You have to wait until you
23 get to a mike.

24 **Q** **(By Mr. Willis)** With the corrections noted
25 on the document I just passed out, would your answers

1 be the same today to your testimony?

2 A Yes, they would.

3 MR. WILLIS: We'd request that Mr. Rowe's
4 direct testimony be inserted in the record as though
5 read.

6 CHAIRMAN CLARK: The prefiled direct
7 testimony of Mr. Rowe, with the corrections noted,
8 will be inserted.

9 MR. HOWE: Chairman Clark, I'd like to
10 object to a portion of Mr. Rowe's testimony, if I
11 might.

12 CHAIRMAN CLARK: Okay. Then it will not be
13 inserted in the record as though read until we deal
14 with this objection.

15 MR. HOWE: Chairman Clark, I don't have any
16 argument with Mr. Rowe's general regulatory expertise.
17 But if you would refer, please, to Page 3, paragraph
18 beginning on Line 14, here Mr. Rowe is defining the
19 standard that the Commission itself should apply. He
20 is stating that it is the same standard applied by an
21 appellate court, that being competent and substantial
22 evidence standard. And he continues on Page 4,
23 further delineating the standard as he perceives it.
24 And then he answers the question beginning at the
25 bottom of Page 4 in light of these standards.

1 Commissioners, I believe it is outside
2 Mr. Rowe's expertise to tell this Commission what his
3 opinion is on what legal standard is appropriate for
4 the Commission to apply. It might be suitable for
5 legal argument, but the standard that is appropriate
6 is strictly a matter for this Commission to determine.
7 I do not believe it is a subject of expert testimony.
8 And if it were the subject of expert testimony, it
9 would be outside Mr. Rowe's expertise.

10 **CHAIRMAN CLARK:** Mr. Willis.

11 **MR. WILLIS:** Chairman Clark, Mr. Rowe has
12 testified for many years before this Commission. He
13 is an expert witness on regulatory matters. He is
14 entitled to express his opinion, and that's what he
15 has done in his testimony; his opinion of the
16 appropriate standard that this Commission should use
17 in determining the prudence of the company's actions.
18 I believe that he is entitled to express that opinion
19 and that his testimony should stand.

20 To the extent that you would argue that he's
21 not a legal expert or whatever, that goes to the
22 weight of this evidence, but it certainly should be
23 admitted.

24 **CHAIRMAN CLARK:** Mr. Willis, I think this is
25 beyond his competency to testify on. It seemed to me

1 even when reading it before Mr. Howe brought it up it
2 was a matter of legal argument and legal opinion.

3 I appreciate the fact that Mr. Rowe has
4 certainly appeared before us a good deal, and has a
5 great deal of knowledge about the regulatory process.
6 But I do think it is a legal opinion and he's not
7 competent to -- as an expert to express that opinion.

8 **MR. WILLIS:** We will, therefore, place our
9 argument on this point in our brief, in our
10 posthearing statement, and I'll present it to you that
11 way.

12 **CHAIRMAN CLARK:** That's fine.

13 Mr. Howe, as I understand it then, you are
14 suggesting that Page 3, Line 14 to 24, and Page 4,
15 Line 1 through 20 be stricken.

16 **MR. HOWE:** Yes, ma'am and I would suggest
17 that the question that begins on the bottom of Page 4
18 Line 22.

19 Basically, to put it in context, going back
20 to Page 3, I suggest a question beginning on Line 8.

21 **CHAIRMAN CLARK:** I'm sorry. What?

22 **MR. HOWE:** I would suggest the testimony
23 beginning on Page 3, Line 8.

24 **CHAIRMAN CLARK:** Strike the question.

25 **MR. HOWE:** Because the question is eliciting

1 the legal opinion. And then all of Page 4 and Page 5,
2 down through Line 15. And I guess to the extent that
3 I'm suggesting that the question itself be stricken on
4 Page 4, it would be all of Page 5.

5 **CHAIRMAN CLARK:** Well, I certainly think he
6 can express an opinion as to what implications a legal
7 standard may have on particular facts.

8 **MR. HOWE:** I think you're correct. And with
9 that in mind, I would then suggest perhaps just delete
10 the first part of the question that appears on Page 4,
11 Line 22, where it says "Given these standards" and if
12 you strike those three words, I believe you'll have a
13 question that can be answered, "what implications for
14 Polk power Station prudence are important to
15 understand." I think he is competent to testify to
16 that.

17 **CHAIRMAN CLARK:** Let the record be clear
18 what is being stricken from his testimony is on Page 3
19 Line 8 through 24, and on Page 4, Lines 1 through 20,
20 and then on Line 22, the phrase "Given these standards
21 comma" will be stricken.

22 With that, the prefiled direct testimony of
23 Mr. Rowe will be inserted in the record as though read
24 with those portions deleted.

25 Mr. Willis go ahead.

1 Q (By Mr. Willis) Would you please summarise
2 your testimony.

3 CHAIRMAN CLARK: Mr. Willis, did we mark the
4 exhibit?

5 MR. WILLIS: Oh, I'm sorry.

6 Q (By Mr. Willis) Did you prepare and cause
7 to be prefiled an exhibit to your testimony?

8 A Yes, I did.

9 MR. WILLIS: I request that the exhibit of
10 John R. Rowe be marked for identification.

11 CHAIRMAN CLARK: It will be marked as
12 Exhibit 27.

13 (Exhibit No. 27 marked for identification.)
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25

1 BEFORE THE PUBLIC SERVICE COMMISSION

2 PREPARED DIRECT TESTIMONY

3 OF

4 JOHN R. ROWE, JR.

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

7
8 A. My name is John R. Rowe, Jr. I am Vice President - Staff,
9 Regulatory and Business Strategy for Tampa Electric
10 Company. My business address is 702 North Franklin Street,
11 Tampa, Florida 33602.

12
13 Q. Please describe your educational background and business
14 experience.

15
16 A. I graduated from the Georgia Institute of Technology in
17 Atlanta, Georgia in 1962 with a bachelor of science degree
18 in Industrial Management. In 1971, I graduated from the
19 University of South Florida in Tampa with a master of
20 Business Administration degree. I am a Certified Public
21 Accountant licensed in Florida. I am a member and past
22 president of the Florida Institute of CPAs and a member of
23 the American Institute of CPAs.

24
1 In July, 1962, I was employed by Tampa Electric Company as

1 a management trainee. I held various positions in the
2 management development, customer service, business systems
3 and accounting departments until 1974, when I was elected
4 Assistant Controller. I was subsequently elected
5 Controller in 1981, Assistant Vice President in 1984, and
6 Vice President in 1990. I assumed my present duties in
7 December of 1994. In my current position, I am responsible
8 for the study of and for making policy recommendations on
9 various complex regulatory and business issues.
10

11 Q. Have you prepared an exhibit in support of your testimony?
12

13 A. Yes. Exhibit No. 27 (JRR-1) consisting of eight documents
14 has been prepared under my direction and supervision.
15

16 Q. Have you previously testified before this Commission?
17

18 A. Yes. A listing of dockets in which I have testified is
19 provided in Document No. 1 of my attached Exhibit.
20

21 Q. What is the purpose of your testimony?
22

23 A. My testimony proposes the appropriate regulatory treatment
24 for the costs of Polk Unit One and for the Port Manatee
25 plant site. I also explain how Tampa Electric developed,

1 negotiated and obtained agreement and approval for a
2 unique, innovative and effective plan to reduce its costs,
3 to accumulate the savings derived to offset the costs of
4 Polk Unit One and to provide the company with incentives to
5 maximize its cost savings, all of which is relevant to the
6 deliberations of this proceeding.

7 STRICKEN

8 Q. Mr. Rowe, will you please describe the broad regulatory
9 policy issues that may be involved in this docket and
10 provide the fundamental considerations that the Commission
11 should take into account as it sets about the task of
12 reviewing the Polk Power Station project?

13
14 A. Yes, I will. If the Commission determines it is necessary
15 to review certain aspects of Polk Unit One prudence, a
16 fundamentally important consideration in this docket should
17 be the Commission's standard of review in evaluating the
18 prudence of utility decision making. A determination of
19 prudence or imprudence calls for an inquiry into whether
20 there was a rational basis for the decisions made by
21 management. This standard is essentially the same as the
22 competent substantial evidence standard the Supreme Court
23 of Florida applies when reviewing decisions made by this
24 Commission.

25

STRICKEN

1 In applying this standard when reviewing the Commission's
2 orders, the Court recognizes that reasonable people can
3 come to different conclusions after reviewing the same
4 facts. The exact same standard applies in the Commission's
5 review of management decisions. The Commission should not
6 determine prudence by reference to what it might have done
7 if it had been exercising the power of management. The
8 question is whether there is any rational basis for the
9 decision that was made, and not whether another reasonable
10 person confronted with the same facts would have made a
11 different decision.

12
13 In appraising whether there is a rational basis for the
14 utility's actions, the Commission's role is to review a
15 utility's decisions solely in light of the facts known or
16 which should have been known at the time the decision was
17 made. Stated differently, the Commission may not apply the
18 twenty-twenty vision of hindsight when determining whether
19 a utility acted prudently under any given set of
20 circumstances.

21 STRICKEN

22 Q. Given these standards, what implications for Polk Power
23 Station prudence are important to understand?

24
25 A. It follows, logically, that in reviewing a project like the

1 Polk Power Station which, over a significant time line has
2 a number of decision points, each decision to proceed with
3 construction must be evaluated based on information that
4 utility management knew or should have known at the time
5 the decision was made. Consequently, each decision to
6 proceed forward with the project must be based not only on
7 prospective alternatives and their consequences, but on a
8 recognition of the amount of sunk costs which have already
9 been expended and the costs to adapt to some new plan as
10 well as the cancellation costs that would be incurred if
11 construction commitments were materially changed or
12 terminated. In the case of Polk Unit One, these potential
13 cancellation costs include the cost of abandoned equipment,
14 damages on outstanding contracts, and the potential loss of
15 U.S. Department of Energy funding.

16
17 Any decision to delay or stop construction of a certified
18 unit must also be made in view of the continuing need for
19 the unit and the extreme consequences of failing to
20 reliably serve the electric needs of the utility's
21 customers. The benefit of any doubt of whether to continue
22 construction of a unit, the need for which has been
23 certified, should be to continue with the construction of
24 the unit in order to assure the public that reliable
25 service will be available to them as expected.

1 Q. How is a determination of prudence affected by changes in
2 the real world which occur over time?

3
4 A. The Commission should expect that assumptions, forecasts,
5 and plans for any large project may change over time. Even
6 a consensus forecast of the future is no guarantee that the
7 future will turn out to be as expected. Nevertheless,
8 plans and commitments based on reasonable forecasts must be
9 made, or long-lived construction projects will not come to
10 fruition. Tampa Electric recognizes that it has a
11 responsibility to review its plans after implementation has
12 begun and to construct its facilities in a cost-effective
13 way.

14
15 Finally, I would like to point out that the purpose of this
16 hearing is not to retry the Certification of Need
17 proceeding. After an exhaustive effort by all parties, the
18 Commission reached its decision on the need for Polk Unit
19 One and certified that the company could proceed with
20 building an integrated coal gasification plant at the Polk
21 County site. If the Commission determines that this
22 hearing should address prudence, this hearing should focus
23 on whether Tampa Electric's management acted prudently
24 after the certification order.

25

1 Through the evidence presented in this docket, I believe
2 the Commission will see that Tampa Electric regularly
3 reviewed the changes in assumptions, forecasts, and plans
4 subsequent to the need certification process, that it re-
5 evaluated and determined the most cost-effective options
6 taking into account the funds expended, committed, and
7 necessary to change options, and that the actions to
8 construct the plant and put it into commercial operation
9 were and are being done competently. The company will
10 continue to monitor all these factors as it proceeds on
11 with the plant's construction, which is expected to be
12 completed on time and ready for commercial operation in
13 October, 1996.

14
15 Q. How does Tampa Electric propose to treat the costs of the
16 Polk Power Station for all regulatory purposes?

17
18 A. Tampa Electric believes that the actual costs of the Polk
19 Power Station, net of any Department of Energy (DOE)
20 funding provided, should be recognized and approved as part
21 of Tampa Electric's rate base and operating expenses for
22 all regulatory purposes.

23
24 The specific dollar amounts that should be considered for
25 inclusion in the company's rate base and operating expenses

1 are described in the testimony of Ms. Elizabeth Townes. I
2 believe the Commission will be well served in this
3 proceeding by reviewing the projected annual costs of Polk
4 Unit One as being representative of the potential financial
5 impact of the unit on customers. As I will explain later
6 in my testimony, that financial impact has been deferred
7 through 1998 and Tampa Electric is continuing its efforts
8 to mitigate that impact beyond 1998.

9
10 Q. How do you propose to treat for regulatory purposes the
11 Polk Unit One funding that is provided pursuant to Tampa
12 Electric's cooperative agreement with the DOE?

13
14 A. The DOE funding should be treated as a direct offset or
15 reduction to the costs of Polk Unit One. Capital cost
16 funding should be credited against actual capital costs and
17 the net figure should be included in actual rate base.
18 Operation and Maintenance (O&M) funding should be credited
19 against actual O&M expenditures, the net of which should be
20 recognized as actual O&M for the period.

21
22 Q. Why do you believe the actual net costs of Polk Unit One
23 should be allowed in rate base and operating expenses for
24 all regulatory purposes?
25

- 1 A. The Commission has already determined the prudence of
2 proceeding with the construction of the plant in its Order
3 No. 92-002 regarding the Determination of Need. I believe
4 that the Commission will find as a result of the evidence
5 presented in this Docket that Tampa Electric acted
6 prudently after the need for the plant was approved. If
7 the Commission agrees, I then believe that the appropriate
8 costs to be included are one hundred percent of the actual
9 costs incurred.
- 10
11 Q. Why is it necessary to address the regulatory treatment
12 related to the Polk Power Station at this time?
- 13
14 A. Pursuant to the stipulation between the Office of Public
15 Counsel (OPC), the Florida Industrial Power Users Group
16 (FIPUG) and the company approved April 30, 1996, the
17 calculation of actual earned return on equity at December
18 31, 1996, 1997 and 1998 requires a determination of the
19 regulatory treatment of the Polk Power Station costs. A
20 copy of this stipulation is provided in Document No. 3 of
21 my Exhibit. In addition to being necessary to implement
22 the stipulation agreement, it is also important to assure
23 investors that the Commission has approved the regulatory
24 treatment of this significant addition to the company's
25 investment.

- 1 Q. Is approval of the regulatory treatment of Polk Unit One in
2 this docket similar to approvals granted previously by the
3 Commission to other utilities who have added generating
4 capacity to their systems?
5
- 6 A. Yes. Approval of the regulatory treatment of Polk Unit One
7 is similar to the requests by other utilities to include
8 capacity investments in rate base and to allow capacity
9 operating expenses in net operating income. Since 1980,
10 the first year following the passage of the Florida
11 Electrical Power Plant Siting Act (PPSA), Gulf Power
12 Company, Florida Power Corporation, Florida Power and Light
13 Company and Tampa Electric have all made such requests to
14 the Commission, and the Commission has acted on each such
15 request in light of the facts and circumstance presented in
16 evidence in each proceeding. In most instances, these
17 requests were made in full base rate revenue proceedings,
18 in which the utility sought additional base revenue to
19 support the new costs of the capacity it owned.
20
- 21 However, in 1990, Florida Power and Light Company
22 petitioned the Commission to include its purchase of some
23 76% of Scherer Unit No. 4 in rate base as it was acquired
24 from Georgia Power Company in installments over the 1991-
25 1995 period without petitioning for an increase in its base

1 rates. In the FPL-Scherer case (Docket No. 900796-EI), the
2 Commission addressed three main issues: (1) whether FPL
3 had demonstrated the need for the Scherer generation, (2)
4 whether the purchase of Scherer was reasonable and prudent,
5 and (3) whether the acquisition adjustment should be given
6 base rate treatment. The Commission found in its Order No.
7 24165 that FPL's purchase of 76% of Scherer Unit Four
8 appeared to be the most cost-effective alternative
9 available to FPL to meet its forecasted load, that FPL's
10 forecasted investment in Scherer Unit Four was a reasonable
11 and prudent investment, and that FPL should be allowed to
12 include its investment in Scherer in rate base as a prudent
13 investment. A copy of Order No. 24165 is provided as
14 Document No. 4 of my Exhibit. The issues in this docket
15 (No. 960409) are similar to those in the FPL Scherer docket
16 in that in neither case was an increase in rates sought in
17 connection with the docket. In this docket, however, the
18 need determination of Polk Unit One has already been made
19 and there is no acquisition adjustment issue.

20
21 In 1994, FPL completed the construction of its Martin Plant
22 Units Three and Four. The need for these units had been
23 previously certified by the Commission in 1990 in Docket
24 No. 890974-EI. A copy of Order No. 23080 in Docket No.
25 890974-EI is provided in Document No. 5 of my Exhibit. When

1 the projects were completed, FPL reflected the cost of the
2 projects in its rate base and the operating expenses of the
3 new capacity in its operating income without petitioning
4 the Commission for additional base rates. No request by
5 FPL was made nor was a finding made by the Commission as to
6 the prudence of either the Martin project or of the
7 Lauderdale repowering project. The estimated cost of the
8 Martin project at the time of the need determination in
9 1989 was in excess of \$600 million.

10
11 The issues in this docket (960409-EI) are similar to those
12 in the Martin-Lauderdale docket for FPL in that a need
13 hearing had previously certified the need for the capacity
14 and no increase in rates was sought at the completion of
15 the project(s). However, the Commission did not initiate
16 a docket to determine the prudence of the Martin or
17 Lauderdale projects.

18
19 Q. In your opinion, what is the proper scope of this
20 proceeding?

21
22 A. In my opinion, the Commission should first examine the
23 implications of any precedents in its treatment of FPL's
24 Scherer and Martin-Lauderdale additions. If the Commission
25 then determines that an examination of prudence for Polk

1 Unit One is appropriate for Tampa Electric, this proceeding
2 should focus on the prudence of Tampa Electric's actions
3 regarding Polk Unit One between the approval and
4 Certification of Need for Polk Unit One and the present as
5 further input to determining the overall prudence of Polk
6 Unit One. The Certification of Need hearing has already
7 determined that the capacity was needed and that an
8 integrated gasification combined cycle unit located at the
9 Polk Power Station site was the most cost-effective
10 alternative available to meet that need. The Commission
11 should rely on its earlier decisions and utilize this
12 proceeding to examine the prudence of the company's
13 implementation of the construction of plant. The
14 Commission should take Tampa Electric's innovative
15 ratemaking treatment for 1995-1998 approved on April 30,
16 1996 into consideration as it makes its determinations.
17

18 Q. What is your understanding of the intended purpose of the
19 Florida Electrical Power Plant Siting Act (PPSA or "The
20 Act")?
21

22 A. The PPSA was intended to assure the public that the only
23 power plants to be built in Florida after the passage of
24 the PPSA were those which were certified to be needed and
25 to be cost-effective and those which met the State's

1 environmental standards. The PPSA also intended to prevent
2 unnecessary disputes that might arise between utilities and
3 the Commission regarding the propriety of proceeding to
4 build a certified power plant which the utility's customers
5 later had to support. The Act also assured utilities that
6 once the need and cost-effectiveness of proposed capacity
7 had been certified by the Commission, they could proceed
8 with construction and reasonably expect to recover the
9 costs of the new capacity.

10
11 Q. How has this Commission carried out its responsibilities to
12 review the generation capacity needed in Florida?

13
14 A. The Commission has instituted a number of regulatory
15 processes in connection with its responsibilities to review
16 generation capacity needs. Among these processes are the
17 following:

- 18
19 1. Periodic hearings on load forecasts.
20 2. Ten Year Site Plan reviews.
21 3. Conservation program load growth analyses.
22 4. Plant-specific need determination hearings.
23 5. Audits of construction work in progress.
24 6. Examinations of capacity costs pursuant to full rate
25 cases.

1 7. Examinations of capacity needs and costs in the
2 Purchased Power Clause hearings.
3

4 These processes have kept the Commission advised of the
5 capacity needs in Florida and of the various means by which
6 utilities are meeting the needs. A number of states which
7 have higher electric costs than Florida are only today
8 seeing the wisdom of PPSA legislation and the processes
9 which implemented it, and they are now following Florida's
10 leadership some 15 years later.
11

12 Q. Did the Commission specifically approve the need for the
13 generating capacity represented by Polk Unit One?
14

15 A. Yes. In Order No. PSC-92-002-FOF-EI ("Order 92-002") dated
16 March 2, 1992, in Docket No. 91083-EI, the Commission
17 certified the need for Polk Unit One. This order is
18 included in Document No. 6 of my Exhibit. On page 4 of the
19 Order, the Commission found:

20 "TECO's reliability criteria will not be met
21 unless the proposed IGCC unit is completed
22 in the time frame requested. TECO would
23 also risk losing the DOE funding it will
24 receive for design, construction, and
25 operation of the unit. Thus, any delays in
26 the construction of the plant could
27 ultimately cost TECO its most cost-effective
28 alternative for meeting future capacity
29 needs."
30

1 Q. Did the Commission also approve the type of generation
2 represented by Polk Unit One as being the most cost-
3 effective of the projections among all the feasible
4 alternatives?

5
6 A. Yes. The Commission, on page 9 of Order No. 92-002,
7 specifically found that Tampa Electric had demonstrated
8 that the proposed integrated gasification combined cycle
9 unit is the most cost-effective alternative to provide the
10 additional needed capacity for Tampa Electric and
11 peninsular Florida. This conclusion was supported by the
12 Commission's further finding that Tampa Electric had
13 adequately explored the construction of alternative
14 generating technologies, including the initial evaluation
15 of 46 different technologies and a detailed economic
16 optimization analysis of seven different technologies that
17 survived the initial screening. (See Order No. 92-002,
18 page 12.)

19
20 Q. How has Tampa Electric continued to review its generating
21 capacity plans after the issuance of Order No. 92-002 in
22 order to verify that the development of Polk One remains
23 cost-effective?

24
25 A. As Mr. Hernandez explains in his testimony, Tampa Electric

1 has regularly re-examined its assumptions and plans
2 regarding Polk Unit One and found the construction of this
3 unit to be in the best interests of its customers. The
4 costs of the capacity and the need to meet customer
5 reliability have been reassessed as updated assumptions,
6 facts and conditions evolved.

7
8 Q. Did Tampa Electric use its effective cost control system to
9 prudently manage the costs of constructing Polk Unit One?

10
11 A. Yes. An effective project management organization was set
12 up early in the development of Polk Unit One to insure that
13 the plans were implemented in a cost-effective manner. Mr.
14 Charles R. Black discusses in detail the processes used to
15 prudently manage the costs of Polk Unit One in his
16 testimony. As an example, despite the fact that Polk Unit
17 One is a coal gasification plant and the first such plant
18 of its size to be built, the net construction costs of Polk
19 Unit One (omitting AFUDC and land/site development costs to
20 make comparisons comparable) are projected to be less than
21 5% from the pre-engineering estimate made in Tampa
22 Electric's Need Certification hearing as explained by Mr.
23 Black. Polk Unit One is expected to begin to supply
24 customers' needs full time in October of 1996, on time and
25 very close to budget.

1 Q. Have you prepared a document which provides specific
2 information about the "Port Manatee" site?

3
4 A. Yes. A map showing the location of the Port Manatee site
5 and specific information regarding the site's size, current
6 book value and use is provided in Document No. 7 of my
7 Exhibit.

8
9 Q. What is the anticipated use of the "Port Manatee" site by
10 Tampa Electric?

11
12 A. The Port Manatee site is still being held as a potential
13 site for a future power plant. Although a Citizens' Siting
14 Task Force recommended the present Polk Power Station site
15 as being the preferred site for this plant by the
16 community, they recognized the advantages of the Port
17 Manatee site to future electric customers. Viable and
18 cost-effective sites for power plants in Florida are a
19 scarce and valuable commodity. If Florida's utilities are
20 to have viable options for plant locations in the future,
21 they must plan for those options now. Retention of the
22 Port Manatee site at its relatively low book value together
23 with the availability of expansion room at the Polk Power
24 Station site provide important assurance to Tampa
25 Electric's customers that needed generation can be sited in

1 the future. Tampa Electric would notify the Commission
2 promptly if other uses were to be made of the Port Manatee
3 site.

4
5 Q. What is the appropriate regulatory treatment for the Port
6 Manatee site?

7
8 A. Because the site has always been used as a future power
9 plant site since its acquisition, the actual book value of
10 the Port Manatee site should continue to be classified in
11 "Property Held for Future Use" and be included in the rate
12 base of Tampa Electric. The Commission found this to be
13 the case in Tampa Electric's 1992 rate case in Docket No.
14 920324-EI. Relevant excerpts from Order No. 93-0165 in
15 Docket No. 920324-EI are provided in Document No. 8 of my
16 Exhibit.

17
18 Q. What is the appropriate regulatory treatment of the coal,
19 oil and/or pet coke feedstock to be used in the operation
20 of Polk Unit One?

21
22 A. While the specific dollar amounts to be approved should be
23 a subject to be addressed in the Commission's semi-annual
24 fuel hearings, the regulatory treatment of Polk Unit One
25 feedstocks should be to allow the recovery of the actual

1 feedstock costs of coal, oil and/or pet ccke incurred in
2 operating Polk Unit One. This will be accomplished through
3 the normal estimation and true-up process administered in
4 the Commission's fuel clause docket.

5
6 Q. What is the appropriate regulatory treatment of the seven-
7 year tax life proposed for use in calculating Polk Unit One
8 depreciation?

9
10 A. Tampa Electric believes Polk Unit One will qualify for a
11 seven-year life under the Internal Revenue Service (IRS)
12 code. This is an assumption and practice which benefits
13 our customers because it results in lower revenue
14 requirements than a longer tax life would. Our customers
15 will enjoy lower revenue requirements as a result. We
16 propose to utilize a seven-year life for this reason.
17 Ultimately, the IRS will audit and rule on the use of a
18 seven-year life. Tampa Electric asks the Commission to
19 support this treatment in order to minimize costs to
20 customers.

21
22 Q. Does Tampa Electric now seek increased base revenues from
23 its customers to recover the annual revenue requirement
24 effects of the Polk Power Station?

25

1 A. No. Tampa Electric does not seek an increase in its base
2 rates at this time. Tampa Electric will not file a
3 petition to change its base rates before July 1, 1998, in
4 accordance with the terms and conditions of the stipulation
5 approved in Docket No. 950379-EI. Under the terms of the
6 stipulation among the Office of Public Counsel (OPC), the
7 Florida Industrial Power Users Group (FIPUG), and the
8 company, no interim or permanent increase in base rates is
9 permitted before January 1, 1999. As mentioned earlier in
10 my testimony, a copy of the approved stipulation is
11 included in Document No. 3 of my Exhibit.

12 Traditionally, Tampa Electric has sought increased base
13 revenues when new capacity has been added, but because of
14 this Commission's approval of the proposed 1995 revenue
15 deferral plan reflected in Order No. PSC-95-POF-81 in
16 Docket No. 950379-EI and its more recent approval of the
17 provisions of the stipulation on April 30, 1996, no
18 increase in base revenues for the Polk Power Station is
19 necessary at this time. The effects of adding the Polk
20 Power Station to the company's investment in capacity was
21 the principal reason the April 30th stipulation was
22 negotiated and approved, and the interaction of Polk Power
23 Station accounting with Tampa Electric's regulatory status
24 before this Commission were integral to the negotiated
25

1 stipulation.

2 The company is doing everything reasonably possible to
3 control and reduce its costs so that it will not have to
4 seek an increase in its base rates in the future. Tampa
5 Electric believes that it should and would be allowed to
6 put the entire actual cost of the Polk Power Station in
7 rate base even if no extraordinary efforts had been taken
8 to change our way of doing business and to accumulate
9 deferred revenues. The company also believes that the
10 extraordinary work it has done in mitigating the impact of
11 this new plant on its overall revenue requirements should
12 be recognized by this Commission and that it should provide
13 an important additional reason that the entire Polk Power
14 Station investment should be placed in rate base.
15

16
17 Q. How will Tampa Electric be able to add the Polk Power
18 Station investment to its rate base without increasing
19 prices to its customers?

20
21 A. In anticipation of Polk Unit One coming into commercial
22 service in late 1996, Tampa Electric's officers determined
23 in mid-1994 that it should undertake extraordinary efforts
24 to mitigate the revenue effects of the new unit on its
25 customers. Tampa Electric, in effect, designed and

1 initiated its own "alternative regulation plan" to reduce
2 and mitigate the effect on the prices our customers pay for
3 electric service of Polk Unit One being placed in-service.

4 As part of a unique initiative, plans were made to
5 undertake an extraordinary effort to remove significantly
6 large amounts of cost from the business by doing business
7 in new ways. By so doing, when Polk Unit One did come into

8 service, the reduced costs of doing business would offset
9 the increased costs needed to support the new capacity and
10 avoid the ~~service's~~ ^{service} effects of an increase in rates on our

11 customers.

12 We further determined that if these
13 extraordinary efforts could become effective well before
14 Polk Unit One went into service, that the accumulated
15 savings in the interim could be used to offset the Polk
16 Project costs after the Polk Power Station entered service
17 as well.

18 The savings that would ensue from these efforts would be
19 captured above some reasonable level of return and later
20 used to offset the revenue effects of the plant when it was
21 ready to enter service, thereby reducing the need for
22 higher prices. It is important to recognize that, except
23 for the beneficial revenue effect of unanticipated abnormal
24 weather, no deferred revenues would have occurred had it
25 not been for the extraordinary cost cutting efforts

1 initiated and implemented by the company itself.

2 These cost control efforts coupled with this Commission's
3 approval of the innovative plans for the earnings of Tampa
4 Electric from 1995 through 1998 have enabled Tampa Electric
5 to add Polk Unit One to its rate base without increasing
6 its base rates.
7

8 The development, negotiation and implementation of those
9 innovative plans to mitigate the revenue effects of Polk
10 Unit One are clear evidence that at Tampa Electric, it has
11 not been "business as usual." The results to date benefit
12 both our customers and our investors, and we are proud of
13 them.
14

15 Q. Have you considered any alternative ratemaking treatment
16 for Tampa Electric's Polk Unit One investment and expenses?
17

18 A. Yes, we have. However, the stipulation approved by the
19 Commission on April 30, 1996, is itself an innovative
20 alternative ratemaking treatment of Polk Unit One which
21 effectively deals with the potential revenue effects of the
22 plant through December 31, 1998. Under the plan approved
23 by the Commission, Tampa Electric has guaranteed that it
24 will not increase its base rates before January 1, 1999,
25

1 and that the Company will make a substantial refund
2 beginning in October, 1996. This alternative ratemaking
3 treatment provides a very beneficial result to Tampa
4 Electric's Customers. As described earlier in my
5 testimony, Tampa Electric is continuing its cost control
6 efforts so that the effects of this settlement have an
7 opportunity to extend into the future.

8
9 Q. Please summarize your direct testimony.

10
11 A. My testimony proposes the regulatory treatment of the Polk
12 Power Station costs for all regulatory purposes, including
13 how specific dollar amounts should be considered to help
14 the Commission conclude that the actual costs of the Polk
15 Power Station should be included in rate base and operating
16 expenses. I propose that, if the Commission finds that
17 Tampa Electric was prudent in carrying out its
18 responsibilities after the need for Polk Unit One was
19 approved, one hundred percent of actual Polk Power Station
20 costs be included. I describe the appropriate regulatory
21 treatment for the funding of Polk Unit One provided to
22 Tampa Electric pursuant to its Cooperative Agreement with
23 the DOE, saying that the funds received should be directly
24 credited to the category of expenditures they are intended
25 to subsidize and that the Commission should recognize the

1 net costs in rate base and operating expenses for
2 regulatory purposes.
3

4 In my testimony, I describe the relevance of the Florida
5 Electrical Power Plant Siting Act and the company's
6 Determination of Need proceeding to the regulatory
7 treatment to be afforded Polk Unit One. I provide a brief
8 description of the Commission's treatment of owned capacity
9 additions to rate base by Florida utilities since 1980. I
10 also speak to the appropriate regulatory treatment of the
11 Port Manatee site in my testimony. Finally, I describe in
12 my testimony how Tampa Electric's innovative planning and
13 extraordinary cost control have resulted in an approved
14 alternative ratemaking treatment for the Polk Power Station
15 which defers the need for additional base rates from our
16 customers until 1999 or beyond.
17

18 Q. Does this conclude your direct testimony?
19

20 A. Yes, it does.
21
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23
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25

1 Q (By Mr. Willis) Would you please
2 summarize your testimony?

3 A Yes. Thank you.

4 Good morning, Commissioners. The stated
5 purpose of this hearing is to review the prudence of
6 Tampa Electric's construction of the Polk IGCC
7 project. When all of the evidence is considered, I
8 believe you will find that approval of 100% of the
9 investment and expenses associated with this project
10 is clearly warranted.

11 The positions of the Staff and intervenors
12 notwithstanding, the purpose of this proceeding, in my
13 opinion, is not to retry the 1991 certification of
14 need proceedings in which you carefully considered and
15 approved the construction of our IGCC unit in Polk
16 County. The question, the regulatory question, I
17 believe, which is before you, in evaluating the
18 prudence of Tampa Electric's Polk-related investment
19 is whether or not the Company had a rational basis for
20 the project-related decisions made after you approved
21 the Polk unit.

22 The question is not what the Commission
23 would have done had it been exercising the power of
24 management at the time, or whether another reasonable
25 person confronted with the same set of facts and

1 circumstances could have made different decisions.

2 I believe the regulatory question is whether
3 there was a rational basis for Tampa Electric's
4 project-related decisions given the facts which we
5 knew, or should have known, at the time that those
6 decisions in question were made.

7 In conducting your inquiry as to the
8 Company's prudence, you should expect that
9 assumptions, forecasts and plans often change over
10 time. Even a consensus forecast of the future is no
11 guarantee that the future will turn out as expected.
12 Nevertheless, plans and commitments based on
13 reasonable forecasts must be made or long lived
14 construction projects, such as this one, will not come
15 to fruition given the significant lead time usually
16 required to build such projects.

17 As explained by Tampa Electric's other
18 witnesses in this proceeding, we vigilantly monitored
19 the continued cost-effectiveness of the project, and
20 we appropriately made adjustments to the changes which
21 came about in order to bring the project into service
22 in a timely manner while ensuring its continued
23 cost-effectiveness.

24 In my testimony I also recommend that Tampa
25 Electric's entire investment in the Port Manatee site

1 should continue to be classified as property held for
2 future use and included in rate base. As the
3 Commission has already determined in 1992, in Tampa
4 Electric's last rate case.

5 There's been no significant change in
6 circumstances since the 1992 case, which would warrant
7 a reconsideration of that decision on the Port Manatee
8 site. An electric utility with the obligation to
9 serve should have multiple options for the placement
10 of new generating facilities. Consistent with this
11 principle, utilities such as Florida Power and Light,
12 have a wide variety of future plant sites in rate
13 bases, including both partially developed and
14 undeveloped sites. And Tampa Electric's Port Manatee
15 site continues to provide a valuable option for a
16 future power plant site or other utility related use.

17 While the site may not be suitable for
18 today's large pulverized coal or IGCC plants, it may
19 be very well suited for other kinds of existing or
20 newly emerging generation technologies.

21 Commissioners, in your review of this case,
22 I think it's important to keep in mind that Tampa
23 Electric is not seeking an increase in its base rates
24 at this time. Normally this sort of issue would come
25 up in a full base rate proceeding.

1 But in anticipation of Polk Unit One coming
2 into commercial operation, Tampa Electric, in 1994,
3 initiated an extraordinary effort to remove
4 significantly large amounts of cost from the business
5 by doing our business in new ways. These cost control
6 efforts, coupled with your approval of the innovative
7 plan to control the earnings of Tampa Electric from
8 1995 through 1998 in the stipulation agreement, will
9 enable Tampa Electric to add Polk Unit One to its rate
10 base without increasing its prices to its customers at
11 the same time.

12 Finally, Tampa Electric believes that the
13 focus of this proceeding should be on the prudence of
14 the construction of the Polk unit, and not on the
15 consideration of alternative methods of cost recovery.

16 The stipulation I referred to, which you
17 approved on April 30th, 1996, is itself a very
18 innovative alternative ratemaking treatment of Polk
19 Unit One which already effectively deals with the
20 potential revenue effects of the plant by freezing
21 base rates through December 31, 1998. That
22 stipulation anticipates that the Polk unit would be
23 put in rate base. The crediting of the DOE funding to
24 reduce rate base and O&M expenses, the fuel
25 inventories, and all aspects of the Polk power

1 station's cost.

2 This alternative ratemaking treatment allows
3 Tampa Electric's customers to receive the reliability
4 and the lower fuel cost of the plant beginning in
5 October, with no increase in base rates for more than
6 two years after the plant enters service.

7 That concludes the summary of my direct
8 testimony.

9 **MR. WILLIS:** We tender the witness.

10 **CHAIRMAN CLARK:** Before we do that, can I
11 ask a question? Issue No. 12 is the issue on the Port
12 Manatee site. How did that get into this proceeding?
13 Is it still at issue? I know there are different
14 positions on it but I also notice Mr. Rowe and
15 Mr. Smith are the only witnesses on it.

16 **MR. WILLIS:** Commissioner, while we don't
17 think it's particularly relevant to determine that
18 right now since it was determined in our last rate
19 case, in the stipulation we agreed that both the issue
20 with regard to the prudence of the Polk IGCC unit and
21 the determination of the Port Manatee site should be
22 considered by the Commission. It was in the
23 stipulation, that's why.

24 **CHAIRMAN CLARK:** Okay. Thank you.

25 **MR. McWHIRTER:** That's okay. Because that's

1 | what I wanted to talk about.

2 | **CHAIRMAN CLARK:** Let me do this: We have
3 | one Commissioner who did have an appointment. I think
4 | it might be a good idea to go ahead and break for
5 | lunch now.

6 | Let me ask a question with regard to the
7 | witnesses that remain. Do we expect extensive cross
8 | examination of these witnesses? It is my goal to
9 | finish this today.

10 | **MR. McWHIRTER:** With respect to Mr. Rowe, I
11 | only have four or five questions at this juncture.
12 | But fairly extensive questioning on his rebuttal
13 | testimony.

14 | **CHAIRMAN CLARK:** Okay.

15 | **MR. McWHIRTER:** I have a few questions of
16 | Ms. Townes.

17 | **CHAIRMAN CLARK:** I'll tell you what, what I
18 | think I might do is we'll have a 45-minute lunch break
19 | until 20 minutes to 1, and I would ask that you not
20 | only eat lunch, but you review the questions you have
21 | for the remaining witnesses. There may be an
22 | opportunity to stipulate witnesses into the record.
23 | But if you would review that, and review your
24 | questioning so we could move this along as
25 | expeditiously as possible.

1 So we will take a lunch break until 20
2 minutes to 1. Thank you.

3 (Thereupon, lunch recess was taken at
4 12:50 p.m.)

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6 (Transcript continues in sequence in
7 Volume 5.)

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