AUSLEY & McMULLEN
ATTORNEYS AND COUNSELORS AT LAW
227 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(904) 224-9115 FAX (904) 222-7560

July 26, 1996

HAND DELIVERED

ORIGINAL FILE COPY

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor; FPSC Docket No. 960001-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket, on behalf of Tampa Electric Company, are the original and fifteen (15) copies of Prepared Rebuttal Testimony of John B. Ramil.

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/enc.)

ACK
AFA
APP
CAF
CMU
CTR
EAG 5. Bass
LEG 1
LIN 3 + orig
OPC
RCH
SEC 1
WAS
OTH

DOCUMENT NUMBER-DATE
07859 JUL 26 96
FPSC-RECORDS/REPORTING

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Prepared Rebuttal Testimony of John B. Ramil, filed on behalf of Tampa Electric Company, has been furnished by U. S. Mail or hand delivery (*) on this 26th day of July, 1996 to the following:

Ms. Martha C. Brown*
Ms. Mary Elizabeth Culpepper
Division of Legal Services
Florida Public Service Comm'n.
101 East Gaines Street
Tallahassee, FL 32399-0863

Mr. James A. McGee
Senior Counsel
Florida Power Corporation
Post Office Box 14042
St. Petersburg, FL 33733

Mr. Joseph A. McGlothlin
Ms. Vicki Gordon Kaufman
McWhirter, Reeves, McGlothlin,
Davidson, Rief & Bakas
117 S. Gadsden Street
Tallahassee, FL 32301

Mr. Jack Shreve
Office of Public Counsel
Room 812
111 West Madison Street
Tallahassee, FL 32399-1400

Mr. Matthew M. Childs
Steel Hector & Davis
Suite 601
215 South Monroe Street
Tallahassee, FL 32301

Mr. John W. McWhirter
McWhirter, Reeves, McGlothlin,
Davidson & Bakas
Post Office Box 3350
Tampa, FL 33601

Ms. Suzanne Brownless
Suzanne Brownless P.A.
1311-B Paul Russell Road #202
Tallahassee, FL 32301

Mr. David M. Kleppinger
McNees, Wallace & Nurick
Post Office Box 1166
Harrisburg, PA 17108-1166

Mr. Floyd R. Self
Messer, Vickers, Caparello,
Madsen, Lewis, Goldman & Metz
Post Office Box 1876
Tallahassee, FL 32301-1876

Mr. G. Edison Holland, Jr.
Beggs & Lane
Post Office Box 12950
Pensacola, FL 32576

Mr. Barry Huddleston
Destec Energy
2500 CityWest Blvd. Suite 150
Houston, TX 77042

Mr. Eugene M. Trisko
Post Office Box 596
Berkeley Springs, WV 25411

Mr. Roger Yott
Air Products & Chemicals, Inc.
7540 Windsor Drive, Suite 301
Allentown, PA 18195

Mr. Peter J. P. Brickfield
Brickfield, Burchette & Ritts
1025 Thomas Jefferson St. N.W.
Eighth Floor, West Tower
Washington, D.C. 20007-0805

Mr. Stephen R. Yurek
Dahlen, Berg & Co.
2150 Dain Bosworth Plaza
60 South Sixth Street
Minneapolis, MN 55402

ATTORNEY

BEFORE THE PUBLIC SERVICE COMMISSION

PREPARED REBUTTAL TESTIMONY

OF

JOHN B. RAMIL

Q. Please state your name, address, occupation and employer.

A. My name is John B. Ramil. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company in the position of Vice President - Energy Services and Planning.

Q. Have you previously filed testimony in this docket?

A. Yes. I filed direct testimony in this docket on June 24, 1996.

Q. What is the purpose of your rebuttal testimony?

A. My testimony rebuts certain positions and statements made in the direct testimony of Mr. Hugh Larkin, Jr. for the Office of Public Counsel ("OPC").

Mr. Larkin recommends that the Commission issue a policy statement that would be not only unnecessary but also wrong. His recommendation that incremental fuel pricing is not appropriate sales other than "economy" transactions and other short-term transactions is based on an irrational distinction between short-term and long-term off-system sales. This approach would deny retail customers the overall benefits that can be derived from longer term transactions. I describe how Mr. Larkin's recommendation incorrectly isolates the consideration of longer term off-system sales transactions in the context of the fuel clause alone and ignores the total economic benefits these transactions provide. I take issue with Mr. Larkin's contention that competition is the <u>only</u> reason incremental fuel pricing might be used in pricing off-system sales. Finally, I show Tampa Electric's ratepayers are receiving benefits <u>today</u> from separated sales priced at incremental fuel prices through lower base rates and increased deferred revenues.

Q. Is it necessary for the Commission to issue a policy regarding the effect of certain wholesale sales on retail fuel cost recovery for Tampa Electric Company?

A. No. In the fuel hearing held in August of 1987, the Commission reviewed and approved the use of spot coal prices for fuel pricing of off-system sales. In the final order from that fuel hearing, Order No. 18136 for Docket Nos. 870001-EI, 870002-EI and 870003-EI, the Commission recognized the appropriateness of spot coal as the price basis for economic dispatch of units and as the price basis for avoided cost payments to cogenerators for both Florida Power Corporation (FPC) and Tampa Electric. Additionally, the Commission approved the concept of spot coal pricing for both short-term off-system sales and for the remaining term of the unit sale to Florida Power & Light from Big Bend Unit 4. The considerations which warranted the Commission's approval of the use of incremental fuel pricing of unit power sales in the 1987 proceeding remain valid today. Tampa Electric has made new sales priced on this basis ever since and has credited the retail fuel clause accordingly in each biannual fuel hearing. These practices were thoroughly reviewed in connection with all of Tampa Electric's off-system sales transactions in Tampa Electric's 1992 rate case. At that time, the Commission did not change the fuel pricing and treatment of long-term sales.

Q. Do you agree with Mr. Larkin's assertions regarding the type of sales for which incremental pricing is appropriate?

A. Yes, in part and no, in part. I agree with Mr. Larkin's assertion that incremental fuel pricing is appropriate for "economy" and other short-term transactions. As Mr. Larkin recognizes, ratepayers of both the selling utility and the purchasing utility realize benefits through the sharing of resources. However, Mr. Larkin has created an artificial distinction between the sale of electricity on a short-term or daily basis and longer term off-system sales which are separated for rate making purposes. Longer term off-system sales are also beneficial to the system. Therefore, no artificial limitation should be adopted as policy which would hinder the use of incremental fuel pricing for one type of beneficial transaction, (i.e. long-term off-system sales), but not for another.

Q. Mr. Larkin states that a longer term off-system sale cannot be an economy transaction. Do you agree with his assertion?

A. No, I do not. On page 5, line 6 through 8, Mr. Larkin has added qualifiers to the concept of "economy transaction" which are erroneous and irrelevant. The term of an off-system sale of capacity and energy is irrelevant as long as that transaction provides an economic benefit over that term. Further, economy broker transactions often occur during on-peak hours so, clearly, Mr. Larkin's qualifier that economy transactions can occur only during off-peak hours is in error. All off-system sales should be judged on their total economic benefits which are dependent on system economics and the specifics of each transaction. A policy which would arbitrarily require different fuel pricing and treatment of off-system transactions based on the term of the contract or Mr. Larkin's other qualifiers would be wrong and could result in loss of potential benefits provided by longer term transactions.

Q. Is it appropriate for Mr. Larkin to characterize the sale of capacity and energy from a unit at a fuel price below average fuel cost as a "subsidized" sale?

A. No, it is not. Mr. Larkin has made several errors in his characterization. First, he implicitly assumes that pricing fuel based on average cost guarantees that there will not be an adverse effect on the retail fuel adjustment clause. Every customer's transaction, whether retail or wholesale, affects the fuel adjustment clause differently based on their usage characteristics compared with the system generation curve. For example, FPC purchases 50 MW's from Tampa Electric on Tampa Electric's All-Requirements ("AR-1") wholesale tariff. The fuel pricing and fuel clause separation for this AR-1 sale is based on system average fuel costs. However, since FPC uses this purchase as an intermediate purchased power resource, it takes energy primarily at times on, or near, Tampa Electric's system peak. Since incremental fuel costs at these times are generally greater than the system average fuel revenues collected from Florida Power Corporation, this sale would be considered "subsidized" or "non economic" by Mr. Larkin. Mr. Larkin's concerns are with long-term sales priced at less than average fuel costs. Here is an example where a sale is priced at system average but by Mr. Larkin's fuel clause only criteria, this sale is non-economic. The point is that Tampa Electric follows the correct methodology for all of its sales. Credits to the fuel clause should be accounted for on a consistent basis and should reflect only the actual fuel revenues received from off-system sales.

This leads to the second error in Mr. Larkin's characterization which involves measuring the value of an off-system sale based <u>only</u> its impact on the fuel clause. Continuing with the FPC example above, Tampa Electric receives significant capacity and non-fuel energy revenues from the sale of system capacity under the AR-1 tariff. These additional revenues, taken into consideration along with the impact of the sale on system average fuel cost, make the transaction beneficial to retail ratepayers and Tampa Electric's system as a whole. In fact, Tampa Electric's retail customers are currently enjoying the benefits of the FPC sale through lower base rates because that sale was part of the separation of rate base and expenses to the wholesale jurisdiction that reduced retail revenue requirements in Tampa Electric's last base rate case in 1992.

Q. Mr. Larkin asserts that the presence of competition drives the need for incremental fuel pricing in off-system sales of capacity and energy. Do you agree?

A. Yes, in part. Undoubtedly, competition is shaping the wholesale power market. However, Mr. Larkin's scenario of two local utilities competing to serve a third utility is outdated. There are many more competitors in the wholesale market today and they are aggressively marketing power to utilities in Florida, frequently basing their pricing on incremental fuel costs.

Nevertheless, where I particularly disagree with Mr. Larkin is his assertion that <u>only</u> competition drives the need for incremental fuel cost pricing. For instance, just as the Commission approved spot coal pricing for economic dispatch of Tampa Electric's generation resources in 1987, purchasing utilities can require spot coal pricing to increase the dispatchability of their purchased capacity resources. Additionally, many purchasing utilities are willing to assume greater risk by purchasing energy based on spot coal prices on the prospect that if spot coal prices stay low, the sale will dispatch more. Should coal markets change and spot prices exceed the average price of coal, such wholesale customers risk having to pay fuel prices above average. This fuel revenue would then be credited to the retail fuel adjustment clause and thereby lower the retail average fuel cost. I doubt OPC or Mr. Larkin would recommend that average fuel cost be credited back to the retail fuel adjustment clause in this scenario.

Q. Mr. Larkin questions the designation of a wholesale customer as an incremental transaction. What are your thoughts regarding his position?

A. Mr. Larkin states that the designation of a new customer as an incremental customer is not justified from an economic standpoint. This is incorrect in the case of off-system sales. Providing capacity and energy to wholesale customers, in contrast to retail customers, is not a legal obligation of Tampa Electric. Whether or not wholesale transactions should be made depends upon on whether or not the overall effect is beneficial. Therefore, the designation as incremental is appropriate.

As a incremental customer, the use of spot coal pricing for the determination of incremental costs is appropriate. Tampa Electric purchases less coal under long-term contract minimums than is required by the generation needs of its retail customers alone. To the extent that Tampa Electric elects to serve one of these discretionary wholesale customers from a coal-fired unit, the appropriate fuel pricing for that sale is spot coal. This appropriately represents the incremental costs of making the sale and does not represent a price "concession" as Mr. Larkin states in his testimony.

Q. Mr. Larkin disagrees with your testimony that retail ratepayers benefit from wholesale sales through the contribution to fixed costs. Please describe why Mr. Larkin's disagreement with your testimony is incorrect.

A. It is indisputable that Tampa Electric's ratepayers are currently enjoying the benefits of Tampa Electric's participation in the wholesale bulk power market. For example, the jurisdictional revenue requirement used to set

Tampa Electric's retail base rates is approximately $9.0 million lower than it otherwise would have been if rate base and expenses were not separated from the retail jurisdiction to reflect transactions with incremental fuel pricing. Comparing this $9.0 million dollar annual revenue requirement reduction to the estimated $1.1 million fuel clause impact in 1995 clearly shows that retail ratepayers are _currently_ enjoying the positive benefits of this type of transaction year after year. In fact, retail ratepayers are enjoying approximately eight times as much positive benefit as they are absorbing negative fuel impact.

While it is true that retail rates do not change instantaneously with the addition, or loss of a separated sale, these sales nevertheless should not be discouraged through an arbitrary regulatory treatment as proposed by Mr. Larkin. Each of these sales contributes revenues to cover fixed costs which would otherwise be placed on retail customers.

In addition, as I stated in my direct testimony in this proceeding, Tampa Electric is currently operating under a regulatory treatment where the benefits to our customers from incremental off-system sales are even more immediate and direct than is normally the case. First, the separation of rate base and expenses for surveillance report purposes is adjusted monthly according to the current level of actual MW and MWH of separated sales compared to the level included in the last projected test year under which current base rates were set. Thus, when an additional sale is made, additional rate base and expenses are carved out of the retail jurisdiction raising the reported return on equity. Next, owing to the deferred revenue plan that the company, the Office of Public Counsel and the Florida Industrial Power Users Group agreed to, and which the Commission approved first for 1995 and then for the period 1996 - 1998, this increased return on equity results in increased deferred revenues and potential refunds.

Q. Is Mr. Larkin correct that the contribution to fixed cost derived from separated off-system sales flows directly to shareholders?

A. No, he is not. Beyond the impact on return on equity, Tampa Electric's current deferred revenue plans for the years 1995 and 1996 through 1998 are providing timely benefits to the retail ratepayers. For example, Tampa Electric deferred approximately $50 million in revenue from 1995 based on the deferred revenue plan approved on May 20,

1995. Had Tampa Electric's rate base and expenses associated with all separated wholesale sales not been separated in 1995, those deferred revenues would have been reduced by approximately $29 million.

Q. Do you agree with Mr. Larkin that all utilities will adopt the procedure of pricing off-system sales at incremental fuel costs?

A. No, I do not agree. First, Tampa Electric received approval for incremental fuel cost pricing of unit sales in the 1987 fuel hearing. This approval may not apply to other utilities.

Second, the economics of other utilities may not make this option beneficial. I believe there are differences between Tampa Electric's generation resources and those of the other utilities in the state. Because of these differences, the other utilities may not be able to price fuel at their incremental cost and be able to make sales which are both attractive in the market place and beneficial to their retail customers. Therefore, it is possible that other utilities in the state may not be in the position to make off-system sales proposals similar to those offered by Tampa Electric.

Q. What should be the Commission's expectation with respect to such sales by other utilities?

A. To the extent incremental fuel cost pricing can be used by other utilities to make off-system sales that might not otherwise be made and such sales are beneficial to the retail customers, they should be encouraged to make this type of transaction. By maximizing the use and the efficiency of generation resources, these companies and their ratepayers will benefit in the end. There is no rational reason for the Commission to issue a policy which will discourage utilities from executing off-system sales agreements that provide total economic benefits to their customers and their system. Such a policy would not only harm the selling utility's retail customers, but it would also disadvantage the purchasing utility's customers since they would be denied the benefits of an economic purchase.

Q. Does this conclude your testimony?

A. Yes it does.