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WITNESS: Direct Testimony of David Wheeler,
Appearing on Behalf of Staff

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TESTIMONY OF DAVID P. WHEELER

Q. Would you please state your name and business address?

A. My name is David P. Wheeler; 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850.

Q. By whom are you employed and in what capacity?

A. I am employed by the Florida Public Service Commission as a Regulatory Analyst in the Bureau of Electric Regulation, Division of Electric and Gas.

Q. Please give a brief description of your educational background and professional experience.

A. I graduated from the University of Kansas in 1982 with a Bachelor of Science Degree in Business Administration. In 1984 I was awarded a Master of Business Administration Degree with a concentration in finance by the University of Florida. From 1984 to January, 1990 I was employed by the Florida Department of Business Regulation as a financial analyst.

I began my employment with the Florida Public Service Commission in February of 1990, and have held various positions in the Bureau of Electric Regulation since that time. My primary job responsibilities are in the areas of electric utility cost of service and rate design.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss alternative regulatory treatments for Tampa Electric Company's (TECO) recent wholesale sales to the Florida Municipal Power Agency (FMPA) and the City of Lakeland (Lakeland), and to discuss TECO's proposed treatment of these transactions

Q. Could you briefly describe the wholesale sale to Lakeland?

A. The sale to Lakeland began on October 19, 1996, and ends September 30, 2006. The sale is a firm 10 MW sale under Long-Term Service Schedule D, and is made from TECO's system generating resources. The sale has priority equal to that of TECO's firm native load. There is also provision for an additional 10 MW with a priority subordinate to TECO's native load and existing wholesale commitments.

Q. Could you briefly describe the wholesale sale to the FMPA?

A. The sale to the FMPA began on December 16, 1996, and ends March 15, 2001. This sale is a firm Schedule D sale of capacity and energy from TECO's Big Bend Units 2 and 3, and Gannon Units 5 and 6. The FMPA is entitled to this capacity any time these units are able to supply it. For the initial year of the agreement, the sale is for 35 MW of capacity, and increases annually over the term of the contract to a level of 150 MW by the end. The contract also makes provision for the supply of supplemental capacity at the same reliability as the base capacity, once it is scheduled.

Q. Has TECO made similar sales in the past?

A. Yes. TECO has made long-term firm Schedule D sales to various entities from its Big Bend Generating Station.

Q. How were these sales treated in TECO's last rate case in Docket No. 920324-EI?

A. The sales were separated from the retail jurisdiction and placed in the wholesale jurisdiction. The separation allocated the generation and transmission rate base and non-fuel expenses (i.e. Operations and

Maintenance (O&M), depreciation, taxes, etc.) between the retail and wholesale jurisdictions, based primarily on each jurisdiction's contribution to the 12 monthly system peak demands. The variable O&M generation expenses were allocated on an energy, or per kilowatt hour, basis. Retail rates were then set based on the rate base and expenses allocated to the retail side, while on the wholesale side TECO's revenues and the resulting return were dictated by the agreements they negotiated with the separated wholesale customers, subject to the FERC's approval. Revenues from separated sales (with the exception of fuel revenues, which are addressed in the Fuel and Purchased Power Cost Recovery (Fuel) Clause), are retained by the stockholders.

Q. How are the fuel revenues from separated sales treated for regulatory purposes?

A. The fuel revenues are credited to the retail Fuel Clause to reduce the total system fuel costs paid for by the retail ratepayers. The Commission recently addressed the treatment of fuel revenues for wholesale sales in Docket 970001-ET, Order No. PSC-97-0262-FOF-EI, dated March 11, 1997. The Commission established a policy for new separated sales which requires that the fuel revenues returned to the ratepayers be equal to the system average fuel cost, regardless of how the fuel was priced pursuant to the wholesale contract, unless the utility could demonstrate net benefits to the ratepayers from the sale.

Q. How did TECO propose to treat the Long-term Firm Schedule D transactions in the rate case in Docket 920324-EI?

A. TECO proposed that the sales be included in the retail jurisdiction

1 When wholesale sales are retained in the retail jurisdiction, the retail
2 ratepayers support through their rates the entire cost of the plant and
3 expenses associated with the sales.
4 In addition, TECO proposed that 60% of the non-fuel revenues from the
5 Big Bend Schedule D and other interchange sales be retained below the line
6 by TECO's stockholders, and that the remaining 40% be returned to the
7 ratepayers through the Fuel Clause.
8 Q. Did the Commission approve this treatment?
9 A. No. The Commission rejected TECO's proposed sharing of non-fuel
10 revenues in Order Nos. PSC-93-0165-FOF-EI and PSC-93-0664-FOF-EI. The Long-
11 term Firm Schedule D sales were separated, and their costs and revenues
12 were placed in the wholesale jurisdiction.
13 For those interchange sales which were retained in the retail
14 jurisdiction (with the exception of broker sales), the Commission ordered
15 TECO to credit all of the non-fuel revenues back to the ratepayers through
16 the adjustment clauses: the O&M revenues through the fuel adjustment
17 clause, and the capacity revenues through the capacity cost recovery
18 clause.
19 Q. Does TECO's proposed retail jurisdictional treatment of the FMPA and
20 Lakeland sales comport with existing Commission policy for these types of
21 sales?
22 A. Absent a demonstration that TECO's ratepayers benefit from the
23 proposed treatment, it does not. TECO's proposal would retain the sales in
24 the retail jurisdiction, which does not appear to establish a fair balance
25 between ratepayers and stockholders. The FMPA and Lakeland sales do not

1 differ substantially from those firm Schedule D sales which are currently
2 separated into the wholesale jurisdiction. They are all firm, long-term
3 (i.e. longer than one year) sales that require TECO to commit capacity from
4 either specified units or system generating resources. The capacity thus
5 committed is no longer available for use by the retail ratepayers.
6 Further, since the revenues derived from the sales are less than the
7 embedded average cost of the sales, inclusion of these sales in the retail
8 jurisdiction allows TECO to subsidize its wholesale sales at the expense of
9 the captive retail ratepayers.
10 Based upon Commission policy established in TECO's last rate case,
11 any new long-term firm sales should be separated into the wholesale
12 jurisdiction based upon average embedded costs. In addition, pursuant to
13 the Commission's recent Order No. PSC-97-0262-FOF-EI in Docket 970001-EI,
14 the retail ratepayers should be credited with no less than an amount equal
15 to the system average fuel revenues from these sales, regardless of the
16 actual fuel revenues received. Any exceptions to these policies should be
17 addressed on a case-by-case basis, where it can be demonstrated that an
18 alternative treatment is in the best interests of the ratepayers.
19 Q. Has TECO demonstrated that their proposed treatment of the FMPA and
20 Lakeland sales is in the best interest of the ratepayers?
21 A. TECO has sought to include the FMPA and Lakeland sales within the
22 retail jurisdiction because they believe that they can no longer compete in
23 the wholesale market by pricing sales based upon their average embedded
24 cost. With the addition of the Polk IGCC unit (which has resulted in a 58
25 percent increase in TECO's total net generation plant in service between

year end 1995 and 1996) future wholesale sales based on TECO's system average cost appear to be particularly threatened. TECO believes that requiring separation under these circumstances creates a strong disincentive to make such sales, since the stockholders are required to absorb the entire shortfall between average embedded costs and the revenues from the sales.

TECO reasons that as long as the revenues from wholesale sales are greater than the incremental cost of producing the energy sold, the ratepayers are better off. TECO has filed a cost-effectiveness analysis of the FMPA and Lakeland sales which purports to show that the sales will produce net benefits to the ratepayers. However, this analysis is based on projected incremental costs and revenues associated with the FMPA and Lakeland sales and there is no assurance that they will continue to be cost-effective throughout the terms of the contracts. I have further concerns regarding TECO's estimate of the possible impact of these sales upon TECO's generation expansion plan. Because of the need of further discovery to determine the reasonableness of TECO's incremental cost-benefit analysis, I cannot make a determination as to whether the sales provide net benefits to TECO's retail ratepayers.

Q. Do you believe TECO's proposed stockholder sharing of the revenues from these sales is appropriate?

A. Absolutely not. While it may be appropriate to remove the disincentive caused by requiring TECO to separate the sales, it is entirely inappropriate to provide any further incentive to make these sales.

Based on TECO's testimony, their proposed treatment of the revenues

for the FMPA sale result in the stockholders retaining $11 2 million or about 82% of the total $13.7 million in NPV non-fuel revenues that are projected to be received over the life of the contract

If the sales remain in the retail jurisdiction, the retail ratepayers are fully supporting the costs associated with these sales through their rates. As a consequence, they should receive the full benefit of all the revenues which result from them. All energy charge revenues, including fuel, should be credited to the ratepayers through the Fuel Clause. The capacity charge revenues should be credited through the Capacity Cost Recovery Clause.

It is incumbent upon a prudent utility to attempt to maximize wholesale revenues from temporary surplus capacity for the benefit of the retail ratepayers who are responsible for the costs of supporting that capacity. Pursuant to the "regulatory compact", TECO has been granted the exclusive right to serve the retail customers in its service territory, and the opportunity to earn a fair return on the investment required to serve those customers. In return, they must provide reliable service to all customers who request it at the lowest possible cost. TECO should not require additional incentive to fulfill this obligation to lower costs to its retail ratepayers by engaging in cost effective wholesale transactions.

Q. Are there any existing incentives for TECO to engage in wholesale transactions of this type?

A. Yes. The sales will result in benefits to wholly owned subsidiaries of TECO's parent company, TECO Energy Inc. These affiliates provide coal and waterborne coal transportation to TECO. Increases in energy sales by

1 TECO will result in increased revenues to these affiliates

2 Q. Do you believe it is appropriate for TECO to retain for its

3 stockholders all of the revenues attributable to transmission services?

4 A. No. Pursuant to Federal Energy Regulatory Commission (FERC) orders

5 888 and 889, utilities are now required for wholesale sales to charge

6 themselves for the use of their transmission systems just as they do any

7 other user. Accordingly, a portion of the revenues from the FMPA and

8 Lakeland sales must be identified as relating to transmission. This

9 requirement does not justify TECO's proposed treatment under which its

10 stockholders would retain all of the transmission revenues. Although the

11 wholesale market for generation is now becoming more competitive, wholesale

12 transmission rates remain a regulated monopoly, subject to the jurisdiction

13 of the FERC. This would argue for the separation of all of these

14 transmission related costs and revenues into the wholesale jurisdiction

15 Q. Does this conclude your testimony?

16 A. Yes.

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