



1 Q. Have you previously testified before this Commission?

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3 A. Yes. I testified before this Commission in the last  
4 annual planning hearing Docket No. 910004-EU. I also  
5 provided a description of Tampa Electric's planning  
6 process at the FPSC Staff workshop on March 3, 1994. I  
7 also submitted testimony in Docket No. 930551-EI which  
8 was the numeric conservation goals proceeding for Tampa  
9 Electric. I testified in Docket No. 960409-EI regarding  
10 the prudence of Polk Unit One and, most recently, I  
11 testified in Docket No. 980693-EI regarding the company's  
12 flue gas desulfurization system for Big Bend Units 1 and  
13 2.

14

15 Q. What is the purpose of your testimony?

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17 A. The purpose of my testimony is to urge the Florida Public  
18 Service Commission ("Commission") to approve a revision  
19 to the current regulatory treatment afforded the  
20 company's existing wholesale power sales agreement with  
21 the Florida Municipal Power Agency ("FMPA") beginning  
22 January 1, 2000 and ending March 15, 2001, the expiration  
23 date of the agreement. As discussed below, this  
24 transaction creates significant net benefits to  
25 ratepayers. While this transaction provides overall net

1 benefits, regulatory treatment of this transaction  
2 imposes a significant loss on the company. Tampa  
3 Electric urges this Commission to approve a revenue flow-  
4 through treatment of this sale, which avoids harming the  
5 company while still providing benefits to customers.  
6 This treatment would begin at the expiration of the  
7 existing rate stipulation agreement approved by Order No.  
8 PSC 96-1300-S-EI ("Stipulation") and would be consistent  
9 with sound regulatory policy as reflected in previous  
10 Commission proceedings.

11  
12 I will also discuss the appropriate regulatory treatment  
13 for the generation-related gains on economy energy  
14 transaction which are short-term, cost-based transactions  
15 between electric utilities. These sales are made either  
16 through the Florida Energy Broker Network ("EBN" or  
17 "broker") or outside the broker. I will also discuss the  
18 appropriate regulatory treatment for transmission revenue  
19 received from such sales not made through the broker.  
20 Finally, I will explain why the Commission should not  
21 eliminate the 20 percent shareholder incentive  
22 established in Order No. 12923, issued January 24, 1984  
23 in Docket 830001-EU-B and why it should consider  
24 additional incentives.

1 Q. Have you prepared an exhibit to support your testimony?

2

3 A. Yes I have. My Exhibit No. \_\_\_\_\_ (TLH-1) was prepared  
4 under my direction and supervision and consists of one  
5 document.

6

7 Regulatory Treatment for FMPA Wholesale Agreement

8

9 Q. Please describe the FMPA wholesale power supply  
10 agreement.

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12 A. The FMPA wholesale power supply agreement is a letter of  
13 commitment dated October 2, 1996, as amended by letter  
14 agreements dated November 25, 1997, April 30, 1998, and  
15 October 14, 1998 that provides for long-term interchange  
16 service by Tampa Electric to FMPA in accordance with the  
17 Agreement for Interchange Service dated April 1, 1986, as  
18 supplemented by Service Schedule D (Long-Term Interchange  
19 Service) dated December 20, 1998 ("Agreement"). The  
20 original Agreement provides for the sale of specified  
21 amounts of capacity and associated energy from Tampa  
22 Electric's Big Bend Units 2 and 3, and Gannon Units 5 and  
23 6 from December 16, 1996 through March 15, 2001.

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1 The amounts of contracted capacity made available under  
2 the Agreement ranged from 35 megawatts in 1997 to 105  
3 megawatts through December 15, 1999. For the period  
4 December 16, 1999 through March 15, 2001, the contracted  
5 base capacity will be 150 megawatts. The Agreement  
6 provides that capacity would be available to FMPA any  
7 time generating resources from Big Bend Units 2 and 3,  
8 and Gannon 5 and 6 are available.

9  
10 In March 1998, Tampa Electric began serving FMPA through  
11 third-party resources. The Agreement was formally  
12 amended to reflect that FMPA's capacity needs could be  
13 met with power supplied from third party purchased power  
14 agreements instead of Tampa Electric's generating  
15 resources.

16  
17 Q. Why is making wholesale sales important to Tampa  
18 Electric?

19  
20 A. Making cost effective wholesale sales which provide  
21 revenues greater than incremental costs of making such  
22 sales is good for the company's retail customers as well  
23 as its shareholders. Since its 1985 rate case, when this  
24 Commission gave the company an incentive to keep retail  
25 prices down by increasing wholesale revenues, the company

1 worked hard to optimize those sales. The current and  
2 anticipated levels of such wholesale revenue has been one  
3 of several significant variables that the company has  
4 managed which have resulted in reduced prices to  
5 customers in spite of the pressure of increasing costs.  
6 Retail customers benefit through low prices and  
7 shareholders benefit in the increase in probability of  
8 the company earning its allowed rate of return.  
9

10 Q. Has the Commission provided the company incentives to  
11 enter into transactions like the FMPA sale?  
12

13 A. Yes, most definitely. In the company's 1985 rate order,  
14 the Commission reduced retail revenue requirements by \$37  
15 million based on Tampa Electric's existing sale of  
16 capacity and energy to Florida Power and Light Company.  
17 In that proceeding, the Commission challenged the company  
18 to make up the deficit in revenue requirements by making  
19 up to \$37 million in wholesale sales. The Commission  
20 treated the wholesale sales by allowing the company to  
21 credit 100% of the non-fuel revenue from such sales above  
22 the line in the retail jurisdiction. In 1987, the  
23 Commission approved a proposal by the company to credit  
24 fuel revenues based on the incremental fuel cost from  
25 off-system sales to the retail customer fuel adjustment

1 clause ("Fuel Clause") which had the effect of  
2 encouraging wholesale sales. In the company's 1992 rate  
3 case, the Commission separated certain of the company's  
4 wholesale sales at system average cost, certain others at  
5 unit embedded cost, while still other sales were not  
6 separated from the retail jurisdiction. For some sales  
7 that were not separated from the retail jurisdiction, net  
8 revenues were shared 80/20. There are good, sound policy  
9 reasons for this.

10  
11 Q. What regulatory treatment has the Commission prescribed  
12 for the costs and revenues associated with the Agreement  
13 during the stipulation?

14  
15 A. During the February 1997 fuel adjustment hearing, an  
16 issue was raised regarding cost recovery of non-fuel  
17 revenues associated with sales such as the Agreement.  
18 The Commission opened Docket No. 970171-EU to establish  
19 the regulatory treatment of costs and revenues associated  
20 with such sales. In its Order No. PSC-97-0262-FOF-EI  
21 issued March 11, 1997 the Commission set out its basic  
22 policy with respect to the regulatory treatment for the  
23 recovery of fuel costs of long-term, firm, wholesale  
24 power sales. Under this policy a utility is required to  
25 credit average system fuel costs through the Fuel Clause

1 unless it demonstrates, on a case-by-case basis, that  
2 each new sale provides net benefits to retail ratepayers  
3 in which case incremental costs can be credited.  
4

5 During the hearing conducted in August 1997 in Docket No.  
6 970171-EU, Tampa Electric demonstrated that the sale to  
7 FMPA contributed net present value benefits of \$9 million  
8 (1997 dollars) to the company's retail customers as shown  
9 in my exhibit. In making its decision in this docket,  
10 the Commission concluded that solely because of the terms  
11 of the Stipulation, Tampa Electric was required to  
12 separate the capital and operating and maintenance costs  
13 ("O&M") of the FMPA sales from the retail jurisdiction at  
14 average embedded cost. Furthermore, in light of the fact  
15 that the Commission, in Order No. PSC-97-1273 FOF-EI,  
16 recognized that the FMPA sale provided overall net  
17 benefits to retail ratepayers, the company was permitted  
18 to credit the Fuel Clause and Environmental Cost Recovery  
19 Clause ("ECRC") with revenue amounts equal to the system  
20 incremental fuel and SO<sub>2</sub> allowance costs, respectively,  
21 resulting from the FMPA sale. In the event that fuel  
22 revenues received under the contract were less than the  
23 differential costs for fuel and SO<sub>2</sub>, the company was  
24 ordered to reduce retail operating revenues by the amount  
25 of shortfall.

1 Q. Did Tampa Electric follow the Commission's order for  
2 treating the costs and revenues associated with the FMPA  
3 wholesale power supply agreement?  
4

5 A. Yes. To the extent that Tampa Electric's retail  
6 resources were being used to supply FMPA, from the  
7 inception of the agreement and continuing through  
8 December 31, 1999, Tampa Electric has and will continue  
9 to separate the capital and O&M costs (excluding fuel and  
10 SO<sub>2</sub>) associated with the FMPA sale from the retail  
11 jurisdiction at average embedded costs. In addition,  
12 whenever such retail generating resources were used to  
13 serve the sale the company credited the Fuel Clause with  
14 incremental fuel revenues and credited the ECRC with  
15 incremental SO<sub>2</sub> allowance revenues associated with the  
16 sale as described in the hearing in Docket No. 970171-EU.  
17 (The fuel and SO<sub>2</sub> costs were documented in the company's  
18 1997 and 1998 Fuel Clause and ECRC filings.) Finally, if  
19 there was a shortfall between incremental fuel revenues  
20 and SO<sub>2</sub> revenues and incremental costs, the company made  
21 up the difference with additional credits from retail  
22 revenues.  
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24 Q. What was the effect of separating the sale at average  
25 system embedded costs?

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A. This separation treatment resulted in the allocation of costs that exceeded the non-fuel revenues from the sale by approximately \$0.7 to \$2.1 million per month. The net result of this regulatory treatment was that although the FMPA sale was shown to provide net benefits to ratepayers, the company was losing approximately \$0.7 to \$2.1 million per month serving the Agreement.

The FMPA sale is an incremental or opportunity sale. Tampa Electric has no obligation to wholesale customers to make these kinds of sales and would only do so in those cases where net benefits accrue to the general body of ratepayers and the company's shareholders are not harmed. Separating FMPA sales on an average cost basis, creates a tremendous disincentive to Tampa Electric to make these types of sales in the future. The resulting loss of benefits to our general body of ratepayers under that treatment would be in no one's best interest.

Q. How did Tampa Electric serve the FMPA sale after February 1998?

A. In March 1998, Tampa Electric began serving FMPA partially through third party resources. The third party

1 resources consisted of purchased power agreements with  
2 Florida Power Corporation and PECO Energy Company and by  
3 April 28, 1998, the total amount of third-party supplied  
4 purchase power equaled the entire amount of contracted  
5 capacity to be supplied to FMPA under the Agreement.  
6 Therefore, since April 28, 1998, none of Tampa Electric's  
7 generating units have been used to serve the sale.  
8

9 Q. How did Tampa Electric treat the costs and revenues  
10 associated with the FMPA wholesale power supply agreement  
11 after February 1998?  
12

13 A. In every month that Tampa Electric was not serving FMPA  
14 directly from its own generating resources, the purchase  
15 power costs and sales revenues were excluded from the  
16 retail jurisdiction. The amount of energy required to  
17 serve the FMPA sale equaled the amount of energy  
18 purchased from third-party suppliers. Therefore, in each  
19 of those months the FMPA sale was served totally by  
20 third-party purchases and the fuel cost recovery factor  
21 was not affected in any way.  
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23 Q. Why is Tampa Electric seeking different regulatory  
24 treatment for the FMPA wholesale power supply agreement  
25 for the period of January 1, 2000 through March 15, 2001?

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A. When the Commission made its decision in Order No. PSC-97-1273-FOF-EU, it established the regulatory treatment for the duration of the Stipulation or through December 31, 1999. During its discussion at the agenda conference when the decision was made, the Commission made it clear that Tampa Electric could seek alternative treatment after the Stipulation ended. We are now requesting different treatment since the benefits to ratepayers far exceed those contemplated in the original economic benefit analysis with Tampa Electric forced to make up this difference at a substantial loss to shareholders.

Q. What is Tampa Electric's proposed treatment for the FMPA wholesale power supply agreement for the period January 1, 2000 through March 15, 2001?

A. The company is proposing a revenue flow-through treatment that credits all revenues received from the FMPA sale to retail customers through the ECRC and Fuel Clause. The company will credit the ECRC with revenues to offset the incremental SO<sub>2</sub> costs. The SO<sub>2</sub> allowance costs will be determined by using the market price for SO<sub>2</sub> allowances and the weighted average SO<sub>2</sub> emission rate for Big Bend

1 Units 2 and 3 and Gannon Units 5 and 6. All remaining  
2 revenues will be credited to the Fuel Clause.  
3

4 Q. Why is this proposed treatment appropriate?  
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6 A. The proposed FMPA treatment provides customers benefits  
7 derived from this type of wholesale sale, and eliminates  
8 the absolute disincentive that is created by the  
9 separation treatment required during the Stipulation.  
10 Tampa Electric's proposed regulatory treatment of the  
11 Agreement is fair and reasonable, and sends an  
12 appropriate signal rather than discouraging utilities  
13 from seeking future opportunities to reduce their costs  
14 of providing service.  
15

16 Q. What are the overall total benefits for retail ratepayers  
17 resulting from the FMPA agreement?  
18

19 A. The appropriate way to review the overall total benefits  
20 of the Agreement is to review what was known and  
21 reasonably assumed at the time the Agreement was signed.  
22 As stated above, and shown in my exhibit, the company  
23 originally projected net present value benefits of \$9  
24 million (1997 dollars) for the contract period. These  
25 benefits were determined based upon a cost benefit

1 analysis of this wholesale power transaction during the  
2 period 1997 through 2001. In evaluating the benefits  
3 realized from the current regulatory treatment and those  
4 benefits to be obtained under the proposed regulatory  
5 treatment from January 1, 2000 through the end of the  
6 Agreement, the company has determined that \$13.5 million  
7 (1997 dollars) net benefits will be achieved as shown in  
8 my exhibit.

9  
10 **Q.** Why should the Commission approve your proposed  
11 regulatory treatment of the FMPA sale?

12  
13 **A.** It should be approved as a matter of sound regulatory  
14 policy consistent with the Commission's Order in Docket  
15 No. 970171-EU as well as a matter of basic fairness. The  
16 proposed regulatory treatment will provide additional net  
17 benefits for the remainder of the contract and these  
18 benefits will be passed through to customers without  
19 penalizing the company. The separation treatment based  
20 upon average embedded costs imposed during the Agreement,  
21 on the other hand, does in effect provide a severe  
22 penalty to the company.

23  
24 It is simply unreasonable and unfair to continue to  
25 require a regulatory treatment which provides a financial

1 penalty and disincentive for entering into a transaction  
2 which has reasonable expectations of providing net  
3 benefits to customers. The reason separation was  
4 required initially was related to the Stipulation. The  
5 Stipulation term ends December 31, 1999 and accordingly  
6 separation treatment should end.  
7

8 Economy Sales Transactions  
9

10 Q. Please describe the appropriate regulatory treatment for  
11 generation costs associated with economy sales?  
12

13 A. For generation costs, revenues sufficient to cover the  
14 fuel costs associated with Schedules C and X transactions  
15 are credited through the Fuel Clause and revenues  
16 sufficient to cover the associated SO<sub>2</sub> credits are  
17 credited through the ECRC. Revenues are also credited to  
18 operating revenues to cover incremental variable O&M  
19 costs incurred by the company.  
20

21 Q. How are the gains from economy energy sales treated for  
22 regulatory purposes?  
23

24 A. Gains are realized by the company selling the energy as a  
25 result of the "split the savings" methodology used to

1 calculate the transaction price of economy energy. The  
2 gain is simply the difference between the transaction  
3 price and the associated incremental fuel, O&M and SO<sub>2</sub>  
4 costs of the seller. This Commission has long had a  
5 policy of encouraging these transactions by providing  
6 incentives for the utilities to engage in economy sales.  
7 On January 24, 1984, the Commission entered its Order No.  
8 12923, Docket No. 830001-EU-B authorizing utilities to  
9 retain 20 percent of their gains on economy sales while  
10 providing net benefit to ratepayers. In its order the  
11 Commission agreed with Staff witness testimony that a  
12 positive incentive is desirable for the purpose of  
13 maximizing the benefits of the Energy Broker Network:  
14 "We believe Staff's witness was correct in stating that  
15 "a positive incentive will preserve current levels of  
16 economy sales and may result in increased sales and that  
17 a 20 percent incentive is large enough to maximize the  
18 amount of economy sales and provide a net benefit to  
19 ratepayers." The Supreme Court of Florida affirmed the  
20 Commissions position in Citizens v. Public Service  
21 Commission, 464 So 2d 1194 (Fla. 1985). It was clear  
22 both then and now that the Commission provided an  
23 incentive to engage in economy sales type transactions.

1 Q. What is the appropriate regulatory treatment for the  
2 generation-related gain on Schedule C and X transactions  
3 not made through the broker?  
4

5 A. The treatment should be the same as if it were made  
6 through the broker. The broker is merely a computerized-  
7 based, telephonically-linked, system driven by hardware  
8 and software. In essence, it is a tool that facilitates  
9 Schedule C transactions for those utilities that wish to  
10 use the system. There is no logical reason for making  
11 any distinction between types of economy sales based  
12 solely on the type of tools used by the buyer and seller  
13 to communicate their offers and document the  
14 transactions. Any generation-related gains associated  
15 with economy sales transactions should be treated the  
16 same way whether the broker is used or not since the  
17 policy of incenting such transactions clearly should  
18 apply to both broker and non-broker transactions.  
19 Accordingly, eighty percent of those gains assigned to  
20 the retail jurisdiction should be credited to ratepayers  
21 through the fuel clause. The company should retain 20  
22 percent of the gain from a non-broker transaction.  
23  
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25

1 Q. What is the appropriate regulatory treatment for  
2 transmission revenues received from non-separated economy  
3 sales?

4  
5 A. Transmission revenues from economy sales should be  
6 separated on an energy basis. Eighty percent of those  
7 revenues should be credited to retail ratepayers through  
8 the Fuel Clause. The company should retain the remaining  
9 20 percent.

10  
11 Q. Should the Commission eliminate the 20 percent  
12 shareholder incentive set forth in Order No. 12923,  
13 issued January 24, 1984 in Docket No. 830001-EU-B?

14  
15 A. Definitely not. In fact the Commission should increase  
16 the incentive to give greater encouragement to utilities  
17 to enter into these types of transactions. Elimination  
18 of the 20 percent shareholder incentive will negatively  
19 impact both sellers and purchasers since fewer  
20 transactions will occur in the absence of incentives.  
21 The shareholder incentive encourages sellers to offer  
22 their as-available energy within the state and provides  
23 mutual benefits for customers of both sellers and buyers.

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25

1 Q. Why should utilities be incented to ensure there are  
2 mutual benefits for customers of both sellers and  
3 purchasers of energy?  
4

5 A. Utilities should be incented to carry reserve margins in  
6 excess of their minimum planning margins to serve two  
7 purposes: one is to meet contingency needs of the state  
8 when individual and statewide loads are higher than  
9 expected due to extreme weather conditions or when  
10 generating unit availability is less than expected. The  
11 second purpose is to balance the market and business risk  
12 of those utilities that depend on the market for  
13 reliability purposes with those utilities that help meet  
14 market needs. It is appropriate for the Commission to  
15 provide incentives to utilities that have acknowledged  
16 the need for additional capacity and have modified their  
17 resource plans accordingly. Particularly, when such  
18 incentives will maximize benefits to their retail  
19 customers.  
20

21 Q. Please summarize the appropriate regulatory treatment for  
22 the generation-related gains on economy energy  
23 transactions, the appropriate regulatory treatment for  
24 transmission revenues received from economy sales, and

1 why the Commission should not eliminate the 20 percent  
2 shareholder incentive.

3  
4 A. Tampa Electric enters into hourly or multi-hour, cost-  
5 based, "split the savings" economy wholesale energy  
6 transactions. These transactions can be made utilizing  
7 the broker or not utilizing the broker. The transactions  
8 result in "share the savings", of which eighty percent of  
9 the energy-based generation gains and transmission  
10 revenues are returned to ratepayers as a credit to the  
11 Fuel Clause. The remaining 20 percent is retained by the  
12 company. The 20 percent is critical in incenting and  
13 benefiting sellers, purchasers and ratepayers. Both  
14 sellers and buyers are able to offset and reduce fuel  
15 costs to ratepayers with sellers retaining a portion of  
16 the gains within the company. The Commission should  
17 seriously consider enhancing incentives for those  
18 utilities willing to provide generation resources to  
19 serve the needs of its ratepayers and the Florida market  
20 due to unexpected slumps in supply-side resources and/or  
21 customer demand. Therefore, although the wholesale  
22 market has changed considerably over the past few years,  
23 the incentives continue to serve an important purpose and  
24 continue to send a correct and positive message to  
25 wholesale market participants.

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Q. Does this conclude your testimony?

A. Yes, it does.

## FMPA Wholesale Power Sales Agreement

### Net Benefits to Retail Ratepayers (As of October 1999)

<u>Period</u>	<u>Net Benefits</u> <u>('97\$ x 1000)</u>
1997 - 1999	\$ 9,841 (1)
2000 - 2001	\$ 3,699 (2)
<b>Total Net Benefits</b>	<hr/> <b>\$ 13,540</b>
<b>Original Net Benefits Estimate</b>	<b>\$ 9,004 (3)</b>

- (1) Actual/estimated impact on deferred revenue refunds due to separation of production and transmission resources from the retail jurisdiction less fuel credits booked as above the line operating revenues per Order No. 970171-EU.
- (2) Includes estimated revenues and costs to serve the FMPA contract assuming current projections.
- (3) Original estimate provided by Tampa Electric Witness Branick in Document 4 of her prefiled testimony in Docket No. 970171-EU.