

AUSLEY & McMULLEN

ATTORNEYS AND COUNSELORS AT LAW

227 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(850) 224-9115 FAX (850) 222-7560

March 1, 2000

HAND DELIVERED

ORIGINAL

RECEIVED-FPSC
MAR - 1 PM 11:20
RECORDS AND REPORTING

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

Re: Review of the appropriate application of incentives to wholesale power sales by investor-owned electric utilities; FPSC Docket No. 991779-EI

Dear Ms. Bayo:

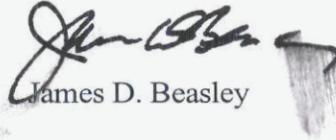
Enclosed for filing in the above docket are fifteen (15) copies of each of the following:

1. Prepared Direct Testimony of Deirdre A. Brown.
2. Prepared Direct Testimony of W. Lynn Brown.

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

1 JDB/pp
Enclosures
cc: All Parties of Record (w/encls.)
1
5 + org
1

RECEIVED & FILED
MW
FPSC-BUREAU OF RECORDS

D. Brown
DOCUMENT NUMBER-DATE
02770 MAR-18
FPSC-RECORDS/REPORTING

W. L. Brown
DOCUMENT NUMBER-DATE
02771 MAR-18
FPSC-RECORDS/REPORTING

Trimmed to copy



TAMPA ELECTRIC

ORIGINAL

TAMPA ELECTRIC COMPANY

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 991779-EI

TESTIMONY

OF

DEIRDRE A. BROWN

DOCUMENT NUMBER-DATE

02770 MAR-18

FPSC-RECORDS/REPORTING

BEFORE THE PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

DEIRDRE A. BROWN

1
2
3
4
5
6 Q. Please state your name, address and occupation.

7
8 A. My name is Deirdre A. Brown. My business address is 702
9 North Franklin Street, Tampa, Florida 33602. I am
10 employed by Tampa Electric Company ("Tampa Electric" or
11 "company") and am the Director of Electric Regulatory
12 Affairs.

13
14 Q. Please provide a brief outline of your educational
15 background and business experience.

16
17 A. I received a Bachelor of Science Degree in Accounting in
18 1982 from Florida State University and a Masters of
19 Business Administration in 1994 from the University of
20 South Florida. In 1990 I joined TECO Energy's Audit
21 Services Department as an Internal Auditor. I was
22 promoted to Senior Auditor in 1991 and to
23 Supervisor/Administrator in 1992. In 1994 I was promoted
24 to Administrator, Health Plans where I was responsible
25 for managing the administration of Tampa Electric's

1 health plans, employee assistance program, and health
2 fitness facilities. In 1995 I returned to Audit Services
3 as Director and was responsible for auditing all
4 functions of TECO Energy and for certain corporate
5 compliance and code of ethics activities. In June 1998,
6 I was promoted to my current position as Director,
7 Electric Regulatory Affairs, where I am responsible for
8 managing Tampa Electric's regulatory issues and policy
9 related to base pricing, fuel, environmental, system
10 planning, conservation, and wholesale transactions. I am
11 a Certified Public Accountant and a Certified Internal
12 Auditor.

13
14 **Q.** What is the purpose of your testimony?

15
16 **A.** The purpose of my testimony is to explain the
17 appropriateness of incentives for utilities to make
18 certain types of wholesale sales and to describe how
19 these incentives should be structured.

20
21 **Q.** Does Tampa Electric currently receive incentives to make
22 certain wholesale sales?

23
24 **A.** Yes. Tampa Electric receives incentives to make certain
25 wholesale sales as approved by the Florida Public Service

1 Commission ("Commission") in Order No. 12923, issued
2 January 24, 1984, in Docket No. 830001-EU-B. This order
3 authorized utilities to retain 20 percent of the gains on
4 economy sales while flowing 80 percent of these net
5 benefits to ratepayers. In its order the Commission
6 agreed with Staff witness testimony that a positive
7 incentive is desirable for the purpose of maximizing the
8 benefits of the Energy Broker Network:
9

10 We believe Staff's witness was correct in stating
11 that "a positive incentive will preserve current
12 levels of economy sales and may result in
13 increased sales and that a 20 percent incentive
14 is large enough to maximize the amount of economy
15 sales and provide a net benefit to ratepayers."
16

17 The Supreme Court of Florida affirmed the Commission's
18 position in Citizens v. Public Service Commission, 464 So
19 2d 1194 (Fla. 1985). It was clear then as it is now that
20 positive incentives play an important role in maximizing
21 economy sales to provide net benefits to ratepayers.
22

23 Q. For what types of wholesale transactions is Tampa
24 Electric currently applying the approved incentive?
25

1 **A.** Tampa Electric is currently applying the incentive to
2 economy transactions as defined in the direct testimony
3 of the company's witness Lynn Brown.

4
5 **Q.** Please describe the regulatory treatment currently
6 applied to these types of transactions.

7
8 **A.** For generation costs associated with economy sales,
9 revenues sufficient to cover the incremental fuel costs
10 are credited through the Fuel and Purchased Power Clause
11 ("Fuel Clause") and revenues sufficient to cover the
12 associated incremental SO₂ costs are credited to the
13 Environmental Cost Recovery Clause ("ECRC"). Revenues
14 attributable to operating and maintenance costs ("O&M")
15 are credited to operating revenues. Eighty percent of
16 the gain on the sale, which is the difference between the
17 transaction price and the associated incremental fuel, SO₂
18 and O&M costs, is credited through the Fuel Clause with
19 the remaining 20 percent being retained by the company.

20
21 Transmission revenues from economy sales are separated on
22 an energy basis pursuant to Order No. PSC-98-0073-FOF-EI
23 issued January 13, 1998 and reconfirmed in Order No. PSC-
24 98-1080-FOF-EI. Specifically, 80 percent of transmission
25 revenues are credited to retail ratepayers through the

1 Fuel Clause. The company retains the remaining 20
2 percent.

3
4 Q. Should the Commission continue to provide for company
5 incentives to encourage non-firm wholesale sales?

6
7 A. Yes. Not only should the Commission continue to provide
8 company incentives for economy transactions, it should
9 include incentives for all non-separated, non-firm
10 wholesale sales as described by witness Mr. Brown and
11 should increase the level of these incentives for sales
12 made within Florida.

13
14 Q. How should the incentive be designed?

15
16 A. The incentive should be designed or accounted for in a
17 similar manner as described above for economy
18 transactions. Generally, the Commission should include
19 all non-separated, non-firm transactions rather than only
20 economy transactions. Specifically, the incentive should
21 be applied to both demand and energy components of any
22 gains from the transaction.

23
24 Gains from the transaction should be determined by taking
25 the overall transaction price less incremental fuel

1 costs, which should be credited to the Fuel Clause, less
2 incremental SO₂ costs, which should be credited to the
3 ECRC, and less O&M costs which should be credited to
4 operating revenues. The remaining amount is comprised of
5 reservation charges, call premiums, and associated
6 transmission revenues ("capacity revenues") and energy
7 revenues. According to Order No. PSC-99-2512-FOF-EI,
8 dated December 22, 1999 for Docket No. 990001-EI, energy
9 revenues for non-separated, non-firm transactions should
10 be credited to the Fuel Clause. The same order
11 acknowledged that if these sales include an identifiable
12 capacity component, the capacity revenue should be
13 credited to retail ratepayers through the Capacity Cost
14 Recovery Clause ("Capacity Clause"). Accordingly, Tampa
15 Electric proposes to credit 80 percent of the capacity
16 revenues to the Capacity Clause and 80 percent of the
17 energy revenues to the Fuel Clause for all sales made
18 outside the state. The company proposes to credit 60
19 percent of the capacity revenues to the Capacity Clause
20 and 60 percent of the energy revenues to the Fuel Clause
21 for all sales made within the state. The company will
22 retain the remaining 20 percent or 40 percent of the
23 capacity and energy revenues, depending on whether the
24 sales were made to customers within Florida.

1 Q. Why should utilities be incented to make non-firm
2 wholesale sales?

3
4 A. Utilities have a general obligation to make prudent
5 decisions and to take cost-effective actions to benefit
6 their ratepayers. Incentives serve as a means to
7 encourage beneficial actions above and beyond that
8 general obligation. If beneficial actions are achieved,
9 it is appropriate to reward the utility for its
10 performance. Not only does the utility benefit, but its
11 ratepayers benefit by these actions.

12
13 In the instance of non-firm wholesale sales, incentives
14 will encourage utilities to continue to enter into
15 prudent and cost-effective transactions and will
16 encourage increased efforts to optimize transactions. By
17 providing a greater incentive for utilities that make
18 non-firm sales within the state, the Commission is
19 recognizing those utilities that have acknowledged the
20 need for appropriate reserve margins that benefit their
21 own customers as well as all Florida ratepayers. These
22 transactions will be accomplished without placing retail
23 ratepayers at risk. In fact, incentives will encourage
24 more energy to be made available on the Florida wholesale
25 market, thereby increasing retail reliability.

1 Ratepayers of the selling utility will receive benefits
2 through lower rates by these additional efforts while the
3 utility also benefits. Ratepayers of the purchasing
4 utility will also benefit because more energy will be
5 made available to the Florida wholesale market,
6 increasing the competitiveness of the market.
7

8 **Q.** Is it appropriate for the Commission to establish a "bar"
9 or minimum level for non-firm sales whereby the incentive
10 applies only after the utility meets the minimum level?
11

12 **A.** No. In Order No. 12923, the Commission agreed with
13 Staff's testimony that establishing a "bar" or minimum
14 level is a difficult issue. Up until this time, the
15 selling utility was allowed to retain profits only from
16 economy sales that exceeded the level approved in the
17 company's last rate case. The Commission agreed to
18 remove economy sales transactions from general rate
19 proceedings and to include them in Fuel and Purchased
20 Power proceedings because:
21

22 Problems with the current treatment stem from
23 the difficulty in projecting economy sales and
24 the potential bias of a utility to under project
25 their economy sales profits. The difficulty in

1 projecting economy sales profits is due to
2 uncertainty associated with fuel prices,
3 weather, and forced outages of generating units
4 and transmission lines. These variables affect
5 not only how much a utility can sell and at what
6 price, but also how much other utilities will
7 buy at different prices.

8
9 For these same reasons, it is not appropriate to establish
10 a "bar" or minimum level for non-firm sales whereby the
11 incentive applies only after the utility meets the minimum
12 level.

13
14 **Q.** Theoretically, why should gains from non-firm sales
15 offset fuel and purchased power costs?

16
17 **A.** Gains from non-firm sales should offset fuel and
18 purchased power costs because the transactions are
19 primarily energy-based. These non-firm sales are made
20 when the company's generation is not needed to serve
21 retail ratepayers. If the generation were needed, the
22 sales would be terminated or recalled. Accordingly, it
23 is appropriate to offset fuel and purchased power costs
24 with these energy-based revenues.

1 Q. If the assets used to make non-firm sales are paid for by
2 retail ratepayers, why shouldn't 100 percent of the gains
3 be used to offset fuel and purchased power costs?
4

5 A. As described above, the use of positive incentives will
6 likely increase non-firm sales. Even if only 80 percent
7 or 60 percent of the gains associated with these sales
8 are used to offset fuel and purchased power expenses,
9 overall retail ratepayers will earn greater benefits
10 through increased sales.
11

12 Q. Should all Florida utilities account for these types of
13 transactions in the same manner?
14

15 A. Yes. Although utilities use different nomenclature when
16 differentiating between the types of wholesale
17 transactions, the nature of the sales are essentially the
18 same and they should be accounted for similarly among
19 Florida utilities.
20

21 Q. Does that conclude your testimony?
22

23 A. Yes, it does.
24
25