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March 1, 2000

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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

JDB/pp
Enclosures

cc: All Parties of Record (w/encls.)

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D. Brown
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W. L. Brown
DOCUMENT NUMBER-DATE
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TAMPA ELECTRIC

ORIGINAL

TAMPA ELECTRIC COMPANY

BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 991779-EI

TESTIMONY
AND EXHIBIT OF

W. LYNN BROWN

DOCUMENT NUMBER-DATE
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BEFORE THE PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

W. LYNN BROWN

Q. Please state your name, address and occupation.

A. My name is Lynn Brown. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Director of Wholesale Marketing and Sales.

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

A. I received a Bachelor's degree in Electrical Engineering from Louisiana State University in 1972 and subsequently joined Tampa Electric. I held various engineering, operations and managerial positions in Energy Delivery from 1973 through March 1997. I became Manager of Short-Term Wholesale Trading in April 1997 and was promoted to my present position in August 1998. I am responsible for short-term and long-term wholesale power purchases and sales, including non-firm energy sales that are made both on and off the Energy Broker Network ("broker").

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to describe Tampa Electric's wholesale marketing activities, provide an overview of the wholesale market within and external to Florida, and explain the significance of company incentives for non-separated, non-firm wholesale sales.

Q. Have you prepared an exhibit supporting your testimony in this proceeding?

A. Yes. My Exhibit No. 1 (WLB-1) consists of one document entitled "Glossary to Wholesale Schedules and Terms."

Q. Please describe Tampa Electric's Wholesale Marketing and Sales Department.

A. Tampa Electric's Wholesale Marketing and Sales Department ("Wholesale Marketing and Sales" or "department") is comprised of 13 full-time employees and one part-time employee. The department's general responsibilities include monitoring the wholesale market, preparing analyses and forecasts, and negotiating short-term and long-term sales and purchases. The department is also responsible for the consummation of all wholesale

transactions including negotiations of terms and conditions, energy scheduling, OASIS reservation, transaction tagging, transaction monitoring, and deal documentation for billing and auditing.

Wholesale Marketing and Sales operates a trading floor 24 hours a day, seven days a week and has contractual relationships with numerous utilities and power marketers for sales and purchases of power. The department's annual budget is approximately $1.3 million.

Q. Please describe the types of wholesale transactions Tampa Electric enters.

A. Tampa Electric enters into many types of wholesale transactions depending on the needs of its wholesale customers and Tampa Electric's available capacity and energy. The company utilizes several types of wholesale sales schedules as described in detail in my exhibit.

Q. For what types of wholesale sales is Tampa Electric currently receiving an incentive?

A. Tampa Electric currently applies the 20 percent company incentive on gains from all economy energy sales made

under FERC-approved Schedule C and Schedule X. This includes sales made on and off the broker. The company has consistently applied the incentive since April 1984 upon approval by the Florida Public Service Commission ("Commission") in Docket No. 830001-EU-B.

Q. Please describe the types of wholesale sales to which Tampa Electric believes an incentive should apply.

A. It is appropriate to retain an incentive for all non-separated, non-firm wholesale sales. This should not only include Schedules C and X sales, but it should also include Service Schedule J and G sales and all non-firm, market-priced wholesale sales.

Q. Why should the company be incented to make non-separated, non-firm wholesale sales?

A. It has been proven that incentives work. Incentives provide a motivation to behave a certain way and to achieve a desirable result. Tampa Electric's ratepayers have benefited from the company making economy sales through rate offsets from gains on these sales. Over the last 16 years, the company has also benefited by being able to retain 20 percent of the net gains.

The incentive has encouraged Tampa Electric to be aggressive regarding the production and sale of economy energy. The company has optimized generating unit maintenance, operated generating units to make sales, optimized economic generation dispatch, and devoted time, effort and resources to consummating transactions. This has resulted in a win-win for the company and its retail ratepayers.

Conditions, however, have changed. The wholesale market, especially the short-term energy market, has changed considerably since 1984. Because of these changes, it is appropriate for the Commission to extend a company incentive to all non-separated, non-firm sales.

Q. Please describe the changes in the non-firm energy market in Florida.

A. Florida's energy market has changed considerably in recent years. Prior to 1997, most non-firm transactions were cost-based, next-hour sales and purchases involving two Florida utilities. Most transactions were accomplished on the broker and the power was retained in the state to benefit all Florida ratepayers. These transactions were mostly "split-the-savings" transactions

providing equal economic benefits to the buyer and seller.

Since 1997 the players and trading methods have changed. FERC Orders 888 and 889 opened the wholesale power market by requiring transmission owners to provide standardized open access. This brought about new market participants, including power marketers. Power marketers are now party to many non-firm wholesale transactions nationwide. These entities have market-based pricing freedom and use it extensively to take advantage of supply and demand imbalances.

Until recently, the broker facilitated only cost-based transactions which marketers found to be too limiting. Most transactions today are made via market-based power exchanges and off-broker deals that are consummated via telephone. Furthermore, the market has become volatile due to regional generation shortages and transmission constraints. The Florida market is influenced by a transmission constraint at the Georgia border that limits both purchases and sales across the state line and can result in high in-state prices. Additionally, market spikes in other regions of the country can place a high demand on available power in Florida, which can result in

higher volumes of high-priced power exported from the state or higher in-state prices. The combination of new market participants, commodity-demand fluctuations, transmission constraints and price volatility has resulted in a very different non-firm wholesale market.

Q. What incentive structure is Tampa Electric proposing?

A. Tampa Electric is proposing that a company incentive of 40 percent be applied for all non-separated, non-firm sales made within the state. A lower company incentive of 20 percent should be applied for all non-separated, non-firm sales made outside the state.

Q. What effect would this proposed company incentive have on retail ratepayers?

A. This incentive will continue to lower rates to retail ratepayers with enhanced system reliability. Eighty percent of the margins for all non-separated, non-firm sales made outside Florida and 60 percent of the margins for all non-separated, non-firm sales made inside Florida would be credited directly to retail ratepayers. The company incentive will encourage selling utilities to maximize transactions especially within the state.

Utilities that are willing to provide generation resources to serve the needs of its ratepayers and the Florida market due to changes in supply-side resources and/or customer demand should receive a greater incentive. Larger volumes of non-firm energy on the wholesale market will result in a more robust and competitive Florida market. Purchasers of energy benefit by having more resource options that provide competitively priced energy and increased reliability for firm and non-firm retail customers. Therefore, all Florida retail ratepayers (buyers and sellers) benefit by these types of transactions.

Q. Would Tampa Electric continue making non-firm sales absent an incentive?

A. Of course. Tampa Electric has always strived to provide its retail ratepayers with reasonably priced, highly reliable electric service and off-system sales have helped achieve this goal. By having an incentive in place, however, utilities are motivated to go above and beyond the norm in transacting non-firm sales. The incentive provides additional justification and encouragement to maintain a professional staff that understands and can track the highly competitive

wholesale market, and that knows how to optimize transactions and maximize sales revenues.

Q. Please summarize your testimony.

A. Tampa Electric's Wholesale Marketing and Sales Department is responsible for monitoring the wholesale market, analyzing and forecasting the company's needs for purchased power and ability to sell energy, and making short-term and long-term sales and purchases. Because of recent changes in the Florida wholesale market, it is even more important to incent utilities to make off-system sales.

Tampa Electric proposes that the Commission extends company incentives to all non-separated, non-firm wholesale sales. A higher company incentive of 40 percent should be applied to all non-separated, non-firm sales made within the state and a lower incentive of 20 percent should be applied for all non-separated, non-firm sales made outside the state. The incentive will encourage utilities to retain knowledgeable marketers of wholesale energy, maintain competitive and reliable generation, and aggressively market excess non-firm energy. Incentives benefit ratepayers by encouraging

wholesale sales and then sharing with retail ratepayers the majority of profits from these off-system sales. Purchasing utilities also benefit by obtaining competitively priced energy for their customers at a cost lower than other supply-side resources.

Q. Does this conclude your testimony?

A. Yes it does.

TAMPA ELECTRIC COMPANY
DOCKET NO. 991779-EI
WITNESS: W. LYNN BROWN
EXHIBIT NO.____ (WLB-1)

TAMPA ELECTRIC COMPANY

EXHIBIT OF W. LYNN BROWN

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Glossary of Wholesale Schedules and Terms

Schedule or Term	Description
Schedule A Emergency	Used to replace generation due to an unplanned deficiency (forced outage). Price is based on fuel plus an hourly adder from the highest cost on-line generating unit at the time of the sale. The sale is limited to a 72-hour period, and is and non-separated.
Schedule B Scheduled/ Short – Term	Scheduled for short-term use to cover capacity deficiencies due to a unit outage. Is often used after the 72-hour time limitation has expired for Schedule A. The price for capacity and non-fuel energy is based on the embedded cost of the unit(s) most likely to provide the service.
Schedule C Economy	Sold to buyers wanting to avoid use of their own higher cost generation. Is offered on an hourly basis and priced based on the mid-point between the seller's and buyer's cost for generation for incremental system energy. Buyer must have its own back-up generation available. Sales are non-separated.
Schedule D	Normally a one-year or longer commitment to provide a specified amount of capacity and energy at a forecasted level of availability. Price typically carries a non-negotiable capacity charge and an incremental energy charge. The most common types of Schedule D power sales are unit power sales, station power sales or system power sales. Sales are typically separated.
Schedule G Back-up	Allows the buyer to provide required reserve capacity margin by contracting for it rather than building it. The buyer pays a negotiated reservation fee for this service plus a negotiated capacity and incremental energy charge when capacity is actually called upon. Sales are typically short-term, non-separated.
Schedule J Negotiated	Normally a short-term commitment to provide a specified amount of capacity and energy at a forecasted level of availability. Price may include a negotiable capacity charge and negotiable energy charge. Energy charges are typically based on the type of generating resource used to serve the sale. Normally offered with less availability than Schedule D. Sales may be firm or non-firm and are typically non-separated.
Schedule X Extended Economy	Similar to Schedule C, but commitment is longer than one hour. A majority of Schedule X sales are packaged within one-hour blocks totaling up to 7 days. Sales are not separated.
Market-Based Sales	Market-based price rather than cost-based sale that is typically executed similar to Schedules J and G. Sales can be firm or non-firm for varying terms and are typically short-term and non-separated.
Schedule AR or PR All or Partial Requirements	All or a portion of the total buyer's load is served at the same availability level as the seller's firm retail load. Pricing is based on the seller's net embedded cost of providing the requirement service to the customer. Fuel is billed at the seller's system average fuel cost. These agreements are normally long-term, separated contracts.
Broker or EBN	Florida Energy Broker Network which utilizes hardware and software to match buyers and sellers. Transactions have historically been cost-based and "split the savings" in nature, however on October 7, 1999, broker members approved the use of for market-based pricing.
Economy Sales	Schedule C and X sales made on or off the broker.
Non-firm Sales	Sales that can be interrupted to serve firm and non-firm retail customers.
Non-separated Sales	Sales that are made and supported by the utility's retail jurisdictional assets.