

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

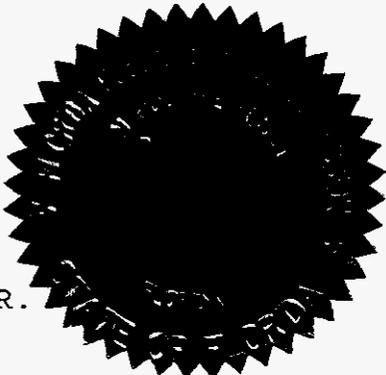
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In the Matter of : DOCKET NO. UNDOCKETED
:
WORKSHOP CONCERNING :
NON-FIRM ELECTRIC SERVICE :
PROVIDED BY PENINSULAR :
FLORIDA INVESTOR-OWNED :
UTILITIES. :

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PROCEEDINGS: WORKSHOP

BEFORE: CHAIRMAN JOE GARCIA
COMMISSIONER J. TERRY DEASON
COMMISSIONER SUSAN F. CLARK
COMMISSIONER E. LEON JACOBS, JR.
COMMISSIONER LILA A. JABER



DATE: Monday, March 27, 2000

TIME: Commenced at 10:00 a.m.
Concluded at 2:58 p.m.

PLACE: County Commission Board Room
Hillsborough County Center
601 East Kennedy Boulevard
Tampa, Florida

REPORTED BY: KORETTA E. STANFORD, RPR
Official FPSC Reporter

FLORIDA PUBLIC SERVICE COMMISSION

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

1 IN ATTENDANCE:

2 ROBERT ELIAS, FPSC, Division of Legal Services

3 JOE JENKINS and REESE GOAD, FPSC, Division of

4 Electric & Gas

5 THOMAS PAGE, representing the Governor's Office

6 ELLIOTT LOYLESS, representing Constellation Power

7 Development

8 RICH ZAMBO, representing Florida Industrial Cogeneration

9 Association

10 JEFF VINE, representing Johnson Controls, Incorporated

11 TOM SAWYER, representing PCS Phosphate White Springs

12 TOM HERNANDEZ and HUGH SMITH, Tampa Electric Company

13 RICHARD SALEM, representing Salem Saxon & Nielsen

14 NAINAN DESAI, representing University of South Florida

15 MIKE WOODALL, representing Pasco County Schools

16 JOHN MCWHIRTER, representing Florida Industrial Power

17 Users Group

18 P.R. TALLURI, representing Southdown Cement Corporation

19 CAESAR SEIJAS, representing Energy Alternatives,

20 Incorporated

21 ED MARLOVITS, representing Air Liquide America

22 ROGER FERNANDEZ, representing Cargill Fertilizer,

23 Incorporated

24 BOB REED, representing Multipower Systems

25

P R O C E E D I N G S

1
2 COMMISSIONER GARCIA: Good morning. It's a
3 pleasure having you here. This is the workshop on
4 Florida's energy needs and the interruptible issues that
5 some of the customers have had. I don't think we need to
6 have any notice read, so we're going to get started right
7 away.

8 Let me just mention that Tom Page is here on
9 behalf of the governor and the Secretary of Economic
10 Development and Tourism, right? It's OTTED. I might have
11 said that backwards. So, if you want to speak to the
12 governor, he's sitting here for him, so you can speak to
13 him at some point.

14 I also -- we are going to have our staff make an
15 intro presentation. Mr. Reese Goad of our Electric
16 Division is going to walk you through what we perceive are
17 some of the issues and what we've been seeing.

18 Then, I'm going to ask several people to speak,
19 who didn't get to speak at the last meeting. Then, I'm
20 going to let Tampa Electric Company speak. They asked for
21 some time to explain some of the issues that are relevant.

22 So, I'll ask those of you who are here to stay
23 for that. And that -- I think that will not take more
24 than 30 minutes, but I've requested you stay. And then
25 we'll take the rest of the persons who signed up, and

1 we'll call them up to speak as that goes.

2 Have I done everything I needed to do? We're
3 fine?

4 Mr. Goad, why don't you go ahead and get
5 started.

6 MR. GOAD: Okay.

7 Good morning, everybody. Can you hear me
8 through the microphone?

9 COMMISSIONER GARCIA: Let me just point out -- I
10 was asked to point out we're on the internet. Back in
11 Bristol, Terry is very famous for his internet
12 appearances, so...

13 And before I get back by that, Mr. Goad, let me
14 do something that I think is important also. Let me
15 introduce the Commissioners, because we have a new
16 addition.

17 To my right is Terry Deason; to his right is
18 Leon Jacobs; to my left is Susan Clark; and to her left is
19 our newest acquisition, Lila Jaber, who was appointed by
20 the governor a few months ago.

21 Reese, go right ahead.

22 MR. GOAD: Okay. I do recognize many of you
23 guys from last month's workshop, so I'll try to keep this
24 as brief as possible. It is very similar, more or less
25 the same as last time.

1 What we've done, we've put together some
2 information to just lay out what nonfirm services is in
3 Florida, maybe identify some issues with that service.

4 First question you may have to answer, what is a
5 nonfirm electric customer? Many of you may know, but that
6 the answer is it's a customer that is willing to accept
7 interruption of service in exchange for a lower bill. As
8 you can see, I think the bulb was flashing here, service
9 cannot be guaranteed.

10 The three basic types of interruptible services,
11 commercial industrial nonfirm service in Florida, first
12 being interruptible service, is where the utility has full
13 control over the customer's interruption and separately
14 curtails the customer's usage with the flip of a switch or
15 the push of a button, quite extreme to that extent.

16 Curtable service, being the next, is where
17 the company will actually call the customer and request
18 that they reduce usage to a predetermined level. That's
19 agreed upon when the contract is set for the customer's
20 own nonfirm rates. If a customer fails to do so, it's
21 within their discretion or they will be penalized.

22 Load management, the third type of nonfirm
23 service, is where a small customer typically contracts for
24 individual devices, maybe an air conditioner, could even
25 be specific load tied to a specific breaker, operates very

1 much like interruptible service, but it is limited.

2 There are approximately 16,000 commercial
3 industrial nonfirm customers being served by the three
4 peninsular investor-owned utilities. FP&L serves the
5 majority of those customers, well over 15,000. Of the
6 total 16,000 customers, they represent approximately 1,000
7 megawatts of interruptible load. FP&L's customers
8 represent about 40% of that interruptible load. On the
9 other hand, Tampa Electric has quite a large amount of
10 interruptible load with only 57 customers.

11 The term that we'll talk about today, and I'm
12 sure we'll talk about in the future, is the reserve
13 margin. Reserve margin simply is the difference between
14 total available capacity, which includes purchases and
15 total generation, and firm load. You can see that
16 represented between the dotted lines on the TV monitor.

17 As you can see, nonfirm load, plus firm load,
18 make up total load, with a nonfirm load portion operates
19 within the reserve. Utilities do not plan a reserve for
20 nonfirm load, only for firm load. It's important to note
21 that. If reserve were calculated relative to the total
22 load which, let's say, it was nonfirm plus firm, reserves
23 would be significantly less.

24 In fact, this illustration shows what reserves
25 would have been for the past six years, you can see on the

1 red bar. This is what reserve would have been had we
2 calculated reserve margin relative to total load, which is
3 nonfirm plus firm; rather, we calculated relative to firm,
4 and that's represented in the yellow bar.

5 As you can see, in 1999, they were in the mid
6 teens for the typical calculation of a reserve. However,
7 in 1999, the calculated relative total load, the reserves
8 would have only been less than 10% for the three
9 peninsular investor-owned.

10 The following graphic shows you, on average,
11 what a typical customer could expect to receive in
12 discounts receiving nonfirm service versus firm service.
13 And this range is about 19 to 27%.

14 Since this slide was made, we have received some
15 information from Tampa Electric that demonstrates what the
16 actual savings were, and they were closer to 30% than the
17 22% in this period, but this magnitude of use to customers
18 is much greater than 250,000 used to calculate this
19 discount.

20 During the past six years, we've noticed a
21 decline in the reserve margin for the peninsula. As you
22 can see, in '94, we had 22% all the way down to 17% back
23 in 1999 for the summer reserve. While at the same time
24 we've noticed that the commercial industrial interruptions
25 have increased. We expect these trends will subside by

1 the summer of 2004 when the peninsular investor-owned have
2 agreed to reduce their planning criteria to 20%.

3 An option available to the nonfirm curtailable
4 and interruptible customer, this is your largest customer,
5 in lieu of interruption, is a buy-through provision. A
6 buy-through provision simply is where the local serving
7 utility will contract with the third-party utility to
8 acquire power so that these customers do not have to be
9 interrupted. That power is passed through at the purchase
10 price, plus a small administrative price.

11 Recently, some interruptible customers have
12 voiced a desire to know what the purchase price of the
13 buy-through power will be before deciding to go ahead with
14 it. The way it stands now, the customer has to indicate
15 to the company at time of initiation of service whether or
16 not they're willing to accept buy-throughs, and then if
17 buy-throughs are available, the company will contract for
18 them. There is no discussion -- there is no requirement
19 for discussion of the price.

20 In response to at least one question at last
21 month's workshop, we prepared some information on the
22 utility by the utility basis. We've isolated this to the
23 largest customer and have not considered the smaller load
24 management type customers. I'd like to show you since
25 '94, FP&L has interrupted its customers anywhere from zero

1 to three times, three times in '99. And there were no
2 buy-through exercises during that six years.

3 The FPC, they have exercised buy-throughs, but
4 first the interruptions, they have exercised or
5 interrupted these customers a maximum of nine times in
6 '98, five times in '99, as you can see, near zero the
7 other years. And a few of the years, they have exercised
8 a buy-through option.

9 And TECO, similarly, has interrupted and
10 exercised buy-throughs for its customers. TECO's
11 interrupted a maximum of 16 times in '99, with 139
12 buy-throughs for its customers in 1999. You can see the
13 trend in those numbers.

14 I've been told that we can't take any questions,
15 since this is being broadcast over the internet from the
16 audience, but if you come up to speak and would like to
17 ask any questions, we'd be happy to answer them.

18 At this point, I'd like to turn it over to the
19 chairman.

20 COMMISSIONER GARCIA: Very good.

21 If you've got questions throughout this part of
22 the presentation, I know it's tough for you to get up
23 here, when your time is up, when we call you up just go
24 ahead and ask the question, staff will take a mike and
25 answer it.

1 All right. With that we're going to begin with
2 a list of persons that I have. And if I miss you, just
3 let me know, and we'll take you up. But first name I've
4 got here is Steve Davis, which I haven't seen him show up
5 in those that are here to speak, IMCI Rep.

6 SPEAKER: He's not going to be here,
7 Mr. Chairman.

8 COMMISSIONER GARCIA: Very good, trustee
9 attorney, which is almost just as good.

10 Elliott Loyless, you are here, I think. What
11 we'll ask you to do is when you begin your presentation,
12 give me your full name and who you represent. I think the
13 mike on that podium is live.

14 Elliott, do you have anything to hand out or no?

15 MR. LOYLESS: No.

16 COMMISSIONER GARCIA: Okay.

17 MR. LOYLESS: Commissioners, I am Elliott
18 Loyless. I'm here for Constellation Power Development,
19 residing in Franklin, Florida.

20 As I say, I'm representing Constellation Power
21 Development. They're part of the Constellation Energy
22 Group, which also owns Baltimore Gas & Electric.

23 Constellation is a company that is an
24 independent power producer for people that develop
25 merchant plants that have been discussed at some length

1 before this Commission.

2 Constellation has already announced the
3 intention to build one merchant plant in Florida and
4 we're, frankly, looking at several more. I'd first like
5 to say that I want to agree with the previous speakers
6 that you heard in Lakeland in February. Those large,
7 mostly industrial, customers who own nonfirm rates that
8 are being damaged by the fact that those rates continue to
9 increase and the reliability continues to decrease. The
10 reason seems obvious from your own staff presentation that
11 this is because the limited supply of generation available
12 for Florida.

13 Like other independent power developers,
14 Constellation believes so strongly that the demand for
15 electricity in Florida will continue to be much greater
16 than the reasonably-priced generation supply; that we're
17 willing to come into the state and bet our own money that
18 we can build merchant plants, sell in the wholesale market
19 to franchise the utilities in Florida, and make money
20 doing that. And the key is we're going to bet our own
21 money, not the Florida electric consumers.

22 I submit that the construction of these merchant
23 plants is the answer to the very difficult question that
24 you faced last month and today. If you certify the
25 franchise utilities to build more capacity, and if it's

1 too much, then you run the risk that the Florida consumers
2 are going to have to pay more for electricity than they
3 would have otherwise.

4 If there's too little capacity built, then the
5 Florida consumer still will pay. They'll pay through
6 reduced reliability of service and a weakening of
7 Florida's economy. However, I think if you encourage the
8 building of merchant plants, you can avoid both of those.

9 First, if we, as independent power producers and
10 developers, are right on the bet we want to make, then we
11 build our plants, the franchised utilities can buy some of
12 their wholesale power from us, only when they want to and
13 only when it will save them money. And that savings,
14 presumably, will pass through the Florida electric
15 customers.

16 And if we're wrong, if we put our capital into
17 building plants in Florida and we're wrong, nobody has to
18 buy that power, and we only risk our own money. No
19 Florida consumer would have to pay for our mistake.

20 While I'm here, I would like to address two
21 questions that were posed from the bench during the same
22 meeting in February in Lakeland.

23 The first one, regarding those customers that
24 came before you and said that they were being hurt by
25 nonfirm rates that were rising and nonfirm reliability

1 that was declining, the question was asked what is the
2 relevance?

3 Well, the relevance is that it does damage
4 Florida's economy. And that's relevant to all of us.
5 These companies that appeared before you then, and I think
6 some will today, too, are major employers in Florida and
7 major contributors to Florida's tax revenue.

8 And I don't know how they can continue to do
9 that, and do it effectively, if they're paying more for
10 nonfirm service here in Florida than their out-of-state
11 competitors are paying for firm service. So, I think
12 that's the relevance. And I won't belabor that, because I
13 think it's been spoken to very eloquently by the people
14 from those companies.

15 The second question, and I'm not sure I got the
16 exact phrasing, but I think it was do you understand that
17 rates in Florida, electric rates, are cost-based and the
18 costs are what they are?

19 Well, let's see how we determine what they are.
20 First, a franchised utility comes to you and says these
21 are our costs. And for each class of service, and so this
22 is what we need to charge. And then you'd have it very
23 difficult -- if that was the end of it, you'd only need
24 one employee, I guess the time-stamped applications, but
25 what really happens is you'd have the very difficult task

1 of making sure that those costs are correct and the
2 allocation of those costs is correct.

3 And complicated, everybody wants to come help
4 you make that determination. Utilities bring their
5 lawyers and accountants. Public counsel comes in with
6 lawyers and accountants, advocacy groups like FIPUG, they
7 all want to help you determine what that cost is. And I
8 would say when we say what the costs are, it means, you
9 know, whoever's lawyers and accountants win, get to say
10 what the costs are.

11 Now, in a free market, you don't have to do
12 that, as long as you have efficient market with a lot of
13 buyers and sellers, costs are what they are, then, really.
14 And I'm not standing before you today to say scrap the
15 system you have now.

16 If you're going to regulate prices, this
17 adversarial system's the best way to do it. I'm only
18 suggesting that for one small piece; that is, franchised
19 utility goes out to buy outside wholesale power, that you
20 encourage many suppliers in the marketplace, like these
21 merchant plants, so that when they come to you and say
22 this is what we have to pay, you know that the true market
23 price, that's what the costs are. You know it's the real
24 price, and you know it's the lowest possible price,
25 because of an efficient market is in operation.

1 Well, Commissioners, I realize you have a
2 difficult task, and I know you want to accommodate the
3 needs of the nonfirm customers who have spoken to you. I
4 know higher reserve margins would help that, simply having
5 electric -- the franchised utilities build higher reserve
6 markets, but that runs a risk.

7 It runs a risk of Florida rate payers having to
8 pay more and they would, otherwise. So, again, I'd
9 suggest to you that the solution is to encourage merchant
10 plants in Florida, let them risk their own money to help
11 settle this problem.

12 Thank you.

13 COMMISSIONER GARCIA: May I ask you a few
14 questions, Mr. Loyless?

15 MR. LOYLESS: Sure.

16 COMMISSIONER GARCIA: We probably all know up
17 here, but why don't you just for the audience, how many
18 megawatts is Constellation currently in the process of
19 committing to Florida that you can talk about as opposed
20 to you --

21 MR. LOYLESS: We have planned and announced the
22 development of an 850-megawatt peaking plant in Brevard
23 county. And quite frankly, we're looking at a lot of
24 other possibilities.

25 COMMISSIONER GARCIA: You said you encourage.

1 Obviously, this Commission voted this merchant plant, one
2 plant approved, and that's before a Supreme Court ruling.

3 If the Supreme Court finds that this Commission
4 were right, do you have any suggestions on how to
5 encourage it? Because you mentioned something about the
6 20% reserve margin, and I've had several combustion
7 turbine developers, not combined cycle, but similar to the
8 project you're doing, come in and sort of be very critical
9 of our 20% reserve margin saying that that would probably
10 hurt merchants' ability to come into the state.

11 Do you agree with that? Do you disagree with
12 that? And that's question one. And the other question
13 was how do you think we can encourage? If the majority
14 position of this Commission is upheld by the Supreme
15 Court, how is it that we, as a policy -- is there anything
16 else for us to do to encourage the merchants?

17 MR. LOYLESS: Okay. First, regarding the
18 reserve margin, I will not pretend to be able to say what
19 the proper reserve margin is. I think there needs to be a
20 minimum reserve margin, and I don't have the expertise to
21 say what that would do.

22 I will say whatever it is, utilities under your
23 jurisdiction should be free to obtain that in whatever way
24 is best; be it, build plants, buy from people like my
25 client, or whatever.

1 The things that you can do to encourage this;
2 first, if it's -- if this market operates like a normal
3 commodity market with very high cost of entry and there is
4 a very capital intensive business, it seems it opens up
5 what you would probably have is more capacity than is
6 needed beyond a reasonable reserve margin. That's hard on
7 some of the suppliers. Somebody's not going to make
8 money.

9 COMMISSIONER GARCIA: It's good for Florida.

10 MR. LOYLESS: That's right. There's nothing
11 wrong with too much capacity, if somebody else is taking
12 the risk, and that's what would happen in that case. You
13 can probably encourage that by some definitive order,
14 rather than a case-by-case basis. Certainly people that
15 loan money to developers look at Florida, unless they
16 wouldn't know what's going to happen.

17 We don't even know what's going to happen if
18 this Commission prevails before the Supreme Court.
19 There's still the Florida cabinet, and that's still only
20 one project, and everything is still on a case-by-case
21 basis. You know, legislature's going to look at this
22 subject. And I would encourage this agency to take very
23 active part in that.

24 COMMISSIONER GARCIA: Okay. Thank you very
25 much, sir.

1 MR. LOYLESS: Sure.

2 COMMISSIONER GARCIA: Appreciate it.

3 Mr. Rich Zambo. We've got the screens right
4 here in front of us, and we'll --

5 MR. ZAMBO: Good morning, Commissioners. My
6 name is Richard Zambo. I'm appearing today on behalf of
7 the Florida Industrial Cogeneration Association. My
8 apologies to the audience, but I need to face this way so
9 I can see my screen, or I'm not going to know where I am
10 on this presentation.

11 Commissioners, we have a number of interests in
12 this proceeding in terms of reliability, interruptible
13 service, reserve margins. And we'd like to just do a
14 little presentation today to share our views of things and
15 our concerns with you.

16 I'd like to start out with just a short
17 introduction of who we are and what our interests are.
18 Industrial cogeneration, basically, is a generation of
19 steam and electric energy in conjunction with the
20 manufacturing operation. It's important to note that the
21 primary purpose for industrial cogeneration, is for use
22 within the manufacturing process.

23 We produce thermal energy and electricity. We
24 achieve very high efficiencies when we do this, because we
25 basically produce two energy resources from a single fuel

1 source. And we use energy resources such as waste energy
2 that's generated, waste fuels which we generate in the
3 process or, in some cases, we're required to use fossil
4 fuels. But, again, we do so at very high efficiencies.

5 Some of the characteristics of industrial
6 cogenerators are they're typically very large energy
7 users. They're also participants in very competitive
8 industries; chemical, fertilizer, mining, citrus, sugar,
9 paper.

10 We have competitors who are not only located in
11 Florida, but located in other states, and in some cases in
12 other countries. We're very energy cost-conscious,
13 because our products are essentially commodities. And who
14 wins in a commodity market is who can produce that product
15 at the least cost.

16 And typically, energy costs are a significant
17 portion of our production costs. We are self-generators
18 in that when we have an opportunity to cost-effectively
19 generate our own power, we do so through the use of
20 cogeneration.

21 We are also interruptible electricity users. We
22 use interruptible power at our facilities that don't lend
23 themselves to self-generation, and we also buy
24 interruptible standby power to back up our generation
25 during those periods when we have to maintain or repair

1 our equipment.

2 We're energy-cost activists in the sense that
3 we're very aware of the need to conserve and be efficient
4 in our energy use in order to reduce our costs. And we're
5 very active in the natural gas and electric regulatory
6 arenas to look out after those costs. We're also very
7 valuable, in our view, Florida resources.

8 As Mr. Loyless pointed out, a lot of the
9 industries that are involved in this docket or in this
10 proceeding, and who are interruptible customers, are
11 substantial contributors to the Florida economy in terms
12 of employment, in terms of tax base. We generate
13 electricity from nonfossil fuels or high efficiencies, and
14 we provide reliable electric generating capacity.

15 I think history would show the utility industry
16 would probably agree that our generating capacity is very
17 reliable, typically achieves availabilities of 95% above
18 range. We contribute to Florida's energy conservation
19 goals. We reduce the consumption of fossil fuels in the
20 state, in the associate of emissions, and we also reduce
21 the flow of dollars out of the state to purchase fuel
22 which would be, otherwise, other states or other countries
23 for the purchase of oil, gas or coal.

24 Although, to our knowledge, no one maintains an
25 accurate information based on industrial cogeneration in

1 Florida, it's our estimate that at least 1,000 megawatts
2 of industrial cogeneration is in operation in the state,
3 which is about equal to the total nonfirm load that we're
4 talking about in this proceeding. At this point, we feel
5 like we may be an overlooked energy resource when it comes
6 to addressing reserve margins.

7 This is a point of interest. In winter of 1989,
8 the state suffered some pretty severe power outages during
9 the December, around the Christmas holidays, because of
10 extreme cold weather period. And the Commission, through
11 an investigation, determined that the culprit in that case
12 was essentially a lack of reserve margins by Florida Power
13 Corporation.

14 In order to bring the reserve margins back up to
15 acceptable levels quickly, the Florida Power Corp. went
16 out to the cogeneration industry, which responded with
17 about 1,000 megawatts of new capacity that was brought
18 on-line on favorable terms and conditions and in a pretty
19 quick period of time. And we think that industrial
20 cogenerators or cogenerators in general may be able to
21 assist today, but we're not really being encouraged to do
22 so.

23 So, briefly, our concerns, the reason we're here
24 today, is we're concerned with preserving our ability to
25 compete in a very competitive market for our commodity

1 products. The key to that competitiveness is our ability
2 to secure adequate reliable reasonably cost supplies and
3 electricity. And we do that either through cost-effective
4 purchases, such as interruptible power or self-generation
5 or sometimes we do a combination of both.

6 Therefore, we're very concerned with Commission
7 policies that effect the ability of nonfirm rates or
8 nonfirm tariffs, the cost of the nonfirm service and our
9 ability to self-generate.

10 Now, as industrial cogenerators, we've been
11 involved in Commission proceedings since the early '80s,
12 when PURPA was first adopted and cogeneration was a new
13 player on the scene. And we've been involved in various
14 issues and dockets that affect our ability to control
15 energy costs.

16 And one thing that kind of strikes us is when we
17 got first got involved in these issues in the early 1980s,
18 the Commission faced an opposite issue. You were
19 grappling about what do you do with excessive reserves.
20 The utilities were building more power plants than was
21 needed. And there was the issues of the day were things
22 like intergenerational inequities, and whether or not a
23 plant was used and useful in the public interest, if it
24 was not needed to serve the loads at that time or if it
25 was considered to be excessive reserves.

1 And so, it's a little surprising to us that in a
2 regulated arena like this is, that now we've got ourselves
3 in the direct opposite position. We went from having too
4 many reserves to the point where we've got a question
5 about whether or not we have adequate reserves.

6 And before we get into why we think that may
7 have happened, I want to just go through real quick
8 historical perspective with you. As I mentioned earlier,
9 the cogeneration industry was really born in 1978 through
10 the passage of the public utility regulatory policies act.
11 That act was designed to promote conservation, reduce
12 demands on the utility system, reduce consumption of
13 fossil fuels.

14 In spite of strong opposition, the Commission
15 adopted rules in early 1980s, which effectively encouraged
16 cogeneration. And as a result of those regulations, much
17 of our existing industrial capacity, industrial
18 cogeneration capacity, was developed during the 1980s.
19 But since then, relatively little has been developpe due to
20 changes of Commission policies.

21 Commission has essentially adopted a lot of
22 seemingly small changes, which in aggregate, seemed to
23 come together and acted as a disincentive to cogeneration.
24 For example, one of the things that we have to add insult
25 to injury, not only are interruptions increasing, but as

1 far as standby rates, if you're a standby interruptible
2 customer, you have to pay what I call a demand ratchet,
3 what the utilities call a reservation charge. We have to
4 reserve the capacity of service.

5 There's no other tariff, that I'm aware of in
6 the state, no other customer class that I'm aware of, that
7 has to pay ratchet. Matter of fact, the Commission
8 specifically set about eliminating ratchets from all
9 utility rates in the late '70s, because they viewed them
10 as a disincentive to conservation.

11 In other words, if you've got to pay for your
12 electricity, whether you use it or not, you have no
13 incentive not to use it. We view the ratchets and standby
14 rates as a disincentive to cogeneration, because it now
15 limits the amount of costs we can offset by generating
16 ourselves in lieu of purchasing from the utilities,
17 because we have to pay that reservation charge or that
18 demand ratchet month after month, whether we use that
19 power or not.

20 Another thing that the Commission did, although
21 you adopted a rule in the '80s that allows a cogenerator
22 to engage in self-service wheeling; that is, delivering
23 power from the location where it's generated to another
24 remote location over the utility transmission lines, when
25 an application came before you, you basically adopted an

1 evaluation protocol, which would virtually never allow
2 self-service wheeling. You'd always find them to be
3 noncost-effective.

4 As a result of denying that position for
5 self-service wheeling, that particular customer built his
6 own transmission line to connect his generator to his
7 remote load. And two other customers, rather than come
8 here and go through the same proceeding, they just went
9 out and built their own transmission lines.

10 So, denying self-service wheeling has had an
11 effect on economic, the use of resources in creating
12 duplicate transmission lines, and there are probably some
13 other customers out there who would build a transmission
14 line, both for the distances or to, you know, prohibitive
15 and costs may not make it cost-effective to do that, but
16 if we could have access to the utility system transmit and
17 pay a fair cost for the use of the transmission system,
18 would give us an incentive to build additional capacity to
19 serve our loads in remote locations.

20 Also, in the late '80s, early '90s, you really
21 amended the standard offer cogeneration rules to make them
22 available only on very limited basis to smaller
23 cogenerators and to solid waste facility burning garbage
24 or facilities using other waste materials.

25 Recently, in the last year or two, you granted a

1 number of waivers to the utilities to allow them to
2 circumvent the cogeneration rules that either having had
3 to adopt standard tariffs or adopted them with terms and
4 conditions that were just total disincentives for anyone
5 to want to sign up to provide capacity pursuant to their
6 terms and conditions.

7 In addition to the changes in the cogeneration
8 rules and policies, you've also implemented other small
9 changes over the years, which we also believe contribute
10 to today's inadequate reserve situation. You allowed
11 utilities to interrupt their interruptible customers so
12 that they can serve the loads of other utilities.

13 Well, that may give the utilities a false sense
14 of security that they don't need the reserves on their
15 own, they can rely on someone else to provide those
16 reserves. You've also abandoned the annual planning
17 hearing process. That's somewhat of a misnomer, but when
18 cogeneration was popular and was being encouraged in
19 Florida, we had annual planning hearings that were held
20 about every two years, and their main purpose was to
21 decide the next need for generating capacity in the state.

22 And based on that need, the pricing of
23 cogenerators was developed and included in standard
24 offers. But more importantly, annual planning gave
25 parties an opportunity to come before the Commission to

1 intervene in those proceedings, to fully scrutinize the
2 positions of the utilities, to look at their data, look at
3 their generation plans and help you be confident and help
4 the consumers be confident that what the utilities were
5 planning were reasonable.

6 You've replaced that with a 10-year site plan
7 workshops, which everything kind of comes in, in one big
8 lump. It's not clear that we have intervention status,
9 it's not clear where we, as effective parties, might have
10 a point of entry.

11 You allowed the utilities to engage in wholesale
12 sales and share some of those profits. And that seems to
13 maybe present a conflict of interest where the utility may
14 have an incentive to do something that's in the best
15 interest of the stockholders as opposed to the best
16 interest of the rate payers.

17 We use an awful lot of adjustment clauses now in
18 utility rates. We've got conservation clauses --

19 COMMISSIONER CLARK: Mr. Zambo, could you be
20 more specific?

21 COMMISSIONER GARCIA: Hit the button again.

22 COMMISSIONER CLARK: Could you be more --

23 COMMISSIONER GARCIA: No.

24 COMMISSIONER CLARK: Is it on now?

25 COMMISSIONER GARCIA: Yes, I think so.

1 COMMISSIONER CLARK: Okay.

2 Why is the wholesale letting them make wholesale
3 sales detrimental to your clients?

4 MR. ZAMBO: Well, I guess I'm not saying it's
5 necessarily detrimental, but it certainly causes an
6 opportunity for a conflict.

7 For example, during the periods when energy
8 prices get very high, there may be an incentive for the
9 utility to interrupt it's interruptible customers, sell
10 that power off-system, because interruptible customers
11 will pay the same price, regardless of what the market
12 price for energy is during that hour.

13 So, they interrupt their interruptible
14 customers, sell that power wholesale, maybe two or three
15 times what the interruptible customer is paying, and they
16 get to keep a percentage of that profit from that sale.

17 COMMISSIONER CLARK: Is there an interruptible
18 tariff allowing them to do that?

19 MR. ZAMBO: I'm not sure that it allows them,
20 but I'm not sure that it prevents them from doing that
21 either.

22 COMMISSIONER CLARK: I'd like to have that
23 addressed, because my recollection is that you don't
24 interrupt to make the wholesale sale. You might have to
25 interrupt it based on what is needed elsewhere in Florida.

1 In other words, if it is capacity, if it is --
2 if you're using demand-side to substitute for capacity,
3 it's got to act like capacity.

4 MR. ZAMBO: Correct, but if there's an incentive
5 --

6 COMMISSIONER CLARK: Maybe the staff --

7 MR. GOAD: Commissioner, I might be able to
8 speak to that.

9 It's my understanding that the interruptible and
10 large curtailable tariffs, they include the utility from
11 making wholesale sales, nonfirm wholesale sales, and
12 interrupting its customer. I'm not sure that that has
13 been followed to the tee. We have seen some evidence
14 where utilities are possibly selling and interrupting
15 customers, may be a timing issue.

16 COMMISSIONER CLARK: What are we doing about
17 that? Are we bringing it before the Commission to
18 investigate or is staff investigating it to make sure
19 tariffs are adhered to?

20 MR. GOAD: Well, to the extent that we found out
21 about it last week, I don't know.

22 COMMISSIONER CLARK: Okay.

23 MR. ZAMBO: I think you have a docket open on
24 incentives for wholesale sales. I don't have a docket
25 number here, but I recall seeing something come across my

1 desk recently.

2 COMMISSIONER CLARK: But you would agree to the
3 extent the utility can make or has extra capacity, that
4 they can make wholesale sales that then, as I understand
5 it, flows back through, I think the fuel costs or maybe
6 flows back through one of those costs to benefit the
7 retail customer, because it keeps retail rates lower.
8 Would that be an accurate statement?

9 MR. ZAMBO: It could be.

10 COMMISSIONER CLARK: Mr. Zambo, you've been
11 doing this a while. Is that an accurate statement?

12 MR. ZAMBO: It could be. In some cases, it could
13 be lower costs, in some cases it could be higher, because
14 we don't know exactly what they're doing during some of
15 these high-cost periods.

16 COMMISSIONER CLARK: Well, if you have some
17 evidence that it is not benefitting the rate payers, I'd
18 certainly like to know that.

19 MR. ZAMBO: Well, I don't have the evidence, but
20 all I'm trying to do is point out some changes that have
21 occurred. It all seemed to -- may come together, this may
22 be a very small part in this process, but then again it
23 may be a very big part, I don't really know.

24 But it seems to me like you have incentives
25 where you're taking -- you're now taking what were retail

1 assets and using them as a wholesale asset to serve
2 wholesale customers. I'm just not sure. I guess I'm just
3 not sure how the cost accounting works in those cases.

4 COMMISSIONER CLARK: Haven't we always required
5 them to make those sales to the extent there is extra
6 capacity and extra revenue benefit the retail rate payers?

7 MR. ZAMBO: Yes, you have. You've always --
8 well, you've encouraged them to do that.

9 COMMISSIONER CLARK: Wouldn't it be prudent not
10 to do that on the part of the utility if they had capacity
11 and there was a market, a wholesale market, for them not
12 to sell?

13 MR. ZAMBO: Yes, I would agree with that. My
14 issue though is not in the transactions themselves, but
15 it's in the incentive to give them a piece of that -- of
16 the revenue. If that's their responsibility and
17 obligation as a regulating monopoly, why do they have to
18 get part of that profit when they're already being
19 compensated through their rates? And my client is going
20 to end up --

21 COMMISSIONER CLARK: Are you talking about the
22 20/80 split?

23 MR. ZAMBO: Yes. And ultimately, that will come
24 back, especially on the interruptible customers who do
25 buy-throughs, what that's going to end up doing is they'll

1 get some of those benefits back in the revenues from those
2 sales, those wholesale sales, but they're going to be
3 offset by the higher costs that they had to pay for
4 buy-throughs during that same period of time.

5 And finally, I just note that there's been a
6 lack of full revenue requirement in rate cases. I don't
7 think there's been one for over 10 years, and those rate
8 cases used to be opportunity for people to come in here
9 and really delve into utility operations that are
10 economics, their incentives, or the rate structure, as
11 Mr. Loyless said, you know, rates are who wins at those
12 proceedings, but nevertheless, they were good proceedings,
13 that they brought everything out.

14 Mr. Deason, when he was with public counsel,
15 used to be very active in those proceedings.
16 Mr. McWhirter was always involved in those proceedings,
17 but bringing all that information out into the public
18 arena, I think was always good. We haven't done that for
19 awhile.

20 The result of some of these small changes, as I
21 see it, first of all, we have a very heavy reliance on
22 conservation now. We've got an awful lot of load
23 management programs, we've got an awful lot of
24 conservation programs.

25 We basically have stopped encouraging

1 cogeneration or putting all our eggs into conservation
2 program basket, which I'm not sure is a good thing,
3 because it seems like when the chips are down, sometimes
4 those programs don't work as they were expected to.

5 There's virtually been a halt of cogeneration
6 encouragement under development in the state. I don't
7 think the cogeneration plant of any size has been built
8 since the early '90s. We've seen a dangerous decline in
9 reserve margins, we have very high peak period electric
10 costs.

11 We see the -- at least I see the utilities as
12 circumventing the cogeneration of bidding rules. They
13 don't file their standard offers timely. When they do
14 file the standard offers, they file them with request to
15 waive provisions of the rules.

16 We see a lot of investment by the utility -- by
17 Florida's utilities and resources outside of the state.
18 And all these things, adding up to increasing the cost of
19 interruptible power and increasing the amount of
20 interruptions, is placing some of these customers in
21 jeopardy.

22 Commissioner Garcia, you drafted a letter that
23 you sent to nonfirm customers on January 11th. In
24 general, we agree with the positions that the other
25 customers who have testified before you have taken on

1 those issues. We've also identified several other areas
2 where we'd like to see you take some steps, or at least
3 consider taking some steps.

4 We see the development of the current problems
5 we have as having been caused by a number of reasons over
6 a period of years. And so, maybe you need to look at a
7 multifaceted attack to solving those. We suggest that you
8 look at removing demand ratchets from interruptible
9 standby rates, that you allow self-service wheeling by
10 cogenerators during periods of interruption so, if we have
11 capacity available, we could deliver that to our other
12 locations, rather than having them interrupt them or be
13 subject to the high buy-through prices.

14 We think we'd like you to consider allowing
15 industrial cogenerators to sell electricity to other
16 nonfirm customers, if they're so inclined to purchase from
17 us, allow interruptible customers to purchase from other
18 suppliers and power marketers; amend the cogeneration
19 rules to get back to where we're encouraging cogeneration
20 in the state, resume the annual planning hearing process
21 so we can get a closer more in-depth look at utility
22 plans, reserve margins, and all the things that affect --
23 that affect our rates, our reliability, the availability
24 of service at reasonable costs.

25 And also, amend the bidding rules to include all

1 utility generation. You currently have a rule that allows
2 utilities to build power plants without bidding or without
3 going to the merchant plant or the cogeneration community,
4 if it doesn't have to go to the power plant site yet.

5 And so, utilities are building combustion
6 turbines, which are exempt from the power plant siting
7 act, they come in a year or two later and add to the
8 second part to convert it into a combined cycle, they put
9 that out for bids, but typically the price of adding that
10 increment is so low that no one can economically compete
11 with that. You can't compete for the whole package for
12 the first part and the second part. And that, basically,
13 winds up my presentation.

14 COMMISSIONER DEASON: I have a question. I have
15 two questions. One of your recommendations is to allow
16 interruptible customers to purchase from any supplier?

17 MR. ZAMBO: Yes.

18 COMMISSIONER DEASON: Is that something the
19 Commission can do or is that -- we require change in state
20 law?

21 MR. ZAMBO: To be honest with you, I haven't
22 thought that through.

23 COMMISSIONER DEASON: That would be the same as
24 retail -- I mean, would be competition at the retail
25 level; would it not? Are you saying that we have the

1 authority to carve out one class of customer and say you
2 have the ability to purchase from whichever supplier you
3 wish?

4 MR. ZAMBO: Well, Commissioner, it seems like if
5 the utility can't supply the power, if they're not
6 fulfilling their obligation, maybe that customer shouldn't
7 be held captive to that utility. I don't know if that
8 means you could do that without the change in law, but it
9 seems to me like the utility has an obligation, along with
10 its monopoly right to provide power. And if it can't
11 provide that power, maybe that could be circumvented. I
12 haven't really looked into it. It does sound like it may
13 be a requirement that the law be changed, but I'm not
14 sure.

15 COMMISSIONER DEASON: The other question that I
16 have pertains to your recommendation to amend cogeneration
17 rules to encourage development. I suppose that means
18 development of cogeneration projects.

19 MR. ZAMBO: Yes.

20 COMMISSIONER DEASON: First of all, I guess the
21 question that I have is how would we amend those rules to
22 do that? And then second of all, would it be wise to do
23 that, given the tendency, which appears to be in this
24 whole area, to allow market forces to determine what type
25 projects could go where?

1 So, why is it that we need to develop rules?
2 Why is it that if cogeneration is the best alternative and
3 is cost-effective, why can't it just be on the same level
4 as a merchant plant and go out, bid the project, and sell
5 that power on the wholesale market?

6 MR. ZAMBO: That's a good question. I hope I've
7 got a good answer. I hate to rely on this, but the first
8 thing is most federal laws and Florida law requires the
9 encouragement of cogeneration.

10 Secondly, you've got a pretty long period of
11 experience with cogeneration. You pretty much know that
12 it's reliable. I think almost every cogeneration plant
13 that's been built in THE state is still up and running.
14 There may be a few small ones that have failed, but you
15 have the experience that they're viable capacity supply
16 alternatives.

17 Thirdly, they bring benefits, as I outlined
18 earlier, as far as reducing consumption of fossil fuels,
19 increasing energy efficiency, reducing emissions, all
20 those things they do.

21 And fourthly is the business of these people who
22 engage in industrial cogeneration is not primarily to
23 generate power. Their main business is to produce some
24 sort of product; however, they can produce generation, do
25 it efficiently, and do it in a way that they can make some

1 money, they would be willing to do that.

2 What they wouldn't be willing to do is
3 participate in long, drawn out bidding processes where
4 they would compete with developers of all types and sizes.

5 But as far as the market pricing, you know, there's
6 nothing that says market pricing can't be the basis for
7 standard law for tariff.

8 But our experience recently has been the
9 utilities need to be very reluctant to admit any need for
10 capacity so there's never even an option or an opportunity
11 for the cogenerator to come out and offer their power. I
12 mean, you've got several merchant plant developers who I
13 understand have been offering their power to the Florida
14 utilities. And to my knowledge, they haven't signed any
15 contracts yet. So, cogeneration faces that same hurdle,
16 and that's one of the hurdles that the federal law was
17 intended to overcome.

18 Federal law of Congress realized that left to
19 their own advice, utilities are not going to buy power
20 from their competitors, and that was why PURPA was
21 enacted. It was to require the utilities to interconnect,
22 require the utilities to purchase power from them. But
23 we're being put in a position, basically, where we can
24 sell them energy, but we can't sell them capacity, because
25 they'll never admit that they have a capacity need or the

1 capacity need they admit to is so low priced that
2 artificially priced very low that we can't compete with
3 them.

4 COMMISSIONER JACOBS: I have a follow-up.

5 Walk me through, again, how you arrive at the
6 conclusion that the capacity is artificially low.

7 MR. ZAMBO: Well, a real popular type of
8 generating technology today is a combined cycle. That's
9 where you have combustion turbines. It's the kind of
10 project that Duke Energy is proposing, Okeechobee
11 Generating Company is proposing. It's a combustion
12 turbine that exhausts into a steam generator that produces
13 steam for a steam turbine. It's called a combined cycle.

14 A combined cycle is going to cost somewhere in
15 the neighborhood of \$500 per kW to install. If you just
16 take the first part of that, the combustion turbine,
17 that's a peaking plant, typically combustion turbine,
18 these are just broad numbers, maybe 600, maybe 400. A
19 combustion turbine portion of that plant mainly costs \$250
20 per kW. It costs about half as much.

21 So, what is happening, as I see it, the
22 utilities are building combustion turbines first, because
23 combustion turbines first don't need go through the power
24 plant site after they're exempt from need determination so
25 the utility doesn't have to come to you, doesn't have to

1 open a docket in which other interested parties can come
2 and participate.

3 Secondly, because it doesn't have to go through
4 the power plant siting act, it also doesn't have to go
5 through your bidding rules. So, the utility doesn't need
6 to put anybody on notice that they're building this
7 additional capacity. So, they build that capacity.
8 They've got half of their power plant, half of their
9 combined cycle power plant, in the ground, and it's up and
10 operating.

11 Okay, now comes step two. Step two, they say
12 okay, now we're going to convert this into a simple cycle
13 into a combined cycle. And to do that all you've got to
14 do is add a boiler on to the back of the turbine, because
15 you've got the hot gases coming out of the gas turbine.
16 That produces steam. You install a steam turbine, and
17 you've now added about 15% to your generating capacity;
18 and more importantly, you're doing it without any
19 additional fuel, because you're already burning the fuel
20 in the combustion turbine and now you're recovering the
21 waste heat.

22 Now, the cost to add that increment may also be
23 \$250 or \$300 per kW. Well, I guess, technically, it would
24 be somewhat more than that, but when you put that out for
25 bid and the utility says, okay, I have a combustion

1 turbine here, and I'm going to convert to it combine
2 cycle, this is my cost to do doing that, can you compete
3 with that?

4 Well, no one can compete with that, because
5 they've already got the half of the plant constructed,
6 they've already got all the infrastructure in place,
7 they've already got a heat source. So, basically, the
8 bidding rule has become useless. It's been completely
9 circumvented.

10 Does that explain it?

11 COMMISSIONER JACOBS: Yes.

12 COMMISSIONER DEASON: If there are merchant
13 plants that are built, which do not have to go before the
14 siting process, because there's not a steam process
15 involved, and later on utility puts out a bid would that
16 particular merchant plant be able to add a combined cycle
17 on to their existing facility and compete with the utility
18 for that added capacity? Is that possible?

19 MR. ZAMBO: Sure, I would think so, yes.

20 COMMISSIONER DEASON: All that remains to be
21 seen.

22 MR. ZAMBO: That's correct.

23 COMMISSIONER GARCIA: Mr. Zambo, thank you very
24 much. Appreciate it.

25 MR. ZAMBO: Thank you.

1 COMMISSIONER GARCIA: Jeff Vine.

2 MR. VINE: Good morning.

3 COMMISSIONER GARCIA: Good morning.

4 MR. VINE: I'm Jeff Vine, plant manager for
5 Johnson Controls in Tampa, Florida. Johnson Controls is a
6 \$16 billion company with its headquarters in Milwaukee,
7 Wisconsin.

8 As a rural line manufacturer of automotive
9 batteries, automotive seating, and facilities management,
10 it has over 5,000 employees working in the state of
11 Florida, from thousands of individuals that operate the
12 facilities in Cape Canaveral, facilities management of the
13 Dade county public school systems.

14 The Tampa facility that I manage is one of 16
15 automotive battery operations we have in north America,
16 with nine being manufacturing facilities. Those
17 facilities include operations in Portland, Oregon;
18 Fullerton, California; Torreon, Mexico; Middletown,
19 Delaware; Winston-Salem, North Carolina; and four others,
20 including Tampa.

21 These battery manufacturing facilities compete
22 with companies such as Exide, GMV, Delco, and most
23 importantly we compete with one another; in other words,
24 one plant against the other.

25 Despite this extensive competition, JCI has

1 established itself as one of the largest automotive
2 battery manufacturers in the world. The Tampa facility,
3 at its present location of 30th and Bougainvellea in Tampa
4 has been there since 1958. We presently employ about 300
5 people, 260 hourly, and 40 salary.

6 The Tampa facility sells approximately \$100
7 million in sales in southeastern United States. With a
8 customer base in all of Alabama, Georgia, Florida, and
9 half of South Carolina.

10 Our customers include Interstate Batteries of
11 America, Autozone, Wal-Mart, Sears, Ford, Chrysler, just
12 to name a few. The 260 hourly employees are represented
13 by the International Brotherhood -- I'm sorry, back up for
14 a minute.

15 260 hourly employees in our facility are
16 represented by the International Brotherhood of Electrical
17 Workers, Local 108, the same union and local that
18 represent the majority of TECO's hourly employees. With
19 all the above, I hope I have provided you and the rest of
20 the audience a little knowledge about JCI and why I'm here
21 today.

22 We have 300 individuals at the corner of 30th
23 and Bougainvellea that we as a group, seated in this room,
24 must work, protect, and work for. Today I'd like to
25 discuss JCI's relationship with its local utility company,

1 TECO.

2 Before I begin reviewing this relationship, I
3 would like to take a few moments to thank you, Mr. Garcia
4 and the rest of the Commission for your time and
5 willingness to listen to our needs and concerns.

6 I next would like to say thank you to TECO, John
7 Ramil, Hugh Smith, Vicky Westra, Larry Rodriguez, my
8 account manager, and all the TECO employees.

9 A lot of times it appears they were trying to
10 make our lives miserable; and believe me, it has happened,
11 but for the most part, I think they're only trying to do
12 the right thing.

13 I, and many others, may not agree with their
14 day-to-day and year-to-year judgments, but I believe TECO
15 is a whole bunch of hard-working employees that are trying
16 to do the right thing for all its rate payers. I believe
17 since the summer of 1999, TECO has worked hard to deliver
18 alternatives to a very difficult situation that -- and
19 they deserve credit for their hard work.

20 With that introduction, I'd like to take a few
21 minutes to talk about JCI and TECO's relationship and what
22 has happened and what has occurred over the last few
23 years.

24 Let me begin with the summer of 1998. The
25 summer of 1998 gave us a little taste of what was going to

1 occur in 1999. In '98, we experienced five interruptions
2 at the JCI Tampa plant. A number of scares of electrical
3 shutdowns were extremely challenging for all the employees
4 at JCI Tampa. The additional cost of JCI Tampa occurred
5 in 1998 exceeded \$200,000.

6 Now, I realize that we have saved \$1.3 million
7 since 1994 with the interruptible rate, but with the
8 experiences like 1998, the savings that we have
9 experienced with the interruptible rate will be gone in
10 two to three years.

11 This brings me to the summer of 1999. In 1999
12 we experienced a total of 15 interruptions. These
13 interruptions began in April and didn't cease until
14 October. Besides the interruptions, TECO, and on our
15 behalf, produced a great deal of electricity they couldn't
16 generate, but needed in order to meet demands.

17 The cost of those interruptions exceeded
18 \$400,000, totally unacceptable. If you add the two costs
19 together from just '98 and '99, that was exceeding
20 additional costs of \$600,000.

21 As I mentioned before, the savings goes away
22 very, very quickly. We cannot compete outside or inside
23 JCI with these type of costs. I am sure that all of us
24 realize that these conditions cannot continue. Companies
25 like JCI are in Florida, because there are opportunities

1 to provide taxpayers -- to provide taxes, product, and
2 services for customers, value for shareholders, and most
3 importantly, employment for its residents.

4 The battery business is a very competitive
5 industry. There are approximately 100 mill units sold
6 annually in the United States. With approximately 2%
7 growth, growth in our industry occurs by becoming more
8 competitive in areas of quality and price or moving
9 outside of the domestic market.

10 In 1994, JCI was the largest automotive battery
11 manufacturer in the United States. With 30% of the market
12 share, we felt really good about our situation. In
13 October of 1994, a significant emotional event took place.
14 We lost the entire Sears business, 8 to 9 million units
15 nationwide, to our chief competitor, Exide.

16 Overnight, our market share went from 30% to
17 20%, over 1,000 individuals throughout the country lost
18 their jobs; four manufacturing facilities and one poly
19 operation were shut down within 12 months. JCI battery
20 division was in trouble. The company went so far as
21 trying to sell the battery division. It had no takers.

22 Upon the news of losing a significant account,
23 we hired Booze, Allen, Hamilton, a consulting firm, to
24 find out what to do next and how the significant event
25 occurred. Within weeks -- really within days, we had the

1 answer. It was really simple. JCI battery had become
2 very arrogant. It had been the leader in the battery
3 industry for years. We were not responsive to our
4 customer needs.

5 Now, I apologize for taking your valuable time
6 for reviewing all these details, but I believe there is a
7 synergy with what we are here today to talk about. I
8 believe over the years our utility company put itself in a
9 similar position.

10 I believe they became comfortable with their
11 position and were maybe a bit arrogant and only interested
12 in treating its customers as rate payers. Just like the
13 private sector, I believe TECO should be held accountable
14 for their actions or lack of judgment.

15 Now, I'm not advocating loss of jobs, but some
16 kind of accountability. With that said, as a
17 representative of JCI, I believe it is time to move on and
18 stop talking about what has happened, but what are we
19 going to do in the future?

20 I believe -- excuse me. I believe what we
21 should really be discussing today is not what happened or
22 lack of planning in early '90s that we did as a utility
23 company or as a private sector. I believe what's going to
24 happen in the year 2000, we need to be discussing what are
25 we going to do as leaders to make sure this doesn't occur

1 again.

2 I believe we need not dwell on the past, but
3 only use this past as a guide for future opportunities and
4 plan better for today than we did yesterday. Today, with
5 the utility company, the Public Service Commission and
6 private industry all in one room, if we really put our
7 minds together, we can solve this problem and really take
8 advantage of this opportunity, which is good for JCI and
9 TECO and all the people sitting in this room.

10 It is easy for us talking today to you about
11 what is wrong with our utility companies, but in the long
12 run what we really need to be doing is spending time and
13 not wasting it, spending time and taking advantage of this
14 opportunity to solve this problem.

15 This is truly an opportunity for TECO, the
16 Public Service Commission, JCI, to solve a very difficult
17 problem. Since 1994, JCI battery division has rebound and
18 regained market share, but we only did this by looking at
19 what we did wrong.

20 One of the ways we recovered was by agreeing and
21 working with TECO to reduce our electrical rates by going
22 on uninterruptible service. At the time, TECO did a great
23 job by keeping our plant at 20th and Bougainvillea open,
24 and batteries continued to flow.

25 This is no better example than how JCI and TECO

1 turned a bad situation into a great opportunity. Today we
2 must do the same for JCI Tampa to continue to be a
3 competitor in today's market. We must have reliable
4 power, have the interruptible rate without excessive
5 purchases.

6 This you have been told many times and is the
7 same -- excuse me, I apologize. This, as you have been
8 told many times, is the same need as all the other
9 speakers, but I also believe is an opportunity for us in
10 this room to get our minds together and take advantage of
11 this opportunity.

12 It is sometimes easy for us to throw stones, but
13 when you live in a glass house, it also can be costly. I
14 believe as a group we need to find a way to solve this
15 problem and not continue to break glass. How do we do
16 this? I'm not sure, but it's truly an opportunity that
17 the Public Service Commission, private industry, and TECO
18 must take advantage of to do the right thing for its
19 shareholders, taxpayers and, most importantly, the
20 hard-working individuals that make this possible for you
21 and I.

22 Again, I'd like to thank you for your time and
23 attention.

24 COMMISSIONER GARCIA: Great. Thank you,
25 Mr. Vine. Let me just say in response to some of your

1 comments, clearly, that is why we're here.

2 A lot of the people that are sitting in this
3 room are Commission Staff, a lot of the people sitting in
4 this room are from Tampa Electric and from other utilities
5 in the state. Clearly, it's something we're looking at.
6 It's something that we think there's some synergy now to
7 look at some of these issues and see if we can solve them.

8 I wish we could sit and solve them like this,
9 but some of the information that we're getting here, I
10 think, is going to help us to put us in the proper
11 posture.

12 Secondly, I would also suggest that, and at
13 least I'm appreciative of this, Tampa Electric is
14 supportive of an energy study which is now probably going
15 to be proposed tomorrow in the Senate, and a sister bill
16 or companion bill is going to be filed in the House either
17 later this week or early in the next week, which is a
18 study bill which is precisely to study what we need to do in
19 Florida's energy markets in the long term to make sure we
20 don't find ourselves in a position that Florida business
21 is in a disadvantaged place; secondly, to make sure that
22 we have prices that are competitive nationally and how we
23 grow from there.

24 And I think that bill is -- probably will be
25 discussed tomorrow in the utilities committee and the

1 Senate. So, clearly, we're moving, and Tampa Electric is
2 one of the companies that is very supportive of moving
3 that process forward.

4 MR. VINE: Well, I really think it's a great
5 opportunity for us to be able to speak to and speak to the
6 Commission, but I just know this, Mr. Garcia, that, you
7 know, we, as a company, you know, we can't continue down
8 the same path we have been in '98 and '99.

9 And as I mentioned, in the few words that I've
10 had, is the mistakes that we've made as a company, I mean,
11 there is a tremendous synergy between what we did as a
12 company and what has occurred in the Tampa Electric
13 company and all of the above. And we need to take
14 advantage of it. And if we don't, we're missing a great
15 opportunity, because companies like Johnson Controls will
16 stop doing business in the state of Florida.

17 COMMISSIONER GARCIA: And again -- and I agree
18 with you. I don't think there's a better indicator of
19 that than having Mr. Page here sitting here for the
20 governor.

21 I think we all realize this is a problem, and I
22 think we're all committed to trying to do something to
23 solve some of these issues, but I want you to know that
24 there's a price being paid, too, by Tampa Electric
25 shareholders and the reality out there when people don't

1 feel that the company's in the right posture.

2 And likewise, this Commission has a
3 responsibility to you, as well as to all the other
4 citizens of our state and to the state in general. I
5 think you put it well, but our rate payers aren't our only
6 concern. We're just as concerned that Tampa Electric is a
7 viable company in our state as we are that our rate payers
8 receive fair rates as well as their customers are treated
9 in a way that is productive to our state, and I appreciate
10 your comments, and thank you for coming back. I know you
11 went out to Lakeland, and I appreciate you coming back.

12 MR. VINE: Thank you very much for your time.

13 COMMISSIONER CLARK: I have a question. Where
14 else do you produce batteries? Was that the first list
15 you gave us?

16 MR. VINE: We have -- we own 50% share of a
17 battery manufacturing company in Mexico which we have five
18 facilities. We have eight manufacturing facilities in the
19 United States.

20 COMMISSIONER CLARK: That's what I want to ask
21 you about. Are they on interruptible in the same way you
22 are?

23 MR. VINE: Some of them are and some of them are
24 not. In Fullerton, California, our facilities are
25 interruptible rate. Middletown, Delaware, our facilities

1 are interruptible rate. They have not experienced
2 interruptions like we have though. We are definitely
3 unique.

4 COMMISSIONER CLARK: I guess -- have you
5 explored any other ways of dealing with it? I'm,
6 specifically, aware of a new company that's been -- being
7 formed to provide insurance against interruptions, and
8 they would guarantee that you have service; if not, they
9 pay the losses.

10 MR. VINE: Yeah, we already have insurance.
11 There's a deductible, and we filed claims last year.
12 There are an "X" number of dollar deductibles we have to
13 meet first, so...

14 COMMISSIONER CLARK: Maybe I'm talking about
15 something a little different. They would actually come
16 into your facilities and maybe put something in your
17 facilities so the power will continue; for instance, the
18 battery, a large battery.

19 MR. VINE: That's really interesting. We have a
20 lot of batteries in our facility.

21 COMMISSIONER CLARK: Well -- but, no. I know
22 there is a new company, and I think it's out in
23 California, that is trying to find those ways that can
24 serve your specific power needs. I'm wondering if your
25 other facilities have sort of explored that and have

1 information on that.

2 MR. VINE: Well, you know, one of the
3 alternatives that, you know, I talk about opportunities
4 that we have.

5 One of the alternatives that we have explored at
6 Johnson Controls is we're looking at alternative power;
7 i.e., fuel cells. And Tampa Electric Company and Johnson
8 Controls has had a couple meetings regarding fuel cells
9 and the possibility of using it as alternative power.

10 To answer your question, maybe in another way,
11 Johnson Controls, on the facilities management side of our
12 business, also has the ability to provide us back-up
13 generation.

14 And over the last six months between TECO energy
15 and Johnson Controls, we tried to find alternatives for
16 this upcoming summer for back-up generation, and it was
17 cost prohibitive.

18 COMMISSIONER CLARK: Okay.

19 COMMISSIONER GARCIA: Can I ask you one other
20 favor, Mr. Vine? Could you give us an -- not today. I
21 know you don't have that available, and if it's not too
22 much trouble, could you give me at some point a comparison
23 so that we can put this in the record of your energy
24 prices at your other sites, your competitive sites?

25 MR. VINE: Sure.

1 COMMISSIONER GARCIA: I know it might be a
2 little bit of work, but I'm sure someone in the company
3 probably keeps that, just so we can do a comparison. I
4 think it might be helpful for us in Florida to have an
5 understanding of that competitive nature, because
6 particularly when you have companies that do exactly the
7 same thing somewhere else in the union and sometimes in
8 Mexico --

9 MR. VINE: Outside the union.

10 COMMISSIONER GARCIA: -- outside the union, it's
11 important for us to understand who the market is for this
12 and what the costs can be.

13 MR. VINE: Sure, I can do that for you. Thank
14 you very much.

15 COMMISSIONER JACOBS: I have a quick question,
16 Mr. Vine?

17 MR. VINE: Sure. I'm rushing off here. I
18 apologize.

19 COMMISSIONER JACOBS: That's okay. You, I'm
20 sure, have explored going back to firm service --

21 MR. VINE: I'm sorry?

22 COMMISSIONER JACOBS: Going back to a firm,
23 i.e., not interruptible.

24 MR. VINE: Yeah, for cost.

25 COMMISSIONER JACOBS: I don't want to

1 necessarily approach that, and I'm sure that's probably
2 another -- one thing I'm interested in though is that
3 available to you? Can you do that?

4 MR. VINE: Go back?

5 COMMISSIONER JACOBS: Yeah.

6 MR. VINE: For cost.

7 COMMISSIONER JACOBS: Okay.

8 MR. VINE: It's a cost, but again, as I
9 mentioned in my statement, it makes -- price and quality
10 are king in our business; and quality, obviously, being
11 first. And for us to compete in our industry we need a
12 certain type of pricing on the utility side for us to be
13 competitive.

14 So, for us to go back and say, yeah, go back to
15 a firm rate; one is that we'll have to pay, according to
16 the contract that we have on our interruptible rate, we'd
17 have to pay that difference in the savings; plus, we would
18 drive up our utility cost with the firm rate which would,
19 again, make us even that much more noncompetitive.

20 COMMISSIONER JACOBS: Thank you.

21 COMMISSIONER GARCIA: Did you have something?

22 COMMISSIONER CLARK: Yeah, I guess, just to be
23 clear as to what the chairman was asking, he'd like, as I
24 understand it, you'd like information about what the other
25 sites do in terms of --

1 MR. VINE: I think I understood his question.

2 COMMISSIONER CLARK: Okay, all right.

3 MR. VINE: I think so.

4 COMMISSIONER GARCIA: It just gives a good
5 perspective, and rarely do you have the ability to compare
6 with the specific company. So, I'd appreciate that.

7 MR. VINE: We've done that with TECO a couple
8 times.

9 COMMISSIONER GARCIA: Great. Okay, great.

10 MR. VINE: Thank you.

11 COMMISSIONER GARCIA: I'm sure they appreciate
12 that. Thank you, Mr. Vine.

13 I don't have him listed, but maybe he is here,
14 Don Grey from Florida Natural Growers.

15 Okay. Tom Sawyer. Let me just -- because of
16 the way that this is going and because of the number of --
17 we're probably going to take -- after Mr. Sawyer, we're
18 going to take a 15-minute break, and then we'll probably
19 take 15 or 20 for lunch, and then we'll go to 3:30, if I'm
20 not mistaken, is what we've got the room available to.
21 So, I just --

22 Very good, Mr. Sawyer. Welcome.

23 MR. SAWYER: Good morning, Mr. Chairman, ladies
24 and gentlemen. I'm here for a nontechnical presentation.
25 Mr. Delworth, my right-hand technical electrical engineer,

1 is not with me today.

2 My name is Tom Sawyer. I'm an employee at PCS
3 Phosphate White Springs and appreciate your efforts to
4 conduct this proceeding and the opportunity to speak on
5 behalf of industrial energy consumer.

6 PCS Phosphate White Springs is a major phosphate
7 mining and manufacturing facility. As you know, we're
8 located in Hamilton county in north Florida. Our
9 facilities are owned by a subsidiary of the Potash
10 Corporation of Saskatchewan; we go by PCS, PCS Phosphate
11 White Springs. And you may know we used to be owned by
12 Occidental Chemical Corporation until the end of October
13 1995.

14 Our White Springs facilities are operated by
15 approximately 1,100 employees who reside in the tri-county
16 area of Columbia, Hamilton, and Suwannee counties.
17 Columbia county, north of Gainesville, is one of the
18 high-growth counties in the state of Florida, but the
19 service consists of operating mines; the Swift Creek mine,
20 initiation of phosphate rock, and the Swift Creek chemical
21 complex and the Suwannee River chemical complex. These
22 plants converts the phosphate market into phosphoric gas
23 and liquid products and dry fertilizer products.

24 PCS is a nonfirm interruptible energy customer
25 at Florida Power Corporation and also self-generates

1 electricity using turbo generators, as Mr. Zambo
2 discussed, at its Suwannee River and Swift Creek chemical
3 plants. These generators were purchased and installed to
4 reduce the annual cost of consumer electricity to help
5 White Springs remain cost competitive in U.S. domestic and
6 world fertilizer markets.

7 Even with the self-generated capacity, we
8 purchased 460 million kilowatt hours from Florida Power in
9 1999. Following Florida Power's agreement to alternate
10 interruptions between its customers by grouping them into
11 three separate groups and interrupting one group instead
12 of all customers, we suffered only one interruption in
13 1999.

14 The interruption rate in 1998 was nine, which
15 was more significant and, in fact, led, I believe, to
16 those discussions with Florida Power, which produced a
17 grouping concept.

18 PCS shares the concerns of other speakers the
19 significant portion of back-up reserves of Florida
20 utilities, including Florida Power, is its base of nonfirm
21 interruptible customers. We support FIPUG's point that
22 industrial customers should be allowed to contract
23 directly, result in power marketers to take power in lieu
24 of interruption. Basically, the cost to us in 1998 was
25 between \$150,000 and \$200,000 for those interruptions.

1 Our facilities with the TECO generators,
2 basically, we are on a situation with Florida Power where
3 we automatically buy demand power. What happens is if
4 there's an interruption, our lines are shut down. And
5 that's where our costs comes in. In the mining phosphate
6 market with electrical draglines, as well as been
7 initiation of phosphate line.

8 We support, FIPUG, have been a member for years.
9 We're also a member of ALERT, with which you're familiar,
10 and would hope that you'd listen to Mr. McWhirter's later
11 comments on various points about changes to help
12 interruption of the customer base. That's my
13 presentation. I'll answer any questions, if I can.

14 COMMISSIONER GARCIA: Commissioners?

15 Mr. Sawyer, thank you very much for being here.
16 Thank you for coming back.

17 MR. SAWYER: Thank you.

18 COMMISSIONER GARCIA: Thank you for coming back.
19 With that, we are going to take a 15-minute break.

20 The next speaker, I've got Jim Kilmeyer and then
21 Roger Fernandez. And we're going to take them up
22 promptly.

23 (Recess)

24 COMMISSIONER GARCIA: One brief announcement.

25 Someone, when they were signing in, they grabbed someone's

1 papers in the front; they grabbed someone's personal files
2 and stuff, you know, just some papers that were mistakenly
3 left up there. So, if you've got that, if you've got
4 those papers, would you just drop it off to Thelma Crump.
5 It's some of her files that were picked up by mistake.

6 That said, our next speaker is Jim Kilmeyer.
7 Mr. Kilmeyer here? Mr. Kilmeyer is not coming.

8 The next one is Roger Fernandez. Roger has
9 waived his time in order to speak a little bit later. So,
10 then we will hear from TECO; Mr. Hernandez.

11 MR. HERNANDEZ: Chairman Garcia, is this on?
12 Chairman Garcia, while we're setting up here -- it looks
13 like we're already set up.

14 First, I want to thank you and the other
15 Commissioners for allowing Tampa Electric to make a brief
16 presentation. And before we get into the presentation
17 this morning, our comments, basically, along the lines of
18 what Mr. Vine mentioned before about it's important to
19 know what happened, but to us it's much more important to
20 focus on the solutions that our customers and the
21 Commission is seeking. So that's going to be the big item
22 in our presentation today.

23 Joining me today is Mr. Hugh Smith. He's the
24 Vice President of Energy Services in Marketing with Tampa
25 Electric, and Mr. Smith will be joining the presentation

1 about midpoint.

2 Very briefly, if I could, before we start with
3 the formal presentation -- and by the way, I'm Tom
4 Hernandez, Vice President of Regulatory Affairs for TECO
5 Energy and Tampa Electric -- Mr. Loyless's comments about
6 the impact of merchant plants, I would just assert that
7 there are significant issues.

8 We won't get into those today, but one thing
9 that's definitely on the minds of Floridians, in the Tampa
10 area and throughout the state, is the utilization of those
11 resources with water being a principle issue. This is not
12 a short-term problem. It's going to be a long-term issue,
13 and Tampa Electric is committed to working with our local
14 communities and the state in addressing that key issue.

15 Also, to address two of the comments Mr. Zambo
16 had made earlier. On the ability to interrupt
17 interruptible customers to make all system sales, I just
18 wanted to let you know Tampa Electric's interpretation of
19 the tariff is that we are precluded from doing that. And
20 so, to my knowledge, we have not used the nonfirm
21 customers as a resource, interruptible customers, as a
22 resource in order to make opportunities.

23 The other point, just to let the audience here
24 know, is that one thing for utilities to make public their
25 intent to add resources on their system is the 10-year

1 site plan process.

2 And Tampa Electric, since I've been with the
3 company since 1982, has filed 10-year site plans on an
4 annual basis with the Commission. That's generally a good
5 indicator of what our needs are, what drives those needs,
6 and the type of plans that we're looking at.

7 COMMISSIONER GARCIA: Just so people can time
8 it, from what I understand, you're going to take 30
9 minutes max?

10 MR. HERNANDEZ: Max.

11 COMMISSIONER GARCIA: Okay. And what we'll do
12 is I'm sure some of your customers may try to have some
13 questions. I know you try to take care of those, but if
14 you've got some questions for Mr. Hernandez, if you're all
15 right with that, we'll take some questions.

16 And then what we'll do is if there are no
17 questions, we'll break at 12:15 or after that and then we
18 will take 20 minutes and come right back so we can finish
19 everyone that's here, because it's a good-sized group.

20 MR. HERNANDEZ: Okay. Very briefly, I'd like to
21 address a couple of the points that Mr. McWhirter made at
22 the last presentation. And what I'm showing here on the
23 chart is a comparison of average rates for high-load
24 factor, firm industrial customer, comparing the southeast
25 region. I'll use the SERC region as a basis versus the

1 FRCC, peninsula of Florida region.

2 And the main point that I'd like to address is
3 the comment that FIPUG made at the last meeting in
4 Lakeland was that the rates were higher in the state of
5 Florida compared to the SERC region.

6 Well, there's two very good reasons for that.
7 The taxes, which we have no control over, is a big driver
8 in that differential. But principally, it's production
9 costs and the simple fact that probably 99.9% of the fuel
10 that's used in electric generation has to be delivered to
11 the state versus other generating utilities in the SERC
12 region that have readily available fuel sources.

13 So, if you look at those two components, and you
14 can easily account for that difference in the firm rate.
15 This has been discussed before already by several of the
16 presenters, but the rates of Tampa Electric as well as the
17 other regulated utilities in the state are cost-based.

18 The design of the interruptible rate, clearly,
19 is for the -- based on a voided cost, is clearly in the
20 interest of all the general customers through the various
21 classes. That is how the rate is designed, that is the
22 intent in terms of utilizing that resource and planning
23 for the total resources for our system and Tampa Electric
24 does, as you'll hear in just a few moments, we do work
25 closely with our interruptible customers as we do with all

1 of our customer classes.

2 And while we are concerned with the immediate
3 interests and concerns of our interruptible customers, as
4 we should be, we're also very concerned about the other
5 customer classes as well.

6 This chart is a comparison of Tampa Electric's
7 1999 rates as filed with the Public Service Commission.
8 This is simply to indicate the difference between
9 residential commercial interruptible rate and our average
10 retail rate of 6.9 cents kWh. The residential is 8 cents,
11 the commercial 5.6, the interruptible is 3.7 cents. That
12 compares to a firm industrial rate of approximately 4.2 to
13 4.5 cents per kWh.

14 This next chart, again, looking back at history,
15 indicates the --

16 COMMISSIONER GARCIA: You don't have your
17 separate industrial here, right?

18 MR. HERNANDEZ: No, I did not.

19 COMMISSIONER GARCIA: And it's 4.2?

20 MR. HERNANDEZ: It depends upon the customer,
21 the load factor and the energy, but that's a good range.

22 This next chart is a comparison, historical
23 comparison, of the optional provision energy that was
24 purchased for the interruptible customers and the
25 associated cost.

1 You will note that in 1994 the rate was about 7
2 cents per kWh, and relatively insignificant volume of
3 optional provision purchases, the 2.2 gigawatt hours.
4 That trend, both cost and the amount, decreased in 1995.
5 In 1996, we had a slight increase in the amount of energy,
6 but still the price was between 5 and 6 cents per kWh.

7 It was in 1997 that we experienced some
8 problems, availability problems, with our system. The
9 market price had not yet increased, but the volume of
10 optional provision purchases did. And then in 1998 that
11 continued and then going into 1999, where we had
12 significant system issues on our supply side resources,
13 principally, as well as significant shortfalls in capacity
14 throughout the state.

15 Now, some of this, in terms of the increase in
16 market price of optional provision power is driven simply
17 by the supply and demand. The demand has been consistent,
18 especially over the summer months, but certainly as the
19 supply has gotten thin, the marketplace factors have
20 definitely entered into the situation and resulting in
21 higher optional provision costs for interruptible
22 customers as well as all of our customer classes through
23 the cost mechanisms.

24 One of the big drivers, and one of the concerns
25 we have, is the availability of that power when it's not a

1 requirement to sell as available capacity, nonfirm
2 capacity, to other systems in the state in the absence to
3 serve nonfirm customers. To extent there's a stronger
4 market to sell outside the state that, in fact, has
5 happened.

6 And one of the issues we've got or one of the
7 ideas that we're purporting in the active docket that
8 you've got before you is the idea of increasing the
9 incentive to retain power within the state to serve
10 nonfirm customers.

11 This was discussed before by staff and by some
12 of the customers, but basically the frequency of
13 interruption; this is, again, a historical comparison from
14 1994 through 1999, minimal frequency of interruption in
15 the mid '90s, again, with the problems that occur in our
16 system in 1998 and 1999, the frequency of interruption did
17 increase, but pointing out the number of 16 days being the
18 highest in that past six-year time frame. The other
19 number that was shown that hasn't been offered before is a
20 duration.

21 So, not only in the earlier years do you have
22 low frequency, but you also have very low duration. Those
23 are hours ranging in the order of .25 hours per
24 interruption to 3.46 hours per interruption, which was the
25 highest in 1999. Keep in mind, this still only represents

1 about 56 hours of the total year.

2 There's been a lot of discussion about the
3 savings, the relative difference between a firm rate and a
4 nonfirm rate. This again, is a comparison for the six
5 years indicating the millions of dollars in the aggregate.
6 These are our total interruptible customers, basically,
7 ranging in the order of 20 million to 35, \$36 million
8 annually. And the percentages on top represent the
9 percent deduction, the difference between the firm rate to
10 the nonfirm rate.

11 So, you see, for the period 1994 through 1998,
12 consistently above 30% with the issues that we talked
13 about before, with the increased optional provision
14 purchases and the higher option cost associated with that
15 the customers' savings went down 21%. But for the period,
16 as was mentioned by staff earlier, 30% savings over a
17 six-year time frame.

18 Talking again about the service reliability.
19 We're going to pick on 1999, the higher amount of optional
20 provision purchases and the higher frequency. This is a
21 comparison of our firm customers in terms of delivery of
22 service versus the interruptible customers.

23 You'll note the 0.6% difference, 100% service
24 reliability for the firm customers, 99.4% for
25 interruptible customers. That accounts for the 56 hours

1 throughout the year last year that we were unable to
2 provide them service through our own resources, either
3 through our own generating system or through short term as
4 available capacity contracts.

5 This next chart is a very high-level overview of
6 our resource expansion additions, the long term. And
7 effectively, from 1985 through 2004, beginning with our
8 Big Bend Unit 4, April 1985, going through the Hardee
9 power capacity, Polk Unit 1, in September '96, the
10 additional capacity through the Hardee power expansion
11 that we're planning to come on-line May of this year, the
12 Polk Unit 2, which is 7 1/2 combustion turbine, which
13 we're planning to bring on-line September 2000 of this
14 year. That's approximately 2 1/2 years earlier than what
15 we originally stated in our 10-year site plan two years
16 ago; I believe, begin service date is around January 2003.

17 So, follow-up by the Polk Unit 3, we've
18 accelerated the timing of that unit as well, moving that
19 up from 2004 to May 2002. And to the extent that we can
20 get those units, especially Polk Unit 2, delivering power
21 beginning in June or July, we're certainly going to try to
22 do that, but right now our plan is to make it commercially
23 available September of 2000.

24 And then, finally, with the recent announcement
25 of our Gannon repowering project, a project that will

1 result in an additional 275 megawatts in our supply-side
2 system by May of 2004.

3 So, the main point here, Commissioners, is that
4 we've accelerated our expansion of plan. We have issues
5 with declining reserve margins, not only for Tampa
6 Electric, but also for the state, but we have accelerated
7 those plans, as Mr. Smith will talk about in a few
8 minutes, basically, based on the general interests of not
9 only our interruptible customers to minimize that
10 frequency of interruption and also the need to go to the
11 market, but also our general body and rate payers, our
12 total customers and their reliability and the cost of
13 power.

14 One thing I'd like to just point out, FIPUG,
15 represented by Mr. McWhirter in several Commission
16 proceedings, has taken the position basically not so much
17 opposing the additional capacity, but opposing the concept
18 of Tampa Electric recurring the cost, those additional
19 supply-side resources.

20 And I'll just, if I may, just reference three
21 quotes or references from three proceedings the Commission
22 had beginning with Big Bend Unit 4. And I quote, "In
23 1985, Tampa Electric rate case, order number 15451, FIPUG
24 argues that TECO, because of poor planning, coupled with
25 the effects of conservation, will have capacity in excess

1 of that necessary to serve its native load." Basically,
2 FIPUG was challenging our ability to recover the cost for
3 the Big Bend Unit 4 addition.

4 On the allocation of recurring of costs
5 associated with conservation in 1993, 1994 proceeding,
6 FIPUG took the position that since interruptible customers
7 do not cause peak-related demand costs to be incurred,
8 interruptible customers should not be allocated in any
9 demand-related cost conservation programs. And that's in
10 document number 930759-EG.

11 And finally, in what was called then the reserve
12 margin proceeding in 1994, FIPUG took the position that
13 nonfirm retail customers are served from the utility's
14 reserve margin during peak periods and enable the utility
15 to obtain lower fuel costs and more efficient generation
16 during off-peak periods. They fully support their
17 allocated share of the utility's fixed-cost investment.
18 To remain competitive, they accept the cost direct from
19 occasional interruptions for the use of other native load
20 customers.

21 FIPUG also took the position it is illogical to
22 provide an incentive to construct new generation when
23 there is surplus capacity in the state. FIPUG also stated
24 that an appropriate reserve margin level would be 15% to
25 20% to be used to determine the applicable interchange

1 schedule under which power could be purchased to avoid a
2 capacity shortfall. And that's in Commission docket
3 number 940345-EU.

4 It appears from these excerpts that FIPUG has
5 been willing to accept the benefits of any activity that
6 lessens the likelihood of interruptions, but unwilling to
7 contribute to the cost of the activity on the premise that
8 its members are not firm customers.

9 This next chart shows the historical and
10 projected summer reserve margins for Tampa Electric.
11 You'll note in the early 1990s to mid 1990s, there was
12 sufficient capacity in excess of the 15% to 20% planning
13 criteria. It was after the addition of Polk Unit 1, the
14 IGC unit in 1996 for Tampa Electric, went from a 20%
15 planning criteria to a 15% in light of the reserve margin
16 docket proceedings a year and a half earlier. You'll note
17 that we did, in fact, get right down to that 15% limit in
18 1999. And while we talked about a winter, winter planning
19 criteria, we also recognize the need for capacity over the
20 summer.

21 The key issue here, in terms of reserves as
22 discussed before, is the balance of conservation which we
23 support. We support the initiatives of FEECA, we support
24 conservation, we think it's good for our customers, we
25 think it's good for our participating customers, it's a

1 valued resource. And so, we feel it's very important that
2 it continues to be a contribution to our overall reserve
3 margin, both for planning purposes and for operating
4 purposes.

5 And with that, I'd like to turn the presentation
6 over to Mr. Smith.

7 MR. SMITH: Good morning, Commissioners. My
8 name is Hugh Smith, and I'm the Vice President of Energy
9 Services and Marketing for Tampa Electric. That title
10 encompasses customer service as well as other interactions
11 for all of our industrial commercial customers as well. I
12 also have responsibility for wholesale sales,
13 conservation, and resource planning.

14 As Mr. Hernandez pointed out, I think from his
15 chart, it's pretty clear to see that the reserve margin
16 has had a significant change over the last few years and
17 over the next several will again have a significant
18 upswing.

19 I think what's significant to point out on a
20 chart that's before you, in addition to the fact that the
21 20% reserve margin is going to be achieved again in the
22 next few years, but it's really the portion in the dark or
23 the dark-shaded portion of the chart, which indicates the
24 portion of the reserve is made up by a nonfirm load.

25 And whereas the planning criteria has been 15%

1 for the last several years and is moving towards the 20%,
2 as we look at the charts, it's pretty clear to see that
3 our nonfirm load is making up most of that reserve margin.

4 In short, as we've attempted to explain to most
5 of our customers as well, that indicates that anytime that
6 we need more than about 4% in reserve, that load is going
7 to be made up by dipping into some type of customer base,
8 either through our DSM programs or through interruptible
9 customers or other ways that we have of controlling
10 nonfirm load.

11 And that's why it's so significant, we believe,
12 in the recent planning dockets that took place to really
13 not only focus on the total reserve margin, but also to
14 focus on supply-side reserve margin as well, which gives
15 some level of assurance that there are going to be
16 resources available in the state to be able to provide
17 customers with, particularly nonfirm customers, with
18 reliable supply of energy.

19 Moving ahead, the chart before you now is a
20 winter reserve margin. The story is very similar, there's
21 not much different here, other than the fact that the
22 supply-side resources that provide our peaks in the next
23 year or two remain extremely small and are going to be a
24 difficult time for us in that anytime we have a unit
25 off-line where there is demand in excess of planning

1 reserves, there's very little actual reserves within our
2 system to be able to accommodate those types of loads.

3 Moving away from some of the technical issues,
4 which I believe everyone has a fairly good grasp of now,
5 talking more about how we have been dealing with this, we
6 believe that communication through customers is the key;
7 whereas it doesn't solve the problems or mitigate some of
8 the cost impacts as they have seen, which are significant
9 in many cases, we believe that at a minimum it's incumbent
10 upon us as a utility to make sure that the communication
11 is provided to them in the best possible way.

12 I did want to point out to you that we have
13 assigned an account manager for each of our interruptible
14 customers that communicates with them on a regular basis.
15 Sometimes it's hourly, daily, weekly, with respect to
16 giving them status reports as to the status of Tampa
17 Electric's system as well as the state system, and we're
18 looking to enhance that as we move forward.

19 We have pagers that are assigned to those
20 customers that we communicate with them on a regular
21 basis. And that is done to indicate the status of our
22 system. And they have pager numbers for all of the
23 account managers as well so they can get in contact with
24 someone so a person knows their situation at the same
25 time.

1 In preparation for summer last year, and in
2 anticipation of some of the difficulties that we expected
3 to see with this class of nonfirm customers, we did host
4 some meetings last year. We got the customers to come to
5 group meetings where we detailed the information that it
6 was leading us to this situation which we were facing as a
7 utility and state was facing as a whole.

8 We spent a significant amount of time talking
9 with the customers at that point, trying to listen to them
10 as well as provide some information we thought we'd
11 provide them the best base of knowledge possible.

12 In addition, we've surveyed the customers this
13 year to provide further input into how we might better
14 operate our system. And I wanted to cover a few things
15 with you just quickly as to what we plan to do this year
16 in order to modify our communications plans as we move
17 forward.

18 The way I've designed this is I'm going to walk
19 through the -- some of the key points being from the
20 survey. We actually sent out a survey or delivered a
21 survey to our interruptible customers that was probably 30
22 to 35 questions. And I will not go through it question by
23 question, but we thought we came away from some of the
24 responses with some very key points, and I wanted to
25 highlight those points for you. To the extent that you or

1 staff is interested in providing or receiving more
2 detailed results on the survey, we'd be happy to provide
3 all the results of the survey we received.

4 In particular, first point that we gained from
5 the survey results was that our customers wanted easy
6 access to what we're calling interruption update line. We
7 have the pager system that was in place, and there's
8 always issues with pager systems.

9 At times we did not know about the
10 interruptions, but just minutes before they may or may not
11 occur, sometimes as much as 20, 25 minutes or so, and when
12 we have about 15 to 20 different paging companies involved
13 in receiving the pager information, the systems that we
14 use to dial up those numbers and send messages across
15 still seem to be somewhat inadequate in some of our
16 customers' minds in terms of being able to get them
17 updated information quickly.

18 So, one of the additions that we plan to make
19 this year is to establish an update line, which customers
20 will be able to call into and will provide updated
21 messages that may be updated as often as three or four
22 times an hour in situations where the state situation may
23 be changing. And we'll provide information that will not
24 concern probability of interruption, but also the staffs
25 of third-party purchases that are occurring.

1 COMMISSIONER JABER: Can I ask you a question on
2 this?

3 MR. SMITH: Certainly.

4 COMMISSIONER JABER: What is it you do now to
5 notify them? And do you expect this to replace that?

6 MR. SMITH: Currently we have assigned pagers to
7 each of the different customers. And we have,
8 unfortunately, two different ways that we do that. We
9 have a paging system that we employ and we'll provide them
10 with a pager. And that's communicated through our own
11 telecommunications network.

12 And so, those messages can be gotten out to the
13 customers and receive almost instantaneously. To the
14 extent that the customers would prefer to use their own
15 paging systems, then we will page their own pagers, and
16 that can certainly take some time.

17 And we go through a list of numbers and the
18 computer system dials up those numbers as quickly as
19 possible, but there's so many paging systems that it can
20 take as many as 20 minutes to get all the pages out to the
21 customers.

22 This is not planned to replace that. We
23 continue to plan to use our paging system with some
24 enhancement in the messaging that's received. And we
25 receive that information back from the customers as well,

1 but this will be an enhancement so if they are concerned,
2 if they're trying to plan their day out at, say, 9:00 in
3 the morning or 8:00 in the morning and they want to know
4 the status or the probability of interruptions that may
5 occur in the afternoon, they have the ability on their own
6 time schedule to call this update line, which will be
7 manned throughout the summer and provide them with updated
8 information as the system applies.

9 If they had an additional question, at that
10 point, they still have the ability of calling their
11 account manager to ask clarifying questions through the
12 paging systems, they can page us back through or through a
13 manned desk that will be available with a hotline type of
14 operation throughout the summer as well.

15 Secondly, our customers indicated a strong
16 desire to want to be notified of the price of the power
17 which is being purchased by third-party purchase
18 providers. It's become an issue for them that most of
19 them do not prefer to be interrupted. And, therefore,
20 they have pretty much given us blanket direction to
21 purchase third-party purchases for them in the
22 marketplace.

23 Unfortunately, with the volatility that's been
24 experienced in the marketplace over the last couple
25 summers, this has at times caused us to purchase extremely

1 high-priced energy. And when that gets passed on to them
2 through their normal monthly billing, it becomes a very
3 strong surprise to them, as to the prices of energy being
4 paid.

5 In order to address this, in June of this year,
6 Tampa Electric's going to be sending out, for the first
7 time, price signals. And this will be available, not only
8 on their paging system, but also on that update line that
9 we talked about.

10 Each day we will forecast the market, and it
11 will only be a forecast. And therefore, it's going to
12 have some errors involved in it. And we're going to miss
13 it from time to time, but hope to project the price of
14 energy. And we plan to categorize that price in terms of
15 low, medium, high or extra high right now, are the terms
16 that we've come up with so far to try to give them
17 categories.

18 And we will define those categories for them
19 very specifically and tell them exactly the price points
20 that we're using to try to man the market. With that
21 information, then they will have the ability of knowing
22 that if we're in the market of purchasing third-party
23 option provision power and they want to attempt to avoid
24 those costs being passed back to them, they will have the
25 opportunity to, on their own, reduce their load and

1 minimize their purchases during that time period.

2 COMMISSIONER CLARK: I'm going to ask a question
3 on that.

4 Is that an hour ahead you will know what the
5 price is going to be?

6 MR. SMITH: We look at doing hour-ahead pricing
7 and the assessment that we have with the general body of
8 our customers is an hour ahead does not provide them with
9 the type of information that allows them to plan their
10 systems. Most systems do not operate systems that simply
11 allow them to turn their plants on or off on any given
12 hour based on what happens in the energy market.

13 And so, our plan at this point and time, subject
14 to refinement, is that in the morning hours we will be
15 able to forecast or possibly on the previous afternoon, we
16 will be able to forecast what the market looks to us to
17 be.

18 And realizing that will have some real errors
19 involved with it, because we're going to at times project
20 it to be at a certain level, and it's going to come in at
21 a level higher or we're going to project to it be very
22 high and we're going to define low-cost energy, but we're
23 going to give them the best estimate that we have of the
24 forecasted market price.

25 And to the extent that they have the ability of

1 controlling their usage during that time period, then they
2 will have the ability, within their own means, to try to
3 reduce costs, according to the price signals that have
4 been sent.

5 COMMISSIONER CLARK: Let me ask it a different
6 way.

7 Then, you are anticipating purchasing on an
8 hour-by-hour basis?

9 In other words, if you knew that you were
10 concerned about your ability to be low and the possibility
11 of interrupting this customer, could you by 24 hours ahead
12 of time for them?

13 MR. SMITH: Yes. And many times we do that,
14 Commissioner Clark. We will look at the situation each
15 day or, and in some cases, each week.

16 And as we know that our system may be capacity
17 deficient or we may be in the market for power during that
18 time period, we at that point and time begin to put in
19 plan what we believe to be the most cost-effective way to
20 purchase the energy. If that entails us purchasing the
21 energy a day ahead or a week ahead, we will go ahead and
22 institute plans to do that.

23 Typically, those are being done to bolster our
24 reserve margins to a point that we feel comfortable with
25 and are not costs that oftentimes are allocated to

1 third-party provision purchases. It's really those
2 purchases that are occurring on a short-term basis when we
3 run into kinks and are actually looking at having to use
4 demand-side management in order to meet our loads that
5 we're having to purchase on an hour-by-hour basis. And
6 that's the market that more typically will be forecast is
7 that hourly market that's occurring hour by hour.

8 COMMISSIONER CLARK: Because to meet the needs
9 of these curtailable customers, that's when you would
10 purchase. You're not going to purchase ahead of time for
11 them.

12 MR. SMITH: That's correct.

13 COMMISSIONER JACOBS: Are there any measures
14 that you can undertake -- I assume if you could purchase
15 24 hours in advance that you could also mitigate, to some
16 extent, your exposure to volatility in the market. Are
17 there measures that you can undertake to do that?

18 MR. SMITH: Yes. And as I understand your
19 question, we do that to the greatest extent of our
20 capabilities now.

21 If we know that purchasing power today looks
22 like a better alternative for us than waiting 'till a
23 later point and time for our system, then we will go ahead
24 and make those commitments early. At times, it can be
25 just the reverse; purchase ahead of time can be a more

1 expensive option. When resources are tight and utility
2 may be looking to bring some resources back on-line but
3 don't know exactly when they will get them on-line,
4 hypothetically, then the quote for tomorrow's energy may
5 be \$300 available an hour.

6 And we believe that all signs indicate that if
7 we purchase on an hour-by-hour basis, it may be \$100 in
8 one hour, that we would not want to purchase ahead of time
9 in order to achieve the energy.

10 COMMISSIONER JACOBS: How likely is it, then,
11 if, say, you see a day ahead that you're going to have to
12 go to the marketplace for any number of your commercial
13 customers that you could impact the decision of some
14 generator to get back on-line, actually impact the market
15 price that you're going to see?

16 MR. SMITH: I'm sorry, Commissioner, could you
17 repeat that?

18 COMMISSIONER JACOBS: If you know a day ahead
19 that you're going to have, perhaps have a need for a
20 generation towards any number of your commercial
21 customers, and you go through market for a sizable load,
22 is there a likelihood that you might impact the decision
23 of some generator out there to pull resources into the
24 market; and therefore, impact the price that you might
25 see?

1 MR. SMITH: As a practical matter, I don't
2 believe so. And the reason I don't believe that's the
3 case is because that, in general, we have found that most
4 providers of generation, particularly very high-peak
5 periods, such as the summer months, have experienced a
6 market, at least over the last couple of years, such that
7 they are all making all of their capacity available on a
8 day-by-day basis, and it's been very rare, if not at all,
9 that I can recall a time where there was any generator of
10 electricity in the state of Florida that is not making
11 whatever generation that they have available to themselves
12 available during peak time periods due to the potential
13 upside they have or the pricing signals that are sent
14 during those periods of time.

15 If that same situation occurred during a nonpeak
16 month, if it were to occur in the month of March, as an
17 example, then it could be very likely that that would be
18 the case. However, that's not as often when we're looking
19 to purchase energy for these groups of customers or for
20 our system either.

21 COMMISSIONER JACOBS: Thank you.

22 MR. SMITH: Another point that we learned from
23 our survey was that the pricing signals would not do our
24 customers a lot of good on the current way that we were
25 providing our billing system. Currently our billing

1 system takes all of the third-party optional provision
2 purchases, combines them into an allocated pool of dollars
3 throughout the month, and then takes the average of those
4 costs, and then charges that average cost of third-party
5 purchases back to our customers on a usage basis
6 throughout the month.

7 COMMISSIONER GARCIA: Let me ask you a question,
8 then; and you probably know, might sound stupid, but just
9 for my own edification, when you're purchasing for these
10 customers, you stated that you found as a general rule
11 that your customers are going to take, you know, they're
12 going to want you to purchase, regardless the percentage.
13 When you are in the market purchasing for your
14 noninterruptible customers, are you also purchasing with
15 them in mind?

16 MR. SMITH: Yes.

17 COMMISSIONER GARCIA: So, they're benefitting
18 from the size of the purchase that you're going to make
19 and the advantage of the purchase at that time?

20 MR. SMITH: That's correct.

21 So, in order to give the customers more power to
22 be able to have their ability to manage their own energy
23 costs, what we will be moving to in June of this year in
24 time for the summer months is a chance to take these price
25 signals that we will be sending the customers and then

1 have those price signals mean more to them on their energy
2 bills, to the extent that they've decided to manage their
3 energy usage during any particular hour.

4 Again, as an example, if a customer receives a
5 price signal on a particularly hot day where resources are
6 tight at the state; that the price of energy could be very
7 high that day, and they decide to minimize their energy
8 take during that time periods, this will allow them to
9 minimize the amount of charges that they will receive
10 during that time period, not only due to their lower
11 usage, but because they will have mitigated some lost
12 energy that was purchased.

13 Previously, they may have attempted to reduce
14 their energy usage, but they still have the overall impact
15 of those higher energy purchases due to the fact that they
16 were pooled a monthly average type of accounting process.

17 So, to no surprise of ours, the customers would
18 also like to receive current information on issues related
19 to nonfirm service. This is something that we think we've
20 done a fairly good job at. I'm sure customers would have
21 a different opinion on that. We attempt to communicate
22 with them as best as possible to augment further what we
23 plan to do this year.

24 We've also developed a monthly customer
25 newsletter that we plan on distributing. We printed the

1 first one last week and have copies here today. It's to
2 be mailed out this week to our interruptible customers,
3 and we'll get feedback as we go through the summer to see
4 the impact that this makes and the benefit that it
5 provides our customers. And we'll seek further input from
6 them, so they can stay well-informed on the issues as
7 possible. We also will continue those meetings to
8 continue to provide our customers all the information that
9 they would like to hear as we move forward.

10 Lastly was a surprise to us. And again, as I
11 mentioned, I'll be happy to provide the copies of the
12 surveys to anyone who's interested. But our customers
13 indicated when we asked them a question, if they would
14 like the ability to directly purchase from power
15 marketers, in lieu of experiencing interruptions, that
16 they would not like to do that.

17 Now, granted, this is not 100% type result. We
18 had about 62% of the customers, and I'll cover this one
19 specifically, because it came as a surprise to us that
20 they do not prefer this option.

21 62% of the customers did not either want the
22 cost associated with doing that or the headaches
23 associated with dealing with power marketers, but would
24 rather deal with the situation from the standpoint of
25 either being interrupted or being able to manage their

1 energy costs rather than being able to go into the
2 marketplace and purchase energy on their own, even in the
3 face of interruptions.

4 COMMISSIONER JABER: The surveys you sent to all
5 of your interruptible customers?

6 MR. SMITH: That's correct.

7 COMMISSIONER JABER: Because I'm new at this,
8 how many interruptible customers do you have?

9 MR. SMITH: It was reported this morning that we
10 had 57 by staff, but last count we had, we only had about
11 35. So, we think that there's a difference in the numbers
12 there that I'm not quite sure of the reason for that, but
13 it ought to be somewhere between those numbers.

14 COMMISSIONER JABER: And all of them responded
15 to your survey?

16 MR. SMITH: No. Only about -- about 60%
17 responded to the survey, which is a good result from a
18 typical survey. We would have liked to have heard from
19 all of our customers with respect to their feelings on
20 these issues, but we received a fairly representative
21 number.

22 COMMISSIONER JABER: And I'm sure there are some
23 responses you don't intend to implement or don't agree
24 with.

25 MR. SMITH: We received a lot of input. And,

1 unfortunately, we got varied opinions by some customers.
2 Some customers would like us to go one direction, other
3 customers would like us to take an exact opposite
4 direction.

5 So, we felt like what we were trying to get from
6 the survey was the general direction. And I don't recall
7 that there were any significant results that came back,
8 Commissioner Jaber, that were anything that we were unable
9 to do.

10 I may stand corrected on that, if I check
11 myself, but in general what we found we were looking for
12 was feelings that our customers that could be best
13 implemented to provide them with the best possible service
14 throughout this difficult time period that they're
15 experiencing where reserves, grantedly, are shorter than
16 everyone seems to like them to be. And I think most, if
17 not all, of the suggestions or directions that they had
18 come back to us with were the survey results.

19 With that, I just wanted to conclude my remarks
20 and would commit to you that first of all, and as
21 Mr. Hernandez said, we are not selling wholesale power at
22 any point in time to nonfirm customers off of our system
23 at any point and time our interruptible customers are ever
24 in jeopardy of being interrupted.

25 It is a very high priority on our system and all

1 of our employees try to do everything within their power
2 to try to keep these customers on-line. At times it's
3 going to almost erode measures to do that, despite the
4 results of having the interruptions over the last year, we
5 plan to continue doing that through this tight summer we
6 expect to experience coming up, and we'll try to work with
7 them as best possible throughout that time period to give
8 them as much information about the situation and try to
9 help broker their individual situations as possible.

10 COMMISSIONER GARCIA: I had a question. Maybe
11 it's a more global question, but do you know if you are
12 interrupting at the same time other Florida companies are
13 selling outside the state?

14 MR. SMITH: Yes. And to our knowledge that does
15 occur where other utilities may be selling outside of the
16 state of Florida while utilities within the state are
17 interrupting their nonfirm customers.

18 COMMISSIONER GARCIA: Okay. Thank you.

19 Commissioners, any questions? If anyone has
20 questions for TECO that wants to pose them -- I see
21 Mr. Salem is there. Mr. Salem, you're going to have to
22 come up to a microphone. Reach the mike up. It may be a
23 little bit easier.

24 MR. SALEM: Thank you, Commissioner.

25 Richard Salem of Salem Saxon & Nielsen in Tampa.

FLORIDA PUBLIC SERVICE COMMISSION

1 First and foremost, let me thank you, Commissioner Garcia,
2 and members of the Commission, director Jenkins and the
3 staff for making the effort to join us in Tampa today. We
4 certainly appreciate your efforts and it is an effort,
5 indeed, to relocate the Public Service Commission for a
6 day to Tampa, but we are welcoming your arrival.

7 And even though it may not appear to be good
8 weather, the rain is very good news for us, who have been
9 in a water shortage and praying for rain for a while. So,
10 hopefully, your joining us today will help us with more
11 plentiful electricity as well as water in the future.

12 Three quick comments that we would like to make.
13 Number one, the question of the significance of available
14 reliable, and competitively-priced electricity is a
15 significant one for us.

16 As a transnational business lawyer dealing with
17 companies coming into the state, going out of state and to
18 other jurisdictions as well, electricity, and the cost of
19 electricity, is usually the third priority that our
20 business clients look at.

21 They look at the human resource availability and
22 cost of human -- still human resource availability; number
23 two, the raw materials, and number three is inevitably
24 costs of electricity. And we are suffering from a
25 disadvantaged position, as far as the cost, the

1 reliability of electricity. The expansion of businesses
2 that are here today, and we represent several
3 interruptible service customers, they have to carefully,
4 if not forego the consideration of expanding their
5 business entities here, the cost of this issue.

6 Secondly, the efforts of Tampa Electric Company
7 should not go without some recognition. Although we have
8 material differences often with Tampa Electric Company
9 over significant issues, let me say this: There's not
10 been a day or an issue that Mr. Smith, Vicky Westra,
11 Mr. Ramil of general counsel's office, or Sheila; we'll
12 work for them at 6:00 in the morning or 8:00 at night, and
13 no matter how difficult the issues may be or how
14 significant our differences may be, they have not shyed
15 away from working with us. And to that end, we commend
16 them and appreciate having a good utility, a good
17 corporate citizen in our community.

18 And finally, the third point that we would ask,
19 although we are not here representing a particular client
20 today because of certain agreements and litigation that's
21 pending, we would encourage your continued effort in
22 trying to find as much versatility and flexibility in the
23 existing laws and regulations as possible to give us the
24 opportunity to find electricity for our clients at
25 reasonable rates that is consistently reliable.

1 We appreciate the extension between your
2 responsibilities and those of the legislature. We are
3 working with you and your understanding of the subject
4 matter. We think we've got a much better chance of you
5 working with the utility companies to find those
6 opportunities so these businesses can grow and expand and
7 thrive in Tampa and in Florida generally so.

8 Again, welcome and thank you, and we hope to
9 have you back again soon.

10 COMMISSIONER GARCIA: Mr. Loyless.

11 MR. LOYLESS: Thank you.

12 I just wanted to ask a question for
13 clarification on three of the slides you showed us. And
14 I'll start with the very last one.

15 It says the customers would not prefer to
16 contract directly with the power marketers to obtain
17 purchased power in lieu of interruptions. And I think I
18 understood that you said some said yes, some said no. And
19 I guess a majority said no, they wouldn't like to do that.
20 Did any of them say we don't want you to give anybody that
21 option? In other words, did the customers in group "B"
22 say don't give group "A" the options they wanted?

23 MR. SMITH: This was a multiple choice response,
24 and it was not constructed in a way to provide comment
25 like that. The question read, "Would you prefer to

1 contract directly with power marketers to obtain purchased
2 power in lieu of interruptions?" 62% said no and actually,
3 less than the remaining said yes, and a small percentage
4 said maybe.

5 MR. LOYLESS: Something less than 38%. Probably
6 nobody cared whether they had the option or not, it would
7 occur to your other customers if they did.

8 MR. SMITH: No one.

9 MR. LOYLESS: The other two slides for
10 interruptible customer, this is not necessarily my
11 business, but I was confused about, but I'll ask in case
12 nobody else does.

13 But the one regarding the 1999 electric rates,
14 comparisons from residential to commercial and
15 interruptible at an average, I see you did not put
16 industrial on there, but you did mention a figure for
17 industrial, but I believe that was an average industrial.

18 And I -- wouldn't it be more relevant if that
19 would be, what would be the price of these interruptible
20 customers, if they were on firm service? I understand
21 most of them are large interruptible customers, probably
22 something less than the average industrial rate.

23 MR. HERNANDEZ: Right. If we refer to that
24 other chart where we include the effective price and the
25 effective savings.

1 MR. LOYLESS: Yes.

2 MR. HERNANDEZ: I think it's in the slide.

3 MR. SMITH: Number six.

4 MR. HERNANDEZ: Slide six.

5 Relative to the firm rate, that is what this
6 chart indicates. So, the average of six years is just
7 under a 30% relative savings.

8 Arguably, though, what happened in 1999, the
9 savings dropped to 21%, but inclusively over the six-year
10 period, the difference between the effective interruptive
11 rate versus what those customers would have been on a firm
12 tariff is about 38%.

13 MR. LOYLESS: If you took actual customers and
14 their actual use aggregated, would it have been on firm?

15 MR. HERNANDEZ: Yes, sir, it's an aggregation.
16 And depending on the customer and the load
17 characteristics, could be higher or lower than that
18 number.

19 MR. LOYLESS: My back of the envelope said that
20 it would be about 4.7%, and I thought that was probably
21 higher than the aggregate of those who would have paid.

22 MR. HERNANDEZ: It again, depends upon the load
23 characteristics, the demand, the load factor, the energy
24 associated with it.

25 MR. LOYLESS: So, I guess some of the people

1 speaking here today then would have much lower study,
2 possibly.

3 MR. HERNANDEZ: Either higher or lower savings,
4 that's correct.

5 MR. LOYLESS: Okay. Thank you for the
6 clarification.

7 MR. DESAI: Thank you, Chairman Garcia,
8 Commissioners. My name is Nainan Desai, and I'm from the
9 University of South Florida, a large growing institution,
10 as you well know.

11 The university has impact of \$4 billion to the
12 local economy and employs over 8,000 staff and employees.
13 The university's growing presence is escalating energy
14 costs is doing a major focus in that area. We've been
15 making a real attempt to cut down on the tuition cost so
16 that our programs, educational programs, and the student
17 institutions get the best value for their money.

18 At this time, I'd like to request, and this is a
19 request more than a question to the Commissioners, as well
20 as to the Tampa Electric Company, because we have
21 excellent relationship with Tampa Electric Company. They
22 have been making us -- providing us every help and are
23 making aware of all the programs that are available.

24 However, in spite of our attempts to get into
25 the interruptible rate structure, we have not been able to

1 get into. And we've been on the waiting list for quite
2 some time. And when all the discussion is going on, the
3 thought process comes to my mind is, if you had more
4 interruptible customers, then you could actually roam the
5 interruptions and allow benefit, recurring benefit, to
6 more customers, so that the limited pool of customers
7 won't be interrupted all the time.

8 So, I'd like you to consider that for the
9 future. At the same time, what is the basis that don't
10 have a good understanding of for eliminating the
11 interruptions when so many other customers won't get on
12 it. At the same time, allowing a 5-year contract that
13 requires -- if a customer wants to get off their contract,
14 there are people waiting in line. So, why even have a
15 5-year limitation? Why isn't they going to open access,
16 so to speak?

17 COMMISSIONER GARCIA: Mr. Hernandez, do you want
18 to take a crack at it? I will, too, but you go ahead and
19 do it, since he's asking you a question in your area.

20 MR. HERNANDEZ: Okay. Well, basically, there's
21 a two tests for adding nonfirm resources. There's a
22 cost-effectiveness test and there's something established
23 called the nonfirm load rule.

24 And the reason why those two things are in place
25 is that, again, when you structure an interruptible rate,

1 you need to consider the general volume of all your rate
2 payers. So, a key driver of determining the --
3 establishing the rate to the level of discount for the
4 interruptible customer would get relative to the firm rate
5 is based on avoided cost.

6 What's happened is that in the state of Florida
7 avoided costs have come down, and it seems like in
8 conflict with what's happening with the marketplace, but
9 basically the critics and technology reduce the cost for
10 peak capacity as well as combined cycle, and so there's a
11 decrease in avoided cost. So, you compare that with the
12 existing customer base already on the nonfirm rate, you've
13 got this issue about, well, should you continue to
14 discount at 30% effectively? So, that's an issue.

15 The nonfirm load rule issue gets to a systems
16 planning criteria that targets the amount of reserves that
17 both the utility and the Commission agrees is appropriate
18 for planning purposes. Within that you don't want to have
19 an imbalance of, let's say, having 100% of those reserves
20 made up from nonfirm resources. You want to have some
21 portion of capacity.

22 So, the rule works that you go through the
23 calculations, you look at the increase in your total load
24 to benefit a portion of your nonfirm customers, which not
25 only includes the interruptible customer, but also load

1 management programs, conservation programs that reduce
2 peak or demand on a system. All of that gets factored in.
3 So, it's a two-pronged test. Either one of those could
4 trigger a result of closing or opening an existing tariff.

5 MR. DESAI: If I can respond. The other
6 question, is when do you expect to open up that again and
7 allow more customers in?

8 MR. HERNANDEZ: Well, there's two issues, again,
9 it's the same two issues.

10 Tampa Electric, as Smith indicated earlier, has
11 recently agreed to raise its reserve margin from 15% to
12 20%. That by itself would indicate perhaps there would be
13 an opening of the additional nonfirm load.

14 However, what Tampa Electric also agreed to do,
15 as Mr. Smith indicated, was to agree to a 7% supply-side
16 contribution so that in no case would we ever drop back to
17 100% nonfirm load resources. We are first going to
18 achieve the 7% minimum supply-side.

19 And then you've got the cost issue. We had a
20 proceeding with the Commission, I guess, going back a few
21 months, where we had determined that the IOC rate was no
22 longer cost-effective. So, we petitioned the Commission
23 to close the IOC rate, replace it with a program -- can't
24 remember the name, GSLM, thank you, General Service Load
25 Management, so it was more like a conservation program,

1 but based on the cost-effectiveness test that's been in
2 place, it generally did not offer the same type of
3 discount, probably half the discount that's available now.

4 So we simply closed that rate to the business
5 and opened up the opportunity for the GSLM. So, there we
6 addressed the cost-effectiveness issue on the rate, but
7 now you've got this other issue of the balance of
8 supply-side and demand-side resources.

9 MR. DESAI: Thank you.

10 COMMISSIONER GARCIA: Great. Someone there.
11 Next.

12 MR. WOODALL: My name is Mike Woodall. I'M with
13 Pasco County schools, and we are an interruptible customer
14 of TECO. We'd like to add to the comments earlier, thank
15 the Commission for being here. We'd also like to say
16 we're very happy with TECO in providing so far
17 interruptible. We've been with them for about eight
18 years.

19 I did have a couple questions, specifically,
20 about purchase power. Over the last 24-month period in
21 which I looked at, we paid for purchase power 19 of those
22 24 months, which would indicate to me that one or two
23 things is happening. Either it's cheaper to purchase them
24 at peaker, and I'm not sure that TECO has peakers, or that
25 the estimated firm load has been grossly underestimated.

1 I wanted your comments on that.

2 MR. SMITH: There have been significant periods
3 of time over the last two years where purchases have been
4 made. If you've seen a bill in a month, it is not because
5 we're purchasing because it's cheaper to do so. If we end
6 up purchasing power to patch through on the third-party
7 provision, and it's cheaper to do so, then it doesn't
8 qualify as long as it's within certain criteria and prices
9 to be passed through under those rates.

10 So, if we're trying to make a decision as to
11 whether or not to purchase power to provide our
12 interruptible customers with energy or generate it
13 ourselves, then that decision goes to an economic decision
14 and not -- it does not get classified in that pool,
15 generally, to be passed on.

16 What you have seen is that more and more
17 throughout the year the capacity that's available in the
18 state of Florida is becoming critical based on the fact
19 that even during off-peak months, utilities in general,
20 and I know Tampa Electric for sure, is planning all of
21 their outages and maintenance activities during those time
22 periods.

23 So, even in periods of time, such as March or
24 April, when we may be having what seems to be nice
25 weather, in the event that we have 1,000 or 1,500

1 megawatts of generation on-line for repair to get it ready
2 for the peak months, there can be bullets of time when the
3 temperature goes up unexpectedly above normal conditions;
4 or if we have an unplanned outage on a unit during those
5 months, there can still be periods of time when we're
6 having to purchase during even off-peak months for the
7 nonfirm customers through third-party provision.

8 Our anticipation is that with the increasing
9 reserve margins that the Commission has endorsed moving
10 back up to 20% over the last couple of years, that we
11 should see a significant decline in that type of activity
12 based on what Tampa Electric plans to do on some system,
13 as well as whatever the utilities are doing in the state
14 of Florida.

15 MR. WOODALL: I'm also curious about the --
16 earlier you said you bumped your rate reduction to about
17 30% for the interruptible customer. Is that figured
18 before the purchase power plus? Am I asking that question
19 right?

20 MR. SMITH: It includes the third-party
21 provision purchases; that's why there's such a dip in the
22 1999 number, because there's been no structural rate
23 change that would have caused that, but there was such
24 significant purchases during 1999, that's what caused the
25 dip to occur.

1 MR. WOODALL: Also, one final.

2 You talked about in one of your slides that your
3 interruptible rate is about 3.8 cents. My effective rate
4 works out to be 5 cents. Now, I know I have a low load
5 factor, but it's certainly a far cry from 3.8 cents.

6 MR. SMITH: I think that anticipates a typical
7 industrial load factor of about 60%, load factor on a
8 particular customer. And in any particular customer's
9 case, it can be much different, as in your case with the
10 schools; historically, at least I know the ones in
11 Hillsborough County are 20% load factor other than 60%.

12 MR. WOODALL: We're happy to get the 30.

13 MR. SMITH: It does vary. There can be some
14 rates that are lower with higher capacity factors, but
15 obviously, yours is one that doesn't lend itself that
16 rate. And with this rate, you can't just put a figure up
17 there and say that the customers are paying this, because
18 it's dependent upon each individual customer's
19 characteristics.

20 MR. WOODALL: Thank you.

21 MR. MCWHIRTER: Mr. Chairman, my name is John
22 McWhirter, and I'm an attorney that represents
23 interruptible nonfirm customers. I don't think it would
24 be productive of your time for me to ask questions of
25 Tampa Electric at this point and time. I was flattered

1 that they commented on some of my comments 15 or 20 years
2 ago. I would like to put those comments into context.

3 Also, with respect to some of the offerings in
4 their presentation, which I saw for the first time today,
5 I'd like to have an opportunity to share thoughts with you
6 on the things they're working on and perhaps make some
7 suggestions to you as to other activities that could be
8 undertaken for the mutual benefit of the utility and its
9 customer. But indifference to the other people that are
10 here, I'd prefer to wait until near the end of the day and
11 make the comments at that time, if that's acceptable to
12 you.

13 COMMISSIONER GARCIA: That would be appreciated,
14 in fact, sir.

15 MR. MCWHIRTER: I was afraid you'd say that.

16 COMMISSIONER GARCIA: With that, we are going to
17 take a -- by my estimation, I think we have enough time,
18 so we're going to take a 30-minute break. We'll be back
19 here at 1:15. Thank you.

20 (Recess)

21 We'll start back up. Mr. McWhirter has conceded
22 to take 15 minutes off his time when he closes today.

23 All right. The first one we got to speak up is
24 Mr. P. R., Talluri, if I'm producing that right. You can
25 come on up and speak.

1 MR. TALLURI: Test, test.

2 My name is P. R. Talluri. I work as an Energy
3 Manager for the Southdown Cement Corporation headquartered
4 in Houston. And we have operations in Brooksville,
5 Florida, and we have approximately 25 megawatts powered by
6 Florida Power Corporation. And we have 12 cement plants,
7 approximately 380 megawatts goes through the country, and
8 we have interruptible contracts that are offered by the
9 utility company.

10 And I'm going to list a few operations with
11 several utilities and my recommendations to the Commission
12 for we can do a lot of implements with these interruptible
13 contracts, one of which is bifurcation.

14 Of course, in 1999, our plant was interrupted
15 two or three times, compared to 1998, which was 12 times.
16 And I was told the rotation of Florida Power Corporation
17 is leading the rotation of the customers starting last
18 year. The main thing is the reserve capacity is going
19 down from whatever the capacity in '94 to less than 10% in
20 1990.

21 And it takes time for the utilities to build
22 generation, hopefully by 2004 we won't have that problem,
23 hopefully in Florida. And also, TECO gentleman pointed
24 out 99.4, at the time, reliability was good for
25 interruptible customers, but 16 times 3.50 is too much for

1 a continuous process facility like our cement company.
2 And we'd like to have less number of interruptions with
3 more duration of the hours to us. In other words, we
4 would rather have eight interruptions times eight, because
5 of the production loss or production cost to us.

6 One of the significant recommendations I'd like
7 to make to Florida utilities, I was told Florida Power &
8 Light cannot sell electricity to Florida Power Corporation
9 unless and until Florida Power Corporation interrupts
10 their interruptible customers, and at the same time
11 Florida Power & Light can sell outside the state.

12 And if they can sell to Florida Power
13 Corporation before they interrupt the interruptible
14 customers, it will be a good benefit to the Florida
15 consumers. And we were ready to pay whatever the market
16 costs are also, but I was told we cannot buy power from
17 Florida Power & Light, but that's a good benefit, which we
18 can implement within a short time.

19 And last, but not the least, pricing signals, we
20 got the hour-ahead pricing and day-ahead pricing in some
21 of the utilities. And day-ahead are more reliable than
22 hour ahead. In fact, in 60 minutes I have seen the
23 pricing jump from a couple of hundred dollars per megawatt
24 hour to a couple of thousand dollars per megawatt hour.

25 Therefore, it is very, very difficult and

1 fiscally impossible for the utilities to predict the
2 electricity price until that hour, maybe until that
3 minute, but it is always better for the utilities to give
4 the option to the consumer to buy power outside their
5 territory, if they can buy it.

6 Replying to the TECO survey said 60% of them
7 preferred not to buy their power outside, because buying
8 power outside is not as simple, because it's complex where
9 unless they have a permanent knowledgeable manager can do
10 it. Of course, utilities have a lot of manpower allowing
11 it to buy power outside.

12 And the single recommendation I'd like to make
13 is that Florida Power & Light can sell power to Florida
14 Power Corporation or TECO, whatever it is, to sell power
15 to us before they interrupt the interruptible customers.

16 That's all. Thank you.

17 COMMISSIONER GARCIA: Thank you very much.
18 Mr. Talluri, if you could -- you stated how many plants is
19 it that you have in Florida?

20 MR. TALLURI: For Florida, only one plant.

21 COMMISSIONER GARCIA: Okay. You need to speak
22 into the mike. One plant? Okay.

23 MR. TALLURI: One plant with 25 megawatts and
24 our load factor is approximately, except for one month, we
25 shut the plant down. After that our load factor is

1 probably 90 plus.

2 COMMISSIONER GARCIA: Great. Okay. Thank you,
3 appreciate it.

4 MR. TALLURI: Thank you.

5 COMMISSIONER GARCIA: Mr. Basford? Is Dick
6 Basford in? Do you want to speak?

7 MR. BASFORD: No, sir. I just put my name down,
8 so you'd know I was here.

9 COMMISSIONER GARCIA: Hugh Smith spoke already.
10 Tom spoke.

11 Caesar Seijas?

12 MR. SEIJAS: I have a handout for the
13 Commissioners.

14 I represent Energy Alternatives, Incorporated,
15 and we work mainly in south Florida with Florida Power &
16 Light Company customers.

17 COMMISSIONER GARCIA: Okay.

18 MR. SEIJAS: First of all, thank you, Mr.
19 Chairman, for having this, and the Commissioners.

20 We feel that we would like to have something
21 like this in south Florida, and that's basically why I'm
22 here. You've got a handout of basically the customers I'm
23 working with. And that's -- that gives you an idea of --
24 I represent about 20 some megawatts of power. And we have
25 some suggestions for changes in the curtailable tariff,

1 and we also agree with many of the things you have
2 proposed as well.

3 So, with that, basically that's about it.

4 COMMISSIONER GARCIA: Could you give me some of
5 those suggestions real quick on what you think we should
6 do to --

7 MR. SEIJAS: Well, some of the customers that I
8 have on my list are large customers, but I work with
9 smaller customers whose demand is under 500 kW. And these
10 customers can meet the criteria of the curtailable rate
11 with 200 kW of curtailable, but they can't get on the
12 rate, because they're not large enough.

13 And the other thing that we are suggesting is
14 the possibility that a curtailable customer or a load
15 control customer or any customer on a nonfirm rate could
16 designate other customers that could take some of their
17 curtailable demand during curtailable periods, which would
18 be, they would get preapproved to do it so that the
19 utility would be aware of who it would be and do it at
20 that time.

21 COMMISSIONER GARCIA: Okay.

22 MR. SEIJAS: There's other suggestions, but we
23 probably would have some people down in south Florida that
24 would be coming to testify, so...

25 COMMISSIONER GARCIA: Yeah, we're going to try

1 to have a hearing in -- we haven't had one in FP&L's
2 territory, but we're going have one in south Florida and
3 probably a little bit to the north also, okay?

4 MR. SEIJAS: That's basically it. Thank you
5 very much, I appreciate it.

6 COMMISSIONER GARCIA: Thank you very much.
7 Thank you.

8 Ed Marlovits.

9 MR. MARLOVITS: Good afternoon, Commissioners.
10 My name is Ed Marlovits. I am with Air Liquide America
11 Corporation based in Houston. We've added a separation
12 plant in Orlando -- near Orlando served by Florida Power
13 Corporation and another one in Merritt Island served by
14 Florida Power & Light.

15 We -- the plant on Merritt Island serves NASA
16 with large support nitrogen. The plant in Orlando sells
17 what we call merchant product to customers in the state.
18 About half of the oxygen that plant produces goes to
19 hospitals.

20 About 70% of our cost of operation is a cost of
21 power. We, naturally, pay a lot of attention to the cost.
22 We're interruptible at almost every plant in the country;
23 not everyone, but virtually it's a given that we're going
24 to be on an interruptible rate some place. We know pretty
25 much how to manage interruptibility. We, generally, have

1 large storage. We can take some level of
2 interruptibility. We don't have any interruptible
3 customers.

4 The last thing we're going to do is let the
5 hospital run its oxygen tank dry, but one of the things
6 that concerns me about the interruptions that we've
7 experienced here is that they have become frequent,
8 margins are declining.

9 And one of the factors that probably affects us
10 more than most other customers is the duration. It's
11 really not all that important, it's the frequency of
12 interruptions. Any interruption that occurs in our plant
13 will shut us down for four to eight hours. It costs us a
14 better part of the day, even when it only costs the
15 utility half an hour.

16 So, we're finally concerned with a number of
17 items. We also have experience in the south central
18 United States last year and the year before. In 1998, we
19 had one utility, we had -- that utility had 31
20 interruptions; the next year they had 15, plus our only
21 blackout for our customers. And I think them as being,
22 interruptible customers, being like the canary in the coal
23 mine. You need to pay attention to the canary. And our
24 ability to appreciate the attention, there's been a lot of
25 thought given, a lot of discussion given to this subject

1 already. And we've earned a little bit, we've experienced
2 a little bit, and I'd like to share some of my thoughts
3 based upon other conversations.

4 You know, the issues that I've addressed here in
5 my prepared remarks deal with low-reserve margins,
6 interruptible being a high percentage of that, a plan
7 based on normal weather, reliability of generating units,
8 ratings of generating units and, of course, the cost of
9 power here.

10 You've already addressed the reserve margin
11 issue pretty much. I think you've really taken steps to
12 address it. Normal weather, there's been a market change
13 in the last few years in the weather we've experienced in
14 the United States in that the utilities are planning,
15 based upon the 30-year forecast, 30-year averages, that's
16 going to reduce their reserve margin requirements.
17 They're going to expect more loads.

18 If you base it on the last 10 years, you're
19 going to see them perform an overload, expect higher
20 capacity and, therefore, more megawatts in reserve
21 capacity. Now, I don't know whether you've addressed it
22 in your previous hearings, but I think it's a fact that
23 other utilities have taken it into account in their plan.

24 Another thing is maximum dependable capacity on
25 generating units. You have a rating in a power plant or

1 you've got power plants that are 30 years old; what can
2 they really do? How has your maintenance been performed?
3 What is your real rate? I suspect and I've seen
4 reductions of about as much as 10% from an MDR, a maximum
5 dependable rating, to actual capacity, actual dependable
6 capacity. So, what's your basis?

7 Reliability, the nerve gas standards for
8 reliability in power plants. Florida's in a peninsula, it
9 doesn't have a lot of import capability. If your plants
10 are not one of the best, your reliability is going to be
11 among the worst. You ought to challenge the utilities to
12 achieve top performance in power plant reliability.
13 There's always going to be a power plant down, that's a
14 given.

15 I think you need to challenge the utilities to
16 be sure that their units are operating at the highest
17 level of reliability. And you need to hold them to
18 standards that are comparable to the best-performing in
19 excellence.

20 COMMISSIONER DEASON: Sir, let me ask a question
21 here. Do you have any statistics for Florida on that?
22 Because it's my understanding our plants have been
23 operating at a very high level and reliable level.

24 MR. MARLOVITS: Well, no, I don't. And I'm not
25 criticizing the utility, because I've been an

1 interruptible customer, and to the extent that we get
2 interrupted we'll deal with it most of the time but, you
3 know, we don't want it to get any worse. We don't want to
4 see 31 interruptions here. That's not very profitable for
5 us, but the statistics are available. You can get
6 statistics from the utilities on what's average -- and
7 what type of performing -- and it's just a reasonable
8 measure. I'm only suggesting that you measure it.

9 COMMISSIONER DEASON: I was just wondering if
10 you felt there was a problem, you just said you'd bring it
11 to our attention something we need to investigate and be
12 sure that our plants are being operated reliably.

13 MR. MARLOVITS: I think you need to take a look.
14 I really don't come here as a utility expert. We deal
15 with a lot of utilities, but I certainly don't run power
16 plants, I don't run dispatch centers, I don't run
17 transmission operations. All of those things are
18 important but again, it's, you know, it's measuring
19 performance. I think we do that in our businesses all the
20 time.

21 I want to make another comment. Rich Zambo
22 spoke. And for the most part, I agreed with most of his
23 remarks, but he mentioned that the Commission, in earlier
24 years, had recommended that there be no demand ratchet, no
25 instituted no demand ratchet policy. And he was

1 recommending that for the standby rates for cogenerators,
2 et cetera.

3 And I'm thinking myself that that's maybe a
4 little misguided. If, in the summertime, you've got
5 tremendous loads imposed on the system, the customers that
6 generate, that operate, during the summertime cause the
7 plants to be built. And if they don't operate in the
8 summertime, the rest of us who do, if they don't operate
9 off summer, fall, winter, spring, the rest of us who do
10 pay too much. I think you ought to relook at demand
11 ratchets for firm customers. I think you could look at
12 them for interruptible customers, if there's -- there may
13 be some argument for that inequity. And I think you ought
14 to be looking at it for standby customers as well.

15 The issue is, you know, does the three peak
16 months, the 90 days in the summer, when utilities have
17 extraordinary high demand, maybe a month or so in the
18 winter when you're at pretty much at winter peak risk, you
19 ought to be looking at those and saying if in those
20 periods of time you're on peak, well, you ought to be held
21 accountable for that.

22 Now, it may not be popular with a lot of people,
23 but a lot of highly variable customers, but they are,
24 indeed, imposing a cost on the system and a cost of
25 reliability on the system.

1 I had -- I think I've touched on most of the
2 issues. Another area of risk that we face that I'm
3 concerned about is the area of economic buy-throughs of
4 interruptions. If this thing works, I've got a slide here
5 that shows the volatility of power prices. And I don't
6 know whether you can put it on an overhead or not, but
7 here's a slide that shows commercial power prices. And I
8 didn't generate this. This came from SERA.

9 Right side up. Can you see that?

10 COMMISSIONER GARCIA: You need to get a mike so
11 we can hear you.

12 MR. MARLOVITS: Well, I can talk from right
13 here.

14 COMMISSIONER GARCIA: Okay.

15 MR. MARLOVITS: It shows tremendous volatility.
16 These are just a bunch of graphs, of graphs superimposed
17 upon each for each of the various operating regions.

18 And you can see what happened in this area, in
19 entergy and synergy, these are a day-ahead 5 by 16 power
20 prices in the wholesale market. I happen to know -- and
21 these go up to about \$1,000 a megawatt last year and
22 somewhat lower in '98. I happen to know that intraday
23 prices got more than \$2,000 per megawatt hour in '99 and
24 \$7,000 an hour in '98.

25 And, I guess, we've all heard these numbers.

1 And the issue that I've got is we make an economic choice
2 to buy-through, we want that to be the final answer. We
3 want to make a decision based on what we take, what we
4 need, and at a price. I mean, the decision is based on a
5 price for somebody like us, and we need some certainty.

6 I don't know what the issue is. We have rates
7 across the country where we pay hour-by-hour prices,
8 sometimes it gets to be market pricing. It's another
9 column in the spreadsheet. I don't see what the issue is.
10 We think we need and deserve to have a capped price for
11 interruptible power, for advisory power.

12 We have a 10-megawatt load, let's say. At \$40 a
13 megawatt hour, which is the kind of prices we pay after
14 taxes in Florida's power area, the cost is maybe \$200,000
15 a month. Ten hours at \$1,000 a megawatt hour is \$100,000.
16 So, you're increasing costs by 1/3. And if the price goes
17 to 2,000, you're increasing it by 2/3. There's a lot of
18 risk associated with interruptibility, and I think -- not
19 with interruptibility, but with market pricing.

20 Somehow the customer needs to be protected. We
21 don't need to be protected from high prices, that's not
22 what I'm asking. I'm asking for the ability to make a
23 decision, because we've got no one to pass the costs along
24 through. It all goes, you know, to our bottom line and
25 its competitive industry.

1 Regarding the Smyrna Beach project --

2 COMMISSIONER DEASON: Sir, if I can, let me ask
3 you a question on that point. You -- under the present
4 system, you do not have the ability to say we want to buy
5 -- we want buy-through as long as it does not exceed "X"
6 dollars per megawatt hour or you don't have the ability
7 for the limit?

8 MR. MARLOVITS: We basically say -- I believe
9 the situation is that we, basically, say we're going to
10 buy-through --

11 COMMISSIONER DEASON: Either you are or you are
12 not.

13 MR. MARLOVITS -- if they give us an indication
14 of price, but that's not the final answer. That's the
15 problem. And it's volatile enough that, you know, there
16 needs to be some fair and equitable way of making this
17 decision, you know, making a -- we may be willing to pay
18 \$1,000 a megawatt hour, you know, but each increment adds
19 a little bit of load.

20 It might be cheaper for us to go to North
21 Carolina to pick up a couple of truckloads of oxygen than
22 it is to make it here at \$1,000 a megawatt hour. Those
23 are the kinds of trade-offs we're making. And we have to
24 have, you know, a little bit of certainty.

25 So, at the time, the decision is not a constant

1 fixed answer. The answer changes with circumstances. And
2 we're looking for an opportunity just to make intelligent
3 decisions, reasonable decisions; maybe not perfect
4 decisions but, you know, within some range.

5 And actually, we don't know what the cost of
6 what we've done is for about two months, three months.
7 Like I said, other utilities in other parts of the
8 country, send another column to the spreadsheet. I know
9 it's not as easy as I'm pretending that it is, but it's
10 not rocket science either.

11 COMMISSIONER JACOBS: You're not served by TECO,
12 but you saw the proposal this morning that they presented
13 for that?

14 MR. MARLOVITS: TECO -- I didn't really
15 understand the proposal from TECO thoroughly. I think it
16 sounded like it was going in the right direction, but what
17 I'm looking for is hour-by-hour prices.

18 If my load is 7 1/2 megawatts, I want to pay for
19 7 1/2 megawatts at \$1,000 per megawatt hour. If it's 10
20 megawatts in that hour, I want to pay the \$1,000 for that
21 time, but I don't want to pay for somebody else's power.

22 You know, I know there are issues with fairness
23 and balance, and I'm not really concerned about trying to
24 avoid being fair. I just want, you know, certainty. And
25 it still sounds like, you know, the TECO proposal, I got

1 the impression that it's a little less precise. And you
2 know, we're dealing with competitors in the area. We
3 don't want to be supporting them. They have no interest
4 in helping us. So, you know, that might be a difficult
5 goal to achieve, but I think it's one that's fair.

6 I've got an interest in the new Smyrna Beach
7 proposal. You approved that. It was a 3-to-2 vote, so it
8 wasn't exactly unanimous, and I think it was probably a
9 difficult decision.

10 My feeling about it is I don't really care if
11 this state is going to be, continue to be regulated, if
12 the generation function is going to continue to be
13 regulated, but it seems like the snowball's rolling down
14 the hill, it's gaining momentum, utilities are almost
15 acting like, you know, deregulation is going to be here,
16 and the question is how fast can they prepare for it and
17 how much time can they have to get it?

18 The issue, to me, seems to be one that the
19 Commission, the legislature, needs to take some proactive
20 steps here to decide what the future's going to hold. I
21 think the utilities have an unfair advantage, the
22 incumbent utilities have an unfair advantage here.

23 They've got existing sites, they've got the
24 ability to, as Elliott, I think, Loyless, or Rich pointed
25 out, they can put in the first-ever combined cycle at an

1 existing plant and then add the steam turbine, add fairly
2 significant a cost later on and pass that cost along to
3 their customers, because it doesn't matter if it's more
4 expensive. It might be less expensive, the increment for
5 a competitor, but it might be something that's more
6 costly, less cost-effective overall than a
7 competitively-bid scheme.

8 But I want to get beyond that. The most
9 important thing here for me is this issue of market power.
10 You've got three utilities. The FDC would never allow
11 three unregulated entities to exist with a monopoly of
12 three, if you will, and hope to God we get more than three
13 in an area. It's too much concentration.

14 By allowing utilities to build more power plants
15 to the detriment of other willing competitors is going to
16 set us up just for a greater degree of market power,
17 market concentration. You're going to be faced with a
18 decision, next step what do we do about it? What do we do
19 about it?

20 They've got one utility with maybe with 40%,
21 another one with 30% market share, another one with 20%
22 market share. You're going to hear the whaling of
23 national teeth when you tell them they have to divest.

24 And even then, it's going to be a transitional
25 period, a long period. And all of your customers in the

1 state are going to suffer. There's been some complaint
2 here today about high prices and, you know, prices were
3 like they are when we came here. I'm not complaining
4 about them, but I do believe that in a competitive market
5 they would be lower.

6 And if you allow monopolies to dominate the
7 market, you're just going to have a harder time later on
8 when and if you believe the market will be regulated.

9 COMMISSIONER GARCIA: So, your suggestion would
10 be the new power should all be put out to competitive
11 bids?

12 MR. MARLOVITS: Yes, absolutely. And, as a
13 matter of fact, I think beyond that I think they should
14 let anybody build a power plant, any kind of power plant
15 they want to build, regardless of whether it uses steam or
16 not.

17 I think the issue is not so much for the
18 utilities but, you know, if you build it, they will come.
19 I believe if large corporations are willing to put their
20 capital at risk, so be it. Let them put it here. Let's
21 see what happens.

22 You know, it takes two years to build a combined
23 cycle plant. If the utilities are going to run into a
24 crunch, sorry. That's two years, they don't have time to
25 get permits. They connect fairly readily at ground fuel

1 site, and they're doing that.

2 I think it gives them an advantage they don't
3 deserve, that the customers in the state don't deserve in
4 this environment. Again, if you're going to make the
5 decision, if the state is going to make the decision not
6 deregulate, well, it's a moot issue. I still would prefer
7 somebody else build the power plants, because I think a
8 competitive situation is better than -- better than a cost
9 plus situation.

10 We react differently in a cost plus situation
11 than we do in a competitively-bid situation. That's just
12 the nature of the beast. As a matter of fact, competition
13 we find in our industry is good for us. It makes us
14 better at what we do. And I don't think we would have it
15 any other way.

16 That really concludes my remarks. And I
17 appreciate, again, the opportunity to address you all.

18 COMMISSIONER GARCIA: Thank you, sir, appreciate
19 it.

20 Roger Fernandez.

21 MR. FERNANDEZ: Thank you very much.

22 My name is Roger Fernandez. And I work for
23 Cargill Fertilizer, Incorporated. I am Cargill's
24 utilities superintendent. Cargill Fertilizer,
25 Incorporated, is a fertilizer producer.

1 I would like to thank you for the opportunity to
2 speak. My company considers these workshops very
3 important and results crucial to our success and survival
4 this summer and in the years to come.

5 I would like to comment one -- interrupt from my
6 presentation. I think the presentation that TECO made is
7 an example to me of the influence that these workshops
8 have already had. They have been very forthcoming in
9 talking to us over the years, but there's more movement
10 than I've seen in the last few years just now, and
11 certainly appreciate it.

12 The Cargill Fertilizer Florida Corporation
13 consists of three mines. They're located in Polk and
14 Hardee counties and also two phosphate fertilizer plants
15 located in Hillsborough county.

16 At present, both plants and two or three mines
17 are in operation, and we employ almost 1,400 among the
18 four facilities. The majority of operations are seven
19 days a week around the clock, except for unscheduled and
20 scheduled maintenance outages.

21 One of the mines is located in Florida Power
22 Corp. territory. The two fertilizer complexes are waste
23 heat cogeneration sites tied into TECO. TECO also serves
24 part of the load in the second mine.

25 I'd like to give a little history. I have

1 continuously worked at our Tampa site for over 30 years
2 and, therefore, may be able to give a short background of
3 how we come to be an interruptible customer.

4 The mining of phosphates, because of
5 electricity, represents 20% to 25% of the total cost.
6 Therefore, to my knowledge, our mining operations are
7 always operated under interruptible tariff. It is almost
8 certain that we will have to continue to do so since our
9 cost structure could not sustain what present firm power
10 rates are in Florida.

11 Under firm rates, our electricity cost for
12 mining would then represent 40% to 50% of the total cost.
13 I also believe these will be the case of all our
14 competitors of phosphate mining operations in Florida.

15 With reference to our fertilizer manufacturing
16 plant in Tampa, we have been generating some amount of
17 power at the site for over 60 years, and we were a firm
18 customer through 1985 when the company, then Gardinier,
19 went bankrupt.

20 The new owners, to help return profitability, to
21 the site then switched to interruptible power and invested
22 over \$20 million in addition to heat recovery and
23 cogeneration facilities. At the time the decision was
24 made to go interruptible, the previous year's interruption
25 record of TECO was three times in all of relatively short

1 duration. It was felt that additional cogeneration
2 capacity and the old history of interruptions, the
3 decision was a prudent one.

4 With regards to our Bartow site, which is also a
5 cogeneration site, both previous owners had not only
6 decided to also operate as interruptible customers, but
7 had invested heavily in heat recovery and cogeneration
8 facilities and even built a 10-mile long power line
9 connecting it to its mine. We have also since then had to
10 build an additional power line over 23 miles long to our
11 newer mine from the Bartow site.

12 As you may have determined from the above, both
13 us and the prior owners of our present facilities have
14 made large investments, over \$60 million in reducing,
15 controlling our energy costs and recovering waste heat
16 from our manufacturing process. Yet, we still have total
17 power bills in excess of \$20 million per year.

18 We're a large user of electricity. And the cost
19 and dependability of supplier essential to maintaining
20 cost-effectiveness in the domestic and world fertilizer
21 commodities markets in which we compete.

22 Regarding the overall cost of interruptible
23 power, I would like to point out that, by logic, if
24 interruptible power was so cheap, then why did it make
25 economic sense to continue to invest in these activities,

1 instead of relying on the IOU to supply it?

2 Conversely, as the cost of this power goes up,
3 then more of the capital investments to reduce consumption
4 will take place, and usage and the utility's revenues
5 associated with it will disappear. Again, it's pure
6 economics 101.

7 Also, by way of one real-life example, other
8 parts of our corporate operation -- we're a large
9 integrated facility. We're in the business of grain and
10 steel and salt and beef throughout the country and,
11 indeed, throughout the world, but real-life example is
12 that other parts of our corporate operation have bought
13 power in Arizona for the year 2001 at \$42 per megawatt
14 firm, not interruptible. This was in quantities similar
15 to what we would require in Florida.

16 Very recent history: In the summer of 1998, we
17 suffered many interruptions in the Florida Power
18 territory. Those were greatly reduced this past summer,
19 as you may have heard from others here; we are told,
20 mainly due to start-up of their new 450 megawatt hour
21 combined cycle plant and very good operating factors on
22 the rest of their power plants throughout the summer.

23 During 1999, there were many emergency
24 conditions in TECO territory. They occurred primarily
25 during the summer months, but also happened in April, May,

1 and even during October.

2 Even though we are a cogenerator, and many times
3 by reducing consumption and shutting things down we can
4 become an electricity exporter and avoid total blackouts,
5 we still suffered economic losses in excess of \$1.2
6 million this past year. We are not in the best economic
7 terms for the fertilizer market for the past two years.
8 1.2 million is, to us, a big amount of money these days.
9 This was as a result of inadequate reserves in the TECO
10 service area and a growing lack of the state generating
11 capacity.

12 As a long-term interruptible customer, 15 plus
13 years, we expect occasional interruptions. We, you know,
14 we have our eyes open. We think we're interruptible
15 customer, we expect interruptions, but only due to unusual
16 circumstances; line failures, lightning, boiler, turbine
17 failures, et cetera.

18 However, this past summer it was evident that A,
19 TECO was very frequently out of capacity and B, there was
20 not a major thunderstorm going across the state somewhere
21 in the state of Florida. In total, overall state capacity
22 was inadequate. If it rains in Miami, we can buy power
23 from Miami, but if it doesn't rain anywhere in the state
24 of Florida, we're totally out of luck.

25 My professional background is that of a chemical

1 engineer, specifically with experience in the operation of
2 our Tampa phosphate fertilizer facilities. This past
3 summer, I saw something I'd never seen before in the
4 phosphate fertilizer complex. We were tuning into our
5 control room to the weather channel radar screen, to guess
6 if we were going to have electricity or not that day, or
7 what the likely price could be. That had never been the
8 case before.

9 It is my opinion that if no new plants are added
10 soon, rolling blackouts may take place in Florida in the
11 very near future. I'm very pleased that this Commission
12 has taken the initiative to hold these workshops, because
13 all the problems are real and are not getting better. We
14 are in strong support of merchant plant construction in
15 the state as the best risk-free midterm and long-term way
16 to resolve what is a capacity crisis. Diversity of supply
17 and an active competitive electricity market will benefit
18 all customers in Florida.

19 I concur with the previous speaker, wholly, when
20 he talks about competition and what it would mean long
21 term to the supply side. Again, three possible choices is
22 not enough. So, we welcome diversity of supply, diversity
23 of choices in our purchase of electricity.

24 We also believe that there is a need and also an
25 opportunity for regulatory relief this coming summer.

1 This is only two months away. And you have heard from the
2 utility speaker that it's suspected it'll be tight,
3 tighter than last summer. So, I'm getting concerned by
4 the fact that we're in the end of March and all of a
5 sudden something happens in June.

6 An emergency, temporary, or periodic access to
7 the transmission grid for purposes of providing our own
8 back-up power would have mitigated a lot of the past
9 summer losses for us. We have two separate sites with our
10 own waste heat cogeneration turbines; one near Bartow and
11 one near Tampa, both within the TECO service territory.

12 When the host utility is unable to supply power
13 to either site, by modifying operations we may be able to
14 provide back-up power from one site for the other and
15 mitigate economic losses that would have resulted. This
16 simple change, and I think it's simple, would have reduced
17 our losses by about half this past summer without
18 adversely impacting the utility or its firm customers or
19 other interruptible customers. The utilities buy each
20 other up during emergencies. We would like a similar
21 opportunity during emergencies or threatened
22 interruptions.

23 This and other remedies, which have already been
24 mentioned in this forum, are within the power of this
25 Commission to quickly implement. Given the magnitude of

1 the problem and the diversity of the operational details
2 among the many interruptible customers, we encourage you
3 to utilize a comprehensive and flexible approach, not a
4 one-size-fits-all solution.

5 Sitting in the audience and listening to people,
6 I'm amazed at how many, you know, I've talked to several
7 other people. There are a group -- I'm continually amazed
8 at how different people, you know, somebody from the
9 university wants to get on and another guy doesn't care if
10 the interruption is 10 hours long, but as long as it's not
11 too frequent. We all are different.

12 Since I'm nearly finished, I would like to pause
13 and ask at this point if any members of the Commission
14 have questions.

15 COMMISSIONER DEASON: I have a question.

16 MR. FERNANDEZ: Yes, Commissioner Deason.

17 COMMISSIONER DEASON: You indicated that you
18 would like the ability to be able to provide your own
19 back-up power; that being from one plant site to another,
20 if you had access to the grid; is that correct?

21 MR. FERNANDEZ: In essence what would have
22 happened last summer is in that particular plant we have a
23 chemical plant where we make the fertilizer and we have a
24 mining operation and we are connected by this 10-mile long
25 power line.

1 Well, with the circumstances last summer we
2 would have rather shut down the mine and keep our Tampa
3 plant growing. That's what we would have liked to have
4 done under the emergency circumstances, because the value
5 of mining was less than the value of the chemical plant to
6 us economically.

7 Now --

8 COMMISSIONER DEASON: So --

9 MR. FERNANDEZ: -- I cannot predict when or how
10 often this will happen, but when there is no power in the
11 state to be had -- now, as a company, we couldn't
12 purposely shut down both sites, because not only would we
13 have lost money in Tampa, but we would have lost money in
14 Bartow also, but we could have reduced our manufacturing
15 losses in half by doing that. So, we had no access to the
16 grid.

17 COMMISSIONER DEASON: Do you need access to the
18 grid to do that or would you just need the ability to
19 curtail at one site to ensure that you're not interrupted
20 at another site?

21 MR. FERNANDEZ: Well, it means that the way it
22 would work is when we stop using our own power in that
23 site in Bartow --

24 COMMISSIONER DEASON: Then, you can free that
25 up.

1 MR. FERNANDEZ: -- then we would basically come
2 into TECO and we'd generate more power. It goes into TECO
3 and we say -- TECO says, well, this is happening, I'll
4 sell it for \$20 to somebody else or 50 or, you know, keep
5 the lights on somewhere else. We get hurt. We say no, we
6 will do these, provided we can use it ourselves or at
7 least a majority of it, whatever, you know, something of
8 that nature.

9 COMMISSIONER GARCIA: You're just pouring into
10 the -- what you'd be doing is pouring into the pool
11 generation that you have available in the hopes of getting
12 back some to another area.

13 MR. FERNANDEZ: Well, I can't -- it has to be
14 certain, because I certainly will lose money when I shut
15 down the mine.

16 COMMISSIONER GARCIA: Right.

17 MR. FERNANDEZ: So, it has to be, basically, I
18 would have put power into a rate that was not there for
19 our own purposes. That's what it would have been. We
20 would have paid the willing charge, so somewhere the
21 customers would have got at least that money that wasn't
22 there before.

23 So, I mean, the point -- that's one particular
24 instance peculiar to our type of operations. I don't
25 think anybody is smart enough to figure out all of them

1 for all of the people that are represented here. I am --
2 relief is one that's very important to us. I think what's
3 very important also is the proper pricing signal at the
4 time on it. I sympathize very much with the point about
5 they were given a price signal and it's totally wrong,
6 which is not very useful, but yes, we will respond to
7 price signals on that.

8 I would like to -- are there any questions from
9 members of the IOUs, if I may ask, anybody who would like
10 to ask a question? I know a lot of people, and they're
11 all very nice, good to work with, but we'd like to have
12 our lights on.

13 In conclusion, as an industrial customer in the
14 state of Florida, we have a vested interest in a strong
15 cost-effective, competitive and reliable power supplier.
16 What we have is a financially strong profitable set of
17 IOUs, high prices, no competition or choice, and
18 increasingly anemic real capacity margins.

19 Thank you very much, again, to the Commission
20 and its staff for this initiative and being here. I trust
21 that this short outline of our experiences this past
22 summer may be of help to all in improving the situation.

23 Thank you very much.

24 COMMISSIONER GARCIA: Thank you, Mr. Fernandez.

25 Robert Ayerst from International Paper. No?

1 Okay.

2 Mike Woodall, Pasco County schools. I think he
3 might have spoken earlier.

4 Mr. Salem already spoke, so I don't think he
5 wants to speak again. In fact, I don't see him here.

6 Mr. McWhirter?

7 MR. MCWHIRTER: Yes, sir.

8 COMMISSIONER GARCIA: Before you start,
9 Mr. McWhirter, is there anyone who wants to speak who
10 hasn't spoken and would like to speak? Okay. So right
11 after -- why don't we let him go, Mr. McWhirter.

12 MR. MCWHIRTER: Oh, yeah.

13 MR. REED: I didn't really prepare a speech,
14 hadn't planned on talking today, but my name is Bob Reed.
15 I work with Multipower Systems in Alachua, Florida. We
16 make rechargeable batteries.

17 And I was going to speak to the TECO talk this
18 morning, but we receive our power from Florida Power Corp.
19 And we were seriously hurt in '98, not quite as much in
20 '99 with power outages. We went through 11 in '98,
21 actually went through two curtailments in '99, but
22 actually had a total of five outages in '99 due to power
23 line failures and things like that.

24 And I guess one question I'd have for TECO is in
25 all of those questionnaires that you put out to your

1 interruptible customers, did you ever try to find out how
2 long it takes your customers to get back on-line?

3 You know, if you turn power off for 30 minutes,
4 you count it as a 30-minute outage. What does it cost
5 your customers? When we lose our power, and in '98 we
6 lost it 11 times, we may be out for 2 1/2 or 3 hours of
7 actual power, but it takes us 8, 9, sometimes 10 hours to
8 get back on-line.

9 That becomes a significant loss to us. And
10 during that period of time, we would lose power. There
11 was one week, I think we lost it three times during the
12 week. So, our production for the week was virtually nill.

13 And with enough notice, and Florida Power has
14 gotten -- Florida Power Corp. has gotten a lot better. I
15 carry a pager from Florida Power. And it -- during the
16 summertime and during the heavy period in the wintertime,
17 it goes off every morning, tells me what the percentage
18 chance is that we're going to lose power. This time of
19 year it goes off every Monday morning at 8:00. And we
20 have a dial-up number we can call, but our losses for an
21 outage are totally dependent upon how much notice we get.

22 If we get 45 minutes or an hour's worth of
23 notice, it allows us to cut our process down. And the
24 only thing we lose are salaries and what the production
25 would be. With less than 15 minutes notice, we now have

1 lost some materials, raw materials, products that are
2 partially processed that are no good once they sit.

3 So -- and we have worked very hard with Florida
4 Power Corp. to ensure that they give us as much notice as
5 possible. And in most cases, they've done a pretty good
6 job. When the Gannon plant went down for the explosion,
7 that was an unusual circumstance. We didn't get enough
8 notice, but then again nobody else could either, I'm sure.

9 So, the problems that we have is we know that
10 there are companies that that supply power, and
11 Gainesville Regional Utility is one of them, services the
12 city of Gainesville.

13 We have -- there are high lines on two sides of
14 our plant, yet we cannot attach to Gainesville Regional
15 Utilities for power. We are forced into Florida Power
16 Corp., at least as of right now. When we were going
17 off-line in '98, Gainesville Regional Utilities was
18 selling power to Virginia.

19 And, you know, they were making money and saved
20 me money at home, because my electric bills weren't going
21 up, but we tried to go to GRU and buy power and get it
22 dumped on a grid and feed us through Florida Power Corp.
23 Can't do it. No matter what we were willing to pay for
24 it, we couldn't get it. We have been told constantly by
25 Florida Power Corp. that unless they have every single one

1 of their interruptible customers off-line, Florida Power &
2 Light does not sell them power.

3 I'm sure they have the same arrangement with
4 Florida Power & Light. I'm sure they have the same
5 arrangement with TECO. And I don't know exactly how that
6 came about, but it would seem appropriate that if one of
7 the power distributors in the state was having trouble,
8 the others ought to be able to come to their rescue.

9 You know, if they are selling power outside the
10 state, then offer the power for the same cost. Now, maybe
11 there's some regulation against that. I'm not sure what
12 the regulations are, but somewhere, I think, within the
13 state of Florida we can do a better job.

14 You know, we have two major power grids coming
15 into the state, and those things, from my understanding,
16 are pretty well-loaded all the time. That makes it really
17 hard. If we're counting on outside the state long-term
18 contracts to supply power to all our power suppliers, it
19 makes it very difficult to bring additional powers in when
20 we're having trouble. And we need a third grid coming in
21 or we need to figure out how to get more generation here
22 in the state.

23 COMMISSIONER DEASON: I have a question.

24 MR. REED: Sure.

25 COMMISSIONER DEASON: I'm trying to understand.

1 In this situation, Gainesville Regional Utilities, their
2 motivation, if they have excess power and they're selling
3 it out of the state and you're saying that that should be
4 made available for in-state at the same price, you know,
5 you would think that Gainesville, if they could get the
6 same price, probably wouldn't do that, because then they'd
7 avoid all the willing charges trying to send to it
8 Virginia, so, they'd actually make more money.

9 I thought the system we had in place kind of
10 acted as a clearinghouse and tried to get those
11 transactions which were most cost-effective to take place.
12 And it would seem that if things were working as they
13 should, unless it was some type of a long-term obligation
14 that Gainesville had, if it was just an opportunity to
15 sell, you know, on an hourly basis or whatever, they
16 would, you know, if TECO needed it, they probably would
17 prefer to sell, if they can get the same revenue, and
18 avoid the willing charges, so...

19 MR. REED: You would think so.

20 COMMISSIONER DEASON: Maybe that's something we
21 need to take a look at.

22 MR. REED: I would hope so, because I know they
23 do have spare capacity. They do all the time. And once
24 they get done with rebuilding their generators, they would
25 have even more.

1 COMMISSIONER GARCIA: Commissioner, follow-up on
2 that question.

3 I think it was last week we found many
4 occasions, and that's what prompted my question of TECO.
5 I used the word, many, but several occasions where the
6 utilities -- Florida utilities were curtailing customers,
7 and other Florida utilities were making sales outside.
8 What's fascinating is one of the arguments that's been
9 used against merchant plants is that they be able to sell
10 outside the state of Florida for benefit.

11 COMMISSIONER DEASON: I'd like to tell you this
12 is something we're going to look at.

13 COMMISSIONER GARCIA: Yes, absolutely.

14 MR. REED: If possible, too, look into the
15 factor of why Florida Power & Light can't sell power to
16 Florida Power Corp., until they've got their interruptible
17 customers off-line. I just -- I don't understand that.
18 You know, if we're trying to take care of the state, that
19 shouldn't even come into --

20 COMMISSIONER GARCIA: One would think from your
21 arguments in public that would be the case, but you're
22 right. That's something we're looking at.

23 Thank you.

24 MR. REED: Thank you.

25 COMMISSIONER GARCIA: Mr. McWhirter, I only hope

1 that you won't take all the time we have left but will be
2 efficient with your comments and precise as you always
3 are.

4 MR. MCWHIRTER: As I always am? I will be
5 concise, sir.

6 This proceeding started some months ago when you
7 announced that you wished to have these hearings. And I
8 wish to, along with the others, give you megadittos for
9 the activity. I'll also give megadittos to Tampa Electric
10 Company more than the other utilities and the apparent
11 concern that they have shown for their customers' plight.
12 And hopefully, discussing these issues, as your slide
13 projection demonstrates, to enable us to work together to
14 come to meaningful solutions.

15 I have concisely attempted to identify the
16 problem as I see it, based on things I've observed over
17 the years, discussions I've had with the same people that
18 TECO had discussions with. And I will offer those
19 portions of the problem to you. I think we pretty much
20 all agree on what the problem is. I will also offer you
21 some specific solutions, some of which have been addressed
22 here today by others and some have not.

23 The first problem, as I see it, and you may not
24 see it as a problem, but what's happened is high rates
25 moved customers to nonfirm service. People would not take

1 nonfirm service and voluntarily give up their air
2 conditioners or shut down their production plant,
3 industrial plant, unless there was a reward for doing it
4 and the reward is a lower rate.

5 This lower rate is frequently referred to, it
6 was in your slide presentation, it was in the notice of
7 this meeting, and it's always referred to by the utilities
8 as a discount.

9 I think you've heard from the testimony that's
10 appeared here before you that it's not really a discount.
11 Mr. Vine, this morning, said that they have operations all
12 over the United States. He said if he were offered firm
13 service, would he take it, and he was very ambivalent on
14 that subject. He cannot take the firm service and remain
15 competitive.

16 The same is true with the phosphate companies.
17 They, for a long time, because of their size and operation
18 and existing infrastructure with transmission and
19 distribution lines, have been able to generate
20 electricity. They did generate electricity before the
21 power companies came into being that we know it today.

22 And as a result of the 1984 rate change when
23 rates went back up, those people moved away from even the
24 interruptible rate to self-generation. Between 1984 and
25 1993, Tampa Electric alone lost some 600 megawatts of

1 demand on their system. That's bad news from the revenue
2 aspect. It's good news from the -- all customers'
3 viewpoint, because if that had not happened, the capacity
4 prices that we have today would even be worse.

5 Problem number two, there are things in state
6 law and regulatory policy that cause utilities not to want
7 to build power plants. And I won't go into those. I have
8 already given you that information in my learned white
9 paper that was passed out in Lakeland, and I'll let you
10 reflect upon that, as you desire.

11 COMMISSIONER JACOBS: Mr. McWhirter?

12 MR. MCWHIRTER: YES?

13 COMMISSIONER JACOBS: Can we go back briefly to
14 your first point?

15 MR. MCWHIRTER: Yes.

16 COMMISSIONER JACOBS: Would it be the result or
17 the conclusion that you reach that these commercial
18 customers are only going on the grid because they have the
19 option of nonfirm? In other words, they wouldn't even go
20 on the grid, if it were only firm offered to them?

21 MR. MCWHIRTER: They're -- all customers are
22 different. You can't generally speak for all customers.
23 Some, when electricity is a very modest component of their
24 overall cost, they will revert to firm service, because
25 they can absorb that.

1 People, like the battery company that was here
2 today, the paper company that you heard before, the
3 industrial gas people, the phosphate people where they've
4 got competition, they have to, because they have large
5 electrical bills, they have to take the lowest possible
6 cost.

7 I'd like to, if you have before you the handout
8 from the Tampa Electric slide presentation, I think I can
9 emphasize that in the very first graph that they show.
10 They show the industrial rates and the southeastern United
11 States compared to the state of Florida.

12 And you will see that the firm industrial rate,
13 including taxes in the states of Georgia, Mississippi,
14 Alabama, and South Carolina, is around 3.86 cents per
15 kilowatt hour or \$38.60 a megawatt hour compared to the
16 firm service rate in Florida, which is \$47.80 a megawatt
17 hour.

18 Part of the problem, they point out, is Florida
19 has a high tax load. And I'm quite pleased to see that
20 Tampa Electric is taking an affirmative action to try to
21 help reduce the taxes on its customers. To its tribute of
22 other utilities in the past few years, they've cooperated
23 in reducing the sales tax for some industrial customers.

24 Last year this time when Hillsborough county
25 sought to implement a 10% utility tax on the

1 unincorporated area of Hillsborough county, Tampa Electric
2 was here opposing that tax. They don't always oppose
3 taxes. In fact, when they came to putting a tax on
4 cogeneration, they supported that quite heavily.

5 If you look at the next box on electric rates,
6 and you see the 3.7 cents for interruptible rates, there's
7 a difference in box one and box two. Box two, and there's
8 rates including taxes; box two, as I understand it, and
9 I'll be corrected if I'm in error on this, but I think
10 those are the rates before taxes are imposed.

11 So, what you see is that the interruptible rate
12 before taxes at 3.7 cents is very close to the firm rate
13 in other states where the taxes are already in place. I
14 would suggest to you that when you look at discounts,
15 you've got to consider if our start out price, like the
16 bankruptcy sale before they do the 70% discount, is a
17 fictional price or it's too high than the discount
18 really is not a true discount. It's just bringing
19 something into parity with what it should be.

20 The third big problem that I see is there is
21 inadequate installed capacity. If each of the three major
22 industrial-owned utilities had to meet the demand of their
23 own customers without going out to buy in the wholesale
24 market, they would be unable to do it, the demand of all
25 the customers. They would marginally be able to meet the

1 demand of even the firm customers.

2 At this point, Mr. Martinez said that McWhirter
3 speaks with forked tongue. Back in 1985 he was in here
4 saying Tampa Electric shouldn't be building all this
5 capacity. That's exactly true. That's exactly what we
6 were saying in 1985. And that's because reserve margin
7 has two components to it.

8 And back in 1985 we were talking about component
9 number one. You, and your regulatory responsibility, are
10 charged not to impose a charge on customers for a plant
11 that is not in use and useful service.

12 When Big Bend 4 came on-line in 1984, Tampa
13 Electric Company at that time had a 40% excess margin. In
14 other words, it had 40% more capacity than it needed to
15 meet its customers' firm demand. We thought that was too
16 high. We did not suggest that the plant was imprudently
17 built. We did not suggest that Tampa Electric did
18 anything wrong. All we suggested was that that plant be
19 phased in over a period of time as the need grew.

20 We suggested that there should be something
21 similar to an AFUDC rate so that Tampa Electric could get
22 a return on the plant while the customer growth was coming
23 in, but the minimal customers that were there in 1985
24 should share that with the customers coming in the future
25 who are going to get the benefit of that plant.

1 Unfortunately, other things happened that are
2 gone into in my white paper that caused the utilities not
3 to follow-up on those plants. Here I'd like to go to --
4 over on -- I don't know what -- page three it is, the
5 middle box.

6 And Tampa Electric shows us what they have built
7 and what they plan to build. What's left out of that box
8 is that the 445 megawatt, Big Bend 4, plant was built in
9 1985, but doesn't show is that Seminole has first call on
10 145 megawatts of that power. And the price is so cheap
11 that they buy it 100% of the time. They always buy that
12 out.

13 There's another 150 megawatts or so of the plant
14 for a total of some 295 to 300 megawatts that is sold in
15 the wholesale market. What happened is the open access
16 provisions of the Federal Energy Regulatory Commission
17 encouraged, and this Public Service Commission with us
18 standing by applauding, recommended that Tampa Electric
19 sell more in the wholesale market.

20 But there comes a time when you've got to weigh
21 the impact of those sales in the wholesale market against
22 the impact of the customers in the retail market. If you
23 can sell 300 megawatts of your power to people who have
24 first call on it and that capacity is not available to
25 meet the demands of customers, and you have to purchase

1 power to meet their demands, we've gone too far in the
2 other direction.

3 In the year 1999, Tampa Electric paid \$50
4 million to buy purchase power, over and above the cost to
5 produce the power. At the same time, they charged an
6 additional 15 -- additional \$9 million just to the
7 interruptible customers for purchase power. So, that was
8 a lot of money.

9 At the same time, they were selling power, they
10 were charging interruptible customers \$61 a megawatt hour
11 for purchase power while they were selling in the
12 wholesale market for \$21. And the upsetting thing is that
13 that power plant is in the retail rate base that the
14 customers are designed to support; not only the firm
15 customers, but also the nonfirm customers. So, that's a
16 problem. We don't have adequate installed capacity in the
17 state.

18 COMMISSIONER DEASON: Mr. McWhirter?

19 MR. MCWHIRTER: Yes, sir.

20 COMMISSIONER DEASON: You were saying that they
21 were selling at 61 and then purchasing -- I'm sorry, they
22 were purchasing for interruptibles at 61 at the same time
23 they selling at 21.

24 MR. MCWHIRTER: Yes, sir.

25 COMMISSIONER DEASON: When you say at the same

1 time, you don't mean the same instant in the sense that at
2 any given hour they were doing both at the same time. In
3 fact, I don't think that's allowed, is it?

4 MR. MCWHIRTER: Well, if you have a firm
5 contract for sale, it's absolutely allowed. And the
6 wholesale customer, who is getting it at \$21 or \$28,
7 whatever that contract price is, has superior rights over
8 the people who are supporting it.

9 COMMISSIONER DEASON: But now, that's a firm
10 sale. So --

11 MR. MCWHIRTER: That's a firm sale.

12 COMMISSIONER DEASON: Okay. But we realize that
13 interruptible customers do not pay the cost of firm
14 purchases or installed capacity, except maybe to a minor
15 degree, correct?

16 MR. MCWHIRTER: Well, let me ask -- focus on
17 that just a minute.

18 COMMISSIONER DEASON: Okay.

19 MR. MCWHIRTER: There are three major components
20 of the utilities' rate structure; it's generating plant,
21 transmission plant, and distribution plant. With respect
22 to most interruptible and many industrial customers, the
23 utility has no distribution plant to serve them. They are
24 served from the transmission plant.

25 With respect to the generating plant, under old

1 timing rate making up until recently, the philosophy was
2 that you -- that the interruptible customers would pay
3 something similar to rent as Joe Cresse said.

4 What happens is that based on -- if you go back
5 to Tampa Electric's presentation, you see that their fuel
6 cost is \$23.80 a megawatt hour, but they're charging the
7 interruptible customer \$37 a megawatt hour before taxes,
8 based on this concept.

9 So, what is it that that other -- the difference
10 between \$23 and \$37 is? Well, that difference is the
11 amount that these customers pay for transmission service,
12 which is quite modest, and for general operating, which
13 applied to them, is very modest. They only have to read
14 one meter, about the same as they would for -- and they do
15 it by radio or telephone. And the main thing is they're
16 paying part of the cost of this generating plant.

17 When that plant is sold in the wholesale market,
18 it's sold at a price that's bid to the wholesale
19 customers, and they can discount that price and have
20 discounted it to a degree that it discourages
21 municipalities from building power plants.

22 I hope I didn't give you more answer than you
23 wanted, but the answer is that yes, interruptible
24 customers do pay for generating plants dedicated to the
25 wholesale market.

1 The next -- and I'm going to try to hurry along.
2 That was actually four, they're diverting retail capacity
3 that's designed for the retail customer to settle in the
4 wholesale market.

5 And the fifth problem is additional power plants
6 are needed. It's obvious they're needed, because the
7 power companies themselves are already buying in the
8 wholesale market with long-term firm contracts.

9 Some firm contracts, those from cogenerators,
10 are looked at very carefully, very carefully. There are
11 big penalties, if a cogeneration customer doesn't come
12 forward and produce the power that it promised to.

13 I don't know whether those same penalties are in
14 existence when they buy from municipalities or other
15 independent power producers. I don't know if that power,
16 those people can't opt out of those contracts. And I
17 would suggest to you that maybe you don't know either,
18 because those contracts aren't given public scrutiny to
19 any great degree. Your staff doesn't look at them; and
20 maybe they do, I don't know, but I'm fearful that they
21 don't really give them careful scrutiny to ensure that
22 those are solid, firm contracts.

23 Back on this new capacity that was construction,
24 we have the Hardee Power plant built in January of '93.
25 That's 295 megawatts, but Seminole has first call on that

1 power, if one of Seminole's plants is down for maintenance
2 or for other purposes.

3 So, that's something that has been built, but is
4 not available for retail customers, if Seminole needs it.
5 The Polk power unit number one, if that were used for
6 avoided costs, nonfirm credits would be substantially
7 greater, because the cost of that plant was something like
8 \$2,500 a kilowatt compared to the price that's used in
9 their cost-effectiveness studies.

10 So, what they planned, as you know under state
11 law, they've got things planned, but they're not obligated
12 to complete those plans. I think obviously, the one
13 that's set for May 2000 is under construction and will
14 come in.

15 Polk unit 2 for 180 megawatts is scheduled for
16 September 2000, just before the off-peak season. That
17 won't be available for this summer's heavy load, but we
18 are pleased that they are moving forward with it into
19 dispatch. We don't think it was proper to charge
20 customers extra to expedite the completion of that, but
21 that's another issue.

22 What is the solution? Since we have a situation
23 in which Florida has the highest industrial rates in the
24 southeast, comparably the highest commercial rates in the
25 southeast and almost the highest residential bills of

1 anywhere in the United States, there are people who --
2 independent power producers, who want to come to Florida
3 and build, to take this opportunity.

4 Just like producers in the gas business in the
5 late 1970s, when the prices were way up to \$6.00 an MCF,
6 there were a lot of people, when it was deregulated,
7 people came into the market and saw the opportunity to
8 produce gas. And we've had excess supply since that time,
9 which is now evaporating, but we've had 15, nearly 20
10 years, of excess capacity in the gas business.

11 I think, as a matter of Commission policy, you
12 should have an open season on merchant plants until this
13 20% reserve margin is there. You have people who say
14 they're going to build something, but you don't know
15 they're going to build it until they get the plant in the
16 ground.

17 COMMISSIONER GARCIA: You think we could do
18 that? Like an open -- since we have a reserve margin of
19 20% in Florida we'd say, all right, it's an open season
20 until we get the 20%.

21 MR. MCWHIRTER: I think the hearings you've had
22 so far, I think the activities that you've undertaken so
23 far, indicate -- the testimony given in this proceeding,
24 indicate that we have a capacity shortage. The evidence
25 is abundant. There are people who want to come into state

1 and build power plants at no cost to rate payers, unless
2 that power is purchased because it's more economical.

3 On the other hand, they're being stalled by
4 litigation before the Zoning Board, before the County
5 Commission and Supreme Court and go next to the cabinet
6 and then to the legislature. Don't let them build. And
7 what's happening, in the meantime, is the utilities are
8 building.

9 Now, Mr. Zambo gave a very cogent illustration,
10 I thought, this morning. He said what happens is you
11 build a CT, which is very expensive, but when you add a
12 little steam turbine on to it at relatively modest cost,
13 that's what goes out to bid, because that goes in the
14 power plant siting act. You asked the question, well,
15 can't somebody else do that?

16 Well, yes, Constellation is doing the same thing
17 with their CTs and others are doing the same thing with
18 their CTs, but it's a struggle. And when the time comes
19 to put that steam turbine in, at that point, the utilities
20 have already gotten their site approved.

21 So, it will take a site approval process, which
22 takes 18 to 24 months for Constellation to go through the
23 process to get its steam turbines. So, it may be
24 competitive in price, but it can't be competitive in time.
25 So the deck is stacked.

1 If you would open the season so that these
2 people could get in and build power plants, we may have
3 excess supply. Well, that is not such a bad situation.
4 That means there's stuff, more demand -- more supply than
5 there is demand. That brings customer prices down. That
6 makes a lot of sense to me.

7 Is it going to create more pollution? No,
8 because these plants are generally more efficient, they
9 will use less fuel, by and large, they are cleaner, the
10 ones that are proposed. And is the power going to go out
11 in the state? Not when there's not enough capacity going
12 in or out of the state. So, Florida is like a Hawaii and
13 like northeastern Maine; it's a place where people want to
14 go invest because of their high prices and there is
15 limited access. So, that's one solution, open season on
16 merchant plants.

17 Tampa Electric has come up with some good ideas.
18 They've had communication with their customers. They
19 handed out a survey at the meetings, and they said please
20 turn in the survey at the end of the meeting, which a
21 customer did, and then they analyzed those surveys, and
22 then they're going to come in with proposals, but they
23 haven't discussed the proposals with the customers at this
24 time, to my knowledge. They certainly haven't discussed
25 them with me to see if they work.

1 Let me go over to page five with you. Customers
2 would like to be notified of the price of the hourly
3 third-party purchase power. Why would they like to be
4 notified?

5 Well, if they're going to have to pay for that
6 purchase power, they can then exercise their option to
7 shut down rather than paying \$200, \$300, \$400 a megawatt
8 hour for that power. The problem that we face is not
9 addressed here. They say Tampa Electric will provide
10 pricing signals in third-party purchase power by
11 June 2000. Well, what happens today, my clients have
12 discovered, is that if they -- on July 10th, they get
13 notice that it's a critical time and power's very, very
14 expensive, they shut down.

15 And what happens at the end of the month, they
16 still get charged for it, because what happens is you
17 average the whole month's purchase power cost and then
18 allocate it among the customers who are purchasing power
19 during the month.

20 So, there's got to be another aspect to this to
21 make sense. If they get the price signal and shut down,
22 they shouldn't have the price of that purchase power
23 during that peak period factored into their overall cost.
24 Customers would like an actual hourly billing versus an
25 average billing approach to allocation of purchase power

1 cost.

2 Yes, customers would like realtime pricing.
3 We've been arguing for that for 30 years, and
4 Mr. Hernandez didn't quote me on that, but we've often
5 said, since prices vary 24 hours a day, how about letting
6 people get the benefit of lower-cost fuel during those
7 hours today when they're purchasing after midnight and so
8 forth. That benefit is passed through to the wholesale
9 customers, but it isn't available to the retail customers.

10 We see over here on page -- as I understand the
11 proposal, they're going to let customers pay the exact
12 hourly average purchase price during periods of purchase
13 power. Well, you saw the exhibit Mr. Marlovits had.
14 There are periods in which the peak goes way up.

15 Well, utilities operate at a 50% load factor.
16 Most of the time, they're not purchasing power. And, in
17 fact, many times they're selling power in the off-peak
18 periods, because it's low priced. They're not offering to
19 let customers get the benefit of those off-peak,
20 lower-cost periods, but they are offering customers to
21 select, I guess, purchase power during the peak
22 higher-priced periods.

23 Well, all that's going to do, they'd rather have
24 average price than get a share of the price spike. I
25 don't think that's going to make sense, but when they give

1 us this proposal, maybe we'll see that it's different. I
2 certainly hope it will be like that.

3 COMMISSIONER DEASON: Mr. McWhirter?

4 MR. MCWHIRTER: Yes, sir.

5 COMMISSIONER DEASON: You support realtime
6 pricing, correct?

7 MR. MCWHIRTER: Yes, sir.

8 COMMISSIONER DEASON: Well, with realtime
9 pricing, there are going to be spikes; isn't that correct?

10 MR. MCWHIRTER: Well, that's true.

11 And what happens is when you're dealing with a
12 load factor of 50%, there are times when perhaps Tampa
13 Electric can get the benefit of nuclear power. Perhaps
14 they could get the benefit of what we have when
15 cogenerators sell economy power. They're paid \$15 a
16 megawatt, \$17 a megawatt hour for.

17 Maybe, if you have realtime pricing, they would
18 get that. And there are many more off-peak periods, hours
19 in the week, than there are on-peak periods. About 70% of
20 the time is off-peak. So, if you came to get
21 below-average cost 70% of the time, you can live with
22 excess price during the peak periods. And that's what
23 happens in the wholesale market.

24 So, when you came in with the idea of charging
25 the wholesale customers incremental price, they still --

1 my guess is -- I don't know this, but my guess is they're
2 still paying less than average fuel costs, or the average
3 fuel cost charged to the retail customers.

4 Let me hurry along, because I know I'm burdening
5 you. We like the idea of giving customers a right to
6 decline the purchase power on short notice. We think
7 communication is one of the most important things. What
8 you could do to establishing a bulletin board so that
9 prices are known, and let's start moving toward an open
10 market situation where everybody knows what prices are,
11 and you're going to bring a lot more honesty into the
12 game.

13 These people are experienced with this over the
14 years. The Tampa Electric survey says that people don't
15 want to deal with power brokers. Well, I think probably,
16 in answering that multiple-choice survey that was handed
17 out, one guy said to me, if I'm given the opportunity to
18 deal with a power broker on July 10th at 8:00 in the
19 morning when it's a peak day, that isn't going to do me
20 any good. There's not going to be the power capacity
21 there, the price is going to be high.

22 But if I am hit with 16 interruptions during the
23 year, and 139 purchases to meet my requirements, it looks
24 like the utility that I'm obligated to buy from but is not
25 obligated to serve me, is not living up to a reasonable

1 standard.

2 Therefore, when that trigger point has been
3 reached, and there's got to be some logical trigger point,
4 let me deal with the power marketer and let me buy a block
5 of power for a year, not for next day or the next four
6 hours. Obviously, you wouldn't want to get into that
7 situation.

8 We like what Florida Power did in response to
9 meetings with our people last year. They started rotating
10 the interruption. That's one of the things that's
11 suggested in your letter, Mr. Garcia. And we think that
12 was a good idea, and we liked it. We like the additional
13 communication that we've gotten from Florida Power and
14 from Tampa Electric. We think that's excellent.

15 If customers can afford to revert to firm
16 service, and that's not all, but if they want to go back
17 to firm service, you heard from International Paper last
18 time. They said they've added a whole new plant addition,
19 they said should we go on interruptible or should we go on
20 firm; they said, oh, stay on interruptible, there are not
21 going to be any problems. Well, they faced a lot of
22 problems.

23 They would have changed their operation, they
24 would have had a separate meter, and they would have had
25 firm service for parts of their plant and interruptible

1 for other parts of their plant, if they had known in
2 advance, but they didn't know in advance.

3 Florida Power & Light let's the customer elect,
4 behind the meter, which one of its processes it wants to
5 turn down, shut off. And it can still get some firm power
6 within what it sold. We think that makes a lot of sense,
7 and it doesn't hurt the utility company, but as it is now,
8 you've either got to take it all, you cut off all of it or
9 you stay on and buy purchase power.

10 I think it's pretty clear, Mr. Hernandez has
11 said it in public hearings on several occasions, and I
12 understand they interpret the tariff to mean that they
13 can't enter into economy transactions -- not economy
14 transactions, but open market transactions at the same
15 time they're interrupting retail customers.

16 These would be the schedule of "J" sales. That
17 is a good policy. I'm glad everybody agrees that's the
18 policy. I think your policy should go further. I think
19 anytime that a piece of capacity is in the retail rate
20 base, which interruptible customers pay a part of just as
21 much as anybody else, the wholesale customers ought to be
22 interrupted to provide that service.

23 If they're not interrupted, the utility ought to
24 charge the customers no more for their power they assume
25 during that period of time than they're being paid by the

1 wholesale purchaser. If that were done, it would be -- it
2 would certainly discourage the kind of transactions that
3 everyone says should not be permitted.

4 COMMISSIONER DEASON: Mr. McWhirter, I'm just
5 trying to understand.

6 You're suggesting that wholesale customers
7 should be interrupted before a retail customer is
8 interrupted?

9 MR. MCWHIRTER: Yes.

10 COMMISSIONER DEASON: Okay.

11 MR. MCWHIRTER: If the plant's out of the retail
12 rate base and retail customers aren't supporting that
13 plant, then the wholesale customer should have first grabs
14 at it. The plant has been separated, that's their
15 wholesale deal.

16 But where they elect to have the retail rate
17 payers subsidize the capacity and then sell it at
18 lower-than-average fuel costs in the wholesale market and
19 interrupt the interruptible customers or buy higher-priced
20 power to serve them, as Will Durant said in the book I
21 read recently, the old factory sensibilities tend to be
22 disturbed. It's just not a good deal.

23 COMMISSIONER DEASON: Well, I'm trying to --
24 still trying to understand. You're saying that should
25 happen if the plant is in retail rate base.

1 MR. MCWHIRTER: Yes, sir. If it's separated,
2 then that's fine.

3 COMMISSIONER DEASON: Well, if the plant is in
4 retail rate base, then that means that plant is not being
5 allocated to some type of a firm wholesale contract,
6 right?

7 MR. MCWHIRTER: I'm not sure I understand what
8 you mean by not being allocated. Yes, I think that's
9 correct.

10 COMMISSIONER DEASON: Well, if you have a
11 generating plant that is allocated, that is responsible
12 for serving a firm contract through the allocation
13 process, it would be allocated to the wholesale
14 jurisdiction, correct?

15 MR. MCWHIRTER: Well, that's what happened in
16 1997 with the FMPA contract. In 1998, Tampa Electric put
17 that power plant back in the rate base, and it's back in
18 the rate base for the forthcoming year, but the sales are
19 still being sold in the wholesale market, it's something
20 like \$28.

21 Now, if the customers are getting the benefit of
22 the proceeds from that sale, they're flowing not through
23 the fuel costs, but they're flowing through the capacity
24 charge, but what's happening to the interruptible
25 customers is they are the ones that are paying the higher

1 purchase price for the substitute power. I think that's
2 wrong, but I don't want to get into that case here.
3 That's just one of the elements where we think is wrong.

4 COMMISSIONER DEASON: Well, let me suggest that
5 part of the problem of that, and something you should
6 think about, too, is if we had such a requirement, it
7 probably would dry up the wholesale market.

8 Who would want to buy capacity if they didn't
9 have 100% call on it? And then that would take away all
10 of the benefits of those wholesale sales. That revenue
11 stream goes --

12 MR. MCWHIRTER: Well, I don't know. If you've
13 got an obsolete plant, you're a small municipality and
14 you've got oil-burning plants or you've got high heat rate
15 coal plants or you have a myriad of other plants, you
16 would still get the benefit of purchasing that power most
17 of the time.

18 You just wouldn't get -- at the time that we got
19 into these price spikes, who should be the one that's
20 hurt? Should it be the retail customers who are
21 subsidizing that plant or should it be the wholesale
22 customers who are getting the benefit of the lower-priced
23 electricity at other times?

24 I think it ought to fall on the wholesale
25 market. If the price is high enough in the wholesale

1 market, what's going to happen is the same thing that
2 happened in the gas market, merchant plants are going to
3 come in and invest for political purposes. Merchant
4 plants are frustrated from operating in Florida. They
5 will build here, and you will have additional supply, and
6 the prices won't soar like that, and the wholesale market
7 will prosper.

8 I don't mean to get on the soapbox. I talked
9 about the two components of the reserve margin. One is
10 there's got to be a cap on the reserve margin, and you
11 used to have it at about 20%, because you don't want two
12 more plants in use and useful service. Today, what's
13 happened is 80%.

14 The gentleman from the University of South
15 Florida said why not have 100% of nonfirm service?

16 What happens, then, is I think not really in the
17 customer's best interest, because what happens instead of
18 turning on a machine to meet demand, if another machine
19 fails, you turn off a customer. There's got to be some
20 mix.

21 And I heard your questions, and I meditated on
22 them since the last hearing. You say, look, these people
23 contracted for nonfirm service, they're just getting what
24 they contracted for. Well, they didn't contract for the
25 multitude of interruptions and purchase powers that is

1 coming now where they agreed to be the first line of
2 defense, but they didn't agree to be the substitute for
3 all failures of an aging generating system.

4 So, what you have, I think, is you ought to
5 have, let's say, 30% of the reserve margin can be devoted
6 to nonfirm service, but 70% should be capacity supply
7 availability, either purchased capacity with firm
8 contracts that are auditable or constructed capacity.

9 COMMISSIONER DEASON: Mr. McWhirter, you said
10 30% of the reserve margin should be interruptible and 70%
11 should be -- which was it, 30/70?

12 MR. MCWHIRTER: 30% of the reserved margin
13 should be composed of nonfirm customers; 70%. Now, what
14 Tampa Electric has done, it took me nearly six months to
15 understand it, because as you know I'm kind of a slow
16 learner and a plotter, and hard of hearing aside. And
17 they say we guarantee at least a 7% supply side. You've
18 heard that. We guarantee at least a 7% supply side.

19 When you interpret that, if you have a 20%
20 reserve margin and 7% of it is supply side, that means 13%
21 of the 20% reserve margin comes from nonfirm service.
22 That's 65% of your reserve margin would be customers who
23 are willing to be cut off.

24 And our real concern with customers that are
25 willing to be cut off, a major component of them are

1 residential people, elderly people, in Florida who want
2 lower electric rates, and they opted for nonfirm service,
3 but have not been subjected to periods of severe cold
4 weather. They've been subjected to periods of severe hot
5 weather.

6 What happens, if these -- you know, there are
7 750,000 people in Florida today that are on demand-side
8 management rates that can opt the next day or within 30
9 days to get off of that rate. They would become firm
10 customers, and then you've got your serious capacity
11 problems.

12 So, you need to, if you're not going to make
13 those people, and I think it would be politically unwise
14 to make those people agree to sign up for five years like
15 the industrial customer does, give them some leeway in
16 ensuring that there is a greater amount of supply.

17 Well, I've belabored this much longer than I've
18 intended to. And I hope that to some minor degree it's
19 been instructive to you. Thank you.

20 COMMISSIONER GARCIA: Very good. Does anyone
21 else have any comment? I see Mr. Hernandez/Martinez will
22 reserve his comments. Always like the fact that TECO is
23 so kind in the Hispanic community.

24 With that, we're going to break. We're going to
25 adjourn for today. We're going to be having, I think,

1 it's two more workshops. Those have yet to be determined.
2 And, I believe, both of them will be in FP&L's service
3 territory, if I'm not mistaken. That said, thank you very
4 much, and I appreciate you coming.

5 (Workshop concluded at 2:58 p.m.)

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1 STATE OF FLORIDA)
2 COUNTY OF LEON)

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CERTIFICATE OF REPORTER

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I, KORETTA E. STANFORD, RPR, Official FPSC
Commission Reporter do hereby certify that the
undocketed workshop held March 27, 2000 in Tampa,
Florida was heard by the Florida Public Service
Commission at the time and place herein stated.

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It is further certified that I stenographically
reported the said proceedings; that the same has been
transcribed by me; and that this transcript, consisting of
169 pages, constitutes a true transcription of my notes of
said proceedings.

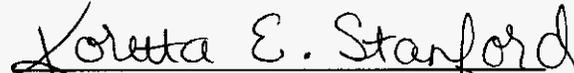
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DATED this 13th day of April, 2000

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KORETTA E. STANFORD, RPR
Official FPSC Reporter

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FLORIDA PUBLIC SERVICE COMMISSION