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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

REBUTTAL TESTIMONY

OF

THOMAS L. HERNANDEZ

Q. Please state your name, business address and position with Tampa Electric Company.

A. My name is Thomas L. Hernandez. My business address is 702 North Franklin Street, Tampa, Florida, 33602. I am the Vice President-Regulatory Affairs for TECO Energy, Tampa Electric Company's parent ("Tampa Electric" or "company").

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

A. I graduated from Louisiana State University in 1982 with a Bachelor of Science degree in Chemical Engineering. My responsibilities at Tampa Electric have included engineering and management positions in Production, Generation Planning, Energy and Market Planning, and Fuels and Environmental Services. I was named Vice President-Regulatory Affairs for TECO Energy in March 1998.

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1 Q. Have you previously testified before the Florida Public
2 Service Commission ("Commission" or "FPSC")?

3
4 A. Yes. I testified before this Commission in its last
5 annual planning hearing in Docket No. 910004-EU. I also
6 provided a description of Tampa Electric's planning
7 process at the FPSC Staff workshop on March 3, 1994 and
8 submitted testimony in Docket No. 930551-EI, which was
9 the numeric conservation goals proceeding for Tampa
10 Electric. I testified in Docket No. 960409-EI regarding
11 the prudence of Polk Unit One and also testified in
12 Docket No. 980693-EI regarding the company's flue gas
13 desulfurization system for Big Bend Units 1 and 2. Most
14 recently, I testified in the annual fuel cost recovery
15 clause proceeding in November 1999 in support of various
16 wholesale matters.

17
18 Q. What is the purpose of your rebuttal testimony?

19
20 A. The purpose of my rebuttal testimony is to respond to the
21 flaws within the segment of Florida Industrial Power
22 Users Group ("FIPUG") witness Mark Cicchetti's direct
23 testimony that addresses Tampa Electric's actions
24 regarding the Florida Municipal Power Agency ("FMPA") and
25 Lakeland wholesale contracts.

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

3
4 A. Yes. My Exhibit No. 1 (TLH-1) consists of one document
5 entitled "Interruptible Customer Information."

6
7 Q. Please comment generally on witness Cicchetti's direct
8 testimony.

9
10 A. Witness Cicchetti is erroneous in his characterization of
11 the company's actions regarding the FMPA and Lakeland
12 contracts and their impact on Tampa Electric's
13 ratepayers. Mr. Cicchetti is also wrong in his assertion
14 that Tampa Electric is required to continue
15 jurisdictional separation of retail assets when these
16 assets were not actually used to serve the wholesale
17 contract and were, in fact, used to serve retail
18 customers.

19
20 Q. Please describe Tampa Electric's "treatment" of the FMPA
21 and Lakeland contracts as referred to by Mr. Cicchetti on
22 page 7 of his testimony.

23
24 A. The "treatment" referred to by Mr. Cicchetti was actually
25 business decisions made by the company to discontinue the

1 Lakeland contract in December 1997 and to serve the FMPA
2 contract using directly assigned purchased power
3 resources beginning in March 1998. The company's
4 treatment was consistent with the separation procedure
5 approved in the company's last rate case. Those
6 procedures require separation of retail assets to the
7 extent the assets are used to serve a wholesale sale.
8 This separation is based on actual 12 coincident peak use
9 for the time period being separated and not contractual
10 or projected usage.

11
12 In contrast, those procedures do not require the company
13 to enter into or continue any wholesale sale. Further
14 those procedures do not require the company to serve
15 wholesale contracts solely from retail resources and/or
16 separate retail assets when third party resources are
17 utilized to serve the wholesale contract.

18
19 Q. On page 3 of Witness Cicchetti's testimony, he states
20 "Capacity is available to FMPA to the exclusion of retail
21 customers any time generating resources from either Big
22 Bend 2 or 3 or Gannon 5 or 6 are available." Do you
23 agree with this statement?

1 A. No. This statement is not reflective of the situation,
2 which existed in March 1998, after the company began
3 serving FMPA with non retail-related, third party
4 purchased capacity. Separation was not warranted or
5 appropriate for the amounts of capacity served from third
6 party purchases since the corresponding capacity at Big
7 Bend and Gannon Stations was not used to serve the FMPA
8 sale, was not held in reserves to support the sale, and
9 was available to serve retail customers.

10

11 Q. On page 5 of his testimony, witness Cicchetti states that
12 "TECO's decision to serve the FMPA contract through
13 purchases in no way altered its obligation to separate
14 the assets under the Commission's orders and the
15 stipulation." Is Witness Cicchetti correct in his
16 understanding of the separation requirement of the
17 stipulation?

18

19 A. No. Witness Cicchetti is assuming that the separation
20 should be made regardless of whether the assets in
21 question were used to serve the FMPA contract or were
22 being used to provide service to native load customers,
23 primarily retail. Beginning with 60 MW in March 1998, the
24 retail assets used to serve the FMPA contract were
25 replaced with firm third party purchases. By May 1998,

1 the entire FMPA contract was served with the third party
2 purchases. During this time and to the extent the
3 contract was served by non-retail assets, retail
4 customers had use of the Big Bend and Gannon Station
5 assets, and at no time was any of the output of the
6 corresponding capacity at Big Bend and Gannon used to
7 serve FMPA. Yet, after receiving the benefits of these
8 assets, FIPUG is now attempting to claim additional and
9 unwarranted benefits by forcing the company to separate
10 assets, which were actually used to serve retail
11 customers.

12
13 Q. On page 7 of his testimony witness Cicchetti claims that
14 the company has "burdened" the retail ratepayers with the
15 assets previously used to serve the FMPA sale. Is this
16 true?

17
18 A. No. Retail customers were not burdened by the assets but
19 benefited from these assets and were simply charged for
20 the use of the assets, as they should be. The assets in
21 question were not used to serve the FMPA contract during
22 that time period. Tampa Electric appropriately applied
23 the normal jurisdictional separation methodology, as
24 approved in Tampa Electric's last rate case, to separate
25 costs based on the actual coincident peak use of assets.

1 This ensured that the costs of the assets were allocated
2 based on use and benefits derived from the assets.

3
4 It is important to note that the company was under no
5 obligation to enter into the FMPA or Lakeland contract.
6 Hence, the company was also under no obligation to
7 continue serving the contract solely from retail assets
8 at Gannon and Big Bend Stations. Consequently, when Tampa
9 Electric arranged for purchases from third parties to
10 serve the sale, the capacity at Gannon and Big Bend
11 Stations was not utilized to serve the contract but was
12 available to serve retail customers. There was no longer
13 the obligation to continue separation for that capacity
14 for FMPA because, consistent with separation procedures
15 approved in the company's last rate case, no separation
16 was required under the previously approved methodology.

17
18 Q. On page 7 of his testimony, witness Cicchetti claims that
19 Tampa Electric's actions regarding the FMPA contract
20 appears to be a gaming of the system as referenced by the
21 Commission's Order No. PSC-97-0262-FOF-EI. Has Tampa
22 Electric manipulated or gamed the system by supplying the
23 FMPA contract with third party purchases?

1 A. Absolutely not. This is a very unfair characterization
2 of the company's actions regarding the FMPPA and Lakeland
3 contracts. Tampa Electric's use of third party purchases
4 to serve the FMPPA contract and the termination of the
5 Lakeland contract enabled these assets to be used to
6 serve the needs of the retail customers. The assets were
7 made available to decrease emergency and optional
8 provision purchases, improve reserve margins, and limit
9 interruptions of interruptible customers. It is the
10 ultimate gaming of the system for FIPUG to receive
11 benefits from assets in 1998 and then recommend
12 separation of those same assets for purposes of
13 increasing the deferred revenue amounts in this
14 proceeding. This is unreasonable given the assets in no
15 way were being utilized to serve the FMPPA and Lakeland
16 sales.

17
18 Q. On page 7-8 of his testimony, Mr. Cicchetti refers to the
19 number of interruptions and purchased power in 1999.
20 Please respond to this concern.

21
22 A. First, Mr. Cicchetti points out the number of
23 interruptions and purchases in 1999 but conveniently
24 fails to recognize prior years in which Tampa Electric
25 was serving the FMPPA sale from its system. On page 1 of

1 my exhibit, it is clear that there were significantly
2 fewer interruptions experienced by interruptible
3 customers in years prior to 1999. In fact, from 1994 to
4 1997, Tampa Electric's interruptible customers only
5 experienced less than four interruptions a year and they
6 averaged only 18 minutes per interruption. In 1998,
7 interruptible customers experienced only four
8 interruptions for an average duration of 2 hours and 46
9 minutes.

10
11 It is important to note, as depicted on page 2 of my
12 exhibit, Tampa Electric purchased approximately 186 GWh
13 of buy-through in 1999 for interruptible customers and
14 none of Tampa Electric's generating plant was used to
15 serve the FMPA sale. In 1997 and 1998, the buy-through
16 energy was less than 100 GWh and, for the combined years
17 1994 through 1996, buy-through energy totaled
18 approximately 20 GWh.

19
20 As depicted on page 3 of my exhibit, FIPUG's members
21 experienced 99.4 percent service reliability in 1999, a
22 year where the FMPA sale was being served from third
23 party resources. With this very high level of service
24 reliability, these same customers enjoyed a 21 percent
25 price discount in 1999 (versus firm service pricing and

1 including buy-through purchases). The discounts in 1997
2 and 1998 were much higher at 31.3 and 30.3 percent,
3 respectively. This is depicted on page 4 of my exhibit.
4 Finally, page 5 depicts the interruptible rate compared
5 to residential and commercial electric rates for 1999. It
6 is clear that the interruptible rates are significantly
7 lower than other service rates on Tampa Electric's
8 system, while at the same time these customers enjoy a
9 high level of reliability.

10
11 Mr. Cicchetti fails to recognize that had the company not
12 made the decision to serve the FMPA contract with third
13 party purchases, the interruptions to customers would
14 have most likely been higher. This confirms that retail
15 customers benefited from the availability of the Big Bend
16 and Gannon assets and hence, should bear the cost of
17 those assets. The intent of a separation of costs from
18 the retail jurisdiction is to ensure that the retail
19 jurisdiction does not subsidize the wholesale
20 jurisdiction. The company has not attempted to recover
21 any of the costs associated with the third party
22 purchases from the retail jurisdiction. No subsidization
23 has occurred.

1 Q. Has witness Cicchetti correctly characterized the
2 Commission's concerns regarding wholesale contracts as
3 mentioned in Order No. PSC-97-0262-FOF-EI?
4

5 A. No. The Commission's concerns in that order related to
6 the treatment of fuel costs for wholesale contracts being
7 served from retail assets. To the extent that the cost of
8 generating fuel to serve wholesale contracts was included
9 in the Fuel and Purchased Power Cost Recovery Clause, the
10 Commission was raising concerns with fuel charges in
11 wholesale contracts which were less than the generating
12 cost. The Commission evaluated the extent to which the
13 fuel credit should be higher than the contracted fuel
14 price and ordered that system average fuel should be used
15 from the credit unless the utility requests different
16 treatment from the Commission.

17
18 However, this order did not apply to the company's
19 treatment of the FMPA agreement. As Tampa Electric
20 consistently depicted on its Fuel and Purchased Power
21 Cost Recovery Clause filings from March 1998 to December
22 1999, no fuel or purchased power costs associated with
23 these third party purchases were recovered through any of
24 the retail recovery clauses. To claim that this is an
25 example of the Commission's concerns of "gaming the

1 system" is a mischaracterization of both Tampa Electric's
2 actions regarding the FMPA contract and the Commission's
3 concerns.
4

5 Q. Please summarize your rebuttal testimony.
6

7 A. Witness Cicchetti is incorrect in his description of the
8 Commission's concerns regarding the treatment of
9 wholesale contracts as raised in Order No. PSC-97-0262-
10 FOF-EI. He is also incorrect in claiming that the use of
11 third party purchases to serve the FMPA contract is the
12 same issue being addressed by the Commission in that
13 order.
14

15 Witness Cicchetti is absolutely wrong in claiming that
16 serving the FMPA contract with third party purchased
17 capacity and exiting the Lakeland contract does not
18 impact the requirement of separation. The essence of
19 separation is determining which jurisdiction had use of
20 assets during the time period being separated. To the
21 extent that assets are not being used to serve firm
22 wholesale contracts, assets should not be assigned to the
23 wholesale jurisdiction. The Big Bend and Gannon assets
24 previously committed to the FMPA contract became
25 dispatchable for the retail customers during the time

1 periods the contract was reassigned. Finally, retail
2 customers were not "burdened" with the Big Bend and
3 Gannon assets in question but actually benefited since
4 these assets were used to provide reserves, offset
5 emergency purchases, and decrease optional provision
6 purchases and interruptions of interruptible customers.
7

8 Q. Does this conclude your testimony?
9

10 A. Yes, it does.
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TAMPA ELECTRIC COMPANY
DOCKET NO. 950379-EI
WITNESS: THOMAS L. HERNANDEZ
EXHIBIT NO. _____ (TLH-1)

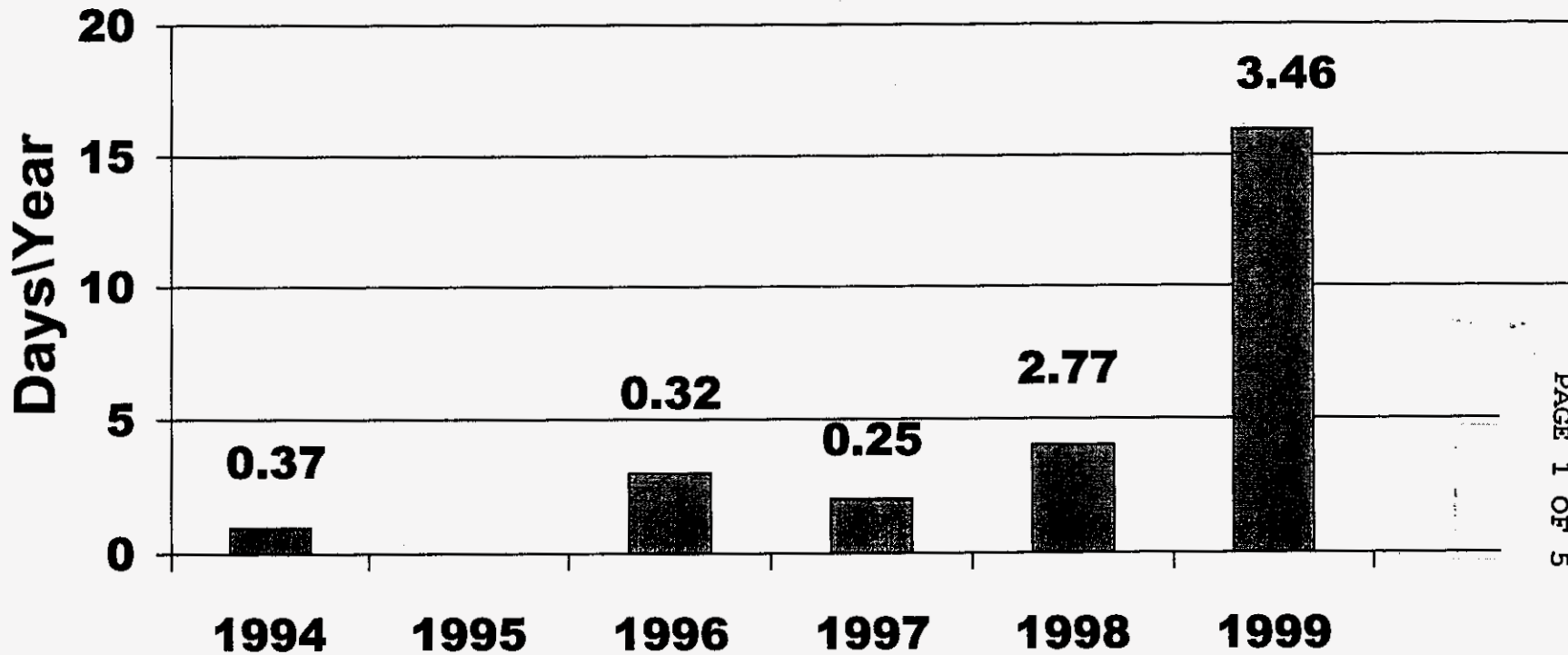
TAMPA ELECTRIC COMPANY
EXHIBIT OF THOMAS L. HERNANDEZ

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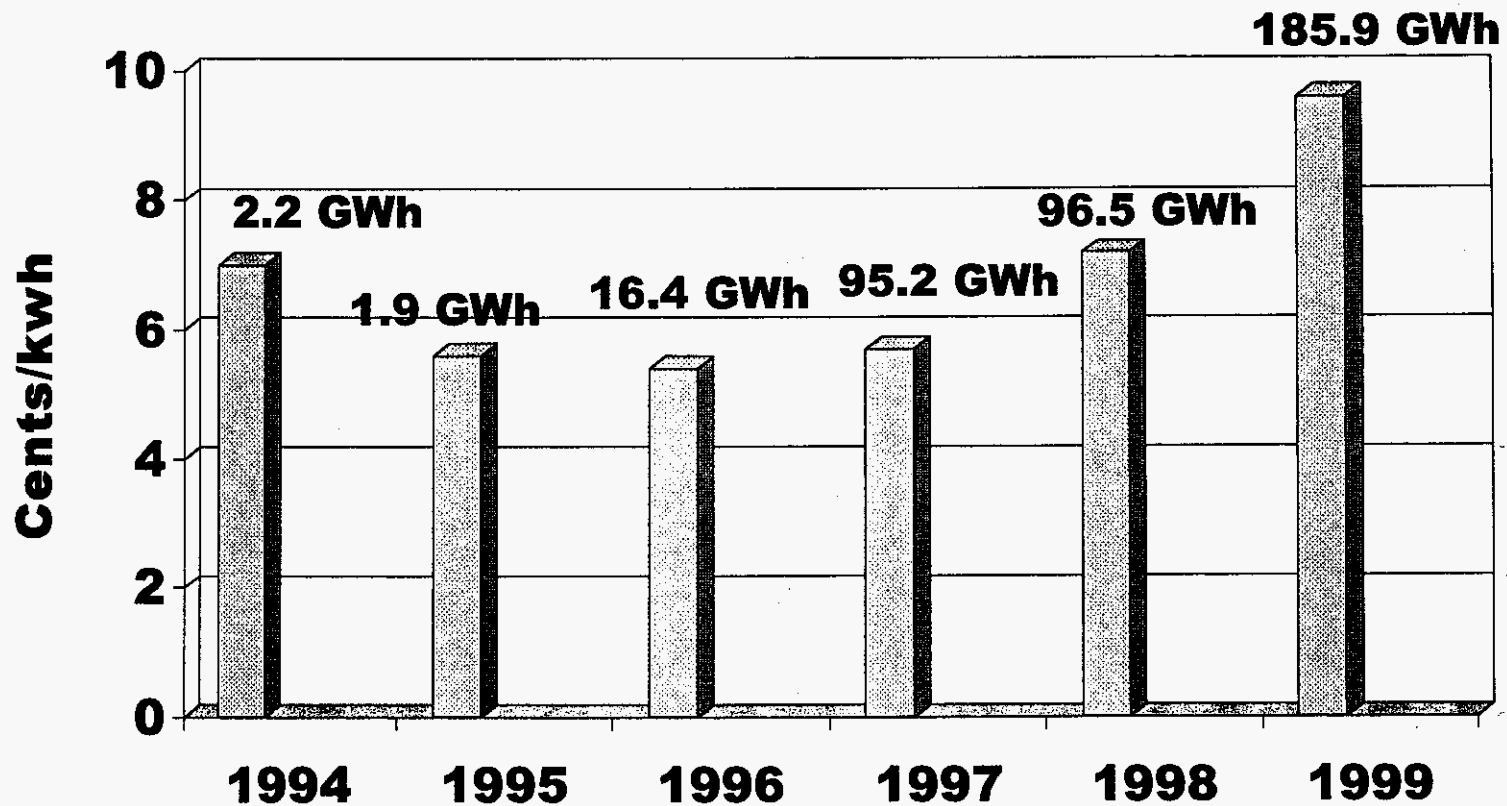
DOCUMENT NO.	TITLE	PAGE
1	Interruptible Customer Information	1

Interruption History

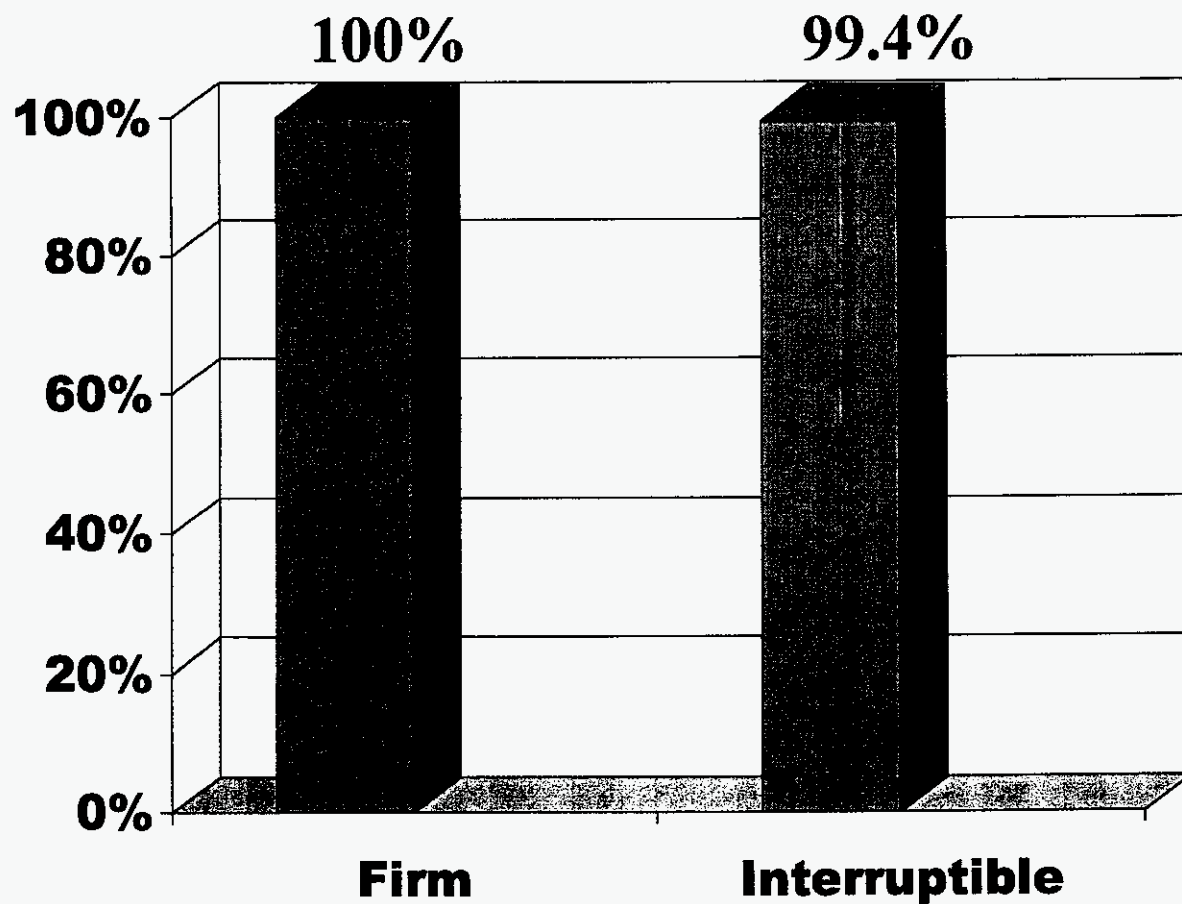
**Frequency (days) and Average Duration (hours)
of Interruptions**



Optional Provision Purchased Power and Costs

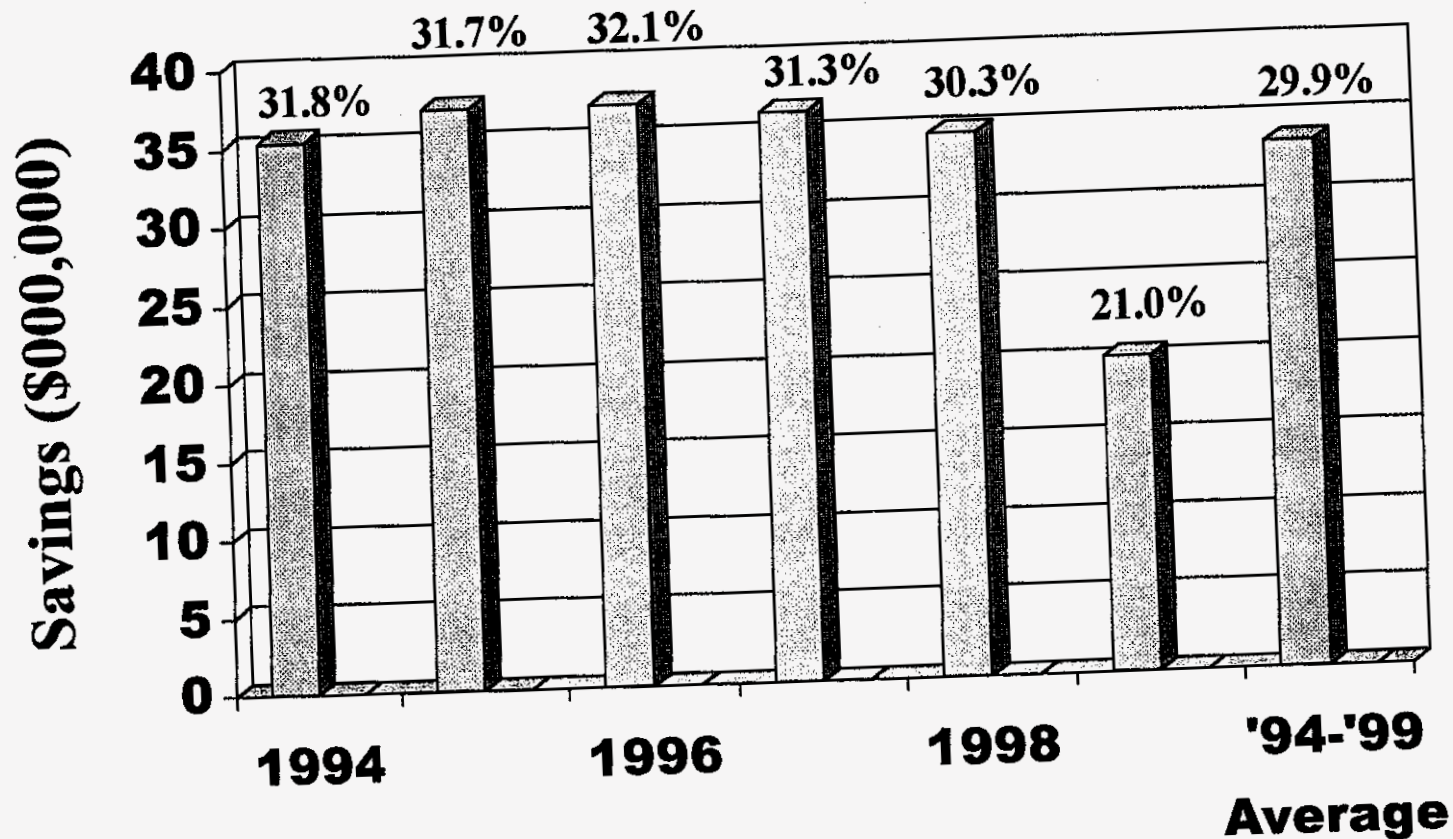


Service Reliability



Source: 1999 Data

Firm Service to Interruptible Effective Nominal Savings



1999 Electric Rates

