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June 11, 2001

HAND DELIVERED

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

Re: Calculation of gains and appropriate regulatory treatment for non-separated
wholesale energy sales by investor-owned electric utilities;
FPSC Docket No. 010283-EI

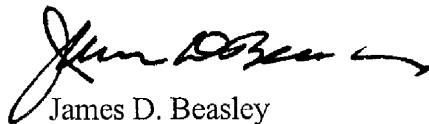
Dear Ms. Bayo:

Enclosed for filing in the above docket, on behalf of Tampa Electric Company, are the original and fifteen (15) copies of the Rebuttal Testimony of J. Denise Jordan.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,



James D. Beasley

JDB/pp
Enclosures

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

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

Ms. Blanca S. Bayo
June 11, 2001
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Rebuttal Testimony of J. Denise Jordan has been served by hand delivery (*) or U. S. Mail on this 11th day of June 2001 to the following:

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 010283-EI

IN RE: CALCULATION OF GAINS AND
APPROPRIATE REGULATORY TREATMENT FOR
NON-SEPARATED WHOLESALE ENERGY SALES
BY INVESTOR-OWNED ELECTRIC UTILITIES

REBUTTAL TESTIMONY

OF

J. DENISE JORDAN

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 PREPARED REBUTTAL TESTIMONY

3 OF

4 J. DENISE JORDAN

5
6 **Q.** Please state your name, address, occupation and employer.

7
8 **A.** My name is J. Denise Jordan. My business address is 702
9 North Franklin Street, Tampa, Florida 33602. I am
10 employed by Tampa Electric Company ("Tampa Electric" or
11 "company") in the position of Director, Rates and
12 Planning in the Regulatory Affairs Department.

13
14 **Q.** Are you the same J. Denise Jordan who filed direct
15 testimony in this docket?

16
17 **A.** Yes.

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

20
21 **A.** The purpose of my testimony is to address various aspects
22 of the direct testimony of Florida Industrial Power Users
23 Group's (FIPUG) witness Gerard J. Kordecki.

24
25 **Q.** Do you believe Mr. Kordecki's testimony addresses the

1 calculation of gains and appropriate regulatory treatment
2 of the revenues and expenses associated with non-
3 separated wholesale sales prescribed by the Commission's
4 proposed agency action ("PAA") in Part III of Order No.
5 PSC-00-1744-PAA ("Order No. 00-1744") issued on September
6 26, 2000 in Docket No. 991779-EI?
7

8 **A.** No, I do not. Mr. Kordecki's testimony and FIPUG's
9 proposed changes to the PAA portion of Order No. 00-1744
10 claim to address the calculation of gains and the
11 regulatory treatment of the revenues and expenses
12 associated with non-separated wholesale sales. However,
13 in reality what they present is a thinly disguised effort
14 to readdress the already decided issue of whether these
15 types of sales should have incentives. FIPUG attempts to
16 substitute an economic disincentive for making these
17 sales in place of what the Commission decided in the
18 final agency action portions of Order No. 00-1744 and
19 confirmed in the Commission's Order No. PSC-01-0084-FOF-
20 EI denying FIPUG's Motion for Clarification of Final
21 Order. This is an inappropriate attempt to once again
22 argue the Commission's final decision to provide
23 incentives for non-separated wholesale sales and should
24 be recognized as such.
25

1 Q. What economic disincentives were included in Mr.
2 Kordecki's testimony?

3

4 A. Under Mr. Kordecki's approach and FIPUG's proposed change
5 to Item 1 of the PAA portion of Order No. 00-1744, retail
6 customers would continue to receive gains from non-
7 separated wholesale sales, while utility shareholders
8 would be saddled with one hundred percent of the risk of
9 any capacity shortfall that might coincide with the
10 making of such sales.

11

12 Q. Were there other economic disincentives included in Mr.
13 Kordecki's testimony?

14

15 A. Yes. In addition to the above, Mr. Kordecki and FIPUG
16 have erroneously assumed that for any given time that
17 Tampa Electric is purchasing power and making a wholesale
18 sale, the purchase is being made specifically to
19 "replace" power for the wholesale sale. There is no such
20 direct linkage between a decision to purchase power and
21 the fact that the company may be making a wholesale sale
22 at the same time. The company purchases power to meet
23 its forecasted needs to serve retail customers or because
24 there may be purchased power available that is priced
25 lower than the company's system incremental cost of

1 generation. The goal of the purchase is to meet the
2 company's system requirements in the most economical way
3 possible. The decision to purchase is for the system -
4 not to replace power for a wholesale sale. The creation
5 of any artificial link between a particular power
6 purchase and a short-term wholesale sale would establish
7 an economic disincentive to entering into potentially
8 beneficial short-term sales.

9
10 **Q.** Does the proposal of Mr. Kordecki and FIPUG regarding
11 economic disincentives constitute inappropriate re-
12 argument of issues in direct opposition of decisions
13 previously decided by the Commission?

14
15 **A.** Absolutely. The intent of the Commission was made
16 perfectly clear as evidenced by their statements in Order
17 No. PSC-00-1744-PAA-EI:

18 In summary, we find that to encourage [emphasis
19 added] the types of wholesale sales that are
20 currently providing the greatest cost reduction
21 benefit to Florida's retail ratepayers, a
22 properly structured shareholder incentive should
23 apply to all non-separated wholesale sales, firm
24 and non-firm, excluding emergency sales, made
25 under current and future FERC-approved schedules.

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and

We reject FIPUG and OPC's contention that any shareholder incentive structure should include a penalty for substandard performance, because imposing such a penalty would potentially counteract the incentive.

Q. What would be the effect of adopting Mr. Kordecki's approach and the modification to PAA Item 1 that FIPUG has proposed?

A. If FIPUG's approach were adopted, no utility would make short-term firm wholesale sales unless they could guarantee against unit outages or abnormal weather conditions or other uncontrollable factors for the duration of the sale, which they cannot. FIPUG's approach, therefore, would discourage utilities from making any short-term firm wholesale sales, even in circumstances when beneficial to the general body of retail customers, by making the utility shareholders guarantors of firm and non-firm sales. By discouraging the utilities from making wholesale sales, FIPUG would conveniently enhance its prospects of receiving firm service at deeply discounted interruptible prices.

1 Q. Does Mr. Kordecki's assessment of the benefits of non-
2 separated wholesale sales to a utility's retail customers
3 have any merit?

4
5 A. Yes. Mr. Kordecki's statement that retail customers can
6 and do benefit from off-system wholesale sales is
7 correct. Customers do indeed benefit from off-system
8 wholesale sales any time the sales revenues exceed
9 incremental sales costs. I also agree with Mr.
10 Kordecki's view that sales of unneeded capacity should be
11 encouraged.

12
13 However, I disagree with the implication in his direct
14 testimony (page 9, lines 1-3) that a utility somehow
15 benefits from making "risky" and "aggressive" wholesale
16 sales, especially in the case of non-separated wholesale
17 sales. One hundred percent of the benefits from these
18 sales are flowed through to retail customers until such
19 time that the utility exceeds the wholesale incentive
20 benchmark. For most utilities, this benchmark will not
21 be exceeded until late in any year, if at all.

22
23 Q. Does Mr. Kordecki's testimony make any direct or indirect
24 reference to a determination of the prudence of short-
25 term or non-separated sales?

1 **A.** Yes. While Mr. Kordecki and FIPUG concede that off-
2 system sales are beneficial to all retail customers,
3 these sales suddenly become retroactively imprudent if,
4 for any reason, a capacity shortfall occurs that would
5 require an interruptible customer to be interrupted or to
6 pay the incremental cost of optional provision buy-
7 through power. If a utility prudently enters into a
8 beneficial non-separated wholesale sale while abiding by
9 its planning reserve criteria, any interruptions or
10 optional buy-throughs that may later be required due to a
11 capacity shortfall are not the "fault" of or attributable
12 to the non-separated sale, any more than a capacity
13 shortfall would necessarily be anyone's "fault" when it
14 occurs at a time when no wholesale sales are being made.
15 A capacity shortfall can occur for any number of
16 uncontrollable reasons, whether or not a wholesale sale
17 is being made at the time of the shortfall.

18
19 **Q.** Are any procedures currently in place for the Commission
20 to determine prudence of short-term wholesale sales?

21
22 **A.** Yes. The Commission always has the ability to review a
23 company's approach and prudence in making wholesale
24 sales. A wholesale sales disincentive as proposed by Mr.
25 Kordecki is neither appropriate nor necessary. The more

1 appropriate way to assess the prudence of a sale is not
2 with hindsight but through a consideration of the facts
3 and circumstances that existed when the commitment to
4 make the sale was made.

5
6 **Q.** Has Mr. Kordecki demonstrated any need for the
7 modification FIPUG proposes to Item 1 of the PAA portion
8 of Order No. 00-1744?

9
10 **A.** No, he has not. Indeed, interruptible customers have
11 fared quite well without FIPUG's proposed unfair
12 retroactive prudence determination and economic
13 disincentive. As Tampa Electric's witness Lynn Brown has
14 testified, Tampa Electric is not interrupting any of its
15 interruptible customers to make new firm separated or
16 non-separated wholesale sales. Moreover, witness Brown
17 testified that the company terminates non-firm wholesale
18 power sales before it interrupts its non-firm retail
19 customers or makes optional buy-through purchases for
20 them.

21
22 The company's interruptible customers are receiving
23 approximately a 22 percent discount below the otherwise
24 applicable firm service rate even taking into account the
25 additional cost of buy-through purchases. At the same

1 time, they are receiving a minimum of 99.5 percent
2 electric service availability. They are also receiving
3 the same benefits from non-separated wholesale sales as
4 firm retail customers even though their contribution to
5 plant carrying costs is significantly less. Neither
6 FIPUG nor Mr. Kordecki has submitted any facts
7 demonstrating the need for FIPUG's modification to Item 1
8 of the regulatory treatment proposed in the PAA portion
9 of Commission Order No. 00-1744.

10
11 **Q.** On page 9 of his testimony beginning at line 20, Mr.
12 Kordecki urges the Commission to require utilities to
13 recall non-firm sales in order to meet retail load
14 demand. Please respond to this.

15
16 **A.** Mr. Kordecki is suggesting that investor-owned utilities
17 be prohibited from making non-separated wholesale sales
18 in certain circumstances. As the Commission noted in
19 Order No. PSC-01-0084-FOF-EI denying FIPUG's Motion for
20 Clarification in Docket No. 991779-EI, the proceeding did
21 not concern, nor was it intended to concern, a
22 prohibition on making certain non-separated wholesale
23 sales. That order stated:

24 None of the issues identified for hearing by any
25 party addressed the question of whether any types

1 of non-separated wholesale sales should be
2 prohibited; rather, the issues simply addressed
3 the question of what type of shareholder
4 incentive program, if any, was appropriate for
5 non-separated wholesale sales. Thus FIPUG's
6 requested prohibitions go beyond the scope of
7 this docket...

8
9 Mr. Kordecki's approach in this regard is likewise beyond
10 the scope of the PAA portion of Order No. 00-1744 and
11 should not be considered in this proceeding. As I
12 mentioned above, the Commission always has the ability to
13 review a company's approach and prudence in making
14 wholesale sales. A wholesale sales disincentive as
15 proposed by Mr. Kordecki is neither appropriate nor
16 necessary.

17
18 Mr. Kordecki reiterates his request that the Commission
19 disallow non-firm wholesale sales during certain
20 circumstances (page 13, lines 14-18). Again, this
21 prohibition was rejected in the order denying FIPUG's
22 Motion for Clarification and is beyond the scope of the
23 issues to be considered in this proceeding. FIPUG's
24 multiple attempts to readdress the appropriateness of
25 incentives, including these portions of Mr. Kordecki's

1 direct testimony, should be rejected.

2

3 Q. Please address Mr. Kordecki's testimony as it relates to
4 the treatment of incremental O&M expense associated with
5 a non-separated wholesale sale?

6

7 A. First, Mr. Kordecki states that incremental O&M costs are
8 hard to identify. He then states, however, all O&M
9 expenses attributable to a sale should be flowed back
10 through the "appropriate clause(s)." Finally, he
11 acknowledges if O&M costs are truly incremental it may be
12 appropriate to credit the utility's operating revenues
13 with these costs, which is exactly what Tampa Electric
14 supported in direct testimony and which the Commission
15 proposed in Order No. 00-1744. Incremental O&M costs
16 associated with a sale should be credited to the
17 utility's operating revenues since Tampa Electric does
18 not charge associated fuel-related O&M expenses to the
19 fuel clause.

20

21 Q. In conclusion, do you believe the comments contained in
22 Mr. Kordecki's direct testimony warrant any deviation or
23 modification of the regulatory treatment of revenues and
24 expenses associated with non-separated wholesale power
25 sales addressed in Part III of Order No. 00-1744?

1 **A.** No, I do not. Tampa Electric continues to support the
2 regulatory treatment set forth in Part III of Order No.
3 00-1744. Mr. Kordecki's comments evidence the desire of
4 interruptible customers to continue receiving deeply
5 discounted electric service without interruptions and
6 without ever having to pay the cost of optional provision
7 buy-through power. His testimony fails to state any
8 justification for departing from the regulatory treatment
9 set forth in Part III of Order No. 00-1744. Instead, as
10 I have described, the main focus of Mr. Kordecki's
11 testimony simply reargues the merits of incenting
12 utilities to pursue non-separated wholesale transactions
13 - something the Commission has clearly decided and
14 reaffirmed in denying FIPUG's Motion for Clarification.
15 FIPUG's efforts in this direction should once again be
16 denied.

17
18 **Q.** Does that conclude your testimony?
19

20 **A.** Yes, it does.
21
22
23
24
25