



BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 010001-EI
IN RE: FUEL & PURCHASED POWER COST RECOVERY
AND
CAPACITY COST RECOVERY
PROJECTIONS
JANUARY 2002 THROUGH DECEMBER 2002
REBUTTAL TESTIMONY
OF
W. LYNN BROWN

DOCUMENT NUMBER DATE

13583 OCT 26 2002

FPSC-COMMISSION CLERK

1 direct testimony.

2
3 A. Mr. Collins purports to perform an "audit" of Tampa
4 Electric's management of its long-term wholesale power
5 contracts. His "audit" is based on a deliberate sample
6 that captures a worst case scenario represented by 63
7 hours. Mr. Collins next assumes this worse case scenario
8 would have been the norm during the entire three-year
9 "audit" period of 1999 through 2001. He then proceeds to
10 rely on his "audit" as the basis for reaching three
11 conclusions. To reach these conclusions, Mr. Collins
12 makes incorrect assumptions and assertions by misapplying
13 and misusing operating data.

14
15 **FIPUG's "Findings"**

16 Q. Please comment on Mr. Collins' first conclusion that
17 Tampa Electric has been inappropriately allocating more
18 expensive replacement power solely to retail customers
19 while simultaneously providing low-cost native generation
20 to wholesale customers.

21
22 A. Mr. Collins' first conclusion is the result of his
23 "findings" that "wholesale customers receive the benefit
24 of TECO's lowest cost power generation and low cost
25 purchases" and "retail customers are inappropriately

1 bearing 100% of the excessive cost of power that TECO
2 must purchase to replace unreliable internal generation."
3 I believe it would be helpful to explain the flaws in
4 these two findings, which then explains why his first
5 conclusion is erroneous.

6
7 **Q.** Please help explain the flaws in his first "finding".

8
9 **A.** When describing wholesale customers, Mr. Collins appears
10 to be referring to parties that have entered into long-
11 term, separated firm wholesale sales agreements with
12 Tampa Electric. Most of these sales were initiated in
13 the early 1990's. All sales were made under FERC-
14 approved, cost-based contracts prior to deregulation of
15 the wholesale market. Currently Tampa Electric has 320
16 MW of separated firm wholesale sales that comprise less
17 than 10 percent of Tampa Electric's firm load. Of this
18 amount, 145 MW are unit power sales and 175 MW are system
19 sales. As described in the rebuttal testimony of Tampa
20 Electric's witness Denise Jordan, under the Commission's
21 established policy, these types of sales are separated
22 from Tampa Electric's retail jurisdiction removing all
23 generating plant and operating expenses associated with
24 the sale.

25

1 Q. Why did Tampa Electric enter into these long-term firm
2 contracts?

3

4 A. Tampa Electric entered into these agreements in order to
5 more efficiently and economically utilize its generating
6 capacity. When each of these sales was initiated, Tampa
7 Electric had excess capacity sufficient to make these
8 sales and still meet its required planning reserve
9 requirement for serving firm retail load.

10

11 Q. What about Mr. Collins' "finding" that "retail customers
12 are inappropriately bearing 100% of the excessive cost of
13 power that TECO must purchase to replace unreliable
14 internal generation"? Is it correct?

15

16 A. Absolutely not. As described by Ms. Jordan, for the
17 majority of wholesale sales agreements, the fuel factor
18 charged is the average system fuel cost which consists of
19 Tampa Electric's own generation fuel expenses and
20 purchased power costs. Messrs. Collins' and Pollock's
21 testimonies make this erroneous statement throughout.

22

23 Q. What is erroneous about the statement in Mr. Collins'
24 "finding" that "wholesale customers receive the benefit
25 of TECO's lowest cost power generation and low cost

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

purchases?"

A. The majority of Tampa Electric's wholesale contracts are separated, long-term, system-based sales wherein wholesale customers are treated similarly to firm retail load. Therefore, to make a blanket statement that wholesale customers receive the benefit of the company's lowest cost power generation and low cost purchases is incorrect.

FIPUG's Three Conclusions Based on an "Audit"

Q. With that explanation of two of the "findings", please address Mr. Collins' reference to "more expensive replacement power" and his reference to "low cost native generation to wholesale customers" in his first conclusion.

A. Purchased power costs have increased in recent years for many of the reasons cited by FIPUG's own witness, Mr. Pollock. Tampa Electric does not have the ability to use its own discretion to charge purchased power costs to its separated wholesale customers. It charges fuel and purchased power costs in accordance with its FERC-approved contracts.

1 Mr. Collins' criticisms are based on nothing more than a
2 hindsight comparison of the prices specified in the long-
3 term, cost-based contracts compared to the higher priced
4 market-based purchased power that utilities have incurred
5 in recent years. He has presented no evidence that there
6 is anything inappropriate in how Tampa Electric has
7 charged purchased power to customers.

8
9 Q. Please address Mr. Collins' second conclusion that Tampa
10 Electric "has been purchasing low cost power on the
11 wholesale market and reselling it to wholesale customers,
12 rather than using it to reduce fuel costs paid by retail
13 customers."

14
15 A. The testimony of Messrs. Collins and Pollock contain
16 contradictory issues and conclusions. Mr. Pollock
17 recommends that "TECO should be ordered to cease its
18 current practice of allocating 100% of replacement power
19 costs to retail customers" (which is not the case as I
20 stated above). Furthermore, Mr. Collins asserts that
21 "TECO allocated zero costs of replacement power to
22 wholesale customers" (again, which is incorrect) yet he
23 concludes that certain purchased power should be
24 allocated to retail customers and not to wholesale
25 customers as Tampa Electric did when it purchased power

1 from PECO and allocated it to a wholesale sale. Once one
2 is able to wade through FIPUG's inconsistent statements,
3 it becomes apparent that their position is that as long
4 as the price of purchased power is low, the costs should
5 be allocated to retail customers but if the price is
6 high, the costs should be allocated to wholesale
7 customers. This practice is not consistent with any
8 regulatory practice or policy and it certainly does not
9 align with wholesale contractual agreements under which
10 the company is obligated as a party.

11
12 **Q.** Please respond to Mr. Collins' third conclusion that
13 wholesale customers have continued to receive their full
14 entitlement of "low cost, native load generation, despite
15 extensive outages and deratings of native generation,
16 including specific generators dedicated to wholesale
17 sales."

18
19 **A.** This conclusion simply states that Tampa Electric has met
20 its contractual obligations under its separated wholesale
21 sales. Wholesale customers have continued to receive
22 their full entitlement in accordance with the terms of
23 their contracts. Unit power sales are dependent upon the
24 availability of one or more designated generating units,
25 whereas system sales are treated similarly to firm retail

1 customer load. Mr. Collins states that wholesale
2 customers should bear some of the consequences resulting
3 from unit outages. Wholesale customers do bear the
4 consequences resulting from unit outages. For example,
5 Tampa Electric engaged in only one unit power sale this
6 summer, a sale that has been in existence for almost 10
7 years. The sale was cut for many hours due to planned
8 and unplanned unit outages. The wholesale customer in
9 this sale was required, by contract, to locate and
10 purchase replacement power on the wholesale market at the
11 then current market price. However, Tampa Electric's
12 retail customers continued to receive service during
13 these periods. It appears Mr. Collins would have Tampa
14 Electric breach firm service wholesale obligations to
15 prevent interrupting a non-firm retail customer.

16
17 **Flaws in "Subsidy" Calculation**

18 **Q.** Please comment on Mr. Collins derivation of his alleged
19 retail customer "subsidy" of Tampa Electric's wholesale
20 sales.

21
22 **A.** Mr. Collins' "subsidy" calculation is arbitrary and lacks
23 any traceable logic. To create the "subsidy," Mr. Collins
24 testifies that he relied on a deliberate data set drawn from
25 21 days in a three-year period, 1999-2001, during which

1 interruptible customers were being interrupted while Tampa
2 Electric was purchasing power. Using this information, Mr.
3 Collins arbitrarily assigns a system average purchased power
4 responsibility for the hour in question to wholesale sales,
5 conveniently ignoring the contractual terms of the agreements.
6 He then subtracts the actual cost from his calculated cost and
7 derives his "subsidy." Mr. Collins' testimony is predicated
8 upon rewriting Tampa Electric's long-term firm separated
9 contracts to require the use of a system average fuel cost
10 rather than the unit specific or station specific fuel costs
11 contained in contracts. He also overlooks the fact that full
12 and partial-requirements customers do indeed pay their fair
13 share of purchased power expenses.

14
15 **Q.** Does Mr. Collins' calculation of any alleged "subsidy"
16 have any merit?

17
18 **A.** Absolutely not. Mr. Collins focuses on only 63 hours
19 during 21 days when the interruption of interruptible
20 customers coincides with power being purchased by Tampa
21 Electric. His 63 hours, extrapolated over a three-year
22 period, were guaranteed to produce the highest
23 differential between purchased power costs and the on-
24 going costs of power sold under cost-based wholesale
25 contracts. Mr. Collins then takes this worst case

1 scenario and annualizes it for all 26,280 hours of the
2 three-year period. Stated differently, Mr. Collins
3 handpicks 2/1000 of the hours in the period and then uses
4 these hours as a purported fair sampling to extrapolate
5 results over a three-year period.

6
7 Two of Mr. Collins' handpicked hours on July 6, 2000
8 showed actual firm wholesale sales in excess of maximum
9 allowable contract demand (Exhibit BCC-9, page 1 of 2).
10 He insinuates that Tampa Electric acted imprudently by
11 over-selling its firm capacity. Upon review of these two
12 hours, Tampa Electric supplied up to 245 MW of cost-based
13 emergency power sales to another Florida utility to help
14 prevent firm load curtailment on their system. Mr.
15 Collins goes on to apply his "objectively derived"
16 "subsidy" factor to every megawatt hour of sales made
17 under Tampa Electric's separated sales without regard to
18 understanding the circumstances.

19
20 Another flaw in Mr. Collins' "audit" is that he applies
21 his "subsidy" factor to all wholesale sales - thereby co-
22 mingling separated wholesale sales with short-term non-
23 firm sales. He does not attempt to calculate and,
24 indeed, summarily dismisses the gains that Tampa Electric
25 has made on these non-separated sales, gains that flow

1 directly to the benefit of Tampa Electric's retail
2 customers.

3

4 Q. Do these non-separated sales adversely impact
5 interruptible customers?

6

7 A. No, they benefit all retail customers. Again, Tampa
8 Electric only makes these sales when they are expected to
9 produce an economic benefit to its general body of retail
10 customers. As I have testified previously, when the
11 company is making a non-firm non-separated sale, it ramps
12 out of such a sale any time interruptible customers might
13 be interrupted or optional provision power must be
14 purchased in order to serve them. Even given these
15 protections of interruptible customers, Mr. Collins
16 chooses to totally ignore the benefits of non-separated
17 sales.

18

19 Q. Does this conclude your testimony?

20

21 A. Yes, it does.

22

23

24

25