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September 27, 2002

BY HAND DELIVERY

Ms. Blanca S. Bayo, Director
Division of Commission Clerk and
Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Compliance Filing Concerning Proposal to Establish GridFlorida As a Regional Transmission Organization; Docket No. 020233-EI

Dear Ms. Bayo:

Enclosed for filing in the above referenced are the original and fifteen (15) copies of Prepared Joint Direct Testimony of William R. Ashburn on behalf of Tampa Electric Company and Florida Power & Light Company.

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

Thank you for your assistance in connection with this matter.

Sincerely,

Lee L. Willis

LLW/bjd
Enclosures

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

CERTIFICATE OF SERVICE
DOCKET NO. 020233-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U. S. Mail and electronic mail (*), facsimile or overnight courier this 27th day of September, 2002 to the following:

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED JOINT DIRECT TESTIMONY

OF

WILLIAM R. ASHBURN

Q. Please state your name, address, occupation and employer.

A. My name is William R. Ashburn. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am Director, Pricing and Financial Analysis for Tampa Electric Company ("Tampa Electric" or "the company").

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

A. I received a Bachelor of Science degree in Business Administration with a concentration in economics from Creighton University. Upon graduation, I joined Ebasco Business Consulting Company where my consulting assignments included the areas of cost allocation, computer software development, electric system inventory and mapping, cost of service filings and property record development.

In 1983, I joined Tampa Electric as a Senior Cost Consultant in the Rates and Customer Accounting Department. At Tampa Electric I have held a series of positions with responsibility for embedded and marginal cost of service studies, rate filings, marketing planning, rate design, implementation of new conservation and marketing programs, customer survey and various state and federal regulatory filings. In March 2001, I was promoted to my current position of Director, Pricing and Financial Analysis in Tampa Electric's Regulatory Affairs department. I am a member of the Economic Regulation and Competition Committee of the Edison Electric Institute and the Rate Committee of the Southeastern Electric Exchange.

Q. Have you previously provided testimony on GridFlorida transmission rates and rate design to the Florida Public Service Commission ("FPSC" or "the Commission")?

A. Yes, I provided joint direct testimony in Docket No. 010577-EI on behalf of Florida Power Corporation, Florida Power & Light Company and Tampa Electric (collectively referred to as the "GridFlorida Companies") as well as separate direct testimony in the same docket on behalf of Tampa Electric. The joint direct testimony addressed the features and benefits of GridFlorida's transmission pricing protocol and rate design. The company-specific direct testimony addressed the estimated impact on the company's retail rates associated with the proposed transfer of transmission assets to the proposed GridFlorida.

Q. What is the purpose of your testimony in this proceeding and on whose behalf are you presenting?

A. The purpose of my testimony is to address the appropriate demarcation date for new contracts for transmission service ("New Contract Date") which is sometimes referred to as the Attachment T cutoff date. My testimony also addresses the date after which the costs of new transmission facilities are recovered through the system-wide rate ("New Facilities Date"). I am presenting this testimony on behalf of Florida Power & Light Company and Tampa Electric Company.

Q. Have you prepared an exhibit to support your testimony?

A. Yes. My Exhibit No. ____ (WRA-1) was prepared under my direction and supervision and consists of one document.

Q. You indicated that the New Contract Date is sometimes referred to as the Attachment T cutoff date. Please describe Attachment T.

A. Attachment T is the section of the GridFlorida transmission tariff that, in part, describes the rules applicable to existing transmission agreements, including the methodology to determine whether an existing long-term transmission agreement will qualify as a grandfathered agreement and the subsequent treatment of such agreements.

Q. What is the significance of an existing long-term transmission agreement being designated as a grandfathered transmission agreement?

A. The charges under grandfathered agreements remain in effect during years 1-5, and are phased out over years 6 through 10 of GridFlorida operations. This is an important component of the measures to mitigate cost shifts contained in the GridFlorida pricing plan. Any "pancaked" charges under agreements entered into after the New Contract Date are eliminated immediately upon commencement of GridFlorida operations.

Q. Why is it important to phase out charges under grandfathered transmission agreements over a ten-year period, rather than immediately?

A. Grandfathered transmission agreements provide revenues that have helped pay for the transmission revenue requirements of the utilities. Immediate loss of these revenues would result in an abrupt and sizable cost shift of revenue requirement recovery to native load, primarily retail customers. By phasing out the loss of such revenues, native load is protected from an immediate cost impact. The eventual impact can then be phased in over time as other benefits of GridFlorida are realized. The phase-out concept is also founded on equity and the principle that cost incurrence should follow cost causation. Some of these existing agreements have required substantial construction of transmission facilities within the utility's service area to provide service, the cost of which is included in the overall revenue requirements of the utility. Without the revenues from the grandfathered contracts, the costs incurred to serve those contracts shift to, and thereby increase the cost of service borne by, native load customers located within the zone of the grandfathered transaction.

Q. What is the New Contract Date specified in Attachment T to determine what qualifies as an existing long-term transmission agreement?

A. In the original GridFlorida filing at the Federal Energy Regulatory Commission ("FERC"), the New Contract Date specified in Attachment T was defined as December 15, 2000 (the date of the filing at FERC.) This New Contract Date was included in Attachment T to clearly delineate whether a given contract would be assigned grandfathered status.

In the March 20, 2002 compliance filing with the Commission, the GridFlorida Companies changed the New Contract Date to be "on or after January 1 of the year the Transmission Provider begins commercial operations . . ." As revised, the New Contract Date is the same as the New Facilities Date which determines when existing facilities (and included in the zonal rate) or new transmission investment (and included in the system-wide rate). Thus, investments or new agreements entered into on or after January 1 of the year GridFlorida begins commercial operations will be considered new transmission investment and new agreements.

Q. Why was the original New Contract Date set as December 15, 2000?

A. The December 15, 2000 date was set in the initial filing to be compatible with the FERC schedule that required GridFlorida to be in service by December 2001. With the commercial operation date of GridFlorida following closely upon the New Contract Date, it was expected that the effects of the phase-out would be synchronized with the benefits to be achieved from the RTO. This was true for all parts of the pricing plan.

Q. Why was December 15, 2000 originally selected as the New Contract Date, rather than December 31, 2000, which was originally selected as the New Facilities Date?

A. The New Contract Date was set for December 15 to coincide with the date GridFlorida filed with FERC. It was also established on that date to alleviate concerns that the time between the filing date and December 31 would create a two-week window of opportunity where parties seeking an advantage might enter into a contract that would impose on retail ratepayers the cost of any new facilities or remove benefits from those ratepayers.

The New Facilities Date was set for December 31 to facilitate plant accounting administration. The GridFlorida Companies planned to make a rate filing at least 60 days prior to the startup of GridFlorida operations using the year ending December 31, 2000 as the test year for existing facilities.

Q. Is there a relationship between the New Contract Date, the New Facilities Date and the date GridFlorida commences commercial operations?

A. The New Contract Date and the New Facilities Date are related in that transmission agreements that are eligible for grandfathered treatment (e.g., new transmission service agreements under company-specific tariffs, new interconnection agreements, etc.) can be a major cause of new transmission investment, the rate treatment of which under the GridFlorida pricing plan is dependent upon whether such investment is classified as existing or new facilities. And as explained above, this classification is determined by the New Facilities Date. Consequently, both dates should be established relatively close to the date that GridFlorida commences commercial operation. For this reason, the Applicant's compliance filing established both dates as January 1 of the year GridFlorida commences operations.

Q. Why did the GridFlorida Companies change the December 15, 2000 New Contract Date and December 31, 2000 New Facilities Date to January 1 of the year GridFlorida begins commercial operations in their March 20, 2002 compliance filing?

A. The GridFlorida Companies explained this change in the compliance filing:

> This change reflects the fact that the commercial operations date for GridFlorida has already been delayed beyond the original proposed date. The phase-in plan was designed to mitigate cost shifts to GridFlorida customers. If the date delineating new versus existing investment was not moved, a number of facilities would be considered new investment, thus charged to all load through the system-wide charge. This would exacerbate, rather than limit, cost shifts. Further, if the date for automatic phase-in of existing agreements

were not also moved, then facilities may be put into service in response to new service requests which would have to be recovered from zonal load without concurrent revenues from a grandfathered agreement.

The change in expected commercial operations date resulted from a number of factors, including FERC decisions, the Commission's December 2001 order which required a compliance filing in March 2002, subsequent proceedings at the Commission after that filing, as well as follow-on filing(s) at FERC to reflect Commission-mandated changes. The impact of maintaining the specific dates contained in the original GridFlorida filing would result in immediate, unmitigated cost shifts upon start-up of GridFlorida operations without the desired synchronism, or reasonable contemporaneity of the transition dates, with the benefits from the RTO for native load customers.

Q. By changing the New Contract Date, will any party be competitively advantaged by entering into new contracts in advance of the new cutoff date?

A. No. By deferring the New Contract Date to January 1 of the year of GridFlorida commercial operations, all stakeholders will have adequate notice of the scope of grandfathered transactions. This advance public notice, coupled with the uncertainty of when exactly GridFlorida will commence commercial operations, serves to reduce any opportunity for gaming.

Q. How will changing the New Contract Date affect the expected level of cost shift mitigation approved by the Commission?

A. Changing the New Contract Date to on or after January 1 of the year GridFlorida begins commercial operations will preserve the cost shift mitigation framework previously approved by the Commission. Under the original GridFlorida proposal, there was only a brief delay of one year between the New Contract Date and the date of expected GridFlorida operations and concomitant implementation of the pricing plan, including the cost shift mitigation measures. As the length of time between the date of commercial operations and the New Contract Date increases, the amount of resultant cost shifting will be greater. This is because revenues counted on to benefit native load will be lost. Capital investments made in one rate zone to facilitate contracts entered into after the New Contract Date will be recovered from native load in that zone without the benefits of revenues collected from grandfathered contracts. Cost shift mitigation should be implemented at the same time as the start of commercial operations, so that the change in the commercial operations date resulting from ongoing regulatory review will not lead to increased costs to native load.

It is important to note in this regard that it was equally essential to move the New Facilities Date. If the New Facilities Date is not moved as the start-up date moves, a large accumulation of transmission additions will be considered new facilities and will be immediately included in the system-wide charge. For example, if GridFlorida starts in 2004, that accumulation would be of the three year period 2001-2003 and will result in wide-spread, immediate cost shifts. The system-wide charge was intended to increase over time not overnight. If the New Contract Date is not also moved in tandem, then facilities put into service in response to new service requests will be paid by zonal load rather than system-wide load which concentrates the cost shift to the zone.

Q. Can you provide an example to demonstrate this problem?

A. Yes. In Document No. 1 of my exhibit, I illustrate a hypothetical example to demonstrate that keeping the New Contract Date more than one year apart from the New Facilities Date could "trap" significant transmission investment costs leaving them to be paid on the first day of commercial operations by native load.

Suppose Utility A (rate Zone A) had a $120.0 million transmission revenue requirement on December 31, 2000 with a resulting rate of $1.20 per kW/month and served only retail load within Zone A. Suppose further that Utility A receives a transmission service request from Utility B under Utility A's current, company specific transmission tariff which results in Utility A entering into a long-term firm point-to-point transmission service agreement to deliver power to the system of Utility B. Suppose that requires Utility A to make investment in additional transmission facilities necessary to provide service to Utility B under that agreement, which would result in an additional $12.0 million in revenue requirements (a 10 percent increase in Zone A costs with a similar increase in system load requirements.) Next assume that these additional facilities must be put into service by December 31, 2002 to enable transmission service to commence in

2003. Finally, assume that GridFlorida does not go into commercial operation until December 31, 2004.

The $12.0 million in additional transmission facilities revenue requirements would be recovered from Zone A rates when GridFlorida begins commercial operations. In year one of GridFlorida operations the revenue requirements for Zone A will be collected only from load within Zone A less revenues collected from any grandfathered transmission agreements.

If the New Contract Date is set at January 1 of the year commercial operations of GridFlorida begin, then the revenue requirement for Zone A would be set at the overall revenue requirement for the total transmission facilities in service at that time less the revenues collected from the grandfathered contract. As can be seen in Document No. 1, the retail load within Zone A would be protected day one from any cost shifts and would pay the same effective rate as before the additional facilities were put into service. That protection would extend for five years and then phase out 20 percent per year starting in year six under the GridFlorida pricing plan.

If the New Contract Date is set at the original date (December 15, 2000) there would be a very different impact to Zone A retail load. Under this scenario, because the new transmission contract that required the expansion and increase in Zone A transmission cost was executed after the original New Contract Date, it is not grandfathered. Consequently, revenues that would otherwise be collected from the grandfathered contract under its existing transmission tariff would be lost immediately, and rates for Zone A (paid for by retail customers) would rise more than 10 percent on day one of commercial operations of GridFlorida (from $1.20 to $1.33 per kW) and the $12.0 million would be their responsibility. This represents an immediate cost shift that the pricing plan of GridFlorida was designed to mitigate.

Q. The GridFlorida Companies made a compliance filing at FERC on May 29, 2001. What were the GridFlorida Companies expectations at that time with respect to the commercial operations date of GridFlorida?

A. When the compliance filing was made with FERC on May 29, 2001, the GridFlorida Companies had no authority to extend the effective date of operation of GridFlorida. In fact, FERC was showing a great deal of resolve to assure that operations would begin by the original start-up date (or a date reasonably close to that date). It was not clear until later in 2001 that the GridFlorida commercial operations date would likely be much later than the original dates mandated by FERC. Moreover, the zonal rate impact from keeping the original New Contract Date increases over time. The delays necessitated by the FERC compliance stage coupled with the delay necessitated by the Commission's review process of GridFlorida and any subsequent regulatory or legal review, will increase the cost impacts were the Commission to retain the original New Contract Date.

Q. Was it reasonable for any party to rely on either the New Contract Date or New Facilities Date as originally proposed by the Applicants?

A. Although project developers and other parties actively engaged in market transactions while RTOs are in their formative stages may choose for their own business purposes to assume the existence of certain elements of RTO proposals, reliance upon the continuity of any particular aspect of RTO development is inherently risky, because the details of those proposals, various mechanisms of implementation, and certainly the timing of commercial operations are subject to continuing change. The benefits of allowing an RTO proposal to evolve and adapt to changing circumstances outweigh the costs and burdens of maintaining a static proposal, particularly where, as is the case here, the effects of precluding the proposed changes will undermine core structural elements of the overall RTO design.

RTO formation in Florida and nationwide has been a fluid process. RTO proposals have evolved to meet changed circumstances, to obtain the benefits of stakeholder consensus, and to reflect current public policy objectives of both state and federal regulators. GridFlorida has been no exception. Utilities, generators and their prospective customers are fully capable of dealing with uncertainty, and in fact the ongoing difficulties in developing RTOs nationwide have tested that capability. Indeed, generators and their prospective customers can (and have) contractually allocated the risk of all aspects of RTO development, including the risk that dates may change or even that the RTO may never enter commercial operations at all.

Q. But did not the GridFlorida Companies specifically address de-pancaking rates under certain agreement?

A. They did. In an answer filed at FERC on February 16, 2001 ("Answer"), the GridFlorida Companies addressed concerns raised by Calpine Eastern Corporation ("Calpine") regarding the point-to-point service agreement it intended at the time to enter into with Tampa Electric for transmission service from a 534 MW combined-cycle unit Calpine is planning to construct to Seminole Electric Cooperative ("Seminole"). The GridFlorida Companies stated:

> After the GridFlorida OATT is placed into effect, the service Calpine obtains from [Tampa Electric], like other long-term transmission service entered into after December 15, 2000, will be converted to service under the GridFlorida OATT. [citation omitted] To the extent Calpine is a designated network resource to serve Seminole network load under the GridFlorida OATT, no additional transmission charge will apply to transmit power from the Calpine unit to the Seminole network load, *i.e.*, Calpine will not be subject to an additional point-to-point charge for sales from a designated network resource.

Answer at 116. This statement was made at an even earlier stage than the May 29 compliance filing I discussed above, and indeed was made prior to FERC's first order addressing GridFlorida rate issues or the GridFlorida structure (other than governance matters, which FERC previously had addressed). For the reasons I explained above, it was even less justified to rely on these statements than later GridFlorida tariff language.

Q. What is the appropriate GridFlorida Contract Date and New Facilities Date?

A. The appropriate dates for both should be January 1 of the year of commercial operations of GridFlorida. The grandfathering of existing contracts as of that date, the implementation of a system-wide rate for new facilities built as of that date, and the phase-out plan developed by the GridFlorida Companies, synchronized with the benefits that will accrue from GridFlorida operations, will provide the best matching of costs with benefits for native load customers of the utilities.

Q. Please summarize your testimony.

A. The original GridFlorida Contract Date and New Facilities Date are now obsolete. Their retention would exacerbate the cost shifts described above and negate any synchronization of benefits from GridFlorida being provided to native load. To avoid recurrence of this problem, the GridFlorida Companies have proposed a revised GridFlorida New Contract Date and New Facilities Date to be January 1 of the year of commercial operations of GridFlorida. These revised dates will accommodate any further unanticipated delay in the startup of GridFlorida operations and will preserve the benefits of the cost shift mitigation aspects of the GridFlorida pricing plan.

Q. Does this conclude your testimony?

A. Yes, it does.

EXHIBIT NO. ______
DOCKET NO. 020233-EI
FLORIDA POWER & LIGHT COMPANY
AND TAMPA ELECTRIC COMPANY
[WRA-1]
FILED: 09/27/02

TREATMENT UNDER CURRENT TRANSMISSION TARIFF FOR UTILITY A

SCENARIO:

ASSUMES GRIDFLORIDA NOT YET IN EXISTENCE. UTILITY A SETS ITS TRANSMISSION SERVICE TARIFF RATES BASED ON ITS REVENUE REQUIREMENT AS OF 12/31/00. UTILITY B REQUESTS TRANSMISSION SERVICE UNDER THAT TARIFF AFTER 12/31/00. TO PROVIDE THE SERVICE, UTILITY A IS REQUIRED TO UNDERTAKE SYSTEM UPGRADES THAT ADD $12 MILLION TO ITS REVENUE REQUIREMENT. UTILITY A RECEIVED REVENUES FROM BOTH (a) ITS NATIVE LOAD IN ITS ZONE AND (b) THE UTILITY B TRANSMISSION SERVICE AGREEMENT THAT MAKES IT WHOLE TO ITS REVENUE REQUIREMENT.

	BEFORE UTIL B'S SVC REQUEST	IMPACT OF UTILITY B'S SERVICE REQUEST		
	UTILITY A REV REQ 12/31/00	REQUIRED SYS UPGRADES	UTILITY A REV REQ 12/31/02	
TRANSMISSION RATE BASE	$ 858,000,000	$ 85,800,000	$ 943,800,000	
TRANSMISSION REVENUE REQUIREMENT	$ 120,000,000	$ 12,000,000	$ 132,000,000	
LESS REVENUES FROM TRANSM AGREEMENTS	-		12,000,000	
NET REVENUE REQUIREMENT TO NATIVE LOAD	$ 120,000,000		$ 120,000,000	
NATIVE LOAD ZONE A (ASSUMES NO LOAD GROWTH) MW	8,300,000			
ANNUAL RATE	$ 14 46			
MONTHLY RATE	$ 1 20			
REVENUE FROM NATIVE LOAD IN ZONE A	$ 120,000,000		$ 120,000,000	
REVENUE FROM CONTRACT WITH UTIL B	-		12,000,000	NOTE (1)
TOTAL REVENUE = TOTAL REV REQUIREMENT	$ 120,000,000		$ 132,000,000	

RESULT: ALL LOAD PAYS. UTILITY A'S TOTAL REVENUE EQUALS ITS REVENUE REQUIREMENT.
NATIVE LOAD IN ZONE A IS NOT AFFECTED.

IMPACT OF DIFFERENT ATTACHMENT T CUTOFF DATES ASSUMING GRIDFLORIDA

SCENARIO: GRIDFLORIDA OPERATIONS COMMENCE 12/31/04

COLUMN 1 REFLECTS THE IMPACT OF A CUTOFF DATE OF 12/31/00.

SINCE UTILITY B REQUESTED TRANSMISSION SERVICE SUBSEQUENT TO THIS CUTOFF DATE, IT IS NOT A GRANDFATHERED EXISTING AGREEMENT AND UTILITY A RECEIVES NO REVENUES TO OFFSET ITS REVENUE REQUIREMENT RATES TO UTILITY A'S NATIVE LOAD RISE 10%.

COLUMN 2 REFLECTS THE IMPACT OF A CUTOFF DATE THAT TIES TO THE COMMENCEMENT OF GRIDFLORIDA'S OPERATIONS:

UTILITY B'S AGREEMENT IS A GRANDFATHERED EXISTING AGREEMENT. UTILITY A CONTINUES TO RECEIVE REVENUES FROM THAT AGREEMENT DURING A PHASE-OUT PERIOD. THOSE REVENUES OFFSET ITS REVENUE REQUIREMENT, MITIGATING THE IMPACT TO NATIVE LOAD RATEPAYERS IN ZONE A DURING THE PHASE-OUT PERIOD.

	(1) CUTOFF DATE 12/31/00	(2) CUTOFF DATE JAN 1 of GF OPER	
	UTILITY A REV REQ	UTILITY A REV REQ	
TRANSMISSION RATE BASE	$ 943,800,000	$ 943,800,000	
TRANSMISSION REVENUE REQUIREMENT	$ 132,000,000	$ 132,000,000	
LESS REVENUES FROM TRANSM AGREEMENTS	-	12,000,000	
NET REVENUE REQUIREMENT TO NATIVE LOAD	$ 132,000,000	$ 120,000,000	
NATIVE LOAD ZONE A (ASSUMES NO LOAD GROWTH)	8,300,000	8,300,000	
ANNUAL RATE	$ 15 90	$ 14 46	
MONTHLY RATE	$ 1 33	$ 1 20	
REVENUE FROM NATIVE LOAD IN ZONE A	$ 132,000,000	$ 120,000,000	
REVENUE FROM CONTRACT WITH UTILITY B	-	12,000,000	NOTE (1)
TOTAL REVENUE = TOTAL REV REQUIREMENT	$ 132,000,000	$ 132,000,000	

NOTE (1) DERIVATION OF CONTRACT REVENUE FROM UTILITY B

LOAD OF UTILITY B (MW)	830,000
TIMES	
UTILITY A'S ANNUAL RATE ESTABLISHED 12/31/00	$ 14 46
	$ 12,000,000