

ORIGINAL

MEMORANDUM

October 10, 2005

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COMMISSION
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TO: DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES

FROM: OFFICE OF THE GENERAL COUNSEL (VING) *AEV*

RE: DOCKET NO. 050001-EI - FUEL AND PURCHASED POWER COST RECOVERY CLAUSE WITH GENERATING PERFORMANCE INCENTIVE FACTOR.

Attached is the DIRECT TESTIMONY OF SIDNEY W. MATLOCK on behalf of Commission Staff to be filed in the above-referenced docket.

AEV/jb
 Attachment
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ORIGINAL

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery
clause with generating performance incentive
factor.

DOCKET NO. 050001-EI

FILED: OCTOBER 10, 2005

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the DIRECT TESTIMONY OF
SIDNEY W. MATLOCK on behalf of The Florida Public Service Commission has been
furnished to the following this 10th day of October, 2005:

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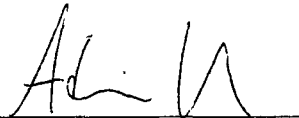
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DOCKET NO.: 050001-EI – Fuel and Purchased Power Cost Recovery Clause
with Generating Performance Incentive Factor.

WITNESS: **Direct Testimony of Sidney W. Matlock**, Appearing on Behalf of
the Staff of the Florida Public Service Commission.

DATE FILED: October 10, 2005

DOCUMENT NUMBER-DATE

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1 **DIRECT TESTIMONY OF SIDNEY W. MATLOCK**

2 Q. Please state your name and business address.

3 A. My name is Sidney W. Matlock. My business address is 2540 Shumard Oak
4 Boulevard, Tallahassee, Florida, 32399-0850.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the Florida Public Service Commission (Commission) as a
7 Regulatory Analyst in the Division of Economic Regulation.

8 Q. What are your present responsibilities with the Commission?

9 A. My responsibilities include analysis of utility regulatory filings in the Fuel Cost
10 Recovery docket, and other dockets and activities relating to electric distribution reliability
11 and electric meter accuracy.

12 Q. Please give a brief description of your educational background and professional
13 experience.

14 A. I graduated from the Florida State University in August 1975 with a B.S. degree in
15 economics. I was employed by the Florida Department of Commerce (later the Department of
16 Labor and Employment Security) from February 1976 to February 1985. I have been
17 employed by the Florida Public Service Commission since February 1985. In August 1992, I
18 obtained a B.S. degree in Statistics from the Florida State University.

19 Q. Have you previously testified before the Commission?

20 A. Yes. I testified in Docket Number 030623-EI, In re: Complaints by Ocean
21 Properties, Ltd., J.C. Penny Corp., Target Stores, Inc., and Dillard's Department Stores, Inc.,
22 against Florida Power & Light Company concerning thermal demand meter error. I also filed
23 testimony in two rate-case dockets, Docket Number 050045-EI, In re: Petition for rate
24 increase by Florida Power & Light Company, and Docket Number 050078-EI, In re: Petition
25 for rate increase by Progress Energy Florida, Inc.

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1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to recommend alternative equivalent availability factor
3 (EAF) targets for four of Tampa Electric Company's (TECO) five Generating Performance
4 Incentive Factor (GPIF) units, for the 2006 fuel adjustment period.

5 Q. How is the GPIF program operated and how is it beneficial to TECO's ratepayers?

6 A. The GPIF program was introduced in 1980. Prior to each period, targets are set for
7 each GPIF unit for EAF as well as for heat rate. These two measures are used to assess each
8 unit's generating efficiency. An equivalent availability factor measures the percent of a period
9 that a unit is available for generation at its megawatt rating. A heat rate is the number of Btu's
10 consumed in producing a kilowatt-hour of energy. Typically, targets are based on recent
11 historical performance. The utility is rewarded or penalized based on whether its performance
12 achieves these targets. The program encourages the efficient operation of the larger
13 generating units, thereby lowering fuel and purchased power costs borne by ratepayers.
14 TECO has projected its coal generation cost for 2006 at 2.64 cents per kilowatt-hour and its
15 natural gas generation cost at 6.76 cents per kilowatt-hour. Since TECO filed its fuel cost
16 projections on September 9, 2005, natural gas prices have increased by over one third. The
17 difference between the costs of coal and natural gas underscores the importance of TECO
18 making its coal burning units available for generation as much as possible, because the fuel
19 source for replacement generation when a coal unit is unavailable is typically natural gas.

20 Q. What is the basis for the EAF targets proposed by TECO?

21 A. The EAF targets for each of the GPIF units proposed by TECO are based on actual
22 12-month averages for the period from July 2004 through June 2005 adjusted for differences
23 between the number of planned outage hours and number of reserve shutdown hours for the
24 historic period (July 2004 through June 2005) and the projected target period (January 2006
25 through December 2006).

1 Q. Are the EAF targets always based strictly on their historical averages?

2 A. No. Other things such as recent trends, equipment modifications, or a unit having
3 recently experienced a planned outage may also affect the setting of a target. These factors
4 are listed in the GPIF Manual and in the testimony of Witness William A. Smotherman of
5 TECO. Basically, a target should be based on recent historical performance to the extent that
6 historical performance reflects what is expected in the near future.

7 Q. What EAF targets do you propose, and how do they differ from those proposed by
8 TECO?

9 A. I propose the EAF targets contained in the following table. They are presented along
10 with TECO's proposed targets and the differences, by unit.

11

Proposed 2006 Equivalent Availability Factors Tampa Electric Company			
Unit	Proposed EAF (%)		Difference
	Witness Matlock	TECO	
Big Bend 1	63.6	63.6	0.0
Big Bend 2	79.0	77.3	1.7
Big Bend 3	63.9	56.2	7.7
Big Bend 4	80.0	71.9	8.1
Polk 1	87.1	60.3	26.8

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19 Q. Why are you recommending alternative EAF targets?

20 A. The availability of TECO's coal burning units included in the GPIF has declined
21 significantly over the last five years. More frequent forced outages and maintenance outages
22 have contributed to this decline, and individual months with outage rates of as much as 40
23 percent or greater have become more frequent. I propose that the monthly equivalent forced
24 outage rates (EFOR) and equivalent maintenance outage rates (EMOR) that are greater than
25 40 percent be excluded from the averages used to calculate TECO's 2006 EAF targets. This

1 method would exclude outages of greater length or frequency than one would reasonably
2 expect in the coming period from the EAF target for acceptable performance. These targets
3 are based on historical performance and recent trends, and they are attainable.

4 Q. Would excluding months with atypically poor performance from the setting of the
5 2006 EAF targets be unfair to TECO, since it would preclude having rewards in 2006 offset
6 any penalties from late 2004 or early 2005?

7 A. No. The purpose of the incentive is to reward the utility for performance that exceeds
8 reasonably expected performance, not to ensure that rewards offset penalties.

9 Q. Does this conclude your testimony?

10 A. Yes. It does.

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