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ORIGINAL
FILE COPY

June 24, 1996

HAND DELIVERED

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

Re: Fuel and Purchased Power Cost Recovery Clause
with Generating Performance Incentive Factor;
FPSC Docket No. 960001-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket, on behalf of Tampa Electric Company, are fifteen (15) copies of each of the following:

1. Petition of Tampa Electric Company.

ACK _____ 2. Prepared Direct Testimony of Mary Jo Pennino and Exhibit
AFA _____ (MJP-2) regarding Tampa Electric's projected Total Fuel
APP _____ and Purchased Power Cost Recovery Factors and Exhibit
CAF _____ (MJP-3) regarding projected Capacity Cost Recovery
Factors for the period October 1996 through March 1997.

CMU _____ 3. Prepared Direct Testimony of William N. Cantrell with
CTR _____ Exhibit (WNC-1) regarding 1995 Transportation and Coal
EAG 5-Bars _____ Benchmark calculations.

LEG 1 4. Prepared Direct Testimony of George A. Keselowsky with
LIT 1 + reg Test _____ Exhibits (GAK-2) and (GAK-3) regarding Tampa Electric
Company's projected performance under the Generating
Performance Incentive Factor for the period October 1996
through March 1997.

SEC 1 5. Prepared Direct Testimony of John B. Ramil relative to
WAS _____ Public Counsel's Generic Issue regarding Off-System
OTH Pennino _____ Sales. Ramil _____ Keselowsky _____

DOCUMENT NUMBER-DATE	DOCUMENT NUMBER-DATE	DOCUMENT NUMBER-DATE	DOCUMENT NUMBER-DATE
06752 JUN 24 96	06753 JUN 24 96	06754 JUN 24 96	06755 JUN 24 96
FPSC-RECORDS/REPORTING	FPSC-RECORDS/REPORTING	FPSC-RECORDS/REPORTING	FPSC-RECORDS/REPORTING

DOCUMENT NUMBER-DATE
06756 JUN 24 96
Cantrell
FPSC-RECORDS/REPORTING

Ms. Blanca S. Bayo
June 24, 1996
Page Two

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/encls.)

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DOCKET NO. 960001-EI
TAMPA ELECTRIC COMPANY
SUBMITTED FOR FILING 06/24/96

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
PREPARED DIRECT TESTIMONY
OF
JOHN B. RAMIL

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

A. My name is John B. Ramil. My business address is 702 North Franklin Street, Tampa Florida 33602. I am employed by Tampa Electric Company in the Position of Vice President - Energy Services & Planning.

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

A. I was educated in private schools of Tampa, Florida. I graduated from the University of South Florida in June of 1978 with a Bachelor of Science degree in Engineering. I am a registered Professional Engineer in the State of Florida.

I joined Tampa Electric Company in March of 1976 as a cooperative education student and began full-time employment with the Company in June of 1978. I was responsible for various engineering assignments prior to

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1 being promoted to Manager, Environmental Planning in 1982.

2

3 From June 1984 until April 1994 when I was promoted to my
4 present position, I held the positions of: Manager,
5 Generation Planning; Manager, Fuel Planning and Operations;
6 Assistant Director, Power Resource Planning; and Director,
7 Resource Planning. Currently I am Vice President - Energy
8 Services, responsible for the company's customer service,
9 energy services, bulk power and planning functions.

10

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

13

14 A. Yes. I have testified on behalf of Tampa Electric in a
15 number of proceedings before this Commission. I testified
16 in Docket No. 870001-EI, having to do with Tampa Electric's
17 off-system sales, Big Bend Unit 4 power sales contract
18 modifications, and the appropriate fuel prices for dispatch
19 and interchange pricing. I submitted direct and rebuttal
20 testimony in Docket No. 870408-EI in support of Tampa
21 Electric's request for approval of its proposed non-firm
22 load methodology and annual targets. I also testified in
23 support of determinations of need for the Hardee Power
24 Station (Docket No. 880309-EI) and Tampa Electric's Polk
25 Unit One (Docket No. 910883-EI). In addition, I testified

1 on the subject of as-available energy payments to
2 cogenerators and small power producers (Docket No. 880001-
3 EI) and in the Commissions annual planning hearing (Docket
4 No. 880004-EU). I testified on issues related to system
5 planning, fuel inventory planning, wholesale sales,
6 acquisitions and system construction in the companys last
7 rate case (Docket No. 920324-EI). Most recently, I
8 testified in Docket No. 930676-EI, regarding the proposed
9 construction of 69kV transmission facilities to serve the
10 Cities of Fort Meade and Wauchula.

11
12 Q. What is the purpose of your testimony in this docket?

13
14 A. The purpose of my testimony is to address an issue which
15 was deferred from the February 1996 fuel adjustment
16 hearing. I am referring to Issue 9 contained in the
17 Florida Public Service Commissions ("FPSCs") Order No.
18 PSC-96-0241-PHO-EI, which was the Prehearing Order issued
19 February 19, 1996, in the fuel adjustment docket. This was
20 a generic issue raised by the Office of Public Counsel
21 ("OPC" or "Public Counsel") in its Prehearing Statement. At
22 the Prehearing, the parties agreed to defer the issue to
23 allow the opportunity to file testimony. Public Counsel's
24 issue reads as follows:
25

1 Should an electric utility be
2 permitted to include, for retail fuel
3 cost recovery purposes, fuel costs of
4 generation at any of its units which
5 exceed, on a cents-per-kilowatt-hour
6 basis, the average fuel cost of total
7 generation (wholesale plus retail) out
8 of those same units?
9

10
11 OPCs position on the issue was:
12

13
14 "No. The fuel cost assigned to the
15 retail jurisdiction from any
16 generating unit should never exceed
17 the average cost of fuel actually
18 burned at the unit to meet both
19 wholesale and retail loads times the
20 amount of energy allocable to the
21 retail jurisdiction. Stated
22 differently, a utility's decision to
23 offer a wholesale customer less-than-
24 average fuel costs out of a single or
25 multiple generating units should not
26 cause the fuel cost responsibility of
27 the retail jurisdiction to be greater
28 than average."
29

30 Q. What is your view of OPCs position?
31

32 A. OPCs position is incorrect and merely reflects another
33 attempt to revisit an issue that has been decided in a
34 manner opposed by OPC in the past.
35

36 It appears that OPC is challenging the recovery of costs
37 associated with off-system sales that are based on
38 incremental fuel costs to the extent that the incremental
39 fuel cost is lower than average fuel cost for the unit(s)

1 out of which the energy was generated. The error of OPCs
2 position can be illustrated by reference to the Florida
3 Economy Broker System. OPCs position, if affirmed, would
4 mean that utilities have been incorrectly pricing and
5 recovering fuel costs from most of the base load units in
6 the state that have contributed to sales on the Florida
7 Economy Broker from the time of the initiation of the
8 Broker.

9
10 Q. Please elaborate.

11
12 A. OPCs position, if affirmed, would require a change in the
13 pricing of the energy sales on the Florida Broker System
14 that would likely increase the overall level of the prices
15 paid for transactions on the Broker and would likely reduce
16 the number of beneficial transactions occurring. The
17 Broker rules require that utilities quote their incremental
18 cost of generation. Incremental costs for base load
19 generation are generally lower than average costs of
20 generation from these units. This is due to two factors;
21 the incremental efficiency or "heat rate" versus the average
22 heat rate of the units and the incremental fuel price
23 versus the average fuel price. The dispatch or
24 "incremental" heat rates of these generating units are
25 generally lower than the average heat rates of the units.

1 The second factor, incremental versus average fuel price,
2 contributes in the same direction, because incremental fuel
3 prices for baseload generation are generally lower than
4 average.

5
6 Thus, if utilities were required to charge average
7 generation costs on the Broker, it would not represent the
8 incremental cost of the sale and would have the effect of
9 raising the quotes from base load capacity and in turn
10 would lower the savings from transactions and would lessen
11 the number of transactions.

12
13 It is well documented that the Florida Energy Broker has
14 saved Floridas customers many millions of dollars since
15 its inception in 1978 (\$797 million in 1995, as stated in
16 the FPSCs 1995 Annual Report). OPC is suggesting a
17 regulatory treatment in the fuel adjustment clause for
18 these and other sales that would diminish this benefit.

19
20 Q. Has the issue raised by OPC been previously addressed in
21 any proceedings that were specific to Tampa Electric?
22

23 A. Yes, this issue has been addressed in several proceedings
24 before this Commission. Accordingly, we do not believe it
25 is necessary or reasonable to revisit the issue for Tampa

1 Electric even putting aside the generic reasons why OPCs
2 position is wrong.

3

4 Q. Please explain the context in which this issue was
5 addressed by this Commission.

6

7 A. This issue was first directly addressed in 1987 by this
8 Commission in Docket No. 870001-EI where it reviewed
9 several issues related to the use of incremental fuel
10 pricing for off-system sales and most recently in 1992 in
11 our last rate case, Docket No. 920324-EI. I stress the
12 term directly because this Commission has appropriately
13 examined, for Tampa Electric, the overall effect of
14 wholesale prices on retail prices by looking at the net
15 effect of wholesale transactions on retail customers. As
16 further explained below, it would be inappropriate, as OPC
17 suggests, to examine an issue pertaining to average fuel
18 pricing practices without taking into account all the
19 effects of off-system sales and the overall benefits of
20 such sales. In Tampa Electric's case, these specifics have
21 already been reviewed and approved.

22

23 Q. Please describe specifically how the Commission reviewed
24 this issue in Docket No. 870001-EI.

25

1 A. In 1987, fuel market conditions had caused differences
2 between the pricing for spot coal and long-term contract
3 coal. As a result, issues were raised before the
4 Commission associated with the calculation of marginal cost
5 for purposes of dispatch, wholesale pricing, and payments
6 to Qualifying Facilities. In that proceeding, the
7 Commission found that it was appropriate to use the cost of
8 spot coal for incremental dispatch and pricing purposes.
9 The Commission specifically reviewed the pricing and
10 regulatory treatment for economy broker transactions by all
11 utilities and reviewed two of Tampa Electric's then
12 existing power sale agreements under Service Schedule J and
13 approved pricing based on incremental costs.

14
15 Q. Has the Commission examined pricing and regulatory
16 treatment for other types of sales?

17
18 A. Yes. In the same docket, the FPSC reviewed, and found
19 appropriate, an amendment to an agreement between Tampa
20 Electric and Florida Power & Light Company ("FP&L") for the
21 sale of energy and capacity from Big Bend Unit 4 ("BB4").
22 The original agreement contained a fuel charge based on the
23 average cost of fuel for BB4. The amendment enabled Tampa
24 Electric to charge the incremental cost of fuel for BB4,
25 which was lower than the average fuel cost for that unit.

1 Staff, in that docket, raised the following issue:

2

3 Should any increased fuel cost due to the
4 off-system sale of capacity be recovered
5 through the Fuel Cost Recovery Factor?
6

7 Because Tampa Electric's incremental fuel cost, which was
8 based on spot market coal, was lower than its average fuel
9 cost, Staff was concerned that crediting the incremental
10 cost of fuel through the fuel clause would cause an
11 increase in fuel costs for retail customers. In addressing
12 the issue, the Commission recognized that the pricing
13 amendment was necessary for Tampa Electric to sell any
14 energy under the agreement, and found that incremental
15 pricing and revenue crediting of incremental fuel revenues
16 would be appropriate. The Commission stated:

17

18 TECO defended its action by stating that
19 had it not made the price concession to
20 FP&L, FP&L would have purchased virtually
21 no energy pursuant to the contract. With
22 the revision to the contract, FP&L is
23 taking BB4 energy at approximately a 70%
24 capacity factor. We find for the company
25 on this issue.¹
26

27 Tampa Electric has continued to base the fuel pricing for
28 off-system sales on incremental costs in order to meet

¹ FPSC Order No. 18136, issued in Docket No. 870001-EI in September, 1987. The amendment was also accepted for filing by the Federal Energy Regulatory Commission (Docket No. ER87-253-000).

1 market demands and encourage the most efficient utilization
2 of its resources, and has continued to apply this
3 Commission-approved treatment to the fuel revenues
4 associated with these sales. The Commission and OPC have
5 reviewed and agreed to this treatment in each biennial fuel
6 hearing since the ruling in 1987.
7

8 Q. How was Tampa Electric's treatment of revenues from various
9 types of off-system sales considered in the company's last
10 full rate case proceeding?
11

12 A. In Tampa Electric's last full rate case proceeding in 1992,
13 Docket No. 920324-EI, the Commission carefully considered
14 how to treat revenues associated with each type of off-
15 system sale in which Tampa Electric was currently engaging.
16 Upon the conclusion of this evaluation of off-system sales,
17 the Commission left intact the treatment for fuel revenues
18 associated with sales based on incremental fuel pricing as
19 previously approved in 1987.
20

21 Q. Please describe any additional concerns about Public
22 Counsel's position on this issue.
23

24 A. Public Counsel has focused solely on the impact of off-
25 system sales on costs recovered through the fuel cost

1 recovery clause. Tampa Electric believes full
2 consideration of this issue must take into account the
3 total economic benefits associated with off-system sales.
4

5 Q. Please describe what you mean by total economic benefit and
6 how this benefit impacts retail customers.
7

8 A. It is inappropriate to focus solely on the impact of fuel
9 pricing for off-system sales on the fuel cost recovery
10 clause without taking into consideration the entire
11 economic impact of the off-system sale on retail customers.
12 For instance, charges for broker sales include a non-fuel
13 energy component. Charges for unit power sales include
14 non-fuel energy components and capacity payments based on
15 the embedded cost of the unit(s) from which capacity and
16 energy is sold. These non-fuel revenues contribute to
17 Tampa Electric's recovery of its fixed costs. The amount
18 of revenue from a sale in excess of the incremental cost is
19 an additional contribution to fixed costs that retail
20 customers would otherwise bear. The result is a net
21 economic benefit to retail customers. Indeed, the revenue
22 requirements used in the cost of service determination upon
23 which Tampa Electric's current retail customers base rates
24 were established was reduced via the assignment of rate
25 base and expenses to the wholesale jurisdiction for the

1 off-system sales that were separated from the retail
2 jurisdiction.

3
4 The contribution to recovery of fixed costs associated with
5 off-system sales exceeds the magnitude of any effect of
6 incremental fuel pricing upon the fuel costs paid by Tampa
7 Electric's retail customers. Thus, on a total system
8 economic basis, retail customers benefit from these sales.

9
10 Q. The contribution to fixed costs from non-separated off-
11 system sales is credited to retail customers through the
12 adjustment clauses. How do Tampa Electric's retail
13 customers receive the benefits of the contribution to fixed
14 costs from separated off-system sales?

15
16 A. The separated off-system sales benefit retail customers
17 through the calculation of return on equity ("ROE") reported
18 in the monthly surveillance report. Every month, in a
19 procedure that we believe is unique to Tampa Electric, the
20 separation factors are adjusted to account for the current
21 level of capacity and energy being sold as separated off-
22 system sales. Since the additional off-system sales remove
23 rate base and expenses from the retail jurisdiction, the
24 retail ROE increases. All other things being equal, the
25 effect over time of this increase is to lower retail rates.

1 In fact, for Tampa Electric, the benefits to retail
2 customers are even more direct than is usually the case.

3
4 Q. Please elaborate on your last statement.

5
6 A. I refer to the deferred revenue plans that OPC and Tampa
7 Electric, along with the Florida Industrial Power Users
8 Group, have agreed upon, first for 1995 and then for 1996
9 through 1998. As a result of the regulatory structure
10 reflected in these plans, retail customers benefits are
11 more immediate than would be the case in the normal
12 situation, where off-system sales revenues serve to delay
13 future rate increases (and reduce their amount) or hasten
14 future rate decreases (and increase their amount).

15
16 Q. Please describe the regulatory structure applicable to
17 Tampa Electric.

18
19 A. On May 2, 1995, the Commission voted approval of a plan
20 that established a deferral mechanism for earnings in
21 excess of 11.75% through 1995². In a subsequent decision,
22 on April 30, 1996, the Commission voted approval of a joint
23 stipulation which included establishing a \$25 million
24 refund, a base rate freeze through 1998, and provisions for

²FPSC Order No. PSC-95-0580-FOF-E1, issued in Docket No. 950379-E1 on May 10, 1995

1 revenue deferrals contributing towards potential refunds in
2 1999³. In 1995, the beneficial effect on retail customers
3 of separating the rate base and expenses from the retail to
4 wholesale jurisdiction was approximately \$29 million. This
5 accounted for well over one-half of the deferred revenue of
6 \$48.8 million in 1995. These deferred revenues are being
7 used to offset the revenue requirements associated with
8 Polk Unit One, and have contributed to the \$25 million
9 refund beginning in October 1996. For 1996 through 1998,
10 the demand and energy from existing separated off-system
11 sales and any increase from future sales will contribute to
12 deferred revenues and any amount available for refunds to
13 customers in 1999.

14
15 In summary, revenues from off-system sales are contributing
16 and will continue to contribute directly to the
17 accumulation and disposition of deferred revenues and
18 potential refunds to retail customers pursuant to this
19 approved regulatory structure.

20
21 Q. Have other regulatory bodies recognized the validity of
22 considering the total economic impact of a transaction when
23 evaluating pricing?
24

³FPSC Order No. PSC-96-0670-S-E1, issued in Docket No. 950379-E1 on May 20, 1996

1 A. Yes. The Federal Energy Regulatory Commission ("FERC")
2 addressed this principle in the matter of *Tampa Electric*
3 *Co.*, 71 FERC ¶61,245 (1995) (*reh'g pending*), wherein fuel
4 pricing on an incremental cost basis was considered and
5 permitted. Consistent with previous decisions of the
6 Florida Public Service Commission, the FERC there found
7 that focusing solely on the fuel pricing component did not
8 capture the entire economic impact of the transaction, and
9 that the contribution to recovery of fixed costs through
10 demand charge revenues creates benefits to Tampa Electric's
11 customers that exceed the impact on fuel clause rates. The
12 FERC also recognized that the level of fuel pricing can
13 influence a utility's ability to market its energy and,
14 hence, generate the additional overall revenues that
15 contribute to fixed cost recovery, as well as recovering
16 incremental variable costs. The FERC has followed this
17 total economic benefit principle in other cases as well.
18 See *North Little Rock Cogeneration, L.P. v. Entergy*
19 *Services, Inc.*, 72 FERC ¶61,263 at 62,173 n. 8 (1995)
20 ("[Customers are better off if the utility obtains a price
21 that provides any contribution (to fixed costs) above
22 variable costs.").

23
24 Q. What, specifically, would be the harm if Tampa Electric
25 priced all sales based on average fuel costs?

1 A. As Tampa Electric found in its sale of BB4 capacity and
2 energy to FP&L in 1987, and this Commission has recognized,
3 the dispatchability of an off-system sale is critical to
4 making the sale attractive to the purchasing utility.
5 Tampa Electric has found that to be the case particularly
6 in todays increasingly competitive wholesale market.
7 Todays potential wholesale customers invariably indicate
8 that energy pricing must be low enough to dispatch at, or
9 near, one hundred percent of the time on the purchasing
10 utility's system in order for the purchase to be
11 attractive. Pricing sales at station average fuel would
12 likely eliminate, or greatly reduce, off-system sales and
13 the corresponding benefit to retail customers.

14
15 Q. What would the loss of wholesale sales mean to Tampa
16 Electric, its retail Customers, and other utilities in the
17 State of Florida that purchase power from Tampa Electric?
18

19 A. As stated previously, Tampa Electric and its retail
20 customers would be deprived of the total economic benefits
21 generated by these sales. Additionally, the purchasing
22 utilities would lose the savings achieved by purchasing
23 power from Tampa Electric's resources in place of running
24 their higher-cost, less efficient units.

25

1 Q. Please summarize your views regarding the appropriateness
2 of revisiting the regulatory treatment of revenues received
3 from off-system sales?
4

5 A. The Commission should not adopt OPCs position and change
6 the incremental pricing on the Florida Economy Broker
7 System and its regulatory treatment. Such a change from
8 procedures previously approved by the Commission would have
9 a negative effect on retail customers.
10

11 As to Tampa Electric specifically, we are treating fuel
12 revenues associated with off-system sales in accordance
13 with the methodology approved by this Commission in 1987,
14 and reviewed since then in the biennial fuel hearings and
15 in our last rate case. Off-system sales provide total
16 revenue in excess of the incremental cost to serve those
17 sales, and thus, all retail ratepayers benefit. The
18 Commission, along with the Office of Public Counsel, should
19 not take action to penalize Tampa Electric for its prudent
20 and successful efforts to lower costs for retail
21 ratepayers. Therefore, we do not believe it is necessary
22 or appropriate to revisit this issue for Tampa Electric in
23 the fuel adjustment hearing.
24

25 Q. Does this conclude your testimony?

1 A. Yes, it does.
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