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BEFORE THE

FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition for Approval of Commercial/Industrial Service Rider by Tampa Electric Company	))))	Docket No. 980706-EI Filed: June 23, 1998

TAMPA ELECTRIC COMPANY'S ANSWERS TO INFORMAL DATA REQUESTS OF THE FLORIDA PUBLIC SERVICE COMMISSION STAFF

Tampa Electric files this its Answers to Informal Data Requests (Nos. 1 - 16) propounded and served by Facsimile on June 9, 1998, by the Florida Public Service Commission Staff.

ACK ____
AFA ____
APP ____
CAF ____
CMU ____
CTR ____
EAG ____
LEG ____
LIN ____
OPC ____
RCH ____
SEC __1__
WAS ____

1. How does TECO propose to treat the revenue shortfall associated with the CISR customers between rate cases and in a rate case?

A. Given the structure of the Commercial Industrial Service Rider (CISR), there will not be a revenue shortfall associated with signing Contract Service Arrangements (CSAs) with CISR Customers. Absent the application of CISR, there would be a shortfall of revenue because the prospective CISR Customer would not be a Customer of Tampa Electric and revenues would be reduced.

In the Pilot Study Implementation Plan, as is currently the case with Gulf Power's CISR, Tampa Electric's monthly surveillance report will be enhanced to report, for all executed CSAs not yet reviewed and found to be prudent by the Florida Public Service Commission (FPSC), the difference between the revenues that would have been produced by the Company's standard tariff rates and the revenues that are produced by each executed CSA. This calculated difference, however, does not equate to a revenue shortfall produced by the rider, because the rider-produced revenues represent what revenues have been retained by the general body of ratepayers. Except for this reporting treatment, the actual revenues collected under each CSA will be treated in the normal manner as all other like jurisdictional revenues are treated between rate cases. A base rate increase is one of the triggering events identified in the Pilot Study Implementation Plan; therefore at the time of such a case, all unreviewed CSAs would be subject to FPSC review at that time for prudence. If found to be prudent, the revenues of such CSAs would be treated appropriately in such a rate case.

2. What estimates has TECO made regarding the number of customers and load which will be served under the CISR, and the expected revenue shortfall between the CISR rate and what would be collected under the otherwise applicable rate?

A. Tampa Electric has made no estimates of the number of Customers or load which will be served under the CISR. As stated in the response to Question No. 1, given the structure of the CISR, there will not be a revenue shortfall associated with signing CSAs with CISR Customers. Absent the application of CISR there would be a shortfall of revenue because the prospective CISR Customer would no longer be a Customer of Tampa Electric and revenues would be reduced.

At this time, Tampa Electric has an existing Customer who has made serious inquiry as to the applicability of the CISR to a proposed expansion of their facility. This Customer has indicated that approximately 3.5 MW of additional load could be made available under a CISR tariff. There is also a potential new Customer who has made serious inquiry as to the CISR. This Customer is in the process of developing a business in Tampa in expectation of successfully negotiating a CSA with Tampa Electric under the CISR. This Customer's load would be about 4 MW, rising over time to 6 MW. Since negotiations have not commenced with respect to either of these Customers and will not commence until the CISR is approved, the amount of revenue differential that would be reported on the Surveillance Report in the year 2000 cannot be estimated.

In addition, if the rider is approved by the Commission, it will only be offered to these Customers if they provide <u>incremental</u> load, so no revenue shortfall from current revenue levels would occur.

3. Based on the estimates in question 2, what effect will the implementation of the CISR have on TECO's achieved ROE?

A. Because Tampa Electric has made no estimates of the number of Customers, load and revenues which will be served under the CISR, no estimates have been made of the impact of prospective CISR Customers on achieved return on equity (ROE) in the year 2000 when this rate would go into effect. To the extent that prudent CSAs are entered into which would go into effect in that year, it is expected that such CSAs will improve the achieved ROE in that year.

4. The Petition on Page 2 states that "the company faces pressure to competitively price its electric service from some of its existing and new large commercial and industrial customers."

   a. Please list all existing customers who may seek to take service under the CISR tariff and identify the alternatives these customers have to taking service from TECO.

   b. Please list all inquires [sic] TECO received from new customers for a competitively priced electric rate. Identify the alternatives to taking service from TECO these customers have.

A. a. Tampa Electric has been approached by several existing Customers inquiring as to whether an economic development electric rate or other incentives existed to help assist them in the decision as to whether to continue operations or expand their existing facilities within Tampa Electric's service area. The existing Customers who have inquired generally fall under the following industry groups: manufacturing facilities, distilleries and hospitals. The aggregate of the inquiries from these groups represent the potential for approximately 24 MW of new load. Alternatives to Tampa Electric's service discussed by the Customers include: closing the business, relocating the business, cogeneration, et cetera.

   b. Tampa Electric has been approached by a manufacturing facility, that has indicated an interest in an economic development electric service offering. It is Tampa Electric's understanding that electric consumption is a major cost item for this particular company to the extent that the company would not locate their facility in Tampa Electric's service territory without some form of alternative pricing. Alternatives to Tampa Electric's service discussed by the Customer include not locating their business in the Tampa area.

5. The Implementation Plan states that any CISR must be "reviewed and approved by a standing committee of Tampa Electric officers." Who are the members of TECO's standing committee?

A. The standing committee is comprised of: President of Tampa Electric Company, Vice President-Regulatory Affairs, Vice President-Energy Services, Vice President-Energy Delivery and Vice President-Controller.

6. The Petition on Page 6, paragraph 15, states that TECO may request a prudence review by the Commission subsequent to entering into a CSA. How and under what conditions will TECO decide whether to request such a prudence review? Who has final authority to request such review?

A. Tampa Electric has not established a set of circumstances under which it might request a prudence review by the FPSC. Whatever those circumstances might be at the time would be presented to the standing committee described in the response to Question No. 5, who would review those circumstances and make a determination as to whether a prudence review should be sought or not. This committee would have the final authority to request such a review.

7. What is the basis for the additional $250 customer charge?

A. Customer charges are primarily designed to cover such costs as metering, billing, service lines and Customer assistance.

The additional $250 Customer charge for the CISR is intended to cover the incremental Customer-related costs of tariff billing and administration which could include special studies, negotiations, incremental costs of billing and the special attention and Customer service required for this particular type of Customer. Since the pricing for each CISR will be determined through negotiation, it is unlikely that it will be billable through normal bill processing. Bill determination will most likely be calculated using Customer specific rate formulas, will require contract interpretation and will be prepared individually each month. This special billing process and the increased Customer service costs are factors which justify the increased Customer charge.

Gulf Power is assessing an additional $250 per month on their CISR tariff and Tampa Electric believes that a similar amount is reasonable and appropriate for its CISR tariff.

8. CISR customers will be required to take service from TECO for a specified time period. What effect would a possible deregulated electric industry have on these contracts? Would customers still be bound by their contract?

A. Tampa Electric does not believe that a potential change to a "possible deregulated electric industry" would have any direct bearing on the duties and obligations of parties to a CSA. In general, Customers that may seek service under the CISR are aware of deregulation activities underway in other parts of the country. If such a Customer is made aware of possible deregulation and still signs a contract for CISR service whose term may exceed a date by which Florida may be deregulated, Tampa Electric believes that the CISR contract should be allowed to survive such deregulation. However, if Legislation was passed in Florida such that long term service contracts became invalid, Tampa Electric would take whatever steps were available to us at that time to re-establish terms and conditions of service for Customer(s) signed-up under the CISR tariff.

9. Please explain in detail how the incremental cost of serving a CISR customer will be calculated. Show all components of incremental cost.

A. Tampa Electric proposes to conduct specific analyses for each CISR Customer to calculate the net benefits to the general body of ratepayers using a model based on the Rate Impact Measure or "RIM" test as established by the FPSC for use in evaluating the cost-effectiveness of conservation programs. The RIM will be used to compare, on a cumulative net present value basis over the life of the CSA, the revenues received under the rider to the incremental costs to serve the specific Customer applying for such service. As long as the benefits calculated in the RIM exceed the calculated costs, the general body of ratepayers will benefit.

Incremental costs are defined as the additional costs incurred to serve the additional load that resulted from the application of the CISR. Customer specific data is collected in order to determine the incremental cost to serve that particular Customer's incremental load. Factors considered in determining incremental costs are location, coincident peak demands, load shape, load factor, length (term) of CSA, annual energy, etc. for that specific Customer.

Incremental costs include additional fuel and purchased power expense, additional generation investment required to serve the incremental load, additional transmission and distribution investment required and additional operating and maintenance expense incurred. In addition, contract-specific recurring and non-recurring costs and/or revenues will be included in the analysis.

The following is a re-creation of the RIM calculation as ordered in FPSC Order No. 24745 Amendment of Rule 25-17,008, FAC, pertaining to Conservation and Self-Service Wheeling Cost Effectiveness Data Reporting Format. The re-creation calculates the cost-effectiveness of incremental load versus the cost-effectiveness of decremental load.

RATE IMPACT TEST (RIM)

DEFINITION

The RIM is an indirect measure of the impact on Customer rates caused by the program (the Rider). Rates will go down more than they otherwise would have if the change in utility revenues minus the change in utility costs is positive. Rates will go up more than they otherwise would have if the change in utility revenues minus the change in utility costs is negative.

GENERAL DESCRIPTION OF COSTS

The costs are the incremental supply costs, including incremental generation, transmission, and distribution costs.

GENERAL DESCRIPTION OF BENEFITS

The benefits are the total revenues received under the Rider.

FORMULAS

B_{npv} = Sum of (B_t/D^{t-1}) for t = 1 to n
C_{npv} = Sum of (C_t/D^{t-1}) for t = 1 to n

where

B_{npv}	is the net present value of the benefits
C_{npv}	is the net present value of the costs
B_t	are the total benefits for year t
C_t	are the total costs for year t
D	is 1 + the discount rate for the utility
n	is the life of the program

C_t is further defined as follows:

$$C_t = IG_t + IT_t + ID_t + OC_t$$

where

IG_t = Incremental generation costs
IT_t = Incremental transmission costs
ID_t = Incremental distribution costs
OC_t = Other quantifiable costs

IG_t is further defined as follows:

$$IG_t = IC_t + IO_t + IF_t$$

where

IC_t are incremental capacity costs

IO_t are incremental O&M costs
IF_t are incremental fuel costs

IC_t may be calculated for either the Value of Deferral or Revenue Requirements Methodology.

Using the Revenue Requirements methodology, IC_t is further defined as follows:

$IC_t = 0$ before the in-service year

$IC_t = CC * GPR_t * GKW\ Inc_t$

where

CC are the incremental in-service capacity costs including AFUDC
GPR_t is the revenue requirement in percent of capital cost
$GKW\ Inc_t$ is the number of Kilowatts of incremental plant

where

GPR_t is the Annual Revenue Requirement factor which is calculated by taking annual fixed charges divided by in-service cost.

IT_t and ID_t incremental transmission plant and incremental distribution plant are defined similarly to IC_t. The in-service year, the economic life, and the Revenue Requirement factor for transmission and distribution plant may differ from that of the incremental generating unit.

For the purposes of applying the Value of Deferral Methodology, IC_t is defined as follows:

$IC_t = 0$ before the in-service year

$IC_t = K * CC * (1\text{-}R)/(1\text{-}R^N)$ for the in-service year

$IC_t = IC_{t-1} * (1+E_p)$ after the in-service year

where

N	is the economic life of the avoided generating unit
K	is the present value of carrying charges for one dollar of investment over N years
CC	are the incremental in-service capacity costs including AFUDC
E_P	is the plant escalation rate
$R = (1+E_P)/D$	

IT_t and ID_t incremental transmission plant and incremental distribution plant are defined similarly to Ac_t. The in-service year, the economic life, K factor and plant escalation for transmission and distribution plant may differ from that of the incremental generating unit.

B_t is further defined as follows:

$B_t = IR_t$

where

IR_t = Total revenues received under the Rider

If $B_{npv} > C_{npv}$ the Rider rate is cost effective

10. Using the methodology described in question 9, what is the current estimate of system incremental cost in \$/mwh and the estimate for system incremental cost in \$/mwh for the year 2000? Please show the calculation.

A. Tampa Electric proposes to conduct specific analyses for each CISR Customer to calculate net benefits to its general body of ratepayers. Therefore, it is <u>Customer specific</u> incremental costs which are the relevant costs for comparison rather than <u>system</u> incremental cost.

Each prospective CISR Customer will have a different incremental cost to serve based on their location, coincident peak demands, load shape, load factor, length of CSA, contract-specific recurring and non-recurring costs and/or revenues, etc. To the extent that the Customer specific inputs to the model will change with each proposed CISR scenario, it is not feasible to provide Customer specific incremental costs at this time.

11. What is the relationship between the methodology described in your answer to question 9 and that used to determine hourly as available cogen avoided costs filed monthly with the Commission?

A. The Hourly Avoided Fuel Rate for Cogenerator Payments has been approved by the FPSC as an appropriate computation of Tampa Electric's incremental system fuel rate. This fuel rate is computed for every hour of the day by Tampa Electric's System Operations group based on the exact same fuel rates, unit performance characteristics and operational reliability constraints that Tampa Electric uses to make its hourly unit dispatch decisions. The hourly rates are provided to the FPSC staff for informational purposes every month by Tampa Electric's Cogeneration Services department.

The methodology described in Question No. 9 and that is used to determine the Hourly Avoided Fuel Rate are similar in that they both utilize incremental supply costs, including incremental generation, transmission, and distribution costs.

12. If a customer decides to terminate the contract prior to its expiration, how will the termination fees be determined?

A. Termination fees are a negotiable item at the time the CSA is entered into and will be determined and explicitly stated within the CSA at that time.

13. TECO classifies the proposed Rider as "experimental." How and when will TECO determine the success or failure of this experiment?

A. The success or failure of this "experiment" will be determined based on the experience of CSAs offered, accepted or rejected during the 48 months of the pilot study period. As described in the Pilot Study Implementation Plan, Tampa Electric will provide reports to the FPSC during the period on a confidential basis regarding CSA offers and acceptances. In addition, there may be some instances where CSAs will be subjected to a prudence review by the FPSC during the pilot study period. All of this information and the activities experienced during the pilot study period will be used to determine the success or failure of the CISR. Tampa Electric would expect to report at the end of the pilot study period to the FPSC its determination regarding the success of the CISR and at that time recommend that the CISR end or be renewed permanently or for another established period of time.

14. Please provide the following information:

    1. The depreciated capital cost of Polk as of 2000
    2. The fuel cost of Polk as of 2000
    3. Average system embedded cost as of 2000
    4. Average system fuel cost as of 2000

A. None of this information appears to be relevant to consideration of Tampa Electric's proposed CISR which is similar to the CISR already approved for Gulf Power.

No one unit of Tampa Electric's system comprises Tampa Electric's system incremental cost, but the appropriate impact of every unit to the calculation of that cost is included. Since Tampa Electric has proposed to use a modified RIM test to evaluate ratepayer benefits that incorporates Customer specific impacts, the costs associated with any one existing generating unit are not relevant.

As indicated in the responses to Questions Nos. 9 and 10, Tampa Electric proposes to conduct specific analyses for each CISR Customer to calculate net benefits to its general body of ratepayers such that Customer specific incremental costs are the relevant costs rather than system incremental cost. Each Customer will have a different incremental cost to serve based on their location, coincident peak demands, load shape, load factor, length of CSA, contract-specific recurring and non-recurring costs and/or revenues etc. To the extent that the Customer specific incremental values will change with each proposed CISR scenario it is not feasible to provide Customer specific incremental costs that at this time.

15. Please provide TECO's estimated earnings as of 2000.

A. Earnings projections for periods that are more than one year in the future are tentative at best due to the nature of Tampa Electric's business. Results for the business are dependent on general economic conditions, particularly projected growth in Florida and variations in general weather conditions which can have substantial impacts on projected energy sales. The Commission has adequate mechanisms currently in place to monitor Tampa Electric's earnings and return on equity positions through its forecast and monthly surveillance reporting system.

Relative to Tampa Electric's CISR Petition, Tampa Electric has included a provision in the Regulatory Review section of the CISR Pilot Study Implementation Plan to enhance the FPSC's monthly surveillance reporting system to include a requirement that the Company shall identify and report, for all CSAs not yet fully reviewed and found to be prudent by the FPSC, the difference between the revenues that would have been produced by the Company's standard tariff rates and the revenues that are produced by each executed CSA. If the difference so reported, when added to the Company's actual revenues, would cause the Company's achieved jurisdictional return on equity (ROE) to exceed the top of the Company's authorized range, review by the Commission of unreviewed CSAs will be triggered. The amount of such identified difference that would cause the Company's achieved jurisdictional ROE to exceed the top of the Company's authorized range will be held subject to refund as possible over-earnings pending completion of the Commission's review.

16. How can the Commission be assured that TECO will exhaust all remedies to prevent a customer, such as IMC-Agrico, from switching electric provider in lieu of providing a rate discount?

A. Tampa Electric believes that the proposed experimental rider contains a high level of ratepayer safeguards which are embedded in the tariff and the Pilot Study Implementation Plan which should provide adequate reassurance to the Commission. For example, the reporting requirements to the Commission include monthly and quarterly reports showing the revenue and earnings impact on the company, and provides for a summary of the company's justification for each new offer made during the reporting period.