

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into earnings)
for 1995 and 1996 of Tampa)
Electric Company.)
_____)

Docket No. 950379-EI

Filed: May 1, 2000

DIRECT TESTIMONY AND EXHIBITS

OF

MARK A. CICHETTI

ON BEHALF OF THE

FLORIDA INDUSTRIAL POWER USERS GROUP

DOCUMENT NUMBER-DATE

05353 MAY-18

FPSC-REG0000/REPORTING

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7 DOCKET NO. 950379-EI

8

9

I. Introduction

10

Q. Please state your name and address and on whose behalf you are testifying in this proceeding.

11

12

A. My name is Mark Anthony Cicchetti and my business address is 2947 N. Umlerland Drive, Tallahassee, Florida 32308. I am testifying on behalf of the Florida Industrial Power Users Group (FIPUG).

14

15

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

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A. I am President of Cicchetti & Company, a financial research and consulting firm.

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I am also employed by the Florida State Board of Administration where I am the Manager of the Arbitrage Compliance Section. Previously, I was the Chief of Finance

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for the Florida Public Service Commission. A detailed narrative description of my experience and qualifications is contained in Exhibit No. ____ (MAC - 1).

20

21

Q. Have you previously testified before this Commission?

22

A. Yes, I have testified before this Commission numerous times.

1 **II. Summary**

2 **Q. What is the purpose of your testimony?**

3 A. The purpose of my testimony is to address: 1) Tampa Electric Company's
4 treatment of the Florida Municipal Power Agency (FMPA) and, the now canceled,
5 Lakeland wholesale contracts; 2) Tampa Electric Company's equity ratio used for the
6 purpose of determining earnings pursuant to the Stipulations; 3) the potential for
7 double recovery of certain expenditures as they relate to Tampa Electric's earnings
8 as contemplated in Order Nos. PSC-96-670-EI (May 26, 1996) and PSC-96-1300-EI
9 (October 24, 1996) (the Stipulations); and 4) certain unexplained entries in Tampa
10 Electric's surveillance reports.

11 **Q. Please summarize your conclusions.**

12 A. For the purpose of determining earnings pursuant to the Stipulations, Tampa
13 Electric should be required to comply with the Commission's prescription for the
14 treatment of the FMPA wholesale contract as stated in Order No. PSC-97-1273-FOF-
15 EI. Tampa Electric's equity ratio should be reduced to 55% of investor capital
16 because it is excessive and is adding unnecessarily to the revenue requirement
17 borne by ratepayers. Finally, any expenditures in 1997, 1998 and 1999 recovered
18 through a cost recovery clause should be excluded from surveillance for base rate
19 purposes.

20 **Q. Please describe the Stipulations entered into by the parties and their
21 relevance to the issues you will address.**

22 A. Tampa Electric Company, the Office of Public Counsel, and FIPUG entered into

1 two agreements (the Stipulations) that addressed Tampa Electric's excessive
2 earnings and disposition of those excessive earnings over the period 1995 through
3 1999. Determination of the appropriate amount of regulated earnings is critical to
4 equitably implement the Stipulations and achieve their purpose.

5 **III. Regulatory Treatment of the FMPA Wholesale Contract**

6 **Q. Briefly describe the FMPA and Lakeland wholesale contracts.**

7 A. Tampa Electric entered into two long-term wholesale electricity agreements with
8 with FMPA and the City of Lakeland. The FMPA contract began on December 16,
9 1996 and is scheduled to continue through March 15, 2001. The original contracted
10 base capacity was 35 megawatts (MW) and was subsequently increased to 150 MW
11 beginning in December, 1999. Capacity is available to FMPA to the exclusion of
12 retail customers any time generating resources from either Big Bend 2 or 3 or
13 Gannon 5 or 6 are available (1453 MW summer rating).

14 Tampa Electric began providing 10 MW of firm peaking service to the City of
15 Lakeland on November 4, 1996. Tampa Electric exited the City of Lakeland contract
16 in 1997.

17 **Q. Has the Commission previously prescribed the regulatory treatment for the**
18 **FMPA and Lakeland wholesale contracts?**

19 A. Yes. In Docket No. 970171-EI, (In re: Determination of appropriate cost allocation
20 and regulatory treatment of total revenues associated with wholesale sales to Florida
21 Municipal Power Agency and City of Lakeland by Tampa Electric Company), the
22 Commission addressed the treatment of the costs and revenues of the FMPA and

1 Lakeland contracts with regard to their applicability to the Stipulation approved
2 pursuant to Order No. PSC-96-1300-S-EI. In Order No. PSC-97-1273-FOF-EU, the
3 Commission cited Section 5F of the Stipulation which states:

4 The separation procedure to be used to separate capital
5 and O&M which was approved in the Company's last rate
6 case, Docket No. 920324-EI, shall continue to be used to
7 separate any current and future wholesale sales from the
8 retail jurisdiction.

9 The Commission then found that the FMPA and Lakeland sales fell within the
10 category of sales contemplated by the Stipulation and that the capital and O&M costs
11 associated with these sales had to be separated from the retail jurisdiction at average
12 embedded cost. This results in a decrease in retail customers' cost burden. In the
13 FMPA/Lakeland separation order, the Commission found that separation provided
14 overall benefits to TECO's retail ratepayers by removing the capacity dedicated to
15 these wholesale sales from the retail rate base. The Commission noted that its order
16 would increase the potential for refunds under the Stipulation. It then proceeded to
17 reduce the impact of its decision to Tampa Electric by allowing these wholesale sales
18 to be credited to the fuel clause at incremental cost rather than average cost (the
19 amount charged retail customers). In the event incremental cost for fuel and SO₂
20 allowances was greater than average cost for these items, Tampa Electric was
21 allowed to charge its revenues subject to refund to make up the difference.

22 **Q. Prior to the Commission's prescribed treatment of the FMPA and Lakeland**

1 **sales had the Commission carefully considered the treatment of wholesale**
2 **sales in order to avoid gaming of the system?**

3 A. Yes. In Order No. PSC-97-0262-FOF-EI (March 11, 1997), the Commission
4 found, in part, that in view of the possibility of gaming the system, there would be, as
5 a generic policy, uniform cost allocation between the wholesale and retail markets for
6 all separable sales. In light of the concern regarding gaming the system, the
7 Commission stated:

8 This concern [gaming] is heightened by the fact that the
9 retail ratepayer's cost responsibility is reduced only at the
10 time of the utility's next base rates case or when the
11 utility is over earning and the continued monthly
12 surveillance adjustments generate additional funds
13 subject to Commission disposition.

14 **Q. At some point did Tampa Electric change the way it served the FMPA and**
15 **Lakeland contracts?**

16 A. Yes. After Commission Order No. PSC-97-1273-FOF-EU, which required
17 separation, Tampa Electric exited the Lakeland contract (December, 1997) and,
18 beginning in March 1998, unilaterally decided to match certain purchased power with
19 the FMPA power supply agreement. Since February 1998, whenever Tampa Electric
20 purchased sufficient capacity and energy from third-party suppliers to serve the
21 FMPA contract, TECO included assets dedicated to the sale in rate base. However,
22 TECO's decision to serve the FMPA contract through purchases in no way altered

1 its obligations to separate the assets under the Commission's orders and the
2 Stipulation.

3 **Q. Is Tampa Electric committed to provide capacity to FMPA if it cannot**
4 **purchase sufficient capacity to serve FMPA?**

5 A. Yes. Tampa Electric has a contractual obligation to serve FMPA (150 MW) as
6 long as any of the 1453 MW of generating resources from Big Bend 2 or 3 or Gannon
7 5 or 6 are available. The contract commits more than the specified capacity because
8 each of the units is only available 75% of the time. The 100% back up generating
9 capacity is guaranteed from other system units to the detriment of non firm retail
10 customers. The fact that the FMPA contract is serviced with purchased power did
11 not result in a contract modification reducing the firm commitment to serve from
12 installed generating capacity when purchased power was unavailable. Discovery
13 may disclose whether FMPA was being served while retail customers were
14 interrupted or power was purchased for them in lieu of interruption.

15 As long as the FMPA contract is in place, the retail consumer is subservient to the
16 demands of FMPA. Under no stretch of the imagination can it be said that these
17 assets were wholly dedicated to the retail jurisdiction in 1997, 1998 and 1999 to the
18 exclusion of the wholesale customer.

19 The FMPA contract is for a period exceeding one year and requires a commitment
20 of capacity. Consequently, the Company must separate the sales pursuant to
21 Commission policy and Order No. PSC-97-1273-FOF-EI. Tampa Electric could have
22 protected its retail customers, as did Northern States Power, with a tariff that curtailed

1 wholesale sales before curtailing retail customers (see, Northern States Power Co.
2 v. Federal Energy Regulatory Commission, 176 F.3d 1090 (8th Cir. 1999), but
3 Tampa Electric chose to favor the wholesale customers over the retail customers.

4 **Q. Does Tampa Electric's current treatment of the costs and revenues (i.e.,**
5 **non-seperation) associated with the FMPA contract appear to be a gaming of**
6 **the system that the Commission expressed concern about in Order No. PSC-97-**
7 **0262-FOF-EI?**

8 A. Yes. Due to the Commission's prescribed treatment, Tampa Electric unilaterally
9 decided to return the FMPA dedicated capacity assets to the retail rate base, thereby
10 removing the benefits to retail ratepayers contemplated by the Commission and the
11 Stipulations while burdening them with the assets. Tampa Electric's treatment is in
12 direct contravention of the treatment prescribed by the Commission in Order No.
13 PSC-97-1273-FOF-EU. In prescribing such treatment, the Commission specifically
14 cited the benefits to ratepayers as contemplated by the Stipulation. These benefits
15 are lost under Tampa Electric's unilateral treatment.

16 As justification for such unilateral action, Company witness Bacon states in her
17 testimony that the assets previously used to serve the FMPA contract were available
18 to retail customers after the third-party sources began serving the FMPA contract.
19 However, even after making third-party purchases, Tampa Electric resorted to
20 interrupting numerous non firm customers many times at great expense to those
21 customers because of lack of capacity. A recent Commission Staff study reported
22 that Tampa Electric interrupted its interruptible customers 16 times and purchased

1 power for them 139 times in 1999. Typically these customers were charged prices
2 for buy-through power well above the price Tampa Electric paid to buy power to serve
3 the FMPA contract.

4 Tampa Electric should not be allowed to unilaterally match costs and benefits in
5 a manner that is detrimental to ratepayers. Electricity is a fungible commodity.
6 Obviously, matching the third-party purchases with the FMPA contract and moving
7 treatment below the line in exchange for increasing the rate base benefits the
8 Company and removes the benefits to ratepayers associated with the FMPA contract
9 contemplated by the Stipulation and by the Commission in Order No. PSC-97-1273-
10 FOF-EI. The Company should not be allowed to horse-trade for ratemaking
11 purposes between the retail and wholesale jurisdictions to the detriment of its retail
12 customers and contrary to a Commission order, Commission policy, and the
13 Stipulations.

14 **Q. How should Tampa Electric be required to treat the costs and revenues**
15 **associated with FMPA contract in this docket?**

16 A. The Commission should require that Tampa Electric treat the costs and revenues
17 associated with the FMPA contract as required in its Order No. PSC-97-1273-FOF-EI.
18 Tampa Electric has declined to provide the detailed information needed to calculate
19 the impact of removing the generating capacity dedicated to serve FMPA from the
20 rate base. The rate base value of these assets is significant. Every \$10 million in
21 value removed from the retail rate base will increase the revenue in excess of the
22 revenue cap by at least \$1.23 million per year. For example, if \$40 million should

1 have been removed from the rate base but wasn't, the refund available for customers
2 would be reduced by a minimum of \$10 million, subject to verification upon the
3 provision by Tampa Electric of all requested information.

4 **IV. Determination of an Appropriate Equity Ratio**

5 **Q. Have you examined the equity ratio of Tampa Electric?**

6 A. Yes, I have.

7 **Q. In your opinion, should Tampa Electric's equity ratio be reduced for the**
8 **purposes of determining regulated earnings pursuant to the Stipulations?**

9 A. Yes.

10 **Q. Why do you believe Tampa Electric's equity ratio should be reduced for the**
11 **purposes of determining regulated earnings pursuant to the Stipulations?**

12 A. Tampa Electric's equity ratio should be reduced because it is excessive and adds
13 unnecessarily to the revenue requirement borne by ratepayers. In Order No. PSC-
14 96-1300-EI, the Commission stated:

15 The Commission makes the final determination of
16 "reasonable and prudent" in reviewing the basis of the
17 ROE calculations. The Commission's approval of this
18 stipulation is not a blanket authorization for TECO to
19 deem every expense and investment as reasonable and
20 prudent, nor does it give TECO authority to bypass any
21 filing requirements established by the Commission's rules
22 or the Uniform System of Accounts which require the

1 inclusion of those items in the retail jurisdiction.

2 **Q. Do the Stipulations address Tampa Electric's equity ratio?**

3 A. No. Tampa Electric unilaterally increased its equity ratio, concluding that it was
4 not bound by an equity ceiling, but that customers are bound by an equity floor -- the
5 ratio at the time the Stipulations were executed.

6 This significant capital structure item is a critical component in determining Tampa
7 Electric's earned return -- the amount of equity allowed in the Company's capital
8 structure. While the Stipulations are silent on this issue, FIPUG has the right to
9 expect that in determining the earnings of Tampa Electric pursuant to the
10 Stipulations, the Commission will allow only the reasonable and prudent costs
11 associated with the provision of service.

12 **Q. Briefly quantify the significance of the equity ratio.**

13 A. Tampa Electric is currently authorized to charge customers 6.54% to cover debt
14 and 20.76% to cover equity on a before tax basis. There is a strong incentive to have
15 a high equity ratio relative to the parent corporation for any utility in a holding
16 company structure, like Tampa Electric, where there are higher risk non-regulated
17 affiliates. This is exactly what TECO Energy has done to the detriment of its regulated
18 utility customers. The Commission should establish a regulatory capital structure that
19 is fair to both shareholders and customers.

20 **Q. Does the Commission need to exercise special care when a utility is an**
21 **affiliate in a holding company structure?**

22 A. Yes. It is important to ensure that ratepayers do not subsidize, through a utility's

1 cost of capital, the costs associated with non-utility investments made by the utility,
2 its parent, or affiliates. Generally, when attempting to prevent cross-subsidization
3 between utility and non-utility affiliates, regulators tend to concentrate on costs such
4 as the allocation of common plant or other shared assets and expenses. However,
5 significant subsidization between utility and non-utility affiliates can occur if a utility
6 is allowed a rate of return above the required return or earnings are set using an
7 equity ratio above the level required to allow the utility to attract capital at a
8 reasonable rate. Utilities can manipulate their revenue requirement and their
9 earnings level through changes to their equity ratio. Additionally, the capital structure
10 of a utility in a holding company, such as Tampa Electric, is subject to manipulation
11 by the parent company.

12 In a purely competitive environment it would not be possible for a firm to increase
13 its price above the market rate in one market to subsidize a price in another market.
14 However, in a regulated environment, regulators are a proxy for competition.
15 Therefore, as Tampa Electric and its affiliates enter more non-regulated lines of
16 business it becomes even more important to ensure that ratepayers bear only the
17 reasonable and prudent costs associated with the provision of utility service. It is
18 generally accepted that companies with a relatively high level of business risk should
19 be financed with a relatively low amount of debt. In 1998, TECO Energy Inc.'s non-
20 regulated activities accounted for 31% or \$674 million of 1998 unconsolidated
21 revenues.

22 As shown on Exhibit No. _____, Schedule 1 (MAC - 2), Tampa Electric has the

1 lowest total debt to total capital ratio, as of December 31, 1998, relative to a group
2 of comparison companies with rating parameters similar to Tampa Electric and
3 relative to AA electric utilities in general. As of December 31, 1998, Tampa Electric
4 has a total debt to total capital ratio, adjusted for purchased power commitments, of
5 41.00% indicating an equity to total capital ratio of 59.00%. As shown on Schedule
6 1, Teco Energy, Inc. has a debt to total capital ratio, adjusted for purchased power
7 commitments, of 52.9%. This indicates TECO Energy's risky, non-regulated
8 ventures, in total, are not financed with more equity than the less risky regulated
9 electric and gas operations of Tampa Electric. This signifies reliance on the regulated
10 operations for credit support by the parent corporation. In fact, the November 1998
11 Standard and Poor's Utility Credit Report for TECO Energy Inc. states:

12 TECO's corporate credit rating is based on the financial
13 and business risk profile of its utility company, Tampa
14 Electric, and its non-regulated holdings. The credit
15 quality of the consolidated enterprise is derived
16 principally from the creditworthiness of Tampa Electric's
17 utility operations.

18 Exhibit No. ____, Schedule 2, (MAC - 2) shows Standard and Poor's 2000
19 corporate Rating Criteria for Electric Utilities. As shown on Schedule 2, the total debt
20 to total capital benchmark for a AA electric utility with an above average business risk
21 profile is up to 45%.

22 Tampa Electric's total debt to total capital, as shown on its December 1999 Year

1 End Surveillance Report is 40%, significantly under that shown for AA rated electric
2 utilities. In my opinion, Tampa Electric has not justified the need for such a costly
3 capital structure. Ratepayers should not have to bear the added costs of
4 unnecessarily high equity ratios that are needed by the Company's parent or affiliates
5 to provide credit support for leveraged investments in risky operations.

6 **Q. Does Tampa Electric face extraordinary risks that would justify an equity**
7 **ratio above that of its peers or the industry in general?**

8 A. No. Quite the contrary. Tampa Electric's business risk profile, as assigned by
9 Standard & Poor's, is above average. Factors that contribute to this above average
10 rating include Tampa Electric's favorable demographic characteristics, its relatively
11 small base of industrial customers, its lack of nuclear generation, favorable regulatory
12 treatment, and the relative lack of competition due to political as well as geographical
13 considerations.

14 Tampa Electric operates in a growing market with a small industrial base. Having
15 a small base of industrial customers means Tampa Electric is less likely to
16 experience significant revenue loss and the related stranded cost concerns
17 associated with industrial customers migrating to alternative suppliers.

18 With no nuclear generation, Tampa Electric does not face the regulatory, safety,
19 decommissioning, and financial concerns associated with nuclear power.

20 Tampa Electric's regulatory environment is viewed positively as the Commission,
21 through cost recovery clauses, provides timely, virtually guaranteed cost recovery of
22 Tampa electric's most volatile costs.

1 Lastly, Florida is one of only a few states that has not taken action regarding retail
2 competition. Florida's Legislature has not passed legislation authorizing deregulation
3 and has not yet even initiated a study of the issue. This month, the Florida Supreme
4 Court ruled that only the Legislature has the authority to authorize merchant plants
5 in this state. Furthermore, Florida's peninsular geography limits transmission capacity
6 into the state thereby mitigating potential bypass. Consequently, Tampa Electric
7 does not face the restructuring and stranded cost risks confronting many utilities.

8 **Q. What are your conclusions and recommendations regarding an appropriate**
9 **equity ratio for use in determining Tampa Electric's earnings pursuant to the**
10 **Stipulations?**

11 A. Based on the reasons stated above:

- 12 ● Ratepayers should pay only the reasonable and prudent costs
13 associated with the provision of utility service.
- 14 ● A utility's equity ratio should be reasonable and allow the Company to
15 attract capital at a reasonable cost.
- 16 ● Increased investment by Tampa Electric's affiliates into non-regulated
17 lines of business should not be permitted to increase ratepayers costs.
- 18 ● The Company should not be permitted to manipulate its equity ratio to
19 the detriment of its ratepayers and competitors and to the benefit of
20 itself and its affiliates.
- 21 ● Tampa Electric's equity ratio is well above that of comparable
22 companies, the industry average, and above the minimum requirement

1 inherent in Standard and Poor's total debt to total capital benchmark for
2 AA rated electric utilities with an above average business risk profile.

- 3 ● Tampa Electric's riskier affiliates have not been financed with more
4 equity indicating reliance on the regulated operations for credit support.
- 5 ● Tampa Electric has not justified the need for such a costly capital
6 structure.

7 Therefore, I recommend that Tampa Electric's equity ratio be set at 55% of investor
8 capital for the purposes of determining regulated earnings pursuant to the
9 Stipulations. An equity ratio of 55% meets the minimum requirement inherent in
10 Standard and Poor's total debt to total capital financial benchmark for AA rated
11 electric utilities with an above average business risk profile and will allow the
12 Company the opportunity to attract capital at a reasonable cost.

13 **V. Unjustified Expenditures and Expenditures Recovered Through an**
14 **Associated Cost Recovery Clause**

15 **Q. Should the Commission determine that all expenditures in 1997, 1998 and**
16 **1999 allowed in determining earnings have not been or will not be recovered**
17 **through an associated cost recovery clause?**

18 A. Yes. At the time of preparing this testimony, it was unclear whether all
19 expenditures associated with the scrubbers for Big Bend 1 were included in the
20 determination of earnings for 1997, 1998 and 1999 and also being recovered or
21 authorized (wholly or partially) for recovery through the Environmental Cost Recovery
22 Clause. Consequently, the Commission should investigate and ensure that all

1 expenditures in 1997, 1998 and 1999 allowed in determining earnings for 1997,
2 1998 and 1999 have not been or will not be recovered through an associated clause.

3 **Q. Should the Commission determine that all expenditures in 1997,1998 and**
4 **1999 allowed in determining earnings have been justified?**

5 Yes. There are several unexplained entries in the 1998 and 1999 surveillance
6 reports. However, I do not have any information on these entries and thus cannot
7 verify their appropriateness for inclusion in the determination of earnings pursuant to
8 the Stipulations. Tampa Electric is the sole repository of such information, but has
9 failed to adequately respond to discovery on the subjects even though it has the
10 burden of proving their prudence. When a utility is subject to an earnings cap,
11 extraordinary items require detailed explanation. These items are: a) The specific
12 projects that caused construction expenditures in 1998 and 1999 to increase by \$50
13 million and \$120 million, respectively, over 1997 (only \$20 million has been explained
14 with any specificity), and; b) the charges to revenues, as shown on the 1999 Earnings
15 Surveillance Report, of \$5.2 million for income tax true-up and \$7.9 million interest
16 on the unpaid tax. (Why are these amounts charged to customers in 1999, the year
17 most detrimental to consumers pursuant to the Stipulations?)

18 **VI. Summary**

19 **Q. Please summarize your testimony.**

20 A. Tampa Electric should be required to comply with the Commission's directive for
21 the treatment of the FMPA wholesale contract as stated in Order No. PSC-97-1273-
22 FOF-EI and separate assets related to that transaction. The Company should not be

1 allowed to horse-trade for ratemaking purposes between the retail and wholesale
2 jurisdictions to the detriment of its retail customers and contrary to a Commission
3 order, Commission policy, and the Stipulations.

4 Tampa Electric's equity ratio should be set at 55% of investor capital for the
5 purposes of determining regulated earnings pursuant to the stipulations. An equity
6 ratio of 55% meets the minimum requirement inherent in Standard and Poor's total
7 debt to total capital financial benchmark for AA rated electric utilities with an above
8 average business risk profile and will allow the Company the opportunity to attract
9 capital at a reasonable cost.

10 Finally, the Commission should determine that all expenditures in 1997, 1998 and
11 1999 allowed in determining earnings for 1997, 1998 and 1999 have not been or will
12 not be recovered through an associated clause.

13 **Q. Does this conclude your testimony?**

14 **A. Yes.**

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Exhibit No. ____ (MAC-1)
Florida Industrial Power Users Group
Docket No. 950739-EI
Witness: Cicchetti
Attachment No. 1
Page 1 of 4

Experience and Qualifications of Mark A. Cicchetti

I received a Bachelor of Science degree in Business Administration in 1980 and a Master of Business Administration degree in Finance in 1981, both from Florida State University. Upon graduation I accepted a planning analyst position with Flagship Banks, Inc., a bank holding company. As a planning analyst, my duties included merger and acquisition analysis, lease-buy analysis, branch feasibility analysis, and special projects.

In 1983, I accepted a regulatory analyst position with the Florida Public Service Commission. As a regulatory analyst, I provided in-depth analysis of the cost of equity and required overall rate of return in numerous major and minor rate cases. I reviewed and analyzed the current and forecasted economic conditions surrounding those rate cases and applied financial integrity tests to determine the impacts of various regulatory treatments. I also co-developed an integrated spreadsheet model which links all elements of a rate case and calculates revenue requirements. I received a meritorious service award from the Florida Public Service Commission for my contributions to the development of that model.

In February 1987, I was promoted to Chief of the Bureau of Finance. In that capacity I provided expert testimony on the cost of common equity, risk and return, corporate

Exhibit No. ____ (MAC-1)
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structure, capital structure, and industry structure. I provided technical guidance to the Office of General Counsel regarding the development of financial rules and regulations. In addition, I authored the Commission's rules regarding diversification and affiliated transactions, chaired the Commission's Committee on Leveraged Buyouts, supervised the finance bureau's regulatory analysts, co-developed and presented a seminar on public utility regulation to help educate the Florida Public Service Commission attorneys, and provided technical expertise to the Commission in all areas of public utility finance for all industries.

In February 1990, I accepted the position of Chief of Arbitrage Compliance in the Division of Bond Finance, Department of General Services. The Division of Bond Finance is now under the Florida State Board of Administration, and my title is Manager, Arbitrage Compliance. As Manager of the Arbitrage Compliance Section, I am responsible for assuring that over \$16 billion of State of Florida tax-exempt securities remain in compliance with the federal arbitrage requirements enacted by the Tax Reform Act of 1986. I provide investment advice to trust fund managers on how to maximize yields while remaining in compliance with the federal arbitrage regulations. I designed and implemented the first statewide arbitrage compliance system which includes data gathering, financial reporting, and computation and analysis subsystems.

Exhibit No. ____ (MAC-1)
Florida Industrial Power Users Group
Docket No. 950739-EI
Witness: Cicchetti
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In July 1990, I founded Cicchetti & Company. Through Cicchetti & Company I provide financial research and consulting services, including the provision of expert testimony, in the areas of public utility finance and economics. Topics I have testified on include cost of equity, capital structure, corporate structure, regulatory theory, cross-subsidization, industry structure, the overall cost of capital, incentive regulation, the establishment of the leverage formula for the water and wastewater industry, reconciling rate base and capital structure, risk and return, and the appropriate regulatory treatment of construction work in progress, used and useful property, construction cost recovery charges, and the tax gross-up associated with contributions-in-aid-of-construction.

In 1985, I was certified by the Florida Public Service Commission as a Class B Practitioner in the areas of finance and accounting.

In June, 1985, I published an article in Public Utilities Fortnightly titled "Reconciling Rate Base and Capital Structure: The Balance Sheet Method." In September, 1986, I was awarded third place in the annual, national, Competitive Papers Session sponsored by Public Utilities Reports, Inc., in conjunction with the University of Georgia and Georgia State University, for my paper titled "The Quarterly Discounted Cash Flow Model, the Ratemaking Rate of Return, and the Determination of Revenue Requirements for Regulated Public Utilities." An updated version of that paper was published in the June, 1989 edition of the National Regulatory Research Institute Quarterly Bulletin. I

Exhibit No. _____ (MAC-1)
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Witness: Cicchetti
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subsequently served twice as a referee for the Competitive Papers Sessions. On June 15, 1993, I published an article on incentive regulation in Public Utilities Fortnightly titled "Irregular Incentives."

I am a past President and past member of the Board of Directors of the Society of Utility and Regulatory Financial Analysts ("SURFA"). I was awarded the designation Certified Rate of Return Analyst by SURFA in 1992. I am a member of the Financial Management Association International and I am listed in Who's Who in the World and Who's Who in America.

I have made public utility and finance related presentations to various groups such as the Southeastern Public Utilities Conference, the National Society of Rate of Return Analysts, the National Association of State Treasurers, and the Government Finance Officers Association.

<u>Comparison Group</u>	<u>-----Bond Rating-----</u>			<u>Risk</u>	<u>S&P Business Profile</u>	<u>% Debt to Total Capital (Adj. For Pur. Pwr.)</u>
	<u>S&P</u>	<u>Mdy's</u>	<u>Duff</u>			
Northern States	AA	AA3	AA		3	53.6%
Southern Indiana G&E	AA	AA2	AA		5	52.5
Indianapolis P&L	AA-	AA2	AA		4	44.4
Wisconsin Electric Pwr.	AA+	AA2	AA+		4	55.0
Wisconsin PS	<u>AA+</u>	<u>AA2</u>	<u>AA+</u>		<u>4</u>	<u>44.3</u>
Group Average	AA	AA2	AA		4	50.0%
AA US Electric Utilities' Average						50.7%
Tampa Electric	AA	AA2	AA+		4	41.0%
TECO Energy	AA-	A1	AA-		5	52.9%

Source: Duff & Phelps, Utilities, Composite Statistics, June 1999
 Standard & Poor's, 2000 Corporate Ratings Criteria

Exhibit No. _____ (MAC-2)
 Florida Industrial Power Users Group
 Docket No. 950739-EI
 Witness: Cicchetti
 Schedule No. 2
 Page 1 of 1

U.S. Utilities

Total Debt/Capitalization (%)

Company business risk profile		---Rating category---			
		AAA	AA	A	BBB
Well-above-average	1	47	53	58	64
<u>business position</u>	<u>2</u>	<u>43</u>	<u>49</u>	<u>54</u>	<u>60</u>
Above average	3	39	45	50	57
	<u>4</u>	<u>35</u>	<u>41</u>	<u>46</u>	<u>53</u>
Average	5	33	39	44	51
	<u>6</u>	<u>30</u>	<u>36</u>	<u>43</u>	<u>50</u>
Below average	7	27	34	41	49
	<u>8</u>	<u>23</u>	<u>31</u>	<u>39</u>	<u>47</u>
Well below average	9	--	--	35	43
	10	--	--	29	37

Source: Standard & Poor's, 2000 Corporate Ratings Criteria

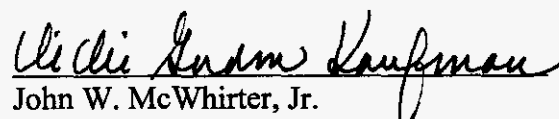
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Direct Testimony and Exhibits of Mark A. Cicchetti has been furnished by U.S. Mail or by hand delivery (*) this 1st day of May, 2000 to the following:

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