

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Tampa
Electric Company to close Rate
Schedules IS-3 and IST-3, and
approve new Rate Schedules GSLM-
2 and GSLM-3.

DOCKET NO. 990037-EI
ORDER NO. PSC-99-1778-FOF-EI
ISSUED: September 10, 1999

The following Commissioners participated in the disposition of
this matter:

JOE GARCIA, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JULIA L. JOHNSON
E. LEON JACOBS, JR.

ORDER APPROVING CLOSURE OF INTERRUPTIBLE SERVICE
RATE SCHEDULES TO NEW CUSTOMERS AND APPROVING
NEW LOAD MANAGEMENT RATE SCHEDULES

BY THE COMMISSION:

On January 8, 1999, Tampa Electric Company (TECO) filed a petition to close its Interruptible Service-3 (IS-3), Interruptible Service Time of Use-3 (IST-3), and Interruptible Standby and Supplemental Service-3 (SBI-3) rates on the basis that the rates are no longer cost-effective. On June 18, 1999, TECO filed an amendment to that petition requesting approval of two new rates, General Service Industrial Load Management Rider (GSLM-2) and General Service Industrial Standby and Supplemental Load Management Rider (GSLM-3).

TECO currently provides service to industrial customers under two interruptible schedules, the IS-1/IST-1 and the IS-3/IST-3 schedules. The IS-1 rates were closed to new customers at TECO's request during its 1985 rate case in Docket No. 850050-EI because the rates were no longer cost-effective. In Order No. 22231, issued November 28, 1989, in Docket No. 870408-EI, we approved a methodology for determining the cost-effectiveness of non-firm load. Based on that methodology, TECO has determined that its IS-3 rates are no longer cost-effective. TECO has proposed two new load management rates for customers with at least 500 kW of demand to replace the IS-3 and IST-3 rates. Rather than base non-firm rates set on cost of service, the new GSLM rates would provide for a credit to the otherwise applicable firm rate, similar to

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residential load management programs. TECO currently offers a GSLM option for all commercial customers.

A. Closure of Interruptible Service Rate Schedules

TECO has demonstrated that its IS-3 and IST-3 rate schedules are no longer cost-effective to its general body of ratepayers using the methodology we approved in Order No. 22231. The currently effective rates show a negative cost-benefit ratio with a cumulative present worth revenue requirements (CPWRR) cost of \$35,751,000 over the 30-year evaluation period. Thus, we find that these rate schedules should be closed to new customers. Existing IS-3 and IST-3 customers will not be affected, and will continue to receive service under the existing rates.

The cost-effectiveness test for interruptible load is based on a comparison of present worth revenue requirements associated with two generation expansion plans -- one with no additional interruptible load and one with sufficient interruptible load to defer the first needed plant for one year. The costs for interruptible load are the lost revenues that occur because of the rate differential between interruptible and firm customers, and the benefits are the capacity deferral benefits.

Because the cost of new generation facilities is decreasing, the benefits associated with deferring such facilities are decreasing. The rationale for offering interruptible customers a lower rate is that these customers do not contribute to system peak and thereby defer the need to build generation to serve their load. It follows that as new generation facilities decrease in cost, existing interruptible tariffed rates become less cost-effective.

Our most recent analysis of the cost-effectiveness of TECO's IS-3 and IST-3 rate schedules was made in Order No. PSC-94-1046-FOF-EI, issued August 29, 1994, in Docket No. 930372-EI. There, we determined that the IS-3 and IST-3 rate schedules were cost-effective. At that time, TECO's cost-effectiveness analysis for the IS-3 and IST-3 schedules indicated a positive CPWRR savings of \$1,798,000 over the 30-year evaluation period.

Before TECO signs up any new customers to its interruptible rate schedules, a two prong test is performed. The first prong is a determination of whether the utility has a need for more interruptible load. The second prong is a determination of whether or not the current interruptible rates are cost-effective. Over

the past two years TECO has not signed up any new customers to its IS-3 and IST-3 rates because TECO determined that it did not have a need for any additional interruptible load. When TECO performed its annual determination for interruptible need in January 1999, it determined a need for additional interruptible load. Then, TECO used the methodology approved in Order No. 22231 to determine if adding new interruptible load at the current interruptible rates would be cost-effective. When TECO determined that it was not cost-effective, TECO petitioned to close its IS-3 and IST-3 rate schedules to new customers.

The Florida Industrial Cogeneration Association (FICA) submitted comments in opposition to TECO's petition to close the IS-3 and IST-3 rate schedules to new customers. FICA's basis for objection focuses on three points: legal concerns, reserve margin concerns, and earnings concerns. FICA's legal concerns, in part, draw a distinction between interruptible service and standby/supplemental service. FICA identifies Rule 25-6.0438(4), Florida Administrative Code, which states in pertinent part:

If a utility believes that providing interruptible service or another type of non-firm service to a specific customer who otherwise qualifies for such service under the utility's tariff will not result in benefits accruing to its general body of ratepayers, that utility shall apply to the Commission for authorization to refuse non-firm service to that customer. The provision of non-firm service for standby and supplemental purposes shall be consistent with the Federal Energy Regulatory Commission rule, 18 C.F.R. Sec. 292.305.

FICA concedes that closure of TECO's IS-3 and IST-3 rate schedules is contemplated in Rule 25-6.0438(4), Florida Administrative Code. However, FICA takes exception to TECO's proposed language on the Interruptible Standby And Supplemental Service (SBI-3) rate schedule which requires customers to have been taking service under rate schedules IS-3 or IST-3 prior to January 8, 1999, to be eligible. The purpose of interruptible supplemental service is to require each self-generating customer who generates more than 20% of its own load to take standby power for the portion of its load not normally served by the utility. Such standby power is used when the customer's own generator is down for maintenance or during a forced outage.

We find that closure of the SBI-3 rate schedule is appropriate. A customer cannot request SBI-3 service unless that customer is taking service under the IS-3 or IST-3 rate schedules. Therefore, it is appropriate that closure of the SBI-3 tariff coincide with the closure of the IS-3 and IST-3 tariffs to new customers. Standby and Supplemental service is offered at the otherwise applicable firm or interruptible rate. The SBI-3 rate should be closed to new customers because it is offered at the same non cost-effective rate as the IS-3 and IST-3 rate.

FICA argues that absent a waiver, Federal Energy Regulatory Commission (FERC) regulations require TECO to offer interruptible standby and supplemental service to qualifying facilities regardless of whether rate schedules IS-3 and/or IST-3 are cost-effective. We disagree. In Order No. 17159, issued February 6, 1987, we expressly considered the effect of FERC's regulations in this area and stated, in pertinent part:

We find that the proper policy, consistent with the FERC rules and our rules, regarding the provision to Self-generating customers (SGC) of interruptible backup, maintenance, and supplemental power, is that it should be offered if it can be shown to result in demonstrable net benefits to the utility's general body of ratepayers. Absent such a demonstration, it should not be offered.

FICA also argues that we should consider the effect of closing rate schedules IS-3 and IST-3 on the reserves of all of peninsular Florida and not limit our analysis to TECO's system. FICA suggests we wait until the final disposition of Docket No. 981890-EU, our investigation into reserve margins. We find, however, that this docket is separate and distinct from Docket No. 981890-EU. Pursuant to Rule 25-6.0438(4), Florida Administrative Code, TECO's IS-3 and IST-3 rate schedules must show a demonstrable benefit to its general body of ratepayers regardless of the impact on peninsular Florida.

FICA is also concerned with the impact the closure of rate schedules IS-3 and IST-3 might have on TECO's earnings and whether or not this would violate the stipulation concerning the freezing of base rates in Docket No. 950379-EI. FICA suggests that new customers who otherwise would have applied for the IS-3 and IST-3 rate schedules will be required to take service at the higher priced firm service rates. FICA further suggests that such an increase in revenues could be construed as a rate increase which is

subject to the stipulation. We find, however, that our decision to close TECO's existing interruptible rate schedules to new customers does not represent a rate increase because it does not affect any existing ratepayers. Existing customers who take service under the IS-3 and IST-3 rate schedules will not be required to take service under the otherwise applicable firm rate. TECO is petitioning to close only the IS-3 and IST-3 rate schedules to new customers.

TECO has requested that its IS-3 and IST-3 rate schedules be closed effective as of January 8, 1999, the day its petition was filed, because TECO determined that the rates were no longer cost-effective at that time. Granting this request, however, would amount to retroactively closing a rate schedule and would thus be inappropriate. Therefore, we deny TECO's request and find that the IS-3 and IST-3 rate schedules should be closed as of August 17, 1999, the date of our vote on this matter. This finding is consistent with our decision in Order No. PSC-96-0468-FOF-EG, issued April 4, 1996.

In conclusion, we find that TECO has demonstrated, using the methodology approved by this Commission, that its IS-3 and IST-3 rate schedules are not cost-effective. Allowing these rate schedules to remain open would result in TECO's firm ratepayers subsidizing its IS-3 and IST-3 customers. It is not prudent to continue offering these rate schedules if they no longer result in demonstrable benefits to TECO's general body of ratepayers. Therefore, TECO's IS-3 and IST-3 rate schedules should be closed as of August 17, 1999, the date of our vote on this matter.

B. Proposed Load Management Rate Schedules

TECO's proposed GSLM-2 and GSLM-3 rate schedules are intended to be a cost-effective alternative to its IS-3 and IST-3 rate schedules. Unlike the IS-3 and IST-3 rate schedules, TECO would offer the GSLM-2 and GSLM-3 rate schedules as demand side management (DSM) programs. This is consistent with our decision in Order No. PSC-93-0165-FOF-EI, issued February 2, 1993, in Docket No. 920324-EI, TECO's last rate case. In that Order, we directed TECO to treat its interruptible rate schedules as DSM programs at the time of their next rate case. Although TECO has petitioned for approval of these rates outside of a rate case, TECO's filing is consistent with our directive.

If approved as a DSM program in this proceeding, customers taking service under the proposed GSLM-2 and GSLM-3 rate schedules

will contract for a 36-month term and receive a credit on their monthly bills based on the Contracted Credit Value (CCV) determined on an annual basis in the Energy Conservation Cost Recovery Clause proceeding. Customers who take service under the GSLM-2 and GSLM-3 rate schedules will pay all charges associated with the otherwise applicable firm rate schedules. These charges include all the cost recovery clause charges, which are significantly higher than the recovery charges associated with the interruptible rate schedules.

The credit will be determined using the Rate Impact Measure (RIM) test calculation methodology set forth in Rule 25-17.008, Florida Administrative Code. The appropriate avoided unit for the DSM evaluation will be based on TECO's annual Ten Year Site Plan filing. The initial credit on the demand charge would be \$3.65 per contracted kilowatt (kW), with a minimum demand of 500 kW. Based on the assumptions used in the RIM analysis, the CCV can range from \$0 up to the otherwise applicable demand charge. Although the CCV will be recalculated annually, customers who sign up for the 36-month contract term will maintain the same credit value for the duration of the contract. If a customer signs up for a new 36-month term, the new CCV will be based on the CCV on file with this Commission at that time. The credit will be established using a RIM benefit/cost value of 1.2 to 1. Because the RIM test is based on many assumptions, using a 1.2 to 1 benefit/cost value will allow for a margin of error to ensure cost-effectiveness.

A portion of the GSLM tariffs addresses a minimum notice to transfer to firm service and a possible transfer without full notice. Rule 25-6.0438, Florida Administrative Code, requires that non-firm customers provide five years minimum notice prior to switching from non-firm to firm service. The rule provides that a utility can request a different minimum notice period if it can be demonstrated that a different notice requirement is appropriate. TECO has requested that the minimum notice for the GSLM tariffs be reduced to 36 months. TECO argues that this more closely reflects the planning horizon of constructing a new combustion turbine. We agree; the minimum notice should coincide with TECO's planning horizon. We note that a 36-month notice is consistent with Florida Power Corporation's notice period in its Interruptible General Service tariff adopted in June 1996.

Along with the shortened notice period, TECO has included the ability to impose a penalty on customers who choose to transfer to firm service without providing the full three-year notice. The proposed penalty provision states:

PENALTY CLAUSE FOR TRANSFER WITHOUT FULL NOTICE: The Company may permit transfer to firm service without full notice upon satisfaction of the initial term of service (36 months) and upon a determination by the Company that there is sufficient capacity to provide firm service to the customer. Any customer allowed to cease taking interruptible service under this rider without giving full notice shall pay a charge amounting to the value of the credits given the period of time immediately prior to the changeover that is equal to the period that the changeover will be less than the required notice period.

This penalty may be waived by the Company if the following two conditions can be demonstrated:

- 1) The customer has been on the interruptible service for at least 36 months; and
- 2) There will be no adverse effect to existing firm customers or the Company's generation expansion plan.

We find the proposed penalty provision reasonable. The penalty amount reflects the basis on which the customer is credited for taking service on the load management rate. Also, the penalty provision is consistent with TECO's planning horizon. We believe, however, that the language which describes the calculation of the penalty amount is not clear. Thus, TECO should provide, for inclusion in its tariff, an example or examples of how a penalty would be calculated under this provision. These examples may be administratively approved.

In conclusion, we find that TECO's proposed GSLM-2 and GSLM-3 rate schedules are reasonable and should be approved. These rate schedules provide a cost-effective alternative to TECO's IS-3 and IST-3 rate schedules. These rate schedules shall be effective as of August 17, 1999, the date of our vote on this matter. TECO should, however, provide an example or examples of how a penalty will be calculated under the schedules' penalty provisions for inclusion in the tariff.

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Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Tampa Electric Company's petition to close its Interruptible Service-3, Interruptible Service Time of Use-3, and Interruptible Standby and Supplemental Service-3 rate schedules to new customers is granted. It is further

ORDERED that Tampa Electric Company's Interruptible Service-3, Interruptible Service Time of Use-3, and Interruptible Standby and Supplemental Service-3 rate schedules shall be closed to new customers effective August 17, 1999. It is further

ORDERED that Tampa Electric Company's proposed General Service Industrial Load Management Rider (GSLM-2) and General Service Industrial Standby and Supplemental Load Management Rider (GSLM-3) rate schedules are approved and are effective as of August 17, 1999. It is further

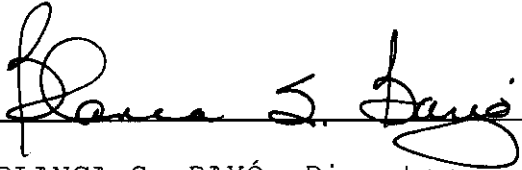
ORDERED that Tampa Electric Company shall provide, for inclusion in its General Service Industrial Load Management Rider (GSLM-2) and General Service Industrial Standby and Supplemental Load Management Rider (GSLM-3) rate schedules, an example or examples of a penalty calculation for administrative approval. It is further

ORDERED that if a protest is filed within 21 days of issuance of the Order, the tariff shall remain in effect with any charges held subject to refund pending resolution of the protest. It is further

ORDERED that if no timely protest is filed, this docket shall be closed upon the issuance of a Consummating Order.

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By ORDER of the Florida Public Service Commission this 10th
day of September, 1999.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

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NOTICE OF FURTHER PROCEEDINGS

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The Commission's decision on this tariff is interim in nature and will become final, unless a person whose substantial interests are affected by the proposed action files a petition for a formal proceeding, in the form provided by Rule 28-106.201, Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on October 1, 1999.

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In the absence of such a petition, this Order shall become final and effective upon the issuance of a Consummating Order.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.