BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 130024-EI

PETITION FOR EXPEDITED APPROVAL OF ASSET OPTIMIZATION INCENTIVE MECHANISM, BY TAMPA ELECTRIC COMPANY.
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PROCEEDINGS: COMMISSION CONFERENCE AGENDA ITEM NO. 2

COMMISSIONERS PARTICIPATING: CHAIRMAN RONALD A. BRISÉ
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ART GRAHAM
COMMISSIONER EDUARDO E. BALBIS
COMMISSIONER JULIE I. BROWN

DATE: Thursday, April 25, 2013

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

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P R O C E E D I N G S

CHAIRMAN BRISÉ: Moving on to Item Number 2.

MR. LESTER: Good morning, Commissioners. I'm Pete Lester with Staff.

Item 2 addresses Tampa Electric Company's petition for an incentive mechanism. Staff recommends that the Commission approve the request for an incentive mechanism. This should lower fuel factors in 2015 and encourage efficiency.

Issues 1 is whether to approve Tampa Electric's request, and should be taken up first. Issues 2 concerns a reporting requirement and is based on approval of Staff's recommendation for Issue 1.

This item is a Proposed Agency Action and representatives of Tampa Electric, OPC, and the Florida Retail Federation are here to speak.

CHAIRMAN BRISÉ: All right. Thank you.

So we will hear from Tampa Electric, then OPC, and then Florida Retail.

MR. BEASLEY: Thank you, Chairman Brisé, and Commissioners.

I'm Jim Beasley for Tampa Electric Company. To my left is J.R. McLelland who is Managing Director of Fuels Management for Tampa Electric. Also with me is Carlos Aldazabal who is the Director of Regulatory

Affairs for Tampa Electric.

We want to speak in support of your Staff recommendation. We believe the Commission has for many years recognized the benefits that incentive programs can bring in the form of reduced costs for utility customers. This program is very much in that category. It has the hopes of bringing significant benefits to Tampa Electric's customers in the form of lower fuel costs.

It's not an easy thing to achieve. There are goals set for Tampa Electric based on historical experience as well as stretch goals which have to be surpassed before the company will be able to share in any of the savings brought about by this program.

This program is very similar to the one recently approved for Florida Power and Light Company. And like that program, it really is a no risk proposition for customers. They stand to benefit from every saving dollar that results from this program. We would urge that you approve it, and we're happy to answer any questions you may have.

CHAIRMAN BRISÉ: Okay. Thank you.

Ms. Christensen.

MS. CHRISTENSEN: Yes. Good morning, Commissioners.

Patty Christensen on behalf of the Citizens of Florida. I'm here to speak in opposition to the approval of another asset optimization program. I have several points that I would like to raise in support of our position.

First, TECO's asset optimization program is clearly modeled after FPL's, which, as you know, was part of the FPL rate case settlement which is currently on appeal. As such, it was only a single component of the overall settlement and that was not an expanded endorsement of the wholesale incentive program.

In addition, the FPL program was approved on a trial basis, and after two years it was to be evaluated. We think that you should evaluate this one program, pilot program that has already been approved, the FPL program, before you approve a similar program.

Our second objection is based on policy grounds. We do not believe that regulators should have to induce a monopoly to basically do with captive customers to make the most efficient use of their assets. We believe that is already part of the utility's obligation to provide service at the lowest reasonable cost. In a fully competitive market, TECO would have to compete for market share to ensure its survival. And in a competitive market, if TECO chose to create an asset optimization type program, it would have to make sure that the benefits to its customers and the business were sufficient to offset the cost of the program.

Here, as with the FPL program, there is no demonstration that the potential increases in sales would justify the cost of the program. TECO's proposal is speculative as to whether any of the additional types of transactions proposed will even come to pass, and the recommendation does not have an independent analysis of whether the customers will see increased benefits under the proposed mechanism versus the current programs that are in place.

Since the Commission acts in place of a competitive market, in the absence of evidence demonstrating the benefits to the customers, we believe that the program should not go forward. And as a natural monopoly, TECO currently enjoys the extraordinary advantage of being a sole provider of an essential service. As such, they have the opportunity to earn a fair rate of return. And that, we believe, should be all the incentive TECO needs to use its assets in the most efficient manner, in addition to anything to the contrary to support the argument that TECO is currently not doing everything that it can to excel in providing electric service.

Therefore, as I said before, it's an axiom of regulation that it serves as a surrogate for the marketplace. And in a fully competitive marketplace, a company would strive for the most efficient use of its assets to survive. And a program that requires customers to pay extra for that which a competitive market would demand is not a surrogate for competition. In other words, a utility's past and current inefficiencies should not become its future profit centers.

Finally, we take issue with the inclusion of the economic purchases in the incentive proposal, since it's one of the utility's fundamental obligations to provide service at the lowest reasonable cost. In the FPL case, the Citizens' unrefuted testimony showed that based on historical information, the customers would have paid an additional $47 million to FPL if the economic purchase bonus program had been in place since 2001. The Citizens object to shifting of benefits from the customers to the shareholders for meeting its obligation to serve at the lowest reasonable cost.

In addition, utilities currently use economic dispatch to achieve this objective. So TECO already participates in the wholesale market to purchase power when it's available at the lowest cost. There is no developing of new markets here. Thus, the inclusion of economic purchases to pay the utility a bonus is antithetical to its core obligation of function to provide that lowest cost service. Thank you.

CHAIRMAN BRISÉ: Thank you.

Mr. Wright.

MR. WRIGHT: Good morning. Thank you, Mr. Chairman and Commissioners.

Schef Wright on behalf of the Florida Retail Federation. I'll be brief. We join the Public Counsel in opposing this program for the same reasons that we opposed the asset optimization program proposed by FPL in the settlement in that rate case. As a matter of simple policy, utilities shouldn't get paid extra for doing what they are already supposed to be doing.

In his testimony in Tampa Electric's pending rate case, the company's president, Gordon Gillette, stated that it is the company's primary goal to provide adequate, safe, and reliable service at the lowest reasonable cost. If it is truly the company's primary goal to provide service at the lowest reasonable cost, they don't need extra incentives. They shouldn't get extra money for doing what they already acknowledge is their primary goal. We would urge you to reject this proposal. Thank you very much.

CHAIRMAN BRISÉ: Thank you.

TECO.

MR. BEASLEY: Yes, Mr. Chairman.

This program, like the Florida Power and Light program, will give you an opportunity at the end of next year to take a look at it and make sure it is working properly and the way it has been represented to you. Also, the cost of the program will not be recoverable unless the savings cover those costs. So we wanted to make those points.

The other points that OPC and Mr. Wright have made on behalf of the Florida Retail Federation were made in the Florida Power and Light case, and you nevertheless saw the benefits of that program. This one is very similar to it, and we would urge that you approve it.

CHAIRMAN BRISÉ: All right. Thank you.

Commissioners.

Commissioner Balbis.

COMMISSIONER BALBIS: Thank you, Mr. Chairman.

I just want to make a couple of comments, and I may have a question for staff. But this is -- this program I reviewed in detail, and I did notice that staff's review of this item really dealt with comparing it to what we approved for Florida Power and Light. And as was stated, the Florida Power and Light program was part of a very large comprehensive settlement where there were a lot of pros. There were some cons to it, but it was overall a big picture review.

So I reviewed the transcripts from December 13th where we discussed the FPL program along with the other portions of the settlement. And in our discussions, as I recall, it was rife with words such as pilot program, workshop, generic proceeding, that, you know, nothing precluded us from moving forward with that type of activity to develop a program that is beneficial, and that the FPL program was part of the comprehensive settlement.

So the fact that this is not part of a comprehensive settlement, and there are some items here as I reviewed the program itself, especially specifically short-term wholesale power purchases where currently the customers receive 100 percent benefit from that, and this new program customers would only receive an 80 percent benefit, that does not appear to me to be in the best interest of the customers.

So I think there are good items included in this program. But comparing it to FPL and justifying it just because we approved FPL when it was part of a settlement, and this is not, gives me some pause.

CHAIRMAN BRISÉ: Thank you.

Commissioner Brown.

COMMISSIONER BROWN: Thank you, Mr. Chairman.

And, staff, I'd like to focus just on the benefits right now of this program. Based on the existing program, what benefits have the customers received under the 80/20 split, if any?

MR. MOURING: Based on the existing mechanism, if you compare the two programs, the existing incentive mechanism and the proposed incentive mechanism, over the last four years the customers received -- I don't have the sum here -- it looks like about $10 million in benefits, and the shareholders of TECO received about 680,000 under the existing mechanism.

COMMISSIONER BROWN: Okay. Thank you. And if we were to use the same data from the existing program and apply it to the new mechanism, do you know what the benefits would be?

MR. MOURING: If you compared the two, going back over four years, like I said, the shareholders received about $680,000 in sharing that they would not have received under the terms of the proposed incentive mechanism.

COMMISSIONER BROWN: Okay. Thank you.

A question for TECO, if I may.

CHAIRMAN BRISÉ: Sure.

COMMISSIONER BROWN: Mr. Beasley, is this program intended to be a pilot program similar to the one that we approved?

MR. BEASLEY: This has the same feature where you can come back and look at it in two years, or at the end of next year, at the end of 2014.

COMMISSIONER BROWN: But I did notice that there is no sunset provision or period that would be typical of a pilot program, so I just wanted clarification.

MR. BEASLEY: It is a pilot program, yes, ma'am.

COMMISSIONER BROWN: Thank you.

CHAIRMAN BRISÉ: Commissioner Edgar.

COMMISSIONER EDGAR: Thank you, Mr. Chairman.

I would like the company to speak to one or two of the points more specifically that OPC and the Retail Federation brought up, particularly their statement that the rate of return that the company has been allowed and is allowed to earn should be sufficient incentive to take all steps necessary to benefit the customers, and the comment by OPC that a pass in efficiency should not be a future profit center.

MR. BEASLEY: Commissioner, Tampa Electric strives very hard to do its best. I think the Commission expects the companies to give it their all, but the Commission also has recognized that incentives can bring about efforts that are above and beyond the call of duty. In the way this program is structured, Tampa Electric has a real challenge to get a penny of the savings that the program produces.

It has to meet historical based challenges, it must then go above and beyond the call of duty and meet stretch goals that are significant. It has to do that before it can share in any of the savings that are obtained beyond that stretch goal. So it does produce an incentive for above and beyond the call of duty effort. And the Commission has recognized that those types of incentives work. They have worked with the generating performance incentive factor, you have used them in incentive mechanisms throughout the '80s into the '90s.

In the 2006 proceeding you considered the GPIF, and you found it to be an incentive that works and produces benefits for customers. You have incentives for your employees. We have incentives for the company's employees. There are incentives for customers in the form of various conservation programs.

Incentives are a real part of what makes things operate in the way that you want them to, and this incentive is certainly designed to produce benefits for customers. It's a no-risk program for customers, and we urge that you approve it.

COMMISSIONER EDGAR: In a moment I would like to come to staff to follow up on your statement about there being no risk to customers. That is my understanding, but I would like to ask our staff to elaborate on that in a moment. But I am -- and I have met with staff, I have reviewed it, I have discussed it with my advisor, but this concept of above and beyond I'm struggling with a little bit.

Again, coming back to the statements of OPC and the Retail Federation that the utility should not be paid more for doing what it already should do. That there is the responsibility to take all reasonable steps to reduce costs to the benefit of ratepayers. So how do you match that up with this statement that this is, quote, above and beyond the call of duty? If the call of duty, in your words, I believe, is to take all reasonable steps for potential savings to ratepayers, why does this program not fall into that all reasonable steps already? Why should it be something additional?

MR. BEASLEY: It could involve company employees coming in on their -- in their time off, on a weekend, pursuing efforts that's not expected of them as part of their normal operation and function to achieve a goal which they know if they achieve it the company is going to share in the benefits.

It's like any incentive mechanism; it's calling upon your employees to give an extra effort over and above what's expected of them.

COMMISSIONER EDGAR: So this is an over-and-above expectation of the employees, is that different from of the company?

MR. BEASLEY: Of the company's total overall efforts, including those of each of its employees.

COMMISSIONER EDGAR: Okay. And then if I may come back to our staff on the point from a moment ago about is there -- as this program is presented to us, as the item is structured, is there any additional risk or potential cost to customers, to ratepayers?

MR. MOURING: The Staff has not been able to find any real risk to the customers, given the safeguards that are built into this incentive mechanism pilot program with the individual asset optimization measures, each being reviewed, monitored, and eligible for Commission review and approval before it's included in the total gains calculation, coupled with the provision about limiting O&M expense, incremental O&M expense costs. And with the program in its entirety, the framework being eligible for review at the end of 2014, Staff believes there's sufficient safeguards in place to hold the customers safe.

COMMISSIONER EDGAR: Thank you. And just one more follow-up, and I think I'm done for the time being. But as I'm thinking this through, and still processing your responses, Mr. Beasley, as this is structured, that incentive or reward, does that go -- once the threshold is met, does that go to the employees or does that go to the shareholders?

MR. BEASLEY: It would go to the company, yes. And Mr. McLelland may be able to elaborate a bit on your earlier question about the efforts over and above what's expected of the company.

COMMISSIONER EDGAR: Okay. I certainly am interested in that additional response, but I'm going to ask the question again. After the threshold is met there is incentive dollars; do those go to the employees or do they go to the shareholders?

MR. BEASLEY: They go to the company, the shareholders. The employee themselves have incentives, as well, that are financially beneficial to them.

COMMISSIONER EDGAR: Built into their employment contract?

MR. BEASLEY: Yes, ma'am.

COMMISSIONER EDGAR: Okay.

MR. McLELLAND: In effect, the program as proposed is an expansion of the current incentive program where we have a built-in mechanism to share in the proceeds of wholesale power sales. This program will now include fuels related optimization as well as optimization of purchases.

From our perspective, in order to take on that responsibility of further optimizing the generation, the fuel portfolio, the purchase portfolio, it requires the company to take on certain risks which we bear 100 percent. Those types of risks are credit risk, counter-party risks, performance risk, receivable risk, and there is -- under the current scenario where we receive zero incentive for that type of optimization, the balance of the risk in a way is asymmetrical. Effectively, we're taking on more risk without any type of incentive or opportunity to participate in the proceeds.

We believe that this proposed program is a fair and balanced approach where we have a chance to make some money from our good work. However, we don't get one nickel until we reach a threshold which from an historical perspective is quite a bit higher than what we have seen in the last four years.

Just a point of clarification. From the numbers that I see here looking at it over the previous four years, when you look at purchases and sales combined, it's a little bit more than $6 million. The proposal that we have on the table right now is -- we don't receive any benefit in terms of incentive until we reach the $9 million. Our customers would receive 100 percent up to that point. I very much believe that is a stretch goal, given what we see in the marketplace today and looking at it from a historical perspective.

CHAIRMAN BRISÉ: Commissioner Balbis.

COMMISSIONER BALBIS: Thank you.

I have a couple of questions for the company, and it's about the historical gains on sales and purchases that have been made. And you mentioned the stretch goal, and I think stretch goals are good and may provide an incentive for better performance.

Do you know what the gains in sales and purchases the company received in 2007?

MR. McLELLAND: I don't have those numbers in front of me right now. I have numbers that go back to 2009.

COMMISSIONER BALBIS: Okay. I had staff provide me your response to one of the data requests, I believe Number 34, that indicate the company received over $19 million in gains in 2007, over $25 million in 2008, $9 million in 2009, $11 million in 2010.

How was that a stretch goal then, if you have historically made significant gains above those threshold levels?

MR. McLELLAND: I understand the question. In that time period Tampa Electric had several major projects ongoing at its coal-fired generation facilities. I believe they were SCR projects. So the units were unavailable and so we were purchasing a large quantity of power.

Coupled with that, we were in a price environment for national gas that was in excess of double of where the market is trading for today. As you may know, as the gas price goes up it does impact the marginal price for electricity. And so the savings that were generated in those years were the direct result of high gas prices as well as a significant amount of coal-fired generation offline for Tampa Electric, which we don't believe represents the scenario we are in today or where we are heading in the next two or three years, certainly the time frame considered in this program.

COMMISSIONER BALBIS: But can you predict what plants will go offline for accidental reasons, et cetera? My concern is that you have picked a narrow window for the average for the stretch goals. And if you just open it up a little bit, that stretch goal should be a lot higher if you look at the numbers.

MR. McLELLAND: I understand. And in a program like this, we believe setting the threshold is probably one of the most important parts of the program for us and our customers. And, you know, after a very serious analysis, we determined that what was occurring on our system in 2006, '07, '08, and '09 was a modernization of sorts of our coal generation facilities. In our planning horizon that scenario just does not exist. We don't have that large or that scope of projects ongoing.

Also, in terms of our modeling, we do look at things like forced outage rates. We do look at it from a historical perspective. So although I do agree, Commissioner, that it's very difficult to predict, we do some modeling around that based on a historical perspective. And we believe that the threshold that we have proposed here represents what we expect to see on a going-forward basis.

COMMISSIONER BALBIS: Okay. And a follow-up on that concerning some of the projects that you said resulted in additional purchases and additional gains. We approved a repowering project, I believe for the Bartow Facility, and how will that play into it? I mean, will the existing facility be offline so you are going to have to have additional purchases? Is that another anomaly that could result in additional gains?

MR. McLELLAND: I believe you're referring to the Polk.

COMMISSIONER BALBIS: Polk, I'm sorry.

MR. McLELLAND: To the best of my knowledge, the project that Polk would require us to add a steam turbine to four simple cycle generation units. And based on the engineering design and project development timeline, the simple cycle peakers will be out of service for a short period of time. I don't know the exact days, but it was certainly less than 60 days that the Polk CTs would be out of service.

In addition to that, I think it's important to note that we are talking about CTs that would be going out of service during the conversion. Those units tend to sit on the top of the generation stack as it's priced today. And so it would be a big difference from displacing, let's say, baseload units like we saw in 2006 and '07 that sit on the bottom of our stack. So much less savings opportunity because the difference between our cost to generate and the power market will be a lot tighter than if we were just displacing Big Bend, our coal or baseload combined cycle.

COMMISSIONER BALBIS: Okay. And a question for staff. Did you take that into account in reviewing the appropriateness of that stretch goal on future plants that are going offline on what has happened in 2007, 2008, and 2009, or did you -- how did you review the appropriateness of that goal, or did you?

MR. LESTER: We did not take into account future. We took in the four years from 2009 to 2012.

COMMISSIONER BALBIS: Okay. And then another question for the company. Focusing on wholesale power purchases, which is where my big sticking point is, because correct me if I'm wrong, I assume that your company uses an economic dispatch model and on an hourly basis dispatches whichever is the most economical unit, correct?

MR. McLELLAND: That's correct, we do.

COMMISSIONER BALBIS: And if power is available for purchase that is cheaper than dispatching your own unit, the company will enter into that agreement or purchase that power?

MR. McLELLAND: That's correct. There are some parameters, some limitations in terms of minimum run times of units and start charges and things like that. But, yes, we do run an economic dispatch model. And when we find opportunities to purchase within the market below our generation, as long as there is transmission and we can execute the transaction, we absolutely optimize the system in that manner.

COMMISSIONER BALBIS: Okay. And I'm glad you confirmed that. Because, again, that's my major sticking point, that that is a program that the company is using and doing well. And so that's -- the customers, they are not getting anything additional with this incentive program with that. And I had a problem with that with Florida Power and Light as well. However, that was part of the comprehensive settlement where there were other benefits that outweighed the limitation in that incentive program.

So I still have an issue with that, and I have an issue with the stretch goal. If it were to be increased, I think it would provide a little more comfort to myself and the ratepayers in that it may be more appropriate, especially looking at the disparity of the historical gains that they have had in the recent past.

The other question I have for Staff, there seems to be some overlap with the GPIF program that's in place. That incentive program was developed over a thorough proceeding. And, Mr. Ballinger, can you explain what, if any, concerns there would be with this program along with the GPIF?

MR. BALLINGER: Yes, sir.

Staff has identified a potential overlap or tension between these two incentive programs that you have. As you are aware, and as TECO has acknowledged, the GPIF targets baseload units which are your most efficient units on your system that run 24/7 and try to provide fuel savings. And that's how GPIF is tied, is it sets targets for availability and heat rates to hopefully gain additional fuel savings. If availability increases, that baseload unit is available more time and you can generate fuel savings. If it is not available, there is a fuel cost.

Where we see the tension is especially on the purchase. Let's say a GPIF unit, such as a Big Bend unit, a baseload unit trips for a forced outage. That puts the company in a position to purchase more power, which they should, and actually larger gains because now you have taken a baseload unit offline for a day or two, a week, we don't know.

So in the GPIF program, the utility could incur a penalty because of that performance for that unit. But with this asset optimization you could incur a reward, because now it has gone towards your threshold of purchased power.

So we see these two programs may not work in harmony and there may have to be some adjustment. And Staff is exploring that as part of the GPIF investigation that we have been doing this last year, and we will raise it in the upcoming fuel hearing. We had a meeting with the parties a week or so ago addressing when testimony would be due and topics to be covered, and this was one of them.

COMMISSIONER BALBIS: Okay. Thank you. That's all I had at this time.

CHAIRMAN BRISÉ: Commissioner Graham.

COMMISSIONER GRAHAM: Thank you, Mr. Chairman.

Actually, I've got several things here to hit on. The first one, we talked about above and beyond. I guess I can put it in perspective so that I understand, and I know this was going through my head when we were dealing with the Florida Power and Light rate case. I put on my hat of a prior job back when I was a county commissioner and we had to deal with collection of trash and going to landfills. And the job that we were hiring those people for was to collect all the trash and throw it onto the landfill.

The above and beyond is for them to decide, well, we're going to put in a little station so we can collect the methane and generate power and then, therefore, we are going to share that profit with both the county and with ourselves. To me that was going above and beyond what you hired them for, because their job was to collect the trash and put it in the landfill.

Above and beyond was also collecting paper out of there, recycling that paper, and selling that; also a little profit center, and also prolonging the life of the landfill. Once again, the same thing, pulling the tires out of that landfill, pelletizing those tires, using that stuff to put on playgrounds for kids.

I mean, so that's the way I looked at being above and beyond. The job that we hired them for, what they were supposed to be doing was one thing. And even though we may be putting more money into this, or there may be more things going into this, your overall is -- the net overall, there's going to be more money coming out and going back to the ratepayers. That's what I see with the above and beyond, and that's why I was all for the Florida Power and Light deal, and that's why this deal makes some sense to me.

The other side of that is, and to my colleague, Commissioner Balbis, the Florida Power and

Light deal was part of the deal. It wasn't a stand-alone issue. And one of the things we said back then was this wasn't setting a precedent, and that we wanted Staff to look into this sort of thing and to see if this is something we don't roll out to everybody else as a whole.

So this is not necessarily apples and apples here that we are looking at, because this was part of the give and take that happened with Florida Power and Light. That being said, I thought it was a good idea for Florida Power and Light. I think it's a good idea here. I think there are still some questions out there that need to be answered. The modeling that you spoke of earlier where you got up -- where you went to the threshold number, which I believe was like $9 million, I don't remember seeing that modeling, and I don't know if Staff got into some of that stuff, and some of the questions that Commissioner Balbis brought up that would make him feel a little bit more comfortable about that $9 million, maybe it should be a different number.

I think maybe we should spend some time and look at that and see if we can come back with a better number, a harder number, or a number that Commissioner Balbis feels a little bit more comfortable with.

I need to look through that modeling, so I can't say that I'm comfortable or not comfortable with the $9 million, but maybe we should take two weeks or whenever our next meeting is and come back with another set of numbers.

And the last point I have here is this is supposed to be looked at again at the end of 2014. What I'd like to see happen is let's look at this as a real project, because I think that is kind of a short period of time. I think going with a fixed two-year period from when the time it starts to the time it ends is probably the better thing to do, and then to have it actually sunset at that point. So that forces everybody to come back to the table and rejustify. If it's a good thing now, it should be a good thing then. And we can look at those hard numbers, and I think a fixed two-year period, a fixed two-year window gives us more data to actually look at.

I mean, because the way you look at it now, by the time you get things up and running and ramped up, you probably only have about a year's worth of data to look at. And I think that would be kind of difficult for us to make judgment calls. And that's all I have to say.

CHAIRMAN BRISÉ: All right.

Commissioner Brown.

COMMISSIONER BROWN: And I wanted to reiterate, I was getting ready -- I had my light on before Commissioner Graham mentioned, but I share the same sentiment about the two-year period. I think we need a full two years. I would prefer a sunset similar to what we approved. I originally preferred a generic docket, but here we have, you know, we have the largest Florida IOU testing it out. We've got two years, we have got a period to evaluate that data. Having the smallest IOU as well in Florida, I think we should definitely have a sunset period and a two-year window, a full two years.

CHAIRMAN BRISÉ: Thank you. I have one question, and one of your other questions was addressed a little bit with the GPIF issue. That was one of the issues I wanted to have Staff address. But the other issue I want Staff to address for me is how did staff come to the conclusion that this incentive program was beneficial to consumers recognizing the responsibility of the company?

MR. MOURING: Well, Staff arrived at the conclusion that this would be beneficial to the customers based on the stated objective of it. It's designed to generate additional gains for the customers, to reduce fuel factors, fuel costs that the customers will have to pay. And Staff did have a lot of concerns with it, but Staff does believe that the safeguards that I discussed earlier address a lot of those concerns.

And, again, it is -- I certainly appreciate it is very similar to Power and Light's. But Staff did look at this individually, and individually examined all the asset optimization measures that the company believes it's going to be engaging in in the near future, and how the program works, how the savings are going to flow through to the customers. And based on our analysis, we believe it is -- it should be on a trial basis, but it should benefit the customers.

CHAIRMAN BRISÉ: Maybe I'll ask it another way. So you provide an incentive -- if someone provides an incentive, the incentive is there for something that is not being done now so that they can do something else, right, that is more beneficial? What are they doing, and what does it take for them to do what is more beneficial?

So what are the consumers gaining from that? And what mechanism, or what does the company actually have to do to get there? That's what I'm really trying to get at. Do they have to employ more people; do they have to do, you know --

MR. MOURING: Well, I won't answer for Tampa

Electric, but they do anticipate to have some additional incremental O&M costs. And, again, that is another one of those safeguards where the recovery of any incremental O&M costs would be limited to total gains received, generated by the program. But perhaps Tampa Electric could give you some additional detail on what exactly would need to be done.

CHAIRMAN BRISÉ: Okay. Tampa Electric.

MR. McLELLAND: When we talk about going above and beyond duty, and the truth is we already work a lot of late nights and weekends in the programs that we have now. What we are referring to is going about the day-to-day activity to include fuel, all fuel, coal, natural gas, purchased power, and sales in a manner that has a greater breadth and depth than we are doing today. Specifically what I mean there is looking to other markets, infusing creativity into the process, integrated transactions with electric and gas, tolls, reverse tolls, things of that matter.

Looking further away from our door step. Instead of just buying at interfaces connected to us, you know, go two wheels away, three wheels away. Look for diversity between Florida, SERC, TVA. Those are the type of opportunities that we are referring to.

In the context of, you know, what it takes to do that, to answer your question, we're looking at engaging other counter-parties. That means contractually putting in force contracts with counter-parties we don't have contracts with. There's expense associated with that. There's time associated with that. When we are spending our time on that, we are not doing other things.

Yes, we do have some enhancements we'd like to make to some of our optimization programs, modeling, the way we interface between the front, middle, back office. Things like actualization of flows, settlement, receivables. Those are all costs that we'll incur associated with a program like this. And with this heightened attention to this broad set of optimization opportunities, we think if we do it and do it well and are able to represent for our customers a savings greater than what they've experienced in the last three or four years, we should be able to participate and participate in a fashion that as we do better our customers do better.

As you know, yes, we do start to participate over $9 million. However, our customers do, as well. We don't get 100 percent of it. I believe it's a 60/40 split. So if we do better than we have done in the last four or five years, we get to participate, but our customers do, as well.

MR. ALDAZABAL: I would add that, as a point of reference, through March of this year, the Company is it 1.4 million in savings. So if you trend that out, I mean, we are projected to be at about 6 million, which is what we included in our petition. So we do have a stretch goal as far as $9 million, in the sense that we would have to get to that $9 million threshold before the Company would start sharing in any gains associated with this program.

CHAIRMAN BRISÉ: Okay.

Commissioner Graham.

COMMISSIONER GRAHAM: Thank you, Mr. Chairman.

I was going to move forward with a motion, unless there's any other questions. I didn't know.

CHAIRMAN BRISÉ: I think there's further questions.

COMMISSIONER GRAHAM: Okay. I'll hold off.

CHAIRMAN BRISÉ: Commissioner Balbis.

COMMISSIONER BALBIS: Thank you, Mr. Chairman.

And hopefully the maker of the motion will -- this might be an appropriate time to say this. I just want to reiterate the concerns I have with this. I think we're close. I think we can probably get there, but I also feel that the development of an incentive program should be made through a thought-out careful process that gets all of the information and to see what's appropriate for the stretch goals, the threshold levels, the percentages, any impacts to existing incentive programs like GPIF. Those are all of the factors that need to be taken in in the development of this program.

We approved Florida Power and Light's program because it was a comprehensive settlement and all of the discussion was let's see as that data comes in, let's see if it's a good program. And if this were a generic proceeding where we could get all of that information, I would fully support it. Unfortunately, we seem to be faced with this docket, a take-it or leave-it situation, which I have concerns with.

And it really focuses on the short-term wholesale power purchases. Currently, customers receive 100 percent of the savings, period. In this program customers will only receive 40 percent. I cannot see how the customers will better from this, regardless of where the threshold is. Going from 100 percent to 40 percent does not make any sense.

However, if that were removed and the sunset provisions that my colleagues have suggested, and if we can come to maybe a more appropriate threshold level.

But to be honest, if we remove that segment of the incentive program, I'm more comfortable with that threshold level.

CHAIRMAN BRISÉ: Okay. Commissioner Brown.

COMMISSIONER BROWN: Thank you. Just a follow up to what Commissioner Balbis just said.

I believe the response is that Curt indicated earlier, it emphasized that the proposed program actually produces more benefits to the customers than the existing program, based on the historical data that we have over the past four years.

MR. MOURING: That's absolutely correct, Commissioner. If you look at -- if you go back and look at the existing mechanism, the shareholders got to receive about $680,000 worth of the wholesale sales gains whereas under the terms of the new policy the shareholders will not be eligible to receive anything. So the customers would actually be $680,000 better off if the proposed mechanism were in place four years ago as it's written here with these thresholds.

COMMISSIONER BALBIS: Thank you. I just wanted to point that out.

CHAIRMAN BRISÉ: Okay. Commissioner Edgar.

COMMISSIONER EDGAR: Thank you, Mr. Chair. I would just like to ask the Company to respond, specifically, if possible, to Commissioner Balbis' concern and maybe suggestion about removing the short-term wholesale power purchases component of the proposal.

MR. ALDAZABAL: Just one point of clarification. Again, on the purchase side, we would not share in any savings until the $9 million threshold was reached. So any purchases that occurred, any economic purchases, any savings on those up to $9 million threshold wouldn't go 100 percent back to ratepayers. So if we were operating the same way we have traditionally operated, the customer would be significantly better off because we have not crossed the threshold from that standpoint, at least historically over the last four years. From that point forward, customers would get 40 percent of the savings, up to 20 million, and from that point forward it's 50 percent of the savings.

CHAIRMAN BRISÉ: Ms. Christensen.

MS. CHRISTENSEN: I just wanted to point out, based on the company's data response to Number 34, if you look in year 2010, they crossed the $9 million threshold it appears to me. Plus, a couple of other issues that I think are things that need to be considered is that they would be getting the -- they would recover, since there wouldn't be gains -- my understanding of the program, and they can certainly correct me if I'm wrong, they would recover the O&M costs, the additional O&M costs because there were gains on the program, even if they don't reach the $9 million threshold.

So with the inclusion of the purchased power which currently now go 100 percent to customers, if they have any positive gains on those purchased powers in any of those years, the O&M costs are essentially going to be covered. So those are risks that are going to be borne by the customers for something that they currently get 100 percent of the benefit for.

And the other thing that was a little bit concerning and not clear from the recommendation as to how the splits would go. If you look on, I believe it is Page 3 of the recommendation -- yes, at the bottom where they talk about asset management agreements where they are going to contract with a third party to develop some of the newer markets, they talk about doing this, outsourcing this to a third party in exchange for a premium. However, they don't discuss how that premium would be split. Does that go to the gains? Would that be part of the calculation that would come to the benefit of the customers?

So, I mean, for all the reasons that I think we articulated earlier, but for these specific points and looking at just the four years of data and not going even back to '06, which would clearly have worked in the favor of the company, I think there are still some outstanding issues of whether or not there's benefits to the customers. From the way the plan is set up to include purchased power, I think that really shifts benefits from -- benefits the customers are currently getting to where the shareholders would be getting some of those benefits, as well.

So thank you for indulging me.

CHAIRMAN BRISÉ: Sure. I think Commissioner Edgar probably didn't get a response to her question, so --

COMMISSIONER EDGAR: You did give us some additional clarification, and I appreciate that. But I'm going to ask you again, more specifically, as I believe I heard Commissioner Balbis to suggest, if on the functions that are listed on Page 3 of the discussion of the item, if the short-term wholesale power purchases were to be removed as one of the functions included in the program, would that be problematic, or what other potential impacts or concerns would you have?

MR. ALDAZABAL: From a problematic standpoint, it would not be problematic. The dilemma is that the threshold, the $9 million threshold was predicated including purchases on there, so it would have to be adjusted accordingly to exclude economic purchases. And there would be a slight inconsistency between how the FPL program was structured.

Obviously, we understand that it was part of a settlement, but there would be some inconsistencies between programs. So that was one of the primary reasons why we structured it the way we did structure it.

CHAIRMAN BRISÉ: Commissioner Balbis.

COMMISSIONER BALBIS: And just to clarify, I agree that if that is removed, there should be an adjustment to the threshold. And I wouldn't mind giving staff administrative authority to come back to us or to adjust that appropriately, and I believe that may resolve some of the GPIF concerns as well.

So I think it might be a solution here where I think there would be safeguards, and be fair to the company as well if we adjust the threshold, if we take the purchases out.

CHAIRMAN BRISÉ: Sure.

Commissioner Graham.

COMMISSIONER GRAHAM: Thank you, Mr. Chairman.

As I mentioned before, there's no time constraint on this, so I don't think there's a problem with pushing this back to our next meeting. It sounds like there's some concerns about where the threshold is. I can't say that I'm looking to start pulling things out of what goes into the threshold, but I don't have a problem with giving staff more time to look at this stuff again. And OPC brought up some good concerns, and Commissioner Balbis brought up some good concerns about where the threshold is. And you can come back in two weeks and have the exact same threshold number, but, you know, you have gone through it all, you have gone through the modeling that TECO had, and everybody has a better comfort level to where that number is.

And I would also like to see this thing extended, as I said, as Commissioner Brown said as well, to a full two-year period and putting in some sort of a sunset provision in there. I'm saying all that just for staff to know and to take note of it.

I guess my motion would be if we can just defer this until our next hearing, and for staff to get together with Commissioner Balbis and also with TECO and make sure that everybody feels very comfortable about that threshold number. And I guess I need direction, also from other Commissioners. If we're looking to take any of those purchases out of that threshold, or if we want to stay the way the program is written right here currently.

CHAIRMAN BRISÉ: Commissioner Edgar.

COMMISSIONER EDGAR: Thank you, Mr. Chairman. And I'm not sure if we are in motion discussion, but let me just take it and run with it, if I may. Thank you.

I think we have had very good discussion, but I do think some additional information and analysis would be helpful. I know that the timelines for getting information filed for the next round of agenda sometimes can come very quickly, particularly for our staff with the work that they do. So I would suggest maybe recognizing that there is no timeline that we could give them to the meeting after the next meeting, that that might be a little helpful.

So I would suggest from our discussion that we ask our staff to do some additional analysis and maybe bring back a revised or an item with additional information, that they look particularly at a two-year sunset, that they do further analysis regarding the proposed $9 million threshold, and also analysis as to if the short-term wholesale power purchases were to be removed as one of the included functions what the similar appropriate threshold would be.

And if we go to the meeting after the next meeting from the information I have here, I think that would be the June 25th. I don't know that that needs to be a hard date, but what I would ask, since we have had the discussion, that our staff go ahead and pursue this, working with the company, of course, to get additional information, and with the intervenors, and bring it back timely.

CHAIRMAN BRISÉ: Okay. Does that require a motion?

COMMISSIONER EDGAR: Whatever is your preference, Mr. Chairman.

CHAIRMAN BRISÉ: Commissioner Graham.

COMMISSIONER GRAHAM: Okay. June 25th seems a long way back, but I guess if nobody has a problem with that date, I don't either. So I guess what we are instructing staff to do is come back with an Option A and a Option B, and then we can make the determination at the time, and we'll have the threshold for both those numbers? Okay. I just wanted to make sure that was clear.

CHAIRMAN BRISÉ: All right. Any further comments, Commissioners? No further comments on this item? Okay.

With that, I think staff understands the direction. I think the parties understand the direction of where we are at this point. And so we're going to defer this item, and we're going to take it back up again at a different time.

Right now we are looking at two meetings out, which I think is June 25th. But that is not a firm date, and we can work with my office to put it back in at a time that's most appropriate.

Okay. Anything else on this item? Okay.

Seeing none, Commissioner Edgar --

COMMISSIONER EDGAR: Thank you. I'm not sure if I said this or not, so I will either repeat it or want to make sure that I did. I recognize that there may be -- that there is some, perhaps, value in consistency from a program as it is for one utility to the next, which is part of the reason that I specifically would like to see additional analysis as it is, but also if that one component were to be removed so that we would have that data. Again, recognizing that having differences between the programs could also have some unintended additional workload or analytic difficulties.

CHAIRMAN BRISÉ: All right. Thank you.

Sure. Commissioner Graham.

COMMISSIONER GRAHAM: Sorry, Mr. Chairman, I hate to prolong this. But I guess the question I have for TECO, I know one of the disadvantages of having a sunset provision in here is it makes everything seem temporary. And I guess the question I have is is that causing a -- would that cause more of a problem, the fact -- I like for things to sunset. I think for things to be justified, because if they are right now they should be right two years from now. But does that sunset -- what financial burdens does that put on you or does it put any? I mean, are you looking to add -- I know in the Florida Power and Light deal they are looking to add three people and other things along that line, and I didn't know how you planned on achieving this incentive.

MR. McLELLAND: Right now our strategy would be to redeploy some folks and have them focus on the sales side, a broader reach. We would need some contract administration help. And we recognize by taking that extra workload on, we take on the extra expense. We believe in this program. We believe in incentives. We think our customers will benefit from it.

I know the people that I work with and the effort they'll put forth. And we believe that the results of this program will be favorable to us and our customers. And believe that on a going-forward basis, not only us, but our customers and the Commission will want us to go forward. So, yes, we are taking some risk, but we are cautiously optimistic that this type of incentive program will be very successful which would allow us to continue to benefit from the expense that we may have.

I would also like to mention that consistency is important. In effect, you have already provided FPL with an incentive to become more proactive than they have ever been. They are ought forging relationships in the form of contracts and moving upstream. And it, quite frankly, has the potential to turn into something of a competitive advantage. And, so, you know, they are a good well-run company. They are hard to keep up with. And certainly having, you know, the same platform to work from as they have is important to us and our customers. So, thank you.

COMMISSIONER GRAHAM: I just wanted for you guys to -- for your take-away to know that -- and I speak for myself, but we are all -- I'm all in favor for this incentive program. I just want to make sure, number one, this is just coming from -- this is coming to us differently than Florida Power and Light did, and so we just need to be careful moving forward.

If this is setting some sort of a template for everybody else to come forward, we want to make sure that our I's are dotted and our T's are crossed. And so if we need to take more time to get more data to make more people feel more comfortable, then I think that's just what needs to happen. And if we are looking at this as being a trial, I think, you know, locking it down and making an actual trial obviously is a better way of doing it.

And so it just may take a little time, but I just want for you guys to walk away knowing that this is something that I think is a good thing. And if you go off of what we did with Florida Power and Light, I think this Commission as a whole thinks it's a good thing. We just want to make sure it's done correctly.

CHAIRMAN BRISÉ: I guess I'll add something to that. Recognize the reference to FPL, and recognize that as part of the settlement there was the incentive program that started there for them, and I think everyone recognizes that that was a unique set of circumstances, and so forth.

And as per the discussion during that process, I think the Commission was quite clear that if we were going to approve any other incentive program, it would require a process for us to make sure that it made sense for everybody else or each individual case. So I think the fact that we are moving this out will give us an opportunity to make some -- to do some further analysis to make sure that it makes sense.

I'm not opposed to incentives. I think the Commission has shown that it is open to incentives that make sense, but they have to make sense for the consumers first, and I think that that is where we want to be.

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 3rd day of May, 2013.

JANE FAUROT, RPR
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