BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

REVIEW OF FLORIDA POWER CORPORATION'S EARNINGS, INCLUDING EFFECTS OF PROPOSED ACQUISITION OF FLORIDA POWER CORPORATION BY CAROLINA POWER & LIGHT.	DOCKET NO. 000824-EI
REVIEW OF FLORIDA POWER & LIGHT COMPANY'S PROPOSED MERGER WITH ENTERGY CORPORATION, THE FORMATION OF A FLORIDA TRANSCO, AND THEIR EFFECT ON FLORIDA POWER & LIGHT'S RETAIL RATES.	DOCKET NO. 001148-EI
REVIEW OF TAMPA ELECTRIC COMPANY AND IMPACT OF ITS PARTICIPATION IN GRIDFLORIDA, A FLORIDA TRANSMISSION COMPANY, ON TECO'S RETAIL RATEPAYERS.	DOCKET NO. 010577-EI

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PROCEEDINGS:	HEARING
BEFORE:	COMMISSIONER E. LEON JACOBS COMMISSIONER J. TERRY DEASON COMMISSIONER LILA A. JABER COMMISSIONER BRAULIO L. BAEZ COMMISSIONER MICHAEL A. PALECKI
DATE:	Friday, October 5, 2001
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	KORETTA E. FLEMING, RPR Official FPSC Reporter
APPEARANCES:	(As heretofore noted.)

FLORIDA PUBLIC SERVICE COMMISSION

I N D E X

WITNESSES

EXHIBITS

PROCEEDINGS

(Transcript continues in sequence from Volume 5.)

CHAIRMAN JACOBS: Good morning. Sorry for the delay. And, I believe, we're at your witness, Mr. McGlothlin.

MR. McGLOTHLIN: Reliant Energy calls Robert Mechler.

ROBERT MECHLER

was called as a witness on behalf of Reliant Energy Power Generation, Inc. and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. McGLOTHLIN:

Q Please state your name and address, sir.

A My name is Robert Mechler. My address is 1111 Louisiana Street, Houston, Texas.

Q By whom are you employed?

A Reliant Energy.

Q And what position do you hold with Reliant Energy?

A Manager of Transmission Policy.

Q Mr. Mechler, did you prepare for submission in these dockets prefiled testimony?

A Yes, I did.

Q Do you have that document before you?

A Yes, I do.

Q Do you have any changes, additions, or corrections to make to your prefiled testimony?

A No, I do not.

Q Do you adopt the questions and answers contained in the prefiled as your testimony here today?

A Yes, I do.

Q

MR. McGLOTHLIN: I ask that the court reporter be directed to insert prefiled testimony into the record at this point.

CHAIRMAN JACOBS: Without objection, show Mr. Mechler's prefiled testimony is entered into the record as though read.

Q. Please state your name and business address.

A. My name is Robert Mechler. My business address is 1111 Louisiana Street, Houston, Texas.

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

A. I am the Manager of Transmission Policy for Reliant Energy Power Generation, Inc.

Q. Please describe your educational background and professional experience.

A. I received a B.S. degree in Electrical Engineering from the University of Texas and an M.S. degree in Engineering from the same institution. After completing my education, I was employed by Florida Power Corporation for fifteen years. During the early part of my tenure there, I held positions in which I was involved in the engineering, construction and maintenance of substations and transmission lines. Over time, I held a variety of management positions with FPC. In May of 2000 I assumed my present position with Reliant Energy. I am a registered Professional Engineer in Florida.

Q. What is the purpose of your testimony?

A. I will address four of the issues identified for consideration in this docket. First, I will comment on Issues 2 and 3, which ask what benefits would be derived by peninsular Florida and the customers of the individual utilities from the participation of each in GridFlorida, Inc; and Issue 7, which asks the policy position the Commission should adopt relative to GridFlorida, Inc. Obviously, these subjects are closely related. First, I will address the benefits that bear on the policy position that Reliant Energy believes the Commission should adopt relative to the desirability of the formation of an RTO such as GridFlorida, Inc. I will then comment, on a macro level, on the relationship between the costs and benefits that the Commission should expect to be associated with an RTO such

as GridFlorida, Inc. As I will develop in my testimony, I believe this relationship should give the Commission a high level of comfort with respect to the ability of the RTO to lead to significant net savings for end use customers. Finally, I will comment briefly on Issue 11, which asks whether Floridians would be served better by an RTO limited to peninsular Florida, or by the larger, Southeastern RTO under consideration.

Q. What benefits would peninsular Florida and the customers of the applicant utilities derive from GridFlorida, Inc?

A. At the outset, I wish to state that my remarks will be from the "20,000 foot" level. There are numerous possible variations on the RTO theme, and not all of the blanks have been filled in with respect to the organization, workings, and size of GridFlorida. Nor do I wish to indicate that Reliant Energy agrees with every choice made by the Petitioners. In fact, through its support of comments filed with FERC by EPSA, Reliant Energy has advocated several modifications—such as a change to the manner in which Petitioners proposed to allocate existing transmission rights and a proposal to redispatch on a broader, system basis—that, in Reliant's view, would go farther to remove barriers to entry and enhance market efficiency. However, it is not necessary to agree on all details of a particular RTO to understand that the concept of an RTO presents the potential to realize many benefits. I do not intend in my testimony to critique GridFlorida, Inc. I will discuss GridFlorida, Inc. in terms of the RTO concept delineated by FERC in Order No. 2000. Individual preferences aside, Reliant Energy believes GridFlorida, Inc. incorporates the fundamental attributes of that concept. An RTO such as GridFlorida, Inc. will achieve benefits for the wholesale market and, ultimately, for customers through improvements in the areas of market performance, reliability of the grid and system planning. For these reasons, as I

will develop later, Reliant Energy recommends that the Commission favor the formation and implementation of GridFlorida, Inc. as a matter of policy. The Commission can adopt a general policy that supports the implementation of the RTO at the same time it reserves its ability to advocate specific positions on particular details of the RTO.

Q How can an RTO such as GridFlorida, Inc. improve market performance?

A. The RTO would improve market performance relative to the status quo in several ways. For instance, the RTO will eliminate "pancaking" of transmission rates, which is a significant impediment to market performance. The RTO will encourage the development of independent power projects by providing one stop shopping for services, independent planning, independent analysis of interconnection requests, and customer-focused response. The new power projects will be far more efficient and far cleaner than the dirty, inefficient units they displace. By encouraging more suppliers to enter the market, the RTO will have the effect of reducing the market power of individual participants. The RTO will create a larger, regional market for wholesale power. It will reduce per unit transaction costs at the same time that it increases transaction revenues. All of these attributes will translate into better service and lower costs for end use customers.

Q. How can an RTO such as GridFlorida, Inc. reduce transaction costs and increase revenues?

A. It can do so in two ways. First, the elimination of pancaked transmission rates reduces the cost of transmitting power across intervening systems, thereby making more transactions economically feasible. The evolution from multiple rates to a single rate is itself a reduction in transaction costs. Second, the lower "toll" will enable more generators to enter and participate in the market. As the number of users of the system increases, unit

costs of transmission service will decrease as revenues increase.

Q. Doesn't peninsular Florida already have a regional market for wholesale power?

A. As a matter of geographical boundaries, this may be true; however, the expensive, Byzantine system of providing and charging for transmission service reduces or eliminates the ability of generators to participate in transactions throughout the geographical "region." As transaction costs come down, more transactions between generators and buyers throughout the region will become economically feasible, thereby converting the *theory* of a regional market into a reality.

Q. How can an RTO such as GridFlorida, Inc. improve the reliability of the grid?

A. To maximize reliability, it is necessary to manage "parallel paths" and "congestion" effectively. The RTO will provide the means to improve performance in both of these areas.

Q. What do you mean by "parallel paths," and how do they affect reliability?

A. Under certain conditions, power flow through one transmission system can cause a "parallel" flow in a neighboring system. This "parallel" flow can affect reliability by overloading system elements such as transmission lines or transformers.

Q. How are parallel paths handled presently?

A. To eliminate overloading of system elements, systems operators will curtail power flow transactions on the system or by redispatching the system. If "redispatch" is employed, of necessity it will be less than economically optimal.

Q. How would GridFlorida, Inc. improve the management of parallel paths?

A. The system operator will still curtail transactions to relieve overloaded elements, but, by being able to "see" all transactions on the system, he will be able to offer the buyer and

seller of the curtailed transaction other alternatives through which to maintain their transaction. This will enable energy trading to continue, while maintaining reliability.

Q. Please explain what you mean by "congestion".

A. Much like "parallel paths," "congestion" on a transmission system is usually associated with the overscheduling of power flows through a capacity- limited system element; which, if left as scheduled, would lead to a system element overload.

Q. How is congestion managed presently?

A. Today, any energy transaction schedule that would cause congestion under normal conditions is rejected. Thus, certain trading opportunities are disallowed.

Q. How would an RTO such as GridFlorida, Inc. improve congestion management?

A. As mentioned earlier, the RTO will provide alternative transactions that will relieve the congestion, while enabling buyer and seller energy transactions to continue with no adverse effect on system reliability.

Q. How is system planning accomplished currently?

A. Currently, system planning is accomplished by each transmission owner, with limited inter-regional coordination.

Q. What benefit would be derived from planning based on a regional approach?

A. Very simply, a transmission network that is designed and built to enable an individual utility to deliver power to customers in its service area, will be configured very differently from one which is intended to carry bulk wholesale power between and among systems. A transmission system based on the former approach will at some point become a limiting factor on the ability of competitive wholesale transactions to lower consumers' costs. With an RTO, the full region would be part of a completely integrated and coordinated

planning process. This would provide not only for a system that is planned more efficiently, but one that also is more flexible to new opportunities for energy transactions. Planning that is conducted from a regional perspective tends to optimize local needs and bulk wholesale transactions better. Regional planning would also enhance the ability to estimate key transmission capacity ratings such as the available transfer capacity, or ATC.

Q. What is ATC, and how does it affect planning?

A. The ATC is the measure of how much energy can be moved between transmission systems. An RTO will have the ability to plan system expansion projects to increase ATC while meeting local transmission needs. As this measure can be more uniformly determined if performed by a single transmission operator such as an RTO, ATC will tend to be a barometer of the trading opportunities between systems.

Q. How do the costs of GridFlorida that the petitioners have identified relate to the benefits that you have described? Does this relationship affect the policy position the Commission should adopt?

A. Certainly consumers will receive net savings only if the benefits I have identified outweigh the costs of achieving them. It is also true that savings cannot be quantified precisely before they occur. However, when formulating its policy position. I believe the Commission should have a high level of comfort regarding the relative magnitudes of RTO costs and the corresponding net savings to consumers that can be achieved.

Q. Please explain.

A. The estimates of the costs of GridFlorida, Inc. contained in the testimony of the Petitioners' witnesses are not small numbers. However, they must be examined in the context of the overall costs incurred to serve the customer. For instance, according to the

testimony of William Ashworth, the impact of GridFlorida, Inc. will be to increase TECO's transmission costs by 23%, but the overall impact will be to increase the total retail bill by only 1%. Witness Korel Dubin of FPL provides information that indicates the impact of the RTO on FPL's typical residential bill would be less than 1%. More importantly, for purposes of the Commission's policy formulation, the costs of generation for which an end use customer pays are *orders of magnitude* greater than the costs of transmission incurred to transmit the generated energy. Accordingly, even a very small percentage decrease in the cost of generation made possible by a more efficient and more competitive market easily can exceed the increase in the transmission portion of the overall costs of electricity needed to form and operate the RTO. In the larger scheme of things, I believe the Commissioners should adopt the perspective that the costs of the RTO are an investment that can, through a kind of "leverage," result in a return significantly greater than the associated costs.

Q. Can you illustrate your point?

A. Yes. Based upon data included in the ITA proposal that was submitted to the Commission in September 1999, a typical breakdown of a customer's bill would approximate the following:

Generation	5.3¢/KWH
Distribution	1.2¢/KWH
Transmission	0.3¢/KWH
Total	6.8¢/KWH

From this information, one can calculate that an increase of 23% in transmission costs attributable to the RTO (to use TEC0's number) will be more than offset by a decrease of only 1.3% in generation costs. Based on the same relationship, if increased competition and better market performance attributable to the RTO were to reduce generation costs by

only 5% -- which, to my mind, is still a conservative assumption---then reductions in costs of generation would exceed the costs of the RTO by a factor of approximately 4 to 1. If higher reductions in generation costs are achieved, the savings would increase accordingly. I will note that, while the information derived from the September 1999 submission are generic in nature, the disparity between transmission costs and generation costs is so great (the cost of generation is almost *18 times* that of transmission) that an increase in the transmission component or a decrease in the generation component would have to be significant to affect these comparisons in a material way.

Q. Are there any considerations, other than the basic theory of supply and demand, that the Commission should take into account when evaluating the prospects for achieving these savings?

A. Yes. My assumption that the RTO will lead to lower costs of generation is based on far more than the theory of supply and demand. Just as the obstacles to an efficient, region-wide wholesale market in peninsular Florida are real and known, the factors that present the opportunity for decreases in the costs of generation are real and known. The known fact is that Florida has a large fleet of aging power plants that operate very inefficiently. In fact, over 25% of Florida's existing installed capacity is more than 30 years old; over 50% of existing installed capacity is more than 20 years old. Floridians are being served by expensive sources of power that could be displaced economically based on existing technology. New plants are cheaper to build and are significantly more efficient to operate. They are also far superior to the existing units in terms of their impact on the environment.

This situation makes Florida an attractive market for developers of wholesale generation

projects. In my testimony I have identified specific impediments to their ability to enter the market and compete efficiently region-wide, all of which would be ameliorated by the RTO. Further, experience in jurisdictions like Texas demonstrates that the formation of an independent transmission organization leads to the participation by more entrants and an increase in supply. For these reasons, the Commission should view the situation as one in which the opportunity for savings is very real, and very much worth pursuing.

Q. Do you have additional comments relative to the policy that the Commission should adopt relative to GridFlorida, Inc?

A. Yes. The extent of savings that are delivered to customers as a result of the RTO will be a function of the depth and liquidity of the wholesale market. However, I encourage the Commission not to regard the implementation of the RTO as a measure for which a fully developed, competitive wholesale market is a condition precedent. Rather, the RTO is a step that, by creating a more efficient market, will enhance the level of wholesale competition that is presently possible. Reliant Energy recommends that the Commission support, simultaneously, the implementation of the RTO and the additional measures needed to develop a more robustly competitive wholesale market.

Q. Please address the issue of whether customers in peninsular Florida would be better served by an RTO that is limited to peninsular Florida or by a larger Southeastern RTO.

A. Without intending to trivialize what is of course a very significant issue, I believe the question of timing, more than any other consideration, should weigh most in the formulation of the Commission's position on this issue. To realize the significant benefits that I have described for ratepayers as soon as possible, it is important that the process of

implementing the more efficient, market-based regime of an RTO not be delayed. It appears that an RTO that is specific to peninsular Florida would be quicker to implement than the large Southeastern RTO under consideration. As a practical matter, the physical constraints on the ability to transfer power into and out of Florida would limit any greater benefits available through a larger RTO until those constraints have been alleviated. There are reasons why a larger regional RTO may make sense in time, and why matters may evolve in that direction over time even if GridFlorida, Inc. is first established as a Florida-specific organization. Even if that is a prospect, GridFlorida, Inc. should proceed without delay. The successful performance of an RTO that is developed with Florida's characteristics and needs in mind could be influential in designing and implementing a separate, larger RTO of which peninsular Florida could possibly become a part. In short, regardless of the Commission's view regarding the relative merits of a smaller or a larger RTO, or of its view concerning the likelihood that a larger RTO will be mandated at some point, I encourage the Commission to support the expeditious development and implementation of GridFlorida, Inc.

Q. Does this conclude your testimony?

A. Yes.

BY MR. McGLOTHLIN:

Q Did you prepare any exhibits, Mr. Mechler?

A No, I did not.

Q Have you prepared a summary of your prefiled testimony?

A Yes, I have.

Q Would you summarize your testimony for the Commissioners?

A Presently, some 25% of the installed generating capacity that serves Florida's customers is more than 30 years old. 50% of the existing capacity is more than 20 years old. These aging plants tend to be less efficient than new plants. As a result, the cost of generation for which Florideans pay are unnecessarily high.

In an efficient wholesale market, numerous producers would build new, highly-efficient units to displace these old units economically; thereby, lowering costs to consumers while reducing adverse environmental impacts.

However, Florida's current balkanized transmission system with multiple control areas and pancaked rates, creates impediments to the development of an efficient competitive wholesale market. An RTO, such as GridFlorida is needed to remove such obstacles. By eliminating the pancaking of transmission rates and providing for one-stop shopping, an RTO can decrease transaction costs, increase the number of

economically-feasible transactions, and expand the effective geographical divisions of the wholesale market.

The RTO's independent evaluation of interconnection request will encourage entry and participation by more producers. The increase in suppliers will enhance competition, thereby, lowering costs to consumer. Currently, when elements of the transmission system become overscheduled through congestion or parallel flows, transactions must be curtailed.

An RTO, such as GridFlorida, will allow congestion to be relieved through market-based mechanisms, rather than through curtailment. This ability of the RTO to enable transactions to continue will improve the reliability of the transmission system.

By approaching the planning of the transmission system from an integrated perspective rather than the needs of an individual utility, an RTO will better optimize the ability of the transmission system to provide for regional bulk power transfer, as well as local needs.

The Commission can have a high comfort level that the benefits produced by the RTO will more than offset the incremental cost of establishing and operating the RTO. Because the cost of generation are approximately 18 times greater than the total cost of transmission, only a very small reduction in generation cost is needed to outweigh incremental RTO cost. In fact, a 23% increase in transmission costs, per

some numbers from TECO, would require only a 1.3% decrease in generation cost to offset those increases. It's not even close.

The Commission should review the investment in the RTO as a way to generate far greater savings in the cost of generation. The extent of the savings will be a function of the level of competition in the wholesale market. For these reasons, the policy of the Commission should be to support GridFlorida as an expeditious way to begin to realize that benefits of an RTO and to strive to maximize the depth and liquidity of the wholesale market.

Q Does that complete your summary?

A Yes, it does.

MR. McGLOTHLIN: Mr. Mechler's available for cross examination.

CHAIRMAN JACOBS: Very well. I guess, we can just begin with you, Mr. Long.

MR. LONG: We have no questions, Mr. Chairman.

CHAIRMAN JACOBS: Mr. Willis?

MR. WILLIS: No questions.

CHAIRMAN JACOBS: Mr. Childs?

MR. CHILDS: No questions.

CHAIRMAN JACOBS: Mr. Fama.

MR. FAMA: No questions.

MS. PAUGH: No questions.

MR. HOWE: No questions.

MR. TWOMEY: I've got some questions, Mr. Chairman.

CHAIRMAN JACOBS: Very well, you may proceed. We were hoping to go down the row, but that's okay.

CROSS EXAMINATION

BY MR. TWOMEY:

Q Is it Mickler or Mechler?

A Mechler.

Q Good morning, Mr. Mechler.

A Good morning.

Q If I understood the thrust of your summary, it is at least in part that the RTO will reduce barriers to entry to wholesale competitors, correct?

A Yes.

Q New competitors in the wholesale market will provide -- will bring to the state's mix, generation mix, cleaner, more efficient generation than the state's existing -- much of the state's existing fleet, correct?

A It would appear to be that way, yes.

Q I'm mean, that's what you're saying, right?

A There is a great opportunity for new plants to be brought into the state and offset some of these older facilities.

Q Okay. And if the new plants that come in are more efficient, and let's forget about cleaner for the moment, but

if they are more economically efficient, you in your testimony assume, do you not, that those plants will displace some portion of the existing fleet of the state and because they are more efficient, less costly, consequently the overall cost to Florida and consumers will be lower; is that correct?

A That's correct.

Q Okay. Now, would I be safe in assuming that you were more confident about asserting that this RTO will benefit wholesale competitors by the reduction of impediments to entry, like pancake rates and having to deal with multiple utilities to get a contract for transmission from buyer to seller than you are with your second concept of your testimony that any consumers will benefit by lower rates? That's kind of long. Do you follow me?

A No. Would you reword that a little bit, please?

MR. TWOMEY: I'll try.

MR. McGLOTHLIN: I think, I may have an objection to the form of the question, because I don't think it was the witness' intent to say the benefits to consumers was the second aspect, so I'll object on that basis.

MR. TWOMEY: Okay. Well, I can deal with that, Mr. McGlothlin.

MR. McGLOTHLIN: I thought you might.

BY MR. TWOMEY:

Q Let's assume that your first objective in promoting

RTOs is to benefit the end consumers, okay, or let's assume that they're equal, however you want to take it. Am I correct that you feel more confident about the ability of an RTO to benefit your company's entry into the wholesale market in Florida than you feel confident that that entry will lower end user rates?

A Still not sure I'm following your question, but I'll try to provide you this kind of perspective: If there is benefits to be gained, it would be gained by all buyers and sellers. It is an opportunity to provide an opportunity for buyers to see more economically-available sources which, I would imagine, would trickle down and benefit all consumers. I think, it's a win-win.

Q Yes, but that has to assume that the trickle down is a lower average cost of generation, right?

A I think, in my numbers I show, yes, that would be the assumption that there would be a reduction in generation cost to implement any incremental increase in transmission cost.

Q Yes, sir. But, again, it is possible, is it not, that even if new wholesale competitors come in the state that the cost of generation could go up; is that not possible?

A Well, I'm not following -- let me put it this way. If competitors come into the state, one has to assume that if they're going to be competitive that they'll be able to offset any existing generation, and to do that they must be cheaper.

And, therefore, if they're cheaper, then that must benefit the consumer.

Q Yes, sir, but doesn't that in part depend upon the relationship between the total capacity of the state's generation versus the total demand being opposed in the state?

Let me rephrase that.

A Please.

Q Isn't it possible notwithstanding the entry, let's say, of your corporation in the wholesale mix state of Florida and additional capacity provided by you that a situation could develop whereby you could charge higher rates than the average of the state's IOUs?

A Well, I'm not sure I could sell anything, if I'm charging higher than the average rate.

Q Well, doesn't it depend on what the reserve margin of the state is at a given time? What I'm thinking of is California, okay? Isn't it possible that you could come in and have lower barriers to entry, no pancake rates and so forth, and still manage to charge higher rates, because depending upon the given relationship of supply and demand in the state at any point and time; isn't that possible?

A Well, I'm not an economist. I'm not sure how that actually works with supply and demand, but it seems reasonable that if there is sufficient supply, then there is competition. And if there's competition, people are vying to reduce their

cost to sell, and those benefits benefit both the seller, because he's selling and benefits the buyers, because they're getting a good deal, they must see a value in that, and that must be beneficial to the consumer.

Q Well, how do you explain what happened in California?

A Well, I'm not an expert in California, sir, I'm afraid.

Q Okay. Let me ask you a couple questions right from your testimony. Now, on Page 2 of your testimony, Line 8, you concede that you're looking at this situation from the 20,000-foot level, right?

A Yes, that was my view.

Q The big picture view.

Now, beginning at Line 19, Page 2, you say, "Individual preferences aside, Reliant Energy believes GridFlorida, Inc., incorporates the fundamental attributes of that concept. An RTO such as GridFlorida, Inc., will achieve benefits for the wholesale market and ultimately for customers through improvements in the areas of market performance, reliability of the grid, and system planning."

Now so, that's why I asked you earlier whether you didn't feel more comfortable with achieving the benefits for the wholesale market than for improvements that customers would see. And again, aren't you more confident that approval of this RTO as proposed will achieve the benefits for the

wholesale market than you are for the second part?

MR. McGLOTHLIN: Objection; asked and answered.

CHAIRMAN JACOBS: Mr. Twomey?

MR. TWOMEY: I don't recall that he answered it.

MR. McGLOTHLIN: Well, he did answer, and his answer was that by reducing costs in the market those costs are passed through to the consumers. And so, there's no distinction between who benefits. It's a win-win situation. That's his testimony. That was the answer to the same question being posed now.

MR. TWOMEY: Okay.

CHAIRMAN JACOBS: Good. We'll move on.

BY MR. TWOMEY:

Q Now, Page 3, you suggest that starting at Line 5 in answer to the question at Line 5 that GridFlorida will improve market performance, correct?

A Yes.

Q Okay. You say that "The RTO will encourage the development of independent power projects by providing one-stop shopping for services, independent planning, independent analysis of interconnection requests, and customer-focused response," correct?

A Yes.

Q Okay. Now, and then you go on to say, "The new power projects will be far more efficient and far cleaner than the

dirty inefficient units they displace."

And my question to you, sir, is doesn't the efficiency of the new power projects depend, in very large part, upon whether they are merely -- for example, combustion turbine peaking units or whether they are allowed to include steam cycle so that they are combined cycle units?

A Well, I think, you'd have to look at it on a case-by-case basis of what megawatts you're comparing to what unit. I'm not sure we could make a blanket statement like that.

Q Okay. Can you tell me -- can you name me a single unit that would be more efficient, simply as a peaking unit with a combustion turbine than it would be with throwing a steam cycle on the back end of it? Can you name me one?

A Well, I'm not an expert in power plants, but I'm not aware of anything and, you know, I'm not sure I can speak technically about that subject.

Q So, is your answer that you don't know?

A My answer is I do not know.

Q Okay, fine. Well, then, are you confident that the new power projects will be more efficient and far cleaner than the dirty inefficient units they displace?

A Yes.

Q Okay. Do you know, sir, how many megawatts of generation the new power projects you envision would displace

in the state of Florida now?

A I'm vaguely aware that the Florida market's around 40,000 megawatts at peak. I think, there's several thousand megawatts currently under development. I would assume, you know, just a reasonable guess, I would say 10% currently.

Q 10%?

A I mean, that is strictly a guess.

Q Okay. Again, I don't want to tread on the asked and answered thing again, but do you know, to some degree, how much of that generation -- how much of the new generation would have to be combined cycle to displace existing generation in the state versus just pure peaking? And if you don't know, that's fine.

A I do not know.

Q Okay. Now, who benefits initially from the elimination of pancaking tariff rates?

A The consumer, I would think.

Q Let me as you this: Let's assume, hypothetically, that I have two elderly clients that are served by Florida Power & Light, which is a large vertically-integrated utility, okay? And assume further that Florida Power & Light has about 50% of transmission mileage in the state that connects all of its generation and all of its loads, okay? How would my theoretical clients benefit, at least initially, by the elimination of pancaked rates?

A Well, in this example that you've posed, we'll assume that Florida Power & Light is purchasing power from off their system where they would have to be paying an additional charge from -- to deliver that power to their system. If you eliminate the pancake rates, then the delivery of that power on to the system is reduced by that elimination of those extra transmission charges; therefore, the delivery cost is less and the overall price is less and I'm not sure how the mechanisms work in the state, but one would think that that cheaper power then would be a flow-through to the consumers and they would benefit.

Q Okay. Thank you. Would I be safe in assuming that you don't know how much FP&L would save in, say, the most recent calendar year by the elimination of pancake rates and whatever off-system purchases it had made?

A As you say, I would not know that.

Q Okay. Now, at Page 4 of your testimony you say as a matter of geographical boundaries, this may be true, and then you seem to be acknowledging, aren't you, that peninsular Florida already has a regional market for wholesale power, right?

A I believe, that's what it says in that answer.

Q Okay. Well, I'm not sure I understand if we already have a regional market for wholesale power why you want to change it at an increase in cost to the IOU's retail customers.

Can you tell me why?

A The benefits of an RTO provide for the opportunity to bring more buyers and sellers to the market. By doing so, the opportunity for more economic sales exist for more buyers to receive those benefits from sellers, from more sellers, more opportunity, and more competition.

Q Now, does your company have -- let me ask you this way: Would you agree with me that more generating companies, such as yours, would come in this state if they weren't subject to the limitations of the reversal of the Duke decision and that you could use combined cycle units as opposed to merely peaking units?

MR. McGLOTHLIN: I want to ask for some clarification. I may not object, depending on the answer, but when you say combined cycle versus peak, are you referring to the amount of steam capacity beyond 75?

MR. TWOMEY: Yes, sir.

MR. McGLOTHLIN: So, the question acknowledges that there's some combined cycle that's not subject to the Act.

MR. TWOMEY: Yes.

BY MR. TWOMEY:

Q Do you follow that?

A Could you repeat the question?

Q Yes, sir. Let me change it by asking it this way: Are you aware of whether or not there is a limitation in the

state of Florida upon the size of a steam cycle capacity that you can have in a combined cycle unit?

A Yes, I'm aware.

Q Okay. And that it is, in fact, starts at 75 megawatts?

A Yes, that's correct.

Q Okay. So, my question is would your company be more likely to bring more capacity to this state if there was not that impediment?

A Yes.

Q Okay. Now, still at Page 4, you respond to the question about how GridFlorida would improve the reliability of the grid, and I want to ask you is it unreliable now?

A I'm not aware that it is.

Q Okay. So, you're not aware, then, whether we have a problem or not?

A No, I'm not involved with any day-to-day operations of the grid.

Q Okay.

A I really have no knowledge.

Q Okay. So, then, is it your testimony merely that you think, at least in theory, that whatever the reliability currently, it would be better with GridFlorida?

A Yes.

Q Okay. But I would assume that you can't quantify

that; is that right?

A That's correct.

Q Okay. Now, --

CHAIRMAN JACOBS: Can I ask a question real quick?

MR. TWOMEY: Of course.

CHAIRMAN JACOBS: One of the significant aspects of reliability has do with ancillary services. And GridFlorida, it's my understanding, and I stand to be corrected, anticipates that whereas under the present situation ancillary service is almost always handled by the coordinator, that there may be some ancillary services that may be subject to competition under GridFlorida. Have you explored that and do you know if your company will participate in that?

THE WITNESS: I don't know that we've explored it. I think, it's probably reasonable to assume that we will explore that and see if that would make sense for to us be in that market. If there is a competitive market, we probably will investigate it.

CHAIRMAN JACOBS: Okay.

BY MR. TWOMEY:

Q The issue of re-dispatch, I understand your testimony to be that an RTO, such as GridFlorida, will reduce the level of re-dispatch in the state of Florida; is that correct?

A I'm sorry, are you referring to my testimony? Where are you on my testimony?

Q Page 4, bottom of the page.
A Could you repeat the question, please?
Q Yes, sir. Is it your testimony that an RTO, such as GridFlorida, will reduce the level of re-dispatch in the state of Florida?
A That's not what my testimony says.
Q Well, help me, then. What are you saying about how the RTO will address the issue of re-dispatch?
A The RTO will provide different alternatives; it may be to re-dispatch or maybe different kinds of re-dispatch, depends upon whether they will be less limited to such a small area to control, a much larger area to control and, therefore, there'll be more options. There may be a switching option that was not available prior, there may be a different re-dispatch that may be more economical than the one previously faced with a smaller system.
Q Okay. Is there a re-dispatch problem in the state of Florida currently?
A I do not know.
Q Okay. So, I would assume, then, that if there is improvement to this situation by the formation and operation of GridFlorida that you would be unable to quantify it in terms of dollar improvements, right?
A That's correct.
Q Page 5, you give a definition, I guess, of

congestion; is that correct? As you explain it, you give an explanation of what congestion is?

A I believe, it's somewhat covered there, yes.

Q Okay. Now, same as the last few questions, do we have a congestion problem in the state of Florida currently?

A I think that depends on certain conditions in the state. I don't know of any specific details on any congestion, but I would imagine there is, like in any system from time to time, bottlenecks.

Q Okay. Well, we are -- later in the testimony, and I'll find it if it's required, you acknowledge that there are not insignificant costs to the consumers of the state of Florida by the formation of GridFlorida, right?

A Are you referring to my testimony?

Q Yes.

A Could you tell me where you're referring to?

Q Sure. How about the next page starting at Line 21. "The estimates of the cost of GridFlorida, Inc., contained in the testimony of the petitioner's witnesses are not small numbers."

A Yes, that's true.

Q Okay?

A Yes.

Q So, given that, what I'm trying to understand is we've got a system currently that is being operated and has

operated, apparently, for some time with some success by the various utilities in the state of Florida and you are suggesting that we change it for what you acknowledge are not small numbers. And what I want to know is what proof or what data do you bring this Commission to show that reduced congestion will warrant those expenditures? Do you have any?

A I would not characterize what you said as what I say here at all.

Q Well, explain how I'm wrong.

A Well, I'm not suggesting that we move to GridFlorida. I think that was done by someone else. What I'm trying to answer here is looking at a broad view of the RTO, is it a good idea? And my approach was to look at the relative cost of generation versus transmission; and if there was an incremental cost in transmission for an RTO, could that be offset by reductions in generation costs? And if so, does it seem reasonable given a reasonable approach, the difference is the numbers almost a factor of 18-to-1, even taking an increase at 23%, which is the number TECO provided, the reduction seems fairly small in generation cost, only 1.3% reduction in generation cost to breakeven. And anything beyond that becomes a benefit to all consumers.

I would think that given that kind of approach there should be a lot of comfort in that an RTO is a real easy thing to do, and it should be looked at carefully, it should be

looked at as an opportunity, and the consumers of Florida should think this is an opportunity to actually come out way ahead, you know, in the long run.

Q Okay. Still at Page 5 of your testimony, you discuss how -- or apparently you conclude, don't you, that system planning throughout state would be improved by the RTO; is that correct?

A Are you on line 15 or 18?

Q 18, I think. Let me cut to the chase on this one. Can you quantify to the Commissioners any dollar savings to be realized from improvements in system planning by the RTO over what's being done currently?

A No.

Q Okay. Now, on Page 6, you say at Line 15, "Certainly consumers will receive net savings only if the benefits I have identified outweigh the costs of achieving them," right?

A Yes, that's what it says.

Q You go on to say, "It is also true that savings cannot be quantified precisely before they occur," right?

A Yes, that's the sentence.

Q Okay. Now, at least as far as your testimony, would you agree with me that at least so far you haven't quantified them in a dollar sense at all?

A In a dollar sense?

Q Yes, sir.

A No, I have not.

Q You have not. Isn't it true that you haven't identified a dollar's worth of savings to be attained by the formation and operation of RTO?

A That's what I just said.

Q Okay. So, we have identified, with some degree of precision, wouldn't you agree, the cost of implementing RTO?

MR. McGLOTHLIN: Could I hear the question again, please?

MR. TWOMEY: Yes.

BY MR. TWOMEY:

Q I said, would you agree that we have identified in this proceeding with some degree of precision the cost of forming the RTO and operating it?

A I've heard some testimony to that effect. I don't know how precise that really is, not having other than what was, you know, I'll take it at face value as what they said.

Q Yes, sir. But I mean, you've heard enough to say in your prefiled testimony that the estimates of the costs are not small numbers. You've already acknowledged that, right?

A I would consider 188 million to be a fairly large number.

Q I would, too.

Now, on the issue of whether or not the consumers will benefit by the 23% increase in the cost of, I think, it

was TECO's transmission cost, right? Was it TECO? Who were you using for 23%?

A I don't recall exactly where it came from. It was in one of the filings, I believe, that there was some increase in cost. I don't remember if it was TECO, if that was a total roll-up. I'm thinking it was a total roll-up of all cost.

Q I'm sorry. You said in your testimony at Line 2, Page 7, that it was TECO's transmission cost went up 23%.

A Okay, yes, there it is, thank you.

Q Okay. Now, but your thesis is that that 23% increase in TECO's transmission cost, which you acknowledge is due solely from the formation of the RTO, right?

A That was the data given, yes.

Q Your thesis is, is that 23% increase in the cost of TECO's transmission cost and the corresponding increase in in-rates, which you say they say is only 1%?

A I don't recall what they said about their total increase, but the 23%, the assumption was that would be included in the increase of transmission cost, that would be included in a base rate or a general rate.

Q Yes, sir, and this is your testimony. It says -- you say at Line --

A Oh, yes, there it is, on Line 4?

Q Line 2 and 3 that the impact will be to increase TECO's transmission cost by 23%, but the overall impact will be

to increase the total retail bill by only 1%.

A That's correct, that's what it says.

Q Okay. Now, your thesis is, is that 23% transmission increase and the 1% retail bill increase can be easily be overcome by substantially smaller savings in generation cost, right?

A A smaller percentage.

MR. McGLOTHLIN: May I ask that you rephrase your question. When you say substantially smaller savings, did you mean a smaller percentage reduction?

MR. TWOMEY: Yes, yes. I mean, he is -- as I understand it, he's saying that -- well, let's go to his testimony. He says that -- at Line -- starting at Line 22, "From this information one can calculate that an increase of 23% in transmission cost attributable to the RTO, parens, to use TECO's numbers, will be more than offset by a decrease of only 1.3% in generation, cost."

BY MR. TWOMEY:

Q Is that right?

A That's correct.

MR. TWOMEY: That's what I meant, Mr. McGlothlin.

MR. McGLOTHLIN: Thank you.

BY MR. TWOMEY:

Q Now, so, would you agree that for whatever reason you don't obtain even a 1.3 percent increase -- a decrease in the

cost of TECO's generation if there won't be any savings at all?

A If you have -- if the RTO does not provide the benefits where you would generate a more robust wholesale market, thereby provide an opportunity, a potential for these savings, then, I think, you're correct in saying that.

Q All right.

MR. TWOMEY: That's all I've got. Thank you very much.

THE WITNESS: Thank you.

CHAIRMAN JACOBS: Very well. Staff?

MR. KEATING: No questions.

CHAIRMAN JACOBS: Commissioners?

COMMISSIONER DEASON: I have just a few questions. In the subject matter, which Mr. Twomey was just inquiring, I have a question. It's at the top of Page 8 of your testimony where you make the conclusion that if there's only a 5% reduction in generation cost, which you believe to be conservative that the cost to benefit ratio of the RTO would be 4-to-1. My question is the 5%, which you consider conservative, over what period of time do you think that can be accomplished if there is a fully-functioning GridFlorida in place?

THE WITNESS: Commissioner, I would be pressed to put a time frame on that.

COMMISSIONER DEASON: You agree it's not going to be

instantaneous.

THE WITNESS: I agree it's not instantaneous, because of the -- certainly the transition period, in some cases, some of the transition costs that they've got currently proposed, the cost for new generation to come on-line, it could be several years out.

COMMISSIONER DEASON: I have another question. Bear with me just for a moment while I find it.

You indicated that one of the benefits to the GridFlorida proposal is an increase in reliability and that it enables better management of parallel paths. Is that a real problem in Florida, parallel path flows?

THE WITNESS: I'm not aware directly of any specific problems. It's a general problem in a lot of areas of the country, as I understand it. It's a great deal of discussion in many of the other RTO discussions and a complaint by many areas of parallel flows, and an RTO tends to manage those better.

COMMISSIONER DEASON: Okay. You also made reference in your testimony at the bottom of Page 3, and we're talking about how GridFlorida can reduce transaction cost and increase revenues, and you make the observation that you believe there would be more transactions that would be economically feasible and that these transactions would then take place, which would increase revenue. Did I read that correctly?

THE WITNESS: Yes.

COMMISSIONER DEASON: Okay. Have you seen this take place anywhere else where elimination of pancake rates and an increase in the number of suppliers have increased the number of transactions which takes place and actually enhances revenue?

THE WITNESS: It's my understanding of how that works. I'm not personally aware of exactly where that has done and gone.

COMMISSIONER DEASON: But you think, theoretically, it should work that way?

THE WITNESS: It should work that way, as I understand it.

COMMISSIONER DEASON: Okay. Are you familiar with how GridFlorida would apply to FERC for determination of rates and how FERC would set rates for GridFlorida.

THE WITNESS: I'm not aware of how that actually works, no, sir.

COMMISSIONER DEASON: Okay. All right. Thank you.

CHAIRMAN JACOBS: Mr. Mechler, in your testimony you say that we shouldn't hold our policy on GridFlorida to a condition that there be a competitive wholesale market, at least we shouldn't hold it as a condition precedent, we shouldn't require that it exist prior to accepting the fact that GridFlorida could have some benefits. But you do agree

that ultimately the true test of GridFlorida is that a competitive wholesale market would evolve; don't you agree?

THE WITNESS: I think that with the emergence of an RTO, the opportunity for a greater robust wholesale market is much more assured, and the opportunities for other players to come into market for more buyers to have more options becomes a much more reasonable kind of business that we can expect to happen. It seems reasonable to me that that will be a natural outcome of the creation of an RTO.

CHAIRMAN JACOBS: It would occur to me, though, that the more remote the possibility that we see a meaningful, effective wholesale market as a result of GridFlorida, then the more remote the prospect that consumers would see the benefit of GridFlorida; is that a reasonable tie or connection?

THE WITNESS: I'm sorry, could you repeat that, just --

CHAIRMAN JACOBS: It would occur to me that to the extent that the prospect of wholesale competition is remote, then also the prospect that retail consumers will see benefits of GridFlorida is also as remote.

THE WITNESS: I think, as long as you don't have that opportunity, I would tend to agree with you, that you need to have more players to offer more opportunities so that consumers can find benefits.

CHAIRMAN JACOBS: Is the measure of competition

simply the presence of players in the wholesale marketplace?

THE WITNESS: I think, it tends to provide -- more competition tends to drive prices to the betterment of consumers.

CHAIRMAN JACOBS: I agree that -- but sitting here trying to figure, okay, how much competition exists in the wholesale marketplace, as my primary guide, the number of participants out there who are seeking to gain access.

THE WITNESS: I think, it's a combination of both buyers and sellers transactions involved.

CHAIRMAN JACOBS: Very well. Thank you. Do you have questions, Commissioners?

COMMISSIONER PALECKI: Yes. One of the things we have been looking at in this hearing is the relative benefits of GridFlorida to a regional southeast RTO, and I wanted to know from Reliant's standpoint what your views are on that issue and whether there are any benefits to a generating company, such as Reliant, to the southeast RTO if our import capabilities are currently maxed out and there really are no additional import capabilities that would be afforded by the regional RTO.

THE WITNESS: I think, I heard two questions, there and I'll try to address both. Currently, we would view a larger RTO as a positive thing. Although, right now we have -- certainly, we view the FERC Order 2000 as the rule of the day

and, therefore, we should, we believe, keep marching to that rule until we see something else, which may happen fairly soon, perhaps.

As far as the issue of the import capability, as an independent power producer, if we find that we have a buyer on the other side of the line, as it were, and we find that in doing a deal that we'll need more transmission capacity, we can request that capacity to get built, and in various ways through FERC rules under Order 888, that capacity is ultimately built to support those transactions.

That's how it happens today, in fact. If we want to sell even within the state and the capacity is currently limited, through our request for service, through the transition providers, whether it's any of the three IOUs, that capacity is ultimately provided for, and ultimately it is picked up in the cost of our transaction with our buyer. It is covered quite well in Order 888.

COMMISSIONER PALECKI: So, I guess, what I'm hearing is that you believe that participation in the southeast RTO would be more likely to result in additional transmission ties to the north.

THE WITNESS: Yes. I think, it could really well happen. It seems reasonable. As you do find buyers and sellers on either side of the line, current line, the state line, there may be economics that say that there is a reason to

buy across the line. And in doing so, if the capacity is full and if the ethnics say that a new line makes sense economically, it will occur, but I have to be -- you know, to be honest, there are some barriers there, there are some economic barriers to put that in, but as you get more players there are people who may find ways to get around those barriers and roll that into their economics and find it a very doable project.

COMMISSIONER PALECKI: Thank you.

COMMISSIONER JABER: Mr. Mechler, one of the points you make in your testimony is that a true wholesale market would also require an active generation market. And you've already acknowledged from Mr. Twomey's cross examination that you know that Florida has, what we've come to call, a prohibition against the larger combined cycle units. How effective could an RTO for Florida be without a more open generation market?

THE WITNESS: Well, I don't view the two issues as chicken and egg, first. I think, it's important to keep the RTO process moving; and, on the other hand, work over here to work on that issue as well. Certainly, it limits some facilities, but there's already quite a few players moving into the market, the Florida market. It's an attractive market, it's a growing market. Reliant is committed to this market in several projects. We hope to be a long-term player here. I

think others, as well, will be here for a long time. I think in time I, personally, believe that may get changed, and it will help bring in new kinds of plants which will even benefit the consumer better or more.

COMMISSIONER JABER: Okay. And then, finally you point to Texas as an example. To the best of your knowledge, does Texas have that sort of prohibition against merchant plants?

THE WITNESS: Not that I'm aware of, no.

CHAIRMAN JACOBS: Redirect?

MR. McGLOTHLIN: Yes, briefly.

REDIRECT EXAMINATION

BY MR. McGLOTHLIN:

Q Mr. Mechler, Mr. Twomey asked you a series of questions suggesting that with the RTO in place the possibility exists that wholesale costs could go up rather than down; do you recall that line of questions?

A Yes, I do.

Q And, I believe, you responded in terms of that would depend on the adequacy of supply; do you recall that exchange?

A Yes.

Q If the RTO had the effect of encouraging new entrants to come into Florida and build power plants, would you expect the adequacy of supply to be better or worse with an RTO?

A I'd expect it to be better.

Q Mr. Twomey proposed a hypothetical to you. The assumption was that two of his clients purchased power from FPL, and he asked how the RTO would benefit them. And I believe, you couched your answer in terms of the lower transaction costs that FPL would experience by virtue of the elimination of pancake rates; do you recall that question and answer?

A Yes.

Q Let's amend that hypothetical just slightly. Let's say that by virtue of the RTO being in place, a new generator has the opportunity to vie for that transaction with a lower price. In that hypothetical, are there additional benefits to his clients?

A Yes, there would be. If that new generator is competing with others and presumably wins against others, the existing, then one can assume he was cheaper than the existing. And further, that the pancaking rates are, obviously, not there so he had an economic transaction and the buyer benefits.

Q Mr. Twomey asked you if peninsular Florida already has a regional wholesale market; do you recall that question?

A Yes.

Q Is the effect of size of the peninsular Florida market under the existing regime of pancaked rates and control -- multiple control areas, coextensive with the geographical boundaries of peninsular Florida?

A I think, what you're asking is are we limited because of the existing control areas to a much smaller wholesale market within the state, and are there multiple wholesale markets, in essence? And, I think, the answer is yes, because a plant to be competitive several control areas away is faced with pancaked rates today, and he's less likely to win a sale some distance away from where he's located.

Q So, even if the applicants continue with GridFlorida, would the size of the geographical market for wholesale power increase larger than what it is now?

A Yes, it would.

Q There were a series of questions and answers during cross examination during which references were made to the benefits that would be realized by new generators. If the RTO is established and if pancake rates are eliminated and all the other advantages that we've addressed in your testimony occur, would those benefits inure only to new generators?

A No, they would not.

Q Who else would realize those benefits?

A As I think I tried to say earlier, the benefits are both to the buyers and the sellers. The buyer being the consumer, obviously, is doing the deal because he feels it's a better deal that he can currently get and, therefore, he must be realizing an economic benefit and that benefit, I would assume, would trickle down to his ultimate consumer.

Q Okay. This question relates to the universal sellers. Are new generators the only ones who would be benefitted and in a position to flow those benefits to customers, if the RTO takes place?

A No. All generation owners, both independent power producers, as well as local utilities in Florida.

Q And if the universe of suppliers that realize those benefits includes the utilities, do those benefits also inure to the ratepayers?

A As I understand it, they would in however, whatever mechanism they have to price their product.

COMMISSIONER JABER: Mr. Mechler, let me follow-up on that and ask you a question. All things being equal, the consumer, the residential consumer, should see a savings, assuming that those savings are not outshined by the cost of the RTO. I mean, we have to remember that the cost of the RTO would also pass through to the consumer, so assuming that costs are not more than the benefits, the consumer will see some sort of price reduction, but I struggle with knowing whether Florida really needs an RTO or whether Florida really needs more generators.

And assume for a minute that Florida went forward and said no RTO is necessary; we've got adequate transmission systems, we have great companies that have maintained reliability, we've got reliability safeguards in place, and we

want to spare the consumers the cost of an RTO, but we want to see some price reductions for the consumer. Can that be accomplished by allowing more merchant plants in the market?

THE WITNESS: I think that the benefits will be much more limited if you don't go with the RTO. The companies involved have done a, I think, a very excellent job in structuring this RTO, they've had a fairly robust collaborative process, it's been pretty well-received by most of the players, it offers opportunities to allow the wholesale market to flourish, I think, and by giving the RTO -- putting the RTO in place, you will really enable a lot more opportunities to occur, a lot more competition, and not be so restricted by these smaller zones by a company-to-company basis.

COMMISSIONER JABER: More competition in the market to the degree -- it's limited by the amount of players in the market, obviously.

THE WITNESS: Yes. There is a limitation, but if the -- if you don't eliminate such things such as pancaking, for instance, then -- I'll take Reliant, for example. We may not be little to, for a variety of reasons, put a power plant in each of the IOUs' neighborhoods, as it were, and nor will Calpine and Mirant and the rest of them.

And so, my competition may be somewhat limited, which would be great for me, because then I might be in a good position, but to really get the benefits, you need to have a

lot of players in a fairly large area so that there is this balance or this give and take across a larger area. And, I think, you're better served by having a much larger market to work in, rather than restricting it into smaller zones.

COMMISSIONER JABER: Okay. So, as it relates to a regional approach, then, do we get around our state prohibition against the larger combined cycle steam units by participating in a larger RTO? Because other states don't have that prohibition.

THE WITNESS: It's a very interesting question. Let me give that some thought. If Florida would participate in a much larger regional RTO, for instance, I think is your question, do we somehow get around the current prohibition?

COMMISSIONER JABER: Right.

THE WITNESS: I think that goes back to the concern that Commissioner Palecki had about is the import going to be a problem. If there was sufficient generation north of Florida such that the competition would price it so cheap that any kind of additional transmission to be built or new capacity be put in place would make it a viable play into Florida, then I think that would be a correct assumption. You know, you have to -- there's so many unknown factors as to who might be playing north of us in the greater southern regions, I'm not sure you can say that right now.

COMMISSIONER PALECKI: But on a purely selfish basis,

if the state of Florida was to establish was to establish its own RTO, that there was abundant generation in the state of Florida that was marketable really only in the state of Florida, because there would not be adequate ties to do too much importation outside of the state, theoretically, prices in Florida would get very low; would they not?

THE WITNESS: That would be my assumption.

COMMISSIONER PALECKI: And by putting in additional transmission that would allow you to sell in many, many other markets from Florida, that might actually increase the price of power in the state of Florida.

THE WITNESS: I'm not sure I can agree with that.

COMMISSIONER PALECKI: I'm assuming that we have abundant generation.

THE WITNESS: If you have abundant generation in Florida --

COMMISSIONER PALECKI: In Florida, within Florida, so we have a very large supply that outstrips the demand, wouldn't prices go down in Florida?

THE WITNESS: Generally, in any supply and demand curve, I think, that's the case.

COMMISSIONER PALECKI: And by opening up transmission to outside of the state there would be increased demand, more markets that you could sell the power that is being created in Florida, theoretically, it would drive prices up; would it not?

THE WITNESS: I guess, then, you're suggesting that the demand curve is moving away from the supply curve, which is driving prices up. I don't know that that's adequately or that's a good assumption in that the market you're trying to get into also has players who are trying to play there as well, and I would suspect there's going to be a balance of some sort.

COMMISSIONER PALECKI: So, you're telling me that the supply from outside of the state of Florida and the potential for outside generators to sell within Florida would actually have more of a down-- put more downward pressure on rates within the state of Florida?

THE WITNESS: If I heard you correctly, outside generation moving power into Florida would have a downward pressure on prices, I would agree with that.

COMMISSIONER PALECKI: I guess, we're all trying to think what are the benefits of, you know, having Florida as its own island with a whole bunch of generation, a lot of supply, you know, our own little RTO that would allow us to move the power throughout the state as compared to a large region or being part of a large region, you know, what the effects within the state would be.

Let me ask you a more philosophical question.

THE WITNESS: Okay.

COMMISSIONER PALECKI: The concept of moving from a strictly regulated power industry to one that is a more

competitive industry where prices -- where downward pressure on rates results from competition, it's a concept that's attractive to me. At the same time, the concept of moving from local state regulation to regulation by a huge federal bureaucracy, the FERC, is something that really scares me. Could you comment on that? Are my fears founded or unfounded.

THE WITNESS: Well, I think, you know, as any American views their government one questions sometimes the man who walks up and says, "Hi, I'm from the government, I'm here to help you."

COMMISSIONER JABER: Except when you're talking about us, of course.

THE WITNESS: Locally you feel more comfortable locally, because you know the players locally and you feel that you have -- you're more in touch with the local environment. Given where FERC seems to be headed, Chairman Wood seems to be setting a course that we're on, certainly there may be some anxiety as to what that will ultimately look like. I guess, I'd almost put it into a real simple thought process.

If you were trying to move a product from a port, and you were trying to move a product, perhaps, from Miami to Atlanta, and you were faced with having to move it through three or four different trucking companies to get it there, you would find that almost uneconomical to do. Instead, if you could just put it on one truck and move it all the way to

Atlanta, that would be a good thing for you as a business and for your ultimate consumer.

The country, as I understand it, went through some kind of natural gas deregulation back in the '80s and '90s, and it seems to be working. I don't know all the details there, but it seems that FERC has already been through this experiment once, and they're going to try it again with transmission.

I think that there is a strong play, still for local regulation. I think, the states -- a lot of states, as I understand it, are deeply involved with regional RTO discussions. I'm aware that there's quite a few PSCs in the midwest who are parties to the alliance RTO discussions.

It's probably a good idea for states to get involved so that they have more of a say in what's going to happen, but I think there's still going to be a large play for states in regulating electricity locally and just that in the case of transmission, it's going to be probably a much larger organization.

COMMISSIONER PALECKI: Thank you.

CHAIRMAN JACOBS: Mr. Mechler, are you familiar with the market events that occurred in 1998 in the midwest, specifically, I think, in the Illinois area?

THE WITNESS: Not really. I just know they had some price spikes, but other than that I don't have any other feel as to what happened or why.

CHAIRMAN JACOBS: Okay. Let me ask you this: We agreed earlier that really the true indicator or how effective competition is in the wholesale market is the transactions that are occurring there, correct?

THE WITNESS: Yes.

CHAIRMAN JACOBS: And so, if we agree with the idea that an RTO would incent greater track, actually greater supply, which will probably result in a higher volume of transactions, doesn't that place more pressure on the RTO to ensure that it carries out the functions it undertakes more precisely and more clearly? Because now there would be greater pressure on delivering transactions and, in fact, there would be more competition for delivering transactions, per se; isn't that the case?

THE WITNESS: I think, the RTO has a very big job to do to make all this happen. It's key that they make all the transactions happen, especially Transco. They're in the job to move power. And if they're not moving power, they're not making money.

CHAIRMAN JACOBS: Right.

THE WITNESS: And so, it's key that they perform their own function for their own viability.

CHAIRMAN JACOBS: I'm getting to your -- the independent power producers' perspective on this, and I'd like you to help me with this, because it's -- and I'm basing this

-- I admit up front I'm basing this on a lot of anecdotal and conjecture input from what I understand about what happened in Illinois -- I'm sorry, in Chicago and also what happened in California. But I wanted you to give me your perspective on it, is that when that happens, when you see this increase in competition for transactions that the coordinator's role becomes much more controverted and, in fact, it's my understanding, in some instances, transactions -- generators have sought to invade or in fact, ignore the control of the operator, because of the intensity of the competition for those transactions.

If that's the case, then the idea that that process is what imposes discipline is, in my mind, called into question. If we're saying that it's the idea that we will have a greater number of players here and the idea that they will have an even -- a level playing field that is managed by an independent operator is the idea that it's going to give us discipline in this place. What I'm proposing to you and I'd like to hear your feedback on is does that really happen in the real world? Because what some might argue happens is that the referee actually becomes the hunted rather than the hunted.

THE WITNESS: Okay. I don't know of any specific examples, but it would be reasonable for me to think that given the -- first off, just the general operating protocols of the RTO and the players involved, there should be a and is, I

guess, a very structured rule book on how the players will play.

CHAIRMAN JACOBS: Which we don't have yet.

THE WITNESS: No. That's certainly something that has to be developed and would be part of the RTO development process.

If -- I think, you're suggesting that if the players fail to follow that rule book, is there a problem here? And I think, there's a lot of, safeguards at least that I'm aware of, that would come into play. First there should be the market monitoring unit which is proposed currently in GridFlorida which will keep -- is, I would say, a very strong referee in the process.

CHAIRMAN JACOBS: And in GridFlorida what would happen is there would be a multiphase process, as I understand it, there would be some sort of a consultation, then there would be, I think, a demand letter, and all the while transactions are flowing, is my understanding.

THE WITNESS: I'm not that familiar with all the details, but I would assume that could possibly be happening, but besides the market monitoring unit, you also have possible relief at FERC, I guess, to go complain at FERC under the -- I guess, it's under 205 or 206 or one of the FERC rules. I'm sure there's probably even some relief to be had here, perhaps, to watch over the transactions that go on.

CHAIRMAN JACOBS: And that's an interesting point, because you sent me right to my next question. Unless there's, like, a line being overloaded that's going to cause the grid to fail, I'm out of the -- well, there's a question about that under the grid bill, unless we get to a point where there's a line overload or something as to whether or not we'd have a role to step -- that this Commission would have a role to step in or not.

So, absent that, as I understand the provisions of GridFlorida, yes, after the demand letter is done and those sort of processes, then a complaint would be filed at FERC, and I understand that. My point is this: The whole notion that we're going to derive these great -- these efficiencies goes from the fact that there will be this discipline that avoids that process.

THE WITNESS: One would hope.

CHAIRMAN JACOBS: And what I'm -- and, I guess, I was kind of trying to get your feedback is in the real world that notion is tested when you actually get to the point of having this heated competition for these transactions. And if we don't have the assurance that that discipline will be there when you get to that point so that we have to go down this road of demand letters and procedures at FERC and our interaction, have we, in fact, forfeited those efficiencies?

THE WITNESS: I hope not. I don't know -- I'm not

that familiar with day-to-day operations of other markets and players who may or may not be disciplined or who may be going outside the rule book. I suppose, you know, there could be a bad player who tries to work around the rule book, but I think the safeguards are in place to bring them back in line. If the effort is to provide a robust wholesale market, that market, I would hope, would find benefit ultimately to the consumers, but I would hope that the -- any violation would be corrected and the market would go on.

CHAIRMAN JACOBS: Okay. Any further redirect, Mr. McGlothlin?

MR. McGLOTHLIN: Yes, sir, a few more questions, just as a follow-up to those questions and answers.

BY MR. McGLOTHLIN:

Q Mr. Mechler, do you know whether with respect to the 1998 price spikes in the midwest, do you know whether the midwest had an RTO in operation at the point at that time?

A I don't know what area -- I don't think there was really one in that time. I'm not even sure exactly where those problems were located.

Q All right, sir.

Getting back to the earlier questions and answers, Mr. Twomey asked you whether the RTO would result in a transmission grid that was, in theory, more reliable, and I want to pursue whether there is a basis beyond just theory for

the proposition that reliability would be increased. With respect to the existing system, when a component of the transmission system becomes overscheduled, what happens?

A Well, in some cases, if an element, such as a transmission line, for instance, becomes overscheduled or overloaded, there will be a curtailment. The operators, to protect the system and to protect the integrity of other consumers will curtail a transaction. Perhaps, in the worst-case scenario, that curtailment actually causes some consumer to have their lights go out.

You know, in an RTO scenario if that curtailment could be -- not a curtailment at all, but perhaps a re-dispatch of some sort that's economic or some kind of other switching possibility to allow a different transaction to occur, the customers don't see the lights go out. And so, I would argue that was probably an improvement in reliability.

Q All right, sir.

He also posed a question which assumed that the present system has sufficient reliability and asked whether Florida should bear the cost of the RTO when the present system isn't broken. Do you recall that question and answer?

A I'm sorry, could you -- I'm not sure I followed what question you're referring to.

Q I believe, Mr. Twomey suggested in a question to you that if the present transmission system has adequate

reliability, why would we incur the cost to go to some different system; do you recall that exchange?

A Yes, I do now.

Q Assume for the purpose of this question that the RTO is in place and has the effect of achieving reductions in generation cost that more than offset the incremental cost of RTO and, therefore, lower overall costs to ratepayers. If that happens, would the additional aspect of the more reliable system be a good thing or a bad thing?

A I think, it would be a very good thing.

Q You agree with Mr. Twomey that if the cost -- if the reduction in generation cost is less than the break-even point, which you estimate to be 1.3%, there would be no net savings; do you recall that question and answer?

A Yes.

Q In light of what you know about the laws of supply and demand, and in light of what you demonstrated about the age of many of the generators in Florida, do you think the Commission should regard the possibility of reductions that exceed 1.3% as a risk or an opportunity?

A I think, they should view that as an opportunity.

MR. McGLOTHLIN: Those are all of my questions. Thank you.

COMMISSIONER PALECKI: I have one further question. Do you see a lot of volatility in the cost of

transmission under an RTO? You've heard the testimony over the last two days; have you not?

THE WITNESS: Yes, I have.

COMMISSIONER PALECKI: Do you agree that an RTO will increase volatility in the price of transmission?

THE WITNESS: As I understand how transmission should be priced, it should be priced based on a tariff and, therefore, I don't see that as -- that particular component as being volatile, because the -- whether it's the generator buying the service or whether it's the load buying the service, the cost of that service, I believe, is usually defined by a FERC-approved tariff.

COMMISSIONER PALECKI: Thank you.

CHAIRMAN JACOBS: We had no exhibits, so that's it. Thank you. You're excused, Mr. Mechler.

(Witness excused.)

MR. WILLIS: Mr. Chairman, through agreement with the Staff and the parties, we would like to call Mr. Hernandez next and follow that by Mr. Ashburn, keep the two Tampa Electric witnesses together.

CHAIRMAN JACOBS: There's no opposition? Very well.

MR. CHILDS: And, Mr. Chairman, from the questions related to the FERC tariff from yesterday, I would like to recall Mr. Naeve to the stand after that, if that's acceptable.

CHAIRMAN JACOBS: If there's no problem with that,

Mr. Naeve will come back to the stand. In what order, would he be at the end?

MR. CHILDS: After the two witnesses that Mr. Willis has identified.

CHAIRMAN JACOBS: So, we would have Mr. Hernandez, Mr. Ashburn, and then Mr. Naeve come back, and then Mr. Mennes and then Mr. Southwick?

MR. CHILDS: Right.

CHAIRMAN JACOBS: Okay. You may proceed.

THOMAS L. HERNANDEZ

was called as a witness on behalf of Tampa Electric Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. WILLIS:

Q Would you please state your name and address?

A Thomas L. Hernandez, 702 North Franklin Street, Tampa, Florida 33602.

Q By whom are you employed?

A Tampa Electric Company.

Q Mr. Hernandez, did you prepare and cause to be prefiled in this proceeding a document titled, "The Testimony and Exhibits of Thomas L. Hernandez"?

A Yes, I did.

MR. WILLIS: Mr. Chairman, we did file an Errata Sheet, but I think it would be more efficient for Mr. Hernandez

just to point out two very minor corrections in his testimony.

CHAIRMAN JACOBS: Very well.

THE WITNESS: Just two typographical errors. On Page 2, Line 19, please insert the number 5 after number 3. This goes towards the issues that I'm sponsoring. And on Page 9, Line 9, please change the reference from document number 2 to document number 1.

MR. WILLIS: Mr. Chairman, I'd also request that you provide identification to the exhibit attached to Mr. Hernandez's testimony.

CHAIRMAN JACOBS: Very well. That's TLH-1, show that marked as Exhibit 20.

(Exhibit 20 marked for identification.)

BY MR. WILLIS:

Q With the corrections that you provided, would your answers to the questions in your prefiled testimony be the same?

A Yes, they would.

MR. WILLIS: We'd request that Mr. Hernandez's testimony be inserted into the record as though read.

CHAIRMAN JACOBS: Without objection, show Mr. Hernandez's prefiled testimony is entered inserted into the record as though read.

TAMPA ELECTRIC COMPANY
DOCKET NO. 010577-EI
FILED: AUGUST 15, 2001

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

THOMAS L. HERNANDEZ

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

A. My name is Thomas L. Hernandez. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am the Vice President, Energy Delivery, for Tampa Electric Company ("Tampa Electric" or the "Company").

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

A. I graduated from Louisiana State University in 1982 with a Bachelor of Science degree in Chemical Engineering. My responsibilities at Tampa Electric have included engineering and management positions in Production, Generation Planning, Energy and Market Planning and Fuels and Environmental Services. I was named Vice President-Regulatory Affairs for TECO Energy in March 1998, and then Vice President, Energy Delivery, for Tampa Electric in January 2001.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to demonstrate that Tampa Electric's decision to join a Regional Transmission Organization ("RTO"), in general, and to participate in the proposed GridFlorida RTO, in particular, is prudent. As a transmission dependent utility, ready access to the wholesale generation market is an important factor in Tampa Electric's ability to provide cost effective and reliable service to its customers. Therefore, any mechanism that is likely to improve the efficiency of and access to the Florida transmission grid holds the promise of significant long-term benefits to the Company's ratepayers which would exceed the incremental costs of taking transmission service from an RTO. It is from this perspective that Tampa Electric evaluated its options with regard to its obligation to respond to Federal Energy Regulatory Commission ("FERC") Order No. 2000. My testimony addresses Issues 1, 2, 3, 5, 6 and 7, as set forth in the Prehearing Order in this proceeding.

Q. Have you prepared an exhibit to support your testimony?

A. Yes I have. My Exhibit No. ____ (TLH-1) was prepared under my direction and supervision and consists of two

documents. Document No. 1 is entitled "Tampa Electric Company Response to Florida-Specific Issue List". Document No. 2 is a copy of Tampa Electric's Initial Comments on Proposed Rulemaking in FERC Docket No. RM99-2-000.

Q. What is the nature and scope of Tampa Electric's ownership of and dependence on the Florida Transmission grid?

A. Of the 14,360 miles of transmission lines in Peninsular Florida, Tampa Electric owns and operates only about 1,300 circuit miles (representing about 9 percent), most of which is concentrated within Tampa Electric's West Central Florida service territory. The vast majority of the remaining transmission capacity in the peninsular Florida grid is owned and operated by Florida Power and Light ("FPL") and Florida Power Corporation ("FPC"). Therefore, in order to buy or sell power in the wholesale electric market, Tampa Electric must have reasonable and reliable access to transmission facilities that it neither owns nor operates.

Q. Prior to the issuance of FERC Order No. 2000 did Tampa Electric perceive a need for change in the operation of the Florida transmission grid?

A. Yes. Order No. 2000 is an evolutionary phase of FERC's evolving view of longstanding imperfections in the way service over the nation's transmission grid is being provided by transmission owners. The FERC perceived that transmission owners historically had an opportunity to operate their transmission systems in a manner that favored their own wholesale transactions over those of third parties, thereby impeding the growth of competition in the wholesale generation market. Over the years, FERC Perceived that the opportunities for this favoritism included 1) transmission tariff pricing and administration that created significant economic uncertainty for third party transactions compared to transmission owner's transactions; 2) significant disparity in the degree of firmness and flexibility of transmission service for third party transactions compared to transmission owner's transactions; and 3) significantly more onerous terms and conditions for transmission service for third party transactions. The FERC also observed in Order 2000 "…the cost and time required to pursue legal channels to prove discrimination will often provide an inadequate remedy because, among other things, the competition may have already been lost." Tampa Electric agreed that there was a need for transmission reform in Florida and since 1993 has actively encouraged the FERC to recognize and address

transmission equity issues in order to allow the development of a competitive wholesale electricity market. Tampa Electric recognized that its ability to capture the benefits of a competitive wholesale market for its ratepayers would depend heavily on its ability to gain access to and use the transmission systems of other utilities on a comparable basis with those utilities. To that end, Tampa Electric urged the FERC to require jurisdictional utilities that provided transmission service to apply precisely the same set of transmission tariff prices, terms and conditions to its own wholesale transactions that it would apply to third party wholesale transactions. In order to achieve this result, Tampa Electric recommended that those transmission tariffs be amended in a manner consistent with the following principles: 1) even-handed application of rates, priority of service, scheduling and curtailment provisions; 2) strict enforcement of non-discretionary tariff provisions; 3) nondiscriminatory application of discretionary tariff provisions; 4) separation of power marketing from transmission planning, pricing, and operations personnel; 5) non-disclosure to power marketing personnel of market sensitive data obtained from applicants for transmission service; and 6) maintenance of an electronic bulletin board on which would be posted information concerning

availability of transmission capacity, transmission constraints and requests for transmission service, among other things.

In March 1995, the FERC issued its Notice of Proposed Rulemaking implementing measures to promote wholesale competition by making available to participants in wholesale markets open access, non-discriminatory transmission services by public utilities under tariffs of general applicability ("Open Access NOPR"). (Docket No. RM95-8-000). Consequently, many of the matters at issue in separate proceedings pending before the FERC were addressed, on a generic basis, in the Open Access NOPR. That proceeding culminated with the issuance of a "Final Rule", Order No.888, in April 1996.

Q. What actions did the FERC require jurisdictional utilities to take pursuant to Order No. 888?

A. The FERC required jurisdictional transmission providers to "functionally" unbundle their wholesale services and submit to the same rates and procedures as other users of their transmission system. To that end, transmission providers were required to file open access transmission tariffs containing separately stated rates for

transmission and ancillary services, to obtain such services under their own open access tariffs for all new wholesale transactions, and to rely on the same electronic information system as other customers to access such services. The FERC also encouraged, but did not require, the formation of independent system operators ("ISOs") as a means of further enhancing competition in the wholesale generation market. To that end, the FERC outlined eleven principles that should govern the formation of ISOs.

Q. Given the relief afforded by Order No. 888, did Tampa Electric perceive the need for further transmission reform?

A. Yes. Despite Order No. 888, Tampa Electric perceived the need for further improvement in the nature and scope of transmission access available to transmission dependent wholesale market participants such as Tampa Electric. In order to obtain adequate transmission service, transmission users often must go to several individual transmission providers and OASIS nodes, sign multiple agreements with each provider, pay separate and cumulative transmission fees to each transmission owner, and attempt to piece together and navigate through various parallel transmission paths to connect a power supply to a buyer.

If permitted to persist, these inefficiencies would seriously undermine the operation of any efficient, robust wholesale electric market, directly impacting Tampa Electric's retail customers and the wholesale electric market in the peninsular Florida region.

Q. What further actions did the FERC take after Order No. 888 to promote the development of ISOs?

A. In March 1998, the FERC issued a Notice of Conference as part of its Inquiry Concerning The Commission's Policy On ISOs in Docket No. PL98-5-000. In a series of conferences held between April and June 1998, the FERC solicited public comments with the goal of further refining and articulating its policy with regard to the development and operation of ISOs. After evaluating the data gathered during the above-mentioned conferences, the FERC issued, on November 24, 1998, a Notice of Intent ("NOI") to consult with State Commissions over the FERC's possible use of authority Section 202(a) of the Federal Power Act ("FPA") to divide the country into regional districts for development of regional transmission organizations ("RTOs"). In an effort to address the specific issues raised in the NOI, the Florida Public Service Commission ("Commission") held a series of workshops in which Tampa

Electric participated.

Q. When did Tampa Electric first make known to this Commission its desire for the development of a regional transmission solution?

A. At this Commission's March 15, 1999, RTO Workshop, Tampa Electric submitted "Tampa Electric Company Response to Florida-Specific RTO Issue List" (see Document No. 1 of Exhibit TLH-1). In that response, Tampa Electric discussed the shortcomings of the then current transmission grid operations and recommended, as a solution, a regional approach to transmission planning and access within peninsular Florida. Tampa Electric urged the Commission to lead the development of a regional approach. It is against this backdrop that Tampa Electric participated in the May 1999 FERC Notice of Proposed Rulemaking, Docket No. RM99-2-00 ("RTO NOPR"), that culminated in the issuance of Order No. 2000 in December 1999.

Q. Did Tampa Electric propose a specific regional transmission solution to this Commission?

A. Yes. At the September 28, 1999 Commission Workshop on RTOs and Related Issues, Tampa Electric supported a proposal for an Independent Transmission Administrator, which would have reasonably addressed Tampa Electric's transmission concerns, as expressed during earlier Commission workshops.

Q. Did Tampa Electric consider participation in an RTO to be voluntary in light of FERC Order No. 2000?

A. No. Tampa Electric had no practical alternative other than participation in an RTO in light of the Federal Policies established in Order No. 2000 and the FERC's history of enforcing actions that are labeled as "voluntary" but are, in all practicality, mandates, as explained in the testimony of Joint Witnesses Mike Naeve and James Hoecker. In fact, the Staff of this Commission noted in its September, 2000, report entitled, "Policy Analysis Briefing Paper: The Viability of an RTO in Florida" at page 4:

> *While Order No. 2000 stated that RTO development is voluntary in nature, in reality the FERC has made it clear that it expects all transmission-owning utilities to comply. Although the FERC*

lacks the direct legal authority to mandate participation in RTOs, the FERC has stated its intent to use its regulatory authority in other areas (such as ratemaking, filings, complaints, and requests for merger approval) to force compliance with Order No. 2000. [Emphasis added]

As Joint Witness Michael Naeve correctly points out, the pertinent question is whether participation in an RTO was the most prudent option for any FERC jurisdictional utility, given Order No. 2000. Tampa Electric strongly believes that participation in an RTO, in general, and GridFlorida, in particular, is prudent for Tampa Electric in light of the Federal policies set out in Order No. 2000. The Company strongly concurs with the testimony of Joint Witnesses Naeve and Hoecker regarding the nature and scope of the obligation to comply with the FERC's Order No. 2000.

Q. Is Tampa Electric's decision to participate in an RTO based primarily upon its obligation to comply with FERC Order No. 2000?

A. No. It never occurred to Tampa Electric to challenge or resist the FERC's policy directive to jurisdictional

utilities to participate in an RTO since an RTO, if properly structured, would address many, if not all, of the Company's concerns related to current transmission grid operations in Florida. The benefits to Tampa Electric's ratepayers of an RTO, as described in the testimony of Joint Witnesses Naeve and Hoecker, were desirable. The phasing out over time of pancaked wheeling charges, as discussed in the prepared direct joint testimony of William R. Ashburn, and cost savings due to increased wholesale competition in the electric markets create some of the most immediate benefits.

Q. How did Tampa Electric develop its response to FERC Order No. 2000?

A. In February 2000, after the FERC issued its Order No. 2000, Tampa Electric accepted FPC's invitation to begin a collaborative process, along with other stakeholders, including this Commission, to develop a peninsular Florida RTO that would meet the FERC's minimum RTO guidelines. Shortly thereafter, FPL announced its intention to divest its transmission assets as part of the RTO formation process and began to actively participate in the development of a peninsular Florida RTO.

Q. Why did Tampa Electric elect to participate in the proposed collaborative discussions?

A. Tampa Electric intended to comply with FERC Order No. 2000 to propose an RTO or explain the impediments to doing so by October 15, 2000. Therefore, the Company had to participate in all forums to which it was invited so that it would be in a position to develop its compliance filing. In addition, as a practical matter, Tampa Electric had no prudent alternative to working constructively with the two largest owners and operators of transmission assets in the state.

Q. Why did Tampa Electric believe that it must work with FPC and FPL in its effort to comply with FERC Order 2000?

A. FERC's Order No. 2000 requires that RTOs:

> *Encompass one contiguous geographic area*: The competitive, efficiency, reliability, and other benefits of RTOs can be best achieved if there is one transmission operator in a region. To be most effective, that operator should have control over all transmission facilities within a large geographic area,

including the transmission facilities of non-public utility entities. This consideration could preclude a noncontiguous region, or a region with "holes". (Emphasis added)

Since Tampa Electric owns transmission facilities located in the central part of peninsular Florida which interconnect with FPC's and FPL's transmission systems along with other small systems located in central Florida, Tampa Electric concluded that it could not independently create an RTO which would meet FERC's standards for approval of RTO's without including FPC's and/or FPL's transmission facilities. It was also obvious that the Company could not join an RTO outside of Florida without inclusion of FPC's and/or FPL's systems since the company's system would not be otherwise contiguous with the facilities of an out of state RTO. Conversely, the possibility existed that an RTO could have been formed without Tampa Electric's participation. Tampa Electric had no choice but to participate in order to protect the interests of its ratepayers and shareholders. To do otherwise would have left Tampa Electric without an opportunity to participate in shaping the manner in which the

critical issues of market design, RTO independence and operating protocols would be addressed in any resulting Florida RTO proposal.

Q. Has Tampa Electric decided to contribute its transmission assets to GridFlorida?

A. Yes. Tampa Electric has notified the FERC that it intends to contribute its transmission assets to GridFlorida. Tampa Electric will make its final decision whether to go forward with its contribution closer to the date of commercial operation of GridFlorida. Such a final decision will be based on many factors, including the terms and conditions of such contribution, which will be determined in a Contribution Agreement between Tampa Electric and GridFlorida. Any such agreement would need to be filed with the FERC for approval under Section 203 of the Federal Power Act. In development of the Contribution Agreement, Tampa Electric would insist that the quality and reliability of transmission service to its retail ratepayers not be degraded during the transition process as GridFlorida takes over the management and operation of Tampa Electric's transmission facilities.

Q. Why has Tampa Electric provisionally decided to contribute its assets to GridFlorida?

A. Tampa Electric agrees with FPL's position, as described in the Joint Testimony of witness Mike Naeve, that it is a better business model for the operator of the system (GridFlorida will be the operator, as required by the FERC's Order No. 2000) to also own and manage the assets. Tampa Electric believes the liability and risk issues associated with such assets, including the financial risks, are best managed when the operator is the same entity as the owner of such assets. The opportunity to even consider this option only presented itself after March 9, 2000, when FPL announced its transco proposal for the RTO and its intention to contribute its own transmission assets. Tampa Electric's transmission facilities alone would not have been sufficient to sustain a financially viable transmission company. The establishment of a large transmission company within peninsular Florida that would own FPL's transmission assets, as a base, was appealing to Tampa Electric given the Company's view that a transco is a better construct than a RTO that owns no transmission.

Q. Does Tampa Electric expect its decision to contribute its assets to GridFlorida to benefit its ratepayers?

A. Yes. Tampa Electric expects that the contribution of its transmission assets will be beneficial to its ratepayers and shareholders. As I mentioned earlier, Tampa Electric has a relatively small transmission system that, while strategic to providing retail transmission service to its retail customers, is not especially strategic in facilitating the participation of its generation assets in the wholesale generation market. The opportunity to discontinue its transmission service functions under an RTO, where access to the entire grid is facilitated more efficiently and on a level playing field with all wholesale market participants, would allow Tampa Electric to concentrate on the development and enhancement of its distribution and generation functions and responsibilities to the benefit of its retail and wholesale customers.

Q. At what value will Tampa Electric's transmission assets be transferred to GridFlorida?

A. Tampa Electric intends to transfer its transmission assets at net book value. The transfer value is essentially capped at the amount that the FERC is likely to permit

GridFlorida to include in its ratebase for purposes of setting transmission rates. With minor exceptions, the FERC will not generally accept anything higher than net book value. Even if the FERC were to permit a higher value, any amount over net book value allowed in GridFlorida's ratebase would serve only to increase the resulting transmission rates that Tampa Electric and its customers would have to pay.

Q. Did Tampa Electric consider alternatives other than contribution of its transmission assets?

A. Yes. Tampa Electric considered the alternative of divesting its assets to a third party other than GridFlorida. Although this is also a financially reasonable approach, it would have deprived the Company of the opportunity to participate in the development of the rules, protocols and procedures under which its assets will be managed. Tampa Electric believed that participation, as an existing transmission owner, would be the best way to ensure that the benefits, including the continued reliability of service, would accrue to the Company and its customers.

Tampa Electric also considered being a participating owner, where it would continue to own its transmission assets but would give up operational control of the assets to GridFlorida. While such a choice preserves some future options, it also leaves the utility with all of the risks of ownership without the ability to control the use or maintenance of the transmission assets. Tampa Electric decided that, although it believed that GridFlorida would be prudent in its actions regarding maintenance and expansion of facilities important to providing service to Tampa Electric's retail customers, the better business model would be to consolidate ownership and control of transmission facilities in the same entity.

Q. Which assets does Tampa Electric plan to contribute?

A. Tampa Electric plans to divest all of its transmission assets 69 kV and above. FPC, FPL and Tampa Electric agreed that a peninsular Florida RTO should control all such assets.

Q. Will Tampa Electric contribute the land and land rights along with its transmission assets?

A. No. The land and land rights associated with Tampa Electric's transmission facilities continue to be essential to the provision of distribution service to the Company's retail customers. Therefore, Tampa Electric will grant to GridFlorida only those land access rights that are essential for the operation and maintenance of the contributed transmission assets while retaining ownership and control over all other land and land right rights necessary or useful in the provision of retail electric service.

Q. Will Tampa Electric contribute its communications systems that are attached to its transmission assets?

A. No. Tampa Electric's ownership and management of its communication system is critical to its ability to manage the reliability of its distribution system. Tampa Electric's organization is designed so that it can access its communications system very quickly and make any necessary repairs and enhancements to continue to meet its distribution system reliability responsibilities. Additionally, the communications system supports TECO Energy's wide-area network and is an integral part of the company's internal data management system. For these reasons, Tampa Electric must retain ownership of these

assets to continue to properly manage its responsibilities as a distribution service provider.

Q. Will Tampa Electric continue to receive revenues from attachments to its transmission assets?

A. No. GridFlorida will receive revenues from attachments to contributed transmission facilities. However, such revenues will offset GridFlorida's cost of service.

Q. Will Tampa Electric contribute a portion of its storm fund to GridFlorida?

A. No. GridFlorida, as the owner of the contributed transmission assets, will be responsible for the cost of storm damage to those facilities. Therefore, Tampa Electric will no longer be responsible for maintaining this portion of its storm fund.

Q. Has Tampa Electric already contributed funds to GridFlorida?

A. Yes. As explained in Joint Witness Henry Southwick's direct testimony, Tampa Electric has supported the start-up of the interim GridFlorida LLC with a loan in the

amount of $1 million. In addition, Tampa Electric intends to help fund other activities that would be undertaken by the interim GridFlorida LLC, such as the design phase and implementation of the RTO through loan guarantees.

Q. Please summarize your testimony.

A. Tampa Electric's participation in the development of a peninsular Florida RTO and the filing of the GridFlorida RTO proposal with the FERC has been and continues to be prudent. The decisions that Tampa Electric made as the RTO discussions and opportunities unfolded, including its provisional decision to contribute its transmission assets to GridFlorida, were prudent. Tampa Electric was prudent to comply with FERC Order No. 2000 not only because the Company, as a FERC jurisdictional utility, must comply with FERC policy directives, but also because Tampa Electric customers and shareholders will be well served by the FERC's actions regarding the development of RTOs.

Q. Does this conclude your testimony?

A. Yes it does.

BY MR. WILLIS:

Q You'd please summarize your testimony.

A Yes. Good morning, Mr. Chairman and Commissioners. Tampa Electric's decision to join an RTO, in general, and to participate in GridFlorida, in particular, is prudent. As a transmission-dependent utility with the compact service area, ready access to the wholesale generation market for both purchases and sales is a vital element in Tampa Electric's ability to provide cost-effective and reliable service to its customers. In order to make purchases and sales in the wholesale market, it is essential for Tampa Electric to have reliable and reasonable access to transmission facilities that it neither owns or operates.

Consequently, any mechanism that is likely to improve the efficiency of and access to the Florida transmission grid holds the promise of significant, long-term benefits to the company's ratepayers, which exceed the incremental cost of taking transmission service from an RTO.

It is from this perspective that Tampa Electric evaluated its options with regard to its obligation to respond to FERC Order 2000. Tampa Electric has for many years worked with this Commission, the FERC, the owners and operators of transmission facilities and other interested parties to address nondiscriminatory transmission access, efficiency, planning and reliability issues.

Therefore, Tampa Electric viewed Order 2000 as an opportunity to effectively address the potential for inefficiency in the operation, planning and expansion of the Florida electric grid and wholesale power market. The RTO is an essential building block in supporting a competitive wholesale market.

In addition, Tampa Electric recognizes that Order 2000 represented a national policy that all FERC jurisdictional utilities should be members of an RTO. Tampa Electric firmly believes that participation in an RTO is the most prudent option for any FERC jurisdictional utility given the reality of Order 2000.

There is no doubt that under the facts and circumstances facing Tampa Electric it was prudent to fully participate in shaping an RTO that will be a viable alternative for Tampa Electric to comply with this national policy. It is also clear that, at this point, GridFlorida is the most prudent currently available alternative by which Tampa Electric can comply with Order 2000.

Keep in mind that Tampa Electric does not have the sufficient size or scope to independently create an RTO. Florida Power & Light and Florida Power Corporation are critical to Tampa Electric's participation in any RTO. It is also a fact that an RTO could be developed and formed without Tampa Electric's participation. Tampa Electric had no choice

but to fully participate in order to protect the interest of its ratepayers and shareholders. To do otherwise would have left Tampa Electric without an opportunity to shape the manner in which critical issues of market design, RTO independence, operating protocol would be addressed.

Florida Power & Light, Florida Power Corp., and Tampa Electric have worked hard to design GridFlorida in a manner that meets the criteria for acceptable RTOs established by the FERC. GridFlorida will provide a system that not only operates reliably and effectively, but also provides for an open and independent process that will give all participants confidence that the transmission grid will be operated in an equitable manner. We now urge this Commission to ratify in a clear and unambiguous ruling that Tampa Electric's actions in participating in the formation of the RTO are reasonable and prudent.

Thank you, Commissioners, that concludes my summary.

CHAIRMAN JACOBS: Very well. I had intended to take a break prior to the next witness, and we got involved in that discussion. So, why don't we before we get involved in cross, why don't we go ahead and do that, take a break, and we'll come back in about ten minutes.

(Recess taken.)

CHAIRMAN JACOBS: We'll go back on the record. Let me state that my objective is that we be done by lunchtime with

heavy, heavy overtones of hunger, if we don't. So, I would appreciate it if we can all bear that in mind.

MR. WILLIS: We certainly agree with your objective, but, Commissioner, I would like to have your indulgence to ask a couple of questions to allow Mr. Hernandez to respond to questions that were asked from the bench. It won't take but just a few minutes to do that.

CHAIRMAN JACOBS: Why don't we see if there's any cross, and then you can come back and do it on redirect; is that okay?

MR. WILLIS: It is, unless no one covers this particular subject area.

CHAIRMAN JACOBS: I'll allow you that latitude.

MR. WILLIS: That's fine.

CHAIRMAN JACOBS: So, you had tendered him for cross?

MR. WILLIS: Yes.

CHAIRMAN JACOBS: Okay.

MS. PAUGH: No questions.

MR. HOWE: No questions.

CHAIRMAN JACOBS: Mr. Twomey?

MR. TWOMEY: Just a very few.

CROSS EXAMINATION

BY MR. TWOMEY:

Q Good morning, sir.

A Good morning.

Q You said in your opening or your summary, did you not, that you're a transmission-dependent utility?

A Yes.

Q That puts you in a different position than the two other participants in GridFlorida, right?

A Somewhat, but to be clear, we also own transmission, but we rely on transmission in order to purchase and make sales outside of our system.

Q You rely on transmission services substantially to a greater degree than either Florida Power & Light or Florida Power Corporation?

A Relative to their needs I can speak to, but for Tampa Electric that's true.

Q Okay. Very quickly, I want to understand, if I can, on Page 5 of your prefiled testimony, you're talking about -- well, you say starting at 7, "To that end, Tampa Electric urged the FERC to require jurisdictional utilities that provided transmission service to apply precisely the same set of transmission tariff prices, terms, and conditions to its own wholesale transactions that it would apply to third-party wholesale transactions." Do you see that?

A I'm sorry, what line was that?

Q That was Page 5, started at Line 7.

A Yes.

Q Okay. So, I take it that you're just asking the FERC

to make the companies -- that is, the utilities that provided transmission service to play by the same rules as they were applying to other folks; is that generally it?

A That's part of it, yes, that's correct.

Q To not engage in any type of discrimination to their own advantage?

A That's correct.

Q Okay. And you go on to say that to achieve that result your company recommended the tariffs include certain -- be amended to include certain things, and you go on and you list six principles that you want to see realized, correct?

A That's correct.

Q Okay. And my question to you, very simply is, is it your testimony that it is necessary to have a GridFlorida or a Florida-based RTO to achieve each and every one of those principles?

A I believe that the GridFlorida proposal will, in effect, by meeting FERC Order 2000 requirements will, in fact, comply with each of these principles, that's correct.

Q Yes, sir, but that wasn't my question, though, or I didn't mean to it be that way.

What I'm saying is if I were to go through, one by one, which I want to avoid doing, instead, for example, principle one, even-handed application of rates, priority of service, scheduling and curtailment provisions, and I were to

ask you if that could be achieved -- let me ask you first, do we have a problem with that in the state of Florida?

A I'm not aware of any particular situation. The discussion here goes towards eliminating the opportunities associated with that, and this is pre-FERC 88 and pre-FERC Order 2000.

Q Yes, sir, but part of what I'm trying to discover in this proceeding is, one, you acknowledge even TECO is going to spend a fair amount of money in the formation and operation of the RTO, correct?

A Yes.

Q Okay. So, one of my goals was to try and figure out whether the system is broke or not warranting a fix, whether you figure that to be expensive or not, so what I'm trying to ask you is with respect to one, maybe you've answered it, is there a problem or not, a real problem, not just the potential?

A I'm not aware of any specific instance, no.

Q Okay. How about number two, principle two?

A Again, I'm not aware -- the answer would be the same for all these principles. I'm not aware of any specific instance.

Q Yes, sir, I mean, let me just ask you some more, too. Would it be my understanding of FERC's jurisdictions and its obligations under its statutory authority that they would be supposed to enforce nondiscriminatory tariff provisions

anyways?

A To the extent that they're identified, yes, I believe, that's correct.

Q Okay. And the same with three?

A Yes.

Q Okay. And they would, likewise, have some responsibility, as I understand it, with respect to four as well?

A That's correct, and FERC 888 took care of that.

Q Right. And they would have that obligation, independent of whether there was an RTO of any type, correct?

A That's correct.

Q Okay. How about five, is that taken care of as well without an RTO?

A There are rules and guidelines addressing this, but I think an RTO facilitates --

Q Okay.

A -- the enforcement of that, that's correct.

Q And six?

A Yes.

Q Okay. Now, the -- I'm almost finished. I've looked in your -- throughout your testimony and at your exhibits, Mr. Hernandez, and I don't find, because maybe it's not the object of your testimony that you identify any corresponding benefits to be obtained by your retail customers from the

formation of the RTO. Do I miss them or is that part of your testimony?

A In my deposition, I further elaborated on what the ratepayer benefits would be.

Q Yes, but that's not -- in fact, you said that you recognized that they were minimal; did you not, in your deposition?

A No, I did not.

Q Oh, okay.

A That's incorrect.

Q Okay, sorry. But in your -- your deposition's not in the record of this hearing, right?

A I don't know.

MR. WILLIS: That's correct at this point.

BY MR. TWOMEY:

Q Okay. Well, in your testimony that's filed with the Commission and/or in your exhibits thereto, do you specify any dollar savings that will result to your customers by your company's formation and participation in the operation of GridFlorida?

A I state that there's ratepayer benefits in my testimony. I don't quantify those benefits, that's correct.

Q Can you quantify them?

A Not at this time, no.

Q Okay. You have -- you or your fellow TECO witnesses

have testified to the general level of costs that will be incurred by your company in the formation and operation of GridFlorida through the first five years, correct?

A I know that we've identified the start-up costs and the operating costs for the first year. Beyond that, I'm not sure.

Q Okay. Can you tell these Commissioners that you are assured that there will be any net benefits to be attained by your retail customers through the formation and operation of GridFlorida?

A Yes.

Q And I mean, -- let me say it differently, because that wasn't the answer I wanted.

Can you tell these -- we established that we know what the costs are, roughly, of the first five years of operation by TECO, correct?

A That's correct.

Q Okay. Can you -- and you told me a minute ago that you are unable to identify any dollar amounts of savings as a result of the GridFlorida, correct?

A Well, I think, the question you asked me before was could I -- did I have any quantified benefits in my testimony, and that's what I responded to.

Q Okay. I'm sorry. Let me ask you again, then. Can you identify now any dollar savings to your retail customers

that will accrue as a result of your company's formation and participation in GridFlorida?

A At this point and time, there's no way to be specific as to how to quantify what those benefits will be. That's subject to the actual implementation of GridFlorida and the execution of what will be a very strategic and business type approach to GridFlorida, since it will be a for-profit Transco.

In terms of the potential benefits, that's another matter. You've heard a lot of discussion the last two and a half days related to generation savings, their significant savings associated with going to optimization on a regional basis versus suboptimal planning and optimization, analogous to what the Commission's been familiar with in the past and the annual planning hearings when the FRCC and the SEG used to do aggregate optimization plans to compare that to individual determination and need proceedings, as well as aggregate ten-year site plan filings.

The analogy there is that suboptimal planning, while it can be very accurate and based on the objective functions for the suboptimal planning, that the utilities -- respective utilities were doing exactly the right thing and doing it in a most cost-effective manner. If you take a single entity that's looking at a single region, you're going to have a greater savings as typified by the annual planning hearings, a savings in the way of deferring additions, capital additions, to

support the infrastructure. You'll have savings associated -- and that goes to timing of expenditures. You'll also have savings in terms of maximizing the best addition of resource or restoration of the existing infrastructure versus other alternatives, and that's just on a planning piece.

CHAIRMAN JACOBS: Let me pose this question. There's a growing concern that in the short term, perhaps -- I agree with your analysis for the long term, but for the short term until we reach and can gain the benefit of the planning, when we go to that -- go to a restructured environment, there will be intense pressure placed on existing infrastructure. And, in fact, that pressure in and of itself could impact the efficiencies that we get from a transmission organization. Do you agree with that?

Let me restate it. That the idea of the intensity of demand for transmission carriage will in and of itself overload the RTO.

THE WITNESS: Will it overload the RTO?

CHAIRMAN JACOBS: Yes.

THE WITNESS: In terms of capacity?

CHAIRMAN JACOBS: No, in terms of management, grid management.

THE WITNESS: I don't agree with that.

CHAIRMAN JACOBS: Okay. Okay, fair enough. Thank you.

COMMISSIONER PALECKI: Let me ask one question. You've outlined several areas where you see there are potential savings. I guess, the greatest would be downward pressure on rates by being able to select optimum generation. Do you see any value in having an incentive mechanism put in place that would allow a sharing of savings between the ratepayers and the investor-owned utilities that would reward the companies that are most adept at achieving savings in their total generation transmission cost?

THE WITNESS: That depends. I think, appropriate incentive mechanisms in the Florida market are appropriate. To the extent that they're designed in a way that benefit customers and shareholders, and there's balance to that, I couldn't comment on any particular incentive mechanism that you may be thinking of until I saw the structure and content of that.

COMMISSIONER PALECKI: Well, I guess, one of the points that Mr. Twomey has been making throughout this hearing is that the promised savings from, you know, from having more generation choices is not a sure thing, that there is still some risk there, that it's something that we've heard a lot about, but it's just not certain.

And I keep thinking that some sort of an incentive mechanism that's put in place would make the likelihood of achieving those savings perhaps greater, especially if there's

an incentive that could increase the level of profits that the company would see from purchasing generation at a lower cost.

And I guess, in the past most investor-owned utilities have been focused on building their own generation. And the reason I would like to see an incentive mechanism is that I think that would take the focus from building your own generation to achieving the optimum generation mix through long-term contracts, through self-build, and through short-term purchases. Do you see any merit in that?

THE WITNESS: Yes, but first consider this, Commissioner Palecki. I would agree with you in the last ten years reviewing most of the determination of need proceedings that it has been determined that the most cost-effective alternative and the most prudent alternative for most of the entities that have approached you in that type of a proceeding have found, and this Commission has found, that it was more cost-effective for self-build option.

Certainly, purchase power options were considered, perhaps consider, Commissioners, to the extent that an RTO, a viable RTO and effectively assuming that the GridFlorida RTO was in effect, consider that to the extent there were more viable purchase options to throw into that, that review process looking at, for example, investor-owned utilities that in the past might not have been viable.

And I'm basing that simply on that there are

limitations and constraints related to siting of new generating capacity. You do have an existing infrastructure that was discussed before that is aging and that is a reality that this state needs to face at some point, you'll have to retire some of those units, so you've got displace existing capacity, but you also have to meet future growth.

And to the extent that where that capacity is located in the absence of a viable RTO, GridFlorida in this instance, makes a huge difference. And in getting back to a point that Commissioner Jaber made and the discussion related to if you had a larger southeast RTO would in fact, would it be cost-effective or would it be more likely that the interconnect to the southeast RTO, if we had a GridFlorida, would that pre-determine that that would be most cost-effective to add additional transmission capacity?

As long as the economic support putting capacity in the state, generating capacity, that's what's going to be done. But where that capacity is located is key, because you can add 10,000 megawatts of capacity tomorrow, within 12 months, to the extent that you could do that. If all that capacity was located in Florida, but in northern Florida, you're not going to get it to where the loads are. You still have internal infrastructure issues and pinch points that need to be corrected. So it's not just a matter of increasing the import capacity.

So, I guess, the flip side, the counterargument, what I'm proposing to you, is that there's a lot of potential for savings that can be realized and passed on to the ratepayers in peninsular Florida with the development and implementation of GridFlorida.

COMMISSIONER PALECKI: Thank you.

BY MR. TWOMEY:

Q Mr. Hernandez, let's assume for a moment that this Commission reaches a conclusion that the GridFlorida formation is not mandated and is, in fact, voluntary, okay? Just assume that.

A Okay.

Q And because they find to it be voluntary on the part of the three utilities involved here, they make a determination that they will not approve it for cost recovery, unless they are comfortable that it is cost-effective in the sense that it returns net benefits to your retail customers, okay?

A You're asking me to accept that premise?

Q Well, that's reasonable, isn't it?

A I'll accept the premise for your line of questioning.

Q Okay. If that, in fact, becomes their goal and at the end of the day they're asked to make a ruling on this application and want to demonstrate to your customers, for example, that this proposal is, in fact, cost-effective, wouldn't you agree with me that if they wanted to crunch the

numbers, they only have the cost and they have nothing but promises of benefits?

A I will agree with you that there is no quantified benefit that's been stated. There have been, I guess, in the prior testimony for Reliant, and I don't recall the gentleman's name, but he asserted some benefits. But, I guess, I assert that there are significant benefits that haven't been quantified, because it's very difficult to do so. It's not to say that those benefits won't be realized.

Quite often we're asked to make policy decisions and not having all of the numbers in front of us. Tampa Electric is, in fact, in that position. We believe it's good policy from a business perspective as well as from our ratepayer perspective, based on our knowledge of the Florida system. We've been operating over 100 years, and we've seen how the system operates, and we believe that there's significant benefits.

At this point, we feel firmly enough that those benefits can be realized for Tampa Electric ratepayers and shareholders, and we believe that that applies to the aggregate peninsular Florida customers and the companies that operate in the state.

Q Yes, sir, but in the end isn't it true that you're asking -- in fact, all these companies are asking these Commissioners to take as an article of faith without a single

dollar of quantified savings, you're asking these Commissioners, this Commission, to take as an article of faith, that not only there will be benefits, economic benefits attained from the formation and operation of GridFlorida, not just that, but that they will, in fact, equal or exceed the costs you've identified; isn't that correct?

MR. WILLIS: Excuse me, that question's been asked and answered, and Mr. Twomey is becoming argumentative.

CHAIRMAN JACOBS: Mr. Twomey, you've been accused of being argumentative.

MR. TWOMEY: Well, I'll deal with Mr. Willis in the parking lot later.

MR. WILLIS: Fine.

MR. TWOMEY: I'm not being argumentative. And if he's answered that question already, I missed the answer, so I don't care, Mr. Chairman, whether he answers it or not.

CHAIRMAN JACOBS: Good. We can move on. Thank you.

MR. TWOMEY: I'm finished.

CHAIRMAN JACOBS: Staff?

CROSS EXAMINATION

BY MR. KEATING:

Q I think, we already covered a lot of the ground that Staff wished to cover, so I'm going to try not to duplicate anything and be quick. Just to summarize what we have gone over, it's your opinion that there will be benefits to TECO's

ratepayers as a result of its participation in GridFlorida?

A Yes.

Q But TECO's not attempted to quantify those benefits?

A Tampa Electric has not made any calculations that cover all the potential benefits, no.

Q Do you believe that ultimately there'll be a reduction and there'll be some savings to ratepayers?

A I'm sorry, there was some noise, I couldn't hear you.

Q Do you believe that ultimately TECO's participation in GridFlorida will result in savings to ratepayers?

A Yes.

Q And would those savings be through reduction in transmission prices?

A It's a combination of reduction in transmission costs, as a result of eliminating pancaked rates, it's more optimal planning of the transmission infrastructure, it's more optimal operation of the transmission infrastructure, it's providing access to multiple sources of capacity and energy that would be affected on a daily and pre-arranged basis, so there's quite a range of savings.

Q But can you state with any certainty when those benefits or when those savings would be realized by TECO's ratepayers?

A Some of the savings, for example, the elimination of pancaked rates will be in effect by day one. Some of those

savings will be realized as the market progresses. Some savings will continue as once you build a system and you eliminate the hurdles for new market entrants, there will be savings realized by new construction and, in fact, new construction of new capacity, combined cycle, natural gas-fired capacity is, in fact, being planned and being constructed as we speak.

So, and then, you've got the displacement of the existing capacity, which unless it's located where current capacity is currently operating, you're going to have new capacity built throughout the state, and they're going to need a way to get to the load centers. So, I think, there's a tiered timing of benefits, but they're all cumulative.

Q Can you state with any certainty when there would be net savings to TECO's ratepayers, when the savings would outweigh the costs of GridFlorida?

A No, I cannot at this time.

Q Are you able to say at this time when TECO anticipates seeking cost recovery for the costs related to GridFlorida?

A I don't know.

Q In your summary you indicated that TECO's participation or decision to participate in GridFlorida was, at least in part, based on its desire to protect its ratepayers. Doesn't GridFlorida increase TECO's transmission service costs?

A I believe, it will.

Q So, until unless there are net benefits or net savings to be achieved, in the short term, how are the ratepayers protected?

A Well, I guess, to clarify my answer to the prior question, in one part they may go up as a result of the start-up cost, and then you have the incremental cost of operation, but there's also going to be, as I stated earlier, an immediate or at the same time, decrease in some cost. What that break-even point is, I'm not clear, at this point and time.

Q And, I guess, maybe more to the point is has TECO considered any mechanism that would protect its ratepayers in terms of matching the recovery of costs associated with GridFlorida and the realization of benefits to be achieved?

A I missed the last part of your question. I couldn't hear it.

Q Has TECO considered any way that its ratepayers could be protected in terms of matching the timing of costs of GridFlorida being recovered and the ratepayers realization of the benefits?

A I'm not aware of any discussions to that effect.

Q Okay. And I just have a couple other questions, and this is to clarify something that's in your testimony.

On Page 21 of the testimony --

A Yes.

Q -- you state that TECO will not contribute a portion of its storm fund to GridFlorida; is that correct?

A That's correct.

Q To your knowledge, is that adjustment considered to be an offset or is it simply an increased charge that would be assessed by GridFlorida?

A I'm not clear as to how GridFlorida's going to address an accrual of storm fund, so I really can't address that.

MR. KEATING: Thank you. That's all the questions I have.

MR. WILLIS: Mr. Chairman, in accordance with your earlier statement, I would like to ask a couple of questions on redirect.

CHAIRMAN JACOBS: Okay. Commissioners, do you have any questions? Okay, you may proceed.

REDIRECT EXAMINATION

BY MR. WILLIS:

Q Mr. Hernandez, is it essential for Tampa Electric for this Commission to decide a methodology for cost recovery in Phase 1 of this proceeding?

A Is it essential to Tampa Electric?

Q Yes.

A No.

Q Have you calculated the percentage of circuit miles of transmission facilities in peninsular Florida that are owned by the GridFlorida companies?

A Yes, I have.

Q What percentage of the peninsular Florida transmission miles is Tampa Electric's system?

A Approximately 9%.

MR. WILLIS: That's all the questions I have.

CHAIRMAN JACOBS: One question I thought of earlier, and I'm sorry, and you may be the best witness. If not, please refer me to the one. There was some thought earlier, discussion earlier, that a southeast RTO which fails to allow some level of control in Florida would not be favored by the GridFlorida applicants, and I assume that those were mostly economic considerations. Do you have a view on given recent events on to what extent, if there were a southeast RTO which excludes some level of control in Florida, to what extent there are ramifications with regard to reliability and security?

A Well, to the first part of your question, I believe, they're beyond financial issues. I believe, there's operational issues as well, given the import and export constraints that currently exist. And based on my earlier comments, I think, will continue to exist until economics suggest otherwise, but -- I lost my train of thought. Can you ask the question -- I just wanted to clarify the first part,

and I was focused on that. Can you ask the second part of your question?

CHAIRMAN JACOBS: Sure. Are there also issues or concerns that will arise with regard to security and/or reliability in the event if there were a southeast RTO which did not have some level of control in Florida?

THE WITNESS: Well, I don't have significant operating experience. I've been in my current position for about nine months, so but I will defer, based on what I've heard from the panel and based on some of the information I've learned in my new position, I would say that that would be a concern, and I believe that we would have to have some type of operational control within peninsular Florida, given the constraints and given the dynamics of the Florida transmission grid, as well as the existing situation where the load centers are and the current location of most of the generators.

CHAIRMAN JACOBS: Okay. Thank you.

COMMISSIONER DEASON: I have a quick question.

CHAIRMAN JACOBS: Go ahead.

COMMISSIONER DEASON: Mr. McWhirter's not here with us right now, so I have to call you Mr. Hernandez. Welcome back.

THE WITNESS: Thank you, Commissioner.

COMMISSIONER DEASON: I've got a question for you. I guess, it's more of a philosophical/policy kind of a

perspective. If GridFlorida comes to fruition and it begins to operate you, as a utility company, will then become dependent upon them for your transmission.

THE WITNESS: That's correct.

COMMISSIONER DEASON: You're somewhat dependent on others for some of your transmission now, but you'll be 100% dependent when that happens, if it does happen, correct?

THE WITNESS: That is correct.

COMMISSIONER DEASON: So, you will then become a customer and you'll give new meaning to becoming a consumer advocate, because I will assume at some point you'll be advocating for yourself as a consumer of this regulated monopolistic utility company, which is GridFlorida; is that correct?

THE WITNESS: That could happen, that's correct.

COMMISSIONER DEASON: Okay. Well, what comfort do you have at TECO as a consumer of transmission services from this regulated monopolistic utility company, what degree of comfort do you have or what do you look to rely upon to provide yourself assurance that that GridFlorida is going to provide you reliable cost-effective efficient utility service; i.e., transmission service, and that they're not going to unnecessarily increase costs, that they're going to operate efficiently? What do you rely on to assure yourself, as a consumer, that this is going to happen from GridFlorida?

THE WITNESS: The answer comes in three parts. The first part being is that we made sure we had a seat at the table. We had other options to divest our transmission assets, we looked at those options, we decided we needed to retain the assets to keep a stake in the game.

In part, we rely on our experience. We've been in operation for over 100 years, we know how the system operates. We intend to be a player, continue to be a player; both from the retail perspective as well as the wholesale perspective, so that's first part, we're involved.

We're part of the development, we're making sure that the key issues that we've been discussing and bringing to this Commission and to the FERC for at least the last nine years have been addressed, and we believe to the greatest extent possible those issues have been addressed, both in the development of GridFlorida, as well as in the beginning discussions of a development of a southeast RTO, so that's part one.

Part two, in the initial phase, we're looking to continue to utilize our transmission resources, our expertise, our people that know our system, and to the extent feasible and if GridFlorida opts to provide that service, not only for our system but for other systems. And again, the thinking there is that we know the system best.

And so, there's going to be a three to five-year

transition period while GridFlorida is going to control the resources, we are going to continue to maintain and assist in the operation of those resources. And in part, that's a key part for Tampa Electric, because a good portion of our system is underbuilt. We've got common transmission and distribution facilities on the same structure.

Long term, we're going to continue to encourage -- one, we're going to monitor GridFlorida as well. We have been very forthright in supporting an FPC role as well as a FERC role, and between the FPSC, the FERC, and Tampa Electric monitoring the operations of GridFlorida, we feel comfort in that and feel like from a policy perspective that it's a good decision.

COMMISSIONER DEASON: Are you familiar with the ratemaking policies and procedures that would be in place for GridFlorida at FERC and how the tariff process would work?

THE WITNESS: Absolutely not.

COMMISSIONER DEASON: Okay. I like a direct answer. Thank you.

COMMISSIONER JABER: Mr. Hernandez, I didn't want you to think I bailed out on your testimony. I listened to it in its entirety from upstairs, and I appreciate the clarification that you made in response to Mr. Willis' questions.

Thanks.

CHAIRMAN JACOBS: Exhibit.

MR. TWOMEY: Mr. Chairman, Mr. Willis asked one new question. I'd like to ask one cross question on that or three actually. He asked one new question, he raised a new area.

CHAIRMAN JACOBS: Okay, he did. I did allow him that latitude. Go ahead.

MR. TWOMEY: I'll be very quick.

RECROSS EXAMINATION

BY MR. TWOMEY:

Q Mr. Willis, I think, the only question he asked you, Mr. Hernandez, was whether or not TECO is seeking this Commission to resolve the issue of an RTO cost recovery methodology in this proceeding and, I think, you said you were not; is that correct?

A That's correct, we did not state a position on that.

Q Okay. Now, let me ask you, is that position because you; that is, TECO, trust this Commission to later allow your recovery of all your reasonable, necessary, and prudent costs in forming and operating the RTO if, in fact, here they find it RTO prudent? Is that too long-winded?

A It's not long-winded. I'm trying to answer carefully.

Q Okay.

A Well, to the extent that this Commission finds that GridFlorida is prudent, that would suggest cost recovery. I think, the concept of what that cost recovery mechanism should

be is a key issue. Tampa Electric did not identify it as an issue and did not take a position on that issue, but to the extent that that's a key issue for other parties, I think, that's a key element in this proceeding.

Q Yes, sir, but I think I hear you saying that TECO, if they determine that the RTO is prudent here, that TECO trusts the Commission to do the right thing by ya'll later; is that essentially it?

A It isn't essentially that, and I've got to answer in this manner, that the GridFlorida platform, and I'll use the analogy as a three-legged stool. To the extent that each leg of the stool represents Tampa Electric, FPL, and FPC respectively, if you remove any of those legs, the platform isn't stable. So, it's difficult for me to say in isolation for Tampa Electric that that's all that can happen in this proceeding, because we really need to look at this in the collective.

Q Okay. So, you don't necessarily trust the Commission?

A I didn't say that, Mr. Twomey.

Q Okay.

MR. TWOMEY: Thank you. And happy anniversary.

THE WITNESS: Thank you.

MR. WILLIS: We ask that Mr. Hernandez be excused and the admission of Exhibit 20.

CHAIRMAN JACOBS: Without objection, show Exhibit 20 is admitted.

(Exhibit 20 admitted into the record.)

CHAIRMAN JACOBS: Thank you, you're excused, Mr. Hernandez.

(Witness excused.)

CHAIRMAN JACOBS: We're now to Mr. Ashburn.

MR. LONG: Yes, Commissioner, we call William Ashburn to the stand.

CHAIRMAN JACOBS: You may proceed.

WILLIAM R. ASHBURN

was called as a witness on behalf of Tampa Electric Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. LONG:

Q Would you state your full name and business address for the record?

A My name is William R. Ashburn. My business address is 702 North Franklin Street, Tampa, Florida 33602.

Q And by whom are you employed?

A Tampa Electric Company.

Q Mr. Ashburn, do you have before you a document entitled, "Testimony and Exhibits of William R. Ashburn"?

A I do.

Q Was this material prepared by you or under your

direction and supervision?

A It was.

MR. LONG: Mr. Chairman, we filed an Errata Sheet for Mr. Ashburn's testimony. In keeping with the procedure that we followed earlier, should we mark that as an exhibit?

CHAIRMAN JACOBS: I'm sorry, this was for the panel. We can do that, yes, that will be fine. We'll mark that as Exhibit 21.

MR. WILLIS: Mr. Chairman, he did not have any changes to his panel testimony, but there are corrections to his company-specific testimony.

CHAIRMAN JACOBS: I have an Exhibit 7 to the panel testimony, errata. Oh, your witness in the panel, I see, I understand.

MR. WILLIS: Not in the panel. Mr. Ashburn testified separately outside the panel --

CHAIRMAN JACOBS: Correct, correct.

MR. WILLIS: -- as a joint witness previously.

CHAIRMAN JACOBS: I understand.

CHAIRMAN JACOBS: Mark this as Exhibit 21.

(Exhibit 21 marked for identification.)

BY MR. LONG:

Q Mr. Ashburn, aside from the changes listed in your Errata Sheet, do you have any further changes to your prepared testimony?

A No.

Q With those changes, do you adopt this testimony as your sworn testimony in this proceeding?

A I do.

MR. LONG: Mr. Chairman, I ask that Mr. Ashburn's testimony be inserted into the record as though read.

CHAIRMAN JACOBS: Without objection, show Mr. Ashburn's testimony as modified as entered into the record as though read.

TAMPA ELECTRIC COMPANY
DOCKET NO. 010577-EI
FILED: AUGUST 15, 2001

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

WILLIAM R. ASHBURN

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

A. My name is William R. Ashburn. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am Director, Pricing and Financial Analysis for Tampa Electric Company ("Tampa Electric" or "the company").

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

A. I received a Bachelor of Science degree in Business Administration with a concentration in economics from Creighton University. Upon graduation, I joined Ebasco Business Consulting Company where my consulting assignments included the areas of cost allocation, computer software development, electric system inventory and mapping, cost of service filings and property record development.

In 1983, I joined Tampa Electric as a Senior Cost Consultant in the Rates and Customer Accounting Department. At Tampa Electric I have held a series of positions with responsibility for embedded cost and marginal cost of service studies, rate filings, marketing planning, rate design, implementation of new conservation and marketing programs, customer survey and various state and federal regulatory filings. In March 2001, I was promoted to my current position of Director, Rates and Financial Analysis in Tampa Electric's Regulatory Affairs department. I am a member of the Economic Regulation and Competition Committee of the Edison Electric Institute and the Rate Committee of the Southeastern Electric Exchange.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to isolate and describe the estimated impact on the company's retail rates associated with the transfer of Tampa Electric's transmission assets to the proposed GridFlorida RTO and subsequent purchase of transmission service from GridFlorida. In addition, I will describe the features of the joint pricing plan filing made by Florida Power & Light Company ("FPL") and Tampa Electric on June 1, 2001

at the Federal Energy Regulatory Commission ("FERC") which sets forth a proposal for a phased-in transition to system-average rates and how this is expected to impact Tampa Electric's ratepayers.

Q. What exhibits are you sponsoring as part of your testimony in this proceeding?

A. I am sponsoring Exhibit _____ (WRA-1), which consists of two documents. Document No. 1 is a copy of an interrogatory response provided by Tampa Electric in this docket. Document No. 2 is a calculation of certain percentages utilized later in this testimony.

Q. What methodology did you use in developing your estimate of the impact on retail rates of the transfer of Tampa Electric's transmission assets to GridFlorida and the subsequent purchase of transmission service from GridFlorida?

A. Since Tampa Electric is not requesting recovery of any GridFlorida charges at the present time, the purpose of my testimony is not to establish a transmission revenue requirement and proposed rate adjustment for potential GridFlorida transmission costs. Instead, my purpose is

to give the Commission a reasonable estimate of the impact of the above-mentioned events on rates, all else held constant. Therefore, in order to develop a reasonable estimate, I first calculated Tampa Electric's current annual transmission cost of service and compared that cost to Tampa Electric's load ratio share of the GridFlorida costs developed by Accenture as discussed in GridFlorida Companies' witness, Mr. Brad Holcombe's testimony in this proceeding.

Q. What method did you use to calculate the current annual cost of transmission service to Tampa Electric's retail customers?

A. Under my supervision and direction, an actual year 2000 retail cost of service study was performed. This study utilized actual year 2000 booked costs to derive total company cost of service and jurisdictional separation utilizing actual loads and billing determinants to derive a retail cost of service. Then a retail class cost of service study was prepared to determine functionalized costs, including the cost for transmission service. Those transmission level retail class revenue requirements have been provided in response to Staff's First Set of Interrogatories, No. 19, which I have provided as

Document No. 1 of my Exhibit.

Q. Did Tampa Electric use this same method in its last full rate proceeding (Docket No. 920324-EI)?

A. Yes. A cost of service study using this same methodology was performed in Tampa Electric's last rate proceeding and was used to support the bundled rate design currently in place. That study was performed in 1992 but used a 1994 projected test period based in part on 1991 historical data.

Q. Would it have been reasonable simply to use the 1994 cost of service study to calculate the current annual cost of transmission service to Tampa Electric's retail customers?

A. No. The data used to support that study are currently over 10 years old and, during that time, changes have occurred in both load shape and size of the different classes of retail service, as well as the relationships that provide functionalization of costs between the production, transmission, distribution and other functions. The ability of that study to accurately represent the current costs of transmission service and

the estimated impact of GridFlorida transmission service on current retail rates would be compromised.

Q. Since the first full year of GridFlorida operation may not be until 2003, would a cost of service study based upon 2002 costs be more representative for comparison purposes?

A. Perhaps. However, the preparation of Tampa Electric's 2002 budget is currently underway and will not be completed until later this year. While a projected 2002 study might be more representative, the lack of data and time for analysis precluded preparation of such a study in time to support this testimony. However the 2000 data was available and therefore the 2000 study was prepared. This study presents reasonable results, given the data available and is a more representative analysis than the 1994 study that supported the current rates.

Q. On June 1, 2001, Tampa Electric and FPL filed at the FERC a Request for Approval of Transmission Pricing Plan ("Pricing Plan") to facilitate the divestiture of their transmission facilities to GridFlorida. How will this Pricing Plan impact retail ratepayers?

A. The Pricing Plan, if approved by FERC, would freeze, for a transition period, Tampa Electric's revenue requirements for the existing assets divested to GridFlorida. The initial zonal revenue requirements for these existing facilities would remain frozen for the first five years of GridFlorida operations. Thereafter, consistent with the phase-in plan approved for GridFlorida, these zonal rates and revenue requirements will be phased out in years six through ten. This will be accomplished by moving 20 percent of the net plant balances associated with Tampa Electric's existing facilities to the Part II formula used in the GridFlorida system-wide rate. The ten-year transition plan provides substantial certainty about transmission costs that will be reflected in retail rates over that ten-year period, notwithstanding the formation of GridFlorida. Moreover, the transition plan is designed to minimize cost shifts so consumers will not be faced with abrupt or significant changes in rates as a result of the formation of GridFlorida.

Q. How was the impact on retail bills of Tampa Electric's purchase of transmission service from GridFlorida developed?

A. In the joint testimony I provided in this docket, I introduced the various aspects of the Pricing Plan. In that testimony I discussed the Grid Management Charge, the Part I (including phase-in to Part II) and Part II rates, the removal of pancaked transmission rates, credits for Transmission Dependent Utility ("TDU") facilities and charges for ancillary services. Estimates for the Grid Management Charge for GridFlorida service based in part on the analysis performed by Accenture, Holcombe Exhibit BLH-3, Table 2. Those estimates reflect the startup costs and ongoing operating cost components of the Grid Management Charge. For Tampa Electric, the estimates for startup costs are $5.5 million and the ongoing operating costs are estimated at $7.6 million for an approximate total of $13 million per year for the first five years of GridFlorida operations.

Q. Please discuss the impacts on Tampa Electric of the Part I rate and its phase-in to the Part II rate.

A. Over the first five years, the revenue requirement associated with existing transmission investment is reflected in a zonal rate that mitigates cost shifts. Moreover, the revenue requirement associated with existing transmission investment (i.e., transmission

plant placed into service by December 31, 2000) will be fixed at current cost levels. This will provide certainty to ratepayers over a five-year period whereby they will pay no more than year 2000 costs.

During the second half of the transition period (years six through 10), the zonal rate and fixed revenue requirement gradually will be transitioned to a system-wide Part II rate, so that by year 10, all consumers served by GridFlorida will face the same cost associated with the 2000 investment base, and that cost component will reflect the then-current cost of service. These features will minimize cost shifts and consumers will not be faced with abrupt or significant changes in transmission-related rates as a result of the formation of GridFlorida. Moreover, Tampa Electric's zonal rate is expected to be roughly equal to the average of the zonal rates, thus the transition in years six to 10 is not expected to have a significant impact on Tampa Electric's retail customers.

Q. Please discuss the impacts of the Part II rate on Tampa Electric.

A. The proposed GridFlorida tariff calls for the Part I charge to be based on year 2000 plant in service with Part II based on plant put into service after December 31, 2000. The overall impact on the bill for Part II costs is difficult to determine in part because it is a system-wide charge reflecting system-wide new investment and system-wide load growth. However, if the amount of new investment in transmission plant correlates with the growth in transmission load, then the overall unitized cost should not increase significantly.

Q Please discuss the impacts of TDU credits and removal of pancaked transmission rates on Tampa Electric.

A. Tampa Electric has no wholesale customers in its zone for which TDU credits would apply, therefore there is no impact on Tampa Electric. The impact to Tampa Electric from the loss of short-term transmission revenues due to the removal of pancaked transmission rates is slight and subject to partial reimbursement from GridFlorida during the first five years of operation. The impact to Tampa Electric from the loss of long-term transmission revenues due to the removal of pancaked transmission rates (which begins in year six), is expected to be less than the startup cost component of the Grid Management Charge

which ends after the fifth year. It is assumed that Tampa Electric will self-provide all ancillary services not included in Accenture's estimates of grid operating expenses.

Q. What effect is the incremental GridFlorida charges expected to have on retail rates?

A. The estimated increase in transmission cost applicable to Tampa Electric retail customers as a result of obtaining service from GridFlorida is estimated to be approximately $13 million all else held constant. This represents an approximate 23 percent increase in the transmission cost of service for retail customers over year 2000 transmission costs, but this represents less than a 1 percent increase in total retail revenue requirements, as shown in Document No. 2 of my Exhibit. Assuming production costs are approximately 50 percent of the retail cost of service, that means if the benefits described below produce even a minimal 2 percent savings in production cost, ratepayers will be better off.

Q. Does the proposed treatment of existing transmission investment provide other benefits to retail consumers?

A. Yes, these same features of the Pricing Plan provide substantial revenue certainty to GridFlorida. Accordingly, as discussed in GridFlorida Companies' witness Mike Naeve's testimony, the pricing plan will provide a platform for GridFlorida to attract capital at reasonable rates, while at the same time providing an incentive for GridFlorida to establish structures and practices that minimize operating costs and maximize the use of existing facilities. Minimizing capital costs and encouraging efficient operating practices will have a favorable impact on the rates paid by consumers in both the short and long run. In addition, retail customers will receive a benefit each year as a result of load growth. Each year during the ten-year transition period, Tampa Electric's zonal rate will be recalculated using then-current billing determinants.

Q. How does the Pricing Plan's treatment of new investments benefit Tampa Electric's retail ratepayers?

A. The Pricing Plan assesses to all load in GridFlorida the costs of new facilities (through the Part II rate) in order to smooth out rate impacts on consumers. Moreover, because the cost of new investment is treated as a system-wide cost, the Pricing Plan will be consistent

with regional planning which considers the combined needs of Florida consumers and the most efficient and economic investment plan, without regard to nominal service territory boundaries within the state.

Q. Will the Pricing Plan provide other benefits to consumers besides its impact on transmission costs?

A. Yes. It would not be appropriate to evaluate the prudence of the Pricing Plan, or, for that matter, the entire GridFlorida pricing protocol and rate design, in isolation. Rather, the benefits of GridFlorida, and, hence, whether it was prudent for the three utilities to commit to the joint proposal, must be evaluated as a total package within the parameters of FERC Order No. 2000. While the Pricing Plan is designed to address the impact of transmission costs in the rates paid by consumers, the transmission Pricing Plan also will promote more efficient and competitive wholesale markets that will benefit consumers in the form of generation cost savings realized by their power supplier. The zonal pricing approach will ensure that all zonal loads will face the same transmission charge to access any supplier in the region. This will have the effect of expanding the scope, and, therefore, the competitiveness of the

market. These benefits will flow through to consumers in the form of reduced power costs.

Q. Does this conclude your testimony?

A. Yes.

BY MR. LONG:

Q Now, Mr. Ashburn, you're also sponsoring an exhibit entitled WRA-1?

A Yes.

MR. LONG: Mr. Chairman, could we have that marked for purposes of identification?

CHAIRMAN JACOBS: Show that marked as Exhibit 22.

MR. WILLIS: Excuse me, isn't it 21?

CHAIRMAN JACOBS: Say again -- 21 was the Errata.

MR. WILLIS: Oh, I'm sorry.

CHAIRMAN JACOBS: 22 is the exhibit.

(Exhibit 22 marked for identification.

BY MR. LONG:

Q Mr. Ashburn, would you please summarize your testimony?

A Good morning, Commissioners. The purpose of my testimony is to describe the impact on Tampa Electric's retail rates resulting from the transfer of transmission assets to and taking transmission service from the proposed GridFlorida RTO.

I also describe the features of the joint pricing plan filing made by Tampa Electric and Florida Power & Light at the FERC. I provide a reasonable estimate of the incremental impact on Tampa Electric's rates to be expected from the implementation of GridFlorida.

To determine this estimate, I've utilized a year 2000

retail cost of service study to derive the current cost of transmission service to retail customers as an estimate of the cost of transmission service in the first year that GridFlorida will be in commercial operation. That cost is estimated to be approximately $55 million. Tampa Electric anticipates its incremental cost of transmission service from GridFlorida in the first year of operations will likely result primarily from GridFlorida's grid management charge which will recover the start-up and operating costs associated with GridFlorida.

This is based on the assumption that the zonal rate design will result in a similar charge from GridFlorida in year one to the cost of the existing facilities currently owned by Tampa Electric. I show that Tampa Electric's retail share of GridFlorida's start-up costs will be $5.5 million for the first year of operations. In addition, I show that Tampa Electric's incremental retail portion of the estimated ongoing operating cost to GridFlorida would be $7.6 million per year.

Thus, in the first year of GridFlorida operations, Tampa Electric's estimated incremental cost would be approximately $13 million. These amounts are supported by the testimony of joint witness Holcombe. While the $13 million would result in about a 23% increase in transmission cost of service to Tampa Electric's retail customers, I show that transmission service is a relatively small portion of the total cost for those customers with that same $13 million

representing less than a 1% of the total cost.

Because production costs are the bulk of the total retail cost of service, this means that if there are benefits derived from GridFlorida produced in excess of 2% savings, customers will be better off. The pricing plan filed at FERC by Tampa Electric and FP&L proposes to freeze the zonal revenue requirements for the two company's existing facilities for a 10-year period. This proposed pricing plan benefits both GridFlorida and ratepayers by facilitating the future IPO of GridFlorida and freezing the zonal charges, which will provide incentives to GridFlorida to operate efficiently and rate certainty for Tampa Electric taking transmission service on behalf of its retail customers.

Finally, I describe how GridFlorida's pricing plan, which Tampa Electric helped develop, was specifically developed to mitigate cost shifts for Tampa Electric's retail customers as much as possible. This resulted from the extended transition to a systemwide postage stamp rate and the phased in of elimination of pancake rates for existing transactions.

Thank you very much.

MR. LONG: Mr. Chairman, the witness is available for cross.

CHAIRMAN JACOBS: Mr. McGlothlin.

MR. McGLOTHLIN: No questions.

CHAIRMAN JACOBS: Ms. Paugh.

MS. PAUGH: No questions.

CHAIRMAN JACOBS: Mr. Howe?

MR. HOWE: No questions.

CHAIRMAN JACOBS: Mr. Twomey?

MR. TWOMEY: I've got a few, Mr. Chairman.

CHAIRMAN JACOBS: All right.

CROSS EXAMINATION

BY MR. TWOMEY:

Q Good morning, sir.

A Good morning.

Q You said in the summary of your testimony, Mr. Ashburn, that the -- I guess, the capital costs or whatever for TECO's participation in GridFlorida are 5.5 million?

A That's the start-up cost.

Q Oh, I'm sorry, that's what I meant to say, the start-up costs are $5.5 million in each of the first five years, correct?

A No, I did not say that.

Q Well, let me ask it to you this way. What are the -- isn't it true that $5.5 million is not the totality of TECO's share of the start-up costs for GridFlorida?

A That is true.

Q Let me ask you further, Mr. Ashburn, if there are start-up costs that are being amortized in the second, third, fourth, and fifth years?

A There are.
Q Pardon me?
A There are.
Q Okay. And are they approximately $5.5 million per year?
A No, they decline over that five-year period.
Q Okay. Let me ask you if you know what the total of the five-year start-up costs are for TECO?
A $16.9 million.
Q $16.9 million, okay. Now, the $7.6 million you referred to as the first year's -- is incremental operating cost, right?
A It's the operating -- I'm sorry, go ahead.
Q I'm sorry, let me make it clear. The $7.6 million you testified to is the increment of the transmission-related operating cost as a result of GridFlorida over what your current costs are; is that correct?
A It's the operating cost component of what GridFlorida would charge us for grid management charge.
Q Okay. Have you netted that out as compared to what you're paying now, what your costs are now?
A That does result -- that number is after the netting of some of our costs that are going away as a result of GridFlorida.
Q Okay. So, it is then the incremental cost of

transmission service; is it not?

A To some respect, yes.

Q Okay. And in fact, those two numbers come out to $13.1 million, right?

A Yes.

(Transcript continues in sequence in Volume 7.)

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

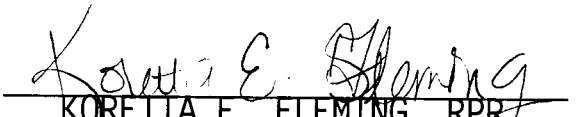
COUNTY OF LEON)

I, KORETTA E. FLEMING, RPR, Official Commission Reporter, do hereby certify that a Workshop was heard at the time and place herein stated in Docket Numbers 000824-EI, 001148-EI, and 010577-EI.

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' attorneys or counsel connected with the action, nor am I financially interested in the action.

DATED this Saturday, October 6, 2001.



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