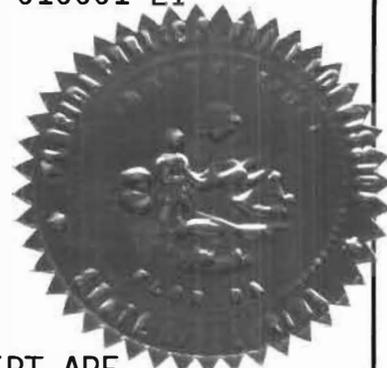


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 010001-EI

In the Matter of

FUEL AND PURCHASED POWER
COST RECOVERY CLAUSE AND
GENERATING PERFORMANCE
INCENTIVE FACTOR



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VOLUME 2

Pages 131 through 231

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN E. LEON JACOBS, JR.
COMMISSIONER J. TERRY DEASON
COMMISSIONER LILA A. JABER
COMMISSIONER BRAULIO L. BAEZ
COMMISSIONER MICHAEL A. PALECKI

DATE: Tuesday, November 20, 2001

TIME: Commenced at 9:30 a.m.
Concluded at 5:25 p.m.

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

REPORTED BY: JANE FAUROT, RPR
Chief, Office of Hearing Reporters Services
FPSC Division of Commission Clerk and
Administrative Services
(850) 413-6738

FLORIDA PUBLIC SERVICE COMMISSION

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I N D E X

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NAME: PAGE NO.

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6	BCC-1 through 5; 7 though 11; and 13 through 15 Nonconfidential Exhibit	137	201
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P R O C E E D I N G S

(Transcript continues in sequence from Volume 1.)

CHAIRMAN JACOBS: I believe you are up, Ms. Kaufman.

MS. KAUFMAN: Thank you, Mr. Chairman. The Florida Industrial Power Users Group would call Mr. Brian Collins. And I know Ms. Harlow just took back a bunch of red folders, but I have some more for you to replace those. And what I have handed you that is in the red folders is an unredacted version of Mr. Collins' testimony which has the confidential information highlighted. And it is sprinkled throughout his testimony and his exhibits.

BRIAN C. COLLINS

was called as a witness on behalf of Florida Industrial Power Users Group, and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. KAUFMAN:

Q Would you state your name and address for the record, please, Mr. Collins?

A Brian C. Collins, 1215 Fern Ridge Parkway, St. Louis, Missouri.

Q And by whom are you employed?

A Brubaker and Associates.

Q And upon whose behalf are you appearing in this proceeding?

A FIPUG.

1 Q Mr. Collins, did you cause 21 pages of direct
2 testimony to be filed in this proceeding?

3 A Yes, I did.

4 Q And as we have just discussed, it has some
5 confidential information in it, does it not?

6 A That is correct.

7 Q And, Mr. Collins, would you confirm that that
8 confidential information appears at Page 11, Line 5?

9 A Yes.

10 Q Page 14, Line 17?

11 A Yes.

12 Q And Page 18, Lines 21 and 24?

13 A That is correct.

14 Q Do you have any changes or corrections to your
15 testimony?

16 A Yes, I have one correction.

17 Q Would you tell us what that is, sir?

18 A It's on Page 10, Line 13. 1998 should read 1999.

19 Q Okay. And with that change, if I asked you the
20 questions that are in your prefiled testimony today, would your
21 answers be the same?

22 A Yes, they would.

23 MS. KAUFMAN: Mr. Chairman, we would ask that Mr.
24 Collins' direct testimony be inserted into the record as though
25 read.

1 CHAIRMAN JACOBS: Without objection, show Mr.
2 Collins' testimony is entered into the record as though read.

3 MS. KAUFMAN: And, you know, I don't know how that
4 works in terms of the confidential information, but we just
5 want to be sure that it is inserted in the record but kept
6 sealed.

7 CHAIRMAN JACOBS: If I'm not mistaken, do we mark his
8 testimony as an exhibit so that the confidentiality aspect of
9 it can be maintained?

10 MR. KEATING: I believe it just noted as confidential
11 and that the confidential document is handled as such in the
12 clerk's office.

13 CHAIRMAN JACOBS: Okay. Let the record reflect,
14 then, that Mr. Collins' testimony just inserted is to be kept
15 as confidential in the record.

16 MS. KAUFMAN: Thank you, Mr. Chairman.

17 BY MS. KAUFMAN:

18 Q Mr. Collins, you have 16 exhibits attached to your
19 testimony, correct?

20 A That is correct.

21 Q And of those exhibits, Exhibits 6, 12, and 16 have
22 confidential information in them, correct?

23 A That is correct.

24 Q Do you have any changes or corrections to your
25 exhibits?

1 A No, I do not.

2 MS. KAUFMAN: Mr. Chairman, I would ask for an
3 exhibit number. And I guess we would want to do two separate
4 ones the way we did for staff's, one for the nonconfidential
5 exhibits and one for the confidential exhibit.

6 CHAIRMAN JACOBS: Yes. Show we mark as Exhibit 6 a
7 composite to include BCC-1 through 5, 7 through 11, and 13
8 through 15, is that correct?

9 MS. KAUFMAN: Yes, sir.

10 CHAIRMAN JACOBS: And show marked as Exhibit 7,
11 confidential exhibit, to include Exhibits 6, 12, and 16.

12 MS. KAUFMAN: Thank you.

13 (Composite Exhibit 6 and Confidential Composite
14 Exhibit 7 marked for identification.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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 In Re:

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 Fuel and Purchased Power Cost
 Recovery Clause and Generating
 Performance Incentive Factor

Docket No. 010001-EI

3

4

Intervenor Testimony of Brian C. Collins

5

6 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

7 A Brian C. Collins; 1215 Fern Ridge Parkway, Suite 208; St. Louis, MO 63141-2000.

8

9 **Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**10 A I am a consultant in the field of public utility regulation with the firm of Brubaker &
11 Associates, Inc. (BAI), energy, economic and regulatory consultants.

12

13 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**14 A I graduated from Southern Illinois University with a Bachelor of Science degree in
15 Electrical Engineering. I also graduated from the University of Illinois with a Master
16 of Business Administration degree. Prior to joining BAI, I was employed by the
17 Illinois Commerce Commission and City Water Light & Power (CWLP) in
18 Springfield, IL.

1 My responsibilities at the Illinois Commerce Commission included the review
2 of the prudence of utilities' fuel costs in fuel adjustment reconciliation cases before
3 the Commission. My responsibilities at CWLP included generation and
4 transmission system planning. I also performed duties for CWLP's Operations
5 Department. These duties included calculating CWLP's allocation of fuel and
6 wholesale purchased power costs to retail and wholesale customers for use in the
7 monthly fuel adjustment.

8 BAI was formed in April 1995. In the last five years, BAI and its predecessor
9 firm has participated in more than 700 regulatory proceeding in forty states and
10 Canada.

11 BAI provides consulting services in the economic, technical, accounting, and
12 financial aspects of public utility rates and in the acquisition of utility and energy
13 services through RFPs and negotiations, in both regulated and unregulated
14 markets. Our clients include large industrial and institutional customers, some
15 utilities and, on occasion, state regulatory agencies. We also prepare special
16 studies and reports, forecasts, surveys and siting studies, and present seminars on
17 utility-related issues.

18 In general, we are engaged in energy and regulatory consulting, economic
19 analysis and contract negotiation. In addition to our main office in St. Louis, the firm
20 also has branch offices in Kerrville, Texas; Plano, Texas; Denver, Colorado; and
21 Chicago, Illinois.

22 **Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

23 **A** I am testifying on behalf of the Florida Industrial Power Users Group (FIPUG). The
24 participating FIPUG members are customers of Tampa Electric Company (TECO).

1 They purchase substantial quantities of electricity from TECO under a variety of firm
2 and non-firm tariffs.

3

4 **Q WHAT ISSUES ARE YOU ADDRESSING IN YOUR DIRECT TESTIMONY?**

5 **A** I will present the results of the audit I conducted regarding how TECO has been
6 managing various long-term wholesale power contracts. I will also address how
7 TECO's generating unit performance has affected the management of its long-term
8 wholesale power contracts.

9

10 **Q HOW ARE YOU SPECIFICALLY QUALIFIED TO ADDRESS THESE SPECIFIC**
11 **ISSUES?**

12 **A** I was formerly an engineer for City Water Light & Power (CWLP), a municipally
13 owned utility serving Springfield, Illinois. In this role, I have gained knowledge
14 regarding the management of wholesale operations. As part of my duties with
15 CWLP, I was responsible for assigning CWLP's fuel cost and purchased power cost
16 to retail and wholesale customers.

17

18 **Q WOULD YOU PLEASE SUMMARIZE THE FINDINGS OF YOUR AUDIT OF**
19 **TECO'S MANAGEMENT OF ITS LONG-TERM WHOLESALE POWER**
20 **CONTRACTS?**

21 **A** Yes. My findings include:

22 1. Wholesale customers receive the benefit of TECO's lowest cost power
23 generation and low cost purchases.

24 2. Retail customers are inappropriately bearing 100% of the excessive cost of
25 power that TECO must purchase to replace unreliable internal generation.

1 3. TECO has purchased low-cost power on the wholesale market and resold it
2 to wholesale customers rather than using the low cost power to reduce fuel
3 costs paid by retail customers.

4
5 **Q WHAT WHOLESALE SALES CONTRACTS HAVE BENEFITED FROM LOW-
6 COST POWER THAT TECO HAS BEEN PROVIDING?**

7 **A Exhibit ___ (BCC-1) is a summary of TECO's long-term wholesale sales contracts
8 that were in effect from 1998 through 2001. It also identifies the purchaser (Column
9 1), the applicable years of the contract (Column 2), the maximum contract demand
10 (Column 3-6) and whether each contract is for a separated or non-separated sale
11 (Column 7). As can be seen, TECO has had eleven wholesale contracts in effect.**

12
13 **Q WHAT DO YOU MEAN BY SEPARATED VERSUS NON-SEPARATED
14 WHOLESALE CONTRACTS?**

15 **A A separated wholesale contract means that a portion of TECO's system cost-of-
16 service (e.g. rate base and operating expenses) is being allocated to these
17 wholesale customers. It is my understanding that the jurisdictional separation is
18 based on the demands of the wholesale customers coincident with TECO's monthly
19 system peak demands. Thus, wholesale customers are being allocated a slice of
20 TECO's system resources at average embedded cost. In theory, this means that
21 retail customers are not paying any of the fixed costs associated with separated
22 wholesale sales.**

23 This is in contrast to non-separated wholesale contracts, where retail
24 customers are fully supporting the cost of production plant, other investments and
25 related expenses associated with these sales. The only benefit that retail

1 customers receive from non-separated sales is a reduced fuel cost and 80% of any
2 margins derived from these sales. However, as I shall demonstrate, the benefit of
3 lower fuel costs is minimal because TECO has been allocating only its lowest cost
4 energy resources to wholesale customers.

5

6 **Q HOW MUCH CAPACITY DID TECO HAVE UNDER LONG-TERM WHOLESAL**
7 **CONTRACTS DURING THE 1998 TO 2000 TIMEFRAME?**

8 **A** The amount of power that TECO was committed to sell under the long-term
9 wholesale contracts was 442 MW in 1999. For 2000, the amount TECO could sell
10 was 472 MW. These numbers include an estimate for the Fort Meade and
11 Wauchula partial requirements contracts. The maximum demand experienced for
12 these contracts was used as the estimate.

13

14 **Q WHAT IS THE LEVEL OF FIRMNESS OF EACH CONTRACT IN EXHIBIT ____**
15 **(BCC-1)?**

16 **A** All contracts in Exhibit ____ (BCC-1) are for firm power.

17

18 **Q DOES EXHIBIT ____ (BCC-1) IDENTIFY WHICH GENERATING UNITS ARE**
19 **DEDICATED TO SERVING EACH CONTRACT?**

20 **A** Yes. Exhibit ____ (BCC-1) identifies specific TECO generating units that are used to
21 price the service that TECO is providing under each contract. Page 2 of Exhibit ____
22 (BCC-1) also identifies the level of generating capacity associated with each
23 contract.

24

1 Q ARE WHOLESALE CUSTOMERS ALLOCATED ANY OF THE FIXED COSTS
2 ASSOCIATED WITH THESE SPECIFIC UNITS?

3 A No. As previously stated, separated sales are allocated a slice of TECO's system
4 average costs, including production investment and related rate base and operating
5 expenses. No costs are allocated to non-separated sales.

6

7 Q WHAT WERE THE FUEL COSTS ASSOCIATED WITH TECO'S WHOLESALE
8 SALES IN 1999 AND 2000?

9 A Exhibit ____ (BCC-2) identifies the average fuel costs associated with TECO's
10 wholesale sales in 1999 and 2000. TECO's average fuel cost for wholesale sales
11 in 1999 was 2.15 ¢/kWh and was 2.17 ¢/kWh in 2000.

12

13 Q HOW DOES THIS COMPARE WITH THE AVERAGE FUEL COSTS PAID BY
14 RETAIL CUSTOMERS IN 1999 AND 2000?

15 A Exhibit ____ (BCC-2) also shows the average fuel cost paid by retail customers in
16 1999 and 2000. TECO's retail customers paid average fuel costs of 2.33¢/kWh in
17 1999 and 2.83¢/kWh in 2000.

1 Q HAVE YOU ESTIMATED THE IMPACT ON RETAIL CUSTOMERS OF TECO'S
2 WHOLESALE PRACTICE OF ALLOCATING MORE EXPENSIVE PURCHASED
3 POWER ENTIRELY TO RETAIL CUSTOMERS?

4 A Yes. As a result of TECO's wholesale practices, retail customers are subsidizing
5 fuel costs for TECO's wholesale sales in the range of \$45 million to \$108 million for
6 the period 1999 through 2001. TECO's shareholders and wholesale customers are
7 directly benefiting from this subsidy.

8

9 Q HOW WAS THE SUBSIDY IS ESTIMATE DERIVED?

10 A I analyzed the cost of purchased power charged to retail customers on days when
11 non-firm load was curtailed. On these days, wholesale customers were charged for
12 energy as though it had been entirely generated from TECO's low cost coal fired
13 resources. On the days I analyzed, retail customers were subsidizing low cost
14 energy sales to wholesale contract customers because they solely were forced to
15 bear higher costs incurred by TECO to meet its wholesale sales and maintain
16 system integrity.

17

18 Q WHY IS THIS SUBSIDY OF WHOLESALE CONTRACTS BY RETAIL
19 CUSTOMERS UNREASONABLE?

20 A TECO has been giving preference to wholesale customers over its retail customers
21 in how it allocates the costs of its low-cost energy resources. TECO allocates only
22 its low energy cost resources to wholesale operations, irrespective of whether these
23 resources are fully operable. TECO has also purchased low-cost energy at
24 wholesale and wheeled it through its system for the benefit of wholesale customers.

1 Q WHAT EVIDENCE DEMONSTRATES THAT TECO HAS CONTINUED TO SELL
2 LOW-COST ENERGY FROM ITS SYSTEM DESPITE THE LACK OF UNIT
3 AVAILABILITY?

4 A I was supplied copies of TECO's system status reports for some days when TECO
5 curtailed non-firm customers. Among other things, these reports indicate what
6 internal generation was operating and the status of units that were either forced out
7 of service or not fully operational due to deratings. I was also supplied TECO's
8 monthly Schedules A-6 (Power Sold) and Schedules A-7 (Power Purchased) for
9 1999 and 2000 showing the amount of power that TECO sold and purchased on
10 the wholesale markets, including the power sales under the long-term contracts in
11 question. In addition, I reviewed TECO's responses to interrogatories regarding
12 generating unit deratings.

13 Based on my review, I observed that during outages and deratings of the
14 TECO generating units providing power for wholesale sales contracts, TECO
15 continues to sell the full contract entitlements to its wholesale customers. In other
16 words, TECO is giving higher priority for its generation to its wholesale customers
17 than to its retail customers. As a result of giving higher priority for generation to its
18 wholesale customers, there is less remaining native load generation to serve retail
19 customers. In order to meet retail electricity needs, TECO must then purchase
20 more expensive replacement energy. 100% of the cost of this replacement energy
21 is allocated to TECO retail customers.

22

23 Q HOW DID YOU DETERMINE THAT ALL REPLACEMENT ENERGY COSTS ARE
24 ALLOCATED TO THE RETAIL CUSTOMERS?

1 A I analyzed TECO's monthly Schedules A-6 and A-7 for the years 1999 and 2000.
2 Upon inspection of these Schedules, it is obvious that all power sold by TECO to its
3 wholesale customers was provided by TECO generation and that all replacement
4 power was allocated to its retail customers.

5 As examples, I have attached several Schedule A-6's and A-7's in Exhibit
6 ____ (BCC-3) to my testimony.

7 The allocation of generation to wholesale sales is shown on Column 5 of
8 each Schedule A-6. Except for purchased power wheeled to FMPA in 1999 and to
9 Seminole Electric in 1999-2000, all wholesale sales entitlements are provided by
10 TECO native generation.

11 The allocation of purchased power to retail native load and non-firm
12 customers is shown in Columns 5 and 6 in each Schedule A-7. With the exception
13 of low-cost wholesale purchases from Florida Power Corporation, Florida Power
14 and Light, and PECO for the benefit of FMPA in 1999, as well as purchased power
15 allocated to Seminole Electric in 1999 and 2000, none of the costs of power
16 purchases was allocated to wholesale customers.

17

18 Q WHAT DOES YOUR ANALYSIS REVEAL?

19 A The results of my analysis are presented in Exhibit ____ (BCC-4) and Exhibit ____
20 (BCC-5). Exhibit ____ (BCC-4) was derived from TECO's Schedules A-6, which
21 summarizes the amount of power purchases allocated to wholesale operations and
22 the source of this power for both 1999 and 2000. Excluding the FMPA sale in 1999
23 and a non-firm contract to Seminole Electric Cooperative in 1999 and 2000, all
24 wholesale sales were supplied from TECO's internal generation. This Exhibit also
25 provides TECO's forecast for 2001.

1 Exhibit ___ (BCC-5) was derived from TECO's Schedule A-7 for 1999 and
2 2000. Exhibit ___ (BCC-5) identifies the amount of power purchased by TECO and
3 how much of that purchased power was allocated to TECO's retail customers in
4 1999 and 2000. Excluding power bought for FMPA and Seminole Electric
5 Cooperative, 100% of replacement power purchased in 1999 and 2000 was
6 allocated to TECO's retail customers. Again, this Exhibit provides TECO's forecast
7 for 2001.

8

9 **Q DO YOU HAVE SPECIFIC EXAMPLES OF DAYS WHEN TECO ALLOCATED**
10 **100% OF ITS REPLACEMENT POWER COST TO RETAIL CUSTOMERS?**

11 **A** Yes. Exhibit ___ (BCC-6) provides examples on selected days. The days that I
12 examined were the 21 days when TECO curtailed system service to its non-firm
13 customers in 1998-2000. During these curtailments, TECO physically curtailed
14 non-firm customers since there was insufficient capacity to purchase in the
15 wholesale market to cover all non-firm customers requirements. Replacement
16 power was purchased on the wholesale market during the curtailment. That
17 replacement power was allocated to firm retail customers and some non-firm retail
18 customers. From my review of TECO's responses to FIPUG's data requests, it
19 appears that some non-firm retail load was not interrupted.

20 Column 2 of Exhibit ___ (BCC-6) shows the amount of MWh purchased by
21 TECO, while Column 4 shows the average price per MWh TECO paid for that
22 power during the economic curtailment.

1 Q WHAT WERE THE AVERAGE COSTS PER MWH CHARGED TO RETAIL
2 CUSTOMERS DURING THE CURTAILMENT OF NON-FIRM CUSTOMERS WHEN
3 TECO PURCHASED REPLACEMENT POWER?

4 A Since all purchased power costs were allocated to retail customers, retail customers
5 were charged an average cost as high as [REDACTED] during curtailment of non-firm
6 customers .

7

8 Q DOES TECO ONLY PURCHASE REPLACEMENT ENERGY FOR NON-FIRM
9 CUSTOMERS?

10 A No. These purchases are also made for the benefit of all other retail customers.
11 As I have previously stated, 100% of replacement power costs are allocated to retail
12 customers. TECO allocated zero costs of replacement power to wholesale
13 customers. Consequently, captive retail customers are paying unregulated prices
14 for purchased power.

15

16 Q WHY DID TECO CURTAIL SYSTEM SERVICE TO NON-FIRM CUSTOMERS ON
17 THOSE 21 DAYS?

18 A As previously stated, non-firm customers will no longer receive system service when
19 there are insufficient resources (i.e. internal generation) to meet their needs. On
20 the particular days in question, TECO experienced significant outages of its internal
21 generation. These outages were a combination of units that were forced out of
22 service and units that sustained partial outages or capacity deratings. There was
23 also not enough purchased power available on the wholesale market to cover all
24 the requirements of the non-firm customers. Thus, TECO physically curtailed its
25 non-firm customers.

1 Q WHAT IS A CAPACITY DERATING?

2 A A capacity derating is a reduction in a generating unit's ability to provide its full
3 generating output.

4

5 Q WHAT WAS THE EXTENT OF THE SYSTEM OUTAGES AND CAPACITY
6 DERATINGS FOR TECO'S GENERATING UNITS ON THE FOUR DAYS
7 EXAMINED IN DETAIL WHEN SYSTEM SERVICE TO NON-FIRM CUSTOMERS
8 WAS CURTAILED BY TECO?

9 A This is shown in Exhibit ___ (BCC-7), Exhibit ___ (BCC-8), Exhibit ___ (BCC-9) and
10 Exhibit ___ (BCC-10) for each of the four days that I examined in detail in order to
11 better provide examples of TECO's wholesale operations. These Exhibits
12 summarize total unit outages and capacity deratings on each day. For reference, I
13 have also shown the actual demand and the corresponding contract capacity of
14 TECO's long-term wholesale contract customers for the hour before, during and
15 after each economic curtailment of the non-firm customers. I have also included
16 graphs in these Exhibits for each day to visually demonstrate TECO's wholesale
17 operations, curtailments of non-firm customers, and level of generating capacity
18 available on each day.

19

20 Q PLEASE DESCRIBE TECO'S OPERATIONS ON JANUARY 6, 1999?

21 A As can be seen in Exhibit ___ (BCC-7), on January 6, 1999, TECO experienced up
22 to 187 gross MW of capacity deratings and up to 732 gross MW of other outages.
23 In total, 23.45% of TECO's gross internal generation was unavailable.

1 Q HAVE ANY OF TECO'S UNIT DERATINGS INCLUDED ANY OF THE COAL-FIRED
2 UNITS USED BY TECO TO PRICE THE SERVICE UNDER ITS VARIOUS LONG-
3 TERM WHOLESALE CONTRACTS?

4 A Yes. This can be seen in Exhibit ___(BCC-11) to this testimony, which is a detailed
5 summary of TECO's unit deratings in response to FIPUG Interrogatory No. 36. One
6 example is on August 2, 1999. TECO had a gross unit derating of 83 MW on Big
7 Bend Unit 4. TECO provides 145 MW of power to Hardee Power Partners, a TECO
8 affiliate, from this unit. Big Bend Unit 4 has a total gross dependable capacity of
9 486 MW. Despite an 83 gross MW derating on Big Bend 4, TECO continued
10 serving its full contract demand to Hardee, while interrupting non-firm customers. In
11 fact, TECO provided the full amount of power to all of its wholesale contracts.

12
13 Q DID THE UNIT OUTAGES AND DERATINGS AFFECT THE LEVEL OF
14 WHOLESALE CONTRACT DEMAND THAT TECO SERVED ON AUGUST 2 1999?

15 A No. As shown in Exhibit ___ (BCC-8), wholesale demand did not change materially
16 before, during, and after the non-firm customers were curtailed. Thus, TECO
17 continued serving its wholesale customers to the fullest extent as defined in their
18 respective long-term contracts.

19
20 Q DID YOU MAKE SIMILAR OBSERVATIONS BASED ON YOUR ANALYSIS OF
21 SYSTEM OPERATIONS ON JULY 6 2000?

22 A Yes. In fact, as can be seen in Exhibit ___ (BCC-9), which examines TECO's
23 outages and wholesale operations on July 6, 2000, TECO sold more power to its
24 long-term wholesale customers than the required contract demand. TECO provided
25 711 MW to wholesale customers while its maximum wholesale contract demand is

1 472 MW. Further, despite the continuity of the low-cost energy being sold to
2 wholesale customers on July 6, TECO's retail customers were bearing higher
3 replacement costs. The curtailment of non-firm customers was prompted by 71 MW
4 of gross unit outages. In addition, TECO experienced as much as 328 MW of
5 capacity deratings on this day. Further, as was the case on August 2, some of
6 these outages and deratings occurred on units specifically dedicated to serving
7 wholesale contract demand.

8

9 **Q DID SIMILAR OPERATIONAL PROBLEMS ARISE ON OCTOBER 5 2000?**

10 A Yes. This is shown in Exhibit ____ (BCC-10). Despite 209 MW of gross unit
11 deratings during the curtailment of non-firm customers, wholesale customers
12 continued to receive uninterrupted amounts of low cost energy. What is even more
13 compelling, TECO had 1,219 gross MW unavailable due to unit outages. Some of
14 those units were on planned maintenance. TECO had 35% of its generation
15 unavailable, yet TECO continued to provide full entitlements to wholesale
16 customers and curtail its non-firm customers while also passing on replacement
17 purchased power costs to retail customers which reached as high as [REDACTED].

18

19 **Q PLEASE SUMMARIZE YOUR ANALYSIS OF SYSTEM OPERATIONS ON**
20 **JANUARY 6, 1999, AUGUST 2, 1999, JULY 6, 2000 AND OCTOBER 5, 2000.**

21 A The substantial unit outages and capacity deratings that occurred on these days
22 had no impact on TECO's long-term wholesale contract customers, but it materially
23 and adversely impacted retail native load customers. The resulting capacity
24 shortages forced TECO to purchase replacement power in order to meet retail

1 customers' needs as well as interrupt non-firm customers. Further, the entire cost
2 of the replacement power was allocated entirely to retail customers.

3 Based on my analysis, I have concluded that TECO's retail customers are
4 subsidizing TECO's wholesale customers.

5

6 **Q DID YOU DRAW THE SAME CONCLUSION THAT RETAIL CUSTOMERS HAVE**
7 **BEEN SUBSIDIZING WHOLESALE CUSTOMERS ON THE OTHER DAYS THAT**
8 **YOU AUDITED?**

9 **A** Yes. I observed similar problems on the other days that I was able to review. In the
10 interests of brevity and time/resource limitations I did not present a complete
11 analysis. However, it is my opinion that TECO's management of its long-term
12 wholesale contracts has resulted in the retail customers subsidizing the wholesale
13 customers.

14

15 **Q WHAT IS THE MAGNITUDE OF THE SUBSIDY THAT RETAIL CUSTOMERS**
16 **HAVE BEEN FORCED TO BEAR IN UNDERWRITING TECO'S LONG-TERM**
17 **WHOLESALE CONTRACTS?**

18 **A** This is difficult to quantify because of the amount of the data required to conduct a
19 thorough analysis. Also, since TECO was not very cooperative in providing the
20 requested information in a timely fashion, it was not possible to conduct a detailed
21 analysis for the entire 1999 to 2000 timeframe. However, I have estimated the
22 subsidy that the retail customers have provided to the wholesale operations during
23 the curtailment of non-firm loads for the 21 days that were examined. This is shown
24 in Exhibit ____ (BCC-12).

1 During the physical curtailment of non-firm customers on the 21 days
2 analyzed, I have estimated that retail customers have provided a subsidy of
3 \$31.18/MWh for every MWh sold to wholesale customers. If this subsidy is applied
4 to generation diverted to the wholesale market during the 1999 to 2001 study
5 period, the gross impact on retail customers is between \$45 million and \$108
6 million. This is shown in Exhibit ___ (BCC-13).

7 The lower range of the subsidy estimate is determined by applying the
8 \$31.18/MWh to only power sold by TECO under separated contracts in 1999-2001.
9 The upper limit of this range is calculated by applying the \$31.18/MWh to all
10 wholesale power sold by TECO in 1999-2001.

11 Calculating the exact subsidy to wholesale customers is complicated since it
12 requires knowledge of TECO's wholesale operations, system resources and costs
13 for every hour during the period 1999-2001. A more precise calculation of the
14 subsidy could not be made because it would require considerably more data, time
15 and resources than could be devoted. Also, most of the required data was not
16 provided in a timely manner.

17

18 **Q WHY DID YOU INCLUDE AN ESTIMATE FOR THE YEAR 2001?**

19 **A**Since most of the contracts in place from 1999-2000 were also in effect in 2001, the
20 level of power sold to wholesale customers can be expected to be comparable to
21 the levels in 1999 and 2000. Assuming that TECO continues its practice of
22 allocating low-cost purchased power to its wholesale customers to the detriment of
23 its retail ratepayers, retail customers will again experience a subsidy in the year
24 2001. This could be exacerbated by TECO's generating unit performance in the
25 year 2001 as well.

1 Q IN SEVERAL PLACES, YOU STATED THAT TECO HAD SUSTAINED
2 SIGNIFICANT UNIT OUTAGES AND CAPACITY DERATINGS. HAVE YOU
3 REVIEWED THE PERFORMANCE OF TECO'S GENERATION?

4 A Yes. My analysis is shown in Exhibit ____ (BCC-14) and Exhibit ____ (BCC-15).
5 Exhibit ____ (BCC-14) compares the Equivalent Forced Outage Rates (EFORs) of
6 TECO's coal-fired generating units with similar units around the nation, as reported
7 in NERC's Generating Availability Data System (GADS) for 1995 through 1999. An
8 EFOR measures the amount of hours a generating unit was unavailable to provide
9 power due to forced outages and deratings. It is expressed as a percent of the sum
10 of the forced outage hours, equivalent forced derated hours and the service hours
11 of the unit.

12 As can be seen, TECO's units have above-average EFORs. Even more
13 disturbing is that the reliability of TECO's units has decreased over time.

14 Exhibit ____ (BCC-15) compares the year 2000 Equivalent Availability
15 Factors (EAF) between TECO's generation with the industry average EAFs
16 developed by NERC in its GADS data for 1995 through 1999. With the exception
17 of Big Bend 2 and Big Bend 4, TECO's units EAFs are below the typical EAFs
18 found in the NERC's GADS data.

19
20 Q IS THERE ANY CORRELATION BETWEEN THE INCREASE IN BUY-THROUGH
21 POWER PURCHASES BY TECO AND TECO'S GENERATING UNIT
22 RELIABILITY?

23 A Yes. Mr. Pollock has shown that TECO's retail non-firm customers have
24 experienced more frequent and longer duration interruptions since 1997. This is
25 also when TECO began entering into the long-term wholesale contracts. At the

1 same time, Exhibit ____ (BCC-14) demonstrates that TECO's generating unit
2 reliability has decreased. I believe this, coupled with the over 400 MW of long-term
3 wholesale sales, has caused an increase in buy-through power purchases for non-
4 firm customers.

5

6 **Q ARE WHOLESALE CUSTOMER IMPACTED BY THE POOR RELIABILITY OF**
7 **TECO'S GENERATION?**

8 **A** No. They are not affected. Wholesale customers continue to receive virtually their
9 entire allocation of power from specific generators despite capacity shortages on
10 the system overall and the unavailability or lesser availability of specific generators.
11 This means that retail customers are bearing all of the risks of TECO's unreliable
12 system. These risks result in retail customers paying exorbitantly high costs for
13 purchased power in unregulated wholesale markets. The irony is that captive retail
14 customers who cannot choose a more reliable and less expensive supplier are not
15 being adequately protected against these higher costs through the regulatory
16 process.

17

18 **Q DID YOU OBSERVE ANY OTHER QUESTIONABLE PRACTICES AS A RESULT**
19 **OF YOUR AUDIT OF AUGUST 2, 1999?**

20 **A** Yes. TECO was purchasing 80 MW from PECO at an average cost of
21 [REDACTED]. The purchase price was considerably below the cost of purchased
22 power that TECO has bought for retail customers. However, the PECO purchase
23 was not made for the benefit of retail customers. All of this power was sold to
24 FMPA. In fact, on that same day, TECO bought power as high as [REDACTED].

- 1 Please refer to Exhibit ____ (BCC-16). All of this high-cost power was allocated to
- 2 retail customers.

1 Q WHY WOULD YOU CHARACTERIZE THIS PRACTICE AS QUESTIONABLE?

2 A It is ironic that TECO can procure and allocate lower cost purchased power to its
3 wholesale sales contracts, but not for its retail customers. Instead of using lower
4 cost power purchased on the wholesale market to reduce retail customers' fuel
5 costs, TECO allocated that power to wholesale sales contracts.

6

7 Q PLEASE SUMMARIZE THE RESULTS OF YOUR AUDIT OF TECO'S
8 WHOLESALE OPERATIONS.

9 A The results of my audit can be summarized as follows:

- 10 1. TECO has been inappropriately allocating more expensive replacement power
11 solely to retail customers while simultaneously providing low-cost native
12 generation to wholesale customers.
- 13 2. TECO has been purchasing low cost power on the wholesale market and
14 reselling it to wholesale customers, rather than using it to reduce fuel costs paid
15 by retail customers.
- 16 3. Wholesale customers have continued to receive their full entitlement of low-
17 cost, native load generation, despite extensive outages and deratings of native
18 generation, including specific generators dedicated to wholesale sales.

19

20 Q AS A RESULT OF YOUR FINDINGS IN THE AUDIT OF TECO'S WHOLESALE
21 OPERATIONS, WHAT ARE YOUR RECOMMENDATIONS?

22 A My colleague Mr. Jeffry Pollock details the recommendations for TECO as a result
23 of my audit.

1 Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A Yes.

1 BY MS. KAUFMAN:

2 Q Mr. Collins, do you have a summary prepared of your
3 testimony?

4 A Yes, I do.

5 Q Would you go ahead, sir.

6 A Good afternoon, Commissioners. My testimony
7 addresses how TECO's management of its wholesale contracts and
8 how the company's deteriorating generating unit performance
9 have adversely affected retail customers resulting in
10 significant additional fuel and purchased power costs paid by
11 retail customers for the period 1999 to 2001. This is because
12 retail customers are inappropriately bearing the vast majority
13 of the cost of power that TECO must purchase to replace
14 unavailable generation while TECO simultaneously provides low
15 cost generation to its wholesale contract customers.

16 In addition, my analysis reveals that wholesale
17 contract customers receive the benefit of TECO's lowest cost
18 power generation and low cost purchases. They receive full
19 contract entitlements despite extensive outages and deratings
20 of native generation. Further, TECO has purchased low cost
21 power on the wholesale market and resold it to wholesale
22 contract customers rather than using the low cost power to
23 reduce retail fuel costs. Our rationale for these findings is
24 our analysis of TECO's fuel cost reports and interrogatory
25 responses in this proceeding. It is our position that TECO has

1 given preference to its wholesale contract customers over its
2 retail customers in allocating the costs of its energy
3 resources. TECO allocates only its lower energy cost resources
4 to wholesale operations irrespective of whether these resources
5 are fully operable.

6 We realize that TECO's separated wholesale contracts
7 are allocated a slice of TECO's generating resources at average
8 embedded cost and that retail customers in theory do not pay
9 any of the fixed costs associated with that generation. But it
10 is our position that when TECO's generating units whose fixed
11 costs are paid by both retail and wholesale customer are unable
12 to deliver the maximum amount of power due to unit outages and
13 deratings, all customers, both wholesale and retail, should
14 share in the cost of purchased power that replaces the
15 unavailable generation.

16 Presently retail customers bear the vast majority of
17 the cost responsibility of that purchased power. This is
18 inappropriate. Why should only retail customers bear the
19 consequences of TECO's inability to meet its total retail and
20 wholesale demand requirements with native generation? As a
21 result of this practice, TECO's retail customers are
22 subsidizing its wholesale customers.

23 I have calculated an estimate of the subsidy being
24 provided to the wholesale contract customers at the expense of
25 TECO's retail customers. This subsidy has been estimated to be

1 in the range of 45 to \$108 million for the period 1999 through
2 2001. This subsidy was determined by analyzing days when
3 nonfirm retail load was curtailed during 1999 to 2000. On
4 these days, wholesale customers were allocated energy costs as
5 though their power needs had been entirely provided from TECO's
6 lower cost generation.

7 Since retail customers are solely forced to bear
8 higher purchased power costs incurred by TECO to meet its
9 wholesale sales contract demand, retail customers subsidized
10 low cost energy sales to wholesale customers. The subsidy
11 calculation is only an estimate. Calculating the exact subsidy
12 is a complicated process that requires knowledge of TECO's
13 wholesale operations, system resources, and costs for every
14 hour of the period 1999 through 2001. Since most of the
15 wholesale sales contracts in place from 1999 to 2000 were also
16 in effect for the year 2001, my subsidy calculation has
17 included the year 2001.

18 The level of power sold to these contracts in the
19 year 2001 should be comparable to the 1999 and 2000 levels. A
20 more precise calculation would have required considerable more
21 data, time, and resources than could be devoted. My colleague,
22 Mr. Pollock, recommends that the Commission should conduct a
23 separate proceeding in order to determine a more precise
24 subsidy.

25 From our review of TECO's monthly Schedule As for

1 1999 and 2000, TECO's wholesale contract customers have paid
2 lower average fuel costs as compared to retail average fuel
3 costs. These monthly Schedule As also demonstrate that all
4 megawatt hours sold under wholesale contracts with the
5 exception of certain power sold to FMPA and Seminole Electric,
6 are sourced from TECO generation. Further, these monthly
7 schedules demonstrate that TECO's wholesale contracts with the
8 previous contract exceptions do not share in a portion of the
9 company's purchased power energy expense. The vast majority of
10 purchased power energy costs are allocated to retail customers.
11 This is clearly demonstrated in the monthly Schedule As.

12 There is also evidence to support that despite unit
13 outages and deratings, TECO's wholesale contract customers
14 continue to receive their full contract entitlements sourced
15 from lower cost generation while retail customers bear the vast
16 majority of the cost of purchased power to replace the
17 unavailable generation. I have observed on specific days that
18 during outages and deratings of TECO generating units providing
19 power for wholesale sales contracts, TECO continues to sell the
20 full contract entitlements to its wholesale customers.

21 On these days TECO physically curtailed nonfirm
22 customers since TECO had insufficient capacity to meet its
23 combined retail and wholesale demands. In other words, TECO is
24 giving higher priority for its generation to its wholesale
25 contract customers than to its retail customers. An example of

1 this occurred on August 2nd, 1999, when Big Bend 4 experienced
2 an 83 megawatt derating during the curtailment of nonfirm
3 customers. Despite this unit derating, TECO's affiliate, TECO
4 Power Services, received its full contract entitlement for the
5 Big Bend 4 unit. As a result of giving higher priority for
6 generation to its wholesale contract customers, there is less
7 remaining native generation to serve retail customers.

8 In order to meet retail electricity needs, TECO must
9 then purchase more expensive replacement energy. The vast
10 majority of this replacement energy expense is allocated to
11 TECO retail customers. It should be stressed that TECO's power
12 purchases are made for the benefit of all customers. TECO's
13 unit outages and deratings have exacerbated the need for
14 replacement energy.

15 There is evidence to suggest that TECO's generating
16 unit performance has declined from 1995 to 2001. Despite the
17 decline in generating unit performance, wholesale contract
18 customers have continued to receive virtually their entire
19 allocation of power from generation despite capacity shortages
20 on the system overall and the unavailability or lesser
21 availability of specific generators. This means that retail
22 customers are bearing all of the risk of TECO's unreliable
23 system. These risks result in retail customers paying high
24 costs for purchased power in unregulated wholesale markets.

25 There is also evidence to suggest that TECO has

1 purchased lower cost power for its wholesale contracts but not
2 for its retail customers. Instead of using lower cost power
3 purchased on the wholesale market to reduce retail customer
4 fuel costs, TECO allocated the power to its wholesale
5 contracts. It is ironic that TECO can procure and allocate
6 lower cost purchased power to its wholesale contracts, but it
7 is unable to do so for its retail customers.

8 My colleague, Mr. Pollock, details our
9 recommendations for TECO as a result of my review of TECO's
10 wholesale operations. That concludes my summary. Thank you.

11 MS. KAUFMAN: The witness is available for cross
12 examination.

13 MR. CLOUD: Since the interests of Publix appear to
14 be aligned with those of FIPUG, I would like to defer and let
15 them cross-examine first and then I would follow.

16 CHAIRMAN JACOBS: Okay. I was going to check with
17 Public Counsel, as well. Mr. Cloud.

18 MS. CLOUD: I have no questions.

19 MR. VANDIVER: I have no questions.

20 CHAIRMAN JACOBS: Very well. You're up, Mr. Beasley.

21 MR. BEASLEY: Thank you.

22 CROSS EXAMINATION

23 BY MR. BEASLEY:

24 Q Mr. Collins, am I correct in stating that you have
25 not ever testified as an expert witness in the area of

1 accounting for revenues and costs associated with wholesale
2 electric power sales and purchases?

3 A That is correct.

4 Q It's true, is it not, sir, that you did not review
5 any of Tampa Electric's wholesale contracts in preparing your
6 study?

7 A That is correct.

8 Q You do not profess to have any management expertise,
9 do you, in making wholesale sales or purchases of electricity?

10 A No, I do not.

11 Q Okay. Your testimony does not address, does it,
12 whether Tampa Electric was prudent in entering into any of the
13 wholesale power contracts that are addressed in your testimony,
14 does it?

15 A No, it does not.

16 Q Okay. In preparing your testimony, did you perform
17 any type of analysis of the benefits flowing to Tampa
18 Electric's customers from its nonseparated wholesale sales?

19 A No, I did not.

20 Q You didn't calculate any gains on those nonseparated
21 sales, did you?

22 A No, I did not.

23 Q Do you know how you would do that if you were
24 assigned that task?

25 A I have a pretty good feel for it, yes.

1 Q Well, during your deposition when I asked you that
2 question you said you don't believe you have an opinion on
3 that, did you not?

4 MS. KAUFMAN: If you have a reference in his
5 deposition, Mr. Beasley, maybe he could look at it.

6 MR. BEASLEY: Sure. Page 41, Line 3.

7 MS. KAUFMAN: Mr. Collins, do you have a copy of your
8 deposition there?

9 THE WITNESS: Yes, I do. (Pause.)

10 MS. KAUFMAN: Mr. Collins, do you need Mr. Beasley to
11 repeat the question?

12 THE WITNESS: Yes, please.

13 BY MR. BEASLEY:

14 Q I will just ask you the question I asked you in your
15 deposition. "Just to better understand, Mr. Collins, how would
16 you calculate the gains on nonseparated sales if you were going
17 to do it?" And your answer.

18 A "I don't have an opinion on that."

19 Q Okay. Do you agree that the Florida Public Service
20 Commission's approved separations methodology removes all cost
21 responsibility for separated sales from the retail customers of
22 Tampa Electric?

23 A In theory, yes. I have not verified that.

24 Q Well, you changed your opinion then, since your
25 deposition. If you would refer to Page 41, Line 17, read your

1 answer to the same question at your deposition?

2 A I answered, "I believe it does, yes."

3 Q Do you know the total amount of cost that retail
4 customers of Tampa Electric have avoided or have not been
5 required to pay by virtue of the fact that the Commission's
6 separation of the long-term firm contracts has been made?

7 A No, I do not.

8 Q Mr. Collins, your testimony and your exhibit address
9 and even purport to calculate what you claim as a subsidy to
10 Tampa Electric's wholesale customers that they received from
11 the company's retail customers, is that correct?

12 A That is correct.

13 Q And you base your subsidy, don't you, on two primary
14 claims; number one, that wholesale customers get the benefit of
15 less expensive coal-fired generation; and, secondly, that
16 retail customers are assigned 100 percent of purchased power
17 costs, is that correct?

18 A Yes, I believe that is correct.

19 Q Let's look at your less expensive coal-fired
20 generation theory first. Do you know how many of Tampa
21 Electric's existing wholesale separated contracts are assigned
22 Tampa Electric system average fuel and purchased power costs
23 for each megawatt hour sold?

24 A Would you please repeat the question.

25 Q Sure. Do you know how many of Tampa Electric's

1 existing separated wholesale power sales are assigned the
2 company's system average fuel and purchased power costs for
3 each megawatt hour sold?

4 A I believe there is a list in Exhibit BCC-1.

5 Q Let me distribute to you, if I could, an answer to
6 FIPUG's second set of interrogatories, Interrogatory Number 29,
7 and you might want to also reference your Exhibit BCC-1.

8 Mr. Collins, does that answer show that the only
9 separated sale still in existence that isn't allocated system
10 average fuel and purchased power costs is Tampa Electric's sale
11 to TECO Power Services?

12 A Yes, that is correct.

13 Q Okay. And you had with you, sir, at your deposition
14 the Commission's March 11, 1997 order setting its policy for
15 treatment of separated and nonseparated wholesale sales, did
16 you not?

17 A Yes, I did have that.

18 Q Do you have a copy of that order with you now?

19 A No, I do not.

20 Q Let me get a copy of it and hand it to you. And this
21 is the order that was previously distributed here at this
22 hearing.

23 Do you recognize that to be the 1997 order that you
24 had at your deposition?

25 A Yes.

1 Q Could you please read for us the highlighted
2 sentences on Page 3 of that order?

3 A "In view of these concerns, we find that as a generic
4 policy there should be uniform cost allocation between the
5 wholesale and retail markets for all prospective separable
6 sales. Wholesale sales current being made pursuant to existing
7 contracts will not be affected by this policy."

8 Q Okay. Could you look at your Exhibit BCC-1, Mr.
9 Collins?

10 A Yes.

11 Q Okay. Do you know whether the first contract listed
12 there, the FMPA separated sales --

13 A Yes.

14 Q -- was entered into prior to the policy that was
15 adopted on a prospective basis in the 1997 order?

16 A I believe that contract was entered into in 1997, so
17 I'm not sure if it was before or after the date of the order.

18 Q Why don't you look at the Interrogatory Number 29
19 answer that I have given to you?

20 A Okay.

21 Q Does it reflect that that contract was entered into
22 in 1996?

23 A Yes, it does.

24 Q Okay. How about the City of Fort Meade contract
25 listed on Line 3 of your Exhibit BCC-1, will you accept that it

1 was entered into in 1993?

2 A Yes.

3 Q And the City of Wauchula contract listed on your
4 Exhibit at Line 6, was it entered into in 1992?

5 A Yes.

6 Q And the same would apply with respect to the Reedy
7 Creek Improvement District contract on Line 8 of your exhibit,
8 would it not?

9 A Yes.

10 Q So it's true then, isn't it, that every separated
11 wholesale contract listed in your Exhibit BCC-1 that is not
12 priced on a system average cost basis was entered into prior to
13 the entry of the 1997 order establishing the prospective use of
14 system average cost assignment?

15 A Yes, I would agree.

16 Q Okay. Isn't it true that with the exception of the
17 Big Bend 4 sale, referring to that answer to Interrogatory
18 Number 29, that all of those older contracts were replaced
19 after their expiration dates with new separated contracts
20 priced on system average fuel cost basis consistent with the
21 '97 order?

22 A Could you please repeat that question.

23 Q Yes. With the exception of the Big Bend 4 unit power
24 sale, aren't all of those older contracts, weren't they
25 replaced after their expiration dates with new separated

1 contracts that are based on system average fuel costs
2 consistent with the 1997 policy order of the Commission?

3 A Which contracts are you referring to, the replacement
4 contracts?

5 Q Right. Those shown at the bottom of the answer to
6 Interrogatory Number 29.

7 MS. KAUFMAN: Mr. Beasley, I don't know -- I'm having
8 a hard time following your question when you are referring to
9 replacement contracts.

10 MR. BEASLEY: Those contracts that were entered into
11 after the earlier ones, their corresponding contracts expired.
12 Those would be the ones below that black line there. Those are
13 all system-based sales, are they not?

14 MS. KAUFMAN: Well, Mr. Collins didn't provide this
15 interrogatory answer, so I'm not sure how he can respond
16 but --

17 THE WITNESS: Well, it appears that the megawatt
18 levels are different, so I'm not sure if I can say that they
19 exactly replaced the contracts in the upper level of this
20 table.

21 BY MR. BEASLEY:

22 Q All of those later contracts, though, without regard
23 to their megawatt level of capacity, they are system-based
24 contracts, aren't they?

25 A They appear so, yes.

1 Q Based on that interrogatory answer?

2 A Yes.

3 Q You don't have anything to refute that, do you?

4 A No.

5 Q Mr. Collins, do you know whether the Big Bend 4 unit
6 power sale to TECO Power Services predated the 1997 order?

7 A I believe it did.

8 Q Okay. Could you read the highlighted sentence on
9 Page 4 of the '97 order, if you would, please?

10 A "Thus, a utility shall credit average system fuel
11 revenues through the fuel adjustment clause unless it
12 demonstrates on a case-by-case basis that each new sale does,
13 in fact, provide overall benefits to the retail ratepayers."

14 Q Mr. Collins, are you aware of whether Tampa Electric
15 has demonstrated that its Big Bend 4 unit power sale to TECO
16 Power Services provides overall benefits to the retail
17 customers?

18 A No, I'm not aware.

19 Q Have you reviewed the final order on need
20 determination, that's Order Number 22335 issued in Docket
21 Number 880309-EC in which the Commission approved the petition
22 of Seminole Electric Cooperative, TECO Power Services
23 Corporation, and Tampa Electric Company for a determination of
24 need for what is now the Hardee Power Station, have you
25 reviewed that order?

1 A No, I have not.

2 Q Let me give you a copy of it. And we distributed
3 copies earlier to the other participants.

4 Mr. Collins, could you turn to Page 7 of that order
5 and read for us the highlighted portion of that order?

6 MS. KAUFMAN: Mr. Chairman, I'm going to object. Mr.
7 Collins says he is not familiar with this order. I think
8 Mr. Beasley has had the Commission take official recognition of
9 the order, and I think it is inappropriate to question the
10 witness about something he says he is not familiar with.

11 MR. BEASLEY: I'm just trying to familiarize him with
12 it, Mr. Chairman.

13 MS. KAUFMAN: Well, I mean, asking him to read
14 selected excerpts is not familiarizing him with it. I mean, if
15 he has an opportunity to read the entire order, study it, then
16 perhaps it would be appropriate to ask him questions. But he
17 says he is not familiar with it.

18 CHAIRMAN JACOBS: Did you have a question based on
19 his testimony, Mr. Beasley?

20 MR. BEASLEY: Yes, sir. I just wanted to show that
21 this Big Bend unit power sale has been shown to meet the
22 requirement in the 1997 order which Tampa Electric has
23 demonstrated and the other participants in that need
24 determination case have demonstrated that significant benefits
25 flow to the customers of Seminole Electric Cooperative and

1 Tampa Electric.

2 MS. KAUFMAN: Mr. Chairman.

3 CHAIRMAN JACOBS: So you are asking him for his
4 interpretation of it as to whether or not the facts as he knows
5 them complies with that order?

6 MR. BEASLEY: What I was going to ask him to do is to
7 read that provision of the order and then tell me whether he is
8 aware of anything that proves that to be not the case.

9 MS. KAUFMAN: Mr. Chairman, I think the witness would
10 have to have an opportunity to look at the entire order and
11 familiarize himself with it. It is inappropriate to take out
12 selected sentences.

13 MR. BEASLEY: We have no --

14 MS. KAUFMAN: And Mr. Beasley can argue --

15 CHAIRMAN JACOBS: Excuse me.

16 MS. KAUFMAN: He is free to argue the import of that
17 order. As I said, you have already taken official recognition
18 of it. The witness is not familiar with it.

19 MR. BEASLEY: We have no difficulty with him studying
20 it for as long as he likes, and we will move on right now.

21 CHAIRMAN JACOBS: Did you want to pursue the
22 question? If you do, then here is what we will do. The
23 witness is free to look at the order. If he is not
24 comfortable, he can state so in his answer, in the context of
25 his answer. But in terms of whether or not he can interpret

1 that order, I think the order has to stand on its own. It says
2 what it says.

3 So I will allow the question and you are free to --
4 if you feel comfortable answering based on what you see before
5 you, to answer in terms of your knowledge, but outside of that
6 you answer as you like, as you see fit.

7 BY MR. BEASLEY:

8 Q And my specific question would be, Mr. Collins, that
9 highlighted portion of the order, would you agree that that
10 shows that Tampa Electric and the other applicants in that need
11 determination case demonstrated significant benefits to their
12 respective customers that prompted the Commission to approve
13 that determination of need?

14 MS. KAUFMAN: I am going to renew my objection to the
15 question, Mr. Chairman.

16 CHAIRMAN JACOBS: Very well.

17 MS. KAUFMAN: The witness is not familiar with the
18 order, let alone any particular excerpt.

19 CHAIRMAN JACOBS: I will deny the objection.

20 THE WITNESS: In this highlighted section Tampa
21 Electric did provide a showing of benefits.

22 BY MR. BEASLEY:

23 Q To the tune of about \$90 million?

24 A Yes, that is what it states here.

25 Q Okay. Let's look at your claim now that 100 percent

1 of purchased power costs are assigned to retail customers. You
2 looked at the Schedule A filings that Tampa Electric submitted
3 on a monthly basis to the Commission, right?

4 A Yes, I looked at Schedule As.

5 Q Okay. Let's take a look at Schedule A1. You have
6 got the Schedule A1 that was distributed to you?

7 A Yes.

8 Q Okay. These are not confidential numbers even though
9 they are highlighted in yellow, I want to make that clear.
10 Okay. We are looking at Schedule A1 covering the period to
11 date through December 2000. Do you see the number on Line 26,
12 Column 1, the \$460,988,973 amount?

13 A Yes.

14 Q Would you accept that that includes all costs Tampa
15 Electric incurred in generating power as well as all costs of
16 purchased power?

17 A I believe it provides the costs associated with
18 providing power to TECO's long-term wholesale contracts and
19 retail customers. I do not believe it includes the costs of
20 providing megawatt hours to Tampa Electric's wholesale tariffs.

21 Q Well, when you look at Line 5 there it includes the
22 total cost of generated power plus the total cost of purchased
23 power on Line 12 credited with the total fuel costs and gains
24 on Line 22. So doesn't Line 26 include everything?

25 A I do not see fuel costs for the partial requirements

1 contracts.

2 Q Well, look over, if you would, under the megawatt
3 hour columns, actual, down at Lines 30 and 31. You see the
4 wholesale megawatt hours of 749,604?

5 A Yes, I do.

6 Q And the total systems sales of 17,166,245 megawatt
7 hours?

8 A Yes.

9 Q If you divide the wholesale megawatt hours sold by
10 the total system megawatt hours sold, doesn't that result show
11 that your wholesale megawatt hour sales were a little over 4
12 percent of Tampa Electric's total system megawatt hour sale?
13 Do you need a calculator, we have one if you do?

14 A I think I have one with me. Mr. Beasley, could you
15 repeat the question.

16 Q Yes. On Lines 31, under actual megawatt hour, that
17 is about five columns over?

18 A Right.

19 Q In parentheses there is 749,604 megawatt hours, and
20 that is backed out of the jurisdictional kW sales, excuse me,
21 the system kW sales of 17,166,245, and you wind up with
22 jurisdictional sales of 16,416,641 megawatts hours. That is
23 that calculation there, correct?

24 A Yes.

25 Q Okay. The wholesale megawatt hours of 749,604

1 divided by the total system sales of 17,166,245, that is the
2 calculation I'm looking for. It's a little over 4 percent,
3 isn't it?

4 A Yes, that is correct. With the clarification that it
5 appears that the megawatt hours are megawatt hours sold under
6 the wholesale tariffs.

7 Q You're talking about the AR-1 tariffs? Which tariffs
8 are you referring to?

9 A I am referring to partial requirement contracts,
10 which I believe are the FERC AR-1 tariffs.

11 Q How about the AR-1 tariffs?

12 A I'm sorry?

13 Q How about the all requirements tariffs?

14 A Yes.

15 Q Well, over in Column 1 at Lines 30-31, doesn't that
16 likewise show that a little over 4 percent of the total fuel
17 and purchased power costs is backed out of the system total
18 costs and assigned to wholesale customers? And you can divide
19 that one if you would like. What I am suggesting to you is
20 that they have taken out the 20,822,361 to protect the retail
21 customers from having to pay for any of that.

22 A Yes, I believe that they have taken out costs for the
23 requirements contracts.

24 Q Okay. Well, since it's a little over 4 percent of
25 the total, wouldn't wholesale be assigned 4 percent of fuel

1 cost of generation and 4 percent of purchased power, since it
2 is 4 percent of the total?

3 A I think that is a reasonable assumption.

4 Q You think it is correct?

5 A Yes.

6 Q Do you know what a jurisdictional separation factor
7 is?

8 A I'm not sure if I could give you a definition as I
9 sit here.

10 Q Okay. Do you know the difference between a demand
11 jurisdictional separation factor and an energy jurisdictional
12 separation factor?

13 A I'm afraid not.

14 Q Okay. Mr. Collins, can you point to any specific
15 fact that would support a finding that Tampa Electric is not in
16 compliance with the policies put forth in the Commission's
17 March 11, 1997 fuel adjustment order that I handed to you
18 earlier?

19 A You asked me if I have an opinion on the policy and
20 the order?

21 Q No. I'm saying can you point to any specific fact
22 that would support a finding that Tampa Electric is not in full
23 compliance with the policy set forth in that order?

24 A I believe my answer would be no.

25 Q Okay. Mr. Collins, have you reviewed the Commission

1 staff's position on FIPUG's Issue Number 21G in the prehearing
2 order?

3 A Do you have a copy of that?

4 Q Yes, I would be happy to supply it to you.

5 A Yes, I believe I have seen this.

6 Q Okay. Sir, can you point to any fact in evidence
7 that refutes the staff's conclusion that applying energy and
8 demand jurisdictional separation factors to Tampa Electric's
9 total purchased power costs appropriately allocates a portion
10 of Tampa Electric's purchased power costs to wholesale
11 customers?

12 A Defining wholesale customers in this passage as
13 requirements contracts, I would say yes.

14 Q What fact?

15 A I'm sorry?

16 Q What fact refutes the staff's position on that Issue
17 21G?

18 A I believe the staff is only looking at wholesale
19 sales contracts that are requirements contracts and they are
20 not looking at all of Tampa Electric's long-term wholesale
21 contracts.

22 Q And that is your conclusion as to why that is an
23 erroneous position?

24 A Yes.

25 Q Okay. Well, hopefully the staff will square that

1 away a little later.

2 Mr. Collins, without conceding anything about your
3 conclusions regarding the existence of any subsidy, I want to
4 turn to the mechanics of how you calculated your subsidy. And
5 if you could look in your testimony at Page 7, Lines 10 through
6 16, you say that you analyzed the cost of purchased power
7 charged to Tampa Electric's retail customers on days when
8 nonfirm load was curtailed. How many days there are you
9 referring to?

10 A 21 days from 1999 through 2000. And I also looked at
11 the days -- the 21 days are days on which the nonfirm retail
12 customers were curtailed. And I also looked at the day before
13 and after the curtailments. But the subsidy calculation only
14 involves the 21 days.

15 Q How did these 21 days come to be selected,
16 Mr. Collins? Did Tampa Electric choose them and give them to
17 you?

18 A No, these were days on which nonfirm load was
19 curtailed.

20 Q Who selected that criterion, was it you?

21 A Yes.

22 Q Well, do you think the 21 days that you used in your
23 study are representative of Tampa Electric's normal operations
24 for the years 1999 and 2000?

25 A Well, since I haven't looked at every hour of every

1 year in 1999 through 2001, I'm not sure if I can make that
2 statement.

3 Q Okay. Isn't it true that your entire study is based
4 upon your review of A Schedules that cover 63 hours that
5 occurred during those 21 days during the years 1999 and 2000?

6 A Yes, that is correct.

7 Q Okay. And you just assume, do you not, that data for
8 those 63 hours would likewise apply to all of 2001 even though
9 that is not part of your two years that you looked at?

10 A That is correct.

11 Q Okay. So your study really covers a period of about
12 26,280 hours, is that correct, covering 1999 through 2001?

13 A That is correct.

14 Q Do you consider the 63 hours that your study is based
15 on to be representative of all of the other hours of the years
16 covered in your study?

17 A Well, since I haven't looked at every hour in the
18 years 1999 through 2001, again, I'm not sure that I can make
19 that statement.

20 Q Well, do you put forth your 63 hours to be
21 representative of the three years covered by your study?

22 A Yes, I have used those hours in my study.

23 Q No, I said do you consider them to be representative
24 of the full three years covered by your study?

25 A I think it's important to point out --

1 Q Could you answer yes or no and then explain, if you
2 would.

3 A Sure. Yes. But I think it's important to point out
4 that since I haven't looked at every hour of 1999 through 2001,
5 a more precise subsidy estimate has to be calculated and that
6 has been our recommendation, that a more thorough investigation
7 should be performed in order to determine a more accurate
8 subsidy.

9 Q Mr. Collins, aren't your 63 hours of data -- aren't
10 they representative of just themselves, I mean, and nothing
11 beyond themselves? Aren't they a universe unto themselves?
12 They are the only hours out of the 26,000 hours that share the
13 common limiting parameter that single them out, don't they,
14 that being when interruptions were made?

15 A Yes. But I think it's important to point out the
16 fact that I discovered that Tampa Electric was allocating
17 purchased power costs solely to its retail customers during
18 those hours. I think it's important to point out that
19 practice.

20 Q If you were going to select 63 hours out of a
21 three-year period to be representative of the entire three-year
22 period, wouldn't you choose those 63 hours randomly rather than
23 picking something like only those hours when interruptions
24 occurred?

25 A Please repeat the question.

1 Q Sure. If you were going to select 63 hours out of a
2 three-year period comprising 26,000-plus hours, wouldn't you
3 choose those 63 hours randomly in order to be representative of
4 the three-year period rather than selecting something like only
5 those hours when interruptions were made?

6 A Well, I have not professed to be an expert on
7 statistics, so I'm not sure if I have an opinion on that.

8 Q Okay. It's true, is it not, that you took only a
9 single course in statistics entitled introduction to
10 statistics?

11 A That is correct.

12 Q Mr. Collins, would you expect that your 63 hours when
13 optional provisioned power was not available to the
14 interruptible customers and they were being interrupted,
15 wouldn't you expect those 63 hours to coincide with some of the
16 most severe statewide shortages of power in the state during
17 those three years, or during the two years covered by the 63
18 hours?

19 A I think when you experience a state shortage, there
20 is pretty much no power available on the market, so I would say
21 that the cost would be very high on those days that you have
22 state shortages.

23 Q So I have properly characterized the likelihood that
24 there would be shortages, is that correct?

25 A Yes.

1 CHAIRMAN JACOBS: May I ask a question. Do I take it
2 that one of your premises of your argument, and I don't know if
3 it goes to all the 21 days, but I think on Pages 12 and 13 of
4 your testimony, you go to the whole idea of deratings and
5 outages, and in Exhibit 7, BCC-7, you talk about percentage of
6 internal generation capacity that was unavailable. And you
7 tell me what the correct interpretation is, but are you saying
8 that at a time when there was high demand on the system, there
9 was also a relatively high percentage of capacity that was
10 unavailable and, therefore, the prospect of purchasing out in
11 the other market is enhanced?

12 THE WITNESS: Yes.

13 CHAIRMAN JACOBS: And so in your view, then, if that
14 is the case, then the idea that you had to go and purchase in
15 this market was not just a mere incidence of the marketplace,
16 but there were other intervening factors?

17 THE WITNESS: Yes.

18 CHAIRMAN JACOBS: And that is -- okay.

19 THE WITNESS: Yes, shortages of duration capacity due
20 to outages and deratings.

21 CHAIRMAN JACOBS: Okay.

22 BY MR. BEASLEY:

23 Q Mr. Collins, are you aware that Tampa Electric
24 routinely serves FIPUG with a copy of its monthly filing of its
25 A Schedules at the same time it files them with the Commission?

1 A I'm not sure if you do that or not. I can't answer
2 that.

3 Q I represent to you that we do. And assuming that we
4 do, if that is the case, FIPUG or you could have picked any
5 hours it wanted to to be representative of the three-year
6 period covered by your study, could it not?

7 MR. McWHIRTER: I object to the question. It assumes
8 Schedules As give every hour of the day, and Schedule As don't
9 do that. There is no foundation laid for that proposition.

10 BY MR. BEASLEY:

11 Q You could have used any time frame you wanted,
12 couldn't you?

13 CHAIRMAN JACOBS: Let's make sure we handle the
14 objection first. Or are you rephrasing the question?

15 MR. BEASLEY: I'm rephrasing the question.

16 CHAIRMAN JACOBS: Okay.

17 BY MR. BEASLEY:

18 Q You could have used any of the A Schedules that were
19 served on FIPUG, could you not?

20 A Would you please repeat that, Mr. Beasley.

21 Q I said you could have used any of the A Schedules
22 furnished to FIPUG in selecting whatever time frame you wanted
23 to represent in your studies?

24 A I believe that is correct.

25 Q Did you review any system status report supplied by

1 Tampa Electric to FIPUG?

2 A Yes, I did.

3 Q Okay. FIPUG could have selected any system status
4 reports it wanted to ask for in its discovery requests, could
5 it not?

6 A Yes.

7 Q They only selected those when interruptions occurred,
8 right?

9 A Yes. But I think what we were trying to do was
10 determine what was causing the nonfirm retail customer
11 curtailments.

12 Q Mr. Collins, let's assume somebody wanted to reach a
13 different result from that produced by your study. Do you know
14 whether it might be possible to hand pick 63 hours out of the
15 26,280 hours in the time frame that you looked at which when
16 tested by the same formula you used in your study would have
17 produced a negative study?

18 A Since I'm not familiar with every hours data for the
19 three years, I can't answer that question.

20 Q Okay. Mr. Collins, the next few questions don't
21 assume that your so-called per megawatt hour subsidy have any
22 validity, but I want to ask you about the megawatt hour sales
23 that you applied that subsidy to. You applied your megawatt
24 hour subsidy to every single megawatt hour that Tampa Electric
25 sold under its long-term firm separated wholesale sales to get

1 the bottom of your range of alleged total subsidy, is that
2 correct?

3 A The megawatt hour number includes sales sold under
4 long-term contracts and does not include megawatt hours sold
5 under the wholesale tariffs.

6 Q No, my question is you applied your megawatt hour
7 subsidy to every single megawatt hour the company sold under
8 its long-term firm separated wholesale sales to get the bottom
9 of your range of your total subsidy, is that correct?

10 A Megawatt hours provided on the Schedule As, yes.

11 Q It didn't matter when a particular megawatt hour
12 happened to be sold, did it, you just applied the subsidy to it
13 regardless?

14 A That is correct.

15 Q It could have been sold in the middle of the night as
16 opposed to a peak afternoon sale, for example, is that correct?

17 A It could. But, again, like I said earlier, you know,
18 I have not looked at every hour of the three years, so --

19 Q But you applied it to every hour that was sold?

20 A That is correct.

21 Q And to get what you called the top end of your
22 alleged total subsidy you applied the subsidy amount to every
23 megawatt hour of all wholesale sales whether they are separated
24 or nonseparated, is that correct?

25 A That is correct.

1 Q It didn't matter whether the sale happened to be one
2 that produced a gain that was flowed through to retail
3 customers, did it?

4 A I did not review the gains of the sales.

5 Q Okay. So gains could have occurred and you would
6 apply your subsidy anyway, is that correct?

7 A Gains could have occurred, but, again, I have not
8 reviewed that.

9 Q Well, you didn't attempt to determine whether a
10 nonseparated sale happened to be made at a time when Tampa
11 Electric wasn't also purchasing power, did you?

12 A Could you repeat that, please?

13 Q Did you attempt to determine whether a nonseparated
14 sale happened to have been made at a time when Tampa Electric
15 wasn't also purchasing power?

16 A No, I did not.

17 Q Okay. If in that circumstance Tampa Electric was
18 making a nonseparated sale and wasn't purchasing power, it
19 would be impossible for the sale to be subsidized, would it
20 not?

21 A If that was the case, yes.

22 Q Okay. But you applied your alleged subsidy anyway,
23 didn't you, to that hour sale?

24 A Yes. Since I did not have the operating data for
25 every hour of the three years, I applied it to every megawatt

1 hour.

2 Q So when in doubt just assume that a subsidy is there?

3 A I'm sorry?

4 Q When in doubt you assumed that a subsidy would be
5 there, is that correct?

6 A That is correct.

7 Q What is your basis for applying your calculated
8 subsidy to every megawatt hour of separated sales during the
9 period 1999 through 2001?

10 A I believe I stated that earlier, that since I did not
11 have the operating data for every hour of the three years, I
12 applied it to every megawatt hour.

13 Q Okay. Let's look at outages and derations. Your
14 testimony refers to unit outages and derations, does it not?

15 A Yes.

16 Q In preparing your testimony, you did not address any
17 issue of prudence concerning outages or derations of Tampa
18 Electric's system, did you?

19 A That is correct.

20 Q In preparing your testimony, did you take into
21 account the average age of Tampa Electric's generating units?

22 A No, I did not.

23 Q Are you familiar with the average availability of a
24 steam boiler?

25 A No, I'm not.

1 Q Do you know what a wet bottom boiler is?

2 A I have been told before, but I cannot tell you what
3 it is right here as I sit today.

4 Q Okay. Did any kind of consideration of wet bottom
5 boilers enter into the preparation of your testimony?

6 A No, it did not.

7 Q Do you have any technical expertise to evaluate
8 utility generating unit performance?

9 A No.

10 Q Mr. Collins, on several occasions you appear to
11 question the fact that Tampa Electric continued to fulfill its
12 obligations under its wholesale sales agreements at times when
13 the company experienced unit outages or derations. Do you
14 believe that Tampa Electric was free to ignore its contractual
15 obligations to its wholesale power customers or to suspend
16 deliveries at those times?

17 A No.

18 Q Are you advocating that Tampa Electric should have
19 breached any of the contractual obligations at the times that
20 it experienced unit outages or derations?

21 A No, I'm not.

22 CHAIRMAN JACOBS: If I read your testimony correctly,
23 though, you appear to be -- well, let me not put words in your
24 mouth. What are you proposing should be the result there?

25 THE WITNESS: Well, I am focusing on the allocation

1 of costs incurred by Tampa Electric in order to meet its
2 combined retail and wholesale demands.

3 CHAIRMAN JACOBS: So you agree that the company
4 should honor its wholesale contracts, but when I read your
5 testimony I kind of got the impression that you were saying
6 they were buying power, very expensive power while they
7 wouldn't break those contracts. So I'm wondering what would
8 you have had the company to do there?

9 THE WITNESS: I think there needs to be a sharing of
10 the costs of those purchased power -- purchased power --

11 CHAIRMAN JACOBS: So some of the costs of the
12 buy-through power should be flowed back to the wholesale side?

13 THE WITNESS: Yes, I believe that is a fair statement
14 of my testimony.

15 CHAIRMAN JACOBS: Okay. I'm sorry.

16 BY MR. BEASLEY:

17 Q Mr. Collins, do you know whether the Florida Public
18 Service Commission audits Tampa Electric's fuel and purchased
19 power costs on a routine basis?

20 A I would imagine they do, but I'm not sure if the
21 answer to that question is yes or no.

22 Q Okay. In preparing your testimony, you didn't
23 consider or ask to see the results of any recent Commission
24 audits of Tampa Electric's fuel and purchased power costs, did
25 you?

1 A No, I did not.

2 MR. BEASLEY: That's all I have. I would like to
3 have the answer to Interrogatory Number 29 marked as an
4 exhibit, and I will get Mr. Brown to authenticate it when he
5 resumes the stand for rebuttal.

6 CHAIRMAN JACOBS: Now, there were two pages -- I'm
7 sorry, actually three pages.

8 MR. BEASLEY: It is Tampa Electric's answer to
9 FIPUG's Interrogatory Number 29.

10 CHAIRMAN JACOBS: And was this chart, was that
11 attached to it, the chart from Schedule A1?

12 MR. BEASLEY: That is already part of Ms. Jordan's
13 exhibit, so we will let it stand alone. And if I could just
14 gets this -- it's the one that had the listing of the various
15 contracts and when they expire and what their type of sale was.

16 CHAIRMAN JACOBS: Great. I have it. Show that
17 marked as Exhibit 8.

18 (Exhibit 8 marked for identification.)

19 Staff, do you have much on cross?

20 MR. KEATING: Staff has no questions.

21 CHAIRMAN JACOBS: Okay. Redirect.

22 MS. KAUFMAN: Thank you, Mr. Chairman.

23 REDIRECT EXAMINATION

24 BY MS. KAUFMAN:

25 Q Mr. Collins, I'm going to try to work backwards, but

1 I may not get it entirely in sync here. Mr. Beasley asked you
2 some questions about the calculation of your subsidy, do you
3 recall those?

4 A Yes.

5 Q Since the calculation you performed in your
6 testimony, did you do an additional check or analysis to
7 confirm that your subsidy was appropriate?

8 A Yes, I did.

9 Q Can you tell us what you did to verify the subsidy
10 information in your prefiled testimony?

11 A We calculated the purchased power costs occurring in
12 calendar years 1999 and 2000, and we also looked at the costs
13 for 2001. We looked at if those costs were allocated to the
14 wholesale customers, and it appears that they were not.

15 MR. BEASLEY: Mr. Chairman, I'm going to object.
16 This is talking about some sort of after-the-fact study done
17 after the witness' deposition that we don't have any ability to
18 cross-examine on. We don't have the benefit of this repaired
19 subsidy or repaired subsidy calculation the witness is
20 beginning to referring to.

21 CHAIRMAN JACOBS: Ms. Kaufman.

22 MS. KAUFMAN: Mr. Chairman, Mr. Beasley questioned on
23 the accuracy or the validity of the subsidy calculation that is
24 in Mr. Collins' testimony and I think that he is entitled to
25 respond. He has done a double-check on that and he is entitled

1 to testify to that on redirect. The door has been opened.

2 MR. BEASLEY: He is testifying about a new study,
3 apparently something that has been done since his deposition
4 and since his testimony has been prepared.

5 CHAIRMAN JACOBS: Here is the predicament, if there
6 were modifications or upgrades to his testimony, you would have
7 expected that he would have announced that at the time he
8 presented those exhibits.

9 MS. KAUFMAN: This is not a modification, Mr.
10 Chairman, it is just simply in response to Mr. Beasley's
11 inference that there is some problem with the calculation.

12 MR. BEASLEY: My problem, Mr. Chairman, is
13 generalized, have you gone back and made sure what you did was
14 right, and he said yes. I mean, that is -- I don't have any
15 ability to cross-examine that.

16 MS. KAUFMAN: Mr. Chairman, in view of the hour and
17 Mr. Pollock's need to get on the stand, we will move on.

18 CHAIRMAN JACOBS: We need to take Mr. Pollock today?

19 MS. KAUFMAN: I'm afraid so.

20 CHAIRMAN JACOBS: I wasn't aware of that. I was
21 prepared to recess for the evening at 5:00.

22 MS. KAUFMAN: Well, I will try to -- I would ask the
23 Commission's indulgence. Mr. Pollock needs to get a flight out
24 of here back to St. Louis. And we discussed at the prehearing
25 conference, I believe, taking these two gentlemen today.

1 CHAIRMAN JACOBS: I was not aware of that. Let's
2 deal with this first.

3 MS. KAUFMAN: We will move on to cut that short.

4 CHAIRMAN JACOBS: Very well.

5 BY MS. KAUFMAN:

6 Q Mr. Collins, Mr. Beasley asked you if you had
7 reviewed Tampa Electric's wholesale contracts. Do you recall
8 that?

9 A Yes.

10 Q Would a review of those contracts had any bearing on
11 your testimony?

12 A No. Since my testimony focused on the allocation of
13 purchased power costs, those contracts would not have affected
14 my analysis.

15 Q Mr. Beasley also asked you some questions about Tampa
16 Electric's prudence in entering into some of these wholesale
17 contracts. Is the purpose of your testimony to question
18 whether Tampa Electric was prudent in entering into those
19 transactions?

20 A No, it's not.

21 Q Mr. Beasley also asked you a series of questions in
22 regard to the 21 days that you chose and the 63 hours that you
23 looked at. Do you recall those questions?

24 A Yes.

25 Q Can you explain what the purpose of your analysis

1 was? Was it to look at every single hour, or what exactly was
2 your purpose in picking these particular hours?

3 A Really, the purpose of looking at those hours was to
4 look at Tampa Electric's practice of how it allocates purchased
5 power costs. The subsidy estimate was merely a secondary
6 analysis to determine what the potential impact would be as a
7 result of Tampa Electric's practice of allocating all of its
8 wholesale purchased power costs bought to cover generation
9 shortages.

10 Q And are you asking the Commission to accept those
11 subsidy numbers or are you asking them to take some additional
12 action here?

13 A I'm asking them to take some additional action to
14 calculate a more precise subsidy.

15 Q Did Tampa Electric provide FIPUG or did they provide
16 you with hourly data for every single hour from 1999 to 2001?

17 A No.

18 Q Mr. Beasley also asked you some questions about your
19 review of the outages. When you looked at those outages, was
20 it your purpose to determine if the outage was prudent or
21 appropriate?

22 A No, it was not. It was my purpose to look at how
23 Tampa Electric allocated purchased power costs to recover --
24 I'm sorry, to replace generation that was unavailable due to
25 outages and deratings.

1 Q And Mr. Beasley also asked you if you were advocating
2 that Tampa Electric breach its contracts to wholesale
3 customers. Do you recall those questions?

4 A Yes.

5 Q And I think you said that you were not advocating
6 that. What is it that you are advocating Tampa Electric do in
7 regard to these wholesale contracts?

8 A I'm advocating that they share a portion of the
9 purchased power costs with its wholesale customers, wholesale
10 customers being its long-term wholesale contracts and not
11 megawatt hours sold under the wholesale tariffs.

12 Q Mr. Beasley, probably at the beginning of your
13 testimony, asked you some questions about your qualifications
14 and college courses that you took. Do you recall that?

15 A Yes.

16 Q Did you address issues similar to the issues you
17 addressed here today while you were employed by City Water and
18 Light Company?

19 A Yes. I was employed with City Light and Power from
20 1998 until June 1st of this year.

21 Q And were you involved in dealing with issues relating
22 to the allocation of wholesale power costs?

23 A Yes. The first three months of my employment with
24 CLP, pretty much 100 percent of my time was focused on
25 allocating our purchased power costs amongst our wholesale and

1 retail customers. And from -- after three months of my
2 employment, I periodically continued to do that throughout the
3 remainder of my employment.

4 Q Mr. Beasley also asked you some questions about
5 Schedule A1 that I believe is attached to Ms. Jordan's
6 testimony, the single sheet that had the highlighted entries on
7 it. Do you recall those questions?

8 A Yes.

9 Q And he asked you some specific questions about the
10 various wholesale sales that are included in that schedule. Do
11 you recall that?

12 A I believe so.

13 Q Can you explain what is your understanding of the
14 types of sales that are included here and the types that are
15 not?

16 A I believe the type of sales that are included in the
17 schedules are sales made under long-term wholesale contracts.
18 The numbers do not reflect the megawatt hours sold under Tampa
19 Electric's wholesale tariffs.

20 Q And when you did your analysis, Mr. Collins, what
21 information did you look at, or what schedules did you rely
22 upon to perform your analysis?

23 A The Schedule As.

24 Q And what sorts of wholesale transactions are included
25 there?

1 A It includes everything but the megawatt hours sold
2 under the wholesale tariffs, which are the partial requirements
3 or requirements contracts.

4 MS. KAUFMAN: That concludes my redirect. Thank you.

5 MR. BEASLEY: I have one recross based on a question
6 that Ms. Kaufman asked. Mr. Collins --

7 CHAIRMAN JACOBS: Excuse me, Mr. Beasley, which
8 question?

9 MR. BEASLEY: It's a question about whether the
10 witness was provided operating data for every hour for 2000 and
11 2001 by Tampa Electric.

12 MS. KAUFMAN: Mr. Chairman, Mr. Beasley was the one
13 that raised that with Mr. Collins.

14 CHAIRMAN JACOBS: Is there --

15 MR. BEASLEY: She asked, "Did Tampa Electric provide
16 him with data for every hour in 2000 and 2001?" And my only
17 question of him is: Did we provide him data for every hour
18 that FIPUG requested?

19 CHAIRMAN JACOBS: I think we have covered that ground
20 completely enough.

21 MR. BEASLEY: Okay.

22 CHAIRMAN JACOBS: Exhibits.

23 MS. KAUFMAN: FIPUG would move Exhibit 6 and 7.

24 CHAIRMAN JACOBS: Without objection, show Exhibit 6
25 and 7 are admitted.

1 (Exhibit 6 and 7 admitted into the record.)

2 Exhibit 8.

3 MR. BEASLEY: I will reserve Exhibit 8 until our
4 witness takes the stand and verifies it.

5 CHAIRMAN JACOBS: Okay. Very well. Thank you. You
6 are excused, Mr. Collins.

7 THE WITNESS: Thank you.

8 MS. KAUFMAN: Mr. Chairman, I see you looking at me,
9 I was going to just explain Mr. Pollock's situation. And I
10 don't know how much cross there is for him, but I would be
11 hopeful we could --

12 CHAIRMAN JACOBS: We will go ahead and take him now.

13 MS. KAUFMAN: We appreciate it very much.

14 FIPUG would call Mr. Jeffry Pollock.

15 COMMISSIONER DEASON: Is this going to be the last
16 witness for the day?

17 CHAIRMAN JACOBS: This is the last witness.

18 COMMISSIONER DEASON: So everybody else can be
19 excused?

20 CHAIRMAN JACOBS: Yes.

21 MS. KAUFMAN: I guess I should collect those folders,
22 I'm sorry.

23 CHAIRMAN JACOBS: Right.

24 JEFFRY POLLOCK

25 was called as a witness on behalf of Florida Industrial Power

1 Users Group, and, having been duly sworn, testified as follows:

2 DIRECT EXAMINATION

3 BY MS. KAUFMAN:

4 Q Would you state your name and address for the record,
5 Mr. Pollock?

6 A Jeffry Pollock.

7 Q And do you want to state your address, as well?

8 A 1215 Fern Ridge Parkway, St. Louis, Missouri.

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

10 A I am a principal with Brubaker and Associates, BAI.

11 Q And on whose behalf are you appearing in this
12 proceeding?

13 A I am appearing on behalf of the Florida Industrial
14 Power Users Group.

15 Q Mr. Pollock, did you cause 19 pages of testimony to
16 be filed in this case?

17 A Yes, I have.

18 Q Do you have any changes or corrections to that
19 testimony?

20 A Yes, I have two corrections.

21 Q Could you tell us what those are, please?

22 A Yes. Page 4, Line 24.

23 Q And what is the correction?

24 A Strike the words "entered into" and replace them with
25 "in effect."

1 Q And your second change?

2 A Page 6, Line 11, strike the word "retail" before
3 customers and insert the word "requirements."

4 Q Thank you. With those changes, if I asked you the
5 questions in your prefiled testimony today, would your answers
6 be the same?

7 A Yes, it would.

8 MS. KAUFMAN: Mr. Chairman, I would ask that Mr.
9 Pollock's testimony be inserted into the record as though read,
10 and his testimony does not contain any confidential
11 information.

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

14 BY MS. KAUFMAN:

15 Q Mr. Pollock, you have two exhibits, correct?

16 A Correct.

17 Q Do you have any changes or corrections to those
18 exhibits?

19 A No.

20 MS. KAUFMAN: Mr. Chairman, if I could have an
21 exhibit number. And, again, there is nothing confidential in
22 Mr. Pollock's exhibits.

23 CHAIRMAN JACOBS: Show those marked at Composite
24 Exhibit 9.

25 (Composite Exhibit 9 marked for identification.)

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2

_____)
In Re:)

Fuel and Purchased Power Cost)
Recovery Clause and Generating)
Performance Incentive Factor)
 _____)

Docket No. 010001-EI

3

4 **Inteviewer Testimony of Jeffry Pollock**

5

6 **Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

7 **A Jeffry Pollock; 1215 Fern Ridge Parkway, Suite 208; St. Louis, MO 63141-2000.**

8

9 **Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?**

10 **A I am an energy advisor and a principal in the firm of Brubaker & Associates, Inc.**
 11 **(BAI).**

12

13 **Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

14 **A I am a graduate of Washington University. I hold the degrees of Bachelor of Science**
 15 **in Electrical Engineering and Master of Business Administration. At various times**
 16 **prior to graduation, I worked for the McDonnell Douglas Corporation in the Corporate**
 17 **Planning Department; Sachs Electric Company; and L. K. Comstock & Company.**
 18 **While at McDonnell Douglas, I analyzed the direct operating cost of commercial air-**
 19 **craft.**

1 Upon graduation, in June 1975, I joined the firm of Drazen-Brubaker &
2 Associates, Inc. Drazen Brubaker & Associates, Inc. (DBA) was incorporated in
3 1972 assuming the utility rate and economic consulting activities of Drazen
4 Associates, Inc., active since 1937. Brubaker & Associates, Inc. (BAI) was formed
5 in April, 1995. In the last five years, BAI and its predecessor firm has participated in
6 more than 700 regulatory proceeding in forty states and Canada.

7 During my tenure at both DBA and BAI, I have prepared numerous financial
8 and economic studies of investor-owned, cooperative and municipal utilities,
9 including revenue requirements, cost of service studies, rate design, site evaluations
10 and service contracts. Recent engagements have included advising clients on
11 electric restructuring issues, developing responses to utility request for proposals
12 (RFPs), and managing RFPs for clients. I am also responsible for developing and
13 presenting seminars on electricity issues.

14 I have worked on various projects in over twenty states and in two Canadian
15 provinces, and have testified before the regulatory commissions of Alabama,
16 Arizona, Colorado, Delaware, Florida, Georgia, Illinois, Iowa, Louisiana, Minnesota,
17 Mississippi, Missouri, Montana, New Jersey, New Mexico, Ohio, Pennsylvania,
18 Texas, Virginia and Washington. I have also appeared before the City of Austin
19 Electric Utility Commission, the Board of Public Utilities of Kansas City, Kansas, the
20 Bonneville Power Administration, Travis County (Texas) District Court, and the U.S.
21 Federal District Court.

22 BAI provides consulting services in the economic, technical, accounting, and
23 financial aspects of public utility rates and in the acquisition of utility and energy
24 services through RFPs and negotiations, in both regulated and unregulated markets.

1 Our clients include large industrial and institutional customers, some utilities and, on
2 occasion, state regulatory agencies. We also prepare special studies and reports,
3 forecasts, surveys and siting studies, and present seminars on utility-related issues.

4 In general, we are engaged in energy and regulatory consulting, economic
5 analysis and contract negotiation. In addition to our main office in St. Louis, the firm
6 also has branch offices in Kerrville, Texas; Plano, Texas; Denver, Colorado; and
7 Chicago, Illinois.

8

9 **Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

10 A I am testifying on behalf of the Florida Industrial Power Users Group (FIPUG). The
11 participating FIPUG members are customers of Tampa Electric Company (TECO).
12 They purchase substantial quantities of electricity from TECO under a variety of firm
13 and non-firm tariffs.

14

15 **Q WHAT ARE FIPUG'S INTERESTS IN THIS DOCKET?**

16 A According to the testimony filed by TECO witness, J. Denise Jordan, TECO
17 forecasts that its fuel and purchased cost recovery would increase from 2.82¢ to
18 3.30¢ per kWh, which would be a 17% increase in charges to TECO's retail
19 customers. Virtually all of this increase can be traced to the proposed \$86 million
20 true-up. As fuel costs are a significant component of the electricity costs incurred by
21 FIPUG members, BAI was requested to determine the cause and render an opinion
22 on the appropriateness of this increase.

23

24 **Q WHAT ISSUES ARE YOU ADDRESSING IN YOUR DIRECT TESTIMONY?**

1 A I shall summarize the results of the audit conducted by my colleague, Mr. Brian C.
2 Collins, of how TECO has been managing various long-term wholesale power
3 contracts. In particular, my testimony addresses whether retail customers have
4 been harmed by TECO's administration of these contracts and recommends specific
5 actions that the Commission should undertake to protect the interests of TECO's
6 retail customers. Finally, I shall address several other issues raised in Ms. Jordan's
7 testimony, on behalf of TECO.

8

9 **Summary**

10 **Q WOULD YOU PLEASE SUMMARIZE THE FINDINGS REVEALED IN MR.**
11 **COLLINS' AUDIT?**

12 A Yes. TECO has put its own interests, and those of its long-term wholesale contract
13 customers, ahead of the interests of its retail native load customers. As Mr. Collins
14 testifies, wholesale customers have benefited from, and are continuing to receive, a
15 much more reliable and cost-effective supply of electricity than have TECO's retail
16 customers.

17 While wholesale customers are directly benefiting from TECO's lowest cost
18 generation and low-cost purchases, retail customers are having to bear the
19 excessive costs of the power that TECO must purchase in volatile deregulated
20 wholesale markets to replace internal generation. Since 1997, non-firm customers
21 have experienced dramatic increases in both the frequency and duration of
22 interruptions. Optional Provision Purchases have increased over 200% since 1997.
23 This 200% increase has coincided with the time frame when most of TECO's long-
24 term wholesale contracts were ~~entered into~~ ^{in effect}. Because TECO's wholesale load

1 exceeds its non-firm loads, some of these purchases are also being made for the
2 benefit of TECO's firm retail customers.

3 The more frequent interruptions and off-system purchases can also be traced
4 to the deteriorating reliability of TECO's internal generation. Mr. Collins' analysis
5 reveals that there were instances when over 800 MW or 22% of TECO's internal
6 generation capacity was unavailable because of forced outages or capacity
7 deratings. Despite these circumstances, during which non-firm customers are being
8 curtailed and TECO is having to purchase expensive replacement power, TECO's
9 wholesale customers are continuing to receive their full entitlement to TECO's cheap
10 coal-fired capacity.

11 Not only are ^{requirements} retail customers receiving an inferior quality of service, they are
12 paying excessively for it. Retail customers pay the fixed costs incurred by TECO to
13 construct, operate and maintain its generating capacity, including several large
14 relatively low operating cost coal-fired units, in their base rates. However, despite
15 supporting the fixed costs of TECO's generation capacity, retail customers are
16 paying significantly higher fuel costs. These higher costs may be attributed to the
17 fact that the cost of all replacement purchases are allocated by TECO entirely to
18 native retail customers. This practice is unfair. The retail customers who are
19 supporting the fixed costs of generation capacity should be the beneficiaries of the
20 lower operating costs of this capacity. To do otherwise would be tantamount to a
21 forced subsidy by retail customers of TECO's long-term wholesale contracts.

22 Mr. Collins has also quantified the subsidies to wholesale customers on days
23 when non-firm load was being curtailed – because of either a service interruption or
24 an economic interruption. On these particular days, he determined that retail

1 customers were overcharged by over 3¢/kWh. Extrapolating this amount over 3
2 years (1999-2001) would yield a subsidy of between \$45 and \$108 million. A
3 precise calculation of the subsidy could not be made because it would require
4 considerably more data, time and resources than could be devoted. Also, most of
5 the required data was not provided in a timely manner.

6

7 **Q WHAT ACTIONS SHOULD THE COMMISSION UNDERTAKE AS A RESULT OF**
8 **THE AUDIT CONDUCTED BY MR. COLLINS?**

9 **A** Based on these findings, the Commission should take the following actions:

- 10 (1) TECO should be ordered to cease its current practice of allocating 100% of
11 replacement power costs to retail customers and to allocate a pro rata share of
12 all replacement power purchases to wholesale operations. Separated sales
13 should be charged average system fuel and purchased power costs, while non-
14 separated sales should be charged system incremental costs.
- 15 (2) Because TECO refused to fully respond to all FIPUG data requests, we are not
16 able to quantify the magnitude of the past overcharges to retail customers. The
17 Commission should open a docket requiring TECO to quantify the refunds due
18 to retail customers as a result of TECO's inappropriate management of its long-
19 term wholesale contracts.
- 20 (3) The Commission should hold the proposed \$86 million fuel true-up in abeyance
21 pending the outcome of this new docket.
- 22 (4) The Commission should conduct a more thorough investigation of TECO's
23 affiliate transactions and its procurement of power for wholesale customers.
24 Specifically, Mr. Collins has observed that TECO has purchased low-cost

1 power at wholesale and directly allocated this purchase to wholesale
2 customers. The issue to be resolved is whether this practice and TECO's
3 affiliate transactions are both prudent and beneficial to retail customers.

4 **Q SHOULD A NEW FUEL FACTOR BE APPROVED AT THIS TIME?**

5 A No. The fuel factor should not be implemented until after the Commission completes
6 a thorough investigation of TECO's wholesale pricing practices. Even if the
7 Commission ultimately decides for TECO, it will not be hurt because it will receive
8 full recovery, with interest. In light of the fact that fuel costs are now trending
9 downward for the other utilities in this state, raising TECO's fuel factor to the level
10 proposed, prior to the investigation, would cause unnecessary economic harm and
11 place some customers at a competitive disadvantage.

12

13 **Audit of Wholesale Pricing Practices**

14 **Q WHAT IS THE BASIS FOR YOUR CLAIM THAT TECO HAS PUT THE**
15 **INTERESTS OF ITS WHOLESALE CUSTOMERS AHEAD OF ITS OBLIGATION**
16 **TO SERVE RETAIL NATIVE LOAD CUSTOMERS?**

17 A This statement is based on the results of Mr. Collins' audit of TECO's wholesale
18 pricing practices. Specifically, Mr. Collins determined that:

- 19 • TECO has been inappropriately allocating more expensive replacement
20 purchased power solely to retail customers while simultaneously selling low-cost
21 native generation to wholesale customers.

- 1 • TECO has been purchasing low-cost power on the wholesale market and
2 reselling it to wholesale customers, rather than using this lower cost power to
3 reduce the fuel costs paid by retail customers.
- 4 • Wholesale customers have continued to receive their full entitlement of cheap,
5 native load generation while non-firm customers are being curtailed and the rest
6 of the TECO system is experiencing severe shortages of native generation due
7 to outages and frequent deratings of internal generation, including the specific
8 generators from which wholesale sales are being made.

9 As a result of these practices, we estimate that retail customers are subsidizing
10 wholesale customers and TECO's shareholders, who are the beneficiaries of the
11 higher margins derived from wholesale sales. Based on this estimate, retail
12 customers have been overcharged by between \$45 and \$108 million for fuel costs
13 during the years 1999, 2000 and 2001.

14

1 **Q HOW WAS THIS ESTIMATE DERIVED?**

2 A Mr. Collins derived the estimated subsidies by analyzing the cost of purchased
3 power charged to retail customers, which should have been allocated to wholesale
4 contract customers. The analysis was on specific days when non-firm load was
5 being curtailed. This includes both service and economic interruptions. On these
6 days, the wholesale customers were being charged only for energy as though it had
7 been generated entirely from TECO's low-cost coal-fired resources. During
8 economic curtailments, non-firm customers are charged directly for the more
9 expensive wholesale power purchases while any remaining purchases are allocated
10 to firm retail customers. Thus, retail customers are subsidizing the low-cost energy
11 sales to wholesale contract customers because they alone are forced to bear the
12 higher costs incurred by TECO to maintain both its wholesale sales and system
13 reliability.

14 **Q HAVE ANY SPECIFIC CUSTOMERS BORNE THE BRUNT OF TECO'S**
15 **INAPPROPRIATE MANAGEMENT OF ITS WHOLESALE POWER CONTRACTS?**

16 A Yes. All retail customers have been charged higher replacement costs for power
17 that TECO purchased. However, the non-firm customers have borne the brunt of
18 TECO's ever-increasing need to purchase replacement power due to frequent and
19 major outages of its own generation resources. Exhibit ____ (JP-1) is a history of
20 service interruptions since 1996.

21 As can be seen, both the frequency and duration of service interruptions
22 have increased since 1996. There were only 3 interruptions in 1996 as compared to

1 16 interruptions in 1999. The total duration of these interruptions has increased from
2 about one hour in 1996 to over 53 hours in 1999.

3

4 **Q WHAT ARE ECONOMIC INTERRUPTIONS?**

5 A Economic interruptions occur when TECO does not have sufficient internal
6 resources to continue providing system service to non-firm customers. If available
7 elsewhere, TECO will purchase power in lieu of a service interruption of non-firm
8 service. These purchases are made under the Optional Provision in TECO's various
9 non-firm tariffs.

10

11 **Q WHAT HAS BEEN THE HISTORY OF ECONOMIC INTERRUPTIONS?**

12 A Economic interruptions have been increasing both in frequency and in duration.
13 Exhibit ____ (JP-2) summarizes the amount of energy that TECO purchased during
14 these interruptions (i.e., "Optional Provision Purchases"). As can be seen, since
15 1996, the amount of Optional Provision Purchases has increased by 13 times. Mr.
16 Collins has observed that this dramatic increase in economic interruptions has
17 coincided with the effective dates of TECO's long-term wholesale contracts.

18

19 **Q WHAT IS TECO PAYING FOR THE OPTIONAL PROVISION PURCHASES FOR
20 NON-FIRM CUSTOMERS DURING ECONOMIC INTERRUPTIONS?**

21 A More serious than the increase in both the frequency and duration of economic
22 interruptions is the cost of the Optional Provision Purchases. Exhibit ____ (JP-2)
23 also summarizes the cost of these purchases from 1996 through mid-2001.

1 As can be seen, in 1996, the average cost of the Optional Provision
2 Purchases was 5.2¢ per kWh. By 1999, the average cost had risen to 9.4¢, an 81%
3 increase. Thus far in 2001, the average cost of Optional Purchases has been 11.8¢.
4 To put these costs into perspective, the average delivered cost of electricity to
5 residential customers was around 7.7¢ as of December 1999. Thus, the Optional
6 Purchases have become significantly more expensive than the total delivered cost of
7 electricity sold to residential customers.

8 Not shown in this Exhibit are the extremely high prices TECO is paying for
9 some of this Optional Purchases. According to TECO's fuel reports, the average
10 cost of certain power purchases has ranged from 10¢ to up to 340¢ per kWh.

11 **Q DOES IT COST A UTILITY MORE THAN 10¢ PER kWh TO GENERATE**
12 **ELECTRICITY AT WHOLESALE?**

13 **A No.** This is well-above the incremental cost of generating electricity. The extra
14 charges provide a contribution to fixed costs and profit to the selling party.

15 **Q THEN WHY IS TECO PAYING SUCH HIGH PRICES FOR REPLACEMENT**
16 **ENERGY?**

17 **A TECO has no incentive to minimize the cost of purchased energy. This is because**
18 **all purchased energy costs are directly flowed through to customers. Initially, the**
19 **non-firm customers are directly charged for purchases made under the Optional**
20 **Provision. However, any residual purchases not charged to non-firm customers are**
21 **flowed through the fuel and purchased power cost recovery clause. Thus, firm retail**
22 **customers are clearly impacted by TECO's wholesale pricing practices.**

1

2 **Q WHY ARE THESE REPLACEMENT POWER PURCHASES SO EXPENSIVE?**

3 A Since FERC Order No. 888, wholesale markets have been deregulated. Many
4 wholesale participants – including utilities, marketers, brokers, and other traders –
5 have sought and received FERC approval to buy and sell electricity at market-based
6 prices. This means that if these suppliers want to sell electricity to TECO and TECO
7 is in the market to buy electricity, TECO will have to pay the market price. As
8 previously stated, market prices in many instances will be well above the actual
9 incremental cost to generate electricity.

10

11 **Q IS TECO HARMED BY PURCHASING ELECTRICITY AT MARKET-BASED
12 PRICES?**

13 A No. TECO can pass through dollar-for-dollar every fuel and purchased power cost
14 that it incurs, subject to Commission review. Further, I am not aware of any ongoing
15 review of the reasonableness of the Optional Provision Purchases that are being
16 directly charged to non-firm customers.

17 **Q WHAT ARE THE CONSEQUENCES OF THE DEREGULATION OF THE
18 WHOLESALE MARKETS?**

19 A Wholesale price deregulation means that native load customers in general (and non-
20 firm customers in particular) are being exposed to considerable price risk. This is a
21 fundamental change in the regulatory bargain. Prior to wholesale deregulation,
22 wholesale transactions were made either at cost of service or on a split the savings
23 basis. In the latter event, the split the savings was based on the difference between
24 the sellers' and the buyers' actual cost. Thus, prices generally remained stable.

1 Today, and in the recent past, wholesale participants that have been granted
2 market based pricing authority from the FERC can charge whatever the market will
3 bear for replacement energy. Utilities that are having to buy power in the wholesale
4 markets more frequently, either because they lack sufficient internal generation or
5 the existing capacity is unreliable, will experience significant price risk. However, all
6 of this risk is passed through to retail customers since they are the ones who are
7 required to bear these costs under the present regulatory policy.

8

9 **Q DID TECO'S CUSTOMERS AGREE TO INSULATE TECO FROM PRICE RISKS**
10 **RESULTING FROM THE DEREGULATED WHOLESALE POWER MARKETS?**

11 **A** No. TECO's last full rate case pre-dated FERC Order No. 888 and the subsequent
12 deregulation of the wholesale power markets. Thus, TECO's retail rates, terms and
13 conditions and the Commission's rules governing Non-Firm Loads were established
14 in a totally different regulatory environment than currently exists. Clearly, the fact
15 that TECO's retail customers are having to bear excessively higher replacement
16 purchased energy costs, while TECO maintains significant low-cost sales to
17 wholesale customers, is a fundamental shift in risk from TECO's shareholders to its
18 retail customers. This is not the bargain that retail customers agreed to.

19

20 **Q WHY IS TECO MOTIVATED TO SELL VERY LOW-COST ELECTRICITY INTO**
21 **THE WHOLESALE MARKETS?**

22 **A** TECO's motivation is profit. Longer term wholesale markets are highly competitive.
23 In contrast to regulation, competition tends to drive prices down because customers
24 can purchase electricity from another supplier. However, in order to effectively

1 compete in these wholesale markets, the seller must not only offer a low price, the
2 low price must be guaranteed for the life of the contract. Without this guarantee, the
3 buyer will not have the confidence in the seller's ability to live up to the agreement
4 and will choose another supplier.

5 Given the competitive nature of long-term wholesale markets, the only way to
6 make a profit is to provide power at the lowest possible cost. The margins on these
7 sales are the difference between the selling price and the associated cost. The
8 lower the associated costs of selling power under long-term wholesale contracts, the
9 greater the margins.

10 Thus, TECO has a strong incentive to minimize the fuel costs associated with
11 long-term wholesale sales. By minimizing the actual cost, TECO can maximize its
12 profit. These profits flow 100% to TECO's shareholders for sales that have been
13 jurisdictionally separated. All other off-system sales margins are shared 80%/20%
14 between retail customers and TECO's shareholders, respectively after a threshold is
15 met. However, TECO can raise its 20% share of these margins by selling as much
16 low-cost power to wholesale customers as is possible.

17 **Q ARE TECO'S SHAREHOLDERS REQUIRED TO BEAR ANY PRICE RISK**
18 **ASSOCIATED WITH WHOLESAL SALES?**

19 **A** No. As previously stated, TECO does not allocate the higher cost of replacement
20 power purchases to wholesale customers. The wholesale customers benefit from
21 low-cost energy generated from TECO's most efficient coal-fired units. Further, all
22 other purchased energy costs are passed through to retail customers. This means

1 that neither the wholesale customers nor TECO's shareholders bear any market
2 price risk.

3

4 **Q IS THE DRAMATIC SHIFT IN MARKET PRICE RISK FROM TECO'S**
5 **SHAREHOLDERS TO CUSTOMERS CONSISTENT WITH TECO'S OBLIGATION**
6 **TO SERVE?**

7 **A** No. Utilities have an obligation to provide reliable service to all retail customers (firm
8 and non-firm) at the lowest reasonable cost. TECO, on the other hand, has clearly
9 been giving preferential treatment to its wholesale customers. Retail customers
10 have borne the brunt of very expensive power purchases in the wholesale markets.
11 This is despite the fact that the retail customers pay the lion's share of the fixed
12 costs required to construct, operate, and maintain TECO's internal generation
13 capacity. Fairness demands that these customers are entitled to receive the
14 benefits of the lower cost energy that can be provided from these capacity
15 resources.

16 Instead, TECO has been siphoning its low-cost generation to wholesale
17 markets and replacing it with higher cost purchases, which have been borne solely
18 by retail customers. Not only does this practice not comport with TECO's obligation
19 to serve, it demonstrates how TECO has reneged on this regulatory bargain to its
20 captive retail customers.

21

22 **Q WHAT ACTION SHOULD THE COMMISSION TAKE TO PROTECT THE**
23 **INTERESTS OF RETAIL CUSTOMERS?**

1 A First, TECO's 2002 fuel rates should not be adjusted from current levels until a
2 thorough investigation into the issues presented in this testimony is completed.

3 Second, TECO should be ordered to cease its current practice of allocating
4 100% of replacement power costs to retail customers. Wholesale customers or
5 TECO's shareholders should be required to bear some of the consequences
6 resulting from frequent and severe outages and capacity deratings of its internal
7 generation capacity. Thus, the Commission should require TECO to allocate a pro
8 rata share of all replacement purchased energy costs to wholesale operations. This
9 treatment would be especially appropriate when TECO is simultaneously purchasing
10 high-cost power while selling low-cost power to its long-term wholesale contract
11 customers.

12 Third, this practice has been ongoing since at least 1997. However, because
13 of time and resource limitations and also TECO's resistance in responding to critical
14 requests for production of documents and interrogatories, we have not been able to
15 conduct a thorough analysis to quantify the impact on retail customers of TECO's
16 wholesale sales practices. Mr. Collins has estimated that the potential harm to retail
17 customers from 1999 through 2001 could be between \$45 and \$108 million.
18 However, a more thorough investigation is required.

19 My recommendation is that the Commission convene an investigation and
20 require TECO to quantify the impact of its wholesale costing and pricing practices on
21 retail customers. The goal of this investigation would be to quantify the subsidies
22 provided by retail customers to help underwrite TECO's low-cost wholesale sales
23 and to assure that TECO's wholesale purchases from affiliate companies were
24 prudent.

1

2 **Q IN LIGHT OF THESE FINDINGS, SHOULD THE COMMISSION APPROVE**
3 **TECO'S REQUEST TO RECOVER \$86 MILLION OF PAST UNDER-**
4 **COLLECTIONS?**

5 **A** No. Given the amount of money at stake, it would be premature to allow TECO to
6 begin recovering past under-collected amounts from retail customers. Therefore, I
7 recommend that the Commission put the \$86 million true-up in abeyance pending
8 the outcome of the further investigation.

9

10 **Q SHOULD ANY OTHER ACTIONS BE TAKEN BY THE COMMISSION AT THIS**
11 **TIME?**

12 **A** Yes. Mr. Collins also observed that TECO has purchased low-cost power from the
13 wholesale markets and assigned 100% of the cost to wholesale customers. In other
14 words, TECO did not take advantage of the opportunity to purchase low-cost power
15 in the wholesale markets for the benefit of its native retail customers. The
16 Commission should, therefore, investigate whether this practice is prudent and why
17 TECO is not also purchasing low-cost power for the benefit of retail customers.

1 **Other Issues**

2 **Q** **TECO IS PROPOSING TO RECOVER ANY GAINS OR LOSSES FROM HEDGING**
3 **ITS FUEL TRANSACTIONS THROUGH FUTURES CONTRACTS THROUGH THE**
4 **FUEL AND PURCHASED POWER COST RECOVERY CLAUSE. SHOULD THIS**
5 **PROPOSAL BE IMPLEMENTED?**

6 **A** No. According to the testimony of TECO witness, W. Lynn Brown, TECO does not
7 purchase or sell wholesale energy derivatives. Further, Mr. Brown states that the
8 cost of conducting physical and financial hedges in a developing market, such as
9 Florida's wholesale energy market, could be quite high. He recommends that the
10 Commission conduct an assessment of the quantitative and qualitative costs and
11 benefits of physical and/or financial hedging.

12 Accordingly, it would be premature to authorize cost recovery until the
13 Commission has had an opportunity to assess the costs and benefits of a specific
14 hedging program that TECO proposes to implement.

15
16 **Q** **TECO CLAIMS THAT THE APPROPRIATE REGULATORY TREATMENT FOR**
17 **CAPITAL PROJECTS THAT ARE EXPECTED TO REDUCE LONG-TERM FUEL**
18 **COST SHOULD BE RECOVERED THROUGH THE FUEL AND PURCHASED**
19 **POWER COST RECOVERY CLAUSE. DO YOU CONCUR?**

20 **A** No. It would not be appropriate to recover the costs of investments and the
21 associated carrying costs through the fuel and purchased power cost recovery
22 clause. These are the very types of costs that are properly recovered in base rates.
23 Attempts to distinguish the purpose of specific investments could also invite gaming.
24 A utility could claim that the entire investment in a new state-of-the-art power plant

1 that was installed to replace an older, less efficient plant should be recovered
2 through the fuel and purchased power cost recovery clause just because it may
3 result in lower long-term fuel costs. No purpose would be served by giving such
4 investments special treatment or more timely recovery than is accorded to all other
5 rate base investments. Special cost recovery for such investments could send the
6 wrong incentive. A utility would be encouraged to over-invest in capital just to save
7 fuel costs. However, there is no assurance that the combination of increased capital
8 costs and lower fuel costs would result in the lowest overall costs for the utility's
9 retail customers.

10

11 **Q WHY ELSE WOULD RECOVERY OF SPECIAL CAPITAL PROJECTS NOT BE**
12 **APPROPRIATE?**

13 **A** This Commission has historically maintained a clear separation between base rates
14 and fuel costs. The recovery of capital projects and the associated carrying costs
15 through the fuel and purchased power cost recovery clause would blur this
16 distinction. To quote Ms. Jordan, "Mixing the fuel adjustment mechanism with base
17 rates would cause nothing but confusion, delay and inequity. This would defeat the
18 very purpose of the fuel adjustment clause."

19

20 **Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

21 **A** Yes.

1 BY MS. KAUFMAN:

2 Q Mr. Pollock, have you prepared a summary of your
3 testimony?

4 A I have.

5 Q Would you give it, please.

6 A Yes. Good afternoon. On my last occasion to appear
7 before your honors, the issue was should TECO be required to
8 separate, that is allocate a portion of its nonfuel related
9 cost to long-term contract sales to the Florida Municipal Power
10 Agency, FMPA, and City of Lakeland to prevent the subsidy from
11 retail customers. At that time the Commission agreed that
12 separation was appropriate to prevent retail customer
13 subsidies. Four years later we find that TECO is engaged in
14 yet another more subtle form of subsidization, and we believe
15 that the impact on all retail customers is significant.

16 As Mr. Collins testifies, wholesale customers -- and
17 we are talking about those that are served only on long-term
18 contracts as opposed to tariff customers -- have benefitted
19 from and are continuing to receive a much more reliable and
20 cost-effective supply of electricity than are TECO's retail
21 customers. How else can you explain the fact that retail
22 customers are asked to pay much higher fuel and purchased power
23 costs than TECO is recovering from its contract wholesale
24 customers.

25 While wholesale contract customers are directly

1 benefitting from TECO's lowest cost generation and purchases,
2 retail customers are having to bear the excessive costs of the
3 power that must be purchased in volatile deregulated wholesale
4 markets to replace what is become increasingly unreliable
5 generation. One benchmark that can be used to measure the
6 paradigm shift that has occurred since TECO's last rate case is
7 the impact of this environment on TECO's nonfirm customers.

8 Since 1997, as shown in my exhibit, optional
9 provision purchases which occur when the company has
10 insufficient internal generation to serve the needs of its
11 nonfirm customers have increased 200 percent, over 200 percent
12 since 1997. The average cost of these purchases has increased
13 dramatically from only 5 cents a kilowatt hour prior to 1999 to
14 up to 9 to 11 cents a kilowatt hour after that.

15 It doesn't cost 9 cents a kilowatt hour to generate
16 electricity. And Mr. Brown indicated because of price
17 deregulation in wholesale markets, TECO's customers are
18 incurring very high purchased power costs to allow other
19 wholesale entities to profit. This new paradigm has also
20 affected TECO's firm retail customers. Specifically, the
21 lion's share of the costs of these replacement power purchases
22 is being allocated by TECO to native retail customers. First
23 to nonfirm retail customers and then the remainder to
24 requirements customers of which retail customers comprise about
25 97-1/2 percent.

1 Our conclusion is based on an in-depth analysis of
2 the fuel reports which reveal that TECO recovers between 2.3
3 and 2.5 cents of fuel and purchased power costs from long-term
4 contract customers. Average system purchased power costs,
5 though, have run from 3.8 to 6.1 cents, a great disparity. The
6 retail customers who are supporting the fixed costs of the
7 generation capacity should be the beneficiaries of the lower
8 operating cost of that capacity.

9 Further, it is contrary to the separation concept
10 which you adopted, which basically requires that separated
11 wholesale sales receive a pro rata allocation of system fuel
12 and purchased power costs. In other words, the separated
13 long-term wholesale contracts should be charged system average
14 fuel and purchased power costs consistent not only with sound
15 ratemaking policy, but also with prior Commission precedent.

16 By failing to allocate average system costs, TECO's
17 retail customers, who cannot yet choose another supplier, are
18 being forced to subsidize the long-term wholesale contracts.
19 We estimate that this practice may be costing retail customers
20 up to 100 million during the three-year period 1999 to 2001.
21 Certainly more if 1998 is included. As Mr. Collins testified,
22 a precise allocation or calculation couldn't be made because it
23 would require considerably more data, time, and resources than
24 could be devoted.

25 Based on these findings, we recommend the following

1 four things: First, we believe the Commission should order the
2 company to allocate replacement purchased power costs to its
3 long-term wholesale contract customers. As I said, this is
4 consistent with precedent, good ratemaking policy, and it
5 helps -- it benefits both retail and wholesale customers. The
6 Commission should open a docket requiring the company to
7 quantify more specifically the refunds due to retail customers
8 as a result of the company's preferential costing treatment of
9 its long-term wholesale contracts. In the interim, the
10 Commission should hold the \$86 million fuel true-up in abeyance
11 pending the outcome of this analysis.

12 Finally, the Commission should conduct a more
13 thorough investigation of TECO's affiliate transactions and its
14 procurement of power for wholesale customers during the past
15 periods. This is based on two observations. First, Mr.
16 Collins observed and testified that TECO has purchased low cost
17 power at wholesale and directly allocated this purchase to
18 wholesale contract customers. Second, the company has given
19 preferential treatment to its affiliate by not curtailing sales
20 or repricing sales from Big Bend 4 when the unit was not fully
21 operating or operating at less than its full capacity.

22 The issues to be resolved is whether this practice
23 and TECO's affiliated transactions are both prudent and
24 beneficial to retail customers over the past several years and
25 on an on-going basis.

1 That concludes my summary.

2 MS. KAUFMAN: Thank you, Mr. Pollock. The witness is
3 available for cross-examination.

4 CHAIRMAN JACOBS: Mr. Vandiver.

5 MR. VANDIVER: No questions.

6 CHAIRMAN JACOBS: Mr. Cloud.

7 MS. CLOUD: No questions.

8 CHAIRMAN JACOBS: Mr. Beasley.

9 MR. BEASLEY: Mr. Chairman, I would like to save a
10 little time to offer in evidence Mr. Pollock's deposition
11 transcript and that of Mr. Collins, and I think FIPUG is in
12 agreement to that. I --

13 MS. KAUFMAN: No, FIPUG is not in agreement with
14 that. I am somewhat hesitant, but I would object again as I
15 did before to proffering of the depositions. The witnesses are
16 here and available for live cross-examination. Depositions are
17 done for the purposes of discovery.

18 MR. BEASLEY: This would save considerable time if
19 you want to do that.

20 MS. KAUFMAN: Well, I'm all in favor of saving time,
21 Mr. Chairman. However, I think it is an inappropriate use of
22 the depositions, and I would object.

23 CHAIRMAN JACOBS: Let's proceed with your cross. As
24 to Mr. Collins, I think it probably would have been better to
25 proffer his at the time he was on the stand anyway. As to Mr.

1 Pollock, if you would review that, we will begin your cross and
2 maybe we can cut through the cross after you have reviewed it
3 and see if maybe it would be acceptable to you. I don't want
4 to overrule you yet, in other words.

5 MR. BEASLEY: If you will accept this in lieu of
6 cross-examination, I will get it down to about one question.

7 CHAIRMAN JACOBS: I want to allow her an opportunity
8 to review it, though.

9 MS. KAUFMAN: Well, let me consult with my
10 co-counsel, Mr. Beasley, how would that be?

11 MR. BEASLEY: Sure. Please do.

12 CHAIRMAN JACOBS: Let's take ten minutes.

13 (Recess.)

14 CHAIRMAN JACOBS: Let me announce that we will begin
15 tomorrow at 8:30; 8:30 in the morning we will begin.

16 Ms. Kaufman.

17 MS. KAUFMAN: Yes, Mr. Chairman. After consultation
18 and Mr. Beasley's representation that he has only a few
19 questions, we will withdraw our objection to the insertion of
20 only Mr. Pollock's deposition in the record.

21 CHAIRMAN JACOBS: Mr. Beasley.

22 Thank you.

23 MS. KAUFMAN: I was trying to make up for that long
24 last cross-examination in the other case, so I hope I have
25 neutralized that.

1 CHAIRMAN JACOBS: If you combine it with
2 Thanksgiving, yes, you came close.

3 MR. BEASLEY: Commissioners, in light of the entry of
4 Mr. Pollock's deposition transcript into the record, I have one
5 question.

6 CROSS EXAMINATION

7 BY MR. BEASLEY:

8 Q Mr. Pollock, can you identify any specific Commission
9 prescribed policy concerning the allocation of cost between
10 retail and wholesale customers, or between the separated and
11 nonseparated wholesale sales that you claim Tampa Electric is
12 in violation of, any specific Commission rule or policy?

13 A Yes. The Commission has said specifically that
14 separated wholesale contracts should be allocated average
15 costs. Mr. Collins' analysis indicates that that is not the
16 case with respect to the separated long-term wholesale
17 contracts.

18 MR. BEASLEY: Thank you.

19 CHAIRMAN JACOBS: Staff.

20 MR. KEATING: Staff has no questions.

21 CHAIRMAN JACOBS: Commissioners? Redirect?

22 MS. KAUFMAN: I have no redirect, but I don't think
23 we gave Mr. Pollock's deposition a number, did we?

24 CHAIRMAN JACOBS: No, we didn't. We will mark that
25 as Exhibit 10.

1 (Exhibit 10 marked for identification.)

2 MS. KAUFMAN: And, Mr. Beasley, you will provide a
3 copy for the court reporter?

4 MR. BEASLEY: I have the original here.

5 CHAIRMAN JACOBS: Very well. We will move exhibits.

6 MS. KAUFMAN: Mr. Chairman, FIPUG would move Exhibit
7 Number 9.

8 CHAIRMAN JACOBS: Without objection, show Exhibit 9
9 is admitted.

10 (Exhibit 9 admitted into the record.)

11 And, Mr. Beasley, you would move Exhibit 10?

12 MR. BEASLEY: Yes, sir.

13 CHAIRMAN JACOBS: Without objection, show Exhibit 10.
14 And you probably requested and I just didn't follow through,
15 but for the record let's show that Exhibit 8, which is the
16 interrogatory response Number 29 is admitted into the record.

17 (Exhibit 8 and 10 admitted into the record.)

18 Very well. Thank you, Mr. Pollock, you are excused.

19 THE WITNESS: Thank you, Commissioners.

20 CHAIRMAN JACOBS: And with that we shall adjourn for
21 the evening and return at 8:30 tomorrow morning.

22 (The hearing concluded at 5:25 p.m.)

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STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

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

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

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

DATED THIS 3RD DAY OF DECEMBER, 2001.

Jane Faurot - 3/18/10

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