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June 25, 1997

ORIGINAL  
FILE COPY

**BY HAND DELIVERY**

Ms. Blanca S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Re: Fuel and Purchased Power Cost Recovery Factor  
and Generating Performance Incentive Factor  
FPSC Docket No. 970001-EI

Dear Ms. Bayo:

Enclosed for filing in the above docket on behalf of Tampa Electric Company are fifteen (15) copies of each of the following:

1. Supplement to Petition - 06401-97
  2. Prepared Direct Testimony of Charles R. Black and Exhibit CRB-1 06402-97
  3. Supplemental Testimony of Karen A. Branick and Exhibit KAB-5 06403-97
- 2 AFA Vandrey Prepared Direct Testimony of Gerard J. Kordecki and Exhibit GJK-1 06404-97

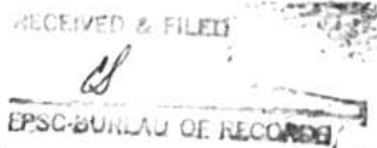
ACK \_\_\_\_\_  
 2 AFA Vandrey  
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 WAS \_\_\_\_\_  
 OTH \_\_\_\_\_

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning the same to this writer.

Thank you for your assistance in this matter.

Sincerely,

*James D. Beasley*  
James D. Beasley



JDB/bjm  
Enclosures  
cc: All Parties of Record (w/encls.)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing, filed on behalf of Tampa Electric Company, has been furnished by U. S. Mail or hand delivery (\*) on this 25 day of June, 1997 to the following:

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\_\_\_\_\_  
ATTORNEY

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 SUPPLEMENTAL DIRECT TESTIMONY

3 OF

4 KAREN A. BRANICK

5  
6 Q. Please state your name, address, occupation and employer.

7  
8 A. My name is Karen A. Branick. My business address is 702  
9 North Franklin Street, Tampa, Florida 33602. I am employed  
10 by Tampa Electric Company in the position of Director -  
11 Electric Regulatory Affairs.

12  
13 Q. Are you the same Karen A. Branick who filed direct  
14 testimony in this Docket?

15  
16 A. Yes I am.

17  
18 Q. What is the purpose of your Supplemental testimony?

19  
20 A. The purpose of my testimony is to explain how Tampa  
21 Electric has executed energy sales and purchases on the  
22 Florida Energy Broker, and treated the margin revenues  
23 associated with these transactions both prior to and  
24 subsequent to the issuance of the "Open Access" rule  
25 promulgated by FERC. I will also explain how Tampa

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EPSC ELECTRIC REPORTING

1 Electric's current treatment of crediting transmission  
2 revenues from within its margin share to above the line  
3 operating revenue meets FERC requirements under the new  
4 Rule 888, and is consistent with past Florida Commission  
5 treatment of transmission revenues. I will also show how  
6 Tampa Electric's approach is consistent with continuing the  
7 viability of the Florida Broker system and the benefits it  
8 affords to retail customers.

9

10 Q. How does the Florida Energy Broker network function?

11

12 A. The Broker network and the associated FERC Schedule C  
13 Interchange Agreements between utilities in Florida are  
14 designed to offer the lowest price for power providing  
15 savings to the purchaser and additional revenues to the  
16 seller. The Broker works in the following manner: Sell and  
17 Buy Quotes on the Broker are to include only the  
18 incremental cost of making such sales. Specifically, this  
19 means that utilities are permitted to quote incremental  
20 fuel and any variable O&M costs in their quotes. The Sell  
21 and Buy Quotes are averaged to determine the transaction  
22 price for each matched transaction. On the Buyer's side of  
23 the transaction, the difference between the Buy Quote and  
24 the transaction price represents the buyer's savings from  
25 the transaction. On the Seller's side of the transaction,

1 the difference between the transaction price and the Sell  
2 Quote determines the margin on the sale. Since all  
3 variable costs have been covered, this margin is considered  
4 to be an overall benefit from the sale. This Commission  
5 recognized the need to incent utilities to maximize the  
6 benefits associated with Broker transactions and allowed a  
7 sharing of this margin.  
8

9 Q. How has Tampa Electric treated transmission revenues  
10 associated with broker transactions prior to Rule 888?  
11

12 A. Margins from broker sales in total were shared 80/20 with  
13 80% flowing through the fuel clause and 20% flowing to  
14 shareholders below the line. Exhibit No. KAB-5 shows this  
15 in detail. This margin can be considered an overall  
16 benefit from the sale with no dollars "ear-marked" for  
17 transmission.  
18

19 Q. How has Tampa Electric treated transmission revenues  
20 associated with Broker transactions since Rule 888?  
21

22 A. Beginning on January 1, 1997, Tampa Electric has had to  
23 modify the treatment of the margin from broker sales. A  
24 match on the broker will not occur between Tampa Electric  
25 and a purchaser unless the sales margin is at least

1 equivalent to Tampa Electric's transmission rate for the  
2 transaction. From the margin, revenues equal to the  
3 transmission rate are credited above the line to operating  
4 revenues. Remaining margin revenues are shared 80/20 with  
5 80% flowing through the fuel clause to retail customers and  
6 20% to the shareholders below the line. See Exhibit  
7 No. KAB-5.

8  
9 **Q.** Is Tampa Electric's present treatment of crediting these  
10 transmission revenues above the line a fair and reasonable  
11 response to the implementation of FERC Order 888?  
12

13 **A.** Yes. As Mr. Kordecki has pointed out in his direct  
14 testimony, FERC has in effect, required us to treat these  
15 imputed transmission revenues from broker sales in  
16 precisely the same way as other third party transmission  
17 revenues would be treated for FERC jurisdictional  
18 transmission ratemaking purposes.  
19

20 **Q.** What is involved in this approach?  
21

22 **A.** Transmission is treated in rate base as a rate base asset  
23 for both the wholesale and retail jurisdictions. Provided  
24 there is prudent management of rate base and expenses by a  
25 utility, a utility is entitled to the recovery of its

1 costs. In the case of rate based transmission assets, the  
2 recovery of costs means the recovery of revenue  
3 requirements, which include depreciation, operating  
4 expenses, returns on investment and taxes. These revenue  
5 requirements are recovered through base rates in both the  
6 retail and wholesale jurisdictions. Thus, these costs are  
7 not dealt with in the fuel or other cost recovery clauses  
8 in either the wholesale or retail jurisdictions.  
9 Therefore, revenue crediting of transmission revenues must  
10 be accomplished within the base rate part of the total  
11 rate.

12

13 Q. Is your proposal consistent with current Commission  
14 practices and in the interest of retail customers?

15

16 A. Yes. This proposed treatment is entirely consistent with  
17 the way this Commission has treated third party  
18 transmission revenues for ratemaking purposes. In past  
19 electric rate cases, the Commission has ordered utilities  
20 to revenue credit transmission revenues for retail  
21 ratemaking purposes. Most recently, for Tampa Electric this  
22 was done in its last rate case, Docket No. 920324-EI.

23

24 Tampa Electric's proposal also allows retail customers to  
25 benefit fully from transmission related revenues by

1       crediting this amount to above the line operating revenue.  
2       This accounting treatment has the effect of both postponing  
3       the need for a rate adjustment and decreasing the resulting  
4       revenue requirement when retail rates are next adjusted on  
5       the basis of a cost of service analysis. In the case of  
6       Tampa Electric, this benefit to retail customers is even  
7       more immediate due to the effect of the ROE sharing  
8       mechanism in the October, 1996 stipulation on earnings  
9       rates which, in effect, operates as an "instant ratemaking"  
10      mechanism.

11  
12      In addition, Tampa Electric's proposal gives retail rate  
13      customers the benefit above the line of revenues that would  
14      have been allocated to shareholders below the line under  
15      the pre Order 888 approach.

16  
17      Q.   Please elaborate on this last point.

18  
19      A.   Let me illustrate this point by referring to Exhibit  
20      No. \_KAB-5. In Exhibit No. \_KAB-5, I posit an economy energy  
21      transaction where seller's incremental cost is \$20.00,  
22      buyer's decremental cost is \$30.00 and the resulting  
23      transaction price, on a split the savings basis, is \$25.00.  
24      This is the example that was used at the May 30, 1997  
25      workshop on the treatment of transmission revenues from



1 Broker transactions. Both before and after the changes  
2 caused by Order 888, the net benefit to the seller  
3 associated with this transaction is a gain of \$5.00.  
4

5 Under the regulatory approach to this sale which Tampa  
6 Electric would have applied prior to Order 888, \$4.00, or  
7 80% of the \$5.00 gain, would have been flowed to rate  
8 payers through the fuel clause and \$1.00 would have been  
9 credited to shareholders below the line. Under Tampa  
10 Electric's proposed post Order 888 approach, \$1.60 of the  
11 \$5.00 gain, representing the imputed transmission revenues,  
12 would be credited to above the line operating revenue  
13 ensuring to the benefit of retail customers as described  
14 above and as shown in Exhibit No. KAB-5. 80% of the  
15 remaining \$3.40 benefit, or \$2.72, would be credited to  
16 retail customers through the fuel clause resulting in a  
17 total benefit to retail customers of \$4.32 (\$1.60 + \$2.72)  
18 as opposed to the \$4.00 benefit which retail customers  
19 would have enjoyed under the pre Order 888 approach. The  
20 shareholders, on the other hand, are allocated only \$0.68  
21 below the line as opposed to the \$1.00 which would have  
22 been allocated below the line under the pre Order 888  
23 approach.  
24

25 In effect, under Tampa Electric's proposal, the

1 | shareholders would transfer a portion of their below the  
2 | line incentive to retail customers in the form of above the  
3 | line operating revenue, or \$0.32 in this example.  
4 | Therefore, not only are retail customers held harmless  
5 | under Tampa Electric's proposal, but they are actually  
6 | better off.

7 |  
8 | Q. Has Rule 888 changed the way Tampa Electric treats costs  
9 | associated with purchases made on the broker system?

10 |  
11 | A. No. Tampa Electric continues to recover these costs, and  
12 | retail customers continue to realize the savings of a  
13 | Broker purchase through the Fuel and Purchase Power Cost  
14 | Recovery Clause.

15 |  
16 | Q. Does this conclude your testimony?

17 |  
18 | A. Yes it does.  
19 |  
20 |  
21 |

**ECONOMY SALE BY TAMPA ELECTRIC**

	<b>FERC Order 888</b>	
	<b>Before</b>	<b>After</b>
Seller's Incremental Fuel Cost	\$20.00	\$20.00
Buyer's Decremental Fuel Cost	\$30.00	\$30.00
Transaction Price	\$25.00	\$25.00
Margin	\$ 5.00	\$ 5.00
Transmission Rate	\$ 0.00	\$ 1.60
Net Margin	\$ 5.00	\$ 3.40

**REGULATORY TREATMENT**

	<b>Before Customer</b>	<b>After Customer</b>	<b>Before TEC</b>	<b>After TEC</b>
Revenue credited to customer through Fuel Clause (excluding gain)	\$20.00	\$20.00	--	--
Cost charged to customer through Fuel Clause	(\$20.00)	(\$20.00)	--	--
Transmission credited to above the line Operating Revenue	--	\$ 1.60	--	--
80% of margin credited to customer through Fuel Clause	\$ 4.00	\$ 2.72	--	--
20% of margin credited below the line to TEC's shareholders	--	--	<u>\$ 1.00</u>	<u>\$ 0.68</u>
Total Benefit	\$ 4.00	\$ 4.32	\$ 1.00	\$ 0.68