

ORIGINAL



Florida Power

A Progress Energy Company

JAMES A. MCGEE
ASSOCIATE GENERAL COUNSEL

October 24, 2002

Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

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Re: Docket No. 020001-EI

Dear Ms. Bayó:

Enclosed for filing on behalf of Florida Power Corporation in the subject docket are an original and ten copies of the Rebuttal Testimony of Javier Portuondo.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Also enclosed is a 3½ inch diskette containing the above-referenced document in Word format. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

JAM/scc
Enclosure

cc: Parties of record

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FLORIDA POWER CORPORATION

DOCKET No. 020001-EI

**REBUTTAL TESTIMONY OF
JAVIER PORTUONDO**

1 **Q. Please state your name and business address.**

2 A. My name is Javier Portuondo. My business address is Post Office Box 14042,
3 St. Petersburg, Florida 33733.

4

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

6 A. I am employed by Progress Energy Service Company, LLC, in the capacity of
7 Manager, Regulatory Services - Florida.

8

9 **Q. Have your duties and responsibilities remained the same since your**
10 **testimony was last filed in this docket?**

11 A. Yes.

12

13 **Q. What is the purpose of your rebuttal testimony?**

14 A. The purpose of my rebuttal testimony is to address the testimony of Staff
15 witness Matthew Brinkley regarding his proposed changes to the
16 determination of "incremental" expenses recovered through the fuel clause.

17 In particular, I will address the three main points of Mr. Brinkley's proposal;
18 (1) that incremental expenses reflect an offset for any reduction in related
19 base rate expenses caused by the increase subject to fuel clause recovery;

1 (2) that the base rate amount of expenses subject to fuel clause recovery be
2 "grossed up" for sales growth since base rates were set; and (3) that
3 consideration be given to moving the recovery of incremental plant security
4 costs to base rates by December 31, 2005.

5
6 **Q. Do you disagree with Mr. Brinkley's proposal that incremental expenses**
7 **reflect an offset for any reduction in related base rate expenses caused**
8 **by the increase subject to fuel clause recovery?**

9 A. No, Mr. Brinkley's "offsetting" proposal appears to be reasonable and fair, with
10 one important caveat. As I understand his proposal, incremental costs for fuel
11 clause recovery would be reduced by any decrease in base rate expenses if,
12 and only if, the decrease is the direct result of the increased costs in question.

13 Absent this understanding, we would quickly find ourselves on a slippery
14 slope to the type of "mini-rate case" exercise that I believe everyone
15 recognizes should be avoided.

16
17 **Q. Do you have any concerns regarding Mr. Brinkley's proposal that, in**
18 **determining incremental costs for fuel clause recovery, the base rate**
19 **amount of these costs should be "grossed up" for sales growth since**
20 **base rates were set?**

21 A. Yes, I have two concerns with Mr. Brinkley's proposal. The first is that it is
22 inconsistent with the revenue sharing mechanism under which Florida Power
23 currently operates pursuant to the settlement approved by the Commission in
24 Docket No. 000824-EI. Mr. Brinkley proposes that the revenues attributable
25 to the base rate component of the costs to be recovered through the fuel

1 clause should be adjusted for sales growth since base rates were set. Under
2 Florida Power's revenue sharing mechanism, however, two-thirds of the
3 revenues from sales growth above the forecasted level used to establish the
4 sharing threshold would be refunded to customers. This would require Florida
5 Power to reduce the incremental costs it could recover through the fuel clause
6 because of revenues it did not receive. From a customer perspective, they
7 would receive the benefit of these revenues twice; once through a direct
8 refund and again through a reduction in the incremental costs they otherwise
9 would have paid in their fuel charge.

10 My other concern is that Mr. Brinkley's proposal only includes a gross-up
11 of base rate costs for sales increases. It does not provide for a symmetrical
12 treatment of these base rate costs that would require a reduction of these
13 costs in the event of a sales decrease. These kinds of problems and
14 inconsistencies with his gross-up proposal lead me to conclude that
15 incremental costs should continue to be determined in the traditional manner
16 by simply netting out the test year costs used to set base rates.

17
18 **Q. What is your reaction to Mr. Brinkley's proposal that consideration be**
19 **given to moving the recovery of incremental plant security costs to base**
20 **rates by December 31, 2005?**

21 A. Mr. Brinkley states: "I believe it appropriate to consider moving these security
22 costs into base rates at least by December 31, 2005" If he means that
23 this matter should be considered prior to the end of 2005, I have no
24 disagreement with his proposal. However, if he is proposing that a decision

1 on the matter should be made at this time (which would be consistent with
2 Staff's Issue 12), I believe such a proposal is extremely premature.

3 In his comment immediately following the statement quoted above, Mr.
4 Brinkley himself appears to recognize the need for addition time before
5 addressing the issue of fuel clause recovery versus base rate recovery. He
6 states: "By that time [the end of 2005], all parties will be able to better evaluate
7 whether these costs are of a limited nature as originally thought or of a long-
8 term nature, and whether these costs are incurred to principally result in fuel
9 savings or to protect base rate assets, personnel, and reliability." Obviously,
10 these and other important factors cannot be known at this time.

11 I am also concerned by Mr. Brinkley's failure to recognize the highly
12 unique nature and circumstances of the utilities' recent security cost increases
13 in his statement that these increases "are simply previously unanticipated
14 expenses which are being expended to protect against future base rate
15 expenses" It would be more accurate to recognize that the utilities'
16 increased security costs are not only unanticipated, but are also significant in
17 magnitude, volatile in nature, mandated by national security interests beyond
18 the utilities' control and, based on the mandates currently in effect, temporary
19 in duration. In addition, the heightened security measures are intended to
20 prevent the loss of low-cost sources of generation and therefore, contrary to
21 Mr. Brinkley's assertion, diminish the potential for future fuel clause increases.

22 These unique considerations, several of which could limit or preclude
23 altogether base rate recovery, provide ample and, in my view, strong support
24 for the recovery of the related incremental costs through the fuel clause. The
25 extent to which these considerations continue in their current state after the

1 2005 cost recovery period simply cannot be known at this juncture, which is
2 all the more reason why Staff's Issue 12 is premature and should be deferred
3 until additional knowledge and experience regarding security measures can
4 be gained.

5

6 **Q. Does this conclude your rebuttal testimony?**

7 A. Yes.

FLORIDA POWER CORPORATION

DOCKET NO. 020001-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the Rebuttal Testimony of Javier Portuondo has been furnished to the following individuals by regular U.S. Mail the 24th day of October, 2002.

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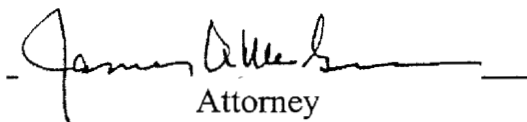
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