

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

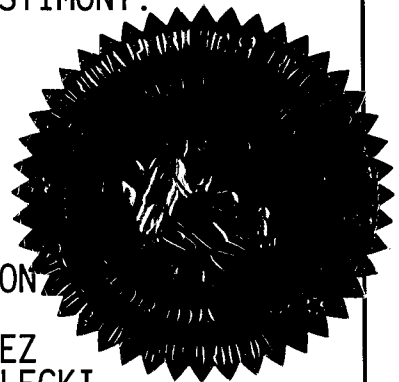
REVIEW OF FLORIDA POWER CORPORATION'S EARNINGS, INCLUDING EFFECTS OF PROPOSED ACQUISITION OF FLORIDA POWER CORPORATION BY CAROLINA POWER & LIGHT. DOCKET NO. 000824-EI

REVIEW OF FLORIDA POWER & LIGHT COMPANY'S PROPOSED MERGER WITH ENERGENCY CORPORATION, THE FORMATION OF A FLORIDA TRANSCO, AND THEIR EFFECT ON FLORIDA POWER & LIGHT'S RETAIL RATES. DOCKET NO. 001148-EI

REVIEW OF TAMPA ELECTRIC COMPANY AND IMPACT OF ITS PARTICIPATION IN GRIDFLORIDA, A FLORIDA TRANSMISSION COMPANY, ON TECO'S RETAIL RATEPAYERS. DOCKET NO. 010577-EI

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VOLUME 4
PAGES 508 THROUGH 655



PROCEEDINGS: HEARING
BEFORE: CHAIRMAN E. LEON JACOBS
COMMISSIONER J. TERRY DEASON
COMMISSIONER LILA A. JABER
COMMISSIONER BRAULIO L. BAEZ
COMMISSIONER MICHAEL A. PALECKI
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P R O C E E D I N G S

(Transcript continues in sequence from Volume 3.)

MIKE NAEVE
C. MARTIN MENNES
GREG RAMON
HENRY I. SOUTHWICK

continues their testimony under oath from Volume 3.

CONTINUED CROSS EXAMINATION

BY MR. KEATING:

Q If I could just have you refer first to the first page of the order, to the very first sentence of the body of the order. It states that we accept PJM Interconnection, L.L.C.'s proposal to extend it's program of cost-capping must-run generation units from the day-ahead to real-time markets.

If you turn to Page 5 and 6 of the order, if you would read on your own on Page 5, the second paragraph under the section titled "Discussion" and on Page 6, the second numbered paragraph and as it's completed on Page 7.

A (By Mr. Ramon) Just so we're all on the -- that's PJM's proposal which is on Page 5 --

Q That's correct.

A -- and then on Page 6 we're to read --

Q Numbered Paragraph 2, and I believe that ends on Page 7.

A (By Mr. Naeve) The one that says, "Generators'

1 alleged inability"?

2 Q That's correct.

3 A (By Mr. Ramon) Okay.

4 MR. CHILDS: You want him to read it aloud?

5 MR. KEATING: I was just asking them if they would --

6 MR. CHILDS: Look at it?

7 MR. KEATING: -- look at it.

8 MR. CHILDS: Okay.

9 A (By Mr. Naeve) We're ready.

10 Q Okay. Would you agree from the passages that you've
11 read that in that order FERC recognized the potential for
12 localized market power?

13 A Yes.

14 A (By Mr. Ramon) Yes.

15 Q Okay. Would you agree that FERC has granted
16 authority to cap suppliers at cost-based rates in order to
17 mitigate market power in real-time?

18 A (By Mr. Naeve) Yes.

19 A (By Mr. Ramon) Yes.

20 Q Okay. What has GridFlorida done to prevent
21 short-term market power either in day-ahead or real-time?

22 A (By Mr. Ramon) This is generally taken care of --
23 and I believe Mike talked about this earlier. Just because you
24 have market-based rate authority doesn't mean you can use it if
25 conditions like this come about. We've got two market

1 mitigation measures for the balancing market. But for
2 situations like this, we don't have a methodology there. But
3 that's clearly on Page 1 of the RTO's management of the market
4 to be able to do this.

5 A (By Mr. Naeve) Yeah, actually, I think this order
6 illustrates a couple of very interesting points. First, just
7 in direct response to your question, one thing we have done is
8 we've imposed the cost-based cap on these services for the
9 parties that do not have market-based rate authority. But more
10 importantly, I mentioned earlier that FERC is viewing RTOs not
11 only as a way to provide regional control over transmission
12 services and improve reliability and that sort of stuff, they
13 also increasingly are looking to them to provide local
14 management of the market.

15 And by "management of the market," what I mean by
16 that is, there will very well be circumstances -- let's say,
17 hypothetically, most of the time a particular market functions
18 very well in a competitive way, but there will be circumstances
19 either due to transmission outages or generation outages or
20 other circumstances where things can change very quickly at an
21 entity. A generator that doesn't have market power in one hour
22 may very well accumulate market power in hour number two or
23 hour number three. Something could happen to cause a change in
24 circumstances.

25 The Commission has delegated authority to RTOs, and

1 in this case to the PJM ISO, authority to deal with those
2 circumstances as they arise. And we have provided for the
3 market monitor to request similar authority so that it can deal
4 with these types of circumstances as they arise.

5 Q On Page 41 of your testimony, there is a table
6 showing nonutility interconnection requests. Now, is it
7 correct, and I believe this came up at the deposition, that the
8 second column, the center column titled "Number of Units" would
9 be more accurately titled "Number of Locations"?

10 MR. CHILDS: I think that's on the errata to change
11 that. I think that was on the errata to change that title.

12 MR. KEATING: Okay.

13 BY MR. KEATING:

14 Q What is this table intended to demonstrate?

15 A (By Mr. Naeve) I'll respond to that. I make
16 reference to this table in my testimony. This table is
17 intended to demonstrate that there are a number of generators
18 under the current state of the law in Florida who have applied
19 to the utilities for interconnection service, and suggests that
20 notwithstanding current laws in Florida, a number of parties
21 are moving forward with their intention to build new generation
22 in the state of Florida.

23 Q Are you aware of whether there are any need
24 determinations currently before the Public Service Commission?

25 A I am not.

1 Q Would you agree, subject to check, that there are
2 not?

3 A I just wouldn't know one way or the other.

4 Q Would any of the other panelists?

5 A (By Mr. Ramon) I agree with what Mike said.

6 Remember where this information comes from. It's from the
7 OASIS queue for interconnection service, and a lot of that
8 could just stay in the study mode forever, or some of it can
9 proceed. But we don't have that kind of information.

10 Q But would you agree, subject to check, that there are
11 no need determinations pending before this Commission?

12 A (By Mr. Naeve) It is what it is.

13 Q Do you believe that because -- assuming that there
14 are no need determinations pending before this Commission,
15 would you agree that most of these requests involve combustion
16 turbines or units that do not require a need determination?

17 A It would seem to me for the units that appear for
18 in-service dates in 2001, that may well be the case. For the
19 units with service dates that are more prolonged, that may or
20 may not be the situation. I'm not that familiar with when need
21 determinations typically are filed.

22 MR. KEATING: I believe Staff's handed out a second
23 exhibit that includes Late-Filed Deposition Exhibit Number
24 2 from the Panel's deposition, and if we would have that marked
25 for identification.

1 COMMISSIONER DEASON: Exhibit 10.

2 (Exhibit 10 marked for identification.)

3 BY MR. KEATING:

4 Q This exhibit is sort of a companion, I suppose, to
5 the one on Page 41 of the testimony. Instead of the nonutility
6 generation interconnection queue, it's the utility's generation
7 interconnection queue, is that correct, for the GridFlorida
8 companies?

9 A (By Mr. Mennes) Yes.

10 Q And I would just like to have you confirm the
11 accuracy of the information in the table. To your knowledge,
12 is that information accurate?

13 A Yes.

14 Q And was it prepared by the Panel?

15 A Under our direction.

16 Q Under your direction. Okay.

17 MR. KEATING: I don't have any particular questions
18 about this exhibit. Staff felt it would be helpful as a
19 companion to the table in the testimony to complete the record.

20 COMMISSIONER JABER: Well, let me ask the panelists,
21 what is it I'm supposed to understand from this exhibit?

22 WITNESS MENNES: I think it was the request of the
23 Staff for this exhibit.

24 COMMISSIONER JABER: No, I know. But you never want
25 to leave the decision-maker with a question about what an

1 exhibit's point is. So since you all prepared it even at the
2 request of Staff, would you tell me what point I'm supposed
3 to --

4 WITNESS RAMON: Well, one of the intents of putting
5 together the table that's in Page 41 of our testimony is to
6 demonstrate that there is nonutility generation activities in
7 the State and competition that affects how we plan and operate
8 the system. And the Staff requested in looking at this table
9 to -- I think there was a memo to the Commissioners and other
10 Staff people from Joe Jenkins that had sort of a complete list
11 of utility and nonutility, and there was some anxiety about the
12 numbers not agreeing. And so I think the intent -- I may be
13 wrong -- from Staff's point of view was to make the list
14 comprehensive of not just nonutility generation but also the
15 applicant's generation.

16 COMMISSIONER JABER: So do I take the exhibit from
17 your testimony the total megawatts and add the total megawatts
18 from Staff's exhibit and that should give me a complete picture
19 of what's expected?

20 WITNESS RAMON: Of what is in the OASIS generation
21 queues for request for interconnection service.

22 COMMISSIONER JABER: Thank you.

23 BY MR. KEATING:

24 Q Let me ask one last question about the two
25 alternatives, A and B, that start around Page 35. GridFlorida

1 has -- I believe you've stated that GridFlorida prefers
2 Alternative A over Alternative B; is that correct?

3 A Yes.

4 Q Why does GridFlorida believe that Alternative A's
5 approach is preferable to the pay what you bid approach in
6 Alternative B?

7 A We believe the market-clearing price, not
8 withstanding the fallout from California, is the correct
9 approach to take for a competitive generation market where
10 there's enough generation out there competing head to head to
11 create a least cost from a buyer's point of view.

12 In a market that's fully developed, of course, you
13 want to avoid a lot of the pitfalls of California and be able
14 to do forward contracts and do a lot of hedging and those sorts
15 of things. The concept behind the market-clearing prices, if
16 there is sufficient generation out there to compete head to
17 head, this market-clearing price is sometimes called uniform
18 single price approach is a way to effectuate marginal costs of
19 pricing truly incremental price costs. And also, for those
20 that successfully compete at market-clearing price, which is
21 paid to all, will also be enough to cover your fixed costs.

22 And there's, you know, obviously debate about
23 market-clearing price because of California, but it does work
24 in other markets like PJM and a lot of international markets
25 that use a market-clearing price approach. But there is some

1 recent work on the -- actually comparing the two in pros and
2 cons that I could make available if you want. Actually, there
3 was a blue ribbon panel that put together a report on
4 market-clearing price versus pay as you bid, you get paid what
5 you bid.

6 Q Earlier, there was a discussion about physical
7 transmission rights versus financial transmission rights. Do
8 physical transmission rights offer a more secure form of
9 transmission rights for retail customers while transitioning to
10 a competitive market?

11 A Could you restate the question, and particularly more
12 than what?

13 Q Do physical transmission rights offer a more secure
14 form of transmission rights than financial transmission rights
15 do with respect to retail customers while transitioning to a
16 competitive market?

17 A You know, as I said before, we didn't really do a
18 comparison. You know, Tampa, as I said before, prefers the
19 financial rights approach, but we never went down that path of
20 comparing the two in the collaborative process. But the
21 applicants feel comfortable that the physical rights approach
22 is satisfactory for day one operation.

23 Q Do the other panelists feel that physical
24 transmission rights would provide a more secure form of
25 transmission rights for retail customers at this time?

1 A (By Mr. Southwick) I personally do. I understand
2 the theory that they should be the same, and that's probably
3 correct. But I believe that the physical approach is simpler,
4 and it's easier to understand. And simplicity, I think, is
5 generally good, and for that reason, I prefer it. As time goes
6 on, the world may change, but initially I think that's the way
7 we should start.

8 A (By Mr. Mennes) For Florida Power & Light, I tend to
9 agree with Henry. I'd like to add that probably the reason why
10 we went to physical was the lack of a real understanding of the
11 financial and how that would work. So it's hard to really
12 answer the question which is, you know, more reliable for a
13 load-serving entity if the financial was easy to understand.
14 And --

15 A (By Mr. Southwick) Physical.

16 A (By Mr. Mennes) Yeah, I caught myself. The
17 physical --

18 A (By Mr. Ramon) Leave him alone.

19 A (By Mr. Mennes) -- was easier to understand is why
20 we went there.

21 Q Do the GridFlorida companies using physical
22 transmission rights have first call on transmission capacity in
23 order to serve their native firm load?

24 A (By Mr. Southwick) All load-serving entities will
25 have the equal access to those rights.

1 MR. KEATING: Commissioners, I have a few other
2 questions for the Panel. I get into one other line of
3 questions that may take about 20 minutes or 30 minutes, and
4 that's about it. So I just wanted to see how you want to go
5 forward. This would be a good breaking point in the subject
6 matter.

7 COMMISSIONER JABER: But we're going to hold you this
8 time.

9 MR. KEATING: I'm going to check the transcript. I
10 think I qualified it last night, I hope I did.

11 COMMISSIONER DEASON: Proceed quickly.

12 Do the Panel members need a break? If you do, speak
13 up. We've got a fresh court reporter, so we're on a role.

14 WITNESS RAMON: We're taking him at his word that
15 it's only 20 minutes.

16 BY MR. KEATING:

17 Q Will the 69 kV demarcation that's established for
18 GridFlorida for transmission be employed by each of the
19 participating GridFlorida companies regardless of whether
20 assets are being divested or whether assets are simply being --
21 having the operational control transferred?

22 A (By Mr. Mennes) Yes.

23 Q Is it correct that Florida Power & Light and Tampa
24 Electric are both refunctionalizing assets between transmission
25 and other functions of plant to comply with that demarcation

1 line? And by "refunctionalizing," I mean reclassifying by
2 function, i.e., transmission or distribution.

3 A (By Mr. Ramon) Be careful how you use the word
4 "refunctionalization." What we've done is come up with a line
5 of demarcation. For purposes of control, you know, we need to
6 identify, particularly in those stations that have multiple
7 use, the transmission and generation. Some generation stations
8 have a distribution in them, so we need to have a line of
9 demarcation of what is under the control of GridFlorida. And
10 those facilities that are part of the control, at least for
11 Tampa Electric, are in the rates, if you will, for GridFlorida.

12 Q Will Tampa Electric and Florida Power & Light
13 reclassify any of their assets from transmission or
14 distribution or vice versa --

15 A (By Mr. Mennes) Florida Power & Light, as far as I
16 know, tends not to reclassify.

17 Q Will Florida Power Corporation be reclassifying any
18 of its assets by function --

19 A (By Mr. Southwick) No, we don't plan to.

20 Q -- for accounting purposes?

21 A No.

22 Q Do transmission substations contain 69 kV switches on
23 the high side of the transformer that provides distribution
24 services?

25 A I'm sorry, would you read that again, please.

1 Q Do transmission substations contain 69 kV switches on
2 the high side of the transformer that provides distribution
3 services?

4 A (By Mr. Mennes) Yes, it can.

5 A (By Mr. Southwick) They can.

6 A (By Mr. Mennes) And those things that -- the way we
7 have set up our line of demarcation, if those switches are
8 protective type devices for that transformer, they will stay
9 with the load-serving entity or the distribution company. They
10 will not be transferred operationally controlled by the
11 Transco.

12 Q Do distribution substations also contain 69 kV
13 switches on the high side of the transformer that provide
14 transmission services?

15 A (By Mr. Southwick) They can.

16 MR. CHILDS: Excuse me. I don't think we're in the
17 Panel's testimony now, are we? Aren't we in the individual
18 areas on the accounting type questions that you were pursuing?

19 MR. KEATING: Well, I believe the Panel does address
20 demarcation between transmission and distribution facilities.
21 I'm trying to explore how that line is drawn and how each
22 utility is complying with that demarcation line, so to speak.

23 MR. CHILDS: The only reason is, I think they told
24 you, or at least I know -- I believe Mr. Mennes does in his
25 separate testimony address that demarcation that they followed.

1 COMMISSIONER DEASON: Let's proceed.

2 MR. CHILDS: Go ahead.

3 COMMISSIONER DEASON: Proceed.

4 BY MR. KEATING:

5 Q Will each of the participating companies transfer to
6 GridFlorida all 69 kV substation switches that provide
7 transmission service regardless if those switches are currently
8 accounted for as transmission plant or distribution plant?

9 A (By Mr. Mennes) I think what you need to do is, when
10 you used the terminology "all" -- we've got in our filed
11 testimony on Pages, I guess, 18 and 19 and we also have an
12 exhibit which is in the tariff that starts off at page -- this
13 is, I guess, Exhibit 1, Volume 6B. It starts off on Page 4143.
14 It's called Attachment Q, which shows the facilities and
15 outlines exactly what is going to be transferred and how it
16 works and defines the various types of equipment.

17 I think it's important to note that this was all done
18 in many meetings with operators and planners in the State in
19 our collaborative process and quite a few blackboard
20 discussions and other things to come up with this. So with
21 that said, it's hard to say just a yes or no unless you ask
22 specifically where the switch is. In other words, it's not all
23 of one thing or not all of another. A lot of it depends on the
24 purpose of the switch.

25 A (By Mr. Ramon) I don't want to oversimplify this,

1 but any switch, breaker, whatever with the voltage of 69 kV or
2 more will be transferred, basically, except for generation
3 stations. Okay. Those breakers associated with protection of
4 the generator will stay with the production facilities.

5 A (By Mr. Mennes) As well as those on the high side of
6 transformers that are protective type devices.

7 A (By Mr. Southwick) And one other thought on that.
8 This Attachment Q applies equally to everybody. It's not pick
9 and choose.

10 Q Will there be assets currently classified as
11 distribution assets that will be transferred to the operational
12 control of GridFlorida?

13 A Yes.

14 A (By Mr. Mennes) Yes.

15 Q Is that true for all three utilities?

16 A (By Mr. Ramon) Yes.

17 A (By Mr. Mennes) Yes.

18 A (By Mr. Southwick) Yes.

19 Q Is it your understanding that for ratemaking purposes
20 the Florida Public Service Commission would continue to have
21 jurisdiction over those assets?

22 A In the case of Florida Power Corporation, the answer
23 is yes.

24 A (By Mr. Mennes) When those assets are transferred by
25 Florida Power & Light Company to GridFlorida, if they are

1 transferred, those assets would now be property of GridFlorida
2 and should not be on FPL's books.

3 A (By Mr. Ramon) The same for Tampa Electric.

4 Q Florida Power Corporation will be --

5 COMMISSIONER JABER: Wait a second. So that doesn't
6 answer the question. I think the question was, will those
7 assets remain within the jurisdiction of the Commission.
8 Wasn't that the question?

9 MR. KEATING: My question was, what was their
10 understanding of whether those assets would remain under our
11 jurisdiction.

12 COMMISSIONER JABER: I understand that for TECO and
13 FPL those assets will be transferred completely to GridFlorida
14 and come out of the utilities' books, but as it relates to
15 those same assets, will they be within the jurisdiction of the
16 Commission? Isn't that your question? Did you get an answer
17 to your question?

18 MR. KEATING: I don't believe so.

19 WITNESS NAEVE: I don't think they would be. And for
20 Power Corp, to the extent that they are transferred by contract
21 to the RTO, then they would be included in the RTO's rates and
22 subject to FERC jurisdiction on that. There still would be
23 state jurisdiction with respect to siting and so forth.

24 WITNESS SOUTHWICK: I don't think I agree with that,
25 Mike. I think that that's not our intention. Our intention is

1 they would stay --

2 WITNESS NAEVE: Transfer control but not rates.

3 WITNESS SOUTHWICK: Transfer control but not rates.

4 COMMISSIONER DEASON: So Florida Power Corporation
5 would distinguish those assets and would not be making a tariff
6 filing with FERC for those particular assets?

7 WITNESS SOUTHWICK: Right. The distribution plant
8 would stay intact. We don't see -- I forgot the term where
9 you -- we're not going to change the accounting because of the
10 transfer of control, and the distribution assets would stay in
11 distribution plant, and it would stay under this Commission's
12 jurisdiction.

13 BY MR. KEATING:

14 Q Recognizing that Florida Power Corporation is only
15 transferring operational control to GridFlorida, did the three
16 participating companies reach any agreement on how the
17 investment and depreciation reserve representing those assets
18 to be transferred to GridFlorida or to have operational control
19 transferred to GridFlorida would be determined?

20 A (By Mr. Mennes) I have no knowledge of that.

21 A (By Mr. Southwick) I'm not aware of any such --
22 Mr. Ashburn may be knowledgeable; I'm not.

23 Q In theory, would a subsidy result if each utility
24 chooses a different demarcation point for those facilities to
25 transfer to the RTO?

1 A (By Mr. Ramon) Well, we've all agreed on 69 kV or
2 above, and your question is if some of us decided to draw it
3 differently?

4 Q Yes.

5 A I mean, but that's not the case. We've all agreed
6 that the line of demarcation is 69 kV and above.

7 Q Well, the question is in theory. If the utilities
8 chose different demarcation points for the facilities to be
9 transferred to the RTO, would a subsidy result?

10 MR. CHILDS: Isn't that on Pages 21 and 22 where it
11 said yes?

12 MR. KEATING: Right. I believe it's, yeah, I believe
13 starting on Page 21 of the testimony --

14 MR. CHILDS: Right. I think it says -- yes.

15 MR. KEATING: -- the Panel addresses that.

16 A (By Mr. Mennes) Yeah, there could be a subsidy.

17 A (By Mr. Ramon) Yeah, and it's -- as Matt said, it's
18 on Page 21 and 22.

19 Q In theory, could a subsidy also result if each
20 utility were to choose the different method for calculating
21 the investment and depreciation reserve associated with assets
22 subject to the demarcation point?

23 A (By Mr. Naeve) I think you need to direct that to
24 the right expert.

25 Q I have just a couple more questions. During

1 Witness Hoecker's testimony and cross examination yesterday, he
2 referenced a 1996 FERC study based on a coal and electric
3 utilities model. Are any of the panelists familiar with that
4 study?

5 A (By Mr. Ramon) No, just what was in
6 Chairman Hoecker's testimony.

7 A (By Mr. Mennes) Could you repeat the question for
8 Mr. Naeve, please.

9 Q Yes. Mr. Hoecker referenced a 1996 FERC study based
10 on the coal and electric utilities model. And I believe that
11 was the study that was the basis for a determination that it
12 could be \$3.76 to \$5.37 billion in savings, and I believe that
13 was as a result of a competitive market, competitive generation
14 market nationwide.

15 Are any of the panelists aware of whether the savings
16 that were outlined in that study, whether those amounts were
17 net amounts assuming the construction and development of RTOs
18 around the nation?

19 A (By Mr. Naeve) I can't say with certainty. I'd
20 assume that was the case, but I can't say with certainty.

21 Q Just one last question. Earlier, there was some
22 discussion about whether it was any of the panelists'
23 understanding that the Public Service Commission would retain
24 any jurisdiction over GridFlorida for market oversight
25 purposes. And I don't want to ask you for a legal opinion at

1 this point, but if it was determined that the Public Service
2 Commission did not have authority over those particular areas
3 of GridFlorida, would the participants support legislation that
4 would provide the PSC that authority?

5 MR. CHILDS: I'm going to object to the question.
6 And I don't think that's a proper question to ask them, these
7 witnesses. It may be something of concern or interest, but I
8 object to it.

9 COMMISSIONER DEASON: Staff, there's been an
10 objection to the question.

11 MR. KEATING: The question has at least attempted to
12 be phrased simply as a question as to whether to these
13 witnesses' knowledges -- witnesses' knowledge, if that's proper
14 grammar, I'm not sure -- that the individual companies would
15 support legislation that would grant the PSC authority if
16 there's a finding at some point or determination --

17 COMMISSIONER DEASON: That's outside the scope of
18 their testimony, and the objection is sustained.

19 Does that conclude your cross examination?

20 MR. KEATING: That does.

21 COMMISSIONER DEASON: Okay. Commissioners,
22 questions?

23 COMMISSIONER PALECKI: Commissioner Deason, I have a
24 line of questioning that I'd like to pursue, but I'm not sure
25 these are the witnesses. I'd like to poll the parties to find

1 out who would the optimum witnesses be to answer these
2 questions.

3 I'm concerned about the Pat Wood memo that was
4 introduced as Exhibit Number 5 yesterday. Three sanctions are
5 threatened against utilities who do not join an approved RT0,
6 and I would like to find out the potential financial
7 vulnerability of Florida's utilities, both the regulated
8 utility as well as the company overall.

9 Now, I realize that the Pat Wood memo has just
10 recently been issued. I think the date is September 26th. It
11 may actually be that I should ask for this as a late-filed
12 exhibit, but my concern is, I want to know the repercussion if
13 these threatened sanctions take place. I want to know the
14 possible effect on Florida if we do not approve the RT0.

15 MR. CHILDS: I don't think that these witnesses are
16 in a position to quantify that for you. I'm not sure of the
17 best way to try to get that. I think we could, for instance,
18 you know, maybe pursue some of the impacts on off-system sales
19 and pricing of those. But if you want, perhaps we can try to
20 put what we can gather in some sort of a commentary in a
21 late-filed exhibit, but I don't know what we can do but we can
22 try.

23 MR. FAMA: And, Commissioner Palecki, I think that it
24 really is a company-by-company inquiry --

25 COMMISSIONER PALECKI: I agree.

1 MR. FAMA: -- because of the market-based pricing
2 differences and off-system sales differences. So I would
3 suggest that if we do something on a late-filed, we it
4 company-by-company.

5 WITNESS NAEVE: It may not be a simple matter either,
6 because, for example, I know with the Florida Power & Light
7 assets, they're Florida Power & Light Energy, FPL Energy
8 Company. They have assets in Maine, for example, and they have
9 never developed a cost-based rate for those assets. So it
10 would be a little bit difficult to compare current revenues to
11 a cost-based rate without developing a cost-based rate first.

12 And then, secondly, historically, when FERC
13 establishes cost-based rates, those rates serve as a cap but
14 not a floor. In New England, you have a competitive market for
15 energy, and many hours, the market price is very low, and it
16 might be below the cost-based rate. And during other hours,
17 it's above the cost-based rate, and during those hours, it
18 would cap you at what one could receive. So even if you have a
19 cost-based rate, it doesn't mean you'd receive all the revenues
20 that one would normally get under a cost-based rate in a market
21 that's not competitive.

22 So it would be a ceiling on what they could earn but
23 not a floor, and you'd have to actually go back and look hour
24 by hour to see in how many hours the rates or the prices in New
25 England are below that cost-based cap, and then try to

1 calculate backwards what your actual earnings would be. So
2 it's not merely a matter of looking at your total investment
3 and assuming you could develop a cost-based rate and you would
4 receive that rate because you wouldn't. You'd only receive
5 that rate during a limited number of hours, and then during the
6 other hours, you'd receive significantly less than that rate.
7 So it's a fairly complicated analysis just for those types of
8 assets to calculate what your exposure would be.

9 COMMISSIONER PALECKI: Well, perhaps, you know, I
10 need a range of potential vulnerability, but let me explain
11 what my concern is. I'm afraid that imposition of these
12 sanctions would affect the regulated utility's cost of capital,
13 and I'm concerned that even though these sanctions would not be
14 imposed directly against the regulated utility, that they would
15 have a significant impact on the regulated utility. And I
16 think those have to be weighed in making our determination.

17 Commissioner Deason, I would ask for those as
18 late-filed exhibits from each of the utilities, and I guess I
19 would entitle it, "Potential Financial Vulnerability Due to
20 FERC Sanctions Proposed in the Memorandum of September 26,
21 2001, Exhibit Number 5."

22 COMMISSIONER DEASON: Very well. Are these the
23 witnesses that would be responsible? I know it would be on an
24 individual company basis. Are these the witnesses that would
25 be responsible?

1 MR. CHILDS: Probably not for Florida Power & Light,
2 but I don't know who that would be.

3 COMMISSIONER DEASON: Well, why don't we do this.
4 Let's go ahead and identify these exhibits. And it will be
5 entitled as Commissioner Palecki indicated. And for Florida
6 Power & Light, that will be Late-Filed Exhibit 11. For Florida
7 Power Corporation, it will be Late-Filed Exhibit 12, and for
8 Tampa Electric Company, it will be Late-Filed Exhibit 13.

9 (Late-Filed Exhibits 11, 12, and 13 identified.)

10 COMMISSIONER DEASON: And I believe that the purpose
11 of the exhibits has been described, and it will be up to each
12 individual utility to do their best effort in putting that
13 information together. Is that fair?

14 MR. FAMA: Yes, sir.

15 COMMISSIONER DEASON: Very well. And before the
16 hearing is over, we will set a date for the filing of
17 late-filed exhibits.

18 COMMISSIONER PALECKI: And I have no further
19 questions of this Panel.

20 COMMISSIONER DEASON: Further questions?

21 COMMISSIONER JABER: No.

22 COMMISSIONER DEASON: Redirect.

23 MR. CHILDS: Yes, I have some questions.

24 REDIRECT EXAMINATION

25 BY MR. CHILDS:

1 Q There was, it seems like a long time ago, a question
2 asked about just what did we want from this Commission in terms
3 of its ruling on the petitions that are here on Phase I. And I
4 want to show you the position on Issue 11. Do you have the
5 position on Issue 11 as set forth in the prehearing statement?

6 And Mr. Naeve, I think you responded to that
7 question.

8 A (By Mr. Naeve) Yes, I do.

9 Q And isn't it correct that the position that's set
10 forth for each of the three companies is the same on Issue 11?

11 A Yes, it is.

12 Q Would it be proper to conclude that this statement of
13 position is a fair approximation of what the utilities believe
14 is appropriate in terms of the Commission's ruling given the
15 circumstances associated with the evaluation of an RTO for
16 Southeast United States?

17 A Yes, it is. I think we were probably less than clear
18 in responding to Commission Jaber's question, but our statement
19 with respect to Issue 11 represents our position. And
20 essentially, we're asking that the Commission find that the
21 GridFlorida proposal is prudent, that the cost recovery
22 mechanism is prudent to give us the ability to go forward, at
23 the same time potentially conditioning that approval on our
24 evaluating the Southeast RTO alternative.

25 Q And you're also aware of FPL's position on Issue

1 4 concerning a cost recovery methodology?

2 A Yes, I am.

3 Q And they have taken the position that that is
4 necessary for them to go forward?

5 A Yes. FPL is not prepared to go forward with the
6 GridFlorida without assurance that they would get cost recovery
7 as proposed in their cost recovery methodology.

8 Q An answer was given about the time, I think it was
9 the time that might be required to regain momentum -- I think
10 that was the term used -- on GridFlorida. And I believe that
11 one of you answered and gave an estimate of time to regain that
12 momentum. Was that time period to start with the Commission's
13 ruling or to start with the completion of the evaluation of the
14 RTO for the Southeast United States?

15 A (By Mr. Southwick) I'll answer that since I made
16 that statement. It would be from the time that we restarted
17 the process, which would be after the completion of the
18 evaluation of which way we were going to go that resulted in a
19 decision then to go with GridFlorida, and at that time, we
20 would start that process. And that's what I said would be at
21 least nine months.

22 A (By Mr. Naeve) I think we really can't estimate with
23 precision how much time that would be. Henry said at least
24 nine months. We will have to restart the board process, which
25 was well along, but we've lost momentum there. But it will

1 take a considerable amount of time.

2 COMMISSIONER JABER: Okay. I know this is supposed
3 to be helping me, but it's not. If the Commission were to go
4 ahead and say some form of RTO is prudent and GridFlorida is
5 the most prudent, what you've just articulated again is that
6 you would take that as some level of comfort, and it would
7 probably help you at FERC, but you will continue to monitor and
8 consider the regional approach.

9 What I need to know is, if this Commission orders the
10 implementation of GridFlorida, are you going to do that
11 immediately? I mean, it seems to me that that would put you in
12 a better posture with FERC.

13 WITNESS NAEVE: I think we think that both the
14 companies and this Commission would be cognizant of the fact
15 that we may very well be required to join the Southeast RTO no
16 matter what happens. We want our hand to be as strong as
17 possible to protect the GridFlorida position, but at the same
18 time, we want to make the Southeast RTO participate in the
19 process and make it as much like the GridFlorida process as
20 possible so that if we're ordered to join it either immediately
21 or down the road, it's a result that we could live with.

22 And our hope would be that you approve GridFlorida,
23 you find it prudent, you find the cost recovery method prudent.
24 That would strengthen our hands in two ways. It would
25 strengthen our hands in negotiating with the Southeast RTO

1 because we have an improved process, and if they want us to
2 participate, they would have to structure the Southeast RT0 to
3 look more like GridFlorida, because we otherwise have approval
4 to go forward at GridFlorida. And likewise, it would help
5 preserve GridFlorida as an option, because if we have the
6 approvals, we have the support of the companies here and the
7 support of the Commission, the Florida Commission, for
8 GridFlorida, we think that substantially reduces the likelihood
9 that FERC would order us into the Southeast RT0.

10 If we look at the Southeast RT0, we compare it
11 against GridFlorida, and we conclude that the Southeast RT0 is
12 not as good an option for Florida, and the Florida Commission
13 and the Florida companies go to FERC and say, we want
14 GridFlorida; we've looked at Southeast; it's not as good; we
15 want our own RT0; we think that strengthens our hand
16 considerably.

17 On the other hand, if we look at the Southeast RT0,
18 we have a strong leverage -- bargaining position. We're able
19 to shape it so that it has the beneficial features of
20 GridFlorida, and we can conclude that we can negotiate a
21 structure where we can maintain operational control in Florida
22 as we need it, that we can spread start-up costs over a much
23 broader basis and lower the cost of operating the grid, we may
24 and you may think that that's the best way to go.

25 COMMISSIONER JABER: Mr. Naeve, I'm interested in

1 strengthening the hand of the consumer. And at the end of this
2 process if we believe that the best approach for the State
3 assuming some RTO is appropriate would be GridFlorida, why
4 should I care about the negotiating position you're in with
5 FERC if I've already decided that a Florida-specific RTO is the
6 best thing for the consumer?

7 I want -- you know, we've come back full circle, and
8 you want a comfort level. This proceeding isn't about giving
9 you a comfort level, perhaps partially, but really, for me,
10 it's about being able to explain to the consumer why a regional
11 transmission organization in any form is appropriate. So in
12 that regard, I want assurances that if this Commission orders a
13 Florida-specific RTO, that you will implement such RTO. I need
14 that assurance, and if you can't give me that assurance,
15 perhaps a deadline would help.

16 WITNESS NAEVE: I just want to make one point. I'm
17 not sure I'm in the position to make policy for the company, so
18 perhaps we have to do that in some other forum. But I think we
19 actually are coming from the same perspective. Your
20 perspective is, you want what's best for the consumers in
21 Florida, and quite frankly, we think we're in exactly the same
22 situation. We're going to be the largest user of the RTO.
23 What is best for the consumers in Florida also it turns out, I
24 think, to be best for the utilities. And so for that reason,
25 we want to -- we think GridFlorida as a standalone entity is a

1 very good solution. We recommend it.

2 On the other hand, there's a new option that may be
3 out there which we have not had a chance to evaluate. It's an
4 option which isn't even quite finalized yet, and there is the
5 possibility that it is a better option than GridFlorida. And
6 we would -- and further, it's an option that we may be required
7 to take. So we would think that because we have the same
8 motives, that we would both conclude that we should try to make
9 that option as effective as possible, and then evaluate which
10 is the better option and choose the one that's best for the
11 consumers in Florida.

12 COMMISSIONER PALECKI: I'd like to ask a question.
13 I'm going to put this partially in the form of a statement and
14 partially in the form of a question. The cost recovery
15 mechanism for GridFlorida is not stated as a specific issue in
16 this docket. Our Staff has not conducted an analysis of cost
17 recovery. I have been advised by our Staff that there may be a
18 need for Staff to put on a witness that would advise this
19 Commission of our various options regarding cost recovery. And
20 I, for one, would not feel comfortable at this juncture making
21 a determination regarding cost recovery.

22 However, if this Commission was to make a finding of
23 the prudence of the GridFlorida proposal and was also to make a
24 finding that prudently incurred costs would be recovered and
25 recovered in an appropriate manner, would that be an adequate

1 finding to allow you to move forward with the GridFlorida
2 proposal?

3 MR. WILLIS: Commissioner Palecki, with respect to
4 that question, that is a policy question that may be best
5 directed to Witness Hernandez for Tampa Electric.

6 COMMISSIONER PALECKI: Well, they have already made a
7 very, very specific statement regarding that particular issue,
8 and I think what I heard from them is that they absolutely
9 needed a finding regarding a cost recovery mechanism. And I
10 think I should be entitled to explore that item of testimony.

11 MR. WILLIS: I would just point out that that
12 statement was made by FPL.

13 MR. CHILDS: Yeah, I asked it as to FPL, and we have
14 another witness addressing that. And I asked it because I
15 wanted to try to provide this picture so that you understood as
16 to FPL when the question had been asked what did we need to go
17 forward. First of all, I was trying to have it explained that
18 what we thought we needed was set forth in our position on
19 Issue 11 to try to accomplish that. Issue 11 posing, is a
20 regional transmission organization for the Southeast region a
21 better alternative? And that's sort of, you know, an issue
22 that we took the position at least that there are some matters
23 that have not been fully developed in the consideration of a
24 Southeast RTO. And so given that, we were trying to explain to
25 you what our position was.

1 In addition, that was a general position, but as to
2 FPL, I didn't want to imply that we were not bringing to your
3 attention FPL's position that a cost recovery methodology is
4 appropriate. But I was not commenting as it related to Tampa
5 Electric or Florida Power Corporation, and I don't think -- the
6 witness wasn't either.

7 COMMISSIONER PALECKI: Well, if the witness could
8 just explain your prior answer regarding cost recovery, I would
9 appreciate that.

10 WITNESS NAEVE: Well, I will explain what I
11 understand to you, but I have to tell you, I'm not the person
12 who sets FPL policies, and I'm not their rate expert. I will
13 explain what I understand. And my understanding is, the
14 proposed mechanism that FPL has made gives them the assurance
15 as to cost recovery that they believe they need to go forward
16 with the future expenditure of considerable funds to develop
17 GridFlorida.

18 And I think from their perspective they recognize
19 that the GridFlorida costs are, at this stage, somewhat
20 difficult to predict, and over time those GridFlorida costs
21 will change as new facilities are added to the GridFlorida
22 system. And the GridFlorida rate proposal has a methodology
23 where the rates are automatically adjusted for new investment.
24 And the cost recovery methodology that they have proposed is
25 one which gives them a high assurance that they will recover

1 those rates, not only as they are forecasted to be or day one,
2 but as they are revised over time up and down. So I think, as
3 I understand it, it's a very important element to them for
4 going forward.

5 MR. CHILDS: And, Commissioner, one observation. I
6 think you mentioned that you had been advised about the Staff's
7 position, and I can't comment on what they may have advised to
8 you, but I would note that they have deposed the witness. And
9 they have submitted interrogatories on this issue. They have
10 deposed the witness, Ms. Dubin, who addresses that point. So
11 they have conducted discovery. It's not something that -- it's
12 not an issue that was not addressed in the discovery process;
13 it has been.

14 COMMISSIONER PALECKI: Thank you.

15 BY MR. CHILDS:

16 Q The question was asked about the percentage, maybe I
17 won't frame it correctly, but I'll try. The percentage of the
18 transmission in Florida that is owned by the three utilities
19 that are forming GridFlorida. And I want to ask you if you
20 will look at a document. It's entitled, "FRCC Voting Formula
21 for 2001." And it appears to me that it sets forth circuit
22 miles for the various entities of transmission facilities.

23 A (By Mr. Mennes) We're familiar with that.

24 Q Will you confirm or tell me what that document is
25 that I just showed you?

1 A Well, this document is used to develop a voting
2 formula for the FRCC, which is based upon for various
3 categories, each getting 25 percent. The last of these
4 categories is transmission lines owned. So it does list the
5 transmission lines of all the FRCC utilities, which is
6 Peninsular Florida.

7 Q It shows that in circuit miles?

8 A Yes, sir.

9 Q From that circuit mile representation, can you
10 approximate the circuit miles of transmission facilities in
11 Florida that are owned by the three utilities that are forming
12 GridFlorida?

13 A Yes. It would be over 84 percent.

14 Q And is there another basis that you could potentially
15 look at the transmission facilities other than circuit miles
16 such as to reflect voltage levels?

17 A We could weight them for voltage, that is correct.

18 Q And if you did, would that increase the amount even
19 higher than the 84 percent?

20 A Yes.

21 Q Okay. Another question that I wanted to ask is,
22 Commissioner Palecki had posed a question about the -- I think
23 it went to the role of the Commission in the planning process.
24 And I would like to know -- Mr. Southwick, I think you had
25 answered that question. If you might, expand on the role that

1 the Commission is envisioned to have under GridFlorida. And I
2 think you gave us a comment about, there was a participation, I
3 think, through the FRCC, and I'd like you to expand on that
4 answer a little bit.

5 A (By Mr. Southwick) All right. Let me say this.
6 Throughout the development of GridFlorida, one of our
7 objectives was to keep the Commission's rights at least as good
8 as they have today, if not enhanced, in the areas of
9 reliability and planning.

10 To that point, specifically, if you look at
11 Exhibit 1, Volume 6 in the planning protocol of the GridFlorida
12 tariff, there are several specific references to the Commission
13 and what authority and rights they'll have going forward. For
14 example, on Page 4064, down towards the bottom of the page, it
15 talks about, the FPSC has the right to review the studies and
16 supporting data and to provide input to the transmission
17 provider, that's GridFlorida, during the decision-making
18 process as to the need for new facilities. To the extent that
19 proposed facilities -- and I'm leaving out a few words here,
20 but to the extent that the proposed facilities include
21 facilities subject to the FPSC siting jurisdiction, the
22 proposed extension shall be submitted to the FPSC for its
23 review and approval in accordance with the relevant statutory
24 standards.

25 The next paragraph goes on to say, to the extent that

1 the FPSC lawfully orders an LSE or PO under its jurisdiction to
2 construct facilities --

3 COMMISSIONER DEASON: Mr. Southwick, slow down just a
4 little bit.

5 A Okay. I'm sorry. And it goes on to say that if the
6 FPSC, to the extent that they wish to order a utility to
7 construct new facilities, that the transmission provider will
8 accept that responsibility, and they're committed to do that.
9 So through that process right there, we've given the Commission
10 the full involvement in the process and retained their right to
11 order construction.

12 Over on Page 4066, we address in Roman Numeral IV the
13 FRCC and the FPSC's role in reliability in the planning
14 process. And Under B -- A talks about the FRCC's role; B talks
15 about the FPSC's role. It states that the FPSC shall have the
16 same right to participate in the planning process as any other
17 entity to the extent that it so chooses. And it goes on to say
18 that that does not take away or dilute their continuing rights
19 to participate in the FRCC process as described above.

20 And then over on Page 4069, we again talk about the
21 Commission's rights down at the bottom of that page after we
22 describe the annual planning process. We state that to the
23 extent that a user of the system or the FPSC does not agree
24 with the final plan, such user or the FPSC shall first raise
25 this matter with the Transmission Planning Committee

1 subsequently in the event that that matter cannot be resolved.

2 Then we go into dispute resolution. The intent there
3 was to give a formal channel for the Commission to raise its
4 issues and air them out, which we feel is at least as good, or
5 superior, to the actual participation that we have today. So
6 that was the intention as we went forward.

7 MR. CHILDS: Thank you. That's all I have.

8 COMMISSIONER DEASON: Okay.

9 COMMISSIONER PALECKI: Could I ask one further
10 question? Could you give the same type of analysis or point me
11 to the same type of answer with regard to this Commission's
12 role with regard to addressing market power, if any?

13 WITNESS NAEVE: I think with respect to wholesale
14 market power, there is no specific language that gives this
15 Commission jurisdiction they currently do not have over
16 wholesale market power. I don't think the Commission's
17 jurisdiction changes over wholesale market power with or
18 without the RTO.

19 The primary entity in the RTO responsible for
20 mitigating market power is the market monitor, and there is
21 language in the market monitor tariff. And we were looking at
22 that earlier. I think it's 3.2.3 in the market monitor tariff
23 which directs the market monitor to provide information and do
24 reports for the Public Service Commission upon their request.
25 And then in addition to that, we also provided the Public

1 Service Commission with the role of reviewing the market
2 monitor's budget.

3 COMMISSIONER PALECKI: I guess I'm more concerned
4 about information going the other way, from this Commission to
5 the market monitor. And I guess I would feel more comfortable
6 if there was some recognition of the Public Service Commission
7 by the market monitor.

8 I understand that under the law we don't have that
9 jurisdiction. I would certainly feel more comfortable if under
10 the terms of the agreement we had at least some voice, not a
11 decision-making voice necessarily. I understand that's FERC's,
12 that's their jurisdiction. But I would certainly feel more
13 comfortable if there was a definitive statement of what -- that
14 this Commission has some advisory capacity to the market
15 monitor. And I have no further questions.

16 MR. CHILDS: I'd like to move Exhibit 7, which is the
17 errata for the testimony into evidence.

18 CHAIRMAN JACOBS: Without objection, show
19 Exhibit 7 is admitted.

20 (Exhibit 7 admitted into the record.)

21 CHAIRMAN JACOBS: Staff.

22 MR. KEATING: And Staff would move Exhibit 10, which
23 was the Late-Filed Deposition Exhibit Number 2 from the Panel's
24 deposition.

25 CHAIRMAN JACOBS: I show Exhibit 9 as the docket

1 order -- FERC order.

2 MR. KEATING: That's correct. I don't believe that's
3 necessary for the record.

4 CHAIRMAN JACOBS: We don't need to move that into
5 evidence then? If that's agreeable to the parties, then you
6 are only moving Exhibit 10 then. Without objection, show
7 Exhibit 10 is admitted.

8 (Exhibit 10 admitted into the record.)

9 CHAIRMAN JACOBS: And we have Exhibits --

10 MR. KEATING: We also have Exhibit 8, which is a
11 late-filed.

12 CHAIRMAN JACOBS: Eight is late-filed. I show
13 Exhibits 11, 12, and 13 as late-filed as well, requests of
14 Commissioner Palecki.

15 MR. KEATING: That's correct. Yes.

16 CHAIRMAN JACOBS: Very well.

17 MR. CHILDS: They are not being moved at this time,
18 are they?

19 CHAIRMAN JACOBS: No, no. I just show them as
20 late-filed marked.

21 MR. CHILDS: All right.

22 CHAIRMAN JACOBS: Anything else for this Panel?
23 Well, that was an interesting 15 minutes. Thank you very much.
24 You are excused.

25 (Witnesses excused.)

1 CHAIRMAN JACOBS: And we will break for lunch and
2 come back at, let's say, 2:30 then. Okay.

3 (Lunch recess.)

4 CHAIRMAN JACOBS: We'll go back on the record, and
5 the next witness.

6 MR. LONG: Mr. Chairman, I'd like to call
7 Mr. William Ashburn to the stand. I believe the witness has
8 already been sworn.

9 WILLIAM R. ASHBURN
10 was called as a witness on behalf of the GridFlorida Companies
11 and, having been duly sworn, testified as follows:

12 DIRECT EXAMINATION

13 BY MR. LONG:

14 Q Mr. Ashburn, would you give your name and business
15 address for the record, please.

16 A My name is William R. Ashburn. My business address
17 is 702 North Franklin Street, Tampa, Florida 33602. I'm
18 director of pricing and financial analysis for Tampa Electric
19 Company.

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

22 A I do.

23 Q Was this document prepared by you or under your
24 direction and supervision?

25 A It was.

1 Q Do you have any changes or corrections that you'd
2 like to make to this testimony at this time?

3 A No.

4 Q If I were to ask you the questions as they appear in
5 this prepared testimony now that you are under oath, would your
6 answers be the same?

7 A Yes.

8 Q And you adopt this as your sworn testimony in this
9 proceeding?

10 A I do.

11 MR. LONG: Mr. Chairman, I ask that this joint
12 testimony be read into the record.

13 CHAIRMAN JACOBS: Without the objection, show this
14 testimony of Mr. Ashburn as entered into the record as though
15 read.

16 BY MR. LONG:

17 Q Mr. Ashburn, are you also sponsoring an
18 exhibit referred to in your testimony as WRA-2?

19 A I am.

20 MR. LONG: Mr. Chairman, I ask that this exhibit be
21 marked for purposes of identification.

22 CHAIRMAN JACOBS: Show it marked as Exhibit 14.

23 (Exhibit 14 marked for identification.)

24

25

TAMPA ELECTRIC COMPANY
FLORIDA POWER & LIGHT
FLORIDA POWER CORPORATION
DOCKET NOS. 010577-EI,
001148-EI, 000824-EI
FILED: AUGUST 15, 2001

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 PREPARED JOINT TESTIMONY

3 OF

4 WILLIAM R. ASHBURN

5

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

7

8 A. My name is William R. Ashburn. My business address is
9 702 North Franklin Street, Tampa, Florida 33602. I am
10 Regulatory Affairs Director, Rates and Financial Analysis
11 for Tampa Electric Company ("TEC").

12

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

15

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

24

25

1 In 1983, I joined TEC and have held various positions
2 with responsibility for embedded cost and marginal cost
3 of service studies, rate filings, marketing, planning,
4 rate design, implementation of new conservation and
5 marketing programs, customer survey and various state and
6 federal regulatory filings. In March 2001, I was
7 promoted to my current position of Director, Rates and
8 Financial Analysis in TEC's Regulatory Affairs
9 department. I am responsible for rate design, cost of
10 service analysis, and financial analysis. I am a member
11 of the Economic Regulation and Competition Committee of
12 the Edison Electric Institute and the Rate Committee of
13 the Southeastern Electric Exchange.

14
15 Q. What is the purpose of your testimony in this proceeding?
16

17 A. I am presenting testimony on behalf of TEC, Florida Power
18 and Light Company ("FPL"), and Florida Power Corporation
19 ("FPC") (collectively referred to as the "GridFlorida
20 Companies") in support of their position that it is
21 prudent for them to participate in the GridFlorida
22 regional transmission organization, or RTO, as they have
23 proposed to the Federal Energy Regulatory Commission
24 ("FERC"). Specifically, I address Issues 2, 3 and 4 as
25 set forth in the Prehearing Order issued in this

1 proceeding by providing the Florida Public Service
2 Commission ("Commission" or "FPSC") with an overview of
3 the features and benefits of GridFlorida's transmission
4 pricing protocol and rate design. In so doing, I will
5 also describe salient features of FERC's RTO pricing
6 policy under Order No. 2000; the extensive collaborative
7 process through which the GridFlorida participants and
8 stakeholders designed the pricing protocol in order to
9 comply with FERC's Order No. 2000 requirements; and FERC
10 orders wherein FERC found that the pricing protocol meets
11 Order No. 2000's transmission pricing requirements.

12
13 Q. Are you sponsoring an Exhibit as part of your testimony?

14
15 A. Yes. I am sponsoring Exhibit _____ (WRA-2), which
16 consists of four pages presenting the development of
17 estimated start-up cost revenue requirements, including
18 the five-year amortization and net cost responsibility to
19 the retail ratepayers of each of the GridFlorida
20 Companies. Page One of this Exhibit reflects the
21 estimated total net cost responsibility to the
22 GridFlorida Companies' retail users and represents a
23 summary of the following three pages. Pages Two through
24 Four present the estimated impact to the retail
25 ratepayers of each of the GridFlorida Companies

1 individually.

2
3 Q. Please summarize the central features of FERC's RTO
4 transmission pricing policy.

5
6 A. As FERC explained in Order No. 2000, the elimination of
7 rate pancaking for large regions is a central goal of
8 FERC's RTO policy. Rate pancaking occurs when a
9 transmission customer is charged separate access charges
10 for each utility service territory the customer's
11 contract path crosses. Under Order No. 2000, FERC
12 mandates that RTO tariffs cannot result in transmission
13 customers paying multiple access charges to recover
14 capital costs over facilities that the RTO controls.
15 Without the elimination of pancaked rates, transmission
16 customers would be faced with additional access charges
17 for every utility border they cross.

18
19 One of the main reasons that an RTO can increase
20 opportunities for economical purchases and sales is that
21 an RTO can implement non-pancaked rates for each
22 transaction. A wider area served by a single rate means
23 more generation is economically available to any
24 customer. The reason this is economical is that there
25 are no significant incremental facility costs to access

1 more than one owner's transmission lines, i.e., if there
2 were more than one owner, there would be only one access
3 charge nonetheless.

4
5 While elimination of pancaked charges is central to
6 FERC's RTO transmission pricing policy in Order No. 2000,
7 FERC nonetheless has chosen to balance the desire to
8 honor existing contractual arrangements with the need for
9 a uniform approach for transmission pricing and the
10 elimination of pancaked rates. Thus, although certain
11 existing contracts may contain pancaked rates, FERC
12 determined that it is not appropriate to order generic
13 abrogation of existing transmission contracts that
14 represent negotiated rights and obligations. Rather,
15 FERC encourages each RTO to address how and when it might
16 convert existing contracts and submit a contract
17 transition plan that contains specific details about the
18 procedures to be utilized involving the conversion from
19 existing contracts to RTO service.

20
21 FERC also adopted a flexible pricing approach with
22 respect to RTO proposals for allocation of fixed
23 transmission cost recovery. For example, FERC will
24 permit RTO proposals to use zonal, or "license plate"
25 rates to recover their fixed transmission costs. A

1 "license plate" rate provides access to the regional
2 transmission system at a single, non-pancaked rate,
3 although that rate may vary based on where the customer
4 is located. FERC will allow RTOs to utilize these
5 "license plate" rates, as long as the RTO clarifies how
6 transmission expansion will be priced (*i.e.*, whether
7 license plate rates or some other mechanism will be
8 applied to the cost of new transmission facilities, and
9 how such pricing affects incentives for efficient
10 expansion). In addition, FERC encouraged the mitigation
11 of cost-shifts resulting from differences in access fees
12 based on differences in per unit costs of the owners'
13 transmission systems.

14
15 **Q.** Please describe the general goals behind GridFlorida's
16 pricing policy and rate design.

17
18 **A.** The overall goal of GridFlorida's pricing policy and rate
19 design is to comply with FERC's Order No. 2000 pricing
20 requirements while providing a balanced and reasoned
21 approach to the most difficult pricing issues faced by
22 RTOs. These issues include cost shifting that arises
23 from adoption of average system rates, providing revenue
24 credits for facilities owned by transmission dependent
25 utilities, and eliminating rate pancaking. These issues

1 historically have represented some of the most
2 significant impediments to RTO/Independent System
3 Operator ("ISO") formation, and the GridFlorida rate
4 design addresses each of these matters in a manner
5 intended to encourage broad participation in GridFlorida
6 by Florida transmission owners, while not imposing
7 unreasonable additional costs on existing retail and
8 wholesale customers.

9
10 **Q.** Did the GridFlorida Companies engage in any pricing
11 discussions or negotiations with stakeholders and others
12 in developing the GridFlorida pricing plan?

13
14 **A.** Yes. Prior to the time the GridFlorida Companies
15 submitted their initial application to FERC on October
16 16, 2000, to establish the GridFlorida RTO, the
17 GridFlorida Companies developed the GridFlorida pricing
18 proposal through an extensive collaborative process with
19 all stakeholders. They engaged in a process that
20 involved all interested parties, including all non-FERC-
21 jurisdictional municipal utilities, electric cooperatives
22 and other transmission dependent utilities, independent
23 power developers, power marketers, the Florida
24 Reliability Coordinating Counsel ("FRCC") and the Florida
25 Public Service Commission ("FPSC"). In addition, the

1 FERC staff attended a number of stakeholder meetings.

2

3 Q. Were there any specific committees dedicated solely to
4 pricing issues?

5

6 A. Yes. As part of the GridFlorida planning process, the
7 stakeholders established a number of committees, one of
8 which was the Pricing Committee. The Pricing Committee
9 addressed, at a conceptual level, the issues outlined in
10 the pricing protocol included in the GridFlorida
11 Companies' October 16, 2000 filing. The Pricing
12 Committee addressed such issues as how to provide for
13 non-pancaked rates, a transition plan to mitigate cost
14 shifting, the treatment of existing transmission
15 contracts, and how to provide for the recovery of the
16 cost of facilities constructed after GridFlorida begins
17 operations.

18

19 Membership in the Pricing Committee and other committees
20 was open to any person or entity that wished to
21 participate. A large number of persons took advantage of
22 this opportunity. The Pricing Committee met at least
23 once or twice a month, and more frequently than that when
24 necessary. Notes of meetings were taken and posted on
25 the GridFlorida web site.

1 Q. Were there any other collaborative pricing initiatives
2 prior to October 16, 2000?

3

4 A. Yes. In addition to the Pricing Committee meetings, the
5 FPSC scheduled a number of RTO workshops that addressed
6 various aspects of RTO formation where pricing issues
7 were discussed. The GridFlorida Companies and other
8 parties appeared at these workshops, at which they were
9 able to explain the various aspects of the GridFlorida
10 proposal to the FPSC Staff and Commissioners. The FPSC's
11 scheduling of these workshops was in addition to the
12 participation of the FPSC Staff in all of the committees
13 responsible for developing the GridFlorida proposal,
14 including the Pricing Committee.

15

16 Q. Prior to the October 16 filing, was there a consensus
17 reached as a result of these collaborative pricing
18 committees, workshops and negotiations?

19

20 A. The parties to the negotiations reached consensus on
21 certain, but not all, issues. After several months of
22 negotiations, the GridFlorida Companies, in coordination
23 with other stakeholders developed a pricing protocol that
24 represented a general consensus on three important
25 issues. First, the cost of transmission facilities

1 installed as of a date certain, December 31, 2000, or
2 Existing Facilities, initially should be recovered
3 through zonal charges (i.e., transmission access charges
4 based on the revenue requirements of existing
5 transmission facilities in a pre-defined electrical
6 area), rather than a single GridFlorida system charge.
7 Second, zonal charges should be phased out no later than
8 10 years after commencement of RTO operations. Third,
9 the cost of transmission investment made after December
10 31, 2000, (i.e., the cost of New Facilities) should be
11 recovered through a single system charge rather than
12 through zonal charges.

13
14 Q. How does GridFlorida propose to assess customers for the
15 cost of transmission facilities under its control?

16
17 A. The GridFlorida proposal has a two part rate. Part I
18 consists of the existing transmission facilities in each
19 zone as of December 31, 2000 and will be assessed only to
20 the load in that zone for years 1-5. Beginning in year 6
21 and ending in year 10, 20% of the Part I rates for each
22 zone will be added annually to the Part II rates such
23 that at year 10, there would no longer be a Part I rate.

24
25

1 The Part II rate reflects the costs of all New Facilities
2 built after December 31, 2000 and will be assessed to all
3 RTO load.

4

5 Q. What were the issues on which the parties did not reach
6 consensus?

7

8 A. There were four principal matters on which there was a
9 lack of consensus among all stakeholders. They were (i)
10 the definition of transmission rate zones, (ii) the
11 timing of the phase-in to single system rates, (iii) the
12 timing of the phase-out of pancaked charges under
13 Existing Contracts, and (iv) the treatment of
14 Transmission Dependent Utility ("TDU") transmission
15 facilities within a zone.

16

17 Q. Beginning with the first of the three matters on which
18 there was consensus, why did the GridFlorida Companies
19 and stakeholders agree that a zonal approach to
20 recovering the cost of existing transmission facilities
21 was preferable to a GridFlorida system-wide charge
22 approach?

23

24 A. A zonal, or "license plate" approach was preferable to an
25 immediate implementation of a system-wide approach

1 because problems associated with cost-shifting are
2 largely resolved by the use of "license plate" rates.
3 Immediate use of a single average system-wide access rate
4 would have meant that customers of relatively low-cost
5 transmission providers would have seen an instant rate
6 increase.

7
8 **Q.** If zonal charges are equitable, why did the GridFlorida
9 Companies and stakeholders agree to phase out zonal
10 charges (Part I) no later than 10 years after
11 commencement of RTO operations?

12
13 **A.** Zonal charges are equitable in the short-term for the
14 reasons I stated previously. Nonetheless, the parties
15 concluded that, over time, zonal charges would not follow
16 the rules of RTO-wide cost causation, would not promote
17 needed RTO-wide enhancements that would benefit all
18 customers, and would not promote RTO price comparability
19 in rates between customers in different areas. Thus, the
20 parties agreed that, in the long term, a phase out of the
21 Part I rate would be the most equitable manner for RTO
22 customers to share common benefit costs. In addition,
23 FERC Order No. 2000 required RTO proponents to file with
24 FERC their recommendations with respect to transitioning
25 from zonal rates to single system rates.

1 Q. As to the last consensus issue, why did the GridFlorida
2 Companies and stakeholders agree to recover the cost of
3 New Facilities through a single system charge (Part II)
4 rather than through zonal charges?

5
6 A. By adopting a system average rate for all New
7 Facilities, the transition from zonal to system
8 average rates, and thus more equitable treatment of
9 all ratepayers would be hastened. Moreover, the
10 single system charge does not require that all new
11 investment be rolled in to RTO rates; rather, it
12 provides that, if a transmission investment is
13 determined to provide grid-wide benefits and is
14 appropriate for rolled in treatment, all network
15 customers will pay their load ratio share of the new
16 investment through a single system charge (the New
17 Transmission Investment Revenue Requirement), and not
18 through their zonal charge (Part I). The single
19 system charge for new transmission facilities (Part
20 II) also will reduce the potential for inter-zonal
21 conflicts that can arise when an expansion plan
22 identifies alternatives to enhancing regional
23 reliability that have differing impacts on customers
24 in each zone. This is consistent with FERC precedent
25 and was viewed as the fairest means of recovering from

1 all GridFlorida customers the costs for New Facilities
2 that will benefit all GridFlorida customers.

3
4 Q. What transmission services will be offered under the
5 GridFlorida tariff?

6
7 A. The major services offered under the GridFlorida tariff
8 will be Network Integration Transmission Service
9 ("NITS"), Point-to-Point ("PTP") Transmission Service,
10 ancillary services, including Scheduling Service, and
11 generation interconnection service. NITS allows a
12 network customer to integrate, economically dispatch and
13 regulate its current and planned resources to serve its
14 load. PTP service is for the receipt of capacity and
15 energy at designated point(s) of receipt and the
16 transmission of such capacity and energy to designated
17 point(s) of delivery, on either a firm or non-firm basis.
18 Ancillary services are services that facilitate energy
19 delivery operations, and generation interconnection
20 service facilitates the interconnection and operation of
21 generation.

22
23 Q. How would NITS be priced under a zonal or system-wide
24 approach?

25

1 A. The access charge for NITS, which is the service the
2 GridFlorida Companies will take for their retail load,
3 would be the product of (a) the applicable monthly zonal
4 charge (Part I), which is based on the revenue
5 requirements for the facilities within that zone, plus
6 the monthly system charge (Part II) multiplied by (b) the
7 Network Customer's Network Service billing determinants
8 for the month. The network customer's network service
9 billing determinants for a month would be its hourly load
10 coincident with the monthly transmission system peak.
11 Zonal billing determinants are based on peaks within each
12 zone, while system billing determinants are based on
13 peaks coincident with the GridFlorida system for that
14 month. In addition, customers will be assessed a Grid
15 Management Charge.

16
17 Q. How would PTP service within GridFlorida be priced?
18

19 A. The access charge for firm PTP service within
20 GridFlorida would be a charge up to the sum of the
21 applicable zonal charges plus the New Facilities
22 charge, multiplied by the transmission customer's
23 reserved transmission capacity. Non-firm PTP service
24 would be charged up to the firm PTP rate. Customers
25 also would be assessed a grid management charge, and

1 would be responsible for any applicable ancillary
2 service charges. Finally, the GridFlorida tariff
3 includes charges for "through" and "out" service,
4 which are developed on a system average basis.

5
6 Q. For the four issues on which there was a lack of
7 consensus, why, generally, could the parties not
8 completely agree on these issues?

9
10 A. For some issues, the process simply ran out of time in
11 order for the GridFlorida Companies to file the RTO
12 application in compliance with the FERC established
13 deadline. The definition of transmission rate zones
14 and timing issues fell into this category. The
15 treatment of TDU facilities, however, was more
16 complicated and, frankly, the parties simply could not
17 reach agreement on the treatment for these facilities.

18
19 Q. What was done in light of the lack of consensus on the
20 four pricing issues?

21
22 A. Given the lack of complete consensus among the
23 stakeholders on these four issues, the GridFlorida
24 Companies developed a compromise position on each issue.
25 The GridFlorida Companies included these compromises in

1 the pricing protocol that they submitted with the October
2 16 filing. The pricing protocol addresses the four
3 issues in an integrated, comprehensive manner that is
4 intended to preserve existing customers' uses and
5 benefits, maximize participation in the RTO, and create a
6 viable RTO pricing structure consistent with FERC's RTO
7 standards.

8
9 **Q.** Briefly describe how the pricing protocol addresses the
10 definition of a transmission rate zone, the first of the
11 four areas where there was no consensus.

12
13 **A.** The pricing protocol provides that each transmission
14 owner/participant, with the exception of TDUs, shall form
15 its own rate zone. Zonal charges would be based on the
16 revenue requirement of the transmission facilities
17 forming the zone.

18
19 **Q.** What are the revenue requirements for a zone?

20
21 **A.** The revenue requirements to be recovered in zonal
22 charges includes (i) the revenue requirements of the
23 Existing Facilities that form the zone, plus (ii) the
24 revenue requirements of the Existing Facilities of any
25 participating TDU within that zone, subject to a TDU

1 facility phase-in plan, which I will discuss later.
2 Each transmission owner is responsible for obtaining
3 FERC approval of its proposed revenue requirement. To
4 the extent a TDU or other non-jurisdictional owner
5 participates in GridFlorida, FERC also would review
6 each such owner's proposed revenue requirement--which
7 ordinarily would fall beyond FERC's jurisdiction--in
8 the context of approving GridFlorida's zonal rates.
9 Nothing in the pricing protocol limits a transmission
10 owner's discretion in proposing a revenue requirement
11 for its facilities.

12
13 Q. Why did the GridFlorida Companies choose to define a
14 transmission rate zone in the way that they did?

15
16 A. Defining a rate zone as a pre-existing electrical
17 service area minimizes cost shifts that would arise
18 when combining transmission systems. The proposal is
19 a delicately balanced plan that extends the cost
20 shifts equitably to all participants over a 10-year
21 period. As cost responsibility for the GridFlorida
22 transmission facilities moves from today's bifurcated
23 approach toward a single system charge priced on load
24 ratio share over time, some entities will experience a
25 decline, and others a rise, in the portion of

1 transmission costs for which they are responsible.
2 This ten-year evolution, in turn, makes it palatable
3 for transmission owners to participate in GridFlorida,
4 thereby maximizing RTO participation. Moreover,
5 defining zones in this manner is consistent with the
6 approach taken by every FERC-approved ISO to date.
7

8 Q. Were there objections to this definition?
9

10 A. Yes. Certain stakeholders argued that this definition
11 may produce too many zones and suggested instead that all
12 systems in Florida should be combined into only two
13 zones.
14

15 Q. Why did the GridFlorida Companies reject the two-zone
16 approach at the outset?
17

18 A. The two-zone approach would not have enhanced RTO
19 participation. Forcing all participating transmission
20 owners in Florida (there could be more than ten) to
21 collapse their systems into two zones in year one would
22 cause abrupt cost shifts, thereby discouraging RTO
23 participation. The better course, and the one supported
24 by FERC precedent, was to define zones and to phase them
25 into a single regional rate.

1 Q. How did the pricing protocol deal with the second issue
2 of establishing a timetable for phasing out transmission
3 rate zones?

4
5 A. The timetable for phasing out transmission rate zones is
6 an issue that would exist regardless of the number of
7 zones. The pricing protocol provides that zonal charges
8 will be phased out in years 6-10 of RTO operations. This
9 gradual phase-out is important to entities with low-cost
10 transmission systems. It also is consistent with
11 Commission precedent. In every ISO proceeding to date,
12 FERC has approved zonal charges and has not, in any case,
13 required that they be eliminated prior to the fifth year.

14
15 Q. How does the pricing protocol deal with the third non-
16 consensus issue of eliminating pancaked rates
17 contained in existing contracts?

18
19 A. The issue of pancaked rates embedded in existing
20 contracts was of critical economic significance to
21 many Florida transmission owners. In the pricing
22 protocol, the GridFlorida Companies attempted to
23 strike a reasonable balance between the competing
24 objectives of phasing out pancaked rates under
25 existing contracts and mitigating cost shifts in order

1 to encourage broader participation in GridFlorida.

2

3 Q. How does the pricing protocol achieve this balance?

4

5 A. The pricing protocol provides for a phase-out of
6 pancaked rates ending by year 10 of RTO operations.
7 The loss of short-term wheeling revenue will be
8 addressed in years one through five and charges
9 recovered under long-term contracts for "through" and
10 "out" service will be phased-out in years six through
11 ten. This phase out was designed to encourage the
12 participation of transmission owners that face the
13 dilemma of having lower-than-average-cost systems
14 today, but higher-than-average-cost systems once
15 pancaked rates are eliminated. These owners objected
16 to phasing out pancaking under a more accelerated
17 schedule than the phase out of zonal charges, given
18 that such an approach would cause their unit costs to
19 increase above the RTO-wide average, only later to be
20 phased-down to the average. The Pricing Proposal
21 addresses this concern by matching the phase-out of
22 all pancaked rates with the phase-out of all zonal
23 charges.

24

25

1 Q. How did the GridFlorida Companies deal with the
2 termination of existing contracts prior to the date
3 the contract expires?
4

5 A. Under the pricing protocol, if, during the first 10
6 years of GridFlorida operations, a customer terminates
7 an existing contract prior to the date the contract
8 expires, GridFlorida will provide service to that
9 customer at the zonal PTP charge of the participant
10 that provided transmission service under the contract,
11 in addition to then-applicable system and grid
12 management charges. This zonal charge would be
13 phased-out in equal increments over years six through
14 10. This proposal provides comparability by phasing
15 out pancaked charges under all existing contracts on
16 the same schedule.
17

18 Q. How does the pricing protocol address phasing out
19 pancaked rates for short term wheeling?
20

21 A. The protocol provides cost-shift mitigation for the
22 loss of short-term wheeling revenues. Under the
23 protocol, GridFlorida compensates participants that
24 lose short-term wheeling revenue due to the
25 elimination of pancaked rates for such loss through

1 payments out of revenues received by the RTO for
2 "through" and "out" PTP service. The loss of revenue
3 for each participant is calculated using a base year
4 amount of revenues from short-term wheeling.
5 GridFlorida will allocate its through and out revenues
6 to each participant for its base year amount in
7 declining increments (by 20 percent per year) over the
8 first five years of GridFlorida operations.

9
10 **Q.** The fourth and final non-consensus issue deals with the
11 crediting of TDU transmission facilities. Please explain
12 which entities are considered TDUs.

13
14 **A.** Attachment V to the GridFlorida tariff lists each of the
15 existing transmission rate zones for entities that have
16 committed to joining GridFlorida, as well as for other
17 potential participating owners. TDUs are those
18 transmission owners whose facilities are included within
19 other owners' transmission rate zones.

20
21 **Q.** Please explain why the parties could not reach consensus
22 on the treatment of TDU facilities.

23
24 **A.** Transmission-owning TDUs, understandably, were interested
25 in maximizing the value of the facilities that they owned

1 and were, therefore, interested in merging the revenue
2 requirements for their facilities into the costs shared
3 by other participants in the shortest period of time
4 possible. The GridFlorida Companies and other
5 GridFlorida participants, on the other hand, were
6 interested in participants extending the period for such
7 cost-shifts as long as possible or, alternatively,
8 limiting the scope of TDU facilities to be incorporated
9 into the GridFlorida integrated transmission system.
10 Thus, while benefits would eventually accrue to all
11 GridFlorida participants from a more robust and
12 geographically diverse transmission network as TDU-owned
13 facilities become integrated into the grid, the
14 difficulty was to devise a method of incorporating such
15 facilities without unduly and adversely affecting other
16 GridFlorida participants' existing customers. In
17 addition, incorporating the TDU facility costs had
18 differing, even disparate, degrees of impact on each of
19 the three GridFlorida Companies, which could not simply
20 ignore this issue due to FERC's mandate in Order No. 2000
21 that a properly formed RTO should include all
22 transmission owners in a specific region, including those
23 owned by municipals, cooperatives and other public
24 entities. The GridFlorida Companies resolved this issue
25 by devising the TDU crediting mechanism.

1 Q. Please describe the TDU crediting mechanism.

2

3 A. The GridFlorida Companies addressed the TDU crediting
4 issue by providing TDUs the option of, either, (i) an
5 automatic phase-in of their facilities into zonal charges
6 without a requirement that they demonstrate that those
7 facilities meet FERC's integration standard, or (ii) an
8 immediate roll-in of certain of their facilities into
9 zonal charges if the TDU can demonstrate that the
10 facilities meet the integration standard. The
11 GridFlorida Companies believed that this approach was a
12 reasonable and prudent compromise that provided
13 significant incentives for TDUs to join the RTO, which is
14 consistent with the GridFlorida Companies' obligations
15 under Order No. 2000, while not being unduly burdensome
16 to existing customers.

17

18 Q. Did the GridFlorida Companies and stakeholders engage in
19 any discussions subsequent to submitting the October 16
20 application, but prior to FERC issuing its initial order
21 on these issues in March 2001?

22

23 A. Yes. The GridFlorida Companies supplemented their
24 October 16 application by submitting a December 15, 2000
25 supplemental filing with FERC. Prior to submitting the

1 December 15 supplemental filing, the GridFlorida
2 Companies continued collaborative discussions with
3 stakeholders.

4
5 Q. Please discuss how the December 15, 2000 filing
6 supplemented the rate and pricing issues contained in the
7 October 16 initial application.

8
9 A. The December 15 supplemental filing modified the pricing
10 plan in various ways, not all of which are relevant to
11 this testimony. For purposes of my testimony, however,
12 the December 15 filing further addressed three
13 significant matters. First, the GridFlorida Companies
14 explained the classification and treatment of Existing
15 Transmission Agreements, or "ETAs," including those that
16 represent rate pancakes. Second, the GridFlorida
17 Companies added the methods by which transmission rates
18 will be determined under the GridFlorida tariff. Third,
19 the filing established a grid management charge to be
20 used to recover costs not provided for under the
21 GridFlorida tariff, including RTO start-up costs.

22
23 Q. Please describe the classification of ETAs in the
24 December 15 filing.

25

1 A. ETAs fall into three categories: (i) Existing agreements
2 between a participating owner or divesting owner and
3 another party that govern the allocation of transmission
4 capacity associated with an interface between two or more
5 transmission systems ("Interface Agreements"); (ii)
6 Existing agreements between a participating owner or
7 divesting owner and another party that govern the
8 interconnection of facilities, including interchange
9 agreements between control areas, agreements governing
10 the interconnection of transmission facilities, and
11 agreements governing the interconnection of transmission
12 and generation facilities ("Interconnection Agreements");
13 and (iii) Existing agreements between a participating
14 owner or divesting owner and another party or itself that
15 provide transmission service, including bundled and
16 unbundled transmission service ("Transmission Service
17 Agreements").

18
19 Q. How are existing "Transmission Service Agreements"
20 treated under the GridFlorida Tariff?

21
22 A. An existing Transmission Service Agreement can either be
23 converted to service under the GridFlorida tariff, or
24 automatically be phased out in years six through 10, as I
25 described previously. If an existing Transmission

1 Service Agreement is converted to the GridFlorida tariff,
2 the customer will take and pay for service under the
3 tariff and the provider of service under the Transmission
4 Service Agreement will cease collecting revenues under
5 that agreement and no longer will bear any responsibility
6 with respect to that agreement. If an existing
7 Transmission Service Agreement is not converted to
8 GridFlorida tariff service, the transmission provider
9 under the agreement will be responsible for procuring and
10 paying for the necessary services from GridFlorida to
11 perform its obligations under the grandfathered
12 Transmission Service Agreement. The transmission
13 provider will have the rights and obligations associated
14 with the GridFlorida tariff service, and will be
15 responsible for reconciling the differences in the
16 services under the Transmission Service Agreement and the
17 GridFlorida tariff.

18
19 **Q.** Please describe the main exceptions to this rule.

20
21 **A.** One exception relates to the phase out of multiple access
22 charges (*i.e.*, rate pancakes) for inter-zonal service,
23 which is transmission service from one transmission rate
24 zone to another, where the same customer bears
25 transmission charges on both systems. The transmission

1 charges levied under an existing Transmission Service
2 Agreement that provides for inter-zonal service will
3 remain in effect during years one through five of
4 GridFlorida operations, and phased out in equal
5 increments (20 percent per year) during years six through
6 10. If the existing Transmission Service Agreement
7 includes bundled transmission charges, the phase-out of
8 charges will be calculated by reference to the zonal
9 charge in effect in year five for the transmission rate
10 zone that applied to the inter-zonal service prior to
11 GridFlorida formation.

12
13 Another exception is designed to prevent gaming prior to
14 the date GridFlorida commences operations, *i.e.*, to
15 prevent entities from entering into ETAs prior to
16 GridFlorida operations for the sole purpose of obtaining
17 ETA status. If, after December 15, 2000, a participating
18 owner or divesting owner enters into a new Transmission
19 Service Agreement, or agrees to purchase or provide long-
20 term transmission service (*i.e.*, service for a term that
21 is greater than one year) under a Transmission Service
22 Agreement executed prior to that date, the new service
23 provided under such ETA will be converted to GridFlorida
24 service upon the commencement of GridFlorida operations.
25 Also, if a participating owner or divesting owner agrees

1 to provide, or to purchase, short-term firm or non-firm
2 service that has a term that extends beyond the date of
3 GridFlorida operations, that service will convert to
4 GridFlorida service upon the commencement of GridFlorida
5 operations. All parties were placed on notice as of
6 December 15, 2000 that this would be the treatment for
7 new transmission service.

8
9 **Q.** How did the December 15 filing expand on the explanation
10 of zonal and system-wide rates?

11
12 **A.** The supplemental filing expanded on the descriptions of
13 these and other rates by including them in the
14 GridFlorida tariff, which contains formulas that will be
15 used to calculate the rates. The supplemental filing did
16 not, however, include the actual rates for transmission
17 service that GridFlorida will charge because actual
18 revenue requirements and rates will be filed no later
19 than 60 days prior to the date that GridFlorida commences
20 operations.

21
22 **Q.** Please describe how the zonal rate will be calculated
23 according to the December 15 Supplemental Filing.

1 A. To calculate the zonal-based charge, annual zonal
2 transmission costs will be calculated for each
3 transmission rate zone. The zonal rate will be
4 calculated by dividing the annual zonal transmission
5 costs for the transmission rate zone by the average for
6 the year of the monthly zonal peaks. That rate will
7 apply to service to a point of delivery or network load
8 within a transmission rate zone.

9
10 For service to a point of delivery or network load
11 outside of GridFlorida (i.e., for "Through and Out
12 Service"), the transmission customer will pay the
13 "Through And Out" rate. The "Through And Out" rate will
14 be calculated by dividing the sum of the annual zonal
15 transmission costs by the average for the year of the
16 monthly transmission system peaks.

17
18 Q. Please describe how the Part II rate is to be calculated
19 according to the December 15 supplemental filing.

20
21 A. The monthly system-wide rate will be calculated by
22 dividing the annual system transmission costs by the
23 average for the year of the monthly transmission system
24 peaks. Annual system transmission costs will consist of
25 new transmission investment of GridFlorida and

1 participating owners and the revenue requirements of
2 Existing Facilities that are phased-out of zonal rates
3 and phased in to the grid-wide rate. All transmission
4 service, whether it is to load outside of GridFlorida or
5 within the GridFlorida system, will pay the same system-
6 wide rate.

7
8 **Q.** Please explain the Grid Management Charge included in the
9 December 15 filing.

10
11 **A.** The GridFlorida Companies included a Grid Management
12 Charge ("GMC") in the GridFlorida tariff to recover all
13 reasonably incurred costs necessary for GridFlorida to
14 carry out its business that are not separately charged in
15 the Tariff. The GMC includes start-up costs of
16 establishing the RTO, GridFlorida's payments to the
17 market monitor, and the FERC annual assessment charge.
18 At the same time, the GMC will be reduced by revenues
19 received by GridFlorida for conducting certain
20 administrative activities that are charged to specific
21 customers, such as conducting system impact studies and
22 facilities studies, and providing security coordination
23 services to non-RTO participants in the FRCC.

24
25

1 Q. Why did the GridFlorida Companies propose to recover
2 start-up costs through the GMC?

3

4 A. Recovery of start up costs through a mechanism such as a
5 GMC is consistent with FERC's policy to allow the
6 recovery of start up costs. Departure from such a policy
7 would significantly impede the development of RTOs on a
8 timely basis. As has been the case in other regions of
9 the United States, the GridFlorida Companies' proposal
10 provided that GridFlorida must reimburse the participants
11 for start up costs as soon as practicable. This is
12 consistent with the FERC's objective to make RTOs
13 financially independent as quickly as possible.
14 GridFlorida would then recover these costs from its
15 transmission customers through the GMC.

16

17 Q. What types of costs constitute start up costs that would
18 be recovered through the GMC?

19

20 A. Under Schedule 10 of the GridFlorida Tariff, start up
21 costs would include costs incurred by entities that are
22 participating owners and divesting owners up to the date
23 of the RTO's initial operations and costs incurred by the
24 RTO (or any interim entity formed to establish the RTO).
25 Start up costs would include a variety of activities

1 relating to RTO formation. The projected cost of the
2 preliminary start-up plan for implementation of the
3 business functions of GridFlorida is addressed in the
4 direct testimony of Bradford L. Holcombe, on behalf of
5 the GridFlorida Companies. In addition, a discussion of
6 certain formation activities relating to the development
7 of GridFlorida is contained in the direct testimony of
8 Henry I. Southwick.

9
10 Q. Have the GridFlorida Companies quantified these start up
11 costs?

12
13 A. A preliminary estimate of such costs has been provided in
14 consultation with Accenture, which was hired to estimate
15 the cost to implement GridFlorida operations, and is
16 discussed in Mr. Holcombe's direct testimony. While the
17 GridFlorida Companies have consulted with each other as
18 to the recovery of costs on as consistent a basis as
19 possible, and each company has obtained FERC approval to
20 defer such costs for accounting purposes, no final
21 calculation of total costs has been made to date. The
22 GridFlorida Companies anticipate making a filing
23 accounting for total start up costs at FERC commensurate
24 with, or shortly following, commencement of GridFlorida
25 operations.

1 Q. Have the GridFlorida Companies quantified these costs
2 with respect to retail load?

3
4 A. Yes. The grid management cost consists of two parts--
5 operating costs and start-up costs. Mr. Holcombe's
6 Exhibit (BLH-3) Tables 1 and 2 show the costs (in
7 thousands of dollars) with respect to wholesale and
8 retail customers. Columns 11-14 of Table 2 show the
9 incremental operating cost, with a total of \$51,618 shown
10 on column 14, line 30. Of the \$51,618, \$5,868 is not
11 retail jurisdictional and would not be recovered from
12 retail customers. Of the remaining \$45,750, the
13 estimated assessments to the three utilities (based on
14 load ratio shares) are shown on line 29 of columns 11-13.
15 These values will be discussed in each of the company's
16 specific testimonies.

17
18 The start-up costs are shown on Table 1 of Mr. Holcombe's
19 Exhibit, showing a total of \$136,402 on line 23 of
20 column 14. \$16,367 is not retail jurisdictional and
21 would not be recovered from retail customers. Columns
22 11-13, line 22 shows the estimated assessments to the
23 three utilities (based on load ratio shares). These
24 amounts are lump sum and proposed to be amortized over
25 five years. I show an estimate of the amortization of

1 the total retail amount, and each of the company's retail
2 amounts, in my Exhibit ____ (WRA-2).

3
4 Q. Briefly summarize FERC's March 28, 2001 order as it
5 relates to the GridFlorida pricing and rate design issues
6 you have discussed.

7
8 A. In its March 28, 2001 order, FERC generally approved
9 GridFlorida's transmission rate design proposal as
10 compliant with FERC Order No. 2000. Specifically, FERC
11 approved the proposals to:

12 1. Retain zonal rates for Existing Facilities for the
13 first five years of operations and then phase them out
14 over the next five years;

15 2. Include the costs of all new transmission facilities
16 in the GridFlorida system-wide rate;

17 3. Encourage participation in the RTO by transmission-
18 dependent wholesale customers by providing them certainty
19 that the costs of their facilities will be rolled into
20 GridFlorida's rates through a crediting mechanism, either
21 through a "phase-in" option or an "integration standard"
22 option; and

23 4. Recover, through a GMC all reasonably incurred costs
24 necessary for GridFlorida to carry out its business that
25 are not separately accounted for in the tariff, including

1 start-up and administrative costs, payments to the market
2 monitor, and the FERC annual assessment charge. Start up
3 costs would be amortized on a monthly basis for five
4 years.

5
6 **Q.** Did FERC require any clarifications on the GridFlorida
7 Companies' pricing protocol?

8
9 **A.** Yes. With respect to the issues I have discussed
10 previously, FERC required the GridFlorida Companies to
11 file the GMC formula.

12
13 **Q.** Did the GridFlorida Companies comply with FERC's
14 requirements in the March 28, 2001 order?

15
16 **A.** Yes. On May 29, 2001, the GridFlorida Companies
17 submitted compliance filing with FERC that, among other
18 things, revised the tariff to include a formula for the
19 GMC. Consistent with base transmission rates, the GMC
20 will be calculated based on projected costs and billing
21 determinants and trued-up at the end of each year. The
22 GridFlorida Companies also included a formula for
23 GridFlorida's New Transmission Investment Revenue
24 Requirement ("NTIRR"), discussed above, because the NTIRR
25 formula and the GMC formula work together. That is, the

1 allocations of administrative & general costs and
2 operations & maintenance costs within the formulas
3 operate together to ensure that there is no double
4 recovery of costs. The GMC and NTIRR include loaders and
5 return on common equity components that will be filed
6 with FERC in the future.

7
8 **Q.** How does the GridFlorida pricing protocol treat non-
9 participating owners?

10
11 **A.** As proposed by the GridFlorida Companies, non-
12 participating transmission owners, consistent with FERC
13 Order No. 2000 would continue to pay pancaked rates.
14 When the customer uses two or more transmission rate
15 zones, its charges would be based on the charges
16 applicable to the zone in which the source or point of
17 receipt is located and the charges applicable to the zone
18 in which the sink or point of delivery is located. As
19 FERC indicated in Order No. 2000, maintaining rate
20 pancaking for non-participants is reasonable. Further,
21 with regard to the number of transmission access charges
22 it is subject to, a non-participant will be no worse off
23 than it was prior to the establishment of GridFlorida,
24 and may even be better off. If a non-participant is
25 utilizing facilities that today would result in more than

1 two transmission charges, that entity will be subject
2 only to two such charges under the participants'
3 proposal, which is less than it would have paid in the
4 absence of GridFlorida.

5
6 Q. How does the pricing protocol treat existing retail
7 transmission services?

8
9 A. The pricing protocol requires that load-serving entities,
10 such as each of the GridFlorida Companies, pay RTO
11 transmission rates, including zonal access charges, for
12 their bundled retail load. This treatment is required by
13 Order No. 2000, as discussed by Mike Naeve in his
14 testimony filed on behalf of the GridFlorida Companies in
15 this proceeding.

16
17 Q. In your opinion, given the requirements of FERC Order No.
18 2000, was the GridFlorida Companies' decision to
19 participate in GridFlorida in the best interests of
20 retail ratepayers and prudent from a transmission pricing
21 perspective?

22
23 A. Yes. The GridFlorida pricing protocol is designed to
24 reduce transmission costs by, among other means,
25 eliminating pancaked rates, and will induce greater

1 generation cost savings than would be the case if
2 GridFlorida was not able to function as an RTO. The only
3 additional costs that arise from the formation of
4 GridFlorida are the aforementioned start-up and grid
5 management costs. But, the pricing protocol amortizes
6 the start up costs over a five-year period in order to
7 minimize the impact on consumer rates. Given the
8 parameters established by FERC Order No. 2000, and the
9 disparate interests among Florida's many constituents,
10 the GridFlorida transmission pricing protocol reflects a
11 reasonable, prudent and balanced approach to
12 restructuring most of Florida's electric grid for the
13 foreseeable future.

14
15 Q. Couldn't these benefits be realized by Florida customers
16 in the absence of the RTO?

17
18 A. Probably not in a manner that otherwise could be agreed
19 to among the GridFlorida Companies and/or other Florida
20 stakeholders. While efforts could be made to reduce
21 pancaked charges, it would be difficult, if not
22 impossible, to devise a system that would operate as
23 efficiently as GridFlorida will operate.

24
25 Q. Does this conclude your testimony?

1 A. Yes, it does.

2

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1 BY MR. LONG:

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

3 A Yes. Good morning -- good afternoon, Commissioners.

4 The purpose of my joint testimony is to show that participation
5 in the GridFlorida RTO is prudent by describing the pricing
6 protocol and rate design. As developed by Florida Power &
7 Light, Florida Power Corporation, and Tampa Electric with input
8 from the stakeholder process, the pricing protocol and rate
9 design meets FERC's RTO transmission pricing policy while
10 mitigating cost-shifts for the three companies' retail
11 customers.

12 I've provided an overview of the central features of
13 FERC's RTO transmission pricing policy and the importance of
14 each salient features. Those features address the central
15 issues faced when designing an RTO rate; that is, cost shifting
16 that arises from establishment of system-wide rates, revenue
17 crediting for facilities owned by transmission-dependent
18 utilities, and elimination of rate pancaking. Those issues are
19 addressed in a manner intended to mitigate the impact to the
20 three utilities and their retail customers while encouraging
21 broad participation in GridFlorida and maximum benefits from
22 the establishment of an RTO for Peninsular Florida.

23 The collaborative stakeholder input process the three
24 companies engaged in prior to the filing with FERC was very
25 important to the success of the GridFlorida pricing proposal.

1 It provided an opportunity for all interested parties,
2 including this Commission, to provide input before the filing
3 of a proposal to FERC. It also identified the important
4 pricing issues, and I provided an opportunity to reach some
5 consensus on how to resolve those issues.

6 A general consensus on three important points was
7 reached during the process. Those points were: That zonal
8 charges should be used for the costing of the existing
9 facilities, that those zonal charges should be phased into a
10 system-wide charge over an extended period not to exceed ten
11 years, and that new facilities should be recovered through the
12 system-wide rates from the start of GridFlorida.

13 There were four issues where there was a lack of
14 consensus. Those points were: The definition of pricing
15 zones, the amount of years to phase in the zonal charges, the
16 timing to phase out the existing pancake charges, and the
17 treatment of TDU credits. Our pricing protocol on rate design
18 was carefully crafted to reflect the consensus issues and tried
19 to meet halfway with parties on the issues where there was lack
20 of consensus. By spreading the phasing in and out of
21 transmission charges and TDU credits over a ten-year period,
22 along with company-specific zonal pricing for the existing
23 facilities, the mitigation benefits to retail ratepayers was
24 created while still meeting FERC's pricing requirements.

25 Existing transmission agreements that represent

1 pancaked transactions are also phased out over ten years under
2 GridFlorida. In this way, agreements that were providing
3 benefits to both parties to the existing transmission agreement
4 and where benefits of depancaking are not shared with retail
5 customers are retained for a period of time or mitigated.

6 TDU facilities were afforded treatment for inclusion
7 in zonal charges under two options: Immediate inclusion, if
8 the TDU got FERC determination that those facilities are
9 integral to the grid, or a five-year phase-in without the need
10 for any such determination. That approach, while hotly
11 contested by the TDUs, is fair and reasonable for both TDUs and
12 retail ratepayers in the zones where those TDU facilities would
13 be integrated.

14 The grid management charge which will recover the
15 operating costs of GridFlorida, as well as an amortization of
16 the start-up costs, is recovered from all load as those are the
17 parties benefiting from the establishment of GridFlorida.
18 While an estimate of those costs is provided in the testimony
19 of Witness Holcombe, I provide an exhibit in my testimony that
20 details how that estimate is allocated to the three companies'
21 retail customers.

22 Given the parameters established by FERC's Order 2000
23 for RTO pricing and the disparate interests among the parties
24 who will take service under or are affected by GridFlorida, the
25 pricing protocol and rate design proposed by the three

1 companies and approved by FERC reflects a reasonable, prudent,
2 balanced approach that mitigates impacts on customers of the
3 three companies while generating future benefits. Thank you.

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

6 CHAIRMAN JACOBS: Very well. Any cross on this side?
7 Mr. McGlothlin.

8 MR. MCGLOTHLIN: No questions.

9 CHAIRMAN JACOBS: Ms. Paugh.

10 MS. PAUGH: No questions.

11 MR. HOWE: No questions.

12 CHAIRMAN JACOBS: Mr. Twomey.

13 MR. TWOMEY: Yes, Mr. Chairman. Thank you.

14 CROSS EXAMINATION

15 BY MR. TWOMEY:

16 Q I want to wish you a good afternoon, Mr. Ashburn.

17 A Good afternoon.

18 Q You're responsible, as I understand it, in part for
19 Issues 2, 3, and 4; is that correct?

20 A That's correct.

21 Q Okay. Do you have a copy of the prehearing order?

22 A I don't believe I do.

23 Q (Tendering document.)

24 A Thank you.

25 Q I'm trying to find it now, Mr. Ashburn, but the

1 statement of the costs, or some of the costs, for each
2 utility's participation -- let's see. Let's find the page for
3 your company. It would be Page 88; is that correct?

4 A Yes, that is.

5 Q The -- your position there is that the total
6 incremental start-up costs are estimated to be 136 million.
7 Now, that is for GridFlorida in toto; right?

8 A I believe that \$136 million is the retail portion of
9 GridFlorida.

10 Q Okay. And the position as stated for TECO is that
11 start-up is approximately 16.9 for you-all; is that right?

12 A (Nodding head affirmatively.)

13 Q That's retail again?

14 A Yes.

15 Q Okay. Now, the -- and on the next page, your
16 incremental annual operating costs for TECO are to be
17 7.5 million. Is that number right, or is it supposed to be
18 5.5 million?

19 A Well, I'll check it.

20 Q The reason I'm asking, while you're looking there,
21 Mr. Ashburn, is, I had read someplace in one of your
22 testimonies that I think I read that the total costs annually
23 for years one through five was on the order of \$13 million; is
24 that right? Or do I have the right company?

25 MR. LONG: I'm sorry, is there a specific reference

1 to the witness's testimony?

2 MR. TWOMEY: No, there's not. I'm asking him
3 questions from his -- he's listed as being responsible for
4 these three issues at least in the prehearing order, so I'm
5 asking him questions right now from the stated issues.

6 MR. LONG: Mr. Chairman, just to avoid confusion, all
7 the witness is listed as responding to those issues. The scope
8 of that response, I think, is bounded by his testimony. So I
9 would ask that if these questions are based on something the
10 witness has said in the testimony, that counsel help to clear
11 the record by pointing that out.

12 MR. TWOMEY: I'll ask him, Mr. Chairman. I'm sorry.
13 I'll ask him. Let me rephrase that.

14 BY MR. TWOMEY:

15 Q Mr. Ashburn, have you testified as to what the
16 start-up costs are for your company?

17 A Yes.

18 Q And what are they?

19 A The start-up costs are as shown on my exhibit -- on
20 Document Number 1. I think it's Exhibit 2, and it shows TECO
21 retail numbers. I believe it's the third -- the fourth page in
22 on that exhibit.

23 Q Yes, sir. And have you testified as to what the
24 incremental operational costs are annually? And if you have,
25 what is that number?

1 A I'm not sure the operational costs are in this
2 testimony. They may be in the other testimony. These, I
3 think, just talk about the start-up costs.

4 Q Okay. I don't want to be unfair on this, but --

5 A Sure.

6 Q -- do you know what the number is?

7 MR. LONG: Well, objection, Mr. Chairman. Again, to
8 the extent that the question is based on the witness's joint
9 testimony, I think it's appropriate. But I believe the witness
10 indicated that the subject matter is in his company-specific
11 testimony which will be addressed later in this proceeding.

12 MR. TWOMEY: Mr. Chairman, this is a relatively
13 simple issue. The issues -- the positions of the company to
14 the issues are stated here. He's responsible for them. It's a
15 simple question about whether he knows the answer or not. If
16 he doesn't know it and will know it later when he presents his
17 other testimony, I'll be happy to wait. If he knows it now, it
18 seems simple enough that he'd give me the number.

19 CHAIRMAN JACOBS: Okay. It's my understanding that
20 it is in the other testimony; correct?

21 MR. LONG: That was the witness's --

22 CHAIRMAN JACOBS: So let's defer that until he
23 appears again.

24 MR. TWOMEY: Okay.

25 BY MR. TWOMEY:

1 Q So, Mr. Ashburn, you have spoken fairly specifically,
2 have you not, in terms of, at least in this testimony, of what
3 your company's estimated start-up costs are; correct?

4 A Yes.

5 Q Okay. Are those the costs specifically that you
6 would limit any attempt at recovery at, or is it merely an
7 estimation?

8 A It's an estimate.

9 Q Okay. Do you have any range, magnitude that you
10 might go beyond that or --

11 A I'm not sure I understand what your question is.

12 Q Well, I mean, do you expect this might increase by as
13 much as 10 percent, 20 percent, 30 percent?

14 A I think the numbers as they were derived in the
15 Accenture estimate included a 30 percent, I believe, estimated
16 uplift, or whatever, to make it to come to the estimate that we
17 gave you for how well the estimates could have been.

18 Q Okay. Page 40 of your testimony.

19 A I have that.

20 Q Okay. Starting at Line 18, you address whether the
21 benefits you've described above could be realized by Florida
22 consumers in the absence of an RT0; is that right? Do you see
23 your answer?

24 A Well, my Line 18 is a blank space. I might have the
25 wrong pagination. What line is it?

1 Q I've got Line 18. The question I've got on this is,
2 "Couldn't these benefits be realized by Florida customers in
3 the absence of the RT0?" And your answer --

4 A What page are you on?

5 Q Forty.

6 A Oh, I'm sorry, I thought you said "four." I
7 apologize.

8 Q I'm sorry. Forty, 4-0.

9 A All right. Let me get to 40. All right. I have it
10 now. Go ahead. I'm sorry.

11 Q Okay. And I want to ask you, why couldn't they be
12 realized, that is, the benefits in the absence of an RT0? For
13 example, why couldn't the utilities eliminate pancake rates in
14 the absence of an RT0? Let me phrase it differently.

15 Could they eliminate pancake rates in the absence of
16 an RT0?

17 A Perhaps. It gets to several things that might be
18 getting together and setting prices that might have some
19 antitrust implications that I'm not that well versed to
20 describe to you. But technically, if all the utilities could
21 get together and talk to each other about this, that's a
22 technical possibility, but it may be very difficult to achieve
23 in the absence of an RT0 which has FERC agreement. Plus in the
24 current environment of an RT0, if all the parties, as you
25 suggest, could get together and work out an agreement to reduce

1 pancake rates and went to the FERC to ask for approval of it,
2 they'd say, well, that sounds like an RT0. Why don't you file
3 an RT0?

4 Q I see. But isn't it true that even under the RT0 as
5 proposed here the -- I understand that the pancake rates are
6 not, one, not reduced for current contracts; is that correct?

7 A I'm not sure I understand your question.

8 Q Well, first of all, they are not reduced, are they,
9 for nonparticipants in the RT0?

10 A Nonparticipants under the GridFlorida OATT would be
11 charged effectively a pancake rate.

12 Q Pancake rates?

13 A Yes.

14 Q Okay. So they don't benefit in Florida by the
15 establishment of an RT0 unless they participate?

16 A Unless they participate or join, yes.

17 Q Okay.

18 A They could -- it's an unlikely scenario where they
19 could benefit. The RT0 filing, the OATT that we filed,
20 produces a -- has a proposal for a pancaked rate in which you
21 would be charged twice. There may be a transaction in Florida
22 where somebody would have to transmit power over three service
23 territories and might have to pay three times. So they could
24 benefit still from the RT0 in that regard.

25 Q I see. You testified, too, do you not, and if it's

1 not in here, tell me, I apologize, because I've confused your
2 two testimonies, do you testify in this segment of your
3 testimony that one of the benefits to be obtained by the State,
4 at least as a whole, is a more efficient or robust wholesale
5 electric market?

6 A I testify that that's one of the benefits that would
7 be achieved by an RTO, but the testimony really about the
8 robust wholesale market really is in the panel and other
9 testimonies.

10 Q I see. In terms of efficiency, though, how does it
11 become more -- that market become more efficient by the
12 establishment of an RTO as opposed to the status quo?

13 A Well, with regard to my testimony where I talk about
14 the elimination of pancake rates and taking service under a
15 GridFlorida OATT, one of the benefits for efficiency would be a
16 larger market area where utilities could acquire generation
17 resources and not have to pay the extra transmission charge to
18 get that power to them. So, therefore, there's some efficiency
19 gains there.

20 Q Okay. Now, one of the -- I think it was one of the
21 panel witnesses or a previous witness I think in a response to
22 a question by one of the Commissioners said that -- something
23 to the effect that the RTO would result in a more efficient
24 market because there would be more buyers and sellers. I don't
25 recall who said that, but is that generally a true statement?

1 Do you ascribe to that?

2 A It depends on what those buyers and sellers are
3 selling power for or whether they have market power, I suppose.

4 Q Okay. Mr. Ashburn, have you examined, in your
5 finding that the RTO would result in a greater efficiency,
6 whether that efficiency would be enhanced even further if the
7 merchant plants were allowed to engage in business in this
8 state more widely than they are currently?

9 A I don't believe I testified to that.

10 Q Do you have a position on that?

11 A On merchant plants?

12 Q Yes, sir.

13 A Well, I believe there are merchant plants in the
14 State.

15 Q Yes, but I said if they were allowed to participate
16 more widely than they are under current state law.

17 A I don't understand the question again.

18 Q Okay. I'll wait and ask it to someone else.

19 A All right.

20 MR. TWOMEY: Thank you. That's all I have.

21 CHAIRMAN JACOBS: Staff.

22 CROSS EXAMINATION

23 BY MR. KEATING:

24 Q Mr. Ashburn, in your testimony you state that one of
25 the issues that face the Pricing Committee was cost-shifting;

1 correct?

2 A Yes.

3 Q Has GridFlorida proposed a cost-shifting mitigation
4 plan?

5 A Well, the entire pricing plan is designed to generate
6 cost-shift mitigation.

7 Q Okay. And how does that work? How are the
8 cost-shifts mitigated under the GridFlorida proposal --

9 A Well, the mitigation is essentially a way of phasing
10 in the effects of the cost-shifts over an extended period of
11 time, is the approach. I mean, there's a lot of different
12 components to the pricing plan that have elements of mitigation
13 to them.

14 Q Is that -- you said it -- that the impacts of the
15 cost-shift will be -- let me rephrase that.

16 Is that really sort of a short-term fix? Does that
17 provide just short-term mitigation for cost-shifts?

18 A Well, it depends on if you believe ten years is a
19 short term or not, I guess.

20 Q But at the end of that term, the cost-shift
21 difficulties that have been recognized would be reflected in
22 reality at that point, they wouldn't be mitigated anymore?

23 A At the end of the ten-year term, all of the different
24 mechanisms we put into place to try to mitigate the
25 cost-shifting effects would be over, and we would be to a

1 single rate for the entire system.

2 Q Have you calculated the cost-shift that each company
3 would experience?

4 A I have not. In the process, the collaborative
5 process, we attempted to put together some data to try to look
6 at what the cost-shift impacts would be over an extended period
7 of time, but we could not get enough data to really do that.
8 We did use some past year's data, I believe it was 1998 data,
9 could not get data for all of the potential participants in the
10 plan, in GridFlorida. And so we had some analysis that we did
11 back then.

12 Q Did you get data for the three GridFlorida companies
13 that are here today?

14 A Yes. The three companies provided data based on
15 1998.

16 Q And if this is more appropriate for me to ask related
17 to your individual testimony, just let me know. Based on that
18 calculation, what was the approximate amount of the cost-shift
19 that TECO would be expected to experience?

20 A Based on that analysis, based on 1998, to look at
21 what the cost-shifts impact in total for all the different
22 pieces or any particular piece are you asking about? It's
23 difficult to measure what the impact would be, for example, to
24 go to the system-wide rates because we don't know, say, at the
25 end of five or ten years what the total investment will be for

1 GridFlorida. We did some estimates of what the impact of loss
2 of short-term revenues would be from wheeling transactions that
3 are going to be depancaked and some long-term impacts, and we
4 looked at the impact of the transition from our zonal rate to
5 the total system rate.

6 Q If you could, if you can provide the amount, the
7 total amount of the cost-shift that was calculated for TECO,
8 that TECO would experience, and if that's an amount that needs
9 some qualification, if you could provide those as well?

10 A Provide them now, you're saying?

11 Q Yes.

12 A Okay. Let me see if I can find that. The numbers
13 that we had in this sheet that we were using back several years
14 ago, or a year and a half ago, had some errors in them, so I'm
15 trying to eliminate the errors that were in them for Tampa
16 Electric. There was some double counting of revenues and so
17 forth.

18 My memory looking at this and remembering what we
19 came up with was, for short-term transactions, it was about a
20 half a million dollars a year or so, the loss of short-term
21 wheeling transactions. And the long term at the end of ten
22 years was slightly in excess of \$2 million a year, 2 and a half
23 or so. That's the depancaking of the pancaked rates.

24 Now, the zonal rate starts out as, you know,
25 basically at our -- it's mostly our facilities in our zone for

1 existing facilities. So to the extent the existing facilities
2 are based on our revenue requirement, it's very little
3 difference until it starts phasing into a system-wide rate.

4 The amount of money I'm not sure about, because as it
5 goes on, it phases into a system-wide rate, and then new
6 facilities gets built and that gets averaged over all
7 customers. We don't know how much new investment is going to
8 happen over time, and I don't really have an estimate of what
9 our zonal rate changing into the system-wide rate would be.

10 Q Do you have similar cost-shifting data for the other
11 two GridFlorida companies, or would that be more appropriate to
12 address with their company-specific witnesses?

13 A Well, I'm more familiar with whether there were any
14 errors in my numbers in this than I am with theirs. I'd hate
15 to qualify them, but I think they had -- there are some values
16 in here for their companies, but I'm not sure I know directly
17 what their numbers are.

18 The difficulty here is that we're using 1998 data.
19 GridFlorida, when it starts, it's certainly not going to start
20 this year. It could be next year. We heard some discussion
21 about how long it could take. I don't know how many of these
22 transactions are going to exist whenever GridFlorida does start
23 up, and I don't know that these numbers would be very
24 representative of what the depancaked revenues would be.

25 Q Let me turn to Page 18 of your testimony.

1 A Eighteen?

2 Q Yes.

3 A All right. I have that.

4 Q At Lines 18 to 21, you state that the proposal is a
5 delicately balanced plan that extends the cost-shifts equitably
6 to all participants over a ten-year period. Why do you believe
7 it's appropriate to share -- for the participants to share the
8 cost-shifts?

9 A Well, we're creating GridFlorida which is going to
10 serve all customers in Florida, hopefully, that everybody that
11 would join. But when different companies join GridFlorida,
12 they're going to have different historical transactions going
13 on. They have different average costs to start out, but we're
14 ending up using the entire grid altogether. And it seems to me
15 that we're all going to experience different types of
16 cost-shift amounts over time. And so sharing -- or extending
17 the time period for it to happen and then phasing it as much as
18 we can over time helps mitigate the impact on ratepayers.

19 Q I just have a few other questions that were deferred
20 from the panel, and I'm hoping they are questions you can
21 address.

22 Did the three participating GridFlorida companies
23 reach an agreement on how the investment and depreciation
24 reserve representing the assets that would be transferred to
25 GridFlorida -- how the investment of depreciation reserve for

1 those assets would be determined?

2 A I believe net book value is the answer. I'm not sure
3 if that answers what you are asking.

4 Q Well, the question was only whether there was an
5 agreement on how the investment and depreciation reserve
6 associated with those assets would be determined. Was there
7 any agreement?

8 A Well, I'm not sure -- the agreement that was reached
9 was that we would use net book value for assets that were
10 transferred to GridFlorida, and then those who continued to own
11 their assets would seek a revenue requirement filing at FERC
12 for those assets. And then, of course, there was the
13 discussion of which assets were included, and that's based on
14 the line of demarcation, and that identified which assets would
15 be used for GridFlorida, but I'm not sure if that's what you're
16 asking.

17 Q In theory, would a subsidy result if each utility
18 chose a different method for calculating investment and
19 depreciation reserve associated with assets subject to that
20 demarcation point?

21 A Well, I'm not really a depreciation or accounting
22 expert, but I would say that from a ratemaking standpoint, if
23 three companies are putting together their assets into some
24 sort of a pricing mechanism and there were differences between
25 the way those assets were calculated for revenue requirements

1 purposes, you could argue there was some -- perhaps some sort
2 of subsidy going back and forth. But I don't know for sure
3 whether that's what's going to happen here.

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

6 CHAIRMAN JACOBS: Commissioners, any questions?

7 COMMISSIONER JABER: I just have one. Mr. Ashburn,
8 in terms of cost-shifting, it appears that one of the obvious
9 benefits of a regional RTO would be the ability to have the
10 cost shared by more customers in theory, and therefore, the
11 cost to the individual state would come down. But --

12 THE WITNESS: For a joint cost. In other words, if
13 you had a single new cost, say, for starting up a company, the
14 larger the group of customers that have to share in that cost,
15 if it's the same, the better. It is possible, though, that if
16 you had to make it larger, say, adding more facilities, you
17 might have to change the amount of that cost some, but that's
18 true.

19 COMMISSIONER JABER: Okay. But that may also be true
20 as it relates to Florida in the sense of keeping costs low
21 because our Florida companies have done a great job with their
22 transmission facilities as they exist and have maintained the
23 upkeep, and we know what those costs are.

24 THE WITNESS: Yes.

25 COMMISSIONER JABER: Now, what if there are states,

1 and I don't know this, but what if there are states that have
2 not done such a good job and the creation of a regional RTO
3 would actually shift costs to the Florida ratepayer to bear?
4 Has anyone done a study of the condition and cost requirements
5 for the other states that would be impacted?

6 THE WITNESS: We have not. Certainly, we can look at
7 the jurisdictional utilities Form 1s and take a look at their
8 investment per load and that kind of thing. You could make
9 some assumptions about that as far as whether they've kept them
10 up or look at how much maintenance is used. There are
11 differences in the way transmission is built and maintained by
12 region, too, that may make that difficult to say that one is
13 not keeping them up to snuff, as you say, versus another
14 utility. So it's difficult to say right off the bat. I know
15 we have not done any analysis of the other states in the
16 Southeast to see whether, at least I know of none, to see
17 whether their transmission is kept to the same standards as
18 ours.

19 COMMISSIONER JABER: To answer the question, which
20 RTO would be better, wouldn't that be a question we should
21 answer? I would envision -- well, I would not want to create
22 an RTO that Florida participates in that actually results in
23 even higher rates than expected for start-up costs.

24 THE WITNESS: Well, again, you'd have to compare
25 whatever that is with perhaps added benefits of going to the

1 Southeast as well, but certainly there is a possibility that
2 perhaps their transmission would need new -- greater investment
3 if they met the same standards as we have down in Florida, that
4 that could be a shift. It could go the other way. I don't
5 know for sure that they don't have terrific transmission with
6 no added investment coming. So it could shift the other way as
7 well. I just don't know the answer how that's going to turn
8 out if that's where we go.

9 COMMISSIONER JABER: Thank you.

10 CHAIRMAN JACOBS: I have a question. When you do
11 your projections to determine over what activity you're going
12 to spread your grid management charges, does that -- do you do
13 a filtering process where you take out what you project to be
14 nonparticipants in GridFlorida? Because they still pay pancake
15 charges; that's correct?

16 THE WITNESS: Anybody who takes service under
17 GridFlorida will pay a grid management charge. We're going to
18 factor that over anyone who takes service, including the
19 network customers, that will be the utilities here. And if
20 somebody who was not a participant but sought transmission
21 service across GridFlorida would pay partly the grid management
22 charge.

23 CHAIRMAN JACOBS: So they're going to pay pancake
24 plus the grid management?

25 THE WITNESS: Yes. We decided not to pancake the

1 grid management charge.

2 CHAIRMAN JACOBS: Okay. And I assume then -- will it
3 be the same as for --

4 THE WITNESS: Yes, it would be the same charge for
5 that period of time. Now, the revenues collected would then be
6 credited back against future grid management charges. So it
7 would benefit the parties who generally take service in
8 GridFlorida and are participants.

9 CHAIRMAN JACOBS: Okay. Your estimates are
10 projections, and when you arrive at your final projections of
11 cost -- let me step back for a moment.

12 As I understand it, there are some costs you can't
13 really project fairly well right now, so you're going to have
14 to go back and redo this. Is there going to be a subsequent
15 filing then when everything is known and you can come --

16 THE WITNESS: You mean the rate filing for
17 GridFlorida itself?

18 CHAIRMAN JACOBS: Right.

19 THE WITNESS: Yes. We had an estimate done. I think
20 you will hear from the following witnesses about how the
21 estimate was done on what the start-up costs would be for
22 GridFlorida and operating costs and so forth. The companies
23 who created GridFlorida, or who have been working on the
24 GridFlorida filing, put together proposed rate formulas but put
25 no numbers in them. Prior to the operation of GridFlorida, all

1 of the participants, whether they be divesting their assets or
2 being a participating owner like Florida Power Corp has
3 projected to do, would make filings at the FERC, revenue
4 requirement filings, standard rate filings. The results of
5 those filings, which would be projected -- better projected
6 numbers than we have right now, would then go to FERC and be
7 approved or acted on and so forth, and then roll through the
8 proposed formula rates for recovery.

9 CHAIRMAN JACOBS: Okay. If a regional RTO prevails,
10 we've heard a couple of times that probably will result in a
11 lot of duplicative costs. Do you have an idea of what the
12 percentages are of your projections would be duplicative if
13 that --

14 THE WITNESS: No, I do not. Perhaps you could ask
15 that of Mr. Holcombe. He might have a better feel, but
16 certainly we don't think we have done anything duplicative yet,
17 not knowing about the Southeast option up to this point up
18 until we quit working on it.

19 CHAIRMAN JACOBS: Okay. Thank you.

20 COMMISSIONER PALECKI: I have just a couple of
21 questions. If we do find that we approve a GridFlorida, and
22 GridFlorida and GridSoutheast operate independently, the power
23 that Tampa Electric Company brings in from out of state will
24 then have to pay a rate established by GridFlorida as well as a
25 rate established by the Southeast RTO; is that correct?

1 THE WITNESS: Well, we don't know what the Southeast
2 RTO is yet. FERC has indicated that adjoining RTOs should have
3 some sort of seams agreement. One of the things they indicated
4 that might involve would be some rate accommodations for
5 transactions that go across both, but nothing has been decided
6 yet. Tampa Electric, as a load serving company in Florida,
7 would pay an RTO charge, our transmission charge, regardless of
8 whether the power was coming in from out of state or within the
9 state. We just pay our network transmission agreement for
10 Florida, so there wouldn't be any additional charge there.
11 There could be a charge for bringing it in from out of state,
12 but I don't know what that will be or how that will be
13 calculated yet.

14 COMMISSIONER PALECKI: I guess I'm trying to figure
15 out on a state of Florida basis whether the additional charge
16 that would result from having two RTOs that would be borne by
17 the Florida ratepayers would justify immediately thinking about
18 going towards -- directly towards the Southeast RTO. Do you
19 have any feel whether that might be a really significant
20 number?

21 THE WITNESS: I don't really know at this point.
22 Certainly one of the implications that was discussed earlier
23 was about the transfer capacity between the two regions
24 currently, so I'm not sure. It certainly can't be greater than
25 those 3,600 megawatts or whatever it is. I know a lot of them

1 are already being used by Florida Power & Light to bring power
2 into the State. Tampa buys on occasion from outside of the
3 State. It's not -- I don't think we do it that significantly
4 currently, but we could some day in the future. I don't really
5 know.

6 COMMISSIONER PALECKI: And you testified that that is
7 something that could be negotiated between the two RTOs if
8 there were two RTOs.

9 THE WITNESS: Yes, it could.

10 COMMISSIONER PALECKI: Thank you.

11 COMMISSIONER DEASON: Mr. Ashburn, how did you
12 determine the retail portion of the cost and the nonretail
13 portions of the cost?

14 THE WITNESS: I believe we used -- all three
15 companies used -- effectively looked at what their load was for
16 wholesale bundled service and determined what portion of our
17 total load in Florida was for retail and what portion was for
18 wholesale, and assumed that that portion of the start-up costs
19 related to wholesale would have to be recovered from those
20 customers. It's like a jurisdictional separation effectively.
21 It's looking at the loads of wholesale versus retail, and we
22 just did a jurisdictional split of the start-up costs.

23 COMMISSIONER DEASON: Is it envisioned that the
24 start-up costs would be allocated that one time and would not
25 change from that point, or would they change with more current

1 data as to what the loads are?

2 THE WITNESS: I think it's the latter. We have
3 transactions that are current, and I think most of our bundled
4 wholesale are relatively long-term transactions. So they
5 probably would exist through the first five years when those
6 start-up costs are there and are being amortized. How much
7 they would be compared to retail, I'm not sure whether the
8 wholesale load is growing at the same rate as the retail, and
9 thus the relationship would stay the same. I don't know.

10 COMMISSIONER DEASON: The start-up costs, those were
11 being accounted for separately, and you've gotten FERC approval
12 to do that; is that correct?

13 THE WITNESS: You mean within the company right now?

14 COMMISSIONER DEASON: Within the company right now,
15 what TECO has incurred costs.

16 THE WITNESS: TECO, for example, has been incurring
17 start-up costs, and we've been putting them into a deferred
18 account.

19 COMMISSIONER DEASON: Do you foresee that if there is
20 a GridFlorida and it comes into existence, that you will
21 transfer those start-up costs over to GridFlorida and would be
22 reimbursed by GridFlorida for those costs?

23 THE WITNESS: That is the plan. The plan is that at
24 the start-up date GridFlorida would effectively pay Tampa
25 Electric for those start-up costs, and then seek recovery of

1 them through their rates. To the extent they don't get
2 recovered through the rates, FERC, say, disallow some of them,
3 then the GridFlorida would transfer those costs back to Tampa
4 Electric.

5 COMMISSIONER DEASON: And then where would you seek
6 recovery of those costs?

7 THE WITNESS: That depends on what we decide at the
8 time. I don't know. It depends on how they would be
9 disallowed or if we agreed or disagreed with it.

10 COMMISSIONER DEASON: In your exhibit, you have a
11 calculation of revenue requirement. In the line item
12 accumulated deferred income tax, they're showing zeros for
13 every year in the five-year period. Why is that?

14 THE WITNESS: I think we left it at zero for this
15 purpose of this estimating the start-up costs because we were
16 not really certain yet about what the treatment of accumulated
17 deferred income tax would be when we actually got to the
18 start-up cost recovery, and so we just zeroed it out for ease
19 of calculating an estimate.

20 CHAIRMAN JACOBS: Redirect.

21 MR. LONG: Mr. Chairman, I have no redirect.

22 CHAIRMAN JACOBS: Okay. Exhibits. Exhibit 14.

23 MR. LONG: Yes, I ask that it be moved into evidence.

24 CHAIRMAN JACOBS: Without objection, show Exhibit 14
25 is admitted.

1 (Exhibit 14 admitted into the record.)

2 CHAIRMAN JACOBS: Thank you very much, Mr. Ashburn.

3 THE WITNESS: Thank you.

4 CHAIRMAN JACOBS: You're excused.

5 (Witness excused.)

6 CHAIRMAN JACOBS: And we'll take the next witness.

7 MR. FAMA: GridFlorida companies would like to call
8 as their next witness Mr. Holcombe.

9 CHAIRMAN JACOBS: Mr. McGlothlin, how did we do on
10 your witness? Are we okay?

11 MR. MCGLOTHLIN: Yes, sir. I planned during the
12 break to consult with other counsel to see if we could work out
13 some agreement as to when we'd take him. I think at the rate
14 we're going, I will request that he be taken sometime early
15 tomorrow, probably out of turn.

16 CHAIRMAN JACOBS: Okay. Very well. You may proceed,
17 Mr. Fama.

18 BRADFORD L. HOLCOMBE
19 was called as a witness on behalf of the GridFlorida Companies
20 and, having been duly sworn, testified as follows:

21 DIRECT EXAMINATION

22 BY MR. FAMA:

23 Q Please state your name and business address.

24 A Bradford L. Holcombe, 128 Third Street, South, in
25 St. Petersburg, Florida.

1 Q And by whom are you employed?

2 A I'm a partner with Accenture.

3 Q And on whose behalf are you appearing today?

4 A On behalf of the three GridFlorida utilities.

5 Q I'd like to call your attention to your prefiled
6 testimony and your exhibits. Where these -- was this testimony
7 and the exhibits prepared under your direction and control?

8 A Yes.

9 Q Let's go through the three exhibits. We have
10 Exhibit BLH-1 is the business blueprint, Exhibit BL-2 is a
11 matrix of Accenture's RTO experience, and Exhibit BLH-3 is
12 incremental cost responsibility. On Exhibit 3, Mr. Holcombe,
13 does that exhibit contain input from each of the three
14 companies?

15 A Yes, it does. The information that was developed by
16 Accenture was taken as I'll call it the first column, and then
17 additional data was added by the three utilities.

18 MR. FAMA: Commissioners and Mr. Chairman,
19 Exhibit BLH-3 is accumulative data that we thought it would be
20 most convenient to put in Mr. Holcombe's testimony. He is able
21 to support part of the exhibit but not all of the exhibit. The
22 other parts of the exhibit related to the numbers that he
23 compiled -- that were compiled in that exhibit are supported by
24 Mr. Southwick, Mr. Ashburn, and Mr. Mennes who are all
25 following as individual company witnesses in this case.

1 So I would like to have the exhibits, the three
2 Holcombe exhibits marked. And probably what would be the best
3 is the third exhibit, the BLH-3 that I just spoke of, the
4 composite, that perhaps I would wait to move that exhibit in
5 until all the other witnesses have come up.

6 CHAIRMAN JACOBS: If there's no objection to that,
7 we'll mark as Exhibit 15 BLH-1 and 2, and mark as Exhibit 16
8 BLH-3.

9 (Exhibits 15 and 16 marked for identification.)

10 BY MR. FAMA:

11 Q Mr. Holcombe, are there any corrections that you need
12 to make to your prefiled testimony or exhibits?

13 A No, there are not.

14 Q Mr. Holcombe, do you adopt this testimony as your
15 testimony today?

16 A Yes, I do.

17 MR. FAMA: I would ask for the prefiled testimony to
18 be inserted into the record as though read.

19 CHAIRMAN JACOBS: Without objection, show the
20 prefiled testimony of Mr. Holcombe as entered into the record
21 as though read.

22

23

24

25

1 FLORIDA POWER & LIGHT COMPANY – DOCKET NO. 001148-EI

2 FLORIDA POWER CORPORATION – DOCKET NO. 000824-EI

3 TAMPA ELECTRIC COMPANY – DOCKET NO. 010577-EI

4
5 **DIRECT TESTIMONY OF BRADFORD L. HOLCOMBE**

6 **ON BEHALF OF THE GRIDFLORIDA COMPANIES**

7
8 **INTRODUCTION**

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

10 A. My name is Bradford L. Holcombe. My business address is 128 Third
11 Street South, St. Petersburg, FL 33701.

12
13 **Q. By whom are you employed and in what capacity?**

14 A. I am employed by Accenture as a Partner.

15
16 **Q. Please provide a brief outline of your educational background and
17 business experience.**

18 A. I received a BA Degree with double major in Accounting and Finance from
19 the University of South Florida in 1975, and an MBA Degree from the
20 University of South Florida in 1976. I joined Accenture (then the
21 consulting organization of Arthur Andersen & Co.) in 1976. I have been
22 working in the Utilities Industry for most of my 25 years with Accenture,
23 and exclusively for the last 10 years.

24
25 **Q. What are your responsibilities in your current position?**

1 A. As it relates to this testimony, I am the Accenture Client Partner for
2 GridFlorida. That means I am directly responsible for Accenture's work for
3 GridFlorida. I have other responsibilities as well. I am also the Accenture
4 Client Partner for Florida Power & Light ("FPL"). I am also the leader of
5 our Solutions Engineering Service Line (the organization through which
6 we build technology and solution delivery capability) for our North America
7 Utilities Practice.

8
9 **Q. What is the purpose of your direct testimony?**

10 A. The purpose of my testimony is to demonstrate the reasonableness of the
11 estimated start up costs and preliminary annual operating budget for the
12 proposed GridFlorida Regional Transmission Organization ("RTO").

13
14 **Q. What issues in this case does your testimony address?**

15 A. My testimony is part of the case being put on by the GridFlorida
16 Companies to address Issue 4 (What are the estimated costs to the
17 utility's ratepayers of its participation in GridFlorida?) of the Order
18 Identifying Issues issued on July 16, 2001 in the above referenced
19 dockets.

20
21 **Q. Are you sponsoring any exhibits to your direct testimony?**

22 A. Yes. Exhibit No. ____ (BLH-1) is the Business Blueprint. The Business
23 Blueprint is the preliminary start up plan for implementation of the
24 business functions of GridFlorida. This exhibit includes seven separate

1 documents which I describe in some detail later in my testimony. Exhibit
2 No. ___ (BLH-2) is a matrix that depicts Accenture's experience with RTO-
3 related projects. Exhibit No. ___ (BLH-3) is a spreadsheet prepared by
4 FPL, Florida Power Corporation ("FPC") and Tampa Electric Company
5 ("TECO") (collectively, the "GridFlorida Companies") showing the
6 incremental cost responsibility of the GridFlorida Companies of estimated
7 start up and operating costs.

9 **DEVELOPMENT OF BUSINESS BLUEPRINT**

10 **Q. What was the scope of the assignment that you received from**
11 **GridFlorida?**

12 A. We were asked to develop a blueprint for GridFlorida that would outline
13 the GridFlorida organization, its functions and operations, and identify the
14 computer applications for GridFlorida operations based on the Open
15 Access Transmission Tariff ("OATT") currently on file with the Federal
16 Energy Regulatory Commission ("FERC") and based on the requirements
17 imposed by FERC's Order No. 2000.

18
19 **Q. What issues does the Business Blueprint address?**

20 A. At a high level, the Business Blueprint, attached hereto as Exhibit No. ___
21 (BLH-1), identifies the key GridFlorida business functions that are to be
22 put in place, the resources and scheduling to put these functions in place
23 by an agreed upon date, and an estimate of the costs involved in putting
24 these functions in place.

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Q. How does the Business Blueprint fit into the overall development of the GridFlorida RTO?

A. The Business Blueprint is the first stage in a three-stage process. The Business Blueprint contains a general approach for implementation of GridFlorida, provides preliminary budget numbers, and establishes a basis for the second phase of work. The second phase in development of GridFlorida will be the design phase. During the design phase the Business Blueprint will be further refined and validated, and sourcing strategies (decisions on what functions will be done in-house and what functions will be outsourced) will be agreed upon. The third phase in the development of GridFlorida will be the capability build and roll out phase.

Q. In developing the Business Blueprint, did Accenture draw from experience with other RTOs?

A. Yes. Accenture currently is doing RTO work for the Electric Reliability Council of Texas ("ERCOT"), the Southwest Power Pool ("SPP") and GridSouth. We have also worked on RTO related projects at PJM, ISO New England, and BC Hydro. Exhibit No. __ (BLH-2) is a matrix representing highlights of Accenture's experience and expertise in RTOs, independent system operators and transmission companies in North America. This matrix was originally submitted by Accenture as a part of Accenture's response to GridFlorida's Request for Information Regarding Program Management Services and Business Systems ("RFI"). The RFI

1 is attached as Exhibit No. ___ (HIS-2) to the direct testimony of GridFlorida
2 Companies' Witness Henry I. Southwick.

3
4 **Q. Did Accenture perform all of the work that went into the Business
5 Blueprint?**

6 A. No. We were the prime contractor; however, we engaged the services of
7 Alstom Esca, Open Access Technology International, Hay Group, Utility
8 Consulting International, and Powersmiths in their respective areas of
9 expertise. Accenture supervised and directed the work performed by the
10 subcontractors, and reviewed and approved all deliverables they
11 produced. We used the Hay Group to assist with organization and
12 compensation issues and the others to assist primarily in systems
13 operations issues. We also utilized expertise from FPL, FPC and TECO,
14 particularly as it relates to the current environment.

15
16 **Q. Please describe the Business Blueprint.**

17 A. The Business Blueprint is attached hereto as Exhibit No. (BLH-1). It
18 contains seven documents which are included in my Exhibit No. (BLH-1),
19 individually tabbed, in the following order: (1) the End State Operating
20 Model, (2) the End State Capability Model, (3) the End State Organization
21 Model, (4) the End State Application Architecture, (5) the Cost Estimates,
22 (6) the First Release Discussion Document, and (7) the Release One
23 Organization Model. The process of developing the Business Blueprint
24 starts with the Capability Model, where we define the functions that

1 GridFlorida must be able to perform in order to comply with Order No.
2 2000 and the GridFlorida OATT. The next step in the process is to
3 determine, through the Operating Model, how these functions interrelate.
4 Then, we develop the Application Architecture Model, where we identify
5 the systems and processes capabilities that are required to support the
6 functions as they are specified in the Operating Model. Finally, we
7 determine the staffing required to operate and support the systems and
8 functions identified. Based on the results of this process, we develop the
9 cost models for implementation (start up) and operations. It should be
10 noted that the entire Business Blueprint process described herein starts
11 with Accenture's experience and estimating models used in other RTO
12 projects and is customized to address GridFlorida's specific needs.

13
14 **Q. Please describe your document 1 to Exhibit No. __ (BLH-1).**

15 A. The End State Operating Model is attached hereto as Tab 1 of Exhibit
16 (BLH-1). It contains the key assumptions that are expected to govern the
17 operations of GridFlorida, as defined in GridFlorida's FERC filings. For
18 example, the End State Operating Model recognizes that GridFlorida will
19 own and operate certain transmission facilities but only operate certain
20 other facilities. It also recognizes that GridFlorida will have multiple
21 control areas and will need to develop procedures to manage interactions
22 with non-participating control areas. The Operating Model also contains
23 graphic depictions of how each function is expected to interface with one
24 another. For instance, the Operating Model shows the interrelationship of

1 functions from the perspective of transmission operations, security
2 coordination, generation control, and market operations.
3

4 **Q. Please describe your document 2 to Exhibit No. __ (BLH-1).**

5 A. The End State Capability Model is attached hereto as Tab 2 of Exhibit No.
6 __ (BLH-1). It depicts the identified business capabilities required to
7 enable the GridFlorida End State Operating Model, such as the capability
8 to plan, build and maintain transmission facilities, and the capability to
9 maintain system reliability. It is comprised of a Map of Required
10 Capabilities by Key Business Function and a Sub-capability Definition. It
11 includes System Operations, Market Operations, Commercial Operations,
12 Customer Interfaces, Asset Optimization, Corporate Services, and
13 Technical Support.
14

15 **Q. Please describe your document 3 to Exhibit No. (BLH-1).**

16 A. After the business capabilities were identified, we developed an End State
17 Organization Model that could support these capabilities. The End State
18 Organization Model is attached hereto as Tab 3 of Exhibit No. __ (BLH-1).
19 It shows, in an organizational chart, the types of positions and number of
20 individuals required to support the capabilities identified in the Operating
21 Model. By function, benchmarks are used to develop a top-down estimate
22 of staffing needs.
23

24 **Q. Please describe your document 4 to Exhibit No. __ (BLH-1).**

1 A. The End State Application Architecture, attached hereto as Tab 4 of
2 Exhibit No. ___ (BLH-1), contains an inventory of the computer applications
3 required to operate GridFlorida. The document contains a summary level
4 chart depicting the Application Architecture and detailed charts showing
5 the applications required for each capability. GridFlorida needs a great
6 number and a wide variety of applications to handle system operations,
7 market operations, settlements and billings and other commercial matters,
8 accounting, data warehousing and many other functions. The End State
9 Application Architecture also identifies the use of existing transmission
10 owner applications, the interaction between various applications, and the
11 hardware and other infrastructure to support the applications.

12
13 **Q. Please describe your document 5 to Exhibit No. ___ (BLH-1).**

14 A. The Cost Estimates document is attached hereto as Tab 5 of Exhibit No.
15 ___ (BLH-1). It document contains all of the cost estimate numbers
16 associated with implementation and the operation, in the End State mode,
17 of the Business Blueprint. The estimates are provided in summary level
18 on pages 2 and 6, and in detail in subsequent pages. The Cost Estimates
19 reflect the business functions, operational characteristics and organization
20 depicted in the above-described models.

21
22 **Q. Please describe your documents 6 and 7 to Exhibit No. (BLH-1).**

23 A. The First Release Discussion Document and the Release One
24 Organization Model documents are attached hereto as Tabs 6 and 7 of

1 Exhibit No. ___ (BLH-1). They will be discussed later in my testimony when
2 I address "Release 1," a limited scope of operations for GridFlorida
3 expected to be put into place approximately nine months after the project
4 is restarted.

5
6 **START UP COST ESTIMATES**

7 **Q. How did you go about estimating the start up costs of GridFlorida?**

8 A. Start up costs are those costs incurred to develop the GridFlorida proposal
9 and implement the proposal to the point of commercial operation. We
10 applied estimating methods used in other RTO development work,
11 adjusted and refined to correspond to the RTO functions to be
12 implemented in the case of GridFlorida. To be more specific, the process
13 for producing almost all of the deliverables for the GridFlorida Business
14 Blueprint, including the start up and operating cost estimates, used as
15 input the planned and actual information, the Models as they have been
16 described in this testimony, from our prior RTO projects. Using
17 experienced consultants from Accenture and our subcontractors we
18 conducted extensive information sessions with subject matter experts from
19 the GridFlorida Companies. These sessions were targeted to identify
20 specific areas where GridFlorida may have unique or different
21 requirements, identify characteristics of the existing environment, and
22 confirm the requirements as we understood them from GridFlorida plans,
23 including the preliminary OATT. The Models based on other actual RTO
24 experience were then modified to reflect the implementation for

1 GridFlorida. As mentioned earlier, Accenture has had extensive
2 experience both in estimating the costs of implementing RTO functions
3 and in actually implementing these functions. The estimates developed
4 for GridFlorida are based on that actual experience, customized for the
5 specific characteristics of GridFlorida.

6
7 **Q. In developing cost estimates for GridFlorida, did you consider the**
8 **use of existing utility facilities?**

9 A. Yes. For example, start up and operating cost estimates assume that
10 GridFlorida initially will lease the FPL control center. This should reduce
11 the implementation risk associated with developing and/or moving the
12 capabilities that already exist at the control center, particularly at a time
13 when GridFlorida will be developing and focusing on other functions that
14 are required to commence operations. Thus, the use of existing facilities
15 will contribute to maintaining the reliability of the system. Leasing the FPL
16 control center also should reduce start up costs. Leasing the FPL control
17 center will allow GridFlorida to save the initial costs of finding, preparing a
18 suitable facility for control center operations. The facility is structurally
19 fortified to withstand hurricane force winds, has redundant external power
20 feeds and on-site back-up diesel power, and has the communications
21 equipment required to operate GridFlorida.

22
23 **Q. In developing cost estimates did you consider recommending**
24 **outsourcing some of the functions to be performed by GridFlorida?**

1 A. Yes. GridFlorida could help hold down costs and increase efficiency by
2 outsourcing certain information technology and other functions. For
3 example, because there are existing vendor applications that are tailored
4 to RTO needs, and which can be readily configured for GridFlorida's use, I
5 would expect that many if not most of GridFlorida's computer applications
6 could be outsourced. Other functions that could be outsourced include
7 legal, accounting and human resources systems and services. While the
8 Business Blueprint identifies certain functions that could be outsourced, as
9 mentioned earlier, specific decisions on outsourcing would be made by
10 GridFlorida in the next phase of GridFlorida development – the design
11 phase.

12
13 **Q. What criteria typically guides such outsourcing decisions?**

14 A. Typically, outsourcing decisions are made based on the relative costs of
15 performing and outsourcing the functions, the availability of contractors
16 with the required skills to perform such functions, the impact on the quality
17 of the work, the timing, and strategic considerations.

18
19 **Q. What is the projected cost of starting up GridFlorida?**

20 A. It is estimated to be \$150 million. Page 2 of the Cost Estimates
21 document, contained in document 5 of Exhibit No. ____ (BLH-1) shows a
22 breakdown of this estimate.

23
24 **Q. Does the \$150 million estimate contain a contingency?**

1 A. Yes. In addition to \$9 million in actual start up costs as of May 31, 2001,
2 start up costs were projected to be \$118 million. A 20 percent
3 contingency was added on all costs other than those costs incurred to
4 date, resulting in a total estimate of \$150 million.

5
6 **Q. Why is a contingency appropriate, and what is the basis for setting it**
7 **at 20 percent?**

8 A. Between today and the time that GridFlorida reaches its end state
9 operation date, there are many variables that could affect the start up
10 costs that will be actually incurred. For example, certain specifics of the
11 market design have not yet been determined. This contingency covers
12 uncertainties, and also reflects the fact that we are early in the
13 development cycle and are still working with higher-level assumptions and
14 estimates in many cases. It is our view, based on our experience, that it is
15 prudent to include a 20 percent contingency at this stage in the start up of
16 GridFlorida. The contingency factor of 20 percent is the same factor as
17 we employed in estimating the costs of other RTOs.

18
19 **Q. Is there an exhibit that presents the estimate of the incremental cost**
20 **responsibility of start up costs of FPL, FPC and TECO, respectively?**

21 A. Yes. Exhibit ____ (BLH-3) has been prepared by the GridFlorida
22 Companies for this purpose. It summarizes by cost type those items that
23 comprise Accenture's estimate of start up costs. Using load information

1 provided by the three companies, the exhibit derives the estimated
2 additional cost responsibility of each of the three companies.
3

4 **Q. Are all of GridFlorida's estimated start up costs of \$150 million**
5 **representative of incrementally new transmission costs that are not**
6 **being incurred today by transmission owners?**

7 A. No. GridFlorida plans to utilize elements of existing system control
8 systems from FPL. The resulting amount of incrementally new start up
9 costs is estimated at \$136 million, as shown on Exhibit (BLH-3).
10

11 OPERATING COST ESTIMATES

12 **Q. How did you go about estimating the operating costs of GridFlorida?**

13 A. We used the same approach described herein for developing an estimate
14 of start up costs.
15

16 **Q. What is GridFlorida's projected operating cost?**

17 A. For the first full year of operation in the End State mode, the projected
18 cost to operate GridFlorida is estimated to be \$182 million. Page 6 of the
19 Cost Estimates document, contained in document 5 of Exhibit ____ (BLH-1)
20 shows a breakdown of this estimate.
21

22 **Q. Does the \$182 million estimate also contain a contingency?**

23 A. Yes. This estimate also reflects a 20 percent contingency.
24

1 **Q. Is the 20 percent contingency for the operating budget based on the**
2 **same contingency approach used for estimating start up costs?**

3 A. Yes.
4

5 **Q. What is the largest variable that could affect operating costs?**

6 A. One of the largest variables will be sourcing decisions. As GridFlorida
7 decides whether to outsource certain functions the start up costs may be
8 reduced but the annual operating costs may increase.
9

10 **Q. Are all of GridFlorida's estimated annual operating costs of \$182**
11 **million representative of incrementally new transmission costs that**
12 **are not being incurred today by transmission owners?**

13 A. No. Much of the estimated annual operating costs of GridFlorida are the
14 same costs that are being incurred today. For example, GridFlorida's
15 operating budget contains \$77 million of expenses for operating and
16 maintaining the transmission facilities that will be acquired from FPL and
17 TECO. Obviously, this cost is being incurred today by FPL and TECO.
18 When the costs that are being incurred today are excluded by each of the
19 companies, and the new internal costs that each company may incur as a
20 result of taking transmission service from GridFlorida are added, the net
21 new incremental annual operating costs result in an amount of \$52 million
22 rather than \$182 million, as shown in Exhibit No. ____ (BLH-3) which was
23 prepared by the GridFlorida Companies.
24

1 **Q. Is there an exhibit that derives the incremental annual operating**
2 **costs of \$52 million and presents an estimate of the net**
3 **responsibility of FPL, FPC and TECO, respectively?**

4 A. Yes. Exhibit ____ (BLH-3) prepared by the GridFlorida Companies
5 summarizes by cost type the items comprised in Accenture's estimated
6 annual operating budget. The impact of cost offsets by company, which I
7 describe below, is also shown. Using load information provided by the
8 three companies, the exhibit derives the estimated additional cost
9 responsibility of each of the three companies.

10
11 **RELEASE 1**

12 **Q. What is Release 1?**

13 A. Release 1 is a limited scope of operations for GridFlorida expected to be
14 put into place approximately nine months after the project is restarted. It
15 is my understanding that FPL, FPC and TECO have suspended
16 development of the GridFlorida RTO proposal pending the outcome of this
17 proceeding. If and when work on the GridFlorida proposal is restarted, it
18 is scheduled to take approximately 18 months from restart (beginning of
19 the design phase) to implement the End State functions for GridFlorida.
20 However, GridFlorida could be operational nine months after restart with
21 an initially reduced menu of functions and services, which is referred to as
22 Release 1. As discussed in Mr. Southwick's testimony, during Release 1
23 operation, services related to congestion management, energy imbalance,
24 and other ancillary services are expected to be simplified while

1 development continues on establishing the market-based functions in the
2 End State for these services, along with a necessarily more complex
3 attendant billing system.
4

5 **Q. What is the scope of the GridFlorida functions to be performed**
6 **during the Release 1 stage?**

7 A. The First Release Discussion Document, which is contained in the
8 Business Blueprint, is a matrix itemizing the expected differences between
9 the End State and the Release 1 functions.
10

11 **Q. Why did the GridFlorida Companies decide to develop a plan for**
12 **Release 1?**

13 A. There are several reasons why Release 1 was developed. We were
14 asked to develop a Release 1 Plan because GridFlorida wanted to look at
15 an implementation approach that would provide for achieving operational
16 status at an earlier date than provided for in the End State implementation
17 plan. Having an earlier implementation date would also give GridFlorida
18 valuable initial operating experience which would be useful as GridFlorida
19 moves towards implementation of the End State.
20

21 **Q. In your opinion, will the interim step of implementing Release 1**
22 **increase the overall start up costs of the End State?**

23 A. We have developed a plan that allows for incremental development where
24 the End State will for the most part build on the capabilities implemented

1 in Release 1. For this reason we believe that there will not be a significant
2 increase in start up costs as a result of using this two-release approach,
3 and the value gained by phasing implementation will be well worth it.
4

5 **Q. Document 7 of Exhibit No. __ (BLH-1), the Business Blueprint also**
6 **contains a Release 1 Organization Model. What is the purpose of**
7 **that model?**

8 A. The limited scope of business functions to be implemented in Release 1
9 will require a lesser number of staff than will be necessary to implement
10 the End State. The Release 1 Organization Model is an estimate of the
11 staffing necessary to implement Release 1.
12

13 **Q. When GridFlorida reaches the point of implementing Release 1, how**
14 **much of the \$150 million in start up costs do you project will be**
15 **expended?**

16 A. We estimate that GridFlorida will need to spend approximately \$80 million
17 to achieve Release 1. This amount includes a 30% contingency. The
18 percentage of the contingency for Release 1 is higher due to the
19 compressed timeframe and some uncertainty as to the actual applications.
20 In other words, some contingency is front loaded in Release 1, which we
21 think is prudent.
22

23 **Q. What are the projected costs of operating GridFlorida during the**
24 **Release 1 stage?**

1 A. The projected total annual costs of operating GridFlorida during the
2 Release 1 stage are approximately \$165 million, which is somewhat less
3 than the projected operating costs of the End State. The lesser amount
4 reflects simplified market functions and a resulting smaller organization.
5 Again, as explained earlier, this \$165 million total includes costs already
6 incurred by the three companies.

7
8 **Q. Is Release 1 an alternative to the End State?**

9 A. No. Release 1 is reasonable step on the path to the End State. It is not
10 intended to be a permanent approach; it does not meet all of the
11 requirements of Order No. 2000, and should not be viewed as an
12 alternative to the End State. The main focus of the Business Blueprint
13 and my testimony in this case is to support the End State.

14
15 **CONCLUSION**

16 **Q. How do your projected start up costs and first year operating budget**
17 **for GridFlorida compare with the costs and budgets of other RTO**
18 **projects Accenture has worked on?**

19 A. While the estimated costs contained in the Business Blueprint are, of
20 course, preliminary and subject to refinement as the details of the project
21 are finalized in the next stage of development, the estimated GridFlorida
22 costs are very much in line with the costs associated with similar projects
23 (as our estimating model is based on both estimated and actual costs from
24 similar projects) and, therefore, are reasonable in my opinion.

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Q. Does this conclude your direct testimony?

A. Yes.

1 MR. FAMA: The GridFlorida companies tender the
2 witness for cross examination.

3 CHAIRMAN JACOBS: Very well. Any cross?

4 MR. MCGLOTHLIN: None.

5 CHAIRMAN JACOBS: Ms. Paugh.

6 MS. PAUGH: No questions.

7 MR. HOWE: No questions.

8 MR. TWOMEY: I don't have any questions.

9 CHAIRMAN JACOBS: Staff.

10 CROSS EXAMINATION

11 BY MR. KEATING:

12 Q I have just a couple of questions, and these may need
13 to be directed to the company-specific witnesses. I'm not
14 totally sure, so I will approach them first with Mr. Holcombe.
15 In your Exhibit BLH-3, are first year O&M expenses included?

16 A BLH Exhibit 3 --

17 Q And that is with relation to, I guess it's Table 2.

18 A Yeah, the Table 2 has the first year annual operating
19 costs, expenses, which we had developed as a part of our
20 business blueprint for GridFlorida.

21 Q Where are those in Table 2?

22 A The \$181 million in that first column.

23 Q The bottom of the first column?

24 A Yeah, bottom left of the exhibit.

25 MR. FAMA: Mr. Keating?

1 MR. KEATING: Yes.

2 MR. FAMA: If I could interrupt. I need to
3 apologize. I failed to give the witness a chance to make an
4 opening brief summary of his testimony. I wondered if we could
5 do that now for one minute?

6 MR. KEATING: That's fine.

7 CHAIRMAN JACOBS: If you'd like. If you have to do
8 one, we can absolutely listen to it.

9 MR. FAMA: I promise, Mr. Chairman, it will be brief.

10 THE WITNESS: It will be brief.

11 CHAIRMAN JACOBS: Thank you.

12 THE WITNESS: Accenture was engaged by GridFlorida to
13 develop a business blueprint. This business blueprint
14 specifically addressed the required business functions and
15 operations which must be performed by GridFlorida, a required
16 organization to support those functions, and to require
17 computer applications also to support those functions. Those
18 functions being the functions identified specifically in the
19 open access transmission tariff on file with FERC and those
20 requirements under FERC Order 2000.

21 As a result of that work, we developed resource
22 requirements and schedules for the implementation of
23 GridFlorida based on specific time frames required for
24 implementation. We also then have the implementation and
25 operating cost estimates developed at the same time. This work

1 was done based upon the actual experience that Accenture has in
2 implementing Transco RT0 systems elsewhere. We took the
3 expertise from these prior project of ours, as well as of our
4 subcontractors, brought that material to GridFlorida, met with
5 the different subject matter experts from the utilities within
6 Florida to make sure we had a good view of the landscape, so to
7 speak, and modified those to specifically meet the requirements
8 of GridFlorida. So what we produced was something that was
9 based on actual experience highly tailored for the GridFlorida
10 environment.

11 CHAIRMAN JACOBS: Thank you.

12 BY MR. KEATING:

13 Q If you'd turn again to Exhibit BLH-3 Table 2, the
14 analysis of incremental cost impact, first year operating
15 expenses. And my question was, are the first year O&M expenses
16 included in this exhibit for Florida Power Corporation?

17 A For Florida Power Corporation?

18 Q Yes.

19 A Yeah, yeah. All of the costs associated with the
20 GridFlorida operations, which would include the costs that flow
21 from -- or the maintenance for that flows from Florida Power,
22 the maintenance for that transmission that flows from Florida
23 Power.

24 Q I'm looking at Lines 1 and 2 on the table that
25 indicate O&M, FPL, I guess that's short for divested assets and

1 TECO divested assets. I didn't see a line for Florida Power
2 Corporation, and I was wondering if you could tell me where
3 that one is.

4 A Well, they're not divested assets and therefore not
5 being directly maintained under contract, as I understand it.
6 Sorry.

7 Q So O&M is not included for Florida Power Corporation
8 in this table?

9 A Well, if we go back to page -- back in BLH-2, Page 6,
10 which actually the schedule is resulting in that \$181 million,
11 the schedules behind that are the supporting documentation for
12 those. The direct maintenance of the FPC system, per se, I
13 believe is not in that number, that's correct.

14 MR. KEATING: I believe that's all the questions I
15 have. The remaining can be asked to the company-specific
16 witnesses.

17 CHAIRMAN JACOBS: Okay. Commissioners?

18 COMMISSIONER JABER: Just to follow up on that. What
19 does that mean that FPC's maintenance is not included in the
20 cost here? Does that mean that there will not be a cost to
21 GridFlorida because Florida Power Corporation in their
22 arrangement will do the O&M?

23 THE WITNESS: Repeat that again.

24 COMMISSIONER JABER: Walk me through Florida Power
25 Corporation's participation in GridFlorida as it relates to

1 cost. Help me understand what Florida Power Corporation will
2 pay to GridFlorida and what GridFlorida will reimburse Florida
3 Power Corporation for.

4 THE WITNESS: I'm not the expert on that tariff, and
5 so I'm probably not the person to ask that question.

6 COMMISSIONER JABER: Okay. Mr. Willis who can
7 answer -- not Mr. Willis. Who can answer questions about
8 Florida Power Corporation's specific arrangement with
9 GridFlorida?

10 MR. FAMA: That would be Mr. Southwick.

11 CHAIRMAN JACOBS: I don't think any of the witnesses
12 here have said this, but I've heard it said, that many of the
13 operations of the RTOs were somewhat in place in the operations
14 of the individual companies. And I know I've seen it in the
15 testimony that some of the companies have operated essentially
16 their service territories as a service area. So the thought
17 occurs to me that we're not creating something out of whole
18 cloth. That being the case, it would also occur to me that
19 because we're not creating something out of whole cloth, that
20 we're gaining some kind of benefits of institutional knowledge
21 and infrastructure. Is that your experience in developing this
22 blueprint?

23 THE WITNESS: Yes, that's correct. Or maybe to
24 phrase it another way, if I could maybe paraphrase your
25 question back and see if I'm answering the right thing. We're

1 doing a lot of these things in Florida today, so why is it
2 costing me more than what's different? Is that really what
3 you're --

4 CHAIRMAN JACOBS: Yes.

5 THE WITNESS: Yeah, we are implementing a whole new
6 market design and structure here. So for starters, we're
7 implementing a very robust billing settlements process that
8 operates around the tariff as we filed it, which we don't do
9 today. So there's a whole realm of things that we're doing
10 relative to the market operations that don't exist.

11 There are also a lot of areas, because we're starting
12 a new company, a lot of areas that just go along with starting
13 a few business. We've got, you know, starting of general
14 ledgers and payroll systems and getting employees and a Board
15 of Directors. And so there are both infrastructural things
16 that relate to just a company existing that didn't exist
17 before, and there are additional business functions that we're
18 doing as a result of being in a Transco environment as opposed
19 to being embedded within the three utilities.

20 CHAIRMAN JACOBS: Thank you. That helps. In my
21 limited experience, in a normal private sector startup, that
22 is -- describes -- has various descriptions, but what I've
23 always called it is, you develop some kind of a breakeven
24 point. For those start-up costs basically, you don't -- in
25 other words, the idea is not that you'd go into that business

1 and expect from day one to be able to recover all of those
2 start-up costs, and indeed that's the case here. We're looking
3 at, I think, five years to amortize those start-up costs.

4 And I guess my question is, how do we gauge whether
5 or not that's a reasonable strategy or process? Because these
6 are significant dollars. If I were in -- if I were starting up
7 a pizza thing, I'd probably have some financials that I'd see
8 that would, say, okay, here's your projected period for
9 breakeven and those kind of analyses. I don't think we have
10 that. In your experience in working with other RTOs, is there
11 such a benchmark out there?

12 THE WITNESS: Well, we're circling around to that
13 same issue of quantifiable -- back up. It's the revenue side
14 of the equation. We have costs here, and part of the question
15 is, is, you know, five years, or pick another number, a
16 reasonable amortization period, so to speak, for those costs.

17 As a practical matter you'd look individually at the
18 individual cost components and make some of those
19 determinations. But that's a reasonable number, you know, at
20 this stage, five years for an assumption. What we're missing
21 is the revenue side to do that breakeven analysis. And that, I
22 think, circulates around in the same question I've heard many
23 times in the room, which is, can we quantify, you know, the
24 revenue benefits to create that breakeven? And, no, we did no
25 work in that area.

1 And in our work at other RTOs, I would say that this
2 is a very commonly asked question and a very commonly
3 unanswered question.

4 CHAIRMAN JACOBS: Okay. Fair enough. Thank you.

5 COMMISSIONER DEASON: I have just a few questions.
6 You indicated that you and your firm have had experience with
7 RTO development in other regions; is that correct?

8 THE WITNESS: That's correct.

9 COMMISSIONER DEASON: Specifically which ones?

10 THE WITNESS: In BLH Exhibit 2, we articulated, which
11 you may or may not have, I guess, in front of you, articulated
12 other RTOs where we've worked, but just to give you a quick
13 overview, we were involved in the beginning setup of ISO
14 New England, in setting up their whole billing and settlement
15 and market operations processes. We did the same at PJM. We
16 are in that process with GridSouth. Obviously well ahead --

17 COMMISSIONER DEASON: Let me interrupt you right
18 there. That's my question. So you have done some preliminary
19 work in the Southeastern region?

20 THE WITNESS: Yes. We are --

21 COMMISSIONER DEASON: Not the one that is being
22 proposed by the ALJ, but you have looked at the GridSouth?

23 THE WITNESS: Correct. We are the program managers
24 doing the work at GridSouth.

25 COMMISSIONER DEASON: Okay. And this question may be

1 too preliminary for you to answer, and if it is, so indicate.
2 But based upon that preliminary work and looking at a larger
3 scope RTO in the South such as GridSouth, do you feel that it's
4 more efficient -- it would be more efficient and more
5 cost-effective for Florida to be part of a larger RTO? Are
6 there enough -- there's enough size given within the state of
7 Florida that it is an efficient operation in and of itself.

8 THE WITNESS: Well, just for the clarification,
9 GridSouth is different than the Southeastern RTO being
10 proposed.

11 COMMISSIONER DEASON: I understand that, but
12 GridSouth is a larger geographic, nevertheless, RTO that is
13 within the Southeastern region, and I was hoping that with that
14 experience that may give you some general basis to answer the
15 question.

16 THE WITNESS: I don't really have a good basis for
17 answering the question for the Southeastern RTO. You would
18 have to take some time, as everybody pointed out, to figure out
19 how the business model is going operate. As we mentioned, we
20 developed the numbers here for GridFlorida based upon the
21 specific oath that was filed, the tariff that was filed, and
22 that does have an impact.

23 Now, having said that, we used the same estimating
24 models and processes for GridSouth we brought into GridFlorida,
25 so therefore, we have a high degree of consistency in those

1 models. So the processes and the business functions, you could
2 argue, right, you know, similar. From a cost standpoint,
3 though, I don't know how you would gauge it at this time.

4 For example, the business functions within
5 GridFlorida are in some areas very different than the business
6 functions within GridSouth today. An example being market
7 operations, which is very well defined for GridFlorida, not
8 defined at all really for GridSouth, don't know what the
9 Southeastern RTO may look like. That really is --

10 COMMISSIONER DEASON: Too preliminary to answer.

11 THE WITNESS: I know what you're looking for, but I
12 can't really give you any guidance.

13 COMMISSIONER DEASON: Well, I appreciate that. I'm
14 looking now at your Exhibit BLH-3, and I understand that there
15 are portions of this exhibit which other individuals may be
16 responsible. And if I ask a question, just refer me to
17 whomever would be fine. But right now, I'm looking at Page
18 2 of 3 of that exhibit.

19 And as I understand this, this is an analysis of the
20 incremental cost impacts on the first year operating expenses
21 of GridFlorida. And I interpret that to mean that these are
22 the costs that the GridFlorida applicants would -- these are
23 the incremental costs they would incur above what they're
24 currently incurring to provide transmission service as it
25 currently exists. Is that a basic understanding?

1 THE WITNESS: The \$181 million column, which is
2 Column 1, is in fact a total number irrespective of what is
3 going on today, so to speak.

4 COMMISSIONER DEASON: But I'm primarily looking at
5 Columns 11, 12, 13, and 14.

6 THE WITNESS: Right. The objective of this was, as
7 we talked it through with the utilities, was to come up with
8 those things that would be not incremental which the utilities
9 could then overlay in these columns to come up with what would
10 in fact be an incremental number. We, as Accenture, didn't
11 really have the basis to do that, and so that's why the
12 utilities filled in the other columns going across. But your
13 presumption is right, that's how you get from the 181 million
14 down to the 51 million at the other side.

15 COMMISSIONER DEASON: Okay. So you can answer
16 questions pertaining to Columns 11 through 14?

17 THE WITNESS: In terms of specifically what's in
18 them, I cannot.

19 COMMISSIONER DEASON: Okay. Let's go back to Column
20 1 then. Item 3, salaries and benefits, \$25.3 million. That is
21 your number; correct?

22 THE WITNESS: That's correct.

23 COMMISSIONER DEASON: And you're representing that
24 that is a reasonable amount in terms of salaries and benefits
25 for GridFlorida to operate effectively and efficiently?

1 THE WITNESS: That's correct. That's based upon an
2 organization chart that is also included with a prior exhibit.

3 COMMISSIONER DEASON: And approximately 14 million of
4 that 25 million would be allocated to FPL? Am I reading this
5 chart correctly?

6 THE WITNESS: That's correct.

7 COMMISSIONER DEASON: Okay. And can you answer
8 questions about Column 7?

9 THE WITNESS: No, unfortunately, I can't. Those
10 would need to be directed to the particular utility
11 individuals.

12 COMMISSIONER DEASON: Okay. All right. That's all I
13 have then. Thank you.

14 CHAIRMAN JACOBS: Redirect.

15 MR. FAMA: No redirect.

16 CHAIRMAN JACOBS: Very well. Exhibits. We were
17 going to move Exhibit 15 for now; right?

18 MR. FAMA: Yes, that's correct.

19 CHAIRMAN JACOBS: Very well. Without objection, show
20 Exhibit 15 is admitted.

21 (Exhibit 15 admitted into the record.)

22 CHAIRMAN JACOBS: Thank you, Mr. Holcombe. You're
23 excused.

24 (Witness excused.)

25 COMMISSIONER JABER: We'll take a break and come back

1 in ten minutes.

2 (Brief recess.)

3 (Transcript continues in sequence with Volume 5.)

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1 STATE OF FLORIDA)
2 :
3 COUNTY OF LEON)

CERTIFICATE OF REPORTER

4
5 I, TRICIA DeMARTE, Official Commission Reporter, do hereby
6 certify that the foregoing proceeding was heard at the time and
7 place herein stated.

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

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

18 DATED THIS 5th DAY OF OCTOBER, 2001.

19 *Tricia DeMarte*

20 _____
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22 FPSC Official Commission Reporter
23 (850) 413-6736
24
25