

ORIGINAL

LAW OFFICES  
Messer, Caparello & Self  
A Professional Association

Post Office Box 1876  
Tallahassee, Florida 32302-1876  
Internet: www.lawfla.com

January 23, 2004

COMMISSION  
CLERK

01 JAN 23 PM 4: 32

RECEIVED 11:00

**BY HAND DELIVERY**

Ms. Blanca Bayó, Director  
Commission Clerk and Administrative Services  
Room 110, Easley Building  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, Florida 32399-0850

Re: Docket No. 030851-TP  
030438

Dear Ms. Bayó:

Enclosed for filing on behalf of Florida Public Utilities Company are an original and fifteen copies of the following documents:

1. An original and fifteen copies of the Rebuttal Testimony of George Bachman and Robert Camfield to Direct Testimony of Daniel Lee; 01083-04

2. An original and fifteen copies of the Rebuttal Testimony of George Bachman and Robert Camfield to Direct Testimony of Mark Cicchetti 01084-04

3. An original and fifteen copies of the Rebuttal Testimony of George Bachman, Cheryl Martin, P. Mark Cutshaw, Mehrdad Khojasteh, and Jim Mesite, Jr. to Direct Testimony of Hugh Larkin; 01085-04

4. An original and fifteen copies of the Rebuttal Testimony of Cheryl Martin, Mehrdad Khojasteh, Jim Mesite, Jr., P. Mark Cutshaw, and George Bachman to Direct Testimony of Ruth Young and Jeffrey Small; and 01086-04

5. An original and fifteen copies of the Rebuttal Testimony of Cheryl Martin, Mehrdad Khojasteh, Jim Mesite, Jr., P. Mark Cutshaw, and George Bachman to Direct Testimony of Donna Deronne. 01087-04

- AUS
- CAF
- CMP
- COM
- CTR
- ECR
- GCL
- OPC
- MMS
- SEC
- OTH

RECEIVED & FILED

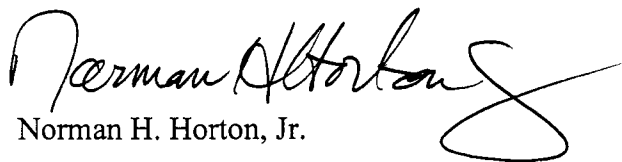
FPSC-BUREAU OF RECORDS

Ms. Blanca Bayo  
January 23, 2004  
Page 2

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the same to me.

Thank you for your assistance with this filing.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Norman H. Horton, Jr.", with a large, stylized flourish at the end.

Norman H. Horton, Jr.

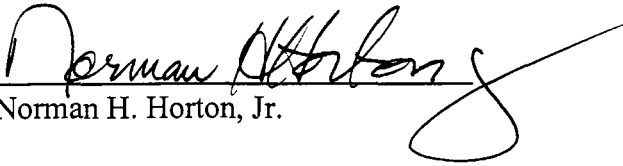
NHH/amb  
Enclosures  
cc: Parties of Record

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that true and correct copies of the foregoing have been served upon the following parties by Hand Delivery (\*) and/or U.S. Mail this 23<sup>rd</sup> day of January, 2004.

Jennifer Brubaker, Esq.\*  
Office of General Counsel  
Room 370, Gunter Building  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

Stephen C. Burgess\*  
Office of Public Counsel  
111 Madison Street, Room 812  
Tallahassee, FL 32399-1400

  
Norman H. Horton, Jr.

REBUTTAL TESTIMONY

OF

GEORGE BACHMAN

ROBERT CAMFIELD

TO THE DIRECT TESTIMONY OF DANIEL LEE

DOCKET NO. 030438-EI:

Petition of Florida Public Utilities Company For An  
Increase In its Rates and Charges In Their Consolidated  
Electric Division

January 23, 2004

DOCUMENT NUMBER-DATE

01083 JAN 23 8

FPSC-COMMISSION CLERK

1 **Q. Please state your name and title, and business address?**

2 A. Witness Bachman: My name is George Bachman. I am the Chief Financial  
3 Officer and Treasurer of Florida Public Utilities Company. My business address  
4 is 401 South Dixie Highway, West Palm Beach, Florida, 33401.

5 Witness Camfield. My name is Robert Camfield. I am a Vice President with  
6 Laurits R. Christensen Associates, Inc. and my business address is Suite 700,  
7 4610 University Avenue, Madison, Wisconsin, 53705.

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

9 A. We wish to reply to and comment on the direct testimony of Daniel Lee of the  
10 Florida Public Service Commission Staff.

11 **Q. Please begin your rebuttal testimony by replying to Mr. Lee's testimony.**

12 A. We appreciate the concerns raised by Mr. Lee in his testimony of January 9, 2004,  
13 which is focused on the request of Florida Public Utilities Company for an  
14 incentive award. The predominant concern of Mr. Lee is that our request for a  
15 performance allowance does not align with defined principles. Mr. Lee identifies  
16 three principles, which we describe as follows:

17 1. Incentive Compatibility: citing our prefiled direct testimony, Mr. Lee notes,  
18 "...net benefits induced by the performance incentive are greater in  
19 magnitude than the performance award... (page 2)."

20 2. Measurable Performance: citing a presentation by professors Berg and  
21 Sotkiewicz, Mr. Lee notes, "...that performance must be observed  
22 accurately, be verifiable, must reflect the utilities' efforts, and must not be  
23 greatly affected by random variation (page 2)."

1           3. Defined Objectives: "...motivates a utility to achieve a performance level for  
2           the benefit of both the utility and its customers (page 2)."

3           It is perhaps useful to review the conformance of the evidence contained in our  
4           request for a performance allowance to the principles set forth above by Mr. Lee,  
5           as follows. First, *Incentive Compatibility*: We amply demonstrate that the net  
6           benefits to retail consumers are substantially greater than the cost associated with  
7           the performance allowance itself. Second, *Measurable Performance*: We utilize  
8           observed and readily accessible price, cost trends, and service quality measures  
9           implemented by the Commission and its Staff to demonstrate how and to what  
10          degree FPU has realized exceptional cost performance. Regarding *Defined*  
11          *Objectives*, we mention in several places that the objective is cost performance  
12          while also achieving very good service quality. We demonstrate how retail  
13          consumers are overwhelmingly better off as a result of the realized cost  
14          performance.

15       **Q. Mr. Lee states on pages 1-2 that the "determination of the performance**  
16       **incentives is a matter of judgment based on principles that do not appear to**  
17       **involve financial modeling." Do you agree?**

18       A. No. As stated above, we have measured the benefits associated with the trend in  
19       distribution costs, and we have quantified the benefits in terms of financial costs,  
20       which is the basis to determine retail electricity prices in the State of Florida and  
21       elsewhere.

22       In a response to an Interrogatory Request, we identify the three methods for  
23       measuring cost trends, and we discuss four reasons why the approach taken is  
24       appropriate. The approach to determining the cost trend captures resource costs

1 over years, measured in real terms. This approach is geared to getting at the  
2 change in resource costs through time not necessarily the resource cost level in  
3 any one year or for any member of the set of comparable utilities. Obtaining the  
4 trend is essential because the business, market, and topological conditions under  
5 which the members of the comparability set operate are unique. These conditions  
6 need to be isolated as best we can, from the performance cost trend. Once  
7 determined, the impact of the trend in cost performance is then measured in  
8 financial or accounting cost terms. We believe that this approach is in keeping  
9 with Mr. Lee's point. Namely, that the benefits need to be demonstrable within  
10 and consistent with the basis for retail prices – financial or accounting costs. We  
11 concur and have accordingly done so.

12 **Q. Mr. Lee indicates that the current regulatory framework contains incentives**  
13 **for productivity improvement. Please comment.**

14 A. Any such incentives of the current framework are short-term. That is, the net  
15 benefits that result from long-term cost performance are fully captured by the  
16 regulatory process, as retail prices are reset from time to time. Yet, the net  
17 benefits of cost performance are realized over many years insofar as much of the  
18 cost efficiency is in the form of capital utilization and productivity, as distribution  
19 facilities have very long lives. We suggest that the better approach is to perturb  
20 increased cost performance by sharing back to the applicant a modest fraction of  
21 the net benefits in the form of an incentive rate of return allowance.

22 **Q. Does this conclude your testimony?**

23 A. Yes.