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COMMISSION  
CLERK

October 5, 2006

- VIA OVERNIGHT DELIVERY -

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

Re: Docket No. 060001-EI

Dear Ms. Bayó:

I am enclosing for filing in the above docket the original and fifteen (15) copies of the prefiled testimony and exhibits of Florida Power & Light Company witness Rosemary Morley, which responds to the prefiled testimony and exhibits submitted on behalf of the Federal Executive Agencies by Dr. Dennis W. Goins concerning the allocation of demand-related purchased power costs to the Commercial Industrial Load Control rate classes for the purpose of determining their capacity cost recovery factors.

- MP \_\_\_\_\_
- OM 5
- TR org
- CR \_\_\_\_\_
- KCL 1
- IPC \_\_\_\_\_
- ICA \_\_\_\_\_
- CR \_\_\_\_\_
- IGA \_\_\_\_\_
- IEC 1
- OTH \_\_\_\_\_

If there are any questions regarding this transmittal, please contact me at 561-304-5639.

Sincerely,

John T. Butler

Enclosure

Cc: Counsel for parties of record (w/encl.)

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

**CERTIFICATE OF SERVICE**  
**Docket No. 060001-EI**

**I HEREBY CERTIFY** that a true and correct copy of the rebuttal testimony of Florida Power & Light witness Rosemary Morley has been furnished by overnight delivery or U.S. Mail on the 6th day of October, 2006, to the following:

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By: Kevin M. Butler for JTB  
John T. Butler

**BEFORE THE FLORIDA  
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 060001-EI  
FLORIDA POWER & LIGHT COMPANY**

**October 6, 2006**

**IN RE: LEVELIZED FUEL COST RECOVERY  
AND CAPACITY COST RECOVERY**

**JANUARY 2007 THROUGH DECEMBER 2007**

**REBUTTAL TESTIMONY & EXHIBITS OF:**

**R. MORLEY**

DOCUMENT NUMBER DATE

09243 OCT-6 8

FPSC-COMMISSION CLERK

1                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                               **FLORIDA POWER & LIGHT COMPANY**

3                               **REBUTTAL TESTIMONY OF ROSEMARY MORLEY**

4                                       **DOCKET NO. 060001-EI**

5                                       **OCTOBER 6, 2006**

6

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

8   A.     My name is Rosemary Morley. My business address is 9250 West Flagler Street,  
9           Miami, Florida, 33174.

10 **Q.    By whom are you employed and what is your position?**

11 A.     I am employed by Florida Power & Light Company (FPL or Company) as the  
12         Rate Development Manager in the Rates & Tariffs Department.

13 **Q.    Please describe your duties and responsibilities in that position.**

14 A.     I am responsible for developing electric rates at both the retail and wholesale  
15         levels. At the retail level, I am responsible for developing the appropriate rate  
16         design for all electric rates and charges. I am also responsible for proposing and  
17         administering the tariff language needed to implement those rates and charges.

18 **Q.    Please describe your educational background and professional experience.**

19 A.     I hold a bachelor's degree in economics from the University of Maryland and a  
20         master's degree in economics from Northwestern University. I was awarded a  
21         doctorate in business administration from Nova Southeastern University in 2005.  
22         Since joining FPL in 1983 I have held a variety of positions in the forecasting,  
23         planning, and regulatory areas. I joined the Rates and Tariff Department in 1987

1 as a Senior Cost of Service Analyst and was subsequently promoted to Supervisor  
2 of Cost of Service. I have held the position of Rate Development Manager since  
3 1996.

4 **Q. Are you sponsoring an exhibit in this case?**

5 A. Yes. I am sponsoring an exhibit consisting of two documents which are attached  
6 to my rebuttal testimony. They are as follows:

- 7 • Document No. RM-5, Non-Firm Electric Service Report
- 8 • Document No. RM-6, FAC Rule 25-6.0438

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

10 A. In my testimony I will address the proposal by FEA witness Goins that no  
11 demand-related purchased power costs be allocated to the Commercial Industrial  
12 Load Control (CILC) rate classes for the purpose of determining the capacity cost  
13 recovery (CCR) factor for those classes. I will show that this proposal would be  
14 unfair to FPL's other customers and is inconsistent with the Commission's rules  
15 and practice for non-firm service.

16 **Q. How does FPL allocate the costs recoverable through the CCR clause in this  
17 proceeding?**

18 A. FPL has consistently used the 12 CP and 1/13th methodology. This methodology  
19 classifies 12/13ths, or 92%, of costs on the basis of coincident peak demand  
20 ("CP") and 1/13th, or 8%, of costs on the basis of energy. The portion classified  
21 on demand is allocated to the individual rate classes based on their 12 CP  
22 contributions, adjusted for losses, while the portion classified on energy is  
23 allocated based on the kWh sales, adjusted for losses. As a result, all rate classes

1 that utilize and benefit from purchased power are allocated a share of the cost of  
2 that power based on their 12 CP contributions.

3 **Q. What does witness Goins propose in his testimony?**

4 A. Rather than following the 12 CP and 1/13<sup>th</sup> methodology, witness Goins  
5 maintains that one set of customers, those in the CILC rate classes, should be  
6 excluded from the allocation of all demand-related purchased power costs and  
7 proposes an "Alternative Approach" to reflect his recommended treatment (DWG  
8 Direct Testimony, page 13, line 9 to page 14, line 11). The result of his  
9 alternative approach is to drastically reduce the cost allocation to the CILC rate  
10 classes at the expense of the general body of electric customers.

11 **Q. What is the impact of witness Goins' alternative approach on the remaining  
12 customers?**

13 A. As shown in Exhibit DWG-2, \$2,923,136 would be allocated to the CILC rate  
14 classes compared to FPL's filing of \$19,309,158, which results in \$16,386,022 of  
15 unrecovered purchased power costs that would have to be collected from the  
16 remaining customers. This would be an inappropriate and unfair subsidy of the  
17 CILC customers by the remaining customers.

18 **Q. Why would the \$16.4 million reallocation of costs proposed by witness Goins  
19 be unfair and inappropriate?**

20 A. The most significant problem with FEA's proposal is that it is inconsistent with  
21 Florida regulations governing the discounts utilities can provide to non-firm  
22 service customers. In addition, FEA's proposal is inconsistent with how  
23 production costs in general, and the CILC rate classes, in particular, would be

1 treated in a base rate proceeding. Lastly, even the mechanics of what FEA is  
2 proposing are flawed. Their method incorrectly assumes that customers under the  
3 CILC rate are 100% interruptible.

4 **Q. Why does witness Goins contend that CILC classes should be exempted from**  
5 **paying their share of allocated costs based on the 12 CP and 1/13<sup>th</sup>**  
6 **methodology?**

7 A. Witness Goins argues the CILC rate classes should not be allocated any demand-  
8 related purchase power costs because they receive non-firm service.

9 **Q. What is meant by non-firm service?**

10 A. Non-firm service means electric service that can be limited or interrupted. Non-  
11 firm service in this context includes interruptible, curtailable, load management,  
12 and other types of non-firm electric service offered by the utilities pursuant to  
13 tariffs approved by the Florida Public Service Commission. In exchange for  
14 providing this ability to limit or interrupt service, non-firm service customers  
15 receive a discount on their electric bills. In FPL's case, CILC is one of a number  
16 of non-firm service offerings available. Document No. RM-5 provides the most  
17 recent non-firm service report provided the Commission.

18 **Q. Has the Commission specified how the discounts for non-firm service**  
19 **customers are to be determined?**

20 A. Yes. Discounts for non-firm service must meet the requirements outlined in Rule  
21 25-6.0438, which is included as Document No. RM-6 in my testimony. One of  
22 the rule requirements is a determination of cost effectiveness:



1           “Cost effective” in the context of non-firm service shall be based  
2           on avoided costs. It shall be defined as the net economic deferral or  
3           avoidance of additional production plant construction by the utility  
4           or in other measurable economic benefits in excess of all relevant  
5           costs accruing to the utility’s general body of ratepayers.

6   **Q.   How does FPL ensure that its non-firm service rates meet this requirement**  
7           **that the benefits of non-firm service to the general body of customers must**  
8           **exceed their costs?**

9   A.   FPL uses a two-part rate treatment to ensure that the benefits of non-firm  
10       service to the general body of customers exceed their costs. The discounts  
11       to non-firm service customers reflect a portion of the cost savings to FPL  
12       because specified capacity *additions* can be deferred as a result of the  
13       opportunity to limit or interrupt service to non-firm loads. By contrast, the  
14       embedded capacity costs are allocated to *all* customers, including non-firm  
15       service, in recognition of the fact that FPL actually incurs those costs in  
16       order to serve all customers. In summary, the determination of non-firm  
17       service rates starts from a baseline that allocates them the costs actually  
18       incurred to serve their actual load, and then subtracts from that baseline a  
19       discount based on the avoided *additional* costs that FPL would have to  
20       incur if those rates did not allow FPL to limit or interrupt service.

21   **Q.   Has this two-part treatment historically been used by FPL to calculate the**  
22           **CILC rates?**

1 A. Yes. In a base rate proceeding, CILC customers are allocated production-  
2 demand costs using the 12 CP and 1/13th methodology I described earlier,  
3 with no adjustment to remove any portion of load that may be  
4 interruptible. A separate rate adjustment is then made to reflect the cost  
5 effective level of the CILC discount.

6 **Q. Has the Commission reviewed this two-part treatment for the CILC rate**  
7 **classes?**

8 A. Yes. The base rate treatment I described was utilized by FPL in Docket Nos.  
9 050045-EI and 001148-EI. It is also consistent with FPL's treatment of  
10 curtailable service in Docket No. 830465-EI. The appropriate level of CILC  
11 discounts has been addressed in a separate series of dockets (Docket No. 941170-  
12 EG, PSC-95-0865-FOF-EG; Docket No. 881106-EI, Order No. PSC-92-0687-  
13 FOF-EI).

14 **Q. Has the Commission approved this two-step process for other utilities?**

15 A. Yes, a similar two-part treatment has been approved for Florida Progress  
16 and TECO (Docket No. 910890-EI, Order No. PSC-92-1197-FOF-EI;  
17 Docket No. 950645-EI; Order No. PSC-96-0842-FOF-EI; Docket No.  
18 920324-EI; Order No. PSC-93-0165-FOF-EI; Docket No. 990037-EI;  
19 Order No. PSC-99-1778-FOF-EI.)

20 **Q. Is FEA's proposal consistent with Rule 25-6.0438?**

21 A. No. FEA is attempting to artificially inflate the discounts to CILC customers by  
22 circumventing the requirements under Rule 25-6.0438. FEA wants to include  
23 embedded purchased power payments in the CILC discount, contrary to the

1 definition of avoided costs in Rule 25-6.0438. FEA's proposal would increase  
2 the cost that the general body of customers would have to bear to support the  
3 CILC discounts, with no corresponding increase in benefits. This is clearly  
4 contrary to the objective of Rule 25-6.0438, namely to ensure that the benefits of  
5 non-firm service to the general body of customers exceed their costs.

6 **Q. How much would FEA's proposal increase the existing level of CILC**  
7 **discounts?**

8 A. Currently, FPL's customers are paying approximately \$30 million through the  
9 energy conservation cost recovery clause to offset the existing level of discounts  
10 to CILC customers. Under FEA's proposal, FPL's customers would pay an  
11 additional \$16 million to offset a CILC discount through the CCR clause. This  
12 amounts to an increase of more than 50%, with no additional benefit to FPL's  
13 other electric customers.

14 **Q. Witness Goins appears to assume that the existing discounts are a base rate**  
15 **item and that additional discounts can and should be given to CILC**  
16 **customers through the clauses without regard to Rule 25-6.0438. Do you**  
17 **agree?**

18 A. No. Witness Goins' assumptions are faulty on both counts. First, the avoided  
19 costs calculation takes into account total avoided costs, not just avoided base rate  
20 costs. Thus, the current level of CILC discounts were deemed to be cost-effective  
21 based on avoided base and clause recoverable costs. Second, the Commission  
22 recognizes that *any* reduction in charges that CILC customers receive as a result  
23 of their interruptibility (whether through base rates or adjustment clause factors)

1 is part of the incentive or discount they receive for taking non-firm service  
2 (Docket No. 941170-EG; Order No. PSC-95-0865-FOF-EG). Therefore, any  
3 proposed reduction in CCR factors that are charged to the CILC rate classes  
4 relative to their firm-service equivalents must be evaluated in light of Rule 25-  
5 6.0438.

6 **Q. Has the Commission previously addressed whether additional CILC**  
7 **discounts through reduced adjustment clause charges are warranted based**  
8 **on Rule 25-6.0438?**

9 A. Yes. In Docket No. 930759-EG, the issue of whether CILC customers should be  
10 excluded from the allocation of conservation costs was addressed. The  
11 Commission, in Order No. PSC-93-1845-FOF-EG, issued December 29, 1993,  
12 stated as follows:

13 If CILC customers were to be excused from paying their share of  
14 conservation costs, they would be receiving benefits in excess of  
15 those which they provide the system through their willingness to  
16 be interrupted [footnote omitted]. As FPL's witness Birkett  
17 testified, the cost effectiveness test which was filed to obtain  
18 Commission approval of the CILC program yielded a benefit to  
19 cost ratio of approximately 1:1. Any additional discount given to  
20 CILC customers, whether through excusing them from the  
21 payment of ECCR charges *or any other means*, would result in  
22 them being overcompensated for their interruptibility.

23 (Emphasis added.)

1 **Q. Is a formal cost-effective analysis needed in this case to evaluate FEA's**  
2 **proposal?**

3 A. No. The Commission has recognized that, beyond the threshold cost-  
4 effectiveness test, the level of discounts should take into account the incentive  
5 needed to induce customers to take non-firm service (Docket No. 030051-EG,  
6 PSC-03-0322-TRF-EG). This is entirely consistent with the requirement that the  
7 benefits from non-firm service *exceed* their costs and that utilities maintain  
8 subscribed non-firm loads at or *below* their maximum cost-effective levels.  
9 Because the CILC rate classes are closed to new customers, the general body of  
10 customers has nothing to gain from higher CILC discounts. No new customers  
11 could take service under the CILC rate classes in response to a higher discount.  
12 Moreover, there has been virtually no decline in the number of CILC customers  
13 since the rate was closed, indicating that the current incentive is adequate to retain  
14 existing CILC customers.

15 **Q. What other problems did you find in FEA's proposal?**

16 A. In column (8) of Exhibit DWG-1, the Projected Average 12CP @ Generation is  
17 shown as zero for the CILC rate classes. This appears to be based on the faulty  
18 assumption that the loads of CILC customers are 100% interruptible.

19 **Q. Please explain why this assumption is faulty.**

20 A. The CILC tariff specifically provides for levels of firm *and* non-firm load for each  
21 CILC customer. Witness Goins' elimination of 100% of the 12 CP demand for  
22 the CILC rate classes ignores the load characteristics of those customers. Indeed,  
23 many CILC customers, including those represented by FEA, have a substantial

1 percentage of firm load. For example, on average over 25% of the CILC-1T loads  
2 are firm while some of these large customers have loads that are more than 90%  
3 firm. For the reasons discussed earlier in my testimony, the Commission should  
4 reject the FEA's proposed reallocation of costs because it is unfair to FPL's other  
5 customers and inconsistent with the Commission's rules and practice for non-firm  
6 service. However, even if one were to reallocate costs as the FEA proposes, the  
7 rates computed by witness Goins improperly overstate that reallocation.

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

9 **A. Yes.**



Natalie F. Smith  
Principal Attorney  
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700 Universe Boulevard  
Juno Beach, FL 33408-0420  
(561) 691-7207  
(561) 691-7135 (Facsimile)

June 27, 2006

**VIA HAND DELIVERY**

Ms. Connie Kummer, Chief  
Bureau of Economics Rates and Forecasting  
Division of Economic Regulation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
The Gunter Building  
Tallahassee, FL 32399-0850

Re: Florida Power & Light Company's (FPL's) June 2006  
Non-Firm Electric Service Report

Dear Ms. Kummer:

In accordance with Rule 25-6.0438(7), Florida Administrative Code, attached is FPL's  
Non-Firm Electric Service Report for June, 2006.

Please contact me if you have questions regarding this filing

Sincerely,

A handwritten signature in black ink, appearing to read 'Natalie F. Smith', written over a horizontal line.

Natalie F. Smith

NFS:jp  
Enclosure

FLORIDA POWER & LIGHT COMPANY  
NON-FIRM ELECTRIC SERVICE REPORT  
June 2006

TYPES OF SERVICE	June 1, 2006 Amount of Non-Firm Service on System (MWs)	Full Program implementation Cost-Effective Level (MWs)
1. Curtailable	66	NA
2. Load Control		
a. Commercial/Industrial Load Control - CILC	515	516
b. Commercial Demand Reduction - CDR	36	97
c. Residential On Call	791	941
d. Business On Call	54	96
Total Load Control MWs	<u>1,396</u>	<u>1,650</u>

Note - all values at generator.

NA = Not Available as no targets are set for Curtailable Service.



25-6.0438 Non-Firm Electric Service - Terms and Conditions.

(1) Applicability. This rule shall apply to all investor-owned electric utilities.

(2) Purpose. The purposes of this rule are: to define the character of non-firm electric service and various types thereof; to require a procedure for determining a utility's maximum level of non-firm load; and to establish other minimum terms and conditions for the provision of non-firm electric service.

(3) Definitions.

(a) "Non-firm electric service" means electric service that, in accordance with terms and conditions specified in the applicable tariff, can be limited or interrupted. Non-firm service includes interruptible, curtailable, load management, and other types of non-firm electric service offered by the utilities pursuant to tariffs approved by the Florida Public Service Commission.

(b) "Interruptible electric service" means electric service that can be limited or interrupted, either automatically or manually, solely at the option of the utility.

(c) "Cost effective" in the context of non-firm service shall be based on avoided costs. It shall be defined as the net economic deferral or avoidance of additional production plant construction by the utility or in other measurable economic benefits in excess of all relevant costs accruing to the utility's general body of ratepayers.

(d) "Curtailable electric service" means electric service that can be reduced or interrupted upon request of a utility but solely at the discretion of the customer.

(e) "Load management service" means electric service provided under an applicable firm rate schedule whereby electric service to specified components of the customer's electric load may be interrupted at the discretion of the utility in accordance with conditions specified in the utility's tariffs.

(4) Availability of Service.

(a) A utility may offer non-firm electric service to any customer or class of customers pursuant to tariffs or contracts approved by the Commission. Each utility that currently offers or proposes to offer non-firm electric service shall demonstrate, no later than its next rate case, that providing such service is cost effective.

(b) Each utility shall state in its tariff the terms and conditions under which non-firm electric service will be offered. If a utility believes that providing interruptible service or another type of non-firm service to a specific customer who otherwise qualifies for such service under the utility's tariff will not result in benefits accruing to its general body of ratepayers, that utility shall apply to the Commission for authorization to refuse non-firm service to that customer. The provision of non-firm service for standby and supplemental purposes shall be consistent with the Federal Energy Regulatory Commission rule, 18 C.F.R. Section 292.305.

(c) When a utility proposes to make a change in any of its non-firm electric service offerings, it must provide written notice to each customer who may be affected by the proposal.

(5) Methods of Determining Maximum Levels of Non-Firm Load. Each utility offering non-firm electric service shall have on file with the Commission a methodology approved by the Commission for determining the cost effectiveness of non-firm load over its generation planning horizon, pursuant to the definition of "cost effective" in paragraph

(3)(c). Specific consideration must be given to each type of non-firm electric service offered. A utility may petition the Commission to revise their methodology at any time.

(6) Maximum Levels of Non-Firm Load. Each utility shall attempt to maintain its subscribed non-firm loads at or below their maximum cost-effective levels, as determined by the utility's approved methodology utilizing its most current system expansion plans and approved rates. If, during a revenue or rate review, the Commission finds that a utility's efforts to maintain its subscribed non-firm loads at or below the maximum cost-effective level have not been prudent, the Commission may impute revenues at otherwise applicable rates for the amount of non-firm load in excess of cost effective levels.

(7) Reporting Requirements. Each utility offering non-firm electric service shall submit to the Commission on January 1 and July 1 of each year a report detailing the type of non-firm service offered and showing the amount of non-firm load on the utility's system as of the month ending one month prior to the reporting date. In addition, the report shall state the cost-effective levels of non-firm load determined by the utility's approved methodology.

(8) Minimum Notice to Transfer from Non-Firm to Firm Service. Each utility that offers non-firm service shall include a specific provision in its tariff that requires a customer to provide the utility with at least five years advance written notice in order for the customer to be eligible to transfer from interruptible to firm service. A utility may apply to the Commission for approval of a different minimum notice requirement if it can demonstrate that a different notice requirement is necessary or appropriate, either for all or any individual non-firm service offerings.