

Steel Hector & Davis

Tallahassee, Florida

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February 3, 1995

Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399

RE: DOCKET NO. 950001-~~W1~~

Dear Ms. Bayo:

Enclosed for filing please find an original and fifteen (15) copies of Florida Power & Light Company's Rebuttal Testimony of Messrs. R. Silva and B.T. Birkett.

Very truly yours,

Matthew M. Childs, P.A.

ACK _____

AFA _____

APP _____ MMC/ml

cc: All Parties of Record

CCM _____

CFP _____

EDM Dudley 5

LEA 1

LEB 4

GM _____

IR _____

SEC 1

WAS _____

OTH _____
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**CERTIFICATE OF SERVICE
DOCKET NO. 950001-EI**

I HEREBY CERTIFY that a true and correct copy of Florida Power & Light Company's Rebuttal Testimony of Messrs. R. Silva and B.T. Birkett, have been furnished by Hand Delivery** or U.S. Mail this 3rd day of February, 1995, to the following:

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Matthew M. Childs, P.A.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

REBUTTAL TESTIMONY OF BARRY T. BIRKETT

DOCKET NO. 950001-EI

FEBRUARY 3, 1995

ORIGINAL
FILE COPY

1 Q. State your name and business address.

2 A. My name is Barry T. Birkett and my business address is 9250 West
3 Flagler Street, Miami, Florida 33174.

4

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

6 A. I am employed by Florida Power & Light Company (FPL) as the
7 Manager of Rates and Tariff Administration

8

9 Q. Have you previously testified in this docket?

10 A. Yes, I have.

11

12 Q. What is the purpose of your rebuttal testimony?

13 A. My rebuttal testimony will rebut certain portions of the direct testimony
14 of Steven M. Fietek who was engaged by Florida Steel Corporation
15 (Florida Steel).

16

1 Specifically, my testimony will demonstrate that:

2 1. Florida Steel witness Fietek's conclusion that FPL's projected
3 fuel charge should be reduced does not appropriately consider
4 the Fuel Cost Recovery process and procedures.

5

6 2. Florida Steel witness Fietek's position that the \$2.8 million
7 expenditure for equipment modification should be recovered
8 through base rates, capitalized and depreciated over the
9 remaining useful life of each plant fails to consider Commission
10 Order No. 14546, fuel savings realized by customers, and that
11 recovering the \$2.8 million over the six month fuel cost
12 recovery period is the most economic alternative.

13

14 3. Florida Steel witness Fietek's position that FPL's capacity cost
15 allocation methodology does not properly reflect how the
16 purchased power capacity costs should be allocated among
17 the rate classes is an inappropriate issue since this matter has
18 already been decided by the Commission. Additionally, Florida
19 Steel was a party in that proceeding and agreed that the
20 methodology was appropriate.

21

22 **Fuel Cost Recovery Process**

23

24 Q. Do witness Fietek's conclusions regarding the natural gas
25 forecast and his proposed reduced fuel charge appropriately

1 **consider the process and procedures utilized in the Fuel Cost**
2 **Recovery Clause?**

3 **A.** No. Witness Fietek's proposal fails to consider appropriate elements
4 necessary in the development of a projected fuel factor. Moreover, he
5 appears to ignore the many other elements that support a fuel charge,
6 e.g. other fuels' prices, sales and load forecasts, maintenance
7 schedules, etc. The Fuel Cost Recovery process and procedures
8 contain adequate safeguards and opportunities to ensure customers
9 and the companies are protected. When the Fuel Clause was
10 established, the Commission recognized that actual results would differ
11 from projections, especially since fuel prices are volatile. As a result,
12 safeguards such as the filing of monthly A-Schedules, the 10% mid-
13 course correction guidelines and the true-up mechanism, where
14 variances are routinely handled, were put in place. The Commission
15 also recognized that any time an estimate and true-up procedure is
16 utilized, some timing differences occur.

17
18 FPL routinely reviews its inputs that were used to develop the
19 projected fuel charge to determine if there are any changes that
20 combined would result in a significant variance in fuel costs for the
21 period. If a change is warranted at any time, FPL notifies the
22 Commission.

1 **Equipment Modifications to Generating Facilities**

2

3 **Q. Has Florida Steel witness Fietek considered Commission Order**
4 **No. 14546 in arriving at his recommendation regarding FPL's**
5 **request to recover the cost of certain equipment modifications**
6 **through the fuel clause?**

7 **A.** Florida Steel witness Fietek's testimony does not reflect any such
8 consideration. I addressed how Order No. 14546 applies to FPL's
9 request for recovery of the equipment modification costs in my prefiled
10 testimony in this docket.

11

12 **Q. Has Florida Steel witness Fietek addressed the reason why FPL**
13 **is implementing certain equipment modifications to some of its**
14 **generating facilities?**

15 **A.** No. Mr. Fietek's recommendation fails to reflect the fact that this
16 project was undertaken to enable FPL to use a less expensive grade
17 of residual fuel oil at some of its generating facilities. The projected
18 fuel savings that will be realized by FPL's customers, including Florida
19 Steel, is approximately \$81.3 million over the next five years.
20 Additionally, as of December 1994, \$4.9 million in fuel savings has
21 already been realized by FPL's customers, since many of these
22 equipment modifications have been implemented and placed in
23 service.

24

25 **Q. Has FPL performed an economic evaluation of alternative periods for**

1 recovery?

2 A. Yes. An analysis was performed and determined that recovery of the
3 \$2.8 million in equipment modifications over the six month period as
4 compared to recovery over the years 1995 through 1999 saved FPL's
5 customers, including Florida Steel, \$157,032 on a net present value
6 basis, or \$977,526 using nominal dollars, in carrying charges. This
7 analysis is provided as Rebuttal Document No. 1 (BTB-9) of my
8 testimony.

9

10 Capacity Cost Allocation Methodology for Off-System Capacity Purchased
11 Power Cost

12

13 Q. Is the allocation methodology used by FPL appropriate.

14 A. Yes. The methodology is appropriate and was approved by the
15 Commission.

16

17 Q. In what proceeding was FPL's capacity cost allocation methodology
18 approved?

19 A. FPL's capacity cost allocation methodology was approved in Order No.
20 24840 in Docket No. 910580-EQ (docket specific to FPL) and Order
21 No. 25773 in Docket No. 910794-EQ (generic docket).

22

23 Q. Was Florida Steel a party to these proceedings?

24 A. Yes. Florida Steel, as a named member of the Florida Industrial
25 Power User's Group (FIPUG), was a party to these proceedings.

1 FIPUG petitioned the Commission to change the way in which FPL
2 classified, allocated and priced off-system capacity purchased power
3 costs. Furthermore, FIPUG agreed with FPL's allocation methodology
4 as demonstrated in their written workshop comments filed on
5 November 20, 1991 in Docket No. 910794-EQ which state that:

6
7 **"FIPUG concurs that the cost of service study from the last rate case**
8 **should be the basis for driving the demand allocation factors. The**
9 **factors to be used in the proposed recovery mechanism should be**
10 **derived from current load research data. Further, that load research**
11 **data should be updated annually. For purposes of deriving the**
12 **appropriate demand allocation factors under the recovery mechanism,**
13 **all rate classes should be treated in the same manner as they were in**
14 **each utility's most recent base rate case."**

15

16 **Q. Does the calculation of the Capacity Payment Clause factors**
17 **recognize the differences in capacity cost causation between firm**
18 **and interruptible service customers?**

19 **A. Yes. First, I assume that Mr. Fietek's reference to "interruptible"**
20 **customers is intended to refer to customers taking service under FPL's**
21 **Commercial/Industrial Load Control Program (CILC). The Capacity**
22 **Payment Recovery Clause Factor for Transmission level CILC**
23 **customers is based solely on the characteristics of those transmission**
24 **customers, and therefore, is appropriate in relationship to both non-**
25 **transmission and non-CILC customers. Additionally, consistent with**

1 Order No. 25773 in Docket No. 910794-EQ, the allocation for each
2 rate class is developed using FPL's last approved cost of service
3 methodology for fossil production plant and is updated annually using
4 current load factor information. This methodology is not, as Mr. Fietek
5 states, 12 CP; it is actually 12 CP and 1/13. While I do not believe it
6 is necessary to discuss the difference in this context, I do want to
7 prevent any confusion.

8
9 The difference in costs between firm and CILC is reflected in base
10 rates where CILC customers pay a lower rate reflecting the benefit
11 which is realized due to their interruptibility. No additional benefit
12 should be reflected in the CPRC.

13
14 As the Commission found in for Energy Conservation Cost Recovery
15 (ECCR) costs in Docket No. 930759-EG, Order PSC-93-1845-FOF-
16 EG, issued on December 29, 1993, if CILC customers were excused
17 from paying their share of CPRC costs they would be receiving
18 benefits in excess of those which they provide the system through
19 their willingness to be interrupted. Any additional incentive provided
20 through the CPRC would result in them being over compensated for
21 their interruptibility. In other words, FPL's other customers would be
22 paying more for that interruptibility than they would receive in benefits.

23
24 **Q. Is Florida Steel witness Fietek's issue regarding FPL's capacity**
25 **cost allocation methodology appropriate?**

1 **A.** No. This is an inappropriate issue since this matter has already been
2 decided by the Commission in a proceeding to which Florida Steel was
3 an active party.

4

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

6 **A.** Yes.

Florida Power & Light Company
Schedule of Capital Investment, Depreciation and Returns

Estimated recovery of the costs associated with the investments in units of FPL's generating units, to allow those units to earn a reasonable grade of residual cost.

Line No.	(A) Description	(B) Beginning Balance	(C) From April 1, 1995	(D) 1996	(E) 1997	(F) 1998	(G) 1999	(H) Totals
1.	Additions	0	0	0	0	0	0	0
2.	Depreciation Base	2,754,502	2,754,502	2,754,502	2,754,502	2,754,502	2,754,502	2,754,502
3.	Amortization Expense (a)	634,921	579,895	579,895	579,895	579,895	579,895	2,754,502
4.	Cumulative Investment (Line 2)	2,754,502	2,754,502	2,754,502	2,754,502	2,754,502	2,754,502	2,754,502
5.	Less Accumulated Depreciation	0	634,921	1,014,817	1,594,712	2,174,607	2,754,502	2,754,502
6.	Net Investment (Line 4 - 5)	2,754,502	2,119,581	1,739,685	1,159,790	579,895	0	0
7.	Average Net Investment	2,537,041	2,029,633	1,449,738	869,948	289,948	n/a	n/a
8.	Return on Average Net Investment							
a	Equity Component (Line 7 * 6.23%)	158,543	126,446	99,319	54,191	18,064	0	646,563
b	Equity Comp. grossed up for taxes (Line 8a/.61)	192,989	205,855	167,039	88,223	29,408	0	663,513
c	Debt Component (Line 7 * 4.83%)	91,333	97,422	69,587	41,752	13,917	0	314,013
9.	Total Return Requirements (Line 8b + 8c)	284,322	303,277	216,626	129,976	43,325	0	977,526
10.	Total Depreciation & Return (Line 3 + 9)	919,243	883,172	796,422	599,871	183,220	0	3,732,028
11.	Net Present Value of Recovery (89.2%)	2,711,534	2,711,534	2,711,534	2,711,534	2,711,534	2,711,534	2,711,534
12.	Savings on a Present Value basis (Col C, Ln 11)	\$157,032						
13.	Savings using nominal dollars (Col H Ln 10 vs)	\$977,526						

(e) Based on a 57 month amortization from April 1, 1995, through December 31, 1999.