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FILE

May 9, 1997

Ms. Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0870

RE: Docket No. 970171-EU

Dear Ms. Bayó:

Enclosed are originals and fifteen copies each of the Direct Testimony of Hugh Larkin, Jr., on behalf of the Office of Public Counsel for filing in the above referenced file

Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

Sincerely,


John Roger Howe
Deputy Public Counsel

JRH/dsb
Enclosures

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Determination of appropriate)
cost allocation and regulatory treatment)
of total revenues associated with wholesale)
sales to Florida Municipal Power Agency)
and City of Lakeland by Tampa Electric)
Company)
_____)

DOCKET NO. 970171-EU

DIRECT TESTIMONY OF

HUGH LARKIN, JR.

Office of Public Counsel
c/o The Florida Legislature
111 West Madison Street
Room 812
Tallahassee, FL 32399-1400

(904) 488-9330

Attorneys for the Citizens
of the State of Florida

1 DIRECT TESTIMONY OF HUGH LARKIN, JR.
2 ON BEHALF OF THE CITIZENS OF FLORIDA
3 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
4 TAMPA ELECTRIC COMPANY
5 DOCKET NO. 970171 - EU

6 I. INTRODUCTION

7 Q. WHAT IS YOUR NAME, OCCUPATION AND BUSINESS ADDRESS?

8 A. My name is Hugh Larkin, Jr. I am a Certified Public Accountant licensed in
9 the States of Michigan and Florida and the senior partner in the firm of Larkin
10 & Associates, Certified Public Accountants, with offices at 15728 Farmington
11 Road, Livonia, Michigan 48154.

12 Q. PLEASE DESCRIBE THE FIRM LARKIN & ASSOCIATES.

13 A. Larkin & Associates is a Certified Public Accounting and Regulatory
14 Consulting firm. The firm performs independent regulatory consulting
15 primarily for public service/utility commission staffs and consumer interest
16 groups (public counsels, public advocates, consumer counsels, attorneys
17 general, etc.). Larkin & Associates has extensive experience in the utility
18 regulatory field as expert witnesses in over 400 regulatory proceedings
19 including numerous water and sewer, gas, electric and telephone utilities

1 Q. HAVE YOU PREPARED AN APPENDIX WHICH DESCRIBES YOUR
2 QUALIFICATIONS AND EXPERIENCE?

3 A Yes. I have attached Appendix I, which is a summary of my experience and
4 qualifications.

5 Q. BY WHOM WERE YOU RETAINED, AND WHAT IS THE PURPOSE OF
6 YOUR TESTIMONY?

7 A. Larkin & Associates was retained by the Florida Office of Public Counsel
8 (OPC) to respond to Tampa Electric Company's request in this docket

9 Tampa Electric has requested that the Commission approve regulatory
10 treatment of the wholesale sales at issue in this docket based on the following
11 reasons:

- 12 1. The sales are consistent with well established economic theory
- 13 2. The sales are consistent with past Commission precedent.
- 14 3. The sales are sound public policy.

15 My testimony will explain why the Company's testimony purportedly justifying
16 the proposed regulatory treatment is incorrect.

17 Consistent With Well Established Economic Theory

1 Q. HAVE BOTH MR. RAMIL AND DR. BOHI CONCLUDED THE
2 WHOLESALE SALES AT ISSUE IN THIS CASE ARE CONSISTENT
3 WITH ESTABLISHED ECONOMIC THEORY?

4 A. Yes, they have. Mr. Ramil and Dr. Bohi have concluded that these sales meet
5 economic principles which justify their approval by the Commission. However,
6 the theory which they have both concluded justifies these sales could not and
7 would not be applied by this Commission in establishing rates to be charged
8 retail customers, nor would they be applied by any business in completing sales
9 to its customers.

10 Q. WOULD YOU PLEASE EXPLAIN?

11 A. As I understand it, the justification for the approval of the subsidy by retail
12 customers, as proposed by the Company witnesses in this case, is as follows

13 When establishing base rates, the Commission covers all the fixed costs of
14 operating the Company's utility system. It also separately establishes a fuel
15 cost which flows through a recovery mechanism, which is charged to
16 customers based on the average cost of fuel for all customers on the system
17 Thus, the use of average cost in establishing base rates and the fuel cost
18 mechanism is justified because customers on average utilize the system
19 capacity, and customers, on average, incur average fuel cost or cause average
20 fuel costs. Thus, in establishing base rates and the fuel clause, the average cost
21 allows the Company to recover all of its fixed costs and its average fuel cost of
22 providing service to ratepayers.

23
24 However, after establishing base rates, any additional sale does not incur any
25 fixed costs, because those fixed costs have already been covered by those
26 ratepayers who are on the system or consuming a certain level of energy at the
27 time the base rates were established. The same would be true for fuel costs,
28 the average fuel cost would be recovered from those customers or cost causers
29 at the time the fuel clause was established. Since additional sales after base

1 rates are established are in effect incremental, then the only costs that they
2 bring to the system or cause the system is the incremental increase in O & M,
3 transmission and other costs which might vary with increases in production
4 The Company's theory then concludes that if one were to make additional sales
5 over and above those necessary to cover base rate costs, those sales would be
6 economic if they covered their incremental costs and contributed anything to
7 reducing fixed costs.

8 Q. WHAT IS WRONG WITH THIS JUSTIFICATION?

9 A. There are essentially two things wrong with this theory. The first is that the
10 Commission, if it followed this theory, would allow every customer which
11 entered the system after the establishment of base rates to pay only the
12 incremental costs associated with that customer's addition to the system. This
13 of course would be discriminatory because you would have retail customers,
14 including residential, commercial and industrial, who would be added to the
15 system after base rates were established and who could claim, under this
16 economic theory, that they should be required to pay only incremental costs
17 plus a margin of profit because all the fixed costs had already been covered by
18 customers who were on the system at the time base rates were established. Of
19 course, this Commission does not follow that theory because it discriminates
20 against customers who happen to be on the system when base rates are
21 established.

22 Clearly, incremental sales have to be determined on the same basis as sales to
23 the original group of customers who were on the system when base rates were

1 established. This principle is also true when one looks at wholesale customers
2 The same cost causative principles are necessary when establishing rates for
3 those customers. While this Commission can not dictate to Tampa Electric
4 how it establishes rates for wholesale customers, which are under the
5 jurisdiction of the Federal Energy Regulatory Commission, it can establish how
6 the segregation of fuel costs are determined as it affects retail customers under
7 the jurisdiction of the Florida Public Service Commission. Under the
8 Company's proposal, there would be a subsidy of these sales because costs
9 would not be credited against fuel costs. Only revenues received would be
10 credited against fuel costs, and those revenues would be at less than the
11 average cost of fuel. This clearly would be discrimination against retail
12 customers resulting in subsidies to wholesale customers.

13 Q. WHAT IS THE OTHER PROBLEM WITH THE THEORY BEHIND THE
14 JUSTIFICATION?

15 A. The second reason that this theory is not workable is that, in a competitive
16 business or one that is an oligopoly such as the automobile industry, prices of
17 products are not established in this manner. For example, in the automobile
18 industry capacity costs might be covered by the production of say 400,000
19 Jeep Grand Cherokees. Chrysler Corporation does not price the next unit of
20 product at its incremental costs because it has recovered all of its fixed costs in
21 its sale of the first 400,000 units. It establishes a product price and charges

1 that price consistently for that product. Clearly, no one can go to a Chrysler
2 dealer and argue that Chrysler has covered its fixed cost in its current level of
3 sales, and therefore, should pay only the incremental cost plus a profit. That
4 customer would clearly be laughed out of the showroom. Neither can a
5 customer who lives next door to the Chrysler plant that manufactures Jeep
6 Grand Cherokees argue that he should not pay the destination charge on such a
7 vehicle because he lives next door and would be willing to walk over and drive
8 his new purchase home. Automobile manufacturers, as do all manufactures,
9 establish a price and generally maintain that price for all customers. This is the
10 pricing policy that this Commission follows. It in effects says that demand will
11 equal the price charged for this product at its average embedded costs, and
12 therefore it establishes rates to recover that average embedded cost, both fuel
13 and capacity cost. The only exception to this principle generally is for
14 economic transactions which occur on an hourly basis and require no long-
15 term commitment of capacity. The sale that is proposed in both instances by
16 Tampa Electric are not economy sales. These sales do not meet any economic
17 theory used to establish utility rates, either base rates or long-term capacity
18 sales, which both of these transactions are.

19 While the economic theory that the Company witnesses expound is a theory
20 that is applied when a company may be contemplating the sale of a waste
21 product such as slag from coal units which might be utilized for cinder block

1 manufacturing, it is an economic theory that one would not utilize in
2 establishing how sales would be made to additional customers consuming the
3 same product in the same time period. If an automobile company were to
4 apply this theory and sell automobiles at incremental costs plus profit at the
5 end of a model year, no one would buy the product at the beginning of the year
6 because it would be clear the price would drop as soon as the company
7 covered its fixed costs.

8 Q. DO THE TWO SALES AT ISSUE IN THIS DOCKET REQUIRE THE
9 COMMITMENT OF TAMPA ELECTRIC CAPACITY?

10 A. Yes, they do. Although it is not included in Dr. Bohi's discussion of economic
11 principles, Tampa Electric is committing capacity to these sales, including both
12 base load capacity and peaking capacity. The discussion by Dr. Bohi of the
13 application of an incremental cost principle in determining whether these sales
14 should be completed or not completely ignores the fact that the capacity which
15 is committed to these sales will no longer be available for use by retail
16 customers. Clearly, the commitment of capacity to any sale should require the
17 assignment of cost related to that capacity to that sale

18 Q. SHOULD THE COMMISSION BE CONCERNED ABOUT HOW
19 WHOLESALE PRICES ARE ESTABLISHED AS DISTINGUISHED FROM
20 RETAIL PRICES?

1 A. In general, no. The Florida Public Service Commission does not have the
2 authority to establish wholesale prices, but, as I have previously pointed out,
3 this Commission does have the authority to establish how wholesale prices
4 might affect retail customers. That is, if such sales are impacting retail
5 customers as a result of how costs are flowed through the fuel adjustment
6 clauses or if capacity costs are borne by retail customers with profit going to
7 stockholders, then the Commission should take action to protect ratepayers.

8 Q. CAN THE THEORY ESPOUSED BY DR. BOHI BE RECONCILED WITH
9 THE COMMISSION'S POLICY OF ESTABLISHING FUEL COSTS FOR
10 RETAIL CUSTOMERS BASED ON THE AVERAGE FUEL COST
11 INCURRED BY THE SYSTEM IN SERVING BOTH RETAIL AND
12 WHOLESALE CUSTOMERS?

13 A. I do not believe it can. The Florida Public Service Commission establishes fuel
14 costs for retail customers by calculating the total average fuel costs incurred by
15 the entire system that serves both retail and wholesale customers. It does not
16 calculate a cost to serve only retail customers based on attempting to segregate
17 kilowatt hours generated from each unit which is utilized to serve retail
18 customers. Customers on the retail system pay the average cost of fuel
19 whether that fuel was utilized to serve a retail or wholesale customer. Retail
20 customers do not pay incremental fuel cost based on the next increment which
21 is utilized to serve them, rather they pay average fuel costs based on what the

1 system generates to serve either a wholesale or retail customer. Thus,
2 incremental costs is not used in establishing fuel costs flowed through the fuel
3 adjustment clause, average cost is used. To take a wholesale sale and attempt
4 to segregate the cost by saying it is incremental and therefore less than the
5 average would be directly opposite to what the Commission has done in
6 establishing fuel costs for retail customers.

7 Q. ON PAGE 9, LINE 7, OF DR. BOHI'S TESTIMONY HE STATES
8 "TAMPA ELECTRIC'S CAPACITY REQUIREMENTS ARE THE SAME
9 WHETHER THE SALE TO FMPA IS CONSUMMATED OR NOT" DO
10 YOU BELIEVE THAT STATEMENT IS CORRECT?

11 A. No, I do not. When additional sales are added to any utility system, even if
12 capacity is available to service those sales, there are reserve requirements
13 which must be met. If the sales are being made out of Tampa Electric's
14 reserve requirements, then Tampa Electric must replace those reserve
15 requirements by either finding new capacity within its own units or purchasing
16 capacity from outside the system. Incremental sales will always affect reserve
17 requirements, decreasing the amount of the reserve, and may require the
18 addition of capacity or purchase power in order to maintain adequate reserves

19 Q. ON PAGE 10, LINE 9, DR. BOHI STATES "THE FIRM SHOULD
20 PRODUCE EACH INCREMENT OF OUTPUT THAT INCREASES ITS

1 PROFIT OR REDUCES ITS LOSSES." WOULD YOU PLEASE
2 COMMENT ON THAT STATEMENT IN REGARD TO THESE
3 TRANSACTIONS?

4 A. If both Dr. Bohi and the Company believe every transaction which covers
5 incremental cost and contributes something to fixed cost ought to be
6 completed, then the Company should be satisfied with the profit it obtains from
7 this transaction without asking for a subsidy through the fuel adjustment
8 clause. The retail ratepayer would be subsidizing this transaction to the extent
9 that fuel costs were not credited with the average fuel cost and to the extent
10 that they are asked to subsidize the transaction via the payment through base
11 rates of capacity costs, but were credited with only a portion of the incremental
12 revenues which Tampa Electric received from this wholesale. If we are to
13 believe Dr. Bohi's statement, then the wholesale transaction would be
14 beneficial to the Company if it received only its incremental costs plus any
15 margin of profit.

16 Q. DR. BOHI, ON PAGE 13, LINE 14, STATES: "IN A REGULATED
17 CONTEXT, THE FIRM'S AVERAGE COSTS ARE COVERED BY
18 REVENUES FROM RETAIL SALES AND THE ISSUE IS WHETHER TO
19 PRODUCE AN ADDITIONAL AMOUNT FOR SALES IN THE
20 WHOLESALE MARKET IF INCREMENTAL COSTS OF WHOLESALE
21 SALES ARE COVERED BY INCREMENTAL REVENUES, RETAIL

1 CUSTOMERS WILL NOT BE SUBSIDIZING WHOLESale RATES " IF
2 THE SALES UNDER CONSIDERATION IN THIS DOCKET ARE TRULY
3 INCREMENTAL SHOULDN'T IT BE INCREMENTAL ONLY IN THE
4 WHOLESale JURISDICTION WITHOUT HAVING ANY EFFECT ON
5 RETAIL JURISDICTIONAL CUSTOMERS?

6 A. I would think so. If these wholesale sales are being made out of separated
7 capacity for wholesale customers, and the fuel costs are related to capacity not
8 considered in the fuel adjustment clause, then there would truly be no subsidy
9 by retail customers. However, that does not appear to be the case. Retail
10 customers are apparently supporting the capacity which will be utilized to
11 make these sales. In addition, fuel costs are calculated for fuel adjustment
12 clause purposes in a manner that does not segregate wholesale sales
13 Therefore, the Company is asking that only incremental fuel revenue be
14 credited to the fuel adjustment clause, requiring a subsidy by ratepayers who
15 continue to pay average fuel costs while these wholesale sales would be
16 charged something less than average. In addition, the capacity cost will be
17 paid for to some extent by retail ratepayers, thus the sale will be subsidized
18 both through fuel and capacity costs.

19 Q. WON'T RATEPAYERS RECEIVE SOME CREDIT FOR CAPACITY
20 COST THROUGH THE 50 / 50 SPLIT OF MARGINS FOR THESE
21 SALES?

1 A. Yes, but they will still be subsidizing a sale to the extent that those capacity
2 costs have not been completely removed from retail rates. The capacity will no
3 longer be available for use by retail customers, yet they will still be paying
4 carrying costs associated with the capacity.

5 Q. BASED ON DR. BOHI'S TESTIMONY, WOULD THE COMPANY NEED
6 ANY INCENTIVE TO MAKE THESE SALES OTHER THAN COVERING
7 ITS INCREMENTAL COST AND CONTRIBUTING SOME
8 CONTRIBUTION TO FIXED COSTS?

9 A. No. Even though the Company is asking for a 50/50 split in the profit
10 associated with these sales, if one were to follow the theory of Dr. Bohi's
11 testimony, the Company would make this sale regardless of whether there were
12 any split in the profit associated with these sales if it were able to cover its
13 incremental costs and contribute some revenues to covering overhead. Thus,
14 when the Company argues that it needs some incentive to make these sales
15 through the sharing of margins, that does not comport with Dr. Bohi's
16 testimony.

17 Q. ON PAGE 8 OF MR. RAMIL'S TESTIMONY, HE STATES THAT BY
18 ASSESSING COSTS EQUAL TO INCREMENTAL FUEL AND
19 CREDITING THAT TO THE FUEL AND PURCHASED POWER
20 RECOVERY CLAUSE ... ANY IMPACT OF MAKING THESE SALES

1 ON THE RETAIL CUSTOMER HAS BEEN ELIMINATED " DO YOU
2 BELIEVE THAT TO BE CORRECT?

3 A. No. Whenever additional sales are made or sales are lost, there is an impact on
4 the average cost of fuel. When the capacity utilized to make these sales is
5 unavailable to either the retail customer or the wholesale customer, additional
6 capacity is utilized to service both the retail and the wholesale jurisdiction.
7 Generally, if the system had been operating at an efficient level, additional sales
8 will cause the average cost of fuel to increase because less efficient capacity
9 would come on line to service increases in sales over and above the sales at
10 question in this docket. Most likely, average fuel costs would increase. This
11 would increase average fuel costs both to retail customers and full requirement
12 wholesale customers such as Sebring.

13 Q. ON PAGE 10, LINE 22, OF MR. RAMIL'S TESTIMONY, HE STATES:
14 "SECONDLY, THESE SALES WILL CONTRIBUTE TO LOWERING
15 THE REVENUE REQUIREMENT IN TAMPA ELECTRIC'S NEXT RATE
16 PRECEDING, ..." WHAT DOES THIS STATEMENT INDICATE TO
17 YOU?

18 A. This is an indication that Tampa Electric is earning a retail rate of return
19 through its retail customers on these sales. If they were in fact not being
20 subsidized by retail customers, it would have no affect on future rate cases and

1 future retail rates. The fact that Mr. Ramil recognizes that it will be an
2 indication to the Commission that there is cross-subsidization.

3 Q. ON PAGE 14, LINES 16 THROUGH 22, MR. RAMIL TRIES TO
4 DIFFERENTIATE TAMPA ELECTRIC FROM OTHER FLORIDA
5 UTILITIES. IS THERE ANY RELEVANT DIFFERENCE BETWEEN
6 TAMPA ELECTRIC AND OTHER UTILITIES IN THE STATE OF
7 FLORIDA, OR FOR THAT MATTER, ANYWHERE ELSE?

8 A. Not to my knowledge. Every utility has different cost structures, different
9 units, and different mixes of customers. There is no uniqueness to Tampa
10 Electric that would set it apart from other utilities who have differing
11 geographic areas or cost structures. It is a distinction without a difference and
12 should not be used to justify any special treatment.

13 Q. THE FMPA CONTRACT WILL BE SATISFIED FROM GENERATION
14 OUT OF SPECIFIED GENERATING UNITS. WOULD YOU COMMENT
15 UPON THE FUEL COSTS ASSOCIATED WITH THOSE SPECIFIED
16 ASSETS?

17 A. It has been indicated that the FMPA contract will have a priority claim to
18 generation coming out of certain specified generating units. Generally, Tampa
19 Electric's fuel supply consists of a combination of long-term contract and spot
20 market purchases. In the past, the long-term contracts have had higher fuel

1 costs because they provide reliable long-term supply and are subject to
2 escalation clauses within the contract. The spot market price has generally
3 been lower than the long-term coal price because spot market purchases are
4 made for short-term periods and are based on buying coal at the lowest price at
5 the time. Consequently, the cost of the coal on the spot market has, in general,
6 been lower than the long-term contract price. These contracts, however, will
7 always price fuel at a lower incremental fuel cost which would reflect the
8 lowest spot market price, even though this contract will require a priority claim
9 on these units by the FMPA contract. Therefore, one would think that since
10 the capacity first used out of these units will be used to serve the FMPA
11 contract, the fuel used would be that from a long-term higher price source
12 rather than the spot market lower fuel costs. However, this is not the way the
13 fuel is being priced.

14 Q. WHO WILL PAY FOR THE CAPACITY UTILIZED TO SERVE THE
15 FMPA CONTRACT?

16 A. As I understand it, the capacity costs are currently being paid by the retail
17 ratepayers. However, if the Commission were to approve the Company's
18 proposal, the ratepayer would only receive 50% of the amount that the
19 Company collects from the wholesales sales which exceed the purported costs
20 associated with those sales. This would be true even though the retail
21 ratepayers are paying 100% of the capacity cost. If Dr. Bohi's theory were

1 followed to its ultimate conclusion, then Tampa Electric would make this sale
2 regardless of whether it received any of the profits. The only limitation would
3 be that it must contribute something to reducing fixed costs. Thus, if all of the
4 contract profits were credited to the retail ratepayer, it would meet Dr. Bohi's
5 criteria; it would reduce fixed costs, and therefore, stimulating sales to that
6 group of customers.

7
8 Q. IF THE COMMISSION WERE TO APPROVE THE SALE AS
9 CURRENTLY REQUESTED BY TAMPA ELECTRIC, WILL TAMPA
10 ELECTRIC RECEIVE A HIGHER RETURN ON THE CAPACITY
11 UTILIZED IN COMPLETING THIS SALE THEN IT OTHERWISE
12 WOULD?

13 A. Yes, it would. This is how it would occur. Assume currently that Tampa
14 Electric is receiving a \$1,000 return on the capacity which will be utilized to
15 complete this sale. That return is being provided by retail ratepayers. This
16 same capacity is then utilized to make the wholesale sale at issue in this case.
17 Assume the Company receives an additional \$500 return on this capacity from
18 the wholesale customer. In total, the Company has received a \$1,500 return
19 on this capacity. The Company agrees to split the return on this capacity by
20 crediting half of the return it received from the wholesale ratepayer through the
21 fuel adjustment clause. This would be \$250 under this example. Thus, the
22 retail ratepayer provides a net return of \$750. However, Tampa Electric has

1 still received \$500 from the wholesale customer. It has, in total, after the
2 credit, received \$1,250 in return. This is \$250 higher than the Commission
3 determined was appropriate in the Company's last base rate case and above the
4 wholesale return FERC intended when they approved the contract. The
5 Company is \$250 better off than it was prior to this sale. Clearly, the full
6 amount of the return received from the wholesale customer could be credited
7 to the benefit of the ratepayer and Tampa Electric would still receive the full
8 return requirement on this property.

9 The Sales Are Consistent With Past Commission Precedent

10 Q. THE SECOND ARGUMENT MADE IN MR. RAMIL'S TESTIMONY IS
11 THAT THESE SALES ARE CONSISTENT WITH PAST COMMISSION
12 PRECEDENT, DO YOU AGREE?

13 A. No, I do not. While in the Company's last rate case the Commission separated
14 some capacity for wholesale sales and left some capacity in retail rates which
15 was not being utilized by retail customers, there was no precedent set in that
16 decision which would state that retail ratepayers should subsidize wholesale
17 sales on an ongoing basis.

18 Q. HOW WILL THE RETAIL JURISDICTION SUBSIDIZE THESE SALES?

19 A. Ratepayers are providing a subsidy through the fuel adjustment clause in two
20 ways. First, the FMPA contract gives FMPA the right to receive energy from

1 specific units on a priority basis while those units are running. This means that
2 when these units are running at low capacity factors, they will be incurring high
3 fuel costs because they are not running at their most efficient level. Thus, they
4 will be incurring higher than average fuel costs for these units. FMPA will only
5 pay incremental fuel cost or the high efficient costs of these units when they are
6 running at high capacity factors. Thus, the difference between the lower
7 capacity less efficient fuel costs incurred when these units run at a 30, 40, or
8 50% capacity factor will be borne by the retail ratepayer while FMPA receives
9 fuel costs charged at the incremental, or high efficiency level. Another way
10 that the ratepayer is charged is that because the efficient use of these units,
11 where the incremental fuel costs is at its lowest, is segregated for sale to
12 FMPA. As a result, the average total fuel cost will be higher because lower
13 fuel costs is taken out of total fuel costs, therefore, raising the average

14 The second way that the retail jurisdiction is subsidizing these sales is that
15 retail ratepayers are currently paying the capacity cost associated with
16 servicing these sales. They will receive some reduction through the sharing of
17 revenue proposed by the Company. However, if one were to follow the
18 Company's theory to its ultimate conclusion, retail ratepayers should receive
19 100% of the credit because these sales meet the incremental cost recovery
20 requirement and contribute something to overhead. That overhead is being

1 paid by retail ratepayers. Thus, retail ratepayers should receive the credit for
2 the recovery of that cost.

3
4 Additionally, if this contract has been approved by FERC, the return allowed in
5 that contract should not be subsidized by recovering part of the cost through
6 the fuel adjustment clause or having ratepayers pay part or all of the capacity
7 cost.

8 The Sales Are Sound Public Policy

9 Q. WOULD YOU DISCUSS THE PUBLIC POLICY ISSUES WHICH THESE
10 SALE REPRESENT?

11 A. Yes. If the Commission were to approve this type of sale, it would place itself
12 in the business of making-up for lost returns in the wholesale market
13 necessitated by competition. This is outside of the jurisdiction of the Florida
14 Public Service Commission. The Florida Public Service Commission should
15 not be concerned about wholesale contracts and whether or not the Company
16 receives full compensation for such contracts. The Commission should be
17 concerned that retail ratepayers are fully compensated for any utilization of
18 capacity and that they never pay more than the average system-wide fuel costs
19 Additionally, they should be concerned that there is no cross-subsidization of
20 the wholesale market by retail customers.

1 As I have previously pointed out in the prior docket, if the Commission were
2 to approve this type of cross-subsidization, there is no reason that every utility
3 in the State of Florida would not engage in the same type of sale. If it is
4 appropriate to reduce fuel costs for wholesale sales and to require the retail
5 ratepayers to make-up for the difference between the incremental cost and the
6 average cost by excluding the lower incremental fuel costs when calculating the
7 average in determining the fuel recovery mechanism, then there is no reason
8 that any utility should not engage in that type of sale. We would then have
9 utilities competing with each other not on the basis of cost incurred to service
10 the sale, but on the basis of how much of a subsidy they could get for the sale
11 from retail customers. This is not good public policy, nor is it good economic
12 policy.

13 The Commission should keep in mind that Tampa Electric conceded that it
14 would always sell in the wholesale market at fully compensatory rates if it
15 could, but that it must offer discounts to get the business. That should be the
16 concern of the Company and not the concern of the Florida Public Service
17 Commission. Ratepayers must be protected from subsidizing such sales.
18 These contracts appear to be such a subsidy.

19 Q. HOW WOULD THE COMMISSION TREAT THESE SALES IN A RATE
20 CASE PROCEEDING?

1 A. The Commission would fully separate these amounts and would not permit any
2 subsidy from retail ratepayers.

3 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

4 A. Yes it does.

APPENDIX I TO THE
DIRECT TESTIMONY OF
HUGH LARKIN, JR.

QUALIFICATIONS OF HUGH LARKIN, JR.

Q. WHAT IS YOUR OCCUPATION?

A. I am a certified public accountant and a partner in the firm of Larkin & Associates, Certified Public Accountants, with offices at 15728 Farmington Road, Livonia, Michigan.

Q. PLEASE DESCRIBE YOUR EDUCATION AND EXPERIENCE.

A. I graduated from Michigan State University in 1960. During 1961 and 1962, I fulfilled my military obligations as an officer in the United States Army.

In 1963 I was employed by the certified public accounting firm of Peat, Marwick, Mitchell & Co., as a junior accountant. I became a certified public accountant in 1966.

In 1968 I was promoted to the supervisory level at Peat, Marwick, Mitchell & Co. As such, my duties included the direction and review of audits of various types of business organizations, including manufacturing, service, sales and regulated companies.

Through my education and auditing experience of manufacturing operations, I obtained an extensive background of theoretical and practical cost accounting.

I have audited companies having job cost systems and those having process cost systems, utilizing both historical and standard costs.

I have a working knowledge of cost control, budgets and reports, the accumulation of overheads and the application of same to products on the various recognized methods

Additionally, I designed and installed a job cost system for an automotive parts manufacturer.

I gained experience in the audit of regulated companies as the supervisor in charge of all railroad audits for the Detroit office of Peat, Marwick, including audits of the Detroit, Toledo and Ironton Railroad, the Ann Arbor Railroad, and portions of the Penn Central Railroad Company. In 1967, I was the supervisory senior accountant in charge of the audit of the Michigan State Highway Department, for which Peat, Marwick was employed by the State Auditor General and the Attorney General.

In October of 1969, I left Peat, Marwick to become a partner in the public accounting firm of Tischler & Lipson of Detroit. In April of 1970, I left the latter firm to form the certified public accounting firm of Larkin, Chapski & Company. In September 1982 I re-organized the firm into Larkin & Associates, a certified public accounting firm. The firm of Larkin & Associates performs a wide variety of auditing and accounting services, but concentrates in the area of utility regulation and ratemaking. I am a member of the Michigan Association of Certified Public Accountants and the American Institute of Certified Public Accountants. I testified before the Michigan Public Service Commission and in other states in the following cases:

U-3749	Consumers Power Company - Electric Michigan Public Service Commission
U-3910	Detroit Edison Company Michigan Public Service Commission
U-4331	Consumers Power Company - Gas Michigan Public Service Commission
U-4332	Consumers Power Company - Electric Michigan Public Service Commission
U-4293	Michigan Bell Telephone Company Michigan Public Service Commission
U-4498	Michigan Consolidated Gas sale to Consumers Power Company Michigan Public Service Commission
U-4576	Consumers Power Company - Electric Michigan Public Service Commission
U-4575	Michigan Bell Telephone Company Michigan Public Service Commission
U-4331R	Consumers Power Company - Gas - Rehearing Michigan Public Service Commission
6813	Chesapeake and Potomac Telephone Company of Maryland, Public Service Commission, State of Maryland
Formal Case No. 2090	New England Telephone and Telegraph Co State of Maine Public Utilities Commission
Dockets 574, 575, 576	Sierra Pacific Power Company, Public Service Commission, State of Nevada
U-5131	Michigan Power Company Michigan Public Service Commission
U-5125	Michigan Bell Telephone Company Michigan Public Service Commission

R-4840 & U-4621	Consumers Power Company Michigan Public Service Commission
U-4835	Hickory Telephone Company Michigan Public Service Commission
36626	Sierra Pacific Power Company v. Public Service Commission, et al, First Judicial District Court of the State of Nevada
American Arbitration Assoc.	City of Wyoming v. General Electric Cable TV
760842-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
U-5331	Consumers Power Company Michigan Public Service Commission
U-5125R	Michigan Bell Telephone Company Michigan Public Service Commission
770491-TP	Winter Park Telephone Company, Florida Public Service Commission
77-554-EL-AIR	Ohio Edison Co., Public Utility Commission of Ohio
78-284-EL-AEM	Dayton Power and Light Co., Public Utility Commission of Ohio
0R78-1	Trans Alaska Pipeline, Federal Energy Regulatory Commission (FERC)
78-622-EL-FAC	Ohio Edison Co., Public Utility Commission of Ohio
U-5732	Consumers Power Company - Gas, Michigan Public Service Commission
77-1249-EL-AIR, et al	Ohio Edison Co., Public Utility Commission of Ohio
78-677-EL-AIR	Cleveland Electric Illuminating Co., Public Utility Commission of Ohio

U-5979	Consumers Power Company, Michigan Public Service Commission
790084-TP	General Telephone Company of Florida, Florida Public Service Commission
79-11-EL-AIR	Cincinnati Gas and Electric Co., Public Utilities Commission of Ohio
790316-WS	Jacksonville Suburban Utilities Corp., Florida Public Service Commission
790317-WS	Southern Utility Company, Florida Public Service Commission
U-1345	Arizona Public Service Company, Arizona Corporation Commission
79-537-EL-AIR	Cleveland Electric Illuminating Co., Public Utilities Commission of Ohio
800011-EU	Tampa Electric Company, Florida Public Service Commission
800001-EU	Gulf Power Company, Florida Public Service Commission
U-5979-R	Consumers Power Company, Michigan Public Service Commission
800119-EU	Florida Power Corporation, Florida Public Service Commission
810035-TP	Southern Bell Telephone and Telegraph Company, Florida Public Service Commission
800367-WS	General Development Utilities, Inc., Port Malabar, Florida Public Service Commission
TR-81-208**	Southwestern Bell Telephone Company, Missouri Public Service Commission

810095-TP	General Telephone Company of Florida, Florida Public Service Commission
U-6794	Michigan Consolidated Gas Company, 16 refunds Michigan Public Service Commission
U-6798	Cogeneration and Small Power Production -PURPA, Michigan Public Service Commission
810136-EU	Gulf Power Company, Florida Public Service Commission
E-002/GR-81-342	Northern State Power Company Minnesota Public Utilities Commission
820001-EU	General Investigation of Fuel Cost Recovery Clauses, Florida Public Service Commission
810210-TP	Florida Telephone Corporation, Florida Public Service Commission
810211-TP	United Telephone Co. of Florida, Florida Public Service Commission
810251-TP	Quincy Telephone Company, Florida Public Service Commission
810252-TP	Orange City Telephone Company, Florida Public Service Commission
8400	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-6949	Detroit Edison Company - Partial and Immediate Rate Increase Michigan Public Service Commission
18328	Alabama Gas Corporation, Alabama Public Service Commission
U-6949	Detroit Edison Company - Final Rate Recommendation Michigan Public Service Commission

820007-EU	Tampa Electric Company, Florida Public Service Commission
820097-EU	Florida Power & Light Company, Florida Public Service Commission
820150-EU	Gulf Power Company, Florida Public Service Commission
18416	Alabama Power Company, Public Service Commission of Alabama
820100-EU	Florida Power Corporation, Florida Public Service Commission
U-7236	Detroit Edison-Burlington Northern Refund Michigan Public Service Commission
U-6633-R	Detroit Edison - MRCS Program, Michigan Public Service Commission
U-6797-R	Consumers Power Company - MRCS Program, Michigan Public Service Commission
82-267-EFC	Dayton Power & Light Company, Public Utility Commission of Ohio
U-5510-R	Consumers Power Company - Energy Conservation Finance Program, Michigan Public Service Commission
82-240-E	South Carolina Electric & Gas Company, South Carolina Public Service Commission
8624	Kentucky Utilities, Kentucky Public Service Commission
8648	East Kentucky Power Cooperative, Inc., Kentucky Public Service Commission
U-7065	The Detroit Edison Company (Fermi II), Michigan Public Service Commission

U-7350	Generic Working Capital Requirements, Michigan Public Service Commission
820294-TP	Southern Bell Telephone Company, Florida Public Service Commission
Order RH-1-83	Westcoast Gas Transmission Company, Ltd., Canadian National Energy Board
8738	Columbia Gas of Kentucky, Inc., Kentucky Public Service Commission
82-168-EL-EFC	Cleveland Electric Illuminating Company, Public Utility Commission of Ohio
6714	Michigan Consolidated Gas Company Phase II, Michigan Public Service Commission
82-165-EL-EFC	Toledo Edison Company, Public Utility Commission of Ohio
830012-EU	Tampa Electric Company, Florida Public Service Commission
ER-83-206**	Arkansas Power & Light Company, Missouri Public Service Commission
U-4758	The Detroit Edison Company - (Refunds), Michigan Public Service Commission
8836	Kentucky American Water Company, Kentucky Public Service Commission
8839	Western Kentucky Gas Company, Kentucky Public Service Commission
83-07-15	Connecticut Light & Power Company, Department of Utility Control State of Connecticut
81-0485-WS	Palm Coast Utility Corporation, Florida Public Service Commission

U-7650	Consumers Power Company - (Partial and Immediate), Michigan Public Service Commission
83-662**	Continental Telephone Company, Nevada Public Service Commission
U-7650	Consumers Power Company - Final Michigan Public Service Commission
U-6488-R	Detroit Edison Co. (FAC & PIPAC Reconciliation), Michigan Public Service Commission
Docket No. 15684	Louisiana Power & Light Company, Public Service Commission of the State of Louisiana
U-7650 Reopened	Consumers Power Company (Reopened Hearings) Michigan Public Service Commission
38-1039**	CP National Telephone Corporation Nevada Public Service Commission
83-1226	Sierra Pacific Power Company (Re application to form holding company), Nevada Public Service Commission
U-7395 & U-7397	Campaign Ballot Proposals Michigan Public Service Commission
820013-WS	Seacoast Utilities Florida Public Service Commission
U-7660	Detroit Edison Company Michigan Public Service Commission
U-7802	Michigan Gas Utilities Company Michigan Public Service Commission
830465-EI	Florida Power & Light Company Florida Public Service Commission
U-7777	Michigan Consolidated Gas Company Michigan Public Service Commission

U-7779	Consumers Power Company Michigan Public Service Commission
U-7480-R	Michigan Consolidated Gas Company Michigan Public Service Commission
U-7488-R	Consumers Power Company - Gas Michigan Public Service Commission
U-7484-R	Michigan Gas Utilities Company Michigan Public Service Commission
U-7550-R	Detroit Edison Company Michigan Public Service Commission
U-7477-R	Indiana & Michigan Electric Company Michigan Public Service Commission
U-7512-R	Consumers Power Company - Electric Michigan Public Service Commission
18978	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9003	Columbia Gas of Kentucky, Inc. Kentucky Public Service Commission
R-842583	Duquesne Light Company Pennsylvania Public Utility Commission
9006*	Big Rivers Electric Corporation Kentucky Public Service Commission *Company withdrew filing
U-7830	Consumers Power Company - Electric (Partial and Immediate) Michigan Public Service Commission
7675	Consumers Power Company - Customer Refunds Michigan Public Service Commission
5779	Houston Lighting & Power Company Texas Public Utility Commission

U-7830	Consumers Power Company - Electric - "Financial Stabilization" Michigan Public Service Commission
U-4620	Mississippi Power & Light Company (Interim) Mississippi Public Service Commission
U-16091	Louisiana Power & Light Company Louisiana Public Service Commission
9163	Big Rivers Electric Corporation Kentucky Public Service Commission
U-7830	Consumers Power Company - Electric - (Final) Michigan Public Service Commission
U-4620	Mississippi Power & Light Company - (Final) Mississippi Public Service Commission
76-18788AA & 76-18793AA	Detroit Edison (Refund - Appeal of U-4807) Ingham County Circuit Court Michigan Public Service Commission
U-6633-R	Detroit Edison (MRCS Program Reconciliation) Michigan Public Service Commission
19297	Continental Telephone Company of the South - Alabama, Alabama Public Service Commission
9283	Kentucky American Water Company Kentucky Public Service Commission
850050-EI	Tampa Electric Company Florida Public Service Commission
R-850021	Duquesne Light Company Pennsylvania Public Service Commission
TR-85-179**	United Telephone Company of Missouri Missouri Public Service Commission

6350	El Paso Electric Company The Public Utility Board of the City of El Paso
6350	El Paso Electric Company Public Utility Commission of Texas
85-53476AA & 85-534855AA	Detroit Edison-refund-Appeal of U-4758 Ingham County Circuit Court Michigan Public Service Commission
U-8091/ U-8239	Consumers Power Company-Gas Michigan Public Service Commission
9230	Leslie County Telephone Company, Inc. Kentucky Public Service Commission
85-212	Central Maine Power Company Maine Public Service Commission
850782-EI & 850783-EI	Florida Power & Light Company Florida Public Service Commission
ER-85646001 & ER-85647001	New England Power Company Federal Energy Regulatory Commission
Civil Action * No. 2:85-0652	Allegheny & Western Energy Corporation, Plaintiff, - against - The Columbia Gas System, Inc., Defendant
Docket No. 850031-WS	Orange Osceola Utilities, Inc. Before the Florida Public Service Commission
Docket No. 840419-SU	Florida Cities Water Company South Ft. Myers Sewer Operations Before the Florida Public Service Commission
R-860378	Duquesne Light Company Pennsylvania Public Service Commission
R-850267	Pennsylvania Power Company Pennsylvania Public Service Commission

R-860378	Duquesne Light Company - Surrebuttal Testimony - OCA Statement No. 2D Pennsylvania Public Service Commission
Docket No. 850151	Marco Island Utility Company Before the Florida Public Service Commission
Docket No. 7195 (Interim)	Gulf States Utilities Company Public Utility Commission of Texas
R-850267 Reopened	Pennsylvania Power Company Pennsylvania Public Service Commission
Docket No. 87-01-03	Connecticut Natural Gas Corporation Connecticut Department of Public Utility Control
Docket No. 5740	Hawaiian Electric Company Hawaii Public Utilities Commission
1345-85-367	Arizona Public Service Company Arizona Corporation Commission
Docket 011	Tax Reform Act of 1986 - California No. 86-11-019 California Public Utilities Commission
Case No. 29484	Long Island Lighting Company New York Department of Public Service
Docket No. 7460	El Paso Electric Company Public Utility Commission of Texas
Docket No. 870092-WS*	Citrus Springs Utilities Before the Florida Public Service Commission
Case No. 9892	Dickerson Lumber EP Company - Complainant vs. Farmers Rural Electric Cooperative and East Kentucky Power Cooperative - Defendants Before the Kentucky Public Service Commission
Docket No. 3673-U	Georgia Power Company Before the Georgia Public Service Commission
Docket No.	Anchorage Water and Wastewater Utility

U-8747	Report on Management Audit
Docket No. 861564-WS	Century Utilities Before the Florida Public Service Commission
Docket No. FA86-19-001	Systems Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 870347-TI	AT&T Communications of the Southern States, Inc. Florida Public Service Commission
Docket No. 870980-WS	St. Augustine Shores Utilities Inc. Florida Public Service Commission
Docket No. 870654-WS*	North Naples Utilities, Inc. Florida Public Service Commission
Docket No. 870853	Pennsylvania Gas & Water Company Pennsylvania Public Utility Commission
Civil Action* No. 87-0446-R	Reynolds Metals Company, Plaintiff, v. The Columbia Gas System, Inc., Commonwealth Gas Services, Inc., Commonwealth Gas Pipeline Corporation, Columbia Gas Transmission Corporation, Columbia Gulf Transmission Company, Defendants - In the United States District Court for the Eastern District of Virginia - Richmond Division
Docket No. E-2, Sub 537	Carolina Power & Light Company North Carolina Utilities Commission
Case No. U-7830	Consumers Power Company - Step 2 Reopened Michigan Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone & Telegraph Florida Public Service Commission
Case No. U-7830	Consumers Power Company - Step 3B Michigan Public Service Commission
Docket No. 880355-EI	Florida Power & Light Company Florida Public Service Commission

Docket No. 880360-EI	Gulf Power Company Florida Public Service Commission
Docket No. FA86-19-002	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company Illinois Commerce Commission
Docket Nos. 83-0537-Remand & 84-0555-Remand	Commonwealth Edison Company -Surrebuttal Illinois Commerce Commission
Docket No. 880537-SU	Key Haven Utility Corporation Florida Public Service Commission
Docket No. 881167-EI***	Gulf Power Company Florida Public Service Commission
Docket No. 881503-WS	Poinciana Utilities, Inc. Florida Public Service Commission
Cause No. U-89-2688-T	Puget Sound Power & Light Company Washington Utilities & Transportation Committee
Docket No. 89-68	Central Maine Power Company Maine Public Utilities Commission
Docket No. 861190-PU	Proposal to Amend Rule 25-14.003, F A C. Florida Public Service Commission
Docket No. 89-08-11	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Docket No. R-891364	The Philadelphia Electric Company Pennsylvania Public Utility Commission
Formal Case No. 889	Potomac Electric Power Company Public Service Company of the District of Columbia

Case No. 88/546*	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (In the Supreme Court County of Onondaga, State of New York)
Case No. 87-11628*	Duquesne Light Company, et al, plaintiffs, against Gulf + Western, Inc. et al, defendants (In the Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
Case No. 89-640-G-42T*	Mountaineer Gas Company West Virginia Public Service Commission
Docket No. 890319-EI	Florida Power & Light Company Florida Public Service Commission
Docket No. EM-89110888	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 891345-EI	Gulf Power Company Florida Public Service Commission
BPU Docket No. ER 8811 0912J	Jersey Central Power & Light Company Board of Public Utilities Commissioners
Docket No. 6531	Hawaiian Electric Company Hawaii Public Utilities Commissioners
Docket No. 890509-WU	Florida Cities Water Company, Golden Gate Division Florida Public Service Commission
Docket No. 880069-TL	Southern Bell Telephone Company Florida Public Service Commission
Docket Nos. F-3848, F-3849, and F-3850	Northwestern Bell Telephone Company South Dakota Public Utilities Commission
Docket Nos. ER89- 678-000 & EL90-16-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. 5428	Green Mountain Power Corporation Vermont Department of Public Service

Docket No. 90-10	Artesian Water Company, Inc. Delaware Public Service Commission
Case No. 90-243-E-42T*	Wheeling Power Company West Virginia Public Service Commission
Docket No. 900329-WS	Southern States Utilities, Inc. Florida Public Service Commission
Docket Nos. ER89- 678-000 & EL90-16-000	System Energy Resources, Inc. (Surrebuttal) Federal Energy Regulatory Commission
Application No. 90-12-018	Southern California Edison Company California Public Utilities Commission
Docket No. 90-0127	Central Illinois Lighting Company Illinois Commerce Commission
Docket No. FA-89-28-000	System Energy Resources, Inc. Federal Energy Regulatory Commission
Docket No. U-1551-90-322	Southwest Gas Corporation Before the Arizona Corporation Commission
Docket No. R-911966	Pennsylvania Gas & Water Company The Pennsylvania Public Utility Commission
Docket No. 176-717-U	United Cities Gas Company Kansas Corporation Commission
Docket No. 860001-EI-G	Florida Power Corporation Florida Public Service Commission
Docket No. 6720-TI-102	Wisconsin Bell, Inc. Wisconsin Citizens' Utility Board
(No Docket No.)	Southern Union Gas Company Before the Public Utility Regulation Board of the City of El Paso
Docket No. 6998	Hawaiian Electric Company, Inc. Before the Public Utilities Commission of the State of Hawaii

Docket No. TC91-040A	In the Matter of the Investigation into the Adoption of a Uniform Access Methodology Before the Public Utilities Commission of the State of South Dakota
Docket Nos. 911030-WS & 911067-WS	General Development Utilities, Inc. Before the Florida Public Service Commission
Docket No. 910890-EI	Florida Power Corporation Before the Florida Public Service Commission
Docket No. 910890-EI	Florida Power Corporation, Supplemental Before the Florida Public Service Commission
Case No. 3L-74159	Idaho Power Company, an Idaho corporation In the District Court of the Fourth Judicial District of the State of Idaho, In and For the County of Ada - Magistrate Division
Cause No. 39353*	Indiana Gas Company Before the Indiana Utility Regulatory Commission
Docket No. 90-0169 (Remand)	Commonwealth Edison Company Before the Illinois Commerce Commission
Docket No. 92-06-05	The United Illuminating Company State of Connecticut, Department of Public Utility Control
Cause No. 39498	PSI Energy, Inc. Before the State of Indiana - Indiana Utility Regulatory Commission
Cause No. 39498	PSI Energy, Inc. - Surrebuttal testimony Before the State of Indiana - Indiana Utility Regulatory Commission
Docket No. 7287	Public Utilities Commission - Instituting a Proceeding to Examine the Gross-up of CIAC Before the Public Utilities Commission of the State of Hawaii

Docket No. 92-227-TC	US West Communications, Inc. Before the State Corporation Commission of the State of New Mexico
Docket No. 92-47	Diamond State Telephone Company Before the Public Service Commission of the State of Delaware
Docket Nos. 920733-WS & 920734-WS	General Development Utilities, Inc. Before the Florida Public Service Commission
Docket No. 92-11-11	Connecticut Light & Power Company State of Connecticut, Department of Public Utility Control
Docket Nos. EC92-21-000 & ER92-806-000	Entergy Corporation Before the Federal Energy Regulatory Commission
Docket No. 930405-EI	Florida Power & Light Company Before the Florida Public Service Commission
Docket No. UE-92-1262	Puget Sound Power & Light Company Before the Washington Utilities & Transportation Commission
Docket No. 93-02-04	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control
Docket No. 93-02-04	Connecticut Natural Gas Corporation, Supplemental State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01	Mountain Fuel Supply Company Before the Utah Public Service Commission
Cause No. 39353 (Phase II)	Indiana Gas Company Before the Indiana Utility Regulatory Commission
PU-314-92-1060	US West Communications, Inc. Before the North Dakota Public Service Commission

Cause No. 39713	Indianapolis Water Company Before the Indiana Utility Regulatory Commission
93-UA-0301*	Mississippi Power & Light Company Before the Mississippi Public Service Commission
Docket No. 93-08-06	SNET America, Inc. State of Connecticut, Department of Public Utility Control
Docket No. 93-057-01	Mountain Fuel Supply Company - Rehearing on Unbilled Revenues - Before the Utah Public Service Commission
Case No. 78-T119-0013-94	Guam Power Authority vs. U.S. Navy Public Works Center, Guam - Assisting the Department of Defense in the investigation of a billing dispute. Before the American Arbitration Association
Application No. 93-12-025 - Phase I	Southern California Edison Company (Before the California Public Utilities Commission)
Case No. 94-0027-E-42T	Potomac Edison Company (Before the Public Service Commission of West Virginia)
Case No. 94-0035-E-42T	Monongahela Power Company (Before the Public Service Commission of West Virginia)
Docket No. 930204-WS**	Jacksonville Suburban Utilities Corporation (Before the Florida Public Service Commission)
Docket No. 5258-U	Southern Bell Telephone and Telegraph Company (Before the Georgia Public Service Commission)
Case No. 95-0011-G-42T*	Mountaineer Gas Company (Before the West Virginia Public Service Commission)
Case No. 95-0003-G-42T*	Hope Gas, Inc. (Before the West Virginia Public Service Commission)
Docket No. 95-02-07	Connecticut Natural Gas Corporation State of Connecticut, Department of Public Utility Control

Docket No. 95-057-02*	Mountain Fuel Supply Before the Utah Public Service Commission
Docket No. 95-03-01	Southern New England Telephone Company State of Connecticut, Department of Public Utility Control
BRC Docket No. EX93060255 OAL Docket PUC96734-94	Generic Proceeding Regarding Recovery of Capacity Costs Associated with Electric Utility Power Purchases from Cogenerators and Small Power Producers Before the New Jersey Board of Public Utilities
Docket No. U-1933-95-317	Tucson Electric Power Before the Arizona Corporation Commission
Docket No. 950495-WS	Southern States Utilities Before the Florida Public Service Commission
Docket No. 960409-EI	Prudence Review to Determine Regulatory Treatment of Tampa Electric Company's Polk Unit 1
Docket No. 960451-WS	United Water Florida Before the Florida Public Service Commission
Docket No. 94-10-05	Southern New England Telephone Company State of Connecticut Department of Public Utility Control
Docket No. 96-UA-389	Generic Docket to Consider Competition in the Provision of Retail Electric Service Before the Public Service Commission of the State of Mississippi

*Case Settled

**Issues Stipulated

***Company withdrew case

Additionally, I performed an investigation and analysis of Michigan Consolidated Gas Company and participated in the discussion which led to the settlement of Michigan Consolidated rate case which was culminated in Rate Order U-4166.

From April 28, 1975, to March 15, 1976, I was under contract to the Michigan House of Representatives as Technical Staff Director of a Special House Committee to study and evaluate the effectiveness of the Michigan Public Service Commission and the rates and service of public utilities. As Technical Staff Director, I supervised personnel loaned to the Committee from the State Auditor General's Office. The reports to that Committee prepared by myself and Allen Briggs, an attorney, to revise utility regulation, were adopted in virtually all material respects in its final report and recommendations and served as a basis of numerous bills introduced in the 1976 and 1977 sessions of the legislature. The Staff of the Committee, under my direction, investigated and reported to the Committee on numerous regulatory issues, including ratepayer participation in utility regulation, fuel cost adjustment clauses, purchased gas adjustment clauses, comparative electric, gas and telephone rates, treatment of subsidiaries of utilities in ratemaking, research and planning capabilities of the Michigan Public Service Commission, utility advertising, regulatory oversight of utility management, deferred taxes in ratemaking and the organizational structure and functions of the Michigan Public Service Commission.

In the course of my work as a certified public accountant, I advise clients concerning the obtaining of capital funds, and have worked with banking institutions in obtaining loans. I have participated in negotiating the sale and purchase of businesses for clients, in connection with which I have valued the physical assets of various business firms, and also determined the value of present and future earnings measured by market rates of return. I have participated in acquisition audits on behalf of large national companies interested in acquiring smaller companies.

My testimony in utility rate cases has been sponsored by state Attorney Generals, groups of municipalities, a district attorney, Peoples' Counsel, Public Counsel, a ratepayers' committee, and I have also worked as a Staff Consultant to the Arizona Corporation Commission.

In November 1985, with two members of the firm, I presented a seminar on utility accounting for the Legal Services Regional Utilities Task Force in Atlanta, Georgia.

In September, 1988, with two members of the firm, I presented a seminar on utility accounting for the Office of Consumer Advocate, Attorney General's Office, State of Pennsylvania. Individuals from that division as well as Commission Staff members attended.

**CERTIFICATE OF SERVICE
DOCKET NO. 970171-EU**

I HEREBY certify that a copy of the foregoing DIRECT TESTIMONY OF HUGH LARKIN, JR., has been served by *hand delivery or U.S. Mail to the following parties of record on this 9th day of May, 1997:

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John Roger Howe
Deputy Public Counsel

**CERTIFICATE OF SERVICE
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Deputy Public Counsel

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5/9/97