

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

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In the Matter of
Fuel and purchased power
cost recovery clause and
generating performance
incentive factor.

DOCKET NO. 970001-EI



VOLUME 1
Pages 1 through 172

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN JULIA L. JOHNSON
COMMISSIONER SUSAN F. CLARK
COMMISSIONER JOE GARCIA

DATE: Thursday, August 14, 1997

TIME: Commenced at 9:40 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JOY KELLY CSR, RPR
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Official Commission Reporters

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FPSC-RECORDS/REPORTING

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6 of **Florida Power Corporation (FPC)**.

7 **MATTHEW M. CHILDS**, Steel, Hector & Davis,
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10 **Light Company (FPL)**.

11 **WILLIAM WILLINGHAM**, Rutledge, Ecenia,
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15 **Utilities Company (FPUC)**.

16 **JEFFREY A. STONE**, Beggs & Lane, 700 Blount
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19 behalf of **Gulf Power Company (Gulf)**.

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1 **APPEARANCES CONTINUED:**

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**LEE L. WILLIS and HARRY LONG, Ausley & McMullen,
Post Office Box 391, Tallahassee, Florida 32302, appearing on
behalf of Tampa Electric Company (TECO).**

**VICKI GORDON KAUFMAN, McWhirter, Reeves,
McGlothlin, Davidson, Rief & Bakas, 117 South Gadsden
Street, Tallahassee, Florida 32301 appearing on behalf
of Florida Industrial Power User's Group (FIPUG).**

**STEPHEN C. BURGESS, Office of Public
Counsel, 111 West Madison Street, Room 812,
Tallahassee, Florida 32399-1400, appearing on behalf
of the Citizens of the State of Florida (OPC).**

**LESLIE J. PAUGH, Florida Public Service
Commission, Division of Legal Services, 2540 Shumard
Oak Boulevard, Tallahassee, Florida 32399-0870,
appearing on behalf of the Commission Staff (Staff).**

ALSO PRESENT:

TOM BALLINGER, FPSC Division of Electric & Gas

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1 **MR. MCGEE:** James McGee, appearing on behalf
2 of Florida Power Corporation in the fuel adjustment
3 docket.

4 **MR. WILLINGHAM:** Bill Willingham, law firm
5 of Rutledge, Ecenia, Underwood, Purnell & Hoffman.
6 Our address is correct on the Prehearing Order. I'm
7 here on behalf of Florida Public Utilities Company.

8 **MR. BURGESS:** Steve Burgess with the Office
9 of Public Counsel, 111 West Madison Street,
10 Tallahassee, here on behalf of the Citizens of the
11 State of Florida.

12 **MS. KAUFMAN:** Vicki Gordon Kaufman,
13 McWhirter, Reeves, McGlothlin, Davidson, Rief & Bakas,
14 117 South Gadsden. I'm appearing on behalf of the
15 Florida Industrial Power Users Group.

16 **MS. PAUGH:** Leslie Paugh, appearing on
17 behalf of Commission Staff.

18 **CHAIRMAN JOHNSON:** Very well. I just wanted
19 to set up the process and have the notice and
20 everything properly reflected in the order.

21 We're going to need to take a hour recess.
22 We will begin this proceeding at 10:30. Thank you.
23 We'll go off the record.

24 (Recess taken.)

25 * * * * *

1 **CHAIRMAN JOHNSON:** All right. 01.

2 **MS. FAUGH:** The 01 Docket, Issue 5, which
3 deals with the effective dates of new fuel adjustment
4 charges, the parties have agreed to Staff's revised
5 language, which is reflected in your Prehearing Order,
6 so this issue can be stipulated.

7 **CHAIRMAN JOHNSON:** Okay.

8 **MS. FAUGH:** The outstanding issues in this
9 docket are Issues 9 through 13, Issues 9 through 12
10 are relative to the transmission treatment, and Issue
11 13 is the economy sales profit split issue.

12 **MR. STONE:** Chairman Johnson, if I may.

13 **CHAIRMAN JOHNSON:** Uh-huh.

14 **MR. STONE:** With regard to Page 5 of the
15 Prehearing Order.

16 **CHAIRMAN JOHNSON:** Yes, sir.

17 **MR. STONE:** Mr. Howell is one of Gulf's
18 witnesses and he has additional issues that are not
19 listed in the Prehearing Order. And all of those
20 issues were stipulated, but I think, for completeness,
21 that they need to be noted for the record, that he was
22 also the witness on these other issues that were
23 stipulated, and they are Issues 1, 2, 4, 18A, 19A and
24 21A.

25 **CHAIRMAN JOHNSON:** Issues 1, 2, 4, 18A, 19A

1 and 21?

2 **MR. STONE:** 21A.

3 **CHAIRMAN JOHNSON:** 21A.

4 **MR. STONE:** Yes, ma'am. In light of that,
5 when Mr. Howell takes the stand, given that those
6 issues have been stipulated, the only reason for him
7 taking the stand is with regard to that portion of his
8 testimony which was dated June 23rd that relates to
9 Issues 9 through 13. And so that we would propose
10 that when Mr. Howell takes the stand that he would
11 limit his summary to those issues that are still in
12 contention and that cross examination be limited to
13 those issues.

14 **CHAIRMAN JOHNSON:** Very well. Any
15 objections to that?

16 **MS. PAUGH:** Staff has a question, Madam
17 Chairman. Insofar as Issue 3 is a fallout from Issues
18 1 and 2, would he not be testifying to that as well?

19 **MR. STONE:** Actually Ms. Cranmer is the
20 witness on Issue 3.

21 **MS. PAUGH:** All right. Thank you.

22 **CHAIRMAN JOHNSON:** Any other questions then?
23 Seeing none. Thanks for that clarification. I think
24 we're all in agreement with that approach.

25 **MR. WILLIS:** I would also like to point out

1 that with respect to the order of witnesses, we would
2 like to call Mr. Kordecki prior to Ms. Branick.

3 **CHAIRMAN JOHNSON:** You said you wanted to
4 call --

5 **MR. WILLIS:** Mr. Kordecki in his direct
6 testimony prior to Ms. Branick.

7 **CHAIRMAN JOHNSON:** Okay. We'll do that.
8 Any other changes or issues?

9 **MS. PAUGH:** Not that I'm aware of, other
10 than as a result of the prehearing it was decided that
11 the parties would be able to address whether this
12 panel should take evidence and testimony on Issue 13.
13 This might be the time to do that.

14 **CHAIRMAN JOHNSON:** Okay. Commissioners, the
15 parties have raised this as an issue and I thought it
16 would be helpful if the entire panel had the
17 opportunity to hear their arguments as to why we
18 should or should not hear this issue at this
19 particular time, giving them the benefit of thinking
20 it through and presenting their arguments to us, and
21 Staff an opportunity to consider their argument and
22 make a recommendation before we decide how to pursue
23 this particular issue.

24 I think this will be the appropriate time.
25 Did I put a time limitation on it?

1 **MS. PAUGH:** I believe it was five minutes.

2 **COMMISSIONER CLARK:** Let me be clear. It is
3 just the 20/80 split, it isn't how the two account for
4 the transmission cost, it's not that element either?

5 **CHAIRMAN JOHNSON:** Right. The transmission
6 cost issues we've decided we will not vote; we will
7 allow them to brief those. We do now have -- I think
8 Public Counsel's position here is that we not take
9 those up, too, at this time, is it not?

10 **MR. BURGESS:** Actually, Madam Chairman, we
11 think there are some very difficult principles at odds
12 with one another to be resolved, and we think it
13 perhaps would be better -- the Commission would be
14 better served to take it up as a full Commission, and
15 deal with that. In the meantime we do have a position
16 on it. Obviously, something needs to be done; some
17 position needs to be taken with regard to calculating
18 the transaction price. And we recommend something,
19 and it's just a matter of also planning on looking at
20 it with more perhaps -- with full Commission at a more
21 deliberate pace.

22 **CHAIRMAN JOHNSON:** I guess I didn't
23 understand the nature of your request. I thought you
24 were suggesting that we take it up in a separate
25 docket. I didn't know it was a request for the full

1 Commission to hear it, which I generally treat a
2 little differently. If the request goes to having the
3 full Commission as opposed to a panel deciding the
4 issue. Is that your concern?

5 **MR. BURGESS:** It actually is both, Madam
6 Chairman. I did not realize that there was a
7 procedural distinction that you make between those
8 requests. It would actually go to both. I think it's
9 something that perhaps the full Commission should look
10 at, and also with a time frame that allows, perhaps, a
11 more expansive approach to the issue.

12 **COMMISSIONER CLARK:** If I can just ask, if
13 we're going to consider the 80/20 with the full
14 Commission, there's no reason why we can't just do, in
15 the same proceeding, do the transmission.

16 **MR. BURGESS:** I certainly see no reason why
17 not.

18 **COMMISSIONER CLARK:** If that's the way we
19 determine we should go. But in the meantime, we have
20 to provide for it in the fuel adjustment -- is it the
21 fuel adjustment?

22 **MR. BURGESS:** That's correct, Commissioner,
23 yes.

24 **MS. KAUFMAN:** Madam Chairman, I'd like to go
25 on record for FIPUG in that we support Public

1 Counsel's position that the transmission issues should
2 be taken up by the entire Commission. And in the
3 interim we would support Public Counsel's approach as
4 to how to treat that matter until the full Commission
5 can make a decision.

6 **CHAIRMAN JOHNSON:** Okay. Thank you.

7 **MR. LONG:** Madam Chairman, Tampa Electric's
8 position is that with regard to Issues 9 through 12,
9 that those should be heard today by this panel.

10 The evidence is before the Commission, the
11 witnesses are here to testify and to stand cross
12 examination, and we see no reason why this shouldn't
13 proceed as scheduled.

14 **COMMISSIONER CLARK:** Let me ask a question.
15 It seems to me that we can take testimony and decide
16 on the way to treat it in the interim, but there's no
17 reason we can't -- that wouldn't necessarily preclude
18 us from also, if we determine it's appropriate for the
19 idea of the 20/80 split to go to the full Commission
20 we couldn't also say, "And this ought to be
21 considered, too." Would you object to that?

22 **MR. LONG:** Well, Commissioner, first, we
23 have a position with regard to Issue 13 that we'd like
24 to share at the appropriate time. But our more
25 general concern is with regard to resolving Issues 9

1 through 12 as expeditiously as possible. We'd like to
2 have some certainty, obviously, as to what the
3 Commission's decision is with regard to how
4 transmission revenues are going to be treated.

5 And our concern is that to the extent that
6 we adopt a procedure that extends this process, that
7 that prolongs the uncertainty.

8 **CHAIRMAN JOHNSON:** Okay. And understanding
9 the two could be tied together and handled in a single
10 proceeding, but one of the issues and one of the
11 concerns raised was that in our last fuel recovery
12 docket we listed these as issues in the order to be
13 addressed. And at that point in time there was no
14 objection or concern being raised as to a panel
15 addressing those issues. But we're amenable to
16 hearing those arguments, and to the extent these
17 issues can be tied and rolled out together we'll have
18 a opportunity to discuss that, too.

19 And again I wasn't -- to Public Counsel and
20 FIPUG, I wasn't aware that the argument went to
21 wanting to have the full Commission consider the
22 issue, but I better understand that now.

23 Okay. Issue 13.

24 **MR. WILLINGHAM:** Chairman Johnson, may I
25 interrupt for a minute?

1 **CHAIRMAN JOHNSON:** Yes, sir.

2 **MR. WILLINGHAM:** I believe that all of the
3 issues pertain to FPU have been stipulated to, and I
4 would ask if I could be dismissed from the proceeding,
5 from further participation.

6 **CHAIRMAN JOHNSON:** Yes, sir. Thank you.

7 **Issue 13.** Who would like to begin?

8 **MR. LONG:** Madam Chairman, Commissioners,
9 good morning. Tampa Electric urges this Commission to
10 reject the Staff's proposal on Issue 13 on the merits
11 in this proceeding.

12 While we have high regard for the Staff and
13 respect their work in this instance, the Staff's
14 proposal is without merit and is counter-productive as
15 a matter of policy.

16 We share the procedural concerns that other
17 parties have expressed with regard to the way in which
18 this issue has been introduced into this proceeding.

19 We don't believe that the issue is related
20 to Issues 9 through 12, and we share the concern that
21 the issue was introduced at the eleventh hour.
22 However, despite these procedural difficulties, we
23 still feel that it's appropriate to address Issue 13
24 now.

25 First, as a matter of the administrative

1 efficiency, we have a forum, the parties are present,
2 the facts have been presented. As opposed to
3 rescheduling Issue 13 for another time and taking up
4 valuable Commission time and resources in a separate
5 proceeding, we think the matter can and should be
6 handled now.

7 The reason that we're optimistic that the
8 matter can be handled on a substantive basis within
9 this proceeding is the fact that the evidence -- the
10 relevant facts are fairly straightforward.

11 First of all, the flaws that we see in the
12 Staff's proposal from a policy perspective we think
13 appear on the surface. There's no assertion in the
14 Staff's testimony that the incentive mechanism which
15 you put in place is flawed or is not working. To the
16 contrary, the broker system has been an outstanding
17 success since its inception. It's generated well over
18 \$700 million in net benefits. The incentive mechanism
19 is working exactly as you intended. This gives us
20 some cause for pause because in light of those facts,
21 it appears as though the Staff's proposal is being
22 made because the mechanism is, in fact, working as you
23 intended.

24 We're concerned that that kind of proposal
25 is an example of the kind of

1 heads-I-win-tails-you-lose regulation that this
2 Commission has so scrupulously avoided.

3 The Staff asserts that because there's
4 increased competition, incentives are no longer
5 necessary. Well, we see that as a non sequitur. In
6 fact, if you look at the benefit record of the broker
7 system, what you'll find is that the utility benefits
8 are much less today than they were when the incentive
9 mechanism was implemented by the Commission in 1984.

10 **CHAIRMAN JOHNSON:** Say that again, I'm
11 sorry.

12 **MR. LONG:** The average utility margin in the
13 broker system today is smaller than it was in 1984
14 when the broker mechanism was implemented. And it
15 seems pretty straightforward to us that if the
16 Commission, for good reason, felt that as a matter of
17 sound public policy that an incentive mechanism was
18 worthwhile in 1984, it would seem that the same logic
19 would suggest that such incentives are even more
20 appropriate today when the margins to be obtained on
21 the broker are less.

22 **MR. BURGESS:** Excuse me, I apologize. I'm a
23 little confused. Are we arguing the substance of the
24 issue now or whether the issue is to be spun off and
25 examined by the Commission in a separate docket?

1 I apologize for the interruption, but I had
2 thought that was the instruction. And I believe I'm
3 hearing argument on the substantive issue in
4 presentation of de facto testimony on it.

5 MR. LONG: Madam Chairman, the thrust of my
6 presentation is that we feel that the issue can and
7 should be handled now and in this proceeding. My
8 discussion of the facts is merely to illustrate our
9 view that the facts are fairly straightforward and
10 that it is possible, if the Commission so desires, to
11 resolve this issue in this proceeding. So obviously
12 I'm not here to testify. I'm simply making what
13 amounts to an offer of proof as part of my argument.

14 CHAIRMAN JOHNSON: I'm going to allow you to
15 continue.

16 MR. LONG: Thank you, Madam Chairman.

17 Another concern that we have with the
18 Staff's proposal is that as Staff correctly points
19 out, there is increased participation in the broker
20 system by marketers, many of them out of state; and
21 certainly the dynamics of the broker for them is that
22 100% of the profit goes back to their shareholders or
23 partners.

24 In that environment to remove the incentive
25 that is working for utilities within the state of

1 Florida seems to me to do nothing more than encourage
2 the flow of a greater portion of the profits to
3 parties out of state as opposed to taking an action to
4 ensure that those profits are maximized for the
5 benefit of ratepayers within Florida. Again, we see
6 that as being a very counter-productive public policy.

7 The issues are straightforward. They can be
8 addressed expeditiously by the Commission today. And
9 on that basis we respectfully urge the Commission to
10 address Issue 13 in this proceeding.

11 **CHAIRMAN JOHNSON:** Thank you. Florida Power
12 & Light.

13 **MR. CHILDS:** Commissioner, my argument went
14 to what I had stated at the prehearing conference,
15 that it was my position that the Commission ought not
16 to address this issue at all. It did not relate to
17 the panel. I had some observations that I thought
18 were legal in nature. If that does not fit within the
19 scope of the argument that you had intended, then I
20 won't make the argument, but if it does I will present
21 it and be brief.

22 **CHAIRMAN JOHNSON:** Okay. I'll allow you to
23 present it.

24 **MR. CHILDS:** My position is that the
25 Commission addressed the question of the treatment of

1 off-system sales in the fuel adjustment docket and
2 issued an order March 11, 1997 order PSC
3 97-0262-FOF-EI, and it's entitled "Final Order
4 Addressing Treatment of Fuel Revenues Received from
5 Wholesale Sales in the Fuel and Capacity Cost Recovery
6 Clauses." That order was issued by a panel.

7 In that order it identifies and
8 distinguishes between separated sales and nonseparated
9 sales. It identifies the energy broker transactions
10 as being in the nonseparated sale category, and
11 comments about the treatment of those revenues and of
12 the encouragement of the sales for several years. It
13 observes -- and I am reading selectively from Page 2
14 of that order. It observed as follows: "In exchange
15 for supporting the investment the retail ratepayer
16 receives all of the revenues, both fuel and nonfuel,
17 that the sale generates through a credit in the fuel
18 and capacity cost recovery clauses. For broker sales,
19 the utility shareholders receive 20% of the profit
20 associated with sale."

21 Then points out there has been something
22 like -- or over \$800 million in retail benefits to
23 date through the broker in the state of Florida. And
24 observes that all parties appear to agree at a minimum
25 that we should not preclude utilities from this

1 opportunity. I think that part of the order was a bit
2 vague, "this opportunity." I think the opportunity it
3 was talking about was the broker, but I think it's
4 fairly argued that it is the sharing on a 80/20 basis.

5 It concludes by saying, "Thus, for
6 nonseparated sales we find that our existing policy of
7 crediting all revenues to the fuel and capacity cost
8 recovery clauses should not be altered."

9 My point is simply this: It seems to me the
10 Commission has addressed this very recently, and that
11 under the circumstances I don't understand why the
12 issue is appropriate now, and I don't understand that
13 anything has changed. And I think that is an
14 appropriate consideration. What is it that may have
15 changed so that this matter would be brought back to
16 the Commission.

17 And on the other hand, if the Commission
18 wishes to consider it, that's fine, but I was a bit
19 concerned about having just addressed this and now
20 we're addressing what seems to me to be much the same
21 issue all over again. Thank you.

22 **CHAIRMAN JOHNSON:** Thank you.

23 **MR. MCGEE:** Madam Chairman, I would concur
24 with the comments expressed by Mr. Childs. In
25 addition, from a procedural standpoint in the timing

1 with which this issue might be taken up, if it's going
2 to be taken up at all, this seemed to come in sort of
3 on the coattails of the transmission issues that are
4 reflected in 9 through 12.

5 Florida Power believes that it's not related
6 to those issues at all, nor is it necessary to decide
7 in deciding the transmission related issues. Those
8 were identified in the last fuel adjustment
9 proceeding, those four specific issues. It was agreed
10 they be deferred and taken up at this time. There
11 were meetings that allowed the parties to fully
12 understand how those issues would be presented. All
13 parties were on notice.

14 That's not the case with Issue 13. The
15 parties, at least as far as Florida Power is
16 concerned, were apprised that Staff intended to raise
17 that when we read Mr. Ballinger's testimony.

18 The regulatory treatment that's afforded to
19 incentives in the times that we're anticipating right
20 now is a significant issue. And if it's going to be
21 taken up at all, we believe that it deserves more
22 notice and more opportunity for the parties to develop
23 their positions on an issue that has this importance.
24 Thank you.

25 CHAIRMAN JOHNSON: Thank you.

1 **MR. STONE:** Commissioners, on behalf of Gulf
2 Power Company we'd like to concur in general with the
3 arguments expressed by the other utilities, that this
4 issue should not be addressed at all. That for the
5 various reasons expressed, it is not appropriate to be
6 addressed. And I'm concerned that by even bringing
7 the issue up, we're sending the wrong signal to
8 potential selling utilities, as well as the
9 marketplace in general, in terms of what this
10 Commission's view is with regard to proper incentives
11 and we'd urge you not to consider this issue.

12 **COMMISSIONER CLARK:** Can I ask a question of
13 Mr. Childs?

14 Mr. Childs, has FP&L gotten a resolution
15 from FERC on your partial requirements concern? It
16 seems to me at one time you were concerned that a
17 partial requirements customer could buy at an average
18 cost on the broker system and then sell it at
19 incremental, and he might, therefore, make some money
20 that FPL felt properly belonged to them.

21 **MR. CHILDS:** I'm not aware of the status of
22 that at all, Commissioner.

23 **COMMISSIONER CLARK:** Okay.

24 **CHAIRMAN JOHNSON:** Public Counsel.

25 **MR. BURGESS:** Yes. We don't have a terribly

1 strong preference in this as to whether the Commission
2 decides that in the current circumstance or spins it
3 off. I guess we would tend to agree with Florida
4 Power and Light and Florida Power Corp that the
5 Commission would be better served by a spin off of
6 this issue into another docket wherein the focus and
7 the attention of both the Commission and the parties
8 could be perhaps a little bit more helpful to the
9 decision-making process.

10 I would further note that -- it seems that
11 there is no downside to that. It's not -- we would
12 continue, presumably, with the 80/20 split until such
13 time as the Commission changed so I don't think,
14 there's any prejudice against any party by the
15 Commission doing this. It would provide us, I think,
16 with a better opportunity to address the issue and
17 provide, perhaps, a better perspective for the
18 Commission.

19 **MS. KAUFMAN:** Commissioners, FIPUG has two
20 comments to make.

21 First of all, my first comment goes to some
22 of the remarks that Mr. Child's made in regard to the
23 prior order.

24 I'm not aware of anything in that order that
25 would preclude this Commission from looking at the

1 broker system on a prospective basis and considering
2 its viability in terms of the current market. So we
3 would disagree that you should not consider this
4 issue.

5 We would agree, though, that this issue is
6 probably more appropriate for the entire Commission to
7 take a look at, and we would welcome the opportunity
8 to actively participate in a spin-off proceeding and
9 we think that would probably be the wiser course.

10 MR. LONG: Madam Chairman, on FIPUG's last
11 point I would just point out that the Commission order
12 implementing the incentive mechanism was issued by a
13 three-commissioner panel back in 1984.

14 CHAIRMAN JOHNSON: Okay. Thank you. Staff.

15 MS. PAUGH: To the extent that they have
16 stated that the issue should be heard today, Staff
17 agrees with Tampa Electric Company.

18 The the broker profit split is a relative
19 simple policy issue. All of the utilities have filed
20 rebuttal testimony on the issue. In fact, they were
21 given additional time to do so. It seems to me that
22 because a panel did implement the issue, a panel can
23 certainly decide further course with the issue, so I
24 don't see any driving force behind having a full
25 Commission hear it. That's certainly up to the panel.

1 So Staff is prepared to go on this issue.

2 **COMMISSIONER CLARK:** Staff brought up this
3 issue; is that right?

4 **MS. PAUGH:** Yes. It appeared in the
5 testimony of Tom Ballinger. The testimony was filed
6 at the same time as direct testimony from the
7 utilities.

8 **CHAIRMAN JOHNSON:** What about Florida Power
9 and Light's argument that it's already been addressed?
10 And it was addressed recently and no facts have
11 changed, and that it's inappropriate or not necessary
12 to again address this issue.

13 **MS. PAUGH:** From a statutory construction,
14 standpoint, I have to respectfully disagree with
15 Mr. Childs. I don't believe that the issue was
16 addressed directly in that order. I have reviewed it
17 prior to these proceedings and given it some thought.
18 Mr. Childs and I have discussed it.

19 It was brought up but it was not -- this
20 specific issue was not addressed in my opinion.

21 **COMMISSIONER CLARK:** I guess my response to
22 that argument is kind of so what? You know, we
23 implemented it with a three-member panel. It was done
24 to incent the market at any time if anyone, in this
25 case the Staff, feels also it's no longer necessary,

1 the fact that we've done it in the past I think -- and
2 the fact we've done it recently doesn't take it off
3 the table if it is appropriate to change it to
4 recognize that the wholesale market has changed.

5 MS. PAUGH: Staff agrees with that as well.

6 CHAIRMAN JOHNSON: Guif.

7 MR. STONE: Commissioner Johnson, I just
8 wanted to clarify one thing.

9 Ms. Paugh indicated that Mr. Ballinger filed
10 his testimony at the same time the utilities filed the
11 direct testimony. That is not the case. The
12 Utility's most recent direct testimony as I recall was
13 at the end of June, around June 23rd. Mr. Ballinger's
14 testimony was filed July 14th. I just wanted to make
15 sure the record was clear in that respect; that it was
16 not filed the at the same time.

17 MS. PAUGH: I apologize. I stand corrected.
18 In any event, it was filed on time pursuant to the
19 CSAR.

20 CHAIRMAN JOHNSON: Thank you. Thank you for
21 that clarification.

22 Any other comments?

23 Let me make sure I understand FIPUG and
24 OPC's position. You would like to have all of the
25 issues deferred? I should ask it in the form of a

1 question. What are you asking to have deferred?

2 **MR. BURGESS:** I think that the Commission
3 would be well served to defer Issue 13, Issue 11 and
4 Issue 9. And I'd be happy to either present --
5 obviously we've discussed Issue 13. I'd be happy to
6 present a brief picture as to why we take that
7 position with regard to Issues 9 and 11, or simply
8 brief it. We're here to participate on those issues
9 and it's not something that is do or die for us at
10 all. It's just something we think the Commission
11 would be better served if it had, and could get a
12 little bit better perspective, if it had the
13 opportunity to examine these in a separate fashion.

14 **COMMISSIONER CLARK:** Madam Chairman, can I
15 make a suggestion? With respect to Issue 13. I guess
16 I'm not comfortable at this time, either as a panel or
17 necessarily as the full Commission, making decision on
18 the 80/20 split. I think there are a whole host of
19 issues that are developing as a result of FERC
20 Order 888, and that is a relationship between the
21 retail market and the wholesale market. And let me
22 just sort of indicate some of my concerns.

23 I asked Mr. Childs about the partial
24 requirements issue, and to my knowledge it hasn't been
25 resolved. And one of the concerns FPL had was that

1 they were selling on the basis of cost, and a partial
2 requirements customer can purchase it and then sell it
3 on the basis of price and they may be able to earn a
4 profit that way, and, you know, a profit that doesn't
5 go to the ratepayers of FPL. And to my knowledge
6 that's not resolved.

7 The notion of the broker system being based
8 on cost and FERC coming in and saying it's going to be
9 a price market regulated wholesale market, the notion
10 of controls subsidization of that wholesale market by
11 the retail ratepayers, to the extent it's included in
12 the retail jurisdiction, and then utilities either go
13 out and through contract as Tampa Electric Company has
14 done -- and we have a pending company on that -- or
15 through the broker system, they are in the wholesale
16 market and, you know, some might argue that it's being
17 subsidized by the retail ratepayers. I think we need
18 to look at that.

19 I'm very concerned about the margin of
20 reserve that we heard about last Friday and how that's
21 being impacted by competition in the wholesale market.
22 I'm not real comfortable with a 8% margin, and I'm
23 just wondering if some things have to be changed in
24 order to assure that we have an adequate margin of
25 reserve.

1 And also the notion of possibly bypassing
2 the broker system. It just seems to me there are a
3 lot of things that have developed with regard to the
4 wholesale market that we can't simply take this piece
5 of it and deal with it.

6 I'm not suggesting we definitely spin it off
7 into another docket at this time, but I certainly
8 think we need to maybe step up our investigation of
9 what the electric market in Florida should look like.

10 **CHAIRMAN JOHNSON:** So then it would be your
11 suggestion that we not consider it at that time, but
12 you're not -- are you comfortable with it being a
13 docketed matter and that we start exploring the
14 issues?

15 **COMMISSIONER CLARK:** I don't think it needs
16 to be a docketed matter, but I certainly think the
17 Staff is going to be looking at the margin of reserve.
18 And I think it would be natural that the Staff would
19 look at the impact of Order 888 and our wholesale
20 generation market in Florida to see if we have to make
21 changes in power plant siting, in the ten year cite
22 plan, in incentives to make wholesale sales; what are
23 the impact of power marketers?

24 The most immediate problem to me is the 8%
25 margin of reserve. But I think all of these issues

1 have to be looked at. And I don't think it makes any
2 sense to look at the 20/80 percent split in isolation.
3 I would leave it to the Staff as being a sort of host
4 of issues to look at, and then we would work through
5 it and then at the time it's appropriate to docket,
6 Staff can do that.

7 And I see it as although it is related to
8 the fact that it is FERC who has made changes through
9 Order 888 into the wholesale market, to that extent
10 it's related to the notion of recognizing separately
11 the transmission cost, I think we have to deal with
12 transmission cost. And I think we can do it in this
13 docket, at least we should hear the evidence and make
14 a suggestion -- make a decision in this case. And if
15 we feel that we're not 100% comfortable with it, we
16 can ask you to put it in a whole other document but
17 implement the procedure now. But I can see that the
18 two can be separated, and I think the 20/80 split is
19 more related to what changes, if any, should we be
20 making as a result of competition in the generation
21 market.

22 **COMMISSIONER GARCIA:** So you're asking Staff
23 basically to drop the issue.

24 **COMMISSIONER CLARK:** I don't think we should
25 take it up at this time. I think it should be part of

1 a larger investigation and review of the relationship,
2 of the wholesale market to the retail market.

3 **CHAIRMAN JOHNSON:** Staff, did you have a
4 comment?

5 **MS. PAUGH:** Yes. Thank you, Madam Chairman.
6 Staff would be willing to withdraw this issue from
7 this docket and come back to you with a broader docket
8 based on the Commissioner's comments.

9 **COMMISSIONER CLARK:** You don't need to come
10 back with a docket necessarily. This is something I
11 think the electric and gas section needs to start
12 looking at. And quite frankly, I think the utilities
13 ought to be talking to the Staff about how they think
14 the relationship of the retail market to the wholesale
15 market should be reviewed given some of the things
16 that have come up.

17 It doesn't need to be docketed in my view,
18 but it does have to be something that the Staff needs
19 to be looking at. If it's appropriate -- if there are
20 specific changes or recommendations, then you would
21 docket it.

22 **COMMISSIONER GARCIA:** That's still a while
23 down there, I would hope.

24 **CHAIRMAN JOHNSON:** I think what I'm hearing
25 from Staff, and maybe Leslie and Tom can help me, is

1 that they do believe the issues are sufficiently keyed
2 up and that perhaps the docket would be a more
3 structured approach to continue to pursue them. And I
4 don't think that Commissioner Clark is saying if it's
5 not ready, don't bring it to us. She's just saying
6 let's make sure we have adequately considered what the
7 issues are, perhaps done some informal workshopping
8 with the industry groups, and then if necessary bring
9 the docket back to us. So perhaps you're both saying
10 the same thing. Leslie seemed concerned about going
11 ahead and starting a formal process. To the extent
12 that we're ready, that's fine, but if we aren't then
13 we need to further develop it.

14 **MS. PAUGH:** I'm not quite clear on what the
15 scope of what our charge is and I guess that would
16 flesh out from getting with the utilities.

17 **COMMISSIONER GARCIA:** I think Commissioner
18 Clark didn't mean to make the scope bringing a whole
19 host of issues on what is happening in the electric
20 industry in this docket -- and correct me if I'm wrong
21 Commissioner -- simply having Staff look at this. And
22 if there's a problem, to begin to study this as well
23 as other changes in the industry, and then, if
24 appropriate, later on down the line we'll open a
25 docket and to begin work on it.

1 But the charge is not for you to come back
2 with a docket on this issue, or on the broader aspects
3 that the Commissioner addressed.

4 **CHAIRMAN JOHNSON:** Tom, did you want to add
5 anything?

6 **MR. BALLINGER:** It's kind of awkward. I
7 guess I'm not a witness anymore. (Laughter)

8 I think I understand the charge. I'm a
9 little concerned because in the fuel order that
10 Mr. Childs pointed out you stated you would deal with
11 off-system sales on a case-by-case basis on how to
12 look at the benefits, so that's kind of -- directed
13 that way that's the biggest portion of wholesale
14 sales, if you will, that we have to deal with.

15 The reserve margin, I'm missing that
16 distinction but we are looking at that as well and
17 other avenues to pursue in that.

18 **COMMISSIONER CLARK:** Well, here's how I see
19 it tied. There's a great deal of concern as to what
20 you're going to be able to sell power at, and nobody
21 wants to step up to the plate too early to put in a
22 new power plant. And the way it was presented on
23 Friday it seems to me that it favors the utility being
24 the -- the utility that provides the retail power is
25 the one that will ultimately put it in. Because you

1 keep pushing it out and it gets to the point you have
2 such a short period of time to put it into service.
3 The only entities that will be in a position to do
4 that are those who already have sited areas to build a
5 plant on.

6 **MR. BALLINGER:** That's been around for years
7 where utilities have had the upper hand by having
8 sites already permitted and having the last resort.
9 So that's why I missed that distinction --

10 **COMMISSIONER CLARK:** Yes. But we haven't
11 had competition in the generation market to the extent
12 we have it today for years.

13 **MR. BALLINGER:** That is correct. The reason
14 we brought this issue up now is that we see it as
15 separated. It deals with one type of off-system sale.
16 There has been changes in the market and the most
17 recent change that we saw was the treatment of
18 transmission revenues and how that distorted the gains
19 on broker sales. And for us that was kind of like the
20 last straw. We need to bring this issue up and deal
21 with it now. It's a separate type of sale than any
22 other wholesale, like you heard in the TECO case.
23 It's a unique type of sale. That's why we felt it
24 would be important to deal with it now.

25 But I understand if you want us to go back

1 and look at how these all interrelate. And we can
2 come back to you with a recommendation; if we feel it
3 necessary to have a docket, we can do that.

4 **COMMISSIONER CLARK:** Or you can state why
5 you think it doesn't interrelate; that it doesn't
6 interrelate and it's still appropriate at this time to
7 address the 20/80 split.

8 **MR. BALLINGER:** I don't know if I can make
9 that argument. I can. I don't know if procedurally I
10 should.

11 **COMMISSIONER CLARK:** You mean today?

12 **MR. BALLINGER:** Yes.

13 **COMMISSIONER CLARK:** I still don't think we
14 should take it up today or in this docket. But if
15 Staff still feels that it should be looked at, I think
16 we can do it. Start a separate docket and you can say
17 it's appropriate to deal with this separate from any
18 other issues that might relate to the relationship of
19 the generation market to the retail market, and here's
20 what we're recommending and why.

21 **MR. BALLINGER:** Okay. I think I understand.

22 **COMMISSIONER CLARK:** Okay.

23 **CHAIRMAN JOHNSON:** Is there a motion then
24 that we withdraw?

25 **COMMISSIONER GARCIA:** I don't think we need

1 a motion. Staff has withdrawn that issue. Correct?

2 **MS. PAUGH:** That's correct.

3 **CHAIRMAN JOHNSON:** Show Issue 13 then
4 withdrawn.

5 **CHAIRMAN JOHNSON:** Now, we have stated in
6 Prehearing Order, I listed Issues 9 through 12 as
7 issues to be discussed today, and that they would be
8 briefed and the briefs would be due sometime in
9 September. I understand that there's a motion or a
10 request from OPC and FIPUG that we not address those
11 issues today. Is there any --

12 **COMMISSIONER CLARK:** I guess my view is I'd
13 like to hear more about it today because I think
14 you've suggested we have to come up with some way of
15 handling it, at a minimum at the interim, and
16 depending on what we hear we may be comfortable in
17 saying this is the way we think it should be done and
18 we don't need a separate docket.

19 **MS. KAUFMAN:** I just want to go back a
20 minute to Issue 13.

21 Since that issue has been withdrawn, would
22 it be appropriate to withdraw the testimony as well
23 that relates to it so it doesn't become part of the
24 record?

25 **CHAIRMAN JOHNSON:** Yes. Thank you for

1 clarifying that.

2 **MS. PAUGH:** We will withdraw the testimony.

3 **CHAIRMAN JOHNSON:** All testimony then
4 related to Issue 13 we will show that then withdrawn.

5 **MR. WILLIS:** That would be Mr. Ballinger,
6 Mr. Wieland rebuttal, Mr. Villar's rebuttal and
7 Ms. Branick's rebuttal as shown on Page 5 of the
8 Prehearing Order.

9 **MS. PAUGH:** That's correct, Chairman
10 Johnson.

11 **CHAIRMAN JOHNSON:** Did we get them all?

12 **MS. PAUGH:** Mr. Ballinger is direct.

13 **MR. WILLIS:** Mr. Kordecki is with respect to
14 Issues 10 and 12. There were four total witnesses.

15 **CHAIRMAN JOHNSON:** Okay. Very well. Show
16 that testimony then withdrawn.

17 So we will proceed then on Issues 9 through
18 12.

19 **MR. BURGESS:** If I could address that, I had
20 perhaps had miscommunicated. Commissioner Clark has
21 captured what we're looking for exactly. And that is,
22 we know the Commission needs to reach a decision
23 today -- or through this proceeding on this issue. We
24 just think, though, that after hearing some of the
25 evidence that you get today you will perhaps agree

1 that it's something that raises some issues that are
2 of a broader consequence and may need to be looked at
3 in a more deliberative time frame.

4 **CHAIRMAN JOHNSON:** Very well. Are there any
5 other preliminary matters?

6 **MR. WILLIS:** There's one other thing I
7 wanted to mention. On Page 33 of the Prehearing Order
8 there should be listed under Witness Branick KAB-5 as
9 one of her exhibits which is an example of a economy
10 sale by Tampa Electric.

11 **CHAIRMAN JOHNSON:** Could you repeat that?
12 You said on Page 33.

13 **MR. WILLIS:** On Page 33 of the Prehearing
14 Order there should be listed an additional exhibit
15 KAB-5.

16 **CHAIRMAN JOHNSON:** KAB-5 will be what?

17 **MR. WILLIS:** Economy Sale by Tampa Electric
18 Company.

19 **CHAIRMAN JOHNSON:** Are there any other
20 preliminary matters? Seeing none, those that are
21 going to testify today, could you stand and raise your
22 right hand.

23 (Witnesses collectively sworn.)

24 **CHAIRMAN JOHNSON:** We have listed -- we have
25 Florida Power for the first witness.

1 **MR. MCGEE:** Florida Power will call
2 Mr. Wieland.

3 **KARL H. WIELAND**
4 was called as a witness on behalf of Florida Power
5 Corporation and, having been duly sworn, testified as
6 follows:

7 **DIRECT EXAMINATION**
8 **BY MR. MCGEE:**

9 **Q** Would you give us your name and business
10 address, please?

11 **A** My name is Karl H. Wieland. My business
12 address is Post Office Box 14042, St. Petersburg,
13 Florida 33733.

14 **Q** And what is your capacity with Florida Power
15 Corporation?

16 **A** I'm the Director of Business Planning.

17 **Q** Mr. Wieland, do you have a document before
18 you entitled "Direct Testimony and Exhibits of Karl H.
19 Wieland" that was submitted for filing on July 2nd,
20 1997?

21 **A** Yes, I do.

22 **Q** And that document consists of 22 pages with
23 attached exhibits. Were those exhibits prepared under
24 your direct supervision or control?

25 **A** Yes.

1 **Q** And if you were to be asked the questions
2 that are contained in your prepared testimony, would
3 your answers be the same today?

4 **A** Yes, they would.

5 **MR. MCGEE:** Madam Chairman, we'd ask that
6 Mr. Wieland's prepared testimony be inserted into the
7 record as though read.

8 **CHAIRMAN JOHNSON:** It will be so inserted.

9 **MR. MCGEE:** And I believe his exhibits have
10 already been numbered sequentially in the Prehearing
11 Order.

12 Mr. Wieland's testimony, with the exception
13 of exhibits -- Issues 9 through 12, have been
14 stipulated. That portion of his testimony begins on
15 Page 17, and I would ask, therefore, that Mr. Wieland
16 give a summary of his testimony only pertaining to
17 those four issues.

18 **CHAIRMAN JOHNSON:** Very well.

19 **MR. MCGEE:** Perhaps we haven't assigned the
20 exhibit numbers. Mr. Wieland is sponsoring KHW-1 and
21 2, and if we could have those marked for
22 identification.

23 **CHAIRMAN JOHNSON:** We'll mark KHW-1 as
24 Exhibit 1 and KHW-2 as Exhibit 2.

25 (Exhibits 1 and 2 marked for identification.)

**FLORIDA POWER CORPORATION
DOCKET NO. 970001-EI**

**Levelized Fuel and Capacity Cost Factors
October 1997 through March 1998**

**DIRECT TESTIMONY OF
KARL H. WIELAND**

- 1 Q. Please state your name and business address.
- 2 A. My name is Karl H. Wieland. My business address is Post Office Box
3 14042, St. Petersburg, Florida 33733.
- 4
- 5 Q. By whom are you employed and in what capacity?
- 6 A. I am employed by Florida Power Corporation as Director of Business
7 Planning.
- 8
- 9 Q. Have the duties and responsibilities of your position with the
10 Company remained the same since you last testified in this
11 proceeding?
- 12 A. Yes.
- 13
- 14 Q. What is the purpose of your testimony?
- 15 A. The purpose of my testimony is to present for Commission approval
16 the Company's levelized fuel and capacity cost factors for the period
17 of October 1997 through March 1998. My testimony will also

1 address the effect of the Federal Energy Regulatory Commission's
2 (FERC) Orders 888 and 888-A on Schedule C broker sales.
3

4 **Q. Do you have an exhibit to your testimony?**

5 **A. Yes.** I have prepared an exhibit attached to my prepared testimony
6 consisting of Parts A through G and the Commission's minimum filing
7 requirements for these proceedings, Schedules E1 through E10 and
8 H1, which contain the Company's levelized fuel cost factors and the
9 supporting data. Parts A through C contain the assumptions which
10 support the Company's cost projections, Part D contains the
11 Company's capacity cost recovery factors and supporting data. Part
12 E contains a calculation of costs the Company proposes to recover
13 during the period for the conversion of one additional combustion
14 turbine to natural gas firing. Part F recomputes the Company's true-
15 up under-recovery balances through September 1997 to exclude
16 replacement power costs and related interest associated with the
17 current extended outage of the Crystal River 3 (CR3) nuclear plant.
18 Part G provides an example of how Florida Power proposes to treat
19 transmission charges associated with broker sales as a result of FERC
20 Order 888.

FUEL COST RECOVERY

1
2 **Q. Please describe the levelized fuel cost factors calculated by the**
3 **Company for the upcoming projection period.**

4 **A. Schedule E1, page 1 of the "E" Schedules in my exhibit, shows the**
5 **calculation of the Company's basic fuel cost factor of 1.823 ¢/kWh**
6 **(before line loss adjustment). The basic factor consists of a fuel cost**
7 **for the projection period of 1.76376 ¢/kWh (adjusted for jurisdictional**
8 **losses), a GPIF penalty of 0.00172 ¢/kWh, a coal market price true-**
9 **up credit of 0.0034 ¢/kWh and an estimated prior period true-up**
10 **charge of 0.06286 ¢/kWh.**

11 Utilizing this basic factor, Schedule E1-D shows the calculation
12 and supporting data for the Company's levelized fuel cost factors for
13 secondary, primary, and transmission metering tariffs. To accomplish
14 this calculation, effective jurisdictional sales at the secondary level
15 are calculated by applying 1% and 2% metering reduction factors to
16 primary and transmission sales (forecasted at meter level). This is
17 consistent with the methodology being used in the development of
18 the capacity cost recovery factors.

19 Schedule E1-E develops the TOU factors 1.181 on-peak and
20 0.926 off-peak. The levelized fuel cost factors (by metering voltage)
21 are then multiplied by the TOU factors, which results in the final fuel
22 factors to be applied to customer bills during the projection period.
23 The final fuel cost factor for residential service is 1.827 ¢/kWh.

1 Q. The Commission recently approved a stipulation between the parties
2 in Docket No. 970261-EI which resolved all disputed issues regarding
3 replacement power cost associated with the current extended outage
4 of CR3. Has the stipulation been incorporated into this filing?

5 A. Yes. Because of the settlement stipulation, this filing is based on the
6 nuclear unit operating normally both during the projection period
7 (October 97 through March 98) and the reprojection period (June
8 through September 1997). Furthermore, the March 1997 true-up
9 balance and April-May actuals were restated to exclude replacement
10 power costs for the nuclear outage. Part F of my exhibit shows the
11 details of this calculation. The column titled "Variance" in each month
12 contains the nuclear replacement cost on a system basis (line 4) as
13 well as on a jurisdictional basis (line 6) computed using the
14 methodology described below. The reduction in interest expense due
15 to the removal of replacement fuel expenses is on line 8. Line 13
16 shows the cumulative effect of the monthly adjustments.

17
18 Q. How were replacement power costs for the nuclear outage
19 computed?

20 A. The replacement costs were computed using the production cost
21 program PROMOD. Actual data for load, fuel and purchased power
22 prices, and unit availabilities were used in the calculations. PROMOD
23 computes the difference in system costs with and without the
24 nuclear unit. Crystal River 3 was assumed to operate at originally
25 projected GPIF targets. The procedure used to compute replacement

1 cost is the same as has been used in previous replacement cost
2 determinations before this Commission.

3
4 **Q. Is recovery of the \$32.3 million (retail portion excluding interest)**
5 **which the Company is entitled to collect after the nuclear unit**
6 **restarts and operates for 14 days included in this filing?**

7 **A. No. Rate adjustments necessary to collect the amount over a 12**
8 **month period will be made by way of a separate filing.**

9
10 **Q. What is included in Schedule E1, line 4, "Adjustments to Fuel Cost"?**

11 **A. Line 4 shows costs for the conversion of combustion turbine units at**
12 **Intercession City (units 7-10), Debary (units 7 and 9), Bartow (units**
13 **3 and 4), and Suwannee (unit 1) to burn natural gas instead of**
14 **distillate fuel oil, and an annual payment to the Department of Energy**
15 **for the decommissioning and decontamination of their enrichment**
16 **facilities. All conversions except Debary unit 9 have been previously**
17 **approved for recovery through the fuel clause by the Commission.**
18 **Florida Power has also converted Debary unit 9 and is asking**
19 **Commission approval to recover its conversion cost as well. The cost**
20 **of peaker conversions included in line 4 is \$1,782,000, the payment**
21 **to the DOE is \$1,438,000, for a total of \$3,220,000.**

22
23 **Q. What is included in Schedule E1, line 6, "Energy Cost of Purchased**
24 **Power"?**

1 A. Line 6 includes energy costs for the purchase of 50 MWs from
2 Tampa Electric Company and the purchase of 409 MWs under a Unit
3 Power Sales (UPS) agreement with the Southern Company. Capacity
4 costs for these purchases are included in the capacity cost recovery
5 factor. Both of these contracts have been in place and have been
6 approved for cost recovery by the Commission.

7
8 Q. What is included in Schedule E1, line 8, "Energy Cost of Economy
9 Purchases (Non-Broker)"?

10 A. Line 8 includes energy costs for purchases from Seminole Electric
11 Cooperative (SECI) for load following, off-peak hydroelectric
12 purchases from the Southeast Electric Power Agency (SEPA), and
13 miscellaneous economy purchases from within or outside the state
14 which are not made through the Florida Broker System. The SECI
15 contract is an ongoing contract under which the Company purchases
16 energy from SECI at 95% of its avoided fuel cost. Purchases from
17 SEPA are on an as-available basis. There are no capacity payments
18 associated with either of these purchases. Other purchases may
19 have non-fuel charges, but since such purchases are made only if the
20 total cost of the purchase is lower than the Company's cost to
21 generate the energy, it is appropriate to recover the associated non-
22 fuel costs through the fuel adjustment clause rather than the capacity
23 cost recovery factor.

24 Q. Has the Company included expenses related to the settlement of the
25 Lake Cogen dispute approved on June 24?

1 A. No. Although the Commission has approved the Lake Cogen
2 Settlement, the Company has elected to exclude the costs and
3 benefits of the settlement until the final order is issued and all parties
4 are in final agreement that the settlement should move forward.

5
6 Q. Please explain the entry on Schedule E1, line 17, "Fuel Cost of
7 Stratified Sales."

8 A. The Company has a wholesale contract with Seminole for the sale of
9 supplemental energy to supply the portion of their load in excess of
10 689 MW. The fuel costs charged to Seminole for these supplemental
11 sales are calculated on a "stratified" basis, in a manner which
12 recovers the higher cost of intermediate/peaking generation used to
13 provide the energy. The Company also has wholesale contracts with
14 Georgia Power Company, Oglethorpe Power Company, and the city
15 of St. Cloud under which fuel costs are charged in a similar manner.
16 Unlike interchange sales, the fuel costs of wholesale sales are
17 normally included in the total cost of fuel and net power transactions
18 used to calculate the average system cost per kWh for fuel
19 adjustment purposes. However, since the fuel costs of the Stratified
20 sales are not recovered on an average cost basis, an adjustment has
21 been made to remove these costs and the related kWh sales from the
22 fuel adjustment calculation in the same manner that interchange sales
23 are removed from the calculation. This adjustment is necessary to
24 avoid an over-recovery by the Company which would result from the
25 treatment of these fuel costs on an average cost basis in this

1 proceeding, while actually recovering the costs from these customers
2 on a higher, stratified cost basis. The development of this
3 adjustment is shown on Schedule E6.
4

5 **Q. How was the estimated true-up shown on line 28 of Schedule E1**
6 **developed?**

7 **A. The true-up calculation implements the proposed settlement of the**
8 **replacement fuel costs incurred during the extended outage of the**
9 **Company's nuclear unit. The settlement allows the Company to**
10 **recover \$32.3 million in replacement fuel cost, plus interest, after the**
11 **nuclear unit has operated successfully for 14 days. In order to**
12 **calculate a proper true-up amount for the October 1997 through**
13 **March 1998 period, replacement fuel costs and associated interest**
14 **costs which had previously been included in fuel under-recovery**
15 **balances reported in the Company's A-schedules were removed,**
16 **resulting in a restated May 1997 balance of \$(2,223,479). (Refer to**
17 **Exhibit F for details). This balance was projected to the end of**
18 **September 1997, including interest estimated at the May ending rate**
19 **of 0.468% per month assuming that Crystal River unit 3 is operating.**
20 **The development of the estimated true-up amount for the current**
21 **April through September 1997 period is shown on Schedule E1B,**
22 **Sheet 1 and summarized on Schedule E1A. The current period**
23 **estimated over-recovery of \$8,880,912 (\$47,121,201 being**
24 **collected during the current period less \$38,240,289 current cycle**
25 **under-recovery) was combined with the prior period ending balance**

1 of \$(18,213,749) for a total under-recovery of \$9,332,837 at the
2 end of September 1997. This results in an estimated true-up charge
3 on line 28 of Schedule E1 (Basic) of 0.06286 ¢/kWh for application
4 in the October 1997 through March 1998 projection period.
5

6 **Q. What are the primary reasons for the projected September 1997**
7 **under-recovery of \$9.3 million?**

8 A. The primary reason for the \$9.3 million under-recovery at the end of
9 September is due to the fact that the previous 6 month's under-
10 recovery was amortized over twelve rather than the normal six months.
11 Although the portion of the previous under-recovery attributable to
12 the nuclear outage has been excluded, the remaining non-nuclear
13 portion is reflected in this true-up.
14

15 **Q. How was the market price true-up for Powell Mountain coal**
16 **purchases calculated?**

17 A. The calculation was performed in accordance with the market pricing
18 methodology approved by the Commission for Powell Mountain coal
19 purchases in Docket No. 860001-EI-G and has been made available
20 for Staff review. The true-up is based on the difference between the
21 previously recovered cost of Powell Mountain coal purchases during
22 1995, and a calculated cost using the market price index for
23 compliance coal in BOM District 8 for 1996, as adopted in Order No.
24 22401. The true-up amount of \$505,000 also includes interest
25 through May 1997.

1 Q. Would you give a brief overview of the procedure used in developing
2 the projected fuel cost data from which the Company's basic fuel
3 cost recovery factor was calculated?

4 A. Yes. The process begins with the fuel price forecast and the system
5 sales forecast. These forecasts are input into PROMOD, along with
6 purchased power information, generating unit operating
7 characteristics, maintenance schedules, and other pertinent data.
8 PROMOD then computes system fuel consumption, replacement fuel
9 costs, and energy purchases and costs. This data is input into a fuel
10 inventory model, which calculates average inventory fuel costs. This
11 information is the basis for the calculation of the Company's levelized
12 fuel cost factors and supporting schedules.

13
14 Q. What is the source of the system sales forecast?

15 A. The system sales forecast is made by the Forecasting section of the
16 Business Planning Department using the most recently available data.
17 The forecast used for this projection period was prepared in June
18 1996.

19
20 Q. Is the methodology used to produce the sales forecast for this
21 projection period the same as previously used by the Company in
22 these proceedings?

23 A. The methodology employed to produce the forecast for the projection
24 period is the same as used in the Company's most recent filings, and

1 was developed with a hybrid econometric/end-use forecasting model.
2 The forecast assumptions are shown in Part A of my exhibit.

3
4 **Q. What is the source of the Company's fuel price forecast?**

5 **A.** The fuel price forecast was made by the Fuel and Special Projects
6 Department based on forecast assumptions for residual oil, #2 fuel
7 oil, natural gas, and coal. The assumptions for the projection period
8 are shown in Part B of my exhibit. The forecasted prices for each
9 fuel type are shown in Part C.

10
11 **Q. Please explain the basis for requesting recovery of the cost of**
12 **converting a second combustion turbine unit at Debarry to burn**
13 **natural gas.**

14 **A.** In Docket No. 850001-EI-B, Order No. 14546 issued on July, 1985,
15 the Commission addressed charges appropriate for recovery through
16 the fuel clause:

17 "Fossil fuel-related costs normally recovered through
18 base rates but which were not recognized or
19 anticipated in the cost levels used to determine
20 current base rates and which, if expended, will result
21 in fuel savings to customers. Recovery of such
22 costs should be made on a case by case basis after
23 Commission approval."

24 Since August of 1995, the Company has converted Intercession
25 City units 7-10, Debarry units 7 and 9, Bartow units 2 and 4, and

1 Suwannee unit 1 to burn natural gas. The Commission previously
2 authorized the Company to recover the conversion cost, including
3 a return on investment, over a five-year period for all units except
4 Debary 9. The Company is asking the Commission for the same
5 treatment for the second unit at Debary (unit 9). The estimated
6 conversion cost for the four units at Bartow, Debary, and
7 Suwannee was \$7.5 million. The actual cost of conversion was
8 \$7.18 million. The additional cost to convert Debary unit 9 is
9 \$734,000 for a net incremental cost of \$414,000. This
10 conversion cost was not part of the cost of the Debary units
11 when they were included in rate base as part of the 1993 test
12 year.

13
14 **Q. How is Florida Power proposing to recover the conversion cost?**

15 **A. The Company proposes to amortize the \$734,000 conversion cost**
16 **for Debary unit 9 over a five year period beginning with the plant**
17 **in-service date of May, 1997. The same amortization period was**
18 **approved for unit 7 and the units at Bartow and Suwannee. The**
19 **projected cost during the October 1997 through March 1998**
20 **period is \$113,791 which consists of an amortization charge of**
21 **\$73,398 and a return (including income taxes) of \$40,393 based**
22 **on the Company's current cost of capital of 8.37%. The fuel**
23 **savings for the same period are expected to be \$209,000**
24 **resulting in a net benefit to customers of \$95,209. During the five**
25 **year amortization period, the conversion produces fuel savings**

1 with a present value of \$2.1 million which results in a net benefit
2 to customers of \$1.4 million. The above fuel savings were
3 calculated assuming normal operation of Crystal River unit 3.
4 These savings will grow after the amortization period if gas
5 continues to be available.

6 A monthly schedule of amortization expenses and projected
7 fuel savings is attached as Part E of my testimony.

8
9 **Q. Why was Debary unit 9 not included in the original request for
10 unit 7?**

11 **A. The company took a very conservative approach in its original
12 assessment of gas availability for the Debary site. The Company
13 has since become more confident of fuel availability which is
14 critical to achieving the fuel savings.**

15
16 **Q. Why is the Company proposing a five-year amortization period
17 rather than expensing the conversion cost or depreciating it over
18 the life of the units?**

19 **A. The Company chose five years in order to align recovery of cost
20 with anticipated benefits. The Company is relying on the
21 availability of interruptible gas transportation for the delivery of
22 gas to the site because firm (take or pay) contracts are not
23 economical for a low capacity factor peaking site. Discussions
24 with Florida Gas Transmission (FGT) and a private consultant's
25 report indicate that they expect interruptible gas to be available in**

1 sufficient quantity to power the converted units for the next five
2 years. The Company hopes that some gas will be available beyond
3 that time which will yield additional savings, but we believe it
4 more appropriate to recover costs during the time when the
5 majority of benefits are expected to occur. Amortizing the
6 conversion over the life of the units could burden future
7 customers with costs that do not have corresponding benefits.
8 Achieved fuel savings will be presented in the semi-annual true-up
9 filings until the units are fully amortized.

10
11 **Q. Have the conversions been completed?**

12 **A. Yes. the Company has completed conversion of all nine units. All**
13 **are in operation.**

14
15 **Q. What is the Company proposing to do if expected fuel savings are**
16 **not achieved?**

17 **A. The Company is willing to assume the risk for achieving fuel**
18 **savings. If fuel savings during any annual period are less than the**
19 **amortization and return costs, we will limit cost recovery to fuel**
20 **savings and defer recovery of the difference to future periods. In**
21 **no case will the Company collect an amount greater than the fuel**
22 **savings, making this a no-lose proposition for customers.**

CAPACITY COST RECOVERY

1
2 **Q. How was the Capacity Cost Recovery factor developed?**

3 A. The calculation of the capacity cost recovery factor (CCRF) is
4 shown in Part D of my exhibit. The factor allocates capacity
5 costs to rate classes in the same manner that they would be
6 allocated if they were recovered in base rates. A brief explanation
7 of the schedules in the exhibit follows.

8 Sheet 1: Projected Capacity Payments. This schedule
9 contains system capacity payments for Southern Company UPS,
10 TECO and QF purchases. The retail portion of the capacity
11 payments are calculated using separation factors consistent with
12 the Company's most recent calendar year jurisdictional separation
13 study as used to support the Company's surveillance reports. The
14 estimated jurisdictional recoverable capacity payments for the
15 October 1997 through March 1998 period are \$143,180,134.

16 Sheet 2: Estimated/Actual True-Up. This schedule
17 presents the actual ending true-up balance after two months of
18 the current period and re-forecasts the over/(under) recovery
19 balances for the next four months to obtain an ending balance for
20 the current period. This estimated/actual balance of \$(8,361,941)
21 is then carried forward to Sheet 1, to be collected during the
22 October 1997 through March 1998 period.

23 Sheet 3: Development of Jurisdictional Loss Multipliers:
24 The same delivery efficiencies and loss multipliers as presented on
25 Schedule E1-F.

1 Sheet 4: Calculation of 12 CP and Annual Average
2 Demand. The calculation of average 12 CP and annual average
3 demand is based on load research data from April 1995 through
4 March 1996 and the delivery efficiencies on Sheet 3.

5 Sheet 5: Calculation of Capacity Cost Recovery Factors.
6 The total demand allocators in column (7) are computed by adding
7 12/13 of the 12 CP demand allocators to 1/13 of the annual
8 average demand allocators. The CCRF for each secondary delivery
9 rate class in cents per kWh is the product of total jurisdictional
10 capacity costs (including revenue taxes) from Sheet 1, times the
11 class demand allocation factor, divided by projected effective
12 sales at the secondary level. The CCRF for primary and
13 transmission rate classes reflect the application of metering
14 reduction factors of 1% and 2% from the secondary CCRF.

15
16 **Q. Please discuss the increase in jurisdictional capacity payments**
17 **compared to the prior six-month period.**

18 **A. The increase in capacity payments from \$137.6 million in the**
19 **April through September 1997 period to \$143.2 million for the**
20 **October 1997 through March 1998 period is primarily due to the**
21 **escalation provisions in the contracts which take effect in January**
22 **of each year, and to the addition of expenses related to the Pasco**
23 **Cogen settlement which was approved by the Commission on**
24 **April 1, 1997.**

GENERIC ISSUE

1
2 **Q. What impact, if any, do FERC Orders 888 and 888-A have on**
3 **Florida Power's charges for economy, Schedule C, broker sales?**

4 **A. For comparability reasons, these orders require recognition that**
5 **Florida Power utilizes its transmission system when making off-**
6 **system sales. To accomplish this, FERC established requirements**
7 **in Order 888 related to two categories of wholesale power sales**
8 **agreements.**

9 The first category relates to any new wholesale power sales
10 agreement executed after July 9, 1996. The utility providing the
11 sale must have unbundled charges for generation and transmission
12 service, and furthermore, if the utility is the transmission provider,
13 the transmission service must be treated as if taken under the
14 utility's open access transmission tariff.

15 The second category relates to economy sales agreements
16 executed prior to July 9th, 1996. These agreements were
17 required to be modified by December 31, 1996, to unbundle
18 charges into component parts of generation and transmission.
19 This has been interpreted by Florida Power to disassemble the
20 existing charge into component parts—one represents the rate
21 being charged for transmission under its open access tariff and
22 the other being the generation charge obtained by difference.

23
24 **Q. What is the impact of FERC Order 888 to a purchaser of economy**
25 **power from Florida Power?**

1 A. For the category of new agreements executed after July 9, 1996,
2 the imposition of a separate transmission charge under the
3 Company's open access tariff in addition to the generation
4 transaction price would, of course, have the impact of increasing
5 the cost of economy power to the purchaser.

6 For the category of existing economy sales agreements
7 whose charges have simply been unbundled into two components,
8 the purchaser would not realize any change in its purchase cost
9 from Florida Power.

10
11 **Q. Has the accounting of the Company's revenues from economy
12 power sales changed as a result of Order 888?**

13 A. Yes, there is a change. Prior to Order 888, revenues related to
14 economy sales were recorded in Account 447, Sales for Resale.
15 As a result of Order 888, separate subaccounts of Account 447
16 have been established to record the generation and transmission
17 components of the sales.

18
19 **Q. How should the revenues the Company realizes from economy
20 sales be treated in establishing rates for its retail customers?**

21 A. Since the retail customers are assigned in ratemaking the
22 jurisdictional portion of the costs of facilities utilized by the
23 Company in rendering economy sales, the retail customers should
24 be credited with their jurisdictional portion of revenues collected
25 from such sales. Order 888's unbundling requirement and

1 revenue accounting requirement serves to recognize that the
2 revenues from economy sales have a functional service
3 relationship, i.e. generation service and transmission service. For
4 Florida Power, jurisdictional responsibilities of these functions are
5 different. Jurisdictional responsibility for retail customers is
6 approximately 95% for generation-related and 75% for
7 transmission-related.

8 Once the appropriate jurisdictional separation of the revenue
9 components is accomplished, the credits to retail customers can
10 be provided through (i) a current billing adjustment (ii) or
11 recognized when base rates are established or (iii) a combination
12 of these two.

13 The Company suggests that for the category of existing
14 economy sales, the appropriate jurisdictional portions of both the
15 generation and transmission components of economy sales be
16 treated as a credit to the retail customers' fuel charge. For the
17 category of new economy agreements entered into after July 9,
18 1996, the Company suggests the jurisdictional portion of
19 generation-related revenues be treated as a credit to the fuel
20 charge and the jurisdictional portion of transmission revenues be
21 treated as a revenue credit when base rates are established.

22 The above proposal results in similar ratemaking treatment
23 as afforded retail customers before FERC's unbundling
24 requirement. It varies only by the recognition that the
25 transmission component of existing economy sales revenues be

1 treated as a credit on a more proper jurisdictional basis of
2 transmission-related responsibility.

3
4 **Q. Please provide an example that shows the effect of Order 888 on**
5 **the jurisdictional separation of economy sales.**

6 **A. Part G of my exhibit contains an example showing the**
7 **jurisdictional treatment of an economy sale. The example is**
8 **divided into three cases; Before Order 888, Existing Agreements**
9 **Modified by Order 888, and New Unbundled Agreements. The**
10 **left-most column shows the jurisdictional treatment prior to**
11 **January 1, 1997. The middle column shows the treatment of**
12 **existing economy sales agreements, as modified, in an unbundled**
13 **tariff that is currently pending before the FERC. The right-most**
14 **column shows the treatment of any new agreements executed**
15 **after July 9, 1996.**

16 For the purposes of the example, Florida Power is the seller
17 and has an incremental cost of \$20. The buyer has an
18 incremental cost of \$30. The savings are split, so the transaction
19 price is \$25 and the seller's margin on the sale is \$5. The cost
20 of transmission is \$3.

21 Before Order 888, the entire \$5 gain is credited to the fuel
22 clause. Retail customers realize 95% of this amount (\$4.75) and
23 wholesale customers realize 5% (\$0.25). The retail amount is
24 allocated to customers and shareholders on an 80/20 basis.

1 The middle column shows how Order 888's requirement to
2 unbundle existing economy sales tariffs changes the way
3 revenues from these sales are allocated. The net revenue (\$5)
4 from the sale is divided into transmission revenue (\$3) and
5 generation margin (\$2). The transmission revenue is allocated
6 jurisdictionally, so \$2.25 (75%) is credited to retail customers and
7 \$0.75 (25%) is credited to the wholesale customers. The margin
8 on energy sales is allocated jurisdictionally as well. The retail
9 customers are credited \$1.90 (95%) and the wholesale customers
10 are credited \$0.10 (5%). Florida Power has not changed its policy
11 regarding crediting the full jurisdictional retail portion of the sale
12 to the fuel clause. In the example, this is \$4.15 (\$2.25
13 transmission + \$1.90 margin). For wholesale customers, \$0.10
14 is credited to the fuel clause and \$0.75, the transmission portion,
15 is credited to base rates.

16 In the right-most column, transmission is unbundled from
17 the transaction and thus \$3.00 is charged separately. The margin
18 on the energy sale is still \$5.00. The \$5.00 margin and the
19 \$3.00 transmission revenue are jurisdictionally separated between
20 the wholesale and retail customers. The margin portion is then
21 credited to the fuel clause and the transmission portion is credited
22 to the base rates of each, respectively.

1 **Q. Does the Company's suggested treatment change the basis for**
2 **the existing 80%/20% sharing of any gain realized by Florida**
3 **Power in making an economy sale?**

4 **A. No, it doesn't. The 80/20 split still applies to the jurisdictional**
5 **portion of all revenues credited to the fuel clause from economy**
6 **sales exceeding the jurisdictional fuel cost incurred in making the**
7 **sale.**

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

10 **A. Yes.**

1 Q (By Mr. McGee) Mr. Wieland, would you give
2 us a summary of your testimony, please, as it relates
3 to the transmission issues in Issues 9 through 12?

4 A Certainly.

5 Good morning, Commissioners. I'll try to
6 stay relatively brief. It is quite a complex issue
7 that we're dealing with in this case.

8 Let me first of all say that we are, as
9 Florida Power, viewing two separate types of
10 agreements that are handled somewhat differently.
11 There are agreements that were put in place prior to
12 July of 1996, which is really where the majority of
13 the broker agreements that I think is the subject of
14 discussion here fall. They are also agreements signed
15 after that under the so-called open access tariff,
16 which we deal with somewhat differently.

17 starting, perhaps, with Issue 9, and again
18 if we talk about the existing agreements under
19 which -- and right now all of the broker sales fall
20 under that -- what FERC required us to do is to
21 separate those agreements into a transmission and a
22 nontransmission component. So we have essentially
23 unbundled that and carved out a piece of the
24 transaction cost. That is called transmission.

25 COMMISSIONER CLARK: Mr. Wieland, can I

1 interrupt you? I think I've missed something.

2 WITNESS WIELAND: Okay.

3 COMMISSIONER CLARK: I thought broker sales
4 were just a hour-by-hour sale.

5 WITNESS WIELAND: They are.

6 COMMISSIONER CLARK: And you have
7 agreements --

8 WITNESS WIELAND: Yes.

9 COMMISSIONER CLARK: -- with them?

10 WITNESS WIELAND: Yes. Any sale, whether
11 it's a broker sale or long term has FERC-approved
12 agreements in place. They are basically fairly
13 standard contractual agreements that specify some of
14 the terms.

15 COMMISSIONER CLARK: Does FERC still
16 recognize those contracts?

17 WITNESS WIELAND: Yes. We have had to file,
18 or at least file unbundled tariffs for all of those
19 agreements in accordance with FERC Order 888.

20 COMMISSIONER CLARK: Okay.

21 WITNESS WIELAND: So they have, to my
22 understanding, a certain jurisdiction over the nature
23 of those agreements.

24 But at any rate, what the -- in summary, I
25 guess, if you look at the broker transactions per se,

1 there has not been any change in the way that Florida
2 Power has provided broker quotes, which I think is the
3 Issue 9. In essence, we are still quoting the same
4 incremental cost and the transaction price that is
5 being computed, is the same as it was before
6 Order 888. What has changed is we have now carved out
7 a piece of that transaction and are calling it
8 transmission. And I guess the next issue is then what
9 do you do with this imputed cost, as we call it.

10 And what Florida Power has elected to do,
11 and is planning on continuing to do, is to effectively
12 treat those revenues much in the same manner as we had
13 prior to 888. And what that really means is we are
14 returning this imputed transmission revenue through
15 the fuel clause in the same manner that we have
16 before. The only distinction we're making is the fact
17 that FERC is calling it a transmission revenue.
18 There's a somewhat minor detail that says transmission
19 revenues and expenses are given different separation
20 treatments between the wholesale and the retail
21 jurisdiction. They are not exactly the same
22 percentages. So there's a minor change in the
23 computation of that that affects these computations.

24 But as far as the basic approach that we've
25 taken is that these transmission revenues, although

1 they are imputed and calculated, are still being
2 flowed back to the customer as much as they had
3 before.

4 Some of the other issues that are in place
5 is what happens to transmission revenues that are
6 charged by a third-party wheeler. That, for example,
7 would be the case if the City of Tallahassee had a
8 transaction with Florida Power and Light and they
9 would wheel through Florida Power. In that particular
10 instance that has been no change in the treatment of
11 the revenues or the expenses before or after FERC 888.
12 So essentially there's been no change.

13 Then lastly the so-called, what we're
14 calling as new open access tariffs, if we were to make
15 some type of sale to an another utility under the open
16 access tariff, and in that instance we actually charge
17 a transmission cost on top of the energy cost, so
18 there's actually additional dollars we collect unlike
19 the broker system.

20 And what we would -- the way we would deal
21 with those dollars is essentially the same way we deal
22 with all other transmission revenues. There are
23 additional dollars collected. Go in a general
24 category called wheeling. Those are treated as above
25 the line operating revenues and are normally

1 considered base rate items. And we would suggest to
2 the extent that we collect additional dollars for
3 transmission that they would be the treated the same
4 way they've always been. And that concludes my
5 summary.

6 **COMMISSIONER CLARK:** And how have they
7 always been treated?

8 **WITNESS WIELAND:** They've always been
9 treated, both revenues and expenses as -- it shows up
10 in an item called above the line revenues, operating
11 revenues, and they are typically treated as a -- in
12 base rate cases rather than some of the flow-through
13 clauses.

14 **MR. MCGEE:** We tender Mr. Wieland for cross
15 examination.

16 **CROSS EXAMINATION**

17 **BY MR. LONG:**

18 **Q** Mr. Wieland, my name is Harry Long and I'm
19 representing Tampa Electric Company this morning. I
20 have a couple of questions to ask to follow up on your
21 statement about transmission revenues to your summary.

22 Just to make sure that I have a clear sense
23 of what your approach is, when you make a broker sale,
24 tell me again how do you treat transmission revenues
25 for retail ratemaking purposes?

1 A We have been flowing them back through the
2 fuel clause. So essentially there's no changes
3 compared to what we were doing before FERC Order 888.

4 Q And for existing sales you would propose to
5 continue that treatment?

6 A Yes. Essentially our philosophy is that
7 while they are called transmission revenues, we
8 haven't really charged any extra dollars so there is
9 no additional revenue coming in. And so in that
10 sense as long as we're just carving out something, and
11 calling it a transmission revenue, we would say as
12 long as that's in place, we will continue to flow
13 those imputed revenues back.

14 Q Now, when you make a nonbroker sale,
15 short-term firm or nonfirm, how do you treat
16 transmission revenues in that case for retail
17 ratemaking purposes?

18 A Whenever we have -- frankly, quite a few of
19 the sales that are so-called existing also don't have
20 any transmission carved out, but if we have a sale
21 that's under a new tariff but we charge a specific
22 transmission revenue on, that's identified and
23 actually charged as a separate item, then that item
24 would just become part of the general so-called
25 wheeling revenues and be treated as an above the line

1 operating income item.

2 Q Now, in another instance where you wheel as
3 a third-party broker sale, how do you treat the
4 transmission revenues there for retail ratemaking
5 purposes?

6 A Those are also treated as operating revenues
7 above the line as a base rate item. They are not
8 flowed through the fuel clauses.

9 Q Okay. And finally, when you wheel as a
10 third party for a nonbroker sale, short-term firm or
11 nonfirm, there how do you treat the transmission
12 revenues for retail purposes?

13 A There wouldn't be any distinction. I think
14 as a third-party wheeler, whenever you have
15 transmission revenue, regardless of what the nature of
16 the sale is, you would treat it the same way.

17 Q Thank you. Mr. Wieland.

18 MR. LONG: Madam Chairman, I have no further
19 questions.

20 CHAIRMAN JOHNSON: Florida Power and Light,
21 any questions?

22 MR. CHILDS: No questions.

23 CHAIRMAN JOHNSON: Gulf, any questions?

24 MR. STONE: No questions.

25 CHAIRMAN JOHNSON: Public Counsel.

1 CROSS EXAMINATION

2 BY MR. BURGESS:

3 Q Yes, if I could, Mr. Wieland -- let me ask
4 first about Issues 9 and 11, basically the treatment
5 of transmission costs in these sales and creating the
6 transaction fee.

7 In looking at your exhibit G -- your
8 exhibit, Part G, I get the impression that what change
9 would be made is to add \$3 to the transaction; is that
10 correct?

11 A No. You would add \$3 to the transaction
12 only under the third column, which is called "new
13 unbundled agreements."

14 Q Yes. That's what I'm speaking to.

15 A But the broker sales do not fall into that
16 category. The broker sales fall into essentially the
17 middle column, which is entitled "Existing Agreements
18 Modified by Order 888." And that's really the
19 distinction we're making. We're not charging
20 additional monies for that.

21 Q And when you are wheeling and you make a
22 wheeling charge to another party, a producer for a
23 third-party user, you bill them on separate invoice
24 for the wheeling fee; is that correct?

25 A Yes.

1 Q Does that not -- does that treatment, the
2 fact that -- does that not create a different
3 transaction cost for what would otherwise be the same
4 cost of fuel for the user, on the one hand buying from
5 Florida Power Corp but on the other hand buying from
6 somebody Florida Power Corp wheels for?

7 A Yes. I think it does. I think largely that
8 is the situation at FERC. I think it's trying to
9 change with this whole direction they were going into.
10 Make sure that transaction is recognized for all
11 transactions, not just those between third parties.

12 Q But you're saying it wouldn't change for the
13 broker.

14 A Right. And frankly, this is an area where I
15 think there's still some disagreement, or at least
16 interpretations, because none of us know exactly what
17 FERC is willing to do.

18 I think you've had testimony from Tampa
19 Electric -- and I don't want to speak for them, but I
20 think their understanding is, as is ours, that FERC on
21 one hand has said that you cannot increase the cost of
22 these economy transactions and at the same time they
23 say but you have to carve out transmission.

24 So I think FPL, if I understand them right,
25 they are actually charging. But at this stage we're

1 not quite sure whether FERC will accept that or not.
2 We've had those tariffs in front of FERC since January
3 and they have not ruled on it. This is really an open
4 issue at that stage. And that's the main reason why
5 we have not charged any additional monies on those
6 type of sales.

7 Q Just so you'll know, that's exactly our
8 point on it. It's very difficult. We're with you on
9 that. It's difficult to see what FERC is saying. And
10 it does create a bit of a quandry because, at least as
11 I understand it -- if I can go back and explore
12 that -- what you're saying is on the broker then, if
13 there is a potential user, a potential buyer, they
14 would -- they perhaps, under this process, might find
15 a better bargain in purchasing from Florida Power Corp
16 even though the actual fuel used by Power Corp is
17 higher than another potential seller because you've
18 got the transaction fee -- transmission fee
19 differential. Am I correct in understanding that?

20 A If I understand you right I think you're
21 correct. Although as a buyer I'm not really sure you
22 would care what somebody's cost pieces are. You're
23 going to take the least price.

24 Q But it does defeat the whole point of the
25 broker which is to create an economically efficient

1 statewide usage irrespective of which companies
2 customers are actually getting usage, but of creating
3 the most economical fuel burn at any point in time.
4 Does it not defeat that purpose?

5 A I think it could under some circumstances
6 work against that. As I said, I think that is the
7 problem that FERC sees with it. The problem is we
8 don't quite know how to get there from here.

9 **COMMISSIONER CLARK:** Mr. Wieland, you think
10 that the FERC order allows you to treat pricing for
11 transmission in a broker system sales different than
12 the other utilities?

13 **WITNESS WIELAND:** Well, our
14 interpretation -- and again that's subject to final
15 FERC ruling -- is that we're not allowed to increase
16 the cost of a transaction, which means we can't add a
17 transmission charge on top of it.

18 **COMMISSIONER CLARK:** Would you agree with me
19 it makes sense for everybody on the broker system to
20 comply with the FERC order in the same way?

21 **WITNESS WIELAND:** Absolutely. I think it's
22 essential for the broker to operate properly, that we
23 all have the same ground rules to work with. I think
24 until FERC resolves that issue, I think what I've seen
25 is the different companies interpret what FERC allows

1 you to do and not to do differently. And we're not
2 really sure who is right. But that's just going to
3 take some time to get resolved. My understanding is
4 that FERC has not ruled on that issue completely.

5 Q (By Mr. Burgess) If on the other hand,
6 Florida Power Corp in making broker sales did add an
7 incremental amount for the transmission cost, you
8 would be in another quandry of perhaps eradicating
9 what would otherwise be an economical sale from Power
10 Corp to a user, if the transmission fee exceeded the
11 amount of differential between the decrement of the
12 purchaser and the increment of the seller?

13 A And that's -- and if you go back and look at
14 the basic philosophy of the broker system when it was
15 established, the idea was that, you know, if Florida
16 Power makes a sale to TECO or vice versa, we don't
17 incur any transmission expenses. It's already there.
18 So it didn't make much sense to charge something that
19 didn't exist.

20 But I mean it's never going to be a perfect
21 world in that sense, so I think ultimately as long as
22 we all do it consistently at least that will help.
23 But clearly, you know, whether you should charge
24 something only when there's an incremental cost, I
25 mean that's an issue that just may not really work in

1 a world where you're separating all of those
2 functions.

3 **MR. BURGESS:** Thank you, Mr. Wieland.
4 That's all I have.

5 **CHAIRMAN JOHNSON:** Ms. Kaufman.

6 **MS. KAUFMAN:** I have no questions.

7 **CHAIRMAN JOHNSON:** Staff.

8 **MS. PAUGH:** Staff has an exhibit that they
9 would like to provide to the Commissioners and parties
10 before we commence questioning.

11 This exhibit summarizes the various
12 treatments of the various utilities, and is result, in
13 part, of categorizing, if you will, the information
14 that came out of the workshop on May 30th, as well as
15 the testimony submitted by the parties. It was our
16 thought that this would provide a picture of the
17 various treatments by the utilities.

18 **CHAIRMAN JOHNSON:** Would you like for me to
19 mark it?

20 **MS. PAUGH:** Yes, please.

21 **CHAIRMAN JOHNSON:** I'll mark it Exhibit 3.
22 Short title Summary of Proposed Regulatory Treatment
23 of Broker Sales.

24 **MS. PAUGH:** Thank you, Madam Chairman.

25 (Exhibit 3 marked for identification.)

CROSS EXAMINATION

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BY MS. PAUGE:

Q Mr. Wieland, whenever you're ready we'll go on with the questioning, but I didn't want to interrupt your review of the exhibit. (Pause)

A I'm just look at Part G of my exhibit and comparing it with the second column, and I'm not sure that the numbers are exactly the same, so I'm not sure what the differences are. I think I understand it enough so that we can probably go ahead and walk through it.

Q I believe we'll clear that up when we get to that portion of our questions.

A All right.

Q The exhibit is based on a \$30 buy quote, a \$20 sell quote and and \$25 transaction price, as well as a \$3 transmission charge. That hypothetical was developed as a result of the workshop in an effort for Staff to ascertain information from all of the utilities from the same fact set as to how the transmission charges were being treated.

COMMISSIONER CLARK: Have you got FPL right?

MS. PAUGH: As far as we know we do. Yes.
Does the utility have a comment?

COMMISSIONER CLARK: I guess we'll get --

1 when Mr. Villar gets to the stand we can clarify.

2 MS. PAUGH: If I may proceed?

3 Q (By Ms. Paugh) Mr. Wieland.

4 A Yes.

5 Q Is Florida Power Corporation a net buyer or
6 a net seller on the broker system?

7 A I would say as a general rule we tend to be
8 a buyer more than a seller.

9 Q Does FPC's broker quotes prior to FERC
10 Order 888 include transmission costs?

11 A No.

12 Q What costs were included in FPC's broker
13 quotes prior to 888?

14 A I'm sorry, I didn't quite understand that.

15 Q What costs were included in FPC's broker
16 quote prior to 888?

17 A None. It was purely incremental fuel
18 cost -- well, it was purely incremental fuel cost.

19 Q Were there any O&M?

20 A Not as far as I know.

21 Q What costs were included by other broker
22 members in their quotes prior to the FERC order?

23 A That I don't know. I mean, my understanding
24 is that it's full incremental cost. It may in some
25 instances include variable O&M, but I don't know

1 specifically how other utilities develop their quotes.
2 But my understanding is that none of them included
3 transmission.

4 Q Would it have included incremental fuel as
5 well?

6 A It would be incremental fuel and perhaps
7 incremental O&M.

8 Q Was the broker system originally designed to
9 replicate economic dispatch of the state's resources?

10 A Yes, I think that's right.

11 Q Was it the intent of the broker system to
12 maximize fuel savings?

13 A I would think so, yes. I believe that's
14 right.

15 Q My next series of questions relate to FPC's
16 broker pricing and recovery methodology prior to FERC
17 Order 888. Again, for simplicity, we have used the
18 seller quote of \$20, a buyer quote of \$30 and a
19 transmission cost of \$3. Based on our example of \$20
20 and \$30, what would the transaction price for FPC be?

21 A 25.

22 Q Of the \$25 transaction price, \$20 of the
23 revenues would be credited to the fuel clause to
24 offset incremental production cost of the sale; is
25 that correct?

1 A Yes.

2 Q I would ask you now to refer to Page 20,
3 Lines 21 through 24 of your direct testimony.

4 A What pages were those again?

5 Q Page 20, Lines 21 through 24, if you would
6 read that I'd appreciate it.

7 A Okay. Starting on Line 21, right.

8 Q Yes, sir.

9 A "Before Order 888 the entire \$5 gain is
10 credited to the fuel clause. Retail customers realize
11 95% of this amount, which is 4.75, and wholesale
12 customers realize 5%, which is 25 cents. The retail
13 amount is allocated to customers and shareholders on a
14 80/20 basis."

15 Q Would you explain 95% and 5% separation?

16 A That was a separation that automatically
17 takes place within the fuel clause because all of the
18 fuel costs are split on an energy basis. And the
19 energy split between wholesale and retail is
20 approximately those percentages.

21 Q And this separation occurs also prior to any
22 other treatments of these sales?

23 A Yes, because that same 95% and 5% split is
24 done for all costs and all revenues.

25 Q Do jurisdictional separations of profit

1 margins occur for all utilities to your knowledge?

2 A Well, jurisdictional separation occurs for
3 all revenues and all expenses, so I guess indirectly
4 all profits as well.

5 Q Are you aware whether the other utilities
6 make this initial jurisdictional separation?

7 A Yes, they all do. I mean, that's the way
8 the fuel factor works. Most of the costs are
9 developed on a system basis. And then, you know, if
10 you look -- if you look through the mechanics of it
11 it's automatically divided into retail and wholesale
12 pieces.

13 Q Thank you. To recap, there's a \$5 profit
14 margin under our example; is that correct?

15 A Yes.

16 Q Of that \$5, is there a jurisdictional
17 separation based on 95 percent/5 percent?

18 A Yes.

19 Q How much is this retail portion of the
20 profit then?

21 A Well, I think that was on my exhibit. It's
22 whatever 95% of \$5 is. I think that was in my
23 Exhibit G. Let me see if I can find it again here.

24 (Pause) Which would be 4.75.

25 Q Thank you. Why does the stockholder

1 incentive come out of only the 4.75 or the retail
2 portion instead of the entire \$5?

3 A Well, because even the fuel revenues, the
4 incremental fuel costs, all of the revenues and costs
5 are allocated almost automatically between retail and
6 wholesale jurisdictions. That really is not anything
7 new. All of the fuel factors work that way. So by --
8 I mean almost by default since the transactions are
9 divided 95 and 5, the \$5 is automatically divided the
10 same way. That is not anything new.

11 Q If we could do a little math here for a
12 moment, what dollar amount reflects the 80/20 split of
13 the retail portion, and by that I mean under FPC's
14 methodology the 95%. So I'm asking for what is the
15 dollar amount, 80/20 split, of the 95%?

16 A The 80/20 split would be applied to the
17 4.75.

18 Q And what dollar amount is that, Mr. Wieland?

19 (Pause)

20 A Well, I just noticed I did not make that
21 calculation here and, unfortunately, I didn't bring a
22 calculator. It would be 80% of 4.75.

23 Q Subject to check, our calculation of that is
24 \$3.80.

25 A Sounds about right.

1 Q All right. Thank you. Assuming the 3.80 is
2 correct, that dollar amount is then credited to the
3 retail ratepayers through the fuel clause; is that
4 correct?

5 A Yes.

6 Q We've been discussing FPC as a selling
7 utility. If prior to 888 you purchased economy
8 energy, how did you recover the cost?

9 A All the purchased economy is recognized as
10 an expense, recovered through the fuel clause, again
11 on the same 95% and 5% basis.

12 Q And what amount would that have been based
13 on our hypothetical?

14 A If we did what? Purchase it for 25?

15 Q For \$25. Is that your answer?

16 A Well, the separation would be that 95% it
17 would be recovered from the retail jurisdiction and 5%
18 through the wholesale.

19 Q So it would be 95% of the \$25 transaction
20 price?

21 A Yes.

22 Q Thank you. To your knowledge was the broker
23 pricing and cost recovery treatment consistent for all
24 utilities prior to FERC Order 888?

25 A I believe so, yes.

1 Q Mr. Wieland, I direct you now to your
2 exhibit entitled Part G on the Page 21 of your direct
3 testimony, your exhibit reflects a price of \$25 for
4 the broker sale under 888; is that correct?

5 A Yes.

6 Q Didn't you testify earlier that the sale
7 price was \$25 prior to 888?

8 A Yes.

9 Q So there hasn't been an increase in
10 transmission cost as a result of 888; nothing has
11 changed; is that correct?

12 A That's correct. The transaction is still
13 priced at 25.

14 Q Does this mean that the transaction
15 component of your tariff is not an incremental
16 transaction cost?

17 A Yes. You're talking about the \$3, right?

18 Q That's correct.

19 A There's not an out-of-pocket cost that the
20 company incurs for that.

21 Q In your testimony example you've assumed
22 that the transmission rate is \$3; is that correct?

23 A Yes.

24 Q Of the \$25 transaction price, \$20 of the
25 revenue would be credited to the fuel clause to offset

1 the incremental production cost of the sale; is that
2 correct?

3 A Yes. But that's not all that gets credited.
4 We're crediting the \$3 or at least the jurisdictional
5 portion of that as well.

6 Q Okay.

7 A And I think that's -- not to digress, but
8 when I look at the very bottom of the handout that you
9 had, that shows our gain to the stockholder
10 increasing. I'm not sure exactly how you got there
11 but that's not what I see happening.

12 Q Would you like to explain what you do see
13 happening?

14 A What I see happening is essentially what the
15 middle column shows, and as I stated in my summary,
16 we're flowing back the jurisdictional portion of the
17 transmission revenues just like we were before. We're
18 flowing that back through the clause.

19 Q Okay.

20 A The only difference between what we were
21 doing prior to FERC Order 888 and after FERC
22 Order 888, the only difference -- and it's somewhat of
23 a subtle one that may be a little confusing here --
24 but prior to FERC Order 888 there was no transmission
25 component. It was just -- it's as if it didn't exist.

1 And so the separation was done purely on an energy
2 basis.

3 Now that FERC has ordered us to carve out
4 and identify a piece of it as transmission, they are
5 going to furthermore say well, now that you've
6 identified something as transmission, then its
7 jurisdictional separation has to be treated along with
8 all other -- the way all other transmission revenues
9 are split. That's the only thing that has changed.

10 We have still taken the position that we are
11 continuing to flow back 80% -- applying the 80% to the
12 jurisdictional transmission piece of that that we've
13 carved out.

14 Q According to your testimony example how does
15 FPC propose to treat the \$5 margin?

16 A Well, what we have, if you look at the first
17 column, we had a -- we had a jurisdictional margin of
18 4.75, which is, I believe, 95% of the \$5 we mentioned.
19 We go through the same exercise other than the
20 transmission piece, has a somewhat different
21 jurisdictional allocation. So now what we have left
22 over is 4.15. And what we're doing is that 4.15 is
23 what gets split 80/20. 80% going to the customer, 20%
24 going to the shareholder.

25 Q Does this treatment that you describe reduce

1 the amount of the fuel clause credit to the retail
2 customers vis-a-vis the amount that would have been
3 credited prior to 888?

4 A It reduces it by -- well, essentially 80% of
5 60 cents, which is the difference between 4.75 and the
6 4.15. But keep in mind that the wholesale customers
7 are going to get the benefit of the other 25%, so if
8 we did not make that separation, then we would
9 essentially carve the \$3 out and pass back more than
10 that. In other words, if we passed 95% of that to
11 retail customers and then FERC requires another 25% to
12 be passed on to wholesale customers, then you're
13 dividing more than you have.

14 Q How would FPC propose the purchasing utility
15 recover the transmission portion of the \$25
16 transaction cost of the sale?

17 A What we would suggest that the purchasing
18 utility should purchase the lowest cost energy
19 available regardless of what the delivery charge is.
20 Because, I mean, the ultimate objective is to buy the
21 cheapest power you can, and you don't want to get into
22 the distinction of saying, well, I'm going to buy
23 let's say from Tampa Electric Company because they
24 have very low transmission, and not from somebody up
25 in, who knows, TVA perhaps, even though TVA might be

1 cheaper but they have a large transportation
2 component. I mean, from a purchasing standpoint you
3 shouldn't care what the pieces are made out of. You
4 should only care about what the lowest energy is.

5 Q I understand that. But my question was how
6 should the purchasing utility recover the cost in your
7 opinion?

8 A They should recover the cost of the energy
9 delivered, the total purchased price.

10 Q Should that be recovered through a clause?

11 A Yes.

12 Q Which clause?

13 A Which it is now.

14 Q Which clause?

15 A It's recovered through the fuel clause.

16 Q Okay. That's where we were headed.

17 A Let me make a distinction: for economy
18 sales. That's not necessarily true for other
19 arrangements. In some instances maybe in the capacity
20 clause.

21 Q Okay. I'd like a clarification here. I
22 believe it was your testimony that the category of
23 sales, according to FPC's methodology, that occurred
24 off 7-9-96 do not apply to broker sales. Was that
25 your testimony in terms of the 888 treatment?

1 A Yes. My understanding is what FERC required
2 us to do for existing sales is to unbundle. That is
3 not the same as filing a new tariff for a new type of
4 sale. That would be under the open access tariff. So
5 there's a distinction there. And all of the broker
6 sales would fall under the category, Existing
7 Agreements, which the middle column in my exhibit.

8 Q Based on your answer, would it be fair then
9 to omit the second FPC column on our exhibit? It's
10 the column labeled "FPC after 7-9-96."

11 A On your exhibit?

12 Q Yes, sir.

13 A When I look at that I believe that's
14 incorrect as far as what we're doing.

15 Q Okay. Thank you.

16 **COMMISSIONER CLARK:** Mr. Wieland,
17 essentially are you treating all broker sales as
18 exempt from Order 888?

19 **WITNESS WIELAND:** I don't know that I would
20 say they are exempt. I mean, we have filed the
21 existing tariffs and unbundled them by FERC order so
22 that they are not exempt, but they are not new open
23 access tariffs. That they simply said take the
24 existing agreements and identify a transmission piece.
25 And the uncertainty then is that for those existing

1 agreements, can you or can you not add -- increase the
2 total transaction price, that's the \$25 we're talking
3 about, by adding a transmission component. And that
4 is, I think, where there are some differences between
5 the utilities here.

6 We believe that FERC's stand was if you
7 could not increase the cost -- and my understanding is
8 that that's TECO's view as well as. However, FPL I
9 think has instituted an additional charge and perhaps
10 Gulf has as well. But FERC has not ruled on whether
11 that is appropriate or not. So we're all kind of
12 waiting to see what is going to happen.

13 COMMISSIONER CLARK: But your position is
14 that all broker sales would not increase in
15 transaction costs?

16 WITNESS WIELAND: Yes.

17 Q (By Ms. Paugh) We are now handing out
18 another exhibit. We would request that this exhibit
19 be marked for identification.

20 CHAIRMAN JOENSON: It will be marked as
21 Exhibit 4. Short title "Nondirectly Interconnected
22 Utility Example."

23 MS. PAUGH: Thank you, Madam Chairman.

24 (Exhibit 4 marked for identification.)

25 Q (By Ms. Paugh) This document was generated

1 by Florida Power Corporation for purposes of the
2 workshop, it's my understanding. I'd like to ask a
3 few questions based on the document.

4 A Okay.

5 Q What does this exhibit demonstrate?

6 A If I understand it right, it's an example
7 that shows a transaction taking place between Florida
8 Power and the City of Key West where FPL is
9 essentially a third-party transmission provider. And
10 then furthermore, it is a broker transaction where FPC
11 quotes 20, Key West has an avoided cost of 30, so the
12 transaction -- transaction price -- let me look at
13 this for an minute. I'm not sure under this
14 particular example that the transaction price is
15 correct.

16 My understanding is that what happens is
17 that you still calculate a split the savings of --
18 based on avoided cost and incremental cost of 25, but
19 a \$3 transmission charge is added on, so the price
20 that is actually quoted to Key West under that
21 scenario would be \$28, not 25.

22 Q Thank you. Prior to FERC Order 888, would
23 the wheeling charge affect the transaction price?

24 A Yes.

25 Q How would the wheeling charge be recovered

1 by the purchasing utility?

2 **A** If it's a regulated utility -- of course, in
3 this case Key West I don't believe is -- but for a
4 regulated utility the recovery would be through --
5 well, through economy purchase where the full amount
6 is recovered through the fuel clause. In that case
7 the amount would be \$28.

8 **COMMISSIONER CLARK:** Mr. Wieland, tell me
9 again the quoted price under this Key West would be
10 28?

11 **WITNESS WIELAND:** Yes, and I think -- again,
12 I'm not that familiar with all of the intricacies
13 about the broker system. But my understanding is that
14 the selling utility, which in this case would be
15 Florida Power, would actually tell Key West that the
16 total price to them to be \$28: the 25 split plus \$3
17 transmission fee.

18 **COMMISSIONER CLARK:** Then they wouldn't make
19 the sale, would they, because they'd have to give FPL
20 \$3?

21 **WITNESS WIELAND:** No. The sale would still
22 take place because their cost is 30, so they are
23 better off buying at 28.

24 **COMMISSIONER CLARK:** Okay. So they save \$2?

25 **WITNESS WIELAND:** Yes. In that particular

1 example, that's right.

2 Q (By Ms. Paugh) Mr. Wieland, if I could
3 follow up on that, would the wheeling charge figure
4 into the gain under this example?

5 A The wheeling charge in this example would go
6 to Florida Power and Light. Florida Power would get
7 \$25, and so in that instance they would have -- would
8 have a \$5 gain, which would be split.

9 COMMISSIONER CLARK: Let me ask a question.
10 Why aren't you quoting them your \$23, your cost plus
11 \$3 to wheel?

12 WITNESS WIELAND: I think they would be told
13 our incremental cost is 20, so you would look at
14 theirs, they are quoting 30, so there's a \$25
15 split-the-savings approach, but then they would pay
16 the wheeling fee for the utility that's in the middle,
17 in this case FPL, of \$3 which would be added on to the
18 \$25 split the savings. That's my understanding as to
19 how the broker has always worked.

20 COMMISSIONER CLARK: Okay.

21 WITNESS WIELAND: And then after that, FPL
22 would get \$3 and Florida Power would get 25. Florida
23 Power would then take the 25 and say well, there's
24 been a \$5 gain, the difference between 25 and 20, and
25 that in turn would be split after the appropriate

1 jurisdictional separation 80/20.

2 **MS. PAUGH:** Staff has no further questions.

3 **CHAIRMAN JOHNSON:** Commissioners, any
4 further questions? Redirect.

5 **MR. MCGEE:** No, ma'am.

6 **CHAIRMAN JOHNSON:** Okay. Exhibits.

7 **MR. MCGEE:** Ask that Exhibits 1 and 2 be
8 admitted into evidence.

9 **CHAIRMAN JOHNSON:** They will be admitted
10 without objection.

11 **MS. PAUGH:** We would request Staff exhibits
12 Exhibits 3 and 4 be moved into the record.

13 **MR. STONE:** Commissioner, we would object to
14 Exhibit 3 inasmuch as it contains information from
15 Gulf Power Company that has not been authenticated
16 through in witness and could not be authenticated
17 through this witness.

18 **CHAIRMAN JOHNSON:** Let's just hold that
19 until we have had an opportunity to --

20 **COMMISSIONER GARCIA:** Which one?

21 **CHAIRMAN JOHNSON:** Exhibit 3.

22 **MS. PAUGH:** The summary chart.

23 **MR. CHILDS:** We would also question the
24 numbers for Florida Power and Light Company.

25 **CHAIRMAN JOHNSON:** Okay. We'll then --

1 withdraw that motion to move it, and we will perhaps
2 renew it at the end of the witness's --

3 COMMISSIONER GARCIA: We are admitting 4?

4 CHAIRMAN JOHNSON: But 4 will be admitted
5 without objection.

6 (Exhibits 1, 2 and 4 received in evidence.)

7 CHAIRMAN JOHNSON: Let's take a --

8 COMMISSIONER CLARK: But 4 is wrong, right?

9 MS. PAUGH: I'm sorry?

10 COMMISSIONER CLARK: Never mind.

11 CHAIRMAN JOHNSON: Let's take a 15-minute
12 break.

13 (Recess taken.)

14 - - - - -

15 CHAIRMAN JOHNSON: We're going to go back on
16 the record.

17 MR. CHILDS: Chairman Johnson, I believe the
18 next witness is Mr. Villar. And he has been sworn, is
19 that correct? You have been sworn to testify in this
20 proceeding?

21 WITNESS VILLAR: Yes, I have.

22

23

24

25

1 also sponsoring two documents which in the Prehearing
2 Order are marked for identification as MV-1 and MV-2.

3 **CHAIRMAN JOHNSON:** MV-1 will be identified
4 as Exhibit 5, MV-2 as Exhibit 6.

5 (Exhibits 5 and 6 marked for
6 identification.)

7 **Q** **(By Mr. Childs)** Do you have any changes or
8 corrections to make to these exhibits Mr. Villar?

9 **A** No, I do not.

10 **Q** Do you adopt this as your prepared
11 testimony?

12 **A** Yes, I do.

13 **MR. CHILDS:** I'd like to have the prepared
14 testimony of Mr. Villar inserted into the record as
15 though read.

16 **CHAIRMAN JOHNSON:** It will be so inserted.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**TESTIMONY OF MARIO VILLAR****DOCKET NO. 970001-EI****June 23, 1997**

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

2 A. My name is Mario Villar and my business address is 9250 West Flagler Street,
3 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 Manager of
7 Wholesale Services in the Power Delivery Business Unit.

8

9 **Q. Please describe your education and professional experience.**

10 A. I have a Bachelor of Science in Electrical Engineering and a Juris Doctor degree,
11 both from the University of Miami. I have also completed the University of
12 Florida's/Florida Power & Light Company's Nuclear Power Engineering Program
13 (a four month, full-time, course of study in Nuclear Reactor Engineering,
14 Technology, and Balance of Plant) and Columbia University's Executive Program
15 in Business Administration. I am a member of the Florida Bar, the Federal
16 Energy Bar Association and the Institute of Electrical and Electronics Engineers.

1 Additionally, I have completed numerous technical and management courses
2 during my career at FPL.

3
4 I joined FPL in 1973 as an engineer in the Distribution Engineering department.
5 In 1976, I transferred to the Nuclear Licensing department as Licensing Engineer
6 for St. Lucie Nuclear Unit No. 2. In 1980, I joined the System Planning
7 department as Senior Engineer working on special projects (e.g., major
8 generation and transmission facilities; proposed regulations). In 1982, I joined
9 the Governmental Affairs department as an Issues Advisor on State and Federal
10 legislative and regulatory matters. In 1984, I was promoted to Federal
11 Regulatory Representative to represent the Company's interests before
12 regulatory, legislative and executive branch agencies, and trade associations in
13 Washington, D.C. In 1989, I joined the Regulatory Affairs department as State
14 Regulatory Representative. In 1991, I became Manager of Regulatory Issues
15 and Policies, working on various State and Federal regulatory matters. In 1993,
16 I joined the Bulk Power Markets department as Manager of Technical Services
17 and Regulatory Support. In 1996, I became Manager of Wholesale Services.
18 In that capacity, I am responsible for requirements and non-utility generation
19 (QF) contracts and for Power Delivery's contract and tariff filings before the
20 Federal Energy Regulatory Commission, including those related to FERC Orders
21 888 and 888A.

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

2 A. The purpose of my testimony is to address issues raised at the Prehearing
3 Conference of February 5, 1997, and deferred by Order No. PSC-97-0180-PHO-
4 EI, in connection with FERC's Order 888 requirement that investor owned utilities
5 include the cost of transmission when making Schedule C sales.

6

7 Q. **How should transmission costs be accounted for when determining the
8 transaction price of an economy, Schedule C, broker transaction between
9 two directly interconnected utilities?**

10 A. Transmission costs should be accounted for by adjusting the buyer's costs in the
11 Broker matching algorithm just like it is done for transactions between non-
12 directly interconnected utilities. FPL proposes to base its customers' Fuel
13 Clause revenues and expenses on the same methodology that has been in
14 existence for years. That methodology results in revenue credits through the
15 Fuel Clause based on the delivered price of the generation quoted on the
16 Broker. Under FERC's new rules for offsystem sales that delivered price now
17 includes transmission costs.

18

19 Prior to FERC Order 888, transmission costs were not included in the Broker
20 price quote for two directly interconnected utilities (e.g., FPL and FPC).
21 Transmission costs were only considered in the matching of two non-directly
22 interconnected utilities (e.g., FPL and Tallahassee) by adjusting the buyer's

1 quote by the transmission charge of the intervening utility. As a result of FERC
2 Order 888, utilities are now required to charge themselves for the use of their
3 own transmission when making offsystem sales. The rationale behind this
4 requirement is so that transmitting utilities do not have a competitive advantage
5 over others that must use the transmitting utilities' transmission system for
6 making sales (i.e., they treat themselves comparably). Therefore, the costs of
7 transmission are to be included for Schedule C broker sales.

8
9 Since the philosophy of the Broker has been that the cost of generation quoted
10 on the Broker should reflect the delivered price of that generation (e.g., Broker
11 quotes have for years been based on the cost of generation at the point of
12 delivery to another system), FPL is treating its sales to directly interconnected
13 utilities in the same manner that all other Broker transactions are treated (or
14 following FERC's principles - in a comparable manner). That is, matches for
15 FPL's Schedule C sales are based on the delivered price of its generation to the
16 delivery point with the directly interconnected utility. That delivered price
17 includes the charge for FPL's transmission pursuant to FPL's FERC filed
18 transmission tariff. Through this methodology FPL's Broker sales are treated the
19 same as Broker sales by other users of FPL's transmission system.

20
21 **Q. If the cost of transmission is used to determine the transaction price of an**
22 **economy, Schedule C, broker transaction between two directly**

1 **interconnected utilities, how should the cost of this transaction be**
2 **recovered?**

3 A. As described in more detail below, FPL proposes to flow through the fuel clause
4 for the benefit of its customers the revenues received for transmission service
5 when making Schedule C sales. In order to show the effect of Order 888 on
6 Schedule C purchases and sales on the Broker, I have attached to my testimony
7 two exhibits (Exhibits MV-1 and MV-2) illustrating how FPL's delivered price of
8 product methodology treats a Broker transaction between two directly
9 interconnected utilities both before and after Order 888. Exhibit MV-1 shows the
10 purchase side of Schedule C Broker transactions for directly interconnected
11 utilities. Exhibit MV-2 shows the sales side of such transactions. For illustrative
12 purposes it is assumed that the buying utility's cost of running its own generation
13 to supply the next Mw would be \$30/Mw. The selling utility's incremental cost of
14 generation for sale is \$20/Mw. Transmission charges are assumed to be \$3/Mw.

15
16 Schedule C Purchases

17 Under the process in effect prior to Order 888 and assuming a Broker match
18 between these two utilities, a transaction would take place between them at
19 \$25/Mw $((\$30+\$20)/2)$. The transaction price and the resulting customer charge
20 by the purchasing utility (its regulatory treatment) are shown on Exhibit MV-1
21 under the headings "BEFORE" (FERC Order 888).

22

1 After Order 888 transmission costs need to be included in a utility's economy
2 sales. The effects of the Order are shown on Exhibit MV-1 under the headings
3 "AFTER". The Broker computer matching would account for these transmission
4 charges by adjusting the buyer's quote by the transmission charge of \$3. The
5 resulting sale would take place at a price of \$23.50 $((\$30-\$3+20)/2)$. The way
6 the Broker works the buyer in a transaction receives a separate invoice for
7 transmission, thus the total cost to the purchaser is \$26.50 $(\$23.50 + \3
8 $\text{transmission charge})$. This total cost is reflected in the regulatory treatment for
9 recovery of these charges in Exhibit MV-1.

10 11 Schedule C Sales

12 Exhibit MV-2 shows the sales side of a Broker transaction between the same two
13 utilities. Prior to Order 888, the transaction would take place at the same price
14 of \$25 discussed before since there was no charge for transmission. The seller
15 would receive revenues of \$25 and incur costs of \$20 for a gain of \$5. The
16 regulatory treatment of this gain for both customers and seller are shown in
17 Exhibit MV-2 under the headings "BEFORE". In this example, \$4 (80% of the
18 gain) would be credited to customers through the Fuel Clause and \$1 (20%)
19 would be retained by Seller.

20
21 As described above, after Order 888 the transaction price would be \$23.50 and
22 the Seller would separately receive \$3 for transmission. FPL proposes to credit

1 the transmission revenues for these transactions to its customers through the
2 Fuel Clause (i.e., FPL does not propose to either retain these revenues "above
3 the line" as "other revenues", or to treat them as part of the "gain" on the sale
4 and retain 20%). This is shown in the "AFTER" column in Exhibit MV-2 where
5 the \$3 for transmission are treated as a direct credit and 80% (\$2.80) of the
6 \$3.50 gain is also credited to customers. In this case the seller would retain
7 \$0.70 (20%) of the \$3.50 gain.

8
9 **Q. How should transmission costs be accounted for when determining the**
10 **transaction price of an economy, Schedule C, broker transaction that**
11 **requires wheeling between two non-directly interconnected utilities?**

12 **A.** FPL proposes no change in the manner in which transmission costs are
13 accounted for by the Broker for transactions between non-directly interconnected
14 utilities. Since about 1981 the Broker has treated the transmission costs of the
15 intervening utility as part of the costs incurred to deliver the generation to the
16 buyer. Accordingly, the Broker adjusts the buyer's quote to recognize these
17 costs. The adjustment is done in the same manner described in Exhibits MV-1
18 and MV-2 for "AFTER" transactions. The introduction of the transmission cost
19 of the intervening utility does result in a change in the transaction price from that
20 shown in Exhibits MV-1 and MV-2, however, the dollar difference between the
21 total cost of the transactions before and after (Order 888) is the same as that
22 presented for two directly interconnected utilities. As has always been the case

1 with the transmission charge by the intervening utility, the transmission revenues
2 received by such utility are not part of that utility's Fuel Clause filing as it did not
3 have a Schedule C transaction.

4

5 **Q. If the cost of transmission is used to determine the transaction price of an**
6 **economy, Schedule C, broker transaction between two non-directly**
7 **interconnected utilities, how should the cost of this transaction be**
8 **recovered?**

9 **A. FPL again proposes no change in the current regulatory treatment of these**
10 **costs. Transmission costs paid to intervening utilities are part of the total cost**
11 **of Schedule C transactions and should continue to be recovered through the**
12 **Fuel Clause.**

13

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

15 **A. Yes, it does.**

1 Q (By Mr. Childs) Would you please summarize
2 your direct testimony?

3 A Good afternoon, Commissioners. My testimony
4 addresses FPL's proposed treatment of transmission
5 revenues an associated with FPL's Schedule C sales.

6 FERC Order 888 issued in 1996 required
7 utilities to unbundle their existing economy
8 coordination agreements and to take service for their
9 own Scheduled C sales under FPL's transmission tariff.

10 This requirement is designed to eliminate or
11 reduce any competitive advantage that a transmitting
12 utility such as FPL may have over other utilities that
13 must use FPL's transmission system to make sales. The
14 requirement includes an appropriate charge for service
15 under the tariff.

16 My testimony contains two exhibits,
17 illustrating the effects of Order 888 on Schedule C
18 transactions and FPL's proposed regulatory treatment
19 for both purchase and sales on the broker.

20 FPL's proposal is simple: is to flow
21 through the fuel clause for the benefits of its
22 customers the revenues received for transmission
23 service when making Schedule C sales.

24 That concludes my summary.

25 MR. CHILDS: We tender Mr. Villar for cross

1 examination.

2 **CHAIRMAN JOENSON:** Okay. TECO any
3 questions?

4 **MR. LONG:** Thank you, Madam Chairman.

5 **CROSS EXAMINATION**

6 **BY MR. LONG:**

7 **Q** Mr. Villar, good afternoon. I just have a
8 couple of questions for you.

9 First of all, just for purposes of
10 clarification, at Page 3 of your direct testimony, the
11 paragraph beginning at Line 10 you describe your
12 proposal. You call it a proposal. And I guess what I
13 want to pin down is whether the methodology that you
14 describe in your direct testimony is a methodology
15 that you are currently employing, or is it one that
16 you would propose to employ at some point in time?

17 **A** My testimony was intended to describe what
18 FPL is doing with the transmission revenues and how do
19 we propose to flow through those revenues.

20 The methodology that was described there was
21 intended to track what the broker was doing and the
22 way the broker was handling transactions. It was not
23 intended as to a specific methodology by FPL. Maybe
24 the methodology would have not been the right word to
25 use.

1 Q Just so I understand, are you saying that
2 the methodology that you describe in your direct
3 testimony is not the methodology that you're currently
4 using for broker sales?

5 A No. What I'm saying is what FPL is
6 currently doing is -- you're focusing on the word
7 "methodology," and what I'm saying is my testimony
8 describes what FPL is doing with the transmission
9 revenues associated with Schedule C sales.

10 **COMMISSIONER GARCIA:** Let me make sure I
11 understand, what word are you focusing on? Are you
12 focusing on --

13 **MR. LONG:** Commissioner, let me be clear.
14 In Mr. Villar's exhibits he has a calculation for
15 Schedule C sale, which results in a broker price,
16 according to his calculations, of \$23.50. And the
17 question that I'm asking is whether the calculation
18 that appears on that exhibit is the calculation that
19 FPL is currently using now, or are they proposing to
20 use this methodology at some point in the future?

21 **WITNESS VILLAR:** With that clarification,
22 counsel, the methodology included in the exhibit is
23 the methodology that FPL was using.

24 **MR. LONG:** Thank you.

25 Q (By Mr. Long) Now, Mr. Villar, when you

1 make a broker sale, can you just go over with me how
2 you treat the transmission revenues from that sale for
3 retail ratemaking purposes?

4 A The transmission revenues associated with
5 the Schedule C sales are credited through the fuel
6 clause.

7 Q I'm sorry?

8 A They are credited through the fuel clause.

9 Q And when you make a nonbroker sale,
10 short-term firm or nonfirm, how do you treat any
11 transmission revenues that stem from those sales for
12 retail ratemaking purposes?

13 A They are credited to operating revenues.

14 Q Okay. And when you wheel as a third party
15 for a broker sale, how do you treat any transmission
16 revenues --

17 A I'm sorry, counselor. The prior question
18 was -- I thought it was for transmission service?
19 That's what you were saying?

20 Q Yes.

21 A A non-FPL sale. We were just providing
22 transmission.

23 Q Just to make sure we're clear let me go back
24 to that previous question.

25 A Okay.

1 Q When you make a nonbroker sale, either short
2 term or nonfirm, how do you account for any
3 transmission revenues that result from that sale for
4 retail ratemaking purposes?

5 A A nonbroker sale.

6 Q Yes. Short-term firm?

7 A I'm sorry. I misunderstood the question.
8 That's a FPL sale. FPL treats the revenues associated
9 with transmission by flowing it through capacity cost
10 recovery clause where there is a capacity cost
11 recovery clause issue.

12 Q Okay.

13 COMMISSIONER CLARK: Mr. Villar, would you
14 speak more slowly and louder.

15 WITNESS VILLAR: Certainly.

16 Q (By Mr. Long) When you wheel the third
17 party for broker sale, how do you treat any
18 transmission revenues gained there for retail
19 ratemaking purposes?

20 A Those revenues are treated as operating
21 revenues.

22 Q Now, that's essentially the example on the
23 exhibit that Staff introduced and questioned the FPC
24 about; is that correct?

25 A I can't see the exhibit from here,

1 counselor. I'm sorry.

2 MR. CHILDS: Could we have them identify
3 that by number so it's clear?

4 CHAIRMAN JOHNSON: Exhibit 4?

5 MR. LONG: I think it's Exhibit No.4.

6 MR. CHILDS: Thank you.

7 Q (By Mr. Long) Mr. Villar, my question was,
8 as you see in this example, FPL collects \$3 in
9 transmission revenue for third-party wheeling. So in
10 your answer to my last question, this is the same
11 situation? In the \$3 transmission revenue that's
12 shown in this example, you would credit to operating
13 revenues above the line; is that correct?

14 A That's correct.

15 Q Now, in a fourth situation where you wheel
16 as a third party for a nonbroker transaction, either
17 short-term firm or nonfirm, how would you treat
18 transmission revenues in that situation for retail
19 ratemaking purposes?

20 MR. CHILDS: Pardon me. I'm sorry. I don't
21 understand the distinction between that and the last
22 one you gave, which was third-party wheeling.

23 MR. LONG: Well, the last example was
24 third-party wheeling for a broker transaction. This
25 question is third-party wheeling for a nonbroker

1 transaction, either short-term firm or nonfirm.

2 MR. CHILDS: Thank you.

3 WITNESS VILLAR: The answer is the same.

4 Q (By Mr. Long) So the transmission revenues
5 would be credited above the line to operating
6 revenues?

7 A That is correct.

8 Q Thank you, Mr. Villar.

9 MR. LONG: Madam Chairman, I have no further
10 questions.

11 COMMISSIONER CLARK: Can I ask Mr. Villar to
12 do something? Just so I'm clear, can you go back --
13 in some instances you do it through the capacity
14 clause.

15 WITNESS VILLAR: Yes, that's correct.

16 COMMISSIONER CLARK: Did you understand
17 Mr. Long to describe four different situations?

18 WITNESS VILLAR: Did I understand Mr. Long
19 to describe what? I'm sorry.

20 COMMISSIONER CLARK: Four different types of
21 sales.

22 WITNESS VILLAR: I think he described a
23 broker sale. I think he described a nonbroker or an
24 off-broker economy, opportunity type sale, which might
25 include a capacity component or it might be flowed

1 through the clause. And then I think he talked about
2 two different transmission services, one for a
3 Schedule C transaction for someone else and a
4 nonbroker transmission service being provided for
5 another party. The first two are being flowed
6 through, the second are not. The second are being
7 credited to drop --

8 **COMMISSIONER CLARK:** So you only understood
9 him to describe three different types of sales?

10 **WITNESS VILLAR:** I thought he had four. One
11 was a Schedule C sale, the second one was an
12 off-broker sale.

13 **COMMISSIONER CLARK:** Schedule C is a broker
14 sale?

15 **WITNESS VILLAR:** That is correct.

16 **COMMISSIONER CLARK:** Where you're not the
17 seller of the power, you're just the transmitter?

18 **WITNESS VILLAR:** No. The first one that he
19 described was an FPL; how do we treat when FPL makes a
20 Schedule C sale; how do we treat the transmission
21 revenues associated --

22 **COMMISSIONER CLARK:** Okay. And that goes
23 through the fuel clause.

24 **WITNESS VILLAR:** That is correct.

25 **COMMISSIONER CLARK:** And what was the second

1 thing he described?

2 **WITNESS VILLAR:** When FPL makes an
3 off-broker sale, that FPL also receives transmission
4 revenue. For example, we have a tariff No. 1 for
5 sales by FPL. Those costs and revenues are flowed
6 through the capacity cost recovery clause.

7 **COMMISSIONER CLARK:** That's where you're
8 both the transmitter and the supplier of the --

9 **WITNESS VILLAR:** Correct.

10 **COMMISSIONER CLARK:** And that goes through
11 the capacity cost recovery.

12 **WITNESS VILLAR:** Correct.

13 **COMMISSIONER CLARK:** And what was the third
14 thing he described?

15 **WITNESS VILLAR:** The other two were
16 provisions of transmission service by FPL. FPL is not
17 making a sale of generation in that case.

18 **COMMISSIONER CLARK:** Not making --

19 **WITNESS VILLAR:** It's not making a sale of
20 generation.

21 **COMMISSIONER CLARK:** And you're just
22 transmitting?

23 **WITNESS VILLAR:** Merely providing
24 transmission for other parties. And he posited two
25 different examples; one in which FPL was a transmitter

1 for a Schedule C sale that someone else was making and
2 one where FPL was being a transmission provider for a
3 nonschedule Schedule C sale that someone else was also
4 making.

5 COMMISSIONER CLARK: Well, the one is the
6 broker sales where you're just transmitting?

7 WITNESS VILLAR: What was that? I'm sorry.

8 COMMISSIONER CLARK: The Schedule C sale is
9 a broker sale, and when you make it for transmitter
10 broker sale --

11 WITNESS VILLAR: I am just a transmitting
12 utility; that's all?

13 COMMISSIONER CLARK: Right. And you credit
14 the \$3 to just general revenue?

15 WITNESS VILLAR: Correct.

16 COMMISSIONER CLARK: And what was the last
17 example? Where it is a non --

18 WITNESS VILLAR: It was a nonbroker sale.

19 COMMISSIONER CLARK: Other than a
20 Schedule C?

21 WITNESS VILLAR: Other than a Schedule C.
22 That's correct.

23 COMMISSIONER CLARK: And how is that
24 credited?

25 WITNESS VILLAR: As it's also credited as

1 operating revenues.

2 COMMISSIONER CLARK: Okay. Thanks.

3 CHAIRMAN JOHNSON: Public Counsel.

4 CROSS EXAMINATION

5 BY MR. BURGESS:

6 Q May I ask you with regard to the
7 transmission fee on a Schedule C sale when Florida
8 Power & Light is the purchaser, how is the recovery of
9 the cost?

10 A When FPL is the purchaser?

11 Q Yes.

12 A The costs are flowed through the fuel
13 clause.

14 Q The costs are flowed through the fuel clause
15 when you're a purchaser, but in the same type of
16 transaction if you are the transmitting utility for
17 two other utilities, you put that revenue in O&M?

18 A It's a different type transaction. We're
19 not making a sale in that regard. In the case where
20 we're providing transmission service, the revenues
21 associated with transmission that a -- transmission
22 that FPL provides are included in determination of
23 base rates when you do go for a rate case.

24 Q Nevertheless, there's not a symmetry in how
25 the cost is recovered by the customers of the

1 purchasing utility, is there? If all companies in the
2 state do it that way, then there's not a symmetry when
3 the customers are needing to purchase the wheeling
4 service in order to obtain the lesser expensive fuel?
5 That's not symmetrical with how the transmission
6 revenues are reflected in the selling -- when you're a
7 provider of the wheeling service, is it?

8 **MR. CHILDS:** Excuse me. I do not understand
9 that question.

10 **Q** (By Mr. Burgess) Do you understand that
11 question?

12 **A** No, I don't.

13 **COMMISSIONER CLARK:** Neither do I.

14 **Q** (By Mr. Burgess) Let me start with the
15 proposition that Florida Power & Light is providing
16 transmission service for two noncontiguous utilities
17 so that a broker sale can be made.

18 My understanding of your statement was that
19 that revenue then goes into base rate revenue; is that
20 correct?

21 **A** It credits to operating revenues.

22 **Q** All right. Now, when Florida Power & Light
23 purchases -- or at least in your understanding of the
24 way the treatment would be statewide -- if there is a
25 purchasing utility that needs to purchase wheeling

1 service in order to transact on the broker, that the
2 costs associated with that, recovering that cost, is
3 something that is done through the fuel adjustment
4 clause of that purchasing utility?

5 A Are you saying FPL is purchasing?

6 Q Yes.

7 A And there's wheeling through someone else's
8 system?

9 Q There is a wheeling fee associated with it.

10 A The cost recovery through the fuel clause
11 should be reflected with all the costs incurred in
12 purchasing the power.

13 COMMISSIONER CLARK: Yes. It would go
14 through the fuel --

15 WITNESS VILLAR: Through the fuel clause.

16 Q (By Mr. Burgess) Thank you. Now going to
17 issues -- well, let's take Issue 9, then, with regard
18 to the proper treatment with the examples -- staying
19 with the example of \$30 decremental cost for the
20 purchasing utility and \$3 transmission cost, but
21 changing somewhat the example; and let's say there's a
22 \$28 fuel cost, incremental fuel cost, for a potential
23 seller on the broker.

24 Under the way that you are suggesting, or
25 that Florida Power Light is treating that, that

1 transaction would not be made, would it?

2 A Are you referring to the example shown in
3 one of my exhibits?

4 Q Yes, with the --

5 A With the --

6 Q -- change in the --

7 A With the --

8 Q -- \$20 incremental fuel cost to the selling
9 utility or potential seller of energy, it is a \$28
10 cost?

11 A I don't know if the transaction would take
12 place. The broker had certain minimums included in
13 it. If there's not enough of a differential, it will
14 not let the transaction take place.

15 Q Well, under the example, it couldn't, could
16 it? If you've got \$28 incremental fuel cost, \$30
17 decremental fuel and \$3 transmission, it just wouldn't
18 take place.

19 A Well, you still have \$27 -- you would take
20 28 as a -- that's the seller's -- I'm sorry -- the
21 buyer's avoided cost. Did you say buyer or seller?

22 Q The buyer's decremental fuel cost is \$30 as
23 an --

24 A And you want to change that to 28?

25 Q No, no. Keep that at 30, keep the

1 transmission cost at 3, and change the seller's
2 incremental fuel cost to 28.

3 A It shouldn't take place.

4 Q It should not take place?

5 A No.

6 Q Does that not counter the purpose that's
7 been stated for the broker, and that is that at any
8 given time, the most economic fuel be burned for the
9 provision of energy?

10 A I don't think so.

11 Q Please explain how it would -- how it would
12 be consistent with the broker.

13 A I think you need to take into account all
14 costs of the power, what the delivered cost of that
15 power is; and if that includes not only the generation
16 cost or the incremental cost of the generation, you
17 should also take into account any transmission losses
18 that might be associated with it, any intervening
19 system costs that might be around. Just the fact that
20 you have a cheap generator somewhere but it costs you
21 a lot money to bring that power down means the
22 transaction should not take place.

23 Q Do I understand you to be saying, then, that
24 you're understanding the transmission costs, all the
25 transmission costs in these examples and for the

1 purpose of calculating the transaction price, you are
2 considering the transmission cost to be incremental to
3 the transmitting utility?

4 Let me change that. My understanding was
5 that these were capital costs that are already sunk
6 and that we're simply allocating them; this is a
7 method of allocating them to the proper users.

8 A FERC says those costs must be recognized;
9 that you should place yourself in the same position as
10 if you were any other user of your transmission
11 system. So those are costs that need to be
12 recognized.

13 Q But they are not incremental costs. In
14 other words, if the sale wasn't made, the \$3 in this
15 example wouldn't be saved by the potential selling
16 utility, would it?

17 A It would not be saved? I'm not sure I
18 understand the question.

19 Q Well, if there are incremental costs and you
20 don't make the sale, then you save those costs; is
21 that correct?

22 A I would assume so.

23 Q But, if on the other hand, there's simply an
24 allocation of already sunk capital costs, then you
25 don't save them when you make the sale. Am I correct

1 in that?

2 A I don't see how you save the cost. I'm
3 sorry. I guess that's the part that I'm --

4 Q I think I agree with you. You don't save
5 the costs when you don't make the sale.

6 When you transmit and make a wheeling charge
7 to somebody, do you charge only the incremental cost,
8 the additional, actual incremental costs that are
9 placed on FPI's system as a result of the transmission
10 or --

11 A No.

12 Q -- do you add a capital component?

13 A You allocate cost.

14 Q Okay. Then doesn't that mean that if you
15 don't make the sale, you don't save those capital
16 costs? Those capital costs exist regardless of
17 whether the sale is made. Am I correct in that --

18 A The fixed costs are fixed.

19 Q So in this case, in the example that I'm
20 using with the \$28 incremental fuel cost, if the sale
21 is not made, the total cost aggregately to Florida
22 utility users -- assuming these are all Florida
23 customers -- the total cost made is higher than if the
24 sale were made under that example?

25 A Not necessarily. There are other sellers

1 out there.

2 **COMMISSIONER CLARK:** Mr. Villar, in that
3 example the answer is yes, isn't it? Let me put it
4 this way. Before we had FERC Order 888, the sale
5 would have been made between the two utilities.

6 **WITNESS VILLAR:** With that kind of
7 differential, I don't think so, but I'll assume that
8 it would.

9 **COMMISSIONER CLARK:** And then by requiring
10 you to add a transaction cost, that means the sale
11 won't be made; and as a result, the utility that is --
12 would have sold it is not selling it, so they lose
13 that addition to their revenues --

14 **WITNESS VILLAR:** That is correct.

15 **COMMISSIONER CLARK:** -- and the buying
16 utility pays more because they run more expensive
17 generation, so the ratepayers of both companies lose.

18 **WITNESS VILLAR:** In that isolated instance,
19 yes, I would agree with you.

20 **MR. BURGESS:** Thank you, Commissioner.

21 **Q** **(By Mr. Burgess)** By the way, we have taken
22 a position that's almost exactly as Florida
23 Power & Light's. But this gets to the whole issue of
24 this being a very, very difficult balance to reach
25 because you've got two conflicting goals, and let me

1 go to the other.

2 As I understood your comment earlier,
3 FERC 888, the primary purpose was to create a level
4 playing field for a company that has sales to make but
5 needs transmission of a utility to make them; is that
6 correct?

7 A Those are your words.

8 Q Did you not say --

9 A I didn't say "level playing field."

10 Q Okay. What is the purpose of FERC 888 and
11 the requirement of unbundling and creating a separate
12 charge for transmission?

13 A I think Order 888 had a number of goals and
14 objectives that FERC has enumerated at different
15 times, one of which was to make sure that, one, the
16 utility did not have a competitive advantage by virtue
17 of ignoring transmission costs on its own system.

18 Q Yes. That's better put, and I appreciate
19 that.

20 If you have a situation under your suggested
21 calculation of transaction price, what would be the
22 result if -- with the example that the numbers being
23 used, \$30 buyer's decremental cost, \$3 transmission
24 fee, and \$20 for Florida Power & Light as incremental
25 fuel costs, how would you calculate a transaction

1 price for, say, another utility that needed to
2 purchase the wheeling services of Florida
3 Power & Light and its incremental fuel costs were \$18
4 instead of the -- or \$19 instead of the \$20, for
5 Florida Power & Light?

6 A I'm sorry. You lost me in the example.

7 Q All right. If you are selling your product
8 for 19 -- if your incremental fuel cost is \$19 and the
9 decremental fuel cost of the potential buyer is \$30,
10 and you need to purchase wheeling services that cost
11 \$3 from another utility, what is the transaction price
12 under that example?

13 A Are you describing the same scenario that we
14 have here? Let's stay with the \$20 seller's cost
15 where FPL has to purchase from an intervening utility
16 in addition to charging its own incremental
17 transmission cost?

18 Q Yes.

19 A If you look at exhibit --

20 Q No. I'm sorry. What I'm suggesting is that
21 FP&L's cost is \$19, and it has to purchase \$3
22 transmission costs from an intervening utility.

23 To try to make this a little bit clearer,
24 what I'm trying to understand is if you've got a
25 utility -- under the way that you would price the

1 transaction, if you have a utility that will transmit
2 its own energy and it will cost \$20, and then you have
3 another utility that charges -- that has \$19 costs,
4 would the \$19 fuel be burned instead of the \$20 fuel?

5 A Assuming that they both have the same
6 transmission costs, it should result in the match
7 being done with the \$19 power.

8 Q Very good.

9 MR. BURGESS: That's all I have, Mr. Villar.
10 Thank you.

11 CHAIRMAN JOHNSON: Ms. Kaufman?

12 MS. KAUFMAN: I have no questions.

13 CHAIRMAN JOHNSON: Staff?

14 CROSS EXAMINATION

15 BY MS. PAUGH:

16 Q Mr. Villar, is FPL a net purchaser or a net
17 seller on the broker system?

18 A FPL is generally a net purchaser.

19 Q Based on our 20/30 example, what would the
20 transaction price be prior to FERC?

21 A Did you finish the question? I'm sorry.

22 Q Yes, sir.

23 A Prior to FERC.

24 Q 888. What would the transaction price be on
25 the 20/30 hypothetical?

1 A It would be \$25.

2 Q Of the \$25 transaction price, 20 of the
3 revenue would be credited to the fuel clause to offset
4 incremental production cost of the sale; is that
5 correct?

6 A \$20 of revenue would credit to the fuel
7 clause to offset the cost of making the sale? Yes.

8 Q How did --

9 A So would the revenue associated with it.

10 Q I'm sorry --

11 A The revenue and the cost associated with it
12 would both be credited through the clause, yes.

13 Q Okay. How did FPL treat the \$5 margin?

14 A Prior to 888?

15 Q Yes, sir.

16 MR. CHILDS: Excuse me. Isn't this your
17 document?

18 WITNESS VILLAR: MV-2. I think you can see
19 it in -- I guess it's the bottom left-hand corner of
20 document MV-2 labeled B4; "flow to customers and to
21 seller," that \$5 would be \$4 credited to the customers
22 to go to fuel clause and \$1 credited to the seller
23 under the 80/20 split.

24 COMMISSIONER CLARK: Mr. Villar, you said
25 the transaction costs or price would be \$25?

1 WITNESS VILLAR: Prior to the Order of 888,
2 yes, it would.

3 COMMISSIONER CLARK: Okay.

4 Q (By Ms. Paugh) Mr. Villar, have TECO and
5 FPC intervened at FERC in your tariff docket?

6 A Did they intervene?

7 Q Yes.

8 A They might have. They usually do, but I'm
9 not -- I don't know whether they did or not.

10 Q Do you know if FPL has intervened in either
11 TECO or FPC's dockets with FERC?

12 A We have intervened in some dockets. As to
13 whether we intervened in this particular one or not, I
14 don't know.

15 Q All right. We're referring to your exhibit
16 MV-2. Please explain the line titled "Buyers
17 Incremental Cost Minus transmission."

18 A That line is intended to reflect an
19 adjustment that the broker makes when making matches.
20 For the purposes of looking at a split savings for
21 which transaction ought to be matched, the broker
22 recognizes transmission costs, and those transmission
23 costs are recognized by reducing the buyer's
24 incremental cost, because the \$3 of transmission in
25 this particular case are costs that are not being

1 avoided by the buyer. In other words, those costs are
2 also being paid. So, in essence, he has a transaction
3 cost for matching purposes of 27 to \$20.

4 Q Is it the buyer's or seller's transmission
5 rate?

6 A You said the buyer's or seller's
7 transmission rate? It is the seller's transmission
8 rate.

9 Q Thank you. So when FPL is the seller, it
10 subtracts their transmission rate from the buyer's
11 quote before determining the price; is that correct?

12 A No, FPL does not subtract it. The broker
13 does it automatically by recognizing transmission
14 costs in doing the matching.

15 COMMISSIONER CLARK: Mr. Villar, that's your
16 understanding of how the broker does it, but it
17 doesn't look like that's other parties' understanding
18 of how the broker does it.

19 WITNESS VILLAR: I can't speak for the other
20 parties.

21 COMMISSIONER CLARK: Well, have you read the
22 other parties' testimony?

23 WITNESS VILLAR: Yes, I have.

24 COMMISSIONER CLARK: Does it appear they're
25 doing it the same way you are?

1 WITNESS VILLAR: I don't think the other
2 parties' testimony directly addressed the matching
3 algorithm for the broker.

4 Q (By Ms. Paugh) Mr. Villar, based on your
5 example on Page MV-2 of your testimony, how did you
6 arrive at a transaction price of \$23.50 as opposed to
7 \$25?

8 A You take \$27, which is the adjusted price,
9 add it to \$20 seller's costs, and divide by two.

10 Q Does FPL propose that the buyer be billed
11 separately for the \$3 transmission rate?

12 A That is what's currently taking place.

13 Q In your example provided at MV-2, are you
14 assuming that the buyer is using the same method
15 proposed by FPL as seller?

16 A I'm sorry. You lost me on the question.
17 The buyer is using the same method? What does that
18 mean?

19 Q With respect to the pricing.

20 A I'm not sure I understand the question. The
21 method is the method, and it affects both buyer and
22 seller. I don't know --

23 Q Okay. What is the total cost of this
24 purchase for the buyer? If you could explain the math
25 and how FPL works this.

1 A It's a \$23.50 that you saw in that row that
2 you -- that we talked about before, plus a \$3
3 transmission cost. So the buyer pays a total of
4 \$26.50.

5 Q Therefore, since FERC Order 888, the buyer
6 is paying a dollar and a half more than they used to?

7 A This particular example, yes, they would.

8 Q Does this mean that you are splitting or, in
9 a sense, brokering the transmission cost between the
10 buyer and the seller?

11 A The math works out to that, but the buyer is
12 paying the full transmission cost. The transmission
13 cost is now being split. It's a quirk of those
14 schedules. Some utilities have some schedules where
15 the buyer pays the full cost of transmission, some
16 utilities have some schedules that were -- some of the
17 costs are split. It depends on how the Schedule Cs
18 for the various utilities work.

19 Q How does Florida Power & Light propose to
20 treat the \$23.50 revenues from the sale?

21 A FPL proposes to flow the revenues through
22 the fuel clause, and that is shown in my Exhibit MV-2.
23 You have a cost of \$20 for the fuel burned. You have
24 a revenue credit of \$20, which you receive from the
25 buyer. Then you have \$3 of transmission costs, which

1 FPL credits to customers through the fuel clause. And
2 the remainder, FPL credits 80% to the customers
3 through the clause and 20% to shareholders, for a
4 total credit to the customers of \$5.80.

5 Q Okay. Thank you. I believe it was your
6 testimony that the transmission revenues are credited
7 to the fuel clause. Are transmission revenues
8 typically allocated on an energy or demand basis?

9 A I'm not sure how they allocate them for
10 ratemaking purposes in a rate case. These are not the
11 kind of revenues that we're talking about here.

12 Q Do you have a sense of what the effect would
13 be if the revenues were credited through the capacity
14 clause?

15 A Do I have a sense? As to what?

16 Q Yes; rather than the fuel clause. What
17 would the difference be?

18 MR. CHILDS: Excuse me. I'm sorry. Do you
19 mean the revenues associated with transmission for a
20 broker sale?

21 MS. PAUGH: Yes.

22 MR. CHILDS: Okay. Thank you.

23 WITNESS VILLAR: You'd still have \$3 worth
24 of revenues, whether you've flown through one clause
25 or the other. What the effect is I don't know.

1 **COMMISSIONER CLARK:** Well, if you allocate
2 it to the capacity clause, would the entire \$3 go
3 through instead of some percentage of it?

4 **WITNESS VILLAR:** The entire \$3 are going
5 through here, Commissioner. That's what FPL has
6 proposed.

7 **Q** **(By Ms. Paugh)** Mr. Villar, are high load
8 factor or interruptible customers better off with
9 crediting the transmission revenues through the
10 capacity clause or the fuel clause?

11 **A** I do not know.

12 **Q** With reference to the margin, before FERC
13 Order 888, what was the amount of the credit through
14 the fuel clause?

15 **A** With reference to the margin? Are you
16 referring to the gain?

17 **Q** Yes, sir; the profit.

18 **A** In the example that's in MV-2, prior to FERC
19 Order 888 the gain that was shown was \$5. The gain
20 after 888 is \$3.50.

21 **Q** Thank you. You anticipated my next
22 question. I would like to refer you back to your
23 testimony at Page 3, please. Is it your testimony
24 that for two nondirectly connected utilities the
25 wheeling charge of a third party affected the

1 transaction price of a broker sale? Yes or no.

2 A For two nondirectly interconnected
3 utilities?

4 Q Yes, sir.

5 A That it affected the transaction price of a
6 broker sale prior to Order 888, or --

7 Q Is it your testimony that for two
8 nondirectly connected utilities, the wheeling charge
9 of a third party affected the transaction price of a
10 broker sale?

11 A It affected whether a match would take place
12 or not.

13 Q So is your answer, yes, it did affect it?

14 A It would affect the total cost that the
15 buying utility would pay and whether or not that
16 utility would match with the other -- with the selling
17 utility. Whether it would affect the actual
18 transaction price shown on the broker, I don't think
19 so.

20 If you still had 30 and 25, they would still
21 have a \$25 split, but it would also have to be
22 recognized that the buyer will be paying the
23 transmission charge; so implicitly it does affect it.

24 Q Is this type of wheeled broker transaction
25 common between three utilities, or does it more

1 commonly occur when a municipal or cooperative buys,
2 for example, from TECO through FPL?

3 A I haven't looked into that. I don't know.

4 MS. PAUGH: Thank you. No further
5 questions.

6 CHAIRMAN JOHNSON: Commissioners?

7 COMMISSIONER CLARK: Mr. Villar, do you have
8 Exhibit 3?

9 WITNESS VILLAR: Is that the Staff sheet?

10 COMMISSIONER CLARK: Yes.

11 WITNESS VILLAR: Yes, I do.

12 COMMISSIONER CLARK: On Line G, FPC shows
13 that they make what I understand to be a
14 jurisdictional split. Does FPL do that?

15 WITNESS VILLAR: Commissioner, for purposes
16 of the example that I showed here, I assumed that I
17 was only dealing with 100% of whatever amount was
18 jurisdictionalized to PSC purposes. I tried to avoid
19 all the complications of how you do these splits,
20 because I'm not sure that I understand them. I'm
21 assuming --

22 COMMISSIONER CLARK: You're not sure you
23 know what?

24 WITNESS VILLAR: That I understand how you
25 get to the revenues that are allocated to retail --

1 for retail purposes. I'm assuming that we receive a
2 certain amount of revenues and that revenues get
3 jurisdictionalized somewhere in some black box in the
4 accounting department. And from then on the ones that
5 are shown in my examples are the PSC jurisdictional
6 amounts.

7 **COMMISSIONER CLARK:** So you don't know
8 whether or not that kind of further iteration takes
9 place at FP&L?

10 **WITNESS VILLAR:** I'm not sure what you mean
11 by further iteration.

12 **COMMISSIONER CLARK:** That once you get on
13 the broker system, if you make a sale, as you have
14 described in your testimony -- and let's just use
15 after FERC 888 --

16 **WITNESS VILLAR:** Correct.

17 **COMMISSIONER CLARK:** -- you don't know
18 whether or not the net gain is then further allocated
19 between wholesale and retail?

20 **WITNESS VILLAR:** I don't know that there is
21 a net gain allocated between wholesale and retail in
22 that sense.

23 **COMMISSIONER CLARK:** You don't know if the
24 350 is then further divided between wholesale and
25 retail?

1 **WITNESS VILLAR:** I think that what we do is
2 we take the revenues, and those revenues are
3 allocated. I don't know if they are called gain at
4 that point. I am not sure of what treatment takes
5 place here. You have revenues and costs which are
6 allocated.

7 **COMMISSIONER CLARK:** Thank you.

8 **CHAIRMAN JOHNSON:** Redirect?

9 **REDIRECT EXAMINATION**

10 **BY MR. CHILDS:**

11 **Q** Yes, I have some. Mr. Villar, you were
12 asked several questions by Mr. Long concerning the
13 four types of transactions and the treatment by FPL of
14 the revenue from those transactions, including revenue
15 for transmission service. Do you recall that line of
16 questioning?

17 **A** Yes, I do.

18 **Q** Now, let's look to the illustration, I
19 think, of the third-party wheeling transaction for
20 broker. Do you recall being asked about that?

21 **A** Correct.

22 **Q** And I believe that you testified that the
23 wheeling revenue was credited to operating revenue at
24 Florida Power & Light Company. Is that accurate?

25 **A** The revenues for --

1 Q The wheeling transactions were credited to
2 operating revenue above the line.

3 A Just strictly wheeling?

4 Q That's right.

5 A That's correct.

6 Q Now, you were asked the same question for
7 third-party wheeling for nonbroker transactions. Do
8 you recall testifying that the wheeling revenue for
9 that was included -- was a credit to revenue above the
10 line?

11 A Yes.

12 Q Do you know whether Florida Power & Light
13 Company has, in fact, adjusted its retail rates to
14 reflect the credit to revenue for wheeling
15 transactions?

16 A It is my understanding that those revenues
17 are credited in the reduced revenue -- the revenue
18 requirements when setting base rates.

19 Q Do you know or have information as to
20 whether they were, in fact, included in FPL's last
21 rate proceeding so that it, in fact, affected retail
22 rates?

23 A As far as I know, they were included.

24 Q Thank you. Now, do you know what the
25 treatment was for revenue under -- for broker

1 transactions before this Commission changed the
2 procedure and had the revenue from broker sales flow
3 through the fuel adjustment clause? Do you know how
4 those revenues were treated by this Commission?

5 A I think the revenues were treated as
6 operating revenues.

7 Q They were credited to revenue above the
8 line?

9 A I think so.

10 Q Do you know when this Commission switched
11 from that treatment to inclusion in the fuel
12 adjustment, did it, in fact, change base rates for the
13 utilities?

14 A I think to the extent that there was a
15 credit in there, there was an adjustment made to the
16 rates.

17 Q And if there wasn't an adjustment made to
18 the rates, do you believe that there may be some
19 double counting?

20 A No.

21 Q Pardon?

22 A Double counting?

23 Q Yes.

24 A No.

25 Q Well, if you have the potential of

1 recovering a revenue in fuel adjustment and recovering
2 it in the base rates, is there a potential you
3 recovered it twice?

4 A No.

5 Q There's no potential?

6 A If you have the potential for recovering it
7 in base rates --

8 Q If you charge --

9 A -- and in fuel?

10 Q Excuse me.

11 A You lost me. I'm sorry.

12 Q Apparently. If this Commission treats the
13 revenue for broker sales as a credit in setting
14 charges for the fuel adjustment, that serves to reduce
15 the charge that other customers pay for their fuel
16 costs, does it not?

17 A Yes.

18 Q Now we'll go back to ask you about your
19 familiarity of the transition by this Commission to
20 the procedure of including broker transactions in base
21 rates. Do you have any knowledge as to Commission
22 orders on that subject?

23 A I have seen them at some point or another.

24 COMMISSIONER CLARK: Mr. Childs, in your
25 line of questioning, would you clarify when rates were

1 last set for FP&L in a rate case and when the change
2 in the flowing it through to fuel adjustment took
3 place?

4 MR. CHILDS: I'll try. Do you want me to
5 comment on that or try to do that through the witness?

6 COMMISSIONER CLARK: You can do both.

7 MR. CHILDS: Okay. I will comment, because
8 I think it is not a first, a subject of -- it's part
9 of the record in fuel adjustment.

10 The Commission had an Order 12923 issued
11 1/24/84. This is the order that approved the 80/20
12 split in fuel adjustment. That's what the order was
13 for. It was Order 830001-EUV. That is in that
14 830001-EU and Docket 840001-EI. There's an order
15 issued 3/16/84. This is the order that removed the
16 revenues for fuel from base rates.

17 It addresses the procedure and implements
18 the procedure to, in fact, change the base rates of
19 the utilities to reflect the amount removed and put in
20 the fuel cost. As the order states, that was the TECO
21 proposal.

22 FPL has included revenues, and I asked the
23 witness about including them above the line. FPL has
24 included those in, my information is, the '83 and also
25 in setting rates in 1990 based on the '88 test year.

1 Q (By Mr. Childs) Now, you were asked some
2 questions and one by Commissioner Clark about the
3 other companies following a different procedure than
4 FPL. Do you recall that question as to the
5 calculation and charging for transmission costs in
6 connection with broker transactions?

7 A Vaguely.

8 Q Would you look to your document MV-2?

9 A Yes.

10 Q Do you have that now?

11 A Yes, I do.

12 Q And there you show the transaction both
13 before and after Order 888?

14 A Yes.

15 Q And is it correct that as to the
16 transmission rate, that you show on the transaction
17 components, which is the third item down, that there
18 is a separate charge by FPL under your example for the
19 transmission rate of \$3?

20 A That is correct.

21 Q And that is an additional charge after
22 Order 888?

23 A That is correct.

24 Q Is it your information that the other three
25 electric utilities in this docket are proposing to

1 have an additional charge for the transmission service
2 associated with the broker sale?

3 A My understanding that they are not.

4 Q So to that extent --

5 COMMISSIONER CLARK: That they are not?

6 WITNESS VILLAR: Right.

7 Q (By Mr. Childs) Is it your understanding
8 that the other utilities are instead taking the rate,
9 whatever it is, but using \$3 as a hypothetical
10 example, they are including that in part in their
11 calculation of the margin between the broker -- excuse
12 me -- between the seller's cost and the buyer's
13 decremental cost?

14 A They are including it in --

15 Q So if there's a \$5 difference in your
16 example -- look at your MV-2 -- there's a \$5
17 difference on the "before Order 888"?

18 A That's correct. My understanding is that
19 they are taking it out of those \$5.

20 COMMISSIONER CLARK: Mr. Childs, I'm sorry.
21 Where is the \$5 difference?

22 MR. CHILDS: If you will look to his
23 document MV-2 on the column "before" under FERC
24 Order 888 -- do you see that?

25 COMMISSIONER CLARK: Yes.

1 MR. CHILDS: Where he has all of those costs
2 and he shows the gain of \$5? That is the difference
3 between the seller's fuel cost of 20, and the broker
4 price of 25.

5 COMMISSIONER CLARK: What line is it titled?

6 MR. CHILDS: I'm sorry?

7 COMMISSIONER CLARK: The gain. All right.
8 I see it.

9 Q (By Mr. Childs) And that is, in fact, the
10 gain, as you understand it, is calculated under the
11 broker; it's just a typical gain calculation?

12 A Correct.

13 Q And this is a hypothetical calculation?

14 A Yes.

15 Q And if you had a \$3 wheeling charge, I
16 believe you have already said the other utilities'
17 proposals at this time is to include the \$3 as part of
18 the \$5 -- as a component of the \$5 gain?

19 A That is my understanding.

20 Q So they have no separate charge for
21 wheeling, additional separate charge for wheeling?

22 A That is correct.

23 Q Now, did FPL make a filing with the FERC for
24 this additional charge for wheeling?

25 A Yes, we did.

1 Q And do you know what section of the act you
2 made that filing under?

3 A The filing was made under both Sections 205
4 and 206. It was a combination filing, and it included
5 several matters.

6 Q Do you know whether Order 888 or 888A
7 comments that a filing of that type is appropriate or
8 may be made?

9 A I believe it's 888A that addresses the issue
10 and contemplates a 205 filing.

11 Q Okay. I will strike that Order 888A says
12 it's appropriate. 888A comments on being able to make
13 that filing, does it not?

14 A That is correct.

15 Q And the issue of whether it is appropriate
16 is pending before the FERC at this time?

17 A Yes, it is.

18 Q Now, as to the utilities that are including
19 the \$3 hypothetical wheeling charge as a component of
20 the \$5 gain on your Exhibit MV-2, if the gain were
21 less than \$3, which is the wheeling charge, do you
22 know whether those other utilities propose not to
23 engage in the broker transaction?

24 A I think I recall one utility saying that
25 they would not engage in the transaction. As to

1 whether all of them said it or not, I'm not sure.

2 Q Mr. Villar, would you take a look at that
3 document that I just gave you, and would you identify
4 the title on that page?

5 A The document is titled "Amendment Number 1
6 to Contract for an Interchange Service Between Florida
7 Power Corporation and Tampa Electric Company."

8 MR. CHILDS: Commissioners, that was part of
9 the package which Florida Power Corporation was kind
10 enough to pass out to all parties at the workshop that
11 we had in this docket earlier on.

12 Mr. Villar, would you look to the
13 single-spaced information on that schedule and see if
14 it comments on the limitations of broker transactions
15 associated with the differential between the gain and
16 the wheeling charge?

17 A Give me a minute here. (Pause) Yes, it
18 does address the issue.

19 Q Would you state what it says?

20 A It says that Florida Power Corporation as
21 the seller will not enter into a transaction if the
22 total of the transmission and ancillary service
23 charges for the transaction under corporations' open
24 access transmission tariff are greater than the
25 difference between the settlement rate and the

1 seller's cost.

2 Q One other question. That's part of the
3 agreement between Florida Power Corporation and Tampa
4 Electric, is it not?

5 A That is what this document shows.

6 Q So it would apply to both companies?

7 A This amendment should apply to a sale by
8 Florida Power Corporation. The sales by Tampa
9 Electric Company to other parties should be governed
10 by a separate agreement.

11 Q You were asked some questions about, I
12 believe it was, Staff Exhibit Number 3 by Commissioner
13 Clark about whether FPL was going to
14 jurisdictionalize -- I think that was the term you
15 used. Is that the term?

16 COMMISSIONER CLARK: Well, that's as good as
17 any, I suppose.

18 Q (By Mr. Childs) Mr. Villar, are you
19 familiar with the observations by this Commission from
20 time to time about retail customers supporting the
21 costs associated with broker transactions?

22 A I have seen some of those.

23 Q Is it your understanding, for instance, that
24 all of the costs -- that in allocating costs -- excuse
25 me -- that in allocating costs between the retail and

1 wholesale jurisdictions, that broker transactions are
2 simply ignored in making the allocation?

3 A In a rate case proceeding?

4 Q That's right.

5 A Yes, that's my understanding.

6 Q So, in effect, that if a utility had 98% of
7 its total sales as retail and 2% as wholesale, then
8 any costs other than fuel that might be associated
9 with the broker transaction could be looked at as
10 being from the total company system in the first
11 instance, could they not?

12 A Yes.

13 Q And if you were looking at it on a 98%/2%
14 basis, you could allocate it that way as well, could
15 you not?

16 A That's correct.

17 Q Is that your understanding of what Florida
18 Power Corporation has done?

19 A I think Florida Power Corporation has a
20 similar method. As to whether the numbers are 98/2 or
21 not, it depends on the utility.

22 Q But for purposes of your presentation, you
23 have not made that allocation for FPL?

24 A That is correct.

25 Q And you do not know whether FPL, in fact,

1 allocates costs and revenues for the broker that way?

2 **A** The actuals -- what any split FPL uses, I do
3 not know what the split is.

4 **Q** Right. But back again to my question about
5 the costs. If you used the generation system for FPL
6 to generate the power that was in a broker
7 transaction, you can't tell whether that generator was
8 the retail or the wholesale portion, can you?

9 **A** No. It comes from the total system.

10 **Q** Total system.

11 **MR. CHILDS:** I think that's all I have.

12 **COMMISSIONER CLARK:** Can I ask some
13 questions? Mr. Villar, would you agree with me that
14 it would seem that for purposes of determining how --
15 number one, whether a broker sale should take place
16 and, number two, how you allocate the revenues from a
17 sale ought to be the same for all companies
18 participating in the broker sale. Would you agree
19 with that?

20 **WITNESS VILLAR:** How you calculate the cost
21 of the broker sale?

22 **COMMISSIONER CLARK:** Well, let's just say
23 for purposes of determining whether or not a sale
24 should take place, the calculations should be the same
25 for all utilities participating.

1 I guess to make it more clear, how are we
2 going to treat the transmission, in determining what
3 should be paid under the broker sale, ought to be the
4 same?

5 WITNESS VILLAR: How you treat the
6 transmission, I would agree, ought to be the same, but
7 the first part is the one that I'm having some
8 problems with, because I think for purposes of doing
9 the matching on the broker, the broker does the
10 matching on the same basis. They treat all companies
11 the same. But how the split -- or the basis for
12 settlement between the companies is handled depends on
13 the individual contracts that the utilities have, and
14 they may not all be the same.

15 Q One example is when there's an intervening
16 utility and you had a matching on the broker, some
17 companies, the way their contracts worked, the buyer
18 was required to pay for 100% of the transmission.

19 Other companies had contracts where they
20 would split the costs of the transmission between the
21 buyer and the seller. The matches on the broker was
22 still done the same way, but how the parties actually
23 settled their accounts at the end of the day was
24 handled differently.

25 CHAIRMAN JOHNSON: Any other questions?

1 MS. PAUGH: Madam Chairman, staff has some
2 recross, if that's acceptable.

3 CHAIRMAN JOHNSON: Yes. And then we'll give
4 Mr. Childs an opportunity to follow up.

5 MR. LONG: Madame Chairman, After counsel is
6 finished, I also have some recross.

7 COMMISSIONER CLARK: Madam Chair, I just
8 have to say that there are some things that have been
9 talked about today that have caused me to be quite
10 confused, and one of it is the notion of how you
11 settle up.

12 I guess I was unaware that it was done
13 differently, and it may, quite frankly, just be that I
14 haven't looked at it for a while or I didn't know to
15 begin with. But, you know, I thought the broker
16 system was a way of just assuring that we ran the
17 lowest cost facility at the time, and I was unaware
18 that the transmission may be paid by different
19 parties. I see other people shaking their heads, so I
20 don't feel so bad.

21 MR. CHILDS: But, Commissioner, I think,
22 too, that we talk about the lowest cost. And my
23 understanding is, is that one of the things that
24 happens under the broker is it is, for instance, a
25 seller's estimate of their decremental costs at the

1 time. It doesn't mean they're ever going to incur
2 that cost.

3 COMMISSIONER CLARK: I'm sorry. It's the
4 seller's estimate of the decremental cost, which
5 doesn't mean --

6 MR. CHILDS: Excuse me. I think I misspoke.
7 Of their incremental costs at that time.

8 COMMISSIONER CLARK: Okay.

9 MR. CHILDS: If they're going to engage in
10 the transaction. They don't buy fuel that way, so if
11 they're looking at what replacement cost of fuel is on
12 the date that they're making the sale, they're going
13 to look at that time and use it; but they don't
14 necessarily buy fuel that way. So I think that at
15 least --

16 COMMISSIONER CLARK: But all parties are in
17 the same boat in this instance --

18 MR. CHILDS: Absolutely.

19 COMMISSIONER CLARK: But what has been
20 suggested today is that all parties aren't in the same
21 boat with respect to what transmission costs they
22 actually have to pay.

23 MR. CHILDS: Well, maybe not, except that I
24 think one of the difficulties is, is that all of the
25 utilities are confronted with Order 838.

1 As I understand it, this Commission started
2 with the proposition -- and the broker that, first of
3 all, dealing with the attempt to lower fuel costs and
4 encourage those types of transactions; and, secondly,
5 attempting to address the accounting and rate matters
6 associated with it through the taking the revenue out
7 of base rates and putting it all in the fuel
8 adjustment, et cetera. And along comes the FERC and
9 says, well, now you have to charge yourself, in
10 effect, a wheeling rate of -- or reflect it somehow.

11 And you have, in my view, a transaction that
12 started off on a split-the-savings, noncost based
13 basis in the sense that it was a marginal -- it was a
14 quote of a cost. It didn't include your fixed cost
15 recovery at all.

16 Now, the FERC has said "but you have some
17 fixed costs that we want you to recognize in the
18 transaction, transmission." So I think part of it is
19 it's a consequence of the FERC Order 888 and wrestling
20 with how do you react to it.

21 **COMMISSIONER CLARK:** Well, I agree with
22 that, and I just simply wanted to ask the witness and
23 I -- shouldn't everybody be treated the same with
24 respect to the impact of Order 888?

25 **WITNESS VILLAR:** As far as the regulatory

1 treatment, I would say yes. As to the pricing itself,
2 there's differences of the utilities in their FERC
3 filings.

4 COMMISSIONER CLARK: Well, does that --

5 WITNESS VILLAR: And that's -- I'm sorry.

6 That was one of the issues that's been addressed
7 before. In terms of FPL propose an explicit
8 transmission charge, the other utilities are proposing
9 to back it out from the gain.

10 COMMISSIONER CLARK: Would you agree that
11 the treatment ought to be the same, the regulatory
12 treatment ought to be the same?

13 WITNESS VILLAR: Yes. As to what you do
14 with the revenues, yes.

15 CHAIRMAN JOHNSON: Before you begin, Staff,
16 TECO wanted to ask some questions. Are there any
17 objections to allowing -- TECO -- and you will be
18 given the opportunity to do re --

19 MR. CHILDS: Well, I may, but I don't know
20 yet.

21 CHAIRMAN JOHNSON: Well, let's give it a
22 try. There's some confusion, and we want to clear up
23 as many issues as possible, and then, Staff, that will
24 give you the opportunity afterwards to follow up
25 behind TECO.

1 MS. PAUGH: That's fine. Thank you.

2 RECROSS EXAMINATION

3 BY MR. LONG:

4 Q Mr. Villar, you've testified that you filed
5 with FERC a proposal as to how the split-the-savings
6 pricing ought to be done; is that correct?

7 A We have filed an amendment to our agreement.

8 Q Which contains a proposal as to how the
9 split-the-savings calculations of the pricing should
10 be done; is that correct?

11 A It's currently being done under that filing.
12 FERC has not approved it, but it is -- the revenues
13 are being collected on that basis.

14 Q Right. And that filing is being protested.

15 A There have been some parties that have
16 protested part of the filing. It included many
17 things.

18 Q Right. Now, putting aside that proposal
19 that's pending before FERC, isn't FERC's current
20 position that if you engage in a split-the-savings
21 transaction, you may not add any fixed costs to the
22 split-the-savings charge?

23 A I don't think that that's FERC's current
24 position. I don't know what FERC's current position
25 is.

1 **COMMISSIONER CLARK:** Let me ask a question.
2 You're not the only one with that type of tariff on
3 file. Every utility that has a transmission system
4 has a filing with FERC to comply with the FERC 388,
5 right?

6 **WITNESS VILLAR:** That's correct. Not every
7 utility has an -- IOUs. Municipal and co-ops didn't
8 have to do a lot of these.

9 **CHAIRMAN JOHNSON:** Say that again.

10 **WITNESS VILLAR:** Municipals and cooperatives
11 did not have to make a lot of these filings.

12 **COMMISSIONER CLARK:** You mean all the IOUs
13 had to do it?

14 **WITNESS VILLAR:** Yes.

15 **MR. LONG:** Madam Chairman, I have a document
16 that I'd like to be marked for purposes of
17 identification.

18 **CHAIRMAN JOHNSON:** We'll identify this as
19 Exhibit 7. Would you give me a short title?

20 **MR. LONG:** Yes. This is an excerpt from
21 FERC Order 888A, specifically Pages 202 to 205.

22 **CHAIRMAN JOHNSON:** Excerpt from Order 888?

23 **MR. LONG:** "A".

24 **CHAIRMAN JOHNSON:** Pages 202 through 205,
25 short title.

1 (Exhibit 7 marked for identification.)

2 Q (By Mr. Long) Mr. Villar, do you have a
3 copy of that exhibit we just handed out?

4 A Yes, I do.

5 Q Would you turn to Page 204?

6 A 204?

7 Q 204.

8 A Yes.

9 Q Three lines down you see the sentence that
10 starts "In the cases cited by utilities"?

11 A Yes.

12 Q Would you read that sentence and the one
13 following it?

14 A Let me read the whole context of what this
15 is --

16 Q Certainly. Go ahead.

17 A (Pause) Okay. I've read it.

18 Q Okay. Now would you turn to Page 204?

19 A Yes.

20 Q The sentence, the third line down, starting
21 "In the cases cited by utilities," would you begin
22 reading there to the end of that paragraph, please?

23 MR. CHILDS: I'm going to object to the line
24 of questioning. I have no idea what relevance this
25 has to the matter about recovery of costs in this

1 proceeding.

2 **MR. LONG:** Well, Madam Chairman, the witness
3 alleged that there are disparities and that somehow
4 these disparities are permissible as the law currently
5 stands.

6 The point of this excerpt is that FERC has
7 spoken specifically to this issue. Now, granted, the
8 Company has filed with FERC to ask for a different
9 methodology. We've protested that filing, so this
10 matter is not resolved.

11 In the absence of some resolution there, I
12 would submit that this is what FERC requires, and I
13 believe that's the relevance.

14 **MR. CHILDS:** Well, I don't really think this
15 Commission is going to decide what FERC requires, with
16 all due respect. And the reason I tried to be
17 cautious when I asked this witness questions about
18 that was to point out that FERC was going to decide,
19 and that they had made their filing, and that the
20 witness said it was under Section 205.

21 **CHAIRMAN JOHNSON:** I'm sorry. You're going
22 to have to speak up. I didn't hear the last sentence.

23 **MR. CHILDS:** I'm sorry. And that the
24 section under which the filing was made by FPL
25 included 205. And so I tried to leave it as though

1 it's a matter of the FERC's jurisdiction. And if you
2 look to this very page, 204, at the bottom, I mean
3 TECO talked to us about this was their interpretation
4 at the workshop, but if you look at 204 at the bottom,
5 the last two lines, and read it over to the next page,
6 205.

7 MR. LONG: Well, Madam Chairman, we're not
8 suggesting that they can't file with FERC to ask for
9 different treatment. Our point is until FERC grants
10 some different treatment, what appears above is the
11 current requirement.

12 MR. CHILDS: Well, with all due respect, I
13 don't think the witness testified as to what he had to
14 do. He's testified to what the Company had asked for,
15 and I believe this document that has been passed out
16 says you can ask for that.

17 MR. LONG: Well, my question to the witness
18 was "What is the current treatment at FERC."

19 MR. CHILDS: No. I think your question was
20 asking him to read the section of Order 888A. That's
21 when I objected.

22 MR. LONG: Prior to that, I asked the
23 witness whether he agreed with my formulation of what
24 the current state of the law is, and he said no.

25 MR. CHILDS: Okay.

1 **MR. LONG:** So this is a proper follow-up, in
2 my view, to that response.

3 **CHAIRMAN JOHNSON:** What was the question
4 pending?

5 **MR. LONG:** Well, I've asked the witness to
6 read from Page 204 of the exhibit starting the third
7 line from the top and going to the end of that
8 paragraph.

9 **MR. CHILDS:** And this in no way is going to
10 help your position in the FERC case against FPL, and
11 it's not for that purpose?

12 **MR. LONG:** Well, my purpose was to help the
13 Commission understand what the current requirements
14 are. We'll deal with the FERC case at FERC.

15 **MR. CHILDS:** And I would object on that
16 basis.

17 **CHAIRMAN JOHNSON:** Give me your objection.
18 Your objection --

19 **MR. CHILDS:** I object that I don't -- I
20 mean, as I said, I tried to be careful with the
21 witness -- and I think the door had been opened about
22 the charges -- to point out to the witness, or ask the
23 witness as to the basis for FPL's request for
24 different treatment; and that was to address some
25 questions that Commissioner Clark had raised.

1 The witness did not comment as to his
2 opinion, legal or otherwise, as to the FERC position.
3 To then attempt to cross-examine the witness on that
4 on the basis of establishing what the FERC current
5 position is, I think, is improper cross and beyond the
6 scope; and, of course, I think the whole cross is
7 improper anyway.

8 I don't think that they can inquire about a
9 matter that has nothing to do with the issue before
10 the Commission and goes beyond what this witness was
11 testifying to.

12 **MR. LONG:** Well, as I understood
13 Commissioner Clark's questions, they went to the issue
14 of whether utilities should be using a different
15 methodology.

16 The witness' response, in my view, implied
17 that until FERC makes some decision, that that is
18 permissible. As follow-up to that exchange, I think
19 pointing out what FERC requires now is entirely
20 appropriate and responsive, and it's fair game, given
21 the witness' discussion with Commissioner Clark.

22 **CHAIRMAN JOHNSON:** I guess I'm a little
23 confused by the question. I thought that the witness
24 responded that they thought that under the order, that
25 they could, indeed, ask for the treatment that they're

1 proposing.

2 **MR. LONG:** Yes, and I don't dispute that at
3 all.

4 **CHAIRMAN JOHNSON:** Okay. The point is
5 unless or until FERC gives them approval of what
6 they've requested, the requirement is as it appears on
7 Page 204 with regard to how split-the-savings
8 tractions have to be priced.

9 **COMMISSIONER CLARK:** Well, Mr. Childs, as I
10 understand your point, the requirement is subject to
11 debate in your mind.

12 **MR. CHILDS:** Yes.

13 **COMMISSIONER CLARK:** And I don't know that
14 we're going to resolve it here.

15 **MR. LONG:** Well, my point is that the
16 language speaks for itself, and all I'm asking is --

17 **CHAIRMAN JOHNSON:** Well, they're saying --

18 **MR. CHILDS:** Well, then we don't need to ask
19 the witness about it.

20 **CHAIRMAN JOHNSON:** -- it doesn't --

21 **MR. LONG:** Well, whether it does or not, I
22 would submit, is for you to decide.

23 **MR. CHILDS:** I would agree.

24 **COMMISSIONER CLARK:** Madam Chairman, I
25 apologize. I have evidently been the one who asked

1 the question that required this to be brought up.

2 It seems to me if this is the FERC order,
3 that you can ask for it to be -- us to take judicial
4 notice of it, and then you can argue whether or not it
5 applies.

6 I guess it strikes me as it really doesn't
7 matter if the witness reads it or not, and to that
8 extent, maybe it's okay to have him read it.

9 **MR. LONG:** Madam Chairman, if the Commission
10 will take official notice of FERC Order 888A, I will
11 withdraw my question to the witness.

12 **CHAIRMAN JOHNSON:** And there's no objection
13 to us taking official notice of 888A? Generally we
14 ask that you provide copies and put the parties on
15 notice, but, I mean, that would be a bit much. So
16 there's no objection. (Laughter)

17 **MR. CHILDS:** I haven't been able to get one
18 of those.

19 **CHAIRMAN JOHNSON:** Okay, then.

20 **MR. LONG:** I will certainly provide copies.

21 **MR. CHILDS:** I would suggest --

22 **CHAIRMAN JOHNSON:** Well, I don't think --

23 **MR. CHILDS:** -- and this is not meant in the
24 context of being argumentative about the request to
25 take judicial notice or administrative notice or

1 whatever -- but I would suggest that counsel might
2 want to suggest that there's several pages, and let us
3 look at it without trying to have the whole order
4 being noticed; but if not, okay.

5 MR. LONG: Well, I'm interested in these
6 pages.

7 COMMISSIONER CLARK: Well, it strikes me
8 that the two of you can get together and agree on what
9 we'll take official notice of.

10 MR. LONG: Certainly.

11 CHAIRMAN JOHNSON: And before the end of the
12 proceeding, just make sure we have that for the
13 record.

14 MR. LONG: Certainly.

15 CHAIRMAN JOHNSON: And then you withdraw the
16 question?

17 MR. LONG: Yes, I withdraw that question.

18 COMMISSIONER CLARK: Madam Chairman, at the
19 risk of throwing gasoline on a fire, let me ask this
20 question: Would it be correct that to the extent
21 there are on file with FERC and approved by FERC --
22 let's just assume it's approved by FERC -- different
23 ways of treating the transmission charge in an economy
24 sale, then it will result in some cases, given the
25 same decremental and incremental fuel prices depending

1 on what the rate is on file with FERC, it may be made
2 or it may not be made, depending on the utilities
3 involved?

4 You know, I haven't framed that very well.

5 WITNESS VILLAR: I think any rate that you
6 have on file affects whether a match is going to be
7 made or not, and the utilities have had for -- let's
8 take the example of where you had -- in the broker
9 before where you had a transaction between two
10 nondirectly interconnected utilities.

11 Each utility in Florida had a different
12 transmission rate. That rate was taken into account
13 in making the matches. And by having different rates,
14 each utility was still -- had support of the rates and
15 had it approved at FERC, and it did result in
16 different matches, because they did have different
17 rates.

18 COMMISSIONER CLARK: Well, let me ask it
19 maybe this way: To the extent one utility files a
20 rate and the total charge for all components does not
21 exceed what they charge now, and another utility files
22 a rate where they add another component, then it will
23 distort the broker process?

24 WITNESS VILLAR: I think it will result in
25 different matches. The utility that takes the

1 transmission cost out of the prior gain will most
2 likely get more matches than the utility that had a
3 separate charge for transmission.

4 COMMISSIONER CLARK: All right. And what
5 is --

6 WITNESS VILLAR: So in the case of TECO,
7 TECO is likely to get more matches than Florida
8 Power & Light will, because FPL's costs look higher
9 than TECO's.

10 COMMISSIONER CLARK: What effect does that
11 have on our goal of having the least cost unit running
12 at any given time?

13 WITNESS VILLAR: I think you have to look at
14 it in the context of whether you're looking at it just
15 from the standpoint of generation alone or total cost
16 actually incurred and seen by the purchaser and the
17 seller.

18 COMMISSIONER CLARK: Okay.

19 MR. LONG: Madam Chairman, I have no further
20 questions.

21 CHAIRMAN JOHNSON: Staff?

22 MR. STONE: Chairman Johnson, in light of
23 that we're going back down the line for recross, I
24 have one brief question I'd like to ask the witness.

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REXCROSS EXAMINATION

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BY MR. STONE:

Q Mr. Villar, in earlier testimony you made statements about other utilities and how they were treating transmission revenues with respect to the gain. When you said "all the other utilities," you were not meaning to include Gulf Power in that reference?

A I did not say "all". I don't recall saying "all". I said "other utilities". I do not know specifically what Gulf is doing.

MR. STONE: That's the clarification I was seeking.

CHAIRMAN JOHNSON: Staff?

REXCROSS EXAMINATION

BY MS. PAUGH:

Q Mr. Villar, I have a couple of questions following up on the transaction price issue.

Assuming the hypothetical of 20/30 and \$3 for transaction price with FPL being the selling utility, I believe it was your testimony -- and correct me if I'm wrong -- that the broker automatically considers the transmission amount to arrive at a transaction price of \$23.50. Is that a correct reflection of your position?

1 A I don't know if the transaction price is the
2 proper terminology for it, but the broker does take
3 into account the transmission cost. I was not
4 focusing on specific terminology being used by the
5 broker. The broker might still show the transaction
6 price as the old amount.

7 Q The old amount?

8 A The \$25. In other words, in order to make
9 the matches, the broker might use old amounts; but it
10 does adjust the buyer's cost.

11 Q All right. Perhaps referring to the exhibit
12 marked Number 3 -- this is the Staff summary -- if we
13 assume that FPL is the purchasing utility with the \$30
14 decremental, and TECO, for example, is the selling
15 utility, and TECO proposes -- the transaction price,
16 according to TECO's proposal, would be \$25, and
17 according to the testimony and exhibits submitted thus
18 far that it's true for all of the other utilities with
19 the exception of FPL, how -- there doesn't seem to be
20 consistency here, how can the broker system
21 automatically treat different transactions differently
22 when the costs are identical? Why is FPL the only
23 utility with a \$23.50 transaction price?

24 A Because FPL has an explicit sanctioned --
25 cost for a -- or a cost of transmission which is being

1 recognized by the broker, where the other parties are
2 doing it on an after-the-fact basis after they make
3 their matches.

4 Q Again, how can the broker automatically
5 consider this? We don't understand how this could
6 happen on a functional basis, if you will, out there
7 in the world. Could you please explain that further?

8 A I'm not sure I understand the question. If
9 your concern is whether the transmission price being
10 charged by the other utility -- those prices, from
11 what I understand, are not being seen at all by the
12 broker.

13 What happens is the broker does a match on
14 the basis of the buyers' and the sellers' incremental
15 cost, and if the differential is not sufficient to
16 justify the transmission cost that the other utilities
17 charge -- and I'm saying other utilities in general,
18 not pointing specifically to anybody -- on an
19 after-the-fact basis, the transaction will not take
20 place. That utility will call and say, I do not have
21 enough of a differential to continue the transaction.

22 Q Right. I understand that.

23 A There may have been others that have said, I
24 need this much of a differential in order for it to
25 take place to cover my transmission cost. I am not

1 aware exactly what each utility had put into the
2 broker. I know what FPL has put in, which is a
3 transmission charge.

4 Q If I could just ask the question perhaps
5 differently one more time. In all instances, does the
6 broker automatically consider transmission to arrive
7 at a transaction price?

8 A It does it for those transmission costs that
9 have been identified to it. The transmission costs
10 for nondirectly interconnected utilities have been
11 identified to the broker for a long time, and they
12 have been recognized when making matches.

13 FPL now has a separate charge for
14 transmission that is being used by the broker when
15 making a match for FPL. As to the other utilities, it
16 appears to me that that is done on an after-the-fact
17 basis.

18 MS. PAUGH: Okay. Thank you.

19 COMMISSIONER CLARK: Mr. Villar, just so I'm
20 clear, what you're saying is that when there's a
21 broker sale involving FP&L, the broker will take your
22 \$23.50 transaction charge -- I mean, you've told him,
23 the broker/operator, to already figure this
24 transmission in, in determining your -- in this case I
25 think you're the seller?

1 **WITNESS VILLAR:** Correct. The broker --
2 it's a computer -- recognizes in this case in the
3 example as used -- that we've used here a \$3
4 transmission charge associated with it.

5 **COMMISSIONER CLARK:** So, in other words, the
6 broker is making sales which are dependent on the
7 inputs each utility asks them to put in?

8 **WITNESS VILLAR:** Correct.

9 **COMMISSIONER CLARK:** And in the case of the
10 other utilities, apparently they haven't put in their
11 transmission costs, but then when they decide to tell
12 the broker to go ahead or not, they're looking at it
13 including their transmission costs and then saying yea
14 or nay to a sale?

15 **WITNESS VILLAR:** I don't have any direct
16 knowledge of that. I'm only going by the testimony I
17 have seen here.

18 **MS. PAUGH:** We have no further questions.
19 Thank you.

20 **CHAIRMAN JOHNSON:** Re-redirect?

21 **MR. CHILDS:** Thank you, Commissioner. I
22 would like to move into evidence Exhibits 5 and 6.

23 **CHAIRMAN JOHNSON:** Show 5 and 6 admitted
24 without objection.

25 (Exhibits 5 and 6 received in evidence.)

1 **CHAIRMAN JOHNSON:** We've identified the
2 excerpts from 888A, those pages 202 through 205. How
3 do you all wish to handle that?

4 **MR. LONG:** Well, Madam Chairman, I'm happy
5 to have them available for briefing if the Commission
6 will take official notice of those pages. If that --

7 **MR. CHILDS:** I won't object to the request
8 that the Commission take official notice of those
9 pages.

10 **CHAIRMAN JOHNSON:** Okay.

11 **MR. LONG:** It's not necessary, then, to have
12 it as an exhibit.

13 **CHAIRMAN JOHNSON:** Okay. We'll show that
14 not admitted, and withdrawn. Thank you, sir. You're
15 excused.

16 **WITNESS VILLAR:** Thank you.

17 (Witness Villar excused.)

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19 (Transcript continues in sequence in
20 Volume 2.)

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