

ORIGINAL

M E M O R A N D U M

October 18, 1999

TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (Jaye) *RVÉ*

RE: DOCKET NO. 990007-EI - Environmental Cost Recovery Clause

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Attached is the prefiled direct testimony of G. John Slemkewicz, to be issued in the above-referenced docket.

GAJ  
 Attachment  
 cc: Division of Auditing and Financial Analysis  
 I:memol.gaj

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12698 OCT 18 99

FPSC-RECORDS/REPORTING

ORIGINAL

DOCKET NO.: 990007-EI - Environmental Cost Recovery Clause

WITNESS: Direct Testimony of G. John Slemkewicz. Appearing On  
Behalf Of The Staff Of The Florida Public Service Commission,  
Division Of Auditing And Financial Analysis.

DATE FILED: October 18, 1999

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FPSC-RECORDS/REPORTING

1 DIRECT TESTIMONY OF G. JOHN SLEMKEWICZ

2 Q. Please state your name and business address.

3 A. My name is G. John Slemkewicz. My business address is 2540 Shumard Oak  
4 Boulevard, Tallahassee, Florida 32399-0850.

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

6 A. I am employed by the Florida Public Service Commission. My current  
7 position is Public Utilities Supervisor of the Energy Section in the Bureau  
8 of Accounting and Competitive Safeguards of the Division of Auditing and  
9 Financial Analysis.

10 Q. How long have you been employed by the Commission?

11 A. I have been employed by the Florida Public Service Commission for  
12 approximately 21 years.

13 Q. Briefly review your education and professional background.

14 A. I graduated from the University of South Florida in Tampa, Florida, in  
15 1976 with a Bachelor of Arts Degree in accounting. I was employed as an  
16 accounting clerk by Tampa Electric Company from 1974-1978. I began working  
17 for the Florida Public Service Commission in 1978 as an auditor. Since that  
18 time, I have held various accounting positions in several divisions related  
19 to the accounting regulation of the electric and gas utilities, achieving a  
20 supervisory level in 1980. During the last reorganization affecting the title  
21 of my position in 1991, I became a Public Utilities Supervisor.

22 Q. What are your current responsibilities as Public Utilities Supervisor  
23 of the Energy Section?

24 A. I supervise the analysis of accounting-related matters affecting the  
25 regulated electric and gas utilities in Florida.

1 Q. Have you presented expert testimony before this Commission or any other  
2 regulatory agency?

3 A. Yes. I have previously presented testimony before this Commission.

4 Q. What is the purpose of your testimony today?

5 A. The purpose of my testimony is to address the appropriate basis for  
6 evaluating whether an adjustment for "costs currently being recovered through  
7 base rates" is required to environmental compliance costs submitted for  
8 recovery pursuant to Section 366.8255, Florida Statutes.

9 Q. Why is there a question concerning what costs are being recovered  
10 currently through base rates?

11 A. In the past, the utilities' base rates were frequently revised and  
12 updated through the traditional ratemaking mechanism of the full revenue  
13 requirements rate case. Under that procedure, revenues, expenses and  
14 investment would be reviewed and new base rates would be implemented at the  
15 conclusion of the rate case. Therefore, the base rates currently in effect  
16 at a given point in time were a reasonable approximation of the level and mix  
17 of revenues, expenses and investment in place at that time. Any dramatic  
18 changes were usually addressed by the initiation of another rate case to  
19 adjust any imbalances. The Commission also once had available the Modified  
20 Minimum Filing Requirements Report (MMFR) that was authorized by Section  
21 366.06(3), Florida Statutes. In the absence of a recent rate case, each  
22 electric utility was required to periodically file rate case type financial  
23 data for formal review by the Commission. This requirement was subsequently  
24 repealed by the legislature. However, mechanisms other than the traditional  
25 rate case are being utilized to address the level of earnings in the current

1 | regulatory environment.

2 | Q. What other mechanisms are currently being utilized?

3 | A. The utilities earnings levels have been adjusted through the use of  
4 | stipulations and agreements that have imposed restrictions on earnings or  
5 | revenue levels and/or have allowed the write off of certain assets or costs.

6 | Q. Do these other mechanisms affect the level of the utilities' base rates?

7 | A. They may, depending on how they are implemented. While refunds and the  
8 | write off of various items affect the achieved level of the utilities'  
9 | earnings, they do not result in any revisions in the utilities' last  
10 | authorized base rates. Base rates are only affected if the stipulation or  
11 | agreement requires a modification of the base rates that are currently being  
12 | charged to the ratepayers.

13 | Q. In your opinion, what is the appropriate basis for evaluating whether  
14 | any environmental costs submitted for recovery are currently being recovered  
15 | through base rates?

16 | A. In my opinion, the appropriate starting point for evaluating whether any  
17 | of these costs are currently being recovered through base rates is the  
18 | revenues, expenses and investment in place at the time of the most recent  
19 | revision to the utilities' base rates. In some instances, the most recent  
20 | base rate revision would have occurred during the last rate case. For some  
21 | utilities, however, base rates have been revised as the result of a  
22 | stipulation. Regardless of the mechanism, I believe that base rates reflect  
23 | the recovery of the revenues, expenses and investment at the time of the  
24 | revision to the base rates.

25 |

1 | Q. What about the utility's current level of earnings, as monitored in the  
2 | Commission's earnings surveillance program?

3 | A. The earnings level measured in the earnings surveillance program is an  
4 | indication of how well the utility is doing based on the revenues generated  
5 | by the most recently revised base rates. This is true whether the base rates  
6 | were revised by a stipulation approved last month or by order issued as a  
7 | result of a rate case concluded many years ago. It can be argued that all  
8 | costs flow through the surveillance reports on a current basis and should be  
9 | used to determine whether any environmental costs are being recovered through  
10 | the revenues generated by the base rates that are in effect. That can lead  
11 | to controversy regarding the adequacy of the level of the utility's earnings.  
12 | Again, I believe that base rates reflect the level of revenues, expenses and  
13 | investment recorded on the utilities' books at the time that base rates were  
14 | revised.

15 | Q. Does that conclude your testimony?

16 | A. Yes, it does.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Environmental Cost  
Recovery Clause

DOCKET NO. 990007-EI

FILED: October 18, 1999

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that one true and correct copy of the testimony of G. John Slemkewicz has been furnished by U.S. Mail this 18th day of October, 1999, to the following:

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