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ORIGINAL

Matthew M. Childs, P.A.

March 1, 2000

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RECORDS AND REPORTING

Blanca S. Bayó, Director  
Division of Records and Reporting  
Florida Public Service Commission  
4075 Esplanade Way, Room 110  
Tallahassee, FL 32399

RE: DOCKET NO. 991779-EI

Dear Ms. Bayó:

Enclosed for filing please find the original and twenty (20) copies of the Direct Testimony of K. M. Dubin and J.P. Stepenovitch on behalf of Florida Power & Light Company in the above referenced docket.

Very truly yours,

Matthew M. Childs, P.A.

MMC:ml

Enclosure

cc: All Parties of Record

- AFA \_\_\_\_\_
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
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- EAG \_\_\_\_\_
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FPSC-BUREAU OF RECORDS

*Stepenovitch*  
DOCUMENT NUMBER-DATE

02774 MAR-18

FPSC-RECORDS/REPORTING

*Dubin*  
DOCUMENT NUMBER-DATE  
02773 MAR-18

CERTIFICATE OF SERVICE  
DOCKET NO. 991779-EI

I HEREBY CERTIFY that a true and correct copy of Florida Power & Light Company's Direct Testimony of K. M. Dubin and J.P. Stepenovitch have been furnished by Hand Delivery,\*\* or U.S. Mail this 1st day of March, 2000 to the following:

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By: 

Matthew M. Childs, P.A.

**ORIGINAL**

**BEFORE THE FLORIDA  
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 991779-EI**

**REVIEW OF THE APPROPRIATE  
APPLICATION OF WHOLESALE POWER SALES BY  
INVESTOR-OWNED UTILITIES**

**MARCH 1, 2000**

**TESTIMONY OF J. P. STEPENOVITCH**

DOCUMENT NUMBER-DATE

**02774 MAR-18**

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of the appropriate )  
application of incentives to ) DOCKET NO. 991779-EI  
wholesale power sales by ) FILED: March 1, 2000  
investor-owned electric utilities. )  
\_\_\_\_\_ )

PREPARED DIRECT TESTIMONY  
OF  
JOSEPH P. STEPENOVITCH

1 Q. Please state your name and business address.

2 A. My name is Joseph P. Stepenovitch. My business address is 11770 U.S.  
3 Highway One, North Palm Beach, Florida 33408.

4 Q. Please state your position and the nature of your responsibilities at FPL.

5 A. I am the Director of Wholesale Operations in FPL's Energy Marketing & Trading  
6 Division. My primary function in that position is to oversee the overall generation  
7 asset optimization. This function oversees fuel purchases/sales, power  
8 purchase/sales, and transportation for fuel and power.

9 Q. Please describe your educational background, and work experience.

10 A. I received a Bachelor of Science degree in Business Administration in 1989 from  
11 Barry University in Miami, Florida. I have been employed by FPL since 1980. In  
12 that time, I have held various positions within FPL's Power Supply Department;  
13 (1) System Operation Senior Specialist from October 1980 through February  
14 1982; (2) Interchange Coordinator from February 1982 through February 1986;  
15 (3) Operational Planning Supervisor from February 1986 through May 1991; (4)

1           Manager of Interchange Operations from May 1991 through April 1997; and (5)  
2           my current position since April 1997. Prior to my employment with FPL, I worked  
3           for New England Power Service Company for twelve years in a variety of  
4           positions in power delivery and systems operations areas.

5   **Q.   In addition to your position at FPL, do you participate in any related**  
6   **organizations?**

7   A.   Yes. I am currently FPL's representative to the Florida Energy Broker Network,  
8       Inc., FRCC Market Interface Committee, and the Board of Directors for NESA  
9       (National Energy Services Association).

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

11 A.   The purpose of my testimony is to describe why incentives are appropriate and  
12       how incentives benefit both the customers and the stockholders. I will describe  
13       the dramatic changes which have taken place in the wholesale energy market  
14       over the past several years and also describe how FPL's wholesale operations  
15       are changing in order to be a well equipped participant in this new and evolving  
16       market.

17 **Q.   Why should the Commission approve a stockholder incentive?**

18 A.   In Order 12923, the objective of establishing the incentive was to maximize  
19       economy sales and provide a net benefit to customers. This objective to  
20       maximize economy sales, which could provide significant benefits to customers,  
21       continues to be valid today. However, due to the changes in the market, as

1 described later in my testimony, the economy sales which were the subject of  
2 Order 12923 are practically non-existent.

3 Utilities are now making more opportunity sales outside of the broker network,  
4 particularly outside of the state. This increases FPL's costs. Therefore, the  
5 shareholder incentive should be extended to all opportunity sales to provide  
6 adequate incentive for utilities to maximize these off-system sales which will  
7 benefit customers to a greater extent. FPL believes incentives would also apply  
8 to capacity sales made with a utility's "temporary" excess generating capability.  
9 These opportunity sales allow Florida utilities to reduce overall costs through  
10 greater asset utilization. The more efficient use of capacity will help minimize  
11 retail rates for all Florida customers. Applying incentives to all opportunity sales  
12 also will protect against disincentives such as increased O & M costs, which  
13 includes the wear and tear on generation assets required to make these sales.

14 To maximize opportunity sales, additional effort is required on the part of the  
15 utility to utilize additional manpower and equipment. Therefore, a sharing of  
16 non-fuel revenues between retail customers and stockholders is fair, and would  
17 provide an incentive for utilities to pursue these sales even further. This will allow  
18 the retail customers to more fully realize the benefits of existing generating  
19 resources in Florida. Structured properly, incentives will motivate a utility to  
20 pursue the maximum amount of savings possible. Incentives will serve to  
21 promote management's willingness to allocate additional resources and funds to  
22 its energy marketing and trading functions. This in turn will serve to increase the

1 frequency and duration of FPL's opportunity sales, that will ultimately benefit its  
2 customers as well as our shareholders.

3 **Q. Describe how the wholesale market has changed since the incentive was**  
4 **initiated.**

5 A. Up until about 1994, FPL mainly traded with other in-state utilities in broker  
6 economy transactions. Power that was traded outside the state was transacted  
7 almost exclusively with Southern Company. Further, FPL was mainly a net  
8 purchaser of power. Today the transactions are quite different. FPL trades almost  
9 exclusively in opportunity (off-broker) transactions. FPL has become a net seller  
10 of power (almost two to one in recent years), and transactions for wholesale  
11 power with non-utility entities have become prevalent. To keep up with the  
12 market, FPL has had to enter into contracts with power marketers as well as  
13 other utilities. FPL has increased the number of contracts from approximately 63  
14 to over 400 in the past three years. This does not come without additional costs  
15 to FPL.

16 FPL now is keenly aware of power prices and electric markets outside of Florida,  
17 and regularly sells and buys power with parties located several transmission  
18 systems away. For example, FPL has sold power as far away as the  
19 Pennsylvania, New Jersey, Maryland Power Pool and Commonwealth Edison in  
20 Chicago. Furthermore, the power market has become more complex as  
21 evidenced with the creation of power exchanges and "trading hubs" as well as  
22 developing forwards market (i.e., futures contracts have been established in  
23 several trading venues throughout the United States). Products often have to be

1 customized and expanded to include, for example, options, calls and puts (types  
2 of options), and tolling arrangements (gas for electricity transactions) to name a  
3 few. In addition, the State of Florida has seen a significant number of  
4 independent non-regulated power companies announce the intention of building  
5 merchant plants in the State of Florida. In fact, Orlando Utilities Commission has  
6 sold several units to one of these companies. This means more excess  
7 generating capacity in Florida and thus more effort to make sales. All these facts  
8 evidence how the wholesale market has become more complex over the past  
9 few years, making wholesale sales transactions more competitive, difficult, and  
10 challenging to make.

11 **Q. As of today, what changes has FPL made to effectively compete with other**  
12 **marketing and trading organizations.**

13 A. FPL's Energy Marketing and Trading organization has had to grow in order to  
14 remain competitive. We have hired new employees whose skill sets were  
15 needed to help us operate in the changing marketplace. FPL has merged its fuel  
16 and power activity all within one group. This has enhanced our ability to  
17 arbitrage between commodities and reduce price volatility to our customers. We  
18 have significantly enhanced our trading and support systems, which requires  
19 more information and management support. There have been significant  
20 upgrades to our computer infrastructure. For example, we have added a new  
21 risk management system called Nucleus. We have had to gain access to all the  
22 new OASIS sites and tagging systems. We have purchased software to assist  
23 us with transaction evaluations. We have had to purchase weather services and



1 market publications. In order to transact in different regions and with new  
2 parties, we have had to become members of various power pools. FPL also  
3 added a new phone system to handle the increased volume of transactions and  
4 expanded its trading floor. All of these changes have added to FPL's cost  
5 structure. However, customers have received a more than commensurate  
6 benefit from these investments as gains on off-system sales have increased from  
7 \$5.5 million in 1996 to approximately \$59.1 million in 1999.

8 **Q. Please summarize your testimony.**

9 A. The Commission's objective of establishing the incentive was to maximize  
10 economy sales and provide a net benefit to customers. This objective continues  
11 to be valid today. Utilities are now making more opportunity sales outside of the  
12 broker network, particularly outside of the state. The wholesale market has  
13 become more complex, making wholesale sales transactions more competitive,  
14 difficult, and challenging to make. Therefore, the shareholder incentive should be  
15 extended to all opportunity sales to provide an incentive for utilities to maximize  
16 these off-system sales which will benefit customers.

17 **Q. Does that conclude your testimony?**

18 A. Yes it does.