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Matthew M. Childs, P.A.

April 17, 2000

ORIGINAL

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

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RECORDS AND REPORTING

Re: Docket No. 991779-EI

Dear Ms. Bayó:

Enclosed for filing please find the original and twenty (20) copies of the Revised Direct Testimony of J. P. Stepenovitch. Mr. Stepenovitch's testimony was originally filed on March 1, 2000, with incorrect margins.

Respectfully submitted,

Matthew M. Childs, P.A.

- AFA 1
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
- EAG Hydon
- LEG \_\_\_\_\_
- MAS Stacy
- OPC \_\_\_\_\_
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- SEC 1
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cc: All Parties of Record

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DOCUMENT NUMBER-DATE

04686 APR 17 8

**CERTIFICATE OF SERVICE**  
**DOCKET NO. 991779-EI**

I **HEREBY CERTIFY** that a true and correct copy of the Revised Testimony of J. P. Stepenovitch filed on behalf Florida Power & Light Company has been furnished by Hand Delivery,\*\* or U.S. Mail this 17th day of April, 2000 to the following:

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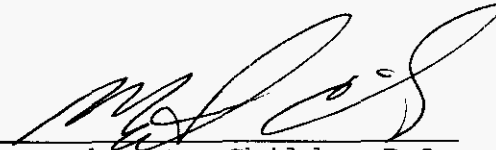
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By: \_\_\_\_\_

  
Matthew M. Childs, P.A.

04686

**BEFORE THE FLORIDA  
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 991779-EI**

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

**MARCH 17, 2000**

**REVISED  
TESTIMONY OF J. P. STEPENOVITCH**

DOCUMENT NUMBER-DATE

04686 APR 17 8

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 17, 2000  
investor-owned electric utilities. )

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**REVISED 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  
3 U.S. Highway One, North Palm Beach, Florida 33408.

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

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

11 **Q. Please describe your educational background, and work  
12 experience.**

13 A. I received a Bachelor of Science degree in Business Administration  
14 in 1989 from Barry University in Miami, Florida. I have been

1 employed by FPL since 1980. In that time, I have held various  
2 positions within FPL's Power Supply Department; (1) System  
3 Operation Senior Specialist from October 1980 through February  
4 1982; (2) Interchange Coordinator from February 1982 through  
5 February 1986; (3) Operational Planning Supervisor from February  
6 1986 through May 1991; (4) Manager of Interchange Operations  
7 from May 1991 through April 1997; and (5) my current position since  
8 April 1997. Prior to my employment with FPL, I worked for New  
9 England Power Service Company for twelve years in a variety of  
10 positions in power delivery and systems operations areas.

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

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

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

17 A. The purpose of my testimony is to describe why incentives are  
18 appropriate and how incentives benefit both the customers and the  
19 stockholders. I will describe the dramatic changes which have taken  
20 place in the wholesale energy market over the past several years  
21 and also describe how FPL's wholesale operations are changing in

1 order to be a well equipped participant in this new and evolving  
2 market.

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

4 A. In Order 12923, the objective of establishing the incentive was to  
5 maximize economy sales and provide a net benefit to customers.  
6 This objective to maximize economy sales, which could provide  
7 significant benefits to customers, continues to be valid today.  
8 However, due to the changes in the market, as described later in my  
9 testimony, the economy sales which were the subject of Order  
10 12923 are practically non-existent.

11 Utilities are now making more opportunity sales outside of the broker  
12 network, particularly outside of the state. This increases FPL's  
13 costs. Therefore, the shareholder incentive should be extended to  
14 all opportunity sales to provide adequate incentive for utilities to  
15 maximize these off-system sales which will benefit customers to a  
16 greater extent. FPL believes incentives would also apply to capacity  
17 sales made with a utility's "temporary" excess generating capability.  
18 These opportunity sales allow Florida utilities to reduce overall costs  
19 through greater asset utilization. The more efficient use of capacity  
20 will help minimize retail rates for all Florida customers. Applying  
21 incentives to all opportunity sales also will protect against

1           disincentives such as increased O & M costs, which includes the  
2           wear and tear on generation assets required to make these sales.

3           To maximize opportunity sales, additional effort is required on the  
4           part of the utility to utilize additional manpower and equipment.  
5           Therefore, a sharing of non-fuel revenues between retail customers  
6           and stockholders is fair, and would provide an incentive for utilities  
7           to pursue these sales even further. This will allow the retail  
8           customers to more fully realize the benefits of existing generating  
9           resources in Florida. Structured properly, incentives will motivate a  
10          utility to pursue the maximum amount of savings possible.  
11          Incentives will serve to promote management's willingness to  
12          allocate additional resources and funds to its energy marketing and  
13          trading functions. This in turn will serve to increase the frequency  
14          and duration of FPL's opportunity sales, that will ultimately benefit its  
15          customers as well as our shareholders.

16   **Q.    Describe how the wholesale market has changed since the**  
17   **incentive was initiated.**

18   A.    Up until about 1994, FPL mainly traded with other in-state utilities in  
19   broker economy transactions. Power that was traded outside the  
20   state was transacted almost exclusively with Southern Company.  
21   Further, FPL was mainly a net purchaser of power. Today the  
22   transactions are quite different. FPL trades almost exclusively in

1 opportunity (off-broker) transactions. FPL has become a net seller of  
2 power (almost two to one in recent years), and transactions for  
3 wholesale power with non-utility entities have become prevalent. To  
4 keep up with the market, FPL has had to enter into contracts with  
5 power marketers as well as other utilities. FPL has increased the  
6 number of contracts from approximately 63 to over 400 in the past  
7 three years. This does not come without additional costs to FPL.  
8 FPL now is keenly aware of power prices and electric markets  
9 outside of Florida, and regularly sells and buys power with parties  
10 located several transmission systems away. For example, FPL has  
11 sold power as far away as the Pennsylvania, New Jersey, Maryland  
12 Power Pool and Commonwealth Edison in Chicago. Furthermore,  
13 the power market has become more complex as evidenced with the  
14 creation of power exchanges and "trading hubs" as well as  
15 developing forwards market (i.e., futures contracts have been  
16 established in several trading venues throughout the United States).  
17 Products often have to be customized and expanded to include, for  
18 example, options, calls and puts (types of options), and tolling  
19 arrangements (gas for electricity transactions) to name a few. In  
20 addition, the State of Florida has seen a significant number of  
21 independent non-regulated power companies announce the  
22 intention of building merchant plants in the State of Florida. In fact,



1 Orlando Utilities Commission has sold several units to one of these  
2 companies. This means more excess generating capacity in Florida  
3 and thus more effort to make sales. All these facts evidence how  
4 the wholesale market has become more complex over the past few  
5 years, making wholesale sales transactions more competitive,  
6 difficult, and challenging to make.

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

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

1 with new parties, we have had to become members of various  
2 power pools. FPL also added a new phone system to handle the  
3 increased volume of transactions and expanded its trading floor. All  
4 of these changes have added to FPL's cost structure. However,  
5 customers have received a more than commensurate benefit from  
6 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  
10 maximize economy sales and provide a net benefit to customers.  
11 This objective continues to be valid today. Utilities are now making  
12 more opportunity sales outside of the broker network, particularly  
13 outside of the state. The wholesale market has become more  
14 complex, making wholesale sales transactions more competitive,  
15 difficult, and challenging to make. Therefore, the shareholder  
16 incentive should be extended to all opportunity sales to provide an  
17 incentive for utilities to maximize these off-system sales which will  
18 benefit customers.

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

20 A. Yes it does.

21