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BY HAND DELIVERY

Blanca Bayó
Director, Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Re: Lee County Electric Cooperative Complaint
Docket No. 981827-EC

Dear Ms. Bayó:

Enclosed for filing on behalf of Seminole Electric Cooperative, Inc. are the original and fifteen copies of the direct testimony of:

James P. Duncan 07774-00
Timothy S. Woodbury 07775-00
Trudy S. Novak 07776-00
David E. Christianson 07777-00

By copy of this letter, this testimony has been furnished to the parties on the attached service list.

If you have any questions regarding this filing, please call.

Very truly yours,



Richard D. Melson

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07774-00 06/26/2000
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing was furnished to the following parties by U.S. Mail or Hand Delivery (*) this 26th day of June, 2000.

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Attorney

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **DIRECT TESTIMONY OF JAMES P. DUNCAN**

3 **ON BEHALF OF SEMINOLE ELECTRIC COOPERATIVE, INC.**

4 **DOCKET NO. 981827-EC**

5 **June 26, 2000**

6
7 **Q. Please state your name and business address.**

8 **A. My name is James P. Duncan. My business address is 293 South U.S. Highway**
9 **301, Sumterville, FL 33585.**

10
11 **Q. On whose behalf are you testifying in this proceeding?**

12 **A. I am testifying on behalf of Seminole Electric Cooperative, Inc. (Seminole).**

13
14 **Q. By whom are you employed and in what capacity?**

15 **A. I am the Chief Executive Officer and General Manager of Sumter Electric**
16 **Cooperative, Inc. (Sumter). As CEO and General Manager of Sumter, I also**
17 **serve on Seminole's Board of Trustees and on its Rate Committee. I am**
18 **currently the Vice Chair of Seminole's Rate Committee and am a member and**
19 **Chairman of Seminole's Finance Committee.**

20
21 **Q. What is the relationship between Sumter and Seminole?**

22 **A. Sumter is a distribution cooperative serving approximately 105,000 members in**
23 **seven Central Florida counties. Sumter is one of ten members of Seminole,**
24 **which is a generation and transmission cooperative. Like Seminole's other**
25 **members, Sumter has a Wholesale Power Contract under which it purchases its**

1 full requirements of capacity and energy from Seminole. Also like Seminole's
2 other members, Sumter has two voting members, and one non-voting alternate,
3 on Seminole's Board of Trustees and one member on Seminole's Rate
4 Committee.

5
6 **Q. Please describe your background and experience.**

7 A. I have 28 years of experience in the electric utility industry, with the last 21
8 years at Sumter. For my first 11 years at Sumter I served as the cooperative's
9 Chief Financial Officer. I have held my current position as Chief Executive
10 Officer for the past 10 years. Prior to joining Sumter, I served for seven years as
11 the Chief Financial Officer of a municipal utility in Tennessee. I have a B.S. in
12 Accounting and an M.B.A. in Finance, both from East Tennessee State
13 University.

14
15 **Q. What is the purpose of your testimony?**

16 A. The purpose of my testimony is to confirm that Mr. Woodbury's description of
17 the process by which Seminole establishes its rates and rate structure is accurate,
18 and to assure the Commission that this process was followed in the adoption of
19 Seminole's Rate Schedules SECI-7 and SECI-7b. I will also explain why, even if
20 the Commission concludes that it has jurisdiction over Seminole's wholesale rate
21 structure, the Commission as a matter of policy should defer to the judgment of
22 Seminole's Board of Trustees and should approve any rate structure that has
23 been through Seminole's internal approval process.

24
25 **Q. How long have you been a Trustee of Seminole and a member of**

1 **Seminole's Rate Committee?**

2 A. I have been a Trustee of Seminole and a member of the Rate Committee since I
3 became General Manager of Sumter in April 1990.

4

5 **Q. Apart from your position as Trustee and Rate Committee member, have**
6 **you had any additional involvement in the process that led to the adoption**
7 **of Rate Schedules SECI-7 and SECI-7b?**

8 A. Yes. I was a member and Vice Chair of the Strategic Planning Advisory
9 Committee created in 1997 to develop a strategic plan for Seminole. Rate
10 Schedule SECI-7 was designed to implement the rate structure goal that was
11 included in the Strategic Plan recommended by our committee and ultimately
12 adopted by the Board of Trustees. Also, as Vice Chair of the Rate Committee, I
13 participated in insuring the independence of the consultant (Burns &
14 McDonnell) that Seminole hired in 1999 to make a recommendation on rate
15 structure. In that capacity, I also participated in reviewing the consultant's
16 recommendation before it was submitted to the Board.

17

18 **Q. What governs the process by which Seminole's rates and rate structure are**
19 **determined?**

20 A. The standard that must be met by Seminole's rates and rate structure is spelled
21 out in the Wholesale Power Contracts between Seminole and its ten members.
22 Under Seminole's established procedures, rate schedules are adopted by a
23 majority vote of Seminole's Board of Trustees based on a recommendation from
24 the Rate Committee. As a practical matter, Seminole's staff prepares a rate
25 recommendation which is reviewed and approved or modified by the Rate

1 Committee, which consists of the general managers of Seminole's ten member
2 systems. The Rate Committee then makes a recommendation to the twenty-
3 member Board of Trustees, which takes final action on the proposed Rate
4 Schedule. Finally, the Rate Schedule is submitted to Rural Utilities Service
5 (RUS) for its approval.

6
7 **Q. During the ten years that you have served on the Rate Committee and the**
8 **Board of Trustees, did you ever hear any member suggest that Seminole**
9 **was required to file its Rate Schedules with the Commission?**

10 A. No, not until Lee County Electric Cooperative (LCEC) filed its complaint with
11 the Commission in December 1998.

12
13 **Q. How often are changes made in Seminole's rate schedule for wholesale**
14 **service to its members?**

15 A. Changes in rate levels are usually made once a year in order to match the level of
16 rates to Seminole's projected revenue requirement. Changes in rate structure are
17 not made on any set schedule.

18
19 **Q. Was the contractually prescribed process followed in the adoption of Rate**
20 **Schedules SECI-7 and SECI-7b?**

21 A. Yes it was. As Mr. Woodbury describes in more detail, both SECI-7 and SECI-
22 7b were adopted in accordance with established procedures for changes in the
23 wholesale rate. As his detailed chronology demonstrates, this was a very
24 deliberative process with active involvement by the Rate Committee and Board
25 of Trustees at every step.

1

2 **Q. What are the major differences between the SECI-7 and SECI-7b rate**
3 **schedules?**

4 A. First, there is a difference in rate levels. SECI-7 was designed to cover
5 Seminole's 1999 revenue requirement whereas SECI-7b is designed to cover the
6 year 2000 revenue requirement.

7 Second, in an effort to minimize the disagreement about the rate
8 structure, SECI-7b eliminated the shifts of revenue requirement from the
9 Demand Charge to the Production Fixed Energy Charge which had been
10 scheduled to take effect automatically at the beginning of 2000 and 2001.

11

12 **Q. Do you believe that SECI-7b is fair?**

13 A. I am not a rate design expert. From my own perspective, however, as General
14 Manager of Sumter, I know that the rate structure in SECI-7b produces a
15 cheaper overall rate for a higher load factor member such as LCEC than it does
16 for a lower load factor member such as Sumter. It seems to me that LCEC is
17 not complaining that the rate schedule fails to take load factors into account.
18 Instead, LCEC seems to be complaining that the rate schedule does not give
19 even greater weight to load factor differences among members. I personally
20 believe that the rate structure gives too much weight to load factor differences,
21 but I also believe it represents a fair compromise.

22

23 **Q. Mr. Duncan, the Commission has not yet definitively ruled on whether or**
24 **not it has jurisdiction over Seminole's wholesale rate structure. Do you**
25 **believe that the Commission should assert jurisdiction over Seminole's**

1 **wholesale rate structure?**

2 A. No. The Commission should recognize that these are not rate schedules
3 imposed on us by some impersonal utility from which we need protection. They
4 are rate schedules that we adopt ourselves through a democratic process in
5 which every rate paying member has one representative on the Rate Committee
6 and two representatives on the Board of Trustees.

7

8 **Q Assuming that the Commission does decide that it has jurisdiction, do you**
9 **have an opinion on how the Commission should exercise that jurisdiction?**

10 A. Yes I do.

11

12 **Q. Please explain.**

13 A. If the Commission asserts jurisdiction, I believe that it should limit its review to
14 determining whether Seminole followed the provisions of its Wholesale Power
15 Contracts in adopting its rate structure. If the answer is "yes," that should end
16 the Commission's inquiry and the rate structure should be allowed to go into
17 effect.

18

19 **Q. What is the basis for your opinion?**

20 A. I believe such a review policy would honor the unique relationship between
21 Seminole and its members.

22

23 **Q. What problems do you foresee if the Commission goes beyond the**
24 **contractual standards in reviewing Seminole's rate schedules?**

25 A. There could be several problems if the Commission goes beyond the contract

1 requirements in reviewing Seminole's rate schedules.

2 First, the Commission would not be honoring the parties' agreement on
3 how rates are to be set. These are not contracts entered into by ordinary
4 customers in need of Commission protection against the utility. They are
5 contracts between utilities having a unique membership relationship. Every
6 effort should be made to allow the contracts to be implemented in the way that
7 the parties intended.

8 Second, if the Commission goes beyond the contract standards, it would
9 potentially be inviting ten members who are not completely happy with a
10 particular compromise to complain to the Commission in hopes that they could
11 obtain a different result.

12 Third, any Commission process, however efficient, puts administrative
13 and cost burdens on Seminole and its members that detract from other
14 productive activities. The Commission should not take any steps that encourage
15 additional administrative litigation.

16 Fourth, Seminole designed the rate structure in SECI-7 and SECI-7b to
17 help achieve certain goals established in its Board-approved Strategic Plan. If
18 the Commission applies standards in addition to those required by the Wholesale
19 Power Contracts, it could undercut Seminole's ability to achieve its strategic
20 goals through the rate design process.

21 Fifth, as in any membership organization, there are members with varying
22 interests. Achieving a consensus (or at least a strong majority) on major issues
23 is often a process of compromise. Members may be less willing to work toward
24 reaching a consensus if they know that their compromise may be second-guessed
25 in another forum.

1 Finally, the process of rate design at Seminole is a "zero-sum" game.
2 Given a fixed revenue requirement, if one member's rates go down, those of
3 other members must go up. All the members have agreed to contractual
4 provisions governing the rate setting process. To impose additional or different
5 requirements might serve one member's interests, but only at the expense of the
6 others.

7

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

9 **A. Yes.**

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