



Florida Power

A Progress Energy Company

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April 20, 2001

Ms. Blanca S. Bayó, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 010283-EI

Dear Ms. Bayó:

Enclosed for filing in the subject docket on behalf of Florida Power Corporation are an original and fifteen copies of the Direct Testimony of Javier Portuondo.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Also enclosed is a 3.5 inch diskette containing the above-referenced document in WordPerfect format. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

JAM/scc
Enclosure

cc: Parties of record

DOCUMENT NUMBER-DATE

04987 APR 20 01

FPSO-RECORDS/REPORTING

FLORIDA POWER CORPORATION

DOCKET NO. 010283-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the Direct Testimony of Javier Portuondo has been furnished to the following individuals by regular U.S. Mail this 20th day of April, 2001.

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FLORIDA POWER CORPORATION
DOCKET No. 010283-EI

DIRECT TESTIMONY OF
JAVIER PORTUONDO

1 Q. Please state your name and business address.

2 A. My name is Javier Portuondo. 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 (Florida Power or the
7 Company) in the capacity of Manager, Regulatory Services.

8

9 Q. Please provide a brief outline of your educational background and
10 business experience.

11 A. I graduated from the University of South Florida in 1992 with a Bachelor's
12 Degree in Business Administration, majoring in Accounting. I began my
13 employment with Florida Power in 1985. During my 16 years I have held
14 various staff accounting positions within Financial Services in such areas
15 as General Accounting, Tax Accounting, Property Plant & Depreciation
16 Accounting and Regulatory Accounting. In 1996 I became Manager,
17 Regulatory Services. My present responsibilities include the areas of fuel
18 and purchase power cost recovery filings, capacity cost recovery filings,
19 energy conservation cost recovery issues, earnings surveillance reporting,
20 and rate design and cost of service issues.

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FP&C-RECORDS/REPORTING

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

2 A. The purpose of my testimony is to address the issues raised by Item 1 in
3 Part III of Order No. PSC-00-1744-PAA-EI in Docket No. 991779-EI (the
4 Order), which concerns the treatment of incremental costs in calculating
5 the gain on non-separated wholesale sales, and, in particular, the
6 modification of Item 1 proposed by the Florida Industrial Power Users
7 Group (FIPUG) in its protest of Part III of the Order.

8
9 **Q. What is Florida Power's position on the modification of Item 1
10 proposed by FIPUG?**

11 A. Florida Power believes Item 1 is sufficiently clear and produces the proper
12 result without the need for significant modification, particularly the
13 confusing and unsound modification proposed by FIPUG. Item 1 states
14 simply that:

15 "Each IOU shall credit its fuel and purchased power cost
16 recovery clause for an amount equal to the incremental fuel cost
17 of generating the energy for each such sale."

18 As long as Item 1's reference to "the incremental fuel cost of generating
19 the energy" is understood in a broad sense to encompass the incremental
20 cost of energy generated either by the utility or by another and then
21 purchased by the utility, as I believe was intended, Item 1 succinctly
22 accomplishes any legitimate purpose that may be intended by FIPUG's
23 proposed modification. Moreover, it does so without the baggage of
24 FIPUG's perplexing language or its inappropriate inclusion of buy-through
25 purchases.

1 If, however, the Commission should have a concern that the quoted
2 phrase may not be understood to include both utility generation and utility
3 purchases (whichever is at the increment), a simple clarification to that
4 effect is all that would be required. (Such as "... the incremental energy
5 cost of generating or purchasing the energy ...") Such a concern certainly
6 should not be the basis for adopting a problematic modification that would
7 only serve to exacerbate the potential for reaching an improper result, as
8 FIPUG's proposal would do.

9
10 **Q. You have described FIPUG's proposed modification of Item 1 as**
11 **confusing and unsound. Please explain this characterization.**

12 **A. FIPUG proposes to modify Item 1 by adding the following highlighted**
13 **language:**

14 "Each IOU shall credit its fuel and purchased power cost
15 recovery clause for an amount equal to the incremental fuel cost
16 of generating the energy for each such sale or in the event
17 wholesale power is purchased to replace the power sold, when
18 the incremental cost of replacement purchased power is more
19 than the applicable fuel cost factor, the clause or the buy through
20 customer for whom the replacement power is purchased shall be
21 credited with the price difference."

22 As mentioned above, it may be that one of FIPUG's objectives for this
23 modification (putting aside for the moment its proposed credit to buy-
24 through customers) is to ensure that the incremental cost of a sale used
25 in calculating the gain encompasses a utility's purchased power, as well

1 as its own generation. If so, that objective can be realized by Item 1, as
2 is, or with only minor clarification. FIPUG's approach, on the other hand,
3 is so convoluted that it is actually counterproductive to the objective of
4 properly recognizing the incremental cost associated with purchased
5 power.

6 This can be seen immediately in the first phrase of FIPUG's
7 modification, which inexplicably attempts to limit the recognition of
8 purchased power to situations where the "power is purchased to replace
9 the power sold." For purposes of calculating the gain on a sale, it is
10 totally irrelevant when or why a purchase commitment was made, so long
11 as the cost of the purchase was incremental at the time of the sale. To
12 illustrate the problem with FIPUG's qualifier, suppose a purchase of
13 several weeks' duration had been arranged long before and independent
14 of a previously unexpected sale that was made possible by several days
15 of unseasonably mild weather during this purchase. Suppose further that
16 this pre-existing purchase happened to represent the utility's incremental
17 cost at the time of the sale. Under FIPUG's proposed modification, this
18 purchase would not be eligible for consideration in calculating the gain on
19 the sale because it had not been "purchased to replace the power sold."
20 Such an obviously wrong result is a telling commentary on the
21 unsoundness of FIPUG's proposal.

22 Another perplexing limitation on the recognition of incremental costs
23 associated with purchased power is found in the next phrase in FIPUG's
24 proposed modification. Instead of simply crediting the fuel clause with the
25 incremental cost of a sale as Item 1 provides, FIPUG's language states

1 that "when the incremental cost of replacement purchased power is more
2 than the applicable fuel cost factor, the clause . . . shall be credited with
3 the price difference." By this language, FIPUG apparently seeks to create
4 a new, two-step approach to the recognition of incremental costs
5 associated with purchased power. To begin with, the incremental cost
6 must exceed a threshold ("the applicable fuel cost factor") before it can be
7 considered at all; then, if the incremental cost satisfies the first step, only
8 the differential above the threshold can be recognized in the fuel clause.
9 I have no idea how this bizarre exercise relates to the proper calculation
10 of the gain on a non-separated sale. Moreover, even if the use of a
11 threshold was somehow considered to be appropriate, I am at a loss to
12 understand FIPUG's selection of fuel cost factors, which are based on
13 *average* costs, as the yardstick for judging the proper level of *incremental*
14 costs to be included in the fuel clause.

15 For all of these reasons, FIPUG's incredible proposal should be
16 summarily rejected.

17
18 **Q. Earlier in your testimony you indicated that it was inappropriate for**
19 **FIPUG to include incremental cost credits for buy-through customers**
20 **in it's proposed modification of Item 1. Why is that?**

21 A. Item 1 concerns the treatment of incremental costs in calculating the gain
22 on non-separated wholesale sales. As such, it has nothing to do with buy-
23 through purchases made on behalf of interruptible customers because
24 these purchases cannot represent the incremental cost of a non-separated
25 wholesale sale.

1 Unlike other system purchases, buy-through purchases are made for
2 the benefit of a specific class of retail customers, with the associated costs
3 recovered from this customer class only. A buy-through purchase that is
4 made solely to serve specific retail customers obviously cannot also be
5 used to provide the energy for a sale to a wholesale customer. Likewise,
6 the *cost* of such a purchase cannot possibly represent the incremental
7 cost of the sale. Stated from a computational perspective in the fuel
8 clause, it would amount to double counting if the cost of a buy-through
9 purchase that is already fully recoverable from buy-through customers was
10 also netted against the revenue from a non-separated sale to determine
11 the gain credited to all customers.

12 FIPUG's interest in attempting to minimizing its members' buy-through
13 costs is well understood, but its current attempt to inveigle this extraneous
14 issue into a basically straight forward gain-on-sale calculation is clearly
15 inappropriate and should be rejected.

16
17 **Q. Does this conclude your direct testimony?**

18 **A. Yes, it does.**