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June 18, 2001

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 010827-EI

Enclosed are an original and fifteen copies of the following to be filed in the above docket.

1. Prepared Direct Testimony of Ronnie R. Labrato.
2. Prepared Direct Testimony and Exhibit of M. W. Howell.
3. Prepared Direct Testimony of Maria Jeffers Burke.

Sincerely,

Susan D. Ritenour

Susan D. Ritenour
Assistant Secretary and Assistant Treasurer

lw

Enclosures

cc: Beggs and Lane
 Jeffrey A. Stone, Esquire
 Florida Public Service Commission
 Mary Andrews Bane
 Harold McLean
 William D. Talbot

Labrato DOCUMENT NUMBER-DATE *Howell* DOCUMENT NUMBER-DATE

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07562 JUN 18 06

Burke
 DOCUMENT NUMBER-DATE
 07563 JUN 18 06
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Gulf Power Company's petition for)
approval of purchased power arrangement) Docket No.: 010827-EI
regarding Smith Unit 3 for cost recovery)
through recovery clauses dealing with)
purchased capacity and purchased energy)
_____)

Certificate of Service

I HEREBY CERTIFY that a copy of the foregoing has been furnished
this 18th day of June 2001 by U.S. Mail or hand delivery to the following:

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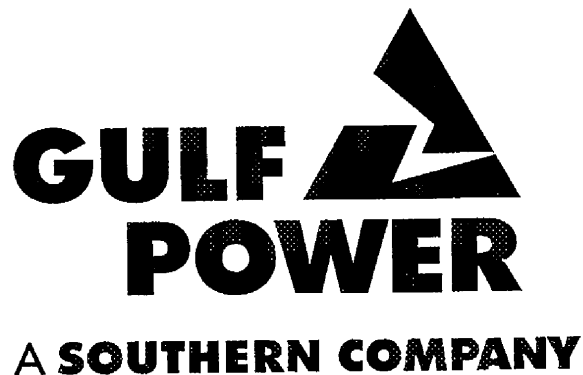
BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**PURCHASED POWER ARRANGEMENT
REGARDING SMITH UNIT 3**

DOCKET NO. 010827-EI

**PREPARED DIRECT TESTIMONY
OF
RONNIE R. LABRATO**

JUNE 18, 2001



DOCUMENT NUMBER-DATE
07561 JUN 18 2001
FPSC-RECORDS/REPORTING

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission
3 Prepared Direct Testimony of
4 Ronnie R. Labrato
5 Docket No. 010827-EI
6 In Support of Purchased Power Agreement
7 Date of Filing: June 18, 2001

8 Q. Please state your name, business address, and occupation.

9 A. My name is Ronnie R. Labrato. My business address is One Energy
10 Place, Pensacola, FL 32520. I am Comptroller and Chief Financial
11 Officer of Gulf Power Company.

12 Q. Please outline your educational background and business experience.

13 A. I graduated from the University of West Florida in 1974 with a Bachelor of
14 Arts degree in Accounting. Following graduation from college, I was
15 employed by the Florida Public Service Commission (FPSC) as Auditor
16 and Accounting Analyst. In 1977, I accepted a position as Senior
17 Accountant and Consultant with Deloitte, Haskins, and Sells in Dallas,
18 Texas. In 1979, I was employed by Gulf Power Company as Senior
19 Financial Analyst. Since 1979, I have held various positions at Gulf
20 Power, including Supervisor of Budgeting and Financial Planning,
21 Manager of Financial Planning, Manager of General Accounting, and
22 Comptroller. In July 2000, I was promoted to my current position as
23 Comptroller and Chief Financial Officer.

24

25

1 Q. What professional license do you hold in the field of Accounting?

2 A. I am a licensed Certified Public Accountant and a member of the
3 American Institute of Certified Public Accountants and the Florida Institute
4 of Certified Public Accountants.
5

6 Q. Briefly describe your duties and responsibilities as Comptroller and Chief
7 Financial Officer.

8 A. I am responsible for maintaining the overall financial integrity of the
9 Company and ensuring that the Company complies with state and federal
10 regulations. My areas of responsibility include Accounting, Regulatory
11 Affairs and Corporate Planning Departments. I am also responsible for
12 maintaining the overall financial and accounting records of the Company.
13

14 Q. What is the purpose of your testimony?

15 A. The purpose of my testimony is to support Gulf Power's request for
16 approval of a purchased power arrangement between Gulf and Southern
17 Power Company ("Southern Power") regarding Smith Unit 3 for cost
18 recovery through the fuel and purchased energy and purchased power
19 capacity cost recovery clauses. I will generally describe the purchased
20 power arrangement and explain the reasons for the requested regulatory
21 treatment related to Smith Unit 3 over the alternative of rate base
22 treatment of the unit as a Gulf owned resource with the associated
23 customer commitment to cost recovery for the life of the unit.
24
25

1 Q. Please begin by describing the external factors that impacted Gulf's
2 decision to pursue a purchased power arrangement with Southern Power.

3 A. As Mr. Howell discusses in his testimony, there has been a significant
4 expansion of competition in the wholesale generation market during the
5 last five years. In May of 2000, Florida's Governor Jeb Bush established
6 the Energy 2020 Study Commission to examine this and other issues
7 related to Florida's energy needs for the next 20 years, including reliability,
8 fuel diversity and environmental protection. During the fall of 2000, the
9 Study Commission focused its efforts on evaluating wholesale
10 restructuring, and in January of 2001 issued an interim report entitled
11 "Proposal for Restructuring Florida's Wholesale Market for Electricity".
12 One finding contained in the report is "...that investor owned load serving
13 utilities should no longer be in the business of owning and operating
14 generation." Although there is ongoing debate related to implementation
15 of certain recommendations in the interim report, particularly those related
16 to generating units already included in rate base, numerous comments by
17 interested parties during the Study Commission meetings indicated strong
18 support for a policy that new generating units should not be added to a
19 utility's rate base. Gulf's request for cost recovery clause treatment of its
20 purchased power arrangement for Smith Unit 3 is consistent with this
21 policy direction towards a more competitive wholesale power market.

22 The other external factor influencing Gulf's decision to pursue a
23 purchased power arrangement was the formation of Southern Power
24 Company as an operating company subsidiary of Southern Company.
25 Southern Company received final approval from the Securities and

1 Exchange Commission in January to form the subsidiary that will own,
2 manage and finance wholesale generating assets in the Southeast. As
3 Mr. Howell states in his testimony, this new company is a natural
4 outgrowth of the competitive wholesale market that is being promoted by
5 the FERC. Given Gulf's recognition of this competitive trend, the creation
6 of Southern Power provided the opportunity for Gulf to develop the
7 proposed purchased power arrangement related to Smith Unit 3.

8

9 Q. Please describe the purchased power arrangement between Gulf Power
10 and Southern Power Company.

11 A. Under the terms of the proposed purchased power arrangement, the
12 ownership of Smith Unit 3, a 575-MW combined cycle generating unit
13 currently under construction, will transfer from Gulf to Southern Power
14 prior to the in-service date of the unit, currently scheduled for June of
15 2002. The purchased power arrangement provides for the sale of all of
16 the capacity of the unit to Gulf Power. In addition, Gulf will have the right
17 to economically dispatch the unit and purchase energy whenever it is the
18 most cost effective option available. Consistent with the treatment of
19 similar purchased power agreements that Gulf has entered into with
20 various suppliers, Gulf is requesting that the capacity costs and energy
21 costs associated with this purchased power arrangement be recovered
22 through the purchased power capacity clause and fuel and purchased
23 energy clause, respectively. In his testimony, Mr. Howell will provide
24 additional details about the various aspects of the purchased power
25 arrangement.

1 Q. Why is Gulf proposing this purchased power arrangement related to Smith
2 Unit 3 instead of the more traditional regulatory treatment of recovering
3 the costs associated with the new unit through base rates?

4 A. As I stated earlier in my testimony, the trend in the electric industry is
5 towards a more competitive wholesale market for generation. The initial
6 term of the purchased power arrangement is for ten years compared to
7 the estimated depreciable life of Smith Unit 3 of thirty years. Inclusion of
8 the costs associated with Smith Unit 3 in Gulf's rate base would result in a
9 30-year commitment by Gulf and its customers. However, at the end of
10 the 10-year term of the purchased power arrangement, Gulf could meet its
11 incremental capacity needs with capacity available from such a
12 competitive wholesale generation market. Any reduction in costs, such as
13 those resulting from technological development or other productivity
14 improvements, would directly benefit Gulf's customers. Also, the
15 Company will have a fixed source of electric energy based upon
16 predetermined pricing conditions over the initial ten-year period of the
17 contract. Accordingly, the customers will be shielded from the effects of
18 unexpected cost increases that are inherent in the ownership and
19 operation of a power plant, costs to which they would be more fully
20 exposed under traditional ratemaking approaches.

21
22 Q. Is it appropriate to recover these costs through the purchased power
23 capacity cost recovery clause (PPCC)?

24 A. Yes. As stated in the Commission Order No. 25773 creating the PPCC,
25 "[p]ursuant to legislative directive, this Commission has actively

1 encouraged Florida's electric utilities to purchase power from reliable
2 generating sources in order to minimize the construction of new utility
3 generating facilities." By establishing the PPCC for recovery of purchased
4 capacity costs, the Commission was able to provide an incentive for
5 utilities to purchase capacity rather than constructing new capacity.
6 Recovery of Gulf's proposed purchased power arrangement through the
7 PPCC is consistent with the legislative directive and Commission policy
8 because the shorter life of the purchased power arrangement will avoid a
9 commitment by Gulf and its customers to Smith Unit 3 for the entire life of
10 the unit, which would be the case under traditional rate base treatment.

11
12 Q. Is there any other reason that the PPCC is the appropriate recovery
13 mechanism for the proposed purchased power arrangement?

14 A. Yes. As Mr. Howell has stated in his testimony, Gulf has two capacity
15 purchases that are scheduled to expire prior to the summer of 2002 in
16 recognition that Smith Unit 3 is expected to begin commercial operation in
17 June of 2002. These two capacity purchases are currently being
18 recovered through the PPCC. As Gulf begins to purchase capacity under
19 its proposed purchased power arrangement with Southern Power, these
20 two existing capacity purchases will be eliminated. Recovery of the
21 proposed purchased power arrangement through the PPCC will
22 appropriately match this new purchase of capacity with the reductions in
23 existing purchases of capacity currently being recovered through the
24 clause.

25

1 Q. How will the transfer of ownership of Smith Unit 3 from Gulf Power to
2 Southern Power be accomplished?

3 A. In addition to the Power Purchase Agreement, there are three other
4 agreements that comprise the purchased power arrangement between
5 Gulf Power and Southern Power. The Plant Smith Unit 3 Operating
6 Agreement and the Interconnection Agreement are discussed by
7 Mr. Howell in his testimony. The third agreement is the Plant Smith Unit 3
8 Sales and Transfer Agreement, which contains the contract terms for the
9 sale and transfer of the Smith Unit 3 asset. After both the FPSC and the
10 FERC have approved the agreement, the assets related to Smith Unit 3
11 will be transferred to Southern Power at Gulf's book value prior to
12 commercial operation of the new unit. All of the costs associated with the
13 unit, including the land on which the plant is located and the land
14 associated with wetlands mitigation required as part of the permitting
15 process, will be transferred to Southern Power.

16
17 Q. Does the proposed treatment for the Smith Unit 3 purchased power
18 arrangement comply with the provisions of Gulf's revenue sharing plan?

19 A. Yes. Gulf is currently operating under a revenue sharing plan approved
20 by the Commission in Order No. PSC-99-2131-S-EI. The revenue sharing
21 plan resulted from a stipulation between Gulf Power, the Office of Public
22 Counsel, the Florida Industrial Power Users Group and the Coalition for
23 Equitable Rates. One of the key provisions of the plan prohibited Gulf
24 from seeking a base rate increase that would become effective prior to the
25 in-service date for Smith Unit 3. Changes in the cost recovery factors for

1 the adjustment clauses were not affected by this restriction, and these
2 factors have indeed been revised during the term of the revenue sharing
3 plan. Inclusion of the costs associated with the proposed purchased
4 power arrangement in the purchased power capacity clause factors for the
5 2002 calendar year recovery period does not violate the terms of the
6 revenue sharing plan stipulation. Further, the monthly true-up mechanism
7 (with interest) that is part of each cost recovery clause ensures that no
8 costs are recovered until they are incurred.

9
10 Q. Please summarize your testimony.

11 A. Gulf's proposed purchased power arrangement regarding Smith Unit 3 is
12 responsive to the needs of Gulf's customers and is consistent with the
13 objective of the Commission's PPCC policy as expressed in Order
14 No. 25773. Furthermore, the arrangement ensures that a reliable source
15 of capacity is available to meet the obligation to Gulf's customers that led
16 the Commission to certify the need for Smith Unit 3.

17 The proposed arrangement embraces four fundamental
18 characteristics. These are:

- 19 1. Currently existing, but soon to expire, capacity cost recovery
20 contracts are replaced by the proposed Smith Unit 3 contract.
- 21 2. There will be no change in the level of regulatory oversight that
22 controls pricing of services to customers.
- 23 3. The risks attendant with ownership of the unit are reduced.
- 24 4. The isolation of the cost impact of new generating facilities from
25 base rates is compatible with the expanding development of

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competitive conditions, conditions such as are envisioned in the recently completed analyses and interim report of the Energy 2020 Study Commission.

In essence, the purchased power arrangement puts Gulf's customers in the position to access the advantages of changes in the wholesale electric generation market that are anticipated during the life of Smith Unit 3.

Q. Does this conclude your testimony?

A. Yes.

AFFIDAVIT

STATE OF FLORIDA)
)
COUNTY OF ESCAMBIA)

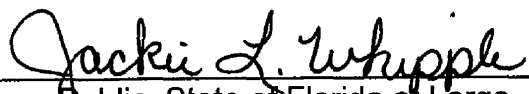
Docket No. 010827-EI

Before me the undersigned authority, personally appeared
Ronnie R. Labrato, who being first duly sworn, deposes, and says that he is the
Comptroller and Chief Financial Officer of Gulf Power Company, a Maine
corporation, that the foregoing is true and correct to the best of his knowledge,
information, and belief. He is personally known to me.




Ronnie R. Labrato
Comptroller and Chief Financial Officer

Sworn to and subscribed before me this 15th day of
June, 2001.



Notary Public, State of Florida at Large

 Jackie L. Whipple
My Commission CC662984
Expires August 23, 2001