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August 15, 2001

HAND DELIVERED

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

Re: Docket Nos. 001148-EI, 010577-EI and 000824-EI

Dear Ms. Bayo:

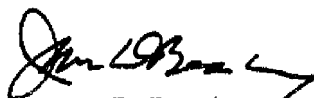
Enclosed for filing on behalf of Florida Power & Light Company, Tampa Electric Company and Florida Power Corporation are the original and fifteen (15) copies of each of the following:

1. Direct Testimony and Exhibit (WRA-2) of William R. Ashburn. 10012-01
2. GridFlorida Companies Witness Naeve Exhibit No. (CMN-1) containing GridFlorida Formation Documents (Volume 6 – separately bound). 10013-01

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,


James D. Beasley

JDB/pp
Enclosures

cc: All parties of record (w/encls.)

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing testimony and exhibits, filed on behalf of Florida Power & Light Company, Tampa Electric Company and Florida Power Corporation has been furnished by hand delivery (*), overnight delivery (**) or U. S. Mail on this 15th day of August 2001 to the following:

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August 15, 2001
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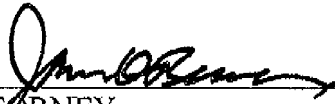
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ATTORNEY

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 000824-EI
REVIEW OF FLORIDA POWER CORPORATION'S
EARNINGS, INCLUDING EFFECTS OF PROPOSED
ACQUISITION OF FLORIDA POWER CORPORATION
BY CAROLINA POWER & LIGHT

DOCKET NO. 001148
REVIEW OF FLORIDA POWER & LIGHT COMPANY'S
PROPOSED MERGER WITH ENTERGY CORPORATION,
THE FORMATION OF A FLORIDA TRANSMISSION
COMPANY ("FLORIDA TRANSCO"), AND THEIR
EFFECT ON FPL'S RETAIL RATES

DOCKET NO. 010577-EI
REVIEW OF TAMPA ELECTRIC COMPANY
AND ITS IMPACT OF ITS PARTICIPATION IN
GRIDFLORIDA, A FLORIDA TRANSMISSION COMPANY,
ON TECO'S RETAIL RATEPAYERS

JOINT TESTIMONY AND EXHIBITS

OF

WILLIAM R. ASHBURN

AUGUST 15, 2001

DOCUMENT NUMBER-DATE

10012 AUG 15 5

FPSC-COMMISSION CLERK

TAMPA ELECTRIC COMPANY
FLORIDA POWER & LIGHT
FLORIDA POWER CORPORATION
DOCKET NOS. 010577-EI,
001148-EI, 000824-EI
FILED: AUGUST 15, 2001

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 PREPARED JOINT TESTIMONY

3 OF

4 WILLIAM R. ASHBURN

5
6 Q. Please state your name, address, occupation and employer.

7
8 A. My name is William R. Ashburn. My business address is
9 702 North Franklin Street, Tampa, Florida 33602. I am
10 Regulatory Affairs Director, Rates and Financial Analysis
11 for Tampa Electric Company ("TEC").

12
13 Q. Please provide a brief outline of your educational
14 background and business experience.

15
16 A. I received a Bachelor of Science degree in Business
17 Administration with a concentration in economics from
18 Creighton University. Upon graduation, I joined Ebasco
19 Business Consulting Company where my consulting
20 assignments included the areas of cost allocation,
21 computer software development, electric system inventory
22 and mapping, cost of service filings and property record
23 development.

24

25

1 In 1983, I joined TEC and have held various positions
2 with responsibility for embedded cost and marginal cost
3 of service studies, rate filings, marketing, planning,
4 rate design, implementation of new conservation and
5 marketing programs, customer survey and various state and
6 federal regulatory filings. In March 2001, I was
7 promoted to my current position of Director, Rates and
8 Financial Analysis in TEC's Regulatory Affairs
9 department. I am responsible for rate design, cost of
10 service analysis, and financial analysis. I am a member
11 of the Economic Regulation and Competition Committee of
12 the Edison Electric Institute and the Rate Committee of
13 the Southeastern Electric Exchange.

14
15 Q. What is the purpose of your testimony in this proceeding?
16

17 A. I am presenting testimony on behalf of TEC, Florida Power
18 and Light Company ("FPL"), and Florida Power Corporation
19 ("FPC") (collectively referred to as the "GridFlorida
20 Companies") in support of their position that it is
21 prudent for them to participate in the GridFlorida
22 regional transmission organization, or RTO, as they have
23 proposed to the Federal Energy Regulatory Commission
24 ("FERC"). Specifically, I address Issues 2, 3 and 4 as
25 set forth in the Prehearing Order issued in this

1 proceeding by providing the Florida Public Service
2 Commission ("Commission" or "FPSC") with an overview of
3 the features and benefits of GridFlorida's transmission
4 pricing protocol and rate design. In so doing, I will
5 also describe salient features of FERC's RTO pricing
6 policy under Order No. 2000; the extensive collaborative
7 process through which the GridFlorida participants and
8 stakeholders designed the pricing protocol in order to
9 comply with FERC's Order No. 2000 requirements; and FERC
10 orders wherein FERC found that the pricing protocol meets
11 Order No. 2000's transmission pricing requirements.
12

13 **Q.** Are you sponsoring an Exhibit as part of your testimony?
14

15 **A.** Yes. I am sponsoring Exhibit ____ (WRA-2), which
16 consists of four pages presenting the development of
17 estimated start-up cost revenue requirements, including
18 the five-year amortization and net cost responsibility to
19 the retail ratepayers of each of the GridFlorida
20 Companies. Page One of this Exhibit reflects the
21 estimated total net cost responsibility to the
22 GridFlorida Companies' retail users and represents a
23 summary of the following three pages. Pages Two through
24 Four present the estimated impact to the retail
25 ratepayers of each of the GridFlorida Companies

1 individually.

2
3 Q. Please summarize the central features of FERC's RTO
4 transmission pricing policy.

5
6 A. As FERC explained in Order No. 2000, the elimination of
7 rate pancaking for large regions is a central goal of
8 FERC's RTO policy. Rate pancaking occurs when a
9 transmission customer is charged separate access charges
10 for each utility service territory the customer's
11 contract path crosses. Under Order No. 2000, FERC
12 mandates that RTO tariffs cannot result in transmission
13 customers paying multiple access charges to recover
14 capital costs over facilities that the RTO controls.
15 Without the elimination of pancaked rates, transmission
16 customers would be faced with additional access charges
17 for every utility border they cross.

18
19 One of the main reasons that an RTO can increase
20 opportunities for economical purchases and sales is that
21 an RTO can implement non-pancaked rates for each
22 transaction. A wider area served by a single rate means
23 more generation is economically available to any
24 customer. The reason this is economical is that there
25 are no significant incremental facility costs to access

1 more than one owner's transmission lines, i.e., if there
2 were more than one owner, there would be only one access
3 charge nonetheless.

4
5 While elimination of pancaked charges is central to
6 FERC's RTO transmission pricing policy in Order No. 2000,
7 FERC nonetheless has chosen to balance the desire to
8 honor existing contractual arrangements with the need for
9 a uniform approach for transmission pricing and the
10 elimination of pancaked rates. Thus, although certain
11 existing contracts may contain pancaked rates, FERC
12 determined that it is not appropriate to order generic
13 abrogation of existing transmission contracts that
14 represent negotiated rights and obligations. Rather,
15 FERC encourages each RTO to address how and when it might
16 convert existing contracts and submit a contract
17 transition plan that contains specific details about the
18 procedures to be utilized involving the conversion from
19 existing contracts to RTO service.

20
21 FERC also adopted a flexible pricing approach with
22 respect to RTO proposals for allocation of fixed
23 transmission cost recovery. For example, FERC will
24 permit RTO proposals to use zonal, or "license plate"
25 rates to recover their fixed transmission costs. A

1 "license plate" rate provides access to the regional
2 transmission system at a single, non-pancaked rate,
3 although that rate may vary based on where the customer
4 is located. FERC will allow RTOs to utilize these
5 "license plate" rates, as long as the RTO clarifies how
6 transmission expansion will be priced (i.e., whether
7 license plate rates or some other mechanism will be
8 applied to the cost of new transmission facilities, and
9 how such pricing affects incentives for efficient
10 expansion). In addition, FERC encouraged the mitigation
11 of cost-shifts resulting from differences in access fees
12 based on differences in per unit costs of the owners'
13 transmission systems.

14
15 **Q.** Please describe the general goals behind GridFlorida's
16 pricing policy and rate design.

17
18 **A.** The overall goal of GridFlorida's pricing policy and rate
19 design is to comply with FERC's Order No. 2000 pricing
20 requirements while providing a balanced and reasoned
21 approach to the most difficult pricing issues faced by
22 RTOs. These issues include cost shifting that arises
23 from adoption of average system rates, providing revenue
24 credits for facilities owned by transmission dependent
25 utilities, and eliminating rate pancaking. These issues

1 historically have represented some of the most
2 significant impediments to RTO/Independent System
3 Operator ("ISO") formation, and the GridFlorida rate
4 design addresses each of these matters in a manner
5 intended to encourage broad participation in GridFlorida
6 by Florida transmission owners, while not imposing
7 unreasonable additional costs on existing retail and
8 wholesale customers.

9
10 Q. Did the GridFlorida Companies engage in any pricing
11 discussions or negotiations with stakeholders and others
12 in developing the GridFlorida pricing plan?

13
14 A. Yes. Prior to the time the GridFlorida Companies
15 submitted their initial application to FERC on October
16 16, 2000, to establish the GridFlorida RTO, the
17 GridFlorida Companies developed the GridFlorida pricing
18 proposal through an extensive collaborative process with
19 all stakeholders. They engaged in a process that
20 involved all interested parties, including all non-FERC-
21 jurisdictional municipal utilities, electric cooperatives
22 and other transmission dependent utilities, independent
23 power developers, power marketers, the Florida
24 Reliability Coordinating Counsel ("FRCC") and the Florida
25 Public Service Commission ("FPSC"). In addition, the

1 FERC staff attended a number of stakeholder meetings.

2
3 Q. Were there any specific committees dedicated solely to
4 pricing issues?

5
6 A. Yes. As part of the GridFlorida planning process, the
7 stakeholders established a number of committees, one of
8 which was the Pricing Committee. The Pricing Committee
9 addressed, at a conceptual level, the issues outlined in
10 the pricing protocol included in the GridFlorida
11 Companies' October 16, 2000 filing. The Pricing
12 Committee addressed such issues as how to provide for
13 non-pancaked rates, a transition plan to mitigate cost
14 shifting, the treatment of existing transmission
15 contracts, and how to provide for the recovery of the
16 cost of facilities constructed after GridFlorida begins
17 operations.

18
19 Membership in the Pricing Committee and other committees
20 was open to any person or entity that wished to
21 participate. A large number of persons took advantage of
22 this opportunity. The Pricing Committee met at least
23 once or twice a month, and more frequently than that when
24 necessary. Notes of meetings were taken and posted on
25 the GridFlorida web site.

1 Q. Were there any other collaborative pricing initiatives
2 prior to October 16, 2000?

3
4 A. Yes. In addition to the Pricing Committee meetings, the
5 FPSC scheduled a number of RTO workshops that addressed
6 various aspects of RTO formation where pricing issues
7 were discussed. The GridFlorida Companies and other
8 parties appeared at these workshops, at which they were
9 able to explain the various aspects of the GridFlorida
10 proposal to the FPSC Staff and Commissioners. The FPSC's
11 scheduling of these workshops was in addition to the
12 participation of the FPSC Staff in all of the committees
13 responsible for developing the GridFlorida proposal,
14 including the Pricing Committee.

15
16 Q. Prior to the October 16 filing, was there a consensus
17 reached as a result of these collaborative pricing
18 committees, workshops and negotiations?

19
20 A. The parties to the negotiations reached consensus on
21 certain, but not all, issues. After several months of
22 negotiations, the GridFlorida Companies, in coordination
23 with other stakeholders developed a pricing protocol that
24 represented a general consensus on three important
25 issues. First, the cost of transmission facilities

1 installed as of a date certain, December 31, 2000, or
2 Existing Facilities, initially should be recovered
3 through zonal charges (i.e., transmission access charges
4 based on the revenue requirements of existing
5 transmission facilities in a pre-defined electrical
6 area), rather than a single GridFlorida system charge.
7 Second, zonal charges should be phased out no later than
8 10 years after commencement of RTO operations. Third,
9 the cost of transmission investment made after December
10 31, 2000, (i.e., the cost of New Facilities) should be
11 recovered through a single system charge rather than
12 through zonal charges.

13
14 Q. How does GridFlorida propose to assess customers for the
15 cost of transmission facilities under its control?

16
17 A. The GridFlorida proposal has a two part rate. Part I
18 consists of the existing transmission facilities in each
19 zone as of December 31, 2000 and will be assessed only to
20 the load in that zone for years 1-5. Beginning in year 6
21 and ending in year 10, 20% of the Part I rates for each
22 zone will be added annually to the Part II rates such
23 that at year 10, there would no longer be a Part I rate.

24
25

1 The Part II rate reflects the costs of all New Facilities
2 built after December 31, 2000 and will be assessed to all
3 RTO load.

4
5 Q. What were the issues on which the parties did not reach
6 consensus?

7
8 A. There were four principal matters on which there was a
9 lack of consensus among all stakeholders. They were (i)
10 the definition of transmission rate zones, (ii) the
11 timing of the phase-in to single system rates, (iii) the
12 timing of the phase-out of pancaked charges under
13 Existing Contracts, and (iv) the treatment of
14 Transmission Dependent Utility ("TDU") transmission
15 facilities within a zone.

16
17 Q. Beginning with the first of the three matters on which
18 there was consensus, why did the GridFlorida Companies
19 and stakeholders agree that a zonal approach to
20 recovering the cost of existing transmission facilities
21 was preferable to a GridFlorida system-wide charge
22 approach?

23
24 A. A zonal, or "license plate" approach was preferable to an
25 immediate implementation of a system-wide approach

1 because problems associated with cost-shifting are
2 largely resolved by the use of "license plate" rates.
3 Immediate use of a single average system-wide access rate
4 would have meant that customers of relatively low-cost
5 transmission providers would have seen an instant rate
6 increase.

7
8 **Q.** If zonal charges are equitable, why did the GridFlorida
9 Companies and stakeholders agree to phase out zonal
10 charges (Part I) no later than 10 years after
11 commencement of RTO operations?

12
13 **A.** Zonal charges are equitable in the short-term for the
14 reasons I stated previously. Nonetheless, the parties
15 concluded that, over time, zonal charges would not follow
16 the rules of RTO-wide cost causation, would not promote
17 needed RTO-wide enhancements that would benefit all
18 customers, and would not promote RTO price comparability
19 in rates between customers in different areas. Thus, the
20 parties agreed that, in the long term, a phase out of the
21 Part I rate would be the most equitable manner for RTO
22 customers to share common benefit costs. In addition,
23 FERC Order No. 2000 required RTO proponents to file with
24 FERC their recommendations with respect to transitioning
25 from zonal rates to single system rates.

1 Q. As to the last consensus issue, why did the GridFlorida
2 Companies and stakeholders agree to recover the cost of
3 New Facilities through a single system charge (Part II)
4 rather than through zonal charges?

5
6 A. By adopting a system average rate for all New
7 Facilities, the transition from zonal to system
8 average rates, and thus more equitable treatment of
9 all ratepayers would be hastened. Moreover, the
10 single system charge does not require that all new
11 investment be rolled in to RTO rates; rather, it
12 provides that, if a transmission investment is
13 determined to provide grid-wide benefits and is
14 appropriate for rolled in treatment, all network
15 customers will pay their load ratio share of the new
16 investment through a single system charge (the New
17 Transmission Investment Revenue Requirement), and not
18 through their zonal charge (Part I). The single
19 system charge for new transmission facilities (Part
20 II) also will reduce the potential for inter-zonal
21 conflicts that can arise when an expansion plan
22 identifies alternatives to enhancing regional
23 reliability that have differing impacts on customers
24 in each zone. This is consistent with FERC precedent
25 and was viewed as the fairest means of recovering from

1 all GridFlorida customers the costs for New Facilities
2 that will benefit all GridFlorida customers.
3

4 Q. What transmission services will be offered under the
5 GridFlorida tariff?
6

7 A. The major services offered under the GridFlorida tariff
8 will be Network Integration Transmission Service
9 ("NITS"), Point-to-Point ("PTP") Transmission Service,
10 ancillary services, including Scheduling Service, and
11 generation interconnection service. NITS allows a
12 network customer to integrate, economically dispatch and
13 regulate its current and planned resources to serve its
14 load. PTP service is for the receipt of capacity and
15 energy at designated point(s) of receipt and the
16 transmission of such capacity and energy to designated
17 point(s) of delivery, on either a firm or non-firm basis.
18 Ancillary services are services that facilitate energy
19 delivery operations, and generation interconnection
20 service facilitates the interconnection and operation of
21 generation.
22

23 Q. How would NITS be priced under a zonal or system-wide
24 approach?
25

1 A. The access charge for NITS, which is the service the
2 GridFlorida Companies will take for their retail load,
3 would be the product of (a) the applicable monthly zonal
4 charge (Part I), which is based on the revenue
5 requirements for the facilities within that zone, plus
6 the monthly system charge (Part II) multiplied by (b) the
7 Network Customer's Network Service billing determinants
8 for the month. The network customer's network service
9 billing determinants for a month would be its hourly load
10 coincident with the monthly transmission system peak.
11 Zonal billing determinants are based on peaks within each
12 zone, while system billing determinants are based on
13 peaks coincident with the GridFlorida system for that
14 month. In addition, customers will be assessed a Grid
15 Management Charge.

16
17 Q. How would PTP service within GridFlorida be priced?

18
19 A. The access charge for firm PTP service within
20 GridFlorida would be a charge up to the sum of the
21 applicable zonal charges plus the New Facilities
22 charge, multiplied by the transmission customer's
23 reserved transmission capacity. Non-firm PTP service
24 would be charged up to the firm PTP rate. Customers
25 also would be assessed a grid management charge, and

1 would be responsible for any applicable ancillary
2 service charges. Finally, the GridFlorida tariff
3 includes charges for "through" and "out" service,
4 which are developed on a system average basis.

5
6 Q. For the four issues on which there was a lack of
7 consensus, why, generally, could the parties not
8 completely agree on these issues?

9
10 A. For some issues, the process simply ran out of time in
11 order for the GridFlorida Companies to file the RTO
12 application in compliance with the FERC established
13 deadline. The definition of transmission rate zones
14 and timing issues fell into this category. The
15 treatment of TDU facilities, however, was more
16 complicated and, frankly, the parties simply could not
17 reach agreement on the treatment for these facilities.

18
19 Q. What was done in light of the lack of consensus on the
20 four pricing issues?

21
22 A. Given the lack of complete consensus among the
23 stakeholders on these four issues, the GridFlorida
24 Companies developed a compromise position on each issue.
25 The GridFlorida Companies included these compromises in

1 the pricing protocol that they submitted with the October
2 16 filing. The pricing protocol addresses the four
3 issues in an integrated, comprehensive manner that is
4 intended to preserve existing customers' uses and
5 benefits, maximize participation in the RTO, and create a
6 viable RTO pricing structure consistent with FERC's RTO
7 standards.

8
9 **Q.** Briefly describe how the pricing protocol addresses the
10 definition of a transmission rate zone, the first of the
11 four areas where there was no consensus.

12
13 **A.** The pricing protocol provides that each transmission
14 owner/participant, with the exception of TDUs, shall form
15 its own rate zone. Zonal charges would be based on the
16 revenue requirement of the transmission facilities
17 forming the zone.

18
19 **Q.** What are the revenue requirements for a zone?

20
21 **A.** The revenue requirements to be recovered in zonal
22 charges includes (i) the revenue requirements of the
23 Existing Facilities that form the zone, plus (ii) the
24 revenue requirements of the Existing Facilities of any
25 participating TDU within that zone, subject to a TDU

1 facility phase-in plan, which I will discuss later.
2 Each transmission owner is responsible for obtaining
3 FERC approval of its proposed revenue requirement. To
4 the extent a TDU or other non-jurisdictional owner
5 participates in GridFlorida, FERC also would review
6 each such owner's proposed revenue requirement--which
7 ordinarily would fall beyond FERC's jurisdiction--in
8 the context of approving GridFlorida's zonal rates.
9 Nothing in the pricing protocol limits a transmission
10 owner's discretion in proposing a revenue requirement
11 for its facilities.
12

13 Q. Why did the GridFlorida Companies choose to define a
14 transmission rate zone in the way that they did?
15

16 A. Defining a rate zone as a pre-existing electrical
17 service area minimizes cost shifts that would arise
18 when combining transmission systems. The proposal is
19 a delicately balanced plan that extends the cost
20 shifts equitably to all participants over a 10-year
21 period. As cost responsibility for the GridFlorida
22 transmission facilities moves from today's bifurcated
23 approach toward a single system charge priced on load
24 ratio share over time, some entities will experience a
25 decline, and others a rise, in the portion of

1 transmission costs for which they are responsible.
2 This ten-year evolvement, in turn, makes it palatable
3 for transmission owners to participate in GridFlorida,
4 thereby maximizing RTO participation. Moreover,
5 defining zones in this manner is consistent with the
6 approach taken by every FERC-approved ISO to date.
7

8 Q. Were there objections to this definition?
9

10 A. Yes. Certain stakeholders argued that this definition
11 may produce too many zones and suggested instead that all
12 systems in Florida should be combined into only two
13 zones.
14

15 Q. Why did the GridFlorida Companies reject the two-zone
16 approach at the outset?
17

18 A. The two-zone approach would not have enhanced RTO
19 participation. Forcing all participating transmission
20 owners in Florida (there could be more than ten) to
21 collapse their systems into two zones in year one would
22 cause abrupt cost shifts, thereby discouraging RTO
23 participation. The better course, and the one supported
24 by FERC precedent, was to define zones and to phase them
25 into a single regional rate.

1 Q. How did the pricing protocol deal with the second issue
2 of establishing a timetable for phasing out transmission
3 rate zones?
4

5 A. The timetable for phasing out transmission rate zones is
6 an issue that would exist regardless of the number of
7 zones. The pricing protocol provides that zonal charges
8 will be phased out in years 6-10 of RTO operations. This
9 gradual phase-out is important to entities with low-cost
10 transmission systems. It also is consistent with
11 Commission precedent. In every ISO proceeding to date,
12 FERC has approved zonal charges and has not, in any case,
13 required that they be eliminated prior to the fifth year.
14

15 Q. How does the pricing protocol deal with the third non-
16 consensus issue of eliminating pancaked rates
17 contained in existing contracts?
18

19 A. The issue of pancaked rates embedded in existing
20 contracts was of critical economic significance to
21 many Florida transmission owners. In the pricing
22 protocol, the GridFlorida Companies attempted to
23 strike a reasonable balance between the competing
24 objectives of phasing out pancaked rates under
25 existing contracts and mitigating cost shifts in order

1 to encourage broader participation in GridFlorida.

2
3 Q. How does the pricing protocol achieve this balance?

4
5 A. The pricing protocol provides for a phase-out of
6 pancaked rates ending by year 10 of RTO operations.
7 The loss of short-term wheeling revenue will be
8 addressed in years one through five and charges
9 recovered under long-term contracts for "through" and
10 "out" service will be phased-out in years six through
11 ten. This phase out was designed to encourage the
12 participation of transmission owners that face the
13 dilemma of having lower-than-average-cost systems
14 today, but higher-than-average-cost systems once
15 pancaked rates are eliminated. These owners objected
16 to phasing out pancaking under a more accelerated
17 schedule than the phase out of zonal charges, given
18 that such an approach would cause their unit costs to
19 increase above the RTO-wide average, only later to be
20 phased-down to the average. The Pricing Proposal
21 addresses this concern by matching the phase-out of
22 all pancaked rates with the phase-out of all zonal
23 charges.

1 Q. How did the GridFlorida Companies deal with the
2 termination of existing contracts prior to the date
3 the contract expires?
4

5 A. Under the pricing protocol, if, during the first 10
6 years of GridFlorida operations, a customer terminates
7 an existing contract prior to the date the contract
8 expires, GridFlorida will provide service to that
9 customer at the zonal PTP charge of the participant
10 that provided transmission service under the contract,
11 in addition to then-applicable system and grid
12 management charges. This zonal charge would be
13 phased-out in equal increments over years six through
14 10. This proposal provides comparability by phasing
15 out pancaked charges under all existing contracts on
16 the same schedule.
17

18 Q. How does the pricing protocol address phasing out
19 pancaked rates for short term wheeling?
20

21 A. The protocol provides cost-shift mitigation for the
22 loss of short-term wheeling revenues. Under the
23 protocol, GridFlorida compensates participants that
24 lose short-term wheeling revenue due to the
25 elimination of pancaked rates for such loss through

1 payments out of revenues received by the RTO for
2 "through" and "out" PTP service. The loss of revenue
3 for each participant is calculated using a base year
4 amount of revenues from short-term wheeling.
5 GridFlorida will allocate its through and out revenues
6 to each participant for its base year amount in
7 declining increments (by 20 percent per year) over the
8 first five years of GridFlorida operations.

9
10 Q. The fourth and final non-consensus issue deals with the
11 crediting of TDU transmission facilities. Please explain
12 which entities are considered TDUs.

13
14 A. Attachment V to the GridFlorida tariff lists each of the
15 existing transmission rate zones for entities that have
16 committed to joining GridFlorida, as well as for other
17 potential participating owners. TDUs are those
18 transmission owners whose facilities are included within
19 other owners' transmission rate zones.

20
21 Q. Please explain why the parties could not reach consensus
22 on the treatment of TDU facilities.

23
24 A. Transmission-owning TDUs, understandably, were interested
25 in maximizing the value of the facilities that they owned

1 and were, therefore, interested in merging the revenue
2 requirements for their facilities into the costs shared
3 by other participants in the shortest period of time
4 possible. The GridFlorida Companies and other
5 GridFlorida participants, on the other hand, were
6 interested in participants extending the period for such
7 cost-shifts as long as possible or, alternatively,
8 limiting the scope of TDU facilities to be incorporated
9 into the GridFlorida integrated transmission system.
10 Thus, while benefits would eventually accrue to all
11 GridFlorida participants from a more robust and
12 geographically diverse transmission network as TDU-owned
13 facilities become integrated into the grid, the
14 difficulty was to devise a method of incorporating such
15 facilities without unduly and adversely affecting other
16 GridFlorida participants' existing customers. In
17 addition, incorporating the TDU facility costs had
18 differing, even disparate, degrees of impact on each of
19 the three GridFlorida Companies, which could not simply
20 ignore this issue due to FERC's mandate in Order No. 2000
21 that a properly formed RTO should include all
22 transmission owners in a specific region, including those
23 owned by municipals, cooperatives and other public
24 entities. The GridFlorida Companies resolved this issue
25 by devising the TDU crediting mechanism.

1 Q. Please describe the TDU crediting mechanism.

2

3 A. The GridFlorida Companies addressed the TDU crediting
4 issue by providing TDUs the option of, either, (i) an
5 automatic phase-in of their facilities into zonal charges
6 without a requirement that they demonstrate that those
7 facilities meet FERC's integration standard, or (ii) an
8 immediate roll-in of certain of their facilities into
9 zonal charges if the TDU can demonstrate that the
10 facilities meet the integration standard. The
11 GridFlorida Companies believed that this approach was a
12 reasonable and prudent compromise that provided
13 significant incentives for TDUs to join the RTO, which is
14 consistent with the GridFlorida Companies' obligations
15 under Order No. 2000, while not being unduly burdensome
16 to existing customers.

17

18 Q. Did the GridFlorida Companies and stakeholders engage in
19 any discussions subsequent to submitting the October 16
20 application, but prior to FERC issuing its initial order
21 on these issues in March 2001?

22

23 A. Yes. The GridFlorida Companies supplemented their
24 October 16 application by submitting a December 15, 2000
25 supplemental filing with FERC. Prior to submitting the

1 December 15 supplemental filing, the GridFlorida
2 Companies continued collaborative discussions with
3 stakeholders.
4

5 Q. Please discuss how the December 15, 2000 filing
6 supplemented the rate and pricing issues contained in the
7 October 16 initial application.
8

9 A. The December 15 supplemental filing modified the pricing
10 plan in various ways, not all of which are relevant to
11 this testimony. For purposes of my testimony, however,
12 the December 15 filing further addressed three
13 significant matters. First, the GridFlorida Companies
14 explained the classification and treatment of Existing
15 Transmission Agreements, or "ETAs," including those that
16 represent rate pancakes. Second, the GridFlorida
17 Companies added the methods by which transmission rates
18 will be determined under the GridFlorida tariff. Third,
19 the filing established a grid management charge to be
20 used to recover costs not provided for under the
21 GridFlorida tariff, including RTO start-up costs.
22

23 Q. Please describe the classification of ETAs in the
24 December 15 filing.
25

1 A. ETAs fall into three categories: (i) Existing agreements
2 between a participating owner or divesting owner and
3 another party that govern the allocation of transmission
4 capacity associated with an interface between two or more
5 transmission systems ("Interface Agreements"); (ii)
6 Existing agreements between a participating owner or
7 divesting owner and another party that govern the
8 interconnection of facilities, including interchange
9 agreements between control areas, agreements governing
10 the interconnection of transmission facilities, and
11 agreements governing the interconnection of transmission
12 and generation facilities ("Interconnection Agreements");
13 and (iii) Existing agreements between a participating
14 owner or divesting owner and another party or itself that
15 provide transmission service, including bundled and
16 unbundled transmission service ("Transmission Service
17 Agreements").

18
19 Q. How are existing "Transmission Service Agreements"
20 treated under the GridFlorida Tariff?

21
22 A. An existing Transmission Service Agreement can either be
23 converted to service under the GridFlorida tariff, or
24 automatically be phased out in years six through 10, as I
25 described previously. If an existing Transmission

1 Service Agreement is converted to the GridFlorida tariff,
2 the customer will take and pay for service under the
3 tariff and the provider of service under the Transmission
4 Service Agreement will cease collecting revenues under
5 that agreement and no longer will bear any responsibility
6 with respect to that agreement. If an existing
7 Transmission Service Agreement is not converted to
8 GridFlorida tariff service, the transmission provider
9 under the agreement will be responsible for procuring and
10 paying for the necessary services from GridFlorida to
11 perform its obligations under the grandfathered
12 Transmission Service Agreement. The transmission
13 provider will have the rights and obligations associated
14 with the GridFlorida tariff service, and will be
15 responsible for reconciling the differences in the
16 services under the Transmission Service Agreement and the
17 GridFlorida tariff.

18
19 Q. Please describe the main exceptions to this rule.

20
21 A. One exception relates to the phase out of multiple access
22 charges (i.e., rate pancakes) for inter-zonal service,
23 which is transmission service from one transmission rate
24 zone to another, where the same customer bears
25 transmission charges on both systems. The transmission

1 charges levied under an existing Transmission Service
2 Agreement that provides for inter-zonal service will
3 remain in effect during years one through five of
4 GridFlorida operations, and phased out in equal
5 increments (20 percent per year) during years six through
6 10. If the existing Transmission Service Agreement
7 includes bundled transmission charges, the phase-out of
8 charges will be calculated by reference to the zonal
9 charge in effect in year five for the transmission rate
10 zone that applied to the inter-zonal service prior to
11 GridFlorida formation.

12
13 Another exception is designed to prevent gaming prior to
14 the date GridFlorida commences operations, *i.e.*, to
15 prevent entities from entering into ETAs prior to
16 GridFlorida operations for the sole purpose of obtaining
17 ETA status. If, after December 15, 2000, a participating
18 owner or divesting owner enters into a new Transmission
19 Service Agreement, or agrees to purchase or provide long-
20 term transmission service (*i.e.*, service for a term that
21 is greater than one year) under a Transmission Service
22 Agreement executed prior to that date, the new service
23 provided under such ETA will be converted to GridFlorida
24 service upon the commencement of GridFlorida operations.
25 Also, if a participating owner or divesting owner agrees

1 to provide, or to purchase, short-term firm or non-firm
2 service that has a term that extends beyond the date of
3 GridFlorida operations, that service will convert to
4 GridFlorida service upon the commencement of GridFlorida
5 operations. All parties were placed on notice as of
6 December 15, 2000 that this would be the treatment for
7 new transmission service.
8

9 Q. How did the December 15 filing expand on the explanation
10 of zonal and system-wide rates?
11

12 A. The supplemental filing expanded on the descriptions of
13 these and other rates by including them in the
14 GridFlorida tariff, which contains formulas that will be
15 used to calculate the rates. The supplemental filing did
16 not, however, include the actual rates for transmission
17 service that GridFlorida will charge because actual
18 revenue requirements and rates will be filed no later
19 than 60 days prior to the date that GridFlorida commences
20 operations.
21

22 Q. Please describe how the zonal rate will be calculated
23 according to the December 15 Supplemental Filing.
24
25

1 A. To calculate the zonal-based charge, annual zonal
2 transmission costs will be calculated for each
3 transmission rate zone. The zonal rate will be
4 calculated by dividing the annual zonal transmission
5 costs for the transmission rate zone by the average for
6 the year of the monthly zonal peaks. That rate will
7 apply to service to a point of delivery or network load
8 within a transmission rate zone.

9
10 For service to a point of delivery or network load
11 outside of GridFlorida (i.e., for "Through and Out
12 Service"), the transmission customer will pay the
13 "Through And Out" rate. The "Through And Out" rate will
14 be calculated by dividing the sum of the annual zonal
15 transmission costs by the average for the year of the
16 monthly transmission system peaks.

17
18 Q. Please describe how the Part II rate is to be calculated
19 according to the December 15 supplemental filing.

20
21 A. The monthly system-wide rate will be calculated by
22 dividing the annual system transmission costs by the
23 average for the year of the monthly transmission system
24 peaks. Annual system transmission costs will consist of
25 new transmission investment of GridFlorida and

1 participating owners and the revenue requirements of
2 Existing Facilities that are phased-out of zonal rates
3 and phased in to the grid-wide rate. All transmission
4 service, whether it is to load outside of GridFlorida or
5 within the GridFlorida system, will pay the same system-
6 wide rate.

7
8 **Q.** Please explain the Grid Management Charge included in the
9 December 15 filing.

10
11 **A.** The GridFlorida Companies included a Grid Management
12 Charge ("GMC") in the GridFlorida tariff to recover all
13 reasonably incurred costs necessary for GridFlorida to
14 carry out its business that are not separately charged in
15 the Tariff. The GMC includes start-up costs of
16 establishing the RTO, GridFlorida's payments to the
17 market monitor, and the FERC annual assessment charge.
18 At the same time, the GMC will be reduced by revenues
19 received by GridFlorida for conducting certain
20 administrative activities that are charged to specific
21 customers, such as conducting system impact studies and
22 facilities studies, and providing security coordination
23 services to non-RTO participants in the FRCC.

1 Q. Why did the GridFlorida Companies propose to recover
2 start-up costs through the GMC?

3
4 A. Recovery of start up costs through a mechanism such as a
5 GMC is consistent with FERC's policy to allow the
6 recovery of start up costs. Departure from such a policy
7 would significantly impede the development of RTOs on a
8 timely basis. As has been the case in other regions of
9 the United States, the GridFlorida Companies' proposal
10 provided that GridFlorida must reimburse the participants
11 for start up costs as soon as practicable. This is
12 consistent with the FERC's objective to make RTOs
13 financially independent as quickly as possible.
14 GridFlorida would then recover these costs from its
15 transmission customers through the GMC.

16
17 Q. What types of costs constitute start up costs that would
18 be recovered through the GMC?

19
20 A. Under Schedule 10 of the GridFlorida Tariff, start up
21 costs would include costs incurred by entities that are
22 participating owners and divesting owners up to the date
23 of the RTO's initial operations and costs incurred by the
24 RTO (or any interim entity formed to establish the RTO).
25 Start up costs would include a variety of activities

1 relating to RTO formation. The projected cost of the
2 preliminary start-up plan for implementation of the
3 business functions of GridFlorida is addressed in the
4 direct testimony of Bradford L. Holcombe, on behalf of
5 the GridFlorida Companies. In addition, a discussion of
6 certain formation activities relating to the development
7 of GridFlorida is contained in the direct testimony of
8 Henry I. Southwick.

9
10 Q. Have the GridFlorida Companies quantified these start up
11 costs?

12
13 A. A preliminary estimate of such costs has been provided in
14 consultation with Accenture, which was hired to estimate
15 the cost to implement GridFlorida operations, and is
16 discussed in Mr. Holcombe's direct testimony. While the
17 GridFlorida Companies have consulted with each other as
18 to the recovery of costs on as consistent a basis as
19 possible, and each company has obtained FERC approval to
20 defer such costs for accounting purposes, no final
21 calculation of total costs has been made to date. The
22 GridFlorida Companies anticipate making a filing
23 accounting for total start up costs at FERC commensurate
24 with, or shortly following, commencement of GridFlorida
25 operations.

1 Q. Have the GridFlorida Companies quantified these costs
2 with respect to retail load?

3
4 A. Yes. The grid management cost consists of two parts--
5 operating costs and start-up costs. Mr. Holcombe's
6 Exhibit (BLH-3) Tables 1 and 2 show the costs (in
7 thousands of dollars) with respect to wholesale and
8 retail customers. Columns 11-14 of Table 2 show the
9 incremental operating cost, with a total of \$51,618 shown
10 on column 14, line 30. Of the \$51,618, \$5,868 is not
11 retail jurisdictional and would not be recovered from
12 retail customers. Of the remaining \$45,750, the
13 estimated assessments to the three utilities (based on
14 load ratio shares) are shown on line 29 of columns 11-13.
15 These values will be discussed in each of the company's
16 specific testimonies.

17
18 The start-up costs are shown on Table 1 of Mr. Holcombe's
19 Exhibit, showing a total of \$136,402 on line 23 of
20 column 14. \$16,367 is not retail jurisdictional and
21 would not be recovered from retail customers. Columns
22 11-13, line 22 shows the estimated assessments to the
23 three utilities (based on load ratio shares). These
24 amounts are lump sum and proposed to be amortized over
25 five years. I show an estimate of the amortization of

1 the total retail amount, and each of the company's retail
2 amounts, in my Exhibit ____ (WRA-2).

3
4 **Q.** Briefly summarize FERC's March 28, 2001 order as it
5 relates to the GridFlorida pricing and rate design issues
6 you have discussed.

7
8 **A.** In its March 28, 2001 order, FERC generally approved
9 GridFlorida's transmission rate design proposal as
10 compliant with FERC Order No. 2000. Specifically, FERC
11 approved the proposals to:

12 1. Retain zonal rates for Existing Facilities for the
13 first five years of operations and then phase them out
14 over the next five years;

15 2. Include the costs of all new transmission facilities
16 in the GridFlorida system-wide rate;

17 3. Encourage participation in the RTO by transmission-
18 dependent wholesale customers by providing them certainty
19 that the costs of their facilities will be rolled into
20 GridFlorida's rates through a crediting mechanism, either
21 through a "phase-in" option or an "integration standard"
22 option; and

23 4. Recover, through a GMC all reasonably incurred costs
24 necessary for GridFlorida to carry out its business that
25 are not separately accounted for in the tariff, including

1 start-up and administrative costs, payments to the market
2 monitor, and the FERC annual assessment charge. Start up
3 costs would be amortized on a monthly basis for five
4 years.

5
6 **Q.** Did FERC require any clarifications on the GridFlorida
7 Companies' pricing protocol?

8
9 **A.** Yes. With respect to the issues I have discussed
10 previously, FERC required the GridFlorida Companies to
11 file the GMC formula.

12
13 **Q.** Did the GridFlorida Companies comply with FERC's
14 requirements in the March 28, 2001 order?

15
16 **A.** Yes. On May 29, 2001, the GridFlorida Companies
17 submitted compliance filing with FERC that, among other
18 things, revised the tariff to include a formula for the
19 GMC. Consistent with base transmission rates, the GMC
20 will be calculated based on projected costs and billing
21 determinants and trued-up at the end of each year. The
22 GridFlorida Companies also included a formula for
23 GridFlorida's New Transmission Investment Revenue
24 Requirement ("NTIRR"), discussed above, because the NTIRR
25 formula and the GMC formula work together. That is, the

1 allocations of administrative & general costs and
2 operations & maintenance costs within the formulas
3 operate together to ensure that there is no double
4 recovery of costs. The GMC and NTIRR include loaders and
5 return on common equity components that will be filed
6 with FERC in the future.

7
8 **Q.** How does the GridFlorida pricing protocol treat non-
9 participating owners?

10
11 **A.** As proposed by the GridFlorida Companies, non-
12 participating transmission owners, consistent with FERC
13 Order No. 2000 would continue to pay pancaked rates.
14 When the customer uses two or more transmission rate
15 zones, its charges would be based on the charges
16 applicable to the zone in which the source or point of
17 receipt is located and the charges applicable to the zone
18 in which the sink or point of delivery is located. As
19 FERC indicated in Order No. 2000, maintaining rate
20 pancaking for non-participants is reasonable. Further,
21 with regard to the number of transmission access charges
22 it is subject to, a non-participant will be no worse off
23 than it was prior to the establishment of GridFlorida,
24 and may even be better off. If a non-participant is
25 utilizing facilities that today would result in more than

1 two transmission charges, that entity will be subject
2 only to two such charges under the participants'
3 proposal, which is less than it would have paid in the
4 absence of GridFlorida.

5
6 Q. How does the pricing protocol treat existing retail
7 transmission services?

8
9 A. The pricing protocol requires that load-serving entities,
10 such as each of the GridFlorida Companies, pay RTO
11 transmission rates, including zonal access charges, for
12 their bundled retail load. This treatment is required by
13 Order No. 2000, as discussed by Mike Naeve in his
14 testimony filed on behalf of the GridFlorida Companies in
15 this proceeding.

16
17 Q. In your opinion, given the requirements of FERC Order No.
18 2000, was the GridFlorida Companies' decision to
19 participate in GridFlorida in the best interests of
20 retail ratepayers and prudent from a transmission pricing
21 perspective?

22
23 A. Yes. The GridFlorida pricing protocol is designed to
24 reduce transmission costs by, among other means,
25 eliminating pancaked rates, and will induce greater

1 generation cost savings than would be the case if
2 GridFlorida was not able to function as an RTO. The only
3 additional costs that arise from the formation of
4 GridFlorida are the aforementioned start-up and grid
5 management costs. But, the pricing protocol amortizes
6 the start up costs over a five-year period in order to
7 minimize the impact on consumer rates. Given the
8 parameters established by FERC Order No. 2000, and the
9 disparate interests among Florida's many constituents,
10 the GridFlorida transmission pricing protocol reflects a
11 reasonable, prudent and balanced approach to
12 restructuring most of Florida's electric grid for the
13 foreseeable future.

14
15 Q. Couldn't these benefits be realized by Florida customers
16 in the absence of the RTO?

17
18 A. Probably not in a manner that otherwise could be agreed
19 to among the GridFlorida Companies and/or other Florida
20 stakeholders. While efforts could be made to reduce
21 pancaked charges, it would be difficult, if not
22 impossible, to devise a system that would operate as
23 efficiently as GridFlorida will operate.

24
25 Q. Does this conclude your testimony?

1 A. Yes, it does.

2

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EXHIBIT NO. _____
DOCKET NOS. 000824-EI,
001148-EI, 010577-EI
FLORIDA POWER CORPORATION
FLORIDA POWER & LIGHT
TAMPA ELECTRIC COMPANY
(WRA-2)
DOCUMENT NO. 1
FILED: AUGUST 15, 2001

EXHIBITS TO THE JOINT TESTIMONY OF
WILLIAM R. ASHBURN
DOCUMENT NO. 1

DEVELOPMENT OF START-UP COST
REVENUE REQUIREMENT
NET COST RESPONSIBILITY
ON GRIDFLORIDA USER - TOTAL RETAIL

GridFlorida

Development of Start-up Cost Revenue Requirement
 Net Cost Responsibility on GridFlorida User - Total Retail

Revenue Requirement Developed For Illustrative Purposes:

Line		Year				
		1	2	3	4	5
1						
2	Revenue Requirement Summary (000)					
3	Annual Amortization	\$24,007	\$24,007	\$24,007	\$24,007	\$24,007
4	Return on Rate Base	10,533	8,192	5,852	3,511	1,170
5	Income Taxes	4,478	3,483	2,488	1,493	498
6	Total Revenue Requirement	\$39,018	\$35,682	\$32,346	\$29,011	\$25,675
7						
8						
9	Return on Rate Base (000): (L20 * L27)	\$10,533	\$8,192	\$5,852	\$3,511	\$1,170
10						
11	Rate Base (\$000s)					
12	Plant in Service	120,035	120,035	120,035	120,035	120,035
13	Accumulated Amortization	24,007	48,014	72,021	96,028	120,035
14	Net Plant in Service	96,028	72,021	48,014	24,007	-
15	Average Net Plant	108,032	84,025	60,018	36,011	12,004
16						
17	Deductions to Rate Base:					
18	Accumulated Deferred Income Tax	0	0	0	0	0
19						
20	Total Rate Base (L15 - L18)	108,032	84,025	60,018	36,011	12,004
21						
22	Rate of Return Equals					
23	<i>Illustrative overall weighted cost assumptions:</i>			Ratio	Costs	ROR
24	Long Term Debt			45%	7%	3.15%
25	Preferred Stock			0%	0%	0.00%
26	Common Stock			55%	12%	6.60%
27						<u>9.75%</u>
28						
29	Income Tax Equals (000)					
30	<i>The total Federal and State Income Taxes determined by the following formula:</i>					
31	Income Taxes = Total Rate Base x (Preferred Stock ROR + Common Stock ROR) x Composite Tax Rate					
32						
33	Total Rate Base (L20)	108,032	84,025	60,018	36,011	12,004
34	Pref Stk ROR + Common Stk ROR (L25 + L26)	6.6%	6.6%	6.6%	6.6%	6.6%
35	After-tax return (L33 x L34)	7,130	5,546	3,961	2,377	792
36	Composite Tax Rate L44+(1-L44)xL45	38.575%	38.575%	38.575%	38.575%	38.575%
37	Pre-tax return L35 / (1 - L36)	11,608	9,028	6,449	3,869	1,290
38	Income Tax Equals (000) L37 - L35	4,478	3,483	2,488	1,493	498
39						
40	Assumptions:					
41	Start-up Costs based on Table 1, Witness Holcombe Exhibit (BLH 3)	\$120,035				
42	Recovery period (subject to FERC approval)	5 years				
43	Tax Life (years)	5 straight line				
44	State Tax Rate	5.5%				
45	Federal Tax Rate	35.0%				