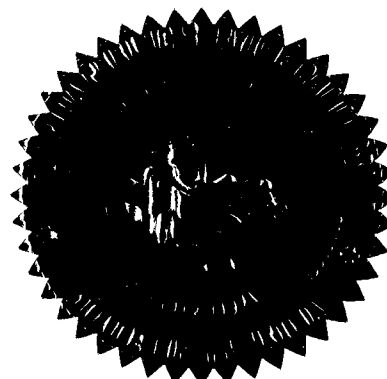


BEFORE THE  
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 010283-EI

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In the Matter of  
CALCULATION OF GAINS AND  
APPROPRIATE TREATMENT FOR  
NON-SEPARATED WHOLESALE ENERGY  
SALES BY INVESTOR-OWNED  
ELECTRIC UTILITIES.



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VOLUME 1  
PAGES 1 THROUGH 93

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN E. LEON JACOBS  
COMMISSIONER LILA A. JABER  
COMMISSIONER BRAULIO L. BAEZ

DATE: Friday, August 31, 2001

TIME: Commenced at 9:30 a.m.  
Concluded at 2:29 p.m.

PLACE: Betty Easley Conference Center  
Room 148  
4075 Esplanade Way  
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR  
Chief, Office of Hearing Reporter Services  
FPSC Division of Commission Clerk and  
Administrative Services  
(850) 413-6732

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## 1 APPEARANCES:

2 JAMES McGEE, Senior Counsel, Florida Power  
3 Corporation, Post Office Box 14042, 3201 34th Street South, St.  
4 Petersburg, Florida 33733, appearing on behalf of Florida Power  
5 Corporation.

6 MATTHEW M. CHILDS, Steel, Hector & Davis, 215 South  
7 Monroe Street, Suite 601, Tallahassee, Florida 32301, appearing  
8 on behalf of Florida Power & Light Company.

9 RUSSELL A. BADDERS, Beggs & Lane, 700 Blount Building,  
10 3 West Garden Street, Post Office Box 12950, Pensacola, Florida  
11 32576-2950, appearing on behalf of Gulf Power Company.

12 JAMES D. BEASLEY, Ausley & McMullen, Post Office Box  
13 391, Tallahassee, Florida 32302, appearing on behalf of Tampa  
14 Electric Company.

15 VICKI GORDON KAUFMAN and JOHN McWHIRTER,  
16 McWhirter, Reeves, McGlothlin, Davidson, Dekker,  
17 Kaufman, Arnold & Steen, 117 South Gadsden Street,  
18 Tallahassee, Florida 32301, appearing on behalf of  
19 Florida Industrial Power Users Group.

20 STEPHEN BURGESS, Office of Public Counsel, 111 West  
21 Madison Street, Room 812, Tallahassee, Florida 32399-1400,  
22 appearing on behalf of the Citizens of the State of Florida.

23

24

25

1 APPEARANCES CONTINUED:

2 COCHRAN KEATING, FPSC Division of Legal  
3 Services, 2540 Shumard Oak Boulevard, Tallahassee,  
4 Florida 32399-0850, appearing on behalf of the  
5 Commission Staff.

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## P R O C E E D I N G S

1  
2 CHAIRMAN JACOBS: Good morning. We will go on the  
3 record for the hearing today in Docket 010283-EI.

4 Counsel, read the notice.

5 MR. KEATING: Pursuant to notice, this time and place  
6 have been set for a hearing in Docket Number 010283-EI,  
7 calculation of gains and appropriate regulatory treatment for  
8 non-separated wholesale energy sales by investor-owned electric  
9 utilities.

10 CHAIRMAN JACOBS: We will take appearances.

11 MR. BEASLEY: Commissioners, I am James D. Beasley of  
12 the law firm of Ausley & McMullen, P.O. Box 391, Tallahassee,  
13 Florida, 32302. I am representing Tampa Electric Company.

14 MR. BADDERS: Good morning, I am Russell Badders.  
15 I'm here on behalf of Gulf Power Company, and I am with the law  
16 firm of Beggs and Lane, the address is as shown in the  
17 prehearing order.

18 MR. MCGEE: James McGee, Post Office Box 14042, St.  
19 Petersburg 33733 on behalf of Florida Power Corporation.

20 MR. CHILDS: Matthew Childs of the firm of Steel,  
21 Hector & Davis. I'm appearing on behalf of Florida Power and  
22 Light Company.

23 MS. KAUFMAN: John McWhirter and Vicki Gordon Kaufman  
24 of the McWhirter Reeves law firm, and we are appearing on  
25 behalf of the Florida Industrial Power Users Group.

1 MR. BURGESS: Steve Burgess with the Office of the  
2 Public Counsel representing the citizens of the State of  
3 Florida.

4 MR. KEATING: Cochran Keating on behalf of the  
5 Commission staff.

6 CHAIRMAN JACOBS: Very well. As I understand it,  
7 there are limited preliminary matters. I understand there is  
8 one motion, but that we don't need to take that up today, a  
9 confidentiality motion.

10 MR. KEATING: There is a motion for protective order  
11 outstanding related to Public Counsel discovery to TECO, and  
12 it's my understanding that Public Counsel did not intend to use  
13 that information at hearing today.

14 MR. BURGESS: That is correct, Mr. Chairman.

15 CHAIRMAN JACOBS: Very well. We have a stipulation  
16 of Issue 1, as I understanding it, as well?

17 MR. KEATING: That is correct.

18 CHAIRMAN JACOBS: Very well. With that -- and how  
19 about opening arguments?

20 MR. BEASLEY: I have a brief opening argument.

21 CHAIRMAN JACOBS: Very well. Any other party?

22 MS. KAUFMAN: Yes, Commissioner, I think we discussed  
23 at the prehearing conference that we would have the ability to  
24 make an opening statement.

25 CHAIRMAN JACOBS: I was just trying to find if there

1 was a ten-minute time limit.

2 MR. KEATING: That's correct.

3 CHAIRMAN JACOBS: Very well. Mr. Beasley, you may  
4 begin.

5 MR. BEASLEY: Commissioners, this should be a simple  
6 hearing. There are four issues in the prehearing order as the  
7 Chairman just pointed out. The first one is stipulated and we  
8 believe the last one should be, too. I will address that  
9 shortly. This leaves Issues 2 and 3. Issue 2 is what is the  
10 appropriate regulatory treatment for the cost of fuel and  
11 purchased power associated with nonseparated wholesale sales.  
12 Issue 3 is the same question with respect to operating and  
13 maintenance expense, O&M expense. These are both fairly cut  
14 and dried regulatory treatment issues pertaining to fuel and  
15 purchased power cost and O&M expense associated with  
16 nonseparated wholesale sales.

17 These are not broad-sweeping issues, but are fairly  
18 scoped in nature. On Issue 2 we believe the record will show  
19 that all witnesses testifying on this issue with the exception  
20 of FIPUG's witness generally accept and support the staff's  
21 previously proposed action and what this Commission included in  
22 the PAA portion of its final order in the incentive docket.  
23 Witness Kordecki, however, will confirm for you that his  
24 testimony is specifically intended only to address the size of  
25 the incentive pot, so to speak, or what is eligible for the



1 incentive that you have approved and addresses nothing more.

2 FIPUG's singular effort under Issue 2 we believe is  
3 an arbitrary effort to inflate through the use of a proxy for  
4 incremental cost the actual incremental cost of nonseparated  
5 sales and thereby reduce the calculated gain that may qualify  
6 under the incentive mechanism that the Commission has adopted.

7 FIPUG opposed the concept of having incentives from  
8 the inception of the incentive proceeding, and tried again  
9 unsuccessfully on reconsideration to place limitations on the  
10 wholesale sales, and is using this PAA proceeding, we believe  
11 as one last attempt to create a disincentive for utilities to  
12 make nonseparated wholesale sales.

13 Why would FIPUG take this approach? We believe for  
14 the very simple reason that if you can successfully discourage  
15 wholesale sales, it frees up generation and that can be used to  
16 serve interruptible customers. They have a better chance of  
17 receiving without fear of interruption what amounts to firm  
18 service at significantly discounted interruptible rates. While  
19 this may be beneficial from the perspective of interruptible  
20 customers, it is economically harmful to the general body of  
21 utility customers and should not be condoned.

22 Our witnesses will demonstrate that nonseparated  
23 sales as well as power purchases are equally valuable tools  
24 that enable utilities to run their systems efficiently,  
25 economically, and reliably. I think Mr. Kordecki even

1 acknowledges in the earlier part of his testimony that this is  
2 the case.

3 We would urge the Commission to decline FIPUG's  
4 invitation to build an arbitrary disincentive into the gains  
5 calculation, a disincentive designed to benefit interruptible  
6 customers at the expense of all customers.

7 On Issue 3, this issue again addresses the O&M piece  
8 of the regulatory treatment. Again, we are in agreement with  
9 the staff and with what you put in your PAA order regarding the  
10 treatment of O&M expenses associated with nonseparated sales.  
11 Even Mr. Kordecki concedes that truly incremental costs may be  
12 appropriately charged to the sales and credited to the  
13 utility's operating revenues, and that is what we favor.

14 On Issue 4 this has to do with the proper method for  
15 implementing the incentive mechanism the Commission approved in  
16 your final order in the incentives docket. We believe that the  
17 evidence will support the methodology set forth in a September  
18 20, 2000 staff memorandum to all the parties in the fuel  
19 adjustment proceeding, and I think FIPUG's own witness will  
20 agree that the staff's approach is fine with him given what the  
21 Commission approved in the way of an incentive mechanism. And  
22 that is part of the basis for our belief that this issue should  
23 be stipulated.

24 And with that, Commissioners, we are prepared to  
25 proceed. I did have one preliminary matter regarding a

1 deposition transcript of Mr. Kordecki. We took his deposition  
2 on August 21st, and I have spoken with Mr. McWhirter about  
3 introducing the deposition transcript into the record of this  
4 proceeding. I believe he is in agreement to do that and I  
5 would ask that it be introduced into evidence.

6 MR. McWHIRTER: Mr. Chairman, as I pointed out to  
7 Mr. Beasley earlier this morning, I have no objection to the  
8 introduction of Mr. Kordecki's deposition into evidence to be  
9 used for whatever purpose. However, he has attached to the  
10 deposition two exhibits, neither of which were prepared by nor  
11 sponsored by Mr. Kordecki. And in the normal course of a  
12 hearing, as you know, Mr. Chairman, someone has to sponsor an  
13 exhibit and be cross-examined on it and explain the exhibit and  
14 then you can use it with respect to other people.

15 In this instance the deposition will demonstrate that  
16 Mr. Kordecki had never -- had only seen one of those and had  
17 forgotten the contents of it, and the other one was prepared by  
18 Mr. Beasley as the deposition went on. So I would respectfully  
19 suggest that the deposition go in but the exhibits be withheld  
20 until they are properly in evidence.

21 CHAIRMAN JACOBS: Mr. Kordecki is going to take the  
22 stand, is that correct?

23 MR. McWHIRTER: Yes.

24 CHAIRMAN JACOBS: If it's okay, why don't we just  
25 deal with that at the time he is on the stand.

1 MR. BEASLEY: I think that would be perfectly  
2 appropriate. And if you could admit the deposition transcript,  
3 I will substantiate admission of the two exhibits when Mr.  
4 Kordecki is on the stand.

5 CHAIRMAN JACOBS: All right. We can go ahead and  
6 mark it now and then deal with its admission at the time Mr.  
7 Kordecki takes the stand.

8 MR. BEASLEY: Thank you.

9 CHAIRMAN JACOBS: We will mark that as Exhibit 1.  
10 (Exhibit 1 marked for identification.)

11 CHAIRMAN JACOBS: Do you have copies for us,  
12 Mr. Beasley?

13 MR. BEASLEY: Yes, sir, we are distributing those  
14 now.

15 CHAIRMAN JACOBS: Mr. Badders, do you have an opening  
16 statement?

17 MR. BADDERS: We waive our opening argument.

18 MR. MCGEE: As does Florida Power.

19 CHAIRMAN JACOBS: Mr. Childs.

20 MR. CHILDS: I have no opening statement, but we did  
21 discuss at the prehearing conference an exhibit which was a  
22 staff memorandum dated September 20, 2000. I will be offering  
23 that very shortly.

24 CHAIRMAN JACOBS: Do we need to have that as an  
25 exhibit?

1 MR. CHILDS: I will be asking that it be marked at  
2 that time.

3 CHAIRMAN JACOBS: Very well. Ms. Kaufman or Mr.  
4 McWhirter.

5 MR. McWHIRTER: Ms. Kaufman had prepared a brilliant  
6 opening statement, but I superseded her and said I would like  
7 to make one myself, Mr. Chairman. And the reason I want to do  
8 it is that utility talk is complex and arcane to some degree to  
9 the common man, and it's hard even for me. And what I would  
10 like to do is kind of put in layman's language where we are in  
11 this case.

12 In this case, Mr. Beasley in his opening statement  
13 indicated that it had been going on for some years. Actually  
14 it has been going on since 1989. And several years ago your  
15 staff recommended that the incentive be eliminated altogether,  
16 and that was set for hearing and the staff was supported by the  
17 Public Counsel and FIPUG at those hearings. And during the  
18 course of that hearing which culminated in the order which is  
19 the basis for what we are doing today it was explained to the  
20 Commission by the utilities that the wholesale market as it  
21 stands in the 19 -- in this century is different than it was in  
22 the past century.

23 And the incentive that you originally styled was to  
24 encourage utilities that had capacity to share that capacity  
25 with one another on the basis of cost. And when that capacity

1 was shared, ratepayers really benefitted because new plants  
2 weren't built, and the most economical plant in the entire  
3 State of Florida was dispatched, and there was good reason to  
4 encourage utilities to trade power at cost.

5 But then the competitive world came to play in the  
6 wholesale market and utilities were allowed to sell power for  
7 market prices or stepped up cost prices between one another,  
8 and sales then switched from the old mechanism of going through  
9 what we call the Florida broker on a cost basis to a new basis  
10 where each utility opened up its own trading room and they went  
11 into -- and this was all explained in the previous hearing --  
12 they went into transactions, daily transactions and long-term  
13 transactions.

14 And the Commission studied the matter and they  
15 concluded that customers benefit from these wholesale  
16 transactions and the incentive should now be broadened not just  
17 on the cost-based sales in the brokerage system, but should be  
18 broadened to all wholesale transactions. There was a caveat,  
19 however, and the caveat was that it had to be new wholesale  
20 transactions and what had gone before you didn't get an  
21 incentive until you reached this threshold. So we got two  
22 incentives to make wholesale sales, one is to make as much as  
23 you can to get up to the threshold, and then the second  
24 incentive was once you have reached the threshold you start  
25 making money.

1           And the incentive comes about this way. Customers --  
2 and you need to know that it deals with nonseparated sales.  
3 And a nonseparated sale, of course, as you know, is where the  
4 utility plant is in the retail rate base and the customers are  
5 paying all the carrying costs on that plant. But it's not --  
6 the utility doesn't need that power at that moment in time or  
7 for a short period of time, and so it can go out and sell the  
8 power elsewhere. And when it sells the power elsewhere the  
9 proceeds flow back into the company.

10           And the question is, well, when you have sold that  
11 power, who should get the proceeds. And the old Commission  
12 rule and the rule now for long-term sales is that since the  
13 customers pay the carrying costs on the plant and since they  
14 pay 100 percent guarantee of fuel cost of all fuel that is  
15 burned in that plant, logic would say, well, when money comes  
16 in from selling that electricity the customers ought to get the  
17 benefit. And you have set up a mechanism so that the revenue  
18 from those wholesale sales flow back to the customers.

19           But you don't want the utility to sit on their duff  
20 and not make those sales, so you said let's give them an  
21 incentive to do it, and you gave them the incentive. But the  
22 incentive only deals with sales that make a profit. You  
23 wouldn't want sales that don't make a profit. And there was a  
24 recognition in your Order Number 1744 that was issued on  
25 September 26th last year, that the revenue flow has to be dealt

1 with and has to go into different channels.

2           And the first channel -- and I would like to read  
3 your language, because really it's why we are here today. It  
4 says, "Accordingly, we find that each IOU shall measure the  
5 gain on the sale --" that is this profit that you make -- "from  
6 nonseparated wholesale sales --" this is one where the plant is  
7 in the retail rate base -- "by subtracting the sum of its  
8 incremental cost from the revenue received for each sale.  
9 Further, we find that the calculation of the incremental cost  
10 shall include, but not be limited to --" not be limited to --  
11 "incremental fuel cost, incremental SOT emission allowance  
12 cost, incremental O&M cost." So if there are other costs, they  
13 can also be collected.

14           Now, imagine a \$100 sale, and they have got \$100 in  
15 revenue. So what happens to that? When the \$100 in revenue  
16 comes in, the first thing that happens is what was the fuel  
17 burned to make the sale. And since the customers have paid  
18 that fuel, whatever that fuel cost was for that sale, it comes  
19 into the utility and the utility puts it in the pot for fuel  
20 cost recovery, and that reduces fuel cost customers must have  
21 to pay.

22           And then because in many instances you have a coal  
23 burning plant and there are SO2 allowances that the utility had  
24 to buy in order to burn high sulfur coal, and customers have  
25 paid for the SO2 allowances in their fuel surcharge or through



1 the environmental clause, then if there are any revenues that  
2 are attributable to that they go into that clause. Then the  
3 next bunch of revenue is O&M costs. Now, O&M costs are pretty  
4 hard to identify.

5           And if you have looked at the discovery the staff  
6 sent out and the responses, you will see that it was very  
7 difficult for the utilities to identify. But the significance  
8 of that is any money that is attributed to O&M cost goes 100  
9 percent to the utility. It says it flows above-the-line to  
10 operating revenues, but until you have a base rate case there  
11 is no adjustment. So there is an incentive for a utility to  
12 jack up -- I'm not suggesting any utilities do that, but I'm  
13 suggesting to you that if they wanted to improve their  
14 revenues, they could jack up the O&M costs and say, now there  
15 is no profit in this particular sale because we're taking it  
16 all to recover these incremental O&M costs.

17           So what we will testify is that if that is going to  
18 happen, since the utility is going to get 100 percent of that  
19 money and the customers aren't going to get any portion of it,  
20 we think that logic would suggest that they prove that they  
21 really did have an additional O&M cost that was attributable to  
22 this sale. If you have got a 100-megawatt generator standing  
23 there and a guy that is operating it in a control room, and it  
24 says we are now producing 90 megawatts and we have a demand for  
25 another 10, jack it up a little bit. And he pushes a button

1 that jacks it up and another 10 goes. That is not a whole lot  
2 of new costs. So we would like to find out what those O&M  
3 costs are if the utility is going to keep 100 percent. And  
4 that is one of the things we talk about.

5           The other thing is, and what happens is that  
6 utilities are very active in the short term and spot wholesale  
7 market now that there is a competitive marketplace, and they  
8 are all excited about it and have their trading room and these  
9 guys with the telephones and girls with the telephones trying  
10 to make deals every day. And sometimes they make good deals  
11 and sometimes they make bad deals and sometimes they buy power  
12 at a high cost and then sell power at a low cost.

13           Well, we don't think that if there is a profit in the  
14 low cost -- if you are calculating the profit in the low cost  
15 sale, you shouldn't ignore the loss on the more expensive sale  
16 that is going on at the same time. There are some times that  
17 the more expensive sale has already occurred. Now, this is  
18 plant that the customers have paid for all of the fuel and all  
19 the carrying costs on that plant. And so sometimes there is a  
20 sale simultaneously and there is a loss on the transaction when  
21 you match the two together.

22           And we think that the utility should not say that  
23 there is a profit on that simultaneous transaction and  
24 therefore they shouldn't get an incentive. The utilities  
25 aren't at any greater risk because the customers are paying all

1 the cost. The only thing we are doing is taking away the  
2 reward for having made a mistake.

3 The final thing -- well, I guess that's really  
4 about -- oh, yes, the final thing is Mr. Beasley said this is a  
5 deal for the interruptible customers. They want to increase  
6 the reliability so they are less likely to get interrupted.  
7 Well, I will guarantee you that is what we would very much like  
8 to do. Because if a utility has a generator that could serve  
9 us with the fuel cost of something like -- this is a generator  
10 we are already paying for and they can serve us at a \$20 fuel  
11 cost, we would rather that we get that power rather than if  
12 they are paying \$500 because that power isn't available for  
13 their nonfirm customers.

14 And we think that it makes a lot of sense not to have  
15 those kind of sales going on. And all the utilities think it  
16 makes sense. And if they have got a nonfirm wholesale sale,  
17 they are perfectly willing, or it seems that they are perfectly  
18 willing that that sale be cut off. But there is a hiatus  
19 before it is cut off. And we think that during that hiatus  
20 period some consideration should be given to that fact.

21 Now, these gains are calculated at the end of the  
22 year. And so it's not all of that difficult to keep a running  
23 total and look at the end of the year, do we have a gain or do  
24 we have a loss? If you don't have a gain then there is no  
25 incentive, because during the course of the year you didn't

1 make the deal that benefitted the customers. And the whole  
2 Commission's requirement is that customers benefit, that's why  
3 you are giving them the incentive.

4           So we would respectfully suggest to you that there  
5 are two little modifications, and that is when you have a sale  
6 of electricity at the same time you are buying electricity,  
7 when you are trying to figure out the cost of the joint  
8 transaction to use the higher cost power. The higher charge  
9 that was given to the customers. The utility is no worse off.  
10 It is still getting full recovery of its carrying cost. It is  
11 still making a profit on the plant. It is still getting a full  
12 recovery of all of its fuel costs. The only thing it's doing  
13 is not getting a reward on that type transaction.

14           The other thing is since you can siphon off a lot of  
15 the revenue that comes in from these sales by allocating O&M  
16 costs to it, we want to be sure that there is some mechanism in  
17 place that the O&M costs are identified and are clearly proven  
18 to be attributable to these incremental sales.

19           And I went on too long and I apologize for that, but  
20 it seems to me like such a simple thing. And as we talk about  
21 it it becomes more and more complex. And it just really  
22 bothered me that we just couldn't put the plan on the table for  
23 you in a simple fashion. And that's what we are going to try  
24 to do today. Thank you for your time and attention.

25           CHAIRMAN JACOBS: Thank you, Mr. McWhirter. As

1 always, instructive.

2 Mr. Burgess.

3 MR. BURGESS: Thank you, Mr. Chairman. Our concern  
4 in this case is that the Commission adopt an order with regard  
5 to the treatment that will require consistency from one company  
6 to the next. And we think that is important not only for the  
7 fairness to the customers, but for the fairness to the  
8 companies themselves, that they can be assured that each of the  
9 other companies are being treated in the same fashion or  
10 required to treat these sales in the same fashion.

11 And as Mr. McWhirter identified, one of the primary  
12 areas of specific concern arises when a company is buying in at  
13 a higher price than they might be selling out a particular  
14 nonseparated wholesale sale. This is not a cost, as I think  
15 Mr. McWhirter articulated very well, this is not a cost that  
16 should be borne by the utility's customers.

17 Now, if I understand the discovery and the statements  
18 of the utilities, in principle they agree with this with some  
19 exceptions. And I'm sure they can adequately address the  
20 exceptions that they think may be applicable. But our problem  
21 is that while the utilities agree in principle that customers  
22 shouldn't pay for a higher cost purchase when a lower cost  
23 sale -- nonseparated sale is being made on system, there is no  
24 statement that would impose that policy by the Commission. And  
25 we think it is important that such a statement be made.

1           Now, one way to make that statement is in a very  
2 detailed or in a more detailed definition of incremental cost.  
3 If incremental costs are used to define what to do about the  
4 situation when you have a purchase at a higher price than a  
5 sale, then perhaps this takes care of the situation. Right  
6 now, at least as I understand Order Number 1744, the PAA, it  
7 does not give a detailed enough definition that would require  
8 the treatment that Mr. McWhirter has suggested.

9           And so we think that it can be developed with a more  
10 detailed definition as to what incremental costs are to cover  
11 all the probabilities and require this consistency of treatment  
12 from one company to the next when situations arise. And as to  
13 what the exceptions are when you might consider that a  
14 contemporaneous sale off-system which is lower than a purchase  
15 onto the system might be justified in certain circumstances.  
16 Well, perhaps that can all be put in there. But it needs to be  
17 addressed, as I say, for the consistency, for the proper  
18 treatment of the utility customers who are bearing the cost of  
19 the entire amount of the system that is producing these  
20 nonseparated sales as well as fairness to other companies that  
21 might be -- to each of the companies so that they know that it  
22 is being treated statewide in a similar fashion.

23           We also believe that the incremental costs, the  
24 incremental O&M costs that Mr. McWhirter addressed, we believe  
25 that these should be dealt with as base rate costs and that

1 they should not go into the calculation of the wholesale sale.  
2 I mean, of the gain on wholesale sale. Now, again, as Mr.  
3 McWhirter indicates, as a matter of principle perhaps they  
4 should. Our problem, again, is exactly as FIPUG's, that it is  
5 so difficult to be certain that you have identified incremental  
6 O&M costs that these are costs that should not go into the  
7 reduction of the gain that goes back to the credit of the  
8 customers through the fuel adjustment clause.

9 We have taken the position --

10 COMMISSIONER JABER: Mr. Burgess, as a matter of  
11 policy, if you include those incremental costs in base rates  
12 and they are used to offset earnings, you wouldn't have an  
13 increase obviously. You wouldn't have a problem. But for  
14 those companies that including the incremental cost in base  
15 rates would actually require them to come in for a rate case,  
16 isn't that more harmful to the consumer?

17 MR. BURGESS: If, in fact, that happened I think you  
18 could make that case, that you are at that point. I don't  
19 think that they rise anywhere near to the level that they would  
20 be a major contributing factor to a rate case. And one of the  
21 things that I would point out, if I have understood the  
22 responses of the companies, that there are companies that their  
23 own internal policy is to include them only in base rate  
24 calculation and not to include them as an offset to the gain  
25 that goes through to the benefit of the customers precisely

1 because of the materiality of it.

2           And that gets back to, again, the consistency of the  
3 treatment. That whatever -- if a company is doing that, and it  
4 is a reasonable approach, we think that they should not be  
5 disadvantaged because of this treatment. That all companies  
6 should adopt the same treatment, that the Commission should  
7 assure that all companies adopt this treatment.

8           COMMISSIONER JABER: But I don't want to be  
9 counter-productive with the incentive. Let's say this  
10 Commission at the end of the hearing finds that it is  
11 appropriate to include those incremental cost regardless of the  
12 size in base rates. Could that ever be counter-productive to  
13 the incentive where the company might not be aggressive in  
14 making those wholesale sales because they would worry that they  
15 couldn't get recovery through a rate case or it's not worth  
16 filing a rate case for.

17           MR. BURGESS: Again, I think theoretically you could  
18 make a case for that. I think the answer is as a practical  
19 matter, no. I think the companies can speak to that, and I  
20 think that is a point that I intend to ask most of the company  
21 witnesses how they treat these particular costs and perhaps  
22 each company can address that. My understanding is as a  
23 practical matter, no, it's not going to happen. It's not  
24 significant enough to be an offset to the incentives that they  
25 have to aggressively pursue these off-system sales.



1           We have made a couple of other points simply in our  
2 positions to the issues that have been defined for this case.  
3 We believe that the reward that is granted should be based on  
4 actual historical data, even if perhaps it is of a time period  
5 that is offset from the time period for which the other  
6 calculations of the fuel adjustment clause are being  
7 established. We just think it is a better principle to say if  
8 you are going to give them a reward for exceeding a certain  
9 threshold, let's be certain of what it is rather than estimates  
10 as to what it will be for future periods and impose it just  
11 based on historical data rather than projected.

12           And we believe that the first three-year average that  
13 is used should be a floor for any future thresholds to prevent  
14 the possibility of a, again, at least theoretical perverse  
15 incentive of a company actually dropping down below a level.  
16 And since there is no penalty for a downside, they drop below a  
17 level to reduce the average with the future action being to  
18 increase above it and thereby get a reward because the average  
19 has been reduced. And so we think that a floor threshold  
20 should be imposed at the beginning, at the outset of this  
21 particular effort by the Commission.

22           I will say that with regard to some of these things,  
23 and with regard to the examination as to whether various  
24 principles imposed by the Commission are being met, that it  
25 looks from what we have ascertained from some of the discovery

1 that it may be an evolving process. That there may be lessons  
2 learned as we go through that perhaps will need to be addressed  
3 in future fuel adjustment in the 0001 dockets. Thank you.

4 CHAIRMAN JACOBS: Very well. If there are no other  
5 preliminary matters, I think we can swear the witnesses.

6 Staff?

7 MR. KEATING: Staff does not have an opening  
8 statement, but perhaps at this point it would be appropriate  
9 for us to offer what we have prepared as a composite exhibit.  
10 I believe we have given a copy to all the parties and to each  
11 of the Commissioners. I think we may have missed the court  
12 reporter, though. It is my understanding that this composite  
13 exhibit could be stipulated into the record.

14 CHAIRMAN JACOBS: We will mark it as Exhibit 2, and  
15 it is a composite discovery exhibit. And if there are no  
16 objections, we can enter Exhibit 2 into the record.

17 (Exhibit 2 marked for identification and admitted  
18 into the record.)

19 CHAIRMAN JACOBS: With that, all the witnesses who  
20 are here to testify, would you please stand and raise your  
21 right hand.

22 (Witnesses sworn.)

23 CHAIRMAN JACOBS: Thank you. You may be seated.

24 Mr. McGee.

25 MR. MCGEE: I think Mr. Portuondo, the Florida Power

1 witness is first in the prehearing order, and we would call him  
2 to the stand.

3 JAVIER PORTUONDO

4 was called as a witness on behalf of Florida Power Corporation,  
5 and, having been duly sworn, testified as follows:

6 DIRECT EXAMINATION

7 BY MR. McGEE:

8 Q Sir, would you give us your name and business address  
9 for the record, please.

10 A My name is Javier Portuondo, my business address is  
11 P.O. Box 14042, St. Petersburg, Florida 33733.

12 Q And would you state your position with Florida Power  
13 Corporation?

14 A I am the Manager of Regulatory Services for Florida.

15 Q Mr. Portuondo, do you have before you a document  
16 entitled Florida Power Corporation, Docket Number 010283,  
17 Direct Testimony of Javier Portuondo consisting of six pages?

18 A Yes, I do.

19 Q Was that prepared by you as your direct testimony for  
20 this hearing today?

21 A Yes.

22 Q And do you have any additions or corrections that  
23 need to be made to that prepared testimony?

24 A No.

25 MR. McGEE: With that, Mr. Chairman, we would ask

1 that Mr. Portuondo's direct testimony be inserted into the  
2 record as though read.

3 CHAIRMAN JACOBS: Without objection, show Mr.  
4 Portuondo's direct testimony is entered into the record as  
5 though read.

6 MR. MCGEE: Thank you.

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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.

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.**

1 BY MR. McGEE:

2 Q Mr. Portuondo, would you give us a summary of your  
3 testimony, please?

4 A Yes, sir. Commissioners, Florida Power disagrees  
5 with FIPUG's proposed language change to Part 3, Item 1 of the  
6 Commission's order stating that each IOU shall credit its fuel  
7 and purchased power cost-recovery clause for an amount equal to  
8 the incremental fuel of generating the energy for each such  
9 sale. FIPUG's attempt to clarify the order issued by this  
10 Commission just serves to confuse the matter further.

11 I have suggested language that I believe will deal  
12 with FIPUG's concern, but more succinctly. I also disagree  
13 with FIPUG's language change which attempts to minimize the  
14 costs of buy-through purchased power for its members through the  
15 fuel adjustment clause. The costs paid for buy-through  
16 purchased power has no bearing on the calculation of gains for  
17 nonseparated sales since these costs are fully recoverable from  
18 the specific class of retail customers.

19 This concludes my summary.

20 MR. McGEE: We tender Mr. Portuondo for cross  
21 examination.

22 CHAIRMAN JACOBS: Very well. Mr. Beasley, cross.

23 MR. BEASLEY: No questions.

24 CHAIRMAN JACOBS: Ms. Kaufman.

25 CROSS EXAMINATION

1 BY MS. KAUFMAN:

2 Q Good morning, Mr. Portuondo. How are you?

3 A Good.

4 Q In reviewing your testimony and hearing your summary  
5 just now, I think it might be the case that FIPUG and Florida  
6 Power Corporation are not really that far apart in regard to  
7 their position on the -- we will call it the simultaneous  
8 purchase and sale question. And let me be sure I understand  
9 after looking at Florida Power Corporation's prehearing  
10 statement -- do you have that in front of you?

11 A I think I do. Yes, I do.

12 Q Your basic position, the last sentence there, it  
13 seems to me that you agree with FIPUG that if the cost of a  
14 purchase is higher than the cost of generation during this  
15 simultaneous purchase and sale situation, that that purchase,  
16 higher purchase price ought to be what is used in calculating  
17 the cost of the transaction, correct?

18 A If that purchase is on the increment, yes.

19 Q And I think you make a similar statement in your  
20 position on Issue 2, correct? About in the middle of the  
21 paragraph.

22 A Yes, as long as that purchased power is on the  
23 increment.

24 Q Okay. Let's just try and walk through a quick  
25 example and be sure that we are on the same page. If Power

1 Corp is making a 100-megawatt nonseparated sale and there is an  
2 outage, an unexpected outage on the system, let's say, and then  
3 you have to purchase 100 megawatts to cover the sale, you would  
4 agree that you would use that purchased cost in the calculation  
5 of the cost of the sale?

6 A A separate purchase for the purpose of making this --  
7 that would be on the increment, yes, an independent purchase.

8 Q And I just want to be clear that I think that is  
9 FIPUG's vision as well, and maybe our disagreement is over the  
10 language or how it is stated.

11 I want to ask you just a question or two about the  
12 issue that relates to the O&M costs, and I think staff  
13 distributed what has now been marked as Exhibit Number 2. Do  
14 you have that?

15 A No, I did not get a copy. (Pause.)

16 What page are you --

17 Q Well, actually now I have to be sure that this  
18 corresponds. It is page -- in the package it is stamped number  
19 4 at the bottom, are you with me?

20 A Yes.

21 Q Okay. And staff in that question asked you to  
22 provide the amount of O&M expense that you incurred to sell  
23 nonseparated energy that was recorded as part of your operating  
24 expenses from 1998 to 2000. And you responded, or Power Corp  
25 responded that you do not track operation and maintenance

1 expenses incurred in making nonseparated wholesale sales,  
2 correct?

3 A We do not directly track those incremental operating  
4 O&M costs, yes.

5 Q And is that still the case today, that you do not  
6 track those costs?

7 A We do not track those costs.

8 Q Okay. Does Power Corp have a methodology by which  
9 they determine what the incremental O&M costs are for these  
10 sales?

11 A Yes. We have a formula that takes into  
12 consideration the variable costs of the power plants over a  
13 period of time based on their output, and that formula is  
14 applied to the sales price in order to recover a proxy for the  
15 variable O&M assumed to be incurred in base rates when a  
16 nonseparated sale takes place. That revenue is collected from  
17 the wholesale customer, and the revenue is applied to base  
18 rates to offset any of the variable O&M that would naturally be  
19 booked in base rates when the maintenance does take place, the  
20 additional maintenance.

21 CHAIRMAN JACOBS: Do you do any kind of true-up  
22 process on that?

23 THE WITNESS: No, sir, because it is collected from  
24 the wholesale customer at the time of the sale as part of the  
25 sales price of the product.

1 BY MS. KAUFMAN:

2 Q Is it subtracted or deducted from the gain  
3 calculation, or how is it considered when you calculate the  
4 gain?

5 A It is removed from both sides of the equation. It is  
6 not included in the incremental cost, nor is it included in the  
7 revenues received. So the net result is the same gain.

8 Q Okay. Do you know or have you looked at the way the  
9 other utilities make that O&M calculation?

10 A No, I haven't.

11 Q So you do not know, do you, if all the utilities are  
12 doing it the way that Power Corp is doing it?

13 A No, I don't.

14 MS. KAUFMAN: That's all I have. Thank you.

15 CROSS EXAMINATION

16 BY MR. BURGESS:

17 Q Mr. Portuondo, I would like to pursue that, if I  
18 could, to make sure I understand. Do you make market-based  
19 priced sales?

20 A Not within the State of Florida.

21 Q Do you make any out-of-state sales that are  
22 nonseparated?

23 A Yes.

24 Q That are market-based priced?

25 A Out of state we have market based authority, yes.

1 Q Okay. And so I want to use that example of a  
2 market-based price to see if I understand how this would work.  
3 Let's suppose you sell -- make a sale at 30, that is based on  
4 market price. This is for a nonseparated sale. And let's say  
5 the incremental fuel is 20, and your -- would you have an  
6 estimated O&M associated with this?

7 A Yes. On the sale, yes.

8 Q So let's say the estimated O&M, incremental O&M is 5,  
9 okay. As I understand it, then, you would say the price is 30,  
10 but built into that price is 5 for the O&M?

11 A Yes.

12 Q And then you would subtract -- so that you would  
13 start with an actual price of 25, and subtract the \$20 fuel,  
14 correct?

15 A You would subtract the \$20 fuel? This is for the  
16 determination of the gain?

17 Q Yes, sir. I'm sorry, for purposes of calculating the  
18 gain.

19 A Yes. You would be comparing a revenue stream of 25  
20 to an incremental cost. If it happened to be the \$20, it would  
21 be a margin of 5 on that particular scenario.

22 Q So in this example where the sales price is 30,  
23 incremental O&M is 5, incremental fuel is 20, you would give a  
24 \$5 credit for the gain through the fuel adjustment clause, is  
25 that correct?



1 A Correct.

2 Q Now, would that \$5 incremental O&M also show up in  
3 calculation of base rates?

4 A The revenue, the \$5 in revenue?

5 Q Would the \$5 that Florida Power Corporation has  
6 incurred be removed from the calculation of base rates? I'm  
7 trying to understand whether you make an adjustment in base  
8 rates for the removal of this incremental O&M expense that is  
9 estimated.

10 A No, the expense will be incurred in base rates. What  
11 we are attempting to do is mitigate that expense to the  
12 customer by collecting the \$5 from the wholesale customer on  
13 those nonseparated sales. So the revenue would be applied to  
14 other operating revenues as an offset for the eventual O&M that  
15 would be incurred.

16 Q But in this case if the price for the sale is  
17 market-based, it is simply the best price you could get and you  
18 have simply imputed this O&M figure into that price.

19 A Right. I have calculated what we believe the O&M  
20 costs are associated with making that sale and have collected a  
21 revenue from the wholesale customer to offset that cost in base  
22 rates.

23 Q Now, doesn't this give you a collection -- for these  
24 particular sales, doesn't this give you a collection for that  
25 incremental O&M both in base rates and in the fuel adjustment

1 calculation?

2 A No. The expense is not in the fuel adjustment  
3 calculation.

4 COMMISSIONER JABER: What is it then that you believe  
5 goes through the fuel adjustment clause?

6 THE WITNESS: The fuel adjustment clause, as I  
7 understood the example, would be the \$20 in fuel.

8 COMMISSIONER JABER: If I understood Mr. Burgess'  
9 question, he was asking you about the incremental O&M expense,  
10 the \$5. Was it \$5, Mr. Burgess?

11 MR. BURGESS: Yes, that is correct.

12 COMMISSIONER JABER: Now, you responded that that \$5  
13 is recovered through the clause. That was your response.

14 THE WITNESS: Maybe I misspoke. The \$5 is recovered  
15 from the wholesale customer but is applied to other operating  
16 revenues. It is not passed through the clause as a revenue.

17 COMMISSIONER JABER: Okay. Well, with that  
18 clarification, if it is recovered from the wholesale customer,  
19 why is it also included in base rates?

20 THE WITNESS: The revenue is given back to the  
21 customers in base rates.

22 COMMISSIONER JABER: The revenue, but you have not  
23 included expenses in base rates for recovery.

24 THE WITNESS: The expenses would -- when maintenance  
25 is performed on the unit because it runs longer because it had

1 to make that nonseparated wholesale sale, the expense itself  
2 would be booked into the normal O&M accounts within base rates.  
3 So what this serves to do is to offset those costs so the  
4 customer, the retail customer is not having to incur those  
5 costs.

6 CHAIRMAN JACOBS: So the essence of that is those O&M  
7 expenses that support the wholesale sales are never separated  
8 out of retail rates?

9 THE WITNESS: I'm sorry, could you repeat that?

10 CHAIRMAN JACOBS: The O&M expenses that support those  
11 wholesale transactions are never really separated out of retail  
12 rates.

13 THE WITNESS: Correct.

14 CHAIRMAN JACOBS: And to deal with that you try and  
15 give the retail ratepayers the revenue benefit of those -- some  
16 revenue benefit from those wholesale transactions.

17 THE WITNESS: Correct.

18 BY MR. BURGESS:

19 Q So if I understand what you are saying is you take  
20 the -- out of the \$30 that was just the best deal you could get  
21 on the market, you would recognize \$5 -- you would recognize \$5  
22 of revenue in base rates?

23 A Yes.

24 Q Okay. And you would also have the \$5 of O&M in base  
25 rates, and then you would remove them both from the calculation

1 of the gain for the purpose of what passes through the fuel  
2 clause?

3 A Correct.

4 Q Thank you. Now, are there any circumstances under  
5 which Florida Power Corp finds itself selling off-system at a  
6 lower price than it is purchasing on-system, selling a  
7 nonseparated sale off-system at the same time that it is  
8 purchasing power for the system, for the retail load, firm  
9 retail load?

10 A That possibility could exist, yes.

11 Q And in that case what you have said is that the  
12 incremental cost would be the cost of the purchased power?

13 A It depends on the purchase. If the purchase was  
14 entered into for the purposes of making the sale, then it would  
15 be the increment. If it is a firm purchase must take  
16 nondispatchable, that there is no incremental cost. It's part  
17 of the average cost. But in the scenario that was given  
18 earlier, if a unit goes down and I enter into a purchase to  
19 cover a sale, that is the increment, that is the change in the  
20 system.

21 Q So you are saying if you make a purchase for some  
22 future period of time, and that is on some kind of firm  
23 contract, that time arrives and your producing at an amount  
24 that is below that, and you are producing a -- you have a  
25 margin that you are looking to to sell, that under those

1 circumstances you would not consider the higher priced purchase  
2 as your incremental cost, is that correct?

3 A If the purchase is not on the increment, then it  
4 would not be the cost associated with making that sale.

5 Q And I guess my problem is the definition of the  
6 increment looks to me like it is not necessarily being seen the  
7 same way by everybody. So how would you define what decides  
8 whether it is the increment or not the increment?

9 A It is the source of the next megawatt to meet that  
10 sale. So if I dispatched a peaker to meet that sale, then the  
11 incremental cost is the cost of dispatching that peaker. If I  
12 dispatch, if I have a dispatchable purchased power agreement  
13 that I'm not fully committed to, suppose it's 50 megawatts  
14 dispatchable, firm or nonfirm, and I am only using 25 megawatts  
15 because that is all I need to meet my demand at that point in  
16 time. But I see an opportunity since I already have the  
17 contract as part of my source in the portfolio, I see an  
18 opportunity to produce a margin or a gain for the retail  
19 customer by dispatching the other 25, that is the increment.

20 Q So it is basically if you feel like the company made  
21 a prudent decision to make a purchase for some future period,  
22 and it turns out that the circumstances are not what was  
23 anticipated at the time of the purchase, you would not  
24 necessarily use that purchased price as the increment, is that  
25 right?

1           A     I've got to make sure I understand your question.  
2     When the decision was made to make the purchase, the purchase  
3     was at a lower cost than the decremental cost of running a  
4     unit, so it was entered into in the best interest of the  
5     customer. If it was entered into on the assumption that 100  
6     percent of that was needed and it was firm nondispatchable,  
7     again that that would be the first thing that is dispatched out  
8     of the system, so it would never be the increment. It would be  
9     whatever next unit to come out of the stack to meet any sales.  
10    Hopefully I answered the question.

11           Q     So the determination of what actually is the  
12    increment for purposes of applying it here incorporates the  
13    issue of whether the company's purchases were prudent when they  
14    were entered -- when the agreement was entered into?

15           A     There is a separate schedule in compliance with the  
16    Commission's reporting requirements that shows the savings on  
17    purchased power. So, I mean --

18           Q     The savings as it actually comes about or the savings  
19    as it would have been had the circumstances that were  
20    anticipated at the time of the purchase transpired?

21           A     The actual. You enter into the purchase based on  
22    some assumptions, you file your compliance schedules based on  
23    actual results.

24                   MR. BURGESS: Thank you, Mr. Portuondo.

25                   THE WITNESS: You're welcome.

1 MR. BURGESS: That's all I have.

2 MR. KEATING: I have just a few questions.

3 CROSS EXAMINATION

4 BY MR. KEATING:

5 Q Mr. Portuondo, when Florida Power economically  
6 dispatches its resources to serve its load, does it distinguish  
7 between resources from its own generation and resources  
8 purchased from other generation sources?

9 A No.

10 Q During Florida Power's last rate case, how did the  
11 Commission adjust its revenue requirement to account for O&M  
12 expenses associated with nonseparated wholesale energy sales?

13 A I'm not aware that there was an adjustment, so if you  
14 can enlighten me.

15 Q I think I will move on from that one for now if you  
16 don't know the answer. I won't try to beat something out of  
17 you that's not in you.

18 If the Commission orders each utility to credit --

19 COMMISSIONER JABER: Staff, do you have an order from  
20 the last rate case that might show whether an adjustment was  
21 made?

22 MR. KEATING: I do not have an order at this time.

23 BY MR. KEATING:

24 Q If the Commission orders each utility to credit  
25 operating revenues with an amount equal to the O&M expenses of

1 a nonseparated wholesale energy sale, would that order create a  
2 double recovery of those O&M expenses?

3 A No, I don't believe they would.

4 Q Could you explain why?

5 A The customer is receiving the credit such that if  
6 there is an overearning situation it ultimately would go back  
7 to the customer. It is, I guess, difficult to determine how  
8 much variable O&M associated with nonseparated sales may have  
9 been assumed to be in the last rate proceeding, therefore, it  
10 only benefits the customer for the companies to try and offset  
11 any additional costs that it could fairly calculate could be  
12 occurred in today's environment for additional variable O&M.

13 Q Thank you.

14 CHAIRMAN JACOBS: Do you have other questions?

15 MR. KEATING: I'm sorry, I have just a couple more  
16 questions.

17 BY MR. KEATING:

18 Q Are the gains and losses on nonseparated wholesale  
19 sales aggregated for purposes of reporting on Florida Power's  
20 monthly A Schedules?

21 A Yes.

22 Q And do the sum of the gains and losses equal the net  
23 gain that the incentive would apply to?

24 A Yes.

25 MR. KEATING: Thank you. That's all the questions I



1 have.

2 CHAIRMAN JACOBS: I want to make sure I understand,  
3 in your testimony and in your position to Issue 2, it sounds  
4 like you agree with the idea that incremental cost of --  
5 incremental costs of purchases, your purchases when you have  
6 done a nonseparated sale can be dealt with in the context of  
7 this gain on sale provision. Do I take that from your  
8 testimony?

9 THE WITNESS: I believe so.

10 CHAIRMAN JACOBS: And you propose a modification. I  
11 assume that your proposed modification didn't reach a  
12 stipulation with FIPUG. But you do recognize that idea and  
13 would propose your language to deal with that?

14 THE WITNESS: Yes, purchased power can be on the  
15 increment.

16 CHAIRMAN JACOBS: Commissioners, questions?

17 Redirect.

18 MR. McGEE: Just one question.

19 REDIRECT EXAMINATION

20 BY MR. McGEE:

21 Q Mr. Portuondo, you were asked some questions by both  
22 Ms. Kaufman and Mr. Burgess concerning the situation that would  
23 exist if the company was making a nonseparated wholesale sale  
24 and also purchasing power on the wholesale market. And there  
25 were several questions asked of you concerning the cost of the

1 purchase and whether that would be used in considering the gain  
2 on the sale. And I wanted to ask you if there was a  
3 distinction when we are talking about the costs of those kinds  
4 of purchases between the average cost of the purchase and the  
5 incremental cost of the purchase, are those two things  
6 necessarily the same?

7 A No, they are not.

8 Q And can you give me an example of where you would  
9 have an average cost of a purchase that might be different than  
10 the incremental cost of that purchase?

11 A I believe in the example I gave where it's a  
12 nondispatchable must take purchased power agreement, it would  
13 be an average cost of your system fuel, but it would not be --  
14 it would have a zero incremental cost because it would be fully  
15 dispatched.

16 Q And so when you responded to the staff question in  
17 the affirmative that Florida Power treats all of its generating  
18 resources, both company-owned and purchases the same when  
19 dispatching its system, by saying you are referring to making  
20 those dispatch decisions based on the incremental cost of all  
21 of those resources?

22 A Yes.

23 MR. MCGEE: Thank you. That's all I have.

24 CHAIRMAN JACOBS: And we had only staff's exhibit,  
25 so, thank you, Mr. Portuondo, you are excused.

1 Mr. Childs, your witness.

2 MR. CHILDS: Commissioners, at this time before I  
3 call Ms. Dubin, I would like to address the identification of  
4 the staff memorandum.

5 CHAIRMAN JACOBS: Very well.

6 MR. CHILDS: That relates to Issue 4 and the  
7 implementation of the Commission's decision on off-system sales  
8 other than the part that was PAA. And we had a discussion  
9 about this at the prehearing conference, and my understanding  
10 is that FIPUG still is not in agreement as to the authenticity  
11 of the September 20, 2000 memorandum from staff. And so I  
12 wanted to pursue getting that identified and authenticated.  
13 And I'm going to tell you my basis for it, and then circulate  
14 the documents. That may be a bit awkward for you, but I simply  
15 am trying to read at the same time that I am handling the  
16 documents.

17 CHAIRMAN JACOBS: No problem.

18 MR. CHILDS: What I have is -- and I will distribute  
19 these. I have a copy of a September 20, 2000, memorandum from  
20 the staff bearing the name and their official capacity and the  
21 initials of Messrs Cochran Keating and Todd Bohrmann. And I  
22 will maintain that those documents are admissible, or  
23 authenticated under the evidence code Section 90.902,  
24 Subsection 2, which says that extrinsic evidence of  
25 authenticity as a condition precedent to admissibility is not

1 required for a document that does not bear a seal but purports  
2 to bear the signature of an officer or employee of any entity  
3 listed in Subsection A, which includes an agency of this state,  
4 affixed in the employee's official capacity. And I would  
5 submit this document complies with that.

6 This document, in addition, has been distributed at  
7 the time of its preparation as it was distributed as a result,  
8 and as the document reflects it was distributed as a result of  
9 a meeting with all parties in the docket to discuss how best to  
10 implement. And that meeting was held, as I recall, at the  
11 instructions of the Commission to facilitate implementation and  
12 the staff was good enough to put together this memorandum as a  
13 proposal for everyone to know about and respond to.

14 The second ground that I have is that when we were  
15 previously going to address this issue of implementation the  
16 staff memorandum was identified and was attached to the  
17 prehearing order of this Commission in Docket Number 000001-EI,  
18 and the prehearing order was dated November 15, 2000. And the  
19 same memorandum was attached as an Appendix A, or excuse me  
20 Attachment A. And what I have done is I have obtained a copy,  
21 a certified copy with the raised seal of the Commission from  
22 the Clerk's Office, with an attestation from the Bureau of  
23 Records and Hearing Services. I would propose to give that to  
24 the court reporter and distribute the copies.

25 I maintain that under the Florida Evidence Code that

1 this document, which is included as part of the prehearing  
2 order which was for the purpose of doing what we are now doing  
3 as to implementing the order, is authentic under the evidence  
4 code, Florida Statute Section 90.902, Subsection (1)(a), where  
5 it provides that extrinsic evidence as a condition precedent  
6 for admissibility is not required for a document bearing a seal  
7 purporting to be that of any state or agency. This is an  
8 agency of the state and the seal is affixed. I also maintain  
9 that it is admissible under Florida Evidence Code 90.902,  
10 Subsection (4), because it is a copy of an official public  
11 record, report, or entry of a document authorized by law to be  
12 recorded or filed and actually recorded or filed in a public  
13 office, et cetera. And that is what the order is, and that is  
14 where it is kept, and that is the effect of the seal. And at  
15 this time I will distribute those, but the original I am giving  
16 to the court reporter with the raised seal.

17 CHAIRMAN JACOBS: Ms. Kaufman, do you want to make  
18 your statements now or at the time we have this for admission?

19 MS. KAUFMAN: I would be glad to do it now since you  
20 just heard Mr. Childs' argument. And I appreciate Mr. Childs'  
21 remarks about the authenticity of the document. That has never  
22 been an issue. We don't suggest to you that this is not, you  
23 know, what it purports to be, a memorandum prepared by your  
24 staff. So we don't take issue with the authenticity of it.  
25 What we do take issue with is the proffer of this document, I

1 am assuming for the substance of what it contains, which is a  
2 suggested methodology to implement the order which you are  
3 right now considering whether or not what is in your PAA order  
4 and its implementation is appropriate or not.

5 If your staff thought that this was an appropriate  
6 exhibit for your consideration, I believe they needed to have a  
7 witness to sponsor it. They needed to have somebody stand for  
8 cross examination. We have heard some discussion already, I  
9 believe Mr. Burgess mentioned this about the fact that on the  
10 last page we are talking about estimating gains. All of these  
11 are matters that are before you now. And I don't think that  
12 this document can be offered as any sort of evidence in regard  
13 to how you need to implement the decision that comes out of  
14 this case.

15 As I said, that would have been appropriate if there  
16 had been a witness to sponsor it, to cross-examine that witness  
17 on the issues that are raised in this memorandum. So it's not  
18 an issue of authenticity of the document. It goes to the truth  
19 for which the document is offered, and it is inappropriate  
20 without a witness.

21 MR. CHILDS: I'm sorry, I don't need to pursue that,  
22 although I did ask as to whether we could obtain a stipulation  
23 as to authenticity, and I think I was told no, but we will move  
24 on. I would ask that it be marked for identification and then  
25 I wish to address the comments about the admissibility of it.

1 CHAIRMAN JACOBS: Very well.

2 MR. CHILDS: I haven't moved that yet, but I will.

3 CHAIRMAN JACOBS: We will do that at the time you  
4 move it. The memorandum is separate from the prehearing order.

5 MR. CHILDS: Okay.

6 CHAIRMAN JACOBS: I'm sorry.

7 MR. CHILDS: I'm sorry, I spoke before you finished.  
8 Had you identified the --

9 CHAIRMAN JACOBS: No, we will mark the September 20,  
10 2000 memorandum from FPSC staff to the parties as Exhibit 3.

11 COMMISSIONER JABER: It's from whom, Mr. Chairman?

12 CHAIRMAN JACOBS: Commission staff to the parties of  
13 record in this docket, in the 01 docket, I'm sorry.

14 MR. CHILDS: Okay. Then I will call my witness, Ms.  
15 Dubin.

16 CHAIRMAN JACOBS: Did you want to mark the prehearing  
17 order, as well?

18 MR. CHILDS: I do. I would mark that, as well.

19 CHAIRMAN JACOBS: We will mark that as Exhibit 4.

20 MR. CHILDS: Okay.

21 (Exhibits 3 and 4 marked for identification.)

22 K. M. DUBIN

23 was called as a witness on behalf of Florida Power and Light,  
24 and, having been duly sworn, testified as follows:

25 DIRECT EXAMINATION

1 BY MR. CHILDS:

2 Q Ms. Dubin, have you been previously sworn?

3 A Yes.

4 Q Would you state your name and address please?

5 A My name is Korel Dubin, my business address is 9250  
6 West Flagler Street, Miami, Florida 33174.

7 Q By whom are you employed and in what capacity?

8 A I am employed by Florida Power and Light Company as  
9 Manager of Regulatory Issues in the Regulatory Affairs  
10 Department.

11 Q You have before you a document entitled before the  
12 Florida Public Service Commission, Florida Power and Light  
13 Company, testimony of Korel M. Dubin, Docket Number 010283-EI?

14 A Yes, I do.

15 Q Was that prepared by you as your testimony for this  
16 proceeding?

17 A Yes, it was.

18 MR. CHILDS: Mr. Chairman, I would also note that  
19 attached to this testimony of Ms. Dubin is a copy of Order  
20 Number 001744 as Appendix A, and I would like that that be  
21 marked as well, please, or identified?

22 CHAIRMAN JACOBS: This is the appendix to the order?

23 MR. CHILDS: It is an appendix to her testimony, so  
24 it is something separate. It is an order adopting the  
25 incentive proposal. And I think that would be Exhibit 5.



1 CHAIRMAN JACOBS: Show that marked as Exhibit 5.  
2 (Exhibit 5 marked for identification.)

3 BY MR. CHILDS:

4 Q Do you have any changes or corrections to make to  
5 your testimony?

6 A No, I do not.

7 Q Do you adopt it as your testimony?

8 A Yes, I do.

9 Q Would you turn to Page 7 of your testimony?

10 A Yes.

11 Q And in that discussion would you agree that in your  
12 answer to the question beginning at Line 3 that you identify  
13 the staff memorandum dated September 2000 as containing the  
14 implementation procedures that you propose be followed in this  
15 docket?

16 A Yes.

17 Q And is the memorandum that you referred to in your  
18 testimony the same as the memorandums that have been identified  
19 now as Exhibits 3 and 4?

20 A Yes.

21 MR. CHILDS: I would ask that the prepared testimony  
22 of Ms. Dubin be inserted into the record.

23 CHAIRMAN JACOBS: Without objection, show the  
24 prefiled testimony of Ms. Dubin is entered into the record as  
25 though read.

1                                   **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2                                   **FLORIDA POWER & LIGHT COMPANY**

3                                   **TESTIMONY OF KOREL M. DUBIN**

4                                   **DOCKET NO. 010283-EI**

5                                   **April 23, 2001**

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

8   A.     My name is Korel M. Dubin, and my business address is 9250 West Flagler  
9           Street, Miami, Florida, 33174. I am employed by Florida Power & Light  
10          Company (FPL) as the Manager of Regulatory Issues in the Regulatory  
11          Affairs Department.

12  
13   **Q.     Please state your education and business experience?**

14   A.     I received a Bachelor of Arts in Political Science from Emory University in  
15           1980 and in 1982 I received a Master of Business Administration from Barry  
16           University. In June 1982, I joined Florida Power and Light Company's Fossil  
17           Fuel Section of the Fuel Resources Department. From 1982 through 1985  
18           my responsibilities included administration of fuel supply and operations  
19           contracts, development of procurement procedures, research/analysis of  
20           transportation options and by-product sales, and support for regulatory filings.  
21           In December of 1985 I joined the Rates and Research Department as a Rate  
22           Analyst. Since 1985, I have held various positions of increasing responsibility  
23           in the Rates and Research Department and the Regulatory Affairs  
24           Department and my primary responsibilities have been in the area of the

1 adjustment clause filings. In June 2000 I became Manager of Regulatory  
2 Issues in the Regulatory Affairs Department where I am primarily responsible  
3 for the coordination, development, and preparation of the Company's Fuel,  
4 Capacity and Environmental Cost Recovery filings. I am a company witness  
5 in the clause dockets and I have also testified in Docket No. 991779-EI  
6 entitled Review of the Appropriate Application of Incentives to Wholesale  
7 Power Sales by Investor Owned Utilities.

8

9 **Q. What is the purpose of your testimony in this proceeding?**

10 A. The purpose of my testimony is to address the reasonableness and  
11 justification for the actions taken by the Commission in Part III of Order No.  
12 PSC-00-1744-PAA-EI in the Incentive Docket No. 991779-EI. (Order No.  
13 PSC-00-1744-PAA-EI is attached as Appendix A to my testimony). My  
14 testimony also addresses how the Commission's decision in Docket No.  
15 991779-EI concerning the application of incentives to wholesale power sales  
16 should be implemented.

17

18 **Q. What action was taken by the Commission in Part III of Order No. PSC-**  
19 **00-1744-PAA-EI?**

20 A. In Part III of Order No. PSC-00-1744-PAA-EI the Commission provided the  
21 method for calculating gains on non-separated wholesale power sales and the  
22 accounting treatment for revenues and expenses associated with non-  
23 separated wholesale power sales. Part III of the Order was issued as a  
24 Proposed Agency Action and as such was the only portion of the Order that

1 could be protested. The Florida Industrial Power Users Group (FIPUG) and  
2 Gulf Power Company have protested Part III of the Order.

3

4 **Q. What other actions were taken by the Commission in Order No. PSC-00-**  
5 **1744-PAA-EI and how do these actions compare with what was done**  
6 **with shareholder incentives in the past?**

7

8 A. In Order No. PSC-00-1744-PAA-EI, the Commission also addressed the  
9 appropriateness, structure, and level of shareholder incentives, as well as the  
10 sales that are eligible for shareholder incentives. These actions are final and  
11 not subject to protest.

12

13 The actions taken by the Commission in Order No. PSC-00-1744-PAA-EI  
14 represent the evolution of a long-standing Commission practice of promoting  
15 the efficiency of operation by a utility, the realization and maximization of  
16 gains on non-separated wholesale power sales, and the sharing of these  
17 gains with retail customers. In the Order, the Commission reaffirms this long-  
18 standing practice. However, the Commission also acknowledges that the  
19 wholesale market in Florida has changed since 1984 when the incentive  
20 mechanism was first established in Order No. 12923 and modified the  
21 incentive mechanism accordingly. In approving the modified incentive  
22 mechanism the Commission stated that:

23

“we find that the incentive program established in Order No. 12923  
24 should not be eliminated, but should be modified to provide an

1 appropriate incentive structure that reflects the changes in the wholesale  
2 market and the electric industry that have occurred since Order No.  
3 12923 was issued and maximizes the potential benefits to ratepayers  
4 accordingly.”

5  
6 **Q. Specifically, what does Part III of Order No. PSC-00-1744-PAA-EI state**  
7 **about the methodology for calculating the gains on non-separated**  
8 **wholesale power sales?**

9 A. In Part III of the Order the Commission states "Accordingly, we find that each  
10 IOU shall measure the gain from its non-separated wholesale power sales by  
11 subtracting the sum of its incremental costs from the revenue received for each  
12 sale. Further, we find that the calculation of incremental costs for these sales  
13 shall include, but not be limited to: incremental fuel cost, incremental SO<sub>2</sub>  
14 emission allowance cost, incremental O&M cost, and separately-identified  
15 transmission or capacity charges.”

16  
17 **Q. Why is this a reasonable and appropriate methodology for calculating**  
18 **the gains on non-separated wholesale power sales?**

19 A. A gain on a non-separated wholesale power sale transaction occurs when the  
20 amount collected for the transaction is over and above the cost of the  
21 transaction. The use of incremental cost, including incremental fuel cost, is the  
22 proper basis and accepted measurement of cost incurred for the transaction.  
23 Furthermore, this calculation, where the gain is calculated by subtracting the  
24 incremental cost incurred for the transaction from the revenues received for  
25 the transaction, is consistent with the well-established manner in which gains on

1 sales have historically been calculated.

2

3 **Q. Specifically, what does Part III of Order No. PSC-00-1744-PAA-EI state**  
4 **about the accounting treatment for the revenue and expenses**  
5 **associated with non-separated wholesale power sales?**

6 A. The Commission states in Part III of the order that:

7 "In addition, we find that the following regulatory treatment for the  
8 revenues and expenses associated with each non-separated wholesale  
9 power sale is appropriate:

- 10 1. Each IOU shall credit its fuel and purchased power cost recovery  
11 clause for an amount equal to the incremental fuel cost of  
12 generating the energy for each such sale;
- 13 2. Except for FPC, each IOU shall credit its environmental cost  
14 recovery clause for an amount equal to the incremental SO<sub>2</sub>  
15 emission allowance cost of generating the energy for each such  
16 sale. FPC, because it does not have an environmental cost  
17 recovery clause, shall credit this cost to its fuel and purchased  
18 power cost recovery clause;
- 19 3. Each IOU shall credit its operating revenues for an amount equal  
20 to the incremental operating and maintenance (O&M) cost of  
21 generating the energy for each such sale; and
- 22 4. In accordance with Order No. PSC-99-2512-FOF-EI, issued  
23 December 22, 1999, in Docket No. 990001-EI, each IOU shall  
24 credit its capacity cost recovery clause for an amount equal to any

1 transmission revenues or separately identifiable capacity  
2 revenues.”

3

4 **Q. Why is this regulatory treatment of revenues and expenses associated**  
5 **with non-separated wholesale power sales reasonable and appropriate?**

6 A. This treatment is reasonable and appropriate in that it is consistent with well  
7 established practices whereby gains from non-separated wholesale power sales  
8 transactions have been flowed back to customers through the Fuel Cost  
9 Recovery Clause. In Part III of the Order, the Commission, recognizing that  
10 there has to be a way to identify, review, and audit these transactions, simply  
11 provides a way to account for revenue and expenses associated with non-  
12 separated wholesale sales matching revenue and expenses with recovery  
13 mechanisms.

14

15 **Q. Is your testimony addressing the substance of any protests of Part III of**  
16 **Order No. PSC-00-1744-PAA-EI?**

17 A. No. As stated previously, FPL believes that the Commission’s actions taken in  
18 Part III of Order No. PSC-00-1744-PAA-EI regarding the method for  
19 calculating gains on non-separated wholesale power sales and the regulatory  
20 treatment for revenues and expenses associated with non-separated  
21 wholesale power sales are reasonable, appropriate and consistent with  
22 historic treatment. However, FPL anticipates that the parties will be filing  
23 testimony in this docket and, in accordance with Order PSC-01-0517-PCO-EI  
24 dated March 5, 2001, Establishing Procedure in this Docket, FPL will have an

1 opportunity to address any other issues in rebuttal testimony if necessary.

2

3 **Q. How should the Commission implement its decision in Docket No. 991779-**  
4 **EI concerning the application of incentives to wholesale power sales?**

5 A. In Order No. PSC-00-1744-PAA-EI the Commission decided to allow the utilities  
6 to split (80% to customers and 20% to shareholders) any gains on non-  
7 separated wholesale power sales that exceed a threshold based on a three-year  
8 average of gains. Consistent with our position presented in the Fuel Docket, FPL  
9 believes that the Commission's decision should be implemented by using the  
10 methodology proposed by Staff in their memorandum dated September 20,  
11 2000. Staff proposes that the first two and one half years used in the calculation  
12 of the average would be the actual gains for those years and the final six months  
13 would be estimated. This data is to be supplied with the utilities' fuel projection  
14 filings. Later, the threshold of gains on off system sales is to be updated with  
15 actual gains for the balance of the third year and filed as part of the fuel true up  
16 testimony. Gains on sales are to be measured against this three-year average  
17 threshold. FPL believes this approach is appropriate.

18

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

20 A. Yes, it does.



1 MR. CHILDS: And I will tender her for cross  
2 examination.

3 CHAIRMAN JACOBS: Mr. Beasley, any cross?

4 MR. BEASLEY: No questions, sir.

5 CHAIRMAN JACOBS: Mr. Badders.

6 MR. BADDERS: No questions.

7 MR. McGEE: No questions.

8 CHAIRMAN JACOBS: Ms. Kaufman.

9 MS. KAUFMAN: Thank you, Mr. Chairman.

10 CROSS EXAMINATION

11 BY MS. KAUFMAN:

12 Q Good morning, Ms. Dubin.

13 A Good morning.

14 Q Let's just turn first to the memorandum and get that  
15 out of the way that has been identified as Exhibit Number 3.  
16 Were you the author of this memorandum?

17 A No, I was not.

18 Q And would it be correct that you received this  
19 memorandum, as did the other parties, by transmittal from Mr.  
20 Keating?

21 A Yes, after meeting with him.

22 Q Ms. Dubin, you were here during my discussion with  
23 Mr. Portuondo for FPC, weren't you?

24 A Yes, I was.

25 Q Okay. I just want to ask you a similar question to

1 what I asked him, and that has to do with if -- well, let me  
2 ask you this first. Are you aware of any instances where FPL  
3 is selling its generation from its own system and then  
4 simultaneously purchasing wholesale power to serve its retail  
5 load?

6 A There may be some instances of that, but not very  
7 often.

8 Q But it could occur from time to time?

9 A Well, Ms. Kaufman, usually in a situation like that  
10 you may be in a capacity shortfall. And in those situations  
11 all of Florida Power and Light's nonseparated sales are all  
12 recallable. So if you had a situation where you had an energy  
13 shortfall and you had to go out and buy power, you would cut  
14 the sale before you would buy the power.

15 Q So I guess what you just told us, that's Florida  
16 Power and Light's policy how it would manage its resources in  
17 that situation?

18 A Yes.

19 Q Let's just do a hypothetical, and let's assume that  
20 you are in what we have called this simultaneous purchase and  
21 sale situation, that you were purchasing -- the power you were  
22 purchasing from the wholesale market was at a higher price than  
23 your generation. Would you agree that that higher-priced power  
24 would be included in the calculation of the costs for purposes  
25 of calculating the gain that we are here discussing?

1           A     Well, if we were making a purchase to specifically  
2 make a sale, we would use that purchased power cost as the  
3 incremental cost.

4           Q     I'm sorry, can you repeat that again?

5           A     If we were making a purchase to specifically make a  
6 sale, we would use that purchase as the incremental cost of the  
7 sale.

8           Q     I'm struck by the word specifically, so --

9           A     Well, if we could buy power and sell power and the  
10 intent was to buy that power in order to sell it, you would use  
11 that purchased power, the cost of that to make the sale.

12          Q     Well, what if you were in the situation like I  
13 discussed with Mr. Portuondo, where you had an unexpected  
14 forced outage and you had to purchase on the wholesale market  
15 in order to serve your retail load, and that purchase was the  
16 highest priced power on your system at that time?

17          A     In that instance we would cut the sale. The sale is  
18 recallable.

19          Q     So all of your sales of that type are recallable?

20          A     All of our nonseparated sales are short-term  
21 recallable sales, nonfirm.

22          Q     You don't address in your testimony the O&M issue, do  
23 you, or did I miss that? The calculation of incremental O&M in  
24 terms of how we figure out the gain?

25          A     I do a bit, just that it is a way for -- the order

1 1744 is a way for the -- it provides a simple way to  
2 calculate -- to account for the revenues and expenses and to  
3 match them up with the appropriate recovery mechanism.

4 Q Do you have -- does FPL have a methodology by which  
5 it calculates what the incremental O&M costs of those  
6 transactions is?

7 A We have some instances where we have some sales  
8 transactions where there is a specific incremental cost, and  
9 that is when a sale is made out of one of our gas turbine  
10 units. And in that case we can specifically identify when the  
11 sale is coming out of those units and we account for that  
12 specific maintenance on those units. Those units are intended  
13 to run for a very short period of time. And so when you are  
14 making the sales out of those units there is an incremental  
15 cost for that.

16 Q What about a sale from a nongas turbine unit?

17 A No, we don't.

18 Q No, you don't have a methodology, or, no, you don't  
19 calculate O&M?

20 A We don't calculate any incremental O&M on that.

21 Q So there is no charge to retail ratepayers if there  
22 is a sale at one of those units for incremental O&M of making  
23 the sale?

24 A When we are calculating the price of the sale, it is  
25 fuel cost.

1 Q Fuel cost only?

2 A Only.

3 Q Okay. I asked Mr. Portuondo this, but have you  
4 reviewed the methodologies that the other utilities have  
5 submitted in regard to how they do their O&M calculations?

6 A I think the only thing is that they include it in  
7 base and we weren't currently including that one GT maintenance  
8 part in fuel.

9 Q Well, if you have looked at what the other utilities  
10 have submitted, is it your view that all the utilities are  
11 making the calculation in the same way?

12 A I guess I'm not sure. I'm not sure that it is in  
13 that depth for me to make that determination.

14 Q So is it your answer that you don't know?

15 A Yes.

16 MS. KAUFMAN: Thank you. That's all I have,  
17 Commissioners.

18 CHAIRMAN JACOBS: Mr. Burgess.

19 CROSS EXAMINATION

20 BY MR. BURGESS:

21 Q Ms. Dubin, if I could return to the example that Ms.  
22 Kaufman was talking about and just make sure that I can  
23 understand this perhaps relative to Florida Power Corp's  
24 treatment of it. With regard to the sale and, again, let's  
25 ignore for the time being the gas turbine, whether it is from

1 gas turbine, let's say it comes from another unit other than a  
2 gas turbine.

3 A Okay.

4 Q If you have a sale at 30 and incremental O&M expense  
5 might be estimated to be 5, and your incremental fuel is 20,  
6 what would you use as the gain for purposes of crediting that  
7 into the fuel adjustment clause?

8 A Your cost is 30?

9 Q Yes. The amount that you sold it for was 30.

10 A Okay. Your price is 30 --

11 Q Your price is 30, your incremental fuel cost is 20,  
12 your O&M expense -- non-GT O&M expense incremental is 5?

13 A We wouldn't have any increment non-GT expense. That  
14 would be the only incremental O&M expense we would have in that  
15 sale.

16 Q So in that case you would recognize a gain of 10 that  
17 would be credited?

18 A Yes.

19 Q And any O&M expense that may be incremental would  
20 simply be recovered through your base rates, is that correct?

21 A With the exception of the GTs, yes.

22 Q Now, are you familiar with the language in Order  
23 1744?

24 A Yes, I am.

25 Q And one of the things that it that included in its

1 language for calculating gain is a term that said our  
2 incremental costs would include, and then said but not be  
3 limited to. Do you know what would be incorporated in this  
4 catch-all phrase that is not incorporated in the specifics that  
5 follow that phrase?

6 A No.

7 Q Do you include anything other than those that are  
8 identified in the calculation of the gain?

9 A No, except I guess where I would specifically -- I'm  
10 sorry, does it say -- just one minute.

11 Mr. Burgess, can you tell me what page you're on in  
12 the order?

13 Q I have pulled mine out of a PSC reporter. So it's on  
14 423. Page 12.

15 MR. CHILDS: Excuse me, would you tell me where you  
16 are referring, again?

17 MR. BURGESS: I am referring to the second -- the  
18 bottom of the second paragraph under Section Roman numeral III  
19 of Order 1744 that is found on Page 12 of that order.

20 MR. CHILDS: Thank you.

21 MR. BURGESS: The sentence beginning, "Further, we  
22 find that the calculation of incremental costs for these sales  
23 shall include but not be limited to."

24 THE WITNESS: Well, I guess in the example that I  
25 mentioned where you are making a purchase to specifically make

1 a sale, that purchased power cost is your incremental fuel  
2 cost.

3 BY MR. BURGESS:

4 Q So then what you would say, though, is that concept  
5 which you have just cited to is incorporated in the term  
6 incremental fuel cost?

7 A Yes.

8 Q And do you see any reason that the calculation cannot  
9 be limited to those items that are specified?

10 A I can't think of an instance at this time that would  
11 prohibit that.

12 Q The policy that Florida Power and Light has on making  
13 all nonseparated sales recallable, is that a written policy?

14 A I'm not sure.

15 Q Were you involved in the creation of that policy?

16 A No.

17 Q Is there a statement or are you aware of why that  
18 policy exists, can you articulate a reason for having that  
19 policy?

20 A Our sales are nonfirm sales. It is the types of  
21 sales that we make. I guess that is basically what I know  
22 about it.

23 MR. BURGESS: Okay. Thank you, Ms. Dubin. That's  
24 all.

25 CHAIRMAN JACOBS: Staff.



## CROSS EXAMINATION

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BY MR. KEATING:

Q Ms. Dubin, when FPL economically dispatches its resources to serve its load, does it distinguish between resource from its own generation and resources purchased from other generation sources?

A No.

Q Assuming that FPL has made a sale of 50 megawatts of wholesale energy for one hour, if FPL must currently purchase power from another generation source to serve the last 50 megawatts of its total load, is the energy cost of the purchased power the incremental energy cost of FPL's 50-megawatt wholesale energy sale?

A Yes.

MR. CHILDS: I'm having trouble hearing you.

MR. KEATING: Would you like for me to repeat the question?

MR. CHILDS: No.

BY MR. KEATING:

Q Again, assuming that Florida Power and Light has made a 50-megawatt sale of wholesale energy for one hour, if FPL can currently purchase this power from another generation source to serve part of its total load, but in terms of an economic dispatch, not the last 50 megawatts of its total load, is the energy cost of the purchased power the incremental energy cost

1 of FPL's 50-megawatt sale?

2 A Mr. Keating, could you repeat that, please.

3 Q Certainly. The assumption for purposes of the  
4 question is that FPL has made a 50-megawatt wholesale  
5 increasing sale for one hour. And if it concurrently purchase  
6 this power from another generation source to serve part of its  
7 total load, but in terms of the dispatch -- the dispatch price  
8 it is not -- I'm not sure if I'm saying this correctly -- it's  
9 not the last 50 megawatts of its total load, is the energy cost  
10 of the purchased power the incremental energy cost of the 50  
11 megawatt sale?

12 A It is the incremental cost.

13 Q If the Commission orders each utility to credit  
14 operating revenues with an amount equal to the O&M expense  
15 associated with a nonseparated wholesale energy sale, would  
16 that order create a double recovery of those O&M expenses for  
17 FPL?

18 A No. I believe that there is an attempt to make  
19 consistent treatment of those -- of incremental O&M, and FPL  
20 currently includes it in the fuel clause. And as our position  
21 reflects, we would include those in base and the net effect is  
22 zero.

23 Q Are the gains and losses on nonseparated wholesale  
24 sales aggregated for purposes of reporting on FPL's monthly A  
25 Schedules?

1 A Yes, they are reported on the A6 Schedule.

2 Q Do the sum of the gains and losses equal the net gain  
3 that the shareholder incentive would apply to?

4 COMMISSIONER JABER: I really want to hear your  
5 questions, so you need to get right in the microphone and speak  
6 out loud.

7 MR. KEATING: I apologize, I'm trying. I'm slightly  
8 under the weather this morning.

9 Commissioner Jaber, would you like for me to repeat  
10 the last question?

11 COMMISSIONER JABER: Yes.

12 BY MR. KEATING:

13 Q If the Commission orders each utility to credit  
14 operating revenues with an amount equal to the O&M expenses of  
15 a nonseparated wholesale energy sale, would that order create a  
16 double recovery of those O&M expenses for Florida Power and  
17 Light?

18 A No.

19 Q I'm sorry, I may have gone back two questions, or  
20 three. For purposes of making sure we get all of these clearly  
21 on the record, I will go ahead and ask the next two I think I  
22 have asked before.

23 Are the gains and losses of nonseparated wholesale  
24 sales aggregated for purposes of reporting on FPL's monthly A  
25 Schedules?

1 A Yes, they are.

2 Q Do the sum of the gains and losses equal the net gain  
3 that the shareholder incentive would apply to?

4 A Yes.

5 Q I'm going to go back to a question I asked earlier  
6 and perhaps try to clarify it. I'm not sure that I asked it as  
7 clearly as I could have. This was the question where the  
8 assumption is that FPL is making a 50-megawatt wholesale energy  
9 sale for one hour, and FPL concurrently purchases power from  
10 another generation source to serve part of its total load. And  
11 perhaps to clarify the assumptions, the power purchase from  
12 that generation source would be dispatched before other FPL  
13 generation that would be used to serve its total load at that  
14 time. Based on that assumption, is the energy cost of the  
15 purchased power the incremental energy cost of FPL's  
16 50-megawatt sale?

17 A I'm sorry, is the cost of the purchased power or the  
18 cost of the sale? I'm sorry, Cochran, I didn't --

19 Q In that example is the cost of the purchased power  
20 FPL's incremental cost?

21 A If it is not purchased to make a sale, no.

22 Q Okay. I just have a few questions concerning I  
23 believe what is identified as Exhibit 3, and that is the  
24 September 20th staff memorandum. I assume you have read it and  
25 are familiar with it?

1 A Yes.

2 Q And in your testimony at Page 7, Line 8, you state  
3 that consistent with our position presented in the fuel docket,  
4 FPL believes that the Commission's decision should be  
5 implemented by using the methodology proposed by staff in their  
6 memorandum dated September 20th, 2000, is that correct?

7 A Yes.

8 Q And is the memorandum that is identified as Exhibit 3  
9 the memorandum you are referring to?

10 A Yes, it is.

11 Q Okay. So is it correct that you support the  
12 procedural mechanisms that are set up in that memorandum?

13 A Yes.

14 Q Looking at the bottom of the first page of the  
15 memorandum starting with the --

16 A Mr. Keating, I'm sorry, I don't have one of those in  
17 front of me.

18 Q I'm sorry, I believe we have a copy that we can bring  
19 to you.

20 Looking at the bottom of the first page of the  
21 memorandum, starting with the first numbered paragraph. This  
22 is after the first two numbered paragraphs, Number 1 and 2, and  
23 this is where it picks up with Number 1 again. If I were to  
24 read through what is proposed as a procedural mechanism in  
25 Paragraphs 1 through 7, which ends on Page 3 of the memorandum,

1 would that essentially be the mechanism that you are proposing  
2 in your testimony?

3 A Yes, it is.

4 Q Just one last question. You said you have read it  
5 and are familiar with it, do you understand the proposal that  
6 is set forth in that memorandum?

7 A Yes.

8 Q And if you were asked questions about that proposal,  
9 would you be able to address them?

10 A Yes.

11 MR. KEATING: Thank you.

12 CHAIRMAN JACOBS: I assume we are going to have some  
13 discussion on these exhibits, so before we go to redirect and  
14 come back to the exhibits, why don't we take a break. We will  
15 come back in 15 minutes.

16 (Recess.)

17 CHAIRMAN JACOBS: We will go back on the record.

18 MR. BURGESS: Chairman Jacobs, I am going to ask your  
19 indulgence for one minute. I had implied to Commissioner Jaber  
20 that I would ask questions about the effect of O&M expenses  
21 being included in base rates on a couple of points that the  
22 Commissioner had raised, and I would ask if I would be able to  
23 add two questions to my cross examination.

24 CHAIRMAN JACOBS: Okay. Go right ahead.

25 CONTINUED CROSS EXAMINATION

1 BY MR. BURGESS:

2 Q Ms. Dubin, does Florida Power and Light's inclusion  
3 of the incremental O&M expenses in base rates significantly  
4 diminish the motivation Florida Power and Light has to make  
5 nonseparated off-system sales?

6 MR. CHILDS: I'm going to object to that question on  
7 the basis that I don't think it has been established that  
8 incremental O&M is included in base rates.

9 MR. BURGESS: Okay. If I may, I will rephrase the  
10 question to -- because that's not a controversy that really  
11 matters to the point of my question.

12 BY MR. BURGESS:

13 Q Does the fact that Florida Power and Light does not  
14 seek to have incremental O&M expense other than the gas turbine  
15 expenses recovered through fuel adjustment clause, does that  
16 fact significantly diminish Florida Power and Light's  
17 motivation to make these off-system sales?

18 A No. I think, to put it in perspective, incremental  
19 GT maintenance runs about \$950,000 a year. And we are talking  
20 about our gains for 2000 were almost 40 million.

21 Q If Florida Power and Light does include them or  
22 choose to include them in the incremental O&M expenses that are  
23 not recovered in the fuel adjustment, instead are incorporated  
24 in base rates, does that generate a significant need for base  
25 rate cases that otherwise wouldn't be necessary?

1           A     No. You would put the expenses and revenues together  
2 and the net effect is zero.

3           MR. BURGESS: Thank you, Ms. Dubin. Thank you very  
4 much, Mr. Chairman.

5           CHAIRMAN JACOBS: Very well. Commissioners, any  
6 questions? Redirect.

7           MR. CHILDS: I have several.

8                                 REDIRECT EXAMINATION

9 BY MR. CHILDS:

10          Q     Ms. Dubin, would you look to the September 20, 2000  
11 memorandum that you have discussed previously.

12          A     I have it in front of me.

13          Q     You were asked, I believe, whether you received this  
14 memorandum by transmittal from Mr. Keating like everyone else  
15 did. I believe a question to that effect, do you recall it?

16          A     Yes.

17          Q     Do you recall the purpose of the transmittal of this  
18 memo to the parties in the docket?

19          A     Yes. At the end of the other proceeding the  
20 Commissioners asked that the parties get together, the staff  
21 get together with the parties to come up with an  
22 implementation, and staff put this memorandum together to  
23 memorialize what had been discussed.

24          Q     Would you turn to Page 3 of that memorandum and look  
25 at the closing sentence.



1 A Okay.

2 Q It reads if you have any questions or comments  
3 concerning staff's proposal please contact, and then it  
4 continues. Do you recall Florida Power and Light having made  
5 any contact to the staff about this methodology?

6 A No.

7 Q Do you recall anyone else making contact with the  
8 staff and communicating it to you about their concern or their  
9 suggested changes to the staff methodology?

10 A No.

11 Q As to the methodology that you address in your  
12 testimony, would you agree that the methodology that you are  
13 addressing begins with numbered Paragraph 1 at the bottom of  
14 Page 1 of the memo?

15 A Yes.

16 Q And continues through Paragraph Number 7 on Page 3 of  
17 the memorandum?

18 A Yes.

19 Q Would you look to the Order PSC-001744 for a moment  
20 at Page 12?

21 A Okay.

22 Q And look to the numbered Paragraph 1 at the bottom of  
23 the page?

24 A Okay.

25 Q That is the subject of Issue 2 in this hearing, is it

1 not?

2 A Yes, it is.

3 Q Would you look at the word incremental fuel cost in  
4 that paragraph for a moment?

5 A Okay.

6 Q Does Florida Power and Light Company routinely  
7 include the cost of fuel for purchased power in the fuel  
8 adjustment clause computation?

9 A Yes, it does.

10 Q And it includes the fuel cost of its own generation  
11 in the computation of the fuel adjustment charges?

12 A Yes, it does.

13 Q So this is nothing different in terms of a procedure,  
14 is it?

15 A No.

16 Q As to the incremental cost, what does FPL use the  
17 incremental cost for in its operations? And by incremental  
18 cost of fuel, I mean as used in this order that we are just  
19 referring to.

20 A It is used to calculate the price of a sales  
21 transaction that is used for dispatch.

22 Q And how is it used for dispatch?

23 A It is used to determine the cost of the next megawatt  
24 hour.

25 Q Can you tell me its use, if any, associated with

1 either purchases from other utilities or sales to other  
2 utilities?

3 A It is used to determine the cost of the sales and the  
4 cost-effectiveness of the purchase.

5 Q And if you knew -- if FPL knew that it was going to  
6 have a unit go off-line in the future, if it knew that, that  
7 would be the cost -- and it had to purchase power, then that  
8 would be the cost it would use for a possible off-system sale,  
9 is that right?

10 A Yes.

11 Q But if it doesn't know that, then it's going to use  
12 its own incremental cost for purposes of pricing?

13 A Yes.

14 Q And does the utility when it makes an off-system sale  
15 always attempt to achieve a purchase price that exceeds its  
16 estimate of fuel cost?

17 A Yes, that's why we make them.

18 Q Has FPL proposed to adjust the gain so that if it  
19 makes a purchase off-system at a price that is less than its  
20 incremental cost that the gain would be increased?

21 A No.

22 MR. CHILDS: That's all.

23 CHAIRMAN JACOBS: Exhibits.

24 MR. CHILDS: I had the list here. I think it is --  
25 no, excuse me, 2 --

1 CHAIRMAN JACOBS: Actually it is 3, 4 and 5.

2 MR. CHILDS: Two, 3, and 4?

3 CHAIRMAN JACOBS: Three, 4, and 5.

4 MR. CHILDS: Three, 4, and 5. I want to comment on  
5 the memorandum for a moment. Objection was made to these on  
6 the basis that Ms. Dubin didn't author it. And I think that is  
7 clear that she didn't author it, but she did adopt the  
8 methodology in the memorandum as the methodology that she  
9 recommended, and this memorializes what that methodology is.

10 MS. KAUFMAN: Mr. Chairman, I don't mean to interrupt  
11 or cut Mr. Childs off, but --

12 MR. CHILDS: But you did.

13 MS. KAUFMAN: I did. But I was just going to  
14 hopefully shorten this and let you know that we will withdraw  
15 our objection to the memorandum since there seems to be so much  
16 interest in it, so long as Mr. Kordecki has the opportunity to  
17 comment on it when he takes the stand.

18 MR. CHILDS: I will move them into evidence then, all  
19 of the exhibits for Ms. Dubin.

20 CHAIRMAN JACOBS: Okay. Any other objections? And  
21 there were no objections to the other two exhibits?

22 MS. KAUFMAN: No, Mr. Chairman.

23 CHAIRMAN JACOBS: So then show Exhibits, 3, 4, and 5  
24 are admitted into the record.

25 (Exhibits 3, 4, and 5 admitted into the record.)

1           CHAIRMAN JACOBS: I had a question kind of going to  
2 the last round of questioning. All parties did have an  
3 opportunity to raise any issues with regard to the memo, and I  
4 assume if one had wanted to engage in discovery with regard to  
5 the memo that you had that opportunity, as well?

6           MS. KAUFMAN: Well, Mr. Chairman, I'm not sure whom  
7 we would have asked about it since it had no sponsoring  
8 witness, but I think we have gotten past that anyway by  
9 withdrawing our objection to it.

10          CHAIRMAN JACOBS: Okay. Very well.

11          Thank you, Ms. Dubin. You are excused.

12          THE WITNESS: Thank you.

13          CHAIRMAN JACOBS: Gulf.

14          MR. BADDERS: It appears the next witness would be  
15 Witness Ritenour. Her prefiled direct testimony only addresses  
16 Issue Number 1. We had listed her for Issue 4 only insofar as  
17 to say we can agree with staff's position on Issue 4. I have  
18 discussed that with the other parties, and it is my  
19 understanding no one has questions for Ms. Ritenour.

20          CHAIRMAN JACOBS: That being the case, then we can  
21 stipulate Ms. Ritenour's testimony into the record. Do you  
22 want to offer it, Mr. Badders?

23          MR. BADDERS: Thank you.

24          MR. BEASLEY: Commissioners, we would request calling  
25 Mr. Brown ahead of Ms. Jordan, and I have mentioned that to the

1 parties.

2 CHAIRMAN JACOBS: Before we do that, let's make sure  
3 we insert Ms. Ritenour's testimony into the record.

4 MR. BADDERS: We offer it to be stipulated into the  
5 record as though read. There are no changes to that.

6 CHAIRMAN JACOBS: Without objection, show Ms.  
7 Ritenour's testimony is entered into the record.

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## 1 GULF POWER COMPANY

2 Before the Florida Public Service Commission

3 Direct Testimony of

4 Susan D. Ritenour

5 Docket No. 010283-EI

6 Date of Filing: April 20, 2001

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

9 A. My name is Susan Ritenour. My business address is One  
10 Energy Place, Pensacola, Florida 32520. I hold the  
11 position of Assistant Secretary and Assistant  
12 Treasurer for Gulf Power Company. In this position, I  
13 am responsible for supervising the Rates and  
14 Regulatory Matters Department.

15 Q. Please briefly describe your educational background  
16 and business experience.

17 A. I graduated from Wake Forest University in  
18 Winston-Salem, North Carolina in 1981 with a Bachelor  
19 of Science Degree in Business and from the University  
20 of West Florida in 1982 with a Bachelor of Arts Degree  
21 in Accounting. I am also a Certified Public  
22 Accountant licensed in the State of Florida. I joined  
23 Gulf Power Company in 1983 as a Financial Analyst.  
24 Prior to assuming my current position, I have held  
various positions with Gulf including Computer

1 Modeling Analyst, Senior Financial Analyst, and  
2 Supervisor of Rate Services.

3 My responsibilities include supervision of:  
4 tariff administration, cost of service activities,  
5 calculation of cost recovery factors, the regulatory  
6 filing function of the Rates and Regulatory Matters  
7 Department and various treasury activities.

8

9 Q. What is the purpose of your testimony?

10 A. The purpose of my testimony is to support Gulf Power  
11 Company's request for an exception to the Commission's  
12 proposed regulatory treatment of the credit for SO<sub>2</sub>  
13 emission allowances related to short-term wholesale  
14 sales through the environmental cost recovery clause  
15 (ECRC). Gulf currently credits these allowance costs  
16 through the fuel and purchased power cost recovery  
17 clause. The amount of this credit is so small as to  
18 be insignificant when compared to the administrative  
19 burden associated with complying with the Commission's  
20 proposed requirement. As a result, Gulf seeks an  
21 exception to the proposed requirement that would allow  
22 the Company to continue providing these credits to  
23 customers through the fuel clause.

24

25



1 Q. Please provide some background on how this issue  
2 developed.

3 A. In late 1999, Docket 991779-EI was established to  
4 review the appropriate application of incentives to  
5 wholesale power sales by investor-owned electric  
6 utilities. A hearing was held on this matter on  
7 May 10, 2000, and the Commission issued Order No.  
8 PSC-00-1744-PAA-EI on September 26, 2000 approving an  
9 incentive mechanism for certain non-separated  
10 wholesale power sales. In that order, the Commission  
11 specified that the gain on non-separated wholesale  
12 sales should be calculated as the difference between  
13 the revenue received for that sale less its  
14 incremental costs, including incremental fuel cost,  
15 incremental SO2 emission allowance cost, incremental  
16 O & M cost, and separately-identified transmission or  
17 capacity charges. The Commission went on to propose  
18 the regulatory treatment for each of these revenue and  
19 incremental expense items. For the incremental SO2  
20 emission allowance costs associated with non-separated  
21 wholesale sales, the Commission proposed that "except  
22 for FPC, each IOU shall credit its environmental cost  
23 recovery clause for an amount equal to the incremental  
24 SO2 emission allowance cost of generating the energy  
25 for each such sale. FPC, because it does not have an

1 environmental cost recovery clause, shall credit this  
2 cost to its fuel and purchased power cost recovery  
3 clause."

4

5 Q. What is the purpose of the stated requirement?

6 A. It appears that the intent of the requirement is to  
7 offset the actual SO2 emission allowance costs  
8 associated with Gulf's generation with a credit to  
9 reflect the allowance costs associated with the short-  
10 term wholesale sales.

11

12 Q. What exception is Gulf requesting in this proceeding  
13 related to this proposed regulatory treatment?

14 A. Gulf agrees that it is appropriate to give the  
15 customers credit for the cost of allowances related to  
16 energy sold through non-separated wholesale sales, and  
17 that for certain utilities the proposed regulatory  
18 treatment may be fair and reasonable. However, for  
19 Gulf Power, it is more appropriate to credit the  
20 incremental SO2 allowance cost associated with non-  
21 separated wholesale sales through the fuel clause  
22 rather than through the ECRC as proposed in Order No.  
23 PSC-00-1744-PAA-EI. Therefore, Gulf is requesting an  
24 exception to this newly proposed requirement.

25

1 Q. Why is it more appropriate for Gulf to credit the SO2  
2 allowance costs associated with non-separated  
3 wholesale sales through the fuel clause?

4 A. The weighted-average cost of Gulf's SO2 allowances is  
5 very low, because most of the allowances we own were  
6 allocated to us by the Environmental Protection Agency  
7 at no cost. Gulf does not purchase allowances on a  
8 regular basis. The total dollar amount of SO2  
9 emission allowance expense related to Gulf's  
10 generation was \$7,302 in 1999 and \$45,136 in 2000.  
11 Only a small fraction of these amounts related to non-  
12 separated wholesale power sales. Total emission  
13 allowance expense makes up less than one percent of  
14 Gulf's environmental costs recoverable through the  
15 ECRC. Gulf is currently crediting the SO2 allowance  
16 costs associated with non-separated wholesale sales  
17 through the fuel clause, along with the incremental  
18 cost of fuel associated with these sales. From an  
19 administrative perspective, it is less burdensome for  
20 Gulf to continue this regulatory treatment than it  
21 would be to change its practices to treat the  
22 allowance cost credit separately through the ECRC.  
23 This is the same regulatory treatment that will be  
24 used by Florida Power Corporation under the  
25 Commission's Order.

1 Q. What impact does this alternative regulatory treatment  
2 have on the cost to each customer?

3 A. The impact is the same on the customer's cost whether  
4 the SO2 allowance costs associated with non-separated  
5 wholesale sales are credited through the fuel clause  
6 or through the ECRC. In both clauses, the costs would  
7 be allocated to customers based on energy. The total  
8 cost per kWh each customer pays would be the same.

9

10 Q. Does this conclude your testimony?

11 A. Yes.

12 (Transcript follows in sequence in Volume 2.)

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1  
 2 STATE OF FLORIDA     )  
 3                             :     CERTIFICATE OF REPORTER  
 4 COUNTY OF LEON        )

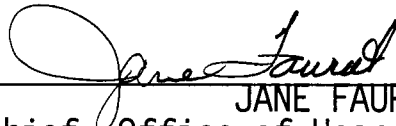
5  
 6             I, JANE FAUROT, RPR, Chief, Office of Hearing Reporter  
 7 Services, FPSC Division of Commission Clerk and Administrative  
 8 Services, do hereby certify that the foregoing proceeding was  
 9 heard at the time and place herein stated.

10            IT IS FURTHER CERTIFIED that I stenographically  
 11 reported the said proceedings; that the same has been  
 12 transcribed under my direct supervision; and that this  
 13 transcript constitutes a true transcription of my notes of said  
 14 proceedings.

15            I FURTHER CERTIFY that I am not a relative, employee,  
 16 attorney or counsel of any of the parties, nor am I a relative  
 17 or employee of any of the parties' attorney or counsel  
 18 connected with the action, nor am I financially interested in  
 19 the action.

20            DATED THIS 10th day of September, 2001.

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 JANE FAUROT, RPR  
 Chief, Office of Hearing Reporter Services  
 PSC Division of Commission Clerk and  
 Administrative Services  
 (850) 413-6732