

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

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

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

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

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VOLUME 5
PAGES 656 THROUGH 754

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN E. LEON JACOBS
COMMISSIONER J. TERRY DEASON
COMMISSIONER LILA A. JABER
COMMISSIONER BRAULIO L. BAEZ
COMMISSIONER MICHAEL A. PALECKI

DATE: Thursday, October 4, 2001

TIME: Commenced at 8:30 a.m.

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

REPORTED BY: JANE FAUROT, RPR
Official FPSC Reporter

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P R O C E E D I N G S

1
2 (Transcript continues in sequence from
3 Volume 4.)

4 CHAIRMAN JACOBS: We are back on the record. And the
5 next witness is Mr. Southwick.

6 Mr. Fama, are you going to present Mr. Southwick?

7 MR. FAMA: Yes.

8 CHAIRMAN JACOBS: You may proceed.

9 HENRY I. SOUTHWICK

10 was called as a witness on behalf of GridFlorida Companies and,
11 having been duly sworn, testified as follows:

D I R E C T E X A M I N A T I O N

12
13 BY MR. FAMA:

14 Q Please state your name.

15 A My name is Henry Southwick.

16 Q And you have appeared in this hearing already as part
17 of the panel, is that correct?

18 A That is correct.

19 Q And on whose behalf are you appearing at this time?

20 A I am appearing on behalf of the joint applicants.

21 Q Mr. Southwick, I call your attention to your prefiled
22 testimony and your prefiled exhibits. You have three exhibits,
23 HIS-1, HIS-2, and HIS-3?

24 A Yes, that is correct.

25 Q Were the prefiled testimony and the three exhibits

1 prepared under your direction and control?

2 A Yes.

3 Q And do you adopt this testimony today as your
4 testimony?

5 A Yes, I do.

6 Q Do you have any corrections you need to make in the
7 prefiled testimony or the three exhibits?

8 A No.

9 Q Mr. Southwick, do you have a brief opening summary
10 you would like to make?

11 A Yes. The three GridFlorida companies organized
12 GridFlorida LLC in March 2001 to undertake the initial start-up
13 activities for the RT0. We hired Accenture to develop a
14 blueprint and cost estimates for GridFlorida. Throughout the
15 process the three companies worked closely with Accenture to
16 minimize the expected costs for utilization of existing
17 facilities to the extent possible. No further development work
18 on GridFlorida has occurred since the completion of the
19 blueprint pending the completion of these proceedings.

20 My testimony here establishes that the GridFlorida
21 companies are managing the development of GridFlorida in a
22 prudent manner and that the estimated costs associated with the
23 GridFlorida have been developed in a reasonable and prudent
24 fashion. That's it.

25 MR. FAMA: Thank you, Mr. Southwick.

1 Mr. Chairman, we need to have the three exhibits
2 marked. I believe the next exhibit number is 17.

3 CHAIRMAN JACOBS: Yes. Show marked as a Composite
4 Exhibit HIS-1, 2, and 3, and we will move Mr. Southwick's
5 testimony into the record. Without objection, show Mr.
6 Southwick's s prefiled testimony moved into the record as
7 though read.

8 (Composite Exhibit 17 marked for identification.)

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1 FLORIDA POWER & LIGHT COMPANY – DOCKET No. 001148-EI

2 FLORIDA POWER CORPORATION – DOCKET No. 000824-EI

3 TAMPA ELECTRIC COMPANY – DOCKET No. 010577-EI

4
5 **DIRECT TESTIMONY OF HENRY I. SOUTHWICK**
6 **ON BEHALF OF THE GRIDFLORIDA COMPANIES**

7
8
9 **INTRODUCTION**

10 **Q. Please state your name and business address.**

11 A. My name is Henry I. Southwick. My business address is Post Office Box
12 14042, St. Petersburg, Florida 33733.

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

15 A. I am employed by Florida Power Corporation (“FPC”) as Manager,
16 Regional Transmission Organization Development.

17
18 **Q. Please provide a brief outline of your educational background and
19 business experience.**

20 A. I have a Bachelor of Science degree in Electrical Engineering from
21 Clemson University and a Master’s Degree in Engineering from the
22 University of South Florida. I am a registered Professional Engineer in the
23 State of Florida. I began working at FPC in 1967 where I have held
24 various positions in Industrial Development, Division Operations, System
25 Planning, Economic Research, Fossil Operations, and Energy Control. In

1 1983 I was promoted to Manager of System Planning with the
2 responsibility for FPC's generation, transmission and distribution planning.
3 In 1990 I was named Director of Engineering and Technical Services for
4 Fossil Operations. I was Director of Energy Control from 1992 through
5 early 2000. In May of 2000 I assumed my current position.
6

7 **Q. What are your responsibilities in your current position?**

8 A. My responsibility is to manage the participation of FPC in the development
9 of a regional transmission organization ("RTO").
10

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

12 A. The purpose of my testimony is to explain how FPC, Florida Power & Light
13 Company ("FPL") and Tampa Electric Company ("TECO") (collectively, the
14 "GridFlorida Companies") are managing the development of GridFlorida
15 on an interim basis in a prudent manner. The testimony also
16 demonstrates that the GridFlorida Companies have developed the
17 aggregate estimated costs associated with GridFlorida in a reasonable
18 and prudent manner.
19

20 **Q. What issues in this case does your testimony address?**

21 A. My testimony is part of the case being put on by the GridFlorida
22 Companies to address Issue 4 (What are the estimated costs to the
23 utility's ratepayers of its participation in GridFlorida?) and Issue 6 (Is the
24 utility's decision to participate in GridFlorida prudent?) of the Order

1 Identifying Issues in Phase 1 issued on July 16, 2001, in the above
2 referenced docket.

3
4 **Q. Are you sponsoring any exhibits to your direct testimony?**

5 A. Yes. Exhibit No. ____ (HIS-1) is a letter agreement, executed by the
6 GridFlorida Companies that describes the types of costs to be included as
7 start up costs in connection with the development of GridFlorida. Exhibit
8 No. __ (HIS-2) is a copy of the Request for Information Regarding
9 Program Management Services and Business Systems ("RFI") described
10 below. Exhibit No. __ (HIS-3) is a presentation of the evaluation of the
11 proposals received in response to the RFI.

12
13 **FORMATION OF GRIDFLORIDA LLC**

14 **Q. What is GridFlorida LLC?**

15 A. GridFlorida LLC is a Florida limited liability company formed by FPC, FPL
16 and TECO initially for the purpose of creating an RTO in the State of
17 Florida. As I explain below, after GridFlorida becomes operational,
18 GridFlorida LLC will continue to exist as the limited liability company that
19 owns and operates transmission facilities. This entity will, at
20 commencement of commercial operations, assume ownership of the
21 transmission assets of TECO and FPL and operational control of the
22 transmission assets of FPC, and become the RTO, if the GridFlorida
23 project goes forward. Upon commercial operation, management of

1 GridFlorida LLC would be transferred to GF Inc, a Florida corporation,
2 which, in turn, would be controlled by an independent board of directors.

3
4 **Q. When was GridFlorida LLC organized?**

5 A. GridFlorida was organized as a limited liability company on March 8, 2001.
6 Copies of the articles of organization of GridFlorida LLC and the initial
7 consents of the Board of Managers are contained in GridFlorida
8 Companies' Witness Naeve Exhibit No. ____ (CMN-1).

9
10 **Q. What was the purpose of organizing GridFlorida LLC in March?**

11 A. The GridFlorida Companies formed GridFlorida LLC in order to undertake
12 the initial start up activities that would have to be accomplished in order to
13 meet the December 15, 2001 RTO operational date established by FERC
14 in Order No. 2000.

15
16 **Q. What kind of start up activities were contemplated for GridFlorida
17 LLC?**

18 A. We needed a corporate entity in place to hire an executive search firm to
19 identify candidates for the board of directors of GF, Inc., the entity that will
20 ultimately serve as the managing member of GridFlorida LLC. Also, in
21 order to adhere to our schedule, it was necessary to select and hire a
22 consultant in the first quarter to do the initial planning and budgeting for
23 GridFlorida. Finally, a corporate entity had to be in place to set up a bank
24 account to pay GridFlorida LLC expenses, procure insurance, establish

1 employee benefit plans, enter into leases for office space, put accounting
2 systems into place, and engage in other start up activities.

3
4 **Q. Why were these start up activities not deferred until a later time?**

5 A. The GridFlorida Companies designed a board selection process that
6 would ensure that a high level, independent board of directors would be
7 selected. Such a process would necessarily take time. A corporate entity
8 had to be formed first to hire the executive search firm to begin the board
9 selection process. After selection, the board would hire a chief executive
10 officer. This process was not expected to be completed and the
11 individuals in place until the third quarter of 2001 at the earliest. After the
12 board and CEO were in place, other officers and employees would need
13 to be hired, which would take additional time. Thus, these start up
14 activities had to begin immediately if GridFlorida was to meet its
15 December 15, 2001 deadline. Nor could the other start up activities listed
16 above be delayed. The GridFlorida Companies believed that it was
17 important to make a good faith effort to meet the December 15, 2001
18 deadline imposed by FERC and their work plan and business blueprint
19 reflects this effort.

20
21 **Q. How is GridFlorida LLC managed?**

22 A. GridFlorida LLC is managed by a board of managers comprised of
23 representatives for each of FPC, FPL and TECO. Marty Mennes is the
24 representative for FPL and Greg Ramon is the representative for TECO. I

1 am the representative for FPC. All decisions of the board of managers
2 require unanimous vote of the three representatives.
3

4 **Q. Is there an agreement governing the management of GridFlorida**
5 **LLC?**

6 A. Yes. The Interim Limited Liability Company Operating Agreement for
7 GridFlorida LLC governs board meetings, voting and other functions of
8 GridFlorida LLC. A copy of this agreement is contained in GridFlorida
9 Companies' Witness Naeve Exhibit No. ____ (CMN-1).
10

11 **Q. Does GridFlorida LLC have any employees?**

12 A. No. GridFlorida LLC start up activities have been undertaken by
13 Accenture and by employees of the three companies and there are no
14 plans at this time to hire GridFlorida LLC employees until after the board
15 of directors of GF Inc. has been selected. It is expected that employees of
16 the three companies will continue to undertake such activities if and when
17 the project restarts.
18

19 **Q. How was GridFlorida LLC initially funded?**

20 A. GridFlorida LLC was initially funded with \$3 million, the proceeds of three
21 separate \$1 million loans made by each of the companies.
22

23 **Q. How is the \$3 million being used?**

1 A. All expenditure decisions require the unanimous vote of the board of
2 managers. That requirement helps ensure that only prudent expenditures
3 are made. GridFlorida LLC has drawn on its initial funding to hire a
4 consultant to prepare a business plan or blueprint, as discussed later in
5 my testimony, and to hire an executive search firm to propose members of
6 the board of directors of GF Inc. to the FERC-approved Board Selection
7 Committee. Funds have also been expended to pay for insurance. The
8 total amount expended through June 2001 is less than \$1 million.

9
10 **Q. Has GridFlorida considered obtaining additional funding?**

11 A. Yes. Prior to work on GridFlorida being suspended in May of this year, we
12 had planned to obtain additional funding for GridFlorida LLC by entering
13 into a loan arrangement with a commercial lender, guaranteed by the
14 three companies.

15
16 **Q. How would this additional funding be used?**

17 A. RTO development activities were suspended prior to development of a
18 budget addressing the uses of additional funding. As a general matter,
19 however, if the project is restarted, additional funding will be needed to
20 pay additional consultant fees, the costs of other administrative and
21 development activities, and repayment of the \$3 million loaned to
22 GridFlorida LLC by FPC, FPL and TECO.

23

1 **Q. Why did the GridFlorida Companies extend the loans and propose**
2 **extending guarantees as described above?**

3 A. Under FERC Order No. 2000, the GridFlorida Companies were the only
4 peninsular Florida parties with RTO obligations. Consequently, the
5 GridFlorida Companies were the only parties with a need to fund the
6 activities necessary for the development of GridFlorida. Without such
7 initial funding, the GridFlorida project could not have been started, and the
8 three companies could not have made a good faith effort to comply with
9 Order No. 2000.

10
11 **Q. Have the GridFlorida Companies incurred start up costs separate**
12 **and apart from the costs associated with funding GridFlorida LLC?**

13 A. Yes, the three companies already have incurred significant costs in order
14 to comply with Order No. 2000. Through the end of May 2001, the three
15 companies collectively have incurred over \$ 9 million in start up costs.

16
17 **Q. What types of costs have the GridFlorida Companies considered to**
18 **be start up costs?**

19 A. Exhibit No. ____ (HIS-1) to my direct testimony is a letter agreement
20 executed by the three companies in which the categories of start up costs
21 are defined.

22
23 **Q. Does GridFlorida have an agreement to reimburse FPC, FPL and**
24 **TECO for their start up costs?**

1 A. Yes. The GridFlorida Companies entered into a Start Up Cost
2 Reimbursement Agreement with GridFlorida LLC which provides that after
3 commercial operation GridFlorida will repay the start up costs incurred by
4 the companies, subject to FERC approval. A copy of this agreement is
5 contained GridFlorida Companies' Witness Naeve Exhibit No. ____ (CMN-
6 1).

7
8 **Q. What will happen to GridFlorida LLC after GridFlorida becomes**
9 **operational?**

10 A. GridFlorida LLC will continue to exist as the limited liability company that
11 owns and operates transmission facilities, under the management of GF,
12 Inc. FPC will exit the LLC on the date that GridFlorida achieves
13 commercial operation. FPL and TECO will be members of GridFlorida
14 LLC going forward by virtue of their anticipated contributions of
15 transmission assets to GridFlorida LLC in exchange for member interests
16 in the LLC.

17
18 **SELECTION OF CONSULTANT**

19 **Q. How did GridFlorida go about selecting a consultant to assist with**
20 **start up activities?**

21 A. On January 24, 2001 GridFlorida LLC issued a Request for Information
22 Regarding Program Management Services and Business Systems ("RFI").
23 The RFI, a copy of which is attached to my testimony as Exhibit No. ____
24 (HIS-2), sought proposals on all key business functions to be established

1 by GridFlorida. GridFlorida considered proposals made by Cap Gemini
2 Ernst & Young, R. J. Rudden Associates, Accenture,
3 PriceWaterhouseCoopers and Arthur Anderson. A presentation of the
4 evaluation of these five proposals is attached to my testimony as Exhibit
5 No. ____ (HIS-3). Accenture was awarded the contract on April 4th, 2001.
6

7 **Q. What factors led GridFlorida LLC to choose Accenture?**

8 A. In addition to submitting the lowest cost proposal received in connection
9 with the RFI, Accenture has substantial experience in managing similar
10 RTO projects, including experience with GridSouth, the Electric Reliability
11 Council of Texas, ISO New England, PJM, and the Southwest Power
12 Pool. In addition, the project team has direct experience with the systems
13 needed to implement and operate GridFlorida. Accenture's experience is
14 more fully described in the direct testimony of GridFlorida Companies'
15 Witness Bradford L. Holcombe.
16

17 **Q. What is the scope of the Accenture engagement?**

18 A. Accenture was hired to develop a "Business Blueprint" for GridFlorida.
19 The blueprint, which has been completed, contains a description of the
20 organization model for GridFlorida, the capabilities that GridFlorida will
21 need, an operating model, and identification of necessary computer
22 applications. The Business Blueprint also contains preliminary budget
23 numbers for the start up costs associated with GridFlorida as well as a
24 preliminary operating budget for the first year of operation. The Business

1 Blueprint is discussed in the direct testimony of Mr. Holcombe and is
2 included in his Exhibit No. ___ (BLH-1).
3

4 **Q. Has GridFlorida engaged Accenture or another consultant to**
5 **implement the Business Blueprint?**

6 A. No. GridFlorida has not entered into any consulting contracts other than
7 the initial contract with Accenture. If the project moves forward at a later
8 date, we will evaluate whether Accenture or another consultant is in the
9 best position to assist GridFlorida LLC in implementing the Business
10 Blueprint.
11

12 **Q. In addition to Accenture, what other resources have been utilized to**
13 **undertake GridFlorida LLC start up activities?**

14 A. Each of the three companies have devoted in house resources to initial
15 GridFlorida LLC start up activities, and if the project moves forward, we
16 intend to continue this practice. Combining in house utility expertise with
17 outside consulting support is the most cost effective approach to
18 implementing the many business functions that need to be put in place to
19 render GridFlorida operational.
20

21 ONGOING PROJECT MANAGEMENT

22 **Q. What is the schedule for proceeding with implementation of**
23 **GridFlorida?**

1 A. Currently all project development efforts have been suspended. If and
2 when the project is restarted, it is anticipated that it will take at least nine
3 months for GridFlorida to become operational on a limited basis.

4
5 **Q. Do you expect that GridFlorida will be fully operational nine months
6 after start up activities recommence?**

7 A. No, not fully operational. Due to the complexity and extensive time
8 required to implement all of the functions to be performed by GridFlorida, it
9 likely will not be possible to achieve full operation in a nine month time
10 frame. However, I do expect GridFlorida to be operational nine months
11 after restart with a reduced scope. Development activities would then
12 continue to implement the full functions planned for GridFlorida as
13 contained in the FERC approved Open Access Transmission Tariff. The
14 first stage of operation is referred to as "Release 1," while the final, fully-
15 operational stage is referred to as the "End State." During Release 1
16 operation, services related to congestion management, energy imbalance,
17 and other ancillary services likely will be simplified while development
18 continues on establishing the market-based functions in the End State for
19 these services, along with a necessarily more complex attendant billing
20 system.

21
22 **Q. When do you anticipate restarting the development of GridFlorida?**

23 A. GridFlorida development activities were suspended in May of this year to
24 allow this Commission to complete its review of the prudence of the

1 GridFlorida Companies' participation in GridFlorida. In order to suspend
2 the activities in an orderly manner, work on the Accenture Business
3 Blueprint was completed and the compliance filings required by FERC
4 were submitted. However, all other development activities have ceased.
5 Until this Commission has made a definitive ruling on the prudence of the
6 GridFlorida Companies' participation in GridFlorida, the three companies
7 have decided not to make expenditures that might be called into question
8 by this Commission at a later date. Consequently, no final decision is
9 expected to be made to proceed with the development of GridFlorida
10 unless or until this Commission has made such a definitive ruling and the
11 recovery of the costs prudently incurred in connection with the GridFlorida
12 Companies' development of and participation in GridFlorida is assured.

13 14 **PROJECT COSTS**

15 **Q. What steps have been taken to implement GridFlorida in the most**
16 **cost-effective manner possible?**

17 A. GridFlorida LLC approaches all decisions and tasks with the intent to
18 minimize costs to the greatest extent possible. Use of existing company
19 expertise and facilities is one of the key ways in which costs are being
20 managed. As I discussed earlier, a mix of in house expertise and outside
21 consulting resources has been used to implement GridFlorida's many
22 complex and interrelated business functions. We have identified areas
23 where we may look to outsource certain functions rather than to perform

1 such functions in house after GridFlorida becomes operational. These
2 issues are discussed in the testimony of Mr. Holcombe.

3
4 **Q. What plans does GridFlorida LLC have for utilizing the facilities of
5 the three companies?**

6 A. To minimize costs and facilitate the implementation of GridFlorida on a
7 timely basis, we have examined using existing facilities wherever possible.
8 For example, we have determined that GridFlorida can save time and
9 money by utilizing certain FPL control center facilities, computer systems
10 and telecommunication systems.

11
12 **Q. What are the projected start up and operating costs for GridFlorida?**

13 A. The projected start up and operating costs of GridFlorida are discussed in
14 Mr. Holcombe's testimony. The projected costs of implementing the End
15 State are \$150 million. Of this amount, \$136 million is incremental above
16 costs already being incurred by the GridFlorida Companies. The costs of
17 implementing the project to the Release 1 stage are approximately \$ 80
18 million. The projected annual operating cost for the first year of operation
19 in the End State mode is \$182 million. Of this amount, \$52 million is
20 incremental over and above the operating costs already being expended
21 by the GridFlorida Companies.

22
23 **Q. Are these incremental costs reasonable?**

1 A. Yes. In order to comply with FERC's Order No. 2000 and the FERC
2 orders specifically addressing GridFlorida, GridFlorida is required to have
3 certain characteristics and perform certain functions. The existing
4 systems of FPL, FPC and TECO were not designed to possess all of
5 these characteristics and perform all of these functions. Therefore, many
6 of GridFlorida's systems will be new and will replace or overlay existing
7 FPL, FPC and TECO systems. The costs resulting from implementing
8 these systems are necessary to ensure that GridFlorida will meet its
9 requirements.

10
11 **Q. Does this conclude your direct testimony?**

12 A. Yes, it does.
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1 MR. FAMA: Thank you, Mr. Chairman. We tender the
2 witness for cross examination.

3 CHAIRMAN JACOBS: Very well. Mr. McGlothlin.

4 MR. MCGLOTHLIN: I have no questions.

5 CHAIRMAN JACOBS: Mr. Howe.

6 MR. HOWE: No questions.

7 CHAIRMAN JACOBS: Mr. Twomey.

8 MR. TWOMEY: No questions.

9 CHAIRMAN JACOBS: Staff.

10 MR. KEATING: Just a few questions, and I would ask
11 for just a little latitude to go outside the scope of Mr.
12 Southwick's testimony here. We have a few questions that we
13 started to address with Mr. Hoecker and he did not have the
14 specific knowledge, it is related to Florida Power Corporation.
15 And I have spoken to Florida Power Corporation's counsel, and I
16 believe they are okay with this line of questions. Of course
17 they may jump in at any time and change their mind, but I would
18 like to go forward with those now. It's just a few questions.

19 CROSS EXAMINATION

20 BY MR. KEATING:

21 Q Mr. Southwick, are you familiar with Florida Power's
22 efforts in the early 1990s to build a third 500 kV transmission
23 line between Florida and Alabama or between Florida and another
24 state?

25 A I am somewhat familiar with it. I did not work on

1 that project. I was not directly involved, but I was with the
2 company at that time.

3 Q From your recollection, that line would have gone
4 from Alabama to roughly Central Florida?

5 A I believe that is correct.

6 Q Based on your recollection, how would the costs of
7 that line have affected Florida Power Corporation's
8 transmission rate base?

9 A I don't recall any numbers at all, but I recall that
10 when the project finally came to a conclusion that the primary
11 reason, and it was probably multiples, I would imagine, there
12 usually are, but the primary reason was the way that the costs
13 had to be assigned was such that it would not be cost-effective
14 at all for the Florida Power ratepayers. And based on that,
15 the project ultimately died.

16 Q That was the effect on the Florida Power Corporation
17 retail ratepayers?

18 A Yes.

19 Q Do you recall what the alternative was to building
20 that line?

21 A Well, that line was -- I never thought of it directly
22 in the sense of an alternative. It wasn't like we have to
23 build this line or do something else. The line would have been
24 there to increase the import capability and export capability
25 from Florida to the rest of the country. And as a result -- or

1 as it resulted the line never got built. I don't know that any
2 alternative, per se. If the line had been built and maybe more
3 generation would have been bought and brought into Florida
4 because that line was there. And in lieu of generation having
5 been built in Florida, the line was not built, generation has
6 been built, and that's the way it has turned out.

7 Q You indicated from your recollection that the main
8 problem, one of the main problems with that line was the effect
9 of the pricing on Florida Power's retail ratepayers?

10 A That is my recollection, yes.

11 Q And was that pricing that would have been approved by
12 FERC or required by FERC?

13 A Yes, I believe that was the case.

14 Q Would you agree that at least since that proposal was
15 made that the focus in Florida has been to build additional gas
16 pipelines to fuel in-state load rather than building additional
17 interstate transmission lines?

18 A Well, that is what has turned out. I don't know that
19 the gas developed directly as a result of that line not being
20 built, but that, in fact, has happened since that time.

21 Q Do you believe that an RTO would change that focus?

22 A No, I don't think so, not in the big scheme of
23 things. The RTO should not build new facilities unless they
24 are cost justified. And if they are cost justified, they
25 should be built. And that is basically the same mode that we

1 operate in today.

2 Q Do you have any opinion on whether Florida should
3 rely more on long distance transmission rather than the current
4 course of power plant construction?

5 A As a general philosophy, no. I think you have to
6 look at the situation as it presents itself and go with what
7 appears to be the lowest cost for the state. I can say this,
8 it is very expensive to build a major transmission line from
9 Central Florida into South Alabama.

10 Q In the absence of authority for certain types of
11 merchant plants to be built, would you expect GridFlorida to
12 enhance generation competition in Florida?

13 MR. FAMA: Could we have a reference to the testimony
14 on that one, that might be a little further afield than what we
15 talked about earlier.

16 MR. KEATING: I will withdraw the question. That's
17 all the questions I have. Thank you.

18 CHAIRMAN JACOBS: Commissioners? The way that
19 GridFlorida is going to essentially start-up is through this
20 interim process. What will be the hand-off procedures from the
21 interim to the full or final LLC?

22 THE WITNESS: The exact procedures?

23 CHAIRMAN JACOBS: No, no, in general.

24 THE WITNESS: When the final FERC approvals are all
25 in hand, and that was mentioned earlier, I believe, by the

1 other two applicants, they have their divesting contracts yet
2 to take care of, and the outstanding items at FERC are all
3 resolved and the operation is -- that GridFlorida is to our
4 satisfaction ready and able to take over the operation of the
5 grid, and at that point in time there will be -- as it was
6 described to me, it's like a closing on a house.

7 There is going to be a whole stack of papers that
8 will have to be signed by a lot of people, and we will all sit
9 down around a table one day and we will sign those papers. It
10 is considered that they are signed simultaneously. And at the
11 end of that procedure GridFlorida will be in charge.

12 CHAIRMAN JACOBS: This question is probably more --
13 the next one should have been more accurately posed to the
14 panel, but I will give you a shot. It occurs to me -- let me
15 step back. One of the concerns that had been raised has to do
16 with independence with regard to FRCC. And as I understand it,
17 because FRCC will take its marching orders from the operating
18 companies, is that correct?

19 THE WITNESS: I'm sorry. If I heard you correctly,
20 did you say the FRCC will take its marching orders from who?

21 CHAIRMAN JACOBS: Within GridFlorida, FRCC will take
22 its marching -- I can't remember if it was the GF company or
23 from the LLC.

24 THE WITNESS: Okay. No, sir. The FRCC is a totally
25 separate organization from GridFlorida.

1 CHAIRMAN JACOBS: Understood. But it is going to be
2 contracted -- it is going to have a contract with GridFlorida,
3 and I wasn't clear on who -- I can't remember who the
4 contracting authority comes from. If it was coming from the
5 LLC or from the other organization. I apologize, let me just
6 get it in front of me real quick. Are you familiar with the
7 circumstance that I'm speaking of?

8 THE WITNESS: It must be in the security coordinator
9 realm. The way that will work, the FRCC, the Florida Regional
10 Reliability Council, which is a subset of NERC, so to speak,
11 will set the reliability standards for the Florida region, and
12 they will monitor the compliance with those standards for
13 GridFlorida, who will be an operating transmission utility plus
14 any other utilities in Florida that do not join GridFlorida, if
15 any, they will also be under the FRCC. So the FRCC will
16 maintain that role to set standards and monitor compliance with
17 those standards.

18 CHAIRMAN JACOBS: Okay. I'm sorry. I apologize,
19 because I asked the question very inartfully. Let me kind of
20 step back and ask it in a more generic way. One of the
21 concerns, as I understood it, was that independence with regard
22 to FRC once it goes under contract to GridFlorida was a
23 concern. And it had to do with who gave it its marching orders
24 as I understood it. It doesn't sound familiar?

25 THE WITNESS: Not exactly.

1 CHAIRMAN JACOBS: Okay. Strike the question, then.
2 I will have to find it and maybe ask it to one of the other
3 witnesses. Thank you. Redirect.

4 MR. FAMA: No redirect.

5 CHAIRMAN JACOBS: Exhibits.

6 MR. FAMA: We would move for the admission of
7 Exhibit 17.

8 CHAIRMAN JACOBS: Without objection, show Exhibit 17
9 is admitted. Thank you, Mr. Southwick. Next witness.

10 (Exhibit 17 admitted into the record.)

11 CHAIRMAN JACOBS: Next witness.

12 MR. CHILDS: I believe Ms. Dubin.

13 Commissioners, Ms. Dubin will be presenting FPL's
14 testimony on the recovery methodology. And there has been some
15 discussion most recently about this methodology, this
16 testimony, and the position of it in this docket. And I want
17 to make a couple of comments about that before we begin.

18 Florida Power and Light continues to be concerned
19 about recovery of costs associated with implementing
20 GridFlorida and recovering that through a capacity clause or
21 something like a capacity clause. We are concerned about the
22 potential of successive base rate proceedings in the future or
23 that because of the structure of costs and costs associated
24 with start-up, as well, that costs incurred may not be
25 recoverable.

1 Therefore, I want to try to clarify or address,
2 again, because we put it in our initial petition, but I want
3 you to please understand the position that we are asking you to
4 see is as follows: In this proceeding if you conclude after
5 the evidence and your evaluation of GridFlorida that we are
6 prudent in structuring GridFlorida as it is proposed to be
7 structured and that we are prudent in participating in it, then
8 FPL is prepared to go forward if the capacity cost recovery
9 methodology is approved, as well. And by going forward we mean
10 to begin to complete the tasks to start the operation of
11 GridFlorida, and to do that while we also continue to
12 participate in the development of the southeast RTO.

13 CHAIRMAN JACOBS: Help me understand, Mr. Childs,
14 could you -- is this a request of one tenus, or is it simply a
15 preliminary review of Ms. Dubin's position?

16 MR. CHILDS: No, it is a review of FPL's position,
17 Mr. Chairman. Earlier on I think there was some comments about
18 what FPL's position was and what the position of the parties
19 were, and whether it was expressed in Issue 11 or not, and what
20 the position was on recovery. And I think Commissioner Palecki
21 had a concern which he voiced about the Commission considering
22 doing anything with the presentation of the request for
23 consideration of recovery through the capacity clause. And so
24 when we are presenting this testimony, I'm trying to make sure
25 that it is -- that we are communicating as to what we are

1 asking you to do. We simply think that we are at the point of
2 trying to make sure that when you consider this or decide how
3 to consider it, that you understand what our position is, and
4 I'm trying to present that to you.

5 CHAIRMAN JACOBS: As I understood it, first of all,
6 there is a question of whether or not the methodology for
7 recovery is even an issue, and I assume that there will be
8 briefs time devoted to that. But as to any particular request
9 for a decision on that or remedy on that, I'm not of the
10 opinion that is within the scope of this proceeding.

11 MR. CHILDS: Well, and that's what I'm trying to
12 address.

13 CHAIRMAN JACOBS: I understand.

14 MR. CHILDS: And it may be that that is what you
15 decide, and I'm trying to explain to you our position and our
16 view of the circumstances or the results that may flow from
17 that. We believe that we were directed to file a petition to
18 ask the Commission and to tell the Commission what relief we
19 needed in order to go forward, and we did.

20 CHAIRMAN JACOBS: And you believe that your
21 application stated such a request?

22 MR. CHILDS: I do. But I think it may help as we are
23 addressing particularly the situation of the consideration of
24 the southeast RTO and the time certain for commitment with
25 GridFlorida, et cetera, that I try to explain our position and

1 put it in context.

2 COMMISSIONER DEASON: Maybe we clarify it even more.
3 Let's put together a hypothetical, Mr. Childs. Let's assume
4 that we conclude this hearing, we have a record, we have a
5 recommendation, we make a decision that GridFlorida is a
6 prudent undertaking, it has been handled in an appropriate
7 manner, it appears that it is in the public interest for the
8 citizens of Florida. That is just an assumption. But there is
9 no decision whatsoever on cost-recovery, then it would be
10 Florida Power and Light's position that that would not be
11 sufficient to go forward with development of GridFlorida?

12 MR. CHILDS: That is correct. And that if that is
13 the decision, if that is what the Commission decides is
14 appropriate --

15 COMMISSIONER DEASON: No decision on cost recovery up
16 or down, it is not addressed, then that is not sufficient?

17 MR. CHILDS: We will not be able to go forward until
18 the matter is addressed and we find out how it is addressed.
19 And that in addition I wanted to say that if it is addressed
20 and the question was posed about how that fit with the time
21 certain, that if the -- we are prepared if it is addressed, if
22 you find that it is prudent and you address the cost-recovery,
23 we are prepared to proceed with the steps necessary to begin
24 operation of GridFlorida by time certain subject to whether
25 that time is doable and realistic. If the FERC has not

1 completed the process of establishing an RTO for the southeast
2 U.S., we will take steps to put GridFlorida in operation under
3 those circumstances.

4 COMMISSIONER JABER: Mr. Childs, I know you are
5 trying to address the questions I asked.

6 MR. CHILDS: Yes.

7 COMMISSIONER JABER: It seems to me, though, that
8 similar to a determination of need on generation where the
9 Commission might find that there is a need, there isn't a cost
10 recovery issue in that example. I don't see the difference
11 between that and the circumstance we are in, number one.
12 Number two, you are quit capable of identifying a cost-recovery
13 issue and bringing that to the prehearing officer. I see it as
14 a notice problem now. It's not like the parties are prepared
15 to cross-examine, present testimony, or brief the issue of cost
16 recovery at this point. I don't really know what to do with
17 your comments. It's almost like a threat I use loosely in the
18 sense that, "Well, Commissioners, if you don't approve
19 GridFlorida, we just wouldn't go forward." You need us more
20 than we need you at this point, so I don't know what --

21 MR. CHILDS: It is certainly not, and it is not
22 intended as a threat at all. But it is -- and, Commissioner,
23 as to the notice problem, I think that is one of the reasons
24 that I wanted to make sure that it was understood.

25 COMMISSIONER JABER: But it can't be remedied now.

1 MR. CHILDS: Well, I think it can be.

2 COMMISSIONER JABER: How?

3 MR. CHILDS: Because as to the notice problem, you
4 know, as to the suggestion about notice and not being prepared,
5 you know, I want to comment that we all met when we were trying
6 to work out these issues. We all met. All the parties met
7 that were parties at that time. We had several meetings before
8 the prehearing officer and we had one meeting during that among
9 ourselves to try to work out issues. This was an issue. This
10 was an issue in our initial pleading. It was -- after we
11 discussed it and all -- most all parties filed independent
12 pleadings as to what they thought issues should be, we ended up
13 with the order that I mentioned before, which said this
14 statement of issues, which as I recall is principally the
15 staff's issues, this statement instead of our issues is broad
16 enough for you to bring in your points and the position --

17 COMMISSIONER JABER: Let's go back to my first
18 question. How would this be different than a determination of
19 need where we find that there is a need, but we don't address
20 the cost-recovery issue? Why isn't a decision on prudence
21 enough for you to come back and say -- to come back and say,
22 Commissioners, you found this to be prudent so, of course, you
23 have to allow cost recovery for it?

24 MR. CHILDS: Well, I think there are two differences.
25 One is that what I'm trying to explain is that the predicate

1 for our request was to identify for the Commission what we
2 needed to have in order to go forward. So unlike, I think, a
3 petition for determination of need where we have identified a
4 need and are trying to fill it, we are trying to identify for
5 you that this is an alternative that we believe is appropriate.
6 But it is appropriate if there is a way and a vehicle for you
7 to understand and address whether it is prudent, and for you to
8 determine whether under those circumstances it is appropriate
9 for FPL to incur significant costs and have a way to recover
10 those.

11 For instance, you know, we have got some 23 to \$25
12 million in start-up costs, which if GridFlorida doesn't work
13 down the road we are concerned about what do we do with that
14 and we want you to know that. I think, another difference is
15 that we are being asked to -- we are told, I think, in your
16 order a comment to the effect that any decision you make in
17 Phase I will not affect the decision that you may make in Phase
18 II. And so that creates some uncertainty, as well on our part
19 as to whether a determination is sufficient.

20 We are also concerned before we commit to proceeding
21 with the development and implementation of GridFlorida that as
22 we see the cost incurrence and we see the relationship that you
23 know that that is what we are looking for because we do not
24 want to see a situation of successive rate cases that probably
25 are going to produce inadequate recovery or overrecovery as

1 volatility of costs is experienced.

2 COMMISSIONER JABER: Refresh my recollection, you
3 wanted a separate proceeding on the RTO issues, right?

4 MR. CHILDS: We asked for a -- I'm not sure when you
5 say separate --

6 COMMISSIONER JABER: Didn't you want the generic
7 separate RTO proceeding outside of the rate case track?

8 MR. CHILDS: We asked for -- yes, we asked for -- we
9 asked to address after the recommendation had been made about
10 whether the action of the companies was prudent in pursuing
11 GridFlorida and that because of that those costs should be
12 examined. We were in the midst of going forward, which would
13 mean that we were in the midst of potentially incurring
14 substantial costs only to have an answer later on.

15 We explained to the Commission that we had not
16 committed to go forward. It was suggested that we had
17 committed and, therefore, the decision, unlike what you might
18 have in a determination of need, it was suggested that we had
19 already committed when we hadn't. And we said under the
20 circumstances when it is being presented to you that our
21 actions are imprudent, we think it is most prudent to come to
22 you and say, now, what do you want us to do here.

23 We were in the process of filing a separate recovery,
24 but when this recommendation came forward, we did want to have
25 that addressed including addressing the risk of whether the

1 costs actually incurred were going to be recovered.

2 COMMISSIONER DEASON: I guess I need some
3 clarification. You said that you were in the process of filing
4 for separate recovery, what do you mean by that?

5 MR. CHILDS: We were in the process of presenting a
6 filing for recovery, for presenting GridFlorida and asking for
7 recovery of the costs, saying here is what it is, and we want
8 to ask you to approve it and to find that it is appropriate and
9 tell us that we can recover the costs.

10 COMMISSIONER DEASON: So you were in the process of
11 doing that before this investigation was opened?

12 MR. CHILDS: Well, I was, I think, yes.

13 COMMISSIONER DEASON: Okay. Well, that is some
14 clarification, because I was going to ask you the question. It
15 appeared that GridFlorida was well underway, it had gotten FERC
16 approval, at least enough to go ahead and establish an initial
17 organization of a board of directors and things of that nature,
18 and that you were doing that without any type of cost recovery
19 mechanism being endorsed by this Commission.

20 MR. CHILDS: Well, it hadn't been. I was in the
21 process and had drafted, but we didn't quite get there. And
22 now we are here, and our view was that the issue has been
23 raised in this separate forum, it has been raised the way it
24 has been raised, let's try to join on that issue and go forward
25 and try to address the prudence of the action and answer the

1 questions about what we are going to do and make sure that it
2 is considered to be appropriate, and if not, we won't pursue
3 it. But if it is, we are trying to make you understand from
4 our perspective is that there is a risk. We believe that we
5 took the right step, but we also believe that we ought not to
6 have this substantial doubt of significant cost expenditures
7 with no avenue in sight yet for recovery.

8 COMMISSIONER DEASON: So even if we had not opened
9 this investigation you would have filed that with this
10 Commission, and I assume you would have gone to FERC and had
11 said that before we can continue to expend funds we need a
12 recovery mechanism endorsement from the Florida Public Service
13 Commission.

14 MR. CHILDS: I don't know what -- my instructions
15 were to prepare a filing, and I had done that.

16 COMMISSIONER DEASON: One further question. Is the
17 issue the mechanism or is the issue cost recovery? And the
18 distinction I make is that at least it has been presented that
19 the costs that are incurred by GridFlorida on behalf of -- and
20 your client, in the case of your client, Florida Power and
21 Light retail operations, that we have no choice but to pass
22 those costs through such that you recover the costs. I guess
23 it's a question of whether it is through a base rate
24 proceeding, or through some type of recovery clause, or maybe
25 some combination of the two. Is the issue the mechanism or is

1 the question whether you will receive cost recovery?

2 MR. CHILDS: The issue is the mechanism. Because,
3 you know, what we have proposed is to follow the procedure that
4 is currently followed for capacity cost recovery where certain
5 costs are recovered in base rates for capacity, and those costs
6 that are not reflected in base rates there is an adjustment
7 clause. And our concern was to be able to present those costs,
8 there is a way to monitor those costs, you can see what they
9 are. We will file the forms and report on them.

10 But the mechanism is also important because of the
11 potential volatility of costs so that base rate recovery may
12 simply be inadequate. And we wanted to present that case to
13 you through at least Ms. Dubin to start that process to explain
14 that there is some exposure there which makes us conclude that
15 that mechanism is the appropriate one to use and it is one like
16 you have used before.

17 COMMISSIONER JABER: It seems like we should cross
18 that bridge when we come to it. Assuming the Commission finds
19 that the RTO is prudent, we could ask our staff to prepare a
20 separate recommendation on what cost recovery mechanism is
21 appropriate. I think that might remedy some of the noticing
22 concerns. But, Mr. Childs, for whatever it is worth to you,
23 there was never a doubt in my mind that if we found any sort of
24 RTO prudent that FPL would expect that the costs be recovered
25 through the customers. I never doubted that for a minute. The

1 question in my mind was getting there after it was determined
2 what kind of RTO would be appropriate for the state.

3 MR. CHILDS: Well, the mechanism, as Commissioner
4 Deason asked the question is that there is -- and we are trying
5 to make a distinction between including the costs in the
6 utility's costs of service or cost of service and having a
7 mechanism to reflect those costs. You know, that is one reason
8 that the capacity clause was there using that as an example.
9 And it's one reason that the fuel clause is there is that
10 sometimes because of volatility of costs, changing level of
11 costs, the clause works and base rates doesn't work very well.

12 COMMISSIONER JABER: Aren't start-up costs fixed
13 costs?

14 MR. CHILDS: Pardon?

15 COMMISSIONER JABER: Aren't start-up costs fixed
16 costs?

17 MR. CHILDS: Well, start-up costs are, but it puts us
18 in a situation in terms of start-up costs is that if you have
19 not approved cost recovery of incurring those costs, if we go
20 forward only to address later whether we recover. In your
21 order it said that any decision in Phase I can be addressed or
22 words to that effect in Phase II, which created doubt, at least
23 in my mind, as to whether that issue could be raised.

24 MR. KEATING: Commissioners --

25 CHAIRMAN JACOBS: Just a second. Your position here

1 is that this whole process began because you are required to do
2 it, right?

3 MR. CHILDS: What?

4 CHAIRMAN JACOBS: Your position is that this whole
5 process, this process of development of an RTO was begun
6 because essentially you were required to do it, correct?

7 MR. CHILDS: I think -- well, I don't want to miss
8 the point in the discussion about what is voluntary or what is
9 voluntary with a lot of pressure, et cetera, but --

10 CHAIRMAN JACOBS: No, no. Let me -- I'm sorry to cut
11 you off, but I think it is important here because -- and it
12 goes to form. Because if, indeed, you are operating under a
13 mandate, and I hear your argument now is that there is an
14 important condition precedent to your complying with that
15 mandate, is the argument you are making now in the proper
16 forum? It sounds like --

17 MR. CHILDS: I think so.

18 CHAIRMAN JACOBS: It sounds like you would have to go
19 then to the place that imposed that requirement on you and say
20 there is an impossible condition here.

21 MR. CHILDS: No, I'm not -- I think it's the proper
22 forum. Because all I'm trying to convey to you is that the
23 order directed us to tell you what we needed in order to go
24 forward. And I'm not, you know, I'm not saying anything other
25 than that if we don't have that ruling, if you are not

1 satisfied with it so that you feel comfortable making that
2 ruling, we cannot at this point go forward. We will simply
3 have to wait and see whether you are comfortable with that
4 later.

5 CHAIRMAN JACOBS: Let me step back for a moment then
6 to how we began. If I'm not mistaken how this process began
7 initially was an investigation that we initiated. And in the
8 context of that investigation, the concern was raised that
9 critical issues were pending with regard to the RTO and that
10 those issues should be resolved in an expeditious manner in
11 order to allow the companies to proceed in compliance with
12 FERC's order. I find myself at a loss to understand now how it
13 is a condition on this proceeding to satisfy the time line of
14 that docket when we initiated our --

15 MR. CHILDS: Simply because there had been this
16 question that said -- and a recommendation that said you need
17 to address this, you need to determine it is prudent and decide
18 whether there is going to be any cost recovery. Well, if you
19 are in the midst of a process of committing to spend a lot of
20 money to implement and pursue the development of GridFlorida,
21 it seemed prudent under the circumstances to make sure that you
22 were satisfied that we were following the right course of
23 action before we incurred those obligations only to be told
24 potentially that you would rather we had done something else.

25 And so the time line was to try to -- and I thought

1 in terms of the time line and the short time as we said we
2 can't go forward, and I think we made it clear we can't go
3 forward until you have had a chance to address it. And we are
4 very pleased that you said you would address it within a time
5 certain. And that's all we are trying to do is to make sure
6 that you were satisfied with our presentation, that we were
7 doing the right thing, and that we were not spending money on
8 an effort that you wished we hadn't.

9 CHAIRMAN JACOBS: Let's say as a hypothetical we
10 accept that your filing was intended as a petition to seek an
11 action from us determining what the proper cost recovery
12 vehicle should be. Without characterizing the record thus
13 far -- well, actually I think it is characterizing the record
14 thus far. What I have heard is that there are substantial
15 elements of the overall final cost of this proceeding -- I'm
16 sorry, of this entity that are as yet undetermined and won't be
17 determined until some time uncertain in the future. I am
18 subject to be corrected. If that is the case, how would we
19 then give you the relief you have requested?

20 MR. CHILDS: Well, I'm not sure that that is
21 necessarily the case. But we are not asking for cost recovery.
22 We are not asking you to look at these costs and say we are
23 going to set a factor, here are the costs of Florida Power and
24 Light, we are going to authorize rates. What we are asking you
25 to tell us is that it is appropriate for the recovery of these

1 costs to be through an adjustment clause or something similar
2 as the witness will outline. It is the method as Commissioner
3 Deason has mentioned.

4 We are not asking you to set rates. We will have to
5 come back, and I think the witness explains when we would
6 propose to be back depending upon the development of
7 GridFlorida. That at that time we would present what the costs
8 were. But at this time we are trying to make sure that there
9 is no disagreement as to a way to recover those costs. We
10 would simply not feel real comfortable if we incurred the costs
11 and we came back and found that we had cost levels which didn't
12 fit real well with a base rate proceeding approach.

13 CHAIRMAN JACOBS: Why wouldn't -- how do I say this?
14 First of all, then, the first question that comes to me is that
15 why wouldn't we simply make that determination at the time that
16 you come back. But that avoids what I understand to be what
17 you are really requesting. What you are really requesting is
18 some comfort, some guidance on a going-forward basis from this
19 point going forward. And my question then becomes -- so I set
20 aside the first question and ask this one -- why then would not
21 a determination by this -- let's assume that you would get a
22 decision from this Commission which essentially says that the
23 methodology, the process upon which this entity has been
24 developed appears at this point to meet the public interest of
25 the State of Florida, and absent changed circumstances would

1 appear to be prudent. Why isn't that adequate assurance for
2 you?

3 MR. CHILDS: I'm not sure whether what you said
4 was -- it sounded like you may have included the process for
5 recovery, but I want to make sure.

6 CHAIRMAN JACOBS: No, I said nothing about process of
7 methodology. I simply said it meets the public interest and
8 absent changed circumstances would appear to be prudent.

9 MR. CHILDS: Well, because we have, I think, the
10 potential that the cost recovery in the sense of including a
11 cost in the company's cost of service may not permit recovery.
12 It's the idea that, for instance, if costs are volatile or if
13 costs can change, one of the things that we have is we have an
14 implementation that calls for connections, with new service
15 connections by generators. And depending upon how those happen
16 and how the costs are spread you can have costs that are not of
17 the normal level stable amount that are recognized
18 appropriately in base rates. You can be hit with a big amount,
19 and it is difficult to keep up with.

20 We wanted you to know that. And to know that under
21 those circumstances that we are concerned that the recovery
22 methodology is important when we have costs that may be
23 incurred the way we anticipate under GridFlorida.

24 CHAIRMAN JACOBS: Very well. Any other questions,
25 Commissioners?

1 COMMISSIONER JABER: Mr. Chairman, can I ask you and
2 Commissioner Deason to refresh my memory. When it was the
3 three of us for awhile, we had an RTO workshop you may recall,
4 and the discussion around -- it may have even been an Internal
5 Affairs, I don't recall which -- there was some discussion by
6 our staff and a proposal by our staff to actually have
7 GridFlorida companies submit to us some proposal that we would
8 approve first, sort of a first state approval of the RTO as it
9 was planned before it went to FERC. And I remember the
10 companies being very adamant that that wasn't necessary.

11 And as it related to costs, there was a lot of
12 discussion by the companies about how it was premature to talk
13 about costs because perhaps some of those costs could be
14 consumed by what the companies were earning. And someplace in
15 the middle the Energy Commission entered an interim report that
16 included the creation of an RTO cost recovery clause. And then
17 someplace after that we decided to take a look at the
18 companies' earnings. And here we are today hearing, at least
19 as it relates to me, for the first time that they were in the
20 process of filing some sort of RTO cost recovery filing.

21 Help me understand and refresh my memory about the
22 series of events that have occurred in the last year and a
23 half? Am I missing something?

24 COMMISSIONER DEASON: I don't have a basis to correct
25 your memory.

1 CHAIRMAN JACOBS: I don't have a basis to correct it,
2 either.

3 COMMISSIONER DEASON: What you indicated to me
4 seems -- I recall that being the general scenario, but maybe
5 staff can fill in some of the details better than I.

6 COMMISSIONER JABER: And I will tell you what
7 concerns me, frankly, is I'm not interested in discussing in
8 this proceeding making a finding with respect to the cost
9 recovery mechanism. That's not to say I don't believe it's
10 important. I believe it is critical. But I think that the
11 record will be one-sided.

12 And I don't want to find out at the end of this
13 proceeding that I'm bound to make a decision just because the
14 record was devoid of the benefits related to having the costs
15 offset by earnings or whether the creation of some clause is
16 appropriate. I wish I would have known ahead of time because I
17 agree, that is a critical issue.

18 MR. CHILDS: Well, you know, I mentioned that we had
19 the issues raised, and we had a schedule and we filed and
20 served everybody in the docket with our testimony and direct.
21 And that was in Ms. Dubin's testimony, and she makes that point
22 about what we are asking for and why. And the schedule and the
23 prehearing procedure calls for other parties to -- staff and
24 intervenors to file their testimony after we filed ours, and
25 then that would have given us an opportunity to file rebuttal.

1 So we filed the testimony and we went through the discovery
2 process on it and depositions.

3 COMMISSIONER JABER: Mr. Childs, that's a play on
4 words. You filed the testimony to no specific issue that deals
5 with cost methodology. So you are really good, but it's a play
6 on words. Issue 4 asked what are the estimated costs. It
7 doesn't say will the Commission make a finding related to the
8 cost methodology.

9 MR. CHILDS: Well, our position did, and we asked
10 that specifically when we filed our last position. We had a
11 joint filing with Tampa Electric and we had a difference
12 between our position on Issue 4 and theirs, and we raised that
13 specifically --

14 COMMISSIONER JABER: Was it denied? It didn't get
15 incorporated.

16 MR. CHILDS: -- as our position. Pardon?

17 COMMISSIONER JABER: It didn't incorporated into this
18 proceeding. Does that mean it has already been decided?

19 MR. CHILDS: It is incorporated into the prehearing
20 order as our position on that issue.

21 MR. KEATING: Did you need something?

22 CHAIRMAN JACOBS: Staff, you wanted to make a
23 comment?

24 MR. KEATING: My comment was I was going to
25 suggest -- I'm not sure that this discussion is appropriate at

1 this time. We have had an order issued that establishes a
2 proceeding that set up the parameters of Phase I and II. We
3 had an order that issued established the issues. We have had
4 an argument on the motion to strike yesterday, and it sounds
5 like we are going back and rearguing a lot of that stuff right
6 now, or in the alternative it sounds like we are hearing
7 testimony that perhaps we should be hearing from Florida Power
8 and Light's witness.

9 CHAIRMAN JACOBS: Right. That was essentially how I
10 wanted to bring this to -- what I understood the tenor of your
11 comments, Mr. Childs, was essentially to preview Ms. Dubin's
12 testimony by making it clear the purpose of that testimony, and
13 we accept your comments.

14 Regardless of that, any decision about what the final
15 order in this docket will be remains for the record to embrace
16 and for staff to evaluate and analyze. So at this point in
17 time it does us in my mind very little good to try to brace or
18 posture Ms. Dubin's testimony. It says what it says and will
19 be given proper weight in the record that we create.

20 MR. CHILDS: Well, that's fine. And I really only
21 intended in terms of the comment about that I mentioned earlier
22 about Commissioner Palecki and what he said about what he was
23 going to consider, I wanted him to understand why we are doing
24 it.

25 CHAIRMAN JACOBS: Understood.

1 MR. CHILDS: I would call to your attention, however,
2 the -- I'm looking at the prehearing order in this docket, and
3 it's Issue 4, and it raises the issue of what are the costs,
4 and we also set forth the costs. And we also set forth in the
5 position which was in our prehearing statements and your
6 prehearing order, it says FPL means that such incremental
7 GridFlorida transmission charges are properly recoverable
8 through the capacity cost-recovery clause. Explicit approval
9 of recovery of the incremental transmission costs through a
10 recovery clause is required for FPL to proceed with RTO
11 development. And that's what we were pursuing and we filed the
12 testimony for that purpose.

13 CHAIRMAN JACOBS: Very well.

14 COMMISSIONER PALECKI: Mr. Childs, I just want you to
15 know that I understand your position, and I am sympathetic to
16 it. Just the sheer number of dollars we are talking about here
17 certainly makes it prudent for Florida Power and Light to make
18 sure they will recover costs in a way that is satisfactory to
19 them.

20 I hope you also understand that we are peddling as
21 fast as we can here and we have a lot of issues that need to be
22 resolved. They are important issues. And I hope you
23 understand if we are not quite ready to address that particular
24 issue yet.

25 MR. CHILDS: Very well. And I will --

1 CHAIRMAN JACOBS: Very well.

2 MR. CHILDS: -- proceed with the witness, if that is
3 appropriate.

4 CHAIRMAN JACOBS: I would like to, if we can, proceed
5 with the witness. I'm sure that your brief will adequately
6 cover your position on that point.

7 COMMISSIONER DEASON: I think the position is very
8 clear.

9 KOREL M. DUBIN
10 was called as a witness on behalf of
11 Florida Power and Light Company and, having been
12 duly sworn, testified as follows:

13 DIRECT EXAMINATION

14 BY MR. CHILDS:

15 Q Would you state your name and address, please?

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

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

19 A I am employed by Florida Power and Light Company as
20 Manager of Regulatory Issues.

21 Q Do you have before you a document entitled Florida
22 Power and Light Company, testimony of Korel M. Dubin, Docket
23 Number 001148-EI, August 15, 2001?

24 A Yes, I do.

25 Q Was that prepared by you as your testimony for this

1 proceeding?

2 A Yes.

3 Q Do you have any changes or corrections to make to it?

4 A No, I do not.

5 Q And do you adopt it as your testimony?

6 A Yes, I do.

7 MR. CHILDS: Commissioners, we ask that the prepared
8 testimony of Ms. Dubin be inserted into the record as though
9 read.

10 CHAIRMAN JACOBS: Without objection, show Ms. Dubin's
11 testimony is entered into the record as though read.

12 MR. CHILDS: And I ask that the document that she is
13 sponsoring be marked for identification. It is KMD-1.

14 CHAIRMAN JACOBS: Show it marked as Exhibit 18.

15 (Exhibit 18 marked for identification.)

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **TESTIMONY OF KOREL M. DUBIN**

4 **DOCKET NO. 001148-EI**

5 **August 15, 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

1 Department and my primary responsibilities have been in the area of the
2 adjustment clause filings. In June 2000 I became Manager of Regulatory
3 Issues in the Regulatory Affairs Department where I am primarily responsible
4 for the coordination, development, and preparation of the Company's Fuel,
5 Capacity and Environmental Cost Recovery filings. I am a company witness
6 in these clause dockets.

7

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

9 A. The purpose of my testimony is to illustrate the estimated incremental cost
10 impact of purchasing transmission service from GridFlorida, LLC (GridFlorida)
11 to serve FPL retail customers and to request approval of the methodology to
12 quantify and recover such incremental GridFlorida transmission charges
13 through the Capacity Cost Recovery Clause. Such approval would avoid
14 double recovery and under/over recovery of costs, would be administratively
15 efficient, would greatly facilitate review of the level and basis for transmission
16 costs in the future, and appear to be the type of costs the Commission
17 acknowledged would be appropriate for recovery in establishing the Capacity
18 Cost Recovery Clause. For illustrative purposes, my testimony also provides
19 preliminary estimates of GridFlorida Transmission costs including the impact
20 on FPL's customers. My testimony addresses Issue No 4 of Prehearing
21 Order No. PSC-01-1485-PSCO-EI.

22

23 **Q. Please briefly describe GridFlorida.**

1 A. As discussed in GridFlorida Witness Mr. Naeve's prepared Direct Testimony,
2 GridFlorida is a for-profit Regional Transmission Organization (RTO). Florida
3 Power & Light Company, Florida Power Corporation, and Tampa Electric
4 Company (the Joint Applicants) formed GridFlorida in response to the Federal
5 Energy Regulatory Commission (FERC) Order 2000. On March 28, 2001, the
6 FERC issued its Order provisionally granting RTO status to GridFlorida.

7 GridFlorida will be a limited liability company and will own and operate
8 transmission facilities divested to it by transmission owners in exchange for a
9 non-voting membership interest and operate transmission facilities of other
10 transmission owners that transfer operational control to GridFlorida pursuant
11 to a Participating Owners Management Agreement. As a consequence, upon
12 completion of the transfer of transmission facilities by FPL to GridFlorida, and
13 the commencement of operation by GridFlorida, FPL will continue to provide
14 the same retail transmission service but will be purchasing wholesale
15 transmission service from GridFlorida. In addition, FPL's traditional retail
16 base return and O & M expenses associated with the transferred
17 transmission assets will be replaced by purchased transmission O&M
18 expenses incurred to provide transmission service to retail customers.

19
20 As explained in GridFlorida Witness William Ashburn's prepared Direct
21 Testimony, once GridFlorida begins commercial operations, service over
22 GridFlorida owned and / or operated facilities must be taken under
23 GridFlorida's Open Access Transmission Tariff. The Joint Applicants will

1 each be charged the FERC approved transmission rates for all service
2 including that associated with service at retail. The basis for the transmission
3 charges to be applied by GridFlorida will differ from those of the individual
4 Joint Applicants prior to GridFlorida operations. The structure of the charges
5 for transmission service will move towards spreading cost responsibility for all
6 transmission facilities among all participants in the peninsular Florida
7 transmission service area. With the creation of GridFlorida all transmission
8 related costs, including those that were formerly associated with the
9 transmission on the utility's own transmission facilities, will be billed by
10 GridFlorida pursuant to tariffs approved by the FERC. These rates and
11 charges will address not only the costs for operations formerly provided by
12 the affected utility but will include other costs as well. We currently anticipate
13 that the GridFlorida charges will consist of Zonal, System, Grid Management
14 and Scheduling Charges. These charges are described in more detail in
15 GridFlorida Witness William Ashburn's prepared Direct Testimony.

16

17 **Q. How does FPL propose to recover the costs associated with**
18 **GridFlorida?**

19 A. FPL proposes to include incremental transmission costs for GridFlorida in the
20 Capacity Cost Recovery Factor. However, FPL is not seeking recovery at this
21 time. FPL is requesting approval of its proposed methodology to recover the
22 incremental GridFlorida transmission charges through the Capacity Cost
23 Recovery Clause. All costs included in my testimony today are for illustrative

1 purposes. If the methodology is approved, FPL anticipates including the
2 incremental GridFlorida transmission charges in the September 2002
3 Capacity Cost Recovery Projection Filing for Commission review and
4 approval for recovery commencing in January 2003.

5

6 **Q. Please describe FPL's proposed methodology to recover costs**
7 **associated with GridFlorida.**

8 A. FPL proposes to include the GridFlorida transmission charges in the Capacity
9 Cost Recovery Factor.

10

11 **GridFlorida Projected Charges**

12 As described by GridFlorida Witness William Ashburn, the proposed
13 GridFlorida charges include Zonal, System, Grid Management, and
14 Scheduling charges. FPL proposes to include an additional schedule in the
15 Capacity Cost Recovery filing providing these monthly projected charges.
16 This proposed additional schedule is provided as KMD-1, Page 2 of 6.
17 Preliminary estimates show that the payment to GridFlorida for transmission
18 service purchased to serve retail load in 2003 is estimated to be \$366 million
19 (KMD-1, page 6 of 6). This consists of estimates of FPL payments for the
20 Zonal Charge, System Charge, Grid Management Charge and Scheduling
21 Service Charges (for estimating purposes, the scheduling costs are included
22 in Accenture's estimates of Grid Operating Expenses which are collected
23 through the Grid Management Charge).

1 The Zonal Charge estimate of \$293 million consists of FPL's share of the
2 revenue requirements for existing facilities in the FPL zone in service as of
3 12/31/2000, including \$4.7 million for FPL's share of 20% of the TDU facilities
4 revenue requirements included in the FPL zone. As Mr. Ashburn explains,
5 the Zonal Charge recovers the revenue requirements of the zone utility and
6 Seminole and FMPA facilities' revenue requirements embedded in that zone
7 pursuit to a phase-in schedule. Such facilities are automatically phased in to
8 zonal revenue requirements at 20% per year beginning in year 1, or,
9 alternatively, are included at 100% upon a showing at FERC that they meet
10 the integration standard as defined in Order 888.

11

12 The System Charge estimate of \$23 million is a rough estimate used to
13 illustrate FPL's share of revenue requirements for New Facilities (for year 1,
14 those facilities placed in service between 12/31/2000 and 12/31/2002). An
15 estimate based on actual FPL plant additions was used as a proxy for FPL's
16 share of all GridFlorida participants' New Facilities' revenue requirements.

17

18 The Grid Management Charge estimate of \$50 million consists of the return
19 on and amortization of FPL's share of incremental start-up costs as shown in
20 GridFlorida Witness William Ashburn's Exhibit WRA-1 and FPL's share of
21 incremental ongoing annual grid operation costs as detailed in GridFlorida
22 Witness Brad Holcombe's exhibit BLH-3.

1 **Adjustment for Transmission Costs in Base Rates**

2 In order to ensure that there is no double recovery, FPL's proposed
3 methodology calls for the GridFlorida costs to be adjusted for Transmission
4 Costs in Base Rates. Each year the amount of transmission costs currently
5 in base rates is to be adjusted for sales as described below. This amount
6 would then be subtracted from the GridFlorida costs before inclusion in the
7 Capacity Cost Recovery Factor calculation. For illustrative purposes, we
8 have used the preliminary 2000 Cost of Service. (See KMD-1, Page 5 of 6).
9 This shows that the imbedded cost of retail transmission service in 2000 is
10 \$265 million. However, this amount will be updated to reflect the results of the
11 2002 cost of service. This \$265 million would be divided by actual 2000
12 MWh sales of 87,959,341 which results in 0.3013 cents per kWh. This
13 0.3013 cents per kWh multiplied by the projected 2003 MWh sales of
14 98,415,270 results in \$296.5 million transmission costs included in base rates
15 adjusted for sales. This results in the transmission cost in base rates
16 escalated to 2003 to reflect the increase in sales in 2003. (See KMD-1, Page
17 2 of 6, Note 1). This \$296.5 million (KMD-1, Page 2 of 6, Line 6) is then
18 subtracted from the total payment to GridFlorida of \$366 million (KMD-1,
19 Page 2 of 6, Line 5) resulting in a difference of \$69.5 million (KMD-1, Page 2
20 of 6, Line 7).

21

22 **Adjustment for Oil Backout**

23 One other adjustment FPL proposes is to reflect an Oil Back-out flow back to

1 customers, estimated at \$10 million per year. Presently, the retail customers are
2 not paying for any depreciation or return on the depreciable portion of the 500kv
3 Line Oil Backout Project. When the assets are transferred, along with a
4 depreciation reserve that reflects only straight line depreciation, the retail
5 customer will then pay through the GridFlorida portion of the Capacity Cost
6 Recovery charge a return on the net assets and depreciation expense based on
7 straight line depreciation. The retail customer will pay this additional amount
8 until the Oil Backout project is fully depreciated on a straight-line basis over the
9 remaining life of the assets. In order to make this as revenue neutral as possible
10 for the retail customers, FPL proposes to record a deferred gain for the
11 accelerated depreciation which will be a liability and pay the retail customers a
12 return on that liability through the Capacity Cost Recovery Clause. Thus, the
13 return that GridFlorida is charging FPL for the Oil Backout assets will be offset by
14 the return FPL would be flowing back to the retail customers on the deferred
15 gain. In addition, the amortization of the deferred gain will equate to the straight-
16 line depreciation since both are being recorded over the same period of time, the
17 remaining life. The depreciation expense on the Oil Backout assets that
18 GridFlorida charges FPL for serving its retail load will be offset by the
19 amortization of the gain. This \$10 million Oil Backout adjustment (KMD-1,
20 Page 2 of 6, Line 8) results in the incremental GridFlorida charges to be
21 recovered through the Capacity Cost Recovery Clause of \$59.5 million (KMD-
22 1, Page 2 of 6, Line 9) for 2003.

23

1 **Total Costs Recovered through Capacity Cost Recovery Clause**

2 The \$59.5 million is then carried forward to schedule KMD-1, Page 1 of 6,
3 Line 11 and added to the other capacity costs projected for the year (For
4 purposes of this illustration, all other capacity costs are shown as zero). The
5 total cost is adjusted by the Revenue Tax Multiplier of 1.01597, resulting in
6 the estimated total cost to be recovered of \$60 million (KMD-1, Page 2 of 6,
7 Line 16).

8

9 **Allocation to Rate Classes and Factor Calculation**

10 Consistent with the regular Capacity Cost Recovery filing, costs are allocated
11 to the rate classes on a 12CP and 1/13th demand basis. 1/13th of the cost is
12 classified as energy-related and allocated on the basis of contribution to total
13 kWh sales. The other 12/13th is classified as demand-related and allocated
14 based on the contribution of each class to the 12 monthly system peaks. This
15 demand based allocation methodology, used for the Capacity Cost Recovery
16 Clause, is consistent with the treatment of transmission costs in base rates.

17

18 KMD-1, Page 3 of 6 provides the calculation of energy and demand allocation
19 percentages by rate class and KMD-1, Page 4 of 6 provides the calculation of
20 the Capacity Cost Recovery Factors by Rate Class. These calculations use
21 the average 12 CP load factor based on actual calendar data, demand and
22 energy losses based on actual calendar data, and projected kWh sales for the
23 year. For this illustration, actual calendar year 2000 data was used for the 12

1 CP load factor and energy and demand losses, and projected sales for 2003
2 were used. KMD-1, Page 4 of 6 shows the preliminary incremental
3 GridFlorida transmission costs of \$60 million (adjusted for revenue taxes)
4 allocated to each rate class and the resulting Capacity Cost Recovery Factor
5 for each rate class. Based on these preliminary estimates, the impact of
6 these incremental GridFlorida transmission costs in year 1 of GridFlorida
7 operations is \$0.69 on a Typical Residential 1,000 kWh Bill (See KMD-1,
8 Page 4 of 6, RS1 Rate Class).

9
10 **Filing Process**

11 FPL proposes to include the GridFlorida transmission charges (less the
12 amount of transmission costs included in base rates adjusted for sales, and
13 adjusted for the amortization of Oil Backout flow back) in its Capacity Cost
14 Recovery Filings each year as part of the regular capacity cost recovery
15 process where the Final True up is filed in April for the previous year, the
16 Estimated/Actual True Up is filed in August for the current year, the
17 Projections are filed in September for the subsequent year, the Hearing is
18 held in November and new Capacity Charges reflecting incremental
19 GridFlorida transmission charges become effective from January through
20 December.

21
22 **Q. Why is it appropriate to recover the incremental transmission costs for**
23 **Grid Florida through the Capacity Cost Recovery Clause?**

1 A. FPL believes it is appropriate for the Commission to expressly approve the
2 methodology to recover the GridFlorida transmission costs, to the extent they
3 exceed the amount reflected in base rates, through the Capacity Cost
4 Recovery Clause. Such approval would; 1) avoid double recovery, 2) avoid
5 under/over recovery of costs, 3) would be administratively efficient and would
6 greatly facilitate review of the level and basis for transmission costs in the
7 future, and 4) appear to be the type of costs the Commission acknowledged
8 would be appropriate in establishing the Capacity Cost Recovery Clause.

9
10 First, FPL's proposed methodology, whereby the GridFlorida transmission
11 costs recovered through the Capacity Cost Recovery Clause are adjusted for
12 the amount included in base rates, avoids double recovery of these costs.

13
14 Second, these incremental transmission costs are volatile and as such are
15 more appropriately reflected in a clause to avoid over/under recovery of costs.
16 As described in the Joint Panel Testimony regarding the GridFlorida proposal,
17 the Joint Applicants currently have pending requests for interconnection of 53
18 plants representing 26,468 MW of non-utility owned generation to come on
19 line between 2001 and 2005. The speed with which future interconnections
20 are made is uncertain and will result in unpredictable fluctuations in
21 GridFlorida's System Charge. There is also fluctuation in costs due to the
22 various transition proposals of the pricing plan. As described in GridFlorida
23 Witness William Ashburn's prepared Direct Testimony, the cost shifting

1 mitigation mechanism of the GridFlorida pricing structure includes phasing-
2 out of zonal charges in years 6 through 10, phasing in of credits for
3 Transmission Dependent Utilities (TDU) facilities in years 1 through 5, and
4 phasing out charges for pancaked rates in long-term contracts in years 6
5 through 10. The combined affect of phasing out zonal charges and elimination
6 of pancaked rates in years 6 through 10, along with the uncertainty of the
7 level of new construction throughout GridFlorida and other factors prevent me
8 from quantifying the actual potential charges for 2003. For instance, the
9 current estimates of start-up and ongoing grid operation costs include a 20%
10 to 30% contingency.

11

12 Third, including the incremental GridFlorida transmission costs in the
13 Capacity Cost Recovery Clause would be administratively efficient because
14 GridFlorida costs would simply become part of the already established
15 Capacity Cost Recovery filing and hearing process. Furthermore, including
16 the incremental GridFlorida transmission costs in the Capacity Cost Recovery
17 Clause would greatly facilitate review of the level and basis for transmission
18 costs in the future since these costs would become part of the already
19 established Capacity Cost Recovery Audits conducted by the Commission
20 Staff Auditors each year. Additionally, including the incremental GridFlorida
21 transmission costs in the Capacity Cost Recovery Clause rather than
22 establishing a separate clause results in more than \$1 million in savings in
23 billing system programming costs.

1 Finally, when establishing the Capacity Cost Recovery Clause, the
2 Commission acknowledged that costs other than purchased power capacity
3 costs could be appropriate for recovery through the Capacity Cost Recovery
4 Clause. In July 1991, this Commission issued Order No. 24840 opening a
5 “generic docket” to investigate the recovery of off-system capacity purchases
6 by Florida’s investor owned electric utilities. Thereafter, in February 1992, the
7 Commission issued Order No. 25773 in Docket No. 910794-EQ. This order,
8 which concluded the Commission’s generic investigation, established the
9 Capacity Cost Recovery Clause that has been used thereafter. In
10 establishing this clause, the Commission noted that the capacity portion of
11 purchased power contracts has been recovered through base rates and that
12 “the capacity portion of those costs are not recoverable until the utility has a
13 full requirements rate case.” (Order at p. 4). Thus, to remove this
14 disincentive, the Commission created the Capacity Cost Recovery Clause for
15 the purpose of recovery of capacity costs not included in base rates. During
16 the course of this generic docket, the Commission responded to requests to
17 broaden the Clause to permit the recovery of costs other than those directly
18 related to purchase power contracts. The Commission confined the Capacity
19 Clause, which it approved for implementation but stated:

20
21 “FPC and FIPUG suggested other costs which may be appropriate for
22 inclusion in a capacity factor. FPC stated that any other fixed non-fuel
23 costs associated with the purchase of capacity (such as non-fuel O &

1 M) should also be considered as well as any related transmission
2 wheeling charges. FIPUG also suggested that conservation programs
3 are related to demand side management and peak shaving.
4 Therefore, we find any incentive payments under such programs to be
5 capacity costs are to be included in the recovery factor. While there
6 may be merit in these suggestions, we do not have sufficient
7 information at this point to determine definitively what additional items
8 may be appropriate. The suggestions would require consideration in a
9 rate case or other generic proceeding to determine the exact nature
10 and magnitude of such new charges. For the purpose of this docket,
11 we find the recovery factor to be limited to approval of demand related
12 capacity costs specifically identified in purchased power contracts.
13 Other issues may be taken up in appropriate forums for possible
14 inclusion on a utility by utility basis". (Order No. 25773 at p. 5).

15
16 FPL believes that the Commission clearly acknowledged that costs other than
17 Capacity charges for purchased power contracts, specifically "... any related
18 transmission wheeling charges," could be appropriately recovered through the
19 Capacity Clause but that to do so would require consideration of additional
20 information.

21
22 For these reasons, FPL believes it is appropriate to bring this matter to the
23 Commission for consideration and approval.

- 1 Q. Does this conclude your testimony?
- 2 A. Yes, it does.

1 BY MR. CHILDS:

2 Q Ms. Dubin, would you please summarize your testimony?

3 A Yes. The purpose of my testimony is to illustrate
4 the estimated incremental impact of purchasing transmission
5 service from GridFlorida to serve FPL retail customers, and to
6 request approval of a methodology to quantify and recover such
7 incremental GridFlorida transmission charges through the
8 capacity cost recovery clause. FPL proposes to include the
9 GridFlorida transmission charges less the amount of
10 transmission costs included in base rates adjusted for sales in
11 its capacity cost-recovery filings each year as part of the
12 well-established capacity cost recovery process where the final
13 true-up is filed in April for the previous year, the estimated
14 actual true-up is filed in August for the current year, the
15 projections are filed in September for the subsequent year, the
16 hearing is held in November, and new capacity charges
17 reflecting the incremental GridFlorida transmission charges
18 become effective in January through December.

19 All costs included in my testimony today are for
20 illustrative purposes. If the methodology is approved, FPL
21 anticipates including the incremental GridFlorida transmission
22 charges in the September 2002 capacity cost recovery projection
23 filing for Commission review and approval for recovery
24 commencing in January 2003. Based on preliminary estimates
25 provided in my testimony, the impact of the incremental

1 GridFlorida transmission cost in year one of GridFlorida
2 operations is 69 cents on a typical residential 1000 kWh bill.

3 The incremental GridFlorida transmission costs are
4 volatile, and as such, are more appropriately reflected in a
5 cost recovery clause. FPL believes it is appropriate for the
6 Commission to expressly approve the methodology to recover the
7 GridFlorida transmission costs to the extent that they exceed
8 the amount reflected in base rates through the capacity
9 cost-recovery clause. This methodology to adjust for an amount
10 in base rates and recover the incremental costs through the
11 capacity clause is consistent with prior treatment, for
12 example, our St. Johns capacity costs.

13 Approval of the GridFlorida transmission costs
14 through the capacity cost recovery clause would avoid double
15 recovery of costs, avoid over/underrecovery of costs, would be
16 administratively efficient, and would greatly facilitate the
17 review of the level and basis for transmission costs in the
18 future, and appear to be the types of costs the Commission
19 acknowledged will be appropriate in establishing the capacity
20 cost recovery clause.

21 This concludes my summary.

22 MR. CHILDS: We tender Ms. Dubin for
23 cross-examination.

24 CHAIRMAN JACOBS: Any cross from the aligned parties?
25 Mr. McGlothlin.

1 MR. McGLOTHLIN: I have one quick question for
2 clarification, if I may.

3 CROSS EXAMINATION

4 BY MR. McGLOTHLIN:

5 Q Ms. Dubin, you said that the impact on the typical
6 residential bill would be 69 cents for 1000 kWh. What is the
7 amount of the typical residential bill currently, and a
8 ballpark is fine?

9 A The typical 1000 kWh residential bill starting in
10 October of this year is \$81.66. That's for 1000 kWh.

11 MR. McGLOTHLIN: That's all I have. Thank you.

12 CHAIRMAN JACOBS: Ms. Paugh.

13 MS. PAUGH: No questions.

14 CHAIRMAN JACOBS: Mr. Howe.

15 MR. HOWE: No questions.

16 CHAIRMAN JACOBS: Mr. Twomey.

17 MR. TWOMEY: I have just a few, Mr. Chairman.

18 CROSS EXAMINATION

19 BY MR. TWOMEY:

20 Q Good afternoon.

21 A Good afternoon.

22 Q On Page 7 of your prefiled direct testimony, on Line
23 9, you begin by saying that the embedded cost of retail
24 transmission service in the year 2000 is 265 million, correct?

25 A Yes.

1 Q And then you are going to update that to reflect the
2 results of 2002 cost of service. And my question is, and it
3 may be in your exhibit and I just didn't understand it, is the
4 265 million composed of recovery on investment and, therefore,
5 like a fixed cost recovery, or is it variable costs, or is it
6 both?

7 A It's everything that would be included in base right
8 now based on the cost of service for 2002.

9 Q So is that to say that it is both fixed and variable
10 cost recovery?

11 A Yes.

12 Q Or do you know?

13 A I believe it's both.

14 Q Do you know the ratio in the 265 million of fixed
15 versus variable?

16 A No, I do not.

17 Q Who would know that in this proceeding, if anybody?

18 A I'm not sure. Maybe one of the other witnesses.

19 Q Okay, fine. Now, if I understand your methodology
20 for this adjustment, you are going to take that 265 million and
21 you divide it by actual 2000-megawatt sales, right?

22 A Yes.

23 Q Which gives you the .3013 cents per kilowatt hour?

24 A Right.

25 Q And then you multiply it times your projected

1 kilowatt hour sales for the year 2003, is that correct?

2 A That's correct, Mr. Twomey. What we are trying to do
3 is to recover only the incremental costs through the capacity
4 clause. So what we want to be able to do is give the customer
5 the credit for the sales growth. So that's what we are trying
6 to do there.

7 Q Okay. But help me understand this, is it not
8 possible that if you take a factor that includes both fixed --
9 yes, includes both fixed and variable costs and then multiply
10 it times an increase in sales that you could recover more in
11 fixed costs than you would actually have? Do you follow my
12 question?

13 A No, I'm sorry, I don't.

14 Q Okay. Let me try it again. Would it not be possible
15 that you could have a -- handle the increased sales that you
16 project for the year 2003 with the existing plant or fixed
17 costs that you have now in the year 2001, is that possible?

18 A The purpose of that adjustment is in order to adjust
19 for sales so that you are not including too much of an
20 incremental amount in your capacity clause. So to that extent
21 it's a refinement so that customers get the benefit of the
22 sales growth.

23 Q Yes, ma'am. And I don't mean to be unfair, and I'm
24 not that much of an accomplished cost accountant, but you do
25 understand, of course, the difference between fixed and

1 variable costs, right?

2 A Yes.

3 Q Okay. And my question is -- and it's fine if you
4 don't know, but do you know whether or not the fixed capital
5 assets that you have now in providing 2000 -- yes, year 2000
6 transmission services would be adequate to provide the same
7 level of service you project for the year 2003? Do you know
8 that or not?

9 A These are a proxy. These are for illustrative
10 purposes and it's based on 2000, and we use 2003 sales for
11 illustrative purposes.

12 Q Well, perhaps somebody that is more accomplished in
13 accounting can help me follow up on this, but the result then
14 is you are going to have --

15 A Mr. Twomey, maybe -- it is the same type of a
16 calculation that is used in the capacity clause right now for
17 incremental capacity costs that are recovered through the
18 capacity cost recovery clause.

19 Q But those are -- the capacity recovery charge now is
20 just for the recovery of energy costs, is it not?

21 A It's the recovery for the capacity clause.

22 Q I'm sorry, capacity, right. One last question.

23 A Yes.

24 Q Ms. Dubin, on your exhibit Page 2 of 6?

25 A Yes.

1 Q Help me understand the numbers that are in the lower
2 left-hand corner of the exhibit in Note 1, the \$265 million
3 figure?

4 A Yes.

5 Q That's what you actually spent for transmission
6 services in 2000?

7 A That is the amount that was included in base using
8 the 2000 cost of service. It is then divided by the actual
9 sales for the same time to come up with cents per kwh. Then
10 you take that amount times the projected sales to gross-up the
11 amount that is included in base, so that you are not
12 overcharging the customer in the amount that is going to be
13 recovered through the incremental amount in the capacity
14 clause.

15 Q Okay. I see now. So you project that you will pay
16 GridFlorida 366 million in the year 2003, is that correct?

17 A Yes.

18 Q You have taken from that amount your grossed up 296.5
19 million?

20 A Yes.

21 Q Which you have gotten by your adjustment factor?

22 A Yes.

23 Q Which gives you the 69.5 million?

24 A Yes.

25 Q Which is the increment. Now, it is not the job of

1 your testimony to explain what additional benefits are
2 associated with that 69.5 million, right?

3 A The other witnesses go to the benefits of
4 GridFlorida, yes.

5 MR. TWOMEY: That's what I thought. Thank you very
6 much. That's all.

7 CHAIRMAN JACOBS: Ms. Dubin, we are told that there
8 will be savings that will accrue as a result of the
9 implementation of GridFlorida. Does your analysis seek to
10 identify those? And if so, how?

11 THE WITNESS: Those will be included in the other
12 testimony regarding the benefits of GridFlorida.

13 CHAIRMAN JACOBS: Okay. In your testimony here where
14 you speak about -- on Page 7 here, I believe it was 7, the
15 adjustment to base rates?

16 THE WITNESS: Yes.

17 CHAIRMAN JACOBS: Assuming that those savings would
18 be realized, you would expect at some point in time that
19 instead of this net positive number, you would begin to see a
20 net negative number, wouldn't you?

21 THE WITNESS: For the costs included in GridFlorida?
22 I'm sorry, Commissioner.

23 CHAIRMAN JACOBS: On Page 7.

24 THE WITNESS: Yes.

25 CHAIRMAN JACOBS: Beginning at Line 17, where you

1 projected out the total amount that the 295.5 million would be
2 what was collected from base rates, correct?

3 THE WITNESS: Yes.

4 CHAIRMAN JACOBS: And then your payment to
5 GridFlorida in your analysis would be --

6 THE WITNESS: Excuse me, Commissioner, I'm sorry,
7 that is not an amount -- that would be the amount that you
8 would adjust, that you would calculate your incremental costs.
9 We would be making no adjustments to base. The amount in base
10 rates would stay the same and you would --

11 CHAIRMAN JACOBS: Exactly my point. Exactly my
12 point. Base rates are going to derive for you in your
13 projection here 295.5 million.

14 THE WITNESS: Yes. The adjustment that we make is
15 only for the calculation to ensure that we are not requesting
16 recovery of too much through the capacity clause, that we are
17 giving the customers the benefit of that sales growth.

18 CHAIRMAN JACOBS: I understand, and I'm with you.
19 And the 366 would be the basis of your agreement with
20 GridFlorida, under the provisions of your agreement with
21 GridFlorida that would be your payment?

22 THE WITNESS: That would be the bill that we would
23 receive, yes.

24 CHAIRMAN JACOBS: What I'm suggesting is that if we
25 assume that the projections for the impact of GridFlorida, we

1 would ultimately begin to see your payments to GridFlorida
2 under your -- under the agreement begin to fall below what
3 historically you projected under base rates because of the
4 savings.

5 THE WITNESS: It could be, Commissioner. The reason
6 why we are asking for the capacity recovery is because the
7 costs are hard to predict and so that any over or
8 underrecoveries are reflected in the capacity clause.

9 CHAIRMAN JACOBS: You take me -- segue into my
10 question, then. If you follow your methodology and we assume
11 my hypothetical, then isn't that volatility going to cause you
12 to then go into a period where you are going to probably be
13 having a credit, more credits than positive recoveries under
14 your clause?

15 THE WITNESS: I don't know that to be the case,
16 but --

17 CHAIRMAN JACOBS: But it could occur?

18 THE WITNESS: Depending on the costs. And I think
19 you may see savings in other areas.

20 CHAIRMAN JACOBS: Okay. Thank you. Staff.

21 MR. KEATING: Just a few questions.

22 CROSS EXAMINATION

23 BY MR. KEATING:

24 Q Ms. Dubin, did you evaluate in preparing your
25 testimony any cost recovery methodology other than the cost

1 recovery clause?

2 A I looked at the costs for GridFlorida and evaluated
3 them to see what would be the most appropriate method of
4 recovery.

5 Q So did you evaluate any methodology other than the
6 cost recovery clause?

7 A We looked at all the methods that we have and it was
8 the best fit with the capacity cost recovery clause because of
9 the volatility of the costs.

10 Q What methodologies did you evaluate?

11 A We looked at all the clauses.

12 Q All the clauses?

13 A Uh-huh. And we looked at the costs. Maybe that's a
14 better way to describe it. We looked at the costs to see how
15 they may be better reflected. The costs for GridFlorida are
16 volatile. And traditionally a cost-recovery clause is the most
17 appropriate method to recover costs that are volatile so that
18 you ensure that there is no overcharging or undercharging of
19 costs.

20 Q In preparing your testimony, did you evaluate the
21 impact on ratepayers of recovery through base rates?

22 A No. We looked at it and the costs were volatile and
23 they are more appropriate through a capacity cost recovery
24 clause.

25 CHAIRMAN JACOBS: Excuse me. That doesn't preclude

1 overrecovery or underrecovery of costs, does it?

2 THE WITNESS: No, Commissioner. But with -- for
3 example, if I just looked strictly at, say, the
4 interconnections, right now -- this goes to the volatility of
5 the costs. There are currently 74 pending requests for
6 interconnections representing 37,000 megawatts. It is very
7 difficult to predict how many interconnections will be made,
8 how quickly they will be made, how much they will cost. And
9 conversely, with the slowdown in the economy, you don't know if
10 that is going to occur at all or if the interconnections are
11 going to slow down.

12 Our projections of those costs can vary in the tens
13 of millions each year. So a cost recovery clause, the capacity
14 cost recovery clause is appropriate for it so that you don't
15 overcharge or undercharge.

16 CHAIRMAN JACOBS: Aren't you charging -- I think you
17 mentioned here that there is a charge for each interconnection,
18 right?

19 THE WITNESS: Yes.

20 CHAIRMAN JACOBS: And that is not covered in the
21 majority of the costs of that interconnection?

22 THE WITNESS: Well, these are the pending
23 interconnections associated with GridFlorida.

24 CHAIRMAN JACOBS: I understand. But in terms --
25 going to your issue of volatility, even if you had the increase

1 in volatility, wouldn't the costs, the interconnection charges
2 cover essentially the majority of those costs so that it would
3 smooth any kind of volatility curve there?

4 THE WITNESS: No. The amount of the
5 interconnections, how frequently they are going to be made, all
6 depend on how much those costs would be.

7 COMMISSIONER DEASON: Okay. But how does that affect
8 your volatility? We had testimony earlier that the revenue
9 recovery mechanism that GridFlorida would have to employ would
10 be a tariff filing at FERC. And that there is risk upon
11 GridFlorida, in fact, even incentive for them to operate
12 effectively because they have to make a tariff filing, kind of
13 like a base rate proceeding which you want to avoid, but
14 apparently GridFlorida would have to do with FERC. And that it
15 would seem to me that would minimize your volatility until they
16 could make a rate filing and change the rate which you pay.

17 THE WITNESS: Right, but there would be changes from
18 year to year and there would also be -- there is phasing in of
19 costs, there is phasing out of costs. Right now there is some
20 uncertainty. There is contingencies added into some of the
21 costs right now because of the uncertainty, and some of the
22 volatility or fluctuations in costs regarding interconnections
23 whether or not, as I said, there is 74 pending requests right
24 now, how fast those --

25 COMMISSIONER DEASON: But those requests are somebody

1 that interconnects and they are going to be paying transmission
2 revenue to GridFlorida, are they not?

3 THE WITNESS: Yes.

4 COMMISSIONER DEASON: Which could have the effect of
5 decreasing your net bill, correct?

6 THE WITNESS: It could. It could go both ways.

7 COMMISSIONER DEASON: Well, can you compare what the
8 volatility of transmission costs that you pay to GridFlorida in
9 relation to fuel costs?

10 THE WITNESS: In terms of volatility?

11 COMMISSIONER DEASON: In terms of volatility, yes.

12 THE WITNESS: I think the costs for the
13 interconnections are uncertain.

14 COMMISSIONER DEASON: No, I'm not talking about --
15 I'm talking about what you pay to GridFlorida. I assume -- I
16 don't know how it's going to work, but if you write a monthly
17 check to GridFlorida, how much is that going to change from one
18 month to the next?

19 THE WITNESS: That I don't know.

20 COMMISSIONER DEASON: So you wouldn't know how that
21 would compare with fuel costs, either. I guess I'm having a
22 difficulty understanding why these charges are so volatile that
23 they have to be recovered through a clause.

24 THE WITNESS: Well, there is a couple of different
25 things with the pricing proposals that I think some of the

1 other witnesses have talked about or are talking about. The
2 phasing in of costs, the phasing out of costs, as well as some
3 of the uncertainty, as well as some of these interconnections
4 and how frequently they will be made, what they will cost. And
5 just looking at our projections for interconnections, the
6 dollars can fluctuate in the tens of millions each year.

7 COMMISSIONER PALECKI: Is that included in the
8 record? I don't recall seeing that study. Is that an FPL
9 projection?

10 THE WITNESS: Yes.

11 COMMISSIONER PALECKI: Is it part of your testimony
12 or any of the testimony that has been filed?

13 THE WITNESS: I believe it was a late-filed exhibit
14 talking about the amount of interconnections. I don't know,
15 Mr. Palecki --

16 COMMISSIONER PALECKI: Staff, has that document been
17 filed to your knowledge?

18 MR. KEATING: There was a table that was a late-filed
19 exhibit to the panel deposition that was the number of --

20 THE WITNESS: I have it here. It's joint panel
21 Late-filed Exhibit Number 2, which talks about the total
22 megawatt hours. Excuse me, total megawatts.

23 MR. KEATING: That table is -- the represents the
24 interconnection queue it's my understanding, but no dollars.

25 COMMISSIONER PALECKI: Are there dollars reflected on

1 that exhibit?

2 THE WITNESS: There are not dollars reflected on that
3 exhibit.

4 COMMISSIONER PALECKI: So that is the exhibit that we
5 saw earlier regarding the number of interconnections from
6 projected new generation in the State of Florida?

7 THE WITNESS: Right. There are dollars associated
8 just in the proxy that is included in my testimony where we
9 talk about additions are 123 million for 1999 and 2000, we have
10 used that as a proxy.

11 COMMISSIONER PALECKI: I guess I'm trying to
12 understand not only where the volatility lies, but the
13 potential dollar amounts. Is there something that you could
14 file that you are aware of that might provide that information
15 to us?

16 THE WITNESS: I'm sure we could file something. The
17 amount of interconnections that we are filing and the megawatt
18 hours are included in this exhibit.

19 COMMISSIONER PALECKI: And apart from the number of
20 interconnections from new generation, what are some of the
21 other areas that could cause volatility?

22 THE WITNESS: There is the phasing in of some of the
23 costs and phasing in that some of the other witnesses
24 described. The phasing out of the zonal charges in years six
25 through ten, phase in of credit, the phasing out of pancake

1 rates. As well as some of the other costs are the GridFlorida
2 management costs as well as the start-up costs. They have
3 contingencies that are in the neighborhood of 20 to 30 percent
4 because of uncertainty.

5 COMMISSIONER PALECKI: Do you anticipate that there
6 would continue to be a great deal of volatility after the RTO
7 is established, and let's just say in its tenth year of
8 operation are we still going to be seeing volatility or will
9 things have settled down by then?

10 THE WITNESS: That would be a guess on my part,
11 Commissioner.

12 COMMISSIONER PALECKI: I know that Florida Power and
13 Light has been very successful in the past when we have put in
14 place incentive mechanisms. And one of the areas that I
15 personally would like to look into, especially when we talk
16 about the creation of the RTO providing additional generation
17 choices and perhaps lower costs because of those additional
18 choices, is some sort of an incentive mechanism that would
19 allow Florida Power and Light and the other utilities to
20 increase their profits as they work to decrease their costs.
21 Have you looked at any sort of mechanism like that that could
22 work either within one of the clauses or in base rates?

23 THE WITNESS: Not for GridFlorida, no.

24 COMMISSIONER PALECKI: I think I would like to ask
25 for a late-filed exhibit, Mr. Chairman, that would just reflect

1 what potential dollar volatility we're talking about. I don't
2 know how to be any more specific, but I guess I would ask the
3 company to use, you know, the best information they have
4 available from their projections.

5 CHAIRMAN JACOBS: Show that marked as Exhibit 19.
6 (Late-filed Exhibit 19 marked for identification.)

7 COMMISSIONER JABER: Ms. Dubin, is it that the costs
8 are volatile or that the costs are recurring that gives you
9 concern?

10 THE WITNESS: The costs being volatile and the
11 fluctuations in them. Particularly in interconnections, we
12 don't know how quickly they will be made, how slowly they will
13 be made, how many, what they will cost. And additionally with
14 the slowdown in the economy also it could go the opposite way,
15 they could be a lot slower than we thought.

16 CHAIRMAN JACOBS: Did you anticipate that some of
17 that concern could be put aside by executing some sort of
18 contract that would lock the price in?

19 THE WITNESS: I still think that maybe the amount of
20 interconnections may still affect that.

21 COMMISSIONER JABER: Okay. Explain to me how,
22 because I want to understand the concern related to volatility
23 a little bit more.

24 THE WITNESS: Okay. Right now there is, I think, 74
25 pending requests for over -- I think it's 30,000 megawatts. We

1 don't know how -- if they are all going to -- how they are
2 going to play in. Are they going to be made all at the same
3 time, if they are going to be spread out over a longer period
4 of time, if we are going to have additional ones, if the
5 slowdown in the economy is going to lessen them. We don't know
6 what the costs for all of those are. We do know looking at
7 FPL's costs that those costs can fluctuate in the neighborhood
8 of tens of millions from year to year.

9 COMMISSIONER JABER: And those interconnections are
10 not within your control?

11 THE WITNESS: They are within the whole grid region.

12 COMMISSIONER DEASON: I think that's the point that I
13 was going to inquire about next was the fact that these are
14 costs over which you have no control. And I guess the question
15 is your theme seems to be that these are volatile costs like
16 fuel, therefore, there should be a clause to recover those.
17 Did you give consideration to the fact that this is a needed
18 input for you to provide service, and these costs are basically
19 costs you incur under a tariff under which you have no control
20 over those costs as being a basis to have a recovery under some
21 type of a clause procedure?

22 And what I draw your attention to is in the water and
23 wastewater industry, in fact, it's within statute for a water
24 or wastewater company that purchases water from another
25 utility, or when there is an electric rate increase, these are

1 costs over which -- are essential services over which they
2 cannot control and they are basically subject to some type of a
3 tariff which is mandated, we allow pass-through of those costs.
4 We don't -- it's not within a clause, we just change the
5 company's base rates.

6 And, Commissioner Jaber, you may be more familiar
7 with this than I am, but we change the companies base rates
8 when there is a change in that rate. For example, if
9 GridFlorida changes its tariff once a year, and you present
10 that to us and said, you know, this is what we were paying
11 before under this tariff and it has increased ten percent, and
12 this is what we project. Have you looked at some type of
13 mechanism of that sort, a pass-through mechanism as opposed to
14 a recovery clause mechanism?

15 THE WITNESS: No, Commissioner. We looked at the
16 clause because of the fluctuations in it, as well as some other
17 efficiencies that you might gain from it. It's a
18 well-established clause, it's got hearings set, it's got an
19 audit process already in place, from a billing standpoint it is
20 already in our billing system. So we looked at those things,
21 also.

22 COMMISSIONER JABER: But that goes back to the point,
23 regardless of the amount of fluctuation, if it is truly a cost
24 you have to bear and there isn't even sort of a prudence review
25 or a true-up that is necessary, wouldn't a pass-through

1 mechanism of only that cost be preferable?

2 THE WITNESS: Well, I think that the method that we
3 proposed would work in that so that you don't overcharge or
4 undercharge the customers in that same way.

5 COMMISSIONER JABER: How is that different from a
6 strict pass-through? How would you ever be in a position of
7 undercharging and overcharging if you are just passing through
8 the interconnection costs?

9 THE WITNESS: Well, you are able to true-up for
10 overrecoveries and underrecoveries in the clause.

11 CHAIRMAN JACOBS: What that really says is you need
12 flexibility in how you charge back to the interconnectors.
13 That's the only way you could really have substantial
14 overrecoveries and underrecoveries. You need flexibility under
15 your tariffs, under the GridFlorida tariffs, isn't that really
16 the point?

17 THE WITNESS: We looked at the cost recovery clause
18 because of the fluctuations in costs, and that's why we
19 proposed the method that we have.

20 COMMISSIONER JABER: Okay. And once and for all,
21 that's the only thing you looked at, you only looked at the
22 clauses as a possible cost recovery mechanism?

23 THE WITNESS: Yes. We looked at --

24 COMMISSIONER JABER: So to the degree we found a cost
25 recovery mechanism in the future that would address your

1 concerns about fluctuations and being able to true-up for the
2 benefit of the consumer, you would find that acceptable?

3 THE WITNESS: I believe so.

4 COMMISSIONER DEASON: Let me kind of clarify. The
5 basis of my question was not to suggest that a pass-through is
6 necessarily preferable in this situation than a clause. I'm
7 not really sure. I guess that just may be something that needs
8 to be explored. But I guess the basis of the question is more
9 along the lines of the fact that it seems to me that perhaps a
10 justification for some type of either a pass-through or a
11 clause recovery mechanism is the fact that these are essential
12 services under which you must -- you must obtain and must pay a
13 tariffed rate which is set by a regulatory body, and that it
14 should be recovered under some type of a mechanism not because
15 the costs necessarily are going to fluctuate, but because of
16 the fact that they are essential and the rate that you pay is
17 set by a regulatory authority.

18 And it seems to me that there are incentives for a
19 utility to operate efficiently when they can control costs.
20 And, therefore, that is one of the reasons why you set cost
21 recovery under a base rate scenario. It gives proper
22 incentives and even allows revenue sharing mechanisms, which
23 Commissioner Palecki indicated earlier. But if you have no
24 control over GridFlorida's costs, perhaps that is the reason
25 why it shouldn't be part of base rates and it perhaps would be

1 appropriate to include in some type of a recovery mechanism, a
2 pass-through, or a clause, or something of that sort. And you
3 did not give any consideration to that, it was strictly
4 volatility was the basis for your testimony?

5 THE WITNESS: The volatility and the uncertainty of
6 the costs. If we set it as the base rates, we would be setting
7 it too high or too low. And the capacity clause allocates
8 transmission costs as a revenue requirement would using the
9 12 CP and 1/13th, and also it has been established before that
10 there is other incremental costs that go through the capacity
11 clause where an adjustment is made for what is included in
12 base. It is a well-established clause, it's one where there is
13 a schedule set, and that there is an audit process and all of
14 that.

15 Additionally, the savings in terms of billing. There
16 is about a million dollars in savings in just our billing
17 system to include it that way. So those are some of the things
18 we looked at in determining that it made sense to ask for
19 recovery through that clause.

20 CHAIRMAN JACOBS: I'm sorry, Commissioner, were you
21 done?

22 COMMISSIONER DEASON: Well, I was a little puzzled by
23 your last statement as to why one mechanism is less costly in
24 terms of billing costs than another. Can you explain?

25 THE WITNESS: Because it would simply be added to the

1 capacity charge now, so it would not -- it would be invisible
2 to our billing system. It would just be included in that.

3 COMMISSIONER DEASON: So it would just be numbers
4 added to that mechanism which already exists?

5 THE WITNESS: Yes.

6 COMMISSIONER JABER: Okay. That's a clarification I
7 needed. You're not proposing similar to the interim report the
8 creation of some new clause?

9 THE WITNESS: No. We would be using the established
10 clause, we would be using all the same forms, all the same
11 filing dates, the same audits, and the same billing procedure.

12 CHAIRMAN JACOBS: Any other questions?

13 COMMISSIONER JABER: It just begs a question. If you
14 thought we always had the authority to allow recovery for an
15 RTO using the capacity recovery clause, how did you let the
16 recommendation get so far in the interim report? Why did you
17 let it get that far?

18 THE WITNESS: I'm sorry.

19 COMMISSIONER JABER: I am sure you are the wrong
20 person to ask this. There is a recommendation in the Energy
21 Commission interim report that calls for the creation of a cost
22 recovery clause for the RTO. And if it was always possible to
23 have recovery through our capacity clause, why did your company
24 support the Energy Commission proposal as it relates to
25 creating a new clause?

1 THE WITNESS: That I'm not sure -- I know we had
2 always been discussing clause recovery.

3 COMMISSIONER JABER: This is why Bill Walker never
4 testifies.

5 (Laughter.)

6 CHAIRMAN JACOBS: And on that note, staff?

7 MR. KEATING: Staff has no further questions.

8 CHAIRMAN JACOBS: Very well.

9 COMMISSIONER DEASON: I have a quick question. How
10 did you determine the amount of transmission costs that are
11 currently being recovered in base rates? I know you started
12 with 265 million and then you -- that was for 2000 actual, then
13 you escalated it for increased sales in the year 2003. I guess
14 my question is what was the basis for the 265 million?

15 THE WITNESS: We looked at the 2000 costs of service,
16 that is the traditionally allocated costs of service and that
17 is where we got our numbers from.

18 COMMISSIONER DEASON: So that cost of service study,
19 all of the transmission costs were allocated and you took --
20 and it was \$265 million?

21 THE WITNESS: Yes.

22 COMMISSIONER DEASON: And costs of service, that
23 includes return on the investment, a profit level?

24 THE WITNESS: Yes.

25 COMMISSIONER DEASON: And income taxes on that?

1 THE WITNESS: Yes.

2 CHAIRMAN JACOBS: Redirect.

3 MR. CHILDS: Yes, I have questions.

4 REDIRECT EXAMINATION

5 BY MR. CHILDS:

6 Q Ms. Dubin, does Florida Power and Light Company
7 currently make adjustments in the capacity clause for capacity
8 costs that are purchased -- or, excuse me, that are recovered
9 through base rates?

10 A Yes, we do.

11 Q And are those capacity costs for purchased power
12 contracts?

13 A Yes.

14 Q Does the company also recover some transmission costs
15 through the capacity clause currently?

16 A Yes, we do.

17 Q And does it also pass through to customers the
18 benefits of transmission charges that it currently makes?

19 A Yes, those revenues are flowed back through the
20 capacity clause.

21 Q So is it correct then that the proposal you are
22 making is simply for an additional type of charge for
23 transmission to be reflected in the clause?

24 A Yes.

25 Q Do you know whether if GridFlorida had formula rates

1 that the actual costs associated with interconnections or other
2 costs would be passed on to all of the participants of
3 GridFlorida, if they had formula rates?

4 A I'm sorry, Mr. Childs.

5 Q Do you know whether GridFlorida has formula rates or
6 is proposing formula rates?

7 A No.

8 Q Pardon?

9 A No.

10 Q Okay. Do you know who might know?

11 A Mr. Mennes.

12 Q I'm trying to make a distinction about whether the
13 costs are set on an historic basis or whether they are set to
14 recover actual costs, and you are not aware?

15 A No.

16 COMMISSIONER DEASON: Mr. Childs, is that something
17 that we are going to be able to explore with another witness?
18 A lot of folks in the back of the room are shaking their heads
19 like they don't want to touch it, but are we going to explore
20 that?

21 MR. CHILDS: Another one, huh? Pardon?

22 COMMISSIONER DEASON: Are we going to be able to explore
23 that with another witness?

24 MR. CHILDS: We will try, yes, sir.

25 COMMISSIONER DEASON: Because I want some more

1 information of what you referred to as formula rates, because
2 it seems like that may be something different from what I heard
3 earlier from Mr. Naeve indicating to me that there are
4 incentives within the regulatory mechanism for GridFlorida to
5 operate efficiently. And depending on what the definition of
6 formula rates are, it appears like it might be just a total
7 pass-through. You crank out a formula and that's what they
8 receive in terms of what they bill out and receive and there
9 may not be a lot of incentive for GridFlorida to operate
10 efficiently.

11 MR. CHILDS: We will try to address that for you.
12 And I'm trying to go to your point about whether the
13 distinction between the -- or the suggested distinction between
14 the way that GridFlorida might charge, which I characterized or
15 thought of as on a historic basis, setting rates for fixed
16 costs on a prior period. We will come back to that.

17 BY MR. CHILDS:

18 Q Ms. Dubin, I wanted to ask you about the questions on
19 interconnection charges and the costs that are associated with
20 interconnection. Do you know what costs the entity seeking
21 interconnection would pay directly for interconnection, what
22 type of costs they would pay?

23 A I know how many they are and how many are pending
24 right now, Mr. Childs.

25 Q Do you know whether there are certain costs

1 associated with interconnection that are system costs that are
2 not charged to the entity that is seeking to interconnect?

3 A They are all considered system charges for
4 GridFlorida.

5 Q And how are the system charges recovered?

6 A System charges would be recovered -- I'm sorry,
7 through the -- we would get a percentage of those.

8 Q They would be allocated to Florida Power and Light?

9 A Yes.

10 Q They would be allocated to all users, would they not?

11 A Yes. It's for all the users of the region.

12 Q And so some of the costs of interconnection would be
13 allocated to all users?

14 A Yes.

15 Q And not necessarily billed to the entity seeking
16 interconnection?

17 A Yes.

18 COMMISSIONER DEASON: But that entity interconnecting
19 would be in turn paying transmission revenue to GridFlorida,
20 would they not?

21 THE WITNESS: Yes.

22 BY MR. CHILDS:

23 Q But do you know whether the revenue that the
24 transmission entity would pay would cover the costs of
25 interconnection or would simply be in proportion to their

1 usage?

2 A I believe it would be in proportion to their usage.

3 COMMISSIONER JABER: Ms. Dubin, as it relates to a
4 regional RTO, did you evaluate what the effect, positive or
5 negative, it would have on a capacity clause?

6 THE WITNESS: A regional RTO versus GridFlorida? No,
7 we just strictly looked at the GridFlorida.

8 COMMISSIONER JABER: I'm still back to trying to
9 understand which RTO might be better for the consumer, and as
10 it relates to a cost recovery mechanism versus some -- capacity
11 clause cost recovery mechanism as opposed to some other cost
12 recovery mechanism. You had not evaluated it one way or the
13 other?

14 THE WITNESS: No, but I believe we would request the
15 same methodology to recover the costs, the incremental amount.

16 MR. CHILDS: That's all I have on redirect. I would
17 like to move into evidence Ms. Dubin's exhibit.

18 CHAIRMAN JACOBS: Very well. Without objection, show
19 Exhibit 18 is admitted and Exhibit 19 is a late-filed.

20 (Exhibit 18 admitted into the record.)

21 CHAIRMAN JACOBS: Thank you, Ms. Dubin, you are
22 excused.

23 THE WITNESS: Thank you.

24 CHAIRMAN JACOBS: We will adjourn for the evening and
25 return at 8:30 in the morning.

1 MR. McGLOTHLIN: Mr. Chairman.

2 CHAIRMAN JACOBS: Yes.

3 MR. McGLOTHLIN: I have spoken to most of the counsel
4 at the table here, and I believe there is no objection to our
5 taking Mr. Mechler tomorrow morning first up.

6 CHAIRMAN JACOBS: Very well. So Mr. Mechler, right,
7 will be first?

8 MR. McGLOTHLIN: Mechler, yes, sir.

9 CHAIRMAN JACOBS: Very well. Thank you.

10 (The hearing adjourned at 5:40 p.m.)

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STATE OF FLORIDA)
 :
COUNTY OF LEON)


CERTIFICATE OF REPORTER

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

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

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

DATED THIS 5th day of October, 2001.



JANE FAUROT, RPR
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