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COMMISSION  
CLERK

January 22, 2001

Blanca S. Bayo, Director  
Division of the Commission Clerk  
and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

Re: Docket No. 000824-EI

Dear Ms. Bayo:

Enclosed for filing in the above-referenced docket is the original and 15 copies of the Direct Testimony of Stephen A. Stewart.

Please indicate the time and date of receipt on the enclosed duplicate of this letter.

Sincerely,

Charles J. Beck  
Deputy Public Counsel

AUS \_\_\_\_\_  
CAF \_\_\_\_\_ CJB:bsr  
CMP \_\_\_\_\_  
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CTR \_\_\_\_\_  
ECR \_\_\_\_\_  
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SEC \_\_\_\_\_  
OTH Case p 8

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FPSC-COMMISSION CLERK

1                   BEFORE THE PUBLIC SERVICE COMMISSION  
2                                   TESTIMONY

3   OF

4   STEPHEN A. STEWART

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

7           A. My name is Stephen A. Stewart. My business address is 2904  
8           Tyron Circle, Tallahassee, Florida, 32309. I am appearing as a  
9           consultant for the Office of Public Counsel.

10          Q. Please describe your educational background and business  
11          experience?

12          A. I graduated from Clemson University with a Bachelor of Science  
13          degree in Electrical Engineering in December 1984. I received a  
14          Master's degree in Political Science from Florida State University in  
15          August 1990, and I completed Doctorate level work in the area of  
16          Public Policy.

17          From January 1985 until October 1988, I was employed by Martin  
18          Marietta Corporation and Harris Corporation as a Test Engineer. In  
19          July 1989, I accepted an internship with the Science and Technology  
20          Committee in the Florida House of Representatives. Upon expiration  
21          of the internship I accepted employment with the Office of the  
22          Auditor General in August 1990, as a program auditor. In this  
23          position I was responsible for evaluating and analyzing public  
24          programs to determine their impact and cost-effectiveness.

1 In October 1991, I accepted a position with the Office of Public  
2 Counsel where I was responsible for analyzing accounting, financial,  
3 statistical, economic and engineering data of regulated companies  
4 and identifying issues and positions in matters addressed by the  
5 Public Service Commission.

6 I left Public Counsel in 1994 and since that time I have been  
7 employed by two privately held companies. With USMED I was  
8 involved in all major business functions of this private label credit  
9 card company. The last two years I served as the Director of  
10 Operations reporting directly to the CEO. My responsibilities in this  
11 position included liaison with credit card processing vendor, on-site  
12 program implementation, financial analysis, client support, business  
13 development and supervision of operations staff. In my current  
14 position with Real Estate Data Services Inc., my responsibilities  
15 include profitability analysis, product development, product  
16 evaluation, and marketing.

17 Q. What is the purpose of your testimony?

18 A. The purpose of my testimony is to provide a time series statistical  
19 analysis of the historical and projected O&M expenses of Florida  
20 Power Corporation and to comment on the findings.

21 Q. Have you prepared an exhibit to your testimony?

1 A. Yes. I have prepared an exhibit entitled, "Exhibit of Stephen A.  
2 Stewart," which consist of 4 schedules and has been identified as  
3 Exhibit No. \_\_\_\_.

4 Q. Please describe the analysis you completed?

5 A. Using historical data from Rate of Return Reports filed with the  
6 FPSC and projected data from the MFR's filed by Florida Power  
7 Corporation in this proceeding, I developed a time-series graph of  
8 Operation & Maintenance expense per customer over the period of  
9 1998 to 2002. The graph is Schedule 1 of my exhibit. Schedule 2 of  
10 my exhibit details the sources of the data used to construct the graph  
11 in Schedule 1.

12 Q. Why did you begin your analysis in 1998?

13 A. It is my understanding that 1997 O&M expenses for FPC included  
14 costs associated with an unscheduled outage of the CR-3 unit. I  
15 concluded that data from 1997 could not be compared to data in other  
16 years.

17 Q. Describe what your analysis reveals.

18 A. The graph in Schedule 1 of my exhibit shows a downward trend in  
19 O&M expense per customer from 1998 to 2000. O&M expense per  
20 customer decreases from \$331 in 1998 to \$291 in 2000. This  
21 downward trend is reversed beginning in 2001 with O&M expense  
22 per customer increasing 11.0% to \$323. The projected 2002 O&M  
23 expense per customer continues this upward trend with an increase of

1 11.5% over the 2001 level to \$360. In summary, O&M expense per  
2 customer decreases 13.7% from 1998 to 2000 and increases 23.7%  
3 from 2000 to 2002.

4 Q. During your review of the data, did you find any reasons why the  
5 O&M expenses per customer began to increase in 2001?

6 A. Yes. Schedule 3 of my exhibit shows the same graph of O&M  
7 expense per customer as in Schedule 1 with two adjustments made to  
8 the total O&M costs. For 2001 and 2002, I decreased the O&M  
9 expense provided by FPC in schedule C-2 of the MFR's by  
10 \$55,000,000 to eliminate the acquisition adjustment FPC is seeking  
11 in this case.

12 Q. After these adjustments are incorporated, what does the analysis  
13 reveal?

14 A. The O&M expense per customer decreases each year from 1998  
15 to 2001. However, O&M expense increases 13% from 2001 to 2002.

16 Q. Are you familiar with the acquisition adjustment being requested  
17 in this case?

18 A. Yes. FPC wants to recover an acquisition adjustment "to net the  
19 cost of economic benefits of (the) merger against synergies to obtain  
20 true net synergies". FPC argues that \$58.7 million of cost reductions  
21 are effectively incorporated in the 2002 O&M expenses and are a  
22 result of the corporate merger.

1 Q. Based on the FPC's logic purporting savings due to the merger,  
2 what would the O&M expense per customer been in 2002 had the  
3 merger not taken place?

4 A. Following FPC's argument, the O&M expense per customer  
5 would have been approximately what is represented in Schedule 1 of  
6 my exhibit had the merger not taken place. O&M expense per  
7 customer would have increased approximately 23.7% from 2000 to  
8 2002.

9 Q. Did you complete any other analysis regarding O&M expense per  
10 customer?

11 A. Yes. For comparison purposes, I considered OPC's adjustments to  
12 O&M expense in 2001 and 2002 and constructed a graph like the one  
13 in Schedule 1 of my exhibit. This is Schedule 4 of my exhibit.

14 Q. What does this graph show?

15 A. The graph shows the decreasing trend of the prior years evident in  
16 2001 with a slight upward movement in expense in 2002.

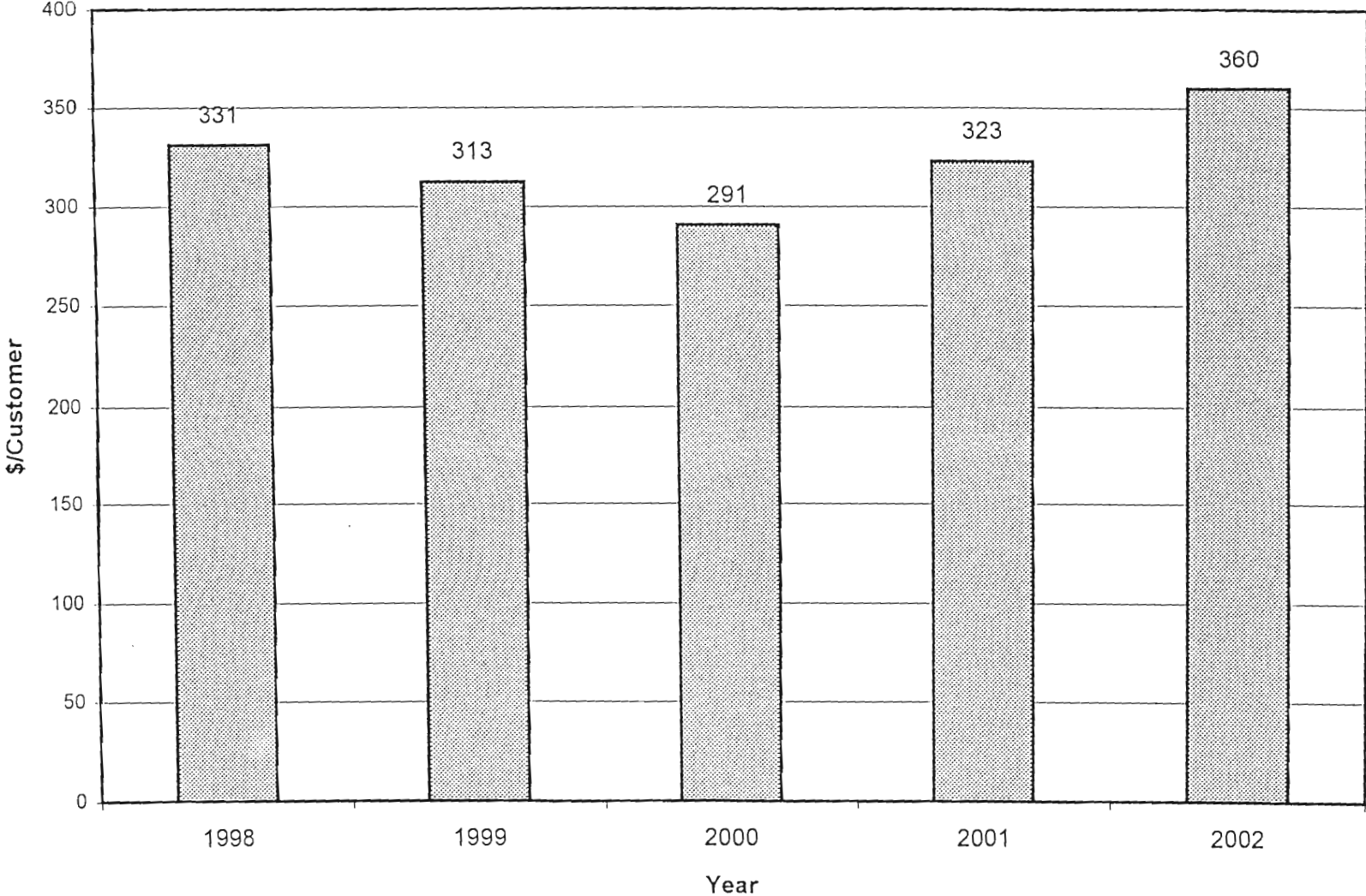
17 Q. Does this conclude your testimony?

18 A. Yes.

Exhibit \_\_ (SS-1)  
Docket 000824-EI

**EXHIBIT OF STEPHEN A. STEWART**

Operation & Maintenance Expense per Customer  
Florida Power Corporation 1998-2002





## Sources of Data for Graph in Schedule 1

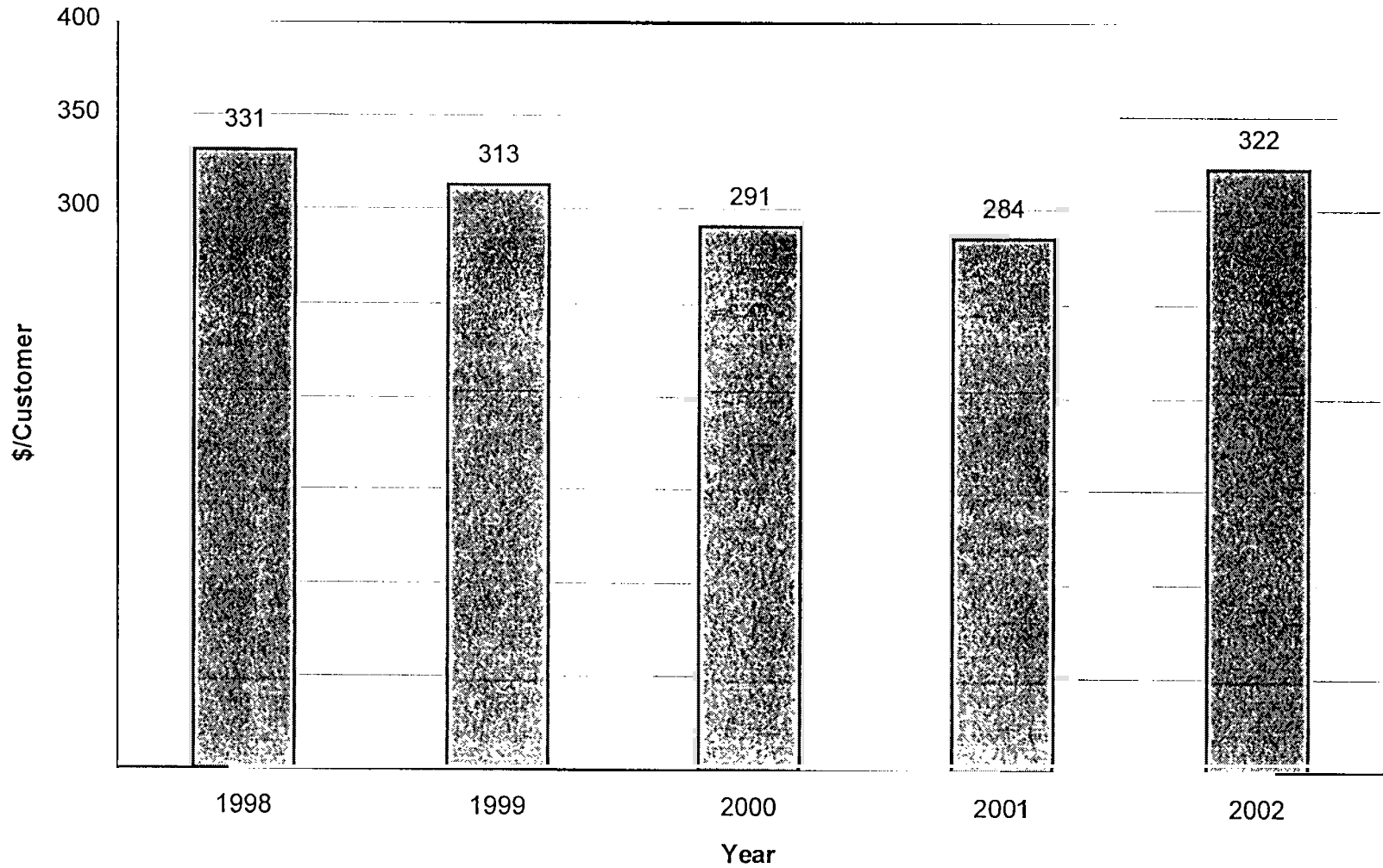
	1998	1999	2000	2001	2002
Non Fuel Adj. O&M	443,827,660	428,821,990	406,885,591	460,762,000	523,415,000
<i>Percent Change</i>		-3.50%	-5.39%	11.69%	11.97%
Average Customers	1,340,853	1,371,206	1,400,299	1,427,074	1,455,615
<i>Percent Change</i>		2.21%	2.08%	1.88%	1.96%
O&M/Customer	331	313	291	323	360
<i>Percent Change</i>		-5.52%	-7.09%	11.12%	11.37%

**Non Fuel Adj. O&M:** O&M expenses for years 1998 thru 2000 were taken from year-end Rate of Return Reports filed with FPSC. O&M expenses for 2001 were taken from schedule C-2 of the MFR filing for the year 2001. O&M expense for 2002 were taken from Exhibit MAM-5, page 2 of 3, which I understand to be an amended schedule C-2 of the original MFR filing for 2002. The amounts are retail and FPSC adjusted.

**Average Customers:** For years 1998 thru 2002 this data was taken from Schedule C-56 of the MFR's.

**O&M/Customer:** This item was calculated by dividing Non Fuel Adj. O&M by Average Customers.

**Operation & Maintenance Expense/Customer with Acquisition Adj  
Florida Power Corporation 1998-2002**



Operation & Maintenance Expense/Customer with OPC Adj.  
Florida Power Corporation, 1998-2002

