

DOCKET NO.: 000824-EI - Review of Florida Power Corporation's  
Earnings, Including Effects of Proposed Acquisition of Florida  
Power Corporation by Carolina Power & Light

WITNESS: Direct Testimony of James E. Breman, Appearing on Behalf  
of Staff

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FPSC-COMMISSION CLERK

DIRECT TESTIMONY OF JIM BREMAN

1  
2 Q. Please state your name and business address.

3 A. My name is Jim Breman. My business address is 2540 Shumard Oak  
4 Boulevard, Tallahassee, Florida 32399-0850.

5 Q. By whom are you employed and in what capacity?

6 A. I am employed by the Florida Public Service Commission as a Utility  
7 Systems Communications Engineer in the Division of Economic Regulation.

8 Q. Please briefly describe your educational background and professional  
9 experience.

10 A. From April 1980 through December 1981 I was an engineering technician  
11 with Peoples Gas System Inc., North Miami Division. I graduated from Florida  
12 State University in 1986 with a Bachelor of Science in Mechanical Engineering.  
13 I was also employed by the College of Engineering while pursuing my degree at  
14 Florida State University.

15 I began employment with the Florida Public Service Commission in 1988  
16 and have held various positions since that time. In April 2000 I was promoted  
17 to my current position.

18 Q. What are your present responsibilities with the Commission?

19 A. My responsibilities include reviewing utility distribution reliability  
20 reports and then preparing reports for the Commission on staff's findings.  
21 I also analyze various other electric utility filings concerning the Ten-Year  
22 Site Plans, underground vs. overhead distribution differentials, storm damage  
23 issues, and the environmental cost recovery clause. My responsibilities also  
24 include addressing customer complaints related to electric service.

25 Q. Have you previously testified before the Commission?

1 A. Yes. I testified in Docket No. 910615-EU, the docket in the Commission  
2 adopted Rule 25-6.115, F.A.C., Facility Charges For Providing Underground  
3 Facilities of Public Distribution Facilities Excluding New Residential  
4 Subdivisions. I also testified in Docket No. 960409-EI, Prudence Review to  
5 Determine Regulatory Treatment of Tampa Electric Company's Polk Unit.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of my testimony is to show why the Commission should  
8 implement a program that provides an incentive to Florida Power Corporation  
9 (FPC) for maintaining reliable service. I also discuss why a minimum  
10 distribution reliability standard is appropriate and necessary.

11 **Q. Have you prepared any exhibits to which you will refer in your**  
12 **testimony?**

13 A. Yes. I prepared four exhibits. In JEB-1, I've reproduced the various  
14 graphs of distribution reliability indices presented to the Commission in a  
15 June 2001 Internal Affairs report on distribution reliability of Florida's  
16 investor owned utilities. In JEB-2, I list responses provided by each of the  
17 four major utilities when questioned about the costs necessary to comply with  
18 the vegetation management requirements of the National Electric Safety Code.  
19 JEB-3 consists of recent photographs of Futility distribution facilities that  
20 are not being maintained in compliance with the National Electric Safety Code.  
21 JEB-4 is a detailed presentation of my proposed customer refund program.

22 **Q. Is FPC providing reliable distribution service?**

23 A. In general, FPC's distribution service is good. As Staff's Witness  
24 Durbin's testimony indicates, the number of complaints received by the  
25 Commission have generally declined. Therefore, I would agree that most of

1 FPC's customers seem to believe they receive reasonable service.

2 Q. How do reconcile the service hearing complaints with your conclusion  
3 that FPC's distribution service is generally good.

4 A. FPC needs to address the specific concerns raised. Clearly, some  
5 customers are not receiving good service. Relative to 1997, customer service  
6 complaints have generally declined.

7 Q. Why are you proposing an incentive program if FPC's customer complaints  
8 have generally declined?

9 A. Waiting for a large number of customers to complain about frequent  
10 service interruptions is reactive rather than proactive. In recent years the  
11 Commission elevated its review of distribution reliability primarily because  
12 the level of customer complaints seemed high for Florida Power & Light and  
13 FPC. The Commission staff began exploring alternative means to better track  
14 distribution reliability and the utilities began various activities to improve  
15 distribution reliability. JEB-1 contains various graphs of indices used to  
16 assess changes in distribution reliability. The graphs demonstrate general  
17 reliability improvement trends relative to 1997. However, there is little  
18 assurance that FPC or the other utilities will either maintain or even  
19 continue to improve distribution reliability absent continual Commission  
20 intervention.

21 Q. Why do you believe the utility provides little assurance that it will  
22 maintain or improve distribution reliability?

23 A. The utilities have been relying on self-set goals. These internal goals  
24 are typically tied to financial performance. The desire to meet such  
25 financial goals creates a disincentive to make expenditures that would

1 | increase distribution reliability. Consequently, as in 1997, it is sometimes  
2 | necessary for the Commission to intervene on behalf of the retail customers.  
3 | The utilities do not have what I would call a minimum standard for  
4 | distribution reliability because their current practice has not proven to be  
5 | effective. Unless there is a change in the process, history is likely to be  
6 | repeated.

7 | **Q. Do you have a specific example that demonstrates how your concerns apply**  
8 | **to this rate case?**

9 | A. Yes. The test year budget includes a projection of all costs for  
10 | planned activities including those affecting distribution reliability. There  
11 | are certain causes of service interruptions that a utility has more ability  
12 | to mitigate than others. Tree trimming or vegetation management is one of  
13 | these mitigation programs that is subject to the utility's control. One would  
14 | think that a utility would have a natural incentive to therefore promote  
15 | vegetation management activities. The utility should also be motivated to  
16 | promote vegetation management because Part 2, Section 21.218 of the National  
17 | Electric Safety Code requires the utilities to maintain clearances between  
18 | vegetation and utility distribution facilities. Yet, as you can see in JEB-1,  
19 | vegetation continues to be a significant cause of service interruptions. Last  
20 | year, staff asked the utilities to estimate the annual cost to be in  
21 | continuous compliance with the National Electric Safety Code. Their responses  
22 | are in JEB-2. FPC's response was that the ". . . estimated cost to  
23 | effectively comply with the National Electric Safety Code is \$8.2 million for  
24 | 2001." FPC's estimated amount for 2001 is even less than recent expense  
25 | levels. A review of MFR C-12 indicates an overall downward trend since 1997

1 and 1998 when tree trimming expenses were \$13.1 million and \$14.0 million,  
2 respectively.

3 Q. Did FPC comply with the vegetation clearance requirements of the  
4 National Electric Safety Code during 2001?

5 A. No. JEB-3 is a catalog of recent photographs taken by Costas  
6 Panagiotopoulos, a PSC Safety Engineer. The pictures are of various locations  
7 where FPC was not in compliance with the vegetation clearance requirements of  
8 the National Electric Safety Code.

9 Q. Is FPC's projected 2002 test year budget for tree trimming higher than  
10 the 2001 budget?

11 A. As of the time of writing this testimony I have not been able to  
12 determine how much was specifically budgeted for tree trimming. Review of MFR  
13 12 suggests that 2002 and 2001 budgets for tree trimming are similar.  
14 However, it is more important to realize that vegetation management as well  
15 as other distribution reliability programs are expensive. Also, I do not  
16 believe the Commission should pick and choose between distribution reliability  
17 activities.

18 As I said earlier, vegetation management is just an example. Vegetation  
19 management is just one of many activities affecting distribution reliability.  
20 The vegetation management example highlights the incentives and disincentives  
21 a utility has to minimize the many causes of service interruptions shown in  
22 JEB-1. The example highlights current utility and Commission practices. The  
23 existing scheme relies primarily on customer complaints and is not proactive.  
24 A better approach would be one that ensures reliable distribution service.

25 Q. You appear to suggest a change from historical rate case reviews. What

1 | is wrong with performing a test year distribution budget review similar to  
2 | what was done in prior rate cases?

3 | A. In the past, a common method was to review the previous five years and  
4 | compare the test year budget levels to the five-year averages. For FPC, the  
5 | five-year period of distribution expenses includes the effects of direct  
6 | Commission intervention. Consequently, I do not know what level of expense  
7 | would have occurred under "normal" or "average" conditions. In addition,  
8 | there are no minimum distribution reliability standards. Neither the  
9 | Commission nor the utility can tell the customer what average service is or  
10 | that next year the same level of service will be considered average.  
11 | Consequently, I do not know what normal or average distribution expense levels  
12 | are because I don't know what normal or average service means.

13 | **Q. How should the Commission address the situation?**

14 | A. The Commission should establish a program that allows the utility and  
15 | customer interests to be reasonably balanced between rate cases. The program  
16 | should be based on two fundamental concepts.

17 | The first concept is that distribution reliability should not decline  
18 | between rate cases. At a minimum, the retail customer should not be expected  
19 | to endure less reliable service once the rate case is concluded. Making such  
20 | a commitment is consistent with setting base rates for average service.

21 | The second concept is simply that the company will be held accountable  
22 | for declines in service in a timely manner. Timely accountability will  
23 | provide an incentive for the company to consistently ensure that distribution  
24 | reliability is appropriately maintained.

25 | **Q. Can you be more detailed in how the new program would be implemented?**

1 A. Yes. In JEB-4, I have prepared a schedule reflecting the implementation  
2 of the program I propose for FPC. Simply stated, the Commission should  
3 require FPC to make an annual refund to all of its retail customers when the  
4 number of retail customers experiencing more than five service interruptions  
5 exceeds an established standard in any consecutive 12-month period.

6 **Q. Should there be a cap on the annual refund amount?**

7 A. Yes. The total refund amount should be capped at the equivalent amount  
8 of 10 basis points of equity.

9 **Q. Why do you recommend 10 basis points?**

10 A. The intent of the refund is simply to provide sufficient incentive to  
11 cause the utility to manage distribution systems proactively between rate  
12 cases. It is not intended to be punitive.

13 **Q. Why did you select the number of customers experiencing more than five  
14 interruptions as the index for the incentive program?**

15 A. The number of Customers Experiencing More Interruptions than Five  
16 (CEMI5) is perhaps the best measure of reliable service because CEMI5 is the  
17 number of customers who did not receive reliable service. By definition,  
18 CEMI5 provides the number of customers that have experienced six or more  
19 service interruptions. A prudent company should seek to minimize CEMI5. As  
20 seen in JEB-3, problems are likely to exist in areas where customers are  
21 experiencing many service interruptions. In addition, as seen in JEB-1, CEMI5  
22 is already used by the utilities and the Commission. Finally, the number of  
23 customers experiencing more than five interruptions is a measure that is  
24 easily understood.

25 **Q. When should FPC begin implementing the incentive program?**



1 | A. FPC has the ability to begin implementing the program immediately.

2 | **Q. What is your proposed standard for FPC?**

3 | A. I believe a CEMI5 of 1.5 percent is a reasonable standard primarily  
4 | based on the expectation that FPC's projected activities are typical of future  
5 | years and that continuation of similar activities will continue to improve  
6 | retail service. Mr. Sipes's testimony highlights various service reliability  
7 | improvement activities that are either new activities or expansions of year  
8 | 2000 activities. Therefore, on a going forward basis, distribution  
9 | reliability should improve. Consequently, setting CEMI5 to reflect 1997  
10 | through 2000 performances is not appropriate.

11 | **Q. How should FPC implement the incentive program?**

12 | A. They should include the necessary documentation in their true-up  
13 | testimony filed in an appropriate cost recovery clause where the refund amount  
14 | can be allocated on a demand basis. The total refund amount, if any, would  
15 | be a line item adjustment to the final true-up amount that FPC would normally  
16 | report for 2002. This way, a measure of the level of distribution reliability  
17 | achieved during 2002 would be used to set FPC's cost recovery factors for  
18 | 2003.

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

20 | A. Yes.

21 |

22 |

23 |

24 |

25 |

Source: 2001 Internal Affairs Report on Distribution Reliability

Figure 1

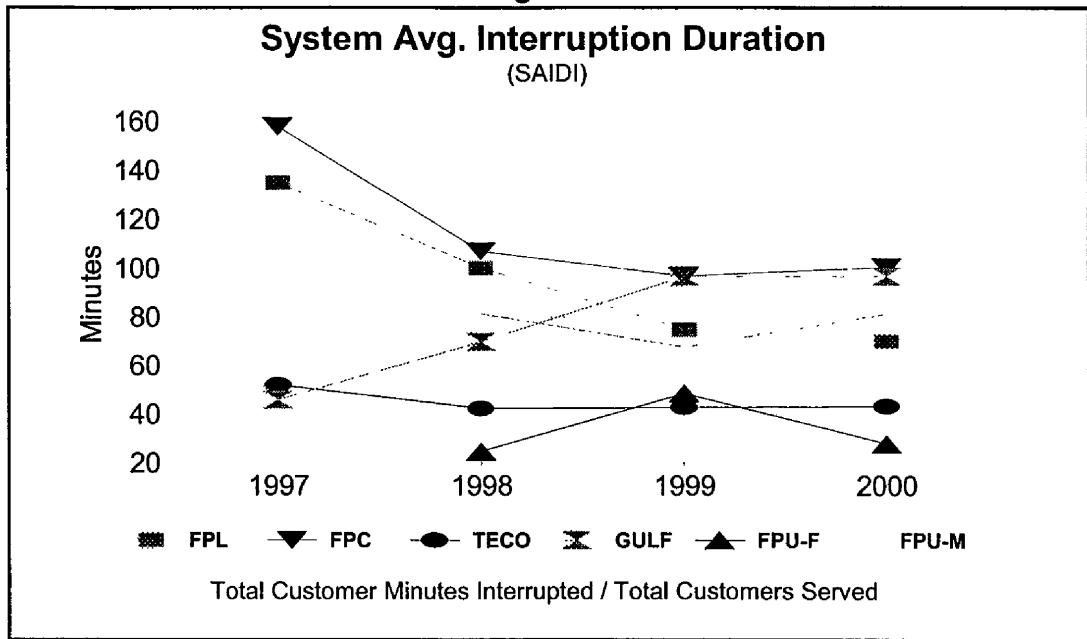
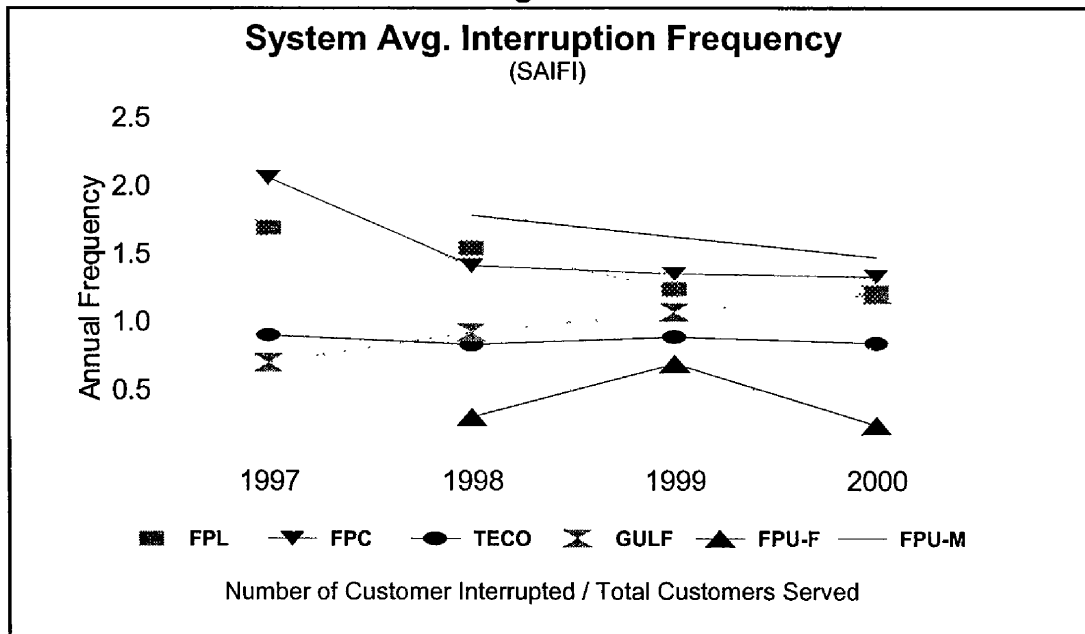


Figure 2



Source: 2001 Internal Affairs Report on Distribution Reliability

Figure 3

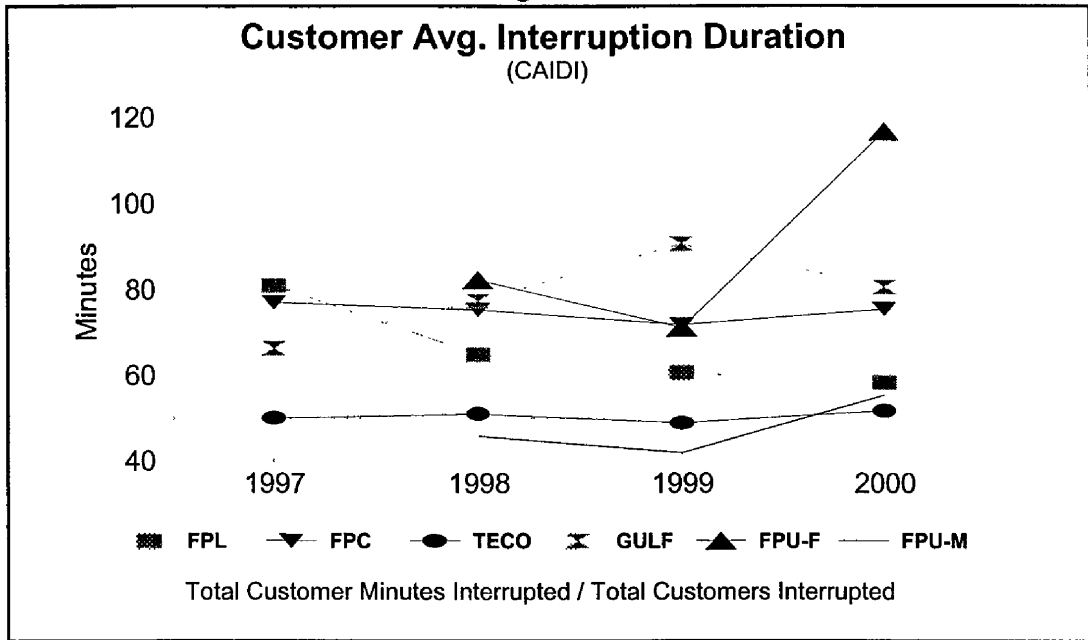
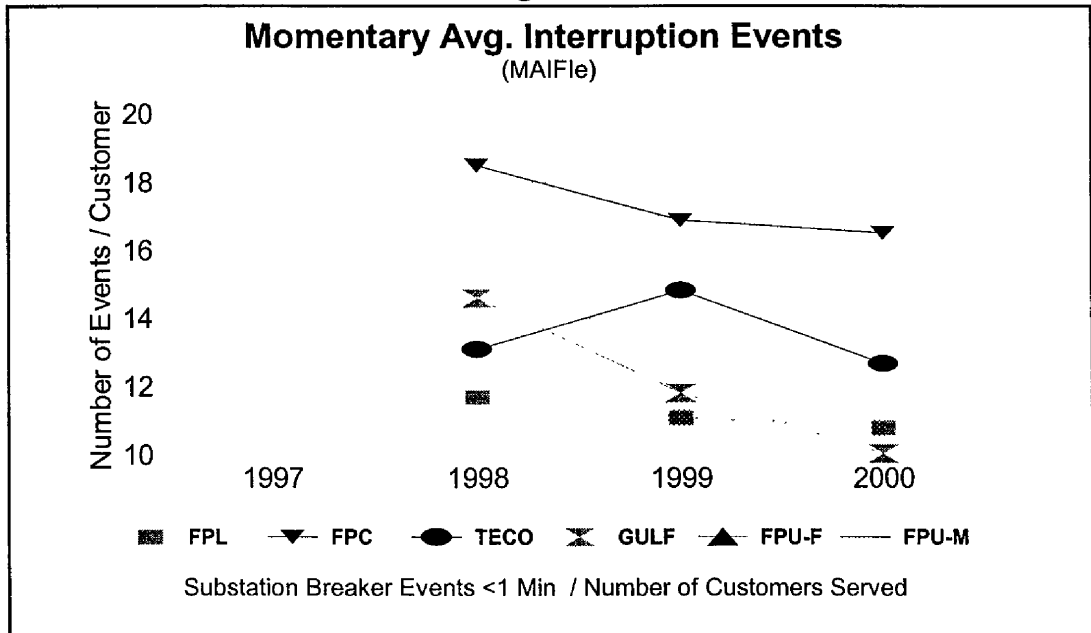
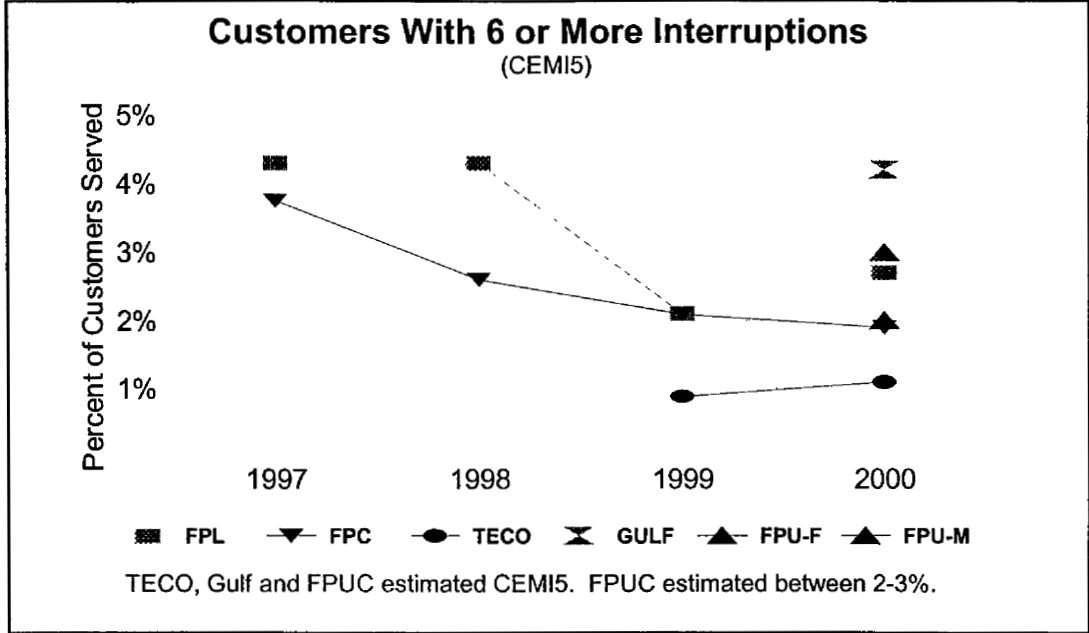


Figure 4



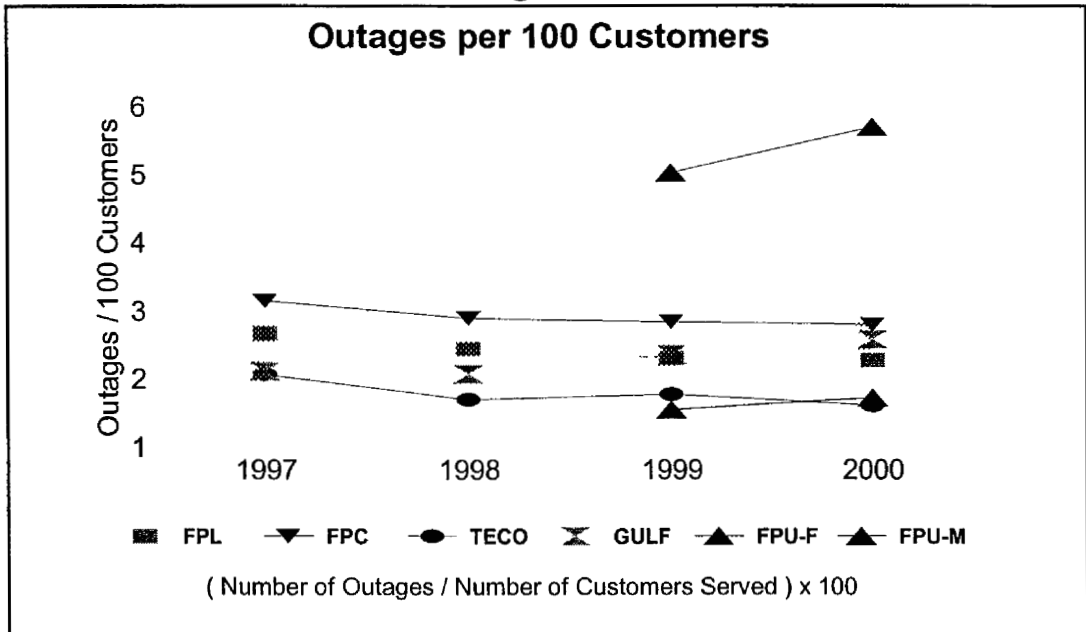
Source: 2001 Internal Affairs Report on Distribution Reliability

Figure 5



Note: On 1/18/02 Gulf Power Company informed me that a wrong CEMI5 value had been reported for 2000. The correct value is 2.1%.

Figure 6



Source: 2001 Internal Affairs Report on Distribution Reliability

Figure 7

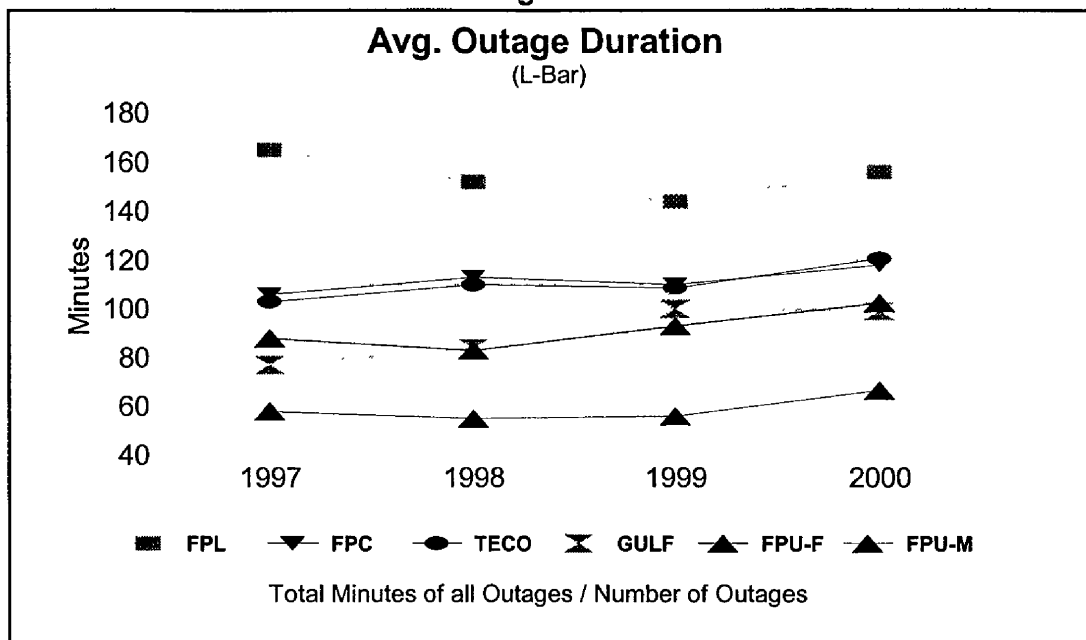
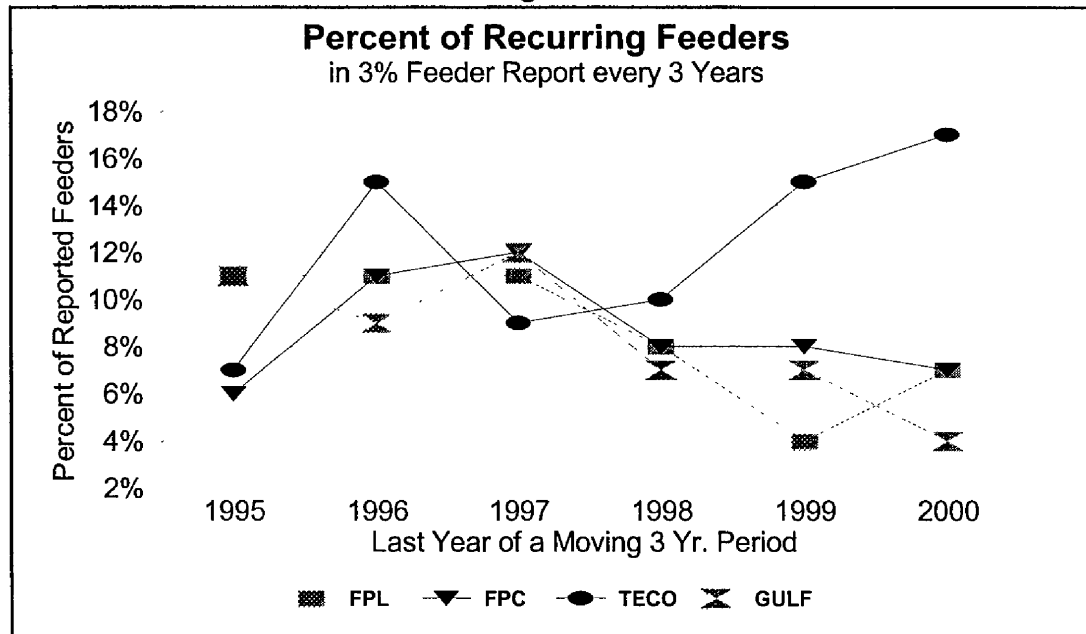


Figure 8



Source: 2001 Internal Affairs Report on Distribution Reliability

Figure 9

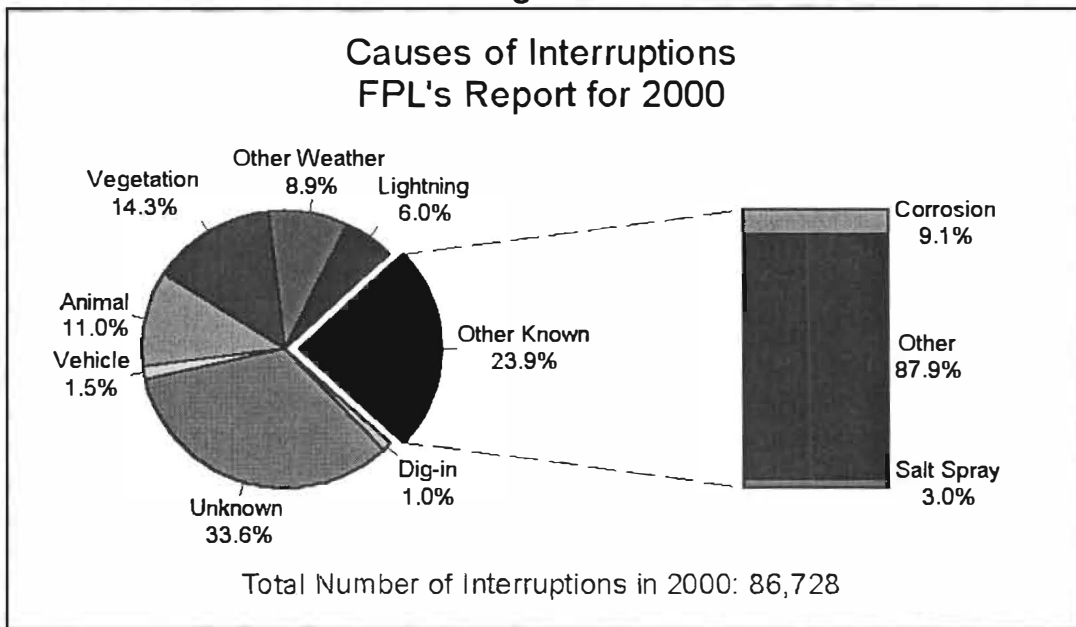
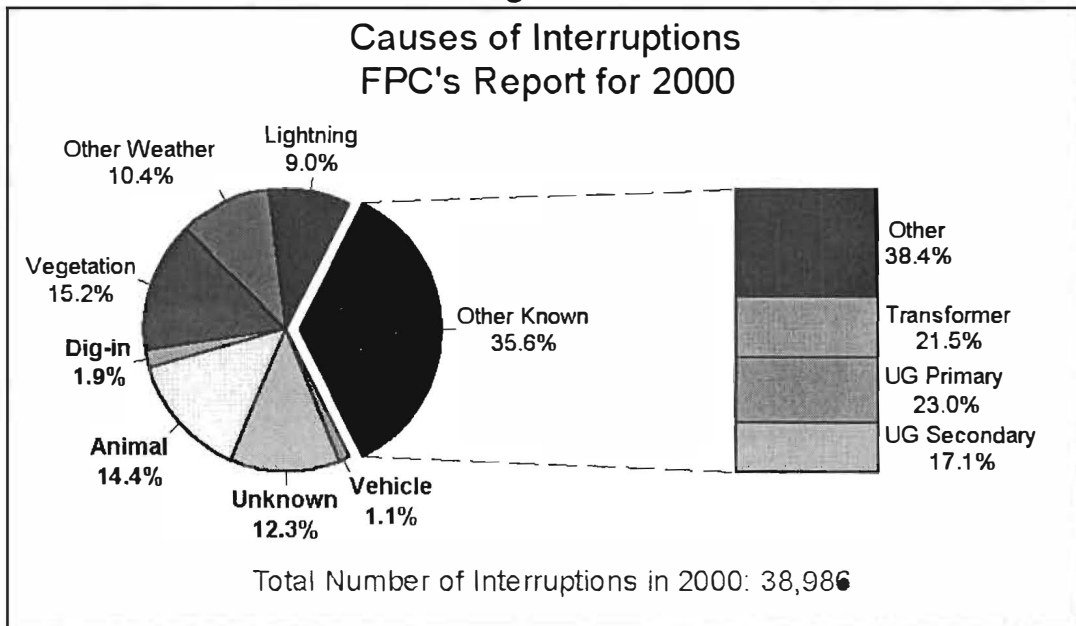


Figure 10



Source: 2001 Internal Affairs Report on Distribution Reliability

Figure 11

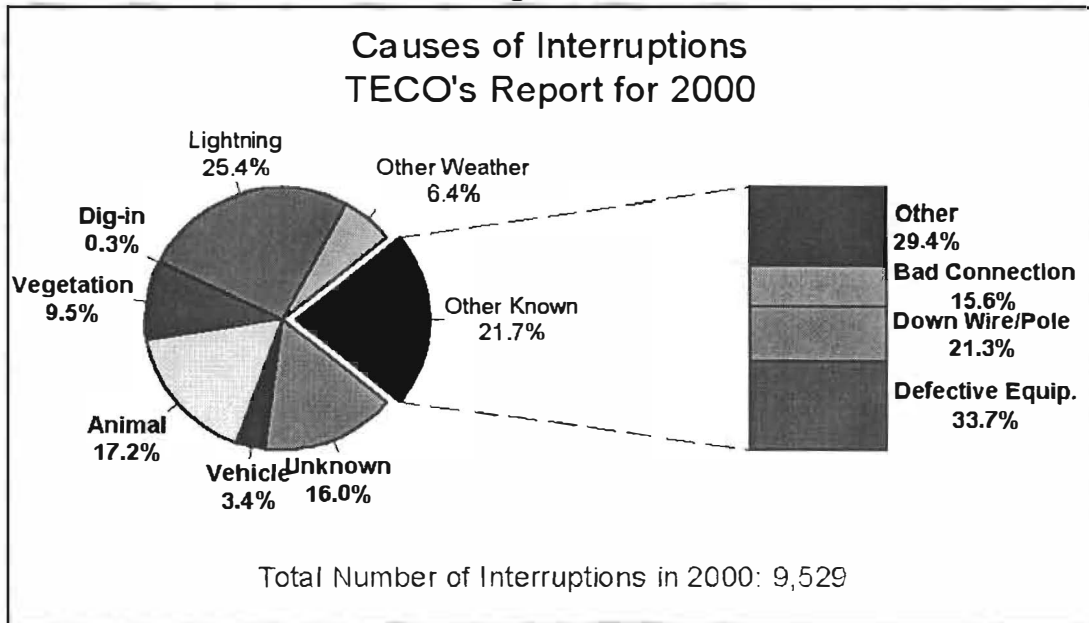
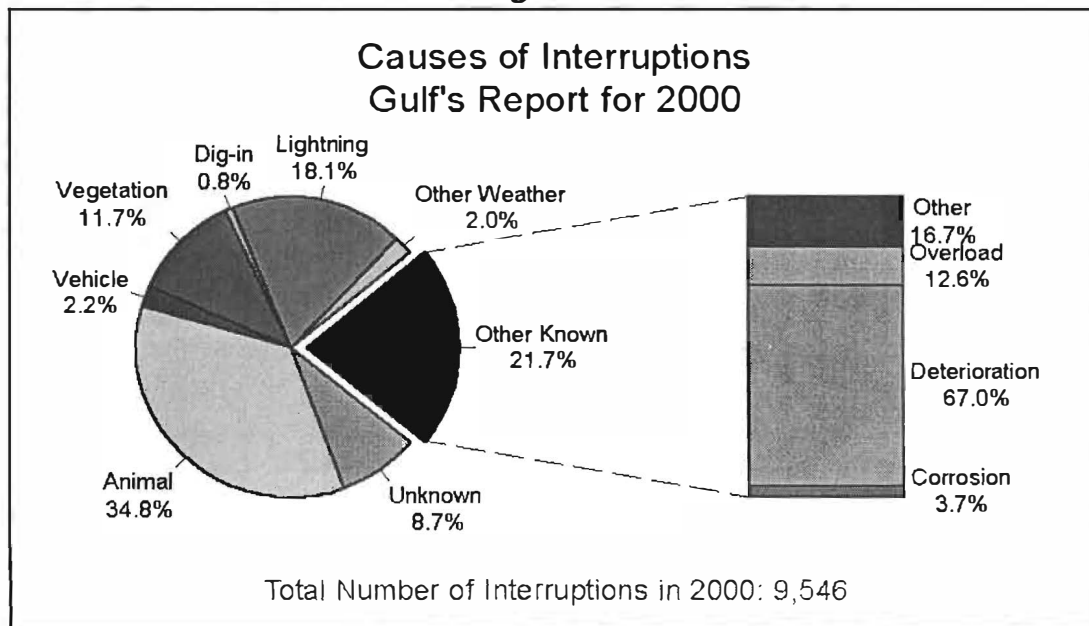


Figure 12



Source: Responses to question 5 of an April 2, 2001 staff data request.

Question 5:

Please identify the estimated annual cost to maintain clearances between vegetation and utility distribution facilities such that the facilities are maintained in continuous compliance with the National Electric Safety Code.

Responses:

Florida Power & Light

"FPL has budgeted 31.5 million dollars in 2001 to most cost effectively comply with the NESC."

Florida Power Corporation

"FPC's estimated cost to effectively comply with the National Electric Safety Code is \$8.2 million for 2001."

Tampa Electric Company

"\$5.8 million for 2001"

Gulf Power Company

"Gulf Power's budgeted amount for 2001 is \$2,599,198"

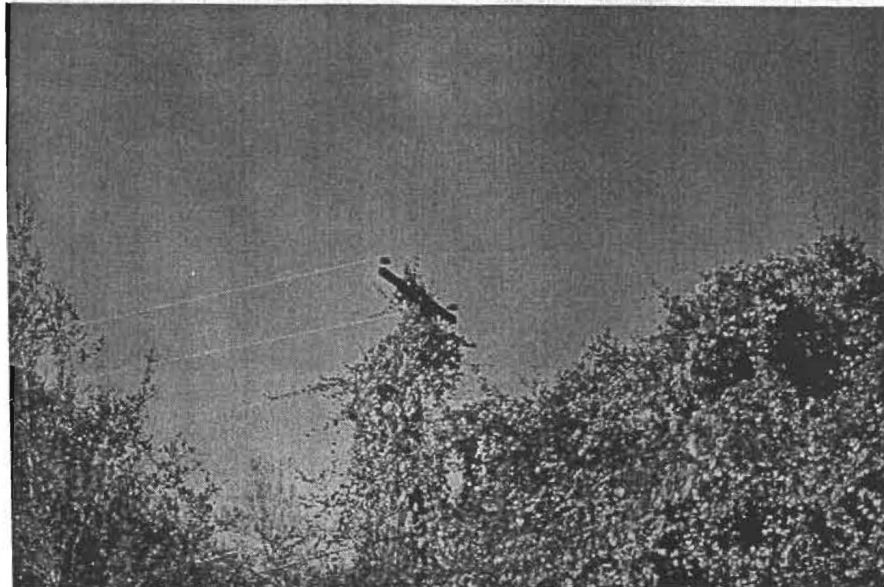




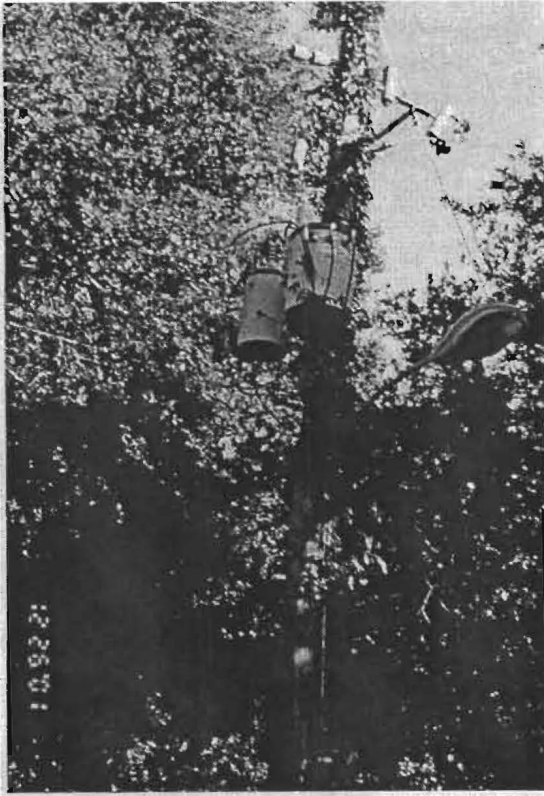
110 Highland Ave, Dunedin



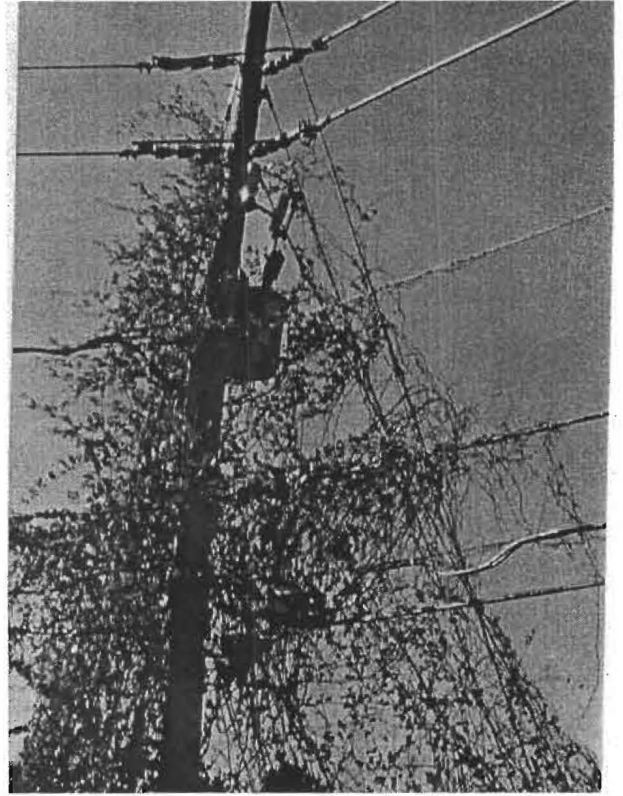
720 167<sup>th</sup> Ave. N.W. Largo



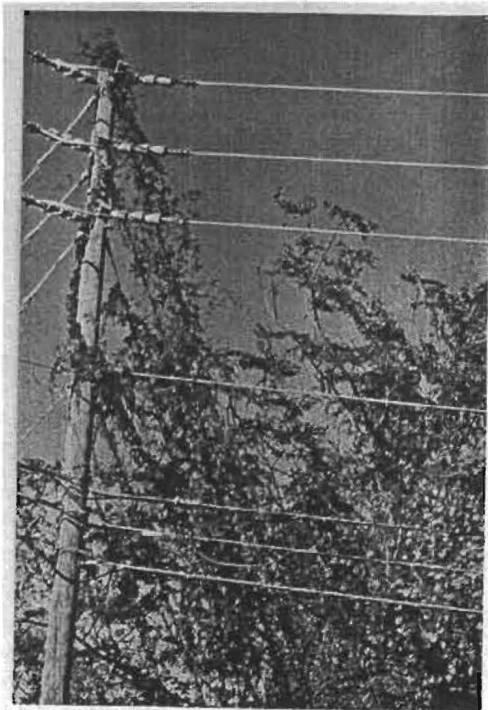
South of Lake at Greenbriar Club - Indigo & Greenbriar Blvd



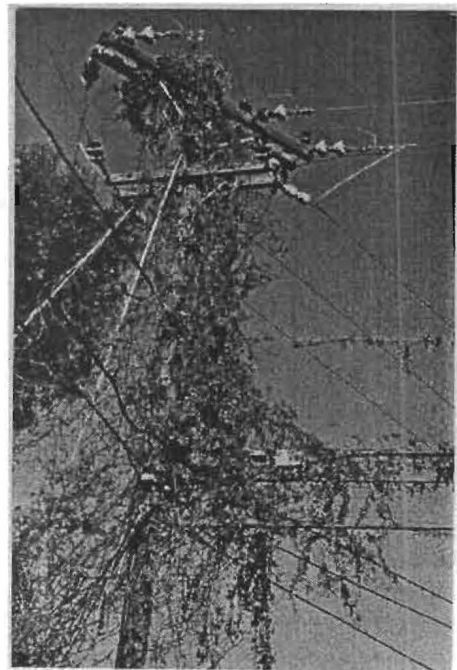
Across from 500 N.Y. Ave. Dunedin



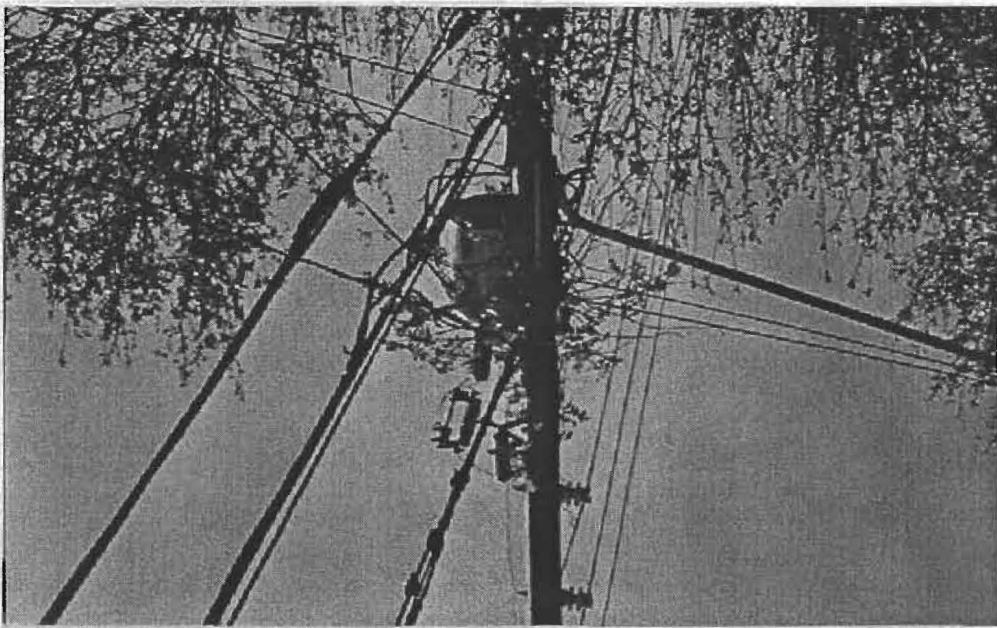
Pole # 2-17542 on Indigo Dr. Dunedin



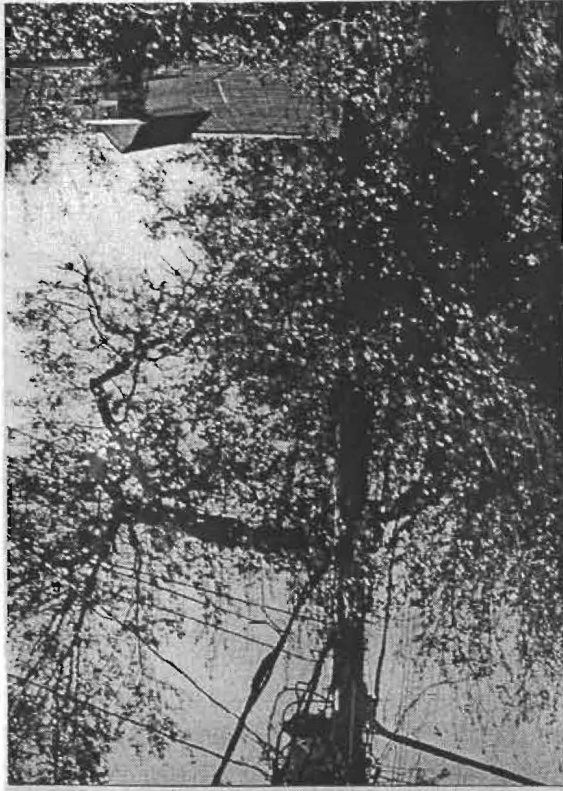
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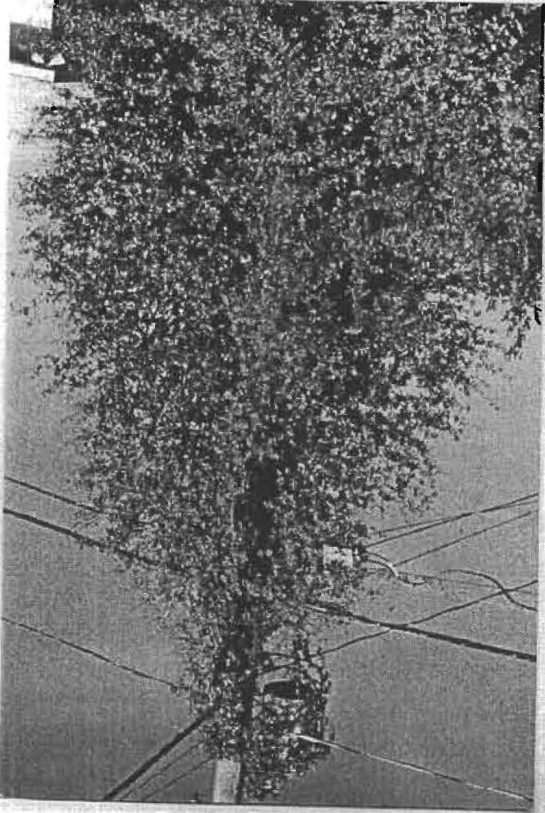
Pole # A23018 Dempsey Rd. & Virginia Ave. Ozona



Pole # 2-34787 Plaza Dr. Dunedin (1 of 2)



Pole # 2-34787 Plaza Dr. Dunedin  
(2 of 2)



1041 Tampa Rd. Palm Harbor

| Example of Distribution Reliability Incentive Program Calculations |                         |          |                        |        |          |                             |                           |               |         |                    |
|--|-------------------------|----------|------------------------|--------|----------|-----------------------------|---------------------------|---------------|---------|--------------------|
|  | (1)                     | (2)      | (3)                    | (4)    | (5)      | (6)                         | (7)                       | (8)           | (9)     | (10)               |
|  | CEMI5<br>% of Customers |          | Variance from Standard |        |          | Customer Refund Calculation |                           |               |         |                    |
| Month  | Actual                  | Standard | Amount                 | %      | Weighted | Points                      | 1/12<br>Basis<br>Point \$ | Monthly<br>\$ | Cum. \$ | Period<br>Total \$ |
| Jan  | 3.21%                   | 1.50%    | 0.0171                 | 114.0% | 0.6      | 6.0                         | 15.909                    | 15,909        | 15,909  |                    |
| Feb  | 2.82%                   | 1.50%    | 0.0132                 | 88.0%  | 0.4      | 4.0                         | 15.910                    | 63,640        | 159,094 |                    |
| Mar  | 2.79%                   | 1.50%    | 0.0129                 | 86.0%  | 0.4      | 4.0                         | 15.917                    | 63,668        | 222,762 |                    |
| Apr  | 2.68%                   | 1.50%    | 0.0118                 | 78.7%  | 0.4      | 4.0                         | 15.929                    | 63,716        | 286,478 |                    |
| May  | 2.53%                   | 1.50%    | 0.0103                 | 68.7%  | 0.3      | 3.0                         | 15.948                    | 47,844        | 334,322 |                    |
| June   | 2.26%                   | 1.50%    | 0.0075                 | 50.0%  | 0.3      | 3.0                         | 15.969                    | 47,907        | 382,229 |                    |
| July   | 2.07%                   | 1.50%    | 0.0056                 | 37.3%  | 0.2      | 2.0                         | 15.972                    | 31,944        | 414,173 |                    |
| Aug  | 2.03%                   | 1.50%    | 0.0053                 | 35.3%  | 0.2      | 2.0                         | 15.977                    | 31,954        | 446,127 |                    |
| Sept   | 1.80%                   | 1.50%    | 0.0030                 | 20.0%  | 0.1      | 1.0                         | 15.979                    | 15,979        | 462,106 |                    |
| Oct  | 1.75%                   | 1.50%    | 0.0025                 | 16.7%  | 0.1      | 1.0                         | 15,980                    | 15,980        | 478,086 |                    |
| Nov  | 1.57%                   | 1.50%    | 0.0007                 | 4.7%   | 0.0      | 0.0                         | 15,993                    | 0             | 478,086 |                    |
| Dec  | 1.45%                   | 1.50%    | -0.0005                | -3.3%  | 0.0      | 0.0                         | 16,007                    | 0             | 478,086 | 478,086            |

Notes:

- Column(1)-Actual CEMI5 for the same 12 month period as Column(7).  
Percent of customers experiencing more than 5 outages.
- Column(2)-CEMI5 Standard is 1.5% of customers experience more than 5 outages in a consecutive 12 month period.
- Column(3)-The amount by which CEMI5 Standard is exceeded.
- Column(4)-Percent Variance. Exceeded Amount divided by the CEMI5 Standard and rounded to the nearest tenth.
- Column(5)-Weighted Variance. Percent Variance times a weight of 0.5 and rounded to nearest tenth.
- Column(6)-Variance Points. Weighted Variance times 10 but not exceeding 10.
- Column(7)-1/12 Basis point of jurisdictional equity as reported on PSC monthly surveillance reports.
- Column(8)-Monthly Refund Amounts. Variance Points times Basis Points.
- Column(9)-Accumulated Monthly Refund Amounts.
- Column(10)-Sum of all amounts to be refund to customers.