

*DOCKET NO.:*000824-EI - Florida Power Corporation - Review of Florida Power Corporation's earnings, including effects of proposed acquisition of Florida Power Corporation by Carolina Power & Light.

WITNESS: Direct Testimony of Roberta S. Bass.
Appearing On Behalf of Staff

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DIRECT TESTIMONY OF ROBERTA S. BASS

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2 Q Would you please state your name and business address?

3 A My name is Roberta S. Bass. 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 Chief of the
7 Office of Market Monitoring and Strategic Analysis.

8 Q Please give a brief description of your educational background and
9 professional experience.

10 A I graduated from Florida State University in 1979 with a Bachelor of
11 Science Degree in Finance and was awarded a Master of Business Administration
12 Degree from Florida State University in 1991.

13 I began employment with the Florida Public Service Commission in 1983
14 and have held various positions in the former Division of Electric and Gas and
15 the former Division of Policy Analysis and Intergovernmental Liaison. I
16 assumed my current position in January, 2002.

17 Q What are your present responsibilities with the Commission?

18 A My current responsibilities include supervising analysts responsible for
19 monitoring the development of competitive markets in the telecommunications
20 and electric industries and the impact of Commission decisions on the
21 development of such markets.

22 Q What is the purpose of your testimony?

23 A The purpose of my testimony is to provide information to the Commission
24 regarding three topics. These topics include (1) the functional separation
25 of production, transmission, and distribution assets and expenses; (2) a cost

1 recovery mechanism for regional transmission organization (RTO) costs; and (3)
2 the appropriate cost recovery mechanism for RTO start-up costs.

3 **Q Describe the functional separation of production, transmission, and**
4 **distribution assets and expenses.**

5 A During discussions with Florida Power Corporation (FPC or Company)
6 representatives regarding the filing of Minimum Filing Requirements (MFR)
7 schedules, staff requested that revisions be made to the B-7 and C-9
8 schedules. B-7 schedules provide information regarding the jurisdictional
9 separation factors associated with rate base items. C-9 schedules provide
10 comparable information with regard to those items used to determine net
11 operating income. Revisions requested by staff allocated the specific
12 components of rate base and net operating income to the functions of
13 production, transmission and distribution.

14 The allocations of rate base and net operating income will yield
15 distinct revenue requirements and unit costs for each function. The
16 availability of the information in this format will prove useful to this
17 Commission on a going-forward basis. The functionalization will provide
18 necessary information if the Commission wishes to evaluate bundled vs.
19 unbundled rates or services. It could also provide a baseline for future
20 decisions involving cost recovery issues and a baseline for determining the
21 affects of wholesale and retail competition.

22 **Q What cost recovery mechanism should the Commission adopt for the**
23 **recovery of RTO costs?**

24 A Pursuant to long-standing Commission policy, the Commission should
25 reaffirm that companies will be afforded appropriate opportunities to recover

1 prudently incurred costs. However, it is premature, at this time, to make a
2 final decision on what methodology should be used to recover RTO costs.

3 **Q Please elaborate.**

4 A There are several reasons. First, because the exact form and structure
5 of the RTO is unknown at this time, it would be premature to establish a cost
6 recovery methodology that may not be appropriate in the future. The
7 Commission has ordered the GridFlorida Companies to file with the Commission
8 a new regional transmission organization proposal that conforms the
9 GridFlorida proposal to the findings in Order No. PSC-01-2489-FOF-EI, issued
10 December 20, 2001, and uses an ISO structure in which each utility maintains
11 ownership of its transmission facilities. It is expected that that filing
12 will be made sometime in March, 2002. There are substantive issues that need
13 to be addressed when evaluating the RTO proposal. The RTO will provide
14 numerous transmission services, such as network transmission, point-to-point
15 transmission, generation interconnection and integration, and ancillary
16 services. It is uncertain how revenue requirements will be set to recover the
17 costs associated with each of these services. Because the form and structure
18 of the RTO is also unknown, the methods to be used to allocate revenue
19 requirements among the RTO participants is also unknown. At this time, it is
20 impossible to recommend a cost recovery methodology that will be flexible
21 enough to encompass all of these issues and be considered the most efficient
22 recovery mechanism. In the final analysis, a mix of cost recovery methods may
23 be best (i.e., rate base versus recovery clause).

24 Second, there are numerous issues that need to be addressed when
25 evaluating the appropriateness of a particular cost recovery methodology.

1 Cost recovery clauses and pass-through mechanisms have traditionally been used
2 for a variety of reasons; such as, when costs are unpredictable and/or
3 volatile, when significant future increases or decreases in costs are expected
4 to occur, when the utility does not have the ability to control costs like
5 purchased water or power, or when the utility is mandated to incur specific
6 costs by a governmental entity like environmental testing. If costs are
7 generally stable, those costs are usually included in the determination of
8 base rates during a rate case or included in surveillance reports when
9 calculating achieved return on equity between rate cases.

10 **Q How have transmission costs been recovered in the past?**

11 A Traditionally, transmission costs have been included in base rates.
12 However, it has been alleged that transmission costs may become volatile
13 because of interconnection and integration costs that will be incurred as
14 independent power producers compete in the wholesale generation market. Until
15 such time that a determination of the potential and probable volatility of
16 future transmission costs is made, this Commission will not have the
17 information necessary to determine whether recovery clause, base rate
18 treatment, or a combination of these is the appropriate cost recovery
19 methodology. Further, this is only one area of transmission costs. Other
20 areas, such as recovery of investment in existing transmission assets, may be
21 more stable and, hence, lend themselves to continued rate base treatment.

22 Another issue that needs to be addressed regarding clause versus rate
23 base recovery concerns safeguards that may need to be employed to help ensure
24 a competitive wholesale generation market. It is imperative that the cost
25 recovery method, whatever it is, should not confer unfair advantages or

1 | disadvantages to the incumbent utility. A cost recovery method should be
2 | structured in such a way that the methodology itself does not permit incumbent
3 | utilities to manipulate the market place. This is a particularly important
4 | consideration with dollar-for-dollar cost recovery clauses or pass-through
5 | mechanisms as they offer few, if any, incentives for companies to minimize
6 | costs.

7 | Third, both Florida Power & Light Company (FPL) and Tampa Electric
8 | Company (TECO) will be affected by a decision in this docket. The Commission
9 | could find different cost recovery methodologies are appropriate for each of
10 | the companies. A decision in this docket could influence future decisions
11 | when the other companies seek to establish a cost recovery methodology for RTO
12 | costs.

13 | **Q When should the Commission determine the appropriate cost recovery**
14 | **mechanism for RTO costs?**

15 | A The Commission determined during the GridFlorida proceedings to open a
16 | docket specifically to address the Independent System Operator (ISO) proposal
17 | to be submitted by the GridFlorida Companies. The appropriate cost recovery
18 | methodology for RTO costs should be determined in this generic docket based
19 | on utility-specific estimates of costs and benefits.

20 | **Q Please discuss the RTO start-up costs.**

21 | A In Docket Nos. 000824-EI, 001148-EI, and 010577-EI, the Commission
22 | determined that the GridFlorida Companies' (FPC, FPL, TECO) active
23 | participation in the collaborative effort to create an RTO was prudent.
24 | Therefore, the Commission determined that RTO start-up costs associated with
25 | the GridFlorida proposal and incurred prior to May 31, 2001 were recoverable

1 | by the participating companies. The method of recovery of those costs was
2 | deferred for consideration in the pending rate case dockets.

3 | **Q How much of the start-up costs are the responsibility of FPC?**

4 | A It was determined that approximately \$2 million is FPC's retail
5 | jurisdictional share of start-up costs. Of course, the final retail amount
6 | to be recovered will be subject to audit.

7 | **Q How should the start-up costs be recovered?**

8 | A I believe there are at least two methods for recovery of the start-up
9 | costs.

10 | **Q Please describe the two methods.**

11 | A The first method would recognize the start-up costs as an expense of
12 | doing business and include them as a business expense in the current rate
13 | case. There is a unique concern with this approach. Because the start-up
14 | costs are nonrecurring costs, the amount of the start-up costs would be
15 | removed from operating expense used to determine prospective revenue
16 | requirements. FPC, therefore, would not receive specific reimbursement of
17 | these costs. It could be argued that no reimbursement is necessary because
18 | the current rates of the company provide sufficient revenues to absorb the
19 | costs and still provide a return on equity within the Commission-approved
20 | range.

21 | **Q What is the second method?**

22 | A A second method would be recovery through a clause mechanism. The
23 | utility would book the start-up costs as a one-time adjustment to either fuel
24 | and purchased power costs or to capacity costs. Either clause would provide
25 | a mechanism for the Company to recover the actual amount of prudently incurred

1 | start-up costs. This method has been used in the past by the Commission to
2 | provide refunds to ratepayers resulting from rate reduction stipulations and
3 | tax reduction savings.

4 | **Q What method do you recommend?**

5 | A I recommend that FPC be allowed to book its portion of the start-up
6 | costs of GridFlorida as a one-time adjustment to fuel and purchased power
7 | costs and to recover these costs through the fuel adjustment costs recovery
8 | clause. I believe this method provides an appropriate and efficient way for
9 | FPC to recover start-up costs found by this Commission to have been prudently
10 | incurred.

11 | **Q Does this conclude your testimony?**

12 | A Yes.

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