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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**REBUTTAL TESTIMONY OF KOREL M. DUBIN**

**DOCKET NO. 011605-EI**

**July 24, 2002**

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

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

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

A. I am employed by Florida Power & Light Company (FPL) as the Manager of Regulatory Issues in the Regulatory Affairs Department.

**Q. Have you previously filed testimony in this docket?**

A. Yes, I have.

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

A. The purpose of my testimony is to comment on certain portions of the testimony of FIPUG's witness Bryan Stone and Staff's witness Todd Bohrmann. Specifically, with respect to Mr. Bohrmann's testimony, I will address his concerns with FPL's proposed Risk Sharing Program that are identified as items 1, 3, 7, and 9-10. The remainder of these items are addressed in Mr. Stepenovitch's Rebuttal Testimony.

DOCUMENT NUMBER  
08415 AUG-5 2002  
FPSC-COMMISSION CLERK

1 TESTIMONY OF BRYAN STONE

2 ~~Q. On pages 10 and 11 of his testimony, Mr. Stone contends that FPL's~~  
3 ~~proposed Risk Sharing Program should be conducted in the sunshine. Do~~  
4 ~~you agree?~~

5 ~~A. I agree that all aspects of the Risk Sharing Program and its implementation~~  
6 ~~should be accessible to FIPUG, as well as to Staff, Public Counsel and other~~  
7 ~~parties that have been granted intervention in the fuel adjustment docket and that~~  
8 ~~the Commission has determined need access in order to protect legitimate~~  
9 ~~interests of FPL's retail customers. However, I caution that access must be~~  
10 ~~controlled in a manner that avoids disclosure of the Program and its~~  
11 ~~implementation details to FPL's competitors and vendors, so that they cannot~~  
12 ~~use that information to the disadvantage of FPL and its customers. Therefore,~~  
13 ~~FPL plans to request confidential treatment of this sensitive information.~~

14

15 TESTIMONY OF TODD BOHRMANN

16 **Q. Regarding item no. 6 on page 17 and specifically on page 15, line 4 of his**  
17 **testimony, Mr. Bohrmann states that the Commission should not allow the**  
18 **recovery of any incremental capital and O&M costs (e.g., personnel,**  
19 **computer hardware and software, allocated common costs) through the**  
20 **fuel clause. Such costs are "fuel procurement administrative functions"**  
21 **which the Commission has historically authorized the utilities to recover**  
22 **through its base rates as contemplated by Order No. 14546, in Docket No.**  
23 **850001-EI-B, issued July 8, 1986. Do you agree?**

1 A. No. ~~As stated in the prefiled direct testimony of FPL Witness Joseph~~  
2 ~~Stepenovitch:~~

3

4 ~~"FPL believes it is appropriate for the Commission to allow recovery~~  
5 ~~through the Fuel Cost Recovery Clause of the prudent costs incurred~~  
6 ~~while developing and implementing the risk management and trading~~  
7 ~~system necessary to monitor and successfully execute its Proposed Risk~~  
8 ~~Sharing Program. FPL currently estimates its costs for development and~~  
9 ~~implementation to be approximately \$3 million. Additionally, FPL believes~~  
10 ~~it is appropriate for the Commission to allow recovery through the Fuel~~  
11 ~~Cost Recovery Clause of the incremental cost of maintaining and~~  
12 ~~operating the trading floor associated with the risk management plan.~~  
13 ~~FPL currently estimates its incremental costs to be approximately \$1~~  
14 ~~million, annually."~~

15 ~~Of the amounts stated above, FPL has already incurred development costs of~~  
16 ~~approximately \$1 million. FPL incurred these development costs in response to~~  
17 ~~encouragement from the Commission at the March 13, 2001 Agenda Conference~~  
18 ~~(addressing FPL's Midcourse Correction) for investor-owned electric utilities to~~  
19 ~~explore the possibilities of becoming more actively involved in hedging their fuel~~  
20 ~~procurement, and from Staff through their several "strawman" proposals for~~  
21 ~~hedging incentive mechanisms in this docket. I do not agree with Mr.~~  
22 ~~Bohrmann's characterization of these costs as simply "fuel procurement~~  
23 ~~administrative functions". Instead, the costs for which FPL is seeking recovery~~  
24 ~~are necessary and integral to the development and implementation of a hedging~~  
25 ~~plan that provides fuel related benefits to FPL's customers. Furthermore, the~~

1 Commission historically has allowed recovery of certain costs through the fuel  
2 cost recovery clause when these costs have been expended to provide fuel  
3 savings to customers. In Order No. 14546, the Commission described the types  
4 of costs recoverable through the fuel cost recovery clause. One of the types of  
5 recoverable costs was for the following:

6 "Fossil fuel-related costs normally recovered through base rates but  
7 which were not recognized or anticipated in the cost levels used to  
8 determine current base rates and which, if expended, will result in fuel  
9 savings to customers. Recovery of such costs should be made on a case  
10 by case basis after Commission approval."

11 ~~As provided in the rebuttal testimony of Mr. Stepenovitch, FPL's proposed Risk~~  
12 ~~Sharing Program is projected to result in significant cost savings to FPL's~~  
13 ~~customers. Therefore, FPL believes it would be appropriate to recover its~~  
14 ~~development and implementation costs for the Risk Sharing Program through the~~  
15 ~~fuel cost recovery clause.~~

17 ~~Q. Staff has expressed a concern with FPL's proposed implementation~~  
18 ~~schedule. Staff has stated that, under FPL's proposed schedule, Staff~~  
19 ~~does not have enough information, enough time to review, nor an~~  
20 ~~opportunity to put forth an alternative to FPL's proposed stipulation (Mr.~~  
21 ~~Bohrmann's Testimony pages 16-17, items 1, 3, 4, 5, 9, and 10). Please~~  
22 ~~comment on this concern.~~

23

1 ~~A.I understand Mr. Bohrmann's concern about Staff's needing to be interactively~~  
2 ~~involved in reviewing and approving FPL's proposed Risk Sharing Program.~~  
3 ~~However, I believe that this involvement can be fully achieved in time for the~~  
4 ~~Program to go into effect in 2003. Under FPL's proposed implementation~~  
5 ~~process, FPL plans to submit with its September 2002, projection filing, a~~  
6 ~~proposed stipulation (on a confidential basis) providing information describing~~  
7 ~~and explaining the methodology that will be used for 2003 including all the~~  
8 ~~items that Mr. Bohrmann describes in his exhibit TFB-4. Additionally, all of~~  
9 ~~the following information will be fully available to the parties in this proposed~~  
10 ~~stipulation: the proposed fixed price percentage of actual purchases for 2003,~~  
11 ~~the proposed methodology to be used for setting the fixed prices for 2003, the~~  
12 ~~proposed spot price indices to be used for the remaining percentage of~~  
13 ~~residual fuel oil and natural gas actual purchases in 2003, and the proposed~~  
14 ~~percent risk premium to be used in 2003 together with an explanation of the~~  
15 ~~basis \_\_\_\_\_ for \_\_\_\_\_ proposing \_\_\_\_\_ that \_\_\_\_\_ percentage.~~  
16 ~~The parties will have approximately 6 weeks to review the proposed~~  
17 ~~stipulation and a full opportunity for discovery concerning it. FPL will respond~~  
18 ~~to discovery on an expedited basis. The parties can then meet to discuss~~  
19 ~~FPL's proposed stipulation, ask FPL clarifying questions, and, if appropriate,~~  
20 ~~agree on revisions to the proposed stipulation. If agreement is reached on the~~  
21 ~~proposed stipulation, it can then be addressed at the November 2002 Fuel~~  
22 ~~Hearing for Commission approval. If approved by the Commission, the Company~~  
23 ~~will implement this stipulation in February 2003 rather than January 2003. (Note:~~  
24 ~~One fuel factor will be set as usual for the twelve months, January through~~  
25 ~~December 2003.) In following years, FPL proposes to submit its hedging plan~~

1 every April 1st, allowing the parties even more time to fully review and  
2 evaluate FPL's proposed stipulations for those years.

3

4 ~~Q. Regarding item no. 7 on page 17 of Mr. Bohrmann's Testimony, he~~  
5 ~~states a concern, that under FPL's proposal, FPL would no longer~~  
6 ~~record actual natural gas and residual oil costs on the monthly A~~  
7 ~~Schedules filed with the Commission. Please comment.~~

8 ~~A. Mr. Bohrmann is correct that, under FPL's proposal the A Schedules will~~  
9 ~~reflect recoverable fuel costs rather than actual fuel costs for natural gas and~~  
10 ~~residual fuel oil. However, the actual costs will be available for review~~  
11 ~~through the Commission's audit process and, if needed, FPL would agree to~~  
12 ~~file an appropriate supplemental schedule.~~

13

14 ~~Q. On page 14 of his testimony, Mr. Bohrmann states that if the~~  
15 ~~Commission believes an incentive is warranted, it should approve the~~  
16 ~~incentive mechanism as part of a pilot program with a minimum two~~  
17 ~~year term. Please comment on this.~~

18 ~~A. FPL believes that a pilot program is not needed since the Commission~~  
19 ~~reviews the Fuel Cost Recovery Clause on an annual basis.~~

20 **Q. Does that conclude your rebuttal testimony?**

21 **A. Yes it does.**