

STEEL ■
HECTOR
■ DAVIS
INTERNATIONAL™

Steel Hector & Davis LLP
200 South Biscayne Boulevard
Suite 4000
Miami, FL 33131-2398
305.577.7000
305.577.7001 Fax
www.steelhector.com

John T. Butler
305.577.2939
jbutler@steelhector.com

November 3, 2003

-VIA HAND DELIVERY -

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

Re: Docket No. 030001-EI


Dear Ms. Bayó:

I am enclosing for filing in the above docket the original and fifteen (15) copies of the prefiled supplemental testimony of Florida Power & Light Company witness K. M. Dubin concerning what has been identified as Issue 30 in the draft prehearing order for this docket.

If there are any questions regarding this transmittal, please contact me at 305-577-2939.

Sincerely,



 John T. Butler

Enclosure
cc: Counsel for Parties of Record (w/encl.)

MIA2001 242585v1

DOCUMENT NUMBER - DATE

10901 NOV-3 8

Miami West Palm Beach Tallahassee Naples Key West London Caracas São Paulo

Rio de Janeiro Santo Domingo

FPSC-COMMISSION CLERK

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **SUPPLEMENTAL TESTIMONY OF KOREL M. DUBIN**

4 **DOCKET NO. 030001-EI**

5 **NOVEMBER 3, 2003**

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

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

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

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

12

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

14 A. Yes, I have.

15

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

17 A. The purpose of my testimony is to address the portion of Staff's position on Issue
18 30 that states: "Once the base year costs are determined, the costs would be
19 grossed up (or down) for the growth (or decline) in kWh sold from the base year
20 to the recovery year."

21

22 **Q. Focusing on the first part of Staff's proposal that states "Once the base
23 year costs are determine," do you agree that post-9/11 incremental power**

1 **plant security expenses necessarily need to be compared to a “baseline” to**
2 **determine the appropriate amount to be recorded through the Capacity**
3 **Cost Recovery (CCR)?**

4 A. No, while a “baseline” adjustment might be appropriate in evaluating whether
5 certain types of increased costs are eligible for recovery through the CCR clause,
6 Staff’s “baseline” concept is simply not relevant to the way that FPL accumulates
7 and tracks its incremental power plant security costs. FPL did not include any
8 post-9/11 incremental power plant security expenses in its 2002 MFRs; thus, the
9 base year amount of such expenses is zero. FPL has established separate
10 accounts to record and track its incremental power plant security expenses. FPL
11 only records expenses to those separate accounts if the expenses result from
12 specific, post-9/11 security requirements. Therefore, the full amounts recorded in
13 those accounts are incremental power plant security expenses. There is no need
14 to compare such expenses to a “base line” in order to determine the appropriate
15 amount to be recovered through the CCR Factor.

16
17 FPL’s approach to accumulating and tracking post-9/11 incremental power plant
18 security costs is analogous to what is done with respect to project costs that are
19 recovered through the Environmental Cost Recovery Clause (ECRC). For
20 example, Order No. PSC-94-0044-FOF-EI, dated 1/12/94, states:

21
22 “Upon petition, we shall allow the recovery of costs associated with an
23 environmental compliance activity through the environmental cost recovery factor
24 if...the activity is legally required to comply with a governmentally imposed
25 environmental regulation enacted, became effective, or whose effect was

1 triggered after the company's last test year upon which rates are based.”

2

3 Typically, there is no “baseline” for the costs of an ECRC project, because the
4 project activities were not needed until the environmental requirement in question
5 became effective. Thus, rather than trying to apply a baseline to evaluate
6 whether the costs of a new ECRC project are recoverable, the project costs are
7 tracked separately from other environmental activities. The focus of the ECRC
8 review is then on whether or not these separately tracked costs are indeed
9 required to comply with the relevant environmental requirement. This is the
10 same concept that FPL is using for its post-9/11 incremental power plant security
11 costs in this docket.

12

13 **Q. If a baseline were to be established for FPL, would Staff's proposal to make**
14 **an adjustment to reflect revenues in the calculation of incremental costs by**
15 **grossing up the expense in the base year by the growth rate in energy sold**
16 **be appropriate?**

17 A. No. If a baseline other than “zero” were to be established for FPL, Staff's
18 proposal to adjust that baseline annually for increased kWh sales would be
19 inappropriate. Such an adjustment would improperly interject the issue of base-
20 rate revenue growth into the adjustment clause proceeding. And it would do so
21 by unfairly looking at only one side of the revenue-expense relationship.

22 A sales-growth adjustment would be especially inappropriate for FPL because of
23 the current Settlement and Stipulation that was approved by the Commission in
24 Docket No. 001148-EI. That settlement reduced FPL's base rates by \$250
25 million per year from the level anticipated by the 2002 MFRs filed in that docket,

1 yet Staff suggests no downward adjustment to the initial baseline to reflect that
2 revenue reduction. Moreover, the settlement contains a revenue-sharing
3 mechanism that provides additional refunds to FPL's customers if base-rate
4 revenues exceed prescribed thresholds. The settlement states that the revenue-
5 sharing mechanism "will be the appropriate and exclusive mechanism to address
6 earnings levels." Staff's proposal to increase baseline costs (and hence
7 decrease recoverable security expenses) proportionately to increased kWh sales
8 amounts to an indirect adjustment to earnings, which would be inconsistent with
9 this provision of the settlement.

10

11 The revenue-sharing mechanism represented a compromise on revenue sharing
12 that was acceptable to all of the settlement signatories. They agreed that this
13 compromise would apply for calendar years 2003, 2004 and 2005. The
14 compromise did not contemplate making additional adjustments such as the one
15 that Staff suggests, which would have the effect of changing the balance of
16 revenue sharing away from what the parties had agreed to accept.

17

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

19 **A.** Yes it does.