

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

**In re: Fuel and Purchased Power
Cost Recovery Clause with
Generating Performance Incentive Factor.**

DOCKET NO. 050001-EI
Submitted for filing: October 3, 2005

**DIRECT TESTIMONY
OF STEPHEN A. STEWART**

**ON BEHALF OF
AARP**

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2
3 TESTIMONY

4 OF

5 STEPHEN A. STEWART

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

8 A. My name is Stephen A. Stewart. My address is 2904 Tyron Circle,
9 Tallahassee, Florida, 32309. I am testifying as a consultant for AARP in this
10 docket.

11 **Q. Please describe your educational background and professional**
12 **experience?**

13 A. I graduated from Clemson University with a Bachelor of Science degree in
14 Electrical Engineering in December 1984. I received a Master's degree in
15 Political Science from Florida State University in August 1990.

16 From January 1985 until October 1988, I was employed with Martin
17 Marietta Corporation and Harris Corporation as a Test Engineer. I accepted
18 employment with the Office of the Auditor General in August 1990, as a program
19 auditor. In this position I was responsible for evaluating and analyzing public
20 programs to determine their impact and cost-effectiveness.

21 In October 1991, I accepted a position with the Office of Public Counsel
22 ("Public Counsel") with the responsibility for analyzing accounting, financial,
23 statistical, economic and engineering data of Florida Public Service Commission
24 ("Commission")-regulated companies and for identifying issues and positions in

1 matters addressed by the Commission. I left the Public Counsel in 1994 and
2 worked as a consultant for the Florida Telephone Association for one year.

3 Since 1995 I have been employed by two privately held companies,
4 United States Medical Finance Company (“USMED”) and Real Estate Data
5 Services Inc. I worked with USMED for approximately four years as Director of
6 Operations. I founded Real Estate Data Services in 1999 and I am currently its
7 President and CEO.

8 Over the last ten years I have also worked as a consultant for the Office
9 Public Counsel and AARP on a number of utility related issues.

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

11 A. I am appearing on behalf of AARP in opposition to FPL’s request to
12 recover \$30 million for the St. Lucie Unit 2 steam generator tube-sleeving project
13 through the Fuel and Purchased Power Cost Recovery Clause (“fuel clause”).

14 **Q. What is AARP’s basis for opposing the recovery of the cost of the**
15 **sleeving project through the fuel clause?**

16 A. This Commission has historically limited the types of non-fuel expenses it
17 would allow electric utilities to recover from its customers through the fuel
18 clause. More specifically, at least since 1985, the Commission has either
19 specifically listed certain non-fuel expenses that could be recovered through the
20 fuel clause or established tests or standards for costs not specifically listed. Based
21 on my review of FPL’s request and what appears to be the applicable Commission
22 orders, I believe FPL’s request should be denied based on at least three major
23 reasons, each of which, alone, is sufficient to deny FPL’s request. The primary

1 reason to deny recovery through the fuel clause is that the sleeving project is an
2 operations and maintenance (“O&M”) project, not a fuel-related expense, the
3 costs of which either was sought for recovery in the base rates case in Docket No.
4 050045-EI or should have been sought there. Additionally, given the testimony of
5 FPL witness Hartzog, the sleeving expense cannot be considered to be
6 “unanticipated,” which appears to be another qualification required by the
7 Commission’s precedents for fuel clause recovery. Second, the sleeving project is
8 not a “modification” to a generating unit that provides greater fuel economy than
9 previously existed, but, rather, a “repair” to an existing unit. Third, FPL has not
10 provided a cost-benefit analysis of the proposed project demonstrating that the
11 benefits will exceed the costs. However, even if the sleeving project is shown to
12 be cost-effective, I believe Commission precedents require that the shareholders,
13 not the customers, bear its costs given that the repairs were an anticipated O&M
14 project.

15 **Q. What is your understanding of the sleeving project for which FPL is**
16 **requesting \$30 million to be recovered through the fuel clause?**

17 A. According to Mr. Hartzog’s testimony, FPL has known at least since its
18 2001 refueling outage that its St. Lucie Unit 2 would need to have its steam
19 generators replaced in the 2010 to 2014 timeframe due to tube degradation.
20 Subsequent refueling outage inspections of the tubes revealed a faster rate of tube
21 degradation than was previously expected and the need to replace the steam
22 generators during the Fall of 2007 refueling outage. To avoid having to operate
23 the unit at a reduced power rating, FPL is proposing to “sleeve” all degraded

1 tubes above the 30 percent tube plugging limit during its Spring 2006 refueling
2 outage.

3 **Q. What support do you have for your position that the sleeving project's**
4 **costs should not be recovered from customers through the fuel clause?**

5 A. In Order No. 14546, issued July 8, 1985, the Commission approved a
6 stipulation of the parties related to what fossil fuel-related costs should be
7 recovered through the fuel clauses and adopted the stipulation's provisions as its
8 own. I believe two of those order provisions are controlling of FPL's current
9 request. The first is included in a list of charges the Commission found "properly
10 considered in the computation of the average inventory price of fuel used in the
11 development of fuel expense in the utilities' fuel cost recovery clauses." This
12 provision reads:

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

18
19 (Emphasis supplied.) The second limiting provision states:

20
21 The following types of fossil fuel-related costs are more
22 appropriately considered in the computation of base rates:

23
24 1. Operations and maintenance expenses at generating
25 plants or system storage facilities. This includes unloading
26 and fuel handling costs at the generating plant or storage
27 facility.

28
29 (Emphasis supplied.)

30

1 It appears that the sleeving project's costs are specifically excluded by the second
2 provision quoted above since it is clearly an operations and maintenance expense
3 at a generating plant and, further, that it does not meet the exception for cost-
4 effective transactions, the costs of which were not recognized or anticipated in the
5 level of costs used to establish base rates.

6 **Q. Where do you find this exception?**

7 A. In the discussion in Order 14546 preceding the Commission's findings,
8 the Commission said the following:

9 In addition to stipulating to the foregoing applications of policy,
10 the parties also recommended to the Commission that the policy it
11 adopts be flexible enough to allow for recovery through fuel
12 adjustment clauses of expenses normally recovered through base
13 rates when utilities are in a position to take advantage of a cost-
14 effective transaction, the costs of which were not recognized or
15 anticipated in the level of costs used to establish the utility's base
16 rates. One example raised was the cost of an unanticipated short-
17 term lease of a terminal to allow a utility to receive a shipment of
18 low cost oil. The parties suggest that this flexibility is appropriate
19 to encourage utilities to take advantage of short-term opportunities
20 not reasonably anticipated or projected for base rate recovery. In
21 these instances, we will require that the affected utility shall bring
22 the matter before the Commission at the first available fuel
23 adjustment hearing and request cost recovery through the fuel
24 adjustment clause on a case by case basis. The Commission shall
25 rule on the appropriate method of cost recovery based upon the
26 merits of each individual case.

27
28 (Emphasis supplied.)

29
30 **Q. You do not believe the sleeving project's costs meets this exception?**

31 A. No, I do not. First, as I will discuss later in my testimony, FPL has not
32 demonstrated that the sleeving project is "cost-effective." More importantly, I do
33 not believe the sleeving project can be considered a short-term opportunity that
34 was "not reasonably anticipated or projected for base rate recovery."

1 **Q. What evidence is there that indicates the costs associated with the**
2 **sleeving project could have been anticipated or projected for base rate**
3 **recovery and therefore recognized in FPL base rates?**

4 A. Tube degradation has been a long-term problem for the industry. Witness
5 Hartzog states in his testimony on page 19, lines 16-17:

6 Since 1989 there have been 43 industry forced outages due to tube
7 leaks and 10 due to tube burst events.

8
9 More importantly, according to Mr. Hartzog, FPL has been aware of the tube
10 degradation problem in this unit since at least 2001, if not earlier, and became
11 aware of the increased rate of tube degradation in its January 2005 refueling
12 outage. FPL's most recent base rate case in Docket No. 050045-EI was filed on
13 March 22, 2005, well after the January refueling outage. I believe it is highly
14 likely that the sleeving project costs were anticipated prior to and included in the
15 base rate case. Even if the project's costs were not included in the base rates case,
16 they clearly were known at the time of the base rate case filing and should have
17 been anticipated for inclusion in base rates. AARP takes the position that the \$30
18 million in sleeving project costs should be considered by the Commission to have
19 been in the base rates case and resolved in favor of the customers through the
20 Commission's acceptance of the settlement agreement between FPL, AARP,
21 Public Counsel, the Attorney General and other customer parties.

22 **Q. What do you believe is the importance of the sleeving project being a**
23 **“repair” as opposed to a modification?**

24 A. It appears that all of the Commission orders referenced by FPL in support
25 of cost recovery through the fuel clause, aside from not being recognized or

1 anticipated for inclusion in base rates, were related to modifications to generating
2 units that allowed FPL to achieve fuel economies not previously available. For
3 example, the thermal power upgrade of Turkey Point Units 3 and 4 referenced by
4 FPL as having warranted fuel clause cost recovery in Order No. PSC-96-1172-
5 FOF-EI was clearly a modification of those units allowing them to produce
6 greater power and with substantial fuel savings. Also, it appears clear that this
7 decision, which was reached in 1996, occurred sufficiently between rate cases or
8 base rate case settlements so that the expense could not reasonably be considered
9 in base rates or anticipated to be included in base rates. The same conclusions
10 should be reached to the Commission's allowance of the recovery of costs
11 through the fuel clause related to plant modifications allowing FPL to burn a more
12 economic grade of residual fuel oil in a number of its generating units. As is
13 discussed in Order No. PSC-95-0450-FOF-EI, these were modifications to plants
14 improving on their existing ability to economically burn fuel and they were
15 approved for recovery through the fuel clause in 1995 at a time when they could
16 not reasonably be presumed to either be in base rates or anticipated to be in base
17 rates.

18 **Q. Is there any other evidence that indicates the costs associated with the**
19 **sleeving project should be categorized as operation and maintenance**
20 **expense?**

21 A. Yes. First it is important to understand my working definition of
22 maintenance and modification. Maintenance is defined as a periodic expenditure
23 needed to preserve a property's original status rather than to improve that

1 property. Maintenance is an activity required to compensate for wear and tear.
2 Modification is defined as the act of making something different.

3 In FPL Witness Dubin's testimony in support of the recovery request in
4 this case, Mr. Dubin cites a number of previous Commission Orders. In his
5 testimony on this issue, the word "modification" appears ten times in
6 approximately five pages of testimony. FPL Witness Hartzog, who explains the
7 sleeving project in detail over approximately 4 pages of written testimony never
8 uses the word "modification." However, Mr. Hartzog does use the word "repair"
9 to describe the project. In fact, Mr. Dubin and Mr. Hartzog state that the sleeving
10 project "will allow the unit to continue to operate." It seems clear that this is a
11 "repair" to an existing generating unit and not a "modification" of the type
12 described in each and every one of the Commission orders in which a utility has
13 been allowed to recover from its customers non-fuel expenses not otherwise
14 specifically listed.

15 **Q. Why is a cost benefit analysis required to support the sleeving project**
16 **expense recovery?**

17 A. The Commission in Docket No. 850001-EI-B, Order No. 14546 issued
18 July 8, 1985, addressed costs that may be appropriately included in the calculation
19 of recoverable fuel costs. Order 14546 states the Commission policy should be
20 flexible enough to allow:

21 " ..recovery through fuel adjustment clauses of expenses normally
22 recovered through base rates when utilities are in a position to take
23 advantage of a cost-effective transaction, the costs of which were not
24 recognized or anticipated in the level of costs used to establish the
25 utilities base rates."
26

1 (Emphasis supplied)

2 **Q. Does FPL provide a cost-benefit analysis to support the sleeving**
3 **project expense recovery?**

4 A. No. FPL witness Dubin states in his testimony:

5 . . . that nuclear generation from St. Lucie Unit No. 2 operating at its
6 full rated output is projected to save \$1.26 million per day when
7 compared to generating an equivalent amount of power using fossil
8 fuels.

9
10 This general statement, which may be factually correct, does not provide this
11 Commission with sufficient information to evaluate the cost-effectiveness of the
12 sleeving project. In fact, the cases cited by FPL witnesses provided the type of
13 cost benefit analysis that is missing from this current request. For example, the
14 language in Order No. PSC-96-1172-FOF-EI indicates a more substantive
15 analysis than can be completed based on the information provided by FPL in this
16 case:

17 “We also approve Florida Power & Light Company’s request to
18 recover costs associated with the thermal power uprate of Turkey
19 Points Units 3 and 4. Florida Power & Light Company’s thermal
20 power uprate of Turkey Point Units 3 and 4 will result in an
21 estimated fuel savings of \$198 million, or a present value of \$97
22 million, through the year 2011 at a cost of approximately \$10
23 million. The savings are due to the difference between low cost
24 nuclear fuel replacing higher cost fossil fuel.”

25
26 As I said, the \$1.26 million per day suggested savings may be the correct
27 figure for replacing all St. Lucie Unit No. 2’s generation with fossil-fired
28 generation, but stating that number in FPL’s testimony tends to suggest
29 substantially greater savings from this project than can possibly be
30 realized. This is because the initial goal of the repair appears to be the

1 continued operation of the unit at 100 percent power, as opposed to the 89
2 percent power level, which would be required if the unit exceeded the 30
3 percent plugging limit. Presumably, one should calculate the fossil-fired
4 replacement cost savings resulting from operating at 100 percent power as
5 opposed to 89 percent and apply that savings over the period between the
6 Spring 2006 refueling outage and the steam generator replacements in the
7 Fall 2007 outage. Instead of stating the incremental savings between the
8 89 and 100 percent power levels, FPL appears to report the differential
9 fuel savings between running St. Lucie Unit No. 2 at 100 percent power
10 and replacing all of its generation with fossil replacement power.

11 **Q. Have you had sufficient time to thoroughly review and analyze FPL's**
12 **request in connection with the sleeving project?**

13 A. No, I have not. Mr. Hartzog's and Ms. Dubin's testimony were not filed
14 until September 9, 2005, while intervenor testimony is due for filing on October
15 3. This left only 15 work days, or a total of 22 days, to review the filing and
16 attempt to prepare testimony. While the Office of Public Counsel has filed
17 discovery on FPL related to this issue, the responses to that discovery are not yet
18 back and cannot be incorporated in my testimony. AARP intends to serve
19 additional discovery of its own on FPL regarding the sleeving project, but I think
20 it is clear that there was no meaningful time for any customer party to conduct
21 discovery between the filing of FPL's testimony and the due date for intervenor
22 testimony.

23

1 **Q. Does this conclude your testimony?**

2 **A. Yes.**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing document has been furnished by U.S. Mail and/or email to the following parties on this 3rd day of October, 2005.

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