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COMMISSION CLERK

MEMORANDUM

March 31, 2006

TO: DIVISION OF THE COMMISSION CLERK AND ADMINISTRATIVE SERVICES

FROM: OFFICE OF THE GENERAL COUNSEL (C. KEATING)

RE: DOCKET NO. 060038-EI - Petition for issuance of a storm recovery financing order, by Florida Power & Light Company.

Attached for filing by the Commission Staff is the DIRECT TESTIMONY OF JOSEPH D. JENKINS, in the above-referenced docket.

DATE ORDER SENT ELECTRONICALLY TO CCA 3/31/06.

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Attachment
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FPSC-COMMISSION CLERK

DOCKET NO.060038-EI - Petition for issuance of a storm recovery financing order, by Florida Power & Light Company.

WITNESS: **Direct Testimony Of JOSEPH D. JENKINS**
Appearing On Behalf Of Staff

DATE FILED: March 31, 2006

Q. Please state your name, place of employment, and business address.

A. My name is Joseph D. Jenkins and I am employed by the Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399.

Q. What is your background, and what positions have you held with the Commission?

A. I graduated with a master's degree in electrical engineering from the University of Miami in 1968, from 1966 to 1967, I worked as a student engineer and later as a full-time engineer for Florida Power & Light Company (FPL). Between 1968 and 1971, I worked as a laser engineer for various companies. I became employed with the Florida Public Service Commission in 1971. From 1980 to 2002 I was Director of the Electric and Gas Division, which has since been reorganized within the agency. I am currently Deputy Director of the Division of Economic Regulation. I am a professional engineer registered in Florida.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to propose that the Commission consider ordering that FPL's storm recovery costs for 2005 be shared between FPL's retail customers and FPL. Traditionally, the Commission has allowed all prudently-incurred costs to provide electric service to be borne by the utility's customers. Ordering some of the costs to be shared between the utility and its customers is a departure from the concept that 100 percent of prudently-incurred costs are always to be borne by a utility's customers.

Q. Why are you proposing a departure from the traditional recovery of the utility's costs at this time?

A. I believe the utility's earnings should be affected to some degree by weather and economic variations. Weather variations in my mind include the utility bearing a portion of the costs to recover from dramatic weather events such as a hurricane.

Q. In addition to weather and economic related events, what are some other events that cause you to propose a cost sharing for 2005 storm recovery?

A. FPL's customers have been significantly impacted by rising fuel costs and will in mid-2007 bear the cost of a new natural gas-fired power plant through the new Generation Base Rate Adjustment clause. Since 2000, the overall cost of electricity per 1000 Kilowatt-Hours has risen from \$ 69.73 to \$108.61, a 56 percent increase. This includes a 19 percent increase from 2005 to 2006, which is the largest single year increase since the early 1980s. The percent increases are even greater for higher-use residential customers because of the inverted rates. Cost sharing will incent FPL to harden its transmission and distribution system and not revert to today's less hardened system.

Q. Hasn't FPL already proposed to harden its transmission and distribution system, making sharing unnecessary?

A. FPL's hardening proposal is admirable. However, FPL did not implement its proposed hardening long ago to avoid the number of downed poles and transmission towers caused by the 2005 storms. An explicit sharing of storm recovery costs will instill a managerial awareness in FPL not to stray from its proposed hardening and perhaps even improve on it in coming years.

Q. What range of sharing do you propose?

A. The sharing that FPL should bear should be up to 20 percent.

Q. How did you arrive at this upper amount of 20 percent?

A. No sharing ratio is sacrosanct, but up to twenty percent is what I consider a fair and reasonable range given the dramatic increase in FPL's electric rates. The Commission has established sharing arrangements in other areas. The Commission has a long-established sharing mechanism for gains on utility off-system wholesale sales to other utilities. Under this mechanism, shareholders are permitted to retain 20 percent of the gain on specific types of sales to encourage such sales for the benefit of customers. In addition, the Commission's Generating Performance Incentive Factor provides for a sharing of about 17 percent of the calculated efficiency savings. The Commission's economic development rule, Rule 25-6.0426(3), Florida Administrative Code, provides for 95 percent of economic development costs to be borne by customers and five percent by the utility. While these regulatory practices differ from each other in concept and purpose, they all have in common the result that electric rates are based, in part, on a sharing of prudently incurred costs and savings. So as not to stray too far from the sharing percentages associated with these practices, I propose a sharing of up to twenty percent of the prudently-incurred 2005 storm recovery costs. Again, no sharing ratio is sacrosanct, but up to twenty percent is what I consider a fair and reasonable range given the dramatic increase in FPL's electric rates.

Q. Does the rate case Stipulation approved in FPL's last rate case in Docket No. 050045-EI address the recovery of its storm costs?

A. Yes, the Stipulation specifies that FPL will recover prudently-incurred storm recovery costs. The Stipulation binds the Signatories from arguing for an earnings-based adjustment to storm recovery costs. My recommendation does not incorporate an earnings-based adjustment. Further, the Commission is not a signatory to the Stipulation and retains its authority to set fair and reasonable rates on a prospective basis.

Q. Does this conclude your testimony.

A. Yes.