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PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: MARY ALLEN NEEL, RPR, FPR

PARTICIPATING: (As heretofore noted.)

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13
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17
18
19
20
21
22
23
24
25

I N D E X

WITNESSES

NAME	PAGE
JAMES A. ROSS	
Cross-Examination by Mr. Burnett	745
Cross-Examination by Mr. Butler	774
Cross-Examination by Ms. Bennett	781
Redirect Examination by Mr. McGlothlin	787
PAMELA SONNELITTER	
Direct Examination by Mr. Butler	794
Prefiled Testimony of 8/22/06 Inserted	799
Cross-Examination by Mr. McGlothlin	810
LONZELLE S. NOACK	
Direct Examination by Mr. Badders	818
Prefiled Testimony of 8/21/06 Inserted	821
Cross-Examination by Mr. McGlothlin	826
ROBERT M. OLIVER	
Direct Examination by Mr. Burnett	830
Prefiled Testimony of 8/22/06 Inserted	833
Cross-Examination by Mr. McGlothlin	845
WILLIAM A. SMOTHERMAN	
Direct Examination by Mr. Beasley	846
Prefiled Testimony of 8/22/06 Inserted	849
Cross-Examination by Mr. McGlothlin	859
JAMES A. ROSS (REBUTTAL)	
Direct Examination by Mr. McGlothlin	862
Prefiled Rebuttal Testimony Inserted	866
GERARD J. YUPP	
Direct Examination by Mr. Butler	889
Cross-Examination by Mr. Beck	890
Redirect Examination by Mr. Butler	909
CERTIFICATE OF REPORTER	914

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
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21
22
23
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I N D E X
EXHIBITS

NUMBER	I.D.	ADMTD.
16 PS-2	796	818
41 RMO-2T	831	846
42 RMO-3T	831	846
43		832
54		793
55		793
1 (060362) Comprehensive Exhibit List	881	881
2 (060362) Revised Exhibit List 1	881	881
3 (060362) Revised Exhibit List 1	881	881
4 (060362) GJY-3	888	911
5 (060362) GJY-4	888	911
8 (060362) Confidential Version of GJY-3	898	911
9 (060362) Confidential Version of GJY-4	898	911

1 (Transcript follows in sequence from
2 Volume 5.)

3 MR. MCGLOTHLIN: Mr. Ross is available for
4 cross-examination.

5 MR. BUTLER: Madam Chairman, by agreement, I
6 would like to defer my cross-examination until after
7 Mr. Burnett has completed his.

8 CHAIRMAN EDGAR: So be it. Mr. Burnett.

9 MR. BURNETT: Thank you, Madam Chair.

10 Thereupon,

11 JAMES A. ROSS

12 called as a witness on behalf of the Citizens of the
13 State of Florida, continues his sworn testimony as
14 follows:

15 CROSS-EXAMINATION

16 BY MR. BURNETT:

17 Q. Hello again, Mr. Ross. We've met before at
18 your deposition, but again, I'm John Burnett on behalf
19 of Progress Energy Florida.

20 A. Glad to see you again, Mr. Burnett.

21 Q. Thank you, sir. Mr. Ross, you're testifying
22 here, I think as we've heard, about issues related to
23 generating plants; correct?

24 A. Correct.

25 Q. So with that in mind, I want to begin with

1 some questions about your experience, Mr. Ross. You
2 worked in a coal plant in Missouri around 1975 for a
3 little less than a year; correct?

4 **A.** Correct.

5 **Q.** You've never held a position in the control
6 room of a power plant, have you?

7 **A.** That is correct.

8 **Q.** You've never prepared a budget for a specific
9 generating plant, have you?

10 **A.** Not for specific generating plants, but I was
11 responsible for putting together the fuel budget for the
12 entire Union Electric system.

13 **Q.** Mr. Ross, you've never held a position where
14 you've made maintenance decisions for a power plant,
15 have you?

16 **A.** Again, I have not made specific maintenance
17 decisions, but I worked closely with our Betterment
18 Department in evaluating maintenance projects on the
19 Union Electric system.

20 **Q.** And, Mr. Ross, you've never actually worked in
21 operations dispatch for a generating unit, have you?

22 **A.** Again, I have never actually been assigned to
23 operations dispatch, but as part of my job with Union
24 Electric, I worked closely with what we called our load
25 dispatch. And actually, the department I was in was

1 under the head of the load dispatching department.

2 Q. Mr. Ross, you've never been to a Progress
3 Energy Florida generating plant, have you?

4 A. That's correct.

5 Q. And in fact, at the time of your deposition
6 about a week ago, you were unable to name even one of
7 Progress Energy Florida's generating plants; correct?

8 A. It had been a while since I had reviewed the
9 testimony in the case, and that's correct, I didn't
10 identify any.

11 Q. Mr. Ross, I would like to turn to some of the
12 issues you raised in your direct testimony. You would
13 agree with me that over time, there is wear on the
14 physical elements of a generating plant; correct?

15 A. I didn't understand that question.

16 Q. I'll ask it again, sir. You would agree with
17 me that over time, there is wear on the physical
18 elements of generating plants; correct?

19 A. You're talking about the individual pumps,
20 motors, that type of thing?

21 Q. That's correct.

22 A. Yes, I would agree with that.

23 Q. And you would also agree that equipment in a
24 generating plant degrades over time; correct?

25 A. I would agree with that.

1 **Q.** Keeping these facts in mind, Mr. Ross, you
2 cannot name a generating unit anywhere that has
3 consistently improved its heat rate, can you?

4 **A.** You mean over its lifetime? I would agree
5 with that, over the lifetime of a generating unit.

6 **Q.** And with the exception of maybe one Union
7 Electric plant, you cannot name any generating unit that
8 has consistently increased its unit availability over
9 time; correct?

10 **A.** That's correct.

11 **Q.** Similarly, Mr. Ross, you cannot name any
12 generating unit that has ever held its operating heat
13 rate constant over time, can you?

14 **A.** That is also correct.

15 **Q.** And except for maybe the Callaway plant on the
16 Union Electric system, you cannot name a generating unit
17 that has held its availability consistent over time, can
18 you?

19 **A.** That is correct.

20 **Q.** Yet, Mr. Ross, with all this in mind, a
21 utility would have to do at least some of the things we
22 just talked about to get rewards or avoid penalties
23 under your dead band proposal; correct?

24 **A.** No, that's incorrect. In fact, the reason
25 that you don't have utilities operating units that are

1 consistently improving heat rates or consistently
2 improving availabilities is because of the external
3 factors that all operating power plants incur, and those
4 are everything from environmental considerations to
5 pumps or motors that fail on a more frequent basis than
6 they have historically. The reason that I did not use a
7 historical basis for the dead band is because I
8 understand that generating units do have these
9 characteristics.

10 However, when I also looked at the operation
11 of the Florida utilities under the incentive mechanism,
12 I see the same thing that you would normally expect from
13 all the other operating units in the United States.
14 There was no significant improvement in the
15 characteristics of those units under the GPIF than what
16 you would see under a regime that did not have a GPIF.

17 Q. Thank you, Mr. Ross. That's actually an
18 excellent segue into my next line of questioning. I
19 think from what you just said, you would agree with me
20 that generating performance issues involve many complex
21 considerations, wouldn't you?

22 A. That's correct.

23 Q. For example, system load has an impact on the
24 way a utility operates its generating units; correct?

25 A. Well, you'll have to give me a little more

1 definitive area of where you're going with that
2 question.

3 Q. I will, sir. Hold on one second, please.

4 Actually, it's the same question I asked you
5 in your deposition on page 13. When I asked you that
6 same question, your answer at line 2, "I would agree
7 that load has an impact on the way you dispatch your
8 system." Do you recall giving that answer?

9 A. Yes, I do.

10 Q. Okay. So you would again agree with me that
11 load, system load has an impact on the way a utility
12 operates its generation; correct?

13 A. The way you dispatch the units, load does have
14 an impact.

15 Q. Thank you. Scheduled maintenance is also an
16 important issue that has to be considered for generating
17 plants; correct?

18 A. Yes.

19 Q. Fuel price is also an important factor in
20 operating generating units; correct?

21 A. I don't know that the price has an effect on
22 the operation. The price might determine how often the
23 unit is operated.

24 Q. But you would agree with me that it does have
25 an impact as you just stated?

1 **A.** As I stated, that would be an impact that
2 price could have on the operation.

3 **Q.** Thank you. And total generating portfolio
4 availability is also an important consideration in
5 operating a generating unit; correct?

6 **MR. McGLOTHLIN:** For my benefit, would you
7 repeat that question?

8 **MR. BURNETT:** Sure.

9 **BY MR. BURNETT:**

10 **Q.** Total generating unit portfolio availability
11 is also an important consideration in operating a
12 generating unit; correct?

13 **A.** Is that again from my deposition?

14 **Q.** That is correct, sir.

15 **A.** Can you give me a cite on that one?

16 **Q.** Page 14, beginning on lines 15 through 22, I
17 asked you, "Would you agree with me, Mr. Ross, that in
18 making generation operation decisions, generating
19 operational decisions, that you have consider your total
20 generation portfolio as a utility?"

21 You said, "The total available generating
22 units that are available to the operator or the dispatch
23 center are considered, but that consideration would
24 depend on a lot of factors." And then we spent some
25 time talking about those factors. Do you recall that,

1 sir?

2 **A.** Yes. I would answer the same to that
3 question.

4 **Q.** Thank you, sir. And when looking at whether a
5 unit can generate a certain number of megawatts, one has
6 to look at site-specific conditions at a plant to make
7 an accurate determination; correct?

8 **A.** Correct.

9 **Q.** So you would agree with me that a lot of
10 thoughtful analysis has to go into maintaining and
11 operating generating units; correct?

12 **A.** I would agree with that.

13 **Q.** Well, on the subject of the need for
14 thoughtful analysis, I would like to turn to how you
15 arrived of your dead band proposal in this case,
16 Mr. Ross. In your testimony, you recommend a dead band
17 scale of plus 5 to negative 2.5; correct?

18 **A.** That's correct.

19 **Q.** But there's nothing magic about that range;
20 correct, sir?

21 **A.** I wouldn't say it's magic. It's based upon
22 what under my experience I would consider to be a
23 reasonable range for setting the dead band. In fact, if
24 you look at the utilities' filings in this proceeding,
25 it pretty well confirms what I think is the rational

1 selection of the point -- or the five-point GPIIP score
2 as the minimum amount before you would pay a reward.
3 And by that I mean that if you look at the utilities'
4 targets versus what their maximum achievable performance
5 is in what they filed in this proceeding, the majority
6 of those units that are in those filings have about a
7 one percentage point or one and a half percentage point
8 change that's needed to get to that halfway point, which
9 would be represented by the score of 5.

10 And if you think about that for a minute,
11 you're talking about a unit that's having an equivalent
12 availability of, let's say, 85, and it only has to get
13 to 86 or 86-1/2, and it has achieved my dead band
14 minimum threshold.

15 Anything less than that, I'm concerned that
16 falls into the area of forecast error. Anytime you use
17 history to project what's going to happen in the future,
18 you have a certain forecast error. So if you set the
19 payments for these rewards too low, in essence, just
20 merely by the fact of not being able to accurately
21 forecast what's going to happen in the future in setting
22 your target, the utilities can be paid a premium or a
23 reward for really doing nothing, just absolutely
24 nothing, just the fact that there's error in the
25 forecast.

1 So that's the basis for my rationale in
2 setting the halfway or midway point on the scale.

3 Q. Thank you for that, Mr. Ross, but back to my
4 questions about how you arrived at that dead band range.
5 That is based --

6 COMMISSIONER DEASON: Madam Chairman, may I --

7 CHAIRMAN EDGAR: Excuse me. Commissioner
8 Deason.

9 COMMISSIONER DEASON: You indicated it as a
10 forecast, and I never understood it in those terms. Is
11 it a target, or is it a forecast of expected
12 performance?

13 THE WITNESS: I would say it is both. It is a
14 target that is established, but it is really a forecast
15 of what the future performance is going to be, because
16 you're looking at history to determine what you think
17 the reasonableness is of that target. So you're
18 projecting what you think in that future period that
19 generating unit is going to operate, and then depending
20 on how it operates around that target, you generate
21 these GPIF points that finally transfer into a reward.

22 COMMISSIONER DEASON: But nowhere in the GPIF
23 analysis is there an actual forecast presented by the
24 operators of these units as to what they anticipate a
25 particular unit to perform in a projected period of

1 time.

2 THE WITNESS: Well, my understanding is that
3 the target is set up based upon the history. You use
4 history, and then you also use what the utilities
5 believe to be their -- I guess a good way to say it is,
6 for their planned maintenance, it's an idea of what is
7 normalized planned maintenance for that period.

8 So I guess I'm saying that the target, to me,
9 is in the nature of a forecast, and I think maybe you're
10 saying, "Well, it's just a target that's based on
11 history and the other factors." I think maybe we're
12 quibbling a little bit, but I think we're getting to the
13 same point.

14 COMMISSIONER DEASON: Thank you.

15 CHAIRMAN EDGAR: Mr. Burnett.

16 MR. BURNETT: Thank you.

17 BY MR. BURNETT:

18 Q. Mr. Ross, back to how you again arrived at
19 your dead band range. That proposed range is based on
20 nothing but your overall general experience; correct?

21 A. That's true, but it's coupled with, like I
22 said, trying to see whether it's rational by looking at
23 the utility filings in this proceeding.

24 Q. Well, sir, you performed no analysis at all to
25 support that range, did you?

1 **A.** There is no analysis to support that other
2 than what I've explained here today.

3 **Q.** Mr. Ross, you picked -- well, your dead band
4 range of plus 5 to 2.5, negative 2.5 just sort of feels
5 right to you; correct?

6 **A.** Well, again, it's based on my experience, and
7 what I'm saying is, I think for exemplary performance,
8 meeting the halfway target of what is maximum expected
9 is a reasonable level to set that score.

10 CHAIRMAN EDGAR: Commissioner Carter.

11 COMMISSIONER CARTER: Thank you, Madam
12 Chairman. On your analysis using a number line, there's
13 a zero, and then there are positive numbers on one side
14 and negative numbers on the other side.

15 THE WITNESS: Yes, sir.

16 COMMISSIONER CARTER: Would it make more sense
17 to say for a reward, you go to 5, and for a nonreward,
18 you go to 5? Would that make more sense? I'm trying to
19 get my mind around --

20 THE WITNESS: Well, no. The utilities have
21 taken --

22 COMMISSIONER CARTER: Excuse me. Hang on a
23 second. I'm trying to get my -- so you can understand
24 the nature of my question. And we're talking about
25 fairness, aren't we? I'm trying to -- it seems to me

1 that plus 5 and minus 2.5, there's no balance there. Do
2 you understand what I'm asking?

3 THE WITNESS: Yes, I understand.

4 COMMISSIONER CARTER: How can you reconcile
5 those two numbers?

6 THE WITNESS: Well, based on my experience,
7 what I think is fair to the ratepayers is that -- the
8 utilities are obligated to perform in a prudent manner,
9 which means they're doing everything they can to provide
10 the most efficient base load generating performance that
11 they can. And I -- based on that, I was saying that in
12 order for them to get a penalty, I would set a cushion,
13 but I wouldn't set it at the same level as the reward,
14 because they had an obligation to perform.

15 But the utilities have kind of characterized
16 that as being punitive, and the intent is not to be
17 punitive. So I would agree that if the concept of more
18 symmetrical, going from a plus 5 to a minus 5 in your
19 mind is reasonable, I would agree with that. I mean, I
20 would concede --

21 COMMISSIONER CARTER: But it's not reasonable
22 in your mind?

23 THE WITNESS: Well, my experience tells me
24 that I would use more of a stick on the low side than
25 setting it at 5. I would set it at 2.5. But I'm saying

1 it's not unreasonable to set it symmetrically. And I'm
2 not -- what I don't want to do is, I don't want to come
3 across as this is being punitive to the utility. That's
4 not the intent. What it is is to get more equity in the
5 process for the ratepayers.

6 And it's much more important to set a dead
7 band of 5 above and 5 below than it is not to set a dead
8 band at all, so I would agree that a symmetrical dead
9 band would be a reasonable modification to my proposal.

10 CHAIRMAN EDGAR: Thank you. Mr. Burnett.

11 MR. BURNETT: Thank you.

12 BY MR. BURNETT:

13 Q. Mr. Ross, you contend, obviously, from what
14 you just said, that the GPIF as it exists today is
15 incorrect; right?

16 A. I wouldn't say it's incorrect. I just think
17 it's not equitable to the ratepayers for the utilities
18 to be getting rewards when the performance above the
19 target is not exemplary, that the overall performance is
20 not something significantly above the target.

21 Q. Mr. Ross, I asked you that same question in
22 your deposition on page 25, "Do you contend that the
23 Commission was incorrect by adopting GPIF as it exists
24 today?" Your answer, "As it exists today, I think it's
25 incorrect." Do you remember giving me that answer?

1 **A.** Could you give me a cite?

2 **Q.** Yes, sir. Page 25, lines 23 to 24, to page
3 26. Actually, page 25 through line 25. Your answer,
4 "As it exists today, I think it's incorrect," is
5 actually on line 25, page 25.

6 **A.** Well, I think in the context -- I said, "As it
7 exists today, I think it's incorrect. I don't think
8 it's equitable to the ratepayers." So in that context,
9 I would agree with the statement in the deposition as
10 well as what I just stated.

11 **Q.** Thank you, sir. And you take the position
12 that anyone who is thinking carefully about GPIF, at
13 least up to 15 years ago, would have a strong argument
14 to change it even back then; right?

15 **A.** I think anybody with my utility experience,
16 and in the context of a regulatory setting where you
17 have a fully compensatory fuel adjustment clause, that
18 setting the targets as low as -- or setting the
19 triggering point for payments as low as they were set,
20 in my mind, was not the most optimum way to set up the
21 program.

22 **Q.** Well, Mr. Ross, to your knowledge, this is the
23 first time the Office of Public Counsel has ever
24 challenged GPIF over the past 20 years; correct?

25 **A.** That's correct.

1 **Q.** And the GPIF manual calculations and formulas
2 have stayed the same over the past 20 years, correct?

3 **A.** Essentially the same as far as I know.

4 **Q.** And to your knowledge, you're the one and only
5 person who has ever challenged GPIF over the last two
6 decades; correct?

7 **A.** As far as I know.

8 **Q.** However, Mr. Ross, you've not done any
9 independent research as to whether GPIF has provided
10 fuel savings to ratepayers historically in Florida, have
11 you?

12 **A.** I haven't, and the reason that I haven't is
13 that I can't conceive of an analysis that could be
14 performed in that area. And let me explain what I mean.
15 As I said earlier, you have a regulatory setting here
16 where you have a fully compensatory fuel adjustment
17 clause that as long as the utilities operate prudently,
18 they get their full fuel costs passed through.

19 In order for my adjustment or for the
20 elimination of the GPIF to affect the fuel costs that
21 the utility incurs, there has to be some change in the
22 way that the utility operates. And I can't conceive of
23 anything that they could say that they could change and
24 increase the fuel costs and still say they operated
25 their utility in a prudent manner. Whatever change they

1 would invoke to increase the cost of fuel would on its
2 face be imprudent. So I don't know how you could come
3 up with an analysis that would demonstrate the effect of
4 the dead band.

5 Q. Mr. Ross, then again, it's probably safe for
6 me to assume that with respect to my client, Progress
7 Energy Florida, you similarly have not done any
8 investigation as to whether GPIF has historically
9 provided fuel savings to PEF customers; correct?

10 A. That is correct, for the same reason that I
11 just stated. In order for your client to have not
12 performed up to its optimum would indicate to me that
13 they did something imprudent. They weren't prudently
14 operating their utility if there can be a detrimental
15 impact on fuel because of the GPIF modifications or the
16 lack of a GPIF program.

17 Q. Well, let me sum this issue up, Mr. Ross.

18 CHAIRMAN EDGAR: Mr. Burnett, I'm sorry.
19 Commissioner Deason has a question.

20 MR. BURNETT: Excuse me. Sure.

21 COMMISSIONER DEASON: As I just understand the
22 testimony that you've just given in response to the last
23 couple of questions, I would take it that your ultimate
24 position is that there should be no GPIF at all, because
25 what I hear you saying is that if we only pass through

1 prudently incurred fuel costs, those must be the
2 absolutely lowest fuel costs, and there's no way that
3 there can be improvement in that performance, and
4 therefore, why have a mechanism which gives an incentive
5 for increased performance if the costs that we only
6 allow are already at that the level. Now, that's what I
7 understood your testimony to say, so if that's --

8 THE WITNESS: You understood me correctly, but
9 I'm not advocating that the GPIF be eliminated. And the
10 reason for that is, I don't have a philosophical problem
11 with rewarding people that perform in an exemplary
12 fashion.

13 And if the targets are set reasonably, and I
14 have no reason to think that they're not, and the
15 utility operates in an exemplary fashion, again, at the
16 5 score, then what you're really doing is, you're
17 rewarding them for doing an outstanding job. It's still
18 their job. They're still doing what they should do.
19 They're still operating as prudently as they can. But
20 you're basically giving them a reward for outstanding
21 performance, and I don't have a problem with that, and I
22 think that's why the GPIF -- it may be a good reason to
23 continue to keep it in effect.

24 COMMISSIONER DEASON: So you see a difference
25 between prudently incurred fuel costs and exemplary

1 service or exemplary performance such that what normally
2 would be passed through the fuel clause could be less if
3 there's exemplary performance?

4 THE WITNESS: No. What I'm saying is that the
5 way the GPIF is set up, if the utility performs in a
6 prudent and efficient manner, they have certain
7 equivalent availabilities and certain heat rates that
8 fall out of that prudent operation. Under the current
9 GPIF, if those resulting equivalent availabilities and
10 heat rates are just modestly above the targets, they get
11 payment for that. And what I'm saying is that the GPIF
12 would provide I guess a better ratepayer bang for the
13 buck if you had a situation where they only got payment
14 for those improvements if they were significant.

15 And I think where I maybe differ with the
16 utilities is, I really don't think that the GPIF process
17 is what I would consider a true incentive process. When
18 I think of an incentive process, I think of something
19 that changes the behavior of the individual that has
20 access to the incentive.

21 And I think the utilities, if they're
22 prudently operated, and I don't have any reason to
23 believe that these utilities aren't, they're doing
24 everything they can under their obligation to operate in
25 a prudent manner. So I don't know that there's an

1 incentive to improve anything with the GPIF. But I
2 would say that a reward for demonstrating exemplary
3 performance is something that the Commission may want to
4 do.

5 COMMISSIONER DEASON: So your testimony is
6 that it's your belief that over the last 20 or 25 years,
7 there had been no exemplary performance as result of the
8 GPIF, and there's not been any fuel savings as a result
9 of the program?

10 THE WITNESS: There may have been some
11 exemplary performance, but my testimony is, I can't,
12 from looking at the data that I've seen, see a
13 consistent change in these unit performances that
14 indicates to me that there has been an incentive that
15 has changed behavior above and beyond what you would
16 normally see a utility operate in a prudent manner.

17 COMMISSIONER DEASON: Is the standard one of
18 consistent performance, or better than what would have
19 been achieved had there been no GPIF?

20 THE WITNESS: I'm sorry. I didn't follow
21 that.

22 COMMISSIONER DEASON: You keep mentioning
23 consistent performance. Is that the appropriate
24 standard, or is the standard to attempt to see if there
25 has been -- if the GPIF has achieved its goal? Should

1 the standard be to try to ascertain the level of fuel
2 costs that would have been incurred absent the GPIF and
3 the amount of fuel costs that are incurred as a result
4 of the GPIF?

5 THE WITNESS: I would say the latter if you
6 could perform the evaluation. But as I stated earlier,
7 I don't know how you would make that determination,
8 because if the utilities have been getting passthrough
9 of these fuel costs, then the determination is that the
10 actions that they've performed are prudent. And for
11 them to have acted otherwise so that there would be this
12 difference in the fuel savings indicates to me that
13 there would be imprudent decisions that could have been
14 made, that could have been made and passed through. I
15 don't know how to evaluate that. I don't think you can
16 evaluate that.

17 COMMISSIONER DEASON: Thank you.

18 MR. BURNETT: Thank you.

19 BY MR. BURNETT:

20 Q. Mr. Ross, to sum this all up, as you sit here
21 today, you can't say with certainty what impact your
22 dead band proposal would have on fuel savings in
23 Florida, can you?

24 A. I think I stated when we had the deposition
25 that you can't say anything with certainty, including

1 the outcome of the World Series, although it turned out
2 pretty good for those of us in St. Louis.

3 Q. Mr. Ross, I think this may be my last
4 question. You don't disagree that your dead band
5 proposal would virtually eliminate all rewards under
6 GPIF; correct?

7 A. There's testimony in this case that said if my
8 dead band was adopted, it would virtually eliminate the
9 rewards, and I think it was --

10 Q. And you don't disagree --

11 A. I think it was Florida Power & Light's
12 witness. I don't disagree with that, but I don't have
13 any basis for saying what the future is going to hold.

14 MR. BURNETT: Thank you, sir. No further
15 questions.

16 CHAIRMAN EDGAR: Commissioner Arriaga.

17 COMMISSIONER ARRIAGA: Thank you. Would you
18 please clarify something for me, Mr. Ross. What was the
19 statement you made regarding historical analysis?

20 THE WITNESS: Okay. As I understand the way
21 the GPIF is developed, the targets are developed, you
22 look at three years of history, operating history for
23 each of the units. So there's a historical basis for
24 how you get to the target.

25 COMMISSIONER ARRIAGA: And do you disagree

1 with that?

2 THE WITNESS: No. I don't disagree with any
3 of the methodology that's underlying the calculation of
4 the GPIF targets or their minimum/maximum ranges or the
5 way the GPIF points are developed. My position is that
6 the triggering mechanism for the payments of rewards and
7 penalties should be changed.

8 COMMISSIONER ARRIAGA: But if we look at the
9 history of how the GPIF has behaved in the last four or
10 five years, you could make some kind of projection or
11 forecasted inference if you want regarding the utility
12 or not, the effectiveness or not of the GPIF.

13 THE WITNESS: Oh, I think I misunderstood your
14 first question. I was thinking of the individual units
15 within the process, and what you're saying is looking at
16 the performance of the utilities over a period of time.

17 COMMISSIONER ARRIAGA: Right.

18 THE WITNESS: I looked at the period of time.
19 I looked at six years. I looked at 15 years. And what
20 I couldn't find was any discernible improvements
21 consistently among the utilities and among the units.

22 COMMISSIONER ARRIAGA: Would you please turn
23 to JAR-1.

24 THE WITNESS: Certainly.

25 COMMISSIONER ARRIAGA: Schedule 3. There are

1 two graphs there that relate to Tampa Electric Company,
2 the EAF and the heat rate. You are familiar, of course,
3 with a mathematical reliability calculation called
4 regression and correlation analysis.

5 THE WITNESS: I'm not with you. You said
6 JAR-2?

7 COMMISSIONER ARRIAGA: JAR-1.

8 THE WITNESS: Oh, 1. I'm sorry.

9 COMMISSIONER ARRIAGA: Schedule 3. There are
10 two graphs that refer to Tampa Electric Company.

11 THE WITNESS: Okay. I have those.

12 MR. BUTLER: You are familiar with a
13 reliability calculation called regression and
14 correlation analysis? Are you aware of that?

15 THE WITNESS: I have the graphs, yes.

16 COMMISSIONER ARRIAGA: Do you recognize
17 regression and correlation analysis as a mathematical
18 calculation?

19 THE WITNESS: I recognize that there are those
20 methods of analysis.

21 COMMISSIONER ARRIAGA: Okay. Do you see the
22 black line that goes down?

23 THE WITNESS: Yes.

24 COMMISSIONER ARRIAGA: I would tend to say
25 that if you apply a regression analysis to that data

1 that I heard was all over the place, that line is pretty
2 close to one, the correlation, almost close to one,
3 which means that the historical data adapts to the
4 performance.

5 THE WITNESS: Okay.

6 COMMISSIONER ARRIAGA: So what I'm trying to
7 get, at is, applying a correlation analysis to the data
8 that is here, it doesn't seem that it's all over the
9 place. It seems it's pretty close to one, which means
10 that the GPIF factor has been estimated appropriately
11 and that the utilities have performed appropriately to
12 the estimated values.

13 Maybe we're talking a different language.

14 THE WITNESS: I think we are.

15 COMMISSIONER ARRIAGA: I've got an engineering
16 background.

17 THE WITNESS: Let me try this. Let me try
18 this. We're on Schedule 3 with the graph that says
19 "Tampa Electric Company System EAF"?

20 COMMISSIONER ARRIAGA: Uh-huh.

21 THE WITNESS: Okay. The black line is a
22 linear regression of the red line.

23 COMMISSIONER ARRIAGA: Absolutely.

24 THE WITNESS: Okay. And what this shows is
25 that over time, Tampa Electric Company's EAF has

1 declined, has gotten worse over time.

2 COMMISSIONER ARRIAGA: What it shows is that
3 the ups and the downs eliminate each other, balance each
4 other out.

5 THE WITNESS: That is true, because this is a
6 linear --

7 COMMISSIONER ARRIAGA: So it is a fair --

8 THE WITNESS: It's a straight line. Yes, It's
9 a straight line --

10 COMMISSIONER ARRIAGA: So GPIF is a fair
11 method of calculating, because it balances out the
12 negatives and balances out the positives, and you get a
13 straight line.

14 THE WITNESS: But the straight line is not
15 representative of GPIF. The straight line is just
16 merely a linear --

17 COMMISSIONER ARRIAGA: It's EAF.

18 THE WITNESS: Right.

19 COMMISSIONER ARRIAGA: I'm just trying to say
20 -- what I'm trying to point out to you, if I may,
21 please, is that the data, the historical data shows that
22 the GPIF factor has behaved appropriately according to
23 Commission desires and Commission rules and Commission
24 objectives. In other words, the data is not -- the
25 historical data is not all over the place, as I see it.

1 The positives and the negatives balance each other out,
2 and that's why you get that straight line.

3 THE WITNESS: That is correct, but the actual
4 data is all over the place. If you look at the red
5 line --

6 COMMISSIONER ARRIAGA: But you have to look at
7 it historically and average the history. That's why you
8 apply regression analysis.

9 THE WITNESS: Well, but the regression
10 analysis here is not trying to do a comparison of the
11 targets and the actual. If you take a look at the
12 individual targets in the individual years where those
13 actuals are plotted, you'll see that -- let's just take
14 October '89 to September '90. Eighty percent was about
15 what the target was. The utility came in at something
16 around 76. Then in the next year, the target dropped
17 down from 80 down to probably 78, and the utility, it
18 looks like they hit the target. And then in the next
19 year, the target drops -- in October '91, '92, it drops
20 down to somewhere in the range of 76, but the utility in
21 that period hit a higher number, probably about 78. So
22 the targets move, and --

23 COMMISSIONER ARRIAGA: That's exactly what I
24 meant. There are times they don't meet the targets, and
25 there are times they go over the target. They balance

1 each other out.

2 THE WITNESS: Well, but they haven't balanced
3 themselves out when you look at the payments that the
4 customers have received. I mean, you may get that
5 picture from this chart, but if you'll turn -- earlier,
6 there's a chart -- I mean, there's a table on just the
7 next page from that chart, Schedule 2, page 4 of 4.
8 That's the Tampa Electric rewards and penalties. And
9 you can see that over time, Tampa was way ahead of the
10 game, and then right at the end, they fell behind. So
11 that's the way the targets and the penalties play
12 through with respect to the payments.

13 COMMISSIONER ARRIAGA: Okay. Thanks.

14 CHAIRMAN EDGAR: Commissioner Carter.

15 COMMISSIONER CARTER: Thank you, Madam
16 Chairman.

17 Mr. Ross, you used the term -- you were
18 defining exemplary performance.

19 THE WITNESS: Yes.

20 COMMISSIONER CARTER: Can you give me some
21 specific examples of what that would be?

22 THE WITNESS: Well, I think anything that's
23 50 percent between the midpoint of what the utility
24 target is and what their maximum performance is is
25 exemplary.

1 COMMISSIONER CARTER: Something specific,
2 something that I could write down that I'll know what
3 you're talking about instead of -- you know, exemplary
4 is a qualitative term, but specifically what do you mean
5 when you say there has to be exemplary performance?

6 THE WITNESS: Say 50 percent above the target,
7 a minimum of 50 percent above the target level.

8 COMMISSIONER CARTER: Maybe I'm not --

9 THE WITNESS: I'm sorry. I'm not following.

10 COMMISSIONER CARTER: -- asking the right
11 question. What does your term "exemplary performance"
12 mean? Can you define it in specifics? I mean, I was
13 looking at your numbers in terms of the plus 5 and the
14 minus 2-1/2. Then in your response to a question to
15 Commissioner Deason, you said they would have to have
16 exemplary performance. I'm just trying to say, how do
17 you define what exemplary performance is?

18 THE WITNESS: It's judgment, and the judgment
19 that I've applied is that it has to be at least half of
20 the way between the target and the midpoint. And the
21 other aspect of it is, I think it has to be something
22 that is far enough above the target that it doesn't
23 reflect forecast error.

24 COMMISSIONER CARTER: Which would be?

25 THE WITNESS: The normal variations about your

1 projection, your target. And I think that would fall in
2 a range of anything less than 1 percent, one percentage
3 point on the EAF. You've got 80 as the target. If it's
4 81, I would think that anything less than the 1 percent
5 would fall into an area of forecast error. I don't
6 think you can project with that precision what the
7 target is going to be.

8 COMMISSIONER CARTER: Thank you, Madam Chair.

9 CHAIRMAN EDGAR: Mr. Burnett, were you
10 finished with your cross?

11 MR. BURNETT: Yes, ma'am.

12 CHAIRMAN EDGAR: Okay. I could use a stretch,
13 so I think it's about that time. We're going to take
14 approximately 10 minutes and come back at about 20
15 after, and we are on break.

16 (Short recess.)

17 CHAIRMAN EDGAR: We will go back on the
18 record. Mr. Butler, I think you're next.

19 MR. BUTLER: Thank you, Madam Chairman.

20 CROSS-EXAMINATION

21 BY MR. BUTLER:

22 Q. Good afternoon, Mr. Ross.

23 A. Good afternoon, Mr. Butler.

24 Q. Some of the questions I was going to ask you
25 Mr. Burnett did, so hopefully that will shorten this

1 some. And I'll try to avoid duplication. There may be
2 a couple of places where it overlaps a little bit.

3 Can you name any utility in Florida that would
4 have received a GPIF reward over the past 15 years if
5 your dead band proposal had been in effect during that
6 time period?

7 **A.** No. I think I testified earlier I haven't the
8 ability to -- or I haven't made that analysis.

9 **Q.** And likewise, can you name any utility
10 anywhere else in the country whose generating
11 performance would have earned it a reward under
12 Florida's GPIF methodology if the GPIF methodology had
13 incorporated your dead band proposal?

14 **A.** Are you asking me if any other utility in the
15 country has a GPIF and the dead band would have been
16 applied to that?

17 **Q.** No. I'm asking you whether in developing your
18 proposal you looked to see if there is any utility in
19 the country whose actual generating performance would
20 have received a reward under Florida's GPIF methodology
21 if that methodology incorporated your dead band
22 proposal.

23 **A.** There is no way I could have performed that
24 analysis. I wouldn't have the data to do it.

25 **Q.** Do you have any reason to dispute any of the

1 calculations in FPL witness Pam Sonnelitter's August 22,
2 2006 testimony that was filed in response to your direct
3 testimony?

4 **A.** Are you referring to the charts in the back of
5 her testimony?

6 **Q.** Yes, to the data, the calculations that
7 underlie the charts and the other data reflected in the
8 back of her testimony.

9 **A.** No. I don't have any reason to dispute what
10 the graphs show or the underlying data.

11 I would point out that that part of her
12 rebuttal testimony shows that you don't want to go to a
13 historical view of how the utilities have improved on a
14 system-wide basis as a basis for GPIF changes or
15 modifications, and that's because of the technology
16 changes that have occurred on Florida Power & Light's
17 system that influence that chart and those numbers that
18 show an upward movement, when in reality, the changes
19 are due to technology.

20 **Q.** And how do you know that that's true?

21 **A.** Because I have looked at the combined cycle
22 units that have been added to Florida Power & Light's
23 system over the past few years, and I looked at Fort
24 Lauderdale, I think it's 4 and 5, Meyer, and -- there's
25 another one. Martin I think is one of the other units.

1 And those are combined cycle units that have high
2 equivalent availabilities and low heat rates.

3 Q. Have you attempted to perform any analysis of
4 FPL's system performance that would exclude those units?

5 A. No.

6 Q. So you don't know what impact, if any,
7 including those units would have on the data that
8 Ms. Sonnelitter presents, do you?

9 A. I think in her testimony, she indicates that
10 -- as I recall her rebuttal testimony as I sit here,
11 that there would be improvements in the heat rates and
12 in the EAF because of the combined cycle units that are
13 being brought onto the system.

14 Q. But other than reading her testimony, you've
15 not done any analysis; is that correct?

16 A. That's correct.

17 Q. You've pointed out in your testimony that a
18 modest improvement in unit performance can result in a
19 GPIF reward even if there's no long-term performance
20 improvement; correct?

21 A. I have testified to that, yes.

22 Q. Would you agree that the reverse is also true,
23 that a modest decline in unit performance can result in
24 a GPIF penalty even if there has been no long-term
25 performance decline?

1 **A.** Yes.

2 **Q.** You've pointed out in your testimony that
3 under the GPIF, utility customers must pay for the
4 rewards that the utilities receive; correct?

5 **A.** That is correct.

6 **Q.** Would you agree that the GPIF also provides
7 for the fuel costs that utility customers pay to be
8 reduced by the amount of any GPIF penalties that are
9 imposed on utilities?

10 **A.** I'm not sure exactly how the mechanism works,
11 but it's my understanding that if there is a penalty,
12 there is a reduction in the ratepayers' cost.

13 **Q.** Now, at your deposition, you characterized the
14 GPIF as being symmetrical in this regard; correct?

15 **A.** The current GPIF is symmetrical in that there
16 is no dead band about the GPIF points, so for every
17 slight movement up or every slight movement down, there
18 is a reward or a penalty.

19 **Q.** And would you look at page 59 of your
20 deposition transcript? Would you agree that you
21 characterized the fact that under the GPIF, if there is
22 a reward, customers will have to pay for that reward,
23 and if there's a penalty, they get the benefit of the
24 lower fuel charges that the utility would be able to
25 collect from them, you characterized that as being

1 symmetrical; correct?

2 A. Yes, I agree.

3 Q. Okay. Thanks. Are you aware of any instances
4 where prudence reviews have been used to distinguish
5 between utilities performing satisfactorily and
6 performing exemplary with respect to their generating
7 unit performance?

8 A. Would you repeat that, please?

9 Q. Are you aware of any instances where prudence
10 reviews have been used to distinguish between
11 satisfactory and exemplary generating unit performance?

12 A. My knowledge of prudency reviews is that it is
13 either prudent or it's not prudent.

14 Q. You referred to that as kind of a bright line
15 test in your deposition; correct?

16 A. I would agree that it's usually a bright line
17 test.

18 Q. But you're not aware -- you haven't been
19 involved in instances, am I correct, where prudence
20 reviews have been used to distinguish between
21 satisfactory utility performance and excellent or
22 exemplary utility performance?

23 A. That's correct.

24 Q. Would you agree that under your dead band
25 proposal, a utility that achieved a record of steady,

1 modest improvements in generating performance over a
2 series of several years would never receive a reward for
3 that performance because of the dead band?

4 **A.** Correct.

5 **Q.** But steady, modest performance in -- steady
6 performance improvements by a utility is something that
7 the Office of Public Counsel says that it seeks to
8 encourage; is that correct?

9 **A.** I believe I heard that in the opening
10 statement.

11 **Q.** Speaking of the opening statement, I would
12 like to ask you about the high school student that
13 Mr. McGlothlin referred to. Analogizing to the GPIF as
14 he would, the high school student that went from the
15 B-plus average to the D could expect to receive a
16 penalty for having done so, wouldn't he?

17 **A.** Yes.

18 **Q.** And the student having slipped to a D level of
19 performance, if he improved to a C-minus, that might not
20 be where you would like him to end up, but that would be
21 better than if he had remained at a D level of
22 performance, wouldn't it?

23 **A.** That's correct.

24 **MR. BUTLER:** Thank you, Mr. Ross. That's all
25 the questions that I have.

1 CHAIRMAN EDGAR: Questions on cross?

2 MR. BEASLEY: I have no questions. What I
3 would have asked has already been covered.

4 CHAIRMAN EDGAR: Okay.

5 MR. BADDERS: No questions in the interest of
6 time.

7 CHAIRMAN EDGAR: Thank you. Questions from
8 any other parties on cross for this witness?

9 Seeing none, are there questions from staff?

10 MS. BENNETT: I have a few left.

11 CROSS-EXAMINATION

12 BY MS. BENNETT:

13 Q. Mr. Ross, in your testimony, you describe some
14 of the availability and heat rate characteristics of the
15 investor-owned utility GPIF units going back to the
16 early 1980s, and you used, in your words, publicly
17 available data. Could you describe what publicly
18 available data you used to make your determination?

19 A. It was data that was provided to me by OPC
20 from orders and from data that the utilities had filed
21 with the Commission.

22 Q. Okay. Thank you.

23 And you are familiar with the Public Service
24 Commission's Order No. 9558; is that correct?

25 A. I have a copy of it in front of me.

1 **Q.** Okay. On page 7 of Appendix A is the
2 statement of the purpose, to encourage utilities to
3 improve the productivity of their base load generating
4 units. Is that where you base your supposition that the
5 GPIF is not meeting its goals?

6 **A.** That is my basis for what the purpose of the
7 GPIF is.

8 **Q.** Okay. On the next page of Appendix A, on page
9 8, the first full paragraph talks about -- it states in
10 the second sentence -- and I would ask you to read it.
11 It starts with, "Based on this comparison." Can you go
12 ahead and read that for us?

13 **A.** I'm not sure I'm with you. Is the title on
14 that "Adjustments to Equivalent Availability"?

15 **Q.** I'm on page 8 of Appendix A of Order No.
16 9558.

17 **A.** Appendix A.

18 **Q.** I'm sorry. Page 2 of the appendix, page 8 of
19 the order.

20 **A.** Okay. Page 2 that at the bottom has a
21 Footnote 1?

22 **Q.** Correct.

23 **A.** Okay. I have that.

24 **Q.** The second full sentence, the second sentence
25 in the first full paragraph that starts with, "Based on

1 this comparison."

2 **A.** "Based on this comparison, a monetary reward
3 is awarded for improvements from the performance
4 targets. A monetary penalty is deducted for degradation
5 from the performance targets."

6 **Q.** And doesn't this portion of the order clarify
7 that the purpose of the GPIF is to encourage
8 improvements from the targets rather than improvements
9 from the past?

10 **A.** If I understand your question right, yes. The
11 basis for the improvement is the target.

12 **Q.** Okay. I want you to turn to page 7 of your
13 testimony.

14 **A.** I have it.

15 **Q.** Okay. On page 7 of your testimony, you state
16 that the GPIF methodology allows for adjustments to the
17 equivalent availability factor and heat rate performance
18 indicators where such adjustments are determined to be
19 appropriate by the Commission. Do you know what types
20 of events would cause such adjustments to be
21 appropriate?

22 **A.** There's a list I think in the order with
23 respect to -- changes in maintenance schedules I think
24 is one, where either a maintenance schedule slides out
25 of a particular performance period, and another one is

1 if the maintenance is extended beyond or significantly
2 beyond what is projected. Those are the two that come
3 to mind. But I think it's on a case-by-case basis, as I
4 recall.

5 Q. Okay. And also in your written testimony, you
6 describe in your first answer on page 5 and in the first
7 complete paragraph on page 6 the process of calculating
8 points. On both pages, you say that the actual
9 operating data are compared to targets. Do you mean
10 that it's actually the adjusted actual operating data
11 that are compared to their targets?

12 A. No. I believe there's an adjustment that the
13 staff makes, and that adjustment is what is used to
14 compare.

15 Q. Since the utilities calculate adjusted actual
16 indicators in order to compare actual indicators with
17 their respective targets, aren't these adjusted actual
18 indicators only valid for comparing to these respective
19 targets?

20 A. This is a description that -- I was trying to
21 give an overview. I'm not changing anything that you do
22 with respect to calculating the GPIF points, so how it's
23 done now is exactly the way it would be done under my
24 proposal. So anything that is in this written testimony
25 that would conflict with that is basically my summary or

1 trying to do a general overview of how the process
2 works, and not to recommend any changes to the way the
3 system is currently operating.

4 Q. In Schedule 6, page 1, of your testimony, you
5 describe Gulf Power Company's EAFs and heat rates for
6 the years 2001 and 2002.

7 A. Yes, I have that.

8 Q. There's some aggregates of the adjusted actual
9 indicators. Assuming that the adjusted actual
10 indicators are appropriate for describing changes
11 between two periods, are you attributing all of the
12 changes between 2001 and 2002 to declines in
13 performance?

14 A. I think the answer is that I tried to
15 calculate what the changes were between the actual
16 adjusted EAF and heat rate, and to the extent that there
17 was a change, I was attributing that to the changes in
18 those factors, in those two factors.

19 Q. Do your descriptions of annual performance
20 recognize that variations in equivalent availability
21 factors are influenced by variations in planned outage
22 factors?

23 A. The system weighting factors, the way I did
24 the system weighting is, I took the weighting factors
25 that are used for the GPIF and used those to weight. So

1 whatever the weighting factors were in the GPIF filing,
2 that's what I used to do the weighting.

3 **Q.** Do your descriptions of annual performance
4 recognize that variations in actual heat rates are
5 influenced by variations in net output factors?

6 **A.** To the extent that it is in the GPIF
7 calculation, yes, because I was trying to use exactly
8 the same data.

9 **Q.** If the present program were amended to
10 incorporate the proposed five-point plan, what would
11 prevent a utility from changing the rates that accompany
12 its targets so that the rewards historically based on
13 less than five points would in the future be based on
14 five points or greater?

15 **A.** I'm sorry. I didn't follow that.

16 **Q.** I'm not sure I did either. If the present
17 program were amended to incorporate the proposed
18 five-point plan, what would prevent a utility from
19 changing the ranges that accompany its targets so that
20 rewards historically based on less than five points
21 would in the future be based on five points or greater?

22 **A.** I'm still not sure I understand your question.

23 MS. BENNETT: I'll withdraw the question, and
24 I don't anything further for this witness.

25 CHAIRMAN EDGAR: Commissioners, any additional

1 questions for this witness? No, no, no.

2 Mr. McGlothlin, redirect?

3 MR. MCGLOTHLIN: Briefly, yes.

4 REDIRECT EXAMINATION

5 BY MR. MCGLOTHLIN:

6 Q. Mr. Ross, when describing your past experience
7 in response to questions from counsel, you referred to a
8 division within Union Electric called "Betterment."
9 Would you elaborate on what that term denotes and how
10 your experience with that division supports your
11 qualifications for this role?

12 A. Well, the Betterment Department was given the
13 responsibility to try to improve the operation of our
14 generating units. Their responsibilities included
15 coming up with projects that would increase the
16 availabilities and also increase the heat rate
17 performance of the generating units.

18 My interaction with that group was through the
19 fact that I operated the system simulation model that
20 simulated all the operations of the company. And when
21 they would want to look at a particular project, if they
22 needed any economics run to determine what benefits or
23 detriments the particular project might have on the
24 system as a whole, I was engaged and assisted them in
25 that area.

1 Q. Mr. Burnett asked you a series of questions in
2 which he listed certain factors about the nature of
3 generating equipment, and I made a few notes. They
4 included the fact that equipment wears over time, that
5 system load may have an impact on particular
6 performance, scheduled maintenance, and fuel price,
7 among others. Do you recall that series of questions?

8 A. Yes.

9 Q. Would those factors be taken into account and
10 be reflected in the way that the targets are set under
11 the current GPIF?

12 A. I believe so, yes.

13 Q. Are you proposing to make any changes to the
14 way the targets are being calculated in your proposal?

15 A. No.

16 Q. Commissioner Arriaga asked you some questions
17 about the graph shown on JAR-1, Schedule 3, Figure 1.
18 Do you have that in front of you?

19 A. Yes.

20 Q. What does this graph depict? What is it
21 measuring?

22 A. It depicts the Tampa Electric Company. And I
23 used the term "system" in the graph, but it really
24 refers to just the generating units that are included in
25 the GPIF EAF performance over a period of time. The

1 blue bars represent the targets that were established in
2 the GPIF. The red line indicates the adjusted actuals,
3 how they were calculated at the end of the period and
4 plotted against the targets. The linear line, the black
5 line is a simple straight line curve fit of the actual
6 red line that's shown there.

7 What this graph depicts is that over time, the
8 Tampa Electric Company overall GPIF units' EAF for the
9 data that I have declines fairly dramatically over time.

10 Q. Now, EAF is the acronym for the availability
11 criterion within the GPIF; is that correct?

12 A. Equivalent availability factor.

13 Q. So if the objective -- is the objective of the
14 incentive within the GPIF to increase or decrease EAF?

15 A. If you had an incentive and it was operating
16 and the utility was performing the way you wanted them
17 to, this black line, instead of declining going from
18 left to right, it would increase going left to right.
19 It would completely tilt the other way.

20 Q. So is this graph -- does the direction of the
21 line indicate that the pattern there is consistent with
22 or inconsistent with the policy objectives of the GPIF?

23 A. Well, I would say that if I was advocating an
24 incentive program, the incentive -- this would
25 demonstrate that the incentive program is not having the

1 incentive that I would want to improve the equivalent
2 availability of the units or the system as a whole.

3 Q. Now, you said in response to a question a
4 moment ago that this incorporates the units within the
5 GPIF program as opposed to the full system of TECO; is
6 that correct?

7 A. That's correct.

8 Q. Does it reflect how those units behaved in the
9 aggregate? Is that what this graph --

10 A. Yes. It's a weighting of those units.

11 Q. All right. When in your testimony you alluded
12 to the fact that you do not see a pattern of sustained
13 improvement, were you speaking in terms of an overall
14 system impact, or were you speaking in terms of the
15 performance of individual units within the GPIF program?

16 A. Primarily individual units, individual units.

17 Q. And is that what this graph analyzes?

18 A. No. This is the aggregate. This is not an
19 individual unit.

20 Q. Commissioner Carter asked you several
21 questions about your use of the term "exemplary."

22 A. Yes.

23 Q. Would you elaborate on that concept as you
24 have used that term today?

25 A. The best I can. What I am referring to is

1 something that is materially above the target that is
2 set for a particular year. That would encompass
3 exemplary in my mind. And for purposes of my
4 recommendation, I am defining that numerically as five
5 PIP points, which is the total aggregate performance of
6 the utility for that period.

7 MR. MCGLOTHLIN: Those are all my questions.

8 MR. BUTLER: Madam Chairman?

9 CHAIRMAN EDGAR: Mr. Butler.

10 MR. BUTLER: Mr. McGlothlin raised a point
11 that I need to follow up regarding the JAR-1 schedule in
12 his redirect.

13 MR. MCGLOTHLIN: Chairman Edgar, it's out of
14 the ordinary for recross to be permitted. I don't see
15 anything that I've asked that would warrant a departure
16 from your usual procedure.

17 MR. BUTLER: My reason for raising it simply
18 is that it's something that kind of came up as an issue
19 outside the scope of what Mr. Ross had been testifying
20 to in his direct testimony as a result of the colloquy
21 with Commissioner Carter, and I'm simply wanting to put
22 in proper perspective the points that Mr. McGlothlin
23 made about that particular schedule.

24 CHAIRMAN EDGAR: Ms. Helton?

25 MS. HELTON: I'm trying to remember, but I

1 think Commissioner Carter asked his questions when
2 Mr. Burnett was conducting the cross-examination of the
3 witness. So it seems to me that if Mr. Butler had any
4 questions about the questions that Commissioner Carter
5 asked, that Mr. Butler would have had an opportunity to
6 do so already.

7 MR. BUTLER: That would be true, except that
8 what I want to ask about doesn't have to do with
9 Mr. Ross's -- what he discussed with Mr. Carter. It
10 arises out of Mr. McGlothlin's questions sort of in
11 response to that. And if would you indulge me, I would
12 appreciate it. If you don't, I understand you have a
13 time schedule to keep to.

14 MR. MCGLOTHLIN: I would like to point out
15 that those exhibits were proffered with his direct
16 testimony, and Mr. Ross was available for cross on all
17 of that testimony and his exhibits the first time
18 around.

19 CHAIRMAN EDGAR: Ms. Helton.

20 MS. HELTON: I think I heard Mr. Butler say
21 that he was agreeing for us to go on.

22 MR. BUTLER: Reluctantly.

23 CHAIRMAN EDGAR: Mr. Butler, I appreciate your
24 cooperation. We will attempt with all balance to limit
25 the times the ball bounces back and forth and move us

1 forward.

2 Mr. McGlothlin, I think where we are is
3 evidence.

4 MR. MCGLOTHLIN: I move 54 and 55.

5 CHAIRMAN EDGAR: Exhibits 54 and 55 are moved
6 into the record.

7 (OPC Exhibits Number 54 and 55 were admitted
8 into evidence.)

9 CHAIRMAN EDGAR: And the witness may be
10 excused. Thank you very much.

11 Mr. Butler, the ball is back in your court.

12 MR. BUTLER: I would call Pamela Sonnelitter
13 to the stand.

14 CHAIRMAN EDGAR: I would note to all parties
15 that the next four witness on direct are all on the same
16 two issues and the same two issues that Witness Ross has
17 just testified on, so if we could in the interest of
18 time try to limit the amount of time that we spend on
19 ground that has already been sown.

20 MS. HELTON: Madam Chairman, just for purposes
21 of the record, I wanted to check. I'm not sure that
22 we've admitted Mr. Ross's exhibits into the record.

23 CHAIRMAN EDGAR: Fifty-four and 55, we did.

24 MS. HELTON: Okay. Sorry about that.

25 CHAIRMAN EDGAR: That's okay. Mr. Butler.

1 MR. BUTLER: Excuse me just one minute. May
2 we have an one-minute break to consider something that
3 might be able to speed the proceeding along regarding
4 the presentation of witnesses on the subject?

5 CHAIRMAN EDGAR: Why don't you take three.

6 MR. BUTLER: Okay. Thank you.

7 CHAIRMAN EDGAR: But everybody do stay close,
8 please.

9 MR. BUTLER: Thank you.

10 (Off the record briefly.)

11 CHAIRMAN EDGAR: Okay. Thank you all. We
12 will go back on the record. Mr. Butler.

13 MR. BUTLER: Thank you for your indulgence. I
14 understand you want to proceed with the testimony of our
15 witnesses, and I would call Ms. Sonnelitter.
16 Thereupon,

17 PAMELA SONNELITTER

18 was called as a witness on behalf of Florida Power &
19 Light Company and, having been first duly sworn, was
20 examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BUTLER:

23 Q. Ms. Sonnelitter, have you previously been
24 sworn?

25 A. Yes, I have.

1 **Q.** Thank you. Would you state your name and
2 address for the record.

3 **A.** Pamela Sonnelitter, 700 Universe Boulevard,
4 Juno Beach, Florida, 33408.

5 **Q.** Thank you. By whom are you employed, and in
6 what capacity?

7 **A.** I'm employed by Florida Power & Light, and I'm
8 the general manager of business services for the Power
9 Generation Division.

10 **Q.** Is your microphone on?

11 **A.** Yes, it is.

12 **Q.** Okay. It seems a little low volume. Thank
13 you.

14 Do you have before you testimony entitled
15 "Generating Performance Incentive Factor" dated
16 August 22, 2006, consisting of 11 pages, and one
17 attached exhibit, Exhibit PS-2?

18 **A.** Yes, I do.

19 **Q.** Okay. Was this testimony and exhibit prepared
20 under your direction, supervision, and control?

21 **A.** Yes, it was.

22 **Q.** Do you have any changes or corrections to make
23 to your testimony or the exhibit?

24 **A.** No, I do not.

25 **Q.** Do you adopt the prefiled testimony and

1 exhibit as your testimony in this proceeding today?

2 **A.** Yes, I do.

3 MR. BUTLER: I would ask that
4 Ms. Sonnelitter's prefiled testimony be inserted into
5 the record as though read and that I note her Exhibit
6 PS-2 has been preidentified as Exhibit 16.

7 (Florida Power & Light Company Exhibit Number
8 16 was marked for identification.)

9 BY MR. BUTLER:

10 **Q.** Would you please summarize your testimony,
11 Ms. Sonnelitter?

12 CHAIRMAN EDGAR: The prefiled testimony will
13 be entered into the record as though read, and you may
14 go forward.

15 MR. BUTLER: I'm sorry.

16 CHAIRMAN EDGAR: That's okay.

17 BY MR. BUTLER:

18 **Q.** Ms. Sonnelitter, would you please summarize
19 your testimony?

20 **A.** Yes, I will. Good afternoon, Commissioners.
21 The purpose of my testimony is to respond to Office of
22 Public Counsel witness James Ross's testimony concerning
23 the GPIF as it relates to FPL. Specifically, my
24 testimony does the following:

25 First, it briefly summarizes the history and

1 intended operation of the GPIF, which purpose, as stated
2 in the Commission-approved GPIF manual, is as to provide
3 an incentive for the efficient operation of base load
4 generation units.

5 Second, it illustrates that the GPIF works as
6 intended with respect to FPL, as demonstrated on pages 5
7 and 6 of my document PS-2. In other words, only when a
8 unit performs better than its specific target it
9 receives a reward. FPL does not receive any rewards for
10 just doing its job, as suggested in Mr. Ross's
11 testimony.

12 Third, my testimony refutes Mr. Ross's
13 erroneous assertion that the performance of FPL's
14 generating units has not steadily improved. In fact, as
15 demonstrated on pages 1 and 2 of my document PS-2, the
16 availability of FPL's system-wide fleet and FPL's GPIF
17 units has steadily improved over the last 16 years for
18 which we have continuous GPIF data available. Likewise,
19 as demonstrated on pages 3 and 4 of my document PS-2,
20 the combustion efficiency or heat rate of FPL's units
21 has steadily improved over the same period of time as
22 availability.

23 This high level of availability and heat rate
24 performance is above and beyond the expected reasonable
25 levels of any utility, as demonstrated by FPL's fossil

1 fleet best in class availability performance for seven
2 out of the last eight years and best in class heat rate
3 performance for six out of the last eight years.

4 Lastly, my testimony explains why Mr. Ross's
5 proposals to impose an asymmetric dead band on the GPIF
6 reward/penalty calculation and to establish minimum
7 system performance levels for GPIF rewards are
8 unwarranted and unfair. This proposed dead band would
9 virtually eliminate the possibility of any rewards, in
10 fact, eliminate the GPIF incentive despite FPL's steady
11 improvements in availability and heat rate over time.

12 This concludes my summary.

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1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **FLORIDA POWER & LIGHT COMPANY**
3 **TESTIMONY OF PAMELA SONNELITTER**
4 **(RESPONSE TO GPIF TESTIMONY OF**
5 **PUBLIC COUNSEL WITNESS JAMES ROSS)**
6 **DOCKET NO. 060001-EI**
7 **AUGUST 22, 2006**

8

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

10 A. My name is Pamela Sonnelitter. My business address is 700 Universe
11 Boulevard, Juno Beach, Florida 33408-0420.

12

13 **Q. Are you sponsoring an exhibit in this case?**

14 A. Yes. I am sponsoring an exhibit consisting of one document, Document No.
15 PS-2, which is attached to my testimony.

16

17 **Q. Are you the same Pamela Sonnelitter who has testified in this and**
18 **predecessor dockets?**

19 A. Yes, I am.

20

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

22 A. The purpose of my testimony is to respond to the testimony of Office of
23 Public Counsel witness James Ross concerning the Generating Performance

1 Incentive Factor (“GPIF”), as his testimony relates to Florida Power & Light
2 Company (“FPL”). Specifically, my testimony will do the following:

- 3 • briefly summarize the history and intended operation of the GPIF;
- 4 • illustrate that the GPIF works as intended with respect to FPL;
- 5 • refute Mr. Ross’s erroneous assertion that the performance of FPL’s
6 generating units has not steadily improved; and
- 7 • explain why Mr. Ross’s proposals to impose an asymmetric dead band
8 on the GPIF reward/penalty calculation and to establish minimum
9 system performance levels for GPIF rewards are unwarranted and
10 unfair.

11 12 **HISTORY AND OPERATION OF THE GPIF**

13 On September 19, 1980, the Florida Public Service Commission incorporated
14 within the Fuel and Purchased Power Cost Recovery Clause, in conjunction
15 with the move to projected fuel factors, an explicit incentive called the GPIF.
16 This was done in order to provide an ongoing motivation for utilities to
17 operate their generators efficiently. The GPIF is designed to reward or
18 penalize the performance of units on two parameters (availability and thermal
19 efficiency, i.e., heat rate) relative to their recent past by developing targets
20 based on a rolling average of the last three years’ performance. The GPIF
21 applies to the most-utilized units, which cumulatively represent approximately
22 80% of a utility’s total projected generation output. New units are excluded
23 for a period of three years in order to obtain sufficient historical information

1 upon which to base heat rate and availability projections. The GPIF essentially
2 excludes the effect of planned outages on the availability calculation,
3 recognizing that planned outage schedule variations would distort the inter-
4 period comparisons between target and actual performance. In addition, the
5 GPIF appropriately expresses the target heat rate as a curve. This recognizes
6 that heat rate performance can vary considerably at different net output
7 factors. Again, this is done in order to facilitate inter-period comparisons
8 between target and actual performance.

9
10 **OPERATION OF THE GPIF FOR FPL'S GENERATING UNITS**

11 **Q. Has the GPIF achieved its intended purpose with respect to FPL's**
12 **generating units?**

13 **A.** Yes, it has. The GPIF has resulted in rewards when the performance of
14 generating units improves relative to the GPIF targets, and it has resulted in
15 penalties when their performance has deteriorated compared to those targets.
16 This is illustrated by the graphs that appear on pages 5 and 6 of my Document
17 PS-2. These graphs compare the equivalent availability and heat rate for one
18 of FPL's units, Martin Unit 4, to the GPIF targets for those parameters over
19 the years from 1999 to 2005 and then show whether the unit received a reward
20 or penalty for its performance in each year. One can see that Martin Unit 4
21 was consistently rewarded when its performance exceeded the target and was
22 consistently penalized when its performance fell short of the target.

23

1 **Q. Does the compensation of FPL's power plant management take into**
2 **account factors that are consistent with the incentives provided by the**
3 **GPIF?**

4 A. Yes. Two of the key measures included in the performance evaluations for
5 FPL plant managers are the availability and heat rate achieved by their plants.
6 Thus, improvements in availability and/or heat rate that would result in better
7 GPIF results directly impact the managers' performance evaluations, upon
8 which their compensation is based.

9

10 **FPL'S IMPROVED GENERATING PERFORMANCE OVER TIME**

11 **Q. Mr. Ross states that the GPIF process has not prompted sustained**
12 **improvements in individual unit performance or system-wide**
13 **performance. Do you agree?**

14 A. No. First of all, I would like to point out that, while FPL has in fact achieved
15 significant system-wide performance improvement over the sixteen years for
16 which we have continuous GPIF data available, Mr. Ross's focus on
17 performance trends over extended periods of time misses the point of the
18 GPIF. If utilities are exposed to rewards or penalties for the performance of
19 their generating units relative to the recent past, then the GPIF is achieving its
20 purpose regardless of the long-term operational trends. Rewarding and
21 penalizing performance relative to recent experience provides strong
22 motivation for utilities to improve their generating performance, regardless of

1 whether the long-term trend of past performance has been consistently
2 improving, consistently deteriorating, or mixed.

3
4 In any event, FPL has in fact achieved consistent and significant performance
5 improvements at its generating units over the past sixteen years. Page 1 of
6 Document PS-2 shows the availability of FPL's system-wide generating fleet
7 since 1990, as measured by the generation-weighted average of the Equivalent
8 Availability Factor (EAF) of all units (excluding planned outages to provide a
9 consistent basis for comparison to the GPIF calculations). The dashed line on
10 page 1 shows the actual EAF achieved by FPL's fleet of generating units each
11 year from 1990 to 2005. The solid bold line represents the EAF trend
12 calculated by applying the least-squares statistical method to the actual EAF
13 values. This trend line has a positive slope, which shows an availability
14 improvement over the period. Page 2 of Document PS-2 likewise shows an
15 upward sloping EAF trend line specifically for those FPL units that were
16 included in the GPIF calculation over the past sixteen years.

17
18 A similar analysis of the trend in combustion efficiency for FPL's generating
19 units is shown on pages 3 and 4 of Document PS-2. Page 3 shows the
20 combustion efficiency trend for FPL's system-wide generating fleet (as
21 measured by the generation-weighted average of the Average Net Operating
22 Heat Rate (ANOHR) of all units). Again, the dashed line represents actual
23 system-wide performance (for ANOHR, in this case), while the solid bold line

1 represents the trend calculated using the least-squares statistical method. The
2 trend line has a negative slope, which represents a substantial and consistent
3 heat rate improvement over that period (a lower heat rate means that a unit is
4 operating more efficiently). Page 4 shows the same trend with respect to the
5 FPL units that were included in the GPIF calculation over the past sixteen
6 years.

7

8 **Q. For both availability and heat rate, the graphs on pages 1 and 3 show that**
9 **the trend of performance improvements continues through the 2003-2005**
10 **time period for the system-wide fleet of generating units, whereas the**
11 **graph on page 4 does not show continued improvements over those final**
12 **years for the GPIF units. Would you please explain what causes these**
13 **differences?**

14 A. In both instances, it has to do with appropriate exclusions from the GPIF of
15 new units. During the period 2002-2005, FPL brought into service Fort Myers
16 2, Sanford 4, Sanford 5, Manatee 3, and Martin 8 which represents over 5,000
17 MW of state-of-the-art combined cycled capacity. These units are highly
18 efficient and have contributed substantially to FPL's overall generation mix
19 since they came into service. However, until the new units have three years of
20 historical data that can be used to develop a representative unit performance
21 baseline, they do not enter into the GPIF calculation.

22

1 Regarding availability, there is not a substantial difference between the graphs
2 for the system-wide generating fleet (page 1) and the GPIF units (page 2).
3 The small difference that does exist reflects the fact that the new units are
4 highly reliable and hence favorably affect the weighted average availability
5 for the fleet.

6
7 For heat rate, the difference between the graphs on pages 3 and 4 is somewhat
8 more pronounced and reflects two consequences of excluding the new units
9 from the GPIF calculation. First, the new units have low heat rates and hence
10 favorably affect the weighted average heat rate for the fleet compared to the
11 average for just the GPIF units. Perhaps more significantly, due to the high
12 efficiency of the new units, they tend to displace FPL's older units to spots
13 lower on the dispatch curve and hence result in lower net output factors for
14 those older units. Because a lower output factor results in a higher heat rate
15 regardless of a unit's overall combustion efficiency, this reduction in the older
16 units' output factors means that their achieved heat rates will tend to be higher
17 compared to earlier periods. Thus, the older units, which are appropriately
18 included in the GPIF calculation, appear to have deteriorating heat rate
19 performance when in fact they are simply being operated at lower output
20 factors due to economic dispatch. This phenomenon disproportionately
21 affects the "GPIF Units Only" graph, because it is not offset by the inclusion
22 of the new units.

23

1 **Q. Does the GPIF take the dependence between net output factor and heat**
2 **rate into account?**

3 A. Yes, it does. As I mentioned previously, the GPIF heat rate targets are
4 actually curves plotting heat rate vs. net output factor, and a unit's actual heat
5 rate is measured against the heat rate shown on the target curve at the net
6 output factor at which the unit actually operated. It would be difficult if not
7 impossible to express heat rate trends over time on an output-adjusted basis.

8

9 **Q. Mr. Ross purports to show on his Schedule 7 that some of FPL's**
10 **individual units have not experienced consistent improvement over time.**
11 **Is this meaningful from a GPIF perspective?**

12 A. No, it is not. Again, this reflects Mr. Ross's misunderstanding regarding the
13 GPIF. While performance relative to target is calculated separately for each
14 GPIF unit, utilities are rewarded or penalized based on the weighted average
15 performance of *all* their GPIF units. This is both logical and appropriate. The
16 GPIF is intended to provide incentives to utilities to control fuel costs by
17 operating their units effectively. Our customers pay for the fuel costs of all
18 units, not just particular, individual ones. If a utility manages to achieve high
19 availability and low heat rate on an overall weighted average basis, it is
20 irrelevant to the goals of the GPIF whether the performance of individual units
21 went up or down.

22

1 **Q. Mr. Ross points out in his testimony that FPL has received a cumulative**
2 **net reward under the GPIF of about \$92 million. In view of the sustained**
3 **improvements in the performance of FPL's generating units, is this**
4 **cumulative reward justified?**

5 **A. Yes, it is. The same availability and heat rate improvements that led to these**
6 **GPIF rewards have saved FPL's customers over \$227 million in fuel costs**
7 **during the last sixteen years. That is an average of over \$14 million per year in**
8 **fuel savings to our customers, which is more than double the average GPIF**
9 **reward during the same period.**

10

11 **MR. ROSS'S PROPOSED MODIFICATIONS TO THE GPIF**

12 **Q. Mr. Ross proposes to establish a dead-band on the calculation of GPIF**
13 **rewards and penalties. Do you agree with his proposal?**

14 **A. No. First of all, Mr. Ross's proposed dead band is unfairly**
15 **asymmetric: it would exclude twice as large a range of performance**
16 **improvements from receiving rewards as it would exclude performance**
17 **declines from receiving penalties. Mr. Ross does not even attempt to justify**
18 **the unfair impact on utilities that would result from this asymmetry.**

19

20 **Furthermore, Mr. Ross's proposed dead band is so large on the reward side**
21 **that it would virtually eliminate the possibility of FPL receiving any rewards**
22 **despite FPL's improvements in availability and heat rate over time. This**
23 **would be manifestly unfair to FPL, considering that its fossil units have**

1 achieved best-in-class availability performance when compared to other fossil
2 fleets throughout the *nation*, for seven out of the last eight years and best-in-
3 class performance in heat rate for six out of the last eight years.

4
5 Moreover, achieving a heat rate improvement over even the existing dead
6 band of 75 Btu/kWh will be harder to accomplish in the near future because
7 the new combined cycle units, with heat rates on the order of 7000 Btu/kWh,
8 that are expected to become GPIF units in the coming years would have to
9 drop their already low heat rate by over 1% per year to see any reward. This
10 would be nearly impossible to achieve by these already highly-efficient
11 machines.

12
13 **Q. In addition to the establishment of an asymmetric dead band, Mr. Ross**
14 **proposes to institute “absolute system weighted EAF and HR numbers**
15 **for each utility that would preclude any reward payment for actual**
16 **performance below these established minimum performance levels.” Do**
17 **you agree with this proposal?**

18 **A.** No. First of all, I can only respond to his proposal generally and conceptually
19 at this point, because Mr. Ross devotes only two short paragraphs in his
20 testimony to what is necessarily an extremely complex subject. In fact, he and
21 the Office of Public Counsel have made it clear that, if the concept of
22 minimum performance levels is to be considered, it should take place in the
23 2007 fuel adjustment docket.

1 MR. BUTLER: Thank you, Ms. Sonnelitter. I
2 tender the witness for cross-examination.

3 CHAIRMAN EDGAR: We will begin first with a
4 question from Commissioner Arriaga.

5 COMMISSIONER ARRIAGA: I think I made a mess
6 with the last witness trying to clarify how you use
7 regression analysis, and I see that PS-2 here has quite
8 a few graphs. Would you please explain to me in order
9 to clarify my own questions, how do you apply regression
10 analysis to a set of data? What are you trying to show?

11 THE WITNESS: What we're trying to do is find
12 the best fit line. We use the linear least squares
13 method to find the best fit line, and that method
14 minimizes the square of the errors between the points in
15 the line.

16 COMMISSIONER ARRIAGA: Okay. Thank you.

17 CHAIRMAN EDGAR: Are there questions on cross
18 for this witness? No, no, no.

19 Mr. McGlothlin.

20 CROSS-EXAMINATION

21 BY MR. MCGLOTHLIN:

22 Q. Good afternoon.

23 A. Good afternoon.

24 Q. I don't want to mispronounce your name. Is it
25 Sonnelitter?

1 **A.** Sonnellitter.

2 **Q.** Sonnellitter. I'm very sorry.

3 Ms. Sonnellitter, in your summary, you used the
4 phrase "just doing its job." Is that something that you
5 used also in your prefiled testimony?

6 **A.** I would have to review that to see.

7 **Q.** Well, if you don't know the answer to that,
8 let's not spend the time on it.

9 **A.** Okay.

10 **Q.** At page 3, line 13, that's where you state in
11 your prefiled testimony that in your view, the GPIF has
12 achieved its intended purpose, because when you exceed
13 the targets, you get a reward, and if you fall below the
14 targets, you get a penalty; is that correct?

15 **A.** Yes, that's what I stated in my testimony, and
16 yes, that's the way that the GPIF has worked for Florida
17 Power & Light.

18 **Q.** But what you're really saying there is that
19 you're complying with the GPIF manual as it is currently
20 in effect; is that right?

21 **A.** Yes, that's what that sentence is saying.
22 However, we have actions that we can take, technical
23 activities, if you will, that we can do, such as
24 compressor water washes to improve heat rate, and
25 there's activities that we can do on a proactive basis

1 to improve.

2 Q. But if the Commission sees fit to modify the
3 GPIF methodology and amend the manual and implement
4 that, then FPL would comply with that as well on a
5 prospective basis, would it not?

6 A. FPL is a performance-driven utility, and given
7 performance incentives, we will comply with them and
8 attempt to exceed them.

9 Q. Turn to page 5, if you will. At lines 4
10 through 14, you describe the graphs that appear in
11 document PS-2, do you not?

12 A. Yes.

13 Q. Do I understand correctly that your reference
14 there is to a graph depicting the entire system,
15 including new technology?

16 A. Yes. The first graph includes all of our
17 units, both fossil and nuclear, GPIF and non-GPIF. The
18 second graph in each case includes just the GPIF units.

19 Q. But in either instance, those graphs depict
20 the composite or aggregate values of all of the units in
21 the particular universe, either system-wide or those
22 within the GPIF; correct?

23 A. Yes, that's correct.

24 Q. And you have not depicted what the performance
25 has been on an individual unit basis in these graphs?

1 **A.** No, I did not. However, there is a graph in
2 my testimony that does show one particular unit and the
3 impact of the GPIF on that unit.

4 **Q.** Okay. One unit. How many units does FPL have
5 within the GPIF mechanism?

6 **A.** It depends on year to year. But I just didn't
7 want to have voluminous testimony, and I used one as an
8 example.

9 **Q.** Okay. Approximately how many, if you know?

10 **A.** I believe it usually averages around 10, but
11 it can go up and down.

12 **Q.** If you will, turn to page 4, line 4.
13 Beginning with line 1, the question is, "Does the
14 compensation of FPL's power plant management take into
15 account factors are that consistent with the incentives
16 provided by the GPIF?"

17 And your answer says, "Yes. Two of the key
18 measures included in the performance evaluations for FPL
19 plant managers are the availability and heat rate
20 achieved by their plants. Thus, improvements in
21 availability and/or heat rate that would result in
22 better GPIF results directly impact the managers'
23 performance evaluations upon which their compensation is
24 based."

25 And my first question is simply one for

1 clarification. Are you saying there that if FPL
2 receives a reward of any magnitude that there's some
3 sort of corresponding bonus that the plant managers
4 receive?

5 **A.** No. The attempt of that answer is to say
6 that, again, as noted, FPL is a performance-driven
7 utility, and the same performance indicators that the
8 GPIF utilizes are also included in the performance
9 evaluations and subsequent compensation of the plant
10 managers, among other factors.

11 **Q.** Okay. But apparently, as I understand your
12 answer, there isn't a direct one-for-one correlation
13 such that any bonus of any magnitude on the GPIF
14 translates into a corresponding bonus in the
15 compensation package.

16 **A.** No, we don't use as complex a formula as the
17 GPIF to reward the managers for their incentives, but we
18 do use the same underlying data that drives the GPIF
19 rewards and penalties to drive the compensation, the
20 performance evaluations of the managers.

21 **Q.** Do I understand correctly then that in order
22 for the plant managers to see an impact on their
23 compensation that flows from achievements in heat rate
24 and availability, those incremental improvements would
25 have to be greater than those that would be sufficient

1 to qualify for a bonus or a reward under the GPIF
2 program?

3 **A.** Could you repeat that? I'm not sure that I
4 totally got the whole question.

5 **Q.** Yes. I think we established with the last
6 question and answer that if FPL exceeds its targets and
7 wins a reward under the GPIF program, that does not
8 translate on a one-for-one basis into a bonus in the
9 compensation of these plant managers, does it?

10 **A.** No, we don't use the same formulas as in the
11 GPIF to reward the plant managers. We use the same
12 indicators.

13 **Q.** So to the extent that you use the same
14 indicators -- those indicators being heat rate and
15 availability; am I correct?

16 **A.** Yes. Those are among some of the others, yes.

17 **Q.** So it would require incremental improvements
18 above and beyond that sufficient to receive a bonus
19 under the GPIF for that to translate into increased
20 compensation for the plant managers?

21 **A.** Yes. Just like the GPIF, if the managers meet
22 their targets, you know, there's not an additional
23 reward given. If they exceed their targets, they get a
24 -- you know, their performance evaluation is judged
25 favorably. If they do not achieve their targets, then

1 their performance evaluation is judged unfavorably.

2 Q. And those targets are not one for one
3 correlated to the GPIF program?

4 A. I can't say with any certainty that they match
5 exactly.

6 Q. Turn to page 8, please. At line 9, this
7 question is posed. "Mr. Ross purports to show on his
8 Schedule 7 that some of FPL's individual units have not
9 experienced consistent improvement over time. Is this
10 meaningful from a GPIF perspective?" And you answer,
11 "No, it is not."

12 The first question is, do you take issue with
13 what is depicted on Mr. Ross's Schedule 7?

14 A. May I take a moment and review that schedule?

15 Q. Yes.

16 A. Yes. Actually, we did not know precisely what
17 numbers he was using to determine whether there was an
18 improvement or not an improvement, was he using actual
19 numbers, adjusted actual numbers, whether he was using
20 the initial point and the ending point, or whether he
21 was again using some type of regression to determine a
22 line and then just judge whether or not the performance
23 of each individual unit had improved or declined over
24 time.

25 Q. At lines 17 through 21, you make this

1 statement: "Our customers pay for the fuel costs of all
2 units, not just particular, individual ones." But isn't
3 it true that the overall fuel cost is a function of the
4 build-up of the individual units' own fuel experience?

5 **A.** Yes, certainly. However, the individual unit
6 that may have had maybe either a target or a subtarget
7 performance, or even as Mr. Ross characterized it, a
8 modest improvement, maybe that unit is not as important
9 or not weighted as heavily in the GPIF overall
10 calculation.

11 **Q.** Okay. Granted that the units are weighted,
12 but nonetheless, the overall fuel cost is a function of
13 each individual unit's own fuel cost?

14 **A.** Yes.

15 **Q.** So to the extent one can improve an individual
16 unit, one will coincidentally improve the overall fuel
17 cost?

18 **A.** Yes. And certainly I believe that's the
19 intent of the GPIF.

20 MR. MCGLOTHLIN: Those are all my questions.

21 CHAIRMAN EDGAR: Any other questions on cross
22 for this witness? No.

23 Questions from staff? No.

24 Commissioners? No.

25 Okay. Mr. Butler.

1 MR. BUTLER: No redirect. I would move the
2 admission of Exhibit 16.

3 CHAIRMAN EDGAR: Exhibit 16 will be moved into
4 the record, and the witness may be excused. Thank you.

5 MR. BUTLER: Thank you.

6 (Florida Power & Light Company Exhibit Number
7 16 was admitted into evidence.)

8 CHAIRMAN EDGAR: Mr. Badders.

9 MR. BADDERS: Thank you. We call Lonnie
10 Noack. We are ready to proceed.

11 Thereupon,

12 LONZELLE S. NOACK
13 was called as a witness on behalf of Gulf Power Company
14 and, having been first duly sworn, was examined and
15 testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BADDERS:

18 **Q.** Ms. Noack, were you present this morning when
19 the witnesses were sworn in?

20 **A.** I was present yesterday morning when the
21 witnesses were sworn in.

22 **Q.** That is correct. Please state your name and
23 business address for the record.

24 **A.** Sure. My name is Lonzelle S. Noack, and my
25 business address is One Energy Place, Pensacola,

1 Florida, 32520.

2 Q. For the record, could you please state by whom
3 you are employed and in what position?

4 A. Yes. I am employed by Gulf Power Company, and
5 I am the senior power generation performance specialist.

6 Q. Are you the same L. S. Noack who prefiled
7 direct testimony on August 21, 2006, consisting of five
8 pages?

9 A. Yes.

10 Q. Do you have any changes or corrections to that
11 testimony?

12 A. No, I do not.

13 Q. And if I were to ask you the same questions
14 today, would your answers be the same?

15 A. Yes, they would.

16 MR. BADDERS: We ask that the prefiled
17 testimony of Ms. Noack be inserted into the record as
18 though read.

19 CHAIRMAN EDGAR: The prefiled testimony will
20 be inserted into the record as though read.

21 MR. BADDERS: Mr. Noack does not have any
22 exhibits, so we would like to move to her summary.

23 THE WITNESS: Good afternoon, Commissioners.
24 My summary is in relation to the outstanding GPIF issues
25 that are related to OPC's proposed dead band

1 modification to the existing GPIF mechanism.

2 It is Gulf Power's position that the
3 Commission should not implement this dead band
4 modification as proposed by OPC. This proposed dead
5 band is neither reasonable, nor is it necessary. It is
6 biased, does not treat rewards and penalties
7 consistently, and is contradictory to the intent and the
8 design of the GPIF mechanism.

9 GPIF was incorporated into the fuel and
10 purchased power cost recovery clause to provide an
11 incentive for the efficient operation of base load
12 generating units. The intent of this incentive is to
13 reward utilities for performance that exceeds reasonably
14 expected performance and to penalize utilities for
15 performance that is reasonably less than -- or that is
16 less than reasonably expected for each period
17 encompassed by the relative fuel adjustment clause
18 period.

19 It is Gulf Power's position that the current
20 GPIF mechanism accomplishes its objective by setting
21 meaningful targets, reasonable performance ranges, and
22 equitable rewards and penalties. Therefore, no
23 modification to the current GPIF mechanism is warranted.
24
25

1 **GULF POWER COMPANY**

2 **Before the Florida Public Service Commission**

3 **Direct Testimony of**

4 **Lonzelle S. Noack**

5 **Docket No. 060001-EI**

6 **Date Filed: August 21, 2006**

7
8 **Q. Please state your name, business address, and occupation.**

9 A. My name is Lonzelle S. Noack. My business address is One Energy Place,
10 Pensacola, Florida 32520-0335. My current job position is Power Generation
11 Specialist, Senior for Gulf Power Company.

12
13 **Q. Please describe your educational and business background.**

14 A. I received my Bachelor of Science degree in Environmental Engineering from the
15 University of Florida in 1995 and received my Master of Business Administration
16 degree from the University of West Florida in 2000. I joined Gulf Power in 1995
17 as an Environmental Engineer and served in that role with increasing levels of
18 responsibility for over six years. Major responsibilities included coordination of
19 federal and state air-related compliance testing for all Gulf Power generating units,
20 management of the Continuous Emission Monitoring (CEM) System program at
21 each of the Company's generating facilities, and coordination of the Company's air
22 compliance reporting to state and federal regulatory agencies. I was also
23 responsible for serving as Gulf's Environmental Subject Matter Expert on
24 Company and system-wide compliance teams. As previously mentioned in my
25 testimony, my current job position is Power Generation Specialist, Senior at Gulf

1 Power Company. In this position, I am responsible for preparing all GPIF filings
2 as well as other generating plant reliability and heat rate performance reporting.
3

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

5 A. The purpose of my testimony is to address the proposed GPIF reward/penalty
6 criteria modifications as outlined in the Petition of Citizens of the State of Florida
7 for Modification of Reward/Penalty Criteria of Generating Performance Incentive
8 Factor and in the Prepared Direct Testimony of James A. Ross on behalf of the
9 Florida Office of Public Counsel.
10

11 **Q. What is the objective of the GPIF program?**

12 A. The GPIF was incorporated into the Fuel and Purchased Power Cost Recovery
13 Clause in 1980 to provide an incentive for the efficient operation of base load
14 generating units. The intent of this incentive is to reward utilities for performance
15 that exceeds reasonably expected performance and to penalize utilities for
16 performance that is less than reasonably expected.
17

18 **Q. Does the GPIF program achieve this objective?**

19 A. Yes. As outlined in the GPIF Implementation Manual, the GPIF process
20 establishes equivalent availability and heat rate performance targets for base load
21 units for each period encompassed by the projected fuel adjustment clause. These
22 targets are a reflection of how each unit is expected to perform during the period
23 based on historical performance data and projected operating parameters such as
24 planned outages and expected average loads. For each target, a maximum
25 reasonably attainable range for improving and decreasing performance is

1 determined. Maximum fuel savings and losses are determined for each range and
2 then weighting factors are calculated for each range that reflect the percent
3 contribution of that target range to the total potential system fuel savings at
4 maximum improvement. At the end of the fuel adjustment period, actual unit
5 performance is compared to the targets, and rewards or penalties are assessed based
6 on this comparison. The maximum reward or penalty is limited to 25 basis points
7 of the utility's average common equity for the period and does not exceed the gross
8 amount of any fuel savings or loss experienced during the period.

9
10 **Q. Are you familiar with the proposed modifications to the GPIF**
11 **Reward/Penalty Criteria that are being made by the Florida Office of Public**
12 **Counsel (OPC)?**

13 A. Yes. The OPC is recommending two modifications to the GPIF Reward/Penalty
14 Criteria. The first recommendation is to establish a Generating Performance
15 Incentive Points (GPIP) dead band. Within this point dead band, utilities would
16 not be assessed either a reward or a penalty. The second recommendation is to
17 establish absolute system weighted equivalent availability factor (EAF) and heat
18 rate (HR) targets for each utility.

19
20 **Q. Is the OPC proposed recommendation to establish a GPIP dead band**
21 **reasonable?**

22 A. No. The GPIP dead band proposed by OPC is not reasonable. The proposed dead
23 band range is skewed and does not treat rewards and penalties fairly. The proposed
24 upper limit on the dead band range is no less than +5.0 and no greater than +7.5
25 points, while the proposed lower limit on the dead band range is -2.5 to -3.5. This

1 skewed dead band is contradictory to the intent of the GPIF program and does not
2 provide an equitable incentive.

3
4 **Q. Do you agree with the recommendation to establish an absolute system**
5 **weighted EAF and HR targets for each utility?**

6 A. No. Establishing absolute system weighted EAF and HR targets is not feasible and
7 does not follow the intent of the GPIF program. There are many uncontrollable
8 factors that affect unit performance such as weather conditions, environmental
9 restrictions, changes in fuel quality, load factors, etc. GPIF was not intended to
10 unfairly reward or penalize utilities for these types of uncontrollable and often
11 times unpredictable conditions. Setting absolute targets would result in unfair
12 rewards and penalties and would not provide the intended incentive for utilities to
13 focus on controllable unit improvements. The current GPIF process accounts for
14 these uncontrollable conditions in the target setting process by using actual
15 historical data to set targets and by adjusting these targets to incorporate actual
16 operating conditions such as planned outages, reserved shutdowns, and average
17 unit loads.

18
19 **Q. Would you please summarize your testimony?**

20 A. Yes. The purpose of the GPIF program is to promote the efficient operation of
21 base load units. The program achieves this through an incentive mechanism that
22 provides rewards for achieving greater than reasonably expected improvements in
23 unit performance and by providing penalties for achieving less than reasonably
24 expected performance. The expected performance targets that are set using the
25 current GPIF methodology are both reasonable and challenging. Because the

1 targets are based on historical data, fluctuations of uncontrollable parameters
2 affecting performance are accounted for in the targets. This allows for net rewards
3 and penalties over time to be reflective of controllable changes in unit
4 performance.

5 The GPIF criteria modifications as proposed by OPC are not reasonable and
6 would not achieve the desired intent of the GPIF program. The GPIF dead band
7 range is unfairly skewed and does not provide for equitable incentives. This GPIF
8 dead band should, therefore, not be implemented as proposed. Establishing
9 absolute heat rate and availability targets is also not reasonable and not feasible.
10 Setting absolute targets would not take into account unforeseeable and
11 uncontrollable conditions that can occur over time and would not provide the
12 intended incentive for utilities to achieve controllable unit improvements.

13
14 **Q. Does this conclude your testimony?**

15 **A. Yes.**
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1 MR. BADDERS: We tender this witness for
2 cross.

3 CHAIRMAN EDGAR: Are there questions on cross
4 for this witness? Mr. McGlothlin.

5 CROSS-EXAMINATION

6 BY MR. MCGLOTHLIN:

7 Q. Good afternoon.

8 A. Good afternoon.

9 Q. I have only a very few questions for you,
10 Ms. Noack. At page 2, beginning at line 21, you make
11 this statement: "These targets are a reflection of how
12 each unit is expected to perform during the period based
13 on historical performance data." And specifically the
14 manual calls for the calculation to be based upon three
15 years of historical data; is that correct?

16 A. Three years of historical performance for heat
17 rate, and five years of historical performance for
18 equivalent availability.

19 Q. So the manual specifies the three years and
20 five years as opposed to two or six or any other that
21 could have been used by the Commission when it
22 formulated the GPIF manual; is that correct?

23 A. That is the standard mechanism, but the GPIF
24 manual also provides a mechanism whereby a utility can
25 use an alternative number of years of data if so

1 warranted.

2 Q. But those three- and five-year criteria, would
3 you agree with me that the Commission made that decision
4 based upon its judgment of what would be reasonable and
5 what would work well in practice?

6 A. I would agree with that.

7 Q. And similarly, on page 3, you point out that
8 the maximum reward or penalty is limited to 25 basis
9 points of the utility's average common equity for the
10 period, do you not?

11 A. Yes.

12 Q. And that 25 basis points is specified in the
13 manual and the order adopting the methodology, is it
14 not?

15 A. I would agree with that.

16 Q. So the Commission when it implemented the GPIF
17 made a judgment that 25 basis points, not 20, not 30,
18 and not any other number, is the appropriate and
19 reasonable scope or magnitude of the rewards that should
20 be made available under the program?

21 A. I would agree with that.

22 Q. So would you agree with me that already the
23 GPIF mechanism is imbued with judgment and decisions
24 made by the Commission that perhaps were the result of
25 experience and technical input, but nonetheless are

1 judgmental in character?

2 **A.** Well, not necessarily, and let me explain to
3 you why. The reason why they limited the reward and
4 penalty to 25 basis points of the utility's average
5 common equity is because the Commission recognized that
6 for there to be an incentive for the utilities to make
7 improvements, that it had to be something -- reasonable
8 and economic improvements to their heat rate and
9 availability, that it had to be something less than what
10 the actual fuel savings to the customer would be. So if
11 you look at the -- one of the approving orders, I
12 believe it is either 9558 or 9576. Just a moment and
13 I'll find that for you.

14 Right. If you look at the approving order,
15 9558, it states -- do you have a copy of 9558 with you?

16 **Q.** I do in this stack somewhere.

17 **A.** This is on page 2 of Order 9558.

18 **Q.** Okay.

19 **A.** It states that, "The recommendation now
20 requires that a ceiling be placed on the amount of
21 incentive dollars available so that the incentive will
22 never exceed the savings realized by ratepayers. The
23 maximum amount of dollars has also been reduced to
24 assure that uneconomic operating decisions are not
25 encouraged." That is why that particular limit was

1 established for the rewards and penalties.

2 Q. Yes, I see that, and I agree that you've read
3 that correctly. But the 25 basis points was the
4 judgment of the Commission as to how to quantify those
5 criteria, was it not, as opposed to any other number
6 that might have been available for use?

7 A. Yes, and I'm not exactly sure what the basis
8 for that was. There may have been in the underlying
9 discussions in determining why to choose 25 basis
10 points. I'm not aware of why that was, but there could
11 have been a reason behind choosing that particular level
12 for maximizing the rewards or penalties.

13 MR. MCGLOTHLIN: Those are all my questions.

14 CHAIRMAN EDGAR: Are there questions from
15 staff?

16 MS. BENNETT: No.

17 CHAIRMAN EDGAR: Commissioners? No.

18 Mr. Badders.

19 MR. BADDERS: We would ask to have this
20 witness excused.

21 CHAIRMAN EDGAR: The witness is excused.

22 Thank you.

23 Mr. Burnett.

24 MR. BURNETT: Thank you, Madam Chairman. We
25 would call Robert M. Oliver.

1 May I proceed, ma'am?

2 CHAIRMAN EDGAR: You may.

3 Thereupon,

4 ROBERT M. OLIVER

5 was called as a witness and, having been first duly
6 sworn, was examined and testified as follows:

7 DIRECT EXAMINATION

8 BY MR. BURNETT:

9 Q. Mr. Oliver, will you please introduce yourself
10 to the Commission and provide your business address.

11 A. Yes, sir. My name is Robert M. Oliver. My
12 business address is 410 South Wilmington Street,
13 Raleigh, North Carolina, 27601.

14 Q. And have you already been sworn as a witness
15 in this proceeding?

16 A. Yes, I have.

17 Q. Who do you work for, and what is your
18 position?

19 A. I'm employed by Progress Energy Carolinas as
20 the manager of portfolio management.

21 Q. And have you filed prefiled direct testimony
22 and exhibits in this proceeding, specifically on
23 August 22, 2006?

24 A. Yes, I have.

25 Q. Do you have a copy of that testimony in front

1 of you?

2 A. Yes, I do.

3 Q. Do you have any changes to make to your
4 prefiled testimony or the exhibits to that testimony?

5 A. No, I don't.

6 Q. If I asked you the same questions in your
7 prefiled testimony today, would you give the same
8 answers that are in your prefiled testimony?

9 A. Yes.

10 MR. BURNETT: Madam Chairman, we request that
11 the prefiled testimony of Mr. Oliver be entered into the
12 record if it were read today. And we would also note
13 that the exhibits relevant to this testimony have been
14 identified as 41 and 42.

15 CHAIRMAN EDGAR: What about 43?

16 MR. BURNETT: Actually, Madam Chair, that
17 relates to the September 1, '06, to a stipulated issue.
18 I failed to move it in earlier when I was doing the
19 stipulated, so if I may do so now, I could take care of
20 that.

21 CHAIRMAN EDGAR: Okay. Let's go ahead and
22 move Exhibit 43 into the record, and the prefiled
23 testimony will be entered into the record.

24 MR. BURNETT: Thank you.

25 (Progress Energy Florida Exhibits Number 41

1 and 42 were marked for identification.)

2 (Progress Energy Florida Exhibit Number 43 was
3 admitted into evidence.)

4 BY MR. BURNETT:

5 Q. Do you have a summary of your August 22nd
6 testimony?

7 A. Yes, I do.

8 Q. Would you please present it?

9 A. Yes, I will.

10 Good afternoon, Commissioners. My testimony
11 filed on August 22, 2006, was filed in response to OPC's
12 petition seeking modification to the GPIF mechanism and
13 focuses on the GPIF dead band proposal by OPC witness
14 James Ross.

15 OPC's petition and Mr. Ross's testimony
16 overlook several key points in the purpose and design of
17 the GPIF mechanism and selectively draw from GPIF
18 statistics that are taken out of context in an attempt
19 to portray the GPIF as being in need of modification.

20 The central weakness of Mr. Ross's testimony
21 is that his supporting evidence relies on grossly
22 oversimplified comparisons of year-over-year performance
23 without accounting for, as GPIF was designed to, the
24 cyclical nature of maintaining mechanical power systems
25 as well as factors external to a given unit that can

1 affect how that unit is operated, and in turn, how it
2 performs.

3 Mr. Ross fails to recognize that Florida
4 utilities are obligated to balance costs associated with
5 maintaining operational efficiency and availability with
6 other cost impacts, such as fuel and emissions.

7 Mr. Ross also fails to recognize that the design of GPIF
8 was directly linked to the setting of annual fuel rates,
9 with the purpose of encouraging improvement of two key
10 factors which affect predicted fuel cost, availability
11 and heat rate.

12 I disagree with the OPC petition, the
13 testimony of Mr. Ross, and the associated
14 recommendations to modify the GPIF mechanism.

15 Thank you.
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PROGRESS ENERGY FLORIDA

DOCKET No. 060001-EI

Rebuttal of James Ross Testimony On Behalf of
Florida Office of Public Counsel Proposal To
Modify Generation Performance Incentive system

**DIRECT TESTIMONY OF
ROBERT M. OLIVER**

August 22, 2006

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

2 A. My name is Robert M. Oliver. My business address is P.O. Box 1551,
3 Raleigh, North Carolina 27602.

4

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

6 A. I am employed by Progress Energy Carolinas Inc. as Manager of Portfolio
7 Management for Regulated Commercial Operations.

8

9 **Q. What are your duties and responsibilities in that capacity?**

10 A. As Manager of Portfolio Management for Regulated Commercial
11 Operations, I oversee the management of energy portfolios for Progress
12 Energy Florida, Inc. ("PEF" or "Company"), as well as Progress Energy
13 Carolinas, Inc. My responsibilities include oversight of planning and
14 coordination associated with economic and reliable system operations,
15 including unit commitment and dispatch, fuel procurement, and power
16 marketing and trading functions.

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Q. Please summarize your educational background and employment experience.

A. I have a Bachelor of Science degree in Mechanical Engineering from North Carolina State University (1992) and a Masters of Business Administration from University of North Carolina at Wilmington (1997). I joined Carolina Power & Light (CP&L) in 1992 as an Associate Engineer. I worked in various capacities supporting the Brunswick Nuclear Plant as I progressed to Senior Engineer, including Design Basis Reconstitution Project, Motor Operated Valve Program, Control Rod Drive Hydraulic System Engineer, and Reactor Vessel Integrity Program. In 1998, I took a Senior Engineer position with the System Planning and Operations Department (SPOD). In this capacity I provided support for various operational planning functions including maintenance scheduling, coordination with cogenerators, unit commitment and dispatch planning, and fuel costing for excess generation sales. With the merger of CP&L and Florida Power Corporation (FPC), I participated in the integration of the FPC Portfolio Management and related CP&L SPOD functions. In the newly formed Portfolio Management unit (2001), in addition to maintaining former duties, I worked in a number of capacities, including the near term Portfolio Management desk for PEF, which provides unit commitment and dispatch planning and fuel projections for the 7 day forecast period, maintenance coordination inside the prompt month, and fuel costing for

1 economy purchases and sales. In 2002, I was promoted to manager of
2 Portfolio Management.

3
4 **Q. What is the purpose of your testimony?**

5 A. The purpose of my testimony is to respond to the testimony of James
6 Ross, which was made on behalf of the Florida Office of Public Counsel
7 (OPC) in a petition for changes to the Generation Performance Incentive
8 Factor (GPIF) mechanism.

9
10 **Q. Please summarize your testimony.**

11 A. OPC's petition and Mr. Ross's testimony overlook several key points in
12 the purpose and design of the GPIF mechanism and selectively draw
13 from GPIF statistics that are taken out of context in an attempt to portray
14 GPIF as being in need of modification. The central weakness of Mr.
15 Ross's testimony is that his supporting "evidence" relies on grossly
16 oversimplified comparisons of year-over-year performance without
17 accounting for, as GPIF was designed to, the cyclical nature of
18 maintaining mechanical power systems, as well as factors external to a
19 given unit that can affect how it is operated and in turn, how it performs.
20 This fundamental weakness of the "evidence" and the flawed conclusions
21 drawn therefrom do not support the GPIF modifications that Mr. Ross
22 proposes.

23

1 First, Mr. Ross fails to recognize that Florida utilities are obligated to
2 balance the costs associated with maintaining operational efficiency and
3 availability with other cost impacts, i.e., fuel, emissions, etc. Generating
4 units are mechanical systems that naturally go through cycles of
5 degradation and refurbishment / replacement over the design life of each
6 component. Generating units are made up of many thousands of
7 individual components with varying wear rates and which are replaced /
8 refurbished at varying intervals. Thus, the condition of a given unit
9 continually evolves, and what constitutes reasonable performance
10 expectations is a complex matter. It would not be cost effective for
11 ratepayers if the utility replaced or refurbished every wear component,
12 every year, to keep the unit in as-new condition. In addition to the cost of
13 replacing components, this would also increase system fuel costs by
14 requiring longer and more frequent outages. The challenge of a prudent
15 utility is to minimize the degradation of ratepayer assets over time in a
16 cost effective manner relative to all other operating expenses. Mr. Ross
17 grossly oversimplifies this challenge in presenting the illogical expectation
18 that the GPIF should result in continuous improvement year over year.

19
20 Second, Mr. Ross fails to recognize that the design of GPIF was directly
21 linked to the setting of annual fuel rates, with the express purpose of
22 encouraging improvement of two key factors which affect predicted fuel
23 costs; availability and heat rate. A review of historical filings related to

1 GPIF makes it clear that the Florida Public Service Commission and the
2 Public Staff, as well as experts who testified on the matter, understood
3 that the conditions that influence heat rates and availability of a given unit
4 are cyclical in nature, depending on and influenced by many factors which
5 vary year to year. In addition to factors related to the unit itself, such as
6 recent or upcoming maintenance, outage schedules, or operational
7 events, performance expectations are also affected by external factors
8 such as fuel price relationships between units, resource additions,
9 economy transactions, and environmental limitations. Again, the problem
10 is that Mr. Ross bases his conclusions on year-over-year comparisons,
11 which are by nature contradictory to the thoughtful design of GPIF which
12 recognized that a myriad of factors affect predicted and actual
13 performance of a given unit in a given year.

14
15 Third, Mr. Ross presents a distorted picture of 2001 and 2002 GPIF
16 results for PEF by, again, focusing only on year-over-year comparisons of
17 performance and disregarding how unit actuals compared to unit targets
18 that were set based on the information available at the time of the fuel
19 filings for the respective years. Mr. Ross omits key information; that PEF
20 units performed substantially better overall than the availability targets,
21 which led to an increased GPIF reward.

1 In summary, I disagree with the OPC petition and the testimony of Ross
2 and associated recommendations to modify the GPIF mechanism.

3

4 **Q. Have you prepared exhibits to your testimony?**

5 A. Yes. Exhibit No. ____ (RMO-2T) and Exhibit No. ____ (RMO-3T) illustrate
6 how Mr. Ross has mischaracterized the data in his PEF specific example
7 where he alleges that rewards were given to PEF for declining system
8 performance. In 2001, five of the nine GPIF units performed below target
9 for Equivalent Availability Factor (EAF), significantly offsetting positive
10 weighted points of the remaining units to a total of 1.018 for EAF. In
11 contrast, only one of nine GPIF units performed below target for EAF in
12 2002, yielding a total of 3.717 weighted points for EAF. Heat Rate (HR)
13 performance was roughly equivalent for the two years, with total points of
14 -0.255 and -0.263 for 2001 and 2002, respectively, and thus was a minor
15 factor in net results for each year.

16

17 By attempting to compare year-to-year actuals where factors obviously
18 differ rather than comparing actuals to the targets which shared common
19 bases with the respective fuel filings, Mr. Ross misses the point of what
20 GPIF was designed to achieve; fuel savings relative to forecasted costs in
21 a given year. The 2002 estimated fuel savings for GPIF came to a total of
22 \$17,409,388, primarily due to better than target availability. The 2002
23 GPIF reward associated with the estimated fuel savings was \$2,781,223.

1 The GPIF Target Setting for a given year is directly related to the fuel
2 filing support for the same period. Ratepayers do not benefit from fuel
3 filings being based on unrealistic performance expectations. To ensure a
4 consistent, objective approach, the GPIF Implementation Manual
5 stipulates use of the three most recent years of operating history, with
6 appropriate adjustments to account for events not expected to recur or
7 otherwise significant improvement or degradation of condition, as a
8 means of reflecting expected unit performance in the fuel filings. PEF
9 makes no attempt to "game" the GPIF system in the Target Setting
10 process. Our objective in GPIF Target Setting is simply to follow the
11 guidance and the spirit of the GPIF Implementation Manual.

12
13 **Q. Do you agree with Mr. Ross that a prudent utility should strive to**
14 **maintain and operate generating units as efficiently as possible?**

15 **A.** Yes, with clarification to this statement by adding "given a philosophy of
16 total cost optimization." The utility's regulatory obligation is to minimize
17 total production cost, not only fuel cost. We strive to maintain and
18 operate our fleet of generating units as efficiently as possible in a cost
19 effective manner. As with any mechanical system, degradation of
20 equipment and components is a given during the life of the generating
21 unit. The challenge of a prudent utility is to minimize the degradation
22 across the fleet over time in an effective manner relative to total operating
23 costs.

1

2

Q. Is it reasonable to expect continuous improvement of heat rate and unit availability?

3

4

A. No. As stated above, degradation is to be expected at varying rates for the various components of a mechanical power system. Some components will, by design, be replaced many times over the life of the unit, while some are designed to last for the operating life with periodic maintenance and refurbishment. Thus, performance expectations must be adjusted to account for the varying state of the thousands of components which require replacement or maintenance on some periodicity. To maintain as-new conditions, the utility would not only have to increase maintenance costs with more frequent component replacement or refurbishment, but also increase fuel cost by taking more frequent and longer outages. It would be inefficient for the utility to increase costs in order to keep GPIF units operating as-new or better-than-new indefinitely. That was not what GPIF was designed to achieve. The Commission understood this when the GPIF system was originally set up and consciously decided on the current method to avoid a situation where a Utility could be penalized for operating/maintaining their plants in the least total cost method for the ratepayer. More importantly, the Commission understood that if calculated on the basis Mr. Ross suggests, it would provide an incentive for Utilities to maintain their plants

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1 with too much of a focus on fuel cost and not enough focus on the total
2 cost to the ratepayer.

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4 **Q. Does Mr. Ross accurately characterize the objective of the GPIF**
5 **mechanism?**

6 A. No. The GPIF mechanism was originally proposed by the Florida Public
7 Service Commission (FPSC) in conjunction with a larger effort to improve
8 the fuel clause by converting to a projected annual levelized fuel rate.
9 The GPIF is directly linked to the process of setting annual fuel rates, with
10 the express purpose of encouraging improvement of two key factors
11 which affect predicted fuel costs; availability and heat rate. Since GPIF
12 targets are based on the same data used in developing the fuel filings,
13 there is a natural linkage between GPIF rewards / penalties and the filed
14 fuel rate. Thus, the utilities are further encouraged (beyond the normal
15 rate structure of a regulated electric utility) to manage risks associated
16 with the utility's exercise of control over these two factors to reduce or
17 mitigate fuel costs relative to expected operations as actual conditions
18 unfold within the respective fuel clause period.

19
20 Mr. Ross incorrectly asserts that the GPIF was intended to prompt
21 continuous "universal improvement in individual unit performance or
22 system-wide performance". A review of historical filings related to GPIF
23 makes it clear that experts who testified on the matter and the

1 Commission Staff understood that the conditions that influence heat rates
2 and availability of a given unit are cyclical in nature, depending on and
3 influenced by many factors which vary year to year, e.g., recent or
4 upcoming maintenance, outage schedules, operational events, fuel price
5 relationships, resource additions, economy transactions, environmental
6 limitations, etc.)

7
8 **Q. Please briefly describe your position on the recommendation to**
9 **implement "dead band" changes to the GPIF process.**

10 **A.** The GPIF was designed as an even-handed penalty / reward mechanism
11 to encourage additional focus on minimizing the effects of natural
12 degradation of base load generating units on total fuel costs, penalizing or
13 rewarding the utility for failing to meet or exceeding (respectively)
14 performance expectations established by GPIF protocol. While the bases
15 for Mr. Ross's recommended ranges of the proposed dead band are not
16 completely clear, it is clear that the intent is to bias the system toward
17 penalties. Mr. Ross fails to recognize that this approach contradicts the
18 obligation of the utility to make operational and maintenance decisions on
19 a least total cost philosophy. It would be neither practical nor cost
20 effective to take every GPIF unit out of service every year to refurbish or
21 replace every component to achieve what Mr. Ross portrays as the
22 standard to which utilities should be held. Since the underpinnings of his
23 criticism of GPIF are flawed, this recommendation is, in my view, moot.

1

2

Q. Please briefly describe your position on the recommendation to implement "absolute minimum values for heat rates and availability" in the GPIF process.

3

4

5

A. Mr. Ross provides little detail about how such a methodology would be structured to substantiate that there would be a practical method to determine "absolute minimum values" that would provide a meaningful basis for penalty or reward of operational performance and decision making over the life of the generating unit. The fundamental shortcoming of this proposal is that it presumes that consistent performance can be reasonably expected over the life of a generating unit without adverse impact of inefficient maintenance costs to ratepayers. The expectation of consistent performance (without regard to cost) advanced by Mr. Ross with this proposal is not in keeping with least total cost operations, and thus would be an illogical basis for an incentive system. As a matter of practical economics, the condition of generating units will vary through maintenance cycles, and must be accounted for in the levelized fuel projection. Mr. Ross's proposal would break the linkage that the current system has with the levelized fuel projection, since it contradicts prudent maintenance planning.

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Q. Does this conclude your testimony?

23

A. Yes, it does.

1 MR. BURNETT: Thank you, Madam Chair. We
2 tender Mr. Oliver for cross-examination.

3 CHAIRMAN EDGAR: Thank you. Questions on
4 cross.

5 CROSS-EXAMINATION

6 BY MR. MCGLOTHLIN:

7 Q. Mr. Oliver, you alluded in your summary, as
8 you did in your prefiled testimony, to such things as
9 the cyclical nature of operating equipment, external
10 factors, the applicability of a total cost as opposed to
11 a fuel cost only approach, and also emissions I think
12 you mentioned. Are those factors taken into account in
13 the way that the targets are set and that the utility
14 performs currently under the GPIF?

15 A. Yes, sir, they are.

16 MR. MCGLOTHLIN: That's all the questions I
17 have.

18 CHAIRMAN EDGAR: Thank you. Are there
19 questions from staff?

20 MS. BENNETT: There are no questions. I may
21 have missed -- did Exhibits 41 and 42 get entered into
22 the record?

23 CHAIRMAN EDGAR: Not yet. We'll be taking
24 that up in just a moment. Mr. Burnett.

25 MR. BURNETT: I would so move the August 22nd

1 testimony as well as Exhibits 41 and 42 into the record.

2 CHAIRMAN EDGAR: The testimony and exhibits
3 will be entered into the record.

4 (Progress Energy Florida Exhibits Number 41
5 and 42 were admitted into evidence.)

6 MR. BURNETT: Thank you.

7 CHAIRMAN EDGAR: Thank you. And no redirect?

8 MR. BURNETT: No redirect.

9 CHAIRMAN EDGAR: And the witness may be
10 excused. Thank you.

11 THE WITNESS: Thank you.

12 CHAIRMAN EDGAR: Mr. Beasley.

13 MR. BEASLEY: I would like to call witness
14 William A. Smotherman.

15 Thereupon,

16 WILLIAM A. SMOTHERMAN

17 was called as a witness on behalf of Tampa Electric
18 Company and, having been first duly sworn, was examined
19 and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BEASLEY:

22 Q. Mr. Smotherman, would you please tell us your
23 full name and by who you're employed and in what
24 capacity?

25 A. Yes. My name is William A. Smotherman, and I

1 am employed by Tampa Electric Company, and I am the
2 director of resource planning.

3 Q. Mr. Smotherman, did you prepare and submit in
4 this proceeding a document entitled "Prepared Direct
5 Testimony of William A. Smotherman" on August 22, 2006,
6 addressing issues 21 and 22 in this proceeding?

7 A. Yes, I did.

8 Q. If I were to ask you the questions contained
9 in that prepared testimony, would your answers be the
10 same?

11 A. Yes, they would.

12 MR. BEASLEY: I would ask that
13 Mr. Smotherman's testimony be inserted into the record
14 as though read.

15 CHAIRMAN EDGAR: The prefiled testimony will
16 be entered into the record as though read.

17 MR. BEASLEY: Thank you.

18 BY MR. BEASLEY:

19 Q. And you don't have an exhibit with that
20 testimony, do you?

21 A. No, I do not.

22 Q. Do you have a summary of your testimony,
23 Mr. Smotherman?

24 A. Yes, I do.

25 Q. Please present it.

1 **A.** Good afternoon, Commissioners. My name is
2 William A. Smotherman. I am director of Tampa Electric
3 Company's Resource Planning Department. My direct
4 testimony filed August 22, 2006, addresses Mr. Ross's
5 dead band proposal.

6 The existing GPIF methodology operates in a
7 fair and symmetrical manner. The adjustments to the
8 methodology proposed by Mr. Ross is not appropriate
9 because it is inconsistent with the primary objective of
10 the GPIF program, which is to encourage improved
11 performance through a fair and balanced application of
12 the GPIF incentive/penalty mechanism. In addition,
13 Mr. Ross has not demonstrated that the existing
14 methodology has not resulted in improved performance
15 through its reward and incentive provisions.

16 Tampa Electric believes that the GPIF should
17 continue to operate in accordance with the approved
18 methodology.

19 That concludes my summary of the testimony.
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25

TAMPA ELECTRIC COMPANY
DOCKET NO. 060001-EI
FILED: 08/22/06

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2 PREPARED REBUTTAL TESTIMONY

3 OF

4 WILLIAM A. SMOTHERMAN

5
6 **Q.** Please state your name, address, occupation and employer.

7
8 **A.** My name is William A. Smotherman. My business address is
9 702 North Franklin Street, Tampa, Florida 33602. I am
10 employed by Tampa Electric Company ("Tampa Electric" or
11 "Company") as Director of the Resource Planning
12 Department.

13
14 **Q.** What is the purpose of your direct testimony?

15
16 **A.** The purpose of my direct testimony is to address the
17 "deadband" proposal in the direct testimony of Mr. James
18 A. Ross, testifying on behalf of the Office of Public
19 Counsel.

20
21 **Q.** Do you agree with the current Generating Performance
22 Incentive Factor ("GPIF") methodology?

23
24 **A.** Yes, I do. The existing GPIF methodology was established
25 in 1980 by Commission Order No. 9558 in Docket No.

1 800400-CI, issued September 19, 1980. The GPIF program
2 was designed to "encourage the improvement of the
3 productivity of base load generating units by focusing
4 upon the areas of thermal efficiency (heat rate) and unit
5 availability." The GPIF methodology provides for the
6 utility to earn a reward or incur a penalty based on unit
7 performance compared to historical performance and is
8 limited to a portion of the associated projected fuel
9 savings or losses. The GPIF program has a history of
10 benefiting both the ratepayers and the utilities by
11 providing a fair and symmetrical sharing of improvements
12 or declines in unit performance.

13
14 Q. Has the existing GPIF program been effective in improving
15 equivalent availability and operating efficiency of each
16 GPIF generating unit thereby reducing total system fuel
17 expense?

18
19 A. In 1980, in response to Commission Order No. 9558, Tampa
20 Electric adopted the GPIF methodology, which provides
21 incentives to improve heat rates and unit availability.
22 For example, during the 1980's and early 1990's improved
23 heat rates and unit availabilities were achieved by Tampa
24 Electric; therefore, incentives were received. The
25 efficient operation of the larger generating units has

1 resulted in lower fuel and purchased power expense were
2 lower for customers. Similarly, during more recent
3 periods where operating performance declined on some of
4 the GPIF units, penalties were incurred. The fundamental
5 concept behind the methodology is to provide an incentive
6 for further improvements. As a company improves its
7 operating efficiency, the targets become increasingly
8 more difficult to achieve in future periods.

9
10 Q. What factors contributed to the decreased operating
11 efficiencies of Tampa Electric's GPIF units, Big Bend
12 Station and Gannon 5 and 6, from 2001 through 2004?

13
14 A. The key factors for decreased operating efficiencies of
15 Tampa Electric's operating units, primarily Big Bend
16 Station, are impacted by operating and equipment
17 constraints resulting from increased environmental
18 regulatory requirements. From 1995 through 2005, Tampa
19 Electric added a flue-gas desulfurization system ("FGD"),
20 completed nitrogen oxide ("NO_x") combustion tuning and
21 optimization projects and changed coal blends at Big Bend
22 Station, in addition fuel blends at Gannon station were
23 also modified during this period. These modifications
24 were made to comply with the Clean Air Act as well as the
25 Consent Decree ("CD") and Consent Final Judgment ("CFJ")

1 which were entered into with the U.S. Environmental
2 Protection Agency and the Florida Department of
3 Environmental Protection. The environmental improvements
4 have reduced Tampa Electric's sulfur dioxide ("SO₂"), NO_x,
5 and particulate matter emissions by approximately 89, 89
6 and 72 percent, respectively, below their 1998 levels.
7

8 **Q.** How have the Clean Air Act, CD and CFJ adversely impacted
9 the performance of Big Bend station and Gannon units 5
10 and 6?
11

12 **A.** Tampa Electric's most cost-effective method of complying
13 with the Clean Air Act was to decrease the sulfur content
14 in the coal burned at Big Bend and Gannon Stations. In
15 1996 Big Bend unit 3 was integrated into unit 4's FGD and
16 in 1999, a separate FGD system was constructed for units
17 1 and 2. The sulfur in the coal burned at Big Bend
18 Station was lowered by blending higher sulfur coals,
19 which the units were designed to burn, with lower sulfur
20 coal. The lower sulfur coal tends to increase the heat
21 rate of the units due to the physical and chemical
22 differences in coal quality. These differences include
23 moisture content, ash fusion temperature as well as heat
24 content and sulfur content. Additionally, these
25 differences cause operational problems such as fuel

1 handling, slag tapping, fouling, opacity, ash
2 resistivity, increased NO_x emissions and increased the
3 wear rate of boiler tubes in certain parts of the
4 furnace. These operating issues increased the forced
5 outages, thereby reducing unit availability and
6 increasing unit heat rate. The incremental energy
7 required to operate the FGD equipment plus the additional
8 planned outages during installation and ongoing
9 maintenance increased the overall heat rate for Big Bend
10 units 1, 2 and 3.

11
12 The CD and CFJ required Tampa Electric to increase the
13 efficiency of the Big Bend FGD systems and further
14 reduced the sulfur content of fuel burned without the use
15 of the FGD system on Big Bend units 1, 2 and 3, and
16 required the installation of projects to reduce NO_x
17 emissions. The impact of the FGD and lower sulfur coal
18 requirements increased heat rate and decreased
19 availability of Big Bend Station. The initial NO_x
20 reductions were achieved by reducing the amount of oxygen
21 used during fuel combustion. This resulted in a loss of
22 combustion efficiency and an increase in unit heat rate.
23 The change in fuel combustion also increased the wear
24 rate of certain boiler tubes, further reducing unit
25 availability.

1 Q. Did Tampa Electric incur any reward or penalty associated
2 with the decline in operating performance of its
3 generating units between 2001 and 2005?

4
5 A. Yes, the decline in performance resulted in a \$7.1
6 million in GPIF penalties that Tampa Electric paid over
7 the period of 2001 to 2005.

8
9 Q. Will the CD and CFJ result in improve operating
10 efficiency?

11
12 A. Yes, as a result of the CD and CFJ, Gannon units 5 and 6
13 were repowered to Bayside units 1 and 2 in 2003 and 2004,
14 respectively. The repowering resulted in significant
15 improvements in capacity, availability and heat rate.
16 Because three years of historical data is required for
17 each unit in the GPIF calculation, the Bayside units will
18 not be reflected until the 2006 and 2007 GPIF filings at
19 which time the 2007 and 2008 targets will be established.

20
21 Q. Do you agree with Mr. Ross's proposal to impose a
22 "deadband?"

23
24 A. No, Mr. Ross's proposed dead band approach would modify
25 the GPIF methodology in an asymmetrical way that favors

1 penalties. In order to gain a reward a utility would
2 have to attain over five points above the target but will
3 be penalized if it fell more than two and one half points
4 below the target. This approach inappropriately skews the
5 GPIF methodology to produce more penalties.

6
7 When the Commission approved the final Staff recommended
8 version of the GPIF in 1980, it concluded that the
9 version selected contained the best elements of the
10 various proposals put forth by Staff and all of the
11 parties. In 1987, the parties stipulated to modify the
12 GPIF program to place caps on rewards and penalties so
13 they would not exceed 50 percent of the fuel savings or
14 loss. This stipulation is discussed in Commission Order
15 No. 18136, issued September 10, 1987 in Docket No.
16 870001-EI (87 FPSC 9:145). Mr. Ross's proposal would
17 arbitrarily undo the fairness with which the Commission
18 has administered the GPIF since its inception and tilt
19 the board in favor of penalties.

20
21 Q. Has the actual availability of Tampa Electric's system
22 declined since 1989 as described by Mr. Ross?

23
24 A. No. Mr. Ross's assertion that the actual availability of
25 Tampa Electric's system has declined since 1989 is

1 incorrect for two reasons. First, using the GPIF filings
2 for the period of 1989 through 2004, Tampa Electric's
3 calculation of the GPIF unit availability increases
4 approximately five percent, from 68 to 73 percent. This
5 demonstrates Tampa Electric's actual system availability
6 has improved since 1989.

7
8 Secondly, Mr. Ross assumes that the GPIF units are a good
9 representation of Tampa Electric's total system
10 availability for the same period. This is true in the
11 early part of his analysis but incorrect in the later
12 years. Specifically, as previously stated, Tampa Electric
13 repowered Gannon units 5 and 6 in 2003 and 2004 to
14 Bayside units 1 and 2. The repowering significantly
15 improved the heat rate as well as the availability of the
16 units and increased the overall output capability by 700
17 megawatts. In the last full year of operation of Gannon
18 units 5 and 6, the availabilities were 61 and 59.8
19 percent, respectively. These availabilities improved to
20 86.3 and 92.1 percent when the units were repowered to
21 Bayside units 1 and 2, respectively. The Bayside units
22 now represent almost half of Tampa Electric's generating
23 capability. Inclusion of the Bayside units in the GPIF
24 calculation would increase the availability of Tampa
25 Electric's overall system calculation, which would be a

1 more accurate representation of the Tampa Electric's
2 system availability.

3
4 **Q.** Do you agree with Mr. Ross's adjustments to the
5 Equivalent Availability Factor ("EAF") and heat rate data
6 he received in order to establish trends?

7
8 **A.** No, I do not agree with Mr. Ross's adjustments to the EAF
9 and heat rate data. Mr. Ross's adjustments to the EAF and
10 heat rate data do not take the Bayside units into
11 account. In addition, Mr. Ross assumes that the actual
12 data adjustments are based on the normalized weighting
13 factors from each period's GPIF filing. These weighting
14 factors are then used to aggregate total availability and
15 heat rate for the target units. This method is not valid
16 for aggregating the actual performance for all the GPIF
17 data units. The unit availabilities and heat rates should
18 be aggregated based on unit capability for availability
19 and based on generation for heat rate.

20
21 **Q.** Is Mr. Ross's comparison of 2001 and 2004 Tampa Electric
22 unit performance correct?

23
24 **A.** No, it is not correct. Mr. Ross overlooks both 2002 and
25 2003 where Tampa Electric incurred \$2.5 million and \$3.7

1 million, respectively, in penalties as a result of the
2 decline in EAF and heat rate from the units. Comparing
3 2004 to 2001 does not take into account the repowering of
4 the Gannon units 5 and 6 to Bayside 1 and 2 that occurred
5 in 2003 and 2004, respectively.
6

7 Q. Please summarize your direct testimony.
8

9 A. The existing GPIF methodology operates in a fair and
10 symmetrical manner. The adjustment to the methodology
11 proposed by Mr. Ross is not appropriate because it is
12 inconsistent with the primary objective of the GPIF
13 program which is to encourage improved performance
14 through a fair and balanced application of the GPIF
15 incentive/penalty mechanism. In addition, Mr. Ross has
16 not demonstrated that the existing methodology has not
17 resulted in improved operating performance through its
18 reward and incentive provisions. Tampa Electric believes
19 that the GPIF should continue to operate in accordance
20 with the approved methodology.
21

22 Q. Does this conclude your direct testimony?
23

24 A. Yes, it does.

1 MR. BEASLEY: And Mr. Smotherman is available
2 for questions.

3 CHAIRMAN EDGAR: Thank you. Questions on
4 cross.

5 CROSS-EXAMINATION

6 BY MR. MCGLOTHLIN:

7 Q. Mr. Smotherman, were you involved last year
8 with TECO's GPIF submissions?

9 A. Yes, I was.

10 Q. Do you recall that in that case last year, the
11 Office of Public Counsel took issue with an aspect of
12 the TECO calculation to its GPIF proposed --

13 A. Yes, I'm aware of that.

14 Q. At page 7, lines 11 through 14, you state that
15 in 1987, the parties stipulated to modify the GPIF
16 program to place caps on rewards and penalties so they
17 would not exceed 50 percent of the fuel savings or loss.
18 Do you see that statement?

19 A. Yes, I do.

20 Q. So the proposal that is being advanced by the
21 Office of Public Counsel through witness Mr. Ross is not
22 the first modification that has been entertained by the
23 Commission, is it?

24 A. No, it is not.

25 MR. MCGLOTHLIN: No further questions.

1 CHAIRMAN EDGAR: Commissioner Arriaga.

2 COMMISSIONER ARRIAGA: Hello, Mr. Smotherman.
3 How are you?

4 THE WITNESS: Good. How are you doing?

5 COMMISSIONER ARRIAGA: Doing good.

6 Referring back to a year ago, the TECO case, I
7 think I recall, and help me recall, that we went -- we
8 directed you to meet with staff and revise your internal
9 book.

10 THE WITNESS: Correct.

11 COMMISSIONER ARRIAGA: Manual; is that
12 correct?

13 THE WITNESS: Not revise the internal manual.
14 We actually revised how we were applying the manual.

15 COMMISSIONER ARRIAGA: Okay. And then I
16 understand that OPC filed to participate, and the
17 Commission authorized the participation, and there was
18 -- can you tell me what came out of those meetings?

19 THE WITNESS: Yes. Essentially, TECO
20 developed a proposal and met with both the staff and
21 interested parties. And what the result of that was was
22 a change in how we implement our development of our
23 targets. In the prior, we had just used -- whatever the
24 historical data was was the strict basis of the
25 development of our targets for the next year upcoming.

1 We've modified that, where we actually look on a
2 statistical basis and essentially look for outlying or
3 larger than normal outages, essentially, and remove
4 those outages from the data. So we modify our targets
5 essentially for things that might be larger than what we
6 would normally expect.

7 COMMISSIONER ARRIAGA: During those
8 meetings -- may I? Thank you.

9 During those meetings, did the issue of dead
10 band come to discussion?

11 THE WITNESS: No.

12 COMMISSIONER ARRIAGA: Okay. Thank you.

13 CHAIRMAN EDGAR: Questions from staff?

14 MS. BENNETT: No.

15 CHAIRMAN EDGAR: No questions. Okay.

16 MR. BEASLEY: No redirect.

17 CHAIRMAN EDGAR: Mr. Beasley, no redirect.

18 Okay.

19 MR. BEASLEY: I ask that Mr. Smotherman be
20 excused.

21 CHAIRMAN EDGAR: The witness may be excused.
22 Thank you.

23 Mr. McGlothlin.

24 MR. MCGLOTHLIN: We call James Ross for
25 rebuttal.

1 Thereupon,

2 JAMES A. ROSS

3 was called as a rebuttal witness on behalf of the
4 Citizens of the State of Florida and, having been first
5 duly sworn, was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. MCGLOTHLIN:

8 Q. Mr. Ross, do you have before you a document
9 captioned "Rebuttal Testimony of James A. Ross" dated
10 October 6, 2006?

11 A. I do.

12 Q. Was that prepared by you for submission in
13 this docket?

14 A. It was.

15 Q. Do you have any corrections or additions to
16 make to the prefiled rebuttal testimony?

17 A. Yes, I do. On page 3, at line 10, the word --
18 the second reference to targets should be stricken and
19 replaced by the phrase "reward/penalty triggers," so
20 that the sentence reads, "Both beg the question of
21 whether the reward/penalty targets are set."

22 On page 7, at line 6, the first word in that
23 line, targets, should be stricken and replaced with the
24 phrase "reward/penalty triggers."

25 Additionally, the testimony references

1 Mr. Noack, and the proper reference should be to
2 Ms. Noack. That needs to be a global change. I can
3 give the reporter the references if need be.

4 Q. Let me join in the apology for that mistake.

5 As corrected and amended, with these changes,
6 Mr. Ross, do you adopt the questions and answers that
7 appear in this document as your rebuttal testimony?

8 A. Yes.

9 MR. MCGLOTHLIN: I request that the rebuttal
10 testimony of Mr. Ross be inserted into the record as
11 though read.

12 CHAIRMAN EDGAR: The prefiled rebuttal
13 testimony of the witness will be entered into the record
14 as though read with the corrections noted by the
15 witness.

16 BY MR. MCGLOTHLIN:

17 Q. Mr. Ross, please summarize your rebuttal
18 testimony.

19 A. Yes. The central point in my testimony is
20 that the existing generating performance incentive
21 factor sets the bar too low. When viewed in the proper
22 perspective, the utilities' testimony confirms the need
23 to raise the standard for the payments of GPIF rewards.

24 Florida Power & Light and Gulf Power state
25 that the GPIF penalizes utilities that miss their

1 targets and rewards utilities that exceed their targets.
2 Both beg the question of whether the reward triggers are
3 set sufficiently high to be equitable to ratepayers and
4 establish a true incentive for exemplary performance.

5 FPL asserts that the lack of long-term
6 sustained improvement to base load units despite the
7 payment of substantial GPIF rewards is irrelevant to the
8 GPIF incentive mechanism. I hope the Commission rejects
9 this view of an incentive mechanism.

10 Tampa Electric addresses the impact of the
11 environmental systems and repowering on efficiency.
12 While the testimony is unrelated to the core of my
13 recommendation, the testimony does highlight that
14 external circumstances may be more of a driving force on
15 actual performance than the GPIF process. The testimony
16 confirms the need to adopt a change in the
17 reward/penalty determination.

18 The utilities propose that the GPIF
19 methodology remain unchanged and the status quo be
20 adopted by the Commission. Generally, the utilities
21 testify that the GPIF mechanism is performing as
22 designed. This testimony misses the point.

23 The issue before the Commission is whether or
24 not continuation of the status quo is equitable to
25 ratepayers in light of the utilities' obligation to

1 operate efficiently. As addressed in my testimony, a
2 regulated utility has a fundamental obligation to
3 operate efficiently.

4 Currently, under the GPIF, utilities receive
5 rewards paid for by ratepayers for performance that is
6 not significantly above the targets. I believe now is
7 the time to modify the GPIF in a manner that treats
8 ratepayers more equitably when determining payments for
9 utilities effectively doing their job.

10 Thank you.

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1 improvements in recent performance, sets the bar too low, especially when it is
2 possible that recent performance has been less than stellar (i.e., ratepayers can
3 fund “rewards” when the efficiency may have declined relative to what the utility
4 has attained in the past). In their rebuttal testimony, the utilities do not deny that
5 the GPIF methodology has the effect that I describe. Instead, they use various
6 means to try to defend the status quo. FPL’s witness appears to assert that long
7 term, sustained improvements are irrelevant to the GPIF — a claim that the
8 Commission should reject out of hand. Ms. Sonnelitter and ^{me.} Mr. Noack state that
9 the GPIF penalizes utilities that miss their targets and rewards utilities that meet
10 or exceed the targets. Both beg the question of whether the ~~targets~~ ^{reward/penalty triggers} are set
11 sufficiently high to be equitable to ratepayers and establish a true incentive for
12 exemplary performance. Tampa Electric Witness Mr. Smotherman talks about the
13 impact of environmental systems and repowering on efficiency. While his
14 testimony is unrelated to the core of my recommendation, the testimony does
15 highlight that external circumstance may be a more driving force in actual
16 performance than the GPIF process. His testimony confirms the need to adopt a
17 change in the reward/penalty determination. All of the Utilities advocate a
18 “symmetrical” approach to rewards and penalties, but all overlook the fact that
19 unless the scale is adjusted to make rewards more difficult to achieve, customers
20 will be rewarding the utilities for meeting their basic obligations.

21 **Q WHAT IS THE PROPOSAL OF THE UTILITIES WITH REGARD TO**
22 **THE GPIF METHODOLOGY?**

1 A The Utilities propose that the GPIF methodology remain unchanged and the status
2 quo be adopted by the Commission. Generally, the Utilities testify that the GPIF
3 method is performing as intended.

4 **Q WHAT CRITICAL DETERMINATION MUST THE COMMISSION**
5 **MAKE IN ORDER TO MAINTAIN THE STATUS QUO?**

6 A The Commission must determine whether or not continuation of the status quo is
7 equitable to ratepayers in light of the Utilities' obligation to operate efficiently.

8 As addressed in my direct testimony, I believe now is the time to modify
9 the GPIF in a manner that treats ratepayers more equitably.

10 **Q WHAT IS THE CENTRAL THEME OF THE UTILITIES' CRITICISM OF**
11 **YOUR TESTIMONY?**

12 A The Utilities' testimonies focus on the premise that the GPIF is not intended to
13 promote continuous universal improvements in individual unit performance or
14 system-wide performance. In support of this position, the Utilities describe
15 operational, regulatory and technological circumstances that they contend support
16 continuing the status quo but that, properly viewed, actually confirm the need to
17 adopt a modification to the current GPIF process.

18 **Q IN WHAT WAYS HAVE THE UTILITIES CONFIRMED THE NEED TO**
19 **MODIFY THE GPIF?**

20 A PEF, for example, acknowledges that a prudent utility should strive to maintain
21 and operate generating units as effectively as possible. Additionally, PEF states
22 that "[t]he utility's regulatory obligation is to minimize total production cost, not
23 only fuel cost." Yet, PEF argues that the GPIF is not intended to promote
24 continuous universal improvements in individual unit performance or system-

1 wide performance. Indeed, PEF devotes a significant part of its testimony to
2 describing the cyclical degradation and refurbishment/replacement of generating
3 unit components. PEF testifies that generating units are made up of many
4 thousands of individual components with varying wear rates and which are
5 replaced/refurbished at varying levels. Thus, says PEF, the condition of a given
6 unit continually evolves, and what constitutes reasonable performance is a
7 complex matter.

8 Tampa Electric testifies that operating efficiencies of its generating units
9 are impacted by operating and equipment constraints resulting from increased
10 environmental regulatory requirements.

11 Finally, FPL and Tampa Electric testify that including repowered units or
12 new state-of-the-art combined cycle capacity into the GPIF unit mix will show
13 system improvement in availability and heat rate due to technology
14 improvements.

15 **Q WHAT OVERALL PICTURE IS PRESENTED BY UTILITIES'**
16 **TESTIMONY?**

17 **A** The utility witnesses assert that ratepayers should not expect continuous universal
18 improvements in individual unit performance or system-wide performance in
19 return for payments under the GPIF process. Additionally, the testimony
20 presented by the Utilities confirms that modifications to the GPIF reward process
21 is needed because actual performance experienced by a utility in any given year
22 may be less influenced by the GPIF process than impacted by: (1) cyclical
23 degradation and refurbishment/replacement of generating unit components; (2)

1 environmental regulatory requirements; or (3) utility efforts to repower units or
2 install new state-of-the-art combined cycle capacity.

3 **Q WHY DOES THE UTILITIES' TESTIMONY CONFIRM THE NEED TO**
4 **MODIFY THE GPIF?**

5 **A** Taken to its logical conclusion, this testimony points out that the current method
6 expects ratepayers to fund variations from annual targets that cycle between
7 generally the same unit/system high and low performance levels. Moreover, the
8 testimony makes the case that annual variations are driven more by uncontrollable
9 circumstances and normal prudent utility action than utility response to the GPIF
10 process.

11 **FPL**

12 **Q HAVE YOU REVIEWED THE TESTIMONY OF FPL WITNESS**
13 **PAMELA SONNELITTER?**

14 **A** Yes.

15 **Q HOW DOES THIS TESTIMONY DESCRIBE THE OPERATION OF THE**
16 **GPIF FOR FPL'S GENERATING UNITS?**

17 **A** At Page 3, the testimony states the "[t]he GPIF has resulted in rewards when the
18 performance of generating units improves relative to the GPIF targets, and it has
19 resulted in penalties when their performance has deteriorated compared to those
20 targets."

21 **Q HOW DO YOU RESPOND TO HER TESTIMONY THAT THE GPIF HAS**
22 **RESULTED IN REWARDS AND PENALTIES BASED ON**
23 **PERFORMANCE RELATIVE TO A GIVEN ANNUAL GPIF TARGET?**

24 **A** My response is that her statement misses the point of my testimony. The issue I
25 raise is this: At what level of change in expected performance should the utility

1 be rewarded or penalized such that ratepayers' interests are equitably served? I do
 2 not dispute the fact that utilities receive rewards when performance exceeds the
 3 GPIF targets under the existing GPIF regime, and that the utilities are penalized
 4 when they fail to meet those targets. But the issue for the Commission to
 5 determine is whether the process of setting the level of performance relative to the
 6 ~~target~~ ^{reward/penalty triggers} is itself in need of modification when the rewards/penalties are assessed.

7 In my testimony, I assert that the existing methodology, with its reward
 8 process tied to modest improvements or deteriorations in recent performance, sets
 9 the bar too low, especially when it is possible that recent performance has been
 10 less than stellar (i.e., ratepayers can fund "rewards" when the efficiency may have
 11 declined relative to what the utility has attained in the past).

12 **Q HOW DOES MS. SONNELITTER CHARACTERIZE THE PURPOSE OF**
 13 **THE GPIF?**

14 **A** She states, on Page 4, that "[i]f utilities are exposed to rewards or penalties for the
 15 performance of their generating units relative to the recent past, then the GPIF is
 16 achieving its purpose regardless of the long-term operational trends." FPL's
 17 witness further testifies that references in my testimony "on performance trends
 18 over extended periods of time misses the point of the GPIF." Essentially, FPL's
 19 witness appears to argue that long-term improvements in efficiency are irrelevant
 20 to the workings of the GPIF. I believe, and I hope the Commission agrees, that
 21 sustained, long-term improvements in base load unit performance should be a
 22 goal of a program of incentives.

23 **Q WHAT IS THE PURPOSE OF THE GPIF AS STATED IN THE ORDER**
 24 **ESTABLISHING THE GPIF?**

1 **A** Appendix A of Order 9558 states that “[t]he purpose of the Generation
2 Performance Incentive Factor (GPIF) is to encourage utilities to improve the
3 productivity of their base load generating units.”

4 I cannot find any reference in the Order that the purpose of the GPIF is to
5 encourage improvement relative to the “recent past” as opposed to the “long-
6 term.” Moreover, my testimony regarding “long-term operational trend”
7 highlights the fact that ratepayers have been funding rewards where, after some 25
8 years of “incentives” under the current GPIF, any resulting long-term benefits are
9 difficult to discern (and, according to FPL, would be irrelevant).

10 **Q** **FPL TESTIFIES THAT, WHILE THE GPIF-RELATED UNITS ON FPL’S**
11 **SYSTEM MAY NOT DEMONSTRATE SUSTAINED IMPROVEMENTS**
12 **IN EFFICIENCY, SUCH IMPROVEMENTS ARE SEEN WHEN THE**
13 **ENTIRE FLEET — INCLUDING NEW COMBINED CYCLE UNITS —**
14 **ARE INCLUDED. HOW DO YOU RESPOND?**

15 **A** First, I need to clarify that the use of the term “system” or “system-wide” in my
16 direct testimony refers to only those units encompassed by the GPIF process.

17 Second, FPL testimony concerning new combined cycle units confirms
18 that my dead-band recommendation is a logical refinement to the current GPIF
19 process. The fact that the improvement in “entire fleet” performance can be
20 accomplished by merely incorporating new technology combined cycle units with
21 inherently superior performance characteristics relative to the technology of
22 existing units in the GPIF proves that technology will distort the ability of other
23 metrics to provide equity to ratepayers.

1 **Q THE FPL TESTIMONY STATES THAT FPL GPIF SCORES ARE**
2 **ADVERSELY AFFECTED BY THE FACT THAT SOME OF THE OLDER**
3 **GPIF UNITS HAVE BEEN DISPLACED IN THE DISPATCH ORDER, SO**
4 **THAT THESE GPIF UNITS ARE NOT OPERATING IN THEIR MOST**
5 **EFFICIENT RANGES. DO YOU FIND THIS TO BE PERSUASIVE?**

6 **A** No. As I understand the method for establishing the heat rate targets (and as FPL
7 seems to acknowledge), the existing calculation methodology takes into account
8 the “net output factor” of the units being measured, meaning that the units’
9 expected place in the dispatch order is factored into the target (i.e., adjusting for
10 the expectation that these units will not operate at their most efficient levels).

11 **PEF**

12 **Q HAVE YOU REVIEWED THE TESTIMONY OF PEF WITNESS**
13 **OLIVER?**

14 **A** Yes.

15 **Q MR. OLIVER TESTIFIES THAT A UTILITY’S OBLIGATION IS TO**
16 **MINIMIZE TOTAL PRODUCTION COST AND NOT ONLY FUEL**
17 **COSTS. HOW DO YOU RESPOND?**

18 **A** PEF’s Mr. Oliver misses the point of my testimony and appears to misunderstand
19 my recommendation. Nothing in my testimony conflicts with the observation that
20 a power plant has many parts subject to wear, or that overall costs are to be
21 considered. My point is that, in the context of such a reality, under the existing
22 GPIF process ratepayers are being required to pay rewards for “improvements”
23 that, under many circumstances, may reflect only mediocre performance. My
24 recommendation is that rewards should be reserved for exemplary performance, as
25 it is the utility’s “job” to maintain its units and minimize costs. Quite simply,
26 under the existing methodology the bar is set too low, with the result that utilities

1 receive rewards when no exemplary improvements are demonstrated. Note that
 2 under my recommendation nothing about the methodology for measuring
 3 performance or establishing targets would change; only the manner of calculating
 4 the payments would change, and that change would be designed to ensure that the
 5 utility has demonstrated exemplary improvement before receiving a reward.

6 **GULF POWER**

7 **Q** ^{ms.} **GULF POWER WITNESS MR. NOACK SAYS THAT THE PURPOSE OF**
 8 **THE GPIF IS TO PROVIDE INCENTIVE FOR THE EFFICIENT**
 9 **OPERATION OF BASE LOAD UNITS. HE SAYS THE CURRENT GPIF**
 10 **ACCOMPLISHES THAT PURPOSE BY REWARDING UTILITIES WHO**
 11 **SHOW REASONABLY ATTAINABLE IMPROVEMENTS AND**
 12 **PENALIZING UTILITIES THAT FAIL TO DO SO. DO YOU AGREE?**

13 **A** I agree with the first portion of the statement. I disagree with the proposition that
 14 the current GPIF accomplishes the purpose in a manner that is equitable to
 15 ratepayers.

16 **Q** **PLEASE EXPLAIN.**

17 **A** Like the other IOU witnesses, ^{ms.} Mr. Noack fails to consider the circumstance that is
 18 at the core of my criticism and recommendation. Take the example of a utility
 19 that, for whatever reason, sees the efficiency of its base-load units slide
 20 significantly. It receives a monetary penalty. The next target is then set at a
 21 reduced level of performance based on the declining "recent experience," such
 22 that, if the utility then modestly beats this new lower performance target, even at a
 23 level that falls short of its prior standard, it receives a ratepayer funded reward for
 24 improvement performance that is less than exemplary. In this scenario, the
 25 ratepayers are essentially paying extra for the utility doing its "job" in the normal

1 course of prudent operation. My recommended remedy is needed to ensure that
2 the GPIF is actually an incentive to make meaningful improvements.

MS.

3 **Q MR. NOACK CRITICIZES YOUR PROPOSED DEAD-BAND BECAUSE**
4 **IT IS NOT SYMMETRICAL. HOW DO YOU RESPOND?**

5 **A** In my opinion, the incentive mechanism should take into account that
6 performance at a high level is the basic responsibility of the utility. To reflect that
7 basic premise, it is only fair and reasonable to structure the reward/penalty portion
8 of the mechanism such that the utility is not paid extra for doing no more than
9 meeting its basic obligation. In my opinion, a “symmetrical” reward/penalty
10 would fail to take this obligation into account, to the detriment of the ratepayers
11 who are entitled to high quality service in return for the rates they pay without the
12 additional burden of rewards.

13 **TAMPA ELECTRIC**

14 **Q TAMPA ELECTRIC WITNESS MR. SMOTHERMAN DESCRIBES THE**
15 **TAMPA ELECTRIC DECREASE IN EFFICIENCY OCCASIONED BY**
16 **INCREASED ENVIRONMENTAL CONTROLS ON SOME OF ITS GPIF**
17 **UNITS, AND THE INCREASE IN EFFICIENCY THAT THE**
18 **REPOWERED BAYSIDE UNITS WILL ADD TO ITS SYSTEM. HOW DO**
19 **THESE POINTS AFFECT YOUR PROPOSALS?**

20 **A** They do not affect my proposal at all. Mr. Smotherman’s observations are not
21 even tangentially related to my point. It is true that modifications to units can
22 decrease or increase efficiency. This does not alter the fact that, in its present
23 form, the GPIF methodology’s reliance on recent past performance for future
24 targets and rewards can require, and has required customers to pay rewards when
25 the utility has not produced appreciable gains in efficiency.

1 **Q MR. SMOTHERMAN OPPOSES YOUR DEAD-BAND PROPOSAL.**
2 **WHAT IS YOUR RESPONSE?**

3 **A** Like other utility witnesses, Mr. Smotherman wants a “symmetrical” approach.
4 The concept of “symmetry” has the ring of fairness in many situations, but not
5 here. As I stated earlier, the utility has an obligation to provide efficient service.
6 A “symmetrical” approach to rewards and penalties would result in paying the
7 utility additional sums for that which it should be doing in any event.

8 **Q DO YOU HAVE ANY OTHER COMMENTS REGARDING MR.**
9 **SMOTHERMAN’S TESTIMONY?**

10 **A** Yes. I need to reiterate the clarification that the use of the term “system” or
11 “system-wide” in my direct testimony refers to only those units encompassed by
12 the GPIF process. It appears from the testimony that Mr. Smotherman mistakenly
13 believes that when I used the term “system” I was referring to both GPIF-included
14 generators and those outside the GPIF program. I did not — when I referred to
15 “system” values, I was referring to the composite of all GPIF-related power
16 plants, not the total utility system.

17 **Q DOES YOUR RECOMMENDED DEAD-BAND ADDRESS THE**
18 **CENTRAL THEME OF THE UTILITIES’ CRITICISMS?**

19 **A** Yes. While the Commission makes the final decision on whether a goal of the
20 GPIF should be to promote continuous universal improvements in individual unit
21 performance or system-wide performance, there is nothing in my dead-band
22 recommendation that ties the GPIF payment by ratepayers to long-term historical
23 performance. Indeed, the dead-band recommendation retains the basic method for
24 establishing GPIF targets in evaluating performance consistent in the present

1 GPIF structure. Thus, the GPIF under my recommendation would continue to be
2 a comparison of the subject year's performance versus a historically determined
3 target.

4 A prudent utility should strive to maintain and operate generating units as
5 efficiently as possible. Accordingly, my recommendation reflects the notion that
6 actual payments by ratepayers should only occur when the utility has achieved
7 exemplary performance. The recommended dead-band establishes the level of
8 exemplary performance before payment is made, by tempering the degree to
9 which the current GPIF methodology provides rewards relative to recent
10 experience.

11 **Q HOW DO YOU RESPOND TO THE FPL SUGGESTION THAT**
12 **RATEPAYERS HAVE RECEIVED SUBSTANTIAL FUEL SAVINGS**
13 **WITH THE GPIF STATUS QUO?**

14 A As I read the testimony, FPL does not specifically state that fuel savings are a
15 direct result of the GPIF process, only that "the same availability and heat rate
16 improvement that lead to these GPIF rewards" resulted in fuel savings. Given
17 that it is the "job" of a utility to maintain and operate generating units as
18 efficiently as possible, I doubt, absent a specific showing by a utility that the
19 GPIF process altered its behavior, whether any such "fuel savings" or "fuel loss"
20 can be directly attributable to the GPIF process.

21 In fact, the FPL testimony suggests that a more efficient means of
22 providing an incentive for the more modest performance improvements that lie
23 within my recommended dead-band would be to include availability and/or heat
24 rate performance as part of power plant management compensation.

1 **Q THE UTILITIES HAVE CRITICIZED THE IMPLEMENTATION OF AN**
2 **ABSOLUTE SYSTEM WEIGHTED EAF AND HEAT RATE NUMBER**
3 **THAT WOULD PRECLUDE ANY REWARD PAYMENTS FOR**
4 **ACTUALLY BEING MADE TO A UTILITY. WHAT IS THE**
5 **RATIONALE BEHIND THIS RECOMMENDATION?**

6 A The GPIF data can indicate a consistent reduction in system performance while
7 the method can continue to reward a utility on an annual basis. According to
8 Tampa Electric, the explanation for this circumstance in their case is that the
9 performance numbers are a function of restrictions related to environmental
10 regulatory requirements and the fact that repowered generating units have not yet
11 been placed in the GPIF process. Nevertheless, the Tampa Electric data
12 highlights a potential concern that the Commission may wish to address.

13 I merely point out in my direct testimony that one way that the
14 Commission can address the problem of GPIF rewards at a time of consistent
15 declines in system performance over time is by establishing absolute system
16 weighted EAF and heat rate numbers. Because establishing the appropriate levels
17 for each unit would involve complex considerations, I raised only the concept in
18 this proceeding. I believe the Utilities possess sufficient data to enable the
19 Commission to develop appropriate values next year.

20 **Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

21 A Yes, it does.

1 MR. MCGLOTHLIN: Mr. Ross is available for
2 cross-examination.

3 CHAIRMAN EDGAR: Are there questions on cross?
4 Mr. Badders?

5 MR. BADDERS: No questions.

6 CHAIRMAN EDGAR: No, no.

7 Commissioners? No.

8 Staff?

9 MS. BENNETT: No questions.

10 CHAIRMAN EDGAR: Mr. McGlothlin.

11 MR. MCGLOTHLIN: No redirect.

12 CHAIRMAN EDGAR: Okay. The witness is
13 excused. Thank you.

14 THE WITNESS: Thank you.

15 CHAIRMAN EDGAR: Okay. I believe that that
16 concludes the evidentiary portion of the proceedings for
17 this docket. Ms. Bennett, are there any other matters
18 before we move to Docket 362?

19 MS. BENNETT: There are no other matters.

20 CHAIRMAN EDGAR: Okay. I realize, folks, that
21 the hour is getting late, but what I would like to
22 propose is that we push on for approximately another 45
23 to 50 minutes or so and see how far we get. Are all the
24 parties amenable to that? Does that work?

25 Okay. Commissioner Carter.

1 COMMISSIONER CARTER: I just want to ask a
2 procedural question in the context of Docket No.
3 060001-EI. Should we deal with the matters that have
4 already been stipulated to and then go -- excuse me. I
5 should be talking into the microphone.

6 CHAIRMAN EDGAR: That's okay.

7 COMMISSIONER CARTER: Should we deal with the
8 matters that have already been stipulated to and go to
9 the resolution of other matters, or just forestall this
10 or hold this in abeyance until we deal with Docket No.
11 060362-EI?

12 CHAIRMAN EDGAR: We have -- thank you for the
13 question, Commissioner Carter. We do have the, as you
14 noted, natural gas storage docket, 362, and we also have
15 the emergency petition, Docket 041291 still to address.

16 And it is my opinion, and I believe that of
17 staff as well, that the three are integrally related,
18 and so if it's all right, I think we will move through.
19 Again, I'm hopeful that we can maybe move through them
20 in the next little while and then perhaps come back
21 tomorrow and take all the issues up in order, if that
22 meets your --

23 COMMISSIONER CARTER: That's fine. Thank you.

24 CHAIRMAN EDGAR: Okay. Give us just a minute
25 or two to get our paperwork in order, and then we will

1 push through.

2 (Off the record briefly.)

3 CHAIRMAN EDGAR: Okay. We are back on the
4 record. I think we are ready.

5 Ms. Bennett, preliminary matters.

6 MS. BENNETT: We have no additional
7 stipulations in this docket other than 1A. I do have a
8 Comprehensive Exhibit List and staff's Revised Exhibit
9 Lists 1 and 2 which have not been stipulated yet. I
10 would like to request that if no party objects that the
11 Comprehensive Exhibit List be entered into the record as
12 Number 1, and staff's Revised Exhibit Lists be entered
13 into the record as 2 and 3.

14 CHAIRMAN EDGAR: Are there any objections?

15 MR. BUTLER: No objection.

16 CHAIRMAN EDGAR: Seeing none, the exhibit
17 lists as described by staff will be marked as described
18 and moved into the record.

19 (Exhibits Number 1, 2 and 3 were marked for
20 identification and admitted into evidence.)

21 MS. BENNETT: As a matter of clarification,
22 yesterday morning when I moved the exhibit list for the
23 01 docket, I did state that there was item number 23 on
24 the confidential list and that that would be included in
25 this record. I apologize, but it actually belongs in

1 the confidential list of the 01 record, and it does
2 appear in our stipulated exhibit list, so as a matter of
3 clarification.

4 CHAIRMAN EDGAR: So noted.

5 MS. BENNETT: And the last thing I have for
6 you in the preliminary matters, there are some pending
7 motions or petitions regarding confidentiality. After
8 the fuel hearing, we will be taking care of that.

9 CHAIRMAN EDGAR: And that's it?

10 MS. BENNETT: That's all I have.

11 CHAIRMAN EDGAR: Okay. Then we will move here
12 in a second to opening statements. How many parties do
13 I have making opening statements?

14 MR. BUTLER: We have no opening statement for
15 Florida Power & Light Company.

16 CHAIRMAN EDGAR: Okay. Mr. Butler waives the
17 opportunity for an opening statement.

18 Mr. Beck.

19 MR. BECK: Than you, Madam Chairman.

20 Part of the agreement, Commissioners, that our
21 office and consumer parties reached with FPL in March of
22 2005 to settle their rate case prohibited Florida Power
23 & Light from petitioning the Commission for any new
24 surcharges to recover costs that are of a type that
25 traditionally and historically would be or are presently

1 recovered through base rates. Commissioners, that's
2 either one. If it traditionally and historically would
3 be in base rates, they were prohibited from new
4 surcharges, or are presently.

5 In the same vein, all the parties agreed that
6 we would neither seek nor support any reductions in
7 FPL's base rates and charges that would take effect
8 during the term of the agreement.

9 This was a bargain that had benefits for both
10 sides. FPL was assured of stability in its base rates,
11 and customers were assured that FPL would not seek to
12 recover items traditionally and historically recovered
13 through base rates through other charges. If it were
14 any other way, our freeze on base rates would be
15 meaningless. If they could shift items from base rates
16 into the fuel clause, then there's really no freeze on
17 base rates at all.

18 When the MoBay issue came before you earlier
19 this year, your own staff told that you the fuel
20 inventory costs are types of costs that are
21 traditionally and historically recovered through base
22 rates. They said this: "Fuel inventory, whether it is
23 coal, oil, or gas, is a normal component of working
24 capital that is included in rate base for ratemaking
25 purposes. Therefore, the associated inventory costs are

1 included in and recovered through base rates."

2 Now, although the staff suggested that you
3 allow FPL to recover inventory carrying costs
4 temporarily through the fuel charges until they filed
5 another rate case, such treatment is flatly not allowed
6 by the base rate freeze agreement. And I think where
7 the staff differed from us is, they didn't recognize
8 that either condition was a prohibition on new charges,
9 either traditionally and historically in base rates, or
10 currently. Staff focused on currently, but they ignored
11 the provision that prohibited the historically and
12 traditionally criteria for not allowing new charges.

13 Fuel inventory has been an item in rate base
14 for a long time. It was about a quarter century ago
15 that the Commission adopted the balance sheet approach
16 for working capital, and fuel inventory is part of
17 working capital. Before that, the PSC used lead/lag
18 studies to determine working capital. But no matter
19 which method was used, there was no dispute that these
20 amounts were amounts in rate base, and the carrying
21 costs on such amounts, which is just a profit or rate of
22 return on the asset, are recovered through base rates.

23 In 2002, the Commission adopted what is known
24 as the hedging order. I think that has been brought up
25 a number of times during these hearings yesterday and

1 today. Nothing in this order changes the treatment of
2 fuel inventory, whether it's coal, oil, or gas.

3 FPL would have you believe that the hedging
4 order allows them to recover a profit on gas fuel
5 inventory through the fuel clause, even though no other
6 fuel inventory costs are recovered that way. The
7 hedging order simply doesn't say what FPL wants it to
8 say. They torture the plain meaning of the order to
9 reach the conclusion they want that avoids the
10 consequences of the rate case settlement.

11 First, the hedging order applies to hedging
12 transactions. The order gives examples of the types of
13 transactions contemplated, such as transaction costs
14 associated with derivatives, for example, fees and
15 commissions, gains and losses on futures contracts,
16 premiums on option contracts, and net settlements from
17 swaps. These are costs related to transactions. None
18 of the examples give the slightest hint that it would
19 apply to and change the existing treatment of fuel
20 storage, because it was never intended to do that. All
21 of the examples in the order are for types of
22 transactions typically considered hedges, and it does
23 nothing to change the way fuel inventory has been
24 treated as a part of working capital.

25 Second, carrying costs are not the types of

1 costs contemplated in the order, even if those
2 transactions were hedging transactions. According to
3 paragraph 4 of the resolution of issues attached to the
4 order, each investor-owned electric utility may recover
5 through the fuel and purchased power cost recovery
6 clause prudently incurred incremental operating and
7 maintenance expenses, and it goes on.

8 Carrying costs are not incremental operating
9 and maintenance expenses. There are rate of return
10 components included in base rates and would never be
11 considered an operating or maintenance expense of a
12 utility. So even if fuel storage were a type of
13 transaction covered by the hedging order, and fuel
14 storage isn't a transaction, it still wouldn't be
15 covered by the hedging order because it's not an
16 incremental operating and maintenance expense.

17 You've heard testimony over the last two days
18 about the way Gulf Power and TECO treat their carrying
19 costs of gas fuel inventory. Both of these companies
20 have gas storage agreements similar to FPL's MoBay
21 agreement. They treat the carrying costs of gas fuel
22 inventory as base rate items and are not attempting to
23 flow through such costs through the fuel clause as FPL
24 is attempting to do here.

25 In conclusion, I would like to make clear once

1 again that we are not opposed to the MoBay agreement,
2 and in fact, we support the procurement of additional
3 gas storage capacity by Florida Power & Light. The
4 issue is not whether it's a good idea for FPL to procure
5 additional inventory for its natural gas. The issue is
6 whether the carrying costs related to gas inventory are
7 a base rate item covered by the settlement agreement.

8 FPL's request would fundamentally alter the
9 traditional and historic rate base treatment of fuel
10 inventory.

11 Thank you. That concludes my opening
12 statement.

13 CHAIRMAN EDGAR: Thank you, Mr. Beck.

14 Mr. Butler.

15 MR. BUTLER: FPL would call its first witness.
16 Are you prepared for that?

17 CHAIRMAN EDGAR: We are.

18 MR. BUTLER: Okay. Mr. Yupp, his direct
19 testimony, his testimony was entered into the record
20 previously in conjunction with Docket 060001, and so the
21 testimony itself, I don't think we need to go through
22 introducing it and entering it into the record again,
23 but I would certainly defer to your wishes in that
24 regard.

25 MS. HELTON: Madam Chairman, as I recall, the

1 Prehearing Officer entered an order consolidating Docket
2 Nos. 060362 and 060001 for purposes of the evidentiary
3 hearing. So it's my belief that the records are
4 intertwined and that Mr. Butler does not need to ask you
5 to insert the testimony into the record again.

6 CHAIRMAN EDGAR: Thank you, Ms. Helton.

7 MR. BUTLER: Let me just briefly then have
8 Mr. Yupp identify himself for the record.

9 I will note that there are two additional
10 exhibits to his testimony, GJY-3 and GJY-4, that were
11 not entered into the record in 060001 and have been
12 identified here as Exhibits 4 and 5. But beyond that,
13 his testimony has previously been entered into the
14 record.

15 (Florida Power & Light Company Exhibits Number
16 4 and 5 were marked for identification.)

17 MS. BENNETT: Madam Chair?

18 CHAIRMAN EDGAR: Ms. Bennett.

19 MS. BENNETT: We have in the past introduced
20 the direct testimony and the rebuttal testimony at the
21 same time, and I don't know if that's your preference
22 for this proceeding or not.

23 CHAIRMAN EDGAR: Mr. Butler?

24 MR. BUTLER: The Prehearing Order has it set
25 up for the testimonies to be done separately, and we

1 would prefer that approach.

2 CHAIRMAN EDGAR: Okay. Then we can do it
3 separately.

4 MR. BUTLER: Thank you.

5 Thereupon,

6 GERARD J. YUPP

7 was called as a witness on behalf of Florida Power &
8 Light Company and, having been first duly sworn, was
9 examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. BUTLER:

12 Q. Mr. Yupp, would you please state your name and
13 address for the record.

14 A. My name is Gerard Yupp. My address is 700
15 Universe Boulevard, Juno Beach, Florida, 33408.

16 Q. And by whom are you employed, and in what
17 capacity?

18 A. I'm employed by Florida Power & Light Company
19 as director of wholesale operations.

20 Q. Thank you. Mr. Yupp, would you please
21 summarize your September 1, 2006 testimony that has been
22 previously inserted into the record as it relates to the
23 gas storage projects?

24 A. Yes. Commissioners, the MoBay gas storage
25 project will serve as a physical hedge against the risks

1 of supply unavailability and price volatility during
2 extreme weather events and periods of high demand.
3 MoBay provided the best and least cost alternative to
4 meeting FPL's storage requirements, including the
5 opportunity for FPL to self-provide its base gas
6 requirement, a cost component of all storage
7 arrangements. This option gave FPL the opportunity to
8 potentially lower the overall cost of storage for its
9 customers.

10 The MoBay project will help reduce FPL's
11 vulnerability to natural gas supply curtailments and
12 reduce FPL's exposure to the volatility inherent in
13 relying on spot market or higher priced alternate fuels
14 during extreme weather events and periods of high
15 demand.

16 And that concludes my summary.

17 MR. BUTLER: Thank you, Mr. Yupp. I tender
18 the witness for cross-examination.

19 CHAIRMAN EDGAR: Questions on cross?

20 MR. BECK: Thank you, Madam Chairman.

21 CROSS-EXAMINATION

22 BY MR. BECK:

23 Q. Good afternoon, Mr. Yupp.

24 A. Good afternoon.

25 Q. Mr. Yupp, could you differentiate for me the

1 difference between base gas and working gas?

2 **A.** Yes. Base gas is the volume of gas that is
3 required in the storage facility. No matter what type
4 of storage facility it is, all storage, underground
5 natural gas storage, requires base gas. Base gas is the
6 volume of gas required in order to allow for extraction
7 of the working gas volume. So base gas ultimately
8 provides the right pressurization in order to be able to
9 extract the working gas volumes.

10 **Q.** Could you tell me what percent of the total
11 gas at MoBay would be base gas and what percent would be
12 working gas?

13 **A.** Yes. In a facility such as MoBay, which is a
14 depleted oil reservoir facility, typically the base gas
15 requirements are 50 percent of the total volume, so
16 50 percent base gas, 50 percent working gas volume, so
17 50 percent.

18 **Q.** Is the base gas and working gas physically
19 separated, or is it all just mixed in together?

20 **A.** My understanding is it's all mixed in
21 together.

22 **Q.** Could you turn to page 27 of your direct
23 testimony, please?

24 **A.** Yes.

25 **Q.** And at line 16, you have a question and answer

1 addressing the annual cost to participate in the MoBay
2 gas storage project. Do you see that?

3 A. Yes, I do.

4 Q. And you refer to Exhibit GJY-4 for that; is
5 that correct?

6 A. That is correct.

7 Q. What I would like to ask you to do then is to
8 refer to GJY-4. And if I'm correct, the redacted
9 version is really redacted, and the confidential version
10 has all the information in it, so I need you to turn to
11 the confidential one.

12 A. That is correct.

13 Okay. I have the confidential version.

14 Q. And both the confidential version of GJY-4 as
15 well as the nonconfidential version say "Total Annual
16 Cost, SESH Pipeline Project." Do you see that at the
17 bottom of the exhibit?

18 A. Let me get to it.

19 Q. And what I want to ask you is, isn't it
20 actually MoBay, not --

21 A. That is incorrect, yes. That --

22 Q. It's just a typo.

23 A. -- should be MoBay.

24 Q. Could you look at column C of the exhibit?

25 MR. BUTLER: I'm sorry. Mr. Beck, let me ask

1 you at this point, do you want -- Madam Chairman, we
2 have copies of the confidential exhibits in question and
3 would be happy to distribute them to the Commission so
4 that you can follow along if that would be helpful.

5 CHAIRMAN EDGAR: If you have copies available,
6 let's go ahead and distribute them.

7 MR. BUTLER: Thank you.

8 MR. BECK: I'm sorry, Madam Chair. I thought
9 you had copies.

10 CHAIRMAN EDGAR: Usually the red folders
11 magically appear, but I think we're all tired.

12 (Documents distributed.)

13 BY MR. BECK:

14 Q. Mr. Yupp, the redacted version has even
15 redacted the titles of the columns, and I want to ask
16 you, the actual names of the columns isn't confidential,
17 is it? We can talk about that?

18 A. Yes, we should be able to talk about the names
19 of the columns.

20 Q. Okay. Column D, would you read the title to
21 that exhibit?

22 A. Column D reads, "Return on Unamortized Base
23 Gas."

24 Q. And what is that for? What does that show
25 there?

1 **A.** I believe that shows -- in the calculation as
2 proposed by what was in staff's recommendation
3 originally, that is the return that FPL would realize on
4 the unamortized base gas.

5 **Q.** Now, that's not actually in your proposal to
6 the Commission now, is it? I mean, this column
7 shouldn't be there if it's going to accurately reflect
8 what FPL is proposing before the Commission now, should
9 it?

10 **A.** I'm not sure I follow as to what we're
11 proposing now.

12 **Q.** Well, what are you proposing with respect to
13 base gas now?

14 **A.** Our original proposal with respect to base gas
15 was to expense it through the fuel clause, a one-time
16 expense at the beginning of the transaction and then a
17 credit at the end of the term of the transaction when we
18 actually withdrew that base gas and burned it in our
19 power plants.

20 That was our proposal at the time, treating
21 base gas identical to tank bottoms from the respect
22 of -- the oil that resides in a fuel oil tank below the
23 discharge piping, commonly referred to as tank bottom,
24 serves the same purpose as does base gas. It is a
25 volume of fuel that is required to provide or allow for

1 the extraction of the working gas volume. And so our
2 original proposal was the one-time expense.

3 Q. As you sit here right now -- maybe I
4 misunderstand it. What is your proposal to the
5 Commission? Your original proposal, or are you not
6 proposing to expense base gas?

7 A. That is our proposal.

8 Q. To expense the base gas?

9 A. Yes.

10 Q. Okay.

11 A. A one-time expense up front with a credit at
12 the end of the term of the transaction.

13 Q. Well, then let me go back to column D on your
14 exhibit. Since your proposal is to expense the base gas
15 up front in year one, there's no return on unamortized
16 base gas, is there?

17 A. No. But this exhibit was created as a result
18 of -- we put this exhibit together with staff's
19 recommendation, with what was proposed in staff's
20 recommendation, and what the annual cost would be under
21 that scenario.

22 Q. So this exhibit does not reflect what you are
23 actually proposing to the Commission. This exhibit
24 reflects costs as reflected in a staff recommendation;
25 is that right?

1 **A.** That is correct.

2 **Q.** Okay. How would this exhibit change to
3 reflect what you're actually proposing before the
4 Commission?

5 **A.** What FPL originally proposed, this exhibit
6 would remain fairly intact. The column -- well, I can
7 go through the column headings, but the monthly storage
8 reservation charge and the monthly inventory insurance
9 charge would remain the same, as would the cycling
10 charge. The injection and withdrawal charges, which
11 were estimates on our part, would remain the same. The
12 return on the unamortized base gas and I believe the
13 return on the inventory investment would not be there.
14 So you would have a one-time expense at the beginning
15 and then a credit at the end.

16 **Q.** So the total estimated annual cost for MoBay
17 as you're proposing it on an annual basis would be less
18 than the amount shown on this exhibit, because you're
19 going to take out columns D and E?

20 **A.** Columns D and E, yes.

21 **Q.** But on the other hand, the first year expense
22 of MoBay as you're actually proposing it is quite a bit
23 greater than the total amount shown on this exhibit,
24 isn't it?

25 **A.** That is correct. That will be a function of

1 what the market for natural gas is at the time that we
2 inject base gas.

3 Q. Okay. You see there's a total amount on your
4 exhibit, column G at the very bottom?

5 A. Yes.

6 Q. Can you give us an idea, without revealing
7 anything you claim is confidential, how much that item
8 would be less for the recurring annual expenses than is
9 shown here under your proposal?

10 A. Under our proposal, how much less per year it
11 would be?

12 Q. Right, and then I'm going to ask you how much
13 more the first year would be under your proposal.

14 A. I don't have a calculator with me.

15 Q. Just an order of magnitude, if you can.

16 A. Can you give me one second?

17 Q. Sure.

18 MS. HELTON: While he's doing that, Madam
19 Chairman, if I could just make clear that the exhibits
20 that have been identified as Exhibit Number 4 and 5 on
21 our composite exhibit list does include Mr. Yupp's
22 confidential exhibits that we're discussing now. And
23 the reason why I'm asking, our previous general counsel
24 used to like to identify separately the confidential
25 exhibits. I think he thought that that was a cleaner

1 approach. I'm not sure that it's necessary, but that is
2 an alternative as well. And perhaps --

3 CHAIRMAN EDGAR: Mr. Butler, do you have a
4 preference?

5 MS. HELTON: -- Mr. Butler has an opinion.

6 MR. BUTLER: I'm sorry. You would like to
7 identify separately the confidential exhibits that we
8 have just distributed?

9 MS. HELTON: That might be cleanest way to go
10 about this for the purposes of the record.

11 MR. BUTLER: That probably makes good sense,
12 so that we would end up just having -- I guess Exhibits
13 8 and 9 would end up being the confidential versions of
14 GJY-3 and 4 respectively.

15 CHAIRMAN EDGAR: The confidential exhibits
16 that have been distributed and discussed during
17 Mr. Yupp's testimony will be marked as Exhibit Number 8
18 and 9.

19 (Florida Power & Light Company Exhibits Number
20 8 and 9 were marked for identification.)

21 MR. BUTLER: Thank you.

22 THE WITNESS: Can you just rephrase the
23 question? How do you want me to give you the answer?

24 BY MR. BECK:

25 Q. Let me try to tell you where I'm going and see

1 how much you can reveal without confidential --

2 A. Okay.

3 Q. Your confidential exhibit was a total
4 estimated annual cost for MoBay on the --

5 A. Yes.

6 Q. We can all look at that if we have the
7 confidential exhibit in front of us.

8 A. Right.

9 Q. And in fact, that's not true under your
10 current proposal, because you propose to expense base
11 gas, correct, in the first year?

12 A. That is correct.

13 Q. And so that expensing of base gas will make
14 the first year more than is shown here in your exhibit,
15 and other years will be less, because you won't have the
16 carrying costs on base gas?

17 A. That is correct.

18 Q. And I think you told me earlier that what you
19 shouldn't have, to reflect what's currently on the table
20 by FPL, is that column D shouldn't be there?

21 A. Correct.

22 Q. And I think you said E also?

23 A. D and E, yes.

24 Q. E is your working gas inventory, return on
25 inventory investment?

1 **A.** I believe E is the carrying costs on the
2 inventory.

3 **Q.** And you're saying to reflect your proposal now
4 that E shouldn't be there either?

5 **A.** Our original proposal of expensing the gas up
6 front would not have carrying costs associated with it.

7 **Q.** Is your proposal -- when you say the original
8 proposal, that's what you're in fact proposing right
9 now; right?

10 **A.** Yes.

11 **Q.** And under your proposal right now, you would
12 expense base gas; right?

13 **A.** Yes.

14 **Q.** And so column D shouldn't be there to reflect
15 what you're proposing right now. In other words, if you
16 expense it, you're not going to have a return on
17 unamortized base gas.

18 **A.** Correct.

19 **Q.** But you are asking for a return on your
20 inventory investment even now, are you not?

21 **A.** No. And this is getting a little bit out of
22 my area on this. This is more for Witness Dubin. But
23 my understanding would be that columns D and E would not
24 be there under the scenario of expensing the base gas,
25 which was our -- which is our proposal originally.

1 **Q.** Earlier, one of the first questions I asked
2 you was to differentiate between base gas and working
3 gas, and you did that.

4 **A.** Yes.

5 **Q.** And in fact, FPL is proposing to expense base
6 gas; right?

7 **A.** Correct. I'm sorry. Let me go back. You're
8 right. D would be out of this calculation, yes. E
9 would be there.

10 **Q.** E is the carrying costs?

11 **A.** E is on the working gas volume, yes. I
12 apologize.

13 **Q.** E is the carrying costs on your working gas
14 that you're proposing to recover --

15 **A.** That is correct.

16 **Q.** That's one of our big items in dispute; right?

17 **A.** That is correct.

18 **Q.** Okay. So if we were to reflect what you're
19 actually proposing, the total in G that's shown there
20 would be reduced by the total amount of adding up
21 everything in column D?

22 **A.** That is correct.

23 **Q.** And we can -- just looking at it, I think most
24 of us can get an idea of what that is.

25 **A.** Yes.

1 **Q.** Now, to expense your base gas in the first
2 year as you are proposing, what does that do -- to the
3 extent you can verbally describe it without disclosing
4 confidential information, what does it do to the first
5 year cost to increase it over what's shown here?

6 **A.** Well, again, the cost of expensing that base
7 gas in the first year would be a function of where the
8 market is at that point in time. But if we were to take
9 where the current market is for the 2008 period, which
10 is what we're looking at here, roughly the cost of
11 expensing that base gas would be very similar, to the
12 best of my calculations, fairly close to what that
13 overall number is that is reflected in Exhibit GJY-4,
14 the bottom line number, with everything included.

15 **Q.** Thank you. So very roughly, just an order of
16 magnitude, the first year impact of what you're actually
17 proposing is about twice what we see there in column G,
18 at the bottom of column G, is it not, roughly?

19 **A.** That would be correct, yes.

20 **Q.** And then annual costs after that are less than
21 is shown at the end of column G by the amount on column
22 B; correct?

23 **A.** That is correct.

24 And maybe I can clarify one other point. The
25 proposal of expensing the base gas as a one-time expense

1 up front and then crediting back proved to be a lower
2 cost alternative for our customers by -- as compared to
3 this methodology. And I believe the last numbers we had
4 were by roughly 10 million.

5 So just to put that out there, as the gas then
6 is credited back at the end of this term of the
7 transaction, that base gas will be consumed in our power
8 plants and then credited back to our customers. So the
9 difference in the two proposals or as you see it laid
10 out here in GJY-4 versus the one-time expense, I
11 believe, subject to check, was roughly \$10 million lower
12 cost to our customers by doing the expense up front.

13 Q. And the calculation you're referring to, that
14 was a net present value calculation over the -- what?
15 Fifteen years?

16 A. I believe so, yes.

17 Q. So you discounted the -- you used a discount
18 rate over that entire 15-year period; right?

19 A. Yes.

20 Q. And do you recall what that rate was?

21 A. I do not recall offhand, no. It might be
22 better for Ms. Dubin to answer that.

23 Q. Would you agree that a calculation like that
24 is highly dependent on what discount rate you use,
25 particularly when you go out that far in time?

1 **A.** Yes.

2 **Q.** Base gas has to be present at all times, does
3 it not, in order to utilize your working gas?

4 **A.** It does.

5 **Q.** So you need base gas over the entire 15 years
6 of the agreement?

7 **A.** That is correct.

8 **Q.** Assuming that you don't renew it at the end of
9 15 years.

10 **A.** Uh-huh.

11 **Q.** Would you agree that having the base gas
12 provides a benefit over the 15-year period?

13 **A.** It provides a benefit in that it allows us
14 access to our working gas volume, yes.

15 **Q.** Let me ask you about your fuel storage
16 practices for other than gas, if I could. Do you have
17 storage for coal and oil?

18 **A.** Yes, we do.

19 **Q.** Could you describe your coal storage
20 practices?

21 **A.** Our coal facilities are managed by -- or have
22 managing partners, so we are not directly involved in
23 that, and I can't speak too well on our coal practices.
24 But we do keep -- in a general sense, we keep inventory
25 on our piles in order to be able to run the facility.

1 And the amount of coal that's kept on a, let's say,
2 day-by-day basis, how many days supply we have varies by
3 location.

4 Q. And could you give us a general idea of what
5 the time periods are for -- how many days of inventory
6 you keep?

7 A. That has fluctuated a lot recently given the
8 PRB situation or the Powder River Basin situation that
9 we've experienced over the last couple of years and the
10 troubles in actually receiving coal from the Powder
11 River Basin. But in a general sense, 40 days supply is
12 probably not out of the realm of probability.

13 Q. And is the coal all kept on-site, or do you
14 have both on-site and off-site?

15 A. It is all kept on-site.

16 Q. You said Florida Power & Light doesn't manage
17 those directly?

18 A. We do not, no.

19 Q. Were there any changes in the coal storage
20 practice as a result of the 2004 and 2005 hurricane
21 seasons?

22 A. No, there was not.

23 Q. Okay. How about fuel oil? Does FPL maintain
24 an inventory of fuel oil?

25 A. Yes, we do.

1 Q. And about how many days worth of fuel oil do
2 you maintain?

3 A. Fuel oil days burn will vary by location, by
4 time of the year, so I can't give you an exact number.
5 Roughly, though, if you look at heavy fuel oil, pretty
6 much we have about a 10-day turn on resupplying residual
7 fuel oil, and so we look to keep roughly 10 days as a
8 minimum supply. During hurricane season, we do keep
9 more supply.

10 Q. Okay. Is oil all maintained on-site, or do
11 you have some on-site and some off-site?

12 A. We maintain all our oil on-site. There is
13 some that resides at a terminal, which is an
14 intermediate step, to change equipment, to be able to
15 bring the oil to our actual plant locations, but we
16 consider that to be on all on-site storage.

17 Q. And where is that that you do that?

18 A. Currently, we have to utilize inland barging
19 at our Turkey Point facility, at our Cape Canaveral
20 facility, and at our Sanford facility.

21 Q. Were there any changes in the way you manage
22 your oil inventory as result of the hurricane seasons in
23 2004 and 2005?

24 A. Changes? I guess you could say there were
25 changes. I think from the standpoint of being full,

1 heading into hurricane season, at all locations and
2 trying to maintain at least -- even in our inland
3 barging locations, trying maintain as full an inventory
4 as we can. I think the 2004 and 2005 hurricane seasons
5 reemphasized that that is an important component for us
6 of our hurricane plan.

7 Q. Okay. At page 24 of your testimony, I want to
8 switch a little bit, if I could.

9 A. Okay.

10 Q. You talk about the right that MoBay has to
11 terminate the contract if the PSC hadn't given final
12 approval by September 29th; is that right?

13 A. That is correct.

14 Q. Okay. You've attached the contract as an
15 exhibit to your testimony?

16 A. Yes, I have.

17 Q. And which exhibit is that?

18 A. I believe that is in Exhibit GJY-3.

19 Q. And that has two attachments to it, is that
20 right, Attachment 1 and Attachment 2?

21 A. Yes, that's correct.

22 Q. And Attachment 2, am I right that that's the
23 MoBay contract?

24 A. That is correct.

25 Q. The contract contains certain conditions

1 precedent, does it not?

2 A. Yes, it does.

3 Q. And one of those conditions precedent is the
4 right to terminate the contract without the PSC
5 approval; is that right?

6 A. That is correct.

7 Q. Okay. Is it true --

8 MR. BUTLER: Charlie, I'm sorry. Charlie, are
9 you going to be needing to talk to the confidential
10 terms in that?

11 MR. BECK: No.

12 MR. BUTLER: Okay. If you were, I wanted to
13 distribute it. But if not, fine.

14 MR. BECK: I wasn't planning to, but you never
15 know.

16 BY MR. BECK:

17 Q. Okay. I'm sorry. Where we were was whether
18 the right to terminate is in the contract as one of the
19 conditions precedent; is that right?

20 A. That's right.

21 Q. One of the parties has the right to waive that
22 condition precedent, does it not?

23 A. Yes. We could waive that. FPL could waive
24 that condition precedent.

25 Q. So to the extent the agreement contains a

1 requirement of PSC approval of the way to recover it,
2 that's something that FPL inserted in the contract for
3 its benefit; is that right?

4 **A.** That is correct.

5 **Q.** And of course could waive that requirement if
6 it chose to do so?

7 **A.** That is correct.

8 **MR. BECK:** Thank you, Mr. Yupp. That's all I
9 have.

10 **CHAIRMAN EDGAR:** Questions from staff?

11 **MS. BENNETT:** No, ma'am.

12 **CHAIRMAN EDGAR:** No questions.

13 Commissioners? No questions.

14 Mr. Butler.

15 **MR. BUTLER:** A little bit of redirect, please.

16 **REDIRECT EXAMINATION**

17 **BY MR. BUTLER:**

18 **Q.** Mr. Yupp, is the MoBay gas storage facility
19 on-site storage?

20 **A.** No, it is not.

21 **Q.** Is the Bay Gas storage facility a form of
22 on-site storage?

23 **A.** No, it is not.

24 **Q.** Is it necessary for FPL to have inventories of
25 coal and fuel oil for operating the plants that use

1 those fuel types as an ordinary part of their course of
2 operation?

3 **A.** Yes, it is, particularly coal and fuel oil.
4 It is necessary to maintain sufficient quantities of
5 fuel on-site in order to feed just normal operations,
6 day-to-day operations.

7 **Q.** Does that necessity have to do with the way
8 that the coal and fuel oil are delivered to the plant,
9 the transportation of them?

10 **A.** Yes, it does.

11 **Q.** Is there a similar necessity to have an
12 inventory of natural gas on-site at natural gas-fired
13 plants?

14 **A.** No. Natural gas storage is not a necessity to
15 run our gas-fired plants under normal operating
16 conditions. Natural gas is delivered to our facilities
17 on what I'll term a real-time basis, scheduled into a
18 pipeline and then delivered to our plants on a real-time
19 basis, whereas coal and fuel oil, as I described before,
20 particularly with fuel oil, the turnaround time for
21 resupply is 10 days, so we must keep adequate
22 inventories on-site to fuel normal operations. Natural
23 gas storage is not required for ordinary operations.
24 Where you'll find natural gas storage utilized is really
25 under abnormal conditions when there are supply

1 curtailments.

2 MR. BUTLER: Thank you. That's all the
3 redirect that I have.

4 Are you ready for me to move the admission?

5 CHAIRMAN EDGAR: I am.

6 MR. BUTLER: Okay. I would move the admission
7 of Exhibits 4 and 5, and also 8 and 9.

8 CHAIRMAN EDGAR: Exhibits 4, 5, 8 and 9 will
9 be moved into the record.

10 (Florida Power & Light Company Exhibits Number
11 4, 5, 8, and 9 were admitted into evidence.)

12 CHAIRMAN EDGAR: The witness may be excused.
13 Thank you.

14 Mr. Beck -- of course, the next witness,
15 Mr. Butler, is yours, and so to you as well. I am ever
16 the optimist, and I did have hopes that we would be able
17 to move through this docket, and maybe even the next,
18 today.

19 I always try to break at what seems to be a
20 natural time in the flow, but yet it is getting late,
21 and I'm getting tired, and I suspect maybe others are as
22 well. And I don't want either you, Mr. Beck, or you,
23 Mr. Butler, to feel rushed beyond -- it's important, and
24 so I don't want you to feel rushed.

25 So I guess I'm going to ask you, does this

1 seem like a place to break, or do you want to try to
2 move through one or two more witnesses?

3 MR. BUTLER: It's a reasonable place to break
4 as far as FPL is concerned. Obviously, we could go on
5 if you want, but this would be a reasonable place to
6 break.

7 MR. BECK: I feel the same way. Either way,
8 Madam Chairman. It's fine to break, but if you want to
9 keep going, we're ready also.

10 CHAIRMAN EDGAR: Okay. Okay for break time?
11 Okay. Then again, I was hopeful that we would move
12 through, but it is getting late, and I want to make sure
13 that we give each witness and their testimony the time
14 and attention that is deserved.

15 So we will break for the evening, and we will
16 come back at 9:00 in the morning, at which point we will
17 start with witness Dubin, we will move to then Witness
18 Merchant, go into rebuttal, and then into the next
19 docket. And after that docket, then we will take a
20 break for our staff to regroup and come back and make
21 recommendations. And I don't know how long that brake
22 will be. We'll just figure that out in the morning.

23 Any closing comments for the evening?

24 MR. BUTLER: None from FPL.

25 CHAIRMAN EDGAR: Is everybody okay? All

1 right. Then thank you all. We will reconvene at 9:30
2 in the morning, and we are on break.

3 MR. BUTLER: Thank you.

4 (Proceedings recessed at 5:35 p.m.)
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CERTIFICATE OF REPORTER


STATE OF FLORIDA:

COUNTY OF LEON:

I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages numbered 741 through 913 are a true and correct record of the aforesaid proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

DATED THIS 8th day of November, 2006.



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