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COMMISSION
CLERK

November 26, 2008

Ms. Ann Cole, Director
Commission Clerk and Administrative Services
Florida Public Service Commission
1540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 080317-EI, In re: Petition for rate increase by Tampa Electric Company

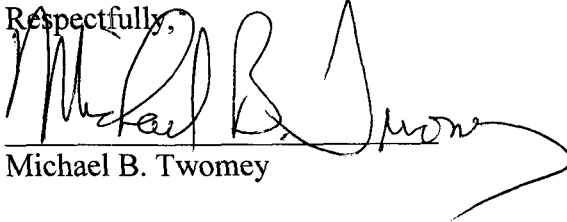
Dear Ms. Cole:

Enclosed for filing in the above-referenced docket are the original and 15 copies of the testimony of Stephen A. Stewart, who is testifying on behalf of AARP.

Please acknowledge receipt of these documents by stamping the extra copy of this letter "filed" and returning the copy to me.

Thank you for your assistance with this filing.

Respectfully,


Michael B. Twomey

cc: Parties of record

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DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

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COMMISSION
CLERK

**In re: Tampa Electric Company's)
Petition for an Increase in Base Rates)
and Miscellaneous Service Charges)**

DOCKET NO. 080317-EI
Filed: November 26, 2008

**DIRECT TESTIMONY
OF STEPHEN A. STEWART
ON BEHALF OF AARP**

DOCUMENT NUMBER-DATE

10966 NOV 26 8

COMMISSION CLERK

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2
3 TESTIMONY

4 OF

5 STEPHEN A. STEWART

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

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

10 **Q. Please describe your educational background and business
11 experience?**

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

15 I was employed by Martin Marietta Corporation and Harris Corporation as
16 a Test Engineer from January 1985 until October 1988. In July 1989, I accepted
17 an internship with the Science and Technology Committee in the Florida House of
18 Representatives. Upon expiration of the internship I accepted employment with
19 the Office of the Auditor General in August 1990, as a program auditor. In this
20 position I was responsible for evaluating and analyzing public programs to
21 determine their impact and cost-effectiveness.

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

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

1 (“Commission”)-regulated companies and for identifying issues and positions in
2 matters addressed by the Commission. I left the Public Counsel in 1994 and
3 worked as a consultant for the Florida Telephone Association for one year.

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

9 Over the last twelve years I have also worked for the Public Counsel on a
10 number of utility related issues. In the last several years I have also served as a
11 consultant to, and provided testimony for, AARP.

12 **Q. Are you sponsoring any exhibits in this case?**

13 A. Yes. I am sponsoring Exhibit No. ____ (SAS-1), entitled “Exhibit of
14 Stephen Stewart on Behalf of AARP”. It consists of one document that is four
15 pages long and details my qualifications and experience.

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

17 A. I am appearing on behalf of AARP in opposition to Tampa Electric
18 Company’s (“TECO”) request for an increase in their Annual Accrual for the
19 Storm Damage Reserve from \$4 million to \$20 million and an increase in their
20 target amount for the Storm damage Reserve from \$55 million to \$120 million. I
21 believe TECO has failed to take into account the opportunity to recover storm
22 damage costs under the state’s new securitization law, when determining the
23 appropriate level for the Storm Damage Reserve. My review indicates that a

1 Storm Damage Reserve Level of \$55 million would have been large enough to
2 withstand the storm damage from most, but not all, storm seasons over the last 14
3 years. Keeping the Storm Damage Reserve at the current level of \$55 million
4 would allow the Commission to retain the \$4 million a year Storm Damage
5 Accrual, which would reduce TECO's proposed rate increase by \$16 million per
6 year. Going forward, any Storm Damage Reserve deficiencies resulting from
7 excessive losses could be dealt with by a separate surcharge in the same manner
8 such a surcharge was earlier approved by this Commission for Florida Power &
9 Light Company ("FPL") and Progress Energy Florida ("PEF"). Keeping the
10 Storm Damage Reserve Level as low as is reasonably possible will minimize the
11 financial impact on customers' rates during these trying economic times, while
12 still allowing TECO and the Commission the flexibility to address TECO's
13 prudent storm recovery costs from year to year.

14 **Q. Please summarize TECO's recommendation for the appropriate level**
15 **of the Storm Damage Reserve and Annual Accrual.**

16 A. Two witnesses, Mr. Harris and Mr. Carlson, address the Annual Accrual
17 and Storm Damage Reserve issues on behalf of TECO. Mr. Harris provides a
18 historic statistical analysis indicating an expected annual cost for windstorm
19 losses of \$17.8 million. Mr. Carlson offers his "professional judgment" as a basis
20 for changing the Annual Accrual from \$4 million to \$20 million and the
21 appropriate level of the Storm Damage Reserve from \$55 million to \$120 million.
22 Mr. Carlson claims the request is based on three fundamental objectives: (1) to
23 achieve an effective balance between rate stability and long-term cost for

1 customers; (2) to build a reserve sufficient to cover the majority of loss events in
2 order to mitigate the need for a surcharge to customers immediately after such an
3 event; and (3) to design a reserve to cover the higher probability events and not
4 the lower probability, high severity events.

5 **Q. How do you understand that TECO arrived at its requested Storm**
6 **Damage Reserve of \$120 million and Annual Accrual of \$20 million based**
7 **upon the testimony of Messrs. Harris and Carlson?**

8 A. Mr. Harris's describes in his testimony a Storm Loss Analysis based on a
9 probabilistic approach using proprietary software. The Storm Loss Analysis
10 indicates an expected annual uninsured cost to TECO's system from all storms
11 estimated to be \$17.8 million. Mr. Harris's also describes in his testimony a
12 Reserve Performance Analysis using a dynamic financial simulation analysis
13 approach. This highly technical analysis concludes that "higher accrual levels will
14 result in a lower probability of negative reserve balances." Mr. Harris makes no
15 recommendation with regards to the Annual Accrual level or the appropriate
16 Storm Reserve Damage level.

17 **Q. How did Mr. Carlson transform Mr. Harris's analysis into the TECO**
18 **request?**

19 A. TECO witness Carlson recommends changing the Annual Accrual from
20 \$4 million to \$20 million and the appropriate level of the Storm Damage Reserve
21 from \$55 million to \$120 million based on his "professional judgment" as it
22 relates to both TECO's storm experience in 2004 and the analysis conducted by
23 Mr. Harris. Mr. Carlson makes this recommendation within a current regulatory

1 framework set forth by this Commission that he concludes is “sound.” This
2 framework consists of three major components: (1) an annual storm accrual,
3 adjusted over time as circumstances change; (2) a storm reserve adequate to
4 accommodate most, but not all, storm years; and (3) a provision for utilities to
5 seek recovery of costs that go beyond the storm reserve.

6 **Q. Do you object to Mr. Carlson’s analysis or deny that the selection of**
7 **an appropriate Reserve and Accrual may involve subjective considerations?**

8 A. No, I agree that the analysis is inherently subjective. However, I believe
9 that the testimony indicates Mr. Harris’s analysis and Mr. Carlson’s
10 recommendation violates one of Mr. Carlson’s “fundamental objectives.” In
11 addition, I believe Mr. Carlson’s own testimony supports no change in the Annual
12 Accrual or the Storm Damage Reserve level.

13 **Q. Would you please elaborate?**

14 A. Yes. Mr. Carlson states on page 3 of his testimony that a fundamental
15 objective of his analysis is to “design a reserve to cover the higher probability
16 events and not the lower probability, high severity events.” However, both he and
17 Mr. Harris admit that the impact of the low probability hurricane season of 2004
18 has biased their recommendations and analysis. First, Mr. Carlson, in his
19 testimony on page 13, clearly states he relied on the experience of 2004 in
20 reaching his conclusions. However, Mr. Carlson does not address the impact on
21 his professional judgment of the less severe events between 1994 and 2004.
22 Additionally, Mr. Harris acknowledges, on page 10 of his testimony, that the

1 addition of the year 2004 into his analysis “increased the long-term hurricane
2 hazard in the Tampa area by about 60 percent over the prior modeled hazard”.

3 **Q. Is there evidence that the current Annual Accrual and Storm Damage**
4 **Reserve is sufficient?**

5 A. Yes. Mr. Carlson’s testimony on pages 4 and 5 indicates that the annual
6 storm damage accrual of \$4 million and the current \$55 million Storm Damage
7 Reserve target set forth in 1994 by this Commission, based on the regulatory
8 framework Mr. Carlson approves of, offered sufficient coverage until the
9 abnormal storm season of 2004.

10 **Q. In your view, if the current situation is sufficient, why is TECO**
11 **seeking a change?**

12 A. It seems the only reason TECO is seeking a change in the Annual Accrual
13 and the Storm Damage Reserve now is because they have this base rate case
14 pending before the Commission and because 2004 was an abnormal storm year.

15 **Q. Do you have any other evidence that indicates the current situation is**
16 **sufficient?**

17 A. Yes. In this Commission’s investigation of FPL’s petition for issuance of
18 a storm recovery financing order in Docket No. 060038-EI, Mr. Harris presented
19 the same type of analysis as in this case and found the expected annual uninsured
20 cost from all windstorms to be \$73.7 million and recommended a Storm Damage
21 Reserve of \$650 million. However, in that case, based on testimony from
22 intervenors, including mine on behalf of AARP, the Commission approved a
23 storm damage reserve level of \$200 million as opposed to the \$650 level

1 requested by FPL. The Commission-approved amount of \$200 million is
2 approximately 3 times the expected annual uninsured cost in that case. If the FPL
3 ratio found in Docket No. 060038-EI was applied to this case, the Storm Damage
4 Reserve level would be roughly 3 times the expected annual uninsured cost of
5 approximately \$17 million. This would result in a Storm Damage Reserve target
6 of \$54 million. The current target established by the Commission is \$55 million.

7 **Q. Are there any other factors that would indicate that the current target**
8 **established by the Commission is appropriate?**

9 A. Yes. The Securitization legislation passed in 2006, which is now at
10 Section 366.8260, Florida Statutes, arguably greatly reduces the necessity for a
11 reserve and lessens the importance of the target level. Before the Securitization
12 legislation, utilities collected a Commission-approved storm accrual each year to
13 help pay for storm damage. The accrual was not designed to guarantee recovery
14 of every penny of storm damage costs. In fact utilities might only recover storm
15 damage expenses that caused them to earn less than a fair rate of return. Under the
16 earlier policy, the utilities had a financial risk and were understandably interested
17 in keeping the reserve level as high as possible. However, the Securitization
18 legislation guarantees the recovery of all reasonable and prudent expenses for
19 storm damage. Therefore, no matter the amount of storm damage, TECO is
20 statutorily guaranteed recovery of its storm expenses as long as they are deemed
21 prudent by the Commission.

22 **Q. Do you have any additional concerns with TECO's request?**

1 A. Yes. A large storm damage reserve will allow a utility to charge larger
2 storm-related losses against the reserve without having to prove the expenses
3 were reasonable and prudent in an adversarial hearing. I believe history suggests
4 that the review of storm damage expenses is less stringent when the expenses are
5 paid from an existing reserve versus when the utility must document the expenses
6 in an evidentiary hearing addressing an additional recovery mechanism.

7 Consequently, I believe the likelihood for closer scrutiny would argue for a lower
8 Storm Damage Reserve level, rather than the higher amount requested by TECO.

9 **Q. What evidence supports your review that storm damage expenses are**
10 **less stringent when the expenses are paid from a reserve versus when the**
11 **utility must document the expenses in a hearing?**

12 A. It is my understanding that from 1996 to 2002 when FPL covered storm
13 damage expenses with funds from an existing Storm Reserve, there were no
14 hearings and consequently little chance for a review of expenses by affected
15 parties. Forcing a hearing for all but the most minimal storm damage occurrences
16 guarantees a more thorough review and the reduced likelihood that inappropriate
17 expenditures will be charged to the Reserve.

18 **Q. Based on your reasoning, why does TECO need a Reserve at all?**

19 A. Given the passage of the Securitization legislation subsequent to this
20 Commission's orders addressing the level of Reserve required or desired, it is not
21 entirely clear that a Reserve is essential. However, I believe it is reasonable for
22 the Commission to approve a Reserve that meets the historically-stated threshold
23 of covering the costs of most, if not all, storms.

1 **Q. What do you think is the proper level of the Storm Damage Reserve?**

2 A. Based on my analysis I think an adequate and appropriate Storm Damage
3 Reserve should be \$55 million. TECO should be allowed to accrue the current
4 level of \$4 million a year until it reaches \$55 million after which the accrual
5 should cease and rates should be reduced by the appropriate amount.

6 **Q. What is this recommendation based on?**

7 A. This recommendation is based on the prior decision of this Commission
8 with regards to FPL's Storm Damage Reserve and follows roughly the same ratio
9 of predicted annual average storm damage to the Storm Damage Reserve level.
10 Additionally, in the event the Reserve were depleted by damages exceeding the
11 Reserve balance, TECO could immediately file for interim and permanent
12 surcharge relief and, given recent Commission precedent, should expect to get it.

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

14 A. Yes.

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EXHIBIT

OF

STEPHEN STEWART

ON BEHALF OF AARP

Stephen A. Stewart

2904 Tyron Circle
Tallahassee, FL 32309
850-893-8973

Docket No. 080317-EI
Stephen Stewart, Ex. No. ___
Document No. SAS -1,
Page 1 of 4
Qualifications & Exp.

SUMMARY

Over the last fourteen years I have private sector business experience through the entrepreneurial development and ownership of three companies. Prior to my entrance into the private sector, I spent approximately five years with the Florida Legislature where I was responsible for the analysis and evaluation of financial and economic data. After graduating with an engineering degree in 1985, I spent four years as a test engineer with government defense contractors.

PROFESSIONAL EXPERIENCE

CPC OF NORH FLORIDA, LLC, Tallahassee, FL

6/06-Present

As Owner of this printing and marketing business, my responsibility is to ensure that all functions of the business are successfully implemented by the employees. These functions include production, customer service, and sales and marketing.

REAL ESTATE DATA SERVICES, INC., Tallahassee, FL

11/99-Present

As President of this start-up real estate marketing company, my responsibility is to ensure that all functions of the business are successfully implemented by the employees. These functions include production, customer service, and sales and marketing. In addition, I have a fiduciary responsibility to the shareholders.

UNITED STATES MEDICAL FINANCE COMPANY, Tallahassee, FL

1/95 - 8/98

During my employment at USMed I was involved in all major business functions of this private label credit card company. The last two years I served as the Director of Operations reporting directly to the CEO. My responsibilities in this position included liaison with credit card processing vendor, on-site program implementation, financial analysis, client support, business development and supervision of operations staff.

REGULATORY SERVICES, Tallahassee, FL

3/94- 1/04

As the owner of this sole proprietorship, my activities included the development and production of *Utility News*, a news information service, consulting services, and real estate appraisals.

FLORIDA TELEPHONE ASSOCIATION, Tallahassee FL

3/94 - 2/95

I was responsible for developing and evaluating policy positions during rewrite of the Florida Telecommunications statute. This included bill analysis and development of presentations to be made at legislative committee meetings. Reported to the Executive Director of the FTA.

OFFICE OF PUBLIC COUNSEL – FLORIDA LEGISLATURE, Tallahassee, FL

10/91 - 2/94

I assisted the Public Counsel in representing the interests of the citizens of Florida before the Florida Public Service Commission. Duties included analyzing financial, economic, and engineering data of investor owned utilities. Represented the Public Counsel before the Public Service Commission as a Class B Practitioner and have prepared and filed testimony on a number of occasions.

OFFICE OF AUDITOR GENERAL – FLORIDA LEGISLATURE, Tallahassee, FL

8/90 - 10/91

HARRIS CORP. & MARTIN MARIETTA CORP., Orlando, FL

1/85 - 10/88

EDUCATION

M.S., Political Science, 1991; **Florida State University, Tallahassee, FL**

Principles and Practices of Appraisal, AB - I, October 1998; **The Real Estate School, Tallahassee, FL**

House of Representatives Internship Program, 1990; **Florida Legislature, Tallahassee, FL**

B.S., Electrical Engineering, December 1984; **Clemson University, Clemson, SC**

Utility Regulation Experience Stephen A. Stewart

Florida Public Service Commission, Docket No. 060038-EI: Florida Power & Light Company's Petition for Issuance of a Storm Recovery Financing Order.

Provided testimony on behalf of AARP and the Office of Public Counsel. The testimony disputed the level of Storm Damage Reserve being requested by the utility.

Resolution: The case went to full hearing and I provided testimony before the Commission. The Commission accepted my recommendation for the level of the Storm Damage Reserve.

Florida Public Service Commission, Docket No. 050078-EI: Petition for rate increase by Progress Energy Florida, Inc.

Provided testimony on behalf of AARP. The testimony disputed the ROE being requested by the utility and argued for a lower storm damage reserve than being requested.

Resolution: The case was settled by the parties prior to hearing.

Florida Public Service Commission, Docket No. 050045-EI: Petition for rate increase by Florida Power & Light Company.

Provided testimony on behalf of AARP. The testimony disputed the ROE being requested by the utility and argued for a lower storm damage reserve than being requested.

Resolution: The case was settled by the parties prior to hearing.

Florida Public Service Commission, Docket No. 050001-EI: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor.

Provided testimony on behalf of AARP. The testimony disputed FPL's entitlement to between \$25 million and \$30 million in steam generator sleeving repairs as "fuel related" and, thus, recoverable through the fuel clause.

Resolution: The matter went to hearing and the Commission denied FPL recovery of the monies sought for the steam generator sleeving repairs.

Florida Public Service Commission, Docket No. 041272-EI: Petition for approval of storm cost recovery clause for recovery of extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan, by Progress Energy Florida, Inc.

Provided testimony on behalf of SugarMill Woods Civic Association. The testimony supported an approach that would have resulted in a sharing of prudently incurred expenses between the utility and consumers.

Resolution: The case went to full hearing and I provided testimony before the Commission

Florida Public Service Commission, Docket No. 001148-EI: Review of Florida Power & Light earnings.

As a consultant for the Office of Public Counsel, I developed direct testimony addressing the operation and maintenance expenses requested by FPL.

Resolution: The Office of Public Counsel and FPL settled the case before testimony was filed with the FPSC.

Florida Public Service Commission, Docket No. 010503-WS: Investigation of Aloha Utilities rates.

As a consultant for the Office of Public Counsel, I provided direct testimony filed with the FPSC that addressed the methodology used by Aloha Utilities to project test year water consumption.

Resolution: The case went to full hearing and I provided testimony before the Commission.

Florida Public Service Commission, Docket No. 000824-EI: Review of Florida Power Corporation Earnings.

As a consultant for the Office of Public Counsel, I provided direct testimony filed with the FPSC that addressed the prudence of the Operation and Maintenance (O&M) expenses requested by Florida Power Corporation (FPC).

Resolution: Testimony was filed with FPSC. The Office of Public Counsel and FPC settled the case before hearing.

Florida Public Service Commission, Docket No. 930001-EI: Tampa Electric fuel cost recovery case.

As an employee of the Office of Public Counsel, I assisted lead counsel with negotiations between TECO and the Office of Public Counsel. The case centered around TECO's cost recovery from consumers of fuel purchased by a TECO affiliate.

Resolution: The Office of Public Counsel and TECO settled the case before testimony was filed with the FPSC.

Florida Public Service Commission, Docket No. 920655-WS: Investigation of Southern Utilities rates.

My responsibilities as an employee of the Office of Public Counsel included providing direct testimony, assisting counsel with formulation of cross examination questions for utility witnesses, and assisting utility customers during the hearing.

Resolution: The case went to full hearing and I provided testimony before the Commission.

Florida Public Service Commission, Docket No. 920324-EI: Investigation into Tampa Electric rates.

My responsibilities as an employee of the Office of Public Counsel included providing direct testimony, assisting counsel with formulation of cross examination questions for utility witnesses, and assisting utility customers during the hearing.

Resolution: The case went to full hearing and I provided testimony before the Commission.

Florida Public Service Commission, Docket No. 910890-EI: Review of Florida Power Corporation earnings.

My responsibilities as an employee of the Office of Public Counsel included providing direct testimony, assisting counsel with formulation of cross examination questions for utility witnesses, and assisting utility customers during the hearing.

Resolution: The case went to full hearing.