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October 29, 1999

Ms. Blanca S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee FL 32399-0870

Dear Ms. Bayo:

RE: Docket No. 990007-EI

Enclosed are an original and ten copies of the rebuttal testimony of S. D. Ritenour to be filed in the above docket.

Sincerely,

A handwritten signature in blue ink that reads "Susan D. Ritenour". The signature is written in a cursive, flowing style.

Susan D. Ritenour  
Assistant Secretary and Assistant Treasurer

lw

Enclosures

cc: Beggs and Lane  
Jeffrey A. Stone, Esquire

FLORIDA PUBLIC SERVICE COMMISSION

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DIVISION OF ADMINISTRATION

DOCUMENT NUMBER-DATE

13359 NOV-1 99

REC'D-RECORDS REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Environmental Cost Recovery )  
Clause )  
\_\_\_\_\_ )

Docket No. 990007-EI

Certificate of Service

I HEREBY CERTIFY that a copy of the foregoing has been furnished  
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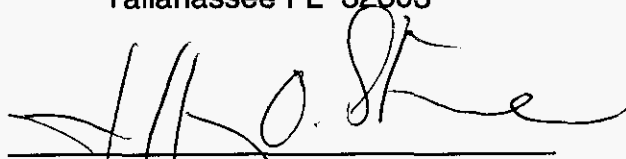
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**ORIGINAL**

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**ENVIRONMENTAL COST RECOVERY  
CLAUSE**

**DOCKET NO. 990007-EI**

**PREPARED REBUTTAL TESTIMONY  
OF  
SUSAN D. RITENOUR**

**FOR THE PROJECTION PERIOD  
JANUARY 2000 – DECEMBER 2000**

**NOVEMBER 1, 1999**



DOCUMENT NUMBER-DATE  
13359 NOV-1 99  
APP-REC'D-REPORTING

1 GULF POWER COMPANY

2 Before the Florida Public Service Commission  
3 Rebuttal Testimony of  
4 Susan D. Ritenour  
Docket No. 990007-EI  
Date of Filing: October 29, 1999

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

7 A. My name is Susan Ritenour. My business address is  
8 One Energy Place, Pensacola, Florida 32520-0780. I  
9 hold the position of Assistant Secretary and  
10 Assistant Treasurer for Gulf Power Company.

11

12 Q. Are you the same Susan Ritenour that prepared direct  
13 testimony in this docket?

14 A. Yes, I am.

15

16 Q. What is the purpose of your rebuttal testimony in  
17 this proceeding?

18 A. The purpose of my rebuttal testimony is to respond to  
19 certain assertions made in the direct testimony  
20 offered by two witnesses sponsored by the staff of  
21 the Florida Public Service Commission and one witness  
22 on behalf of the Florida Industrial Power Users Group  
23 (FIPUG).

24

1 Q. What has been your involvement with the Environmental  
2 Cost Recovery Clause (ECRC) on behalf of Gulf Power?  
3 A. I was one of Gulf's witnesses in Docket-No. 930613-EI  
4 which was docketed in response to the first petition  
5 to establish an Environmental Cost Recovery Clause  
6 pursuant to Section 366.8255, Florida Statutes. In  
7 that docket, the Commission issued Order No.  
8 PSC-94-0044-FOF-EI which, among other things,  
9 established the Commission's policy for determining  
10 which environmental compliance costs qualify for  
11 recovery through the ECRC. Since the issuance of  
12 that order, I have been one of Gulf's principal  
13 witnesses in all Commission proceedings affecting the  
14 ECRC including Docket No. 940042-EI, Docket No.  
15 950007-EI, Docket No. 960007-EI, Docket No.  
16 970007-EI, Docket No. 980007-EI and Docket No.  
17 990007-EI. As part of my professional  
18 responsibilities at Gulf, I am responsible for  
19 staying up to date on statutory requirements and  
20 Commission policies and procedures related to all of  
21 the cost recovery clauses in general and the ECRC in  
22 particular. As part of that responsibility I have  
23 been an active participant in all Commission  
24 workshops, hearings and other proceedings involving  
25 or affecting the ECRC.

1 Q. During this proceeding, an issue has been raised  
2 regarding the appropriate adjustment to the ECRC for  
3 costs being recovered through base rates. What does  
4 Section 366.8255, F.S., Environmental Cost Recovery  
5 say about this?

6 A. Paragraph (2) of the statute states: "An adjustment  
7 for the level of costs currently being recovered  
8 through base rates or other rate-adjustment clauses  
9 must be included in the filing." Further, paragraph  
10 (5) states that ". . . any costs recovered in base  
11 rates may not also be recovered in the environmental  
12 cost recovery clause."

13  
14 Q. How did the Commission ensure that this requirement  
15 was met in its policy for implementing the intent of  
16 the environmental cost recovery statute as set forth  
17 in Order No. PSC-44-0044-FOF-EI in Docket No.  
18 930613-EI (the initial order implementing ECRC cost  
19 recovery for Gulf)?

20 A. In that order, the Commission examined each  
21 environmental activity to determine if the activity  
22 was included in the 1990 test year that was the basis  
23 for Gulf's last rate case, Docket No. 891345-EI. The  
24 Commission acknowledged that the legislature intended  
25 through Section 366.8255, F.S., that utilities be



1           3.    such costs are not recovered through some  
2                    other cost recovery mechanism or through  
3                    base rates."

4           The Commission further states in Order No.  
5           PSC-94-0044-FOF-EI that ". . .we shall consider all  
6           costs associated with activities included in the test  
7           year of the utility's last rate case are being  
8           recovered in base rates unless there have been new  
9           legal environmental requirements which change the  
10          scope of previously approved activities and caused  
11          costs to change from the level included in the test  
12          year."

13                 In this fashion, as affirmed by subsequent  
14          Commission decisions in the ongoing ECRC dockets, the  
15          Commission's policy for making "[a]n adjustment for  
16          the level of costs currently being recovered through  
17          base rates or other rate-adjustment clauses" has been  
18          to determine first whether the activity proposed as  
19          qualifying for recovery through ECRC is a completely  
20          new activity since the utility's last rate case test  
21          year.  If it is a completely new activity, then it is  
22          clearly not part of the utility's base rates and  
23          therefore constitutes a "qualifying activity" (so  
24          long as it meets the other requirements in Order No.  
25          PSC-94-0044-FOF-EI related to compliance with



1 environmental laws or regulations) for which no  
2 adjustment related to the level of costs currently  
3 recovered through base rates is either necessary or  
4 appropriate. If the proposed activity is the result  
5 of a "scope change" as defined in Order No.  
6 PSC-94-0044-FOF-EI, then an adjustment for the level  
7 of costs that existed in the test year is appropriate  
8 to ensure that only the incremental cost associated  
9 with the scope change is recovered through ECRC. The  
10 manner for this type of adjustment is set forth in  
11 Order No. PSC-94-0044-FOF-EI at pages 19 and 20 under  
12 the headings "GROUNDWATER MONITORING" and "SOLID &  
13 HAZARDOUS WASTE".

14  
15 Q. Do you have any comments in response to  
16 Mr. Slemkewicz's statement that in the past, base  
17 rates were frequently revised and updated through the  
18 traditional ratemaking mechanism of the full revenue  
19 requirements rate case?

20 A. Yes. First, it should be pointed out that for many  
21 years now, adjustments of base rates through a full  
22 revenue requirements rate case have not been frequent  
23 occurrences. In Gulf's case, the last so called full  
24 revenue requirements rate case was in Docket No.

1 891345-EI. Even in that case, the revenue  
2 requirements associated with fuel and purchased power  
3 activities and the energy conservation cost recovery  
4 clause were excluded from the determination of new  
5 "base rates" that went into effect in September 1990.  
6 Prior to Docket 891345-EI, Gulf Power's last previous  
7 base rate adjustment occurred as a result of the rate  
8 case in Docket No. 840086-EI, a full five years  
9 earlier.

10 It was against this backdrop of decreasing rate  
11 case frequency that the legislature adopted Section  
12 366.8255, F.S., in 1993. In fact, the goal of  
13 minimizing the need for expensive rate case  
14 proceedings was part of the justification for  
15 providing a separate recovery mechanism for  
16 environmental compliance costs. The separate  
17 recovery mechanism allowed for utilities to recover  
18 costs driven by new environmental requirements  
19 without the regulatory lag associated with  
20 traditional rate cases. The ECRC, like the other  
21 cost recovery clauses, protects customers because  
22 only the actual costs of qualifying activities are  
23 recovered through the clause by virtue of the true-up  
24 mechanism provided for in cost recovery clauses.

1           Because the effects of costs and revenues  
2 addressed through the various cost recovery clauses  
3 (including the ECRC) are adjusted out of a utility's  
4 net operating income for surveillance purposes, the  
5 utility's earnings through "base rates" are properly  
6 isolated. The surveillance mechanism thus serves as  
7 an effective means of monitoring a utility's base  
8 rates to determine whether it is over-earning or  
9 under-earning. If a concern about the utility's  
10 earnings is identified through the surveillance  
11 process, this can trigger the type of formal review  
12 of the utility's revenues, expenses and investments  
13 that is associated with a rate case. The  
14 surveillance process has never been intended as a  
15 replacement for the review associated with a full  
16 blown rate case when such a review is ultimately  
17 determined to be necessary and appropriate.

18

19 Q. Please comment on Mr. Slemkewicz's statement that the  
20 revenues, expenses and investment at the time of the  
21 most recent revision to base rates should be used to  
22 determine whether costs are currently being recovered  
23 through base rates.

24 A. For Gulf Power, the most appropriate reference point  
25 for determining activities included in base rates

1 continues to be the 1990 test year of its last rate  
2 case, Docket No. 891345-EI. During the review  
3 process in that rate case docket, Gulf's revenues,  
4 expenses and investment were reviewed in detail by  
5 the Commission and its Staff and base rates were  
6 established using those items deemed to be  
7 appropriate for base rate recovery. The type of test  
8 year review associated with a rate case has not been  
9 undertaken for Gulf since that docket. Although Gulf  
10 recently reached an agreement with the Office of  
11 Public Counsel, Florida Industrial Power Users Group  
12 and the Coalition for Equitable Rates to reduce its  
13 base energy charge for its retail customers by .105  
14 cents per kWh, there was no detailed rate case type  
15 of analysis of revenues, expenses and investment and  
16 the associated underlying activities performed to  
17 arrive at this reduction. Instead, the agreed upon  
18 reduction was one part of a negotiated settlement  
19 that included sharing of revenues over a certain  
20 level with customers. Therefore, the best indicator  
21 of the individual environmental activities included  
22 in base rates continues to be the 1990 test year of  
23 Gulf's last rate case, in Docket No. 891345-EI.

24  
25

1 Q. Does Section 366.8255, F.S., require that  
2 environmental compliance costs be included in base  
3 rates in a subsequent rate case?

4 A. No. The language in subparagraph (5) indicates that  
5 recovery of environmental compliance costs through  
6 the ECRC does not ". . . preclude inclusion of such  
7 costs in base rates in subsequent rate proceedings,  
8 if that inclusion is necessary and appropriate."  
9 Clearly this language permits rather than requires  
10 the inclusion of environmental compliance costs in  
11 base rates in a subsequent rate case. It follows  
12 that the decision to move costs from ECRC to base  
13 rates would only occur after an explicit  
14 determination that such a move was "necessary and  
15 appropriate" after a detailed review of the facts and  
16 circumstances applicable at that time. No such  
17 review has occurred in Gulf Power's case and  
18 consequently no such determination has been made.

19  
20 Q. What would the impact be on recoverable environmental  
21 activities if the Commission adopted the year a  
22 utility's base rate energy charges were revised by  
23 stipulation as the reference point for determining  
24 costs being recovered in base rates, as  
25 Mr. Slemkewicz suggests?

1 A. There would be no change in which environmental  
2 activities are recoverable based on the logic that  
3 the Commission appropriately applied to distinguish  
4 between recoverable and non-recoverable environmental  
5 activities in Order No. PSC-94-0044-FOF-EI. As I  
6 described earlier, the Commission determined that  
7 activities included in the last reviewed base rate  
8 test year were inappropriate for ECRC recovery  
9 (unless a new legal requirement resulted in a change  
10 in scope of the activity). I refer to these as  
11 "nonqualifying" environmental costs because they do  
12 not qualify for ECRC recovery. The costs of  
13 environmental activities not included in the last  
14 reviewed base rate test year were determined by the  
15 Commission to qualify for recovery through the ECRC  
16 as long as the remaining statutory requirements were  
17 met. I refer to these as "qualifying" costs for ECRC  
18 recovery. The investment and expenses covered by  
19 base rates in the year a utility's base rate energy  
20 charges were revised by stipulation (as reflected in  
21 a utility's surveillance reports) include only  
22 non-qualifying environmental costs because all  
23 qualifying costs are appropriately being recovered  
24 through the ECRC consistent with Commission orders.  
25 For surveillance purposes, the qualifying

1 environmental costs and the revenues produced through  
2 the ECRC factors are adjusted out and are therefore  
3 not part of the utility's base rates. The same  
4 activities qualifying for ECRC recovery using a last  
5 reviewed base rate test year would qualify using an  
6 appropriately adjusted "test year" consistent with  
7 the year a utility's base rate energy charges were  
8 revised by stipulation because these activities are  
9 not reflected in base rates in either case. This  
10 leads us back to the point that in Gulf's case, the  
11 1990 test year is the most appropriate starting point  
12 for determining which environmental activities  
13 qualify for ECRC recovery because that is the last  
14 test period that has been subject to detailed rate  
15 case review.

16  
17 Q. In her testimony, staff witness Lee proposes an  
18 adjustment to the ECRC recovery amount for ECRC  
19 projects that result in the replacement of existing  
20 assets. What is your opinion regarding the proper  
21 cost recovery treatment for such investment?

22 A. The total revenue requirements associated with  
23 capital projects meeting the statutory criteria for  
24 inclusion in the ECRC should be recovered through the  
25 ECRC. Consistent with established Commission policy

1 such capital projects are new activities undertaken  
2 in order to comply with a new or expanded  
3 environmental requirement. If as a direct and  
4 exclusive result of such a regulatory requirement,  
5 existing plant that was a prudent base rate  
6 investment when placed in service becomes obsolete  
7 and must be prematurely retired, that result is  
8 irrelevant to the intent of the ECRC. The final  
9 outcome is a new activity implemented to comply with  
10 a new requirement. Consistent with Order No.  
11 PSC-94-0044-FOF-EI, all carrying costs associated  
12 with this new activity are recoverable through the  
13 ECRC. The costs associated with activities existing  
14 in the test year may go up or go down, but they are  
15 properly considered in the surveillance report, which  
16 summarizes base rate revenues, expenses and  
17 investment separate and apart from ECRC revenues,  
18 expenses, and investment.

19

20 Q. What is the impact on rate base when plant-in-service  
21 is retired?

22 A. Under the rules of utility accounting, there is no  
23 reduction in rate base when plant is retired. Both  
24 plant-in-service and accumulated depreciation are  
25 reduced by the original cost of the plant that is



1 retired. The resulting impact on net plant, and  
2 therefore rate base, is \$0. For example, assume  
3 Company A has a total rate base of \$1,000,000, made  
4 up of \$1,500,000 of plant-in-service less \$500,000 of  
5 accumulated depreciation. Further, assume that a  
6 piece of equipment with an original cost of \$100,000  
7 and related accumulated depreciation of \$40,000 is  
8 retired. Both plant-in-service and accumulated  
9 depreciation are reduced by \$100,000. Plant-in-  
10 service is now \$1,400,000 and accumulated  
11 depreciation is \$400,000, resulting in a total rate  
12 base of \$1,000,000, the same as before the  
13 retirement.

14  
15 Q. Adding to the prior example, assume that ECRC-  
16 recoverable investment of \$250,000 was made in order  
17 to comply with a new law and that the retirement of  
18 the \$100,000 equipment was a result of this  
19 compliance. How does this impact the utility's total  
20 rate base?

21 A. Plant-in-service would increase to \$1,650,000 and  
22 total rate base would be \$1,250,000. The rate base  
23 has increased by the entire amount of the new  
24 investment. The rate base has gone from \$1,000,000  
25 to \$1,250,000 after the retirement and capital

1 addition, for an increase of \$250,000. Consistent  
2 with the legislative intent behind Section 366.8255,  
3 F.S., Company A should be able to earn a return on  
4 the entire \$250,000 investment through the ECRC, not  
5 merely \$190,000 (\$250,000 less the \$60,000 net  
6 investment related to the retired equipment).  
7 Company A's rate base increased \$250,000 as a result  
8 of required compliance activities, not \$190,000.  
9 Allowing a return on only the \$190,000, as the  
10 application of Ms. Lee's testimony would suggest,  
11 clearly does not provide for the recovery of the  
12 incremental costs associated with the new compliance  
13 activity. That result would be inconsistent with the  
14 legislative intent of Section 366.8255, F.S., as  
15 recognized in Order No. PSC-94-0044-FOF-EI.

16  
17 Q. Ms. Lee suggests several options to determine the  
18 return on the retiring investment. What rate of  
19 return should be used to make adjustments to capital  
20 projects if an adjustment is deemed appropriate?

21 A. Gulf continues to believe that no adjustment is  
22 necessary or appropriate. If an adjustment is deemed  
23 appropriate, then that adjustment to revenue  
24 requirements associated with capital projects should  
25 be made using the same rate of return used in the

1 ECRC to calculate revenue requirements on approved  
2 projects. In Order No. PSC-94-0044-FOF-EI, the  
3 Commission found that the capital structure and cost  
4 rates (except for return on equity, which is based on  
5 the latest approved return) approved in Gulf's last  
6 rate case were appropriate for calculating the rate  
7 of return for the ECRC. This same rate of return  
8 should be used to make any adjustment to ECRC cost  
9 recovery amounts.

10

11 Q. Do you have any comments regarding the recommendation  
12 of FIPUG witness Taylor that there be at least three  
13 months between the filing of utility testimony and  
14 projections and the due date of intervenor testimony?

15 A. Yes. A quick review of the filing deadlines  
16 historically applied in this docket and its  
17 predecessors, as well as the other cost recovery  
18 clauses, indicates that the time frame between the  
19 filing of projection testimony and intervenor  
20 testimony has consistently been about a week. The  
21 change to a calendar year recovery period has not  
22 changed the amount of time between deadlines once the  
23 projection testimony is filed. However, the change  
24 to calendar year recovery periods does allow seven  
25 full months for review of the final true-up prior to

1 the hearings. Before the change to annual recovery  
2 periods, there were only three or four months between  
3 the final true-up filing and the hearing. If Gulf  
4 was required to file projection testimony three  
5 months earlier than is provided for under the current  
6 schedule, the quality of the data would be severely  
7 eroded. The company's budget process for the  
8 projection period has hardly begun by July 1<sup>st</sup>. The  
9 Company would be forced to use a budget that would  
10 already be almost a year old for O&M expenses and  
11 some activities could be missed altogether. This  
12 would result in additional petitions for new  
13 activities currently being considered for inclusion  
14 in the budget and ECRC. The Company is willing to  
15 abide by the current schedule. Any issue that is too  
16 complicated to be dealt with in the current schedule  
17 should be evaluated for a separate docket.

18

19 Q. Ms. Ritenour, does this conclude your testimony?

20 A. Yes, it does.

21

22

23

24

25

AFFIDAVIT

STATE OF FLORIDA     )  
                                  )  
COUNTY OF ESCAMBIA )

Docket No. 990007-EI

Before me the undersigned authority, personally appeared Susan D. Ritenour, who being first duly sworn, deposes, and says that she is the Assistant Secretary and Assistant Treasurer of Gulf Power Company, a Maine corporation, that the foregoing is true and correct to the best of her knowledge, information, and belief. She is personally known to me.

Susan D. Ritenour  
Susan D. Ritenour  
Assistant Secretary and Assistant Treasurer

Sworn to and subscribed before me this 29th day of October,  
1999.

Linda C. Webb  
Notary Public, State of Florida at Large



LINDA C. WEBB  
Notary Public-State of FL  
Comm. Exp: May 31, 2002  
Comm. No: CC 725000