

2006 ANNUAL REPORT

Florida Public Service Commission



ELECTRIC



TELECOMMUNICATIONS



WATER & WASTEWATER



NATURAL GAS

F L O R I D A P U B L I C S E R V I C E C O M M I S S I O N

2 0 0 6 A N N U A L R E P O R T

Reflecting Calendar Year 2006



CHAIRMAN'S MESSAGE

The Florida Public Service Commission plays an important role in the lives of all Floridians, regulating electric, telephone, natural gas and water and wastewater utilities. We are responsible for ensuring that customers have safe and reliable utility service at reasonable rates, protecting against fraud, and promoting the health of Florida's economy. The 2006 Annual Report describes how the Commission carries out its statutory duties in the oversight of utility services and highlights some of the year's significant regulatory efforts.

The impacts of the 2004 and 2005 hurricane seasons and the increasing demand for energy dominated the Commission's activities in 2006. Provided by Florida law, utilities continue to seek recovery of costs associated with certain storm-related expenses. To minimize the damage from future storms and protect consumers from the impacts of storm related outages, the Commission has identified and implemented measures to strengthen critical electric infrastructure to withstand extreme weather conditions.

The Commission also remains focused on the need to protect ratepayers while promoting investment in Florida's energy future. Population and economic growth are increasing the demand for power. With more than 17 million citizens and nearly 1,000 new residents arriving daily, the state's electric consumption is expected to increase by close to 30 percent over the next decade. As directed by the Florida Legislature, the Commission continues to encourage increased use of renewable generation and development of viable energy sources, furthering greater energy and economic security for Florida.

I look forward to exploring the possibilities in the year ahead as we strive to make Florida an even better place for us all to live.

Sincerely,

A handwritten signature in black ink that reads "Lisa Polak Edgar".

Lisa Polak Edgar
Chairman

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Introduction

Information Directory

The Florida Public Service Commission (FPSC) is an agency whose operations directly affect the public. The FPSC welcomes your requests for information about utility regulation or utility-related matters that may concern you. Inquiries may be made in writing to the address below or by telephone, e-mail, or toll-free fax.

Florida Public Service Commission
2540 Shumard Oak Boulevard ◆ Tallahassee, Florida 32399-0850
Toll-Free: 1-800-342-3552 (Nationwide)
Toll-Free Fax: 1-800-511-0809 (Florida)

E-mail address: contact@psc.state.fl.us
Internet home page: www.floridapsc.com

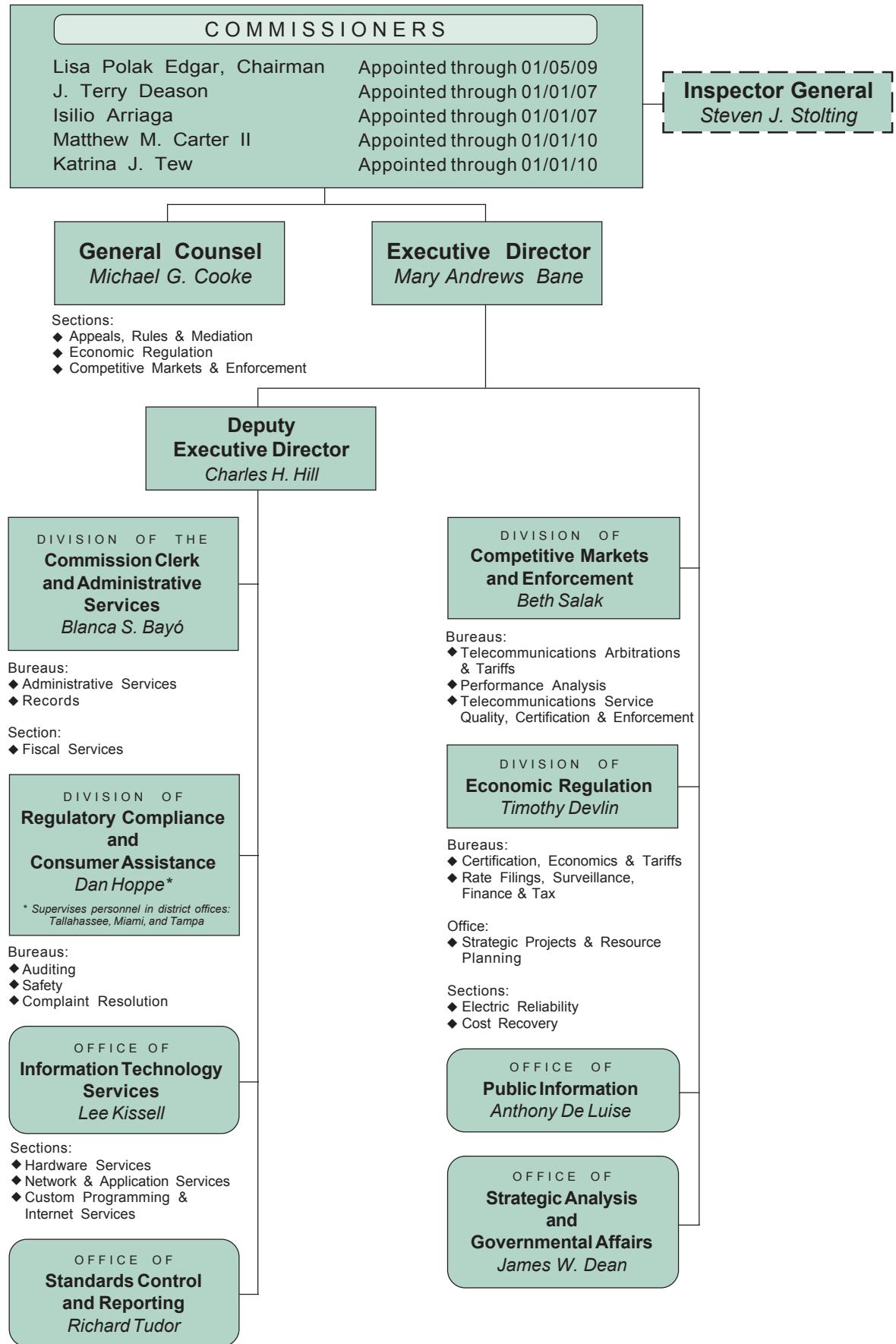
(Detailed telephone contact information is available at
<http://www.floridapsc.com/about/contact/phonedirectory.aspx>.)

District Offices

Miami 3625 N.W. 82nd Ave., Suite 400 Miami, Florida 33166-7602 (305) 470-5600	Tampa 4950 W. Kennedy Blvd., Suite 310 Tampa, Florida 33609 (813) 356-1444
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FPSC Organizational Chart

AS OF DECEMBER 31, 2006



The Commissioners



COMMISSIONER
Matthew M. Carter II
(01/06 - 01/10)



COMMISSIONER
J. Terry Deason
(02/91 - 01/07)



CHAIRMAN
Lisa Polak Edgar
(01/05 - 01/09)



COMMISSIONER
Isilio Arriaga
(10/05 - 01/07)



COMMISSIONER
Katrina J. Tew
(01/06 - 01/10)

Lisa Polak Edgar was appointed to the Florida Public Service Commission by Governor Jeb Bush for a four-year term beginning January 2005; she assumed the chairmanship at the PSC in January 2006. Chairman Edgar is a member of the National Association of Regulatory Utility Commissioners telecommunications committee and was appointed by the Federal Communications Commission to the Universal Service Joint Board for a three-year term beginning November 2005.

Prior to her appointment, Chairman Edgar served as Deputy Secretary for Planning and Management for the Florida Department of Environmental Protection (DEP) from August 1999 through January 2005. Her responsibilities at DEP included oversight of the agency's \$2.1 billion budget, fiscal and strategic planning, accountability measures, information technology, administrative services, and coordination between the state and federal government on environmental issues, including oil and gas drilling on the Outer Continental Shelf. Prior to serving at DEP, Chairman Edgar was chief analyst on Environmental Policy for the Office of Policy and Budget, Executive Office of the Governor. Chairman Edgar was appointed by the Secretary of the U.S. Department of Interior to represent the State of Florida on the Minerals Management Service Outer Continental Shelf (OCS) Policy Committee from 1993-2004. She served on the Subcommittees on Environmental Studies in OCS Areas under Moratoria and OCS Hard Minerals.

During her career in public service, Chairman Edgar has also served as senior cabinet aide in the Department of Agriculture and Consumer Services, as staff counsel and legislative analyst for the Florida Senate Committees on Reapportionment and Regulated Industries, completed the Harvard Kennedy School of Government program for Senior Executives in State and Local Government, and co-taught a special topics graduate course on the Everglades at Florida A&M University. She is a member of Leadership Florida, Class XXIV.

Chairman Edgar graduated cum laude from Florida State University in 1985 with a Bachelor's degree in political science and minor in English. She studied in London during her undergraduate education and in Yugoslavia during law school. She received a juris doctorate from the Florida State University College of Law in 1988 and is a member of the Florida Bar.

J. Terry Deason was first appointed to the Commission by the Florida Public Service Commission Nominating Council in January 1991 for a term ending in January 1995. He was subsequently reappointed by the late Governor Lawton Chiles for a term ending in January 1999. Commissioner Deason was then reappointed by Governor Jeb Bush to a term ending in January 2003, and to his current term which ends in January 2007. Commissioner Deason has served as Chairman of the Commission on two occasions, from January 1993 to January 1995, and from July 2000 to January 2001.

Commissioner Deason is an active member of the National Association of Regulatory Utility Commissioners (NARUC). He currently serves on NARUC's Board of Directors, Committee on Electricity, the Federal/State Joint Conference on Accounting, and the Federal/State Joint Board on Economic Dispatch for the Southern Region. Commissioner Deason also serves on the executive committee for the Nuclear Waste Strategy Coalition. Prior to his appointment, he served as Chief Regulatory Analyst in the Office of Public Counsel. In that capacity, he was responsible for the coordination of accounting and financial analysis used by the Public Counsel in cases before the Public Service Commission, presented testimony as an expert witness, and consulted with the Public Counsel on technical issues and ratemaking policies concerning regulated utilities in the State of Florida.

From 1981 to 1987, Commissioner Deason served as Executive Assistant to PSC Commissioner Gerald L. Gunter, during which time he reviewed and analyzed staff recommendations and advised the Commissioner on those recommendations and other pertinent policy determinations. From 1977 to 1981, he served as a Legislative Analyst with the Office of Public Counsel. He attended the U.S. Military Academy at West Point, and in 1975 received his bachelor of science degree in accounting, summa cum laude, from Florida State University. He also received his master of accounting degree from FSU in 1989.

Continued

The Commissioners

Continued from page 3

Isilio Arriaga was appointed to the Florida Public Service Commission by Governor Jeb Bush on October 6, 2005, to complete a term ending January 2007, then subsequently reappointed to a four year term beginning January 2007.

Prior to his appointment, Commissioner Arriaga was an independent management consultant for Ferrell Schultz Consulting, Inc. in Miami, Florida. Previously, he served as President and CEO of the Greater Miami Chamber of Commerce, where he continues as a Volunteer Trustee, and was active on the Board of Directors of the Venezuelan-American Chamber and the Council of Bi-National Chambers. Before his tenure with the Chamber, he was President and CEO of Hispanic Unity of Florida, a growing social services agency assisting over 30,000 clients in South Florida and whose mission is improving the quality of life and fostering leadership in the community.

Arriaga served as a Congressman in the Republic of Venezuela from 1988 until 1993, where he co-sponsored the first Privatization Law in the nation and helped enact the Low Income Housing Appropriations legislation. During that time, he was a founding member of the World Economic Forum in Switzerland and was appointed to the committee created upon recommendation by the IMF for the purpose of reforming the financial system of Venezuela.

His career in Venezuela began in the oil fields as a Junior Engineer for Shell Oil Co. He went on to create the Planning Office and Long Term Industrial Loans Department for Banco Union, where he served as General Manager for Investments. Following his public service and while residing in Texas, he formed an international consulting firm and worked with U.S. entities, promoting new business development as a strong advocate for U.S. enterprises in Latin America. He served as a consultant in Miami responsible for the reengineering process of a corporation which pioneered digital functions for ATM networks.

Arriaga received a Master's degree in Industrial Engineering from New York University and holds a Bachelor's degree from Pratt Institute (NY). He has published numerous articles and essays on economics and was a syndicated columnist in Venezuela. He currently serves on the NARUC's Committee on Electricity and Committee on International Relations as well as the Department of Energy/National Association of Regulatory Utility Commissioners Utilities Market Access Partnership (UMAP) Board of Directors.

Commissioner Matthew Mark Carter II was appointed to the Florida Public Service Commission by Governor Jeb Bush for a four-year term beginning January 2006.

Commissioner Carter serves on the National Association of Regulatory Utility Commissioners (NARUC) Committee on Water, the Committee on International Relations, and the Ad Hoc Committee on Critical Infrastructure. Commissioner Carter sought appointment to the Committee on Water in particular because he recognizes the stress that Florida's rapid population growth is placing on existing water resources, and the important role water and wastewater utility regulation will have on the development of future conservation efforts and water supply alternatives in Florida, as well as the health and economic vitality of the State. Commissioner Carter hopes to foster an open dialogue concerning water policies in the State with an aim toward maximizing the effectiveness of partnerships between various state agencies having regulatory jurisdiction over water use.

Commissioner Carter is the son of the late Rev. Matthew and Pearl Carter. He was born in Douglas, Georgia and educated in the public schools there. He graduated from Atkinson County High School (in Pearson). After graduation from high school, he volunteered for the United States Army. In the Army, he served in the Presidential Honor Guard in Washington, D.C. and the First Armored Division in Germany.

After being honorably discharged from the Army, Commissioner Carter attended Tallahassee Community College where he graduated with honors. He then attended Florida State University and graduated with a Bachelor's of Science in Mass Communications and was commissioned a Second Lieutenant in the United States Army Reserve and later the Florida National Guard.

After a tour of duty with the 124th Infantry in the Panama Canal Zone, Commissioner Carter returned to Tallahassee where he set up a public relations firm concentrating on political campaigns for over ten years. Afterward, he entered into the financial investment industry and worked as a financial consultant for Waddell & Reed, Florida Professional Services Group, and Merrill Lynch.

Commissioner Carter left Merrill Lynch to complete law school at the Florida State University College of Law. After graduation, he became a member of the Florida Bar and a Minister of the Gospel of Jesus Christ. As an attorney, he specialized in business law. He also served as a communications consultant and senior manager for private industry and governmental agencies.

Continued

The Commissioners

Continued from page 4

Commissioner Carter obtained a Master's degree in Theological Science from Smith Chapel Bible College and was awarded an honorary Doctor of Divinity degree from the St. Thomas Christian College. Commissioner Carter is currently pastor of the Beulah Hill Missionary Baptist Church in Gretna, Florida, where he also serves as President of the Congress of Christian Education (Union Baptist Association) and Vice Moderator for the Gadsden County Baptist Association. He has also written the book *The 90% Rule – How to Get Out of Debt and Prosper and Why It's Important*.

Commissioner Carter is married to the former Rita Taylor (of Enigma, Georgia) and they have two beautiful daughters: Pearl and Markesha.

Katrina J. Tew was appointed to the Florida Public Service Commission by Governor Jeb Bush for a four-year term beginning January 2006.

Commissioner Tew serves on the National Association of Regulatory Utility Commissioners (NARUC) Committee on Consumer Affairs, the Subcommittee on Nuclear Issues – Waste Disposal, and the Task Force on Net Neutrality. Participation in these committees affords Commissioner Tew the opportunity to engage in national policy issues that impact each of the industries regulated by the Commission, the state economy, and millions of Florida consumers.

Commissioner Tew has extensive experience in regulatory policy issues involving energy, water, and telecommunications. In the eleven years prior to appointment, Commissioner Tew used her interdisciplinary core competencies in leadership roles on numerous technical and complex matters before the Florida Public Service Commission.

Most recently, Commissioner Tew served consecutive terms as Chief Advisor to two different Florida Public Service Commissioners: Commissioner Charles M. Davidson (2003-2005) and Commissioner Michael A. Palecki (2001-2003). In this role, Commissioner Tew advised the commissioners on technical regulatory matters, financial methodologies, and an array of public policy issues in the areas of energy, communications, and water and wastewater.

Prior to becoming a Chief Advisor, Commissioner Tew managed the State Liaison Section of the Commission's Division of Policy Analysis & Intergovernmental Liaison. Here, she consulted with state and local government agencies on utility-related policy issues of common interest, such as "black water," reuse, universal service, and electric reliability.

For over three years prior to leading the State Liaison Section, Commissioner Tew served as the Commission's primary liaison on all nuclear energy matters. Commissioner Tew pursued nuclear waste reform through all plausible avenues - Congressional legislation, federal agency action, and litigation. Working with NARUC and the Nuclear Waste Strategy Coalition (an organization of state commissions, state consumer advocates, state attorneys general, and the nuclear industry), she sought the timely removal of nuclear waste from the state's two largest electric utilities, an undertaking financed by Florida's electric consumers. Additionally, Commissioner Tew was instrumental in drafting the Commission's positions on electric industry restructuring, which provided valuable input to Florida's Congressional delegation on how restructuring proposals would impact the state and its electric consumers. Commissioner Tew's experience in the electric area began in 1994 with a concentration in environmental and fuel cost recovery issues and territorial agreements and disputes.

Since 2001, Commissioner Tew has also been involved in policy formulation related to a multitude of communications matters such as unbundled network element pricing, implementation of the FCC's Triennial Review decisions, universal service, and Lifeline, all of which are impacting and being impacted by a changing competitive landscape. Commissioner Tew's work has afforded her the opportunity to develop a fluency in issues of advanced communications policy, especially those surrounding broadband, wireless, Voice over Internet Protocol (VoIP), and emerging technologies such as broadband over power lines (BPL).

Commissioner Tew was a recipient of the Florida Public Service Commission Extraordinary Accomplishment Award in 1999 and the Florida Public Service Commission Outstanding Achievement Award in 1997, both in recognition of her work on federal energy policy.

A North Florida native, Commissioner Tew graduated from Chipley High School. In 1994, she received a Bachelor's degree in finance from Florida State University, followed by a Master of Business Administration degree from Florida State University in 1998.

Executive Management



EXECUTIVE DIRECTOR **Mary Andrews Bane**

The Executive Director is, essentially, the chief of staff of the Commission with responsibility for directing, planning, and administering the overall activities of the Commission staff, except the Office of the General Counsel. She consults with and advises the Commissioners on regulatory, internal management, and budgetary matters and acts as an interagency liaison. Reporting directly to her are the Deputy Executive Director and the directors of the Division of Competitive Markets and Enforcement, the Division of Economic Regulation, the Office of Public Information, and the Office of Strategic Analysis and Governmental Affairs.



DEPUTY EXECUTIVE DIRECTOR **Charles H. Hill**

The Deputy Executive Director assists the Executive Director in providing direction and leadership for the staff and is delegated full authority in her absence. He has direct line authority over the Division of the Commission Clerk and Administrative Services, the Division of Regulatory Compliance and Consumer Assistance, the Office of Information Technology Services, and the Office of Standards Control and Reporting.



GENERAL COUNSEL **Michael G. Cooke**

The General Counsel is the Florida Public Service Commission's chief legal counsel. He supervises the FPSC's legal personnel and is charged with the administration and delegation of responsibilities to the lead attorneys in his office. The General Counsel also is responsible for advising the FPSC on the legal aspects of its regulatory responsibilities, providing legal representation in court and before federal agencies, providing legal counsel to the Office of the Executive Director, and assisting in interagency liaison activities.

II

Defining the FPSC's Role

MISSION STATEMENT:

Customers are served best by markets that facilitate the efficient provision of safe and reliable utility services at fair prices. The mission of the Florida Public Service Commission is to promote the development of competitive markets – as directed by state and federal law – by removing regulatory barriers to competition, and by emphasizing incentive-based approaches, where feasible, to regulate areas that remain subject to rate of return regulation. Once markets become sufficiently competitive, the Florida Public Service Commission will eliminate regulatory involvement to the extent permitted by law.

The work of the Florida Public Service Commission is a balancing act. The Commission must balance the needs of a utility and its shareholders with the needs of consumers. Traditionally, the Commission achieved this goal by establishing exclusive utility service territories, regulating the rates and profits of a utility, and requiring the utility to provide service to all who requested it. For electric and water customers in the state, many of the Commission's traditional methods for achieving the balance continue today. Legislative action during the 1995 session to open up the local telephone market to increased competition, however, has required the Commission to facilitate entry of new firms into the local telephone market, while at the same time ensuring that neither the new entrant nor the incumbent local exchange company is unfairly advantaged or disadvantaged. Section 364.01(4), F.S., calls for the Commission to exercise its jurisdiction to encourage and promote competition.

The Commission has quasi-legislative and quasi-judicial responsibilities, as well as some executive powers and duties. In its quasi-legislative capacity, the FPSC makes rules governing utility operations. In its quasi-judicial capacity, the FPSC hears and decides complaints, issues written orders similar to court orders, and may have its decisions appealed to the 1st District Court of Appeals and the Florida Supreme Court. As an executive agency, the FPSC enforces state laws affecting the utility industries.

The Florida Public Service Commission is committed to making sure that Florida's consumers receive some of their most essential services — electric, natural gas, telephone, water, and wastewater — in a safe, affordable, and reliable manner. In doing so, the FPSC exercises regulatory authority over utilities in one or more of three key areas: rate base/economic regulation; competitive market oversight; and monitoring of safety, reliability, and service issues. Those areas are briefly described as follows:



The mandate to the FPSC is to make decisions in the public interest, balancing the needs of consumers for reliable, safe services at fair prices with the needs of a utility to recover reasonable expenses and earn a fair return on its investment.

- ◆ Rate base/economic regulation involves analyzing requested rate changes and conducting earnings surveillance to ensure that regulated utilities are not exceeding their authorized rates of return.
- ◆ Competitive market oversight entails facilitating the development of competitive markets and issues associated with them.
- ◆ Safety, reliability, and service monitoring promotes an uninterrupted supply of utility services to the general public, and confirms that such services are provided in a reasonable and timely manner with minimal risks.

In each of these areas, the Commission provides consumer assistance, protection, and education, which includes responding to consumer questions and complaints and distributing information about using utility services.

A more detailed description of the FPSC's role in these three key areas follows.

Rate Base / Economic Regulation

The FPSC establishes and monitors earnings levels for regulated electric, natural gas, water, and wastewater companies. In addition, there is one telephone company under rate-of-return regulation. Whenever a company believes that its earnings are below a reasonable level, it can petition the FPSC for a change in rates. The FPSC conducts an extensive review of the company's earnings and determines what the fair levels of rates and earnings are for the company. The review analyzes the company's books and records in order to determine a reasonable rate of return. The review also includes an analysis of the actual rates charged by the company, allocates revenue requirements between classes of customers, and develops appropriate rate structures within rate classes.

In addition to reviewing a company's request for a rate increase, the FPSC also monitors each company's earnings levels to reduce the likelihood that any company receives excessive earnings. Each company files an annual report which is reviewed to determine its level of earnings for the prior year. If, based on prior year earnings, a company's earnings appear to be excessive for the following year, the FPSC fully analyzes that company's books and records and, when appropriate, reduces its rates. The FPSC may place earnings subject to refund if the review indicates the company is overearning.

Energy

In addition to annual reports, the investor-owned electric and natural gas companies also file earnings information quarterly, semi-annually, or monthly, depending upon their size. These more frequent filings allow the FPSC to take quicker action to allow consumers' rates to be reset if it appears that a company may be overearning.

Annually, the FPSC critically reviews fuel, capacity, conservation, and environmental costs incurred by the utilities and authorizes recovery of the prudently incurred expenses. Other areas of economic regulatory action for the energy industry include special contracts, new tariff offerings, conservation program approvals and revisions, depreciation, amortization, and decommissioning studies.

Water and Wastewater

In the water and wastewater industries, the FPSC processes a significant number of rate related cases. The majority of these cases involve rate increases or limited-proceeding increases rising from the increased costs of providing service. A smaller number of cases involve overearnings investigations in which the FPSC determines whether reducing rates is necessary.

The Commission also processes requests related to certification. The majority of these cases involve the transfer or amendment of certificates of authorization. A smaller number of cases involve the original certification of a new utility. In certification cases, the Commission issues certificates and sets initial rates and charges for new utilities; transfers or amends existing certificates; acknowledges abandonments and appoints receivers; and cancels certificates for systems transferred to exempt entities.

The issue of reuse (using effluent water for a beneficial purpose, such as irrigation) has significant implications in the area of rate base/economic regulation. The Legislature has recognized the benefit of reuse to Florida and has enacted provisions in the governing statutes for the Florida Department of Environmental Protection (DEP), the five Water Management Districts (WMD) and wastewater utilities to employ reuse as a means of effluent disposal and as a method of water conservation. The FPSC's charge is to identify reuse issues related to its jurisdiction and to establish policies that are consistent with these statewide goals. In meeting this charge, FPSC staff participates on a Reuse Coordinating Committee along with staff from the DEP, the Water Management Districts, the Florida Department of Agriculture and Consumer Services, the Florida Department of Health, and the Florida Department of Transportation.

Water conservation is another area with major economic implications. As an economic regulator, the FPSC is actively involved in demand-side water conservation through rate level and rate structure review. Rates and rate structure have a direct bearing on water usage and, therefore, water resource allocation. The FPSC has a Memorandum of Understanding with the DEP and the five WMDs in order to coordinate efforts to advance statewide water quality and meet statewide conservation goals. Both agencies are frequently called upon to testify on water quality and conservation issues in rate cases before the FPSC. Whenever feasible, the FPSC allows utilities to recover expenses related to conservation programs, and establishes conservation rates to reduce water consumption.



The Florida PSC, the Department of Environmental Protection, and the five Water Management Districts are coordinating efforts to meet statewide conservation goals.



Contractors use "purple pipes" when installing a system for effluent water reuse. The pipes, valves, and outlets are color coded so utility personnel can easily identify what type of liquid is inside the pipe.



The FPSC has been reviewing both existing and emerging Internet access technology and backbone infrastructure.

Competitive Market Oversight

The FPSC is addressing competitive market structure and regulatory issues in industries that were traditionally considered monopolies but are now transitioning into competitive markets. New technologies and customer choice are two catalysts for the change to competition. The advent of innovative technologies allows new market entrants and opportunities for established regulated companies. In addition, customers may benefit from increased competition by having more options for choosing services. As we transition from monopoly to the competitive provision of utility services, the FPSC must ensure that regulatory barriers are removed and that customers continue to receive quality service.

In the telecommunications industry, a key focus of the FPSC has been facilitating the development of competition in the local telephone market. This focus has included arbitrating agreements between incumbent local exchange companies (ILECs) and competitive local exchange companies (CLECs) when negotiations fail. The FPSC is also active in monitoring and assessing the status of local competition, processing negotiated agreements, interpreting agreements and tariffs, providing input on legislative and Federal Communications Commission (FCC) initiatives, and conducting generic proceedings to implement approved initiatives and to address recurring issues.

The FPSC has numerous other responsibilities related to competitive market oversight in the telecommunications industry. Reviews of industry practices are regularly conducted to determine whether entities are engaging in practices that could dampen the development of competition. Other major areas involve processing area code relief cases and providing oversight of numbering resources.

The FPSC has been reviewing both existing and emerging Internet access technology and backbone infrastructure. In doing so, the FPSC recognizes the blurring distinction between the traditional telephone network and the data transmission networks. The FPSC has worked to identify the different technologies involved, assess the direction of those technologies, analyze pricing differences between voice and data networks, and determine what, if any, policy actions the FPSC should consider.

Also, the FPSC is responsible for reviewing and maintaining the retail tariffs or price lists filed by the telecommunications companies and is also responsible for setting certain wholesale prices such as for ILEC unbundled network elements used by CLECs to provide service. In addition, the FPSC establishes reciprocal compensation policies to guide the compensation to companies which terminate local traffic from other companies.

Another critical aspect of competitive market oversight in the telecommunications industry is the certification process. Most telecommunications companies doing business in Florida are required to be certificated by the FPSC. However, certain

changes made to Chapter 364, Florida Statutes, in 2003, eliminated the requirement for intrastate interexchange companies (IXCs) to obtain certification from the Commission. IXCs are, nevertheless, still required to register with the Commission, file tariffs, provide a point of contact for the company, and pay regulatory assessment fees.

Reliability, Safety, and Service Issues

Through performance and operations investigations, the FPSC obtains information on reliability, service quality, and service availability for review and enforcement.

Energy

Reliability

In the electric industry, the FPSC reviews regulated utilities' ten-year site plans to assess the utilities' abilities to meet Florida's energy needs over a ten-year planning horizon. The FPSC also considers petitions for the determination of need for electric power plants and transmission lines to ensure that there will be adequate generation and transmission facilities to meet the state's power needs.

The FPSC also participates in formal and informal proceedings relating to long-range electric utility bulk power supply operations and planning; power plant and transmission line siting; electric and natural gas safety and service quality, including complaints; electric utility conservation goals and programs; and emergencies due to operational events or weather.

Electric Safety

The FPSC is statutorily responsible for electric safety. The Commission, by rule, has adopted the National Electrical Safety Code as the applicable safety standard for transmission and distribution facilities subject to the FPSC's safety jurisdiction. In addition, the rule sets requirements for accident reporting, quarterly utility compliance reports, and random FPSC inspections of facilities. Electric safety engineers inspect utility electric transmission and distribution construction sites that are randomly selected from utility work orders. Any variances from the National Electrical Safety Code that are found are later inspected again to verify that the code variances have been corrected.

Natural Gas Pipeline Safety

Safety compliance evaluations are conducted annually on all natural gas systems. These evaluations focus primarily on corrosion control, leak surveys, leak repairs, emergency response, drug testing, employee training, employee qualification, maintenance, operation, and new construction. Also, Commission staff supports and assists the state's Emergency Operation Center in energy related matters.

The Commission's gas safety staff evaluates natural gas systems covering thousands of miles of pipeline and customer service lines. These evaluations



The Commission's gas safety staff evaluates natural gas systems, covering thousands of miles of pipeline and customer service lines.

generally result in issuing written notifications of gas safety violations ranging from failure to repair gas leaks and failure to odorize natural gas to not using qualified welders. All violations must be corrected or scheduled for corrective action pursuant to the Commission's enforcement procedures.

On March 14, 2005, the Federal Communications Commission designated the 811 code as the national abbreviated dialing code to be used by state One Call notification systems for providing advance notice of excavation activities to underground facility operators. The Order stated that the 811 abbreviated dialing code will be deployed ubiquitously by April 13, 2007 by carriers throughout the United States for use by all telecommunications carriers, including wireline, wireless, and payphone service providers that provide access to state One Call Centers. By Order dated December 20, 2006, the FPSC required Florida carriers to cease using 811 for commercial services by February 14, 2007 and make their switches available and operational for 811 access by March 15, 2007.

Telecommunications

In the telecommunications industry, the FPSC monitors telephone safety through inspection of the local telephone companies' central offices and outside facilities for compliance with the National Electrical Safety Code and the National Electric Code. This monitoring is done to ensure the safety of the companies' workers as well as customers.

Network reliability is monitored through call completion tests and service outage reports from the local telephone companies. Service quality is monitored through inspections of the local telephone companies' installation and repair records, billing accuracy tests, and pay telephone inspections. During pay telephone evaluations, access to 911 and the accuracy of the pay telephone address are verified.

Water and Wastewater

In the water and wastewater industries, the FPSC oversees quality-of-service issues such as water pressure and capacity. When a consumer complaint regarding water and/or wastewater quality of service is received, a staff engineer is assigned to work with the consumer and utility personnel to determine the cause of the concern.

Service quality issues are also addressed when a utility files an application for a rate change. The FPSC conducts customer meetings or service hearings as a part of the rate case process. Consumers' comments at these meetings typically include service quality issues. Staff is assigned to review consumer concerns and work with the utility to resolve service issues. In some cases, a complaint may result from possible violations of Department of Environmental Protection (DEP) public health rules. In these cases, FPSC staff works with the DEP to resolve the issue.

Consumer Assistance, Protection, and Education

The FPSC is committed to providing effective consumer assistance, protection, and education. The FPSC's consumer information program addresses important consumer issues and educates the public about the changing regulatory environment.

While the FPSC manages the transition to more competitive markets, the agency also continues to ensure that customers receive safe, reliable utility service, particularly through its enforcement efforts. The enforcement function is a pivotal component of the FPSC's consumer protection mandate. The agency monitors the offerings by utility providers and guides consumers through anticipated changes so they receive the best service and rates for their needs.

The FPSC participates in a variety of outreach events such as consumer forums, community meetings, customer meetings and hearings, and develops consumer publications and presentations. The FPSC continues to improve its outreach methods to provide access to information, such as electronic access, so that consumers have accurate and understandable information to make informed decisions about utility services.

The telecommunications industry continues to change at a rapid pace. Innovative technologies, market structure changes, and demand changes have all contributed to the industry's transformation, causing an increase in the number of telecommunications companies offering services, and the number and types of service offerings in local markets. Where consumers once had to deal with just a local telephone company and a long distance carrier, they now have to deal with such entities as competitive local exchange companies, operator service providers, billing agents, equipment vendors, and private owners of pay telephones. With these service providers and the emergence of competition from unregulated service providers, the FPSC serves an important role in resolving service quality issues and in implementing policies that promote competition, universal service, and technological advancement.

Although the statutes governing the FPSC's electric and natural gas responsibilities have not materially changed in recent years, specific consumer concerns are a growing focus as these industries address concerns such as fuel cost volatility and hurricane damage. Further, the FPSC has a statutory obligation to protect the consumer by ensuring safety compliance and is responsible for providing assistance in addressing consumers' service quality concerns.

Another aspect of consumer assistance relates to customer issues such as billing. The FPSC assists consumers with analyzing their utility bills and verifying the accuracy of charges.



Service hearings are held by the FPSC in a utility's territory so consumers can participate and comment on the case.



The FPSC handles complaints and inquiries related to such issues as service reliability, billing accuracy, service requests, and safety standard compliance.

The FPSC intends that disputes between regulated companies and their customers be resolved in a fair and efficient manner. The Commission's Transfer Connect system is one way it resolves a portion of the consumer complaints the Commission receives. When a consumer calls the FPSC's toll-free telephone number (1-800-342-3552) with a question or a complaint regarding utility services, a FPSC staff member, with the customer's approval, will transfer the call directly to the utility for its handling. Once the consumer's call is transferred, the utility pays for the call until completion. Each company that subscribes to Transfer Connect must provide live customer service personnel to handle the transferred calls. Consumers benefit when they can have all of their needs met with a single toll-free call. The Transfer Connect option also enables FPSC staff to consult with a utility representative and pass on information about the caller without the caller needing to repeat the information.

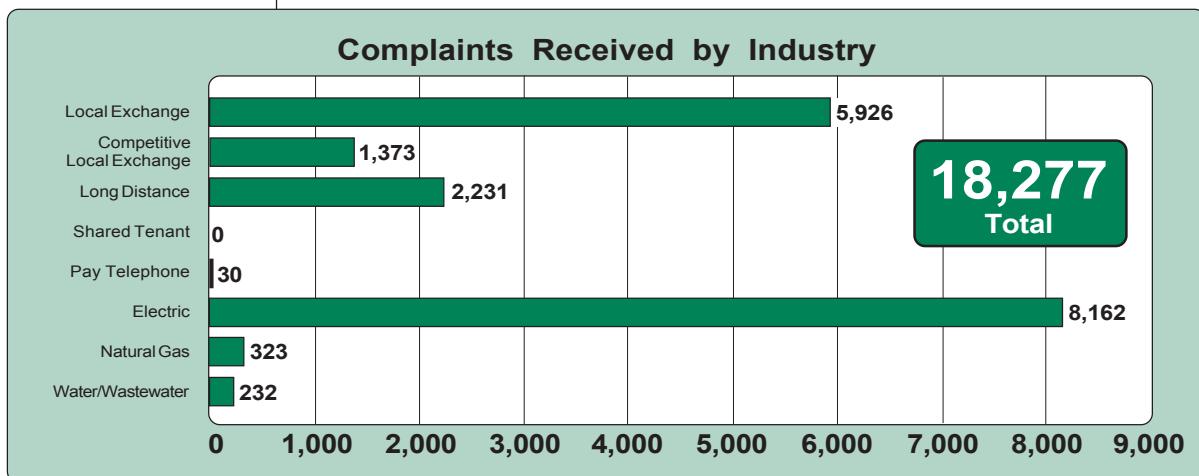
Complaint Activity

Consumer complaints are resolved by investigating the facts and circumstances of the case with the customer and the company. In addition, service provision issues, along with applicable statutes, rules, and tariffs, are reviewed for compliance.

There are a variety of ways consumers may contact the FPSC to file complaints or inquire about any regulated utility company:

- ◆ Calling toll-free at 1-800-342-3552;
- ◆ Faxing toll-free at 1-800-511-0809;
- ◆ Mailing inquiries to the Florida Public Service Commission, Division of Regulatory Compliance and Consumer Assistance, 2540 Shumard Oak Boulevard, Tallahassee, FL 32399-0850;
- ◆ E-mailing contact@psc.state.fl.us; or
- ◆ Visiting the FPSC's Web site at www.floridapsc.com and completing an online complaint form.

During 2006, there were over 18,000 complaints logged with the FPSC against utility companies. The following chart identifies those complaints received by industry.



Consumer Education

Consumers are an important focus of all aspects of the regulatory and competitive process and the Public Service Commission is aware of the importance of public involvement in decisions that affect utility companies and their consumers. Explaining the complex rate structure and services of electricity, natural gas, telephone, and water and wastewater companies regulated by the FPSC has become even more challenging in recent years. The FPSC has implemented several measures to include public input in its proceedings. Public involvement may include consumers' receipt of notices about FPSC activities, appearances at public meetings, and formal participation in utility rate cases.

The FPSC's consumer education program has several operational goals:

- (1) to disseminate information about regulatory matters to consumers;
- (2) to establish the FPSC's presence and increase its visibility as a consumer education agent; and
- (3) to maintain an outreach plan for consumers attending FPSC meetings, hearings, community meetings, and workshops held across the state.

One of the Commission's consumer education programs that has proven to be effective is the Library Outreach program. In this ongoing program, the Commission provides more than 280 public libraries and branches across the state with publications highlighting practical energy and water conservation measures. A survey is sent periodically to obtain regular feedback from library administrators about this program and they have been very supportive of this program.

The Commission also uses the Internet to inform and educate Florida's consumers. The FPSC's home page, located at www.floridapsc.com, is continually being improved to make the site more consumer friendly and easier to navigate. Consumers visiting the Web site will find a wealth of information about the industries the Commission regulates and about the specific issues before the FPSC. Press releases and electronic versions of most FPSC publications are available online. In addition, consumers are able to file online complaints and inquiries about their utility services. Commission events, such as Internal Affairs meetings, Agenda conferences, workshops, and hearings are frequently accessible online as live video and/or audio broadcasts.

To assist Florida legislators and other government officials whose constituents may be affected by a specific case before the FPSC, the Commission produces a report called the Florida Public Service Commission Bulletin. The Bulletin provides a case background and helps legislators and other government officials answer inquiries from their constituents.

FPSC Commissioners and/or staff also attend customer hearings and/or meetings held in conjunction with cases. For each hearing or meeting, a FPSC Special Report is prepared to give to consumers. This report provides information about a case that is being considered and encourages consumer par-

ticipation. Other FPSC publications such as Save Money on Your Local Phone Service: Link-Up Florida & Lifeline Assistance Program and How to Prevent Slamming are also available for consumers to read at each hearing or meeting. At such events, FPSC employees are available to provide additional information and to answer questions from consumers.

The FPSC has produced a number of brochures and flyers designed to help consumers become more knowledgeable about their rights and options as users of utility services. Brochures are available, upon request, to consumers who contact the FPSC and can also be read on the agency's Web site.



HIGHLIGHTS OF THE

FPSC's Regulatory Efforts for Calendar Year 2006

In 2006, the FPSC regulated five investor-owned electric companies, seven investor-owned natural gas utilities, and more than 180 investor-owned water and/or wastewater utilities. The FPSC also has regulatory authority over one rate-base-regulated telephone company and competitive market oversight for more than 1,360 telecommunications companies in the state of Florida.

The number of certificated telecommunications companies or registered interexchange companies as of December 2006, was as follows:

- ◆ 10 incumbent local exchange companies (ILECs);
- ◆ 373 competitive local exchange companies (CLECs);
- ◆ 629 interexchange companies (IXCs);
- ◆ 291 pay telephone service companies (PATs);
- ◆ 35 alternative access vendors (AAVs); and
- ◆ 31 shared tenant service providers (STS)

While the FPSC does not fully regulate publicly owned, municipal, or cooperative utilities, the Commission does have jurisdiction, with regard to rate structure, territorial boundaries, bulk power supply operations and planning, over 34 municipally owned electric systems and 18 rural electric cooperatives. The FPSC also has jurisdiction, with regard to territorial boundaries and safety, over 27 municipally owned natural gas utilities, and exercises safety authority over all electric and natural gas systems operating in the state. During 2006, a number of significant issues presented challenges for the Commission and are summarized below.

Energy

Electric Utility Storm Cost Recovery

FPL's service territory was impacted by four named storms in 2005: Dennis, Katrina, Rita, and Wilma. The two storms inflicting the vast majority of damage to FPL's system were Katrina and Wilma. FPL incurred storm-related costs in 2005 of approximately \$880 million, net of insurance proceeds, as a result of all four storms. These 2005 costs coupled with storm-related costs associated with 2004 hurricanes left FPL with a significant deficit in its storm reserve

On January 13, 2006, FPL filed a petition for a storm recovery financing order. FPL requested storm-recovery bonds in the amount of up to \$1,050,000,000 pursuant to Section 366.8260, Florida Statutes. According to FPL's petition, this amount would enable FPL to: (1) recover the remaining unrecovered balance of



The FPSC, through the ratemaking process, provides an incentive to the monopolist to invest in needed infrastructure by establishing rates that provide an opportunity for the utility to earn a fair return on its investment.

its 2004 storm-recovery costs; (2) recover its prudently incurred 2005 storm-recovery costs, less capital costs and insurance proceeds; (3) replenish its storm-recovery reserve; and (4) recover issuance costs associated with the storm-recovery bonds.

As part of the Commission process, customer service hearings were held March 1-3, 2006, in the portions of FPL's service territory that were most affected by the 2005 storm season. On April 19-21, 2006, technical hearings were conducted on FPL's petition. During the hearing, the Commission accepted the prefilled testimony of 20 witnesses, heard cross-examination of most of those witnesses, and admitted 172 exhibits into evidence. Following the hearing, each party filed a post-hearing brief and/or statement of issues and positions.

Consistent with the time requirements of Section 366.8260(2)(b)1., Florida Statutes, the Commission reached a decision on FPL's petition at a Special Agenda Conference held May 15, 2006. As a result, the Commission issued a financing order on May 30, 2006.

In the order, the Commission found that the issuance of storm-recovery bonds and the imposition of related storm-recovery charges to finance the recovery of FPL's prudent storm-recovery costs, the replenishment of FPL's storm-recovery reserve, and related financing costs were reasonable. Thus, the Commission approved the issuance of storm-recovery bonds in the amount of up to \$708,000,000, and provided that the initial average retail cents per kWh for the storm-recovery charge would not exceed the average retail cents per kWh for the 2004 storm surcharge currently in effect. The proceeds from the bonds were required to be used by FPL to finance the after-tax equivalent of the following amounts: (1) \$198,680,432 in unrecovered 2004 storm-recovery costs as of July 31, 2006 (estimated); (2) \$735,569,138 in 2005 unrecovered storm-recovery costs (estimated); (3) replenishment of FPL's Reserve to the level of \$200,000,000; and (4) \$11,400,000 in financing costs (estimated) associated with the storm-recovery bonds.

The Commission also established standards and procedures to safeguard the interests of customers. A "Bond Team" was established to oversee the structuring, marketing, and pricing of the storm-recovery bonds.

On July 10, 2006, the Commission by order approved a stipulation and settlement for Gulf Power Company (Gulf) which extended its current storm recovery surcharge for an additional 27 months to June 2009. The major provisions of the adopted settlement allow Gulf to file a streamlined interim filing for future storm damage in excess of \$10 million in a calendar year. If there are no further future charges to the storm reserve, Gulf anticipates a positive reserve of approximately \$30 million by June 2009.

On September 18, 2006, the Commission by order approved a stipulation and settlement for Progress Energy (PEF) which extended the existing storm

recovery surcharge for an additional 12 months to July 2008. The major provisions of the adopted settlement allow Progress to file a streamlined interim filing for future storm damage of up to 100 percent of the claimed recovery. If there are no further future charges to the storm reserve, Progress anticipates a positive reserve of approximately \$146 million by July 2008.

Power Plant and Transmission Line Need Determinations

The Commission considered and approved four need determinations for power plants and one need determination for a transmission line during 2006.

On May 22, 2006, the Commission approved the need for the Stanton B generating unit. The unit will be a 283 MW Integrated Gasified Combined Cycle coal-fired plant as part of the DOE's clean coal program. The unit will be built in eastern Orange County by Southern Energy Company and the power sold to the host utility, Orlando Utilities Commission (OUC). An in-service date of June 2010 is expected and final certification from the Governor and Cabinet was granted on December 8, 2006.

On June 8, 2006, the Commission approved the need for FPL's West County Energy Center Unit 1 (located in Palm Beach County). The unit will be a 1,335 MW gas-fired combined cycle unit with an in-service date of June 2009. Final certification from the Governor and Cabinet was granted on December 26, 2006.

On June 8, 2006, the Commission also approved the need for FPL's West County Energy Center Unit 2. The unit will be a 1,335 MW gas-fired combined cycle unit with an in-service date of June 2010. Final certification from the Governor and Cabinet was granted on December 26, 2006.

On July 18, 2006, the Commission approved the need for Seminole Electric Cooperative's (SEC) Seminole Generating Unit 3. The unit will be a 750 MW pulverized coal unit with an in-service date of May 2012. At the end of 2006, final certification from the Governor and Cabinet was pending.

On August 8, 2006, the Commission approved the need for FPL's Bob White-Manatee transmission line, a 230 KV line approximately 30 miles in length. The proposed line has an expected in-service date of December 2011. At the end of 2006, final certification from the Governor and Cabinet was pending.

On September 22, 2006, Progress Energy Florida filed a need determination for the 180 MW uprate of PEF's Crystal River 3 nuclear unit. A hearing for that filing is scheduled for early 2007.

Electric Reliability and Fuel Diversity

On January 23, 2006, the Commission held a staff workshop to review damage to electric utility facilities resulting from the 2004 – 2005 hurricane seasons, and to explore ways of minimizing future storm damage and reducing outages to



A reliable electric grid is a keystone for economic stability and growth as well as a necessity for Florida's population.



The Florida Public Service Commission is exploring ways to minimize future storm damage and reduce outages to customers.

customers. A number of regulatory actions followed. On February 27, 2006, the Commission required investor-owned electric utilities to take the following actions: 1) implement an eight-year wood pole inspection cycle; 2) provide a Hurricane Preparedness Briefing at the Commission's June 5, 2006, Internal Affairs Meeting; and 3) initiate rulemaking to adopt construction standards more stringent than the National Electric Safety Code and identify areas and circumstances where distribution facilities should be constructed underground. The Commission also directed its staff to file a recommendation proposing that Florida's electric utilities file storm preparation and hardening plans by June 1, 2006, containing ten specified storm hardening initiatives, such as a three-year vegetation management cycle program for all distribution circuits.

At the June 20, 2006, Agenda Conference, the Commission voted to propose rule changes to require the cost-effective strengthening of critical electric infrastructure to increase the ability of transmission and distribution facilities to withstand extreme weather conditions. The proposed rules also require costs of hardening the electric infrastructure be reflected in the IOU's contribution-in-aid-of construction (CIAC) charged for new underground facilities and conversions from overhead to underground. According to the proposed rules, differences in operational costs between overhead and underground facilities must also be included in CIAC calculations. In addition, the Commission later decided to hold separate rule proceedings for the electric IOUs and municipal electric utilities/rural electric utilities. At a hearing on October 4, 2006, the Commission approved an alternative rule addressing storm hardening standards and reporting for municipal electric utilities and rural electric utilities.

On December 5, 2006, the Commission approved rules for investor-owned electric utilities which contained certain revisions to the June 20, 2006, proposed rule changes. The rules require such utilities to file comprehensive storm hardening plans for review and approval by the Commission once every three years. The rules also require the IOUs to install distribution facilities in locations which allow easier service access and thus faster service restoration after storms and contain the CIAC proposals noted above.

At the August 29, 2006, Agenda Conference, the Commission addressed various compliance matters regarding the utilities' storm hardening plans and wood pole inspection requirements. The Commission required additional data to be filed by PEF and Gulf to support their vegetation management plans. After the supporting data was provided, the Commission determined the filings were satisfactory for initial implementation. The Commission also concluded that additional review of the cost effectiveness of the plans would be pursued in 2007. The Commission also required the electric IOUs to provide support for their wood pole inspection plans including their plans to exclude certain poles from the eight-year wood pole inspection program and their plan to not excavate certain types of poles.

All of the regulatory actions listed above are in various stages of implementation. The Commission is monitoring the utilities' responses to each storm hardening regulatory requirement and evaluating their implementation so that the Commission's goal of reducing outages and restoration times is achieved efficiently and cost-effectively. On October 30, 2006, the Commission conducted an informal workshop during which utilities and interested parties discussed with Commission staff the storm hardening and reliability information the utilities will provide by March 1 of each year. The information is needed to facilitate a thorough and timely review of the previous year's storm hardening activities and distribution reliability performance results. Other necessary data will be collected on a going-forward basis. Also, information related to collaborative research projects with universities will be collected and reviewed in order to assure the best methods of managing resources are identified and utilized. The ongoing dialogue initiated at the workshop will result in comprehensive electric utility storm preparedness and reliability performance filings March 1 of each year.

Utility efforts to develop cost-effective alternatives to traditional generating resources, such as energy conservation, demand side management (DSM), and renewable supply-side technologies, are an important contribution to fuel diversity. In 2006, the Commission approved several new and revised DSM programs offered by FPL and PEF, which are expected to save approximately 700 MW over the planning horizon. FPL and TECO have green pricing programs in which voluntary contributions fund utility purchases of clean renewable energy. PEF received Commission approval to purchase 116 MW of biomass-fired capacity and energy from a renewable energy provider, Florida Biomass, in Central Florida. TECO received Commission approval to purchase an additional 3.5 MW from the City of Tampa's solid waste facility.

In an effort to encourage renewable energy resources, the 2005 Florida Legislature enacted section 366.91, Florida Statutes. The statute requires the FEECA (Florida Energy Efficiency and Conservation Act) utilities to continuously provide a contract for purchasing capacity and energy from renewable energy resources. The Commission directed the investor-owned utilities to file standard offer contracts for renewable energy providers based on a portfolio of generating unit types. The Commission's approval of the standard offer contracts was appealed by a group of industrial cogenerators, making the tariffs unavailable and preventing other renewable generators from taking advantage of standard offer contracts. Rather than acting on the proposed tariffs, the Commission decided first to pursue proposed revisions to its standard offer contract rules to codify the Legislature's intent to encourage renewable generation. The Commission held a hearing on the proposed rule in November 2006, and adopted a final rule on January 9, 2007. In January, 2007, the Commission will conduct a public workshop to investigate how to facilitate the development of additional renewable generation. The Commission will also continue its ongoing efforts to gather data on renewable energy developments in the state as part of the Ten-Year Site Plan process.



The Commission required the electric investor-owned utilities to provide support for their wood pole inspection plans.

The stability of retail rates enjoyed by ratepayers over the past twenty years was primarily due to stable fuel prices and to utilities maintaining a diverse and balanced fuel supply. As gas price volatility has shown, over-dependence on a single fuel can lead to unacceptable risk of rate increases if a balance is not maintained.

Recent utility plans indicated a level of dependence on natural gas that mirrors Florida's dependence on oil during the 1970's. Historically, natural gas has been plentiful and moderately priced; forecasts nationwide predicted stable prices and sufficient supplies. However, events of the last few years indicate an entirely different future in which volatility in natural gas prices and supplies appears to be the norm. Per-capita energy use and total demand continue to grow. Energy conservation, DSM, and renewable generation cannot keep pace with Florida's continued explosive growth. Even if new interstate transmission lines could be economically constructed between Florida and the Southern Company, the primary available option for purchased power appears to be more gas-fired generation.

Following the Commission's direction, Florida's utilities have taken actions to move towards greater fuel diversity in the state's generation mix. The Ten-Year Site Plans contain ten proposed solid fuel units scheduled to enter service in 2010 and beyond. Two of these units were approved by the Commission during 2006. The Commission also granted FPL a waiver of the request for proposals requirement for its coal units proposed for 2012 and 2013. FPL and PEF have announced long-term plans to investigate the addition of new nuclear units to the state's generation mix. Utilities are evaluating options to increase fuel source diversity within fuel types, such as LNG (liquefied natural gas), alternate gas pipelines, and natural gas storage. PEF recently contracted to purchase LNG from the Elba Island terminal near Savannah, Georgia. PEF will take delivery of the LNG via the new Cypress pipeline connecting Elba Island to the Florida Gas Transmission system. Several interstate pipeline companies have proposed new pipeline projects and expansions to deliver natural gas to the state from diverse sources.

A return to a balanced fuel supply approach to generation planning will help mitigate volatile increases in fuel costs that are borne by ratepayers in Florida. Maintaining a diverse fuel supply will also enhance the reliability of the entire electric system in Florida.

Fuel Cost Recovery

At the November 2006 fuel hearing, the Commission approved the 2007 fuel rates for the five investor-owned electric utilities. FPL's 2007 fuel rates decreased compared to 2006, primarily due to a lower level of fuel cost underrecovery carried forward to 2007. PEF's fuel rates decreased slightly compared to 2006. TECO's 2007 fuel rates increased due to a higher level of fuel cost underrecoveries in 2005 and 2006. Gulf's 2007 fuel rates increased significantly due to a default of a major coal supply contract experienced in 2005

and extending through 2006. Gulf has replaced the favorably priced contract coal with a spot priced coal which is significantly more costly. Gulf is litigating the contract default. Finally, FPUC's favorable contract for purchased power at its Fernandina Beach Division was replaced with a new contract that is more market based. As a result, 2007 fuel rates for that division are significantly higher than they were in 2006, and further escalations will take place in 2008 and 2009. Meanwhile, FPUC's 2007 fuel rates for its Marianna Division decreased marginally compared to 2006.

At the hearing, the Commission determined three additional matters. First, the Commission approved the level of FPL's Generating Base Rate Adjustment for the inclusion of Turkey Point Unit 5 in base rates to be applied to such rates in May 2007. This matter was resolved as part of the fuel proceeding in order for the Commission to level out FPL residential bills in 2007. Second, the Commission also approved a reduction in FPL's storm cost recovery surcharge. This reduction also was instrumental in leveling FPL's residential bills in 2007. Third, the Commission approved FPL's proposal to allow fuel cost recovery for a natural gas transportation pipeline project known as the Southeast Supply Header Pipeline Project. The proposed route will start at the Perryville Hub in Northeast Louisiana and end near Mobile County, Alabama. The pipeline will cross and interconnect with many major interstate pipelines serving the eastern United States that are not currently served by the Perryville Hub, as well as both major pipelines that serve Florida. The pipeline is needed to improve the reliability of natural gas supply in 2008 and beyond.

Senate Bill 888

The 2006 Legislature enacted and Governor Bush signed into law the provisions of a broad energy bill (Senate Bill 888). This bill created new initiatives to encourage the development of alternative sources of energy and streamlined the processes for siting new energy infrastructure. The legislation also includes several provisions affecting the Florida Public Service Commission (FPSC). The FPSC is to include fuel diversity as a consideration in its review of: electric utility ten-year site plans, evaluations of the adequacy of the electric grid, and determination the need for new power plants. The bill included a provision intended to lessen the rate impact of the costs of nuclear plants by allowing utilities to recover such costs prior to the in-service date of the nuclear plant. The FPSC also must direct a study of Florida's electric transmission grid by March 1, 2007. By July 1, 2007 the Commission must also conduct a review to determine what should be done to enhance the reliability of the electric grid during extreme weather events. The FPSC is authorized to adopt electric transmission and distribution construction standards that exceed the National Electric Safety Code to ensure reliable provision of service. Finally, the FPSC may adopt goals for increasing the use of existing, expanded and new Florida renewable energy.

The FPSC took several steps during 2006 to implement Senate Bill 888. Specifically, the FPSC has proposed rules to promote electric utility investment in

nuclear power plants. The proposed rule would establish cost recovery mechanisms that allow for the recovery of costs prudently incurred in the siting, design, licensing, and construction of a nuclear power plant.

Rules have also been proposed to amend existing rules on the requirements of power plant need determination petitions. Specifically, the proposed rules would incorporate fuel diversity as a consideration in the decision making process for a new power plant. Also, the nuclear requirements of Senate Bill 888 have been incorporated in these proposed rules. In addition, in 2006, the FPSC approved rules designed to encourage the development of renewable energy by providing more favorable opportunities to sell energy to utilities while ensuring that consumers are protected from excessive costs. Finally, the FPSC announced a workshop to be held in January 2007 to explore opportunities for renewable energy development and to formulate recommendations for further action.

Emergency Operations Center

FPSC staff supports and assists the state's Emergency Operations Center in energy related matters, such as energy security, natural gas explosions, natural disasters, or when any utility related threat is detected threatening life and property. This assistance regularly involves supplying expert advice during the emergency and coordinating activities of the gas and electric utilities along with fire, police departments, and other public and private agencies.

The Commission is designated as the "Key Response Agency" for power and natural gas emergencies for the Governor's Office through the Division of Emergency Management at the state's Emergency Operations Center (EOC) for Emergency Support Function – 12 Energy (ESF-12). In this capacity, the FPSC provides 24 hour/7 days a week staffing of the State Emergency Operations Center during state emergencies. The primary purpose of ESF-12 is coordinating responses to electric and natural gas energy emergencies and providing information and assistance to a variety of federal and state agencies at the EOC. The Commission is also responsible for maintaining contact with electric and natural gas utilities serving the affected areas in order to assess damage and service restoration efforts. The data collected and maintained from these coordination efforts include such information as the areas affected, number of customers without electrical power or natural gas, status of generation fuel, and the estimated restoration time for normal service. This information is used by the EOC to determine the most efficient allocation of resources in response to the regional recovery efforts. Florida has experienced several major hurricanes during the last few years, and the FPSC provided many man-hours of staffing support to the State Emergency Operations Center. The FPSC collected and disseminated utility information on the assessment of damage, customer outages, and estimates of restoration time. The FPSC also worked with other state and federal agencies to facilitate the movement of labor and materials to rebuild and restore power systems.

Conservation Activities for Electric and Natural Gas Utilities

In 1980, the FPSC required Florida's larger electric utilities and natural gas utilities to adopt cost-effective conservation, or demand-side management programs, to meet the requirements of the Florida Energy Efficiency and Conservation Act. Since that time, Florida's utilities have implemented a wide array of programs, primarily targeted at reducing both the growth rate of peak demand and the state's dependence on oil as a generator fuel.

All consumers benefit from cost-effective utility conservation programs. The FPSC evaluates the cost-effectiveness of all utility-proposed programs to ensure that the savings in avoided power plants, fuel for existing plants, and any wholesale power purchases exceed the cost of the conservation program. The policy is that electric rates should be lower than what they otherwise would have been without the conservation program.

Major electric utilities offer many forms of energy conservation education, as well as free audits which are mandated by Florida law. Educational programs and announcements give consumers basic information on conserving energy and the various energy programs available through the utility. Energy audits provide the cornerstone of energy conservation by helping consumers determine which utility-sponsored conservation programs may be appropriate for their needs. Free audits are available to all classes of consumers: commercial, industrial, and residential. Many utilities conduct more comprehensive audits for a fee, upon request. Some of the major utilities also educate the construction industry on the Florida Energy Efficiency Code for Building Construction. This education allows both designers and builders to more efficiently implement energy conservation efficiency measures.

Utilities offer programs for repairs or improvements including low-cost fix-up, weatherization, heating/air conditioning tune-up, and duct-leak testing, with the utility paying a portion of the costs for repairs or improvements. Investor-owned Utilities (IOUs) are permitted to recover prudent and reasonable expenses for FPSC-approved conservation and demand-side management programs. Actual conservation expenditures over a 12-month period may be recovered through the Energy Conservation Cost Recovery Clause. Since the enactment of the Florida Energy Efficiency and Conservation Act, Florida's investor-owned electric utilities have implemented programs that have reduced peak demand approximately 5,577 MW which has avoided the need to construct several large power plants. Florida's investor-owned electric utilities have spent more than \$4 billion on programs designed to help consumers save on their electricity bills.

Recent substantial increases in fuel prices, particularly for natural gas, coupled with higher capital costs for new generating units, has increased the potential benefit of energy conservation. Therefore, more utility-sponsored conservation programs may be cost-effective. In response to these changing market conditions, in 2006, the Commission approved several new demand side man-

Free energy audits are available to all classes of consumers: commercial, industrial, and residential.

agement programs and modified existing programs. These program modifications are expected to result in significant additional demand and energy savings. Considering both new and revised demand side management programs, Florida's two largest utilities, Florida Power and Light Company and Progress Energy Florida, expect those programs to result in additional summer peak demand savings of 798 megawatts, winter peak demand savings of 861 megawatts, and annual energy savings of 368 gigawatt-hours by 2015.

Telecommunications

Significant Mergers in the Telecommunications Industry

AT&T/BellSouth - In 2006, AT&T and BellSouth announced their intention to merge, forming the largest Incumbent Local Exchange Carrier (ILEC) in the nation as measured by access lines served. This merger would give AT&T control of the largest wireless carrier, Cingular Wireless, which was previously jointly owned by BellSouth (40% shareholder) and the former SBC (60% shareholder).

The FPSC opened Docket 060308-TP to address the application for the approval of transfer of control of BellSouth's assets. According to the applicants, the merger will have no effect on the rates or terms and conditions of service that BellSouth provides to its Florida customers. The service territories in which each carrier provides local telephone and broadband service are in different markets. After hearing from interested parties, the FPSC found that the merger was in the public interest based upon the applicants' management, technical, and financial capability.

On September 13, 2006, NuVox Communications, Inc., Time Warner Telecom of Florida, L.P., XO Communications Services, Inc., Xspedius Management Co. Switched Services, LLC, and Xspedius Management Co. of Jacksonville, LLC filed an administrative appeal with the Florida Supreme Court of the FPSC's order approving the merger. The administrative appeal has been assigned Case Number SC06-1828 by the Florida Supreme Court. The Florida Supreme Court plans to hear the case in January 2007. In addition, the merger is currently under review before the FCC, and, if approved, will leave only AT&T, Qwest, and Verizon as the remaining entities from the seven Regional Bell Operating Companies created by the January 1, 1984 divestiture of the original AT&T. Judicial review of the AT&T/SBC deal may lead to additional conditions or requirements for approval, which in turn may trigger increased scrutiny, delay, and possibly more comprehensive conditions for approval of the AT&T/BellSouth merger by the FCC.

Windstream – Another industry restructuring resulted from the decision by Alltel to spin off its wireline operation as a separate entity. In July 2006, Alltel's former wireline unit was merged with Valor Communications and is now known as Windstream Communications. Investment analysts have suggested that

these moves are motivated by the recognition that the wireless industry continues to demonstrate an expanding services menu and remarkable subscriber growth. These trends are driving average revenue per subscriber to higher levels. Conversely, the residential wireline market, particularly in the less densely populated areas that characterize Alltel's former territories, is not expanding but is increasingly contested by alternative providers such as wireless and Internet Protocol-enabled providers. Analysts suggest that by creating two business entities, each company can better meet the needs of different classes of investors, for example those favoring growth, as compared to those favoring dividend income.

ILEC Wholesale Performance Measures

Through Docket No. 000121-TP, the Commission developed wholesale performance measurement plans for the ongoing evaluation of operations support systems (OSS) provided by incumbent local exchange carriers (ILECs) for competitive local exchange carriers' (CLECs) use. The performance measurement plans provide a standard against which CLECs and the Commission can measure performance over time to detect and correct any degradation of service provided to CLECs. The Commission adopted performance measurements for BellSouth in August 2001, for Embarq (formerly Sprint) in January 2003, and for Verizon in June 2003.

For BellSouth, the Commission adopted a Performance Assessment Plan comprised of a Service Quality Measurement Plan (SQM) and a Self-Effectuating Enforcement Mechanism (SEEM) Administrative Plan. The SQM is a detailed description of BellSouth's wholesale performance measurements. Under the SEEM Plan, payments are made by BellSouth if the company fails to meet performance standards for key measurements as set by the Commission. BellSouth's current SQM Plan was revised on October 1, 2005, and consists of 50 measurements. BellSouth's SEEM Plan includes 35 measures. From January through October 2006, BellSouth paid \$3.4 million in SEEM remedies to CLECs and the state of Florida.

In May 2006, staff completed a third-party reaudit of BellSouth's Performance Assessment Plan to address specific findings produced in the original third-party audit completed in April 2005. The reaudit found that BellSouth properly implemented SEEM recalculations that resulted from the original audit findings. In July 2006, staff initiated a series of workshops to address needed changes to both BellSouth's SQM and SEEM plans.

For Embarq, the Commission adopted a Performance Measure Plan in 2003. The current plan, revised in 2004, contains 44 measures to ascertain if the ILEC is providing nondiscriminatory service to CLECs. In October 2006, staff initiated a review to assess proposed changes to the plan.

Verizon operates in Florida under a common set of performance and administrative measures contained in a Joint Partial Settlement Agreement derived from

a process in California and used, with some state-specific variation, in several states. Verizon's current plan, adopted in June 2003, contains over 40 measures. Verizon furnishes monthly performance reports to the Commission for review and assessment.

Implementation of the FCC's Triennial Review

On August 21, 2003, the FCC released its Triennial Review Order (TRO) which contained revised unbundling rules and responded to the D.C. Circuit Court of Appeals' 2002 remand decision. On March 2, 2004, the D.C. Circuit Court of Appeals released its decision, which vacated and remanded certain provisions of the TRO. In particular, the D.C. Circuit held that the FCC's delegation of authority to state commissions to make impairment findings was unlawful and further stated that the national findings of impairment for mass market switching and high-capacity transport were improper.

The FCC released a subsequent Order and Notice (Interim Order) on August 20, 2004. The Order required ILECs to continue providing unbundled access to mass market local circuit switching, high capacity loops, and dedicated transport. These requirements were to remain until the earlier of the effective date of final FCC unbundling rules or six months after publication of the Interim Order in the Federal Register. On February 4, 2005, the FCC released the Triennial Review Remand Order (TRRO), wherein the FCC's final unbundling rules were adopted with an effective date of March 11, 2005, with a one year transition period.

In response to the various court decisions and FCC Orders, Verizon and BellSouth filed separate petitions with the FFPSC. In order to address the petitions, administrative hearings were held. The Verizon hearing was conducted on May 4, 2005. As a result of that proceeding, fully executed interconnection agreement amendments were filed including rates, terms, and conditions addressing the FCC's revised unbundling rules. The docket was closed May 5, 2006. The BellSouth hearing was conducted on November 2-4, 2005, with the final decision in 2006. That proceeding also resulted in the submission of fully executed agreement amendments. However, four CLECs have not executed agreements, and the docket remains open to address these agreements.

Service Quality

BellSouth and Embarq operate under Service Guarantee Programs (SGP) applicable to residential service. The SGPs provide for customer credits where service objectives are missed.

From January through September 2006, BellSouth credited customers \$1,355,200 for out-of-service repairs that extended beyond 24 hours. BellSouth also credited \$177,950 to customers for not providing initial service to residential customers within three days. During a service evaluation, staff found that the company was not appropriately issuing automatic credits. Therefore, in Docket Number



Commission staff monitor service quality through on-site evaluations and periodic reports filed by the companies.

060311-TL, BellSouth credited an additional \$381,835, including interest, for repair and missed installation dates. BellSouth could not locate some customers that qualified for the credit; therefore, \$29,587 was placed in a Community Service Fund which will be used to promote Lifeline service. The total amount of qualified credits was \$1,914,985 from January through September.

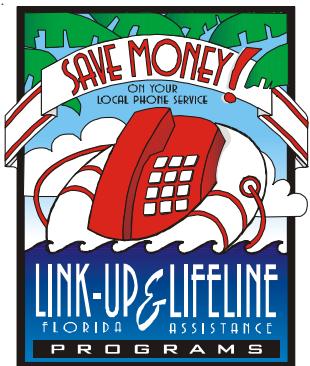
For the same time period, Embarq credited customers \$456,136 for out-of-service repairs that extended beyond 24 hours and \$314,350 for missing installation appointments. Embarq also placed \$40,000 in a Community Service Fund for missing the answer time requirement. Staff found during a service evaluation that Embarq was not properly issuing some credits. In Docket Number 060553-TL, Embarq credited an additional \$49,080, including interest, to customers for missing the SGP standards. Overall, Embarq credited customers \$819,566 from January through September.

Link-Up and Lifeline Service for Low-Income Consumers

In May 2003 the Tele-Competition Innovation and Infrastructure Enhancement Act of 2003 became law. The 2003 Act requires that each state agency that provides benefits to persons eligible for the Lifeline Assistance Program (Lifeline) shall, in cooperation with the Department of Children and Families (DCF), the FPSC, and telecommunications companies providing Lifeline service, develop procedures to promote participation in Lifeline. In July 2003, the FPSC initiated a joint Lifeline project with other state and federal agencies, organizations, and ILECs to implement the new statutory requirements. During 2005, Senate Bill 1322 was signed into law expanding the 2003 Act to include the Department of Education and the Office of Public Counsel.

During 2006, the FPSC continued to work with the project participants to develop and implement new procedures to increase awareness of the Link-Up Florida and Lifeline programs, as well as build upon prior promotional activities. The promotional activities of 2006 focused on "grass roots" activities with increased emphasis on Public Service Announcements (PSAs), target marketing, and training the professionals who regularly assist eligible clients. Promotional highlights of 2006 include the production and distribution of Link-Up and Lifeline Radio PSAs and Television Educational Segments in both Spanish and English. Additional highlights are the Back-to-School Lifeline Project, the Connect Florida Campaign, addition of a Haitian-Creole program-based Lifeline application, implementation of additional Web site links from various agency Web sites to the Commission's Lifeline Web page, and educational presentations at community events, local organizations, and conferences.

Also, the Florida Department of Community Affairs (DCA) previously modified its procedures in the Community Services Block Grant program to add an indicator to its work plan that allows the Community Action Agencies to report on the number of clients they help to secure Lifeline services. During the first year reporting period of October 1, 2004, through September 30, 2005, the



Link-Up Florida and Lifeline Assistance are programs designed to ensure that the initial telephone hook-up and monthly service remain affordable to all residents of Florida.

Community Services Block Grant program reported that 3,475 households were signed up for Lifeline benefits as a result of assistance received from the Community Action Agencies. The project participants include the AARP, Agency for Health Care Administration, Agency for Workforce Innovation, DCF, DCA, Florida Department of Education, Florida Department of Elder Affairs, Florida Office of the Public Counsel, Florida Department of Revenue, Federal Social Security Administration - Tallahassee District, Workforce Florida, Inc., and a number of Florida's ILECs. A complete list of project participants and additional information about the project is available in the FPSC's report entitled "Number of Customers Subscribing to Lifeline Service and the Effectiveness of Any Procedures to Promote Participation."

The Commission, by Order No. FPSC-05-0153-AS-TL, issued February 8, 2005, in Docket No.040604-TL, approved settlement agreement proposals filed by BellSouth, Sprint, and Verizon implementing a simplified Link-Up and Lifeline certification process. The new process allows eligible Lifeline and Link-Up customers to enroll in the programs by simply signing a document certifying, under penalty of perjury, that the customer participates in one of the Florida Link-Up and Lifeline qualifying programs and identifying the qualifying program. In addition, BellSouth, Sprint, and Verizon added the National School Lunch free lunch program to its Link-Up and Lifeline eligibility criteria. By Order No. FPSC-06-0680-PAA-TL, issued August 7, 2006, the Commission ordered all eligible telecommunications carriers to adopt the simplified certification enrollment process and add the National School Lunch free lunch program to its Link-Up and Lifeline eligibility criteria.

In October 2006, the Commission created a direct link to the automated Lifeline application located on the Commission's website. The electronic application process allows consumers the opportunity to complete a Lifeline application online and submit with one click. Once submitted, the system forwards an automatic e-mail to the appropriate eligible telecommunications carrier (ETC) informing it that a Lifeline application is available for retrieval through the Commission's secure database. The ETC retrieves the application and enrolls the consumer in Lifeline.

The FPSC has been working with the DCF in an effort to develop a Lifeline Automatic Enrollment Process whereby potential Lifeline customers, once certified through a DCF program, are placed on a list which is then forwarded to the FPSC. Once the FPSC receives the list, the names would be sorted by the applicant's telephone company; then the sorted lists would be sent to the appropriate telephone company for enrollment in the Lifeline program. The FPSC is continuing to develop this process with DCF.

The Commission also approved four new Eligible Telecommunications Carriers (ETCs) in 2006. A carrier that is granted ETC status is eligible to receive federal universal service support and provide Link-Up and Lifeline services. In April 2006, the Commission granted ETC status to American Dial Tone and Nexus

Communications, Inc. In May 2006, the Commission granted Vilaire Communications, Inc. ETC status. Finally, in September 2006, the Commission granted Midwestern Telecommunications, Inc. ETC status.

Additional information on Link-Up Florida and Lifeline Assistance may be found in the FPSC's 2006 Lifeline Report, available on the FPSC's Web site at <http://www.psc.state.fl.us/publications/pdf/telecomm/tele-lifelinereport2006.pdf>

Hurricane/Storm Telecommunications Cost Recovery

Subsection 364.051(4)(b), F.S., permits the recovery of costs and expenses related to damage occurring to the lines, plant, or facilities of a local exchange telecommunications company that are results of a tropical system named by the National Hurricane Center and occurring after June 1, 2005.

On March 31, 2006, GTC, Inc. (GT Com) filed a petition for approval of storm recovery costs associated with costs of repairing its lines, plants and facilities damaged by Hurricane Dennis in 2005 (Docket No. 060300-TL). In its petition, GT Com requested recovery of storm costs of \$281,166, or fifty cents per access line per month for one year, the maximum recovery allowed GT Com under Florida law. On July 18, 2006, Commissioners reduced that amount to \$4,950, after identifying several cost categories requiring adjustments and amounts to be recovered from the Federal Universal Service Fund. The Commission approved a one-time surcharge of \$0.11 per access line. GT Com has appealed the Commission's decision to the Florida Supreme Court.

On September 1, 2006, BellSouth Telecommunications, Inc. (BellSouth) filed a petition to recover 2005 tropical system related costs and expenses incurred due to Tropical Storm Arlene and Hurricanes Cindy, Dennis, Katrina, Rita, and Wilma (Docket No. 060598-TL). BellSouth asserts that the intrastate portion of the total incremental expenses relating to repairing, restoring, or replacing BellSouth's lines, plants, and facilities damaged by the 2005 storms was \$95.5 million. Of this total, BellSouth has requested recovery of \$34.6 million resulting from a \$0.50 surcharge for 12 months, which is the maximum allowed by law. On December 19, 2006, the Commission approved a \$0.50 surcharge per customer line for a period of 12 months. In its decision, the Commission excluded Lifeline service customers from the surcharge.

On September 25, 2006, Embarq Florida, Inc. (Embarq) filed a petition to recover 2005 tropical system related costs and expenses incurred due to Hurricanes Dennis, Katrina, and Wilma (Docket No. 060644-TL). Embarq states that the intrastate portion of the total incremental expenses relating to repairing, restoring, or replacing Embarq's lines, plants, and facilities damaged by the 2005 storms was \$15.47 million. Of this total, Embarq has requested recovery of \$10 million resulting from a \$0.50 surcharge for 12 months which is the maximum allowed by law. A formal hearing will be conducted by the Commission in early 2007, to permit parties to present testimony and exhibits relative to Embarq's petition.



The FPSC is pursuing a comprehensive investigation into ways to minimize future storm damage to utility infrastructure and reduce the resulting outages experienced by customers.

Infrastructure Storm Hardening Efforts

The Commission issued Proposed Agency Action Order Number FPSC-06-0168-PAA-TL on March 1, 2006, requiring each local exchange company to inspect every telephone pole within an 8 year period. The inspection was to include a method of sounding (hammering the pole to detect hidden decay), excavating and boring which is done by removing the surrounding dirt down to 18" and drilling into the pole for the purpose of detecting decay.

Embarq and Verizon filed for a modification of the methods proposed in the PAA order. Both companies requested to use a device called a Resistograph which is less invasive than traditional boring and does not require excavation around the pole. These two variances from the PAA requirements were approved as experiments to help staff obtain data quickly and see if this new technology will provide a comprehensive evaluation of the pole integrity. The first report of the pole inspections is due to the Commission in March 2007.

In addition, staff has completed approximately 1,980 pole inspections and reported the results to the various companies for corrective action.

Water and Wastewater

The Governor's Drought Action Plan/Water Conservation Initiative

Renamed Conserve Florida, the Statewide Conservation Initiative continues to explore ways to encourage utilities to implement cost effective conservation. In 2003, the Department of Environmental Protection, the five Water Management Districts, the Florida Public Service Commission, the Utility Council of the American Water Works Association (Florida Section), the Utility Council of the Florida Water Environment Association, and the Florida Rural Water Association signed a Joint Statement of Commitment (JSOC) to cooperatively develop such a program. Subsequent to the signing of the JSOC, and based upon it, the 2004 regular session of the Florida Legislature enacted House Bill 293. The bill creates a new section 373.227, Florida Statutes, encouraging the use of efficient, effective, and affordable water conservation measures, and states that a goal-based, accountable, and tailored water conservation program should be emphasized for public water supply utilities in cooperation with the water management districts and other stakeholders.

The Work Plan adopted in early 2005 to implement the JSOC and the new legislation called for a three pronged approach: (1) develop standardized definitions and performance measures for water conservation data collection and analysis; (2) establish a clearinghouse for water conservation programs and practices; and (3) develop and maintain a Florida-specific water conservation guidance document to assist public water suppliers in the design and implementation of utility-specific water conservation programs. Standardized measures will allow comparability of program analysis across utilities. The clearinghouse

includes a water conservation library, a database for the collection and analysis of information on water conservation programs and also offers technical assistance and research. The guidance document is an interactive computer program which allows utilities to provide utility specific information and receive information on recommended conservation measures to meet their overall conservation goals.



The initial phase of all three tasks has been completed. A contract was signed with the University of Florida (UF) to house the clearinghouse through the end of 2006, and negotiations are underway to extend the contract. UF is working with DEP, the water management districts, and utilities to refine the initial format of the clearinghouse and expand its usage. Similarly, UF is integrating the guidance document with the clearinghouse data collection and evaluation functions to create a more user friendly tool to assist utilities in developing water conservation projects. The Commission continues to participate in the discussions so that the practices developed are user-friendly to the many small water utilities the Commission regulates.

Conserve Florida
*explores ways to implement
cost-effective conservation.*

Water and Wastewater Rate Cases

In 2006, the Commission processed a large number of water and wastewater file and suspend rate cases. These cases included Park Water Company, Colonial Manor, and Gold Coast Utility. In addition, the Commission processed ten file and suspend rate case filed by Utilities, Inc. These included the systems of Mid-County Services, Inc., Tierra Verde Utilities, Inc., Alafaya Utilities, Inc., Cypress Lakes Utilities, Inc., Sanlando Utilities, Inc., Lake Placid Utilities, Inc., Utilities Inc. of Pennbrooke, Labrador Utilities, Inc., Utilities Inc. of Sandalhaven, and Utilities Inc. of Florida. The Utilities Inc. of Florida filing was actually made up of five independent rate cases being processed under one docket number. As a part of processing these cases, staff conducted seventeen customer meetings as well as handled the audits, field examination, and discovery for each case.

The Commission processed nine requests for staff assisted rate cases pursuant to Chapter 367.0814, Florida Statutes. These Class "C" utilities were Pasco Utilities, Useppa Island, County-Wide Utility Company, Crooked Lake Sewerage Co., Dixie Grove Utility Company, Timberwood Utilities, Holiday Utility Company, Environmental Protection System of Pine Island, and River Ranch Water Management.

At the end of 2006, the Commission began processing a file and suspend rate case for Aqua Utilities that will go straight to hearing in 2007. The Aqua Utilities case is made up of eighty-one individual systems that will require staff to conduct discovery on all eighty-one.

In addition to the large rate case load, staff performed the normal surveillance activity during 2006 of all 170 utility companies regulated by the Public Service Commission. The Commission also processed 59 index applications and 38 pass-through applications for water and wastewater companies.

Water and Wastewater Certification Cases

In 2006, grandfather certificates were approved for Zachary Taylor Camping and Lodge, Inc. and Blue Heron Golf and Country Club as a result of Okeechobee County turning jurisdiction over to the PSC. An original certificate was approved for Colina Bay Water Company, LLC. Also, transfers of ownership were approved for Coolidge-Ft. Myers Realty Limited Partnership, Utilities, Inc., Lake Haven Utility Associates, Ltd., Plantation Bay Utility Co., CFAT H2O, Inc., South Pasco Utilities, Inc., Forest Utilities, Inc., Town & Country Utilities Company, and Holiday Utility Company.

Finally, transfers to exempt entities were processed for Floridano Homeowners, Inc., Town & Country Utilities Company, Zellwood Station Co-op, Inc., Loch Harbour Utilities, Inc., and Lake Utility Company. Amendments were approved for Sanlando Utilities Corporation, Shangri-La by the Lake Utilities, Inc., MSM Utilities, LLC, Plantation Bay Utility Co., Gold Coast Utility Corp, Sunshine Utilities, and Alafaya Utilities, Inc.

IV

Agency Organization

The Commission consists of five members appointed by the Governor and confirmed by the Senate. Commissioners serve terms of four years, as provided in Chapter 350, Florida Statutes.

The Public Service Commission consists of members selected for their knowledge and experience in one or more fields substantially related to the duties and functions of the Commission. These fields include economics, accounting, engineering, finance, natural resource conservation, energy, public affairs, and law.

The FPSC, created by the Florida Legislature in 1887, was originally called the Florida Railroad Commission. The primary purpose of the board was the regulation of railroad passenger and freight rates and operations. As Florida grew, the Commission expanded. In 1911, the Legislature conferred on the Commission the responsibility of regulating telephone and telegraph companies, and in 1929, jurisdiction was given over motor carrier transportation. The Commission began regulating investor-owned electric companies in 1951, and then in 1952, jurisdiction was extended to the regulation of gas utilities. In 1959, the Commission began regulating privately owned water and wastewater systems.

The following pages describe each of the Commission's divisions/offices. After those descriptions is a list of people who are serving or have served as Florida Public Service Commissioners since the creation of the agency.



Blanca Bayó

Division of The Commission Clerk and Administrative Services

The Division of the Commission Clerk and Administrative Services (CCA) is responsible for accepting official filings, maintaining the official case files, coordinating the Commission's records management program, and issuing all Commission orders and notices. The Director of the Division of the Commission Clerk and Administrative Services is designated as the Agency Clerk. Other responsibilities include administrative support services such as human resource programs, budget management, and staff training. This division oversees all financial transactions and maintains the Commission's accounting records which are handled primarily in CCA's *Fiscal Services Section*.

CCA's *Bureau of Records*, informally known as the Clerk's Office, manages the Commission's computerized document and case management information system, issues reports and assists in the coordination of case management activities, prepares agendas for the Commission's regular conferences, and prepares and maintains the official minutes of all Commission conferences. The hearing reporters in the Bureau of Records attend all FPSC hearings, both in Tallahassee and throughout the state, transcribe the proceedings, and prepare transcripts for placement in the official record and for dissemination to participants. The Bureau of Records maintains the official docket files of all documents filed in proceedings before the FPSC. It issues all orders and notices of the Commission and coordinates the FPSC's records management program and, upon request and the payment of appropriate fees, provides copies of public records. Additionally this bureau maintains the master directory of utilities, as well as mailing lists of parties and people interested in Commission proceedings.

The *Bureau of Administrative Services* is responsible for coordinating and preparing the Commission's Legislative Budget Requests, monitoring the operating budget, coordinating and maintaining the performance measures and outcome/output standards, and preparing budget amendments as necessary. The Facilities Management & Purchasing Section (FMP) is responsible for processing all agency purchasing, security and safety related issues, leasing, surplus property, and fleet management. The Human Resources Section (HR) is responsible for the administration of all agency human resources programs which include recruitment, selection, classification and pay, attendance and leave, performance evaluations, training and staff development, variable work week schedules, employee relations, payroll, insurance, and other employee benefit programs. This bureau also updates the Commission-wide administrative procedures manual, forms inventory and tracking system, CCA's quarterly reports, and special reports due annually to the Executive Director and outside agencies.

Division of Competitive Markets and Enforcement

The Division of Competitive Markets and Enforcement monitors and facilitates the development of competitive markets in the telecommunications industry.

The division's *Bureau of Telecommunications Arbitrations and Tariffs* sets prices and requirements for wholesale offerings (i.e., unbundled network elements and resale), whether in the context of an arbitration or a generic proceeding. In addition, this bureau arbitrates operational issues between incumbent local exchange companies (ILECs) and competitive local exchange companies (CLECs) that cannot be resolved by the parties. This bureau must also resolve complaints of an interpretive nature pertaining to existing contracts. This bureau also processes ILEC, CLEC, and interexchange company (IXC) tariff and price list filings and negotiated agreements.

The *Bureau of Performance Analysis* reviews utility performance and operations, investigates and documents current processes and results, and identifies areas for improvement. These reviews may be limited to one company or made on a comparative basis between several companies. Areas for investigation include competitive performance analysis, electric reliability, service quality, service availability, systems analysis, and consumer protection. Also, special investigations are conducted relating to systemic utility fraud such as slamming and cramming. This bureau reviews wholesale service quality performance measures that relate to the operating systems support provided by BellSouth, Verizon and Embarq to CLECs. Additionally, this bureau prepares the Annual Report to the Legislature on the Status of Competition in the Telecommunications Industry in Florida and assists in the Commission's legislative monitoring efforts.

The *Bureau of Telecommunications Service Quality, Certification and Enforcement* evaluates the quality of service provided by telecommunications companies and conducts periodic on-site inspections of telecommunications facilities. During field evaluations, tests are done to ensure network reliability and evaluate the billing accuracy of long distance companies. Pay telephones and call aggregators (hotels/motels) are also inspected. This bureau monitors the quality of service provided by the telecommunications relay system to people who are hearing or speech impaired. This bureau processes all certification/registration filings, including new certificates/registrations, name changes, transfers, and cancellations for incumbent local exchange companies (ILECs), competitive local exchange companies (CLECs), interexchange companies (IXCs), pay telephone service (PATs) providers, alternative access vendor (AAVs), and shared tenant service (STS) providers. This bureau processes cases involving area code relief, number conservation plans, reclaiming numbering resources from carriers that have failed to activate central office codes, and numbering code denials. This bureau also addresses issues related to local number portability and the telecommunications Lifeline Assistance Program. This bureau provides input on legislative and federal initiatives and processes cases that involve alleged barriers to entry.



Beth Salak



Tim Devlin

Division of Economic Regulation

The Division of Economic Regulation investigates the earnings of rate base regulated companies and also works to resolve consumer complaints concerning service quality and billing issues in the electric, natural gas, water and wastewater industries. This division makes recommendations concerning electric utility plant siting and cost recovery clauses. This division also reviews the earnings of the one remaining rate base regulated local telecommunications company.

The *Bureau of Rate Filings, Surveillance, Finance and Tax* is responsible for reviewing the revenue requirements of rate base regulated utilities. It processes rate cases and monitors earnings for these industries. Processing earnings cases includes analyzing filings, expert testimony, and exhibits; developing cross-examination questions and presenting staff testimony; holding customer meetings; and preparing and presenting recommendations to the Commission. This bureau also is responsible for the annual report process including all mailings, extensions, filings, delinquency notices, penalty letters, and show causes. This bureau also reviews the regulatory assessment fee (RAF) returns of utilities and processes storm cost recovery and associated securitization filings. Other responsibilities include processing security applications for investor owned natural gas and electric utilities, evaluating requests for corporate undertaking from water and wastewater utilities, and calculating the interest on refunds.

The *Bureau of Certification, Economics and Tariffs* is responsible for certification filings and tariff filings for water and wastewater companies. In proceedings such as rate cases or electric plant need determination cases, the bureau's primary responsibilities focus on analyzing any economic or demographic forecast issues, developing rates and rate structure by customer class, and estimating any repression effects on customer demand resulting from higher rates. In addition to rate case activity, this bureau analyzes rate structure for municipal electric utilities and rural electric cooperatives. This bureau also makes recommendations on electric utility territorial agreements and disputes. This bureau is involved in rate and rate structure issues such as billing practices, master metering, reconnect policies, cost recovery clauses, and merger effects on rates.

The *Electric Reliability Section* makes recommendations to the Commission on proposed power plants with a steam cycle greater than 75 megawatts, including non-utility-owned power plants and certain 230 kilovolt or higher electric transmission lines. This section also analyzes the utility ten-year site plans required by Florida Statutes. Responsibilities include making recommendations on utility conservation plans and administering the conservation cost recovery clause.

The *Cost Recovery Section* makes recommendations to the Commission on electric utility fuel, purchased power, capacity, and environmental cost recovery petitions and administers a power plant efficiency incentive factor as part of the fuel clause. This section also makes recommendations to the Commission regarding electric utility storm hardening, distribution reliability rulemaking, and related enforcement actions. This section reviews annual distribution reliability reports and

resolves technical consumer complaints relating to distribution reliability. Finally, this section makes recommendations on the purchase gas adjustments (PGA) of local distribution companies (LDC).

The *Office of Strategic Projects and Resource Planning* identifies and evaluates strategies and economic incentives to increase the efficient use of energy and water resources within the state. This office identifies and develops regulatory mechanisms which will diversify the fuels used in generation of electric power, including renewable energy sources and conservation as an alternative to traditional generation. This office also identifies strategies and mechanisms to enhance the long run reliability of the electric supply in the state, including generation, transmission and distribution. In addition, it identifies strategies for increased conservation and efficient use of water resources by utilities subject to Commission jurisdiction and their customers.



Dan Hoppe

Division of Regulatory Compliance and Consumer Assistance

The Division of Regulatory Compliance and Consumer Assistance is responsible for electric and gas safety, audits and reviews in all industries, the consumer complaint process, and consumer outreach. For auditing and safety purposes this division operates out of three district offices: Tallahassee, Miami, and Tampa.

The types of audits and reviews this division's *Bureau of Auditing* performs include financial, compliance, billing, and verification. The auditors conduct examinations of utility-related financial and operating records and provide the FPSC with an independent verification of the supporting documentation for any statements of filings made by the regulated companies.

The *Bureau of Safety* conducts safety evaluations of natural gas pipeline operations and new electric construction in Florida. This bureau is also the lead contact for the Commission's participation in the State's Emergency Operations Center activities.

The *Bureau of Complaint Resolution* receives, processes, and resolves complaints and facilitates resolution of informal disputes between consumers and utilities. This resolution process may result in preparation of testimony for rate cases on complaint activity and participation in or initiating other dockets on consumer matters.

The consumer outreach staff compiles and relays information about the Commission's regulatory decisions to utility customers and consumer groups. Outreach duties include informing utility customers of their rights, available assistance, and how they can participate in customer service hearings and other forums to have their views heard by Commissioners.

Office of the General Counsel

The Office of the General Counsel provides legal counsel to the Commission on all matters under the Commission's jurisdiction. This office also supervises the procedural and legal aspects of all cases before the Commission.

The Office of the General Counsel's *Appeals, Rules and Mediation Section* is responsible for defending Commission orders on appeal, for defending Commission rules challenged before the Division of Administrative Hearings, and for representing the Commission before state and federal courts. This section supports the Office of Strategic and Governmental Affairs in making filings with, or presentations to, other federal, state, or local agencies. The section advises in the promulgation of rules and attends or conducts rulemaking hearings at the direction of the Commission. This section also reviews procurement contracts and provides counsel to the Commission on personnel, contractual, public records, and other administrative legal matters. It also offers mediation services to parties to Commission proceedings.

In cases involving evidentiary hearings before the Commission or an Administrative Law Judge, the *Economic Regulation Section* (for the electric, natural gas, water and wastewater industries) and the *Competitive Markets and Enforcement Section* (for the telecommunications industry) are responsible for conducting discovery, presenting staff positions, presenting any staff testimony, and cross-examining other parties' witnesses. In conjunction with the appropriate technical staff, this office prepares recommendations to the Commission and prepares written Commission orders.



Michael G. Cooke



Lee Kissel

Office of Information Technology Services

The Office of Information Technology Services is responsible for monitoring and evaluating the information processing needs of the FPSC, proposing enhancements to information processing resources to management, and providing technical support services for the FPSC. This office also provides technical and administrative support services in the areas of imaging, duplicating, mail and distribution, audio-visual, hearing and conference room operations, telephones, and fax systems.



Stephen Stoltz

Office of Inspector General

The Office of Inspector General is established by law to provide a central point for coordination of activities that promote accountability, integrity, and efficiency in government. Reporting directly to the Chairman, this office's major responsibilities include conducting audits and internal investigations, assessing the validity and reliability of data and information produced by the Commission, and monitoring corrective actions undertaken to address identified deficiencies. This office routinely reviews Commission programs to identify priorities for audits based on risk of fraud or nonperformance. Results of these audits are submitted to agency management to provide an objective basis for improving the efficiency and effectiveness of Commission operations to help ensure that the Commission can achieve its mission and goals.



Anthony De Luise

Office of Public Information

The Office of Public Information functions as the Commission's liaison with the media and the public. Daily activities include drafting and publishing news releases on Commission meetings and decisions and responding to media information requests. This office monitors the daily reporting activities of dozens of state, regional, and national media outlets to ensure that timely, accurate information regarding Commission decisions is disseminated to consumers. In this capacity, this office maintains familiarity with a broad array of dockets and related activities affecting ratepayers, as well as current media issues.

Office of Standards Control and Reporting

The Office of Standards Control and Reporting (SCR) drafts and edits operating procedures so that procedures are implemented consistently across all Commission divisions and offices. SCR also oversees production of FPSC reports for the purpose of consistency with agency position and to eliminate duplication among reports. This office maintains a listing of Commission reports and other publications as well as electronic or paper copies of many of those documents. SCR provides graphic design services and is involved in the production of many of the Commission's reports. Agency brochures and other consumer education materials are produced by SCR. SCR also coordinates responses to surveys concerning utility regulation which are received from other state or federal agencies as well as various research groups. Another role of this office is to oversee the FPSC Web site ensuring that the Web site is useful, current, accurate, and easy to use.



Richard Tudor

Office of Strategic Analysis and Governmental Affairs

The Office of Strategic Analysis and Governmental Affairs (SGA) has two primary functions. First, this office is responsible for the FPSC's long range program planning including critically assessing the evolving utility regulatory roles of the FPSC and developing proposed strategies which focus the agency's regulatory efforts on those areas which most benefit Florida's citizens. To help accomplish this goal, this office serves as liaison with other state agencies, federal regulatory agencies, and the Governor's Office of Planning and Budgeting as new program initiatives arise. Second, this office also is responsible for maintaining official liaison with the Legislature on all matters affecting the Florida Public Service Commission. The intent is to avoid uncoordinated representation before the Legislature on matters affecting the Commission's program areas. This office reviews relevant bills, provides analysis, and monitors committee meetings. When members of the Legislature or legislative staff request information from a Commission employee, or when contact between the Legislature and an employee is made, SGA ensures any requested information is provided.



Jim Dean

Florida Public Service Commissioner History

Commissioner	Years Served	Replaced By	Appointed By
George G. McWhorter	08/17/1887 - 06/13/1891		
E.J. Vann	08/17/1887 - 06/13/1891		
William Himes	08/17/1887 - 06/13/1891		
The Commission was abolished by the Legislature in 1891, recreated 1897			
R. H. M Davidson	07/01/1897 - 01/03/1899	John L. Morgan	
John M. Bryan	07/01/1897 - 01/06/1903	Jefferson B. Brown	
Henry E. Day	07/01/1897 - 10/01/1902	R. Hudson Burr	
John L. Morgan	01/03/1899 - 01/08/1907	Royal C. Dunn	
R. Hudson Burr	10/01/1902 - 01/04/1927	R. L. Eaton	
Jefferson B. Brown	01/06/1903 - 01/08/1907	Newton A. Blitch	
Newton A. Blitch	01/08/1907 - 10/30/1921	A. D. Campbell	
Royal C. Dunn	01/04/1909 - 01/04/1921	A. S. Wells	
A. S. Wells	01/04/1921 - 12/16/1930	L. D. Reagin	
A. D. Campbell	11/12/1922 - 02/10/1924	E. S. Mathews	
E. S. Mathews	02/25/1924 - 01/16/1946	Wilbur C. King	
R. L. Eaton	01/04/1927 - 02/27/1927	Mamie Eaton-Greene	
Mamie Eaton-Greene	02/27/1927 - 01/08/1935	Jerry W. Carter	
L. D. Reagin	12/16/1930 - 07/06/1931	Tucker Savage	
Tucker Savage	07/06/1931 - 01/03/1933	W. B. Douglass	
W. B. Douglass	01/03/1933 - 08/04/1947	Richard A. Mack	
Jerry W. Carter	01/08/1935 - 01/05/1971	William H. Bevis	
Wilbur C. King	01/08/1947 - 07/18/1964	William T. Mayo	
Richard A. Mack	09/15/1947 - 01/05/1955	Alan S. Boyd	
Alan S. Boyd	01/05/1955 - 12/01/1959	Edwin L. Mason	
Edwin L. Mason	12/01/1959 - 01/06/1969	Jess Yarborough	
William T. Mayo	09/01/1964 - 12/31/1980	Katie Nichols	Graham*
Jess Yarborough	01/06/1969 - 01/02/1973	Paula F. Hawkins	
William H. Bevis	01/05/1971 - 01/03/1978	Robert T. Mann	
Paula F. Hawkins	01/02/1973 - 03/21/1979	John R. Marks, III	
Robert T. Mann***	01/04/1978 - 01/03/1981	Susan Leisner	Graham**
The Commission became appointive January 1, 1979			
Joseph P. Cresse***	01/02/1979 - 12/31/1985	John T. Herndon	Askew/Graham
Gerald L. Gunter***	01/02/1979 - 06/12/1991	Susan F. Clark	Askew/Graham/PSC Nominating Council
John R. Marks, III***	03/22/1979 - 03/02/1987	Thomas M. Beard	Graham**
Katie Nichols***	01/02/1981 - 01/03/1989	Betty Easley	Graham
Susan Leisner	02/16/1981 - 04/02/1985	Michael McK. Wilson	Graham
Michael McK. Wilson***	07/12/1985 - 11/22/1991	Luis J. Lauredo	Graham/Martinez
John T. Herndon	01/07/1986 - 04/17/1990	Frank S. Messersmith	Graham
Thomas M. Beard***	03/03/1987 - 08/13/1993	Diane K. Kiesling	Martinez
Betty Easley	01/03/1989 - 01/05/1993	Julia L. Johnson	Martinez
Frank S. Messersmith	06/19/1990 - 02/05/1991	J. Terry Deason	Martinez
J. Terry Deason***	02/06/1991 - 01/01/2007		PSC Nominating Council/Chiles/Bush
Susan F. Clark***	08/15/1991 - 07/31/2000	Michael A. Palecki	Chiles/Bush
Luis J. Lauredo	01/23/1992 - 05/16/1994	Jose "Joe" Garcia	Chiles
Julia L. Johnson***	01/05/1993 - 11/15/1999	Lila A. Jaber	Chiles
Diane K. Kiesling	12/07/1993 - 01/05/1998	E. Leon Jacobs, Jr.	Chiles
Jose "Joe" Garcia***	08/19/1994 - 06/30/2000	Braulio L. Baez	Chiles
E. Leon Jacobs, Jr.***	01/06/1998 - 01/07/2002	Rudolph K."Rudy" Bradley	Chiles
Lila A. Jaber***	02/29/2000 - 12/02/2004	Lisa Polak Edgar	Bush
Braulio L. Baez***	09/01/2000 - 01/01/2006	Katrina J. Tew	Bush
Michael A. Palecki	12/19/2000 - 01/06/2003	Charles Davidson	Bush
Rudolph K. "Rudy" Bradley***	01/02/2002 - 01/01/2006	Matthew M. Carter II	Bush
Charles M. Davidson	01/07/2003 - 06/01/2005	Isilio Arriaga	Bush
Lisa Polak Edgar***	01/02/2005 - 01/05/2009		Bush
Isilio Arriaga	10/06/2005 - 01/01/2007		Bush
Matthew M. Carter II	01/02/2006 - 01/01/2010		Bush
Katrina J. Tew	01/02/2006 - 01/01/2010		Bush

* 2 year initial term

** 3 year initial term

*** Served/Serving as Chairman