

BEFORE THE PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery  
clause with generating performance incentive  
factor.

DOCKET NO. 040001-EI  
ORDER NO. PSC-04-1087-PHO-EI  
ISSUED: November 4, 2004

Pursuant to Notice and in accordance with Rule 28-106.209, Florida Administrative Code, a Prehearing Conference was held on October 25, 2004, in Tallahassee, Florida, before Commissioner Rudolph "Rudy" Bradley, as Prehearing Officer.

APPEARANCES:

JOHN T. BUTLER, ESQUIRE, Steel, Hector & Davis LLP, 200 South Biscayne Blvd., Suite 4000, Miami, Florida 33131-2398 and R. WADE LITCHFIELD, ESQUIRE, and NATALIE F. SMITH, ESQUIRE, 700 Universe Boulevard, Juno Beach, Florida 33408  
On behalf of Florida Power & Light Company (FPL).

NORMAN H. HORTON, JR., ESQUIRE, Messer, Caparello & Self, P.A., Post Office Box 1876, Tallahassee, Florida 32302-1876  
On behalf of Florida Public Utilities Company (FPUC).

JEFFREY A. STONE, ESQUIRE, and RUSSELL A. BADDERS, ESQUIRE, Beggs & Lane, Post Office Box 12950, Pensacola, Florida 32591-2950  
On behalf of Gulf Power Company (GULF).

JAMES A. MCGEE, ESQUIRE, Progress Energy Florida, Post Office Box 14042 St. Petersburg, Florida 33733 and BONNIE E. DAVIS, ESQUIRE, Progress Energy Florida, 106 East College Avenue, Suite 800, Tallahassee, Florida 32301  
On behalf of Progress Energy Florida (PEF).

JAMES D. BEASLEY, ESQUIRE, Ausley & McMullen, Post Office Box 391, Tallahassee, Florida 32302  
On behalf of Tampa Electric Company (TECO).

JON C. MOYLE, JR., ESQUIRE, and WILLIAM H. HOLLIMON, ESQUIRE, Moyle, Flanigan, Katz, Raymond and Sheehan, P.A., The Perkins House, 118 North Gadsden Street, Tallahassee, Florida 32301  
On behalf of Thomas K. Churbuck (CHURBUCK).

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On behalf of Florida Industrial Power Users Group (FIPUG).

PATRICIA A. CHRISTENSEN, ESQUIRE, Associate Public Counsel, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, Room 812, Tallahassee, Florida 32399-1400  
On behalf of the Citizens of the State of Florida (OPC).

ADRIENNE E. VINING, ESQUIRE, and WM. COCHRAN KEATING, IV, ESQUIRE, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850  
On behalf of the Florida Public Service Commission.

## **PREHEARING ORDER**

### **I. CONDUCT OF PROCEEDINGS**

Pursuant to Rule 28-106.211, Florida Administrative Code, this Order is issued to prevent delay and to promote the just, speedy, and inexpensive determination of all aspects of this case.

### **II. CASE BACKGROUND**

As part of the Commission's continuing fuel and purchased power cost recovery clause and generating performance incentive factor proceedings, an administrative hearing is set for November 8-10, 2004, to address the issues set forth in the body of this Prehearing Order. The Commission has the option to render a bench decision on any or all of the issues set forth herein.

### **III. JURISDICTION**

This Commission is vested with jurisdiction over the subject matter by the provisions of Chapter 366, Florida Statutes. This hearing will be governed by said Chapter and Chapters 25-22, and 28-106, Florida Administrative Code.

### **IV. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION**

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida

Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 366.093, Florida Statutes.

**B.** It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 366.093, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

1. Any parties intending to utilize confidential documents at hearing for which no ruling has been made, must be prepared to present their justifications at hearing, so that a ruling can be made at hearing.

2. In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- a) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 366.093, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the confidential nature of the information is preserved as required by statute.
- b) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.
- c) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.
- d) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore,

confidential information should be presented by written exhibit when reasonably possible to do so.

- e) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Division of Commission Clerk and Administrative Service's confidential files.

#### V. POST-HEARING PROCEDURES

A bench decision may be made at the conclusion of the hearing, in which case post-hearing statements and briefs will not be necessary. If no bench decision is made, each party shall file a post-hearing statement of issues and positions. A summary of each position of no more than 50 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of the prehearing order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 50 words, it must be reduced to no more than 50 words. If a party fails to file a post-hearing statement, that party shall have waived all issues and may be dismissed from the proceeding.

Pursuant to Rule 28-106.215, Florida Administrative Code, a party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 40 pages, and shall be filed at the same time.

#### VI. PREFILED TESTIMONY AND EXHIBITS; WITNESSES

Testimony of all witnesses to be sponsored by the parties (and Staff) has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Summaries of testimony shall be limited to five minutes. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

The Commission frequently administers the testimonial oath to more than one witness at a time. Therefore, when a witness takes the stand to testify, the attorney calling the witness is directed to ask the witness to affirm whether he or she has been sworn.

VII. ORDER OF WITNESSES

As a result of discussions at the prehearing conference, each witness whose name is preceded by an asterisk (\*) has been excused from this hearing if no Commissioner assigned to this case seeks to cross-examine the particular witness. Parties shall be notified as to whether any such witness shall be required to be present at the hearing. The testimony of excused witnesses will be inserted into the record as though read, and all exhibits submitted with those witnesses' testimony shall be identified as shown in Section X of this Prehearing Order and be admitted into the record.

| <u>Witness</u>      | <u>Proffered By</u> | <u>Issues #</u>  |
|---------------------|---------------------|--|
| <u>Direct</u>       |                     |  |
| *G Yupp             | FPL                 | 1, 2, 3, 4, 5, 6, 7, 8, 9  |
| *J. R. Hartzog      | FPL                 | 1, 2, 3, 4, 5, 6, 7, 8, 9, 31A   |
| K. M. Dubin         | FPL                 | 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 23, 24, 25, 26, 27, 28, 31A                     |
| T. Hartman          | FPL                 | 14B, 14C   |
| *P. Sonnelitter     | FPL                 | 17, 18   |
| *George M. Bachman  | FPUC                | 1, 2, 3, 4, 5, 6, 7, 8, 9  |
| *H. R. Ball         | GULF                | 1, 2   |
| *T. A. Davis        | GULF                | 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 24, 25, 26, 27, 28, 29                          |
| *L. S. Noack        | GULF                | 18, 19, 22A, 22B, 22C  |
| *H. Homer Bell, III | GULF                | 1, 2, 10, 11, 12, 24, 25, 27   |
| Javier Portuondo    | PEF                 | 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13A, 13B, 13G, 13I, 24, 25, 26, 27, 28, 29, 30A |

| <u>Witness</u>    | <u>Proffered By</u> | <u>Issues #</u>   |
|-------------------|---------------------|---|
| *Pamela R. Murphy | PEF                 |   |
| *Samuel S. Waters | PEF                 | 13C, 13E  |
| *Michael F. Jacob | PEF                 | 18, 19  |
| David R. Knapp    | TECO                | 18, 19  |
| Benjamin F. Smith | TECO                | 17E, 17F  |
| *Joann T. Wehle   | TECO                | 17A, 17B  |
| J. Denise Jordan  | TECO                | 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 17C, 24, 25, 26, 27, 28, 29, 33A |
| David E. Dismukes | CHURBUCK/FIPUG      | 14A, 14B, 14C   |
| Kerrick Knauth    | FIPUG               | 13D, 13F, 14A, 14B, 14C   |
| Michael F. Vogt   | FIPUG               | 13D, 13F, 14A, 14B, 14C   |
| <u>Rebuttal</u>   |                     |   |
| T. Hartman        | FPL                 | 14B, 14C  |
| *Samuel S. Waters | PEF                 | 13C, 13E  |
| J. Denise Jordan  | TECO                | 33A   |

#### VIII. BASIC POSITIONS

**FPL:** None necessary.

**FPUC:** FPUC has properly projected its costs and calculated its true-up amounts and purchased power cost recovery factors. Those amounts and factors should be approved by the Commission.

**GULF:** It is the basic position of Gulf Power Company that the fuel factors proposed by the Company present the best estimate of Gulf's fuel expense for the period

January 2005 through December 2005 including the true-up calculations, GPIF and other adjustments allowed by the Commission.

**PEF:** None necessary.

**TECO:** The Commission should approve Tampa Electric's calculation of its fuel adjustment, capacity cost recovery and GPIF true-up and projection calculations, including the proposed fuel adjustment factor of 3.936 cents per KWH before application of factors which adjust for variations in line losses; the proposed capacity cost recovery factor of 0.302 cents per KWH before applying the 12CP and 1/13<sup>th</sup> allocation methodology; a GPIF penalty of \$3,678,414 and approval of the company's proposed GPIF targets and ranges for the forthcoming period. Tampa Electric also requests approval of its calculated wholesale incentive benchmark of \$1,222,083 for calendar year 2005.

**CHURBUCK:** FPL seeks Commission approval of agreements with Southern Company Service, Inc. (SCSI), a subsidiary of the Southern Company totaling approximately 955 megawatts. FPL seeks approval of these arrangements six years before the power is needed. FPL asks the Commission to "pre-approve" these contracts without FPL first either soliciting or thoroughly evaluating alternative proposals to ensure that these contracts represent the best option to meet the future needs of FPL consumers, including Churbuck, at the lowest possible cost. Churbuck alleges that the contracts for which FPL seeks approval include costs that are unreasonable and not ripe for approval at this time. Additionally, Churbuck questions whether the Commission can find the pricing of the contracts is fair, reasonable and not excessive when SCSI and its corporate affiliates failed, by their own submission, one of the indicative tests used by the Federal Energy Regulatory Commission ("FERC") for determining market power. Churbuck suggests that FPL's requested approval of these contracts, and all attendant issues, be placed into a separate docket to enable the parties, staff and the Commission adequate time and opportunity to consider FPL's request for approval of these contracts, or, in the alternative, that approval of these contracts be denied.

**FIPUG:** In addition to the "traditional" fuel issues considered by the Commission each year, several specific issues have arisen which the Commission must consider.

First, FPL seeks Commission approval of Unit Power Sales (UPS) agreements with Southern Company totaling approximately 900 megawatts. FPL seeks approval of these arrangements six years before the power is needed and without first either soliciting or thoroughly evaluating alternative proposals. Under the Commission's guaranteed cost recovery mechanisms, consumers bear the full risk of these purchased power contracts. FIPUG companies are captive customers of

FPL. They are entitled to assurance that FPL has met its fiduciary responsibility to customers to fully survey and analyze all options available to meet the capacity needs of its retail customers at the possible lowest cost. Given the magnitude of these agreements, the fact that the power would not be delivered until 2010, as well as the timing of FPL's request, the appropriate analysis cannot be performed in the truncated annual fuel proceeding, as the Commission recognized in last year's fuel adjustment proceeding. The Commission should deny FPL's request at this time.

Second, the Commission should not approve Progress Energy's last minute request, filed on October 25th (two weeks before hearing) to increase the 2005 fuel adjustment factor by \$25 million. Progress' filing was made too late in the process for the parties to have an opportunity to appropriately analyze the propriety of this amount. Though Progress did make a witness available for deposition shortly the filing of its testimony, the witness had little specific information regarding the request.

Third, the Commission should not approve TECo's GPIF award request. The availability of TECo's Big Bend units has continued to decline. Their projected availability is lower than in past years when TECo was penalized for the plant's performance. This year, TECo seeks a reward for this continuing declining performance. Ratepayers should not have to reward TECo for poor performance.

Finally, the Commission should find that the costs TECo seeks to flow through the clause for the Hardee Power Purchase contract are not reasonable and should be reduced.

**OPC:** None at this time.

**STAFF:** Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions.



IX. ISSUES AND POSITIONS

FIPUG does not enter into, but takes no position on, the proposed stipulations listed in Section IX, except for those proposed stipulations listed for Issues 9 and 17C. For Issues 9 and 17C, FIPUG joins the proposed stipulation.

**GENERIC FUEL ADJUSTMENT ISSUES**

**ISSUE 1: What are the appropriate final fuel adjustment true-up amounts for the period January 2003 through December 2003?**

**POSITIONS:**

**FPL:** \$41,808,676 over-recovery. (Dubin)

**FPUC:** Marianna: \$280,576 (underrecovery)  
Fernandina Beach: \$535,273 (overrecovery)

**GULF:** Over recovery \$2,535,018. (Ball, Bell, Davis)

**PEF:** \$173,450,042 under-recovery. (Portuondo)

**TECO:** \$39,039,043 over-recovery. (Jordan)

**CHURBUCK:** No position.

**FIPUG:** No position.

**OPC:** No position pending evidence adduced at the hearing.

**STAFF:** FPL: Agrees with FPL's position.  
FPUC-Fernandina Beach: Agrees with FPUC's position.  
FPUC-Marianna: Agrees with FPUC's position.  
GULF: Agrees with Gulf's position.  
PEF: Agrees with PEF's position.  
TECO: Agrees with TECO's position.

This issue is stipulated with respect to FPL, FPUC, Gulf, and TECO.

**ISSUE 2:**     **What are the appropriate estimated fuel adjustment true-up amounts for the period January 2004 through December 2004?**

**POSITIONS:**

**FPL:**             \$182,196,299 under-recovery. (Dubin)

**FPUC:**           Marianna:             \$230,633     (underrecovery)  
                  Fernandina Beach:   \$1,907,817   (underrecovery)

**GULF:**           Under recovery \$29,107,969. (Ball, Bell, Davis)

**PEF:**             \$9,703,020 over-recovery. (Portuondo)

**TECO:**           \$70,023,368 under-recovery. (Jordan)

**CHURBUCK:**    No position.

**FIPUG:**          No position pending evidence adduced at the hearing.

**OPC:**            No position pending evidence adduced at the hearing.

**STAFF:**        **FPL:**                     Agrees with FPL's position.  
                  **FPUC-Fernandina Beach:**   Agrees with FPUC's position.  
                  **FPUC-Marianna:**            Agrees with FPUC's position.  
                  **GULF:**                     Agrees with Gulf's position.  
                  **PEF:**                     No position pending evidence adduced at the hearing.  
                  **TECO:**                    Agrees with TECO's position.

This issue is stipulated with respect to FPUC and Gulf.

**ISSUE 3:**     **What are the appropriate total fuel adjustment true-up amounts to be collected/refunded from January 2005 to December 2005?**

**POSITIONS:**

**FPL:**             Agrees with Staff's position. (Dubin)

**FPUC:**           Marianna:             Agrees with Staff's position.  
                  Fernandina Beach:   Agrees with Staff's position.

**GULF:** Agrees with Staff's position. (Davis)

**PEF:** \$84,589,752 under-recovery, based on PEF's proposal to defer \$79,157,270, the remainder of the total December 2004 under-recovery balance of \$163,747,022, for recovery until 2006. (Portuondo)

**TECO:** Agrees with Staff's position. (Jordan)

**CHURBUCK:** No position.

**FIPUG:** No position pending evidence adduced at the hearing.

**OPC:** No position pending evidence adduced at the hearing.

**STAFF:**

|                        |  |
|------------------------|--|
| FPL:                   | \$140,387,623 under-recovery to be collected.        |
| FPUC-Fernandina Beach: | \$1,372,544 under-recovery to be collected.          |
| FPUC-Marianna:         | \$511,209 under-recovery to be collected.            |
| GULF:                  | \$26,572,951 under-recovery to be collected.         |
| PEF:                   | No position pending evidence adduced at the hearing. |
| TECO:                  | \$30,984,325 under-recovery to be collected.         |

This issue is stipulated with respect to FPUC and Gulf.

**STIPULATED**

**ISSUE 4:** **What is the appropriate revenue tax factor to be applied in calculating each investor-owned electric utility's levelized fuel factor for the projection period January 2005 through December 2005?**

**POSITION:**

**FPL:** 1.01597 (Dubin)

**FPUC:** Marianna: 1.00072  
Fernandina Beach: 1.00072

**GULF:** 1.00072. (Davis)

**PEF:** 1.00072 (Portuondo)

**TECO:** The appropriate revenue tax factor is 1.00072. (Jordan)

**ISSUE 5:** What are the appropriate projected net fuel and purchased power cost recovery amounts to be included in the recovery factors for the period January 2005 through December 2005?

**POSITIONS:**

**FPL:** Agrees with Staff's position. (Dubin)

**FPUC:** Marianna: Agrees with Staff's position.  
Fernandina Beach: Agrees with Staff's position.

**GULF:** Agrees with Staff's position. (Davis)

**PEF:** \$1,584,199,378 (Portuondo)

**TECO:** Agrees with Staff's position. (Jordan)

**CHURBUCK:** No position.

**FIPUG:** No position at this time. This cannot be determined until the resolution of the company specific issues.

**OPC:** No position at this time. This cannot be determined until the resolution of the company specific issues.

**STAFF:**

|                        |   |
|------------------------|---|
| FPL:                   | \$4,056,267,250                                       |
| FPUC-Fernandina Beach: | \$16,513,476  |
| FPUC-Marianna:         | \$13,266,718  |
| GULF:                  | \$311,146,808   |
| PEF:                   | No position pending resolution of outstanding issues. |
| TECO:                  | \$696,332,183   |

This issue is stipulated with respect to FPUC and Gulf.

**ISSUE 6:** What are the appropriate levelized fuel cost recovery factors for the period January 2005 through December 2005?

**POSITIONS:**

**FPL:** 4.001 cents/k Wh (Dubin)

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**FPUC:** Marianna: 2.681¢/kwh  
Fernandina Beach: 2.326¢/kwh

**GULF:** 2.822. (Davis)

**PEF:** 3.932 cents per kWh (adjusted for jurisdictional losses). (Portuondo)

**TECO:** The appropriate factor is 3.776 cents per KWH before the normal application of factors that adjust for variations in line losses. (Jordan)

**CHURBUCK:** No position.

**FIPUG:** No position at this time. This cannot be determined until the resolution of the company specific issues.

**OPC:** No position at this time. This cannot be determined until the resolution of the company specific issues.

**STAFF:** FPL: Agrees with FPL's position.  
FPUC-Fernandina Beach: Agrees with FPUC's position.  
FPUC-Marianna: Agrees with FPUC's position.  
Gulf: Agrees with Gulf's position.  
PEF: No position pending resolution of outstanding issues.  
TECO: Agrees with TECO's position.

This issue is stipulated with respect to FPUC and Gulf.

**STIPULATED**

**ISSUE 7:** What are the appropriate fuel recovery line loss multipliers to be used in calculating the fuel cost recovery factors charged to each rate class/delivery voltage level class?

**POSITION:**

**FPL:** The appropriate Fuel Cost Recovery Loss Multipliers are provided in response to Issue No. 8. (Dubin)

**FPUC:** Marianna: 1.0000 All Rate Schedules  
Fernandina Beach: 1.0000 All Rate Schedules

**GULF:** See table below: (Davis)

| <b>Group</b> | <b>Rate Schedules</b>   | <b>Line Loss Multipliers</b> |
|--------------|-------------------------|------------------------------|
| A            | RS, GS, GSD, SBS, OSIII | 1.00526                      |
| B            | LP, LPT, SBS            | 0.98890                      |
| C            | PX, PXT, RTP, SBS       | 0.98063                      |
| D            | OSI/II                  | 1.00529                      |

**PEF:**

| <u>Group</u> | <u>Delivery Voltage Level</u> | <u>Line Loss Multiplier</u> |
|--------------|-------------------------------|-----------------------------|
| A.           | Transmission                  | 0.9800                      |
| B.           | Distribution Primary          | 0.9900                      |
| C.           | Distribution Secondary        | 1.0000                      |
| D.           | Lighting Service              | 1.0000                      |

(Portuondo)

**TECO:**

The appropriate fuel recovery line loss multipliers are as follows:

| <u>Rate Schedule</u>         | <u>Fuel Recovery Loss Multiplier</u> |
|------------------------------|--------------------------------------|
| RS, GS and TS                | 1.0041                               |
| RST and GST                  | 1.0041                               |
| SL-2, OL-1 and OL-3          | N/A                                  |
| GSD, GSLD, and SBF           | 1.0004                               |
| GSDT, GSLDT, EV-X and SBFT   | 1.0004                               |
| IS-1, IS-3, SBI-1, SBI-3     | 0.9754                               |
| IST-1, IST-3, SBIT-1, SBIT-3 | 0.9754                               |

(Jordan)

**ISSUE 8: What are the appropriate fuel cost recovery factors for each rate class/delivery voltage level class adjusted for line losses?**

**POSITIONS:**

**FPL:**

| GROUP | RATE SCHEDULE          | AVERAGE FACTOR | FUEL RECOVERY LOSS MULTIPLIER | FUEL RECOVERY FACTOR |
|-------|------------------------|----------------|-------------------------------|----------------------|
| A     | RS-1,GS-1,SL2          | 4.001          | 1.00201                       | 4.009                |
| A-1*  | SL-1,OL-1,PL-1         | 3.949          | 1.00201                       | 3.957                |
| B     | GSD-1                  | 4.001          | 1.00194                       | 4.008                |
| C     | GSLD-1 & CS-1          | 4.001          | 1.00097                       | 4.004                |
| D     | GSLD-2,CS-2,OS-2 & MET | 4.001          | .99390                        | 3.976                |
| E     | GSLD-3 & CS-3          | 4.001          | .95678                        | 3.828                |

\*WEIGHTED AVERAGE 16% ON-PEAK AND 84% OFF-PEAK

TIME OF USE RATES

|   |                     |       |         |       |
|---|---------------------|-------|---------|-------|
| A | RST-1,GST-1         |       |         |       |
|   | ON-PEAK             | 4.246 | 1.00201 | 4.254 |
|   | OFF-PEAK            | 3.892 | 1.00201 | 3.900 |
| B | GSDT-1,CILC-1(G)    |       |         |       |
|   | ON-PEAK             | 4.246 | 1.00194 | 4.254 |
|   | OFF-PEAK            | 3.892 | 1.00194 | 3.900 |
| C | GSLDT-1 & CST-1     |       |         |       |
|   | ON-PEAK             | 4.246 | 1.00097 | 4.250 |
|   | OFF-PEAK            | 3.892 | 1.00097 | 3.896 |
| D | GSLDT-2 & CST-2     |       |         |       |
|   | ON-PEAK             | 4.246 | .99513  | 4.225 |
|   | OFF-PEAK            | 3.892 | .99513  | 3.873 |
| E | GSLDT-3,CST-3       |       |         |       |
|   | CILC-1(T)&ISST-1(T) |       |         |       |
|   | ON-PEAK             | 4.246 | .95678  | 4.062 |
|   | OFF-PEAK            | 3.892 | .95678  | 3.724 |
| F | CILC-1(D) &         |       |         |       |

|           |       |        |       |
|-----------|-------|--------|-------|
| ISST-1(D) |       |        |       |
| ON-PEAK   | 4.246 | .99349 | 4.218 |
| OFF-PEAK  | 3.892 | .99349 | 3.867 |

(DUBIN)

**FPUC:** Marianna:

| <u>Rate Schedule</u> | <u>Adjustment</u> |
|----------------------|-------------------|
| RS                   | \$.04355          |
| GS                   | \$.04303          |
| GSD                  | \$.04111          |
| GSLD                 | \$.03893          |
| OL, OL1              | \$.03393          |
| SL, SL2, SL3         | \$.03429          |

Fernandina Beach:

| <u>Rate Schedule</u> | <u>Adjustment</u> |
|----------------------|-------------------|
| RS                   | \$.03639          |
| GS                   | \$.03520          |
| GSD                  | \$.03405          |
| GSLD                 | \$.03332          |
| OL                   | \$.02561          |
| SL                   | \$.02584          |

**GULF:** See table below: (Davis)

| Group | Rate Schedules*               | Line Loss Multipliers | Fuel Cost Factors ¢/KWH |             |          |
|-------|-------------------------------|-----------------------|-------------------------|-------------|----------|
|       |                               |                       | Standard                | Time of Use |          |
|       |                               |                       |                         | On-Peak     | Off-Peak |
| A     | RS, GS, GSD, GSDT, SBS, OSIII | 1.00526               | 2.837                   | 3.322       | 2.631    |
| B     | LP, LPT, SBS                  | 0.98890               | 2.791                   | 3.268       | 2.588    |



|   |                   |         |       |       |       |
|---|-------------------|---------|-------|-------|-------|
| C | PX, PXT, RTP, SBS | 0.98063 | 2.767 | 3.241 | 2.567 |
| D | OSI/II            | 1.00529 | 2.808 | N/A   | N/A   |

\*The recovery factor applicable to customers taking service under Rate Schedule SBS is determined as follows: customers with a Contract Demand in the range of 100 to 499 KW will use the recovery factor applicable to Rate Schedule GSD; customers with a Contract Demand in the range of 500 to 7,499 KW will use the recovery factor applicable to Rate Schedule LP; and customers with a Contract Demand over 7,499 KW will use the recovery factor applicable to Rate Schedule PX.

**PEF:**

Fuel Cost Factors (cents/kWh)

| <u>Group</u> | <u>Delivery Voltage Level</u> | <u>Standard</u> | <u>Time Of Use</u> |                 |
|--------------|-------------------------------|-----------------|--------------------|-----------------|
|              |                               |                 | <u>On-Peak</u>     | <u>Off-Peak</u> |
| A.           | Transmission                  | 3.859           | 4.970              | 3.384           |
| B.           | Distribution Primary          | 3.899           | 5.022              | 3.419           |
| C.           | Distribution Secondary        | 3.938           | 5.072              | 3.454           |
| D.           | Lighting Service              | 3.756           |                    |                 |

(Portuondo)

**TECO:**

The appropriate factors are as follows:

| <u>Rate Schedule</u>         | <u>Fuel Charge Factor (cents per kWh)</u> |
|------------------------------|---|
| Average Factor               | 3.776                                     |
| RS, GS and TS                | 3.791                                     |
| RST and GST                  | 4.695 (on-peak)<br>3.325 (off-peak)       |
| SL-2, OL-1 and OL-3          | 3.530                                     |
| GSD, GSLD, and SBF           | 3.778                                     |
| GSDT, GSLDT, EV-X and SBFT   | 4.678 (on-peak)<br>3.312 (off-peak)       |
| IS-1, IS-3, SBI-1, SBI-3     | 3.683                                     |
| IST-1, IST-3, SBIT-1, SBIT-3 | 4.561 (on-peak)<br>3.230 (off-peak)       |

(Jordan)

**CHURBUCK:** No position.

**FIPUG:** No position at this time. This cannot be determined until the resolution of the company specific issues.

**OPC:** No position at this time. This cannot be determined until the resolution of the company specific issues.

**STAFF:**

|                   |  |
|-------------------|--|
| FPL:              | Agrees with FPL's position.                |
| FPUC- Fernandina: | Agrees with FPUC's position.               |
| FPUC- Marianna:   | Agrees with FPUC's position.               |
| Gulf:             | Agrees with Gulf's position.               |
| PEF:              | No position pending resolution of Issue 6. |
| TECO:             | Agrees with TECO's position.               |

This issue is stipulated with respect to FPUC and Gulf.

**STIPULATED**

**ISSUE 9:** What should be the effective date of the fuel adjustment charge and capacity cost recovery charge for billing purposes?

**POSITION:** The new factors should be effective beginning with the first billing cycle for January 2005, and thereafter through the last billing cycle for December 2005. The first billing cycle may start before January 1, 2005, and the last billing cycle may end after December 31, 2005, so long as each customer is billed for twelve months regardless of when the factors became effective.

**STIPULATED**

**ISSUE 10:** What are the appropriate actual benchmark levels for calendar year 2004 for gains on non-separated wholesale energy sales eligible for a shareholder incentive?

**POSITION:**

**FPL:** \$15,133,577 (Dubin)

**GULF:** \$2,415,211. (Davis, Bell)

**PEF:** \$8,585,687 (Portuondo)

**TECO:** \$1,178,388. (Jordan)

**STIPULATED**

**ISSUE 11:** What are the appropriate estimated benchmark levels for calendar year 2005 for gains on non-separated wholesale energy sales eligible for a shareholder incentive?

**POSITION:**

**FPL:** \$13,270,095 subject to adjustments in the 2004 final true-up filing to include all actual data for the year 2004. (Dubin)

**GULF:** \$2,524,525. (Davis, Bell)

**PEF:** \$7,888,336 (Portuondo)

**TECO:** \$1,222,083. (Jordan)

**ISSUE 12:** Should Gulf Power, Florida Power & Light Company, Progress Energy Florida, Inc., and Tampa Electric Company be required to report its capacity charges and costs, estimated and actual, for wholesale capacity sales and purchases in a schedule similar in format to Schedules E-6, A-6, E-7, A-7, E-8, A-8, E-9, and A-9?

This issue was deferred from consideration in this year's proceeding at the Prehearing Conference to allow the parties the opportunity to discuss the matter further in a workshop.

**COMPANY-SPECIFIC FUEL ADJUSTMENT ISSUES**

**Progress Energy Florida**

**STIPULATED**

**ISSUE 13A:** Has Progress Energy Florida confirmed the validity of the methodology used to determine the equity component of Progress Fuels Corporation's capital structure for calendar year 2003?

**POSITION:** Yes. PEF's Audit Services Department has reviewed the analysis performed by Progress Fuels Corporation and has confirmed the appropriateness of the "short cut" method previously approved by the Commission. (Portuondo)

**ISSUE 13B:** Has Progress Energy Florida properly calculated the 2003 price for waterborne transportation services provided by Progress Fuels Corporation?

**POSITION:**

**PEF:** Yes. The waterborne transportation calculation has been properly made in accordance with the methodology consistently used for previous calculations that have been approved by the Commission. (Portuondo)

**FIPUG:** No position at this time pending evidence adduced at the hearing.

**OPC:** No position at this time pending evidence adduced at the hearing.

**STAFF:** Agrees with PEF's position.

**STIPULATED**

**ISSUE 13C:** Should the Commission defer all issues related to the purchased power agreement between Progress Energy Florida and Shady Hills Power Company, LLC to a separate docket?

**POSITION:** No.

**ISSUE 13D:** If the Commission does not defer all issues related to the purchased power agreements to a separate docket, should the Commission require Progress Energy Florida to explore alternatives in the wholesale market prior to seeking approval of the purchased power agreements?

This issue was withdrawn.

**STIPULATED**

**ISSUE 13E:** If the Commission does not defer all issues related to the purchased power agreements to a separate docket, should the Commission approve the tolling agreement between Progress Energy Florida and Shady Hills Power Company, LLC for cost recovery purposes?

**POSITION:** Yes, for the reasons described by PEF witness Waters.

**ISSUE 13F:** If the Commission does not defer all issues related to the purchased power agreements to a separate docket, should the Commission approve the Unit Power Sales (UPS) agreement between Progress Energy Florida and Southern Company for cost recovery purposes?

This issue was removed at the Prehearing Conference.

**ISSUE 13G:** Pursuant to Order No. PSC-04-0713-AS-EI, in Docket No. 031057-EI, issued July 20, 2004, has Progress Energy Florida made the appropriate adjustments to its 2004 and 2005 waterborne coal transportation costs for recovery purposes?

**POSITIONS:**

**PEF:** Yes. (Portuondo)

**FIPUG:** No position at this time pending evidence adduced at the hearing.

**OPC:** No position at this time pending evidence adduced at the hearing.

**STAFF:** No position pending further discovery and evidence adduced at the hearing.

**ISSUE 13H:** Has Progress Energy Florida provided sufficient evidence of fuel savings to justify charging depreciation and a return in the amount of approximately \$37 million related to Hines Unit 2?

This issue was removed at the Prehearing Conference.

**ISSUE 13I:** Pursuant to Order No. PSC-94-0390-FOF-EI, in Docket No. 940001-EI, issued April 4, 1994, should the Commission make an adjustment to Progress Energy Florida's 2001-2003 waterborne coal transportation costs to account for transloading costs for coal commodity contracts which are quoted FOB Barge?

**POSITIONS:**

**PEF:** The price of foreign coal purchased on the Dixie Fuels vessels has been adjusted to remove the seller's transloading costs so that the foreign coal market price proxy approved by the Commission may be properly applied. Therefore, no additional adjustment is necessary or appropriate. (Davis)

**FIPUG:** No position at this time pending evidence adduced at the hearing.

**OPC:** Progress improperly charged customers transloading expenses under the proxy for 2002-2003 for coal contracts that required delivery to Dixie Fuel barges.

**STAFF:** Agrees with PEF's position.

**Florida Power & Light Company**

**ISSUE 14A:** Should the Commission defer all issues related to the purchased power agreements between FPL and Southern Company to a separate docket?

This issue was removed at the Prehearing Conference.

**ISSUE 14B:** Should the Commission require FPL to explore other alternatives in the wholesale market prior to seeking approval of the purchased power agreements?

**POSITIONS:**

**FPL:** To preserve for its customers benefits associated with the existing UPS Agreement, FPL in fact did explore the relevant wholesale alternatives. The cost of the contracts is reasonable in comparison to the market alternatives. Moreover, a decision that requires FPL to explore other wholesale alternatives in advance of seeking approval of the PPAs has the same effect as a decision to defer the issues for consideration in another docket as indicated in FPL's response to Issue 14A, namely, the probable loss of the opportunity to preserve customer benefits of the existing UPS Agreement upon its expiration in 2010. (Hartman)

**CHURBUCK:** Yes. Captive consumers of FPL energy, such as Churbuck, suggest that the Commission should require FPL to meet its burden to prove it has fully reviewed and analyzed all options available to meet the capacity needs of its customers at the lowest possible cost. FPL has failed to provide sufficient evidence that it has met this burden.

**FIPUG:** Yes. Ratepayers are entitled to reasonable assurances that FPL has fully surveyed and analyzed all options available to meet the capacity needs of its retail customers at the lowest possible cost. FPL has failed to provide evidence that it has done so.

**OPC:** No position pending evidence adduced at the hearing.

**STAFF:** No position pending evidence adduced at the hearing.

**ISSUE 14C:** Should the Commission approve the three UPS agreements between FPL and Southern Company for cost recovery purposes?

**POSITIONS:**

**FPL:** Yes. The Scherer, Harris and Franklin Contracts (referred to as PPAs in Issues 14A and 14B) represent the most beneficial way for FPL to meet its power supply requirements in the 2010-2015 period. The cost of the contracts is reasonable in comparison to the market alternatives.

The Scherer, Harris and Franklin Contracts replace the energy and 930 MW of total capacity currently being obtained through FPL's Unit Power Sales Agreement with subsidiaries of the Southern Company, which expires on May 31, 2010. The Scherer, Harris and Franklin Contracts are intended to provide a mechanism for FPL and its customers to continue to receive benefits from importing Southern Company power through the end of 2015, benefits that otherwise will end in mid-2010. One of those benefits is positioning FPL to continue its current firm transmission rights within the Southern Company service territory. Other benefits include: (i) a reduction in energy price volatility due to the firm coal component of the contracts; (ii) the ability to purchase low cost base load energy from the Southeastern Electric Reliability Council region during off-peak periods; (iii) an increase in FPL's system reliability because the power purchased under the contracts is generated outside Florida and because natural gas for the gas-fired Harris and Franklin units is delivered from an pipeline that is independent of the two that serve FPL's plants; and (iv) the opportunity to broaden the range of generation options that FPL can consider for 2015 and beyond, as opposed to an accelerated commitment to additional natural gas generation in 2010. (Hartman)

**CHURBUCK:** No, not at this time. FPL has failed to prove that it has adequately reviewed and analyzed all alternatives to meet the needs of its consumers or that these agreements meet the capacity needs of its customers at the lowest possible cost. Additionally, FPL has failed to establish that these contracts were not influenced by market power. As SCS and its corporate affiliates have currently failed, by their own submission, one of the indicative tests used by FERC for determining market power, the Commission should not approve these contracts at this time, especially considering that energy and capacity is not due to be delivered under these contracts until the summer of 2010.

**FIPUG:** No. FPL has not demonstrated that it has adequately explored and analyzed all alternatives to meet the needs of its ratepayers and that the agreements meet the capacity needs of its retail customers at the lowest possible cost.

**OPC:** No position pending evidence adduced at the hearing.

**STAFF:** No position pending evidence adduced at the hearing.

### **Florida Public Utilities Company**

There are no company-specific issues for Florida Public Utilities Company.

### **Gulf Power Company**

There are no company-specific issues for Gulf Power Company.

### **Tampa Electric Company**

#### **STIPULATED**

**ISSUE 17A:** What is the appropriate 2003 waterborne coal transportation benchmark price for transportation services provided by affiliates of Tampa Electric Company?

**POSITION:** \$22.96 / Ton. (Wehle)

#### **STIPULATED**

**ISSUE 17B:** Has Tampa Electric Company adequately justified any costs associated with transportation services provided by affiliates of Tampa Electric Company that exceed the 2003 waterborne transportation benchmark price?

**POSITION:** This issue is moot. Tampa Electric's actual waterborne coal transportation costs were less than the waterborne transportation benchmark price. No justification is necessary.

#### **STIPULATED**

**ISSUE 17C:** Pursuant to Order No. PSC-04-0999-FOF-EI, Docket No. 031033-EI, issued October 12, 2004, has Tampa Electric Company made the appropriate adjustments to its 2004 and 2005 waterborne coal transportation costs for recovery purposes?



**POSITION:** Yes. Pursuant to the methodology set forth in Order No. PSC-04-0999-FOF-EI, Tampa Electric estimated an annual adjustment of \$15,315,000 for 2004 and \$15,315,000 for 2005 total jurisdictional fuel and net power transactions (fuel costs) for a two-year reduction of \$30,630,000. Tampa Electric has reduced its estimated 2005 fuel costs by \$30,630,000. The Company will true-up any difference, with interest, between the actual and estimated adjustment for 2004 in Tampa Electric's 2006 fuel rates.

**ISSUE 17D:** Has Tampa Electric calculated the appropriate interest on its 2003 over-recovery balance?

This issue was withdrawn.

**ISSUE 17E:** Are the fuel charges Tampa Electric expects to incur for its wholesale energy purchases from Hardee Power Partners for 2005 reasonable?

**POSITIONS:**

**TECO:** Yes. As reported in the testimony of Tampa Electric witness Benjamin F. Smith filed on September 12, 2003, in Docket No. 030001-EI, there were no changes to the contract under which Tampa Electric purchases wholesale energy from Hardee Power Partners when TECO Power Services sold its Hardee Power Partners capacity. Therefore, the expected 2005 fuel charges under this long-term power purchase agreement are still reasonable for cost recovery. (Smith)

**FIPUG:** No. The price TECo projects to pay for the Hardee Power Partners energy purchases is not reasonable.

**OPC:** No position.

**STAFF:** Agrees with TECO's position.

**STIPULATED**

**ISSUE 17F:** Should the Commission approve Tampa Electric's purchased power agreement for 150 MW of non-firm energy referenced in Benjamin F. Smith's direct testimony for cost recovery purposes?

**POSITION:** Yes. The contractual charges associated with the non-firm energy purchase appear to be reasonable and should be approved for cost recovery purposes.

**GENERIC GENERATING PERFORMANCE INCENTIVE FACTOR ISSUES**

**STIPULATED**

**ISSUE 18:** What is the appropriate generation performance incentive factor (GPIF) reward or penalty for performance achieved during the period January 2003 through December 2003 for each investor-owned electric utility subject to the GPIF?

**POSITION:** See Attachment A.

**ISSUE 19:** What should the GPIF targets/ranges be for the period January 2005 through December 2005 for each investor-owned electric utility subject to the GPIF?

**POSITIONS:**

**FPL:** Agrees with Staff's position. (Sonneltter)

**GULF:** Agrees with Staff's position. (Noack)

**PEF:** Agrees with Staff's position. (Jacob)

**TECO:** Agrees with Staff's position. (Knapp)

**CHURBUCK:** No position.

**FIPUG:** Agrees with OPC's position.

**OPC:** The GPIF targets/range for TECO for the period of January 2005 through December 2005 should not be lower than the Commission approved 2003 GPIF target/ranges. TECO should not be awarded money for performance that two years before resulted in significant penalties. Comparing TECO operating stations with similar operating stations' performances, the TECO operating stations performances and GPIF targets are unacceptably low and are significantly lower than other similar stations.

**STAFF:** See Attachment A.

This issue is stipulated with respect to FPL, Gulf, and PEF.

**COMPANY-SPECIFIC GENERATING PERFORMANCE INCENTIVE FACTOR  
ISSUES**

**Florida Power & Light Company**

There are no company-specific issues for Florida Power & Light Company.

**Progress Energy Florida**

There are no company-specific issues for Progress Energy Florida.

**Gulf Power Company**

**STIPULATED**

**ISSUE 22A: Should the Commission approve the generating units proposed by Gulf Power Company for the company's 2005 GPIF units?**

**POSITION:** Yes. The generating units proposed by Gulf Power Company for the company's 2005 GPIF units represent all of Gulf Power's qualifying base and intermediate load units for GPIF. (Noack)

**STIPULATED**

**ISSUE 22B: Should the Commission consider excluding the Daniel units from the 2004 GPIF reward/ penalty calculation due to the burning of low Btu coal at those units in some months?**

**POSITION:** Yes. In accordance with the GPIF Implementation Manual, the 2004 heat rate targets for the Daniel units were set based on those units' recent history of burning high-Btu bituminous coal. Due to economics and lower resulting costs to customers, the Daniel units switched from burning high-Btu bituminous coal to a low-Btu sub-bituminous coal blend during 2004. Because the 2004 heat rate targets are based on the units' burning high-Btu coal, the heat rate targets are not valid for the Daniel units while burning the low-Btu coal blend. Consequently, there is no reasonable way to determine what portions of the units' heat rates are due to actual unit performance and what portions are due to the lower-Btu fuel mix. The GPIF process was not established to reward or penalize units for fuel switching, and by excluding these units from the 2004 heat rate targets, Gulf Power will be neither rewarded nor penalized for this change in fuel. (Noack)

**STIPULATED**

**ISSUE 22C:** Should the Commission approve the exclusion of the Daniel units from the 2005 heat rate targets?

**POSITION:** Yes. The Daniel units are currently projected to burn a low-Btu coal blend for the 2005 time period. In accordance with the GPIF Implementation Manual, there is no historical data on which to set reasonable heat rate targets for this projected fuel burn. By excluding these units from the 2005 heat rate targets, Gulf Power is neither rewarded nor penalized for this projected fuel change. (Noack)

**Tampa Electric Company**

There are no company-specific issues for Tampa Electric Company.

**GENERIC CAPACITY COST RECOVERY FACTOR ISSUES**

**STIPULATED**

**ISSUE 24:** What are the appropriate final capacity cost recovery true-up amounts for the period January 2003 through December 2003?

**POSITIONS:**

**FPL:** \$7,050,083 under-recovery. (Dubin)

**GULF:** Over recovery of \$1,053,779. (Bell, Davis)

**PEF:** \$9,395,829 over-recovery. (Portuondo)

**TECO:** Under-recovery of \$296,014. (Jordan)

FIPUG does not waive its right to address Issue 33A after the new audit is conducted.

**ISSUE 25:** What are the appropriate estimated capacity cost recovery true-up amounts for the period January 2004 through December 2004?

**POSITIONS:**

**FPL:** \$35,909,913 under-recovery. (Dubin)

**GULF:** Over recovery of \$1,797,696. (Bell, Davis)

**PEF:** \$1,962,370 over-recovery. (Portuondo)

**TECO:** Under-recovery of \$7,372,965. (Jordan)

**CHURBUCK:** No position.

**FIPUG:** No position.

**OPC:** No position.

**STAFF:** FPL: No position pending evidence adduced at the hearing.  
GULF: Agrees with Gulf's position.  
PEF: Agrees with PEF's position.  
TECO: Agrees with TECO's position.

This issue is stipulated with respect to Gulf, PEF, and TECO. FIPUG does not waive its right to address Issue 33A after the new audit is conducted.

**ISSUE 26:** **What are the appropriate total capacity cost recovery true-up amounts to be collected/refunded during the period January 2005 through December 2005?**

**POSITIONS:**

**FPL:** \$42,959,996 under-recovery. (Dubin)

**GULF:** \$2,851,475 refund. (Davis)

**PEF:** \$11,358,199 over-recovery. (Portuondo)

**TECO:** Under-recovery of \$7,668,979. (Jordan)

**CHURBUCK:** No position.

**FIPUG:** No position.

**OPC:** No position.

**STAFF:** FPL: No position pending evidence adduced at the hearing.  
GULF: Agrees with Gulf's position.  
PEF: Agrees with PEF's position.

TECO: Agrees with TECO's position.

This issue is stipulated with respect to Gulf, PEF, and TECO. FIPUG does not waive its right to address Issue 33A after the new audit is conducted.

**ISSUE 27:** What are the appropriate projected net purchased power capacity cost recovery amounts to be included in the recovery factor for the period January 2005 through December 2005?

**POSITIONS:**

**FPL:** \$650,425,012. (Dubin)

**GULF:** \$20,368,493. (Bell, Davis)

**PEF:** \$311,001,772. (Portuondo)

**TECO:** The purchased power capacity cost recovery amount to be included in the recovery factor for the period January 2005 through December 2005, adjusted by the jurisdictional separation factor, is \$50,159,408. The total recoverable capacity cost recovery amount to be collected, including the true-up amount and adjusted for the revenue tax factor, is \$57,870,023. (Jordan)

**CHURBUCK:** No position.

**FIPUG:** No position.

**OPC:** No position.

**STAFF:** FPL: No position pending evidence adduced at the hearing.  
GULF: Agrees with Gulf's position.  
PEF: Agrees with PEF's position.  
TECO: Agrees with TECO's position.

This issue is stipulated with respect to Gulf, PEF, and TECO. FIPUG does not waive its right to address Issue 33A after the new audit is conducted.

**STIPULATED**

**ISSUE 28:** What are the appropriate jurisdictional separation factors for capacity revenues and costs to be included in the recovery factors for the period January 2005 through December 2005?

**POSITION:**

**FPL:** The appropriate jurisdictional separation factors are:  
FPSC 98.63289%  
FERC 1.36711% (Dubin)

**GULF:** 96.64872%. (Davis)

**PEF:** Base - 95.957%, Intermediate - 86.574%, Peaking - 74.562%. (Portuondo)

**TECO:** The appropriate jurisdictional separation factor is 0.9641722. (Jordan)

**ISSUE 29:** What are the appropriate capacity cost recovery factors for the period January 2005 through December 2005?

**POSITIONS:**

**FPL:**

| RATE CLASS                | CAPACITY RECOVERY<br>FACTOR (\$/KW) | CAPACITY RECOVERY<br>FACTOR (\$/KWH) |
|---------------------------|-------------------------------------|--------------------------------------|
| RS1/RST1                  | -                                   | .00697                               |
| GS1/GST1                  | -                                   | .00633                               |
| GSD1/GSDT1                | 2.51                                | -                                    |
| OS2                       | -                                   | .00473                               |
| GSLD1/GSLDT1/CS1<br>/CST1 | 2.53                                | -                                    |
| GSLD2/GSLDT2/CS2<br>/CST2 | 2.48                                | -                                    |
| GSLD3/GSLDT3/CS3<br>/CST3 | 2.53                                | -                                    |
| CILCD/CILCG               | 2.64                                | -                                    |
| CILCT                     | 2.60                                | -                                    |
| MET                       | 2.62                                | -                                    |
| OL1/SL1/PL1               | -                                   | .00121                               |
| SL2                       | -                                   | .00458                               |
| ISST1D                    | .32                                 | .15                                  |
| SST1T                     | .30                                 | .15                                  |
| SST1D1/SST1D2<br>/SST1D3  | .32                                 | .15                                  |

ISST1T .30 .15  
 (Dubin)

**GULF:** See table below: (Davis)

| <b>RATE CLASS</b> | <b>CAPACITY COST RECOVERY FACTORS<br/>¢/KWH</b> |
|-------------------|---|
| RS, RSVP          | 0.210   |
| GS                | 0.204   |
| GSD, GSDT, GSTOU  | 0.180   |
| LP, LPT           | 0.156   |
| PX, PXT, RTP, SBS | 0.131   |
| OS-I/II           | 0.090   |
| OSIII             | 0.135   |

| <b><u>PEF:</u></b> | <b><u>Rate Class</u></b>         | <b><u>CCR Factor</u></b> |
|--------------------|----------------------------------|--------------------------|
|                    | Residential                      | .875 cents/kWh           |
|                    | General Service Non-Demand       | .793 cents/kWh           |
|                    | @ Primary Voltage                | .785 cents/kWh           |
|                    | @ Transmission Voltage           | .777 cents/kWh           |
|                    | General Service 100% Load Factor | .507 cents/kWh           |
|                    | General Service Demand           | .697 cents/kWh           |
|                    | @ Primary Voltage                | .690 cents/kWh           |
|                    | @ Transmission Voltage           | .683 cents/kWh           |
|                    | Curtable                         | .630 cents/kWh           |
|                    | @ Primary Voltage                | .624 cents/kWh           |
|                    | @ Transmission Voltage           | .617 cents/kWh           |
|                    | Interruptible                    | .534 cents/kWh           |
|                    | @ Primary Voltage                | .529 cents/kWh           |
|                    | @ Transmission Voltage           | .524 cents/kWh           |
|                    | Lighting                         | .156 cents/kWh           |

(Portuondo)



**TECO:** The appropriate factors are as follows:

| <u>Rate Schedule</u>     | <u>Capacity Cost Recovery<br/>Factor (cents per kWh)</u> |
|--------------------------|--|
| Average Factor           | 0.302  |
| RS                       | 0.377  |
| GS and TS                | 0.338  |
| GSD, EV-X                | 0.278  |
| GSLD and SBF             | 0.254  |
| IS-1, IS-3, SBI-1, SBI-3 | 0.023  |
| SL-2, OL-1 and OL-3      | 0.047  |

(Jordan)

**CHURBUCK:** No position.

**FIPUG:** No position.

**OPC:** No position.

**STAFF:** FPL: No position pending evidence adduced at the hearing.  
GULF: Agrees with Gulf's position.  
PEF: Agrees with PEF's position.  
TECO: Agrees with TECO's position.

This issue is stipulated with respect to Gulf, PEF, and TECO. FIPUG does not waive its right to address Issue 33A after the new audit is conducted.

## COMPANY-SPECIFIC CAPACITY COST RECOVERY FACTOR ISSUES

### Progress Energy Florida

#### **STIPULATED**

**ISSUE 30A:** Are Progress Energy Florida's actual and projected expenses for 2003 through 2005 for its post-September 11, 2001, security measures reasonable for cost recovery purposes?

**POSITION:** The company's security measures taken in response to post 9/11/2001 security requirements are reasonable for cost recovery purposes. The final recoverable amount is subject to staff review and audit in the true-up process.

**Florida Power & Light Company**

**ISSUE 31A:** Are Florida Power & Light's actual and projected expenses for 2003 through 2005 for its post-September 11, 2001, security measures reasonable for cost recovery purposes?

**POSITIONS:**

**FPL:** Yes. FPL recommends approval of the Proposed Resolution of Issue, dated November 1, 2004, which is appended to this Order as Attachment B. (Dubin)

**FIPUG:** No position.

**OPC:** Agrees with FPL's position.

**STAFF:** No position pending evidence adduced at the hearing.

**Gulf Power Company**

There are no company-specific issues for Gulf Power Company.

**Tampa Electric Company**

**STIPULATED**

**ISSUE 33A:** Are Tampa Electric Company's actual and projected expenses for 2003 through 2005 for its post-September 11, 2001, security measures reasonable for cost recovery purposes?

**POSITION:** Section IV of ORDER NO. PSC-03-1461-FOF-EI, issued December 22, 2003, approved a process proffered by PEF witness Portuondo. The order cited a 3-step process that starts from budgeted or actual costs of each incremental project, then removes any related costs that are reflected in base rates from (or credits any offsetting savings to) the project to reduce the recoverable incremental security costs. In addition, the order approved an adjustment method proposed by staff witness Brinkley that requires an applicable base rate component be adjusted for growth or decline in energy sales.

TECO identified an incremental project that requires armed security forces and quantified its associated savings in witness Jordan's testimony filed on August 10, 2004. TECO maintained that it is only seeking recovery of incremental guards

service expenses of \$508,553 for 2004 and \$363,579 for 2005 that are based on projected armed guards expenses of \$1,461,097 and \$1,459,344 for 2004 and 2005 respectively. Further, TECO has clarified that the amounts of savings are actual current amounts for 2004. The final recoverable amount is based on actual incremental expenses which will be subject to staff review and audit in the true-up process. The company's security measures taken in response to post 9/11/2001 security requirements are reasonable for cost recovery purposes. However, due to TECO's new disclosure that a few accounts were inadvertently excluded in the prior year audit, staff will conduct a new audit for the 2003 incremental security costs in conjunction with the 2004 capacity cost audit to ensure that consistent accounts are used.

FIPUG does not waive its right to address Issue 33A after the new audit is conducted.

X. EXHIBIT LIST

| <u>Witness</u> | <u>Proffered By</u> | <u>I.D. No.</u> | <u>Description</u>   |
|----------------|---------------------|-----------------|--|
|                |                     |                 | <u>Direct</u>  |
| G. Yupp        | FPL                 | <u>GJY-1</u>    | Hedging Information  |
| G. Yupp        | FPL                 | <u>GJY-2</u>    | Appendix I/Fuel Cost Recovery Forecast Assumptions                             |
| K. M. Dubin    | FPL                 | <u>KMD-1</u>    | Appendix I and II Fuel Cost Recovery and Capacity Cost Recovery                |
| K. M. Dubin    | FPL                 | <u>KMD-2</u>    | Final True-Up Calculation – Jan. 2003 – Dec. 2003                              |
| K. M. Dubin    | FPL                 | <u>KMD-3</u>    | Appendix I and II /Fuel Cost Recovery and Capacity Cost and Recovery Estimated |
| K, M. Dubin    | FPL                 | <u>KMD-4</u>    | Actual True-Up for Jan. 2004 – Dec. 2004                                       |

| <u>Witness</u> | <u>Proffered By</u> | <u>I.D. No.</u> | <u>Description</u>  |
|----------------|---------------------|-----------------|---|
| K. M. Dubin    | FPL                 | <u>KMD-5</u>    | Appendix II/Fuel Cost Recovery E Schedules, Levelized Fuel Cost Recovery Factors for Jan. 2005 – Dec. 2005  |
| K. M. Dubin    | FPL                 | <u>KMD-6</u>    | Appendix III/Capacity Cost Recovery Factors for Jan. 2005 – Dec. 2005                                       |
| P. Sonnelitter | FPL                 | <u>PS-1</u>     | GPIF, Performance Results Jan. 2003 – Dec. 2003   |
| P. Sonnelitter | FPL                 | <u>PS-2</u>     | GPIF, Targets and Ranges, Jan. 2005 – Dec. 2005   |
| T. L. Hartman  | FPL                 | <u>TLH-1</u>    | Purchase Power Agreements, Economic Analyses, Timeline and Queue for Southern Company Transmission Requests |
| T. L. Hartman  | FPL                 | <u>TLH-2</u>    | Purchase Power Agreements, Economic Analyses, Timeline and Queue for Southern Company Transmission Requests |
| T. L. Hartman  | FPL                 | <u>TLH-3</u>    | Purchase Power Agreements, Economic Analyses, Timeline and Queue for Southern Company Transmission Requests |
| T. L. Hartman  | FPL                 | <u>TLH-4</u>    | Purchase Power Agreements, Economic Analyses, Timeline and Queue for Southern Company Transmission Requests |

| <u>Witness</u>    | <u>Proffered By</u> | <u>I.D. No.</u> | <u>Description</u>  |
|-------------------|---------------------|-----------------|---|
| T. L. Hartman     | FPL                 | <u>TLH-5</u>    | Purchase Power Agreements, Economic Analyses, Timeline and Queue for Southern Company Transmission Requests |
| T. L. Hartman     | FPL                 | <u>TLH-6</u>    | Purchase Power Agreements, Economic Analyses, Timeline and Queue for Southern Company Transmission Requests |
| T. L. Hartman     | FPL                 | <u>TLH-7</u>    | Purchase Power Agreements, Economic Analyses, Timeline and Queue for Southern Company Transmission Requests |
| T. L. Hartman     | FPL                 | <u>TLH-8</u>    | Purchase Power Agreements, Economic Analyses, Timeline and Queue for Southern Company Transmission Requests |
| George M. Bachman | FPUC                | <u>GMB-1</u>    | Composite. Schedules E1-A, E1-B, E1-B1 (for the Marianna and Fernandina Beach Divisions)                    |
| George M. Bachman | FPUC                | <u>GMB-2</u>    | Composite. Schedules E1, E1-A, E2, E7, E8, and E10 (for the Marianna and Fernandina Beach Divisions)        |
| H. R. Ball        | GULF                | <u>HRB-1</u>    | Coal Suppliers January 2003 – December 2003   |
| H. R. Ball        | GULF                | <u>HRB-2</u>    | Projected vs. actual fuel cost of generated power March 1995 – December 2005                                |
| T. A. Davis       | GULF                | <u>TAD-1</u>    | Calculation of Final True-Up 1/03 – 12/03   |

| <u>Witness</u>     | <u>Proffered By</u> | <u>I.D. No.</u> | <u>Description</u>  |
|--------------------|---------------------|-----------------|---|
| T. A. Davis        | GULF                | <u>TAD-2</u>    | Estimated true-up ' 01/04 – 12/04, Schedules E-1A, E-1B, E-1B-1, CCE-1a, CCE-1b   |
| T. A. Davis        | GULF                | <u>TAD-3</u>    | Projection -1/05 – 12/05, Schedules E-1 through E-11, H1, CCE-1, CCE-1A, CCE-1b, CCE-2  |
| L. S. Noack        | GULF                | <u>LSN-1</u>    | Gulf Power Company GPIF Results January 2005 – December 2003  |
| L. S. Noack        | GULF                | <u>LSN-2</u>    | Gulf Power Company GPIF Targets and Ranges January 2005 – December 2005   |
| H. Homer Bell, III | GULF                | <u>HHB-1</u>    | Gulf Power Company Projected Purchased Power Contract Transactions January 2005 – December 2005   |
| Javier Portuondo   | PEF                 | <u>JP-1T</u>    | True-up Variance Analysis, Capacity Cost Recovery True-up, Tiger Bay Amortization, and Schedules A1 – A9 (December 2003).   |
| Javier Portuondo   | PEF                 | <u>JP-1R</u>    | Reprojection Assumptions (Parts A-C), Capacity Cost Recovery Reprojections (Part D), and Schedules A1 – A9 (July 2004).   |
| Javier Portuondo   | PEF                 | <u>JP-1P</u>    | Forecast Assumptions (Parts A-C), Capacity Cost Recovery Factors (Part D), Hines 2 Depreciation & Return Calculations (Part E), and Schedules E1 – E10 and H1 (2005). |

| <u>Witness</u>    | <u>Proffered By</u> | <u>I.D. No.</u>          | <u>Description</u>  |
|-------------------|---------------------|--------------------------|---|
| Javier Portuondo  | PEF                 | <u>JP-1S</u>             | Updated E Schedules and Hines 2 Depreciation and Return Schedule            |
| Pamela R. Murphy  | PEF                 | <u>PRM-1T</u>            | 2003 Risk Management Plan Results Summary, and Hedging Information Summary. |
| Pamela R. Murphy  | PEF                 | <u>PRM-1P</u>            | 2005 Risk Management Plan.  |
| Michael F. Jacob  | PEF                 | <u>MFJ-1T</u>            | GPIF Reward/Penalty Schedules   |
| Michael F. Jacobs | PEF                 | <u>MFJ-1P</u>            | GPIF Targets/Ranges Schedules   |
| Samuel S. Waters  | PEF                 | <u>SSW-1</u>             | Shady Hills Tolling Agreement   |
| Samuel S. Waters  | PEF                 | <u>SSW-3</u>             | Shady Hill Cost/Benefit Summary   |
| David R. Knapp    | TECO                | <u>WAS-1<sup>1</sup></u> | Generating Performance Incentive Factor Results Jan. 2003 – Dec. 2003       |
| David R. Knapp    | TECO                | <u>DRK-1</u>             | Generating Performance Incentive Factor Estimated Jan. 2005 – Dec. 2005     |
| Joann T. Wehle    | TECO                | <u>JTW-1</u>             | Calculation of 2003 Incremental Hedging Operations and Maintenance Costs.   |

<sup>1</sup> Adopted by Witness David R. Knapp

| <u>Witness</u>    | <u>Proffered By</u> | <u>I.D. No.</u> | <u>Description</u>   |
|-------------------|---------------------|-----------------|--|
| Joann T. Wehle    | TECO                | <u>JTW-2</u>    | 2003 Transportation Benchmark Calculation<br>2003 Transportation Market Price Application<br><br>Calculation of 2005 Projected Incremental Hedging Operations and Maintenance Costs. |
| J. Denise Jordan  | TECO                | <u>JDJ-1</u>    | Fuel Cost Recovery<br>Jan. 2003 – Dec. 2003<br><br>Capacity Cost Recovery<br>Jan. 2003 – Dec. 2003   |
| J. Denise Jordan  | TECO                | <u>JDJ-2</u>    | Fuel Cost Recovery, Projected<br>Jan. 2004 – Dec. 2004<br><br>Capacity Cost Recovery, Projected<br>Jan. 2004 – Dec. 2004   |
| J. Denise Jordan  | TECO                | <u>JDJ-3</u>    | Fuel Cost Recovery, Projected<br>Jan. 2005 – Dec. 2005<br><br>Capacity Cost Recovery, Projected<br>Jan. 2005 – Dec. 2005   |
| J. Denise Jordan  | TECO                | <u>JDJ-4</u>    | Incremental Security Costs   |
| David E. Dismukes | CHURBUCK/<br>FIPUG  | <u>DED-1</u>    | Contribution of Contracts to Total Purchase Agreement  |
| David E. Dismukes | CHURBUCK/<br>FIPUG  | <u>DED-2</u>    | Merchant Facilities Located in Proximity to Contracted Units   |
| David E. Dismukes | CHURBUCK/<br>FIPUG  | <u>DED-3</u>    | Estimated Natural Gas Transmission Capacity  |



| <u>Witness</u>    | <u>Proffered By</u> | <u>I.D. No.</u> | <u>Description</u>                             |
|-------------------|---------------------|-----------------|--|
| David E. Dismukes | CHURBUCK/<br>FIPUG  | <u>DED-4</u>    | Merchant Development in SERC Region            |
| David E. Dismukes | CHURBUCK/<br>FIPUG  | <u>DED-5</u>    | Merchant Development in SERC by Subregion      |
| David E. Dismukes | CHURBUCK/<br>FIPUG  | <u>DED-6</u>    | Merchant Development in FRCC Region            |
| David E. Dismukes | CHURBUCK/<br>FIPUG  | <u>DED-7</u>    | Merchant Facilities Under Construction in SERC |
| David E. Dismukes | CHURBUCK/<br>FIPUG  | <u>DED-8</u>    | Merchant Facilities Under Development in SERC  |
| David E. Dismukes | CHURBUCK/<br>FIPUG  | <u>DED-9</u>    | Merchant Alternatives in SERC                  |
| David E. Dismukes | CHURBUCK/<br>FIPUG  | <u>DED-10</u>   | Planned Transmission Additions (Circuit Miles) |

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

XI. PROPOSED STIPULATIONS

The parties have stipulated to several issues, as shown in Section IX of this Order.

XII. PENDING MOTIONS

SEP Homestead, LLC's Motion of Non-Party for Protective Order, filed October 19, 2004; FPL's Motion for Protective Order, filed October 26, 2004; FPL's Motion to Compel, filed October 28, 2004; FIPUG's Motion for Protective Order, filed October 28, 2004; and the Joint Motion of Churbeck and FIPUG for Reconsideration of Order No. PSC-04-1018-PCO-EI, filed October 29, 2004, are pending.

XIII. PENDING CONFIDENTIALITY MATTERS

Gulf's Request for Confidential Classification of its responses to Staff's 2<sup>nd</sup> Set of Interrogatories filed November 3, 2004, is pending.

XIV. OBJECTIONS TO A WITNESS'S QUALIFICATIONS AS AN EXPERT

Pending the depositions of FIPUG's witnesses Kerrick Knauth and Michael F. Vogt and witness David E. Dismukes, who submitted testimony co-sponsored by FIPUG and Thomas K. Churbuck, and the completion of discovery, FPL reserves its right to object to Mr. Knauth's, Mr. Vogt's and/or Mr. Dismukes' qualifications as an expert.

XV. RULINGS

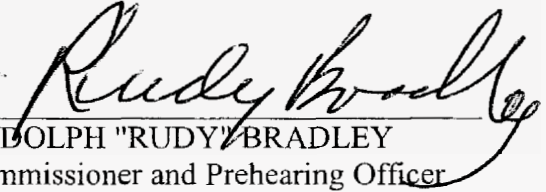
Opening statements, if any, shall not exceed ten minutes per party.

PEF's Motion for Leave to File Supplemental Testimony, filed October 25, 2004, is hereby granted.

It is therefore,

ORDERED by Commissioner Rudolph "Rudy" Bradley, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Commissioner Rudolph "Rudy" Bradley, as Prehearing Officer, this 4th day of November, 2004.

  
RUBOLPH "RUDY" BRADLEY  
Commissioner and Prehearing Officer

(SEAL)

AEV

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code; or (2) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

GPIF REWARDS/PENALTIES  
 January 2003 to December 2003

| <u>Utility</u>                  | <u>Amount</u> | <u>Reward/Penalty</u> |
|---------------------------------|---------------|-----------------------|
| Florida Power and Light Company | \$ 6,615,282  | Reward                |
| Gulf Power Company              | \$ 625,280    | Reward                |
| Progress Energy Florida         | \$ 2,139,695  | Reward                |
| Tampa Electric Company          | \$ 3,678,414  | Penalty               |

| <u>Utility/<br/>Plant/Unit</u> | <u>EAF</u>    |                            | <u>Heat Rate</u> |                            |
|--------------------------------|---------------|----------------------------|------------------|----------------------------|
|                                | <u>Target</u> | <u>Adjusted<br/>Actual</u> | <u>Target</u>    | <u>Adjusted<br/>Actual</u> |
| <u>FPL</u>                     |               |                            |                  |                            |
| Cape Canaveral 2               | 89.5          | 89.5                       | 9,030            | 9,044                      |
| Fort Lauderdale 4              | 91.7          | 93.3                       | 7,435            | 7,454                      |
| Fort Lauderdale 5              | 90.3          | 92.7                       | 7,366            | 7,416                      |
| Manatee 2                      | 87.7          | 91.1                       | 9,862            | 9,888                      |
| Martin 1                       | 91.8          | 95.9                       | 9,546            | 9,453                      |
| Martin 2                       | 83.5          | 86.9                       | 9,590            | 9,534                      |
| Martin 3                       | 92.8          | 77.0                       | 6,829            | 7,009                      |
| Martin 4                       | 93.8          | 88.1                       | 6,753            | 6,903                      |
| Turkey Point 1                 | 85.1          | 86.3                       | 9,128            | 9,191                      |
| Turkey Point 2                 | 94.9          | 93.3                       | 9,512            | 9,424                      |
| Turkey Point 3                 | 85.4          | 88.0                       | 11,148           | 11,084                     |
| Turkey Point 4                 | 85.4          | 91.8                       | 11,119           | 11,132                     |
| St. Lucie 1                    | 93.6          | 100.0                      | 10,834           | 10,824                     |
| St. Lucie 2                    | 85.4          | 85.6                       | 10,843           | 10,878                     |
| Scherer 4                      | 93.6          | 93.9                       | 9,992            | 9,958                      |

| <u>Gulf</u> | <u>Target</u> | <u>Adjusted<br/>Actual</u> | <u>Target</u> | <u>Adjusted<br/>Actual</u> |
|-------------|---------------|----------------------------|---------------|----------------------------|
| Crist 4     | 91.2          | 92.3                       | 10,591        | 10,780                     |
| Crist 5     | 89.8          | 91.4                       | 10,418        | 10,529                     |
| Crist 6     | 84.3          | 89.4                       | 10,501        | 10,400                     |
| Crist 7     | 79.5          | 89.5                       | 10,150        | 10,207                     |
| Smith 1     | 86.8          | 83.2                       | 10,029        | 10,300                     |
| Smith 2     | 67.8          | 69.3                       | 10,113        | 10,103                     |
| Daniel 1    | 70.1          | 73.4                       | 10,042        | 9,821                      |
| Daniel 2    | 83.0          | 89.2                       | 9,789         | 9,634                      |

| <u>PEF</u>      | <u>Target</u> | <u>Adjusted<br/>Actual</u> | <u>Target</u> | <u>Adjusted<br/>Actual</u> |
|-----------------|---------------|----------------------------|---------------|----------------------------|
| Anclote 2       | 89.8          | 90.1                       | 10,091        | 10,179                     |
| Crystal River 1 | 90.8          | 91.3                       | 9,742         | 9,965                      |
| Crystal River 2 | 62.6          | 70.1                       | 9,566         | 9,672                      |
| Crystal River 3 | 89.0          | 89.5                       | 10,327        | 10,249                     |
| Crystal River 4 | 91.6          | 96.8                       | 9,323         | 9,341                      |
| Crystal River 5 | 94.6          | 95.5                       | 9,340         | 9,391                      |
| Hines 1         | 85.8          | 86.6                       | 7,259         | 7,314                      |

GPIF REWARDS/PENALTIES  
January 2003 to December 2003

| <u>Utility/<br/>Plant/Unit</u> | <u>EAF</u>    |                            | <u>Heat Rate</u> |                            |
|--------------------------------|---------------|----------------------------|------------------|----------------------------|
|                                | <u>Target</u> | <u>Adjusted<br/>Actual</u> | <u>Target</u>    | <u>Adjusted<br/>Actual</u> |
| <u>TECO</u>                    |               |                            |                  |                            |
| Big Bend 1                     | 69.9          | 61.2                       | 10,533           | 10,884                     |
| Big Bend 2                     | 63.0          | 58.1                       | 10,111           | 10,522                     |
| Big Bend 3                     | 67.3          | 60.1                       | 10,132           | 10,678                     |
| Big Bend 4                     | 77.7          | 72.0                       | 10,028           | 10,297                     |
| Gannon 5                       | 71.9          | 78.3                       | 10,862           | 11,400                     |
| Gannon 6                       | 75.9          | 63.2                       | 10,775           | 11,600                     |
| Polk 1                         | 74.6          | 67.5                       | 10,382           | 10,547                     |



PROPOSED RESOLUTION OF ISSUE  
DOCKET NO. 040001-EI  
NOVEMBER 1, 2004

Background of Issue:

The Nuclear Regulatory Commission ("NRC") issued its Design Basis Threat Order EA-03-086 on April 29, 2003 (the "DBT Order"). FPL is required by the DBT Order to modify its security systems at the St. Lucie and Turkey Point nuclear units to defend against the design basis threat that has been defined pursuant to that order. FPL included \$12 million for incremental nuclear security costs in the 2004 projections that were filed in Docket No. 030001-EI, of which \$2 million was projected for compliance with the DBT Order. Since that time, the NRC has made numerous revisions and clarifications to the design basis threat originally described in the DBT Order. As a result, the scope of work required to comply with the DBT Order has increased substantially. FPL's 2004 estimated/actual true-up that was filed on August 10, 2004 in this docket included incremental nuclear security costs of \$50.2 million, of which \$40.4 million is estimated for compliance with the DBT Order. This is an increase of \$38.3 million over the original projection. Consistent with the Commission's usual procedures, FPL has proposed to recover its 2004 estimated/actual true-up of the incremental nuclear security costs through the 2005 capacity cost recovery ("CCR") factor.

The Office of Public Counsel ("OPC") does not dispute that the costs of complying with the DBT Order are incremental security costs. OPC also recognizes that the Commission's current policy is to allow recovery of necessary and prudent incremental security costs via the CCR clause. However, OPC has raised concerns about FPL's use of the 2005 CCR factor to recover the extraordinary level of incremental nuclear security costs associated with the DBT Order (the "DBT Costs"). Recovery in that manner, OPC believes, could result in an inappropriate one-time "spike" in FPL's CCR factor.

FPL and OPC have worked together to identify a mutually acceptable alternative to the CCR factor through which FPL may recover the DBT Costs. They have agreed on the proposed resolution outlined below.

Components of Proposed Resolution:

FPL will ask the Commission to approve the following, and OPC agrees to support FPL's request:

1. FPL will remove \$38.3 million of DBT Costs from the calculation of its 2005 CCR factor and will treat that amount as a deferred debit (the "DBT Deferred Debit").
2. FPL will accrue interest on the outstanding balance of the DBT Deferred Debit at the currently approved AFUDC rate of 7.29%, commencing on January 1, 2005.


3. FPL recovers via base rates an annual accrual amount to fund the estimated decommissioning costs for its St. Lucie and Turkey Point nuclear units. FPL is presently authorized and directed by Order No. PSC-02-0055-PAA-EI to accrue \$78.5 million per year for the decommissioning fund. The order directs FPL to file an updated decommissioning cost study on or before January 1, 2006, for the purpose of evaluating and adjusting, as appropriate, FPL's annual decommissioning accrual. FPL intends to file its updated decommissioning study during 2005 and to ask that the revised annual decommissioning accrual be made retroactive to January 1, 2005. FPL presently anticipates that the updated decommissioning cost study will support a reduction in the annual decommissioning accrual. For 2005, FPL will reduce the DBT Deferred Debit by the amount of any reduction in the annual decommissioning accrual that is approved by the Commission. As a simplified illustration, and ignoring the accrual of interest described in Section 2 above, if the annual decommissioning accrual were reduced by \$10 million, then the DBT Deferred Debit would be reduced from \$38.3 million to \$28.3 million in 2005.
4. The balance of the DBT Deferred Debit remaining after the adjustment described in Section 3 above will be amortized over a five year period starting on January 1, 2006; provided, however, that if FPL enters into a settlement applicable to FPL base rates commencing on January 1, 2006, the amortization will be over the time period to which the settlement applies.
5. \$40.4 million is only an estimate of the DBT Costs. The actual amount of those costs almost certainly will vary. In the event the Commission ultimately determines that the actual amount of FPL's prudent and necessary DBT Costs exceeds \$40.4 million, then the variance will be recovered via FPL's CCR factor pursuant to the Commission's usual procedures. For example, if FPL ultimately incurs \$41 million in prudent and necessary DBT Costs, then the CCR true-up will reflect an under-recovery of \$.6 million which will be included in determining the CCR factor for the subsequent year. On the other hand, if the actual amount of prudent and necessary DBT Costs is determined to be less than \$40.4 million, then the variance will reduce the amount of the DBT Deferred Debit outstanding at that time.
6. This proposed resolution is a one-time response to an extraordinary situation. FPL and OPC acknowledge, and the Commission finds, that approval of this proposed resolution will establish no precedent, and may not be used as evidence, with respect to (a) the appropriate mechanism for recovery of future incremental security costs, (b) the appropriate mechanism for recovery of any other costs through the CCR or other adjustment clauses, (c) the appropriate level of FPL's annual decommissioning accruals, or (d) the adequacy of FPL's decommissioning fund.
7. This proposed resolution may be executed in counterparts, and all such counterparts shall constitute one instrument binding on the signatories, notwithstanding that all signatories are not signatories to the original or the same



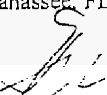
counterpart. Facsimile transmission of an executed copy of this proposed resolution shall be accepted as evidence of a party's execution of the proposed resolution.

Agreed and accepted on behalf of:

Florida Power & Light Company  
Steel Hector & Davis LLP  
Suite 4000  
200 South Biscayne Boulevard  
Miami, Florida 33131-2398

By:   
John T. Butler  
Date: 11/1/04

Office of Public Counsel  
111 West Madison Street, Suite 810  
Tallahassee, FL 32399

By:   
Harold A. McLean, Esc.  
Date: 11/1/04