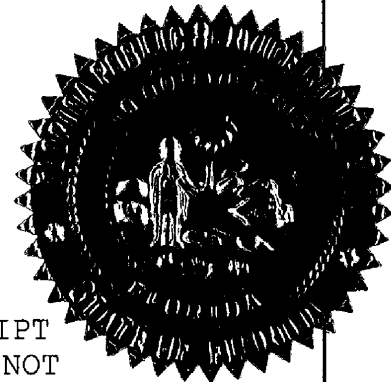


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 050001-EI

In the matter of
FUEL AND PURCHASED POWER COST
RECOVERY CLAUSE WITH GENERATING
PERFORMANCE INCENTIVE FACTOR.



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VOLUME 6

Pages 852 through 994

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN BRAULIO L. BAEZ
COMMISSIONER J. TERRY DEASON
COMMISSIONER RUDOLPH "RUDY" BRADLEY
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ISILIO ARRIAGA

DATE: Wednesday, November 8, 2005

TIME: Commenced at 9:00 a.m.
Concluded at 6:38 p.m.

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

REPORTED BY: MARY ALLEN NEEL
Registered Professional Reporter
(850) 878-2221

APPEARANCES: (As heretofore noted.)

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P R O C E E D I N G S

(Transcript follows in sequence from Volume 5.)

CHAIRMAN BAEZ: We'll go back on the record.

Mr. Twomey, your witness.

MR. TWOMEY: Thank you, Mr. Chairman. AARP will call Mr. Stephen Stewart.

CHAIRMAN BAEZ: Mr. Stewart, you were sworn; right?

THE WITNESS: Yes.

CHAIRMAN BAEZ: Very well. Thank you.

Thereupon,

STEPHEN A. STEWART

was called as a witness on behalf of AARP and, having been first sworn, testified as follows:

DIRECT EXAMINATION

BY MR. TWOMEY:

Q. Mr. Stewart, would you state your name and address for the record, please.

A. My name is Stephen A. Stewart, 2904 Tyron Circle, Tallahassee, Florida, 32309.

Q. Thank you. Now, Mr. Stewart, did you cause to be filed on October 3rd, 2005, testimony titled "Direct Testimony of Stephen A. Stewart on Behalf of AARP," consisting of 11 pages?

A. Yes, I did.

1 **Q.** Okay. Do you have any corrections to that
2 testimony?

3 **A.** Yes, a couple of minor corrections. Beginning
4 on page 8, line 4, it should be Ms. Dubin instead of
5 Mr. Dubin. And on that same line, it should be "in her
6 testimony." Line 9, again, Ms. Dubin instead of
7 Mr. Dubin. And finally, on page 9, line 4, it should be
8 "in her testimony." And I apologize to Ms. Dubin.

9 **Q.** Are those all your corrections?

10 **A.** Yes.

11 **Q.** Okay, sir. Including those corrections, if I
12 were to ask you the questions contained in your testimony,
13 would your answers be the same today?

14 **A.** Yes, they would.

15 MR. TWOMEY: Mr. Chairman, I would request that
16 Mr. Stewart's testimony be inserted into the record as
17 though read.

18 CHAIRMAN BAEZ: Without objection, show the
19 direct testimony of Stephen A. Stewart inserted into the
20 record as though read.

21
22
23
24
25

1 BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

2
3 TESTIMONY

4 OF

5 STEPHEN A. STEWART

6
7 **Q. Please state your name, address and occupation?**8 A. My name is Stephen A. Stewart. My address is 2904 Tyron Circle,
9 Tallahassee, Florida, 32309. I am testifying as a consultant for AARP in this
10 docket.11 **Q. Please describe your educational background and professional**
12 **experience?**13 A. I graduated from Clemson University with a Bachelor of Science degree in
14 Electrical Engineering in December 1984. I received a Master's degree in
15 Political Science from Florida State University in August 1990.16 From January 1985 until October 1988, I was employed with Martin
17 Marietta Corporation and Harris Corporation as a Test Engineer. I accepted
18 employment with the Office of the Auditor General in August 1990, as a program
19 auditor. In this position I was responsible for evaluating and analyzing public
20 programs to determine their impact and cost-effectiveness.21 In October 1991, I accepted a position with the Office of Public Counsel
22 ("Public Counsel") with the responsibility for analyzing accounting, financial,
23 statistical, economic and engineering data of Florida Public Service Commission
24 ("Commission")-regulated companies and for identifying issues and positions in

1 matters addressed by the Commission. I left the Public Counsel in 1994 and
2 worked as a consultant for the Florida Telephone Association for one year.

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

8 Over the last ten years I have also worked as a consultant for the Office
9 Public Counsel and AARP on a number of utility related issues.

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

11 A. I am appearing on behalf of AARP in opposition to FPL's request to
12 recover \$30 million for the St. Lucie Unit 2 steam generator tube-sleeving project
13 through the Fuel and Purchased Power Cost Recovery Clause ("fuel clause").

14 **Q. What is AARP's basis for opposing the recovery of the cost of the
15 sleeving project through the fuel clause?**

16 A. This Commission has historically limited the types of non-fuel expenses it
17 would allow electric utilities to recover from its customers through the fuel
18 clause. More specifically, at least since 1985, the Commission has either
19 specifically listed certain non-fuel expenses that could be recovered through the
20 fuel clause or established tests or standards for costs not specifically listed. Based
21 on my review of FPL's request and what appears to be the applicable Commission
22 orders, I believe FPL's request should be denied based on at least three major
23 reasons, each of which, alone, is sufficient to deny FPL's request. The primary

1 reason to deny recovery through the fuel clause is that the sleeving project is an
2 operations and maintenance (“O&M”) project, not a fuel-related expense, the
3 costs of which either was sought for recovery in the base rates case in Docket No.
4 050045-EI or should have been sought there. Additionally, given the testimony of
5 FPL witness Hartzog, the sleeving expense cannot be considered to be
6 “unanticipated,” which appears to be another qualification required by the
7 Commission’s precedents for fuel clause recovery. Second, the sleeving project is
8 not a “modification” to a generating unit that provides greater fuel economy than
9 previously existed, but, rather, a “repair” to an existing unit. Third, FPL has not
10 provided a cost-benefit analysis of the proposed project demonstrating that the
11 benefits will exceed the costs. However, even if the sleeving project is shown to
12 be cost-effective, I believe Commission precedents require that the shareholders,
13 not the customers, bear its costs given that the repairs were an anticipated O&M
14 project.

15 **Q. What is your understanding of the sleeving project for which FPL is**
16 **requesting \$30 million to be recovered through the fuel clause?**

17 A. According to Mr. Hartzog’s testimony, FPL has known at least since its
18 2001 refueling outage that its St. Lucie Unit 2 would need to have its steam
19 generators replaced in the 2010 to 2014 timeframe due to tube degradation.
20 Subsequent refueling outage inspections of the tubes revealed a faster rate of tube
21 degradation than was previously expected and the need to replace the steam
22 generators during the Fall of 2007 refueling outage. To avoid having to operate
23 the unit at a reduced power rating, FPL is proposing to “sleeve” all degraded

1 tubes above the 30 percent tube plugging limit during its Spring 2006 refueling
2 outage.

3 **Q. What support do you have for your position that the sleeving project's**
4 **costs should not be recovered from customers through the fuel clause?**

5 A. In Order No. 14546, issued July 8, 1985, the Commission approved a
6 stipulation of the parties related to what fossil fuel-related costs should be
7 recovered through the fuel clauses and adopted the stipulation's provisions as its
8 own. I believe two of those order provisions are controlling of FPL's current
9 request. The first is included in a list of charges the Commission found "properly
10 considered in the computation of the average inventory price of fuel used in the
11 development of fuel expense in the utilities' fuel cost recovery clauses." This
12 provision reads:

13 10. Fossil fuel-related costs normally recovered through base
14 rates but which were not recognized or anticipated in the cost levels
15 used to determine current base rates and which, if expended, will
16 result in fuel savings to customers. Recovery of such costs should be
17 made on a case by case basis after Commission approval.

18
19 (Emphasis supplied.) The second limiting provision states:

20
21 The following types of fossil fuel-related costs are more
22 appropriately considered in the computation of base rates:

23
24 1. Operations and maintenance expenses at generating
25 plants or system storage facilities. This includes unloading
26 and fuel handling costs at the generating plant or storage
27 facility.

28
29 (Emphasis supplied.)

30

1 It appears that the sleeving project's costs are specifically excluded by the second
2 provision quoted above since it is clearly an operations and maintenance expense
3 at a generating plant and, further, that it does not meet the exception for cost-
4 effective transactions, the costs of which were not recognized or anticipated in the
5 level of costs used to establish base rates.

6 **Q. Where do you find this exception?**

7 A. In the discussion in Order 14546 preceding the Commission's findings,
8 the Commission said the following:

9 In addition to stipulating to the foregoing applications of policy,
10 the parties also recommended to the Commission that the policy it
11 adopts be flexible enough to allow for recovery through fuel
12 adjustment clauses of expenses normally recovered through base
13 rates when utilities are in a position to take advantage of a cost-
14 effective transaction, the costs of which were not recognized or
15 anticipated in the level of costs used to establish the utility's base
16 rates. One example raised was the cost of an unanticipated short-
17 term lease of a terminal to allow a utility to receive a shipment of
18 low cost oil. The parties suggest that this flexibility is appropriate
19 to encourage utilities to take advantage of short-term opportunities
20 not reasonably anticipated or projected for base rate recovery. In
21 these instances, we will require that the affected utility shall bring
22 the matter before the Commission at the first available fuel
23 adjustment hearing and request cost recovery through the fuel
24 adjustment clause on a case by case basis. The Commission shall
25 rule on the appropriate method of cost recovery based upon the
26 merits of each individual case.

27
28 (Emphasis supplied.)

29
30 **Q. You do not believe the sleeving project's costs meets this exception?**

31 A. No, I do not. First, as I will discuss later in my testimony, FPL has not
32 demonstrated that the sleeving project is "cost-effective." More importantly, I do
33 not believe the sleeving project can be considered a short-term opportunity that
34 was "not reasonably anticipated or projected for base rate recovery."

1 **Q. What evidence is there that indicates the costs associated with the**
2 **sleeving project could have been anticipated or projected for base rate**
3 **recovery and therefore recognized in FPL base rates?**

4 A. Tube degradation has been a long-term problem for the industry. Witness
5 Hartzog states in his testimony on page 19, lines 16-17:

6 Since 1989 there have been 43 industry forced outages due to tube
7 leaks and 10 due to tube burst events.

8
9 More importantly, according to Mr. Hartzog, FPL has been aware of the tube
10 degradation problem in this unit since at least 2001, if not earlier, and became
11 aware of the increased rate of tube degradation in its January 2005 refueling
12 outage. FPL's most recent base rate case in Docket No. 050045-EI was filed on
13 March 22, 2005, well after the January refueling outage. I believe it is highly
14 likely that the sleeving project costs were anticipated prior to and included in the
15 base rate case. Even if the project's costs were not included in the base rates case,
16 they clearly were known at the time of the base rate case filing and should have
17 been anticipated for inclusion in base rates. AARP takes the position that the \$30
18 million in sleeving project costs should be considered by the Commission to have
19 been in the base rates case and resolved in favor of the customers through the
20 Commission's acceptance of the settlement agreement between FPL, AARP,
21 Public Counsel, the Attorney General and other customer parties.

22 **Q. What do you believe is the importance of the sleeving project being a**
23 **“repair” as opposed to a modification?**

24 A. It appears that all of the Commission orders referenced by FPL in support
25 of cost recovery through the fuel clause, aside from not being recognized or

1 anticipated for inclusion in base rates, were related to modifications to generating
2 units that allowed FPL to achieve fuel economies not previously available. For
3 example, the thermal power upgrade of Turkey Point Units 3 and 4 referenced by
4 FPL as having warranted fuel clause cost recovery in Order No. PSC-96-1172-
5 FOF-EI was clearly a modification of those units allowing them to produce
6 greater power and with substantial fuel savings. Also, it appears clear that this
7 decision, which was reached in 1996, occurred sufficiently between rate cases or
8 base rate case settlements so that the expense could not reasonably be considered
9 in base rates or anticipated to be included in base rates. The same conclusions
10 should be reached to the Commission's allowance of the recovery of costs
11 through the fuel clause related to plant modifications allowing FPL to burn a more
12 economic grade of residual fuel oil in a number of its generating units. As is
13 discussed in Order No. PSC-95-0450-FOF-EI, these were modifications to plants
14 improving on their existing ability to economically burn fuel and they were
15 approved for recovery through the fuel clause in 1995 at a time when they could
16 not reasonably be presumed to either be in base rates or anticipated to be in base
17 rates.

18 **Q. Is there any other evidence that indicates the costs associated with the**
19 **sleeving project should be categorized as operation and maintenance**
20 **expense?**

21 A. Yes. First it is important to understand my working definition of
22 maintenance and modification. Maintenance is defined as a periodic expenditure
23 needed to preserve a property's original status rather than to improve that

1 property. Maintenance is an activity required to compensate for wear and tear.

2 Modification is defined as the act of making something different.

3 In FPL Witness Dubin's testimony in support of the recovery request in
4 this case, Mr. Dubin cites a number of previous Commission Orders. In his
5 testimony on this issue, the word "modification" appears ten times in
6 approximately five pages of testimony. FPL Witness Hartzog, who explains the
7 sleeving project in detail over approximately 4 pages of written testimony never
8 uses the word "modification." However, Mr. Hartzog does use the word "repair"
9 to describe the project. In fact, Mr. Dubin and Mr. Hartzog state that the sleeving
10 project "will allow the unit to continue to operate." It seems clear that this is a
11 "repair" to an existing generating unit and not a "modification" of the type
12 described in each and every one of the Commission orders in which a utility has
13 been allowed to recover from its customers non-fuel expenses not otherwise
14 specifically listed.

15 **Q. Why is a cost benefit analysis required to support the sleeving project**
16 **expense recovery?**

17 A. The Commission in Docket No. 850001-EI-B, Order No. 14546 issued
18 July 8, 1985, addressed costs that may be appropriately included in the calculation
19 of recoverable fuel costs. Order 14546 states the Commission policy should be
20 flexible enough to allow:

21 " ..recovery through fuel adjustment clauses of expenses normally
22 recovered through base rates when utilities are in a position to take
23 advantage of a cost-effective transaction, the costs of which were not
24 recognized or anticipated in the level of costs used to establish the
25 utilities base rates."
26

1 (Emphasis supplied)

2 **Q. Does FPL provide a cost-benefit analysis to support the sleeving**
3 **project expense recovery?**

4 A. No. FPL witness Dubin states in his testimony:

5 . . . that nuclear generation from St. Lucie Unit No. 2 operating at its
6 full rated output is projected to save \$1.26 million per day when
7 compared to generating an equivalent amount of power using fossil
8 fuels.

9
10 This general statement, which may be factually correct, does not provide this
11 Commission with sufficient information to evaluate the cost-effectiveness of the
12 sleeving project. In fact, the cases cited by FPL witnesses provided the type of
13 cost benefit analysis that is missing from this current request. For example, the
14 language in Order No. PSC-96-1172-FOF-EI indicates a more substantive
15 analysis than can be completed based on the information provided by FPL in this
16 case:

17 "We also approve Florida Power & Light Company's request to
18 recover costs associated with the thermal power uprate of Turkey
19 Points Units 3 and 4. Florida Power & Light Company's thermal
20 power uprate of Turkey Point Units 3 and 4 will result in an
21 estimated fuel savings of \$198 million, or a present value of \$97
22 million, through the year 2011 at a cost of approximately \$10
23 million. The savings are due to the difference between low cost
24 nuclear fuel replacing higher cost fossil fuel."

25
26 As I said, the \$1.26 million per day suggested savings may be the correct
27 figure for replacing all St. Lucie Unit No. 2's generation with fossil-fired
28 generation, but stating that number in FPL's testimony tends to suggest
29 substantially greater savings from this project than can possibly be
30 realized. This is because the initial goal of the repair appears to be the

1 continued operation of the unit at 100 percent power, as opposed to the 89
2 percent power level, which would be required if the unit exceeded the 30
3 percent plugging limit. Presumably, one should calculate the fossil-fired
4 replacement cost savings resulting from operating at 100 percent power as
5 opposed to 89 percent and apply that savings over the period between the
6 Spring 2006 refueling outage and the steam generator replacements in the
7 Fall 2007 outage. Instead of stating the incremental savings between the
8 89 and 100 percent power levels, FPL appears to report the differential
9 fuel savings between running St. Lucie Unit No. 2 at 100 percent power
10 and replacing all of its generation with fossil replacement power.

11 **Q. Have you had sufficient time to thoroughly review and analyze FPL's**
12 **request in connection with the sleeving project?**

13 A. No, I have not. Mr. Hartzog's and Ms. Dubin's testimony were not filed
14 until September 9, 2005, while intervenor testimony is due for filing on October
15 3. This left only 15 work days, or a total of 22 days, to review the filing and
16 attempt to prepare testimony. While the Office of Public Counsel has filed
17 discovery on FPL related to this issue, the responses to that discovery are not yet
18 back and cannot be incorporated in my testimony. AARP intends to serve
19 additional discovery of its own on FPL regarding the sleeving project, but I think
20 it is clear that there was no meaningful time for any customer party to conduct
21 discovery between the filing of FPL's testimony and the due date for intervenor
22 testimony.

23

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

2 **A. Yes.**

1 BY MR. TWOMEY:

2 Q. Mr. Stewart, do you have any exhibits to your
3 testimony?

4 A. No, I do not.

5 Q. Okay. Have you prepared a brief summary of your
6 testimony?

7 A. Yes, I have.

8 MR. TWOMEY: Mr. Chairman, with your permission,
9 I would ask Mr. Stewart to give you his summary.

10 CHAIRMAN BAEZ: Go ahead, Mr. Stewart.

11 THE WITNESS: Good afternoon, Commissioners.
12 I'm appearing on behalf of AARP in opposition to FP&L's
13 request to recover \$25 million for the St. Lucie Unit 2
14 steam generator tube sleeving project through the fuel and
15 purchased power cost recovery clause. Our opposition to
16 this request is based on three factors.

17 First, the sleeving project is an O&M expense.
18 It is an O&M expense because the project is maintaining
19 the performance of St. Lucie Unit 2, not improving
20 performance. The relevant orders on this issue clearly
21 relate modification to improvement, not maintenance.

22 Second, the sleeving expense was not
23 unanticipated, which appears to be a qualification
24 required by this Commission.

25 And third, FP&L has not provided a sufficient

1 cost-benefit analysis of the proposed project.

2 In addition to these factors, it is important
3 for the Commission to understand that FP&L has had ample
4 opportunity to recover the costs of the sleeving project
5 in their negotiations that resulted in a settlement of
6 base rates, which was approved August 22nd, 2005.

7 This concludes my summary.

8 MR. TWOMEY: I would offer Mr. Stewart for
9 cross-examination, sir.

10 CHAIRMAN BAEZ: Thank you, Mr. Twomey.
11 Mr. Butler.

12 MR. BUTLER: Commissioner Baez, all of the
13 parties except for FPL have the same view of this.
14 They're all agreeing with AARP that the cost should not be
15 recovered, and I'm therefore anticipating there may be
16 friendly cross of Mr. Stewart. I would ask the
17 opportunity to defer my examination to last instead of
18 first in line simply so if there's something that comes up
19 which is appropriate for me to address, I would have the
20 opportunity to do so.

21 CHAIRMAN BAEZ: And the only reason that I'm
22 even entertaining it is because I wasn't the Prehearing
23 Officer. Otherwise, friendly cross was not even going to
24 be an option in a hearing this long. But since I wasn't
25 and it may not have been discussed by the Prehearing

1 Officer, I will ask OPC and the rest of the intervenors if
2 they have any questions for this witness. No questions?

3 (Negative responses.)

4 CHAIRMAN BAEZ: I just wanted to make sure.
5 Okay. Thank you all.

6 Mr. Butler, are you satisfied that you can go on
7 now?

8 MR. BUTLER: That's fine.

9 CHAIRMAN BAEZ: Great. Thank you.

10 MR. BUTLER: The one thing I would also like to
11 do is, I would ask -- I guess I can simply do this in my
12 beginning of cross-examination, and then I may have a
13 motion to strike that would be appropriate.

14 CROSS-EXAMINATION

15 BY MR. BUTLER:

16 Q. Mr. Stewart, at the very end of your summary,
17 you mentioned that you believed essentially that FPL could
18 have discussed the subject of the sleeving project in the
19 course of its negotiations of a settlement in its rate
20 case proceeding; correct?

21 A. Correct.

22 Q. Does that appear in your testimony, in your
23 prefiled testimony? I may have simply missed it, and if I
24 did, I apologize.

25 A. Let me review my testimony real quick.

1 On page 6, starting on line 17, I state that
2 AARP takes the position that the \$30 million in sleeving
3 project costs should be considered by the Commission to
4 have been in the base rate case and resolved in favor of
5 the customers through the Commission's acceptance of the
6 settlement agreement between FP&L, AARP, Public Counsel,
7 the Attorney General, and other customer parties.

8 **Q.** Okay. I don't have a motion then. That's fine.

9 Mr. Stewart, you've been here through the
10 testimony of Mr. Gwinn and Ms. Dubin, haven't you?

11 **A.** Yes, I have.

12 **Q.** Did you hear them address the subject of why
13 FPL's sleeving project is accounted for as an O&M expense
14 rather than a capital expense, to-wit, that the remaining
15 life on the steam generators in which the sleeving project
16 is being implemented is too short to be a capital project,
17 but otherwise would meet the requirements for being
18 accounted for as a capital project?

19 **A.** Yes, I heard them testify to that.

20 **Q.** Do you have any reason to disagree with their
21 testimony on that point?

22 **A.** Disagree with the fact that if it would have
23 been longer, it would have been a capital asset?

24 **Q.** That's right.

25 **A.** I have no reason to disagree with that.

1 **Q.** Okay. In your deposition on page 35, you made
2 the following statement starting on line 20: "Anything I
3 know about tube degradation is from the testimony in this
4 case. I don't even think it was mentioned in any of the
5 orders I read, so everything I know about tube degradation
6 is from the testimony in this case." Do you remember
7 making that statement?

8 **A.** I don't remember making the statement, but I'm
9 reading it here in my deposition.

10 **Q.** Is that statement accurate today?

11 **A.** Yes, I would say so.

12 **Q.** I had asked you during your deposition -- and
13 I'm referring here to pages 61 and 62, and your counsel
14 was helpful in my getting a question right that we could
15 address the subject. I had asked you basically if you
16 were aware of any or had any basis to agree -- I'm sorry.
17 Let me start over. Did you have any basis to disagree
18 with any of the factual assertions as opposed to
19 conclusions that were made in the testimonies of either
20 Mr. Gwinn or Ms. Dubin, and you said that you did not have
21 any basis to disagree at that time. Has there been
22 anything that has changed since then that would give you a
23 basis to disagree with any of the factual assertions that
24 are in Ms. Dubin's or Mr. Gwinn's testimonies?

25 **A.** Can you refer me to the deposition?

1 **Q.** Yes. If you look at page 62, line 16 through
2 line 19.

3 **A.** Mr. Butler, I remember that this was sort of a
4 bone of contention during the deposition. You were trying
5 to get me to agree to everything. I guess it would depend
6 on what we consider facts. I mean, I would definitely
7 argue about a definition between repair and modification.
8 You know, I don't disagree that the estimate is
9 \$25 million and that's what's in the testimony. I guess
10 it would depend on -- if you're asking me if the testimony
11 is completely factual and correct, I'm not going to grant
12 you that. I think I said the same thing in the deposition
13 at some point.

14 **Q.** Well, after Mr. Twomey helped me get the
15 question right, I don't think you did. If you're changing
16 your testimony from your deposition, that's fine. We'll
17 deal with that. But at the time, I simply was asking, and
18 the same question appears today. I'm trying to cut this
19 shorter than it would otherwise be, having to go through
20 specific elements. Is there anything factually, asserted
21 facts, not opinions, in the testimony of Ms. Dubin or
22 Mr. Gwinn that you have a basis to disagree with today?

23 **A.** Again, I'm very reluctant to answer that
24 question. If I agreed with all the facts in the
25 testimony, I probably wouldn't be here. So I'm -- you

1 know, again, I don't want to be difficult, but I don't
2 want to give a blanket agreement on all facts in the
3 testimony.

4 **Q.** Would you identify then facts with which you
5 disagree in either Mr. Gwinn's or Ms. Dubin's testimony?

6 **A.** I think the major fact that I disagree with is
7 that the costs of the sleeving project are not in base
8 rates, and I think I disagree with their characterization
9 of the project as a modification versus a repair. That
10 would be two. I think those are probably the most salient
11 ones.

12 **Q.** What evidence do you have that the cost of the
13 sleeving project is reflected in FPL's base rates that
14 were determined in Docket 050045?

15 **A.** I'm basing that on my opinion that the cost of
16 the sleeving project was known well before the settlement
17 agreement was signed on August 22nd of 2005, and that
18 during that stipulation -- I'm sorry, during the
19 negotiations, I would think that both sides would take
20 into consideration all information that they have in
21 working out a stipulation.

22 I've been involved with a couple of stipulations
23 before, and also with agreements in the private sector.
24 And when you're working on those types of things, you take
25 all the information you have at hand when you're working

1 out an agreement.

2 Q. Mr. Stewart, did you participate in the
3 negotiations of FPL's rates in Docket 050045?

4 A. I did not participate in the stipulation
5 negotiations, no.

6 Q. Okay. Did you review any information that was
7 exchanged between parties in connection with those
8 negotiations?

9 A. I read the stipulation a couple of weeks ago.
10 That would probably be the extent of it.

11 Q. Would you agree that the stipulation doesn't say
12 anything in its words one way or the other about the
13 subject of the sleeving project?

14 A. I would agree with that. And I think that's
15 where the concern is that we have, is that if it was taken
16 into account, that approval here by the Commission would
17 mean that the ratepayers may pay twice for something. The
18 stipulation is not a very detailed document. It is a very
19 general document settling on some very big numbers.

20 Q. Have you reviewed the MFRs that FPL filed in
21 Docket 050045?

22 A. I've looked at some of the MFRs, but not in
23 great detail. And it wasn't for this case. It was for
24 the rate case.

25 Q. Did you find any reference in the MFRs to the

1 tube sleeving project?

2 **A.** I wasn't looking for any reference. I didn't
3 know of the sleeving project at that point.

4 **Q.** And you didn't look in connection with your
5 testimony in this proceeding?

6 **A.** No, I did not. The MFRs to me are irrelevant.
7 The stipulation negotiations were based on more than just
8 the MFRs, I would imagine.

9 **Q.** You would imagine. What is your basis for
10 knowing that to be the case?

11 **A.** What I had previously said, being involved with
12 stipulations, that all information available to parties at
13 the time of the signing of the agreement was probably used
14 in reaching a settlement.

15 **Q.** But you don't know what that information would
16 be other than the MFRs that were filed in the case, do
17 you?

18 **A.** Well, I know that -- that's not true. I know
19 they would have the information in the MFRs, and I also
20 know at this point that FP&L had made the final decision
21 to go ahead with the sleeving project, so they had that
22 information before the stipulation was approved.

23 **Q.** Are you aware of whether there was any discovery
24 that was exchanged between parties that would have
25 suggested that the sleeving project costs were included in

1 FPL's base rate request?

2 A. You mean during the stipulation negotiations?

3 Q. No, during the course of the rate proceeding.

4 A. Can you repeat the question? I'm sorry.

5 Q. Are you aware of any discovery exchanged between
6 the parties during the course of the rate proceeding,
7 Docket 050045, that would have suggested the tube sleeving
8 project costs were included in FPL's base rate request?

9 A. I think that -- I don't think that they were in
10 the MFRs. The point made by the witnesses was that the
11 timing of that would have made it impossible. That's why
12 the May decision on going forward with the sleeving
13 project would not have made it possible to include it in
14 the MFRs, but would have made it possible to be
15 information that would have been used in the negotiations
16 of the stipulation.

17 Q. I didn't ask you about the MFRs. I asked you
18 about that earlier. I asked you about discovery. Are you
19 aware of there being any discovery exchanged between the
20 parties that would have suggested that the tube sleeving
21 project costs were included in FPL's base rate request?

22 A. My recollection is that I have seen some
23 discovery that indicated that it was not in the MFRs.

24 Q. Okay. Have you performed any cost-effectiveness
25 analysis of FPL's tube sleeving project?

1 **A.** No.

2 **Q.** Let me ask you, Mr. Stewart, about your
3 involvement with some of the orders that have been
4 discussed in this proceeding concerning the tube sleeving
5 project. You discuss in your testimony Order No. 14546;
6 correct?

7 **A.** Correct.

8 **Q.** And that was issued by the Commission in Docket
9 850001-EI-B; correct?

10 **A.** Correct.

11 **Q.** Did you have any involvement in Docket
12 850001-EI-B?

13 **A.** No.

14 **Q.** Are you familiar with the orders that Ms. Dubin
15 cites in her September 9, 2005 direct testimony concerning
16 instances in which the Commission has approved
17 expenditures at power plants for recovery through the fuel
18 adjustment clause?

19 **A.** Yes, I've read the orders.

20 **Q.** Okay. Let me just ask you about the specifics
21 of those. The first is discussed on page 13 of her
22 testimony, and it's Order No. PSC-96-1172-FOF-EI in Docket
23 960001-EI, and this concerned FPL's request to recover the
24 costs of its thermal power uprate at Turkey Point Units 3
25 and 4. Did you have any involvement in that proceeding?

1 **A.** No.

2 **Q.** And the next one is Order No.

3 PSC-95-0450-FOF-EI, Docket No. 950001-EI, which approved
4 FPL's request to recover plant modifications to burn a
5 more economic grade of residual fuel oil. Were you
6 involved in that proceeding?

7 **A.** No.

8 **Q.** And the last one I wanted to ask you about is on
9 page 15 of Ms. Dubin's direct testimony, Order No.
10 PSC-97-0359-FOF-EI, Docket No. 970001-EU, and this
11 involved FPL's request to recover equipment modifications
12 and additions to burn low-gravity fuel oil. Were you
13 involved in that proceeding?

14 **A.** No.

15 **Q.** Have you ever taken any courses in corrosion
16 science?

17 **A.** No.

18 **Q.** Have you ever taken any courses in nuclear
19 engineering?

20 **A.** No.

21 **Q.** Have you ever taken any courses in accounting?

22 **A.** I can't recall.

23 **Q.** In your deposition at page 12, lines 2 through
24 6, I asked you did you take any courses in accounting at
25 either Clemson or FSU, and you said you took some

1 financial classes at Clemson in my undergraduate, but did
2 not believe they were accounting, and at FSU no accounting
3 classes. Is that testimony consistent with your
4 recollection today?

5 **A.** Yes. I said I can't recall. The financial
6 classes would be what I was thinking of. So I would stick
7 with my answer in the deposition. That would be fine.

8 **Q.** Are you licensed as a professional engineer in
9 Florida?

10 **A.** No.

11 **Q.** Or in any other state?

12 **A.** No.

13 **Q.** I think you mentioned in your deposition that at
14 least at one point you had a property appraiser's license.
15 Do you have any other professional licenses besides the
16 property appraiser's license?

17 **A.** No.

18 **Q.** Have you ever worked at an electric power plant?

19 **A.** No.

20 **Q.** Have you ever been involved in performing
21 repairs or modifications to an electric power plant?

22 **A.** No.

23 **Q.** Have you ever been involved in planning for
24 repairs or modifications at an electric power plant?

25 **A.** No.

1 **Q.** Have you ever been involved in accounting for
2 either repairs or modifications at an electric power
3 plant?

4 **A.** No.

5 **Q.** Have you ever been involved in any facet of
6 designing, planning, implementing, or evaluating the
7 sleeving of steam generator tubes?

8 **A.** Mr. Butler, I'm growing a little weary of the
9 questions. In my testimony I don't think I claim that
10 I've done any of these things. I'm not an astronaut. I
11 haven't been to the moon. I didn't ride on the space
12 shuttle.

13 **Q.** That's fine. I'm simply trying to establish the
14 extent of your experience in the areas you're testifying
15 to. I'll try to wrap it up shortly, but indulge me.

16 Have you ever witnessed the sleeving of a steam
17 generator tube?

18 **A.** No.

19 **Q.** And do you have any experience in conducting or
20 evaluating eddy current tests?

21 **A.** What kind of tests?

22 **Q.** Eddy current tests.

23 **A.** No.

24 **Q.** Do you have any experience in evaluating or
25 predicting tube degradation rates in steam generators

1 based on eddy current testing?

2 **A.** No.

3 **Q.** Have you ever been involved in any licensing
4 proceedings before the United States Nuclear Regulatory
5 Commission?

6 **A.** No.

7 **Q.** And have you ever reviewed the NRC operating
8 license for St. Lucie Unit 2?

9 **A.** I might have done that when I was at Public
10 Counsel.

11 **Q.** Well, if would you look at your deposition, page
12 27, I believe that you concluded that that would have been
13 for perhaps the license for the Crystal River nuclear unit
14 that Florida Progress has; is that right?

15 **A.** Right, uh-huh.

16 **Q.** Okay. Mr. Stewart, let me ask you a question
17 about the projected fuel savings that appear in the
18 rebuttal testimony that Ms. Dubin has filed. Are you
19 familiar with the calculation of fuel savings that she has
20 presented in her rebuttal testimony?

21 **A.** I've read it, and I think -- hold on one second
22 and let me get it to.

23 What was the question?

24 **Q.** The first question is, are you familiar with the
25 calculation of fuel savings that she presents in her

1 rebuttal testimony?

2 A. Yes, I've read it, and I think I understand it.

3 Q. Okay. Do you have any reason to dispute the
4 facts upon which her calculation of fuel savings are
5 based?

6 A. Well, they're projections. I don't think that
7 they're facts. I mean, they're projections. I would
8 dispute that it's a fact.

9 Q. Okay. We'll call them projections rather than
10 facts. Do you have any reason to dispute the projections
11 of the fuel savings that Ms. Dubin has calculated?

12 A. Not based on her assumptions, no.

13 MR. BUTLER: Indulge me one moment.

14 Thank you Mr. Stewart. That's all that I have.

15 THE WITNESS: Thank you, Mr. Butler.

16 CHAIRMAN BAEZ: Ms. Rodan.

17 MS. RODAN: Staff has no questions.

18 CHAIRMAN BAEZ: Commissioners, questions?

19 COMMISSIONER DEASON: I have a question for
20 Mr. Stewart.

21 THE WITNESS: Commissioner Deason.

22 COMMISSIONER DEASON: You have degrees from
23 Clemson and Florida State.

24 THE WITNESS: Yes.

25 COMMISSIONER DEASON: Which team will you be

1 supporting on Saturday?

2 THE WITNESS: When I enrolled in graduate
3 school, that was the question I got from a teacher, and I
4 said I would be rooting for the Clemson Tigers, you know,
5 the big hairy Tigers. But I'll probably be rooting for
6 the Tigers again this weekend. I was there last weekend.
7 We beat Duke, so we're probably not going to win this
8 weekend.

9 COMMISSIONER DEASON: Thank you.

10 CHAIRMAN BAEZ: And Commissioner Arriaga has a
11 question.

12 COMMISSIONER ARRIAGA: Mr. Chairman, help me out
13 on procedure. Am I allowed to also ask staff some
14 questions at this time, or do I have to wait for a further
15 moment?

16 CHAIRMAN BAEZ: Well --

17 COMMISSIONER ARRIAGA: Whatever you want. I
18 just want to --

19 CHAIRMAN BAEZ: No, no. You know what, one of
20 the rules that saves the day is that it's whatever you
21 want, and you'll learn this as time goes by. I don't see
22 a problem with you asking -- are they clarifying
23 questions?

24 COMMISSIONER ARRIAGA: Yes, it is a clarifying
25 question.

1 CHAIRMAN BAEZ: Okay. Go ahead.

2 COMMISSIONER ARRIAGA: And it's related to the
3 subject matter.

4 Can you please help me determine if staff has a
5 position regarding if what FPL filed in the base rate that
6 was settled included the cost for the sleeving project.

7 MS. VINING: I'm going to say at this point in
8 time, staff does not believe that those costs were
9 included in the base rate proceeding.

10 COMMISSIONER ARRIAGA: Do you have a way of
11 determining that in a 100 percent manner?

12 MS. VINING: I would say at this point in time,
13 I do not. I don't think staff has been able to determine
14 that.

15 CHAIRMAN BAEZ: And, Commissioner, if I can
16 attempt to say that that's probably one of the things that
17 the record will help -- might help staff answer. And
18 remember that the record is much -- probably a little
19 broader than what we're hearing in terms of testimony.

20 COMMISSIONER ARRIAGA: And I appreciate,
21 Mr. Chairman, the clarification, but it's an issue that is
22 on the table, and nobody seems to have an answer, and I
23 just wanted to dwell on it a little bit.

24 CHAIRMAN BAEZ: By tomorrow, or certainly by the
25 time recommendations are forthcoming from the staff on

1 this, that may likely be part of an answer. I mean, it's
2 really the only thing that --

3 COMMISSIONER ARRIAGA: Okay. One more --

4 COMMISSIONER BRADLEY: And I would like to ask a
5 question, just one clarifying question along the same
6 lines that you just asked of staff.

7 Staff, do you remember if during the time that
8 the stipulation was being explained to the body of
9 Commissioners if this was something that was discussed, or
10 was it a question -- if it was a question that was asked,
11 or if this particular issue was discussed to you, as you
12 remember?

13 CHAIRMAN BAEZ: Commissioner Bradley, that comes
14 perilously close to testifying on the part of staff, and I
15 think it would probably be -- do more harm than good.

16 MS. VINING: I think I can sidestep that by
17 simply saying I was not assigned to the docket, so I --

18 CHAIRMAN BAEZ: Ah, wonderful.

19 MS. VINING: I would not have any recollection
20 either way if that was discussed after the hearing or in
21 the consideration of the settlement.

22 COMMISSIONER ARRIAGA: One more question?

23 CHAIRMAN BAEZ: Sure.

24 COMMISSIONER ARRIAGA: Mr. Stewart -- and I
25 cannot lose this opportunity, because I'm finally going to

1 talk to an engineer in this place, you know. Attorneys
2 and economists all over, you know.

3 CHAIRMAN BAEZ: Oh, they're around.

4 COMMISSIONER ARRIAGA: Would you kindly in your
5 own words, and you can be as technical as you want, define
6 or explain to us what a sleeving project is, what happens
7 when you sleeve a tube? Can you explain that to me? And
8 be as technical as you want to be.

9 THE WITNESS: Commissioner, what I would say
10 there is that my testimony is really in response to the
11 sleeving project. What I know about the sleeving project
12 is what I read in their testimony and listened to here
13 while they testified. I'm not testifying on the merits or
14 the appropriateness of the sleeving project. What I'm
15 testifying on is the regulatory issue of --

16 COMMISSIONER ARRIAGA: I'm sorry. I wasn't
17 asking the merits. I mean, I don't know if it's good or
18 bad. I wanted you to explain to me technically how it's
19 done.

20 THE WITNESS: Technically, that is not my area,
21 and that's not what I'm testifying on.

22 COMMISSIONER ARRIAGA: Thank you.

23 COMMISSIONER BRADLEY: Well, let me ask this
24 question, Mr. Chairman. You know, these stipulations that
25 occur sometimes, I think they're always good, but

1 sometimes leave -- they can be problematic. Is there
2 anyone out there who can answer my question as to -- well,
3 just answer the question, was this discussed when the
4 stipulation was explained to us, was identified? Who out
5 there might be -- not of staff. We don't want staff
6 testifying.

7 CHAIRMAN BAEZ: Hold on a second, Commissioner
8 Bradley. Mr. Stewart?

9 THE WITNESS: Commissioner Bradley, I think our
10 position -- you know, I've been in the private sector for
11 six years, and I believe you were in the private sector --
12 is that during these stipulation, you don't deal with a
13 lot of specifics. It's a general -- you're trying to get
14 to an end point.

15 And I think -- my assumption is that that
16 information was available during these negotiations. I
17 think that's probably a fact. And so to think that they
18 weren't considered when you're negotiating what you're
19 going to settle on I think would be a stretch. I think
20 that the costs were known, and you're settling what your
21 base rates are going to be going forward. That would have
22 to be somewhat of a consideration in the negotiations.
23 That's what we're basing our position on.

24 CHAIRMAN BAEZ: And, Commissioner, just -- and
25 you've heard testimony from other witnesses through the

1 hearing that it wasn't or that it was. I mean, here's one
2 of those classic examples. You have two opposing
3 assertions.

4 COMMISSIONER BRADLEY: Answers as to what was
5 discussed and what was --

6 CHAIRMAN BAEZ: That's why you get paid the big
7 bucks, as they say. You've got to make up your mind who
8 you believe.

9 MS. VINING: And I will say in light of
10 Commissioners being concerned with this, staff will
11 address that in their recommendation on the issue that we
12 should give probably tomorrow, a response to those
13 concerns.

14 CHAIRMAN BAEZ: I think, as I told Commissioner
15 Arriaga before, it is highly likely that that may be one
16 of the things that's discussed as part of staff's
17 recommendation on -- I guess it's Issue 14F which we're
18 talking about now.

19 MS. VINING: Yes. I feel confident after today
20 that it will part of the recommendation. It will be
21 discussed.

22 CHAIRMAN BAEZ: I'm not a betting man, but there
23 you have it.

24 There were no other questions for Mr. Stewart?
25 Commissioners, no other questions for Mr. Stewart?

1 Mr. Twomey, redirect?

2 MR. TWOMEY: Yes, sir, just briefly. Thank you.

3 REDIRECT EXAMINATION

4 BY MR. TWOMEY:

5 Q. Mr. Stewart, as you noticed, I think, Mr. Butler
6 read or gave you an extensive list of questions about the
7 various degrees that you didn't have or the professional
8 experiences that you didn't have; correct?

9 A. Correct.

10 Q. But have you ever stayed at a Holiday Inn
11 Express?

12 A. Yes.

13 Q. Now, more seriously, you have read Mr. Gwinn and
14 Ms. Dubin's testimony and their listed educational degrees
15 and experience, have you not?

16 A. Yes, I have.

17 Q. Okay. Were you in the room yesterday when I
18 cross-examined those two FP&L witnesses and briefly asked
19 them about whether they had engineering degrees,
20 et cetera?

21 A. Yes, I have.

22 Q. And you heard them say, did you not, to my
23 questions that they didn't have those degrees that I asked
24 about?

25 A. That's correct.

1 **Q.** Okay. And are you aware from looking at their
2 vitae and their testimony that they possess, at least as
3 stated there, educational degrees or experiences of the
4 type that Mr. Butler asked you whether you possessed?

5 **A.** I would say no. I believe it was finance and
6 accounting.

7 **Q.** Okay. Now. I want to know, do you think that
8 having any of those degrees or experiences that Mr. Butler
9 asked you about and which you admitted you didn't have are
10 at all relevant to your ability to entertain the opinions
11 you came to in your 11 pages of prefiled testimony?

12 **A.** No.

13 **Q.** Do you think, Mr. Stewart, that the actions
14 you've taken as revealed in your testimony, the
15 conclusions you've reached after reading the FPL
16 witnesses' testimony and reading the orders cited by them,
17 that it is necessary to have those experiences to read the
18 orders and reach the conclusions you've reached?

19 **A.** No.

20 **Q.** Do you believe based upon the educational
21 experiences that have been revealed in Ms. Dubin's and
22 Mr. Gwinn's testimony and as testified to by them, do you
23 believe that you're as qualified as they to reach
24 conclusions on whether or not the sleeving project should
25 be allowed for recovery from the utility's customers

1 through the fuel clause?

2 **A.** Yes.

3 **Q.** And you've concluded, have you not, that you
4 think that the -- it is your opinion that the sleeving
5 costs are not to be allowed through fuel pursuant to the
6 Commission's precedents?

7 **A.** Yes.

8 **Q.** Now, Mr. Stewart, do you think that it is
9 relevant to your conclusion that the \$25 million that FP&L
10 is now requesting be recovered through the fuel clause not
11 be so recovered, is it relevant that the sleeving
12 project -- to that conclusion that the sleeving project
13 was not discussed in the MFRs?

14 **A.** I don't think that's relevant.

15 **Q.** Likewise, to that conclusion on your part, do
16 you think that it is relevant whether or not the sleeving
17 project was either discussed among the parties in the
18 stipulation negotiations or briefed to the Commission in
19 asking their approval of the agreement?

20 **A.** No, I don't think that's relevant either,
21 because there are a lot of things that go unsaid in the
22 negotiations for a stipulation.

23 **MR. TWOMEY:** Thank you. That's all I have.

24 Mr. Chairman, thank you.

25 **CHAIRMAN BAEZ:** And I don't have any exhibits

1 for this witness; is that correct?

2 MR. TWOMEY: No exhibits.

3 CHAIRMAN BAEZ: Very well. Mr. Stewart, thank
4 you. You're excused.

5 Staff's witness? Do you want to call him, or
6 shall I?

7 MS. VINING: I can do it. Staff would now call
8 Sidney Matlock to the stand.

9 CHAIRMAN BAEZ: Mr. Matlock, were you sworn
10 yesterday?

11 THE WITNESS: Yes, sir.

12 CHAIRMAN BAEZ: Great.

13 Thereupon,

14 SIDNEY W. MATLOCK

15 was called as a witness on behalf of the Commission staff
16 and, having been first sworn, testified as follows:

17 DIRECT EXAMINATION

18 BY MS. VINING:

19 Q. Would you please state your name and business
20 address for the record.

21 A. My name is Sidney W. Matlock, 2540 Shumard Oak
22 Boulevard, Tallahassee, Florida, 32399.

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

24 A. I'm employed by the Florida Public Service
25 Commission as a regulatory analyst.

1 **Q.** And have you prefiled direct testimony in this
2 docket consisting of four pages?

3 **A.** Beg your pardon?

4 **Q.** Have you prefiled direct testimony in this
5 docket consisting of four pages?

6 **A.** Yes, ma'am.

7 **Q.** Do you have any changes or corrections to that
8 testimony?

9 **A.** No, I don't.

10 **Q.** And if I was to ask you the same questions
11 today, would your testimony be the same?

12 **A.** Yes, they would.

13 MS. VINING: With that, Mr. Chairman, we ask
14 that Mr. Matlock's testimony be inserted into the record
15 as though read.

16 CHAIRMAN BAEZ: Without objection, show the
17 direct testimony of Sidney Matlock entered into the record
18 as though read.

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1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to recommend alternative equivalent availability factor
3 (EAF) targets for four of Tampa Electric Company's (TECO) five Generating Performance
4 Incentive Factor (GPIF) units, for the 2006 fuel adjustment period.

5 Q. How is the GPIF program operated and how is it beneficial to TECO's ratepayers?

6 A. The GPIF program was introduced in 1980. Prior to each period, targets are set for
7 each GPIF unit for EAF as well as for heat rate. These two measures are used to assess each
8 unit's generating efficiency. An equivalent availability factor measures the percent of a period
9 that a unit is available for generation at its megawatt rating. A heat rate is the number of Btu's
10 consumed in producing a kilowatt-hour of energy. Typically, targets are based on recent
11 historical performance. The utility is rewarded or penalized based on whether its performance
12 achieves these targets. The program encourages the efficient operation of the larger
13 generating units, thereby lowering fuel and purchased power costs borne by ratepayers.
14 TECO has projected its coal generation cost for 2006 at 2.64 cents per kilowatt-hour and its
15 natural gas generation cost at 6.76 cents per kilowatt-hour. Since TECO filed its fuel cost
16 projections on September 9, 2005, natural gas prices have increased by over one third. The
17 difference between the costs of coal and natural gas underscores the importance of TECO
18 making its coal burning units available for generation as much as possible, because the fuel
19 source for replacement generation when a coal unit is unavailable is typically natural gas.

20 Q. What is the basis for the EAF targets proposed by TECO?

21 A. The EAF targets for each of the GPIF units proposed by TECO are based on actual
22 12-month averages for the period from July 2004 through June 2005 adjusted for differences
23 between the number of planned outage hours and number of reserve shutdown hours for the
24 historic period (July 2004 through June 2005) and the projected target period (January 2006
25 through December 2006).

1 Q. Are the EAF targets always based strictly on their historical averages?

2 A. No. Other things such as recent trends, equipment modifications, or a unit having
3 recently experienced a planned outage may also affect the setting of a target. These factors
4 are listed in the GPIF Manual and in the testimony of Witness William A. Smotherman of
5 TECO. Basically, a target should be based on recent historical performance to the extent that
6 historical performance reflects what is expected in the near future.

7 Q. What EAF targets do you propose, and how do they differ from those proposed by
8 TECO?

9 A. I propose the EAF targets contained in the following table. They are presented along
10 with TECO's proposed targets and the differences, by unit.

Proposed 2006 Equivalent Availability Factors Tampa Electric Company			
Unit	Proposed EAF (%)		Difference
	Witness Matlock	TECO	
Big Bend 1	63.6	63.6	0.0
Big Bend 2	79.0	77.3	1.7
Big Bend 3	63.9	56.2	7.7
Big Bend 4	80.0	71.9	8.1
Polk 1	87.1	60.3	26.8

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19 Q. Why are you recommending alternative EAF targets?

20 A. The availability of TECO's coal burning units included in the GPIF has declined
21 significantly over the last five years. More frequent forced outages and maintenance outages
22 have contributed to this decline, and individual months with outage rates of as much as 40
23 percent or greater have become more frequent. I propose that the monthly equivalent forced
24 outage rates (EFOR) and equivalent maintenance outage rates (EMOR) that are greater than
25 40 percent be excluded from the averages used to calculate TECO's 2006 EAF targets. This

1 method would exclude outages of greater length or frequency than one would reasonably
2 expect in the coming period from the EAF target for acceptable performance. These targets
3 are based on historical performance and recent trends, and they are attainable.

4 Q. Would excluding months with atypically poor performance from the setting of the
5 2006 EAF targets be unfair to TECO, since it would preclude having rewards in 2006 offset
6 any penalties from late 2004 or early 2005?

7 A. No. The purpose of the incentive is to reward the utility for performance that exceeds
8 reasonably expected performance, not to ensure that rewards offset penalties.

9 Q. Does this conclude your testimony?

10 A. Yes. It does.

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1 BY MS. VINING:

2 Q. Now, Mr. Matlock, can you please summarize your
3 testimony?

4 A. Yes. My testimony presents proposed equivalent
5 availability factor targets for four of Tampa Electric
6 Company's five GPIF units for the year 2006. For two of
7 the units, my proposal recognizes improvements in
8 availability that the units have attained since 2002 and
9 that I feel will continue into 2006. For all four of the
10 units, my proposal recognizes that in recent months,
11 atypically high outage rates have occurred and that those
12 months' rates should not be reflected in the 2006 targets.

13 The method of setting equivalent availability
14 factor targets in this way is not outside the regular
15 methodology in cases where performance is improving or is
16 improving but for a few irregularly large monthly rates in
17 recent months.

18 MS. VINING: The witness is tendered for
19 cross-examination.

20 CHAIRMAN BAEZ: Ms. Christensen, do you have
21 questions of the witness? No, I know, but I'm assuming if
22 anybody did, Mr. Beasley would like to reserve --

23 MR. BEASLEY: Yes, I would like any friendly
24 cross to proceed.

25 CHAIRMAN BAEZ: Well, this isn't quite friendly,

1 is it? It's everybody against the Commission at this
2 point. Do any of the intervenors have any
3 cross-examination questions of the witness?

4 All right. Mr. Beasley, your witness.

5 CROSS-EXAMINATION

6 BY MR. BEASLEY:

7 Q. Good afternoon, Mr. Matlock.

8 A. Good afternoon.

9 Q. Now, I understand that really the only issue
10 here is the setting of the equivalent availability factor
11 targets for the Tampa Electric units for 2006; is that
12 correct?

13 A. Yes, sir.

14 Q. Okay. And in doing that, you look at historical
15 performance that occurred during the months of July 2004
16 through June 2005? Is that what you look at in order to
17 set the 2006 targets?

18 A. I looked at those months, the one year ending in
19 2006. In doing that, I also looked back at previous
20 years, and so it wasn't strictly limited to just that
21 12-month period.

22 Q. But you did make an adjustment to the
23 performance of those units during that time frame in your
24 recommendation or in your testimony, did you not?

25 A. Yes, sir.

1 **Q.** Okay. If your adjustments are accepted by the
2 Commission, do you believe it would be fair in analyzing
3 the actual results for 2006 for the same type of
4 adjustment to be made to the actual results that you made
5 in fashioning the targets that you set for that time
6 period?

7 **A.** I don't think adjusting actual data is the same
8 thing as making adjustments for setting targets. In other
9 words, I don't think adjustments to remove outages from
10 actual data and adjusting targets away from historical
11 averages are the same thing.

12 **Q.** So you don't believe that you should be
13 consistent in making an adjustment to the actual results
14 that you made to the historical data upon which you based
15 your recommended targets? Is that a correct statement?

16 **A.** I don't believe that that should be done,
17 necessarily be done.

18 **Q.** Well, if, for example, you adjust out
19 occurrences of a particular category from the historical
20 data in setting the targets, then you've set targets that
21 don't include that type of event. If you compare the
22 targets that you set after making that adjustment with the
23 actual results you achieved in 2006, won't there be a
24 mismatch, because you're taking those types of events into
25 account in 2006, but you excluded them when you set the

1 targets?

2 **A.** No, sir, I don't think that leaving them in in
3 2006, should they occur, would be unfair or that that
4 would need to be done to make the actual availability
5 factors comparable with their respective targets.

6 **Q.** Do you believe the current GPIF methodology
7 gives participating utilities a balanced and equitable and
8 symmetrical standard form of incentive?

9 **A.** I think it's balanced. I don't know that being
10 symmetrical is part of it.

11 **Q.** I believe you've testified that the availability
12 of Tampa Electric's coal-fired units has, in your opinion,
13 declined over the last five years; is that correct?

14 **A.** In the last five years, there have been declines
15 in availability, starting at various times back around
16 1999 and 2000 and ending around 2003. Declines have
17 occurred, and for some of the units, beginning in 2003,
18 improvements began also.

19 **Q.** But based on your observed decline, you've set
20 targets for 2006 that are higher, is that correct, than
21 based just on historical data?

22 **A.** They're not really based on declines that
23 occurred earlier. In other words, the fact that declines
24 occurred earlier and we know that things are now
25 improving, that was part of what I considered. But the

1 period, the historical period still only includes
2 July 2004 to June 2005.

3 Q. Well, if a utility's unit availability had been
4 increasing over recent years, would you reduce the
5 expected level of achievement on a going-forward basis?

6 A. If availability --

7 Q. Had been increasing in recent years, would you
8 reduce the target availability on a going-forward basis?

9 A. No, sir.

10 Q. So you don't believe that the GPIF should
11 operate in a symmetrical fashion then? Is that your
12 testimony?

13 A. No, I don't believe that it should operate --
14 I'm not sure what that means, but I'm --

15 Q. Can I give you a simple example?

16 A. Certainly.

17 Q. Let's say my teenage daughter has a report card,
18 and she's got a B-plus average, and I say, "Well, next
19 period, let's try to make it something better than that,
20 but I'll let you throw out a couple of courses that aren't
21 as important, like modern dance or basket weaving or
22 something, and we'll set your goals based on the average
23 after those are thrown out," and that average after those
24 courses are thrown out is a B-plus. Then the next nine
25 weeks, she brings me her report card, and instead of a --

1 what did I say? A B-plus? It's an A-minus excluding
2 those two courses. But if I count those courses in, it's
3 a C-plus. Now, is that fair?

4 **A.** I think it's fair if she did the best that she
5 could do.

6 MR. BEASLEY: Thank you. I have no further
7 questions.

8 CHAIRMAN BAEZ: And Mr. Beasley's daughter
9 thanks you, Mr. Matlock, as well.

10 Commissioners, do you have any questions?

11 Redirect?

12 MS. VINING: I don't have any redirect.

13 CHAIRMAN BAEZ: No redirect? Do we have
14 exhibits? I don't think so.

15 MS. VINING: No, there were no exhibits
16 associated with his testimony.

17 CHAIRMAN BAEZ: Very well. Mr. Matlock, thank
18 you. You're excused.

19 Commissioners, I'm inclined to take a
20 five-minute break before we get started on the rebuttal
21 witnesses, but before I do that, can I -- I want to take a
22 poll as to how much time we've got with these witnesses,
23 if you can tell me.

24 MR. PERRY: You're speaking in terms of
25 cross-examination?

1 CHAIRMAN BAEZ: Yes.

2 MR. PERRY: I have about -- I have just a few
3 questions that I'll apply to Mr. Gwinn and Ms. Dubin, I
4 think at most five minutes.

5 CHAIRMAN BAEZ: Okay. Mr. Beck?

6 MR. BECK: I'm guessing about 10 between them,
7 10 to 15.

8 CHAIRMAN BAEZ: Mr. Twomey?

9 MR. TWOMEY: Mr. Chairman, I would say probably
10 at the most 10 to 15 minutes per person.

11 CHAIRMAN BAEZ: Per?

12 MR. TWOMEY: I think so.

13 CHAIRMAN BAEZ: And Mr. Wright, you don't have
14 any cross?

15 MR. WRIGHT: I don't have any questions.

16 CHAIRMAN BAEZ: Staff, you can make this or
17 break this.

18 MS. VINING: I'll make your day and say we don't
19 have any on rebuttal.

20 CHAIRMAN BAEZ: You don't have any? Good. All
21 right. I must be living right.

22 MS. VINING: You may get your wish. We may get
23 through the witnesses today.

24 CHAIRMAN BAEZ: We may get through the witnesses
25 today after all. All right. Let's take a five-minute

1 break. Thank you all for your input.

2 (Short recess.)

3 CHAIRMAN BAEZ: We'll go back on the record.

4 Ladies and gentlemen, in light of our previous
5 conversation and estimates, I think we have a very real
6 goal, a very realistic goal of getting through all the
7 witnesses tonight so that we can allow staff to go back
8 and put together some recommendations for us overnight, so
9 let's keep that in mind.

10 Mr. Litchfield.

11 MR. LITCHFIELD: Thank you, Mr. Chairman. As a
12 rebuttal witness, we have Mr. Gwinn on the stand, who was
13 previously sworn.

14 Thereupon,

15 WALTER E. GWINN

16 was called as a rebuttal witness on behalf of Florida
17 Power & Light Company and, having been first sworn,
18 testified as follows:

19 DIRECT EXAMINATION

20 BY MR. LITCHFIELD:

21 Q. Mr. Gwinn, did you cause to be filed rebuttal
22 testimony in this docket dated October 17, 2005?

23 A. Yes, I did.

24 Q. Do you have any changes to that testimony?

25 A. I do not have any changes, but I would like to

1 make a clarification. On page 7 of my rebuttal testimony,
2 I would like to note that FPL did file the license
3 amendment request on October 21st, 2005.

4 Q. Now, your clarification is referring to line 14
5 on page 7?

6 A. That's correct.

7 Q. With that clarification, if I were to ask you
8 that same questions reflected in your rebuttal testimony
9 today, would your answers be the same?

10 A. Yes, they would.

11 Q. Are you sponsoring any exhibits to your rebuttal
12 testimony?

13 A. Yes, I am.

14 Q. And those would be WEG-2 and WEG-3?

15 A. That's correct.

16 CHAIRMAN BAEZ: And I'm showing them already
17 marked as 74 and 75.

18 MR. LITCHFIELD: Yes, that's correct,
19 Mr. Chairman, I believe. Mr. Chairman, I would ask that
20 Mr. Gwinn's rebuttal testimony be entered into the record
21 as though read.

22 CHAIRMAN BAEZ: Without objection, show the
23 rebuttal testimony filed by Witness Gwinn be entered into
24 the record as though read, and also reflect that the
25 attached exhibits are marked 74 and 75.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**FLORIDA POWER & LIGHT COMPANY****REBUTTAL TESTIMONY OF W.E. GWINN****DOCKET NO. 050001-EI****OCTOBER 17, 2005**

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

2 A. My name is Walter E. Gwinn. My business address is 700 Universe
3 Boulevard, Juno Beach, Florida 33408.

4 **Q. Have you previously filed testimony concerning your position**
5 **with FPL, education and professional qualifications, and**
6 **adopted the direct testimony of J. R. Hartzog that was filed in**
7 **this docket on September 9, 2005?**

8 A. Yes, I have.

9 **Q. Are you sponsoring an exhibit to your rebuttal testimony?**

10 A. Yes. It consists of Documents WEG-2 and WEG-3 which are
11 attached to my testimony.

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

13 A. The purpose of my testimony is to rebut certain positions taken in
14 this case by the AARP witness, Stephen A. Stewart. Specifically, my
15 rebuttal testimony addresses the following:

- 1 • The timeline for FPL's decision to undertake the tube
2 sleeving project for St. Lucie Unit 2, which shows that FPL
3 could not have reasonably anticipated the need for the
4 project at the time that it prepared and filed its rate case
5 petition and supporting documentation in Docket 050045-
6 EI ("rate case").
- 7 • FPL's request to the Nuclear Regulatory Commission
8 ("NRC") for approval of a license amendment to allow FPL
9 to plug up to 42% of the steam generator tubes in St.
10 Lucie Unit 2, including the significance of tube plugging to
11 nuclear safety, the complexity of the request for a license
12 amendment, and the operational impact and uncertainties
13 associated with the license amendment request.
- 14 • Why the tube sleeving project constitutes a modification to
15 the steam generators and not ordinary maintenance or
16 repair.
- 17 • Budgeting for the tube sleeving project, showing that no
18 costs for the project were included in the Nuclear
19 Division's base O&M or outage budgets in the 2006
20 forecast that was the basis for the rate case MFRs.
- 21

1 **Steam Generator Sleaving Project Decision Timeline**

2

3 **Q. Mr. Stewart asserts that the costs associated with the sleaving**
4 **project could have been anticipated or projected for base rate**
5 **recovery. Do you agree?**

6 **A. No, I do not. As shown on my Document WEG-2, the St. Lucie Unit**
7 **2 steam generator inspections occurred during the refueling outage**
8 **that began in January 2005 and ended in February 2005. Eddy**
9 **current tests were performed on the steam generator tubes during**
10 **that outage.**

11

12 Eddy current test results must be carefully evaluated and interpreted
13 before they can shed any meaningful light on the condition of the
14 tubes that have been inspected. FPL hired APTECH Engineering
15 Service, Inc. (APTECH) to evaluate and interpret the eddy current
16 testing results. APTECH has supplied steam generator integrity
17 services to the nuclear industry (both domestic and international) for
18 more than 25 years. APTECH began its work in February and
19 completed its preliminary evaluation on March 22, 2005, the same
20 day that FPL filed its rate case petition, MFRs and testimony.

21

1 APTECH concluded that the tube degradation was much more
2 severe than expected. Because of the major implications that
3 conclusion had for FPL's operational decisions for St. Lucie Unit 2,
4 FPL hired a second contractor, Dominion Engineering Inc. (DEI), to
5 conduct an independent evaluation and interpretation of the eddy
6 current test results. DEI has worked extensively in many technical
7 areas related to steam generators in pressurized water reactors
8 (PWR) including steam generator tube integrity for more than 25
9 years. DEI began its work after FPL received APTECH's findings
10 and concluded its preliminary evaluation on April 18, 2005. DEI
11 confirmed APTECH's conclusions that the tube degradation rate in
12 Unit 2 had accelerated substantially and if the trend were to continue
13 during the current operating cycle, the NRC-approved 30% tube
14 plugging limit could be exceeded during the refueling outage in
15 Spring 2006.

16
17 At that point FPL was confident that major countermeasures were
18 required, but it still had to evaluate what those countermeasures
19 should be. As shown on Document WEG-2, FPL received a tube-
20 sleeving proposal on April 28, evaluated its options and then
21 reached a final decision to perform tube sleeving on May 25, 2005.

1 Budgeting for steam generator tube sleeving at St. Lucie Unit 2 was
2 undertaken at that time.

3

4 **Q. Document WEG-2 shows that FPL filed a License Amendment**
5 **Request (LAR) with the NRC to allow tube sleeving in January**
6 **2005. Why did FPL file this LAR if, at the time of the filing, FPL**
7 **did not know whether it would need the license amendment?**

8 A. Because it normally takes approximately one year for the NRC to
9 approve a LAR, FPL filed the request as a contingency in the event
10 that the tube plugging limit of 30% would be exceeded at any point
11 before FPL was in a position to replace the steam generators. FPL
12 employed the best industry expertise available to develop tube
13 degradation projections. Best projections at the time of the request
14 indicated that the plugging limit would not be exceeded; however
15 FPL pursued a sleeving LAR as a contingency if tube degradation
16 proved greater than originally estimated.

17

18 **NRC Approval of Increased Tube Plugging Limit**

19

20 **Q. Does the NRC impose a limit on the total number of tubes that**
21 **may be plugged in the St. Lucie Unit 2 steam generators?**

1 A. Yes, it does. Currently, that limit is 30% of the total number of tubes
2 in the generators. Were FPL to plug tubes in excess of that limit
3 during a refueling outage, it would not be allowed to restart the unit
4 until it received approval from the NRC via a license amendment to
5 do so.

6 **Q. Why is the NRC concerned about the number of plugged tubes**
7 **in the steam generators?**

8 A. In a PWR such as St. Lucie Unit 2, the steam generator tubes
9 provide an important safety function: they are the principal means for
10 removing excess heat from the primary coolant. When a tube is
11 plugged, the coolant can no longer pass through it and hence the
12 tube would not be available to help remove excess heat. If a large
13 percentage of the tubes were plugged, the steam generators would
14 not be able to remove excess heat effectively to maintain the safe
15 shut-down capability of the unit at full power operation.

16

17 **Q. You stated earlier that the current projections of the tube-**
18 **degradation rate for St. Lucie Unit 2 indicate that it might**
19 **require FPL to exceed the 30% tube plugging limit during the**
20 **Spring 2006 refueling outage. Is FPL taking steps to seek a**

1 **license amendment from the NRC to increase the tube plugging**
2 **limit?**

3 A. Yes, we are. As previously noted, the analyses of the 2005 steam
4 generator inspection results were completed in April 2005. FPL
5 determined that, even though we planned to pursue tube sleeving as
6 required to avoid exceeding the existing 30% tube plugging limit, we
7 would also seek NRC approval to increase the limit to 42% as a
8 prudent contingency. FPL immediately began the safety re-analysis
9 needed to support an LAR for the increased limit. That re-analysis is
10 complex and unprecedented: no PWR has previously received
11 approval for a plugging limit as high as 42%. Accordingly, it has
12 taken FPL several months to complete the analytical work and
13 prepare the LAR. FPL anticipates filing the LAR in the very near
14 future, probably before the end of October 2005. FPL is also
15 working with the NRC to shorten the normal one-year review period
16 for LARs, so that the NRC can be in a position to approve the 42%
17 tube plugging limit by the time St. Lucie Unit 2 is scheduled to return
18 to service after the Spring 2006 refueling outage.

19 **Q. Does the LAR for the increased tube plugging limit contemplate**
20 **any operational restrictions on St. Lucie Unit 2?**

1 A. Yes, it does. In order to accommodate the reduced heat-removal
2 capability of the steam generators with more tubes plugged, the LAR
3 proposes that FPL would limit the thermal output of St. Lucie Unit 2
4 to 89% of its currently authorized output level in the event that more
5 than 30% of the tubes are plugged. This would result in a
6 corresponding reduction in the electric output of the unit to 89% of its
7 current rated output.

8 **Q. Is FPL assured of receiving NRC approval to increase the tube**
9 **plugging limit?**

10 A. No, we are not. While FPL is confident that its safety re-analysis
11 fully demonstrates the ability of St. Lucie Unit 2 to operate safely at a
12 42% tube plugging limit, this will be the first time any PWR licensee
13 has asked the NRC to authorize a limit that high. As might be
14 expected, first-time LARs generally receive more scrutiny and their
15 outcome is less certain than LARs for changes that are common
16 within the industry. FPL cannot be certain that the NRC (1) will
17 approve the LAR by the time that FPL would need it at the end of the
18 Spring 2006 outage, (2) will accept the 42% plugging limit or the
19 89% thermal output limit that are proposed in the LAR, or (3) will
20 approve the LAR at all.

21

22

Modification of Steam Generator Tubes

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Q. Do you agree with Mr. Stewart's characterization of the steam generator tube sleeving project as a repair to the existing unit?

A. No. FPL's normal repair procedure for degraded steam generator tubes is to plug them. It does not alter or modify the tubes in any way; it simply takes them out of service by inserting water-tight plugs so that reactor coolant can no longer flow through them. FPL has plugged thousands of steam generator tubes over the years and, in fact, its normal budgets for outage maintenance routinely include amounts for the cost of tube inspections and plugging.

In contrast, for the reasons I have previously discussed, FPL has decided to pursue sleeving of sufficient tubes in the St. Lucie Unit 2 steam generators to avoid exceeding the current 30% tube plugging limit. Sleeving involves a physical modification of each tube, allowing it to continue serving its heat-transfer function rather than being simply removed from service through plugging. Moreover, unlike plugging that is performed routinely as an outage "maintenance and repair" activity, FPL has never performed tube sleeving at any of its nuclear units.

1 unchanged. In contrast, the 2005 cycle contains a specific \$30
2 million "special project" budget item which includes \$25 million for
3 sleeving and which has no counterpart in the 2004 cycle.

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

5 **A. Yes it does.**

6

1 BY MR. LITCHFIELD:

2 Q. Mr. Gwinn, would you please give a brief summary
3 of your rebuttal testimony.

4 A. Good evening, Commissioners. The purpose of my
5 testimony is to rebut certain positions taken in this case
6 by the AARP witness, Stephen A. Stewart.

7 Specifically, I explain the time line for FPL's
8 decision to undertake the tube sleeving project for
9 St. Lucie Unit 2 that shows that FPL could not have
10 reasonably anticipated the need for the project at the
11 time it prepared and filed its rate case petition and
12 supporting documentation in Docket 050045-EI.

13 Secondly, I describe FPL's request to the
14 Nuclear Regulatory Commission for approval of a license
15 amendment to allow FPL to plug up to 42 percent of the
16 steam generator tubes in St. Lucie Unit 2, including the
17 significance of tube plugging to nuclear safety, the
18 complexity of the request for a license amendment, and the
19 operational impacts and uncertainties associated with the
20 license amendment request.

21 Thirdly, I explain that that tube sleeving
22 project constitutes a modification to the steam
23 generators, and it's not ordinary maintenance or a repair.

24 And lastly, I illustrate that the tube sleeving
25 project was not included in the Nuclear Division's base

1 O&M or outage budgets in the 2006 forecast that was the
2 basis for the rate case MFRs.

3 This concludes my summary.

4 MR. LITCHFIELD: Mr. Chairman, I would note that
5 this witness would be in a position to answer Commissioner
6 Arriaga's question relative to what dollars were included
7 in the budget reflected in the MFRs that were part of the
8 base rate case to the extent that question remains. And
9 with that, I would tender Mr. Gwinn for cross-examination.

10 CHAIRMAN BAEZ: Mr. Beck.

11 MR. BECK: Thank you, Mr. Chairman.

12 CROSS-EXAMINATION

13 BY MR. BECK:

14 Q. Good afternoon, Mr. Gwinn.

15 A. Good afternoon.

16 Q. Could you turn, please, turn to your Exhibit
17 WEG-2?

18 A. Yes.

19 Q. This is the time line that you've attached to
20 your testimony showing the time certain events took place;
21 is that right?

22 A. That's correct.

23 Q. And you've bolded the rate case filing on
24 March 22nd and the final decision for management to
25 perform the tube sleeving on May 25th; is that right?

1 **A.** Yes.

2 **Q.** Mr. Gwinn, just because Florida Power & Light
3 filed its rate case in March of 2005 doesn't mean that the
4 company didn't make changes or updates to its case as the
5 case proceeded; isn't that true?

6 **A.** I'm unaware of any changes.

7 MR. BECK: Let me ask to have an exhibit
8 identified, for identification. And this is an excerpt
9 from the rebuttal testimony of K. Michael Davis in the
10 rate case proceeding.

11 CHAIRMAN BAEZ: I'm sorry. Show that as Exhibit
12 90.

13 (Exhibit 90 was marked for identification.)

14 BY MR. BECK:

15 **Q.** Mr. Gwinn, do you have the exhibit in front of
16 you?

17 **A.** Yes, I do.

18 **Q.** And on page 1 of 3 of the exhibit, this shows a
19 cover page dated July 28, 2005, does it not?

20 **A.** Yes.

21 **Q.** Okay. And let me ask you to go to page 2 of the
22 exhibit, and specifically the question on line 14. Let me
23 ask you -- the question is, "Has FPL updated the
24 depreciation study it filed on March 17th?" And the
25 answer is, "Yes. Consistent with normal practice, FPL

1 filed an updated depreciation study on July 1, 2005." Do
2 you see that?

3 **A.** Yes, I do.

4 **Q.** And on the next page, on line 5, question,
5 "Would you please summarize the impact of these changes on
6 the depreciation expense that FPL is requesting in its
7 test year?" Answer, "My Document KMD-1 summarizes all of
8 the updates I mention above. The total effect on
9 depreciation expense in 2006 is \$64.7 million." Do you
10 see that?

11 **A.** Yes, I do.

12 **Q.** So isn't it fair to say that even after the
13 company filed its MFRs, it made updates to its case, at
14 least in some areas?

15 **A.** That appears, yes.

16 **Q.** Mr. Gwinn, you're generally familiar with the
17 settlement agreement that settled this rate case, are you
18 not?

19 **A.** In general.

20 **Q.** And it continued base rates at their current
21 level for 2006-2009 with the exception of some changes for
22 some major plants coming in service. Are you familiar
23 with that?

24 **A.** I'm just vaguely familiar with the settlement.

25 **Q.** Do you know that it has a four-year period where

1 rates are in effect according to the settlement?

2 **A.** (Gesturing.)

3 **Q.** You don't know?

4 **A.** I don't know. I really don't know, no.

5 MR. BECK: Mr. Chairman, I have an exhibit, a
6 document. FPL claims this to be confidential, so we've
7 put them all in red folders. I guess we would leave it up
8 to FPL who gets it, because it's FPL's information.

9 MR. LITCHFIELD: May we have a moment,
10 Mr. Chairman?

11 CHAIRMAN BAEZ: Sure.

12 MR. LITCHFIELD: I would ask that we be given a
13 minute to look at it before it's distributed further.

14 CHAIRMAN BAEZ: Further than?

15 MR. LITCHFIELD: Other than counsel and the
16 Commissioners.

17 MR. POUCHER: Staff?

18 MR. LITCHFIELD: Staff, thank you, yes.

19 (Pause.)

20 Mr. Chairman, it's my understanding that this
21 document would not be distributed further than the parties
22 to this docket, who would be subject to the protective
23 order that we have requested be entered.

24 CHAIRMAN BAEZ: Is that clear for everybody, or
25 are there any questions? Very well, .go ahead.

1 MR. BECK: Mr. Chairman, I would ask that this
2 exhibit be marked for identification, given a number.

3 CHAIRMAN BAEZ: Show it marked as Confidential
4 Exhibit 91.

5 (Confidential Exhibit 91 was marked for
6 identification.)

7 CHAIRMAN BAEZ: And I'm assuming,
8 Mr. Litchfield, just so we can set up some parameters
9 here, it's just the numbers that are --

10 MR. LITCHFIELD: I believe that to be the case.
11 I would --

12 CHAIRMAN BAEZ: And I would caution the witness
13 to not divulge numbers to the best of his ability. And I
14 think you'll be asked questions that may be meandering a
15 bit in order to get around that.

16 THE WITNESS: I understand, Commissioner.

17 MR. BECK: Mr. Chairman, and also counsel for
18 FPL, I'm going to try to ask some general questions, and
19 I'm not going to ask for specific numbers, but maybe some
20 general comparisons. And if you have any objection to the
21 question, I'm glad to have you stop the witness before
22 answering, but I'm going to try very hard to make it just
23 very general questions.

24 MR. LITCHFIELD: I appreciate that, Counsel.
25 And I would also request that the witness reflect upon the

1 answer before speaking. To the extent that, Mr. Gwinn,
2 you believe that the answer might require you to disclose
3 confidential information, I would prefer that you
4 articulate that to the Chairman before you go on the
5 record publicly.

6 THE WITNESS: I understand.

7 BY MR. BECK:

8 Q. Mr. Gwinn, do you have Exhibit 91 for
9 identification in front of you?

10 A. Yes, I do.

11 Q. And it consists of one page. The first page
12 simply gives the title to the -- could you read what it
13 says on the first page?

14 A. It says Nuclear Division, 2006 Business Plan,
15 Draft.

16 Q. And could you turn to the second page, please?
17 This is a comparison -- let me ask you if you could read
18 the title that's on the very top of the page.

19 A. Nuclear Division, Two-year O&M Request Versus
20 Target.

21 Q. Now, could you look down to the 2006 request?
22 Do you see that?

23 A. Yes.

24 Q. There's an amount for recurring O&M, is there
25 not?

1 **A.** Yes, there is.

2 **Q.** And then on top of the amount for recurring O&M,
3 there's a number of additions to that. Do you see that?

4 **A.** Yes, I do.

5 **Q.** And what's the middle addition to that?

6 **A.** The amendment to that is the St. Lucie Unit 2
7 steam generator sleeving project.

8 **Q.** Now, if you look also at the 2007 and 2008
9 requests, there are amounts listed for recurring O&M in
10 those years, are there not?

11 **A.** Yes, there are.

12 **Q.** Okay. And on each of them, there are some
13 additions besides that, are there not?

14 **A.** Yes, there are.

15 **Q.** Would it be fair to say that in every year,
16 there's always going to be something that's other than the
17 recurring amount?

18 **A.** No. In my position, no, I would not say that
19 every year that there's something on top of recurring, no.

20 **Q.** Okay. For 2006, for 2007, and for 2008 at
21 least, that is so, is it not?

22 **A.** Yes, that's correct.

23 **Q.** Now, do you see there's a total figure for the
24 2006 request?

25 **A.** Yes, I do.

1 **Q.** And that total figure includes the Port
2 St. Lucie Unit 2's sleeving, does it not?

3 **A.** Yes, it does.

4 **Q.** Okay. Now, there's also a number for the 2007
5 request. Do you see that?

6 **A.** Yes, I do.

7 **Q.** Okay. And is that number larger or smaller than
8 the number for the 2006 request?

9 **A.** It is larger.

10 **Q.** And can you think of a descriptive word to
11 compare the two figures that you could say out loud?

12 **A.** I'm sorry.

13 **Q.** For example, are they comparable?

14 **A.** They're basically comparable, yes.

15 **Q.** And do you see there's a figure also for the
16 2008 request?

17 **A.** Yes.

18 **Q.** And is that number larger or smaller than the
19 2006 request?

20 **A.** It is larger.

21 MR. BECK: Thank you. That's all I have.

22 CHAIRMAN BAEZ: Mr. Perry.

23 CROSS-EXAMINATION

24 BY MR. PERRY:

25 **Q.** Mr. Gwinn, can you take a look at your Exhibit

1 WEG-3, please?

2 **A.** Yes.

3 **Q.** Can you just explain to me in general what this
4 exhibit shows?

5 **A.** Yes, I can. What this exhibit shows is that the
6 outage for the St. Lucie Unit 2, the estimate we prepared
7 in 2004, which was the basis for our 2006 estimate and the
8 basis for our MFRs filed in March, was 28.8 million. The
9 estimate in our draft funds request for 2006 for the exact
10 same outage is still 28.8 million.

11 In addition, in my role as Manager of Nuclear
12 Financial Performance, I approve and direct the accruals
13 done monthly for our outages. Our outages are accrued on
14 a one-eighteenth basis. And our accrual for October's
15 business still had St. Lucie Unit 2's spring 2006 outage
16 at 28.8 million.

17 So what this illustrates is that the sleeving
18 project was not included in the amounts that we included
19 in our MFRs filed in March.

20 **Q.** And can you tell me in general what kinds of
21 costs included in the row that says "Base O&M" and what
22 kinds of costs are included in the row that says "Base
23 Outage"?

24 **A.** In general, the base O&M costs include those
25 recurring O&M type costs, such as our payroll, our

1 non-outage maintenance activities, contractors that are
2 required to perform maintenance services at the station,
3 et cetera. And the base outage is a normal outage cost.
4 And a lot of outages depend on the duration of the outage,
5 so your costs would fluctuate, you know, a small amount
6 based on the duration. It would include the contractors
7 we need to perform our necessary scope of work. It would
8 include our on-site personnel's overtime, et cetera.

9 Q. And does the 28.8 million that's shown next to
10 the base outage row there, does that include the costs for
11 plugging?

12 A. Yes, it would.

13 Q. Okay. And to be clear, this 28.8 million
14 relates to St. Lucie Unit 2; isn't that correct?

15 A. That's correct.

16 Q. So --

17 A. There's only one outage at St. Lucie in 2006.

18 Q. Thank you. Now, when you have a tube that is
19 degraded, don't you basically have two options? You can
20 either plug the tube or you can sleeve the tube?

21 A. Our normal repair method is to plug, and that is
22 the industry's normal repair method, is to plug. In this
23 instance, because of the fact that we have the potential
24 to exceed the 30 percent license limit and to be able to
25 operate our unit at 100 percent power, we have chosen the

1 option of sleeving, which allows us to operate at
2 100 percent.

3 **Q.** So given the facts here, those are the two
4 options that you're left with now, basically?

5 **A.** The only other option would be to do nothing.

6 **Q.** And that has its own set of problems, doesn't
7 it?

8 **A.** Obviously.

9 **Q.** Now, would it be fair to say that for every tube
10 that you sleeve, that you don't have to then plug that
11 tube?

12 **A.** That is correct.

13 **Q.** Okay. And the 28.8 million -- so that for
14 every -- okay. Every tube you sleeve you don't have to
15 plug. So to the extent that you don't plug a tube and
16 that you instead sleeve it, do you plan to reduce the cost
17 of the sleeving that you pass through the fuel clause by
18 the amount of plugging that you forgo?

19 **A.** I think I understand your question. The 28.8
20 million includes the normal plugging that we do in
21 refueling outages. It's FPL's plan to plug up to the
22 30 percent limit. The 25 million per sleeving is the
23 incremental cost over and beyond for just the sleeving.
24 The 28.8 would include the normal plugging that is done
25 routinely in our refueling outages, so there would be no

1 reduction.

2 Q. Okay. If I understand correctly, the 28.8
3 million basically covers the cost of plugging up to the 30
4 percent limit?

5 A. In general.

6 Q. Okay. To the extent that there would be some
7 type of cost reduction, let's say hypothetically that
8 because you didn't plug as many tubes as you expected and
9 you instead sleeved tubes, and the outage costs ended up
10 around 20 million, would FP&L be willing to reduce the
11 cost of the sleeving by the 8.8 million differential?

12 A. Counselor, that's not an area of my testimony.
13 I would have to defer that to another FPL witness.

14 Q. To Ms. Dubin?

15 A. Ms. Dubin, yes.

16 MR. PERRY: Okay. I have no further questions.

17 CHAIRMAN BAEZ: Mr. Twomey.

18 MR. TWOMEY: Yes, sir. Thank you, Mr. Chairman.

19 CROSS-EXAMINATION

20 BY MR. TWOMEY:

21 Q. Mr. Gwinn, you testified yesterday, did you not,
22 that you adopted in its entirety Mr. Hartzog's testimony;
23 is that correct?

24 A. That's correct.

25 Q. Now, you heard me -- were you here for my

1 cross-examination of Ms. Dubin this morning?

2 **A.** Yes, I was.

3 **Q.** Did you hear me read to her the occurrences in
4 your adopted testimony on page 20 where you used the term
5 "sleeve repair" on at least four occasions?

6 **A.** I don't remember the exact -- I was here,
7 though. I don't remember the exact question.

8 **Q.** Okay. Well, forget the question for a moment
9 then. Do you agree with me that on page 20 of your direct
10 testimony adopted from Mr. Hartzog that you refer to the
11 task of working with the sleeving as a repair, not a
12 modification?

13 **A.** Oh, I would agree that the word "repair" is
14 there. It's in the same sentence as plugging.

15 **Q.** Okay. Wait a minute. Do you have your
16 testimony, your direct testimony?

17 **A.** Yes, I do.

18 **Q.** Turn to page 20, please, line 1.

19 **A.** Yes.

20 **Q.** If you would, read the sentence, the full
21 sentence that starts at line 1.

22 **A.** It says, "Option 1, implementation of plugging
23 and sleeving repairs during the spring of 2006 refueling
24 outage and replacement of the steam generators in the fall
25 of 2007 as previously planned."

1 Q. So then it refers to plugging and sleeving in
2 connection with repairs; correct?

3 A. Yes.

4 Q. Okay. If you would, please, turn again to your
5 WEG-2 that Mr. Beck was asking you about a moment ago.

6 A. Yes.

7 Q. Okay. Mr. Beck ran you through the exhibit
8 showing the rebuttal testimony of Mr. Michael Davis on the
9 revision to the company's request for depreciation expense
10 which modified that by an increase of \$64.7 million;
11 correct?

12 A. Yes.

13 Q. Now, the testimony was filed, I guess,
14 July 28th, so where would we put that on the time line if
15 we were to put it? Would we put it below the vendor
16 contract?

17 A. Yes.

18 Q. And if we were going to add the stipulation
19 approval, we would put that even lower, right,
20 August 22nd?

21 A. Yes.

22 Q. Okay. In the confidential exhibit that Mr. Beck
23 questioned you on, are any of those items that are
24 additional items either in the 2006 request, 2007, or
25 2008, are they items that are being accomplished for the

1 first time? Do you know?

2 **A.** No, they're not.

3 **Q.** Mr. Gwinn, hypothetically, if you had a
4 transformer fire at St. Lucie 2 that destroyed the
5 transformer, and let's say the transformer cost
6 \$25 million, and it was not insured, and that that
7 occurrence, the destruction of the transformer, occurred
8 between rate cases, what source would the funds come from
9 to replace the transformer, base rates or fuel?

10 **A.** That would be very difficult for me to answer.
11 I would believe that question would be better suited for
12 Ms. Dubin.

13 **Q.** Okay. If you know, was the stipulation
14 specifically limited to items that were described or
15 discussed in the company's MFRs?

16 **A.** I'm sorry. Would you repeat the question,
17 please.

18 **Q.** Yes, sir. If you know, was the stipulation
19 strictly limited to the inclusion of items or costs that
20 were included in the company's MFRs?

21 **A.** I'm not aware of that.

22 **Q.** Would you agree with me that both sleeving and
23 plugging are physical modifications to the tubes that
24 they're accomplished on?

25 **A.** No, I would not agree with that. The plugging

1 does not modify the tube. It takes the tube out of
2 service. Sleeving modifies the tube by inserting another
3 tube inside the tube and expanding that tube, so it
4 becomes in place.

5 Q. It's your testimony that -- as I understood your
6 testimony yesterday, plugging involves placing a metal
7 plug inside each end of a tube and rolling it out from the
8 inside so that it's compressed against the inner diameter
9 of the tube; is that correct?

10 A. That's correct.

11 Q. You're saying that placing a piece of metal, a
12 plug, in either end of a tube and expanding it so it's
13 locked in and seals the tube is not a modification of that
14 tube, in your view?

15 A. No. The sleeving is a modification. First of
16 all, it does not go on both ends of tube.

17 Q. I'm sorry.

18 A. It just goes on --

19 Q. I'm sorry. I meant -- pardon the interruption.
20 I meant to ask you plugging. If you take and put a plug,
21 which is a piece of metal, inside each end of the tube and
22 by mechanical means roll it out so that it presses against
23 the inside of the tube and thus blocks water flow through
24 the tube, you're saying that is not a modification of that
25 tube?

1 **A.** No. That's taking the tube out of service.
2 That's not allowing it to continue to operate.

3 **Q.** And the changing of the tube's physical
4 properties by putting a plug in each end and compressing
5 it out, it's your testimony that is not a modification, a
6 physical modification of the tube; is that right?

7 **A.** That's correct.

8 **Q.** Fine. On page 9 of your rebuttal testimony, at
9 page 20 you say that --

10 **A.** I'm sorry. Page 9 or page 20?

11 **Q.** I'm sorry. Page 9, line 20.

12 **A.** I'm sorry.

13 **Q.** You say that FP&L has never performed tube
14 sleeving at any of its nuclear units; correct?

15 **A.** That's correct.

16 **Q.** And as I understand it, that's important to you
17 and FP&L's position because it's an indication that it is
18 something new and untried before; is that correct?

19 **A.** It is new to FPL. It is not new to the
20 industry.

21 **Q.** Right. But for your purposes, it's important to
22 you, is it not -- and I don't know; I'm just trying to
23 understand -- because it differentiates this from the
24 routine; is that correct?

25 **A.** Yes. It is clearly not a routine maintenance

1 item. No, it is not.

2 Q. And because you haven't done it before, it's not
3 normal maintenance; right?

4 A. That's correct. It is not normal maintenance.

5 CHAIRMAN BAEZ: Hold on, Mr. Twomey. There's
6 something I don't understand. Is sleeving performed in
7 units other than nuclear units? Can it be performed -- I
8 mean, it's part of the generator side, isn't it? Or am I
9 misunder --

10 THE WITNESS: No. The sleeving is for steam
11 generators. For this instance, I believe we're only
12 speaking about nuclear units.

13 CHAIRMAN BAEZ: No, I know, but to your
14 knowledge, you don't know whether this is done to steam
15 generators that are not part of nuclear units?

16 THE WITNESS: No, I'm not aware, Mr. Chairman.
17 I'm sorry. I'm not aware.

18 BY MR. TWOMEY:

19 Q. But to follow up on the Chairman's question, you
20 did just say, did you not, that sleeving has been
21 performed by other utility companies on other units;
22 correct?

23 A. That is correct.

24 Q. And if you're aware, how long has that been
25 going on, and how frequent has it been?

1 **A.** I'm not aware of the specific time or the
2 frequency.

3 **Q.** But would it be -- but you're aware of it;
4 correct?

5 **A.** I'm aware that sleeving has taken place, yes.

6 **Q.** So it's open and the knowledge is in the
7 industry, at least to the extent that a person in your
8 financial capacity is aware of it; correct?

9 **A.** That's correct.

10 **Q.** Now, the sleeving task or function once it's
11 done, if it in fact is ever done on St. Lucie 2, would
12 that be the only repair or modification or maintenance
13 function that has ever been performed on that or your
14 other nuclear units for the very first time?

15 **A.** This would be the first time that Florida Power
16 & Light has used sleeving on steam generators.

17 **Q.** I'm sorry. I didn't ask my question very
18 clearly. My question is, aside from sleeving, are there
19 any other refueling outage repair or modification or
20 maintenance tasks that have ever been performed for the
21 first time?

22 **A.** Oh, the answer to that would be yes.

23 **Q.** Could you name a few?

24 **A.** Not off the top of my head, but I'm sure as the
25 industry has evolved that there has been something that

1 has been done.

2 Q. Okay. Does that mean, Mr. Gwinn, that if the
3 Commission lets FP&L recover \$25 million for the sleeving
4 of St. Lucie 2's steam generators, in part because it is
5 not normal O&M, that is, it is new for the first time,
6 that the Commission will be establishing a precedent that
7 this utility and others with nuclear units, or it may not
8 be limited to nuclear units, comes in and says they're
9 doing something for the first time, which makes it not
10 normal or routine, that they should be allowed to recover
11 that O&M task through fuel adjustment as opposed to base
12 rates?

13 A. I don't believe that's an area of my expertise.
14 I don't believe I could answer that question.

15 Q. You don't think that answer necessarily follows
16 from your testimony?

17 A. No. You're asking for what qualifies for
18 recovery through the clauses. That's not an area of my
19 direct or rebuttal testimony.

20 Q. Okay. Now, just briefly, Mr. Perry asked you
21 about WEG-3 and the prepared-in-2004 funds request.

22 A. Yes.

23 Q. Tell me again, the base outage amount of
24 28.8 million is related just to the spring outage?

25 A. That's correct.

1 Q. For 2006?

2 A. Yes, St. Lucie Unit 2, spring outage, 2006.

3 Q. And the \$74.2 million is related to what?

4 A. The St. Lucie nuclear station.

5 Q. For the year?

6 A. Yes.

7 Q. Now, separate and apart from the -- and these
8 monies, isn't it true that these monies come out of base
9 rates?

10 A. That's my understanding.

11 Q. Okay. Separate and apart from the sleeving task
12 that may need to be addressed, if the outage actually only
13 costs \$23.4 million, what would happen with the difference
14 in the amount of money that has been budgeted for the base
15 outage, the surplus, if you will?

16 A. I don't think I understand your question.

17 Q. Well, let me ask you this. Would I be correct
18 in assuming that it would be a rare occurrence for the
19 actual expenditures in a nuclear power plant refueling
20 outage, for the monies expended to precisely match what
21 had been budgeted earlier for the project?

22 A. Yes.

23 Q. And so my question is, if -- in 2006 during the
24 spring outage, if it turns out, separate and apart from
25 the sleeving issue, that the company through efficiencies

1 or whatever only spent, let's say, \$23 million, what would
2 happen with the \$5.8 million, that is, the surplus, that
3 had been budgeted?

4 **A.** Well, the first thing we would do is -- these
5 outages are accounted for in outage reserves on a
6 one-eighteenth basis. The first thing we would do is to
7 true up the outage reserve to actuals so the financials of
8 Florida Power & Light are accurately represented, and then
9 those variances would be reported through our normal
10 financial reporting process.

11 **Q.** Thank you. But wouldn't the end result of that
12 be that through efficiencies, or whatever the reasons
13 would be, that the company would be, in my hypothetical,
14 \$5.8 million to the good at the end of that outage event,
15 and that that would inure to the benefit of the
16 shareholders or is money that could be spent elsewhere in
17 the company's day-to-day operations? Wouldn't that be the
18 necessary result?

19 **A.** I would agree that our O&M would be less by that
20 amount, yes.

21 **Q.** Now, you mentioned an outage reserve account?

22 **A.** Yes.

23 **Q.** Is that a funded account? When you budget for a
24 \$28.8 million outage event, is there an actual funded or
25 budgeted contingency or reserve account?

1 MR. LITCHFIELD: May I ask for clarification
2 from counsel as to what he means by funded?

3 MR. TWOMEY: Well, let's not say funded. Let's
4 say budgeted. I tried to correct myself.

5 BY MR. TWOMEY:

6 **Q.** Is there a line item, reserve or contingency, in
7 the outage budget?

8 **A.** Not a contingency or reserve. The reserve --
9 the accruals are budgeted, yes.

10 **Q.** And is that usually based on a percentage, or
11 what?

12 **A.** No. It's based on the outage estimate. In this
13 case, the accruals are based on the \$28.8 million
14 estimate.

15 **Q.** Okay. Let's say, for example, on the other
16 hand, that the additional problems were discovered in the
17 unit that weren't foreseen prior to opening the unit up
18 for refueling and that the actual expenditures were
19 \$31 million. Where do those monies come from?

20 **A.** It would be the same principle. Our outage
21 reserves would stop accruing at 28.8 million, and the
22 additional cash would be a current year expense to FPL.

23 **Q.** And the consequence would be that the company's
24 general revenues for total operations would be reduced by
25 that amount; correct?

1 **A.** This has nothing to do with revenues, sir. This
2 is expense.

3 **Q.** Pardon me?

4 **A.** This is not -- you asked me if our revenues
5 would be affected, and I'm saying no, this is expense, not
6 revenues.

7 **Q.** I'm sorry. I didn't mean to say -- forget
8 revenues. It would reduce your monies available to you
9 for operations; correct?

10 **A.** It would cause our O&M to be higher than we had
11 originally planned, yes.

12 MR. TWOMEY: That's all I have. Thank you.

13 CHAIRMAN BAEZ: Staff, you didn't have cross.

14 MS. VINING: That's correct.

15 CHAIRMAN BAEZ: Commissioners, a question?

16 COMMISSIONER ARRIAGA: Yes. I was asking
17 erroneously a previous witness a question about the NRC
18 procedure. You are currently, FPL is currently asking the
19 NRC to modify your licensing agreement; correct?

20 THE WITNESS: That's correct.

21 COMMISSIONER ARRIAGA: Is this something that
22 has been done before in the NRC?

23 THE WITNESS: The license amendment request for
24 sleeving has been done before in the industry, not by FPL,
25 but in the industry. The license amendment --

1 COMMISSIONER ARRIAGA: I was talking about
2 tubing, plugging the tubes, not sleeving. I think you're
3 asking for a 30 to a 42 percent.

4 THE WITNESS: To the 42 percent.

5 COMMISSIONER ARRIAGA: That's what I meant. Is
6 that --

7 THE WITNESS: No. That is the first time that
8 that request has been made to the Nuclear Regulatory
9 Commission. That is why we did such an extensive safety
10 analysis before we filed our license amendment request on
11 October 21st. And we've been working with the Nuclear
12 Regulatory Commission since May 9th to ensure the safe and
13 reliable operation of our plant.

14 And specifically, the reason it's a first-time
15 evolution is, steam generators, when they start to
16 degrade, the normal practice in the industry is to replace
17 the steam generators. The average effective operating
18 life of a steam generator is about 13 years. The
19 St. Lucie Unit 2 steam generators will be approaching 21
20 years by the time they're replaced in 2007. Most other
21 utilities have replaced them.

22 By our management of our steam generators, we've
23 gotten greater life out of our steam generators. But
24 unfortunately, with the 2005 outage result, the sleeving
25 had to become an option to bridge us to the next refueling

1 outage when they're replaced in 2007.

2 COMMISSIONER ARRIAGA: So there is a high
3 possibility that the NRC will say no?

4 THE WITNESS: I don't believe there's a high
5 possibility. There's a possibility. We've been working
6 very closely with them on a daily basis, and we are
7 confident based on our safety analysis that they will
8 approve the license amendment.

9 COMMISSIONER ARRIAGA: To 42 percent plugging?

10 THE WITNESS: Yes, as a contingency. But our
11 plan, Commissioner, is to sleeve the steam generators,
12 anything over 30 percent, so we can continue to operate at
13 100 percent and supply our customers with the differential
14 fuel savings.

15 COMMISSIONER ARRIAGA: Let us assume for a
16 moment that the NRC says no and that this Commission says
17 no to your request also. What is your company's plan of
18 action?

19 THE WITNESS: If they said no to the
20 42 percent -- our current license is to plug up to
21 30 percent of our tubes. That is still what FPL would do.
22 We would plug up to 30, which is our plan, and then we
23 would sleeve anything over and beyond 30 percent.

24 COMMISSIONER ARRIAGA: Even if we say no to your
25 request for funds, you will still continue to sleeve?

1 THE WITNESS: Yes, we will, Commissioner. We
2 will repair our steam generators to the best of our
3 ability and provide 100 percent power until these steam
4 generators are replaced in 2007.

5 COMMISSIONER ARRIAGA: Thank you.

6 THE WITNESS: You're welcome.

7 CHAIRMAN BAEZ: Commissioners, other questions?
8 Commissioner Deason?

9 COMMISSIONER DEASON: I guess I'm missing the
10 reason that the license amendment request needs to be
11 filed with the NRC if your plan is to sleeve for any tubes
12 in excess of the 30 percent cap.

13 THE WITNESS: It's a prudent contingency measure
14 that we took just to ensure that we could have all options
15 available. It's like anything else that we do. We want
16 to make sure we have every repair contingency in place so
17 our outages are as smooth and on schedule as possible.
18 It's a contingency measure just to ensure that we can
19 restart the unit.

20 CHAIRMAN BAEZ: Redirect?

21 MR. LITCHFIELD: Thank you, Mr. Chairman. I
22 have just a couple of questions.

23 REDIRECT EXAMINATION

24 BY MR. LITCHFIELD:

25 Q. If you know, Mr. Gwinn, the minimum filing

1 requirements that Florida Power & Light filed in
2 connection with its petition for a base rate increase, for
3 what year were those MFRs targeted? What was the test
4 year, in other words?

5 A. I'm sorry, Counselor. I don't remember the test
6 year.

7 Q. Would you accept subject to check that it was
8 2006?

9 A. Yes.

10 Q. Would you take a look at Confidential Exhibit
11 Number 91 that counsel for the Office of Public Counsel
12 showed you, and would you focus on the bar chart, which I
13 think is on the second page of that exhibit?

14 A. Yes.

15 Q. Are you there?

16 A. Yes.

17 Q. Okay. The second bar chart there shows a total
18 amount relative to the 2006 request, does it not?

19 A. Yes, it does.

20 Q. And that bar chart is segmented into two --
21 well, I guess more than two, but two major segments.
22 Would you agree with that?

23 A. Yes, I would.

24 Q. And they're differentiated by shading. One is
25 very dark, and one is rather gray or mottled; correct?

1 **A.** Yes.

2 **Q.** And the gray or mottled segment is entitled
3 what?

4 **A.** Recurring O&M.

5 **Q.** Okay. Looking at this bar graph, which segment
6 or segments was reflected or included in the MFRs filed
7 for 2006?

8 **A.** The recurring O&M portion.

9 **Q.** Just the lower segment?

10 **A.** In addition, the -- no, that would be correct,
11 just the recurring O&M portion.

12 **Q.** Now, turning to Exhibit Number 90, this was the
13 document containing excerpts from Mr. Davis's rebuttal
14 testimony in Docket No. 050045-EI. Do you have that in
15 front of you?

16 **A.** Yes, I do.

17 **Q.** Now, would the costs of the sleeving project
18 have been reflected in a revised depreciation study filed
19 by the company?

20 **A.** No, it would not.

21 MR. LITCHFIELD: That's all I have,
22 Mr. Chairman.

23 CHAIRMAN BAEZ: We've got exhibits. Mr. Beck,
24 I'm showing 90 and 91 for you.

25 MR. BECK: Yes, Mr. Chairman. We would move 90

1 and 91. I'm going to ask Mr. Poucher to collect all of
2 the red folders from everyone except the court reporter
3 and FP&L.

4 MR. LITCHFIELD: And, Mr. Chairman, FPL would
5 move 74 and 75.

6 CHAIRMAN BAEZ: Without objection, show exhibits
7 74, 75, 90, and 91 admitted.

8 (Exhibits 74, 75, 90, and 91 were received into
9 evidence.)

10 CHAIRMAN BAEZ: Thank you, Mr. Gwinn. You're
11 excused.

12 Mr. Litchfield, your next witness? Or
13 Mr. Butler, I'm sorry.

14 MR. BUTLER: It will be Ms. Dubin, and she's
15 coming to the stand quickly. This witness has previously
16 been sworn.

17 Thereupon,

18 KOREL M. DUBIN

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

22 DIRECT EXAMINATION

23 BY MR. BUTLER:

24 Q. Would you please state your name and address for
25 the record.

1 **A.** My name is Korel Dubin. My address is 9250 West
2 Flagler Street, Miami, Florida, 33174.

3 **Q.** Okay. Do you have before you rebuttal testimony
4 that was prefiled in this docket dated October 17, 2005,
5 entitled "Rebuttal Testimony of K. M. Dubin"?

6 **A.** I do.

7 **Q.** Was this testimony prepared under your
8 direction, supervision, or control?

9 **A.** Yes, it was.

10 **Q.** Do you have any corrections to make to your
11 testimony?

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

13 MR. BUTLER: I would ask that Ms. Dubin's
14 prefiled rebuttal testimony be inserted into the record as
15 though read.

16 CHAIRMAN BAEZ: Without objection, show the
17 rebuttal testimony of Witness Dubin entered into the
18 record as though read.

19
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25

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **REBUTTAL TESTIMONY OF KOREL M. DUBIN**

4 **DOCKET NO. 050001-EI**

5 **October 17, 2005**

6

7 **Q. Please state your name and address.**

8 A. My name is Korel M. Dubin and my business address is 9250 West
9 Flagler Street, Miami, Florida 33174.

10

11 **Q. By whom are you employed and what is your position?**

12 A. I am employed by Florida Power & Light Company (FPL) as Manager
13 of Regulatory Issues in the Regulatory Affairs Department.

14

15 **Q. Have you previously testified in this docket?**

16 A. Yes, I have.

17

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

19 A. The purpose of my testimony is to rebut the testimony of Stephen
20 Stewart, who is appearing on behalf of AARP in opposition to FPL's
21 request to recover the costs of the St. Lucie Unit No. 2 steam
22 generator tube sleeving project through the Fuel Cost Recovery
23 clause. Contrary to Mr. Stewart's testimony, FPL believes its
24 proposal is appropriate and consistent with Commission practice

1 because, as shown in Mr. Gwinn's testimony, the sleeving project
2 was not recognized or anticipated in the cost levels used to determine
3 base rates, is not a routine O&M repair cost, and is instead a fuel-
4 related modification that results in fuel savings for FPL's customers.

5

6 **Q. Mr. Stewart states that "the primary reason to deny recovery**
7 **through the fuel clause is that the sleeving project is an**
8 **operations and maintenance ("O&M") project, not a fuel-related**
9 **expense, the cost of which either was sought for recovery in the**
10 **base rates case in Docket No.050045-EI or should have been**
11 **sought there." Do you agree with this statement?**

12 **A. No.** Mr. Stewart's statement consists of two distinct and incorrect
13 assertions, which I will address separately.

14

15 First, Mr. Stewart asserts that the tube sleeving planned for St. Lucie
16 Unit 2 is an ordinary O&M project, not a fuel-related expense. This is
17 simply wrong. As Mr. Gwinn discusses in his rebuttal testimony, FPL
18 indeed has a routine O&M approach to dealing with defective steam
19 generator tubes: plugging. FPL regularly inspects and plugs tubes as
20 part of refueling outages, and it includes costs for those activities in
21 its outage budgets. Mr. Gwinn explains that plugging simply takes
22 the tubes out of service, blocking them off so no reactor coolant can
23 enter. It is a conventional maintenance-type activity. In contrast,
24 sleeving is not something that FPL routinely performs or budgets. In

1 fact, Mr. Gwinn points out that the St. Lucie Unit 2 tube sleeving
2 project is the first of its kind for any of FPL's nuclear units. Moreover,
3 as Mr. Gwinn explains in his rebuttal testimony, sleeving modifies the
4 tube so that it may remain in service and continue performing its
5 useful function. By doing so, sleeving will allow St. Lucie Unit 2 to
6 remain in service and operate at its full rated output. This allows FPL
7 to avoid the cost of expensive fossil fuels that it would have to burn
8 otherwise. Thus, the sleeving project is clearly a "fuel-related
9 expense."

10

11 Mr. Stewart likewise is incorrect in asserting that FPL included or
12 should have included the cost of the St. Lucie Unit 2 sleeving project
13 in its rate case filing in Docket No. 050045-EI. As described in Mr.
14 Gwinn's rebuttal testimony, the results of tube inspections at St. Lucie
15 Unit 2 were being analyzed by outside experts up through mid-April
16 2005, well after FPL's rate case filing on March 22, 2005. Once
17 those analyses were complete, FPL then had to conduct an extensive
18 evaluation of its options to address the increased tube-degradation
19 rate indicated by the analyses. It was not until May 25, 2005, two
20 months after FPL's rate case filing, that FPL's management gave its
21 final approval to perform the steam generator tube sleeving.

22

23 Mr. Stewart is generally correct in his comments that steam generator
24 tube degradation has been a long-term problem for the nuclear

1 industry, and that FPL has known for several years that St. Lucie Unit
2 2 is experiencing a significant rate of tube degradation. That is why,
3 as Mr. Gwinn stated in his September 9 direct testimony, FPL
4 ordered replacement steam generators in 2003 to be installed at St.
5 Lucie Unit 2 during the Fall 2007 refueling outage. Unfortunately, Mr.
6 Stewart ignored or misunderstood what Mr. Gwinn went on to say
7 next in that testimony: the inspection results from the January 2005
8 refueling outage "revealed that the degradation rate was even more
9 rapid than anticipated in 2003 and involved a degradation mechanism
10 that had not previously been observed as significant." This was new
11 and different information, the significance of which was not apparent
12 to FPL until well after the March 22, 2005 rate case filing. And it was
13 that information that led FPL to pursue the sleeving project.

14

15 Part of the Commission's criteria for recovery through the Fuel
16 Clause stated in Order No. 14546 is that the costs "were not
17 recognized or anticipated in the cost levels used to determine current
18 base rates." The cost levels included in FPL's MFR filing on March
19 22, 2005, could not reasonably have included the cost of a project
20 that was not known until two months later. Clearly the cost of the
21 sleeving project was not "recognized" or "anticipated" in FPL's base
22 rates.

23

1 **Q. Mr. Stewart states that the sleeving project is not a**
2 **'modification' to a generating unit that provides greater fuel**
3 **economy than previously existed, but, rather, a 'repair' to an**
4 **existing unit." Do you agree with this statement?**

5 **A. No. As discussed in Mr. Gwinn's rebuttal testimony, the sleeving**
6 **project involves modifications to defective steam generator tubes,**
7 **which allows them to perform a function (circulating reactor coolant)**
8 **that they could not otherwise perform. The sleeving is indeed an "act**
9 **of making [the tubes] different," which is Mr. Stewart's definition of a**
10 **"modification." FPL has chosen to undertake this act in order to**
11 **provide greater fuel economy to FPL's customers.**

12
13 **Q. Mr. Stewart quotes the following discussion in Order No. 14546:**

14 **"In addition to stipulating to the foregoing**
15 **applications of policy, the parties also**
16 **recommended to the Commission that the policy it**
17 **adopts be flexible enough to allow for recovery**
18 **through fuel adjustment clauses of expenses**
19 **normally recovered through base rates when**
20 **utilities are in a position to take advantage of a**
21 **cost-effective transaction, the costs of which were**
22 **not recognized or anticipated in the level of costs**
23 **used to establish the utility's base rates. One**
24 **example raised was the cost of an unanticipated**

1 short-term lease of a terminal to allow a utility to
2 receive a shipment of low cost oil. The parties
3 suggest that this flexibility is appropriate to
4 encourage utilities to take advantage of short-term
5 opportunities not reasonably anticipated or
6 projected for base rate recovery. In these
7 instances, we will require that the affected utility
8 shall bring the matter before the Commission at
9 the first available fuel adjustment hearing and
10 request cost recovery through the fuel adjustment
11 clause on a case by case basis. The Commission
12 shall rule on the appropriate method of cost
13 recovery based upon the merits of each individual
14 case.”

15 (Emphasis added by Mr. Stewart)

16 **Mr. Stewart goes on to say that he does not believe that FPL's**
17 **sleeving project costs meet the criteria for cost recovery in this**
18 **exception. Do you agree?**

19 A. No. The sleeving project is, in fact, specifically intended to take
20 advantage of a short-term opportunity to provide fuel savings to
21 customers. The sleeving project will be implemented in the Spring
22 2006 refueling outage. The St. Lucie Unit 2 steam generators are
23 scheduled to be replaced in the Fall 2007 refueling outage, at which
24 time the old steam generators will be retired from service and the fact

1 that tubes were sleeved in those generators will no longer be
2 relevant. Thus, the sleeving project is specifically aimed at allowing
3 St. Lucie Unit 2 to operate at full power for a short, limited period: the
4 18 months from the spring of 2006 to the fall of 2007. As I have
5 discussed previously, this project was not and could not have been
6 reasonably anticipated or projected for base rate recovery. Thus the
7 sleeving project clearly meets the criteria cited by Mr. Stewart.

8

9 **Q. Mr. Stewart disputes FPL's calculation of the fuel savings**
10 **resulting from the sleeving project. Specifically he concedes**
11 **that "the \$1.26 million per day suggested savings may be the**
12 **correct figure for replacing all St. Lucie Unit No. 2's generation**
13 **with fossil-fired generation," but goes on to assert that "stating**
14 **that number in FPL's testimony tends to suggest substantially**
15 **greater savings from this project than can possibly be realized.**
16 **This is because the initial goal of the repair appears to be the**
17 **continued operation of the unit at 100 percent power, as**
18 **opposed to the 89 percent power level, which would be required**
19 **if the unit exceeded the 30 percent plugging limit. Presumably,**
20 **one should calculate the fossil-fired replacement cost savings**
21 **resulting from operating at 100 percent power as opposed to 89**
22 **percent and apply that savings over the period between the**
23 **spring 2006 refueling outage and the steam generator**

1 **replacements in the fall 2007 outage.” Please comment on these**
2 **assertions.**

3 A. **Mr. Stewart is missing the point. FPL’s sleeving project provides fuel**
4 **savings to customers, which is one of the Commission’s criteria for**
5 **recovery of a fuel-related project’s costs through the fuel clause. For**
6 **the period between the Spring 2006 refueling outage and the steam**
7 **generator replacements in the Fall 2007 outage, having St. Lucie Unit**
8 **2 operating at 100% power will save customers \$586 million in**
9 **replacement power costs compared to what customers would have to**
10 **pay if the unit were offline. The replacement power cost in 2006 for a**
11 **single day offline is approximately \$1.26 million, the figure that I cited**
12 **in my September 9 direct testimony.**

13
14 **Mr. Stewart is relying heavily on speculation when he suggests that**
15 **FPL could confidently rely on plugging tubes beyond the currently**
16 **authorized 30% limit as an alternative to sleeving. As Mr. Gwinn**
17 **explains in his rebuttal testimony, there is no industry precedent for**
18 **FPL’s request to operate St. Lucie Unit 2 at up to a 42% plugging**
19 **limit. Consequently, there is considerable uncertainty as to the timing**
20 **and specifics of the NRC’s approval of that request. FPL should not**
21 **(and does not) assume that it definitely would be permitted to plug**
22 **tubes beyond the current 30% limit and return St. Lucie Unit 2 to**
23 **service at 89% power immediately following the Spring 2006 refueling**
24 **outage. This lack of certainty about when and under what**

1 circumstances FPL would be permitted to restart St. Lucie Unit 2
2 next Spring if it did not implement the sleeving project is why my
3 September 9 direct testimony presents the fuel savings from the
4 sleeving project in terms of the daily fuel savings resulting from
5 avoiding a delayed restart of the unit. FPL continues to believe that
6 this is a reasonable and conservative way to evaluate the benefits of
7 the sleeving project.

8
9 FPL has also calculated the fossil fuel replacement cost savings that
10 would result from operating St. Lucie Unit 2 at 100% power output
11 (assuming sleeving) compared to 89% output (assuming FPL would
12 be permitted to operate the unit with tubes plugged in excess of the
13 current 30% limit). It has performed that calculation for the period
14 between the Spring 2006 refueling outage and the steam generator
15 replacements in the Fall 2007 outage. These savings are projected
16 to be \$58.9 million. When compared to the \$25 million cost of the
17 sleeving project, FPL's customers see a net benefit of \$33.9 million.
18 Thus, the sleeving project is clearly cost-effective even if one makes
19 the speculative assumption that FPL definitely will be in a position
20 next Spring to restart St. Lucie Unit 2 with more than 30% of the
21 steam generator tubes plugged.

22

23 **Q. Mr. Stewart suggests that the cost benefit calculation provided**
24 **in your September 9, 2005 direct testimony is somehow lacking**

1 **compared to the cost benefit analysis provided in the cases**
2 **cited in your direct testimony. Is there a difference in the**
3 **manner in which the \$1.26 million savings was calculated?**

4 A. No. The savings figure of \$1.26 million per day was calculated in the
5 same manner as the other cases cited in my direct testimony: the
6 result of the difference between low cost nuclear fuel and the higher
7 cost fossil fuel that it replaces. For the reasons just discussed, there
8 is considerable uncertainty as to what alternatives would be available
9 to FPL next Spring if it did not implement the sleeving project.
10 Because of this uncertainty, my September 9 direct testimony
11 provided the fuel cost savings on an average daily basis.

12

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

14 A. Yes, it does.

1 MR. BUTLER: Thank you. And there are no
2 exhibits to her rebuttal testimony. I would ask that she
3 summarize her rebuttal testimony, please.

4 THE WITNESS: Thank you. The purpose of my
5 testimony is to rebut the testimony of Stephen Stewart,
6 who is appearing on behalf of AARP in opposition to FPL's
7 request to recover the costs for the St. Lucie 2 steam
8 generator tube sleeving project through the fuel clause.

9 Contrary to Mr. Stewart's testimony, FPL's
10 proposal is appropriate and consistent with Commission
11 practice because the sleeving project was not recognized
12 or anticipated in the cost levels used to determine base
13 rates, is not a routine O&M repair cost, and is instead a
14 fuel-related modification that results in fuel savings to
15 customers.

16 First, Mr. Stewart is incorrect in asserting
17 that FPL included or should have included the cost of the
18 St. Lucie Unit 2 sleeving project in its rate case filing.
19 Part of the Commission's criteria for recovery through the
20 fuel cause stated in Order 14546 is that costs were not
21 recognized or anticipated in the cost levels used to
22 determine current base rates. As Mr. Gwinn stated in his
23 testimony, the results of the tube inspection at St. Lucie
24 Unit 2 were being analyzed by outside experts up through
25 mid-April, and it was not until May 25th that FPL's

1 management gave its final approval to perform the steam
2 generator tube sleeving project. The cost levels included
3 in FPL's MFR filings were filed on March 22nd and could
4 not reasonably have included the cost of the project that
5 was not known until two months later. Clearly, the cost
6 of the sleeving project was not recognized or anticipated
7 in FPL's base rates.

8 Second, Mr. Stewart is simply wrong when he
9 asserts the tube sleeving plan for St. Lucie 2 is an
10 ordinary O&M project, not a fuel-related expense. FPL has
11 a routine O&M approach to dealing with defective steam
12 generator tubes -- it's plugging. FPL regularly inspects
13 and plugs tubes as part of its refueling outage, and it
14 includes the costs of those activities in its outage
15 budgets. It is a conventional maintenance type activity.

16 In contrast, sleeving is not something that FPL
17 routinely performs or budgets. In fact, this sleeving
18 project is the first of its kind of FPL. The sleeving
19 modifies the tube so that it may remain in service and
20 condition to perform its useful function. By doing so,
21 sleeving will allow St. Lucie Unit 2 to remain in service
22 and operate at its full rated output. This allows FPL to
23 avoid the cost of expensive fossil fuels that would have
24 to be burned otherwise. Thus, the sleeving project is
25 clearly a fuel-related expense.

1 And last, Mr. Stewart disputes FPL's calculation
2 of fuel savings resulting from the sleeving. The fact is,
3 FPL's sleeving project provides fuel savings to customers,
4 which is one of the Commission's criteria for recovery of
5 fuel-related projects.

6 For the period between the spring 2006 refueling
7 outage and the steam generator replacements in 2007,
8 having St. Lucie Unit 2 operating at 100 percent power
9 will save customers \$586 million in replacement power
10 costs compared to what customers would have to pay if
11 those units were offline. The replacement costs for a
12 single day offline is \$1.2 million.

13 FPL has also calculated the fossil fuel
14 replacement cost savings that would result from operating
15 St. Lucie Unit 2 at 100 percent power output assuming
16 sleeving, compared to 89 percent output assuming FPL would
17 be permitted to operate the unit with tubes plugged in
18 excess of the 30 percent. It has performed that
19 calculation for the period between the spring of 2006
20 refueling outage and the steam generator replacement in
21 the fall of 2007. These savings are projected to be
22 \$58.9 million. When compared to the \$25 million cost of
23 the sleeving project, FPL's customers see a net benefit of
24 33.9 million. Thus, the sleeving project is
25 cost-effective.

1 This concludes my summary.

2 MR. BUTLER: Thank you, Ms. Dubin. I tender her
3 for cross-examination.

4 CHAIRMAN BAEZ: Mr. Beck.

5 MR. BECK: Thank you.

6 CROSS-EXAMINATION

7 BY MR. BECK:

8 Q. Good evening, Ms. Dubin.

9 A. Good evening.

10 Q. Hello again. Ms. Dubin, you're generally
11 familiar, are you not, with the rate case settlement
12 agreement?

13 A. Yes, I am.

14 Q. And it applies for the years 2006 through 2009
15 at a minimum, does it not?

16 A. Yes.

17 Q. In fact, it has a provision that allows it to
18 continue in effect after that until some party takes an
19 action to put an end to it?

20 A. I believe so.

21 Q. And base rates are continued at current levels,
22 with the exception of certain plant additions; isn't that
23 right?

24 A. That's correct.

25 Q. None of the plant additions during the four-year

1 period is a nuclear plant, is it?

2 A. I don't believe so.

3 Q. So the base rates that are set forth in that
4 agreement have to support the nuclear O&M expenses during
5 the four-year period of the agreement, does it not?

6 A. Yes.

7 MR. BECK: That's all I have. Thank you.

8 CHAIRMAN BAEZ: Mr. Perry.

9 CROSS-EXAMINATION

10 BY MR. PERRY:

11 Q. Good evening, Ms. Dubin. I have a few questions
12 related to WEG-3.

13 A. Okay.

14 Q. I had asked Mr. Gwinn earlier about the row
15 titled "Base Outage" and the \$28.8 million, and I believe
16 he said to me that it's FP&L's plan to spend the 28.8
17 million as well as the 30 million for the sleeving
18 project. And my question to him was, if FP&L happens to
19 come in under budget for the \$28.8 million in costs, let's
20 say they're 8.8 million under budget, would FP&L then
21 reduce the cost of the sleeving project by 8.8 million?

22 A. The \$28.8 million is included in base as the
23 normal level of plugging, so -- then there's the
24 \$30 million for the sleeving and plugging project. That
25 includes \$25 million for the sleeving project that we've

1 asked for recovery through the clause, and it also
2 includes another \$5 million for extra plugging that's
3 beyond the normal level, and that's not reflected in our
4 MFRs or in the fuel adjustment.

5 So I just was trying to lay out all of the
6 costs, because I think what you're saying is, if you
7 didn't spend everything you said you were going to in your
8 MFRs filing, for example, for plugging, you would then
9 credit what you're going to spend on sleeving, or offset.

10 **Q.** That's correct.

11 **A.** What I'm trying to say is that we're going to
12 spend what we have in the MFRs for plugging plus more
13 that's not included anywhere else. So to net it wouldn't
14 make sense. We're already spending over that amount.

15 **Q.** And I think that I'm asking you to assume a
16 hypothetical. I know that that's your plan, to spend more
17 than that amount. And what I was asking you was to assume
18 a hypothetical. If you happen to come in under budget,
19 what would be your plan in that situation?

20 **A.** If we came in under budget, I believe then there
21 wouldn't be a need to -- it would be that we wouldn't have
22 to plug. We wouldn't have to plug, and we wouldn't have
23 to sleeve.

24 I guess I'm having a little trouble with your
25 hypothetical.

1 MR. BUTLER: Mr. Perry, in your hypothetical,
2 the -- I think you said 8.8 million you're saying that FPL
3 would be under budget. Are you saying it would be under
4 budget because it did less plugging than is referred to in
5 the base outage budget level, or are you saying that it
6 wouldn't spend 8.8 million on something else that's
7 unrelated to this project? I think the answer to which
8 one of those it is is part of the confusion Ms. Dubin is
9 having in answering your question.

10 MR. PERRY: Well, I think Mr. Gwinn said that
11 the whole 28.8 is related to the outage.

12 MR. BUTLER: That's right, to the outage, but
13 not necessarily to the plugging/sleeving activity. And
14 that was my question, whether your hypothetical is that
15 the 8.8 million that you're saying wouldn't be spent, is
16 that something -- less plugging that would be done, or are
17 you just talking about some unrelated activity that for
18 whatever reason FPL didn't end up having to do in the
19 outage?

20 MR. BECK: Okay.

21 BY MR. PERRY:

22 **Q.** How much of the 28.8 million is related to
23 plugging costs?

24 **A.** I'm not sure. It's a good percentage of it,
25 though, but I'm not sure exactly how much.

1 **Q.** Okay. Let's just assume that you came in,
2 hypothetically, 8.8 million under budget related to the
3 plugging costs. Would you then credit that amount to
4 the \$30 million that you project to spend on the sleeving
5 project?

6 **A.** For the 30 million, I would say probably so,
7 because there's 5 million in there above the 28.8 million
8 to begin with, so you would be coming in under budget
9 there.

10 **Q.** Okay. So in that hypothetical, you would apply
11 the entire 8.8 million to the 30 million?

12 **A.** I guess I'm having trouble. I'm sorry,
13 Mr. Perry. If you're going to end up spending less, it's
14 because you have to do less work. If you have to do less
15 plugging, then chances are you don't have to do the
16 sleeving to begin with. If it shows that you don't have
17 the degradation that is anticipated, then you wouldn't
18 have to do that, and you wouldn't be spending the
19 25 million on sleeving to begin with.

20 **Q.** Okay. I think I understand. In other words, if
21 you're spending, let's say, 25 million on the plugging, it
22 means that the amount that you're plugging doesn't even
23 require you to sleeve in the first place?

24 **A.** Right.

25 **Q.** Because you'll never go past that 30 percent?

1 not asking the question of where the money was coming
2 from. I was asking what was the company going to do. So,
3 please, do not put words in my mouth.

4 MR. TWOMEY: Commissioner, I'm not trying to. I
5 didn't suggest at all that that was your question. I was
6 transitioning into a question that I wanted to ask her
7 about the budget.

8 CHAIRMAN BAEZ: All right. So we're officially
9 off Commissioner Arriaga's questions.

10 MR. TWOMEY: Yes.

11 CHAIRMAN BAEZ: Okay. We're on to yours then.

12 MR. TWOMEY: Yes.

13 BY MR. TWOMEY:

14 Q. If you went ahead and did that, if it cost \$25
15 million, where would the \$25 million of funds come from?

16 MR. BUTLER: I'm going to object to the
17 question, because I think what has happened here is that
18 this isn't really about Ms. Dubin's rebuttal testimony.
19 This is sort of leveraging off of a question asked by
20 Commissioner Arriaga to provide Mr. Twomey for an
21 opportunity to explore a subject beyond Ms. Dubin's
22 rebuttal testimony.

23 MR. TWOMEY: Well, Mr. Butler, I don't --
24 Mr. Chairman, I don't think so, but I'll drop it for the
25 moment and go to a specific part of her testimony that I

1 think will support the question.

2 BY MR. TWOMEY:

3 Q. On page 2, Ms. Dubin, line 16, of your rebuttal
4 testimony, you said that -- or starting at 15, you say,
5 "First, Mr. Stewart asserts that the tube sleeving planned
6 for St. Lucie Unit 2 is an ordinary O&M project, not a
7 fuel-related expense." Do you see that?

8 A. Yes, I do.

9 Q. Are you suggesting that any place in
10 Mr. Stewart's testimony that he used the word "ordinary
11 O&M," or is that in fact your characterization of the O&M
12 project?

13 MR. BUTLER: I would object to the form of the
14 question, because I believe that it's a characterization
15 of Mr. Stewart's testimony, not of the project.

16 BY MR. TWOMEY:

17 Q. Ms. Dubin, can you point to any place in
18 Mr. Stewart's testimony that he refers to O&M as being
19 ordinary?

20 A. I don't have a copy of his testimony in front of
21 me, but I have quoted in my testimony what he said, and he
22 doesn't use the word specifically, ordinary. But what he
23 says is, the primary reason to deny recovery through the
24 fuel clause is that the sleeving project is an operation
25 and maintenance project, not a fuel-related expense. And

1 my comments go to what he was saying about it's not an
2 operation and maintenance project and not being a
3 fuel-related expense.

4 Q. Yes, ma'am. And my question is, don't you --
5 haven't you chosen to use the word "ordinary" because
6 you want to designate or characterize the sleeving project
7 as extraordinary? Isn't that in fact critical to your
8 claim that it should come through the fuel adjustment
9 clause?

10 A. I used the word "ordinary" there to describe the
11 way I believe he has put the O&M project, to add emphasis
12 to it, yes.

13 Q. But you agree, don't you, that the sleeving
14 project is O&M, but that it just has a different
15 characterization than plugging; correct?

16 A. It is O&M, and I think I had stated earlier this
17 morning that I've spoken with our accounting group, and
18 but for the period of time that the project is going to be
19 in effect, it has the characteristics of a capital
20 project, being a significant betterment to the asset.

21 Q. But I thought your testimony and Mr. Gwinn's
22 perhaps was that it couldn't be classified as a capital
23 project, that it had to be O&M because of the short
24 duration; correct?

25 A. Because of the short duration, yes.

1 **Q.** Yes. And again, my question is, isn't it
2 essential to FP&L's theory of having this cost run through
3 the fuel adjustment clause to its customers that it be
4 extraordinary, at least in the sense that it's being done
5 for the first time, wasn't anticipated, and in your view,
6 provides cost savings; correct?

7 **A.** Trying to distinguish it between what would be a
8 regular O&M cost. But again, we believe that the project
9 fits the criteria because of Item 10 in the Order, 14546,
10 which doesn't mention O&M or anything. It just mentions
11 the costs that would normally be recovered through base
12 rates which were anticipated or recognized at the time
13 they were set, and also goes to fuel savings.

14 **Q.** All right. Now, if the resleeving cost is not
15 recovered from your customers through the fuel adjustment
16 clause in the year 2006 and you go ahead and do it anyway
17 and it costs \$25 million, isn't the result that the money
18 that is expended comes out of base rates?

19 **A.** Yes.

20 **Q.** Okay. Now, base rates, ultimately, those monies
21 are derived from your customers in some fashion; correct?

22 **A.** Yes.

23 **Q.** Now, you've been involved in regulation for some
24 21 or 23 years; right?

25 **A.** Yes.

1 **Q.** Isn't it a general principle of regulation,
2 Ms. Dubin, if you know, that this Commission doesn't
3 typically approve specific actions taken by the company in
4 advance, but rather reviews them after the fact, if
5 they're reviewed at all, for prudence?

6 **A.** Well, they approve projections in advance all
7 the time with fuel cost recovery. And the Commission's
8 practice has always been for things that go through the
9 fuel clause, that you project them and then come in here
10 for approval. Now, certainly they're audited and trued up
11 and everything else, but it's based on a projection.

12 **Q.** Right. But specifically with respect to the
13 fuel clause, the last possibility, the last shot, if you
14 will, for the consumers and the Commission in fact to
15 examine an expense that had been approved for recovery on
16 a projection comes in fact in the true-up after the
17 expenditure has been made and there's time to review it;
18 correct?

19 **A.** There's a final true-up, and just as the
20 sleeving project would be. The sleeving project would be,
21 if approved, included in charges, and it would be trued up
22 in the following proceedings, and then it would also be
23 audited as part of the normal audit process that occurs
24 with the fuel adjustment.

25 **Q.** Okay. Thank you. Now, isn't it true that the

1 sleeving is being comprehended for the spring 2006 outage
2 now, because to have used the sleeving methodology earlier
3 in the life of this unit would have been imprudent, given
4 its history?

5 **A.** The sleeving project had come up because of the
6 last refueling outage and the degradation that they saw
7 there. And as far as bringing it -- I'm sorry. Your
8 question was --

9 **Q.** Isn't it true that sleeving is a sequential
10 methodology in respect to plugging, that is, isn't it true
11 that you would not comprehend going through the more
12 expensive sleeving process until, as you all have
13 testified to, you carry through to the full extent that
14 you can utilize the less expensive plugging?

15 **A.** Yes, as far as we can plug and continue to
16 operate the unit at 100 percent. The purpose of the
17 sleeving is to be able to continue to operate it at that
18 100 percent.

19 **Q.** Yes, ma'am. And so isn't it true then that, at
20 least with respect to the life of this unit, St. Lucie 2,
21 and I guess all the nuclear units of Florida Power &
22 Light, that the reason you have never used sleeving before
23 is because sequentially you've never been placed in a
24 position of having to do it on any of your units?

25 **MR. BUTLER:** I'm going to object to this as

1 pretty substantially beyond Ms. Dubin's rebuttal
2 testimony. I think that if it was appropriate at all, it
3 should have been asked of Mr. Gwinn.

4 MR. TWOMEY: Mr. Chairman --

5 CHAIRMAN BAEZ: I'm going to allow the question,
6 if you can answer it.

7 THE WITNESS: Could you just restate it,
8 Mr. Twomey? I'm sorry.

9 BY MR. TWOMEY:

10 Q. Yes. As I understand the thrust of your
11 testimony and the company's position about why it should
12 get the sleeving recovered from its customers not through
13 base rates, but through the fuel clause, is in part
14 because of the fact that it has never been done, it's new.
15 And what I'm trying to ask you -- isn't that correct, one
16 of the reasons?

17 A. Yes.

18 Q. And what I'm trying to get from you is an
19 admission, if you can, that the reason it's new now in the
20 spring of 2006 is only because you've never been placed in
21 a position sequentially of having the opportunity to do
22 it, because plugging was the prudent thing to do to this
23 point.

24 A. We had the plugging before that continued to
25 operate the unit at 100 percent, yes. But going for the

1 sleeving project -- and I think if we go back to the Order
2 14546 that shows why something can be recovered through
3 the fuel clause too, the Commission acknowledged in that
4 order also that there are short-term opportunities to
5 provide fuel savings, and we believe that this project
6 also provides that short-term opportunity during that 18
7 months that the unit is going to be -- before the steam
8 generator is replaced.

9 Q. Yes, ma'am. And on that point, didn't you have
10 a conversation this morning with Ms. Vining through which
11 she elicited your agreement that the unit is now producing
12 at 100 percent of its rated output, and that at the end of
13 the day, if the sleeving is accomplished and necessary,
14 that it will be producing at the same 100 percent level,
15 not something higher? Didn't you agree with that?

16 A. It won't be something higher than it is today.
17 It will be something higher than it otherwise would be in
18 2006 if the unit is not able to restart or if the unit has
19 to be plugged more than 30 percent and has that 89 percent
20 output.

21 Q. Yes, ma'am. But didn't you agree with
22 Ms. Vining there won't be any fuel savings after the
23 resleeving if it produces at 100 percent as opposed to
24 right now when it's operating at 100 percent? Didn't you
25 agree with that?

1 **A.** I think what I said was that it will continue to
2 provide the low-cost nuclear power to our customers.

3 **Q.** Now, still at page 2, line 19, in the middle of
4 the sentence you say, or middle of the line, "FPL
5 regularly inspects and plugs tubes as part of refueling
6 outages, and it includes costs for those activities in its
7 outage budgets"; correct?

8 **A.** Yes.

9 **Q.** Now, you're not suggesting that the Public
10 Service Commission routinely supervises or approves
11 budgets of any kind, are you?

12 **A.** No, I'm not. What I'm suggesting there is that
13 those items are routinely included in base rates, in
14 contrast to the sleeving project.

15 **Q.** In fact, would you agree with me that probably
16 the last time the Public Service Commission reviewed and
17 approved for recovery a company's nuclear refueling
18 outages for recovery in base rates in a litigated case was
19 as far back as 1985?

20 MR. BUTLER: I would object to the
21 characterization of litigated case.

22 CHAIRMAN BAEZ: Mr. Twomey, ask it another way.

23 BY MR. TWOMEY:

24 **Q.** The same question, Ms. Dubin, in a case in which
25 the Public Service Commission entered a final order

1 approving a nuclear power plant refueling budget that had
2 been presented to it, if you can answer it.

3 **A.** Well, I would say, Mr. Twomey, that FPL filed a
4 full set of MFRs with very detailed information just this
5 past year.

6 **Q.** Yes. But wouldn't you agree with me that the
7 Commission didn't approve in its approval of the
8 stipulation agreement those budgeted amounts?

9 **MR. BUTLER:** I would object to that as calling
10 for a legal conclusion.

11 **CHAIRMAN BAEZ:** Sustained.

12 **BY MR. TWOMEY:**

13 **Q.** I had asked Mr. Gwinn some questions about
14 outage budgets which I think he referred to you, but let
15 me try it. If the company has a refueling budget for the
16 nuclear power plant of, let's say, \$28 million, and it
17 costs less money to accomplish the task in getting the
18 unit back online, where do those savings or surpluses go?

19 **A.** It's a budget variance. You're talking about
20 items that are not included in the clause?

21 **Q.** Yes.

22 **A.** I believe he said it's included as a budget
23 variance in their O&M budget.

24 **Q.** And that would inure to the benefit of the
25 company generally or the shareholders; correct?

1 **A.** It's always good to try to keep your costs down.

2 **Q.** And likewise, if for whatever reason the
3 unexpected problems were encountered and it cost
4 \$31 million versus the 28, those monies would come from
5 where?

6 **A.** They would also be included there, in base.

7 **Q.** And contrary to what you said a minute ago about
8 the surpluses, it would impact, potentially, the
9 shareholder monies or the other monies available to the
10 company for its operation?

11 **A.** I think it would be reflected, yes.

12 **Q.** Still on page 2, line 23, you say it is a
13 conventional maintenance type activity. Is that a
14 categorization that's typically used in budgeting or
15 regulation?

16 **A.** It's trying to be descriptive there of the
17 difference between the plugging and the sleeving.

18 **Q.** Okay. And you're referring to plugging as a
19 conventional maintenance type activity; right?

20 **A.** Yes, I am.

21 **Q.** And by that, do you mean to say that sleeving is
22 an unconventional maintenance activity?

23 **A.** It's unconventional, yes.

24 **Q.** Okay. Now, one of the other things that I asked
25 Mr. Gwinn and he referred to you, I believe, was that if

1 the Commission gives you the \$25 million through the fuel
2 adjustment clause from your customers for the sleeving
3 project, won't that establish a precedent that every time
4 you find something that is -- at page 3, line 2, you use
5 the word "first of its kind." Won't it establish a
6 precedent for you to come in and ask for O&M to be
7 recovered through the fuel adjustment clause if it's
8 something that you're doing for the first time?

9 **A.** I don't think so. I think what we've got here
10 is an order that talks about specific criteria for
11 recovery, that they're not recognized at the time or
12 anticipated at the time base rates are set, and that they
13 result in fuel savings. And I think that those are the
14 two criteria that the Commission looks at and that you
15 petition on a case-by-case basis. I think what we're
16 trying to do there is to explain this project as something
17 that's extraordinary, something that's different than a
18 normal, routine maintenance, but that meets the criteria
19 of this exception that the Commission allows on a
20 case-by-case basis.

21 **Q.** Now, are you in a position to testify to whether
22 or not the company could have been bargaining away the
23 sleeving monies when it entered the stipulation?

24 **A.** It was not included there, Mr. Twomey. I wasn't
25 in the day-to-day negotiations, no, I was not. But in

1 contrast to that, I can say that when we have our normal
2 fuel quarterly meetings -- we had one in June and we had
3 one in August, and both times, we brought that up as a
4 potential issue. The meetings that we have with all the
5 parties in the fuel docket to bring up issues that impact
6 fuel adjustment, they were brought up both times there.

7 MR. TWOMEY: I see. That's all I have. Thank
8 you.

9 THE WITNESS: Thank you.

10 CHAIRMAN BAEZ: Staff?

11 MS. VINING: Staff has no questions.

12 CHAIRMAN BAEZ: Commissioners, questions of
13 Ms. Dubin?

14 Mr. Butler?

15 MR. BUTLER: No redirect.

16 CHAIRMAN BAEZ: Okay. And we don't have any
17 exhibits for Ms. Dubin's rebuttal, so thank you, and you
18 are excused. I got it this time.

19 Commissioners, I'm been taking an official poll.
20 I think we have one last witness, and rather than let him
21 slide an extra night, I think we might be able to take him
22 up very, very quickly here at the end, because I'm told
23 that we don't have a whole lot of cross for this witness,
24 so we may be able to dispatch him quickly.

25 Go ahead. Mr. Beasley.

1 MR. BEASLEY: Yes. We call Mr. Smotherman.

2 Thereupon,

3 WILLIAM A. SMOTHERMAN

4 was called as a rebuttal witness on behalf of Tampa
5 Electric Company and, having been first sworn, testified
6 as follows:

7 DIRECT EXAMINATION

8 BY MR. BEASLEY:

9 Q. Mr. Smotherman, did you prepare and submit the
10 rebuttal testimony of William A. Smotherman dated
11 October 17, 2005?

12 A. Yes, I did.

13 Q. If I were to ask you the questions contained in
14 that testimony, would your answers be the same?

15 A. Yes, they would.

16 MR. BEASLEY: I would ask that Mr. Smotherman's
17 testimony be inserted into the record.

18 CHAIRMAN BAEZ: Without objection, show the
19 rebuttal testimony of William Smotherman entered into the
20 record as though read. And there are no exhibits.

21 MR. BEASLEY: No exhibits, no sir.

22 CHAIRMAN BAEZ: Very well.

23

24

25

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED REBUTTAL TESTIMONY

OF

WILLIAM A. SMOTHERMAN

1
2
3
4
5
6 **Q.** Please state your name, address, occupation and employer.

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

13
14 **Q.** Are you the same William Smotherman who submitted
15 prepared direct testimony in this proceeding?

16
17 **A.** Yes, I am.

18
19 **Q.** What is the purpose of your rebuttal testimony?

20
21 **A.** The purpose of my rebuttal testimony is to address the
22 direct testimony of Mr. Sidney W. Matlock, testifying on
23 behalf of the Florida Public Service Commission ("FPSC")
24 staff.

25

1 Q. Do you agree with the current GPIF methodology?

2

3 A. Yes, I do. The existing GPIF methodology was established
4 in 1981 by Commission Order No. 9558 in Docket No.
5 800400-CI, issued September 19, 1980. The GPIF program
6 was designed to "encourage the improvement of the
7 productivity of base load generating units by focusing
8 upon the areas of thermal efficiency (heat rate) and unit
9 availability." (Order, page 1) The GPIF methodology
10 provides for the utility to earn a reward or incur a
11 penalty based on unit performance compared to historical
12 performance and is limited to the associated projected
13 fuel savings or costs. The GPIF program has a history of
14 benefiting both the ratepayers and the utilities by
15 providing a fair and symmetrical sharing of improvements
16 or declines in unit performance.

17

18 Q. Please address Mr. Matlock's statement on page 4, lines 7
19 through 8, of his testimony, "The purpose of the [GPIF]
20 incentive is to reward the utility for performance that
21 exceeds reasonably expected performance, not to ensure
22 that rewards offset penalties."

23

24 A. Mr. Matlock's statement is not technically correct. The
25 GPIF provides an incentive to improve unit performance.

1 By definition, an improvement is a positive change as
2 compared to historical fact. The GPIF methodology
3 provides for the incentive/penalty calculation to be
4 based upon a comparison to targets or projected
5 performance, and that the targets are calculated based on
6 a rolling average of historical performance data. There
7 is a very important distinction between this established
8 methodology and Mr. Matlock's statement regarding its
9 purpose. In establishing the incentive, the Commission
10 considered data and methodology that would be measurable
11 and would provide a reasonable and fair incentive for the
12 utility to make improvements -- not a comparison to
13 "reasonably expected performance."
14

15 **Q.** Do you agree with Mr. Matlock's proposal to change the
16 GPIF methodology by excluding months in which unit EFOR
17 and EMOR are greater than 40 percent from the averages
18 used to calculate Tampa Electric's 2006 EAF targets?
19

20 **A.** No, I do not. Mr. Matlock's proposed adjustment is not
21 supported or developed using the approved GPIF
22 methodology. Section 4.3.1 of the GPIF methodology
23 describes the circumstances under which unit availability
24 may be adjusted, which include the following
25 circumstances:

- 1 • Natural or externally caused disaster;
- 2 • Unforeseen shutdown or continued operation of a unit
- 3 pursuant to the actions of a regulatory agency;
- 4 • Rescheduling of planned maintenance into or out of the
- 5 review period;
- 6 • An identifiable and justifiable change affecting total
- 7 outage time; or
- 8 • A difference between actual and forecast reserve
- 9 shutdown hours, if reserve shutdown hours are used as
- 10 part of the equivalent availability target setting
- 11 methodology.

12
13 In addition, the targets are based on a rolling average
14 of historical data and by artificially setting the
15 targets higher for a projected year, the resulting effect
16 is to remove the natural reward/penalty correction that
17 occurs over time as performance improves.

18
19 Mr. Matlock's proposed adjustments do not adhere to any
20 of the aforementioned conditions for adjustments and
21 would result in an arbitrary, asymmetrical application of
22 the GPIF incentive/penalty mechanism.

23
24 Q. Has the actual availability of Tampa Electric's coal
25 burning units included in the GPIF declined over the last

1 five years?
2

3 **A.** No. The actual availability of two of Tampa Electric's
4 five GPIF units, Big Bend Units 1 and 2, was lower in
5 2004 than it was in 1999. However, the availability of
6 these two units has improved since 2002.
7

8 **Q.** Do you agree with Mr. Matlock's suggestion on page 2,
9 lines 16 through 19, that Tampa Electric should make its
10 coal burning units available for generation as much as
11 possible due to the differential in the prices of coal
12 and natural gas?
13

14 **A.** Yes, I do. Tampa Electric continually strives to
15 maximize the availability and generation of its coal
16 burning units to lower the fuel and purchased power
17 costs. In addition, appropriate maintenance and
18 operation of coal units is performed by the company in an
19 effort to maintain availability and generation of its
20 units. The appropriate maintenance and operation is
21 determined by a number of factors, including the
22 following:

- 23 • Performing Preventative Maintenance ("PM") that
24 incorporates the Original Equipment Manufacturer's
25 maintenance specifications;

- 1 • equipment monitoring; and,
- 2 • scheduling planned outages.

3 Tampa Electric does everything possible to ensure the
4 safe operation of its coal burning units and maintain its
5 units for current and future reliable service.

6
7 **Q.** Please summarize your rebuttal testimony.

8
9 **A.** The existing GPIF methodology operates in a fair and
10 symmetrical manner. The adjustment to the methodology
11 proposed by Mr. Matlock is not appropriate because it
12 does not adhere to the GPIF methodology as outlined in
13 Section 4.3.1 and would result in an arbitrary,
14 asymmetrical application of the GPIF incentive/penalty
15 mechanism. In addition, Mr. Matlock has not demonstrated
16 that Tampa Electric did not adhere to the approved GPIF
17 methodology or that the company has improperly calculated
18 its 2006 GPIF EAF targets. Tampa Electric believes that
19 the GPIF should continue to operate in accordance with
20 the approved methodology.

21
22 **Q.** Does this conclude your rebuttal testimony?

23
24 **A.** Yes, it does.

25

1 BY MR. BEASLEY:

2 Q. Would you care to summarize your testimony?

3 A. Yes. The purpose of my rebuttal testimony is to
4 address the direct testimony of Mr. Sidney W. Matlock
5 testifying on behalf of the Commission staff. Mr. Matlock
6 proposes to change the 2006 GPIF availability targets for
7 four of Tampa Electric's five GPIF units by splitting
8 months that certain outage rates exceed 40 percent.

9 The Commission's GPIF methodology explicitly
10 states that unit availability change due to natural or
11 externally caused disasters, unforeseen shutdown or
12 continued operation of a unit pursuant to the actions of a
13 regulatory agency, rescheduling of planned maintenance
14 into or out of the review period, an identifiable and
15 justifiable change affecting total outage time, a
16 difference between actual and forecast reserve shutdown
17 hours if reserve shutdown hours are used as part of the
18 equivalent availability target setting methodology.

19 Mr. Matlock's proposed adjustments are not
20 warranted by any of these conditions. Rather,
21 Mr. Matlock's proposed targets are based on a rolling
22 average of historical data. Artificially setting the
23 targets higher for a projected year in this manner results
24 in removing the natural reward/penalty correction that may
25 occur over time as performance improves or degrades.

1 Mr. Matlock's adjustments would result in an arbitrary,
2 asymmetrical application of the GPIF incentive/penalty
3 mechanism.

4 Mr. Matlock justifies this methodology change by
5 citing an availability decline of these GPIF units over
6 the past five years, where in fact, only two of the five
7 GPIF unit availabilities have declined over the past five
8 years, and availabilities of these two units have improved
9 over the past three years.

10 The existing GPIF methodology operates in a fair
11 and symmetrical manner. The adjustment to the methodology
12 proposed by Mr. Matlock is not appropriate because it does
13 not adhere to the GPIF methodology. In addition,
14 Mr. Matlock has not demonstrated that Tampa Electric did
15 not adhere to the GPIF methodology or that the company has
16 improperly calculated its 2006 GPIF targets. Tampa
17 Electric believes that the GPIF should continue to operate
18 in accordance with the approved methodology.

19 That concludes my summary of my rebuttal
20 testimony.

21 MR. BEASLEY: Thank you, sir.

22 CHAIRMAN BAEZ: Public Counsel.

23 MS. CHRISTENSEN: Since I already asked
24 Mr. Smotherman questions regarding Mr. Matlock's testimony
25 in my initial cross, I have no questions on the rebuttal

1 testimony.

2 CHAIRMAN BAEZ: Very well. Staff?

3 MS. VINING: Staff has no questions.

4 CHAIRMAN BAEZ: Commissioners, questions on the
5 rebuttal?

6 MR. BEASLEY: Thank you, sir.

7 CHAIRMAN BAEZ: Mr. Beasley, thank you. You're
8 excused, sir.

9 Ladies and gentlemen, tomorrow -- we're going to
10 adjourn for the night. I thank you all for your quick
11 work today. Tomorrow we're going to reconvene at ten
12 o'clock, at which time we will proceed to hear Commission
13 staff's recommendations and take some votes.

14 We're adjourned. Good night.

15 MR. HORTON: I've got the revised exhibit that
16 FPUC was to prepare.

17 CHAIRMAN BAEZ: Did you provide it to Public
18 Counsel?

19 MR. HORTON: I've given it to Public Counsel.

20 CHAIRMAN BAEZ: Does Public Counsel have it?

21 MS. VINING: I assume he'll give me a copy.

22 MR. HORTON: Yes.

23 MS. VINING: This would be 83, so --

24 MR. HORTON: No, it --

25 MS. VINING: It's what was marked as 83,

1 Correction to CMM-4.

2 CHAIRMAN BAEZ: Corrected CMM-4.

3 MS. VINING: So now can it be admitted into the
4 record?

5 CHAIRMAN BAEZ: Well, is the court reporter
6 still court reporting? All right. Without objection,
7 show Exhibit 83 admitted.

8 (Exhibit 83 was admitted into evidence.)

9 MS. CHRISTENSEN: And just for clarification,
10 although it says confidential, the version that's being
11 admitted is the redacted version, it's my understanding.

12 MR. HORTON: That's correct.

13 MS. CHRISTENSEN: Great. Thank you.

14 CHAIRMAN BAEZ: Very well. We're in recess.
15 Good night.

16 (Proceedings recessed at 6:38 p.m.)

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CERTIFICATE OF REPORTER

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STATE OF FLORIDA:

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COUNTY OF LEON:

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I, MARY ALLEN NEEL, Registered Professional Reporter, do hereby certify that the foregoing proceedings were taken by me at the time and place therein designated; that my shorthand notes were thereafter transcribed under my supervision; and that the foregoing pages numbered 852 through 993 are a true and correct record of the aforesaid proceedings.

12

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I FURTHER certify that I am not a relative, employee, attorney or counsel of any of the parties, nor relative or employee of such attorney or counsel, or financially interested in the foregoing action.

16

DATED this 16th day of November, 2005.

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