

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

FUEL AND PURCHASED POWER
COST RECOVERY CLAUSE WITH
GENERATING PERFORMANCE INCENTIVE
FACTOR.

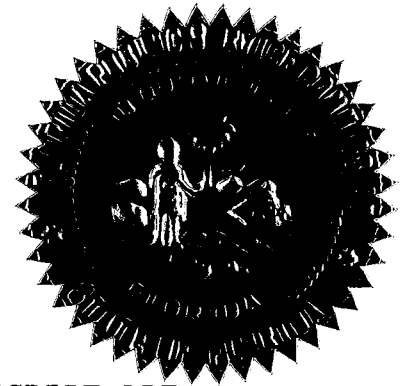
DOCKET NO. 060001-EI

PETITION TO RECOVER NATURAL GAS
STORAGE PROJECT COSTS THROUGH
FUEL COST RECOVERY CLAUSE, BY
FLORIDA POWER & LIGHT COMPANY.

DOCKET NO. 060362-EI

PETITION FOR AUTHORITY TO RECOVER
PRUDENTLY INCURRED STORM RESTORATION
COSTS RELATED TO 2004 STORM SEASON
THAT EXCEED STORM RESERVE BALANCE,
BY FLORIDA POWER & LIGHT COMPANY.

DOCKET NO. 041291-EI



ELECTRONIC VERSIONS OF THIS TRANSCRIPT ARE
A CONVENIENCE COPY ONLY AND ARE NOT
THE OFFICIAL TRANSCRIPT OF THE HEARING,
THE .PDF VERSION INCLUDES PREFILED TESTIMONY.

VOLUME 8

Pages 1000 through 1125

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN LISA POLAK EDGAR
COMMISSIONER J. TERRY DEASON
COMMISSIONER ISILIO ARRIAGA
COMMISSIONER MATTHEW M. CARTER, II
COMMISSIONER KATRINA J. TEW

DATE: Wednesday, November 8, 2006

TIME: Commenced at 9:30 a.m.

DOCUMENT NUMBER-DATE

FLORIDA PUBLIC SERVICE COMMISSION

10357 NOV-9 8

FPSC-COMMISSION CLERK

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

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

REPORTED BY: JANE FAUROT, RPR
MARY NEEL, RPR
(850) 413-6732

PARTICIPATING: (As heretofore noted.)

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

I N D E X

WITNESSES

NAME:	PAGE NO.
GERARD J. YUPP (Rebuttal)	
Direct Examination by Mr. Butler	1011
Prefiled Rebuttal Testimony Inserted	1013
Cross Examination by Mr. Beck	1024
Cross Examination by Mr. Butler	1026
KOREL M. DUBIN (Rebuttal)	
Direct Examination by Mr. Butler	1028
Prefiled Rebuttal Testimony Inserted	1031
Cross Examination by Mr. Beck	1046

EXHIBITS

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24
- 25

NUMBER:

ID.

ADMTD.

(No exhibits in this volume.)

P R O C E E D I N G S

(Transcript follows in sequence from Volume 7.)

COMMISSIONER DEASON: So what meaning do you give to that phrase "except for as otherwise provided for in this agreement," or words to that effect?

MR. BECK: It refers to Section 1.

COMMISSIONER DEASON: That particular phrase does not refer to Section 1, it's more of a general qualifier it seems to me. It's the last sentence that you read, the beginning of the last sentence, as I recall.

MR. BUTLER: The last sentence makes no reference to Section 1.

MR. BECK: The last sentence says, "During the term of the stipulation settlement, except as otherwise provided."

COMMISSIONER DEASON: Except as otherwise provided.

MR. BECK: Right.

COMMISSIONER DEASON: What does that mean?

MR. BECK: It would mean some other provision of the agreement.

COMMISSIONER DEASON: Okay. Is anything else in the agreement which addresses hedging costs?

MR. BECK: I don't believe so.

COMMISSIONER DEASON: You don't believe so? Okay.

MR. BECK: I think all of the disagreement, and Mr. Butler can correct me if I'm wrong, I think all of the

1 disagreement concerns whether these are a type traditionally
2 historically recovered through base rates. They are contending
3 that it is on account of the hedging order, we're saying it's
4 not. I think that's the disagreement. So it really comes down
5 to the hedging order.

6 MR. BUTLER: Chairman Edgar.

7 CHAIRMAN EDGAR: Mr. Butler.

8 MR. BUTLER: May I have just a moment to state what
9 FPL's understanding of the application of the rate case
10 stipulation here is in view of the conversations that have been
11 had with Mr. Beck?

12 CHAIRMAN EDGAR: Once again, under the circumstances
13 I will allow briefly, and then I do want to move on.

14 MR. BUTLER: Thank you. Commissioners, the rate case
15 stipulation does have, as Commissioner Deason was just
16 referring, the exception to the provision on seeking costs in
17 the future except as otherwise provided in this agreement. The
18 stipulation itself does not refer to hedging. However, the
19 order that approved the stipulation includes this language on
20 Page 6. The stipulation and settlement is silent on how
21 incremental hedging costs will be recovered. The parties
22 clarified that they intended for recovery of these costs to
23 continue through the fuel clause during the term of the
24 stipulation and settlement.

25 Because the stipulation is silent in this regard, the

1 parties indicated that they would take action to memorialize
2 their intent in this year's fuel clause proceedings. And then
3 there was a subsequent stipulation in the fuel clause
4 proceeding, Docket 050001-EI, in which the parties agreed to a
5 position that FPL's continued recovery of incremental hedging
6 costs through the fuel and purchased power cost-recovery clause
7 during the term of this rate stipulation is reasonable and
8 consistent with the intention of the parties to the rate
9 stipulation.

10 And I think at this point Mr. Beck and I agree that
11 fundamentally the issue is about interpretation and application
12 of the hedging resolution. We believe that the hedging
13 resolution and hedging order encompass by their breadth and the
14 general intent of encouraging hedging, including physical
15 hedging, the types of costs that we are seeking here is
16 carrying costs. Obviously, Public Counsel disagrees, but that
17 is really where the point of disagreement is over. I don't
18 think that it's appropriate or fair to characterize this as
19 something where we have filed something inconsistent with the
20 intent of the stipulation. The stipulation clearly had -- the
21 rate case stipulation clearly had, you know, an exception that
22 was clarified by virtue of the language I just read. The
23 parties understanding that hedging costs that were recoverable
24 pursuant to the hedging resolution would remain so. That's
25 where we think these costs fit. Thank you.

1 CHAIRMAN EDGAR: Mr. Butler, that was a little more
2 than brief.

3 MR. BUTLER: But I talked fast, I was trying to make
4 up for that.

5 MR. McLEAN: Madam Chairman, may I beg your
6 indulgence. As Public Counsel, I would like to speak just for
7 a moment on this issue.

8 CHAIRMAN EDGAR: Mr. McLean, welcome.

9 MR. McLEAN: Yes. Thank you, ma'am.

10 I happen to agree with essentially all of what Mr.
11 Butler said. It is not the principal thesis of our case that
12 Florida Power and Light has violated an agreement, and we've
13 all come up here to get you to remedy it. That's not what this
14 is about. This is about a genuine difference of opinion in an
15 accounting treatment for some financial data that if resolved
16 one way would be inconsistent with the agreement, and if
17 resolved otherwise would be consistent with the agreement.

18 I think the focus on whether there has been a
19 violation is misplaced. I think the matter for you folks to
20 resolve is the accounting theory behind this particular
21 financial arrangement, and whether it's consistent with the
22 agreement. I mean, it is the kernel of the agreement. The
23 kernel of the disagreement in this particular issue is how do
24 you deal with the accounting.

25 I would not suggest that you should waste a whole lot

1 of time worrying about whether there has been a violation of
2 the agreement and that the answer should flow from that. The
3 issue is a hard accounting issue, and it is for you folks to
4 resolve. And there is no allegation on the part of the Office
5 of Public Counsel that Florida Power and Light has engaged in
6 any sinister activity or in any knowing filing that is
7 inconsistent with the agreement. I think we completely agree
8 that the matter is for you to unravel a financial situation,
9 and then from that we can decide what to do. Does that make
10 sense? I hope that tends to clarify.

11 CHAIRMAN EDGAR: And in this instance, I think I may
12 agree with each of the three of you gentlemen, in that I
13 believe it is one of many, but in this instance the role of
14 this Commission to interpret a settlement agreement that this
15 Commission has approved on the basis of unique and individual
16 factual situations as they are brought before us. And I am
17 getting ready to move on.

18 Mr. McLean, thank you for your comments.

19 MR. McLEAN: Thank you, ma'am.

20 CHAIRMAN EDGAR: Commissioner.

21 MS. BRADLEY: Madam Chairman, I hate to belabor this,
22 but just for the record, can I state that the Attorney General
23 supports the position of Public Counsel, and we would ask that
24 you interpret this -- we feel like it's historically a base
25 rate item, and if you make that determination and concur with

1 that, then it would not be allowed by the settlement agreement
2 that's before you that you approved.

3 CHAIRMAN EDGAR: Thank you for your comment.

4 For the record, the Attorney General's Office is on
5 record as being in agreement with the Office of Public Counsel
6 on the issue that we have been discussing.

7 I want to say it one more time. I'm really -- we
8 have a lot to do the next 48 hours. And this, of course, will
9 be an ongoing discussion.

10 Commissioner Arriaga, you asked for a moment.

11 COMMISSIONER ARRIAGA: Thank you. And I really
12 appreciate this discussion. To me it's very important. And
13 the reason I brought it up is because if you read the record,
14 it has been stated over and over that it was a violation. And
15 I'm very glad to find out that all the parties agree that no
16 violation has been incurred until now. That's what I think I
17 heard, and I appreciate that very, very much.

18 CHAIRMAN EDGAR: Okay. Mr. Twomey, did I see your
19 arm -- do you feel compelled?

20 MR. TWOMEY: I was just going to say that AARP, as
21 the Attorney General, supports Public Counsel.

22 CHAIRMAN EDGAR: Okay. Thank you.

23 Mr. Beck, I believe that we need to move the exhibits
24 into the record.

25 MR. BECK: Yes. I would so move.

1 CHAIRMAN EDGAR: Okay. Exhibits 6 and 7 are moved
2 into the record. And the witness may be excused.

3 Thank you, Ms. Merchant.

4 (Exhibits 6 and 7 admitted into the record.)

5 CHAIRMAN EDGAR: Mr. Butler, we are on rebuttal. You
6 have two witnesses. Can you give me an approximation of
7 roughly, approximately how long your questioning will take?

8 MR. BUTLER: For me it is simply putting them on and
9 having them read their summaries. You will probably have to
10 ask Mr. Beck how long it is going to take for the questioning.

11 CHAIRMAN EDGAR: Mr. Beck. And, again, I'm not
12 limiting you, I'm just trying to think ahead.

13 MR. BECK: Not long. Ten minutes, maybe, each.
14 Maybe not that. It won't be much.

15 CHAIRMAN EDGAR: It has been a busy morning, so let's
16 go ahead and take ten minutes and then we will come back and
17 see how far we can get. Thank you.

18 (Recess.)

19 CHAIRMAN EDGAR: Okay. Thank you all. I needed a
20 break.

21 And, Mr. Butler, we are on your witness.

22 MR. BUTLER: Thank you.

23 Madam Chairman, I would call Gerry Yupp to the stand.
24 I believe that he has been previously sworn.

25 GERARD J. YUPP

1 was called as a witness on behalf of Florida Power & Light
2 Company, and having been duly sworn, testified as follows:

3 DIRECT EXAMINATION

4 BY MR. BUTLER:

5 Q Mr. Yupp, will you please state your name and address
6 for the record?

7 A Yes. My name is Gerard Yupp, and my business address
8 is 700 Universe Boulevard, Juno Beach, Florida 33408.

9 Q And by whom are you employed and in what capacity?

10 A I'm employed by Florida Power and Light as Director
11 of Wholesale Operations.

12 Q Do you have before you prepared testimony entitled
13 Rebuttal Testimony of Gerard J. Yupp consisting of nine pages
14 and dated October 6th, 2006?

15 A Yes, I do.

16 Q Was this testimony prepared under your direction,
17 supervision, and control?

18 A Yes, it was.

19 Q Do you have any changes or corrections to make to it?

20 A No, I do not.

21 Q Do you adopt it as your testimony in this proceeding
22 today?

23 A Yes, I do.

24 MR. BUTLER: I would ask that Mr. Yupp's prepared
25 rebuttal testimony be inserted into the record as though read.

1 CHAIRMAN EDGAR: The prefiled rebuttal testimony will
2 be inserted into the record as though read.

3 MR. BUTLER: Thank you.

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **FLORIDA POWER & LIGHT COMPANY**
3 **REBUTTAL TESTIMONY OF GERARD J. YUPP**
4 **DOCKET NO. 060001-EI**
5 **October 6, 2006**

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

7 A. My name is Gerard J. Yupp. My business address is 700 Universe
8 Boulevard, Juno Beach, Florida, 33408.

9

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

11 A. I am employed by Florida Power & Light Company (FPL) as Director
12 of Wholesale Operations in the Energy Marketing and Trading
13 Division.

14

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

16 A. Yes.

17

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

19 A. The purpose of my testimony is to rebut certain assertions made in
20 the testimony of Public Counsel Witness Patricia W. Merchant in
21 opposition to FPL's proposed recovery through the fuel clause of
22 two specific components of natural gas storage costs associated

1 with FPL's proposed participation in the MoBay Gas Storage Hub
2 and FPL's continuing participation in the Bay Gas storage facility.
3 Specifically, Ms. Merchant opposes FPL's recovery of carrying costs
4 associated with unamortized base gas in the MoBay facility and the
5 working volume of stored gas at the MoBay and Bay Gas facilities.
6 My rebuttal testimony, together with that of FPL Witness K. M.
7 Dubin, shows that Ms. Merchant's rationale for opposing recovery of
8 these costs lacks merit. FPL believes its cost recovery proposal is
9 appropriate as the costs associated with its proposed participation in
10 the MoBay facility and the costs associated with its continuing
11 participation in the Bay Gas facility constitute hedging-related costs.

12

13 **BASE GAS**

14 **Q. Please describe the role of base gas in a natural gas storage**
15 **facility.**

16 **A.** Base gas is the volume of gas that must remain in the storage
17 facility to provide the required pressurization to extract the working
18 gas volume. Base gas is analogous to the volume of fuel oil that
19 resides in a tank up to the discharge piping. This volume of oil,
20 known as "tank bottoms," allows for the extraction of the working oil
21 inventory.

22

23 **Q. Will FPL be able to recover its base gas volumes associated**

1 **with the MoBay facility at the end of the contract term?**

2 A. Yes. At the end of the contract term, FPL can either withdraw the
3 base gas and burn the gas directly at its plants or execute an “in-
4 cavern” exchange with another party and receive payment for the
5 gas. An exchange could occur if another party was replacing FPL’s
6 participation in the storage facility.

7

8 **Q. Is base gas a requirement for all types of underground natural**
9 **gas storage?**

10 A. Yes. Base gas is needed, regardless of whether gas is stored in a
11 salt cavern, depleted oil/gas reservoir or aquifer underground
12 storage.

13

14 **Q. Do gas storage facilities typically charge storage customers for**
15 **base gas?**

16 A. Yes. Base gas is a cost of providing storage service and therefore,
17 storage facilities would typically need to recover this cost from their
18 customers one way or another.

19

20 **Q. Does FPL currently pay for and recover the cost of base gas**
21 **requirements associated with its Bay Gas storage contract**
22 **through the fuel clause?**

23 A. Yes. FPL’s base gas requirement with its Bay Gas contract is not

1 detailed as a separate charge in the contract, but instead, is
2 included in the Bay Gas monthly demand charge. This monthly
3 demand charge is recovered through the fuel clause as a
4 component of the total monthly cost of natural gas.

5

6 **Q. Why is the base gas charge broken out separately in FPL's**
7 **proposed MoBay contract?**

8 A. FPL requested this separation in an effort to minimize the cost of
9 base gas to FPL's customers. Under the MoBay contract, FPL has
10 the right to either lease the base gas from MoBay or provide its own
11 base gas. Leasing the base gas from MoBay would be equivalent
12 to the arrangement that FPL has with Bay Gas and would therefore
13 not have raised any issue about recoverability. However, FPL
14 wanted the flexibility to self-provide base gas if it could do that at a
15 lower cost than MoBay was offering and has acted prudently to
16 choose that alternative to save our customers money.

17

18 **Q. Do you believe it would be appropriate for the Commission to**
19 **make a distinction as to the recoverability of base gas**
20 **depending on whether the cost is built into the charges paid to**
21 **a storage facility or is provided separately by the utility?**

22 A. No. This would be unfair and would discourage utilities from
23 seeking innovative arrangements to reduce costs to customers.

1

2 **STORED GAS**3 **Q. What is the purpose of FPL's gas storage projects?**

4 A. The purpose of FPL's gas storage projects is to hedge the physical
5 supply of natural gas, thereby increasing reliability and helping to
6 reduce fuel price volatility during natural gas supply disruptions
7 and/or periods of high demand.

8

9 **Q. Does FPL need to store gas in order to operate its fleet of gas-
10 fired units?**

11 A. No. Natural gas storage is not required for the ordinary operation of
12 FPL's gas-fired plants. Natural gas is transferred directly from a
13 pipeline into the power plant. Natural gas is scheduled, delivered
14 and consumed from a pipeline on what can be termed a "real-time"
15 basis. The intermediate step of storing a fuel, as is the case with
16 fuel oil, is not a requirement for ordinary natural gas operations.
17 Natural gas storage inventory is generally utilized under "abnormal"
18 conditions that are impacting the real-time delivery or price of natural
19 gas. Recent history has shown that extreme weather events can
20 have a significant impact on gas supply, and these events certainly
21 qualify as "abnormal" conditions. Over the past two hurricane
22 seasons, FPL incurred incremental costs to replace firm natural gas
23 supply that was curtailed as a result of severe weather-related

1 events of approximately \$96.5 million.

2

3 **Q. How much working gas does FPL expect to store, on average,**
4 **in the Bay Gas and MoBay facilities?**

5 A. Because natural gas storage is utilized to hedge the physical supply
6 of natural gas, FPL's general practice and intent has been to
7 maintain full working gas volumes, particularly during hurricane
8 season and winter months. During the remaining three "shoulder
9 months," FPL can be slightly more selective in its strategy for
10 working gas volumes depending on market conditions and weather
11 forecasts. In general, however, the volume of working gas that FPL
12 expects to maintain in its gas storage facilities will likely average
13 90% or more of its total working gas capacity. FPL's total working
14 gas capacity between Bay Gas and MoBay will be 8 BCF.
15 Assuming FPL maintains working gas volumes of approximately
16 90% of its working gas capacity, FPL's working gas volume would
17 be approximately 7.2 BCF at any given point in time.

18

19 **Q. What is the estimated value of that stored gas?**

20 A. The actual value of the stored working gas will fluctuate depending
21 on injection and withdrawal rates and market conditions. However,
22 for illustrative purposes, if the average price of natural gas was
23 \$7.00 per MMBTU, the average value of FPL's stored working gas

1 would be approximately \$50 million.

2

3 **Q. When does FPL pay for the gas it stores?**

4 A. FPL pays for the gas it stores at the end of the month in which it
5 takes delivery of the gas.

6

7 **Q. When does FPL recover the cost of the stored gas?**

8 A. FPL recovers the cost of the stored gas at the end of the month in
9 which it withdraws the gas and burns the gas in its plants.

10

11 **Q. Does this mean that FPL is incurring carrying costs throughout
12 the period between the delivery and withdrawal of stored
13 natural gas?**

14 A. Yes.

15

16 **Q. Does FPL presently recover any of the carrying costs for its
17 stored gas?**

18 A. No.

19

20 **Q. Would you consider the absence of an opportunity to recover
21 carrying costs on stored gas to be a disincentive to the use of
22 gas storage as a means of physical hedging?**

23 A. Yes. As such, it is inconsistent with the Commission's

1 encouragement of hedging.

2

3 **Q. Ms. Merchant states that FPL's assertion that natural gas**
4 **storage is solely for hedging and not ordinary purposes**
5 **contradicts FPL's Petition which states "gas storage allows**
6 **FPL to better manage and respond to intra-day changes in its**
7 **natural gas requirements due to load variance, unit outages,**
8 **etc." Do you agree that this statement is contradictory?**

9 A. No. The purpose of hedging is to reduce fuel price volatility and in
10 the case of natural gas storage, to ensure the physical supply of
11 natural gas. The sentence that follows the quote that Ms. Merchant
12 included in her testimony finishes the point that FPL was making in
13 its Petition. That sentence reads, "The ability to withdraw gas from
14 storage on an intra-day basis allows FPL to potentially avoid having
15 to purchase higher priced, intra-day natural gas and/or dispatching
16 generation with alternate fuels." This sentence clearly shows that
17 natural gas storage, even on an intra-day basis, is not required to
18 run gas-fired generation for ordinary operations, but allows FPL to
19 manage the volatility associated with purchasing natural gas in the
20 spot market or burning higher cost alternate fuels. Under normal
21 operating conditions, FPL does not require natural gas storage to
22 meet its customer requirements. The utilization of natural gas
23 storage under normal operating conditions can help reduce price

1 volatility, which is the intent of fuel hedging.

2

3 **Q. Ms. Merchant asserts that the hedging order does not allow for**
4 **the recovery of carrying costs through the fuel clause as this**
5 **type of cost is not listed in the specific examples of types of**
6 **hedging costs that are allowed recovery through the fuel**
7 **clause? Do you agree?**

8 **A.** No. I participated extensively in Docket No. 011605-EI on FPL's
9 behalf. At the time the Hedging Order was issued, expanded
10 hedging programs were new to all the parties and there was no
11 possible way the Order could cover all of the types of hedging costs
12 and hedging instruments that would be allowed. The order clearly
13 allows for the recovery of hedging related costs, both physical and
14 financial. The list of examples was not meant to be all
15 encompassing, but rather gives examples of costs related to types
16 of hedging instruments that were known at that time. The
17 Commission should focus on FPL's intent, which is to help ensure
18 the physical supply of natural gas and reduce its price volatility. This
19 intent is fully consistent with the Hedging Order.

20

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

22 **A.** Yes.

1 BY MR. BUTLER:

2 Q Mr. Yupp, would you please summarize your rebuttal
3 testimony.

4 A Yes. Good morning, Commissioners, or afternoon now.

5 I think it is important to recognize that FPL
6 currently recovers the cost of base gas associated with its
7 participation in the Bay Gas storage facility through the fuel
8 clause. For Bay Gas, FPL's base gas cost is included as a
9 component of the monthly demand charge that we pay to Bay Gas.
10 For MoBay, FPL retained the right to break this charge out
11 separately in an effort to potentially lower the cost to our
12 customers of storage.

13 So, in other words, to be able to provide base gas at
14 a lower cost than what the storage facility could. And the
15 recovery of these base gas costs should not depend on whether
16 the cost is embedded into the charge that the storage facility
17 or the storage provider puts onto the entity that is securing
18 the storage, or if this charge is embedded into their charges,
19 or whether it's broken out separately in an effort to minimize
20 costs. It should be looked at the same across the board.

21 Additionally, or moving on to stored gas carrying
22 costs, unlike fuel oil and coal, natural gas is not required
23 for the ordinary operations of FPL's natural gas fired plants.
24 The purpose of gas storage is to hedge the physical supply of
25 natural gas, thereby increasing reliability and reducing fuel

1 price volatility. FPL pays for the gas it stores at the end of
2 the month in which it takes delivery, and then FPL recovers the
3 cost of the stored gas at the end of the month in which it
4 withdraws and burns the gas in its power plants. Therefore,
5 FPL does incur carrying costs in the period between delivery
6 and withdrawal of the stored gas. FPL does not presently
7 recover any of the carrying costs associated with its stored
8 gas.

9 And, finally, the last point I would like to make is
10 that I did participant extensively in Docket 011605-EI on
11 behalf of FPL, and at the time that the hedging order was
12 issued, expanded hedging programs were really new to all the
13 parties that were involved in that docket, and there was no way
14 that the order could really cover all of the types of hedging
15 costs or for that matter hedging instruments that would
16 ultimately be used. In other words, hedging was really in its
17 infancy at that time, and I think that the intent of the
18 hedging order was to provide examples of known costs at the
19 time, but purely to provide examples, not to be an all
20 encompassing list, but a list of examples. And the other thing
21 that the hedging order did or made clear was that there would
22 be no distinction made between the use of physical and/or
23 financial hedging instruments as part of one's hedging program.

24 And that concludes my summary.

25 MR. BUTLER: Thank you, Mr. Yupp. I tender the

1 witness for cross examination.

2 CHAIRMAN EDGAR: Thank you. Mr. Beck.

3 CROSS EXAMINATION

4 BY MR. BECK:

5 Q Mr. Yupp, you just mentioned there would be no
6 distinction between physical and financial instruments, is that
7 right?

8 A Yes. I'm not sure exactly how it's worded, but no
9 distinction was made between the use of physical hedging or
10 financial hedging or the benefits associated with each.

11 Q Well, by the use of the term instruments doesn't that
12 imply a transaction that would take place?

13 A If it does, in fact, use the term instruments. I
14 think you could term it as transactions, yes. Similar to what
15 storage would be, a physical hedging transaction.

16 Q And the hedging order refers to transactions itself,
17 does it not?

18 A I believe it does, yes.

19 Q You mentioned in your summary, and also at Page 3,
20 Line 14 of your testimony that gas storage facilities typically
21 have to recover their base gas one way or another. Do you
22 recall that?

23 A Correct.

24 Q Do they typically recover it up front in a one-time
25 payment from their customers to recover the cost of base gas?

1 A I can't answer specifically on when they do it as a
2 one-time payment, if they do it as a one-time payment up front.
3 What I understand from our involvement with another type of
4 storage facility, and that being Bay Gas, is that we do pay --
5 a component of our monthly demand charge goes to cover the
6 cost, yes, the cost of base gas in the facility.

7 Q But it doesn't say that in the agreement, per se?

8 A It does not say that in the agreement, no.

9 Q And what you have proposed before the Commission is
10 to recover your cost to base gas all at one time and expensing
11 it, is that right? We discussed this yesterday.

12 A No, we have not. Of Bay Gas?

13 Q Base gas.

14 A Of base gas, yes. Our proposal for MoBay was to
15 recover that as a one-time expense up front, yes.

16 Q Would that be different than what you have described
17 as Bay Gas charging you for base gas over an extended period of
18 time?

19 A Yes, that would be different. But I think it is
20 important to note that the one-time expense up front of the
21 base gas in particular for the MoBay storage facility is a
22 lower cost alternative for our customers as opposed to, let's
23 say, leasing the base gas from MoBay and paying a monthly
24 charge.

25 Q Could you turn to Page 7 of your testimony?

1 A Yes, sir.

2 Q On Page 7 you go over the timing of when you pay for
3 gas and when you recover the cost of gas, is that right?

4 A That is correct.

5 Q If I were to change the word gas to oil in there,
6 would the answers be the same? For example, you say when does
7 FPL pay for gas, and you state it pays for gas it stores at the
8 end of the month in which it takes delivery. That would be
9 generally true for oil, would it not?

10 A Yes, that would be true for oil, also.

11 Q And then you state that it recovers the cost of
12 stored gas at the end of the month in which it withdraws the
13 gas and burns it. That would be true for oil, too, would it
14 not?

15 A Yes, that would also be true for oil.

16 Q Do you recover your carrying costs for oil?

17 A Yes. My understanding is that carrying costs are
18 recovered for oil through base rates, yes.

19 MR. BECK: Thank you. That is all I have.

20 CHAIRMAN EDGAR: Questions from staff?

21 MS. BENNETT: No.

22 CHAIRMAN EDGAR: Mr. Butler.

23 MR. BUTLER: Thank you, Madam Chairman.

24 REDIRECT EXAMINATION

25 BY MR. BUTLER:

1 Q Mr. Yupp, have you confirmed with Bay Gas that it
2 includes a charge for the cost of providing base gas in its
3 monthly storage charges?

4 A Yes, we have confirmed that with Bay Gas.

5 Q You were asked about, excuse me, charging the cost of
6 base gas as a one-time upfront charge versus other ways of
7 recovering it, and I think you mentioned that it would be
8 better for customers, cheaper for customers to expense it up
9 front than to lease the base gas from MoBay. Have you also
10 analyzed whether it would be less expensive to customers for
11 them to pay for the base gas up front versus having that base
12 gas amortized over time with a return earned on the unamortized
13 balance?

14 A Can you repeat the last part of that again, please?

15 Q I'm sorry. Have you also analyzed whether it would
16 be less expensive for customers to recover the base gas cost up
17 front as opposed to amortizing the cost of the base gas over
18 time with a return earned on the unamortized balance?

19 A Yes, and the results were that it is cheaper to
20 recover it as a one-time expense.

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

22 CHAIRMAN EDGAR: Commissioner Deason.

23 COMMISSIONER DEASON: What discount rate did you use
24 in that net present value analysis?

25 THE WITNESS: I believe the discount rate used

1 subject to check, but I'm pretty sure, was 8 percent. And I
2 think we did numerous calculations using different discount
3 factors, but I believe the \$10 million difference in that
4 calculation, \$10 million lower cost as the one-time expense,
5 that was used with an 8 percent discount factor.

6 COMMISSIONER DEASON: Okay. And at what discount
7 rate is it a break-even proposition? Did you do that analysis?

8 THE WITNESS: I did not specifically do that
9 analysis. I believe, though, subject to check, the discount
10 rate has -- I can't pin a number on it. I believe it is
11 greater than 12. I would have to go back and check the
12 numbers, but it was a significantly high discount factor in
13 order to make it a break-even analysis.

14 CHAIRMAN EDGAR: Mr. Butler.

15 MR. BUTLER: Thank you. May the witness be excused?
16 We don't have any exhibits to move.

17 CHAIRMAN EDGAR: Thank you. The witness is excused.

18 Thank you, Mr. Yupp.

19 MR. BUTLER: And I would call Ms. Dubin to the stand
20 next. Ms. Dubin has previously been sworn.

21 KOREL M. DUBIN

22 **was called as a witness on behalf of Florida Power and Light**
23 **Company, and having been duly sworn, testified as follows:**

24 **DIRECT EXAMINATION**

25 BY MR. BUTLER:

1 Q Are you ready?

2 A (Indicating yes.)

3 Q Would you please state your name and address for the
4 record?

5 A My name is Korel M. Dubin. My business address is
6 9250 West Flagler Street, Miami, Florida 33174.

7 Q By whom are you employed and in what capacity?

8 A I'm employed by Florida Power and Light Company as
9 Manager of Regulatory Issues in the Regulatory Affairs
10 Department.

11 Q Do you have before you prepared testimony entitled
12 rebuttal testimony of Korel M. Dubin dated October 6th, 2006,
13 and consisting of 12 pages?

14 A Yes, I do.

15 Q Was this testimony prepared under your direction,
16 supervision, and control?

17 A Yes, it was.

18 Q Do you have any changes or corrections to make to
19 your testimony?

20 A No, I do not.

21 Q Do you adopt this testimony or this prepared
22 testimony as your testimony in this proceeding today?

23 A Yes, I do.

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

1 CHAIRMAN EDGAR: The prefiled rebuttal testimony will
2 be entered into the record as though read.

3 MR. BUTLER: Thank you.

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

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

4 **DOCKET NO. 060001-EI**

5 **October 6, 2006**

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 the Office of
20 Public Counsel (OPC) witness Patricia W. Merchant, in opposition to
21 FPL's proposed recovery through the fuel clause of two specific
22 components of natural gas storage costs associated with FPL's
23 proposed participation in the MoBay Gas Storage Hub and FPL's
24 continuing participation in the Bay Gas Storage Facility. Specifically,

1 Ms. Merchant opposes FPL's recovery of carrying costs associated
2 with unamortized base gas in the MoBay Facility and the working
3 volume of stored gas at the MoBay and Bay Gas Facilities. My
4 rebuttal testimony, together with that of FPL witness G.J. Yupp,
5 shows that Ms. Merchant's rationale for opposing recovery of those
6 carrying costs is ill-founded and lacks merit.

7

8 **Base Gas**

9 **Q. Ms. Merchant proposes that base gas should be recovered over**
10 **the life of the contract and amortized through the fuel clause**
11 **over a 15-year period; however, carrying costs associated with**
12 **any unamortized balance of base gas should not be recovered**
13 **through the fuel clause. Please comment on this proposal.**

14 **A.** OPC's proposal is illogical, because it would be inconsistent to allow
15 amortization of base gas but not recovery of the carrying costs for the
16 unamortized balance of that same base gas. Amortization implicitly
17 recognizes that the cost of base gas is not being recovered
18 elsewhere and that it is appropriate for FPL to recover that cost
19 through the fuel clause. Carrying costs are an equally valid and real
20 cost of providing base gas, and so consistency dictates that FPL
21 likewise be afforded the opportunity to recover those costs through
22 the fuel clause.

23

24 Furthermore, denying recovery of carrying costs on the unamortized

1 base gas balance guarantees that FPL will not fully recover its costs,
2 thus creating a major disincentive that is inconsistent with the
3 Hedging Resolution. Order No. PSC-02-1484-FOF-EI, dated October
4 30, 2002 approving the Hedging Resolution states that “the Proposed
5 Resolution of Issues appears to remove disincentives that may
6 currently exist for IOU’s to engage in hedging transactions that may
7 create customer benefits by providing a cost recovery mechanism for
8 prudently incurred hedging transaction costs, gains and losses, and
9 incremental operating and maintenance expenses associated with
10 new and expanded hedging programs”. There is no distinction made
11 between what types of hedging transactions qualify for recovery and,
12 in fact, a note at the end of the hedging resolution approved by the
13 Order specifically observes that “[n]o implication concerning the
14 relative merits of using financial versus physical hedging should be
15 drawn from this proposed resolution.”

16
17 Natural gas storage is a prudent form of hedging that will provide
18 benefits to its customers by providing supply security and volatility
19 reduction. Therefore; base gas costs, whether a one-time expense
20 or amortized over a period of time with carrying costs on the
21 unamortized balance, should qualify for recovery through the fuel
22 clause.

23

24 **Q. How does FPL propose to recover the base gas costs?**

1 A. In contrast to Ms. Merchant's proposal, FPL proposes to expense the
2 base gas through the fuel clause in the same manner that "tank
3 bottoms" (the "non-recoverable oil" that sits at the bottom of oil
4 storage tanks) are expensed through the fuel clause. This non-
5 recoverable oil is needed to keep the oil level in a tank high enough
6 for the working volume of oil to be removed by the suction piping in
7 the tank. Non-recoverable oil remains in the tank until it is
8 periodically cleaned, at which time the oil is removed and burned as
9 fuel. Pursuant to Order No. 12645, Docket No. 830001-EI, dated
10 November 3, 1983, FPL and other utilities have been authorized to
11 charge the cost of non-recoverable oil to the Fuel Clause when the oil
12 is loaded into the tanks, with a credit to the Fuel Clause when it is
13 ultimately removed and burned. This is precisely the treatment that
14 FPL seeks with respect to the base gas costs.

15

16 **Q. Ms. Merchant states base gas correlates closer with base coal**
17 **than non-recoverable oil. Do you agree?**

18 A. No. Base gas is not analogous to base coal. Order No. 12645 in
19 Docket No. 830002-EU discusses the recovery of base coal and
20 states that:

21 "Base Coal (Issues 4 and 5)

22 Each coal pile maintained by a utility contains a certain
23 amount of "base coal" used to support the pile. This coal is
24 normally low grade coal and is not expected to be burned as

1 part of normal utility operations. Except for TECO, this coal is
2 maintained in inventory in spite of the fact that it is not
3 expected to be burned. All parties (except FPL, which uses
4 no coal) have agreed that base coal should be capitalized in
5 Account 312 and depreciated over the life of the plant. TECO
6 currently accounts for its base coal in this manner. We find
7 that the proper treatment of investment in base coal is to
8 capitalize it in account 312 as proposed. Normally, plant
9 items such as base coal would be depreciated over the life of
10 the plant to which it relates. However, we find that a shorter
11 period of five years is more appropriate for the depreciation of
12 base coal.”

13 The distinctions between base coal and base gas are as follows:

- 14 ● Base coal is “used to support the coal pile.” In contrast, base gas
15 is not used to physically support anything (and hence, is not
16 analogous to an improvement to real estate for accounting
17 purposes).
- 18 ● Base coal is “low grade coal.” In contrast, base gas is not low
19 grade; it is the same as the other gas in the facility.
- 20 ● Base coal is “not expected to be burned.” In contrast, base gas
21 will be burned for the benefit of customers once the storage
22 arrangement is terminated.
- 23 ● Base coal is capitalized and depreciated. In contrast, base gas
24 does not meet any criteria for capitalization in an electric plant

1 account, but could be included in account 151, Fuel Stock; it
2 would not be subject to depreciation.

3
4 In contrast, base gas is exactly like non-recoverable oil in the most
5 important respect: it is burned and hence up-front recovery is really
6 pre-payment by customers for a usable fuel in the case of both base
7 gas and non-recoverable oil. Since the base coal is not usable, this
8 recovery approach would not even work for base coal, which is the
9 main reason that there must be a different recovery approach for
10 base coal.

11

12 **Carrying Costs for Stored Gas**

13 **Q. Ms. Merchant states that “Fuel inventory historically is**
14 **recovered through base rates and is included as a component of**
15 **working capital. Gas is no different than any other fuel inventory**
16 **in which a utility invests. By its very nature, all inventory**
17 **purchased is a physical hedge for supply as well as cost.**
18 **Accordingly, I disagree with Ms. Dubin’s testimony that storing**
19 **gas is solely for hedging not ordinary operating purposes, and**
20 **as such separates the gas from the other fuel inventory**
21 **balances.” Please comment on this assertion.**

22 **A. Ms. Merchant ignores the fact that natural gas storage is commonly**
23 **characterized within the industry as physical hedging. For example,**
24 **the July 21, 2005 edition of Natural Gas Weekly Update published by**

1 the United States Department of Energy, observed in commenting on
2 market trends that 47 of 54 American Gas Association (AGA)
3 member companies surveyed reported using natural gas storage as a
4 primary hedging tool and that "several companies noted that storage
5 (as a physical hedge) is the only hedge they employ, choosing not to
6 use financial instruments at all." In the case of storing gas as a
7 physical hedge, the "hedging transaction" is the placement and
8 retention of gas in storage for later use when needed. There are
9 necessarily carrying costs associated with retaining gas in storage,
10 and those costs are therefore part of the transaction costs.

11
12 Moreover, Ms. Merchant is relying on semantics to gloss over a
13 crucial difference between the role of gas storage for gas-fired units
14 and the inventories of fuel oil and coal that are maintained at oil and
15 coal-fired units. As discussed more fully in Mr. Yupp's rebuttal
16 testimony, gas-fired plants have operated effectively for years under
17 normal operating conditions without gas storage, and could certainly
18 continue to do so. The only thing that would be lost if FPL did not
19 engage in gas storage is FPL's ability to buffer its customers against
20 the risk of supply unavailability and price volatility that the stored gas
21 provides. In other words, the gas is stored first and foremost to be a
22 physical hedge. In contrast, Mr. Yupp explains that FPL has never
23 owned or co-owned an oil-fired or coal-fired unit that does not have
24 an onsite fuel inventory, and it would be impractical if not impossible

1 to operate such a unit. While an oil or coal inventory may incidentally
2 provide a small degree of physical hedging benefits, that is not the
3 reason the inventory is maintained, and FPL has no choice but to
4 maintain it. There is no need, in the words of the Hedging
5 Resolution, to “remove disincentives” to the maintenance of fuel or
6 coal inventories because those inventories are not discretionary in
7 the first place.

8

9 **Q. Ms. Mechant states that “The Commission approved Gulf**
10 **Power’s inclusion of gas inventory in working capital in Gulf’s**
11 **last base rate case, Docket No. 010949-EI. The gas inventory**
12 **was related to Gulf’ gas storage agreement with Bay Gas.” Is**
13 **Gulf’s gas storage analogous precedent for FPL’s recovery of**
14 **gas storage carrying costs?**

15 **A.** No. Gulf was already storing gas at the time of its 2002 base rate
16 proceeding, and because the Hedging Resolution had not yet been
17 approved at that time, there was no mechanism for recovering the
18 carrying costs for the stored gas through the FCR Clause. Inclusion
19 of the stored gas cost in the working capital calculation was thus
20 Gulf’s only available recovery mechanism, and Gulf properly used it.
21 In contrast, FPL did not begin any program of firm gas storage until
22 after the Hedging Resolution was approved and has never included,
23 or sought to include, any of the costs associated with gas storage in
24 the determination of base rates.

- 1
- 2 **Q. Ms. Merchant discusses the types of costs that are recoverable**
- 3 **through the fuel clause pursuant to Order No. 14546, from the**
- 4 **1985 fuel docket. One of the criteria for fuel cost recovery**
- 5 **discussed in that order is volatility. Ms. Merchant states**
- 6 **“carrying costs for a stable amount of fuel contained in a**
- 7 **storage facility are not “volatile” and therefore should be**
- 8 **recovered through base rates. Carrying costs are simply the**
- 9 **rate of return earned on the utility’s investment, which in this**
- 10 **case is the investment in fuel contained in a storage facility.” Do**
- 11 **you agree that whether or not gas storage costs are volatile**
- 12 **should determine their recoverability through the fuel clause?**
- 13 **A. No. Recovery of hedging costs is not based on their volatility; in fact,**
- 14 **their purpose is to reduce volatility. Certainly, O&M expenses**
- 15 **incurred to manage a hedging program are not necessarily volatile**
- 16 **but are recoverable through the fuel clause pursuant to the hedging**
- 17 **resolution. The basis for allowing recovery is that the Commission**
- 18 **wanted “to remove disincentives that may currently exist for IOU’s to**
- 19 **engage in hedging transactions that may create customer benefits by**
- 20 **providing a cost recovery mechanism for prudently incurred hedging**
- 21 **transaction costs, gains and losses, and incremental operating and**
- 22 **maintenance expenses associated with new and expanded hedging**
- 23 **programs”. This rationale has nothing to do with volatility.**

24

1 **Q. Ms. Merchant asserts that the hedging order does not allow for**
2 **the recovery of carrying costs through the fuel clause because**
3 **the term “carrying costs” is not specifically listed as an example**
4 **of the types of hedging costs that are recoverable through the**
5 **fuel clause. Do you agree?**

6 **A. No. As discussed more fully in Mr. Yupp’s rebuttal testimony, at the**
7 **time the hedging order was issued, expanded hedging programs**
8 **were new to all utilities and these was no possible way the order**
9 **could cover all the types of hedging costs and hedging instruments**
10 **that would be allowed. Like Mr. Yupp, I participated extensively in**
11 **Docket No. 011605-EI on behalf of FPL and understood that the list**
12 **of recoverable items in the Hedging Resolution was not intended to**
13 **be all-encompassing but rather a list of examples.**

14
15 **Q. Ms. Merchant states that she believes including gas storage**
16 **carrying costs through the fuel clause would violate the Rate**
17 **Settlement Agreement and subsequent stipulation in the Fuel**
18 **Docket. Ms. Merchant states that “inventory carrying costs are**
19 **traditionally and historically included in base rates as part of**
20 **working capital. The 2005 rate case settlement order stated the**
21 **following: During the term of this Stipulation and Settlement ...**
22 **FPL will not petition for any new surcharges... to recover costs**
23 **that are of a type that traditionally and historically would be, or**
24 **are presently, recovered through base rates. (Paragraph 3) Thus**

1 **it is clear to me that including inventory carrying costs or the**
2 **carrying costs associated with the unamortized balance of gas**
3 **would violate the terms of FPL's rate case settlement." Do you**
4 **agree?**

5 A. No. Ms. Merchant is wrong in claiming that recovery of stored gas
6 carrying costs would violate the 2005 Rate Case Stipulation and
7 subsequent stipulation in the 2005 fuel docket, because that
8 particular form of hedging cost was not contemplated at the time.
9 Nothing in either stipulation says that it is limiting FPL's use of the
10 hedging resolution to projects or forms of recovery already in place.
11 Furthermore, recovery of stored gas carrying costs as a hedging
12 expense would not call for any "new surcharge" in violation of the
13 2005 Rate Case Stipulation. The recovery would be through the
14 existing fuel clause, on the basis of the existing wording of the
15 Hedging Resolution.

16

17 **Q. Ms. Merchant states "Citizens agree that the gas storage project**
18 **is worthwhile." Do you believe it is consistent with that**
19 **conclusion for OPC to oppose FPL's recovery of reasonable and**
20 **prudent costs associated with making that project available?**

21 A. No; it is completely inconsistent. OPC seems to be saying in
22 essence that the project will provide benefits for customers but just
23 do not want FPL to have or receive the opportunity to recover the cost
24 associated with the project. This is not a reasonable or realistic

1 BY MR. BUTLER:

2 Q Ms. Dubin, would you please summarize your rebuttal
3 testimony?

4 A Yes, thank you. Good afternoon, Commissioners. The
5 purpose of my testimony is to rebut the testimony of the Office
6 of Public Counsel Witness Patricia Merchant in opposition to
7 FPL's proposed recovery through the fuel clause of two specific
8 components of natural gas storage associated with FPL's
9 proposed participation in the MoBay gas storage project and
10 FPL's continuing participation in the Bay Gas storage facility.

11 The two components at issue are the carrying costs
12 associated with the unamortized balance of base gas and the
13 carrying costs on the gas storage. Regarding base gas, FPL
14 proposes to expense the base gas through the fuel clause in the
15 same manner as tank bottoms. If the Commission approves FPL's
16 approach, there will be no need to address the issue of base
17 gas carrying costs.

18 In contrast to FPL's approach, OPC proposes that the
19 base gas should be amortized through the fuel clause over a
20 15-year period which would require that FPL be permitted to
21 recover carrying costs on the unamortized balance if FPL is to
22 be fully compensated. However, OPC asks that the Commission
23 not allow any carrying costs associated with the unamortized
24 balance of base gas to be recovered through the fuel clause.
25 We believe OPC's proposal is illogical. It would be

1 inconsistent with established principles of regulatory
2 accounting to allow amortization of base gas but not recovery
3 of the carrying costs for the unamortized balance of that same
4 base gas.

5 Amortization implicitly recognizes that the cost of
6 base gas is not being recovered elsewhere and that it is
7 appropriate for FPL to recover that cost through the fuel
8 clause. Carrying costs are equally valid and real costs of
9 providing base gas, and so consistency dictates that FPL
10 likewise be afforded the opportunity to recover those costs
11 through the fuel clause. Denying recovery of carrying costs on
12 the unamortized base gas balance guarantees that FPL would not
13 fully recover its costs, thus creating a major disincentive
14 that is inconsistent with the hedging resolution.

15 MS. Merchant asserts that base gas is more like base
16 coal than nonrecoverable oil, but this is simply wrong. Base
17 gas is in no way analogous to base coal. Base coal is used to
18 support the coal pile. In contrast, base gas is not used to
19 physically support anything, and hence is not analogous to an
20 improvement to real estate for accounting purposes. Base coal
21 is low grade coal. In contrast, base gas is not low grade. It
22 is the same quality as the other gas in the facility. Base
23 coal is not expected to be burned. In contrast, base gas will
24 be burned for the benefit of customers once the storage
25 arrangement is terminated. In contrast, base gas is exactly

1 like nonrecoverable oil in the most important respect; it is
2 burned and hence upfront recovery is really prepayment by
3 customers for a usable fuel in the case of both base gas and
4 nonrecoverable oil.

5 Regarding carrying costs on stored gas, Ms. Merchant
6 states that gas is no different than any other fuel inventory
7 in which the utility invests, which ignores the fact that
8 natural gas storage is commonly utilized within the industry as
9 physical hedging. In the case of storing gas as a physical
10 hedge, the hedging transaction is the placement and retention
11 of gas in storage for later use when needed. There are
12 necessarily carrying costs associated with retaining gas in
13 storage, and those costs are therefore part of the transaction
14 costs.

15 FPL also disagrees with Ms. Merchant's claim that the
16 recovery of the stored carrying costs would violate the 2005
17 rate case stipulation and subsequent stipulation in the fuel
18 docket. Nothing in either stipulation says that it's limiting
19 FPL's use of the hedging resolution to projects or forms of
20 recovery already in place. Furthermore, recovery of stored gas
21 carrying costs as a hedging expense would not call for any new
22 surcharge in violation of the 2005 rate case stipulation. The
23 recovery would be through the existing fuel clause on the basis
24 of the existing wording of the hedging resolution.

25 And last, Ms. Merchant states that Citizens agree

1 that the gas storage project is worthwhile. In view of her
2 position on the cost recovery for that project, this is
3 surprising. She seems to be saying, in essence, that customers
4 should get the benefit of the gas storage but not pay for it.
5 This is completely inconsistent with the hedging resolution
6 whose main purpose is to remove disincentives for hedging.

7 This concludes my summary.

8 MR. BUTLER: Thank you, Ms. Dubin. I tender the
9 witness for cross examination.

10 CHAIRMAN EDGAR: Mr. Beck.

11 CROSS EXAMINATION

12 BY MR. BECK:

13 Q Good afternoon, Ms. Dubin.

14 A Good afternoon, Mr. Beck.

15 Q FPL has a settlement agreement with various parties
16 that freezes base rates for a four-year period, does it not?

17 A Yes, sir.

18 Q And there are MFRs that Florida Power and Light filed
19 that used what was then a forecasted 2006 test year, did it
20 not?

21 A Yes.

22 Q Now, the base rates cover a four-year period, but
23 there is only a one-year period utilizing the MFRs for your
24 rate application, is that right?

25 A Yes. And just to add, in those MFRs our gas storage

1 or the stored volume of gas is not included in those MFRs.

2 Q You didn't have separate projections for 2007, 2008,
3 and 2009, did you?

4 A No, I don't believe so.

5 Q But you still -- everybody agreed in that part of
6 that settlement that you would keep your base rates frozen for
7 that four-year period, is that right?

8 A Yes.

9 Q We have a disagreement between Florida Power and
10 Light and others now about whether the costs you're seeking in
11 this case are traditionally and historically base rate items,
12 is that right?

13 A Yes. The disagreement goes to whether or not we
14 consider these to be hedging costs and whether or not they fall
15 within the hedging resolution.

16 Q Let's put aside those costs and talk a little more
17 generally if we could. Suppose Florida Power and Light during
18 the four-year term of the agreement incurs a cost for a widget
19 that everybody can agree is a base rate item. That's certainly
20 conceivable, isn't there, to be something that is a base rate
21 item that you would incur during a four-year period?

22 A I'm sorry.

23 Q I want you to assume with me that you could incur a
24 cost that everybody could agree on is a base rate item and you
25 could incur that during the four-year period of the rate case

1 agreement. You could certainly conceive of that, couldn't you?

2 A Yes.

3 Q In fact, forecasts, the only thing you can be sure
4 of, I think, as is said sometimes is a forecast is going to be
5 wrong, isn't that true?

6 A I guess, yes.

7 Q Actuals typically --

8 A Actuals differ from projections, yes. I guess the
9 difference here is whether or not that widget is a hedge or
10 not.

11 Q Let's say you incur a widget in 2008. Let's just
12 pick a time, sometime during that. According to the agreement,
13 if everybody agreed that was a base rate item, FPL simply has
14 to incur that cost, does it not?

15 A Yes.

16 Q Does that mean you don't recover the cost during
17 2008?

18 A Those costs -- some costs go up, some costs go down,
19 that's correct.

20 Q And so you would have to look at your overall return
21 and see whether you are recovering all of your costs to
22 determine --

23 A Right. It's all subject to the revenue sharing
24 agreement.

25 Q Last Monday, Florida Power and Light, or Monday of

1 last week Florida Power and Light had an earnings announcement
2 at an earnings conference with analysts, did it not? Are you
3 familiar with that?

4 A I was not aware of it, but, yes, I'm sure.

5 Q Would you agree that some things in your forecasts
6 are better than you thought they would be and some things in
7 your forecasts are worse than they were?

8 A Yes.

9 Q And the question whether you are recovering the cost
10 is whether you are earning a reasonable rate of return?

11 A Yes. Again, we are under the revenue sharing
12 agreement.

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

14 CHAIRMAN EDGAR: Any questions of staff?

15 MS. BENNETT: No, Madam Chair.

16 CHAIRMAN EDGAR: Mr. Butler.

17 MR. BUTLER: One moment, please.

18 No redirect, Madam Chairman.

19 CHAIRMAN EDGAR: Then the witness is excused. Thank
20 you.

21 THE WITNESS: Thank you, Madam Chair.

22 CHAIRMAN EDGAR: Ms. Bennett, any other evidentiary
23 matters that we need to take up in Docket 362?

24 MS. BENNETT: No, Madam Chair, there are no other
25 evidentiary matters.

1 CHAIRMAN EDGAR: Okay. Then, folks, I think we will
2 push through and break after this. So we will move on to
3 Docket Number 041291. As we discussed when we first convened
4 on Monday morning, this is FPL's emergency petition for
5 approval of storm cost recovery transition charge.

6 I will give you a moment to get your papers in order,
7 and then, Ms. Bennett, I will look to you to tell us where we
8 are and where we're going next.

9 MS. BENNETT: Commissioners, we'll turn now to Docket
10 Number 041291-EI to consider a tariff filing. While not a part
11 of the fuel filing, per se, the proposed rate is contained in
12 the FPL testimony in Docket Number 060001, and supports the
13 company's position on Issue 16E, levelized bills. With your
14 permission, Ms. Kummer will explain the filing in more detail
15 and then we will have some discussion from Florida Power and
16 Light.

17 MS. KUMMER: Due to an administrative oversight,
18 Florida Power and Light failed to file a tariff revision to
19 reflect the storm cost-recovery surcharge used in its 01 fuel
20 testimony, including its typical bill. The currently approved
21 storm recovery surcharge is higher than the one used in the
22 fuel testimony. Since the storm charge is a base rate
23 surcharge, not a fuel-related cost, FPL has filed a petition to
24 revise the surcharge in the 041291-EI docket. The proposed
25 change represents approximately a 33 percent reduction in the

1 current factors for all rate classes. These factors are
2 applied to the customers usage, and it is based on the
3 estimated storm cost-recovery surcharge that will be applicable
4 after the issuance of the storm bonds.

5 There are two primary reasons to approve this tariff
6 filing. One, even if the bond issuance does not occur prior to
7 January, this tariff change allows customers to benefit
8 starting in January from the expected reduction in the storm
9 charge after the bond issuance. And, second, by adopting the
10 new storm rate concurrent with the changes in the cost-recovery
11 clauses, customers will see more stability in their bills
12 because the new factor is expected to be closer to what FPL
13 expects the charge to be after the issuance of the bonds.

14 Staff recommends that the Commission approve the
15 proposed tariff change to be effective concurrent with the new
16 fuel factors approved in 01 docket for 2007. The factor would
17 remain in effect until the storm bonds are issued or until the
18 approved 2004 storm costs are recovered.

19 CHAIRMAN EDGAR: Mr. Butler.

20 MR. BUTLER: I think that Ms. Kummer has summarized
21 it nicely. I am certainly available myself, and we have
22 Rosemary Morley here who is more familiar with the details than
23 I to explain it further. But, yes, in essence the purpose of
24 this is to sort of put into effect commencing January 1 what
25 FPL has expected and what many of our customers who have been

1 advised of expected bills for the coming year expect to see
2 charged to them, and to avoid having the sort of mid-year
3 change in overall bill that is exactly what we were trying to
4 avoid with our levelization proposal to address the impact of
5 the GVRA, and we urge you to approve the petition as filed.

6 CHAIRMAN EDGAR: Thank you.

7 Mr. Beck, would you like to speak to this item?

8 MR. BECK: Just that we have no problem with it and
9 certainly don't oppose the Commission approving that. We are
10 certainly okay with it.

11 CHAIRMAN EDGAR: Thank you.

12 Ms. Bradley, would you like to make a statement?

13 MS. BRADLEY: The Attorney General certainly does not
14 object to any rate reduction, so --

15 CHAIRMAN EDGAR: Thank you. Mr. Twomey.

16 MR. TWOMEY: Yes, Madam Chair. AARP had consulted
17 with counsel for FPL earlier and have no objection.

18 CHAIRMAN EDGAR: Thank you.

19 Commissioners, do you have questions at this time for
20 our staff or for any of the parties? No. Hungry? No
21 questions. Okay.

22 Then, Ms. Helton, why don't you help us talk through
23 the next procedural steps that we need to take. It is my
24 understanding that we can go ahead and close the evidentiary
25 portion of the proceedings that we have been in for the past

1 few days in Dockets 060001, 060362, and 041291.

2 MS. HELTON: Yes, ma'am, that is my understanding, as
3 well, that we can close the record for those three proceedings.

4 CHAIRMAN EDGAR: Okay.

5 MS. HELTON: I do have one other matter that I would
6 like to bring up with you before we break, at your convenience.

7 CHAIRMAN EDGAR: Let's talk about voting.

8 Commissioners, we will be taking a break so that we can all
9 have lunch so that staff can prepare in further detail the
10 verbal recommendations that they will be making to us. We did
11 yesterday have the request from at least one party on at least
12 one item or issue or set of issues to have more time for briefs
13 to be submitted. And my understanding is that we do also have
14 some other items that it may be useful to staff to have some
15 additional time, too. So, Ms. Helton, why don't you address
16 that?

17 MS. HELTON: Yes, ma'am. And thank you for allowing
18 us to discuss that now, because it really will help staff in
19 preparing their recommendations for your votes this afternoon
20 to know exactly what we need to have verbal recommendations for
21 and what we can perhaps take the time to further analyze the
22 record of the hearing and any briefs that the parties may file
23 to provide you with a written recommendation on a date certain.

24 There are three items for which staff would propose
25 that we ask for briefs from the parties, and then staff would

1 file a written recommendation for your consideration. The
2 first one is concerning Issue 16B in the fuel docket. That's
3 the 01 docket. That concerns the approval of the Southeast
4 Supply Header Pipeline participation by Florida Power and
5 Light.

6 The second one, the second matter that the staff
7 would like to brief for you or make a written recommendation to
8 you concerns Issues 21 and 22 in the fuel docket. Those are
9 the issues that we heard separately concerning the GPIF and
10 dead band issue.

11 The third is for Docket Number 060362-EI, and staff
12 would ask to write a written recommendation for you for Issues
13 1B, 1C, and 1D. Those are the MoBay issues concerning the
14 treatment of the carrying costs in the base gas. I believe
15 that this will allow a complete analysis of the issues. It
16 will allow staff time to review the transcripts and briefs
17 before filing a written recommendation for your consideration.
18 I do not believe that deferring any of these issues to a later
19 date in December for your consideration will affect the fuel
20 factors.

21 However, I do need to state on the record with
22 respect to the Southeast Supply Header Pipeline, that Florida
23 Power and Light has reminded staff this morning that there is a
24 contract issue concerning that agreement. Just to give you by
25 way of background, Florida Power and Light filed the agreement

1 for your approval, I believe, in September. One of the
2 negotiated provisions in that agreement is that they state in
3 the agreement that they need to have a Commission decision on
4 whether you approve the agreement or not by the middle of
5 November. If we were to brief you on this matter, we obviously
6 will not do so by the middle of November.

7 However, there also is in that agreement a provision
8 whereby by mutual agreement of both the parties, meaning
9 Florida Power and Light and the pipeline, that they can extend
10 by 90 days the need for a Commission decision. The staff has
11 discussed this internally and we believe any risk associated
12 with having you vote on this matter in a time certain in
13 December will be a minimal risk.

14 CHAIRMAN EDGAR: Ms. Helton -- we'll go ahead and, of
15 course, open it up, Commissioners, if you have questions or
16 concerns. But before that, can you talk through with us, and
17 we can discuss it more when we come back after the break, too,
18 but tentatively anyway what the briefing schedule would be and
19 the dates that are available.

20 Commissioners and parties, you know that actually the
21 Commission calendar is really heavy these next six weeks.
22 However, as we have all also heard, I think there may be some
23 advantages to allowing our staff some additional time for the
24 parties to submit briefs and for there to be written
25 recommendation for our consideration on the issues that

1 Ms. Helton has described.

2 So if you could, let's talk scheduling and calendar.

3 MS. HELTON: Certainly. We have some proposed dates
4 for you. The court reporters have been busily working away. I
5 know when I got into my office very early this morning there
6 was already a transcript copy for the first day, and I believe
7 that the second day, if it is not done now, it should be done
8 very soon. I believe that the third day, today's will be
9 finished by tomorrow, Thursday, November the 9th, and I see
10 that Jane is shaking her head in agreement.

11 Then staff would propose that the parties file briefs
12 by Friday, November 17th. This date should not be a surprise
13 to any of the parties because it is my understanding that this
14 date has been flagged as a possible briefing date on the CASR
15 for quite awhile.

16 Then staff would propose filing a recommendation by
17 the close of business on Friday, December the 1st, and then we
18 would suggest that you continue the hearing to Friday,
19 December the 8th, so that you can take up your vote on the
20 three -- or actually several issues that I have mentioned.

21 CHAIRMAN EDGAR: Thank you, Ms. Helton.

22 Commissioners, any questions, comments, concerns?

23 Commissioner Arriaga.

24 COMMISSIONER ARRIAGA: Did we have pending a Turkey
25 Point issue with a nuclear -- is that included in this or this

1 afternoon?

2 CHAIRMAN EDGAR: We do have some issues before us
3 along those lines. And one of the things that I asked our
4 staff to look at earlier this morning was whether those issues
5 could also be postponed from a vote today in order to allow a
6 written recommendation. However, it is my understanding from
7 staff that those issues are related very closely to some of the
8 things that need to be determined for the fuel factors and,
9 therefore, there would be a significant complication if we were
10 to defer that. However, I will look to Ms. Helton to correct
11 me if I got any of that wrong.

12 MS. HELTON: No, ma'am. I agree with everything that
13 you said. When the Commission votes whether to allow FPL to
14 recover, subject to refund, the \$6-plus million associated with
15 that outage, that will have a potential effect on the fuel
16 factor for Florida Power and Light. So that is not one of the
17 matters that the Commission can have briefing on and still set
18 a fuel factor today.

19 COMMISSIONER ARRIAGA: So we will vote today?

20 CHAIRMAN EDGAR: So that is an issue that the
21 recommendation of staff right now is that we will go on break
22 here in just a few moments and they will bring a verbal
23 recommendation to us this afternoon. And then, yes, I would
24 propose that we vote. Any other questions?

25 Commissioner Deason.

1 COMMISSIONER DEASON: Ms. Helton, in reference to the
2 Southeast Supply Header Pipeline and the fact that there is a
3 mid-November approval deadline with the possibility of a 90-day
4 extension, you've determined that if the Commission were to
5 delay its decision until December the 8th that there would be
6 minimal risk on that contract. How do you make that
7 determination there is minimal risk?

8 MS. HELTON: I made that statement after a discussion
9 that the staff had this morning which included Cheryl Banks
10 who, as you all know, is intimately familiar with the way that
11 pipelines operate. She believes that there will be minimal
12 risk to the ratepayers if the Commission does not make a
13 decision today. She does not believe that the pipeline will
14 walk away from the agreement with Florida Power and Light.

15 COMMISSIONER DEASON: May I follow up?

16 CHAIRMAN EDGAR: Uh-huh.

17 COMMISSIONER DEASON: And I may need some guidance
18 from Ms. Helton. I know the record is closed, and it may not
19 be appropriate to ask that question to FPL at this phase of the
20 proceeding, so I would not ask the question unless it is
21 permissible, but if it's permissible it may be helpful to get
22 their opinion as to the risk factor of delaying a decision past
23 mid-November.

24 MS. HELTON: Well, Madam Chair, may I be so
25 presumptuous to ask that we open the record again for a brief

1 period of time so that we may ask that question to FPL?

2 CHAIRMAN EDGAR: Ms. Helton, you may. Thank you very
3 much. And we will ask the court reporter to open the record
4 for us again. And, Commissioner Deason, if you would pose your
5 question and we will ask Mr. Butler to respond.

6 COMMISSIONER DEASON: Mr. Butler, I assume you heard
7 the question?

8 MR. BUTLER: I did. Commissioner Deason, FPL would
9 certainly prefer a decision before the November 20 date. As
10 the agreement states, there can be an extension but it is by
11 mutual agreement. We obviously can't predict whether the
12 pipeline will or won't agree to the extension, but I think that
13 Ms. Banks is probably pretty accurate in sort of assessing
14 where it is likely to come out. FPL is a major tenant for the
15 pipeline. I think over a short period of time that a delay is
16 unlikely to be something that they would refuse to agree to,
17 and, therefore, while we can't predict it with any certainty
18 and we would be a lot more certain of being able to have the
19 advantage of this for our customers if you decide today rather
20 than on December 8th, the risk is probably not large of the
21 SESH counter-party walking away from the deal during that
22 November 20 through December 8 time period.

23 COMMISSIONER DEASON: Madam Chairman, I guess this
24 would be a question for staff. Would it be possible for staff
25 to formulate a recommendation, and if the Commission were

1 comfortable making a decision on that particular issue, and you
2 could give your pros and cons as to why you may want to qualify
3 that recommendation, but we could make a decision as to whether
4 we -- we could weigh the risk and the adequacy -- well, the
5 record is closed. It is adequate, it is just a question of the
6 adequacy of the recommendation being done verbally as opposed
7 to being written.

8 MS. HELTON: Yes, sir, we can certainly do that today
9 if that is your pleasure.

10 COMMISSIONER DEASON: Commissioners, that is just my
11 preference, but obviously I would defer to the will of the
12 Commission on that matter.

13 CHAIRMAN EDGAR: Then what I would propose is that we
14 direct our staff to work on the break to prepare information
15 for our discussion on those issues when we come back from the
16 break, and we'll will see what the comfort level is.

17 COMMISSIONER DEASON: Madam Chair, that was just in
18 reference to 16B, I believe it is.

19 CHAIRMAN EDGAR: Yes, just to 16B in the 01 docket.

20 MS. HELTON: Madam Chairman, if we could go ahead and
21 close the record again, I believe it would be appropriate to do
22 that.

23 CHAIRMAN EDGAR: Oh, I'm sorry. Yes, we will close
24 the record.

25 MS. HELTON: Also, if I could be so presumptuous to

1 ask for at least an hour and a half so that staff could have
2 time to eat and digest what it is that we are going to bring
3 you back this afternoon.

4 CHAIRMAN EDGAR: I always want to, of course, afford
5 the amount of time that is necessary, so I'm going to ask you
6 this question. And, please, as always, give me a genuine
7 answer. I am obviously trying to balance a number of factors,
8 recognizing that the Commission and our staff also have, and
9 many of the others in this room probably as well have a very
10 full day tomorrow that I would also like to, if at all
11 possible, afford some time in the business day for whatever
12 preparation people would like to do. So with that in mind, if
13 I say 2:15 does that give you enough time, and if not we will
14 push it back. Does that work?

15 MS. HELTON: Yes, ma'am.

16 CHAIRMAN EDGAR: Okay. 2:15. Any other matters
17 before we go on break? Ms. Helton.

18 MS. HELTON: None that I'm aware of, but can I ask
19 Ms. Bennett if there is anything else?

20 CHAIRMAN EDGAR: Ms. Bennett, any other matters?

21 MS. BENNETT: No other matters, Madam Chair.

22 CHAIRMAN EDGAR: Okay. Then we will go on lunch
23 break. We will come back at 2:15, at which point we will hear
24 recommendations from our staff and we will vote. Thank you.

25 (Lunch recess.)

1 CHAIRMAN EDGAR: We will go back on the record.

2 Ms. Helton.

3 MS. HELTON: Yes. If I could just beg your
4 indulgence for a minute, and for those of you who do not know
5 or do not realize, today is Cochran Keating's last day to
6 appear before the Commission as staff counsel. And I told him
7 the other day, and I sincerely mean it, that I think he is one
8 of the best and brightest attorneys, staff attorneys to
9 practice law here. And I just wish him the best in his new
10 endeavor. And I think it's going to be good for the agency to
11 have him at the legislature in his new role, but it's also
12 incredibly bad and incredibly sad for the agency as well, I
13 believe, that he's leaving us.

14 CHAIRMAN EDGAR: Thank you, Ms. Helton.

15 It is certainly our loss, Mr. Keating. Thank you for
16 your service here. I look forward to seeing you downtown, as I
17 know we all do. And we all know that everything that goes
18 wrong gets blamed on the person who's leaving, so just keep
19 that in mind.

20 MR. KEATING: Well, there have been a few things I
21 have signed the last few days that Maryanne might not have
22 signed. I said just give it to me, I'll do anything.

23 CHAIRMAN EDGAR: Okay. Commissioners, we are at the
24 point in the proceedings where we will be asking for a
25 recommendation from our staff and we will be moving through the

1 issues. We have tried to kind of put together a format in
2 consultation with our staff that I hope will be orderly and
3 sensical. And so I think that the best place to start is with
4 the emergency petition, which is Docket 041291. And if that
5 meets with your approval, I will look to our staff.

6 MS. KUMMER: Commissioners, Docket Number 041219
7 addresses the emergency petition of Florida Power and Light for
8 approval of storm cost-recovery transition charge. As staff
9 discussed earlier today, we believe that this is an appropriate
10 change. It brings benefits to customers sooner than they might
11 otherwise realize them, and it also minimizes the number of
12 rate changes that customers will experience. The number and
13 magnitude of rate changes the customers may experience once the
14 bonds are issued. Staff recommends approval.

15 CHAIRMAN EDGAR: Commissioners, are there questions
16 for our staff or discussion? No questions.

17 And this way, any questions or discussion? No.
18 Okay.

19 Then I will look for a motion.

20 COMMISSIONER DEASON: Move approval of staff's
21 recommendation.

22 COMMISSIONER CARTER: Second.

23 CHAIRMAN EDGAR: We have a motion and a second. Any
24 further discussion?

25 Seeing none, all in favor of the motion say aye.

1 (Unanimous affirmative vote.)

2 CHAIRMAN EDGAR: Opposed? Show the motion carried.

3 Thank you.

4 And with that we will move to Docket Number 060362-EI
5 which is the gas storage docket. As you are aware, there were
6 four issues, 1A, 1B, 1C, and 1D. Issue 1 is a stipulated
7 issue, and per the discussion we had before the breaks, Issues
8 1B, 1C, and 1D we agreed to a briefing schedule and a date in
9 December to conclude the hearing on that issue, and those
10 issues and some others that we will come to in just a few
11 minutes. And so, staff, any comment on the stipulation on
12 Issue 1A?

13 MS. BENNETT: Staff agrees with the position on 1A
14 and would recommend that the Commission approve the proposal.

15 CHAIRMAN EDGAR: Thank you.

16 Commissioners, any discussion or question? Seeing
17 none, is there a motion?

18 Commissioner Deason.

19 COMMISSIONER DEASON: I move approval of staff's
20 recommendation.

21 COMMISSIONER CARTER: Second.

22 CHAIRMAN EDGAR: All in favor of the motion say aye.

23 (Unanimous affirmative vote.)

24 CHAIRMAN EDGAR: Opposed? Show the motion carried.

25 Then, Commissioners, we would like to start with

1 those things that are very straightforward. We will now move
2 to Docket Number 060001-EI, the fuel and purchased power
3 docket. And as we are all aware, this docket has a number of
4 issues, some of which are stipulated, some of which are generic
5 and fallout, and some of which are company-specific. And as I
6 said a few minutes ago, we have tried to kind of group them in
7 a way that I hope will make sense.

8 If there is any question, please let me know and we
9 will ask staff to help us work through it. I think that
10 probably the best place to start in this docket is with some of
11 the discussion on the policy and legal issue related to the
12 Turkey Point Unit 3 outage. And I will look to staff for
13 discussion and a recommendation.

14 MS. BENNETT: Thank you, Madam Chair. Since the
15 argument on Monday, I have had an opportunity to review the
16 court case that was cited by Mr. Butler, and the PSC orders
17 that were cited by both parties. I have reached the conclusion
18 that it is within the discretion of the Commission as to
19 whether to grant approval of recovery of these costs subject to
20 refund, or, in the alternative, you may wait until next year to
21 hear the case fully, and if you decide that the costs were
22 prudently occurred, to allow recovery at that proceeding. And
23 then, of course, the ratepayers would pay interest on the
24 amount.

25 I am stumbling with words, so let me use better

1 words, and it's in Docket Number 970001, which is PSC Order
2 970359, when this Commission stated, "If we permit recovery now
3 we can later order a refund of these costs with interest if we
4 determine the costs were imprudently incurred. We may also
5 deny recovery at this time until we have investigated the
6 outage and assessed the reasonableness of management actions
7 both before and after the outage." And it is my opinion you
8 have discretion.

9 CHAIRMAN EDGAR: Commissioners, any questions for our
10 staff? Okay. So, within our discretion, what is the
11 recommendation of staff?

12 MR. McNULTY: Yes. Chairman, staff recommends that
13 the amount of money that is at question in this case be allowed
14 to be recovered and be placed into the factors for 2007. We
15 think that's much more consistent with Commission history and
16 the precedent that has been set in previous cases before this
17 Commission. And we think that the question of whether or not
18 these costs are prudent or not cannot be factually determined
19 until a later time, but we believe that certainly these costs
20 are going to be subject to a true-up, whether it's put into
21 rates now or put into rates later is the only thing that is in
22 question.

23 As to whether or not they are prudent or not, those
24 could be determined at a later time and taken out. So in the
25 long run the effect is the same. So we think that it is more

1 consistent with Commission precedent that we go ahead and allow
2 recovery of these costs at this time.

3 CHAIRMAN EDGAR: Commissioner Arriaga.

4 COMMISSIONER ARRIAGA: If we accept your
5 recommendation, how does that benefit the consumer?

6 MR. McNULTY: I think if you accept the
7 recommendation it doesn't either benefit or harm the consumer.
8 I think the consumer is going to be left whole no matter what,
9 because once all of the investigation in this case is completed
10 by the various entities that are investigating it, this
11 particular item and these dollars that are in question are
12 heard before this Commission, the dollars, if they are prudent,
13 would be allowed to remain without adjustment. If they are
14 determined to be not prudent they would be withdrawn with
15 interest. So the consumer remains unharmed. It's just a
16 question of the timing of these costs and when they would be
17 incurred, not whether or not the consumer would be in any way
18 harmed or benefitted by the decision to be made today.

19 COMMISSIONER ARRIAGA: But I think I understood that
20 if we don't approve it now and we delay it for next year the
21 consumer is going to have pay interest.

22 MR. McNULTY: They would have to pay interest in that
23 case.

24 COMMISSIONER ARRIAGA: So there is a damage to the
25 consumer if we postpone it for another year.

1 MR. McNULTY: Well, it depends on how you look at the
2 time value of money. During that time period the consumers
3 would otherwise have the benefit of the money that they are not
4 having to pay and be able to earn interest on that, so you are
5 balancing the time value of money and how consumers invest
6 their money versus how it would be paid.

7 COMMISSIONER ARRIAGA: Okay. Thank you.

8 COMMISSIONER DEASON: Madam Chairman, if I may.

9 CHAIRMAN EDGAR: Commissioner Deason.

10 COMMISSIONER DEASON: Commissioner, in answer to your
11 question, I agree with staff's response, and it is all tied to
12 the time value of money. And if you assume that the interest
13 rate that we apply to refunds or overcollections or
14 undercollection, if that interest rate is set right, there
15 should be -- you know, the company and the customer should be
16 indifferent either way. They are protected.

17 But to me there may be an intangible benefit to some
18 degree, and maybe it's in the eyes of the beholder as to what
19 degree or what emphasis you place on that. There's a
20 consistency of the process, there's a certain integrity in the
21 process, it is a process that we have followed for a number of
22 years in fuel adjustment proceedings. And one of the reasons
23 that we went to a projected fuel adjustment with true-ups is to
24 assure the company, its investors, and to assure customers that
25 there is going to be a timely recognition of a fuel cost and a

1 mechanism to recover those that are subject to volatility.

2 And it has been part of the process built in is that
3 with the interest and with the true-ups that things of this
4 nature can be evaluated and there can be a mechanism for
5 recovery and there can be a subsequent true-up if there is a
6 determination that there is some imprudency involved. And
7 absent some -- and it may be speculation, some belief that
8 there has been some imprudent act, I think that the integrity
9 of the process is better preserved by going ahead and
10 recognizing recovery for the simple reason that the replacement
11 fuel costs, those are known and quantified, they exist. Those
12 monies have been expended; there is no doubt. And those monies
13 have been expended for the benefit of customers to keep the
14 lights on.

15 So I would agree with staff's recommendation that
16 more consistent with past policy would be to go ahead and to
17 allow the recovery. There will be a full and complete
18 investigation, and apparently there's going to be an
19 investigation into a number of issues that are probably even
20 beyond the jurisdiction of this Commission, and hopefully to
21 some extent we may have the benefit of that at some point in
22 the future. So I guess that's the long way of saying that I
23 agree with staff's recommendation, and if there are no other
24 questions I would move approval of staff's recommendation.

25 COMMISSIONER CARTER: Second.

1 CHAIRMAN EDGAR: We have a motion and a second,
2 Commissioners. Is there discussion?

3 Seeing none, all in favor of the motion say aye.

4 (Unanimous affirmative vote.)

5 CHAIRMAN EDGAR: Opposed? Show the motion carried.

6 Commissioners, I think the next thing that we will
7 move to are the stipulated issues, which are contained in
8 Section X of the prehearing order. And, again, I will look to
9 staff for their recommendation.

10 MS. BENNETT: Madam Chairman, with the exception of
11 Issue 5 as it relates to Gulf, and Issues 11 and 35 as it
12 relates to Progress, we would recommend that the Commission
13 adopt the stipulations found in Section X.

14 CHAIRMAN EDGAR: Okay. Commissioners, so we are
15 looking at the stipulated issues in Section X of the prehearing
16 order as just modified by our staff. Are there questions?

17 COMMISSIONER DEASON: Just a clarification.

18 CHAIRMAN EDGAR: Commissioner Deason.

19 COMMISSIONER DEASON: I understand 11 and 35 that
20 pertains to Progress are not part of that, and you mentioned
21 that there is -- what was the other exception?

22 CHAIRMAN EDGAR: Issue 5 as pertains to Gulf.

23 MR. McNULTY: Commissioner, I think I can address
24 concerns on Issue 5. That's a stipulation among all parties.
25 Staff is intending to withdraw its stipulation on this issue so

1 we can consider it at the proper time because of information
2 that we gleaned during the course of the hearing. And so we
3 would like to revisit that and withdraw the stipulation on
4 Issue 5.

5 COMMISSIONER DEASON: I understand.

6 CHAIRMAN EDGAR: Commissioners, any further
7 questions? Seeing none.

8 COMMISSIONER DEASON: If there are no questions, I
9 can move staff's recommendation on the stipulated issues as
10 described by staff.

11 COMMISSIONER CARTER: Second.

12 CHAIRMAN EDGAR: A motion and a second. Any
13 discussion? Seeing none, all in favor say aye.

14 (Unanimous affirmative vote.)

15 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

16 We will move to the additional stipulations, which
17 were handed out, I believe, on Monday.

18 Ms. Bennett.

19 MS. BENNETT: The additional stipulations in Handout
20 1, Issues 12, 13, 14, regarding all parties, and 38A, staff
21 would recommend approving the stipulations as set forth in
22 Handout 1.

23 CHAIRMAN EDGAR: Commissioners, are there any
24 questions? Commissioner Arriaga.

25 COMMISSIONER ARRIAGA: On Issues 12, 13, and 14 -- 12

1 and 13, I'm sorry, when I was reading the testimony on all the
2 information, I was really surprised to see the different
3 interpretations that each company gave to this. And I
4 understand why we need to review this, but you are saying here
5 that this will come to a regular agenda, to the first available
6 or the next available agenda for Commission approval. When is
7 that going to be?

8 MS. BENNETT: My understanding is it would be in
9 January before we got that to you.

10 COMMISSIONER ARRIAGA: Does this in any way modify or
11 change or effect all the approvals we are doing here,
12 calculations and things like that?

13 MS. BENNETT: No, Commissioner, it would not.

14 COMMISSIONER ARRIAGA: So it would be sometime in
15 January that we will see this?

16 MS. BENNETT: I need to confirm with Mr. McNulty.

17 MR. McNULTY: Yes.

18 COMMISSIONER ARRIAGA: Okay. Thank you.

19 CHAIRMAN EDGAR: Commissioners, any further
20 questions?

21 COMMISSIONER DEASON: Madam Chairman, I would move
22 approval of staff's recommendation to approve the stipulations
23 for 12, 13, 14, and 38A.

24 COMMISSIONER CARTER: Second.

25 CHAIRMAN EDGAR: Thank you. Any further discussion?

1 Seeing none, all in favor of the motion say aye.

2 (Unanimous affirmative vote.)

3 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

4 Ms. Bennett.

5 MS. BENNETT: The next handout are two issues
6 specific to Progress. They are Issues 11 and 35. We would
7 recommend that the Commission approve the stipulations in
8 Handout 2, Issues 11 and 35, as they relate to Progress.

9 CHAIRMAN EDGAR: Commissioners, are there any
10 questions?

11 COMMISSIONER DEASON: Move approval of staff's
12 recommendation.

13 COMMISSIONER CARTER: Second.

14 CHAIRMAN EDGAR: All in favor of the motion say aye.

15 (Unanimous affirmative vote.)

16 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

17 Ms. Bennett.

18 MS. BENNETT: Progress Energy submitted numbers in
19 their revised testimony for Issues 2, 3, 30, and 31. During
20 the course of the hearing after OPC had an opportunity to
21 cross-examine the witnesses, we were able to stipulate to the
22 new numbers submitted by Progress on Issues 2, 3, 30, and 31.
23 Staff recommends approval of those numbers.

24 CHAIRMAN EDGAR: Thank you.

25 Commissioners, I'm sure you remember we had some

1 discussion about this during the proceeding. I think we're all
2 clear now that there was agreement with the numbers as proposed
3 by our staff. Are there any questions?

4 COMMISSIONER DEASON: Madam Chairman, I would move
5 approval of staff's recommendation for the stipulations
6 associated with Issues 2, 3, 30, and 31.

7 COMMISSIONER CARTER: Second.

8 CHAIRMAN EDGAR: Thank you. Is there discussion?
9 Seeing none, all in favor say aye.

10 (Unanimous affirmative vote.)

11 CHAIRMAN EDGAR: Opposed? Show the motion adopted.
12 Ms. Bennett.

13 MS. BENNETT: I believe that I will hand the
14 microphone over to Mr. Lester.

15 MR. LESTER: I believe the next issue is Issue 15A.
16 That issue is has Progress Energy Florida adequately mitigated
17 the price risk for natural gas, residual, and purchased power
18 for the years 2005 through 2007. Staff's recommendation is
19 yes, Progress has adequately mitigated the price risk for
20 natural gas, residual, and purchased power through September 1,
21 2006. Staff will continue to monitor Progress's hedging
22 activity for the future.

23 In this case, and in all the hedging issues, the
24 companies presented that their objective of the hedging
25 programs was to minimize price volatility. And prices are

1 uncertain and volatile, particularly for natural gas, so there
2 are going to be periods when the companies have hedging gains
3 and hedging losses. The companies did also mention that they
4 follow plans such that they avoid speculation. Their goal,
5 again, is to minimize price volatility, and we believe that
6 produces customer benefits. And staff can always on an ongoing
7 basis monitor the companies' hedging activities.

8 CHAIRMAN EDGAR: Commissioners, are there any
9 questions?

10 COMMISSIONER DEASON: Move approval of staff's
11 recommendation on Issue 15A.

12 COMMISSIONER CARTER: Second.

13 CHAIRMAN EDGAR: Any discussion? Seeing none, all in
14 favor say aye.

15 (Unanimous affirmative vote.)

16 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

17 We are moving to 16A.

18 MR. LESTER: 16A is has FPL adequately mitigated the
19 price risk for natural gas, residual, and purchased power for
20 the years 2005 through 2007. Staff's recommendation is yes,
21 FPL has adequately mitigated the price risk for natural gas,
22 residual, and purchased power through September 1st, 2006.
23 Staff will continue to monitor the progress of FPL's hedging
24 activities for the future.

25 And, again, this is a very similar recommendation.

1 Their objective is to minimize price volatility. And there are
2 going to be times due to the uncertainty of gas prices when
3 there will be gains and losses. Staff will continue to monitor
4 those activities. We believe overall the minimization of price
5 volatility as a goal is appropriate and will produce customer
6 benefits.

7 CHAIRMAN EDGAR: Thank you.

8 Commissioners, any questions?

9 COMMISSIONER DEASON: Madam Chairman, I would move
10 approval of staff's recommendation on Issue 16A.

11 COMMISSIONER CARTER: Second.

12 CHAIRMAN EDGAR: Thank you. A motion and a second.
13 Any discussion?

14 Seeing none, all in favor of the motion say aye.

15 (Unanimous affirmative vote.)

16 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

17 We are on 16B.

18 MR. LESTER: Issue 16B is are the costs associated
19 with FPL's proposed participation in the Southeast Supply
20 Header Pipeline project appropriate for recovery through the
21 fuel cost-recovery clause beginning in 2008. Staff's
22 recommendation is yes, costs associated with FPL's proposed
23 participation in the Southeast Supply Header Pipeline project
24 are appropriate for recovery through the fuel cost-recovery
25 clause. The Commission should allow FPL to charge the

1 appropriate costs to the clause when the Southeast Supply
2 Header Pipeline begins providing service to FPL.

3 This project has been presented by FPL in testimony
4 and staff has explored it a bit in discovery and in cross, and
5 the main goals that they have listed, or the main things this
6 project would accomplish are supply reliability. It's a
7 project that will connect FPL, or the Mobile Bay basin area to
8 two new supply basins in east Texas and north Louisiana, and it
9 is appropriate to diversify by supply basin and to pick up
10 additional supply basins given their current dependence on the
11 Gulf of Mexico and Mobile Bay area for supply, and that that
12 area is showing decline in production.

13 There will be additional cost of this pipeline,
14 additional cost to get the gas from Texas and Louisiana down to
15 Mobile Bay. And FPL also represents that there is the
16 potential for savings in that they could reduce the premium
17 they are now paying for gas in the Mobile Bay area by bringing
18 in more supply.

19 An additional reason for this project is to meet new
20 demand. The project will come on-line in 2008 and they
21 definitely will have growth in demand and new demand for gas in
22 the 2007/2010 time frame. In considering this project, FPL
23 considered alternatives such as LNG, liquefied natural gas, and
24 they also considered other pipelines as Mr. Yupp had mentioned
25 under cross examination. So staff recommends this project is

1 appropriate for recovery in the fuel clause.

2 CHAIRMAN EDGAR: Thank you. Commissioner Tew.

3 COMMISSIONER TEW: Thank you. I have a few questions
4 if that's okay. Is it staff's recommendation that based on the
5 record the Southeast Supply Header project is consistent with
6 the criteria for recovery through the fuel clause?

7 MR. LESTER: Yes, ma'am.

8 COMMISSIONER TEW: Okay. And if the project is
9 approved, we will still annually approval the projections and
10 the true-ups associated with the project, including the audits
11 of the actual dollars spent?

12 MR. LESTER: Yes, ma'am.

13 COMMISSIONER TEW: And, finally, does anything in the
14 contract require our approval before its execution?

15 MR. LESTER: They do require an approval in the
16 precedent agreement by November 15th that the Florida Public
17 Service Commission approve cost-recovery for this project.

18 COMMISSIONER TEW: That's a condition that has to be
19 met before?

20 MR. LESTER: It's in the precedent agreement.

21 COMMISSIONER TEW: I would hold off for now if others
22 have questions. I may have some more thoughts.

23 CHAIRMAN EDGAR: Commissioner Deason.

24 COMMISSIONER DEASON: Just a follow-up to
25 Commissioner Tew's question. You referred to it as the

1 precedent agreement?

2 MR. LESTER: Yes, sir.

3 COMMISSIONER DEASON: And that has the November 15th
4 requirement for approval of cost-recovery?

5 MR. LESTER: Yes, sir. And if it would help, I have
6 that page. I could pass that out.

7 COMMISSIONER DEASON: Well, I have just a quick
8 question, and then if you still think it is helpful to pass it
9 out, fine.

10 Does that requirement of PSC approval of
11 cost-recovery recognize that there is an ongoing obligation on
12 the part of this Commission to engage in continued review,
13 true-ups, audits, things of that nature, or is it silent in
14 that regard?

15 MR. LESTER: Give me one second, please, to look over
16 it. Commissioner, I'm not aware. I'm just looking at this
17 page here primarily. I'm not aware of anything that would say
18 that. But, I mean, it goes without saying, we are approving
19 this for cost-recovery. That doesn't mean we couldn't go back
20 and make the appropriate adjustments should we find anything
21 imprudent or unreasonable.

22 COMMISSIONER DEASON: And this may be as a
23 quasi-legal question, by approving this we are not saying that
24 these costs are going to be eligible for recovery forever and
25 ever regardless of whatever factual situations may arise in the

1 future that would necessitate further review and audit?

2 MS. BENNETT: My opinion is that you are approving
3 recovery of these costs through the fuel clause, but that means
4 you will still have the opportunity to review them each year.
5 Did that answer what you were asking?

6 COMMISSIONER DEASON: Yes. Inherent in the process
7 of the fuel clause is that ongoing review with audits and
8 true-ups if necessary.

9 MS. BENNETT: Correct.

10 COMMISSIONER DEASON: I think it would be
11 contemplated. If it is not written in that precise wording,
12 that would be the interpretation I would place on it.

13 MS. BENNETT: My understanding is that you are not
14 being asked to approve the contract. You are being asked to
15 approve the recovery of costs that would be incurred pursuant
16 to this contract through the fuel cost-recovery clause, and
17 those costs would be presented to you every year just like the
18 Gulfstream or the FGT.

19 MR. KEATING: And, Commissioner, I would add that I
20 think the prudence review going forward is going to involve the
21 prudent administration of that contract, as well. That's one
22 thing that the staff would look at.

23 CHAIRMAN EDGAR: Commissioner Carter.

24 COMMISSIONER CARTER: Thank you, Madam Chairman. I
25 just wanted to make sure the staff is aware that the sense of

1 the Commission is that we want to be able to monitor this
2 process. Notwithstanding the contract, we want to be able to
3 monitor this on an ongoing basis annually so that you get the
4 flavor for what we're trying to say here for oversight. Is
5 there a problem with that?

6 MS. BENNETT: Absolutely not. And if you would so
7 desire to include that in your recommendation, it would
8 certainly be something that could be reflected in the order,
9 also.

10 COMMISSIONER CARTER: Madam Chairman, at the
11 appropriate time that would be my recommendation on the
12 approval for this matter.

13 CHAIRMAN EDGAR: Commissioner Tew.

14 COMMISSIONER TEW: Perhaps I should clarify why I
15 even asked the question. And, one, I would like to see which
16 page number you are referring to, Pete, if you don't mind of
17 the contract. I know that some of it is redacted, but even if
18 a good part of it is not I would like to see what the language
19 is.

20 I'm trying to determine whether the contract calls
21 for our approval before FPL can sign the contract. I remain
22 unclear about that even after reading this language. I realize
23 that the date says by November 15th of approval from the FPSC
24 for shipper, et cetera, but is our approval necessary before
25 FPL signs the contract?

1 MR. LESTER: That is how I would interpret it, but I
2 think we have got to refer to the --

3 COMMISSIONER TEW: I guess while you look into that
4 answer, my concern is some of the parties have raised the issue
5 of whether or not the Commission must decide on whether the
6 project is approved before the utility decides to enter into a
7 contract such as this one. And I have concerns about that,
8 also. I understand the effort by management to reduce
9 uncertainty before such a decision is made, but at the same
10 time I don't believe that under normal circumstances that we
11 must decide before management decides.

12 Basically, I agree with part of AARP's statement that
13 was reflected in the prehearing order that each utility must
14 make its decisions on what is prudent for the company, and I do
15 believe that, even if they lack the ability to get approval
16 from us ahead of time. But I realize if the contract requires
17 that and the parties to a contract have determined that they
18 need to have some certainty by a regulatory agency before they
19 enter into the contract, then I guess that changes things
20 somewhat. But I wanted to see the actual language and
21 understand what it meant with respect to our decision.

22 So I guess I will ask again just to make sure I am
23 clear. Are we saying -- and this is not to suggest that I have
24 concerns about the project itself. I do believe that the
25 project is an appropriate project for fuel recovery. At the

1 same time, I did want to sort of flesh out the arguments that I
2 read in the prehearing order and heard from the parties just to
3 help me be clear.

4 MS. BENNETT: It is my understanding that this
5 agreement has already been executed, and I need to confirm
6 that, but the specific section that you are referring to is a
7 condition precedent, much like the MoBay, I believe, where the
8 parties have an opportunity to bow out of the agreement if the
9 Public Service Commission does not approve recovery through the
10 fuel clause.

11 COMMISSIONER TEW: And that approval would need to
12 come before the contract is executed?

13 MS. BENNETT: The contract is executed, as I
14 understand, and the recovery -- I mean, the ability to bow out
15 of the agreement is November 15th approval by Commission for
16 clause recovery. I might also point out that Florida Power and
17 Light can waive that condition. Sorry, the parties, they both
18 have to agree to waive that condition.

19 CHAIRMAN EDGAR: Ms. Helton.

20 MS. HELTON: As I look at Commissioner Deason, I kind
21 of hesitate to say this, but perhaps some of these questions
22 are a good reason why you all could revisit the question of
23 whether staff, we should ask for briefs from the parties on
24 this issue and staff file a written recommendation to you. And
25 I may have misspoke earlier this morning. I may have called it

1 a contract, I'm not really, quite frankly, sure what I said
2 this morning. But also, too, just so we have it clear on the
3 record, that in Witness Yupp's testimony which was filed on
4 September the 1st, 1991, he did say that as discussed in the
5 testimony of FPL Witness K. Dubin, these transportation costs
6 are recoverable through the fuel clause under existing
7 Commission policy. So I don't know if any of that sheds any
8 light, but I felt compelled to say so.

9 MS. BENNETT: And I do want to confirm this is an
10 executed agreement dated August 2nd, 2006, was the date of
11 execution.

12 CHAIRMAN EDGAR: Commissioner Tew.

13 COMMISSIONER TEW: And perhaps I should say something
14 else that I had planned to say, and that's with regard to
15 whether it is premature. I don't agree that it is premature to
16 take up something before you actually have projected costs
17 included in the filing. I think that like we have done in
18 response to separate petitions in the environmental
19 cost-recovery clause that you can determine whether something
20 is appropriate for recovery through a clause before specific
21 dollars are proposed for recovery.

22 So I'm not saying that we are doing something wrong
23 by approving this project in this time frame. I'm just saying
24 that I do have concerns about the suggestion that we need to
25 decide before necessarily. I think that if the decision is in

1 the best interest of the company, that the company can make the
2 decision to proceed without having prior approval. At the same
3 time, I don't think they are prohibited from seeking prior
4 approval and getting our thoughts on that. But as far as
5 whether we enter into a briefing schedule or not, I will leave
6 that up to the others, because I think I'm prepared to make a
7 decision today, but I will see what the others think, based on
8 what staff has said.

9 CHAIRMAN EDGAR: Commissioner Arriaga.

10 COMMISSIONER ARRIAGA: I think Commissioner Tew has
11 brought up very valid points with which I agree. And I think
12 staff is a little bit -- is hesitating a little bit and that
13 puts me a little bit uncomfortable, also. I'm used and
14 accustomed, and you've done it, to get from you definitive
15 answers by which you can stand and defend, and our briefing
16 sets our conduct, and I appreciate that much. So when I see
17 you hesitate, I worry. I would prefer this to be put off for a
18 later date, I think.

19 CHAIRMAN EDGAR: Commissioner Carter.

20 COMMISSIONER CARTER: Disregard everything I said
21 earlier.

22 Maybe I should be asking staff, really, would it be
23 better to set it up and go through a briefing process and be
24 ready for the December 8th -- I think that was the date we were
25 talking about.

1 MS. BENNETT: Yes, sir.

2 COMMISSIONER CARTER: To give all of us the comfort
3 zone to maybe step back and look at this in the proper context.
4 I mean, I don't have a problem going forward either, but I do
5 think if the issues are there and staff is maybe not as
6 exuberant as we wish them to be, maybe we could put it on that
7 schedule and have it ready and available by that December 8th
8 date.

9 CHAIRMAN EDGAR: Commissioner Deason.

10 COMMISSIONER DEASON: The question I have is the
11 record is closed, the evidence is in. What does staff hope to
12 gain by a brief? Do you just need more time to compile a
13 written recommendation? Are you looking for a certain comfort
14 level yourself?

15 I mean, the truth of the matter is that you have
16 already confirmed that these are transportation costs for gas,
17 they are the type costs that have been included for fuel
18 cost-recovery, I guess since its inception, and that your
19 initial review indicates that there are some strategic
20 advantages from a reliability standpoint and potentially from
21 an economic standpoint of engaging in this type of activity to
22 tap the resources from inland basins, and that it is always
23 going to be subject to the continuing oversight and review of
24 this Commission as is inherent within the process we referred
25 to as fuel adjustment.

1 I'm comfortable going forward. But if there is
2 something that you think that you are going to get in a brief
3 that is not -- I mean, first of all, nothing can be in the
4 brief that is not already in the record. A brief is just a
5 help to the decision-makers and to staff in formulating your
6 recommendation to just briefly summarize and reiterate points
7 that are already in the record, that's all the brief is going
8 to be.

9 And in all honesty, the record on this issue is not
10 that voluminous that it needs to be briefed. The record itself
11 is pretty succinct and on point as far as the issues that are
12 in front of us. So, I guess I need some guidance from staff as
13 to what you hope to gain by briefing this.

14 MR. McNULTY: Allow me to take a shot at that,
15 Commissioner. I think that to some extent, it would --

16 COMMISSIONER DEASON: Is your microphone on?

17 MR. McNULTY: It wasn't. Thank you.

18 Let me respond to that. I think it would be --
19 because this is a long contract, a very lengthy contract, a lot
20 of dollars involved, and somewhat unusual in the sense that we
21 are kind of doing a preapproval of a pipeline project that is
22 located outside the State of Florida, that it is a little bit
23 unusual in that respect.

24 We also have, I believe, some parties who would like
25 to submit briefs in this case. I think that was -- if legal

1 staff will confirm that, I think we had requests for briefs
2 from other parties. Is that right?

3 MS. BENNETT: No.

4 MR. McNULTY: No? Okay. I stand corrected on that.

5 But I think what the benefit here for staff would be
6 would be to lay out the argument clearly on a fairly
7 complicated subject matter so that it could be carefully
8 considered. And we can do that a little bit better, I think,
9 when we're putting it in writing. That would be essentially be
10 it. I mean, the Commission could go either way on this.

11 I think we did reopen the record in this case for
12 purposes of getting some additional discussion for the record,
13 and you heard for yourself the level of risk that the company
14 perceived there was in this case.

15 So we don't -- I guess the perception staff has is
16 that there isn't material harm that would necessarily take
17 place from us taking this, and you would have perhaps a better
18 chance at a more considered recommendation and a more
19 considered position for yourselves to take on this matter.

20 COMMISSIONER DEASON: And I guess, Madam Chairman,
21 the question is -- there is a risk associated with deferring
22 the decision, and it may be minimal, and probably is minimal.
23 But the question is -- there is a certain risk associated with
24 deferring the decision, and the question is, is the opportunity
25 to provide a written, perhaps a more -- a recommendation with

1 more clarity in it, is that needed, and is it worth the risk
2 associated with deferring the decision if we think based upon
3 the evidence that is in the record, that based upon that
4 evidence, it's a project that we believe should go forward, and
5 are we jeopardizing that? That's the question.

6 MR. McNULTY: Yes, Commissioner, and that's for the
7 Commission to decide. We have issued our recommendation, and
8 our recommendation is for approval. You would perhaps get a
9 more considered recommendation, as I stated; however, I don't
10 anticipate that our position on this issue would change.

11 CHAIRMAN EDGAR: To our legal staff, are there -- is
12 there or are there legal issues that you feel would be more
13 thoroughly fleshed out to the degree that it would help you
14 with your recommendation if we had briefs from the parties, or,
15 in the alternative, do you feel like the legal issues have been
16 -- are relatively clear?

17 MS. BENNETT: I'm going to respond by saying that if
18 you have specific questions about the contract, I would feel
19 more comfortable being able to give you a full briefing. The
20 contract is extremely long.

21 On the other hand, staff has reviewed the costs and
22 believes that the costs associated with this pipeline are
23 recoverable through the fuel clause and so have no objection to
24 those. But if you are concerned about specifics of the
25 contract, I would, yes, like time to review it and be able to

1 answer those questions fully for you.

2 CHAIRMAN EDGAR: Commissioner Tew.

3 COMMISSIONER TEW: Perhaps I can try it another way.
4 I think the wording Commissioner Deason used is probably what I
5 was struggling for. If someone could help me understand what
6 the risks are associated with the timing of our decision, then
7 that might help us.

8 MR. LESTER: I think the risk would be that they've
9 negotiated a contract with costs in there. You know, they've
10 reached an arrangement. Now, it has to be by mutual consent to
11 extend this thing, and if they lose that, if someone comes
12 along in the meantime, they may lose their place in line to get
13 the low cost.

14 COMMISSIONER TEW: So it is absolutely based on our
15 decision today. They would not be able to go forward unless --
16 at least under the time frames in this executed contract,
17 unless we decide today, or sometime before November 15th, I
18 believe.

19 MS. BENNETT: Do you want to answer that?

20 MR. LESTER: Go ahead.

21 MS. BENNETT: When we originally discussed this
22 issue -- I'm not sure that you absolutely have to approve this
23 in order for Florida Power & Light to go ahead with this
24 contract. I think Mr. Butler stated on the record that there
25 is some risk that they would not be able to agree with the

1 parties to extend the contract. I think he also said that the
2 position of Florida Power & Light as 50 percent anchor tenant
3 puts them in a more favorable position to get an extension.

4 COMMISSIONER TEW: I'll just say again that I don't
5 have any concerns about the project itself. And for the
6 reasons Commissioner Deason enumerated, perhaps it's better to
7 go forward if we're not going to get anywhere with additional
8 briefs. It's still based on what's in the record. I don't
9 have discomfort about the project itself.

10 I just -- I suppose I felt a need to clarify my
11 thinking along the lines of whether or not we needed to give
12 prior approval for a company to make a decision based on what's
13 best for that company. And I think that was something that was
14 brought up by several parties, and I thought it was worthy of
15 some discussion. But I will say that I don't have a particular
16 problem with this project.

17 CHAIRMAN EDGAR: Commissioner Tew, I'll echo some of
18 your comments. I also often have questions about the timing
19 that things come before us. But yet the project itself, from
20 the evidence that we have heard, appears to be sound, and as
21 we've heard from our staff, has been noted for direct benefits
22 for both price diversity and reliability.

23 Commissioners, I think we're in a posture where we're
24 ready to move forward. Is there further discussion?

25 Commissioner Deason.

1 COMMISSIONER DEASON: I guess a question, and this is
2 for Commissioner Arriaga. I heard your expression that you
3 would be more comfortable with having a written recommendation,
4 and that's something that -- you know, that's your expression,
5 and I sincerely take that and understand that point of view.
6 And normally, if a Commissioner indicates that he or she needs
7 additional time, that's something that I always try to allow.
8 And when I say additional time, additional time for staff to
9 formulate a written recommendation.

10 But at the same time, in this particular case, there
11 is this deadline of November the 15th, perhaps minimal risk
12 associated with going beyond that.

13 So I guess I'm looking for some more guidance from
14 you as to the necessity from your point of view -- I want to
15 give you the benefit of a written recommendation if you feel
16 that that would be helpful to you, even recognizing that there
17 is this November the 15th deadline within the contract which
18 poses some risk, albeit perhaps minimal.

19 COMMISSIONER ARRIAGA: You're a true gentleman,
20 Commissioner. Thank you so much. No, it isn't a matter of
21 life or death. The only thing that made me hesitate were the
22 questions that Commissioner Tew was asking and hesitation from
23 staff.

24 But I just also heard staff saying that even after
25 the briefs, the recommendation will be the same, so it doesn't

1 make any difference. So we can go ahead. No problem.

2 COMMISSIONER CARTER: It just -- staff, I think you
3 guys just need to be unequivocal in your recommendation. You
4 know, if you could just do that, we'll move on. I mean, we're
5 all ready and willing and able to make a decision, but the --
6 what is it? The uneasiness that came through your response
7 just kind of let me know that there may be something out there.

8 I mean, if you could just say, "Here's our
9 recommendation. Let's go with it," I think we would feel a lot
10 better with that versus, "Well, you could do this, or you could
11 not do that." That's not a staff recommendation. That's
12 right, we could do this, or could not do that. We can do this,
13 or we don't do that. You know, that's like left or right. But
14 I think if we just got an unequivocal recommendation from
15 staff, we can act on it. That's what I would like to hear.

16 MR. KEATING: Commissioner, if I could add, as I
17 heard it, I think you got from the technical staff a fairly
18 unequivocal recommendation to approve, and I think where we
19 stumbled a bit was in explaining some of the timing issues
20 related to FPL getting approval. I don't think that
21 necessarily goes, though, to the merits of whether to approve
22 or not.

23 COMMISSIONER DEASON: Madam Chairman, may I?

24 CHAIRMAN EDGAR: Commissioner Deason.

25 COMMISSIONER DEASON: I think we need to keep one

1 thing clear. Based upon my understanding, we're not being
2 asked to approve the contract. The contract is entered in
3 between two or more parties certainly capable of negotiating
4 what is in their best business interest. We look to management
5 of the regulated entity to manage the company to the benefit of
6 both their shareholders and their customers.

7 The provision that we're looking at is that there's
8 approval from the Florida Public Service Commission to recover
9 the fuel cost recovery clause costs the shipper will incur
10 pursuant to the obligations set forth in the precedent
11 agreement. And I think what we're saying is that, based upon
12 our review of the evidence in the record, and the fact that
13 historically transportation costs for gas are eligible for cost
14 recovery, that there's nothing that rises in this record to
15 indicate that this is not a wise strategic move.

16 And we're going to put that in an order, I guess,
17 language to that effect. And if that is in a form acceptable
18 to the shipper, they can accept that and go forward with the
19 contract, and if it's not, if that's not good enough for them,
20 well, then I guess they have the ability to decide not to go
21 forward with the contract. But then I think they're going to
22 find themselves in the position of explaining why it was not a
23 good project to go forward with and what are they going to do
24 to substitute gaining the benefits that were in this record as
25 to going forward with the contract.

1 We're not approving the contract, I guess is what I'm
2 saying.

3 MR. McNULTY: Commissioner, staff is in full
4 agreement with what you've just expressed.

5 CHAIRMAN EDGAR: Commissioner Carter, any other
6 comments or concerns?

7 COMMISSIONER CARTER: No. I think we've already beat
8 a dead horse to sleep on this, so I would move staff
9 recommendation.

10 COMMISSIONER DEASON: Second.

11 CHAIRMAN EDGAR: Commissioners, any further
12 discussion on the motion?

13 Seeing none, all in favor say aye.

14 (Simultaneous affirmative responses.)

15 CHAIRMAN EDGAR: Opposed? Show the motion adopted.
16 Ms. Bennett or other.

17 MR. LESTER: Pete Lester with staff. Issue 16C is,
18 "What is the appropriate calculation of fuel savings associated
19 with the addition of Turkey Point Unit 5?"

20 Staff agrees with FPL's position here. They
21 calculated the fuel savings based on the with and without model
22 for the fuel savings on Turkey Point 5, and we agree with their
23 number there.

24 CHAIRMAN EDGAR: Commissioners, any questions?

25 COMMISSIONER DEASON: Move staff's recommendation.

1 COMMISSIONER CARTER: Second.

2 CHAIRMAN EDGAR: Discussion? All in favor of the
3 motion say aye.

4 (Simultaneous affirmative responses.)

5 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

6 MS. DRAPER: Commissioners, Elisabeth Draper with the
7 staff.

8 Issue 16E reads, "Should the Commission approve
9 FP&L's proposal to levelize the residential 1,000 kilowatt-hour
10 bill by offsetting the generation base adjustment, GBRA, for
11 Turkey Point Unit 5 with the fuel savings of this new unit."

12 Staff and the parties and FP&L agree that, yes,
13 FP&L's proposal should be approved, and that is staff's
14 recommendation to you. The only thing outstanding was your
15 approval of FP&L's reduced storm cost recovery factors. You
16 have approved those earlier in this docket. That was your
17 first vote in Docket 041291. So with your approval of the
18 lower storm cost recovery factors, staff recommends that you
19 approve FP&L's proposal to levelize customer bills.

20 CHAIRMAN EDGAR: Thank you.

21 Commissioners, questions? Commissioner Arriaga.

22 COMMISSIONER ARRIAGA: I think one of the first
23 actions we took was to approve an emergency petition by FPL;
24 correct?

25 MS. DRAPER: That is correct.

1 COMMISSIONER ARRIAGA: Assume you're a regular
2 consumer somewhere in the State of Florida and you see your
3 energy bill. I'm just trying to figure out what the effects
4 are going to be on the bills. So you're going to get a change
5 in January because of the emergency motion that we just
6 approved, and then you have a levelization factor. Is that an
7 additional change? And then when Turkey Point comes into -- or
8 when securitization is issued, another change. How does this
9 -- what is the consumer going to say when they start seeing up,
10 down, up, down, on the --

11 MS. DRAPER: Commissioner, the current storm cost
12 recovery surcharge on a 1,000 kilowatt-hour residential bill is
13 \$1.65. FP&L has proposed in their emergency petition to lower
14 it to \$1.10. That's what they're expecting the factors to be
15 when they issue the actual storm recovery bonds. That's one
16 proposal.

17 The other proposal is to levelize the bill by
18 offsetting the increase that's going to occur in May as a
19 result of the generation base rate adjustment by offsetting the
20 fuel savings of that increase to keep the residential bill
21 levelized throughout the year.

22 If you're not going to approve this, the bill would
23 go down in January until April, and then in May when the base
24 rates increase, the bill would increase again.

25 COMMISSIONER ARRIAGA: And if we approve it?

1 MS. DRAPER: If you do not approve it. If you
2 approve FP&L's proposal to levelize, the bill is going to be
3 the same throughout 2007.

4 COMMISSIONER ARRIAGA: Okay. Thank you.

5 COMMISSIONER CARTER: Move staff.

6 COMMISSIONER DEASON: Second.

7 CHAIRMAN EDGAR: Discussion? All in favor of the
8 motion say aye.

9 (Simultaneous affirmative responses.)

10 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

11 We are on 17A.

12 MR. LESTER: Issue 17A is, "Are Florida Public
13 Utilities Company's purchased power costs as proposed for
14 recovery in its 2007 fuel factor and as reflected in its
15 purchased power agreements prudent and reasonable?"

16 Staff's recommendation is that for the Northwest and
17 Northeast Division, the proposed purchased power costs are
18 reasonable for cost recovery in FPUC's 2007 fuel factor.

19 This issue primarily addresses FPUC's Northeast
20 Division, its Fernandina Beach division. They have an existing
21 power supply contract with JEA that expires at the end of next
22 year. They began looking for the replacement for that in 2005,
23 and they went through an RFP process, and they were not able to
24 reach a contract with the winner of the RFP because of
25 transmission constraints. Therefore, they went back to JEA in

1 early 2006 and have reached an agreement, an embedded cost
2 agreement with JEA that starts January 1, 2007. So they're
3 forgoing the last year of their existing contract to get the
4 new long-term contract with JEA.

5 And staff believes this company has made a prudent
6 and reasonable attempt to obtain long-term power supply, firm
7 power supply, and they've done the best they can. JEA is the
8 answer. The transmission constraints prevented them from going
9 any further.

10 CHAIRMAN EDGAR: Commissioner Arriaga.

11 COMMISSIONER ARRIAGA: Did you get a chance to take a
12 look at my comments regarding the potential for increase year
13 after year after 2017? I made a comment regarding the cost of
14 this contract year after year after year.

15 MR. LESTER: Yes, sir, I do recall.

16 COMMISSIONER ARRIAGA: We're talking about the next
17 three years, but what's going to happen by 2017 with this
18 contract?

19 And I have no problem here with the contract. I'm
20 just calling to your attention a factor that may come to haunt
21 us three years from now probably, and it's going to be haunting
22 us until 2017, when we're going to be faced with rate hikes
23 because of an issue that is -- it's an issue that is
24 structural. It's the interconnection between Georgia and
25 Florida.

1 MR. LESTER: That's correct.

2 COMMISSIONER ARRIAGA: Any comments?

3 MR. LESTER: I guess my only comment is, in my
4 evaluation of this, they're really kind of stuck with JEA.
5 They don't have a lot of alternatives.

6 And they've got a -- well, they had two options.
7 They could go with an incremental cost shorter term contract or
8 a longer term contract for embedded cost, which is a lower
9 cost, and so they went with that longer term option.

10 And they really -- I mean, it is what it is. They're
11 subject to the changes in fuel prices for JEA and things like
12 that, so it certainly could escalate beyond just the three
13 years they've presented.

14 COMMISSIONER ARRIAGA: Is there any possibility that
15 in the transmission planning process we take a look at this and
16 take the initiative to take this issue to the transmission
17 planning --

18 MR. LESTER: Let me defer that to Mr. Haff.

19 MR. HAFF: Commissioner, of course, issues with the
20 interface have come up before, as you're aware. In this
21 instance, there is no interface capability for utilities other
22 than those that own the interface. That's the City of
23 Tallahassee, JEA, FPL, and Progress Energy. Other utilities
24 may use the interface for nonfirm transactions, but the
25 utilities, what they're not using, own the rest for emergencies

1 such as loss of largest unit. So in this instance, FPUC was
2 unable to gain firm transmission interface of what's currently
3 available.

4 To get to your question, to take advantage of the
5 winning bid would have required the construction of new
6 transmission, and that is something, of course, that would be
7 addressed through the FRCC transmission planning process.

8 COMMISSIONER ARRIAGA: One last question, please.
9 And my question is, can we make a commitment to take this issue
10 as the Commission or as staff to the FRCC and discuss it?
11 Because the --

12 MR. HAFF: Certainly. We can bring this --

13 COMMISSIONER ARRIAGA: I'm sorry. The alternative
14 is, either the consumer is going to be choked or the company is
15 going to be choked. We need to find a solution.

16 MR. HAFF: We can certainly address this on the
17 staff level at the FRCC.

18 COMMISSIONER ARRIAGA: Thank you.

19 COMMISSIONER DEASON: I have a question.

20 CHAIRMAN EDGAR: Commissioner Deason.

21 COMMISSIONER DEASON: The escalation factors in the
22 long-term contract that's before us, are those typical
23 escalation type factors you see in typical long-term purchase
24 contracts, or is there something out of the ordinary within
25 this contract?

1 MR. LESTER: I don't believe there's anything out of
2 the ordinary. They have a fuel -- they're subject to the same
3 fuel cost adjustment clause that JEA has for all its customers.

4 COMMISSIONER CARTER: Move staff.

5 COMMISSIONER DEASON: Second.

6 CHAIRMAN EDGAR: Commissioners, we have a motion and
7 a second. Any discussion?

8 Commissioner Arriaga.

9 COMMISSIONER ARRIAGA: Commissioner Deason, one of
10 the things that moved me and concerned me regarding this was
11 that to me, out of the ordinary is the fact that the company is
12 paying now \$59, I think it's per thousand kilowatts, and it's
13 going to have to pay by 2009 103. I'm wondering what's going
14 to happen in 2012, 2015. So there is an unusual escalation
15 factor there. It's quite expensive.

16 COMMISSIONER DEASON: Well, if I may, part of that is
17 the fact that the base from which you're starting is so low, it
18 was such a favorable contract that was negotiated years ago,
19 and to the benefit of FPUC's management and then to the benefit
20 of the customers. That's something that is going to expire,
21 and it's going to go closer to a market rate, so there's a
22 drastic increase there.

23 I'm not so sure -- what I understand staff is saying,
24 though, is that once you get to a more market rate, once we
25 make that transition to the new long-term contract, from that

1 point forward, it's going to increase, but it's going to be
2 increases subject to the more typical escalation type factors
3 we see tied to cost of gas and perhaps other things.

4 Are there any other escalation factors in there
5 beyond that?

6 MR. LESTER: That's my understanding, that basically
7 they're subject to the fuel cost clause of JEA.

8 CHAIRMAN EDGAR: Further discussion? All in favor of
9 the motion say aye.

10 (Simultaneous affirmative responses.)

11 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

12 We are on 18B.

13 MR. LESTER: Issue 18B is, "Has Gulf Power Company
14 adequately mitigated the price risk of natural gas and
15 purchased power for 2005 through 2007?"

16 Staff's recommendation is yes. Gulf has adequately
17 mitigated the price risk for natural gas and purchased power
18 for 2005 through September 1, 2006. Staff will continue to
19 monitor Gulf's hedging activity for the future.

20 And once again, Commissioners, they've presented that
21 their objective is to minimize price volatility. It's not to
22 speculate. When you deal with volatile prices of natural gas,
23 there are going to be times when you have gains and times when
24 you have losses. Overall, the hedging program provides some
25 cost stability and price stability for the company, and we

1 believe that produces customer benefits.

2 CHAIRMAN EDGAR: Commissioners, any questions?

3 COMMISSIONER CARTER: Move staff.

4 COMMISSIONER DEASON: Second.

5 CHAIRMAN EDGAR: All in favor of the motion say aye.

6 (Simultaneous affirmative responses.)

7 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

8 19C.

9 MR. LESTER: Issue 19C is, "Has TECO adequately
10 mitigated the price risk for natural gas and purchased power
11 for 2005 through 2007?"

12 Staff's recommendation is yes. Tampa Electric
13 Company has adequately mitigated the price risk for natural gas
14 and purchased power through September 1, 2006. Staff will
15 continue to monitor TECO's hedging activity for the future.

16 And once again, this company, as all the others have,
17 has stated that their objective is to minimize price
18 volatility. They are not in the market speculating. Given the
19 uncertainty of gas prices and the unpredictability, there will
20 be times when they have gains or losses. But overall, we
21 believe it produces price stability.

22 COMMISSIONER CARTER: Move staff.

23 COMMISSIONER DEASON: Second.

24 CHAIRMAN EDGAR: All in favor of the motion say aye.

25 (Simultaneous affirmative responses.)

1 CHAIRMAN EDGAR: Opposed? Show the motion adopted.
2 We are on Issue 2.

3 MR. McNULTY: Commissioners, now we're moving into
4 the issues that deal with the actual total true-up cost
5 recovery amounts as well as the projected total amounts. And
6 so we'll start with Issue 2, what are the appropriate
7 estimated/actual fuel adjustment true-up amounts for the period
8 January 2006 through December 2006.

9 This item has been stipulated for all utilities
10 except for Florida Power & Light. It was not stipulated for
11 Florida Power & Light because we had not had a decision on the
12 issue regarding the sabotage of Turkey Point Unit 3 for Florida
13 Power & Light and that outage that took place. As you just
14 decided, you determined that those dollars would remain in, so
15 we can agree with the company's number on this. The company
16 states a number of \$216,430,642 overrecovery.

17 CHAIRMAN EDGAR: Commissioners?

18 COMMISSIONER DEASON: Move staff's recommendation.

19 COMMISSIONER CARTER: Second.

20 MR. McNULTY: Okay. Issue 3 is --

21 CHAIRMAN EDGAR: Hold on. We still need to vote on
22 it.

23 MR. McNULTY: I'm sorry.

24 CHAIRMAN EDGAR: That's okay. Commissioners, all in
25 favor it motion say aye.

1 (Simultaneous affirmative responses.)

2 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

3 Mr. McNulty.

4 MR. McNULTY: All right. Sorry for jumping the gun
5 on that.

6 Issue 3 is simply a total of the fuel true-up
7 amounts, both for 2005 and 2006. And on that issue, again we
8 had FPL as not having yet been stipulated. The others have
9 been stipulated. And it is essentially a fallout of that very
10 same issue that we talked about with Turkey Point Unit 3. In
11 that regard, the number that we have that we accept at this
12 time for Florida Power & Light is \$91,006,958 underrecovery.

13 CHAIRMAN EDGAR: Commissioners?

14 COMMISSIONER DEASON: Move staff.

15 COMMISSIONER CARTER: Second.

16 CHAIRMAN EDGAR: All in favor of the motion say aye.

17 (Simultaneous affirmative responses.)

18 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

19 We're on Item 5.

20 MR. McNULTY: Okay. For Issue 5 -- Issue 5 is, "What
21 are the appropriate projected net fuel and purchased power cost
22 recovery amounts to be included in the recovery factor for the
23 period January 2007 through December 2007?" And this item was
24 stipulated for all utilities with the exception of Florida
25 Power & Light, FPUC, and Gulf Power Company.

1 Now that we have concluded our review for Florida
2 Power & Light Turkey Point 3 and we have concluded our review
3 of 16E levelizing FPL's bill, we can consider FPL's number as
4 they have presented for Issue 5, and that number is
5 \$6,106,351,832. Please keep that in mind. That's the FPL
6 number.

7 Then we have for FPUC, because we have stipulated or
8 we have reached a decision on FPUC and the appropriateness of
9 that purchased power contract for cost recovery, we can
10 stipulate -- excuse me. I can present the numbers to you for
11 FPUC. For FPUC Marianna, the numbers are \$13,920,307, and the
12 number for Fernandina Beach is \$22,203,752. So that's what
13 staff is recommending for Issue 5 for FPUC.

14 Now we get to Gulf Power Company, and we have a
15 little bit of an unusual circumstance which has arisen. As I
16 mentioned earlier, we withdrew our stipulation on Gulf Power,
17 and I would like to present a recommendation to you now on that
18 for Issue 5.

19 Commissioners, regarding the appropriate 2007 cost
20 recovery amounts in this issue, staff recommends the Commission
21 disallow \$98,402 in Gulf's stated 2007 fuel and purchased power
22 costs related to hedging administration costs, or O&M hedging,
23 as it has been alternatively identified in this proceeding.
24 The staff issue has not been separately identified because
25 staff did not become aware of it until the point of

1 cross-examination of witnesses in the hearing.

2 Staff notes that Gulf Power has requested the
3 recovery of the said costs, but staff believes these costs are
4 not allowable under Commission Order No. PSC-02-1484-FOF-EI in
5 Docket No. 011605-EI, which has been referenced in this
6 proceeding as the hedging order.

7 In essence, staff believes the recovery of the costs
8 for hedging-related O&M costs for the investor-owned electric
9 utilities are limited to such costs incurred through
10 December 31, 2006.

11 And now, if you'll allow me, I'll just go ahead and
12 read a passage from that order. I'm reading from page 6 of the
13 order. And I believe we have copies of the order if you would
14 like to have that in your possession as we go through it.

15 Okay. And I am looking at page 6, paragraph 4. And
16 the first sentence in this order I would like to take liberty
17 to go ahead and read in to give you an understanding of staff's
18 concern. "Each investor-owned electric utility may recover
19 through the fuel and purchased power cost recovery clause
20 prudently incurred incremental operating and maintenance
21 expenses incurred for the purpose of initiating and/or
22 maintaining a new or expanded nonspeculative financial and/or
23 physical hedging program designed to mitigate fuel and
24 purchased power price volatility for its retail customers each
25 year until December 31, 2006, or the time of the utility's next

1 rate proceeding, whichever comes first."

2 Now, based on that passage which I have just read
3 from the order, staff does not believe the requested costs are
4 recoverable. The utility made no specific effort to justify
5 these costs in testimonies filed in this proceeding. And as
6 well, I might mention, Tampa Electric Company stated on the
7 record in this proceeding that the utility, TECO, specifically
8 did not seek to recover these costs because such recovery was
9 not allowed under the order I just referenced.

10 Thus, staff recommends these costs be removed from
11 the total costs requested for this utility for hedging
12 administration costs.

13 For this issue, then the appropriate projected net
14 fuel and purchased power cost recovery amount for Gulf Power to
15 be included in the company's recovery factors in 2007 as shown
16 in the Prehearing Order should be reduced by \$98,402.

17 So now we have -- I just want to go back. That was a
18 long discourse. I want to refresh your memory that we have
19 three numbers that I've talked about. I've talked about FPL's,
20 FPUC's, and Gulf's. Let's not forget about the first two as we
21 discuss the other. I'll just put that out there.

22 MR. KEATING: Commissioners, with respect to the Gulf
23 Power issue -- and this is something I had a chance to talk
24 about with Mr. McNulty during our break. As an alternative to
25 disallowing that amount at this time -- and I'll say in advance

1 that I do agree with Mr. McNulty's reading of the stipulation.

2 But this was not identified as an issue prior to the
3 hearing, and we have some limited testimony on it. It probably
4 can be dealt with as a purely legal issue on interpretation of
5 the stipulation and addressed now, but I did want to point out
6 that Gulf Power has really not had the opportunity to respond
7 to any great extent and to suggest any other reading of the
8 contract that they may have.

9 So an alternative approach is to consider in a
10 subsequent proceeding to address the issue and allow Gulf that
11 opportunity, and in the meantime, either disallow or allow the
12 costs pending the results of that proceeding.

13 Again, I concur with the reading of the stipulation
14 that Mr. McNulty gave. So I would -- again, it's at your
15 discretion as to whether -- if you chose that alternative,
16 whether to allow the cost or not at this time.

17 CHAIRMAN EDGAR: Mr. Keating, when you say in a
18 subsequent proceeding, which subsequent proceeding are you
19 referring to?

20 MR. KEATING: I didn't have any particular one in
21 mind. I don't think it would necessarily need to be formal. I
22 think it's something that the staff could continue to talk
23 about with Gulf Power, considering this was an issue that just
24 got brought to our attention at this hearing, and come back to
25 you perhaps with a PAA recommendation. I don't want to suggest

1 a formal proceeding necessarily.

2 CHAIRMAN EDGAR: Commissioner Carter.

3 COMMISSIONER CARTER: I would move the staff
4 recommendation less the amount for Gulf Power, the 98,000.

5 CHAIRMAN EDGAR: Commissioner Arriaga.

6 COMMISSIONER ARRIAGA: Not to contradict Commissioner
7 Carter, but I think that we should allow the company to give an
8 explanation, come back at some PAA agenda sometime. Like we've
9 always said, we like to give people the opportunity to talk and
10 explain their points of view. And I think if they did come up
11 and ask you for time to explain, I think we should allow it.
12 Did they do that?

13 MR. KEATING: During the course of the hearing, I've
14 had some discussions with them off the record as to how they
15 viewed the contract, or how they viewed -- I'm sorry. I said
16 contract. The stipulation. I don't want to -- I don't think I
17 should convey that here. I think it would be more proper in
18 another setting for them to let us know.

19 CHAIRMAN EDGAR: Commissioner Tew.

20 COMMISSIONER TEW: This is a question for
21 Mr. McNulty. I just want to better understand why the 98,000
22 doesn't comply with paragraph 4, so can you walk me through how
23 their request doesn't match up with paragraph 4? I know that
24 you went through it in great detail, but I still didn't quite
25 catch how it didn't comply.

1 MR. McNULTY: Okay. I think I can. In Schedule E1
2 of the testimony filed by Rhonda Martin of September 1, 2006,
3 on line 5, she identifies hedging administration costs which
4 are inserted into their total costs for cost recovery, the
5 amounts we're considering for this issue, and these hedging
6 administration costs are the O&M costs that are considered
7 here.

8 And basically, as I read this passage from the order,
9 it's saying that if -- for any utility, any investor-owned
10 utility in Florida that incurs these costs, that these costs
11 are recoverable as they are incurred through a certain point in
12 time or until the time of their next rate case. And so just
13 from the very simple straightforward reading of this, we are
14 saying that it's recoverable up until that point in time.

15 Now, I could also mention to you that I was
16 considering when I made my recommendation another order that
17 has been discussed here today, and that is Order 14546, and
18 this is sort of the seminal order for the fuel cost recovery
19 clause. And it specifically is -- you know, as has been
20 discussed, and I think everybody has heard this already today,
21 but it bears repeating perhaps. On page 5 of 14546, it states
22 that operations and maintenance expenses at generating plants
23 or system storage facilities are the types of costs that are
24 more appropriately considered in the computation of base rates.

25 So I look at what this order does, the hedging order,

1 as a clear indication of we have taken a divergence from our
2 normal procedures for what's going to be recoverable through
3 the fuel clause to allow for this type of event, type of O&M
4 hedging cost recovery for a limited period of time.

5 And I'm not going to try to interpret the order more
6 than that. Staff was involved in the discussions that led to
7 the stipulation in the hedging docket. It probably wouldn't be
8 appropriate, unless you think it is necessary to do so, to talk
9 about what happened and the considerations that happened then.

10 But I think if you take the plain reading of this
11 order, I think it states that these costs are recoverable only
12 up to a certain point in time. That means that it's not
13 recoverable after that point in time. The company has put it
14 in their 2007 fuel cost recovery request, and we don't see a
15 basis for it in our orders before the Commission. At least
16 that's technical staff's view. You know, there's different
17 ways of looking at how to approach this.

18 CHAIRMAN EDGAR: Commissioners, we have a motion on
19 before us.

20 COMMISSIONER CARTER: Well, I'm not clairvoyant,
21 Madam Chairman, but I certainly didn't hear a second to my
22 motion.

23 COMMISSIONER DEASON: Before he with -- just a
24 second. Let me ask a question, if that's okay.

25 CHAIRMAN EDGAR: Commissioner Carter, as always, I

1 appreciate your eagerness and enthusiasm. I think we're all
2 just tired.

3 COMMISSIONER DEASON: It's staff's -- it's your
4 recommendation to disallow it based upon the plain reading of
5 the order, the settlement which is adopted by the order which
6 you just referenced. There perhaps is an alternative viewpoint
7 associated with that. We just don't have the benefit of that
8 because it was not identified as an issue. Is that basically
9 where we find ourselves?

10 MR. McNULTY: Yes.

11 COMMISSIONER DEASON: Okay. And I believe the motion
12 was to disallow the identified O&M, which was some \$98,000; is
13 that correct?

14 MR. McNULTY: Yes, \$98,402.

15 COMMISSIONER DEASON: If we take that action today,
16 is that subject to true-up or modification? If for some reason
17 when Gulf has the ability to argue a different viewpoint in
18 front of the Commission, if the Commission is inclined to agree
19 with that, can that amount be reinstated, or is it gone
20 forever?

21 MR. McNULTY: I'll look to our attorneys to answer
22 that question.

23 MR. KEATING: I think you could in your ruling if you
24 so chose make it subject to reinstatement upon later proof by
25 Gulf Power. I think if you went strictly with what Mr. McNulty

1 has recommended, I don't think that was what was contemplated,
2 but I think you have the discretion to do so.

3 COMMISSIONER DEASON: Madam Chairman, my concern is
4 that since it was not identified as an issue and we don't have
5 the benefit of it being identified as an issue with all
6 viewpoints being expressed and perhaps evidence taken, that it
7 may be premature to disallow it if that disallowance is not
8 subject to a further look and reinstatement if it can be shown
9 that it's the appropriate step to take.

10 So I'm inclined to second the motion if that's within
11 the motion, so I guess I ought to defer to Commissioner Carter.

12 CHAIRMAN EDGAR: Commissioner Carter.

13 COMMISSIONER CARTER: Thank you, Madam Chairman. I
14 would modify my motion to incorporate the brilliance of my
15 senior colleague, Commissioner Deason.

16 COMMISSIONER DEASON: And with that, I can second the
17 motion, if legal feels confident that if we put that language
18 in the order that's going to disallow it subject to a further
19 review, that that's something that we can do at this point. If
20 you're comfortable with that, I can second the motion.

21 MR. KEATING: Yes, I am.

22 COMMISSIONER DEASON: I second the motion.

23 COMMISSIONER CARTER: That's fine.

24 CHAIRMAN EDGAR: Okay. Are we all clear on the
25 motion? And in an attempt to make sure and hopefully to not

1 muddy it further, let me try.

2 My understanding of the motion and the second is to
3 adopt the staff recommendation with the slight modification --
4 the staff recommendation on the numbers they have given us for
5 FPL, FPUC and Gulf, with the understanding that the number for
6 Gulf will also include the disallowance of 98,402, with the
7 additional modification that that amount can be subject to
8 true-up and further review.

9 Okay? Okay. Further discussion?

10 Commissioner Tew.

11 COMMISSIONER TEW: Not to complicate things as badly
12 as I did a minute ago, but I would just say I agree with
13 stating our intent in the order.

14 But I would add a side note that I would have
15 expected that Gulf, given that decision, would have had the
16 ability to bring back an issue like that next time, under the
17 normal course of how the fuel clause operates, to say that we
18 want the Commission to consider this \$98,000 based on what to
19 our testimony will be this time. I guess I just want
20 clarification that that would have been a possibility for them
21 in the normal course of the way the fuel clause recovery works.

22 MR. KEATING: I'm not sure, because I think you would
23 have been disallowing the expense on the basis that, as
24 presented by Mr. McNulty, the hedging order or the stipulation
25 didn't permit expenses, those types of expenses to be recovered

1 after a certain point. I don't think it would be analogous to
2 the typical amounts they get when they go through the true-up
3 process necessarily. I'm not sure you would be able to come
4 back if you have a final order saying no, these aren't
5 recoverable because of the terms of the stipulation.

6 COMMISSIONER TEW: I appreciate that clarification.
7 Thank you.

8 CHAIRMAN EDGAR: Further discussion?

9 Okay. All in favor of the motion say aye.

10 (Simultaneous affirmative responses.)

11 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

12 We are on Issue 6.

13 MR. McNULTY: Commissioner, Issue 6 is simply a
14 fallout of all issues because we have not today made the
15 adjustments that were being considered, the fallout for all
16 companies on factors for levelized fuel cost on Issue 6.

17 CHAIRMAN EDGAR: Commissioners, any questions?

18 COMMISSIONER DEASON: Move staff.

19 COMMISSIONER CARTER: Second.

20 CHAIRMAN EDGAR: All in favor of the motion say aye.

21 (Simultaneous affirmative responses.)

22 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

23 We're on Issue 8.

24 MR. McNULTY: Commissioners, the same effect on Issue
25 8. For Issue 8, you are considering the appropriate fuel cost

1 recovery factors for each rate class and delivery voltage level
2 class adjusted for line losses. And these numbers too are a
3 fallout of previous decisions made today.

4 COMMISSIONER DEASON: Move staff.

5 COMMISSIONER CARTER: Second.

6 CHAIRMAN EDGAR: All in favor of the motion say aye.

7 (Simultaneous affirmative responses.)

8 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

9 Commissioners, per the discussion before the break,
10 Issues 21 and 22 related to the GPIF will be briefed according
11 to the schedule that was laid out and will come back before us
12 at a continuation of this proceeding on December 8th. And that
13 brings us to Issue 35.

14 MR. WINDHAM: Issue 35 is, "What are the
15 appropriate" --

16 CHAIRMAN EDGAR: You need to hit your microphone, I
17 think.

18 MR. WINDHAM: Issue 35 is, "What are the appropriate
19 credits for transmission allowances for power sales for each
20 investor-owned electric utility for the years 2005 through
21 2007?"

22 Staff and FPL are in agreement that the correct
23 amounts are as shown in the FPL position on this issue in the
24 Prehearing Order. And I can read those numbers for you if you
25 like, but they're shown in the Prehearing Order.

1 COMMISSIONER DEASON: I can move staff's
2 recommendation.

3 COMMISSIONER CARTER: Second.

4 CHAIRMAN EDGAR: Any discussion? All in favor of the
5 motion say aye.

6 (Simultaneous affirmative responses.)

7 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

8 We're on Issue 38D.

9 MS. DRAPER: Commissioners, Issue 38D reads, "Should
10 CILC-1 load control on nonfirm demands be included in
11 developing capacity cost recovery factors?"

12 This issue deals with the calculation of the capacity
13 cost recovery factors for FP&L's CILC rate. This rate is an
14 optional nonfirm rate for commercial/industrial customers that
15 agree to let FP&L control or interrupt at least a portion of
16 their load during periods of capacity shortage.

17 In return for taking service under a nonfirm rate,
18 CILC customers receive an incentive or a discount in their base
19 rates. Those incentives are recovered from all ratepayers
20 through the conservation cost recovery clause. Customers have
21 the option to install backup generation, but it is not a
22 requirement to take service under this rate.

23 FEA witness Dr. Goins proposed that the
24 demand-related production costs for FP&L's CILC customers be
25 excluded in the calculation of the capacity cost recovery

1 factors because CILC customers do not cause FP&L to incur
2 demand-related purchased power costs. Dr. Goins also testified
3 that FEA customers spend millions to install backup generation.

4 FP&L witness Dr. Morley testified that FEA's proposal
5 is unfair and inconsistent with Commission rules. The
6 magnitude of the discount for nonfirm service must meet the
7 requirements of Rule 25-6.0438, one of which is a determination
8 of cost-effectiveness. Cost-effective means that the benefits
9 to the ratepayers must exceed the cost to the ratepayers.

10 CILC customers are compensated for any interruptions
11 through discounted base rate charges that reflect the avoided
12 cost benefits that these nonfirm customers provide to the
13 ratepayers.

14 Commission Rule 25-6.0438 requires that nonfirm load
15 be maintained at cost-effective levels. FP&L's most recent
16 cost-effectiveness analysis as provided in response to FEA's
17 first set of interrogatories shows a benefit-cost ratio for the
18 CILC rate of 1.02. Dr. Morley testified that a benefit-cost
19 ratio close to 1 means that the rate is only marginally
20 cost-effective.

21 The non-CILC ratepayer is already paying for the CILC
22 base rate incentive. If the demands of the CILC customers were
23 excluded in calculating the capacity cost recovery factors,
24 this additional discount of 16.3 million will then also be
25 recovered from the remaining ratepayers, including residential

1 customers and AARP members, further reducing the cost-benefit
2 ratio because there's no corresponding increase in benefits.

3 The purpose of the capacity clause is to allow the
4 utility to recover the capacity component of purchased power
5 costs. In order to supply the least cost power to all
6 customers, nonutility generation is purchased when it is less
7 costly than power generated by the utility. Dr. Morley stated
8 that these transactions take place to serve all load, including
9 CILC customers.

10 Based upon the evidence presented at the hearing,
11 staff recommends to you that it is appropriate to include the
12 full demand responsibility of the CILC customers in determining
13 CILC capacity cost recovery factors.

14 CHAIRMAN EDGAR: Commissioners, any questions?

15 COMMISSIONER DEASON: A quick question. So the
16 essence of your recommendation is that there's no change from
17 existing policy for the treatment of the capacity costs;
18 correct?

19 MS. DRAPER: No.

20 COMMISSIONER DEASON: No change?

21 MS. DRAPER: No change.

22 COMMISSIONER DEASON: Move staff's recommendation.

23 COMMISSIONER CARTER: Second.

24 CHAIRMAN EDGAR: Discussion? All in favor of the
25 motion say aye.

1 (Simultaneous affirmative responses.)

2 CHAIRMAN EDGAR: Opposed? Show the motion adopted.
3 Issue 32.

4 MR. McNULTY: Commissioners, Issue 32 is, "What are
5 the appropriate projected net purchased power capacity cost
6 recovery amounts to be included in the recovery factor for the
7 period January 2007 through December 2007?"

8 Staff's recommendation is as follows: Florida Power
9 & Light, \$591,052,906; Gulf Power Company, \$31,663,162;
10 Progress Energy Florida, \$393,207,153; and Tampa Electric
11 Company, \$53,038,052.

12 CHAIRMAN EDGAR: Commissioners, any questions?

13 COMMISSIONER DEASON: Move staff.

14 COMMISSIONER CARTER: Second.

15 CHAIRMAN EDGAR: Discussion? All in favor of the
16 motion say aye.

17 (Simultaneous affirmative responses.)

18 CHAIRMAN EDGAR: Opposed? Show the motion adopted.
19 We are on Issue 33.

20 MS. DRAPER: Commissioners, Issue 33 is the last
21 remaining fallout issue, the appropriate capacity cost recovery
22 factors.

23 Staff and the company agree on all the factors, and
24 based on your vote on the FP&L issue previously, we're in
25 agreement with FP&L too, and staff recommends that you approve

1 all the capacity cost recovery factors for the four IOUs as
2 stated in the Prehearing Order.

3 COMMISSIONER DEASON: Move staff.

4 COMMISSIONER CARTER: Second.

5 CHAIRMAN EDGAR: Discussion? All in favor of the
6 motion say aye.

7 (Simultaneous affirmative responses.)

8 CHAIRMAN EDGAR: Opposed? Show the motion adopted.

9 Commissioners, I believe we have worked our way
10 through all of the issues that were before us in these three
11 dockets.

12 Ms. Bennett, are there any other matters?

13 MS. BENNETT: There are no other matters. And I did
14 want to remind you that there will be a continuance of this
15 hearing until December the 8th, and I'm not certain what time
16 that has been scheduled.

17 CHAIRMAN EDGAR: Time to be determined. So we will
18 not be adjourning. We will be going on an extended break.

19 COMMISSIONER DEASON: But we've still got to come to
20 work tomorrow, though; right?

21 CHAIRMAN EDGAR: However, I look forward to seeing
22 all of you, many of you here tomorrow morning at 9:30 for a
23 different proceeding. And usually when I say we're done,
24 there's one more comment, so I'm going to ask again, is there
25 one more comment before I say we're done?

1 Commissioner Carter.

2 COMMISSIONER CARTER: Thank you, Madam Chairman.

3 Notwithstanding the fact that we are not adjourned on this, the
4 matters that we agreed upon and the stipulations and all can go
5 forward?

6 CHAIRMAN EDGAR: Yes, yes, yes. Yes, sir.

7 Any other comments or questions for the good of the
8 order?

9 All right. Then I thank everyone for their patience.
10 We had a lot of things to work through these three days. Our
11 staff did a wonderful job, and the parties did a fantastic job
12 of presenting their cases and working with one another and
13 working with us. And so on that note, we are done for the day,
14 and I hope everyone has a good evening.

15 (Proceedings recessed at 4:00 p.m.)

16

17

18

19

20

21

22

23

24

25

1 STATE OF FLORIDA)

2 : CERTIFICATE OF REPORTERS

3 COUNTY OF LEON)

4

5 WE, JANE FAUROT, RPR, and MARY NEEL, RPR, do hereby
6 certify that the foregoing proceeding was heard at the time and
place herein stated.

7 IT IS FURTHER CERTIFIED that we stenographically
8 reported the said proceedings; that the same has been
transcribed under our direct supervision; and that this
9 transcript constitutes a true transcription of our notes of
said proceedings.

10 WE FURTHER CERTIFY that we are not a relative,
11 employee, attorney or counsel of any of the parties, nor are we
a relative or employee of any of the parties' attorneys or
12 counsel connected with the action, nor are we financially
interested in the action.

13

14 DATED THIS 10th DAY OF NOVEMBER, 2005.

15

16

17 JANE FAUROT, RPR
FPSC Official Commission
Reporter
18 (850) 413-6732

MARY NEEL, RPR

19

20

21

22

23

24

25

