BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

DOCKET NO. 100001-EI

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

VOLUME 1

Pages 1 through 144

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.

PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN ART GRAHAM COMMISSIONER LISA POLAK EDGAR COMMISSIONER NATHAN A. SKOP COMMISSIONER RONALD A. BRISÉ
DATE:	Monday, November 1, 2010
TIME:	Commenced at 9:30 a.m. Concluded at 11:36 a.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	JANE FAUROT, RPR Official FPSC Reporter (850) 413-6732

APPEARANCES:

BETH KEATING, ESQUIRE, Akerman Law Firm, 106 East College Avenue, Suite 1200, Tallahassee, Florida 32301, appearing on behalf of Florida Public Utilities Company.

JAMES D. BEASLEY, ESQUIRE, and J. JEFFRY WAHLEN, ESQUIRE, Ausley Law Firm, Post Office Box 391, Tallahassee, Florida 32302, appearing on behalf of Tampa Electric Company.

JEFFREY A. STONE, ESQUIRE, RUSSELL A. BADDERS, ESQUIRE, and STEVEN R. GRIFFIN, ESQUIRE, Beggs & Lane Law Firm, Post Office Box 12950, Pensacola, Florida 32591-2950, appearing on behalf of Gulf Power Company.

JAMES W. BREW, ESQUIRE, and F. ALVIN TAYLOR, ESQUIRE, c/o Brickfield Law Firm, 1025 Thomas Jefferson Street, NW, Eighth Floor, West Tower, Washington D.C., 20007 appearing on behalf of White Springs Agricultural Chemicals, Inc.

KAREN S. WHITE, ESQUIRE, Barnes Drive, Suite 1, Tyndall AFB, Florida 32403-5319, appearing on behalf of Federal Executive Agencies.

JON C. MOYLE, JR., ESQUIRE, and VICKI GORDON KAUFMAN, ESQUIRE, Keefe Law Firm, 118 North Gadsden Street, Tallahassee, Florida 32301, appearing on behalf of Florida Industrial Power Users Group.

J.R. KELLY, ESQUIRE and CHARLIE BECK, ESQUIRE, Office of Public Counsel, c/o The Florida Legislature, 111 W. Madison St., Room 812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of Florida.

JOHN T. BURNETT, ESQUIRE, and DIANNE M. TRIPLETT, ESQUIRE, Progress Energy Service Co., LLC, Post Office Box 14042, St. Petersburg, Florida 33733-4042, appearing on behalf of Progress Energy Service Co., LLC.

PATRICK K. WIGGINS, ESQUIRE, Patrick K. Wiggins, P.A., Post Office Box 1657, Tallahassee, Florida 32302 appearing on behalf of the Association for Fairness in Rate Making (AFFIRM).

LISA BENNETT, ESQUIRE and ERIK SAYLER, ESQUIRE, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Florida Public Service Commission Staff.

MARY ANNE HELTON, Deputy General Counsel, Florida Public Service Commission, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, Advisor to the Florida Public Service Commission.

I N D E X

	PAGE NO.
OPENING STATEMENTS	
By Mr. Burnett	10
By Mr. Badders	13
By Mr. Beasley	13
By Ms. Keating	13
By Mr. Brew	14
By Mr. Moyle	14
By Mr. Beck	20
By Ms. White	22

WITNESSES

NAME:	PAGE NO.
WILL GARRETT	
Prefiled Testimony Inserted	29
MARCIA OLIVIER	
Direct Examination by Ms. Triplett	43
Prefiled Testimony Inserted	25
Cross Examination by Mr. Brew	62
Cross Examination by Mr. Moyle	65
Cross Examination by Mr. Sayler	69
JOSEPH McCALLISTER	
Direct Examination by Mr. Burnett	73
Prefiled Testimony Inserted	75
Cross Examination by Mr. Moyle	82
Cross Examination by Mr. Sayler	100
ROBERT M. OLIVER	
Prefiled Testimony Inserted	117
CURTIS D. YOUNG	
Prefiled Testimony Inserted	131
MARK CUTSHAW	
Prefiled Testimony Inserted	137

EXHIBITS

NUMBER:		ID.	ADMTD.
(REPORTER NOTE: Description of Exhibits 1 through 64 contained in Comprehensive Exhibit List.)			
1	Comprehensive Exhibit List	24	24
35-64		24	24
65,66		26	26
67		26	
2-34		26	
2-4			28
7-9			115
10-11			116
12-14			130

P R O C E E D I N G S

CHAIRMAN GRAHAM: Now, here's when the wheels fall off the wagon. Okay. Let's open Docket 100001.

Staff, are there any preliminary matters?

MS. BENNETT: Yes, Mr. Chairman and Commissioners. We do have several stipulations in the prehearing order that is before you. I believe all of the parties have agreed to the stipulations because they were agreed to at the Prehearing Conference, and I would suggest that the Commission can make a bench decision on the stipulated issues in this Prehearing Order.

CHAIRMAN GRAHAM: Has everybody seen the stipulations?

MS. BENNETT: Staff is available for questions to the Commissioners, if they have any on any of the items.

CHAIRMAN GRAHAM: I guess we are back to another bench decision.

Commissioner Edgar.

COMMISSIONER EDGAR: Thank you, Mr. Chairman. I would move that we approve the proposed stipulations, recognizing that there are other issues that we will be hearing testimony on.

COMMISSIONER SKOP: Second.

CHAIRMAN GRAHAM: We will move the proposed stipulations, and it has been seconded. Any further discussion on the proposed stipulation?

Seeing none, all in favor say aye.

(Vote taken.)

CHAIRMAN GRAHAM: Those opposed?

By your action you have approved those stipulations.

MS. BENNETT: Commissioners, we note that many of the issues have been stipulated, and some of the witnesses have been excused, as well as some of the attorneys already from the proceeding, but we suggest that the Commission take up the witnesses, even the excused witnesses' testimony and exhibits in the order they appear in the prehearing order. For those excused witnesses, cross-examination has been waived.

Also, I would like to note that there appear to be no objections, and I might want to confirm that, but to the Comprehensive Exhibit List being entered into the record and to staff's exhibits, Exhibits 35 to 64, but we can address that once the record is opened.

Finally, I would like to mention that there are a number of outstanding motions and petitions regarding confidentiality that will be addressed by separate order. But for those documents -- and there are several, at least some of the issues that we will be discussing involve confidential information. And when discussing issues, the parties and attorneys are advised that we need to be certain not to announce the confidential information on the record, because then it becomes public, not confidential.

And with that, staff has no other preliminary matters.

CHAIRMAN GRAHAM: There is no other outstanding motions or petitions or no other preliminary matters?

MS. BENNETT: Staff has none. I believe Progress Energy may have one.

CHAIRMAN GRAHAM: Sir.

MR. BURNETT: Thank you, Mr. Chair.

John Burnett on behalf of Progress Energy. Thank you for the time. Hopefully what I am about to say will help, perhaps, save some time during the hearing.

Two things have happened relatively recently with Progress Energy Florida. The first is in our fuel filing we have a number -- an estimated number of about 163 million is the replacement fuel cost for our Crystal River 3 outage. Having actuals and reprojections now, that number has gone down substantially. Our current estimate is about 110 million. So the number that we have in our current project is overstated by approximately $53 million.

Also, we are on the verge of completing our November fuel operational forecast. Indicative data so far is showing us that our fuel projections for prices that is in our currently filing are overstated, and that we are going to need to bring those down. So our estimate right now is we are going to be at or very close to the 10 percent midcourse correction trigger to require us to come in. So we will be providing to the parties and staff our revised FOF as well as revised E Schedules to show the impact of that.

Our current estimation is that we will have about between 140 to $180 million of costs that are over what we have projected. So the impact of that would be approximately four to five dollars on a residential bill, on a thousand kWh residential bill. We will be providing that again to staff and the parties as soon as we have it ready, and we will cooperate with the parties and staff to make that happen in the best and most effective manner. But I wanted to mention that as a threshold. That the numbers we have as to those projections are no longer good, and we will be correcting those.

CHAIRMAN GRAHAM: Thank you.

Anything from staff?

MS. BENNETT: We will be prepared to address that in our recommendation phrase of the proceeding, but we did want you to know that there will be corrections to the numbers.

CHAIRMAN GRAHAM: Okay. Very good.

I guess we are now ready for opening statements, and we're going to limit the opening statements to about five minutes per party. I think that was determined by the Prehearing Officer. If one group exceeds the five minutes, we'll just allow that additional time for the other group.

Staff.

MS. BENNETT: I believe that we would start with the utilities on opening statements.

CHAIRMAN GRAHAM: Okay. Who is first? Sir.

MR. BURNETT: Thank you, Mr. Chair. John Burnett, again.

Briefly, I wanted to use my time to, I think, now, get a good, at least, view from where I am at as to where we may be with the Progress Energy case. We have got a lot stipulated now, so I think here is my count of the remaining issues. As I just mentioned in my preliminary comments, we are filing a reprojection. That was a significant issue with the intervenors and with staff as to whether we should be doing that or not, so hopefully that moots that issue out.

For Witness Olivier, one of our two remaining witnesses, I believe staff may have a couple of questions regarding some of the cash flows with the new replacement, but I don't think -- the best I can tell, that's it for her.

So that leaves two issues for the PEF case. One is a legal issue, and that's the issue of when it is appropriate for PEF to recover costs, subject to refund, with respect to the Crystal River outage. My understanding is that is a legal issue that is either going to be addressed in closing statements by the lawyers or in post-hearing briefs. So hopefully that is nothing that is going to hold us up here today.

The last issue that I'm aware of in the PEF case is our hedging Witness McCallister. My understanding is that FIPUG and perhaps other parties have some questions regarding hedging, and that's what I wanted to spend the remaining bit of my five minutes on.

What I'm confident you will not hear today is that Progress Energy did anything wrong with its hedging. I don't think you will hear any allegations of unreasonableness or imprudency. I don't think you will hear any evidence that we did not follow the

Commission-approved plan from last year, nor do I think you will hear any evidence that we have not proposed a plan that doesn't comply with all the Commission's requirements from the '08 docket.

I think you will hear some questions, but those questions are policy questions. Because, quite simply, FIPUG does not like hedging; it does not like the Commission's policy on hedging, and I believe that you will hear through these questions that what the real issue is is should hedging continue. Is the Commission's policy on hedging correct.

With all respect, that is not an appropriate issue for this docket. We think that that is going to be explored; it can be explored in a workshop or in another proceeding, much like we did in '08. We addressed that exact question in '08, and spent a lot of time on that. But if the Commission is inclined to do it again, that would be an issue to take up in another docket.

So I would just focus in my final comments to say when you hear those questions, I think focus on what is really being asked. Is it a real challenge to anything that happened in this docket this year? Not at all. It's a challenge to your policy.

We look forwards to answering any questions that the Commission may have, and thank you for the time.

CHAIRMAN GRAHAM: Thank you, sir.

MR. BADDERS: Good morning, Commissioners. Russell Badders on behalf of Gulf Power. I'm going to waive my opening, other than to the extent to say we agree with Progress' comments with regard to hedging and the appropriateness of the issues that will be raised by FIPUG.

CHAIRMAN GRAHAM: Thank you, sir.

MR. BEASLEY: Thank you, Mr. Chairman. James Beasley for Tampa Electric. We, too, only have the hedging issue and the fallout issues before you today, and we share the same comments that Progress and Gulf have made with respect to the issue before you. And it's not whether we have done anything erroneous or improper in implementing your policy, it's just the challenge to the policy itself. So we are ready to proceed with that issue.

CHAIRMAN GRAHAM: Thank you, sir.

MS. KEATING: Good morning, Mr. Chairman. Beth Keating, Akerman Senterfitt here for FPU. All issues related to Florida Public Utilities are stipulated in this proceeding at this point, and so I waive cross -- I mean, waive opening statements.

CHAIRMAN GRAHAM: Thank you.

MR. BREW: Thank you, Mr. Chairman.

I'll be brief, as well. My comments apply only to Progress Energy Florida. I would note that primarily we are gratified that the company is doing a -- or reforecasting its fuel prices going forward. We thought it was appropriate and necessary given what seems to be a pretty established change in the markets since they did their filing earlier.

I would note that it's kind of difficult timing-wise, not having seen what the revised numbers will be, but we are hoping we can work through that with Progress as this process moves forward. But we would expect that the proposal now is for the fuel factor actually to increase based on the initial filings that the company has made. We would expect with the changes that Mr. Burnett will describe that there actually should be a reduction in the fuel factor going forward for 2011. And with respect to Crystal River 3, I will reserve my comments until the closing statements. Thank you.

CHAIRMAN GRAHAM: Thank you, sir.

MR. MOYLE: Thank you, Mr. Chairman.

Jon Moyle on behalf of FIPUG. And I'll take credit for being some of those wheels that I think were falling off, as you mentioned previously. But, FIPUG does have a couple of issues that we think it's important that there be evidence taken on, that there be discussion. And one of them relates to Crystal River 3.

Crystal River 3, as you are aware, is the big nuclear power plant that Progress Energy has. It has out for a year, give or take, and it has had a negative impact on the consumers, because that's a cheap source of power, and Progress has had to go into the market and buy replacement power.

There are a lot of questions about, well, why has this thing been out for a year. You know, was it designed properly, was the plan of attack executed properly? You know, the time frames have moved around. There's a lot of questions associated with the Crystal River 3 outage, and we are not going to decide those today. But, I think, suffice it to say that there are enough questions about did Progress act prudently in managing the Crystal River 3 outage that there is going to be a separate spin-out proceeding that will look at that in detail.

Prehearing Commissioner Skop entered an order that says that issue with respect to prudency is going to be determined later. The catch is from FIPUG's position, you know, prudency and recovery kind of go hand-in-hand. And we don't think it is appropriate as a matter of policy to saddle consumers with recovery of those costs until you all make a determination of prudency. What Progress wants you to do is to say, yes, we will decide that prudency issue later, but give us all the money now. And we don't think that's fair. We think that is putting the cart before the horse and should not be done.

Mr. Burnett said, oh, this is just a legal issue. Well, I respectfully disagree for this reason. This isn't the first time that Crystal River 3 has been out for a long period of time. And in previous matters considering this, the issue about should we allow early recovery or not was taken up. And if I could, Mr. Chairman, I'll just refer you to Order Number PSC-97-0359. It was in a '97 docket, and you all said that you had a great deal of difficulty with allowing recovery of these costs. What you did say, and this is the point that we want to make, is that in the future, when a utility seeks to recover costs which have a significant impact on the utility's fuel adjustment factor, the utility must affirmatively demonstrate prior to approval for recovery that the actions or events, actions or events that give rise to the need for the recovery and the underlying costs are reasonable.

So you all looked at this before, you allowed recovery largely because you thought it might have a negative impact on the consumers. You know, you quote, and you say, "If we delay recovery of these costs until it is determined that all or a significant portion were prudently incurred, however, we may be putting a significant burden on consumers at some future period."

We represent the consumers. The consumers are saying we don't want these costs put us on us now. We would rather keep the money in our pocket. You know, property rights is a long litany of being able to keep your money until you have been given the due process. The prudency thing is going to be determined, I think, in August, and we would like to keep that money. And we are united in this: The Office of Public Counsel, the Attorney General, the Florida Retail Federation, FIPUG are all saying please let us keep the money now until prudency is determined later.

And I'll also point out you are going to hear some Progress witnesses. I don't think you are going to find anything in the record that comports with this order that says in the future the utility must affirmatively demonstrate prior to approval for recovery that the actions or events that give rise to the need are reasonable. You are not going to hear about, well, why is Crystal River 3 out? You know, there is a hole in the building. You are not going to hear about that. But I think that that should have been put forward to make this demonstration that you all previously said should be made before you're going to allow early recovery. That's one issue.

The other issue is the hedging issue. And, admittedly, I have asked a lot of questions about hedging and the purpose of hedging. That is not the issue that is really teed up in front of you today, but what is teed up in front of you is you are being asked to authorize the recovery of a significant amount of losses associated with hedging.

Progress Energy, I think in 2009 you are going to hear that they lost nearly $600 million in their hedging program. I mean, that's a rate case, in effect. I think their rate case was around that number.

This year they are losing money, and you all have to look at that and say, okay, we are going to authorize that. Another key component that's in front of you today is you have to look at their 2011 plan and approve it. And what they are going to say is, look, we have been hedging just according to the plan. So, yes, that is a lot of losses, but we are doing what is according to the plan.

Well, FIPUG would argue that the plan needs to be looked at really closely, that this hedging isn't working real well, at least in recent years, for the consumers when you are losing, you know, over the 2009/2010 period, over $700 million. I'll show you a chart from Gulf on hedging that has 48 months in it. And out of the 48 months, the consumers only benefitted five out of 48 months.

So, you know, there are some questions in terms of the whole hedging approach. It hasn't been around forever. I think it started in 2002. You all had an audit that was done on it. There was an agreement on a hedging order that said here are the things that utilities need to put forward in their management plans. We are going to have some questions. FIPUG doesn't believe all of the criteria that were called for in the hedging order have been included in the hedging plan.

So what we would urge you to do is to take a close look at the hedging plan that you are being asked to approve, because you are being asked to approve the 2011 plan. This time next year, if there is another huge round of losses, they are going to say, well, we did everything that was in the plan. But, you know, I think that there needs to be a careful review. It needs to be looked at closely. And you are going to hear from the PSC auditor. The auditor is going to say, you know, I don't really look at the qualitative aspects of it, I just make sure that they were, you know, kind of executing the trades properly.

So, we would ask you to take a close look at the hedging plan. You know, there was mention about maybe another docket to look at it, but it's a lot of money, which is kind of drawing FIPUG's attention. You know, 700 million for Progress Energy alone. And so we are going to have some questions about hedging that I think are important, you know, to be considered.

With that, Mr. Chairman, thank you for the opportunity to provide open statements. And Mr. Brew had mentioned maybe closing statements, you know, if we get that opportunity, we would like to be heard on that, as well. Thank you.

CHAIRMAN GRAHAM: Thank you, sir.

MR. BECK: Thank you, Commissioners.

Charlie Beck with the Office of Public Counsel. Commissioners, first of all, we would like to thank Progress Energy for stepping up to the plate on the fuel reprojections. That had the potential to be a significantly contentious issue had they not, and they have stepped up, and we appreciate them doing that.

With regard to the interim recovery of the replacement fuel costs for Crystal River Number 3, we do disagree with Progress Energy and support the comments of FIPUG. Nuclear energy represents a financial trade-off of sorts for customers. On the one hand, there is very high capital costs for nuclear energy compared to other generation methods such as with coal or with gas. Progress Energy recovers those costs in base rates. They recover a return on those costs. They get their financing costs. They get a handsome return on equity on the amount they have put in toward those nuclear costs. All of those costs are included in the base rates that Progress Energy's customers are paying.

In addition to the return on that investment, they also recover a return of the investment. And they recover that through depreciation expense, which they also recover currently in base rates.

Now, on the one side there is those very high capital costs. The trade-off for customers is the very low fuel costs that they would expect with nuclear energy. And what we have during this extended outage of Crystal River 3 is customers are seeing the worse of both sides of that equation. They are paying through base rates the very high capital costs and through replacement fuel charges they are paying the high fuel costs.

So the question that I think that that brings you to, then, is what should you do on an interim basis while Progress is in here to request the replacement fuel costs. And we would agree with Mr. Moyle that it's covered by the Commission's decision in the 1997 and a subsequent 1998 order, and I would like to address that in closing arguments, if I could.

Thank you very much.

CHAIRMAN GRAHAM: Thank you, sir.

MS. WHITE: Good morning, Mr. Chairman, Commissioners. Sometimes people ask why does the Federal Executive Agencies participate, especially because a lot of our customers, our clients are military bases. And so I just wanted to remind you all and thank you for your work, because it is important to us, these fuel dockets and the other dockets that we sit in, because they are a big part of the military budgets that are inflexible. And so when we have things that we need to do with our military folks and other federal agencies, we appreciate what you all do, especially the staff and the other intervenors to keep those costs in check and in line.

And so my only comment this morning is to support the statement that FIPUG has made that these issues are important to us. And so we thank the staff for their work. We thank FIPUG and OPC for the work that they have done, and we support the comments that Mr. Moyle made this morning. Thank you.

CHAIRMAN GRAHAM: Is that all the opening statements?

Seeing so, I think I'm going to take about a five-minute break. It is about a quarter after ten now, so we'll reconvene at 10:20. Thank you.

(Recess.)

CHAIRMAN GRAHAM: Just to give you a feel for where I think we're going, we are going to continue until probably sometime in between a quarter till twelve and a quarter after twelve, and be looking for a time to go to lunch at that time. We will see if there is a break, a natural break, and then after that we will probably give about an hour and a half for lunch, and we'll see where we go from there.

I don't plan on going much longer past 5:00 o'clock. If we need to go to tomorrow, that's perfectly fine, but that way we don't have to do any special thing as far as taking care of the air conditioning system here, and we can send you all home to your families early.

That all being said, staff.

MS. BENNETT: Mr. Chairman and Commissioners, I want to take up our exhibits at this point. And the first thing we would like is that you mark the Comprehensive Exhibit List as Number 1, and we also ask that we move the Comprehensive Exhibit List into the record at this time. I believe there are no objections.

CHAIRMAN GRAHAM: Are there any objections? Seeing none, let's move the Comprehensive Exhibit List, Exhibit 1, into the record.

(Exhibit 1 marked for identification and admitted into evidence.)

MS. BENNETT: The next set of exhibits are staff's exhibits. They are responses to interrogatories. And you find those starting on Page 4 of the Comprehensive Exhibit List, Number 35. We would like Staff Exhibits 35 through 64 entered into the record at this time. I have spoken with parties, and I believe there are no objections. That is on Pages 4 through 8 of the Comprehensive Exhibit List.

CHAIRMAN GRAHAM: Any objections? Seeing none. Staff, please.

(Exhibits 35 through 64 marked for identification and admitted into evidence.)

MS. BENNETT: Finally, Commissioners, during the break we handed out three additional exhibits. We would like those marked as 65, 66, and 67; 65, the description is Progress Energy Florida's Responses to Staff's Third Request for Production of Documents. I'm sorry, I may have misstated that. I think that is their Second Request for Production of Documents. And the identification page is incorrect, it is the Second Response for Production of Documents. It is Number 17. We would ask that that be marked as Exhibit Number 65.

CHAIRMAN GRAHAM: And, once again, what's the short title on that?

MS. BENNETT: Progress Energy's Responses to Staff's Second Request for Production of Documents, Number 17. I know that is not real short, but -- and then Number 66, if you're ready for me.

CHAIRMAN GRAHAM: Yes, ma'am.

MS. BENNETT: Progress Energy's Responses to Staff's Ninth Set of Interrogatories, Numbers 75 and 76.

CHAIRMAN GRAHAM: Okay.

MS. BENNETT: And the third document is Number 67, the June 2008 Review of Fuel Procurement Hedging Practices of Florida's IOUs. You might want to shorten it to June 2008 Hedging Practices Audit.

CHAIRMAN GRAHAM: We're going to have to send you back to school for short titles.

MS. BENNETT: I know. I'm a lawyer, I get paid by the word.

And staff would ask -- we understand that there are no objections to the admission of 65 and 66 into the record at this time. 67 is for identification purposes, as we discussed it with the witnesses, so we would ask that 65 and 66 be entered into the record.

CHAIRMAN GRAHAM: Any objections?

Boy, I'm loving this.

(Exhibit Numbers 65 and 66 marked for identification and admitted into evidence. Exhibit Number 67 marked for identification.)

CHAIRMAN GRAHAM: Staff.

MS. BENNETT: And were those moved into the record?

CHAIRMAN GRAHAM: Yes; so moved.

MS. BENNETT: Okay. Exhibits 2 through 34 are the prefiled exhibits. Those exhibits will be moved into the record with the witnesses as we get to the sponsoring witnesses. And with that, staff is done with the Comprehensive Exhibits and Staff Exhibits.

(Exhibit Numbers 2 through 34 marked for identification.)

CHAIRMAN GRAHAM: Thank you, staff. If there's nothing from the board, we're going to get to testimony.

COMMISSIONER EDGAR: One quick question, if I may, Mr. Chairman.

Just for clarification of my recordkeeping, we did move Exhibits 34 -- or, excuse me, 35 through 64 into the record.

MS. BENNETT: I believe so, yes.

COMMISSIONER EDGAR: Okay. Thank you.

CHAIRMAN GRAHAM: Anything else?

Seeing none, I guess I need to swear people in. Anybody that's going to be testifying, please stand.

Raise your right hand.

(Witnesses sworn collectively.)

CHAIRMAN GRAHAM: Thank you.

Staff.

MS. BENNETT: We would suggest that you take up the witnesses in the order they appear in the prehearing order. And then when we get to those witnesses who have been excused, the attorneys sponsoring the witness will ask that the excused witness' testimony and exhibits be entered into the record as though read.

And for your convenience, I did provide a matrix at the end of the agenda. And I believe Progress

Energy is first on Page 6 of the agenda.

CHAIRMAN GRAHAM: Okay. Progress Energy.

MS. TRIPLETT: Thank you, Mr. Chairman. Progress Energy's first witness is Will Garrett, and he has been excused from the proceedings, so we would ask that his prefiled testimony be entered into the record as though read.

CHAIRMAN GRAHAM: Are there any objections? So moved.

MS. TRIPLETT: And Mr. Garrett had three prefiled exhibits which we would ask to be moved into the record, Numbers 2 through 4 on Staff's Comprehensive Exhibit List.

CHAIRMAN GRAHAM: Are there any objections to Exhibits 2 through 4?

Let's move them into the record, as well.

(Exhibit 2 through 4 admitted into evidence.)

MS. TRIPLETT: Thank you, sir.

PROGRESS ENERGY FLORIDA

DOCKET NO. 100001-EI

Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December, 2009

DIRECT TESTIMONY OF
Will Garrett

March 12, 2010

Q. Please state your name and business address.

A. My name is Will A. Garrett. My business address is 299 First Avenue North, St. Petersburg, Florida 33701.

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

A. I am employed by Progress Energy Service Company, LLC as Controller of Progress Energy Florida.

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe PEF's Fuel Adjustment Clause final true-up amount for the period of January through December 2009, and PEF's Capacity Cost Recovery Clause final true-up amount for the same period.

Q. Have you prepared exhibits to your testimony?

A. Yes, I have prepared and attached to my true-up testimony as Exhibit No. __(WG-1T), a Fuel Adjustment Clause true-up calculation and related schedules; Exhibit No. __(WG-2T), a Capacity Cost Recovery Clause true-up calculation and related schedules; and Exhibit No. __(WG-3T), Schedules A1 through A3, A6, and A12 for December 2009, year-to-date. I have extracted schedules on which there was no sponsored testimony. Schedules A1 through A9, and A12 for the year ended December 31, 2009, were previously filed with the Commission on January 19, 2010.

Q. What is the source of the data that you will present by way of testimony or exhibits in this proceeding?

A. Unless otherwise indicated, the actual data is taken from the books and records of the Company. The books and records are kept in the regular course of business in accordance with generally accepted accounting principles and practices, and provisions of the Uniform System of Accounts as prescribed by this Commission.

Q. Would you please summarize your testimony?

A. Per Order No. PSC-09-0795-FOF-EI, the projected 2009 fuel adjustment true-up amount was an over-recovery of $14,255,732. The actual over-recovery for 2009 was $22,320,379 resulting in a final fuel adjustment true-up over-recovery amount of $8,064,647 (Exhibit No. __(WG-1T)).

The projected 2009 capacity cost recovery true-up amount was an under-recovery of $57,262,162. The actual amount for 2009 was an under-recovery of $43,081,033 resulting in a final capacity true-up over-recovery amount of $14,181,129 (Exhibit No. __(WG-2T)).

FUEL COST RECOVERY

Q. What is PEF's jurisdictional ending balance as of December 31, 2009 for fuel cost recovery?

A. The actual ending balance as of December 31, 2009 for true-up purposes is an over-recovery of $22,320,379.

Q. How does this amount compare to PEF's estimated 2009 ending balance included in the Company's estimated/actual true-up filing?

A. The actual true-up attributable to the January - December 2009 period is an over-recovery of $22,320,379 which is $8,064,647 higher than the re-projected year end over-recovery balance of $14,255,732.

Q. How was the final true-up ending balance determined?

A. The amount was determined in the manner set forth on Schedule A2 of the Commission's standard forms previously submitted by the Company on a monthly basis.

Q. What factors contributed to the period-ending jurisdictional over-recovery of $22,320,379 shown on your Exhibit No. __(WG-1T)?

A. The factors contributing to the over-recovery are summarized on Exhibit No. __(WG-1T), sheet 1 of 4. Net jurisdictional fuel revenues fell below the forecast by $419.7 million, while jurisdictional fuel and purchased power expense decreased $441.4 million, resulting in a difference in jurisdictional fuel revenue and expense of $21.7 million. The $441.4 million favorable variance in jurisdictional fuel and purchase power expense is primarily attributable to a favorable system variance from projected fuel and net purchased power of $489.5 million as more fully described below. Also, as a partial offset, there was a decreased allocation of fuel and purchase power to the wholesale jurisdiction due to lower than projected wholesale sales. The $22.3 million over-recovery also includes the deferral of $0.9 million of 2008 over-recovery approved in Order No. PSC-09-0795-FOF-EI. The net result of the difference in jurisdictional fuel revenues and expenses of $21.7 million, plus the 2008 deferral of $0.9 million and the 2009 interest provision calculated on the deferred balance throughout the year is an over-recovery of $22.3 million as of December 31, 2009.

Q. Please explain the components shown on Exhibit No. __(WG-1T), sheet 4 of 4 which helps to explain the $489.5 million favorable system

variance from the projected cost of fuel and net purchased power transactions.

A. Sheet 4 of 4 is an analysis of the system dollar variance for each energy source in terms of three interrelated components; (1) changes in the amount (MWH's) of energy required; (2) changes in the heat rate of generated energy (BTU's per KWH); and (3) changes in the unit price of either fuel consumed for generation ($ per million BTU) or energy purchases and sales (cents per KWH).

Q. What effect did these components have on the system fuel and net power variance for the true-up period?

A. As shown on sheet 4 of 4, the dollar variance due to MWHs generated and purchased (column B) produced a cost decrease of $251.2 million. The primary reasons for this favorable variance were lower system requirements partially offset by a decrease in supplemental sales. The unfavorable variance in supplemental sales was created from the majority of contracts using less energy than anticipated due to low system requirements state-wide. The unfavorable heat rate variance (column C) of $67.3 million is due to changes in the generation mix to meet the energy requirements. The favorable price variance of $305.5 million (column D) was caused mainly by lower than projected natural gas prices, coupled with lower power purchase prices. Natural gas averaged $8.40 per MMBtu, $1.52 per MMBtu (15.4%) lower than projected per the previously submitted A3, Page 2 of 3, Line 50. Firm Purchases contained a favorable price variance from the projection as the actual fuel cost per MWH for the Shady Hills and Southern contracts were 14.6% and 13.6% below projection, respectively. The net favorable price variance experienced by 2009 purchases were nearly offset by the unfavorable price variance created by economic and supplemental sales. This scenario was achieved by lower load requirements and commodity costs than projected.

The variance related to Other Fuel is driven by the coal car investment (see Order No. 95-1089-FOF-EI.) This unfavorable variance is coupled with an unfavorable price variance in Other Jurisdictional Adjustments. The leading components of this $1.6 million unfavorable price variance are listed below.

Q. Does this period ending true-up balance include any noteworthy adjustments to fuel expense?

A. Yes. Noteworthy adjustments are shown on Exhibit No. __(WG-3T) in the footnote to line 6b on page 1 of 2, Schedule A2. Included in the footnote to line 6b on page 1 of 2, Schedule A2, is the capitalization of $6.6 million related to fuel burned during the testing phase of the Bartow Combined-Cycle unit, the refund of $1.4 million attributed to the cost of replacement fuel and emissions associated with the 38 hour unplanned outage in January 2009 of the Crystal River nuclear unit (CR-3), and a reduction of $1.8 million for the incremental cost of replacement power provided the joint owners of CR-3 per an agreement. These adjustments also include the return on coal inventory in transit of $10.0 million, adjustments to coal and oil inventories due to an aerial survey ($3.5 million) and tank bottom adjustments ($1.0 million), and hedging costs stemming from the interest on collateral associated with PEF's derivatives ($2.4 million).

Q. Please explain the return on coal inventory in transit adjustment.

A: The $10.0 million adjustment represents the return on coal inventory in transit, in accordance with the approved Settlement and Stipulation in Docket No. 050078-EI, as discussed further in the *Other Matters* portion of this filing.

Q. Please explain the adjustment of $6.6 million related to fuel burned during the testing phase of the Bartow Combined-Cycle unit construction in 2009.

A. In accordance with FPSC Rule No. 25-6.0144 and Federal Energy Regulatory Commission guidance, only the fair value of the cost of power generated by a plant under construction may be charged to the appropriate fuel and other operation and maintenance expense accounts. The adjustment reduces recoverable fuel expense to fair value, and its offset was charged to the work order of the Bartow Combined-Cycle plant. As this plant was made commercially available on June 1, 2009, the net credit represents 5 months of adjustments to recoverable fuel expense to reflect the test generation and start-up of this unit.

Q. Please explain the adjustment of $1.8 million for the incremental cost of replacement power provided the joint owners of the Crystal River nuclear unit (CR-3).

A. Per an agreement with all of the joint owners of CR-3, if PEF does not meet a specific capacity factor for this unit per a designated two-year interval, PEF must replace enough power to meet the capacity factor or reimburse the joint owners for their cost of replacing the power. PEF decided to replace CR-3 joint owner power during a five week period spanning November and December 2009, while system requirements were low. For each hour replacement power was provided the joint owners of CR-3, PEF calculated the fuel costs on the incremental generating units that ran during those hours and the replacement MW. The incremental cost of the replacement power was then adjusted from generated fuel expense in order to negate the impact of this agreement to the retail ratepayer.

Q. Please explain the adjustment of $2.4 million attributed to derivative collateral interest related to hedging activities, and the refund of $1.4 million related to the 38 hour unplanned outage of the Crystal River nuclear unit (CR-3) occurring in January 2009.

A. These adjustments were discussed in detail within the testimony of Marcia Olivier (pgs 3-5), filed on August 4, 2009 in Docket No. 090001-EI.

Q. Please explain the Aerial Survey Adjustment of $3.5 million.

A. This adjustment is attributable to the semi-annual aerial survey conducted on October 13, 2009 in accordance with Order No. PSC-97-0359-FOF-EI, found in Docket No. 970001-EI. This survey was conducted as a new liner was being placed underneath the North Coal Yard at Crystal River for environmental purposes. Currently, a root-cause analysis is underway in order to ensure the project has not materially influenced the results of the survey. However, regardless of the outcome, rates will not be affected until 2011 at which time the April 2010 survey will be completed with any adjustment made to inventory and fuel expense if necessary. By including the adjustment as of December 31, 2009, PEF is compliant with both the Commission requirements and Generally Accepted Accounting Principles.

Q. Did PEF exceed the economy sales threshold in 2009?

A. No. PEF did not exceed the gain on economy sales threshold of $1.9 million in 2009. As reported on Schedule A1, Line 15a, the gain for the year-to-date period through December 2009 was $1.2 million; which fell below the threshold. This entire amount was returned to customers through a reduction of total fuel and net power expense recovered through the fuel clause.

Q. Has the three-year rolling average gain on economy sales included in the Company's filing for the November, 2009 hearings been updated to incorporate actual data for all of year 2009?

A. Yes. PEF has calculated its three-year rolling average gain on economy sales, based entirely on actual data for calendar years 2007 through 2009, as follows:

Year	Actual Gain
2007	2,556,198
2008	1,080,438
2009	1,219,086
Three-Year Average	$1,618,574

CAPACITY COST RECOVERY

Q. What is the Company's jurisdictional ending balance as of December 31, 2009 for capacity cost recovery?

A. The actual ending balance as of December 31, 2009 for true-up purposes is an under-recovery of $43,081,033.

Q. How does this amount compare to the estimated 2009 ending balance included in the Company's estimated/actual true-up filing?

A. When the estimated 2009 under-recovery of $57,262,162 is compared to the $43,081,033 actual under-recovery, the final capacity true-up for the twelve month period ended December 2009 is an over-recovery of $14,181,129.

Q. Is this true-up calculation consistent with the true-up methodology used for the other cost recovery clauses?

A. Yes. The calculation of the final net true-up amount follows the procedures established by the Commission in Order No. PSC-96-1172-FOF-EI. The true-up amount was determined in the manner set forth on the Commission's standard forms previously submitted by the Company on a monthly basis.

Q. What factors contributed to the actual period-end capacity under-recovery of $43.1 million?

A. Exhibit No. __(WG-2T, sheet 1 of 3) compares actual results to the original projection for the period. The $43.1 million under-recovery is due primarily to lower actual jurisdictional revenues of $246.9 million compared to projected revenues, partially offset by lower than expected expenses of $201.5 million. The lower revenues and expenses were most notably due to a reduction of $198 million (Exhibit No. __(WG-2T) sheet 2 of 3, line 42) related to the Levy nuclear project in order to defer the recovery of a portion of the preconstruction expense per Order No. PSC-09-0208-PAA-EI found in Docket No. 090001-EI. The rate reduction was effective in April 2009, and the remaining revenue variance is attributable to lower than anticipated system requirements. The $43.1 million under-recovery also includes the 2008 over-recovery of $2.5 million approved in Order No. PSC-09-0795-FOF-EI.

Q. Were there any items of note included in the current true-up period?

A. Yes. In Order No. PSC-02-1761-FOF-EI, issued in Docket No. 020001-EI, the Commission addressed the recovery of specific incremental security costs through the capacity cost recovery clause. In accordance with the Commission order, Exhibit No. __(WG-2T, sheet 2 of 3, line 16) includes incremental security costs of $4,954,806 before jurisdictional allocation to retail customers.

OTHER MATTERS

Q. Were the coal procurement and transportation functions transferred from Progress Fuels Corporation to PEF in 2006 accounted for correctly in 2009?

A. Yes. As part of a consolidation of PEF's coal procurement and transportation functions, ownership of railcars used to transport coal to Crystal River and coal inventory in transit were transferred from Progress Fuels Corporation to PEF on January 1, 2006. In accordance with Order No. PSC-05-0945-S-EI, which approved the Stipulation and Settlement in Docket No. 050078-EI, PEF recovered its carrying costs of coal inventory in transit and its coal procurement O&M costs through the fuel recovery clause. Furthermore, consistent with established Commission policy, PEF recovered depreciation expense, repair and maintenance expenses, property taxes and a return on average investment associated with railcars used to transport coal to Crystal River.

Q: Please explain the adjustment found on line C. 12 of Schedule A2 in Exhibit No. __(WG-3T)?

A: Line C. 12 of Schedule A2 represents an adjustment to the allocation of fuel expense between the retail and wholesale jurisdictions for 2009.

Q: Have you provided Schedule A12 showing the actual monthly capacity payments by contract consistent with the Staff Workshop in 2005?

A: Yes. A confidential version of Schedule A12 is included in Exhibit No. __(WG-3T).

Q. Does this conclude your direct true-up testimony?

A. Yes

MS. TRIPLETT: And Progress would call Marcia Olivier.

MR. MOYLE: Mr. Chairman, just one point of clarification. She has a lot of testimony about the natural gas forecasts and everything. I think that's off the table, if I understood Progress' opening comments, that they are going to refile, and, you know, it is in effect a stipulation that they're going to refile. So I had questions for her on that, but I don't need to ask them if we are all on the same page with respect to the refiling.

CHAIRMAN GRAHAM: Progress.

MS. TRIPLETT: That's right, sir.

Progress Energy has agreed to file based on the reprojections, the new fuel forecast.

MR. SAYLER: Mr. Chairman, staff does have a brief line of questioning for the witness.

CHAIRMAN GRAHAM: We're not letting it go anywhere.

MR. SAYLER: I promise, brief.

CHAIRMAN GRAHAM: Ms. Olivier.

MS. TRIPLETT: Thank you.

MARCIA OLIVIER

was called as a witness on behalf of Progress Energy Florida, and having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MS. TRIPLETT:

Q. Will you please introduce yourself to the Commission and provide your address.

A. Good morning, Commissioners. My name is Marcia Olivier, and my business address is 299 1st Avenue North, St. Petersburg, Florida, 33701.

Q. And I saw you standing, so I think you have been sworn as witness.

A. Yes.

Q. Who do you work for, and what is your position?

A. I am employed by Progress Energy Service Company as the Supervisor of Regulatory Planning Strategy for the Florida utility.

Q. Thank you. And have you filed Prefiled Direct Testimony in this proceeding?

A. Yes, I have.

Q. And do you have a copy of your prefiled testimony and exhibits with you?

A. Yes, I do.

Q. Do you have any changes to make to that testimony and those exhibits?

A. No, I do not.

Q. If I asked you the same questions in your prefiled testimony today, would you give the same answers that are in your prefiled testimony?

A. Yes.

MS. TRIPLETT: Mr. Chairman, we request that the prefiled testimony be entered into the record as if it were read.

CHAIRMAN GRAHAM: Let the witness' testimony be entered into the record as though it has been read.

PROGRESS ENERGY FLORIDA
DOCKET NO. 100001-EI

Fuel and Capacity Cost Recovery
Estimated/Actual True-Up Amounts
January through December 2010

DIRECT TESTIMONY OF
MARCIA OLIVIER

August 2, 2010

Q. Please state your name and business address.

A. My name is Marcia Olivier. My business address is 299 1st Avenue North, St. Petersburg, Florida 33701.

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

A. I am employed by Progress Energy Service Company, LLC as the Supervisor of PEF Regulatory Planning Strategy.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present, for Commission approval, Progress Energy Florida's (PEF or the Company) estimated/actual fuel and capacity cost recovery true-up amounts for the period of January through December 2010.

Q. Do you have an exhibit to your testimony?

A. Yes. I have prepared Exhibit No.__(MO-1), which is attached to my prepared testimony, consisting of two parts. Part 1 consists of Schedules E1-B through E9, which include the calculation of the 2010 estimated/actual fuel and purchased power true-up balance, and a schedule to support the capital structure components and cost rates relied upon to calculate the return requirements on all capital projects recovered through the fuel clause as required per Order No. PSC-10-0154-PCO-EI. Part 2 consists of Schedules E12-A through E12-C, which include the calculation of the 2010 estimated/actual capacity true-up balance. The calculations in my exhibit are based on actual data from January through June 2010 and estimated data from July through December 2010.

FUEL COST RECOVERY

Q. What is the amount of PEF's 2010 estimated fuel true-up balance and how was it developed?

A. PEF's estimated fuel true-up balance is an under-recovery of $112,807,536. The calculation begins with the actual under-recovered balance of $187,731,491 taken from Schedule A2, page 2 of 2, line 13, for the month of June 2010. This balance less a projected over-recovery for the months of July through December 2010 comprise the estimated $112,807,536 under-recovered balance at year-end. The projected December 2010 true-up balance includes interest which is estimated from July through December 2010 based on the average of the beginning and ending commercial paper rate applied in June. That rate is 0.029% per month.

Q. How does the current fuel price forecast for July through December 2010 compare with the same period forecast used in the Company's 2010 projection filing approved in Order No. PSC-09-0795-FOF-EI?

A. Fuel costs per unit remained relatively constant for coal, heavy oil and light oil. However, natural gas costs per unit decreased an average of $0.80/mmbtu or approximately 10%.

Q. Have you made any adjustments to your estimated fuel costs for the period July through December 2010?

A. Yes, we made five adjustments totaling a net reduction of $80,016,843. 1) We made an adjustment to include $97,641 for the depreciation and return on investment of railcars. 2) We made an adjustment to include $176,793 of hedging costs. These hedging costs arise from the difference between interest received and interest paid on collateral associated with derivative positions from July through December, 2010. 3) We made an adjustment to remove $4,148,579 in compliance with order PSC-09-0645-FOF-EI, in Docket No. 070703-EI. 4) We made an adjustment to reduce fuel costs by $92,828,572 in consideration of a portion of expected Nuclear Electric Insurance Limited (NEIL) replacement power reimbursement payments to be applied within the fuel clause. 5) We also made an adjustment to include an additional $16,685,874 of estimated incremental replacement power cost net of insurance proceeds for the estimated CR-3 outage duration. As we pursue a detailed repair plan that will achieve a return to service for CR-3, the actual return to service date will be determined by a number of factors. These factors include regulatory reviews with the Nuclear Regulatory Commission (NRC) and other agencies as appropriate, emergent work, final engineering designs and testing, weather and other developments.

Q. Please explain the $92,828,572 NEIL replacement power reimbursement payments?

A. Pursuant to an insurance policy held by PEF with NEIL, in the event an unplanned outage of our nuclear unit (CR-3) extends beyond a deductible period of 12 weeks, PEF is entitled to receive reimbursement payments in the amount of $4,500,000 per week to cover a portion of the replacement power costs associated with the outage. These payments, when received, will be applied to the fuel and capacity clause, consistent with the methodology utilized when allocating costs found within the A-Schedules filed with the Commission each month.

Q. How does PEF plan to address the prudency of fuel and replacement power costs related to the extended outage at the Crystal River 3 nuclear plant?

A. As noted above, incremental fuel and replacement power costs related to the extended outage at the CR-3 plant have been included in this fuel and capacity clause filing. Later this year, PEF will file a motion with the Commission to establish a "spin-off" docket where the Commission can examine the prudence of these costs. PEF has been in contact with interested parties regarding the timing and schedule for such a docket and will continue to work with them prior to filing the motion to establish the spin-off docket in order to finalize an agreed-to case schedule that PEF will include as part of its motion. Currently, PEF plans to ask the Commission to commence the spin-off docket in January 2011 with a resulting hearing in August 2011.

Q. Does PEF expect to exceed the three-year rolling average gain on non-separated power sales in 2010?

A. No, PEF estimates the total gain on non-separated sales during 2010 will be $860,568, which does not exceed the three-year rolling average of $1,618,573.

CAPACITY COST RECOVERY

Q. What is the amount of PEF's 2010 estimated capacity true-up balance and how was it developed?

A. PEF's estimated capacity true-up balance is an over-recovery of $52,311,070. The estimated true-up calculation begins with the actual under-recovered balance of $9,852,028 for the month of June 2010. This balance plus the estimated July through December 2010 monthly true-up calculations comprise the estimated $52,311,070 over-recovered balance at year-end. The projected December 2010 true-up balance includes interest which is estimated from July through December 2010 based on the average of the beginning and ending commercial paper rate applied in June. That rate is 0.029% per month.

Q. What are the primary drivers of the estimated year-end 2010 capacity over-recovery?

A. The $52,311,070 over-recovery is primarily attributable to $35,759,062 of higher than projected capacity revenues and the 2009 true-up over-recovery of $14,181,129. Retail sales are estimated to be 1,913,468 MWHs higher than the projection upon which rates were based.

Q. Have any adjustments been made to the estimated capacity costs?

A. Yes, $3,600,000 of incremental costs associated with the Indian River summer capacity firm purchase, contracted as a direct result of the CR-3 extended outage, have been offset entirely by NEIL reimbursement payments. The remainder of the NEIL reimbursement payments related to replacement power costs has been applied as an adjustment to fuel costs as explained above.

Q. Has PEF included the costs approved in Order No. PSC 09-0783-FOF-EI

A. Yes, PEF has included $206,907,726 of 2010 recoverable expenses associated with the Levy and CR-3 Uprate projects approved in Order No. PSC 09-0783-FOF-EI.

Q. Does this conclude your estimated/actual true-up testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 100001-EI

Fuel and Capacity Cost Recovery Factors
January through December 2011

DIRECT TESTIMONY OF
MARCIA OLIVIER

September 1, 2010

Q. Please state your name and business address.

A. My name is Marcia Olivier. My business address is 299 1st Avenue North, St. Petersburg, Florida 33701.

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

A. I am employed by Progress Energy Service Company, LLC as Supervisor of PEF Regulatory Planning Strategy.

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present for Commission approval the fuel and capacity cost recovery factors of Progress Energy Florida (PEF or the Company) for the period of January through December 2011.

Q. Do you have an exhibit to your testimony?

A. Yes. I have prepared Exhibit No.__(MO-2), consisting of Parts 1, 2 and 3. Part 1 contains our forecast assumptions on fuel costs. Part 2 contains fuel cost recovery (FCR) schedules E1 through E10, H1, the calculation of the inverted residential fuel rate, and a schedule that supports the rate of return applied to capital projects recovered through the fuel clause pursuant to Order No. PSC-10-0154-PCO-EI. Part 3 contains capacity cost recovery (CCR) schedules.

FUEL COST RECOVERY CLAUSE

Q. Please describe the fuel cost factors calculated by the Company for the projection period.

A. Schedule E1 shows the calculation of the Company's levelized fuel cost factor of 5.105 ¢/kWh. This factor consists of a fuel cost for the projection period of 4.79354 ¢/kWh (adjusted for jurisdictional losses), a GPIF penalty of 0.00186 ¢/kWh, and an estimated prior period under-recovery true-up of 0.31011 ¢/kWh. Utilizing this factor, Schedule E1-D shows the calculation and supporting data for the Company's levelized fuel cost factors for service taken at secondary, primary, and transmission metering voltage levels. To perform this calculation, effective jurisdictional sales at the secondary level are calculated by applying 1% and 2% metering reduction factors to primary and transmission sales, respectively (forecasted at meter level). This is consistent with the methodology used in the development of the capacity cost recovery factors. The levelized fuel cost factor for residential service is 5.112 ¢/kWh. Schedule E1-D shows the Company's proposed tiered rates of 4.797 ¢/kWh for the first 1,000 kWh and 5.797 ¢/kWh above 1,000 kWh. These rates are developed in the "Calculation of Inverted Residential Fuel Rate" schedule in Part 2.

Schedule E1-E develops the Time of Use (TOU) multipliers of 1.082 On-peak and 0.961 Off-peak. The multipliers are then applied to the levelized fuel cost factors for each metering voltage level which results in the final TOU fuel factors to be applied to customer bills during the projection period.

Q. What is the amount of the 2010 net true-up that PEF has included in the fuel cost recovery factor for 2011?

A. PEF has included a projected under-recovery of $112,807,536. This amount includes a projected actual/estimated under-recovery for 2010 of $120,872,183 net of the final 2009 true-up over-recovery of $8,064,647 as included in the Direct Testimony of Will Garrett filed on March 12, 2010.

Q. What is the change in the levelized residential fuel factor for the projection period from the fuel factor currently in effect?

A. The projected levelized residential fuel factor for 2011 of 5.112 ¢/kWh is an increase of 0.189 ¢/kWh or 4% from the 2010 projected levelized residential fuel factor of 4.923 ¢/kWh.

Q. Please explain the increase in the 2011 fuel factor compared with the 2010 fuel factor.

A. The primary driver of the increase in the 2011 fuel factor is the prior period under-recovery of $112,807,536 compared to the 2010 forecasted prior period over-recovery of $14,255,732. This increase is partially offset by lower fuel costs of $57,114,948, which is mainly due to lower coal and natural gas prices.

Q. Is PEF proposing to continue the tiered rate structure for residential customers?

A. Yes. PEF is proposing to continue use of the inverted rate design for residential fuel factors to encourage energy efficiency and conservation. Specifically, the Company proposes to continue a two-tiered fuel charge whereby the charge for a customer's monthly usage in excess of 1,000 kWh (second tier) is priced one cent per kWh higher than the charge for the customer's usage up to 1,000 kWh (first tier). The 1,000 kWh price change breakpoint is reasonable in that approximately 68% of all residential energy is consumed in the first tier and 32% of all energy is consumed in the second tier. The Company believes the one cent higher per unit price, targeted at the second tier of the residential class' energy consumption, will promote energy efficiency and conservation. This inverted rate design was incorporated in the Company's base rates approved in Order No. PSC-02-0655-AS-EI.

Q. How was the inverted fuel rate calculated?

A. I have included a page in Part 2 of my exhibit that shows the calculation of the fuel cost factors for the two tiers of the residential rate. The two factors are calculated on a revenue neutral basis so that the Company will recover the same fuel costs as it would under the traditional levelized approach. The two-tiered factors are determined by first calculating the amount of revenues that would be generated by the overall levelized residential factor of 5.112 ¢/kWh shown on Schedule E1-D. The two factors are then calculated by allocating the total revenues to the two tiers for residential customers based on the total annual energy usage for each tier.

Q. What is included in Schedule E1, line 3, "Coal Car Investment"?

A. The $110,299 on Line 3 represents the estimated return on investment in rail cars used to transport coal to Crystal River. The calculation used a rate of return of 7.88% that was approved in PEF's rate case Order No. PSC-10-0131-FOF-EI. A schedule showing the derivation of the debt and equity components of this rate is included in Exhibit No.__(MO-2), Part 2.

Q. How do PEF's projected gains on non-separated wholesale energy sales for 2011 compare to the incentive benchmark?

A. The total gain on non-separated sales for 2011 is estimated to be $1,438,625 which is above the benchmark of $1,053,364 by $385,261. 100% of gains below the benchmark and 80% of gains above the benchmark will be distributed to customers based on the sharing mechanism approved by the Commission in Order No. PSC-00-1744-PAA-EI. Therefore, $77,052 or 20% of the gains above the benchmark will be retained for the shareholders. The benchmark was calculated based on the average of actual gains for 2008 of

$1,080,438 and 2009 of $1,219,086 and estimated gains for 2010 of $860,568 in accordance with Order No. PSC-00-1744-PAA-EI.

Q. Please explain the entry on Schedule E1, line 17, "Fuel Cost of Stratified Sales."

A. PEF has several wholesale contracts with Seminole Electric Cooperative, Inc. ("SECI"). One contract provides for the sale of supplemental energy to supply the portion of their load in excess of SECI's own resources. The fuel costs charged to SECI for supplemental sales are calculated on a "stratified" basis in a manner which recovers the higher cost of intermediate/peaking generation used to provide the energy. There are other SECI contracts for fixed amounts of base, intermediate, peaking and plant-specific capacity. PEF is crediting average fuel cost of the appropriate strata in accordance with Order No. PSC-97-0262-FOF-EI. The fuel costs of wholesale sales are normally included in the total cost of fuel and net power transactions used to calculate the average system cost per kWh for fuel adjustment purposes. However, since the fuel costs of the stratified and plant-specific sales are not recovered on an average system cost basis, an adjustment has been made to remove these costs and the related kWh sales from the fuel adjustment calculation in the same manner that interchange sales are removed from the calculation. This adjustment is necessary to avoid an over-recovery by the Company which would result from the treatment of these fuel costs on an average system cost basis in this proceeding, while actually recovering the costs from these customers on a net higher, stratified or plant-specific cost basis. Line 17 also includes the fuel cost of sales made to the City of Tallahassee in accordance with Order No. PSC-99-1741-PAA-EI, as well as sales to Reedy Creek, Gainesville, and the City of Homestead.

Q. Please give a brief overview of the procedure used in developing the projected fuel cost data from which the Company's fuel cost recovery factor was calculated.

A. The process begins with a fuel price forecast and a system sales forecast. These forecasts are input into the Company's production cost simulation model along with purchased power information, generating unit operating characteristics, maintenance schedules, and other pertinent data. The model then computes system fuel consumption and fuel and purchased power costs. This information is the basis for the calculation of the Company's fuel cost factors and supporting schedules.

Q. What is the source of the system sales forecast?

A. System sales are forecasted by the PEF Finance Department using normal weather conditions based on 20-year system weighted average weather conditions, population projections from the Bureau of Economic and Business Research at the University of Florida and economic assumptions from Economy.Com.

Q. What is the source of the Company's fuel price forecast?

A. The fuel price forecasts for natural gas and fuel oil (residual and distillate) are based on observable market data in the industry and are prepared jointly by the Company's Enterprise Risk Management Department and Fuels and Power Optimization Department. For coal, a third party forecast is used. Additional details and forecast assumptions are provided in Part 1 of my exhibit.

Q. Are current fuel prices the same as those used in the development of the projected fuel factor?

A. No. Fuel prices can change significantly from day to day, particularly in the storm season. Consistent with past practices, PEF will continue to monitor fuel prices and update the projection filing prior to the November hearing if changes in fuel prices warrant such an update.

CAPACITY COST RECOVERY CLAUSE

Q. Please explain the schedules that are included in Exhibit__(MO-2) Part 3.

A. The following schedules are included in my exhibit:

Schedule E12-A – Calculation of Projected Capacity Costs – Year 2011

Page 1 of Schedule E12-A includes estimated 2011 calendar year system capacity payments to qualifying facilities (QF) and other power suppliers, as well as recovery of nuclear costs pursuant to Rule 25-6.0423. The retail portion of the capacity payments is calculated using separation factors consistent with PEF's 2010 Forecasted Earnings Surveillance Report filed July 7, 2010 in accordance with Rule 25-6.1353. Total nuclear costs of

$163,580,660, made up of $147,573,865 for the Levy plant and $16,006,795 for the CR3 Uprate project, were derived from the Direct Testimony of Thomas G. Foster filed on April 30, 2010 in Docket No. 100009-EI, Exhibit__(TGF-2) pages 3-4 and Exhibit__(TGF-5) pages 3-4, respectively. Page 2 of Schedule E12-A provides dates and MWs associated with the QF and purchase power contracts.

<u>Schedule E12-B – Calculation of Estimated/Actual True-Up - Year 2010</u>

Schedule E12-B, which is also included in Exhibit __(MO-1) to my direct testimony filed on August 2, 2010 in the 2010 estimated/actual true-up filing, calculates the estimated true-up capacity over-recovered balance for calendar year 2010 of $52,311,070. This balance is carried forward to Schedule E12-A to be refunded to customers from January through December 2011.

<u>Schedule E12-D – Calculation of Energy and Demand Percent by Rate Class</u>

Schedule E12-D is the calculation of the currently approved 12CP and 1/13 annual average demand allocators for each rate class.

<u>Schedule E12-E – Calculation of Capacity Cost Recovery Factors by Rate Class</u>

Schedule E12-E calculates the CCR factors for capacity and nuclear costs for each rate class based on the 12CP and 1/13 annual average demand allocators from Schedule E12-D. The CCR factors for each secondary delivery rate class in cents per kWh are calculated by multiplying total recoverable jurisdictional capacity (including revenue taxes) from Schedule E12-A by the class demand allocation factor, and then dividing by estimated effective sales at the secondary metering level. The CCR factors for primary and transmission rate classes reflect the application of metering reduction factors of 1% and 2% from the secondary CCR factor. The factors allocate capacity and nuclear costs to rate classes in the same manner in which they would be allocated if they were recovered in base rates.

Q. Has PEF used the most recent load research information in the development of its capacity cost allocation factors?

A. Yes. The 12CP load factor relationships from PEF's most recent load research conducted for the period April 2008 through March 2009 are incorporated into the capacity cost allocation factors. This information is included in PEF's Load Research Report filed with the Commission on July 31, 2009.

Q. What is the 2011 projected average retail CCR factor?

A. The 2011 average retail CCR factor is 1.244 ¢/kWh, made up of capacity and nuclear costs of 0.793 ¢/kWh and 0.451 ¢/kWh, respectively.

Q. Please explain the change in the CCR factor for the projection period compared to the CCR factor currently in effect.

A. The total projected average retail CCR factor of 1.244 ¢/kWh is .421 ¢/kWh or 25% lower than the 2010 factor of 1.665 ¢/kWh. This decrease is primary attributable to a refund of the prior period over-recovery of $52,311,070 compared to a prior period under-recovery collected in 2010 of $57,262,162. In addition, nuclear recoveries decreased by $43,327,066.

Q. Does this conclude your testimony?

A. Yes

BY MS. TRIPLETT:

Q. Do you have a summary of your testimony?

A. Yes.

Q. Could you please provide it.

A. Yes. Good morning, Commissioners.

My name is Marcia Olivier, and my testimonies address Progress Energy Florida's estimated/actual fuel and capacity cost-recovery true-up amounts for the period of January through December 2010, and projection amounts for 2011. I look forward to answering any questions you may have.

MS. TRIPLETT: Thank you. We would tender Ms. Olivier for cross examination.

CHAIRMAN GRAHAM: Thank you, ma'am. Who is going to start with the cross-examination? Nobody.

Staff. Yes, sir.

MR. BREW: Thank you, Mr. Chairman. James Brew for PCS. I just have a couple of quick clarifying questions, if I may.

CROSS EXAMINATION

BY MR. BREW:

Q. Ms. Olivier, could I refer you to your September testimony at Page 4.

A. Okay. I'm there.

Q. And on Line 2, you indicate that the, you reference the underrecovery of $112 million. Do you see that?

A. Yes.

Q. Now, that $112 million included the 1,638,000 of Crystal River 3 replacement power costs that Mr. Burnett referenced earlier, is that correct?

A. Correct.

Q. But for the CR3 excess replacement power costs, there would have been a net overrecovery for that period?

A. That's correct.

Q. And if I could refer you back to Page 3 your answer on Lines 18 through 20?

A. Okay. I'm there.

Q. And that answer indicates, at least with respect to residential rates, a proposed residential fuel factor of 5.112 cents per kilowatt hour, do you see that.

A. Yes.

Q. And that was proposed increase of 0.189 cents per kilowatt from the 2010 factor?

A. Yes.

Q. Again, for residential.

And do I understand that change in the factor equates to the $57 million that's referenced, or, excuse me, the net of the 1,123,000 and the lower fuel cost of 57 million that are referenced on Lines 2 and 4 of Page 4?

A. The .189 cents per kilowatt hour does equate to the $112 million, it includes the $112 million underrecovery from 2010, and that number would also change with the updated CR-3 replacement costs, if we were to reduce those.

Q. So the sentence on Page 4, Lines 3 and 4 that references this increase is partially offset by lower fuel costs of $57 million, the 57 million is included in the 112 million, or needs to be netted off against it?

A. Yes, the 567 million is included in the 112 million.

Q. Okay. So to the extent that Progress expects that its revisions will result in further reductions of somewhere in the range of 140 to 180 million --

A. That's what we believe.

Q. -- you would expect that there would be a net overrecovery for the period rather than an underrecovery?

A. That's correct.

MR. BREW: That is all I have. Thank you.

CHAIRMAN GRAHAM: Mr. Moyle.

THE WITNESS: Good morning, Mr. Moyle.

CROSS EXAMINATION

BY MR. MOYLE:

Q. I have a few questions. When we took your deposition last week, we had a long discussion about the natural gas prices, and which way we were going, and the idea of maybe a need to revise the numbers. And you shared with me a high level forecast, correct?

A. I did.

Q. Okay. If I don't have to show you the document, I'll be happy to show it to you, but I wanted to just ask you a question. You showed that there was about 125 million in possible savings, if you did a revision in the high level forecast, right?

A. Yes, I did.

Q. And your chart showed that that was about 6.77 percent, correct?

A. That's correct.

Q. And it just kind of happens by coincidence that 125 million is about the same number that you all are going to be looking to ratepayers to provide for the Crystal River 3 outage, is that right?

A. The current number is $110 million.

Q. 110. Last week it was 125, right?

A. That's right.

Q. And when you filed the testimony it was 163, right?

A. That's correct.

Q. So explain why it is coming down, if you would?

A. Yes. As gas prices come down, then the costs of our replacement fuel has been coming down. So our latest estimates we are layering on more months of actuals, and we are also refining out calculations to incorporate the more recent gas prices. So right now we are looking at with actuals through settlement, and then projections for the rest of the year, we are looking at $1,120,000 due primary to lower gas prices.

Q. And $110 million, what percent of your total fuel cost would that represent, approximately?

A. Our total fuel costs are approximately $1.8 billion, so 100, you'd have to do the math to see what percentage that is.

Q. It is over 5 percent, right?

A. Subject to check. Yes, subject to check.

Q. Now, are you familiar with the company's hedging activities at all?

A. I have some familiarity with the company's hedging activities, I don't actually engage in any hedging, but I have some familiarity.

Q. Mr. McCallister probably has more information on that?

A. That's correct.

Q. Let me just ask this question. To the extent that you were not hedged on natural gas or were hedged less than you are, the savings that relate to the lower fuel costs that you just talked about as to why the Crystal River 3 number is coming down, that number would come down even further, correct?

A. That makes sense to someone like me. I'm not actually engaged in the hedging, but the fact that I know that gas prices have been declining, that seems to make sense on the surface.

Q. You have some testimony about the Crystal River 3 Nuclear Power Plant outage, correct? On Page 4 of your testimony, when you are asked about how to address the prudency?

A. Yes.

Q. And as I read your answer with respect to the prudency and the replacement power costs, you're essentially saying that this is going to be decided further down the road in a spin-off docket, correct?

A. That's correct.

Q. You don't have anything in your prefiled testimony or anything else that you can point to, do you, that affirmatively demonstrates that the actions or events that gave rise to the need for the recovery of the Crystal River 3 costs?

A. I would agree in my testimony that there is nothing that is included that explains any of the events related to Crystal River 3, but what I can tell you is that we have --

Q. That's all right, I was just wanting to ask with respect to your testimony?

A. Okay.

MS. TRIPLETT: Mr. Chairman, I'm sorry to interpret, but I would ask that the witness be allowed to complete her answer.

MR. MOYLE: And, Mr. Chairman, we have a long tradition at the Commission of having prefiled testimony. And I was a very narrow, limited question, just asking her, she doesn't have anything in her prefiled testimony that address it. Now, I don't want to have her say, well, you know, give us an answer now kind of on the fly, and they try to rehave their record. I don't think that's fair, it's not the way things are done, you know, at the PSC, historically. So I don't think I opened the door. I think it was a very limited question with respect to whether there was anything in her testimony.

CHAIRMAN GRAHAM: I believe you were pretty limited, I'll overrule the objection.

BY MR. MOYLE:

Q. How long have you worked for Progress Energy?

A. I've been with the company since 1991.

Q. Were you involved in the procurement of the insurance for the Crystal River 3?

A. No, I was not.

MR. MOYLE: Thank you. Thank you for your time last week on your deposition, and also for your company's willingness to redo those fuel numbers.

So that's all I have, Mr. Chairman?

CHAIRMAN GRAHAM: Thank you.

Mr. Beck.

MR. BECK: I have no questions.

CHAIRMAN GRAHAM: Okay. To the staff.

MR. SAYLER: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. SAYLER:

Q. Hi, Ms. Olivier, my name is Erik Sayler on behalf of Commission staff.

Our one question is based upon Progress' representation this morning regarding reforecasting, approximately when will we see Progress' new filing?

A. We will be filing on or before November 10th.

MR. SAYLER: Thank you very much.

Thank you. No further questions.

CHAIRMAN GRAHAM: No questions from staff. Okay to the Commission board.

Commissioner Skop.

COMMISSIONER SKOP: Thank you.

Good morning, Ms. Olivier.

THE WITNESS: Good morning.

COMMISSIONER SKOP: Just two follow-up questions. With respect to the replacement power that resulted from the replacement of the steam generators and the delamination of what a vent (phonetic) on CR3, is that correct.

THE WITNESS: That's correct.

COMMISSIONER SKOP: On Page 4 of your prefiled testimony you discuss the NEIL insurance policy which is the Nuclear Electric Insurance Limited replacement power reimbursement payments. And you indicate in your testimony that when an unplanned outage on CR3 extends beyond a deductible period of twelve weeks, PEF is entitled to receive reimbursement payments in the amount of $4,500,000 per week to cover a portion of the replacement power costs associated with the outage.

Is there a limitation to how long that insurance policy runs in terms of the number of weeks after the twelve week deductible.

THE WITNESS: Yes, there is. There is, actually, a recover of $4.5 million per week for the first 52 weeks, and then that goes to $3.6 million per week for an additional 71.1.

COMMISSIONER SKOP: So it's a step-down policy after a certain period to pay out?

THE WITNESS: That's correct.

COMMISSIONER SKOP: Great. And then on Page 3 of your prefiled testimony, you discuss the adjustments that Progress has made to estimated fuel costs for the period July through December 2010, and it's a net reduction to just over $80 million, is that correct.

THE WITNESS: Yes.

COMMISSIONER SKOP: And part of that was, I guess, under Item 4 an adjustment made in almost 92,828,000 and change for the proceeds of the policy.

THE WITNESS: That's correct.

COMMISSIONER SKOP: And then on Item 5, beginning on Line 21, Progress also made an adjustment to include an additional almost 16.6 million or 16.7 million of estimated incremental replacement power costs net of insurance proceeds. So am I to understand that would be -- that value listed the $16.7 million be the amount of purchased power less the insurance payments that applied during that period, is that correct.

THE WITNESS: That would be correct.

COMMISSIONER SKOP: Thank you.

CHAIRMAN GRAHAM: Anything else from the Commission board.

Redirect.

MS. TRIPLETT: No redirect, sir.

CHAIRMAN GRAHAM: Sounds good.

MS. TRIPLETT: Ms. Olivier has exhibits, I think they are marked as 5 and 6, and I'd ask for those to be moved into evidence.

CHAIRMAN GRAHAM: Any objections in moving in Exhibits 5 and 6? Seeing none, so moved.

MS. TRIPLETT: Mr. Chairman, may Ms. Olivier be excused from the remaining of the proceeding.

CHAIRMAN GRAHAM: Do we have any other questions coming for Ms. Olivier?

MS. BENNETT: No, Mr. Chairman.

CHAIRMAN GRAHAM: Seeing none, you are excused. Thank you.

THE WITNESS: Thank you.

MS. TRIPLETT: Thank you.

CHAIRMAN GRAHAM: Progress, you have the next witness.

MR. BURNETT: Yes, sir, we would call Joseph

McCallister.

JOSEPH McCALLISTER

was called as a witness on behalf of Progress Energy Florida, and having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BURNETT:

Q. Mr. McCallister, good morning. Will you introduce yourself to the Commission and provide your business address.

A. Yes. Good morning, Commissioners, my name is Joseph McCallister. My business address is 100 East Davie Street, Raleigh, North Carolina 27601.

Q. And you have been sworn as a witness, correct, sir?

A. I have.

Q. Who do you work for and what is your position?

A. I'm employed by Progress Energy Carolina, and I'm the Director of Gas, Oil and Power.

Q. Have you filed Prefiled Direct Testimony and exhibits in this proceeding.

A. Yes, I have.

Q. Do you have a copy of your Prefiled Testimony and Exhibits with you today?

A. Yes, I do.

Q. Do you have any changes to make to that Prefiled Testimony or Exhibits?

A. No, I don't.

Q. If I asked you the same questions in your prefiled testimony today, would you give the same answers that are in your prefiled direct testimony?

A. Yes, I would.

MR. BURNETT: Mr. Chair, we request that the prefiled testimony of Mr. McCallister be entered into the record as if it were read today.

CHAIRMAN GRAHAM: Let the witness' testimony be entered into record as though it had been read.

PROGRESS ENERGY FLORIDA

DOCKET NO. 100001-EI

Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December 2009

DIRECT TESTIMONY OF JOSEPH MCCALLISTER

April 1, 2010

Q. Please state your name and business address.

A. My name is Joseph McCallister. My business address is 100 E. Davie Street, Raleigh, North Carolina 27601.

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

A. I am employed by Progress Energy Carolinas in the capacity of Director of Gas, Oil and Power.

Q. Have your duties and responsibilities remained the same since you last testified in this proceeding?

A. Yes. My responsibilities for the Gas, Oil and Power section activities within the Fuels and Power Optimization Department have remained the same.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to summarize the results of PEF's hedging activity for 2009 and to provide the information required by Order No. PSC-02-1484-FOF-EI and clarified in PSC-08-0667-PPA-EI.

Q. Have you prepared exhibits to your testimony?

A. Yes. I have attached exhibit JM-1T which summarized hedging information for 2009 and cumulative results from 2002 to 2009.

Q. What are the primary objectives of PEF's hedging strategy?

A. The objectives of PEF's hedging strategy are to mitigate fuel price risk and volatility over time and provide a greater degree of price certainty to PEF's customers.

Q. What hedging activities did PEF undertake during 2009 for fuel and wholesale power and what were the results?

A. PEF performed the activities outlined in its Risk Management Plan. With respect to hedging activities that were executed over time for 2009 to reduce the overall price risk and volatility associated with PEF's natural gas, heavy oil and light oil burns, PEF executed fixed price physical contracts for natural gas and financial instruments for natural gas, heavy oil and light oil that resulted in net hedge cost of approximately $583.6 million. For the period 2002 through 2009, PEF's natural gas and fuel oil hedges have provided net hedge savings of approximately $17.4 million. Although PEF's hedging activity has achieved fuel savings to date, the objectives are to reduce price risk and volatility and provide a greater degree of price certainty for its customers. As a result, there will be periods when realized hedge losses occur. In addition, during 2009, PEF made economic energy purchases and wholesale power sales to third parties that resulted in additional savings of approximately $2.6 million and $1.2 million, respectively.

Q. Does this conclude your testimony?

A. Yes

PROGRESS ENERGY FLORIDA

DOCKET NO. 100001-EI

Fuel and Capacity Cost Recovery
January through December 2011

DIRECT TESTIMONY OF JOSEPH MCCALLISTER

September 1, 2010

Q. Please state your name and business address.

A. My name is Joseph McCallister. My business address is 100 E. Davie Street, Raleigh, North Carolina 27601.

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

A. I am employed by Progress Energy Carolinas in the capacity of Director, Gas, Oil and Power.

Q. Have you previously filed testimony before this Commission?

A. Yes I have.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to outline PEF's hedging objectives and activities for projected natural gas and fuel oil burns for 2011, outline PEF's actual hedging results for natural gas and fuel oil for January 2010 through

July 2010, and summarize PEF's economy purchase and sales savings for the period January 2010 through July 2010.

Q. Are your sponsoring any exhibits to your testimony?

A. Yes, I am sponsoring the following exhibits:

- Exhibit No. ___ (JM-1P) – 2011 Risk Management Plan *(originally filed on August 2, 2010)*; and
- Exhibit No. ___ (JM-2P) - Hedging Results for January 2010 through July 2010 *(originally filed on August 16, 2010).*

Q. What are the objectives of PEF's hedging activities?

A. The objectives of PEF's hedging activities are to reduce overall fuel price risk and volatility.

Q. Describe PEF's hedging activities for 2011.

A. PEF continues to execute its hedging strategy for projected natural gas and fuel oil annual burns. PEF executes its hedging strategy by entering into fixed price transactions over time for a portion of its projected calendar year annual natural gas, heavy oil and light oil burns for future periods. With respect to natural gas, PEF target hedging percentage ranges are between [redacted] of its current 2011 forecasted calendar annual burns. The current expectation is for PEF to hedge at least [redacted] of its forecasted natural gas burn projections for 2011. Hedging at the lower end of the ranges will allow PEF to monitor actual fuel burns, updated fuel forecasts and make any adjustments if needed. With respect to heavy oil and light oil, PEF will target to hedge at least [redacted] and [redacted], respectively, of the current forecasted annual heavy and light oil burns for 2011. With respect to coal river and rail transportation estimated fuel surcharges, for calendar year 2011, PEF will target to hedge between [redacted] to [redacted] of the estimated fuel surcharge exposure based on the contractual provisions in the coal rail and river barge transportation agreements.

The volumes that are hedged over time are based on periodic forecasts and the resulting actual hedge percentages can vary from higher or lower than targeted hedge percentages based on deviations that occur between forecasted burns and actual burns that are driven by dynamic factors such as weather extremes and variations, actual power demand, unforeseen unit outages and changing fuel prices. The hedging program does not involve price speculation or trying to outguess the market. Hedging activities may not result in actual fuel costs savings; however, hedging does achieve the objective of reducing the impacts of fuel price risk and volatility for customers. As of August 16, 2010, for 2011 PEF has hedged approximately [redacted] of its forecasted natural gas burns, [redacted] of its forecasted heavy oil burns and [redacted] of its forecasted light oil burns. In addition, as of August 16, 2010, for 2011 PEF has hedged approximately [redacted] and [redacted] its estimated fuel surcharge exposure based on the contractual provisions in the coal rail and river barge transportation agreements. PEF will continue to execute additional hedges for 2011 throughout the remainder of 2010 and during 2011 consistent with its on-going strategy.

Q. What were the results of PEF's hedging activities for January through July 2010?

A. The Company's natural gas hedging activities for January through July 2010 have resulted in hedges being above the closing natural gas settlement prices for the periods of January 2010 through July 2010 by approximately $158.1 million. The Company's overall fuel oil hedging activities have resulted in hedges being below the closing settlement prices for the periods of January 2010 through July 2010 by approximately $3.2 million. This overall hedge results were driven primarily as a result of continued declines in natural gas prices after the execution of PEF's 2010 hedging transactions. Although PEF's hedging activity did not result in net fuel cost savings, the activities did achieve the objective of reducing price risk and volatility for PEF's customers and were executed consistent with its Risk Management Plan.

Q. What has been the savings generated through economy purchase and sales activity for January 2010 through July 2010?

A. During the period January 2010 through July 2010, PEF has made economic energy purchases and wholesale power sales to third parties that resulted in savings of approximately $16.5 million and $0.8 million, respectively.

Q. Does this conclude your testimony?

A. Yes.

BY MR. BURNETT:

Q. Mr. McCallister, do you have a summary of your prefiled testimony?

A. I do.

Q. Will you please provide it to the Commission?

A. Good morning, Commissioners.

My name is Joseph McCallister, and my testimony specifically addresses Progress Energy Florida's hedging activities. The objective of PEF's hedging activity is to mitigate fuel price risk and volatility, to provide greater price certainty to PEF's customers by locking in fixed prices over time for a portion of its forecasted natural gas and fuel oil requirements. PEF's hedging program has met the objective of reducing price risk and volatility to PEF's customers. I look forward to answering any questions that you may have.

MR. BURNETT: Mr. Chair, now that Mr. McCallister has put the brakes on a little bit, we will tender him for cross.

CHAIRMAN GRAHAM: All right. I don't see Mr. Brew. Mr. Moyle, it looks like you are first.

MR. MOYLE: Thank you.

CROSS EXAMINATION

BY MR. MOYLE:

Q. Good morning, Mr. McCallister.

A. Good morning.

Q. Why did you file prefiled testimony in this case?

A. We are required to file prefiled testimony about our hedging activities and our risk management plan.

Q. And what are you asking the Commission to look at and approve today?

A. Sure. Well, we are asking the Commission to look at the reasonableness of our plan toward hedging.

Q. And that's a plan for 2011, right?

A. Yes, sir.

Q. And the 2011 plan hadn't changed a whole lot from the 2010 plan, correct?

A. In substance it has not change.

Q. And then the 2010 from the 2009, it don't have a whole lot of substantive changes either, did it?

A. You mean last years that we filed? Yes, last year's plan did have a couple of changes.

Q. From 2009?

A. Yes. Well, let me just get my dates right. The plan we filed in last years docket had some changes from the one we had filed in the previous docket.

Q. All right. And you have testimony about hedging results from 2009 and 2010 in your testimony, correct?

A. I do.

Q. And why do you have hedging testimony about 2009? Are you asking the Commission to, you know, allow recovery of some of the 2009 expenditures or losses, gains or losses, is that right?

A. Yes, sir. My understanding is that they are looking at the period of longest 2009 to July 2010. That is why we have some '09 and '10 data together.

Q. So with respect to Commission making a judgment about allowing those costs, then I'm going to ask you some question about your hedging program --

A. Sure.

Q. -- and about the results and what the objectives are, so let me just preview with you.

Can you tell the Commission what the hedging results were for the calendar year 2009?

A. Yes, sir. The hedging results for calendar year 2009 were a net cost of approximately $583 million.

Q. So a 583 million loss, is that right.

A. Net cost; yes, sir.

Q. Was that the most money that -- ultimately the consumers bear those costs, right?

A. Correct.

Q. Was that the most money that the consumers have ever been or are, I guess, currently being asked to, you know, to pay? Is that the most since you all started hedging?

A. Yes, sir.

Q. And you started hedging, am I right, in 2002 after this Commission entered a hedging order?

A. Yes, sir.

Q. So it's relatively new, I mean, 2002, it has been in effect eight years, I guess.

A. This will be the ninth year, I believe.

Q. And you know, hedging has, as we discussed, has a lot of -- different people kind of see it differently, but could you just explain what it is that Progress Energy is hedging against? I mean, what is its hedging program designed to accomplish?

A. Yes. The design of the program is intended to reduce price risks and provide more certainty around our projected costs. So with volatile fuel prices, the hedging plan is trying to mitigate that risk to the customer.

Q. So you're trying to mitigate against volatile fuel pricing?

A. That's correct.

Q. Now, you would agree there are other ways that you can mitigate against volatile fuel pricing besides hedging, correct?

A. I'm not sure I would agree with that.

Q. Well, let's talk a little bit about a couple of things. We're here on the fuel hearing which this Commission sets a fuel factor recovery on an annual basis, correct?

A. Correct.

Q. Are you aware that other jurisdictions set fuel factors on a more frequent basis than one year?

A. I'm not knowledgable of what other jurisdictions do.

Q. Assume for the purposes of my question that some jurisdictions may be on a monthly or quarterly or a semi-annually basis. If you assume that to be true, wouldn't you agree that setting it on an annual basis where you are trying to recover all of your money over a 12-month period acts as a bit of a hedge on fuel volatility, because you are not seeing, like, the monthly spikes. If you are setting it every month, you would see a lot more up and down as compared to setting it on an annual basis?

A. Yes, I think what I would agree with, sir, is that the annual fuel factor is the mechanism to collect projected fuel costs at a point in time. So to your point, yes, the fuel factor does provide the mechanism of recovery of a projection at a point in time. What it doesn't do is provide any protection for the cost that can change. So I would agree that it does, it is the mechanism for recovery, but it is not a hedge against changing fuel prices or fuel costs.

Q. You would agree that you could hedge, hedge against, say, increases in natural gas by having a generation portfolio that had other fuel types included in the mix, correct?

A. Once again, I think -- I would not agree that you could hedge -- a diverse fuel mix certainly gives you diversity for fuel prices for different commodities. It gives you diversity in fuel costs, but it doesn't hedge the impacts of changing natural gas prices, for example.

Q. Maybe that wasn't a good question, because hedging has kind of a, you know, different connotation. But if the idea is that you don't want consumers to have to pay a lot with respect to -- let's use, for example, natural gas. You could hedge, but another way you might be able to do that is if you were starting from scratch and designing a utility is to say, you know, I want my utility have one-third nuclear, one-third natural gas, and one-third coal. I mean, that would, in effect, mitigate against price volatility, would it not?

A. You know, once again, it will provide you a more diverse generation fleet. But each one of those fuels could be volatile. You know, coal prices having been volatile, gas prices are volatile, oil prices are volatile. So, once again, it gives you diversity of fuels, but, once again, each of those fuels has its own characteristics and could change.

Q. Could you tell this Commission, roughly, the generation mix that Progress Energy Florida has?

A. Sure. Right now our generation mix is roughly 50 percent -- well, once again, I'm talking about from an energy use perspective. Energy use perspective, natural gas is roughly 47, 48 percent; coal is 31, 32 percent; nuclear, 19, 20 percent; and then oil a very small piece of that, less than one percent of the energy output, if it was added up.

Q. Do you all hedge coal?

A. Well, we do not hedge coal per the hedging program. Coal is a different commodity. It's primarily purchased through fixed price contracts. So, you know, when we are buying coal over time, we are, in effect, locking in a price. However, for the definition of hedging per the orders, coal is not part of the hedging program.

Q. You can buy natural gas with fixed price contracts, can't you?

A. To some degree, yes.

Q. Can you give this Commission an idea of how the hedging plan or the strategy, how that looks for 2010 in terms of whether that's going to work for or against consumers?

A. You're just asking for the cumulative result in terms of costs --

Q. Yes, sir.

A. -- or how we hedge.

Q. No, the cumulative result.

A. Yes, through September the estimated net costs is approximately $219 million.

Q. 219?

A. Yes, sir.

Q. And in your prefiled testimony, which you filed, I believe, in July?

A. Yes, sir.

Q. The number was 158 million, is that right?

A. Correct. Actually, I'm sorry it was about 154 million, yes.

Q. So since July, there has been about another 50-plus million in hedging losses, as we sit here today?

A. Approximately another 50 million in hedging costs.

Q. And do you have the ability to look, look into a 2011 and tell the Commission how the 2011 year is shaping up?

A. Do I have an estimated based on where the market is today?

Q. Yes, sir.

A. Yes, I do. Well, this is as of September 30th, it's approximately a $200 million net cost.

Q. For 2011?

A. Yes, based on current market prices. Well, market prices as of roughly the end of September.

Q. Some people might say, wait a minute, 2011 is not even here yet, how do you know you are going to lose approximately 200 million in hedging?

A. I didn't say we are going to lose it. We are going to ultimately know where we will end up. All I was saying was that if you take the hedge positions we have on against the current market values for the open positions, that is roughly the value now. It could go the other way and ultimately be a savings by the time it is all said and done. But I thought your question was -- I mean, did I answer your question.

Q. I think you did. I've got to be careful; I wasn't real precise in it. But for 2011, we talked whether, in effect, either the gain or the loss for consumers. Your best estimate, based on looking at market forward curves and data and how much you currently have hedged, is that you will probably lose in the neighborhood of 200 million for the -- lose, I say customers will be asked to pay approximately 200 million with respect to the loss for the hedging activities for 2011, correct?

A. Well, no, that's not what I said. I said to date the value of those positions is, you know, as of the send of September was approximately 200 million. What will ultimately happen, you know, will be driven by the market. So I'm not making a prediction, I'm just making a statement that based on the market value at a point in time.

Q. Okay. And you got 200 million by looking at the positions that you are in and what do you call it, mark to market, is that right?

A. That's correct.

Q. As we sit here today, if things were closed out, in effect, it would be $200 million loss, assuming today's pricing?

A. Yes. I mean, as of -- that was the end of

September, I don't have it as of today. But as of the end of September, that would be correct.

Q. Now, how do you determine whether the hedging program for, let's say, let's use the 2010 hedging program, where the losses for consumers were in excess of 500 million. How do you determine whether that was -- your hedging program was successful or not?

A. Well, I think the primary determinative is did it meet the objectives, and did we follow the plan that was set forth, and did we follow the intent of the Commission order. You know, once again, our hedging program is secured, we layer in hedges, just like dollar cost averaging over a period of time. I think as everyone in the room knows now, you know, prices from the end of '08 to the end of '09 fell dramatically because of the economy, because of growing gas supply. But in our respects, the way we determine if it was reasonable or not, did we met the objective, did we do it in a reasonable and organized fashion with good controls and did we do it according to our plan and according to the intent of the orders. And I think that is our primary evaluation.

Q. Do you charge fees and costs with respect to the hedging transactions? Are there fees and costs charged to consumers with respect to the hedging transactions that you all engage in?

A. You mean in our rates, base rates.

Q. I'm just asking with respect to whether the cost are charged through the consumers, and, if so, what are those costs?

A. The costs of hedging, yes. I mean, the cost of the hedging, savings, or costs what we pass through the fuel factor.

Q. I'm sorry. With respect to specific transactions, hedging transactions, you know, like if you trade a stock, there is a stock broker fee, do you all have those kind of fees?

A. I apologize. No, do not pay broker fees or transaction fees.

Q. All right. You had said that the hedging program is judged on its success or lack thereof based on the Commission orders and whether you're compliant with those orders. Let me direct your attention, if I could, to the June 2008, a review of fuel procurement hedging practices of Florida's investor-owned utilities, this was a document that staff had provided previously. Do you have a copy of that?

A. No, I do not have a copy of that.

Q. You do.

A. I do not.

CHAIRMAN GRAHAM: Is that Document 67.

MR. MOYLE: Yes, sir.

MR. SAYLER: Staff is providing a copy to the witness.

THE WITNESS: Thank you. What page are you referring to, sir.

BY MR. MOYLE:

Q. Let me refer you to Page 74. Actually, 73, there is a question, does the company have an adequate fuel procurement risk management plan?

A. 74, okay.

Q. And on 74, I'll just read it into the record. It says, "Specifically, audit staff does not believe the company's 2003 through 2007 plans adequately addressed the following requirements of the hedging order." Have you seen this document before today?

A. I have.

Q. You are familiar with it?

A. I have seen it. I haven't read it in recent days, but I am familiar with it.

Q. Okay. I was curious as to whether the 2011 plan complied with the hedging order, and wanted to take that first bullet point, verify that the utility's corporate risk policy clearly delineates individual and group transaction limits and authorizations for all fuel procurement activities?

A. I believe it does.

Q. And can you point to the plan as to where you believe it does?

A. Sure.

Q. The plan is attached as a document to your testimony, correct?

A. Yes. I am looking through the plan right now, sir. Item 7, says, you know, verify the utility's corporate risk policy clearly delineates individual and group transaction limits and authorizations for all fuel procurement and hedging activities, on Page 14 of the risk management plan.

Q. Where are the limits in that?

A. The limits, once again, I'm just going to read this to you to make sure I don't miss anything. The utility has guidelines and procedures in place that outline individual and group limits and authorizations for procurement hedging activities and portfolio management activities." These guidelines and procedures are offered in detail in responses to Item 4 and 5, and then there is a summary -- applicable procedures are attached as part of the response to Item 9.

And if you go back to Items 4 and 5, it talks about the oversight functions of the group, it talks about -- it references the risk management policy and risk management guidelines which have limits in them, and then it talks about -- Item 5 talks about the oversight of the activities, of the guidelines, as well as the activities of all the groups that support the activities of the fuel and power optimization group.

Q. Yes, sir. And I appreciate that. I spent some time looking, not only at Item 7 which, you know, you read into the record, but also Items 4 and 5, and also the summary of the applicable procedures that was attached. And I was looking for limits. I was looking for a dollar limit, or some kind of a, you know, pretty hard and fast limit, and I didn't find any.

Can you point me to anything in 4 or 5 that has a stringent limit with respect to transaction limits and authorizations for fuel procurement and hedging activities?

A. Yes. If you go to the guidelines themselves, which are referenced here, it talks about --

Q. So is that in 4, or 5, or where?

A. That is -- one second, sir. Let me see where it is referenced. I'm getting there. Yes, actually, in Item 2 it refers to the risk management guidelines in Attachment A, which outlines the products, the time period limits, you know, the time periods that can be created, who can trade, those sort of things.

Q. I thought there might be a dollar limit, you know, like at some point to say, you know what, with your hedging activities we don't want you to put customers at risk for more than a billion dollars, or two billion dollars, or something, but I didn't find that anywhere.

A. There is not that. In the guidelines there are percentage targets, the volumetric targets, the time periods, those sort of things. But to your point, there is not a limit, per se, that would answer that question for you in these guidelines.

Q. The hedging activities that are undertaken, they are done out of Raleigh, is that right?

A. That's correct.

Q. And you are not an officer of Progress Energy Florida, correct?

A. I am not.

Q. With respect to the -- you have a group called a risk management committee, isn't that right, or risk management policy? It is referenced on Item 5 on Page 12 of your risk management plan.

A. Yes, sir.

Q. Those are the folks that internally kind of review your hedging operation, correct?

A. The RMC ultimately approves the risk management guidelines.

Q. Okay. There's nobody on this RMC that is either a senior officer, a senior employee, or an employee in any respect of Progress Energy Florida, correct?

A. They are all officers. I do not believe that there is one -- any of the ones listed here are employees of Progress Energy Florida. Now, I will caveat that to say I do believe, and this is subject -- I'm sure our legal group can check it. At one point the Senior VP, I think, was an officer of both Progress Energy -- Senior VP of Power Operations was both an officer of Progress Energy Carolina and Progress Energy Florida, but that's subject to check. But all the people on there are officers of the company and have oversight responsibility for both activities in the Carolinas and in Florida in the functions they serve.

Q. And when you say they are officers of the company, you are not talking about Progress Energy Florida, you're talking about the holding company, right?

A. Either. I'm not sure of which company, but not Progress Energy Florida. I believe a lot of them are Progress Energy Service Company employees.

Q. Do you know if there was any reason why no senior management from Progress Energy Florida was not included?

A. I can't answer that, sir.

MR. MOYLE: Mr. Chairman, just a few more if I could have a minute.

CHAIRMAN GRAHAM: Sure.

BY MR. MOYLE:

Q. Now, your hedging operations are audited by PSC staff, correct?

A. I believe so, yes.

Q. Do you know if the PSC staff gives any -- makes any qualitative judgments with respect to the program, or just checks to make sure that the activities are being conducted in terms of businesses being done with the right amount of checks and paperwork and things like that; can you comment on that?

A. Well, I can't comment on their entire intent. I do know they are checking to make sure things are booked correctly. They also are checking to make sure there is segregation of duties, and they also are checking to make sure, at least one of the sections that I have read is that our hedging percentage are in alignment with those that we outlined in our plan. What other qualitative assessments, you know, I think they can probably speak better to that.

Q. All right. And with respect to changes to your plan, I mean, isn't part of the reason you're bringing this in front of the Commission is to ask them to look at the plan and to make a qualitative judgment to say as to whether the plan makes sense on a going-forward basis for 2011?

A. Yes, we are asking the Commission to determine that our plan is reasonable.

Q. Who makes changes to the plan internally, is it the RMC?

A. Well, it's a collective process. You know, each year we do step back and as a fuel and power optimization group, the enterprise risk management group, the accounting group, legal, regulatory, we all review it to see if there is any changes we need to make. So it is a document that gets vetted out among multiple groups, and then once all the changes are reviewed and recommended they are presented to the RMC for approval.

Q. To the extent that this Commission decided to take a closer look at the hedging operations, maybe not today, but at some future point, do you know if your company would have any objection to that?

A. Our company would not have any objections to that.

Q. And at the end of the day, isn't your company somewhat ambivalent as to the whole hedging operation as to having it or not?

A. Our company is following policy. Now, does our company believe that hedging is an important part of fuel risk management? Yes. But if I'm understanding your question, if the Commission and others decided, hey, we wanted to revisit it, we want to take another fresh look at it, we would be supportive of that process.

MR. MOYLE: Thank you. That's all the questions.

CHAIRMAN GRAHAM: Thank you, sir.

Mr. Beck.

MR. BECK: I have no questions.

CHAIRMAN GRAHAM: Staff.

MR. SAYLER: Just a few questions, Mr. Chairman.

CROSS EXAMINATION

BY MR. SAYLER:

Q. Good afternoon, or good morning, Mr. McCallister. My name is Erik Sayler with Commission legal staff.

A. Good morning.

Q. You were previously handed a copy of an exhibit identified as Number 67. Do you have that with you?

A. I do, sir.

Q. And I believe you stated you had seen this document before because Mr. Moyle was asking you a few questions about it. My question for you is were you involved in the responses and the responses to staff auditors and also that were provided to the Commission in response to creating this report?

A. I was directly involved, yes.

Q. All right. And can you tell the Commission how you were directly involved?

A. I was involved through the interviews that the Commission staff had with us. I was involved with some of the workshops that took place. I was involved in answering, you know, interrogatory questions about the plan, providing information to the staff, or my staff was directly involved. So that was my involvement.

Q. And with regard to the Progress portion of the report, you were very involved in that?

A. Yes, sir, I was.

Q. All right. If you will turn to Page 61 of the report. It says Section 5.0, Progress Energy. Let me know when you are there.

A. Page 61, yes, sir.

Q. All right. What fuels does Progress hedge?

A. We hedge natural gas, we hedge heavy oil, we hedge light oil, and we also hedge surcharges in our river and rail coal transportation agreements.

Q. And the surcharges in the river and coal transportation agreements is a recent hedging activity, is that correct?

A. Yes. That was approved by the Commission in I believe April or May of '09, and we started hedging with the 2010 time period for that.

Q. All right. If you will turn to the next page, Page 62, Section 5.2.

A. Yes, sir.

Q. Subject to check, that goes to Page 72.

A. Uh-huh.

Q. Would you agree that this section provides a summary of Progress' hedging strategy?

A. Well, I think it probably provides a summary of our hedging strategy. I haven't read this in detail, but at the time I will concede that it probably did.

Q. At the time this report was produced, it was fairly current, is that correct?

A. Yes, I mean, I believe we had some comments to this report, but, I mean, I suspect that it was done objectively to what you're saying.

CHAIRMAN GRAHAM: Mr. Sayler, hold on a second. Commissioner Skop.

COMMISSIONER SKOP: Thank you. Just to Mr. Sayler, with respect to this report, is this report not obsolete to the extent that in the fall of 2008 the Commission, as a result of this report adopted specific hedging guidelines and plans for each of the five IOUs?

MR. SAYLER: Yes, sir. The point of my line of questions is to lead that it was based in part on this report, not just for Progress, but for the other utilities that led the Commission to approve Commission Order PSC-08-0667-PAA in October 2008.

COMMISSIONER SKOP: Okay. Thank you.

CHAIRMAN GRAHAM: Mr. Sayler, continue, please.

MR. SAYLER: Thank you.

BY MR. SAYLER:

Q. On Page 68 there is a chart, Exhibit 30, which shows Progress' hedging gains and losses, or gains and costs from 2003 to 2007, is that correct?

A. Yes, sir.

Q. And as Commissioner Skop noted, this is no longer the most recent information because we have had a couple of years --

A. Correct.

Q. -- of additional gains and losses. All right.

If you will turn to Page 72, and this section of the report summarizes Progress' risk performance as it was at the time and staff's evaluation of that, is that correct?

A. I believe so, yes.

Q. All right. And as noted earlier, it was based upon the Commission's hedging practices report that culminated in the issuance of the 2008 October hedging order, which is Order Number PSC-08-0667-PAA, is that correct?

A. Yes, sir.

Q. All right. Since that order was issued in October 2008, would you agree that the Commission has determined as prudent the finalized hedging transactions prior to July 31st, 2009?

A. I would.

Q. For the results of hedging activities for the 12-month period ending July 31st, 2010, did Progress enter into hedging positions at market prices?

A. We did.

Q. All right. For the same period, were Progress' hedging activities guided by its risk management plan?

A. They were.

Q. And in the 2008 fuel clause proceeding, the Commission approved Progress' risk management plan for hedging transactions entered into during 2009?

A. They did.

Q. All right. And, also, isn't it true, and we have touched on it previously, but isn't it true that in 2008 the Commission did establish those guidelines for the risk management plan?

A. We did.

Q. In your opinion, does Progress' risk management plan that will govern its 2011 hedging transactions comply with those guidelines and that order?

A. It does.

Q. Would you agree that the purpose of Progress' hedging activities is to reduce Progress' exposure to fuel price volatility?

A. It does.

Q. Based upon this purpose, will there be times when Progress has hedging gains and savings and times when Progress has hedging losses or costs?

A. There will be.

Q. What is Progress' current risk management -- excuse me. Was Progress' current risk management plan the 2010 plan approved by the Commission in the 2009 fuel clause proceeding?

A. It was.

MR. SAYLER: Thank you very much, Mr. McCallister. No more questions from staff.

CHAIRMAN GRAHAM: Commissioner Skop.

COMMISSIONER SKOP: Thank you.

Good morning, Mr. McCallister. Just a few follow-up questions. If I could turn your attention to what has been marked for identification as Exhibit 67, which is the June 2008 review of fuel procurement hedging practices of Florida's investor-owned utilities.

THE WITNESS: Yes, sir.

COMMISSIONER SKOP: And specifically on Page 74, or 73, continuing on to Page 74, you were asked a question by Mr. Moyle with respect to the staff audit finding on the companies or Progress' 2003 through 2007 plan, is that correct?

THE WITNESS: Yes.

COMMISSIONER SKOP: Okay. And as a result of this report, is it your understanding that in the fall of 2008, the Commission in terms of following best practices for hedging implemented via a subsequent order that followed the original hedging order, the subsequent order addressed and required the utilities to submit hedging plans and guidelines annually, is that correct?

THE WITNESS: Yes, sir.

COMMISSIONER SKOP: Okay. All right. With respect to your prefiled testimony that has been -- the direct testimony of September, I mean, September 1st, 2010.

THE WITNESS: Yes, sir.

COMMISSIONER SKOP: Can I ask you to turn your attention to Pages 2 and 3 of that, please.

THE WITNESS: Sure. Okay.

COMMISSIONER SKOP: And the information that is on that page is redacted in some regards as it pertains to confidential information contained in the hedging plans themselves. I would ask you to keep that confidential. And my focus is strictly on natural gas, since that has been the fuel that has been hedged that has had, historically, the most volatility.

In relation to Progress' approved hedging plans, as it pertained to 2010 and looking forward to 2011 for natural gas, obviously reviewing those plans shows, you know, a spreadsheet, if you will, of what Progress' intent would be to implement its hedging strategy for that specific fuel.

Without getting into confidential information and noting that natural gas prices have fallen to historic lows, and typically hedging is, you know, an incremental approach rather than an all in as you state on Page 3 of your testimony, a hedging program does not involve price speculation or trying to out-guess the market, so obviously there is a strategy that is involved.

Given the fact that natural gas has been at historic lows and continues to sink to new lows, has Progress evaluated its hedging plan in terms of whether it would go forward with the plan or seek to modify the plan to effectively lock in the prices of gas at this historic low point?

THE WITNESS: Let me make sure I understand your question, Commissioner. Are you asking if we would deviate and even hedge more?

COMMISSIONER SKOP: Potentially hedge more or hedge less. I noticed on Page 3 of your direct testimony, you indicated that -- let me take these glasses off so I can read. Actually on Page 2 of your technology hedging at the lower end of the range will allow PEF to monitor actual fuel burns, updated fuel forecasts, and make any adjustments as needed.

I guess when we discussed hedging back in 2008 there was extensive discussion about the value provided to consumers to reduce fuel price volatility, and there is an opportunity cost of doing that, but in the aggregate over a long period of time you would hope to at least break even.

Now, that was during a time where natural gas is swinging crazy from 6 to 13, and all over the place. Now it has stabilized at historic lows, and obviously hedging is a value, because you never know when the gas curves or the forward curves will go off to the races again.

So, given the fact that natural gas is priced where it is at currently, and noting that there is a hedging plan in effect which obviously addresses what Progress may or may not do on a month-to-month basis without getting into specifics, has there been any thought to requesting Commission approval to deviate from that plan, if you will, to do something maybe a little bit different that benefits consumers given the historic lows? Obviously, you don't roll the dice and you don't speculate when you hedge, but you also are positioned to take advantage of, you know, certain market opportunities when they, you know, either reach lows or highs.

THE WITNESS: That's a very interesting question. You know, I think what isn't confidential is our program is a 36-month rolling program. So to answer your question, certainly we have had some at higher prices than now. Prices have continued to decline, but as we are entering the market now for 2011, 2012, 2013, we are executing transactions at much lower prices. And to your point, Commissioner, you know, I was just looking at -- I printed this out yesterday, and I will be more than happy to give you a copy.

You know, you do have prices for these particular time periods that are at contractual lows, so to speak. Does that mean they might go lower? Maybe. Does that mean they might go higher? I don't know. But, you know, when we were hedging for '08 to '09, we were hedging at higher rises. But, you know, now we are hedging prices for next year with, you know, four-dollar handles on them, and we are hedging some prices for 2012 with five-dollar handles on them versus where we used to hedge in the past.

So I think what we have tried to do is balance -- we really tried to balance the nature of the beast, so to speak, to have a program that provides a smoothing effect to our customers over time, but at the same time it is within reasonable constraints that we believe is reasonable.

You know, some people believe that we should hedge one year at a time. Some people -- to your point, we have had questions from other people, hey, this would be a great time to do a ten-year deal, if you could find someone to do it.

So I think, you know, we try to balance it, to answer your question. I hope I'm answering your question. So, you know, we are locking in hedges for more than just next year with our program.

COMMISSIONER SKOP: And I appreciate that. I think that has, you know, been my question that I have been struggling with, you know, for this fuel docket as well as the past year's fuel docket where we saw the precipitous fall, or the floor fall out of natural gas prices, which is a good thing for consumers, given the fact that most of the generation in the state, absent nuclear, is combined cycle and uses a lot of natural gas. In Florida that has always been a little bit of a concern.

But in terms of, you know, the hedging plan, obviously we know what that is, and the Commission has approved those. But certainly if there is opportunity where you are not second guessing the market, and you are seeing a tremendous period of historical natural gas lows, certainly, you know, part of a hedging strategy without speculation would be, you know, sometimes there is times where you want to lock in to prevent, you know, upward price movement later. But, again, I will leave that to the utilities, since it's their expertise, but I think it is worthy of noting.

And then, lastly, if I could ask you to turn to Exhibit JM-1T, please.

THE WITNESS: Is that --

COMMISSIONER SKOP: I think it's in the front of your testimony.

THE WITNESS: I'm there, sir.

COMMISSIONER SKOP: Yes, your April 1st testimony.

THE WITNESS: Yes, sir.

COMMISSIONER SKOP: And on Page 2 of 2 of that matrix, and, again, I recognize that this data at this point is probably -- well, actually it's '09 data, but for '09 without getting into the specific number for the natural gas savings or costs on hedges, as you see in the top left column on that sheet that I believe is redacted.

THE WITNESS: Is it the one with just the table on it?

COMMISSIONER SKOP: Yes. Let me turn to it.

THE WITNESS: Is it Page 1 of 2 or 2 of 2?

COMMISSIONER SKOP: Page 2 of 2, please.

THE WITNESS: Okay. I'm there.

COMMISSIONER SKOP: It's the far left top column, if you will.

THE WITNESS: Yes, sir.

COMMISSIONER SKOP: And on that, without getting into the specific numbers, at least for 2009 on gas, there was both a cost to hedge for not only financial transactions, but also physical commodity transactions, is that correct?

THE WITNESS: That's correct.

COMMISSIONER SKOP: And that was the total cost in the aggregate for 2009 for the natural gas hedging program, is that correct?

THE WITNESS: That was.

COMMISSIONER SKOP: And during 2009, natural gas prices were extremely volatile, is that correct?

THE WITNESS: Yes.

COMMISSIONER SKOP: Okay. All right. Now, if I could ask you to turn to Page 1 of 2 of that same exhibit, please.

THE WITNESS: Yes, sir.

COMMISSIONER SKOP: Okay. And, again, that information is confidential, and I would ask you to maintain that confidentiality. But on that table it shows the savings cost on all hedges, natural gas and, basically, your fuel oils from the period of 2002 through 2009, is that correct?

THE WITNESS: Yes, sir.

COMMISSIONER SKOP: And on that table -- and allow me to get to that. When I transition from my glasses to my eyesight things go blurry. On that table, the aggregate of the savings for financial -- and correct me if I'm understanding this wrong, but it shows to be a loss on the financial for the aggregate of those years, is that correct?

THE WITNESS: Correct.

COMMISSIONER SKOP: Okay. And on the physical hedges there was a gain, is that correct?

THE WITNESS: That is correct.

COMMISSIONER SKOP: So for the total hedge portfolio of natural gas and fuel oil during the years 2002 through 2009, there was a savings on the hedges in effect, is that correct?

THE WITNESS: That is correct.

COMMISSIONER SKOP: All right. Thank you.

CHAIRMAN GRAHAM: Anything else from the Commission board? Any redirect?

MR. BURNETT: No, sir, Mr. Chair. And we would move Exhibits 7, 8, and 9 into evidence at this time.

CHAIRMAN GRAHAM: Exhibits 7, 8, and 9. Do I have any objections to those exhibits going in?

Seeing none, we will move those.

(Exhibit Numbers 7, 8, and 9 admitted into evidence.)

MR. BURNETT: Thank you, Mr. Chair. May Mr. McCallister be excused from the proceeding?

CHAIRMAN GRAHAM: Do we have any other questions or --

MR. SAYLER: No, Mr. Chairman.

CHAIRMAN GRAHAM: From the board? No.

Mr. McCallister, you are excused.

THE WITNESS: Thank you.

CHAIRMAN GRAHAM: Thank you for your time.

MR. BURNETT: Thank you, Mr. Chair. And PEF's final witness is Mr. Robert Oliver. He has been excused, sir. So we would ask that his prefiled testimony be moved into the record as though read today. We would also move Exhibits 10 and 11 for him.

CHAIRMAN GRAHAM: Exhibits 10 and 11?

MR. BURNETT: Yes, sir.

CHAIRMAN GRAHAM: We will move that his prefiled testimony be moved into the record as if it was read today.

Do I have any objections on Exhibits 10 or 11? Seeing none, we will move those, as well.

(Exhibit Number 10 and 11 admitted into evidence.)

PROGRESS ENERGY FLORIDA

DOCKET NO. 100001-EI

GPIF Reward/Penalty Amount for January through December 2009

DIRECT TESTIMONY OF ROBERT M. OLIVER

April 1, 2010

Q. Please state your name and business address.

A. My name is Robert M. Oliver. My business address is 100 East Davie Street, Raleigh, North Carolina, 27601.

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

A. I am employed by Progress Energy Carolinas as Manager of Portfolio Management.

Q. Describe your responsibilities as Manager of Portfolio Management.

A. As Manager of Portfolio Management, I am responsible for managing the development and application of the model, analysis and data used for the short term generation planning. As relates to this process, my duties include responsibility for the preparation of the information and material required by the Commission's GPIF True-Up and Targets mechanisms.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the calculation of PEF's GPIF reward/penalty amount for the period of January through December 2009. This calculation was based on a comparison of the actual performance of PEF's eleven GPIF generating units for this period against the approved targets set for these units prior to the actual performance period.

Q. Do you have an exhibit to your testimony in this proceeding?

A. Yes, I am sponsoring Exhibit No. ______ (RMO-1T), which consists of the schedules required by the GPIF Implementation Manual to support the development of the incentive amount. This 32-page exhibit is attached to my prepared testimony and includes as its first page an index to the contents of the exhibit.

Q. What GPIF incentive amount has been calculated for this period?

A. PEF's calculated GPIF incentive amount is a penalty of $676,296. This amount was developed in a manner consistent with the GPIF Implementation Manual. Page 2 of my exhibit shows the system GPIF points and the corresponding reward (penalty). The summary of weighted incentive points earned by each individual unit can be found on page 4 of my exhibit.

Q. How were the incentive points for equivalent availability and heat rate calculated for the individual GPIF units?

A. The calculation of incentive points was made by comparing the adjusted actual performance data for equivalent availability and heat rate to the target performance indicators for each unit. This comparison is shown on each unit's Generating Performance Incentive Points Table found on pages 9 through 19 of my exhibit.

Q. Why is it necessary to make adjustments to the actual performance data for comparison with the targets?

A. Adjustments to the actual equivalent availability and heat rate data are necessary to allow their comparison with the "target" Point Tables exactly as approved by the Commission prior to the period. These adjustments are described in the Implementation Manual and are further explained by a Staff memorandum, dated October 23, 1981, directed to the GPIF utilities. The adjustments to actual equivalent availability concern primarily the differences between target and actual planned outage hours, and are shown on page 7 of my exhibit. The heat rate adjustments concern the differences between the target and actual Net Output Factor (NOF), and are shown on page 8. The methodology for both the equivalent availability and heat rate adjustments are explained in the Staff memorandum.

Q. Have you provided the as-worked planned outage schedules for PEF's GPIF units to support your adjustments to actual equivalent availability?

A. Yes. Page 31 of my exhibit summarizes the planned outages experienced by PEF's GPIF units during the period. Page 32 presents an as-worked schedule for each individual planned outage.

Q. Does this conclude your testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 100001-EI

GPIF Targets and Ranges for January through December 2011

DIRECT TESTIMONY OF ROBERT M. OLIVER

September 1, 2010

Q. Please state your name and business address.

A. My name is Robert M. Oliver. My business address is P.O. Box 1551, Raleigh, North Carolina 27602.

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

A. I am employed by Progress Energy Carolinas Inc. as Manager of Portfolio Management for Fuels and Power Optimization.

Q. What are your duties and responsibilities in that capacity?

A. As Manager of Portfolio Management for Fuels and Power Optimization, I oversee the management of energy portfolios for Progress Energy Florida, Inc. ("Progress Energy" or "Company"), as well as Progress Energy Carolinas, Inc. My responsibilities include oversight of planning and coordination associated with economic system operations, including unit commitment and dispatch, fuel burns, and power marketing and trading functions.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide a recap of actual reward / penalty for the period of January through December 2009 and also to present the development of the Company's GPIF targets and ranges for the period of January through December 2011. These GPIF targets and ranges have been developed from individual unit equivalent availability and average net operating heat rate targets and improvement/degradation ranges for each of the Company's GPIF generating units, in accordance with the Commission's GPIF Implementation Manual.

Q. What GPIF incentive amount was calculated for the period January through December 2009?

A. PEF's calculated GPIF incentive amount for this period was a penalty of $676,296. Please refer to my testimony filed April 1, 2010 for the details of how this incentive amount was calculated.

Q. Do you have an exhibit to your testimony in this proceeding?

A. Yes, I am sponsoring Exhibit No. ____ (RMO-1P) which consists of the GPIF standard form schedules prescribed in the GPIF Implementation Manual and supporting data, including unplanned outage rates, net operating heat rates, and computer analyses and graphs for each of the individual GPIF units. This 104-page exhibit is attached to my prepared testimony and includes as its first page an index to the contents of the exhibit.

Q. Which of the Company's generating units have you included in the GPIF program for the upcoming projection period?

A. For the 2011 projection period, the GPIF program includes the same units that are in the current period, except for Anclote units 1 and 2. The following units are included in the 2011 GPIF program: Crystal River Units 1 through 5, Hines Units 1 through 4, and Tiger Bay. Combined, these units account for 76% of the estimated total system net generation for the period. Hines 4 was included even though it has only 32 months of commercial history since it accounts for 7% of generation. The Company's BartowCC Unit 4 was not included for the upcoming projection period since there is not sufficient performance history to use in setting targets and ranges for this unit. BartowCC Unit 4 is forecasted to account for 19% of the estimated total system generation for the period.

Q. Have you determined the equivalent availability targets and improvement/degradation ranges for the Company's GPIF units?

A. Yes. This information is included in the GPIF Target and Range Summary on page 4 of my Exhibit No. ___ (RMO-1P).

Q. How were the equivalent availability targets developed?

A. The equivalent availability targets were developed using the methodology established for the Company's GPIF units, as set forth in Section 4 of the GPIF Implementation Manual. This includes the formulation of graphs based on each unit's historic performance data for the four individual unplanned outage rates (i.e., forced, partial forced, maintenance and partial maintenance outage rates), which in combination constitute the unit's equivalent unplanned outage rate (EUOR). From operational data and these graphs, the individual target rates are determined through a review of three years of monthly data points during the three year period. The unit's four target rates are then used to calculate its unplanned outage hours for the projection period. When the unit's projected planned outage hours are taken into account, the hours calculated from these individual unplanned outage rates can then be converted into an overall equivalent unplanned outage factor (EUOF). Because factors are additive (unlike rates), the unplanned and planned outage factors (EUOF and POF) when added to the equivalent availability factor (EAF) will always equal 100%. For example, an EUOF of 15% and POF of 10% results in an EAF of 75%.

The supporting tables and graphs for the target and range rates are contained in pages 53-104 of my exhibit in the section entitled "Unplanned Outage Rate Tables and Graphs."

Q. Please describe the methodology utilized to develop the improvement/degradation ranges for each GPIF unit's availability targets?

A. The methodology described in the GPIF Implementation Manual was used. Ranges were first established for each of the four unplanned outage rates associated with each unit. From an analysis of the unplanned outage graphs, units with small historical variations in outage rates were assigned narrow ranges and units with large variations were assigned wider ranges. These individual ranges, expressed in term of rates, were then converted into a single unit availability range, expressed in terms of a factor, using the same procedure described above for converting the availability targets from rates to factors.

Q. Were adjustments made to historical unit availability to account for significant anomalies in the historical period?

A. Yes. The Crystal River Unit 3 outage history related to the containment building repair was excluded from the calculation of historic availability since this outage was considered anomalous relative to normal operating history.

Q. Please describe the overall impact of the adjustment on the Crystal River Unit 3 equivalent availability target?

A. The adjustment raised the 2011 equivalent availability target for Crystal River Unit 3.

Q. Have you determined the net operating heat rate targets and ranges for the Company's GPIF units?

A. Yes. This information is included in the Target and Range Summary on page 4 of my Exhibit No. ___ (RMO-1P).

Q. How were these heat rate targets and ranges developed?

A. The development of the heat rate targets and ranges for the upcoming period utilized historical data from the past three years, as described in the GPIF Implementation Manual. A "least squares" procedure was used to curve-fit the heat rate data within ranges having a 90% confidence level of including all data. The analyses and data plots used to develop the heat rate targets and ranges for each of the GPIF units are contained in pages 32-52 of my exhibit in the section entitled "Average Net Operating Heat Rate Curves."

Q. Were adjustments made to historical heat rates to account for estimated net output changes associated with scrubber and SCR installations?

A. Yes. Historical heat rates for Crystal River units 4 and 5 were restated as if the scrubbers and SCRs were in place during the historical data period.

Q. Please describe the overall impact of the adjustment on the Crystal River Units 4 and 5 heat rate targets.

A. The adjustment raised the heat rate targets, making the targets higher than if using the unadjusted historical average.

Q. How were the GPIF incentive points developed for the unit availability and heat rate ranges?

A. GPIF incentive points for availability and heat rate were developed by evenly spreading the positive and negative point values from the target to the maximum and minimum values in case of availability, and from the neutral band to the maximum and minimum values in the case of heat rate. The fuel savings (loss) dollars were evenly spread over the range in the same manner as described for incentive points. The maximum savings (loss) dollars are the same as those used in the calculation of the weighting factors.

Q. How were the GPIF weighting factors determined?

A. To determine the weighting factors for availability, a series of simulations were made using a production costing model in which each unit's maximum equivalent availability was substituted for the target value to obtain a new system fuel cost. The differences in fuel costs between these cases and the target case determine the contribution of each unit's availability to fuel savings. The heat rate contribution of each unit to fuel savings was determined by multiplying the BTU savings between the minimum and target heat rates (at constant generation) by the average cost per BTU for that unit. Weighting factors were then calculated by dividing each individual unit's fuel savings by total system fuel savings.

Q. What was the basis for determining the estimated maximum incentive amount?

A. The determination of the maximum reward or penalty was based upon monthly common equity projections obtained from a detailed financial simulation performed by the Company's Corporate Model.

Q. What is the Company's estimated maximum incentive amount for 2011?

A. The estimated maximum incentive for the Company is $19,011,809. The calculation of the estimated maximum incentive is shown on page 3 of my Exhibit No. ___ (RMO-1P).

Q. Does this conclude your testimony?

A. Yes, it does.

MR. BURNETT: Thank you, sir. And with the exception of any closing legal arguments that the Commission is going to obtain, that concludes the PEF portion of this case, sir.

CHAIRMAN GRAHAM: Thank you, sir.

Ms. Keating.

MS. KEATING: Thank you, Mr. Chairman.

Both of FPUC's witnesses have been stipulated and excused, so I would ask, first, that the prefiled testimony of Witness Curtis Young be entered into the record as though read.

CHAIRMAN GRAHAM: We will move that testimony into the record as though read.

MS. KEATING: And Mr. Young had two exhibits attached to his prefiled testimony. They have been marked as Exhibits 12 and 13.

CHAIRMAN GRAHAM: Exhibits 12 and 13. Do I have any objections to moving Exhibits 12 and 13? Seeing none, so moved.

MS. KEATING: And FPUC's second witness is Mr. Mark Cutshaw. I would ask that his testimony be entered into the record as though read.

CHAIRMAN GRAHAM: Let Mr. Cutshaw's testimony be entered into the record as if read.

MS. KEATING: And Mr. Cutshaw had one exhibit attached to his prefiled testimony. It has already been marked as Exhibit 14. I would ask that that be entered.

CHAIRMAN GRAHAM: Do I have any objections or comments on entering Exhibit 14?

Seeing none, so moved.

(Exhibits 12, 13, and 14 admitted into evidence.)

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 100001-EI
CONTINUING SURVEILLANCE AND REVIEW OF
FUEL COST RECOVERY CLAUSES OF ELECTRIC UTILITIES

Direct Testimony of
Curtis D. Young
On Behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. Curtis D. Young, 401 South Dixie Highway, West Palm Beach, FL 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities.

Q. Have you previously testified in this Docket?

A. Yes.

Q. What is the purpose of your testimony at this time?

A. I will briefly describe the basis for our computations that were made in preparation of the various schedules that we have submitted to support our calculation of the levelized fuel adjustment factor for January 2011 - December 2011.

Q. Were the schedules filed by your Company completed under your direction?

A. Yes

Q. Which of the Staff's set of schedules has your company completed and filed?

A. We have filed Schedules E1-A, E1-B, and E1-B1 for Marianna and E1-A, E1-B, and E1-B1 for Fernandina Beach. They are included in Composite Prehearing Identification Number CDY-1. Schedule E1-B shows the Calculation of Purchased Power Costs and Calculation of True-Up and Interest Provision for the period January 2010 - December 2010 based on 6 Months Actual and 6 Months Estimated data.

Q. Please address the calculations of the total true-up amount to be collected or refunded during January 2011 - December 2011.

A. We have determined that at the end of December 2010 based on six months actual and six months estimated, we will under-recover $1,463,053 in purchased power costs in our Marianna division. In Fernandina Beach we will have over-recovered $2,413,962 in purchased power costs.

Q. What are the final remaining true-up amounts for the period January 2009 - December 2009 for both divisions?

A. In Marianna, the final remaining true-up amount was an under-recovery of $1,378,165. The final remaining true-up amount for Fernandina Beach was an over-recovery of $2,241,870.

Q. What are the estimated true-up amounts for the period January 2010 - December 2010?

A. In Marianna, there is an estimated under-recovery of $84,888. Fernandina Beach has an estimated over-recovery of $172,092.

Q. Are there any other issues relevant to this docket that you wish to present at this time?

A. Yes. On January 26, 2009, Smurfit-Stone Container Corporation filed for bankruptcy protection. Smurfit-Stone is a Florida Public Utilities Company customer in the Northeast Division and is billed under the General Service Large Demand 1 (GSLD1) rate. In order to capture the pre- and post-bankruptcy cost that resulted, two separate bills were generated based on the criteria set forth in the GSLD1 rate structure. Based on the demand components of the billing methodology, the sum of the two bills exceeded the fuel revenue amount that would have been billed if the bankruptcy had not occurred and only one bill was generated. The net amount of the GSLD1 excess fuel revenue adjustment is $100,076 (see attached Exhibit 1 for this calculation).

Q. What effect, if any, has this adjustment had on the fuel cost recoveries of the other remaining customer classes.

A. None. The fuel costs allocated to the remaining customer classes and all over and under recoveries for these customers are appropriate and would be the same if the bankruptcy did not occur.

Q. What is the appropriate treatment for the GSLD1 fuel billing adjustment?

A. Since this adjustment is specific to one GSLD1 Customer and the tariff and fuel clause requires direct pass-through of fuel costs to this type of customer, no over or under recoveries should exist. It would be appropriate to apply the excess fuel revenue billed to this specific GSLD1 customer against the portion of their bankruptcy-related bad debt write-off that is related to fuel revenues. The net result of this adjustment would be a reduction to GSLD1 fuel revenue of $100,148 (see attached Exhibit 1 for this calculation) and a reduction of the GSLD1 Accounts Receivable (pre-bankruptcy bad debt write-off) on the fuel revenue portion only.

Q. Does FPUC-Fernandina expect JEA to change its per kWh fuel cost, demand cost or true-up charged to FPUC-Fernandina during 2010?

A. Yes. The purchased power cost from JEA will change in October based on the recent decision approved by the JEA Board of Directors. Most of the increases were included in the purchased power contract and included in the determination of the 2010 fuel charges. However, the fuel cost included in the determination of the 2010 fuel charges was an estimate and was increased based on the JEA Board decision. FPUC has included within this Composite Prehearing Identification Number CDY-1 Exhibits 2, 3 and 4 as comparative Schedules E1-A, E1-B, and E1-B1 for Fernandina Beach inclusive of the fuel cost increases from JEA effective October 2010.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 100001-EI
Fuel and Purchased Power Cost Recovery Clause

Direct Testimony of
Curtis D. Young
on behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. Curtis D. Young, 401 South Dixie Highway, West Palm Beach, Florida 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Could you give a brief description of your background and business experience?

A. I am the Senior Regulatory Accountant for Florida Public Utilities Company. I have performed various accounting functions including regulatory filings, revenue reporting, account analysis, recovery rate reconciliations and earnings surveillance. I'm also involved in the preparation of special reports and schedules used internally by division managers for decision making projects. Additionally, I coordinate the gathering of data for the FPSC audits.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the calculation of the final remaining true-up amounts for the period Jan. 2009 through Dec. 2009.

Q. Have you prepared any exhibits to support your testimony?

A. Yes. Exhibit________ (CDY-1) consists of Schedules M1 , F1 and E1-B for the Northwest Florida (Marianna) and Northeast Florida (Fernandina Beach) Divisions. These schedules were prepared from the records of the company.

Q. What has FPUC calculated as the final remaining true-up amounts for the period Jan. - Dec. 2009?

A. For Northwest Florida the final remaining true-up amount is an under recovery of $1,378,165. For Northeast Florida the calculation is an over recovery of $2,241,870.

Q. How were these amounts calculated?

A. They are the sum of the actual end of period true-up amounts for the Jan. - Dec. 2009 period and the total true-up amounts to be collected or refunded during the Jan. - Dec. 2010 period.

Q. What was the actual end of period true-up amount for Jan. - Dec. 2009?

A. For Northwest Florida it was $3,103,485 under recovery and for Northeast Florida it was $1,416,612 over recovery.

Q. What have you calculated to be the total true-up amount to be collected or refunded during the Jan. - Dec. 2010 period?

A. Using six months actual and six months estimated amounts, we calculated an under recovery for Northwest Florida of $1,725,320 and an under recovery of $825,258 for Northeast Florida.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 100001-EI
CONTINUING SURVEILLANCE AND REVIEW OF
FUEL COST RECOVERY CLAUSES OF ELECTRIC UTILITIES

Direct Testimony of
Mark Cutshaw
On Behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. Mark Cutshaw, 401 South Dixie Highway, West Palm Beach, FL 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Have you previously testified in this Docket?

A. Yes.

Q. What is the purpose of your testimony at this time?

A. I will briefly describe the basis for the computations that were made in the preparation of the various Schedules that we have submitted in support of the January 2011 - December 2011 fuel cost recovery adjustments for our two electric divisions. In addition, I will advise the Commission of the projected differences between the revenues collected under the levelized fuel adjustment and the purchased power costs allowed in developing the levelized fuel adjustment for the period January 2010 - December 2010 and to establish a "true-up" amount to be collected or refunded during January 2011 - December 2011.

Q. Were the schedules filed by your Company completed under your direction or review?

A. Yes.

Q. Which of the Staff's set of schedules has your company completed and filed?

A. We have filed Schedules E1, E1A, E2, E7, and E10 for Marianna (Northwest division) and E1, E1A, E2, E7, E8, and E10 for

Fernandina Beach (Northeast division). They are included in Composite Prehearing Identification Numbers MC-1.

Q. In derivation of the projected cost factor for the January 2011 - December 2011 period, did you follow the same procedures that were used in the prior period filings?

A. Yes.

Q Why has the GSLD1 rate class for Fernandina Beach (Northeast division) been excluded from these computations?

A. Demand and other purchased power costs are assigned to the GSLD1 rate class directly based on their actual CP KW and their actual KWH consumption. That procedure for the GSLD1 class has been in use for several years and has not been changed herein. Costs to be recovered from all other classes are determined after deducting from total purchased power costs those costs directly assigned to GSLD1.

Q. How will the demand cost recovery factors for the other rate classes be used?

A. The demand cost recovery factors for each of the RS, GS, GSD, GSLD, GSLD1 and OL-SL rate classes will become one element of the total cost recovery factor for those classes. All other costs of purchased power will be recovered by the use of the levelized factor that is the same for all those rate classes. Thus the total factor for each class will be the sum of the respective demand cost factor and the levelized factor for all other costs.

Q. Is there any additional calculation of cost that is included in these costs recovery factors?

A. Yes. Consistent with the prior year we introduced an allocation of a portion of the transmission cost to the NE FL customers. We are continuing to include that calculation in these cost recovery factors.

Q. Why is it appropriate to allocate a portion of the transmission costs to the NE Florida customers?

A. The distribution charge (associated with distribution substations in NW FL) within the fuel charge should be allocated to both divisions in order to offset the disparity in substation related plant cost in the two divisions. This will allow all customers to contribute to the distribution charge within fuel just as all customers contribute to the substation plant related cost included in the base rates. Our NW division pays for a portion of distribution substations via a distribution charge through the fuel clause, where similar costs in our NE division are paid through base rates since FPUC owns the related plant and it is included in rate base. In the NW Division, Gulf Power Company owns the distribution substation with the exception of the distribution feeder bus. To allow for fair recovery of these costs the fuel portion should be allocated between the two electric divisions, similar to the rate base portion included for recovery in base rates. This allows for equitable cost distribution and recovery between all of our customers.

Q. What is the appropriate total cost allocated to the NE Florida customers for the 2011 calendar year?

A. The appropriate total cost allocated to the NE Florida customers for the 2011 calendar year is $476,832

Q. What was the basis of the allocation used to allocate a portion of the transmission costs to NE Florida Customers?

A. One half of the distribution charge will be included within the NE FL fuel determination just as the substation plant cost was equally allocated to all customers within base rates.

Q. Please address the calculation of the total true-up amount to be collected or refunded during the January 2011 - December 2011 year?

A. We have determined that at the end of December 2011 based on six months actual and six months estimated. We will have under-recovered $1,463,053 in purchased power costs in our Marianna (Northwest division). Based on estimated sales for the period January 2011 - December 2011, it will be necessary to add .44994¢ per KWH to collect this under-recovery.

In Fernandina Beach (Northeast division) we will have over-recovered $1,747,119 in purchased power costs. This amount will be refunded at .72855¢ per KWH during the January 2011 - December 2011 period (excludes GSLD1 customers). Page 3 and 10 of Composite Prehearing Identification Number MC-1 provides a detail of the calculation of the true-up amounts.

Q. What are the final remaining true-up amounts for the period January 2009 - December 2009 for both divisions?

A. In Marianna (Northwest division) the final remaining true-up amount was an under-recovery of $1,378,165. The final remaining true-up amount for Fernandina Beach (Northeast division) was an over recovery of $2,241,870.

Q. What are the estimated true-up amounts for the period of January 2010 - December 2010?

A. In Marianna (Northwest division), there is an estimated under-recovery of $84,888. Fernandina Beach (Northeast division) has an estimated under-recovery of $494,751.

Q. What will the total fuel adjustment factor, excluding demand cost recovery, be for both divisions for the period?

A. In Marianna (Northwest division) the total fuel adjustment factor as shown on Line 33, Schedule E1, is 7.609¢ per KWH. In Fernandina Beach (Northwest division) the total fuel adjustment factor for "other classes", as shown on Line 43, Schedule E1, amounts to 6.640¢ per KWH.

Q. Please advise what a residential customer using 1,000 KWH will pay for the period January 2011 - December 2011 including base rates, conservation cost recovery factors, and fuel adjustment factor and after application of a line loss multiplier.

A. In Marianna (Northwest division) a residential customer using 1,000 KWH will pay $151.70, a decrease of $3.82 from the previous period. In Fernandina Beach (Northeast division) a customer will pay $131.98, an increase of $0.18 from the previous period.

Q. Does this conclude your testimony?

A. Yes.

MS. KEATING: And with that, Mr. Chairman, I believe that concludes FPUC's portion of the case. And I would ask with your permission that I be excused from attending the remaining portion of this proceeding.

CHAIRMAN GRAHAM: Do we have any further questions for Ms. Keating or anything we need from her?

MS. BENNETT: No, sir.

CHAIRMAN GRAHAM: Anything from the board?

Ma'am, you're excused.

MS. KEATING: Thank you, Mr. Chairman, Commissioners.

MR. WIGGINS: Mr. Chair.

CHAIRMAN GRAHAM: Yes.

MR. WIGGINS: While we have this moment -- Patrick Wiggins for our firm, I have no questions or further participation to do in this hearing. I wonder if I could be excused, as well?

CHAIRMAN GRAHAM: Staff.

MS. BENNETT: Staff has no objections.

CHAIRMAN GRAHAM: Commission board?

It's your lucky day.

MR. WIGGINS: Thank you so much. It's good to see you again.

CHAIRMAN GRAHAM: Thank you, sir. It looks like it is probably a good time probably to take lunch.

It looks like we are at a good stopping point before we get into Gulf. I have twenty-five till twelve. Let's be back here at 1:00 o'clock.

Thank you.

(Lunch recess.)

(Transcript continues in sequence with Volume 2.)

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

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

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 2nd day of November, 2010.

Jane Faurot

JANE FAUROT, RPR
Official FPSC Hearings Reporter
(850) 413-6732