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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In Re: Fuel and purchased power cost recovery clause and generating performance incentive factor : DOCKET NO. 990001-EI

VOLUME 2
PAGES 186 through 279

BEFORE: CHAIRMAN DRASON
COMMISSIONER CLARK
COMMISSIONER JACOBS

DATE: NOVEMBER 22, 1999

TIME: COMMENCED AT 9:30 A.M.
CONCLUDED AT 4:50 P.M.

PLACE: BETTY EASLEY CONFERENCE CENTER
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(Appearances as heretofore noted)

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1 Whereupon,

2 K. M. DUBIN

3 was called as a witness by FPL and, after being first
4 duly sworn, was examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. CHILDS:

7 Q Would you state your name and address, please?

8 A My name is Korel M. Dubin. My address is 3250
9 West Flagler Street, Miami, Florida, 33174.

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

11 A I'm employed by Florida Power & Light Company
12 in the rates and tariff department as a principal rate
13 analyst.

14 Q Do you have before you a document entitled
15 Testimony of Korel M. Dubin, Docket Number 89000-RT,
16 dated October 1, 1993?

17 A Yes, I do.

18 Q Is that the testimony you're sponsoring for
19 this proceeding?

20 A Yes, it is.

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

23 A No, I do not.

24 Q And you adopt it as your testimony?

25 A Yes.

1 Q Were the documents that you are sponsoring,
2 which I believe are designated PMO-1 through 4, were they
3 prepared by you or under your direction, supervision, or
4 control?

5 A Yes, they were.

6 Q Do you have any changes to make to them?

7 A No, I do not.

8 MR. CHILDS: I'd like to ask that the prepared
9 testimony of this witness be inserted into the
10 record as though read.

11 CHAIRMAN DEASON: Without objection it shall be
12 so inserted.

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **TESTIMONY OF KOREL M. DUBIN**

4 **DOCKET NO. 990001-EI**

5 **April 1, 1999**

6

7

8 **Q. Please state your name, business address, employer and position.**

9 **A. My name is Korel M. Dubin, and my business address is 9250 West Flagler**
10 **Street, Miami, Florida, 33174. I am employed by Florida Power & Light**
11 **Company (FPL) as Principal Rate Analyst in the Rates and Tariffs**
12 **Department.**

13

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

15 **A. Yes, I have.**

16

17 **Q. What is the purpose of your testimony in this proceeding?**

18 **A. The purpose of my testimony is to present the schedules necessary to**
19 **support the actual Fuel Cost Recovery Clause (FCR) and Capacity Cost**
20 **Recovery Clause (CCR) Net True-Up amounts for the period April 1998**
21 **through December 1998. The Net True-Up for the FCR is an overrecovery,**
22 **including interest, of \$33,531,098. The Net True-Up for the CCR is an**
23 **overrecovery, including interest, of \$5,204,837. I am requesting Commission**

1 approval to include these true-up amounts in the calculation of the FCR and
2 CCR factors respectively, for the period January 2000 through December
3 2000.

4
5 **Q. Have you prepared or caused to be prepared under your direction,**
6 **supervision or control an exhibit in this proceeding?**

7 A. Yes, I have. It consists of two appendices. Appendix I contains the FCR
8 related schedules and Appendix II contains the CCR related schedules. FCR
9 Schedules A-1 through A-13 for the April 1998 through December 1998
10 period have been filed monthly with the Commission and served on all
11 parties. These schedules are incorporated herein by reference.

12

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

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

20

21 **FUEL COST RECOVERY CLAUSE (FCR)**

22

23 **Q. Please explain the calculation of the Net True-up Amount.**

1 A. Appendix I, page 3, entitled "Summary of Net True-Up", shows the calculation
2 of the Net True-Up for the nine-month period April 1998 through December
3 1998, an overrecovery of \$33,531,098 which I am requesting be included in
4 the calculation of the FCR factor for the period January 2000 through
5 December 2000. The calculation of the true-up amount for the period follows
6 the procedures established by this Commission as set forth on Commission
7 Schedule A-2 "Calculation of True-Up and Interest Provision".

8
9 The actual End-of-Period underrecovery for the nine-month period April 1998
10 through December 1998 of \$95,639,291 is shown on line 1. The
11 estimated/actual End-of-Period underrecovery for the same period of
12 \$129,170,389 is shown on line 2. This was included in the calculation of the
13 FCR factor for the period January 1999 through December 1999. Line 1 less
14 line 2 results in the Net True-Up for the nine-month period April 1998 through
15 December 1998 shown on line 3, an overrecovery of \$33,531,098.

16
17 **Q. Have you provided a schedule showing the variances between actuals
18 and estimated/actuals?**

19 A. Yes. Appendix I, page 4, entitled "Calculation of Final True-up Variances",
20 shows the actual fuel costs and revenues compared to the estimated/actuals
21 for the period April 1998 through December 1998.

22
23

1 **Q. What was the variance in fuel costs?**

2 A. As shown on Appendix I, page 4, line A7, actual fuel costs on a Total
3 Company basis were \$4 million or 0.4% higher than the estimated/actual
4 projection. This variance is primarily due to a \$41 million increase in the Fuel
5 Cost of System Net Generation, offset by a \$24 million decrease in the
6 Energy Cost of Economy Purchases and a \$13 million decrease in Energy
7 Payments to Qualifying Facilities.

8
9 The \$41 million increase in the Fuel Cost of System Net Generation is due to
10 a 20% higher than projected use of natural gas and a 7% higher than
11 projected use of heavy oil. Energy Cost of Economy Purchases is \$24 million
12 lower than projected due to economy energy purchases being offset by an
13 increase in system generation. The \$13 million decrease in Energy
14 Payments to Qualifying Facilities is due to QF deliveries, primarily Indiantown
15 Cogeneration Limited (ICL) and Cedar Bay, being approximately 420,000
16 MWhs less than projected.

17 **Q. What was the variance in retail (jurisdictional) Fuel Cost Recovery**
18 **revenues?**

19 A. As shown on Appendix I, page 4, line D1, actual jurisdictional Fuel Cost
20 Recovery revenues, net of revenue taxes, were \$37,572,519 higher than the
21 estimated/actual projection. This increase was due to higher than projected
22 jurisdictional kWh sales. Jurisdictional sales were 2.9% higher than the
23 estimated/actual projection.

1 **Q. How Is Real Time Pricing (RTP) reflected in the calculation of the Net**
2 **True-up Amount?**

3 **A. In the determination of Jurisdictional kWh sales, only kWh sales associated**
4 **with RTP baseline load are included, consistent with projections (Appendix I,**
5 **page 4, Line C3). In the determination of Jurisdictional Fuel Costs, revenues**
6 **associated with RTP incremental kWh sales are included as 100% Retail**
7 **(Appendix I, page 4, Line D4c) in order to offset incremental fuel used to**
8 **generate these kWh sales.**

9

10

11

CAPACITY COST RECOVERY CLAUSE (CCR)

12

13 **Q. Please explain the calculation of the Net True-up Amount.**

14 **A. Appendix II, page 3, entitled "Summary of Net True-Up Amount" shows the**
15 **calculation of the Net True-Up for the nine-month period April 1998 through**
16 **December 1998, an overrecovery of \$5,204,837, which I am requesting to be**
17 **included in the calculation of the CCR factors for the January 2000 through**
18 **December 2000 period.**

19

20 **The actual End-of-Period overrecovery for the nine-month period April 1998**
21 **through December 1998 of \$70,611,128 shown on line 1 less the**
22 **estimated/actual End-of-Period overrecovery for the same period of**
23 **\$65,406,291, shown on line 2 results in the Net True-Up for the nine-month**

1 period April 1998 through December 1998 shown on line 3, an overrecovery
2 of \$5,204,837.

3

4 **Q. Have you provided a schedule showing the calculation of the End-of-
5 Period true-up?**

6 A. Yes. Appendix II, page 4, entitled "Calculation of Final True-up Amount",
7 shows the calculation of the OCR End-of period true-up for the nine-month
8 period April 1998 through December 1998. The End of-Period true-up shown
9 on line 17 plus line 18 is an overrecovery of \$70,611,128.

10

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

13 A. Yes it is. The calculation of the true-up amount follows the procedures
14 established by this Commission as set forth on Commission Schedule A-2
15 "Calculation of True-Up and Interest Provision" for the Fuel Cost Recovery
16 Clause.

17

18 **Q. Have you provided a schedule showing the variances between actuals
19 and estimated/actuals?**

20 A. Yes. Appendix II, page 5, entitled "Calculation of Final True-up Variances",
21 shows the actual capacity charges and applicable revenues compared to the
22 estimated/actuals for the period April 1998 through December 1998.

23

1 Q. What was the variance in net capacity charges?

2 A. As shown on line 7, actual net capacity charges on a Total Company basis
3 were \$2.1 million higher than the estimated/actual projection. This variance
4 was primarily due to lower than expected revenues from capacity sales, offset
5 by lower than expected purchased power capacity payments to non-
6 cogenerators and cogenerators.

7

8 Revenues from capacity sales were lower than projected due to milder
9 weather conditions than had been experienced in the earlier part of the
10 period. Capacity payments to non-cogenerators were lower than expected as
11 a result of lower than projected plant investment. Payments to cogenerators
12 were lower than projected since Cedar Bay capacity payments were less than
13 estimated. Additionally, Bio-Energy did not qualify for a capacity payment as
14 expected during the period.

15

16 Q. What was the variance in Capacity Cost Recovery revenues?

17 A. As shown on line 12, actual Capacity Cost Recovery revenues, net of
18 revenue taxes, were \$7.3 million higher than the estimated/actual projection.
19 This increase was primarily due to higher jurisdictional kWh sales than
20 projected. Jurisdictional sales were 2.9% higher than the estimated/actual
21 projection.

22

23 Q. Does this conclude your testimony?

1 A. Yes, it does.

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **TESTIMONY OF KOREL M. DUBIN**

4 **DOCKET NO. 990001-EI**

5 **October 1, 1999**

6

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

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

10

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

12 A. I am employed by Florida Power & Light Company (FPL) as Principal
13 Rate Analyst In the Rates and Tariff Administration Department.

14

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

16 A. Yes, I have.

17

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

19 A. The purpose of my testimony is to present for Commission review and
20 approval the fuel factors and the capacity payment factors for the
21 Company's rate schedules for the period January 2000 through
22 December 2000. The calculation of the fuel factors is based on
23 projected fuel cost, using the "high band" forecast as described in the
24 testimony of Rene Silva, and operational data as set forth in

1 Commission Schedules E1 through E10, H1 and other exhibits filed
2 in this proceeding and data previously approved by the Commission.
3 I am also providing projections of avoided energy costs for
4 purchases from small power producers and cogenerators and an
5 updated ten year projection of Florida Power & Light Company's
6 annual generation mix and fuel prices.

7

8 In addition, my testimony presents the schedules necessary to
9 support the calculation of the Estimated/Actual True-up amounts for
10 the Fuel Cost Recovery Clause (FCR) and the Capacity Cost
11 Recovery Clause (CCR) for the period January 1999 through
12 December 1999.

13

14 **Q. Have you prepared or caused to be prepared under your**
15 **direction, supervision or control an exhibit in this proceeding?**

16 **A. Yes, I have. It consists of various schedules included in Appendices**
17 **II and III. Appendix II contains the FCR related schedules and**
18 **Appendix III contains the CCR related schedules.**

19

20 FCR Schedules A-1 through A-13 for January 1999 through August
21 1999 have been filed monthly with the Commission, are served on all
22 parties and are incorporated herein by reference.

23

24 **Q. What is the source of the data that you will present by way of**

1 **testimony or exhibits in this proceeding?**

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

7

8

FUEL COST RECOVERY CLAUSE

9

10 **Q. What is the proposed levelized fuel factor for which the**
11 **Company requests approval?**

12 A. 1.894¢ per kWh. Schedule E1, Page 3 of Appendix II shows the
13 calculation of this twelve-month levelized fuel factor. Schedule E2,
14 Pages 10 and 11 of Appendix II indicates the monthly fuel factors for
15 January 2000 through December 2000 and also the twelve-month
16 levelized fuel factor for the period.

17

18 **Q. Has the Company developed a twelve-month levelized fuel factor**
19 **for its Time of Use rates?**

20 A. Yes. Schedule E1-D, Page 8 of Appendix II, provides a twelve-month
21 levelized fuel factor of 2.069¢ per kWh on-peak and 1.817¢ per kWh
22 off-peak for our Time of Use rate schedules.

23

24 **Q. Were these calculations made in accordance with the**

1 **procedures previously approved in this Docket?**

2 A. Yes, they were.

3

4 **Q. What adjustments are included in the calculation of the twelve-**
5 **month levelized fuel factor shown on Schedule E1, Page 3 of**
6 **Appendix II?**

7 A. As shown on line 29 of Schedule E1, Page 3 of Appendix II, the
8 estimated/actual fuel cost overrecovery for the January 1999 through
9 December 1999 period amounts to \$8,846,485. This
10 estimated/actual overrecovery for the January 1999 through
11 December 1999 period plus the final overrecovery of \$33,531,098 for
12 the April 1998 through December 1998 period results in a total
13 overrecovery of \$42,377,583. This amount divided by the projected
14 retail sales of 85,722,255 MWh for January 2000 through December
15 2000 results in a decrease of 0.0494¢ per kWh before applicable
16 revenue taxes. In his testimony for the Generating Performance
17 Incentive Factor, FPL Witness R. Silva calculated a reward of
18 \$11,367,066 for the period ending December 1998 which is being
19 applied to the January 2000 through December 2000 period. This
20 \$11,367,066 divided by the projected retail sales of 85,722,255 MWh
21 during the projected period results in an increase of 0.0133¢ per
22 kWh, as shown on line 33 of Schedule E1, Page 3 of Appendix II.

23

24 **Q. Please explain the calculation of the FCR Estimated/Actual True-**

1 **up amount you are requesting this Commission to approve.**

2 A. Schedule E1-B, Page 5 of Appendix II shows the calculation of the

3 FCR Estimated/Actual True-up amount. The calculation of the

4 estimated/actual true-up amount for the period January 1999 through

5 December 1999 is an overrecovery, including interest, of \$8,846,465

6 (Column 10, lines C7 plus C8). This amount, when combined with the

7 Final True-up overrecovery of \$33,531,098 (Column 10, line C9a)

8 deferred from the period April 1998 through December 1998,

9 presented in my Final True-up testimony filed on April 1, 1999, results

10 in the End of Period overrecovery of \$42,377,563 (Column 10, line

11 C11).

12

13 This schedule also provides a summary of the Fuel and Net Power

14 Transactions (lines A1 through A7), kWh Sales (lines B1 through B3),

15 Jurisdictional Fuel Revenues (line C1 through C3), the True-up and

16 Interest Provision for this period (lines C4 through C10), and the End

17 of Period True-up amount (line C11).

18

19 The data for January 1999 through August 1999, columns (1) through

20 (8) reflects the actual results of operations and the data for

21 September 1999 through December 1999, columns (9) through (12),

22 are based on updated estimates.

23

24 The variance calculation of the Estimated/Actual data compared to

1 the original projections for the January 1999 through December 1999
2 period is provided in Schedule E1-B-1, Page 8 of Appendix II.

3
4 As shown on line A5, the variance in Total Fuel Costs and Net Power
5 Transactions is \$2.2 million or a 0.1% increase from original
6 projections. This variance is mainly due to a \$52 million increase in
7 the Fuel Cost of System Net Generation and a \$7.2 million increase
8 in the Fuel Cost of Purchased Power. These amounts are
9 significantly offset by a \$34 million decrease in Energy Payments to
10 Qualifying Facilities and a \$23 million decrease in the Energy Cost of
11 Economy Purchases.

12
13 The increase in the Fuel Cost of System Net Generation is primarily
14 due to higher than projected costs of heavy oil and natural gas. The
15 decrease in Energy Payments to Qualifying Facilities is primarily due
16 to less than expected QF purchases for the period. The decrease in
17 the Energy Cost of Economy Purchases is primarily due to less
18 purchases through August 1999 as the result of limited availability of
19 low cost energy, in addition to lower estimated purchases for the
20 remainder of 1999.

21
22 In addition to the variances cited above, FPL has included
23 approximately \$5.0 million for Cedar Bay in the estimated/actual true
24 up amount (see line A6f). This is as a result of a Court interpretation

1 of a contract dispute with Cedar Bay regarding the pricing of energy
2 provided by Cedar Bay to FPL over the past few years. The amount
3 the Court directed FPL to pay includes interest on the difference in
4 the price FPL paid and the price it should have paid pursuant to the
5 Court decision.

6
7 The true-up calculations follow the procedures established by this
8 Commission as set forth on Commission Schedule A2 "Calculation
9 of True-Up and Interest Provision" filed monthly with the Commission.

10

11 **Q. Is FPL proposing to include any additional costs in the**
12 **calculation of the cost recovery factors?**

13 A. Yes. FPL requests that it be allowed to recover the cost of the nuclear
14 fuel "last core", as described in the testimony of R. L. Wade. Under
15 FPL's current cost recovery, when each nuclear unit ceases
16 operation, a substantial portion of the cost of fuel will not have been
17 included in the fuel cost recovery calculation. The cost of the
18 unutilized fuel would have to be added to the normal costs for the last
19 period of operations in order to ensure amortization and recovery of
20 the total costs for the last core.

21

22 Customers to date have not contributed to the recovery of the cost of
23 fuel that would be remaining at the end of each unit's operations. If
24 not addressed now, only future customers (those receiving service

1 during the last cycle of operations) will contribute to the costs related
2 to the last core. For these reasons, FPL believes that it is appropriate
3 to bring this issue forward for Commission consideration and
4 approval.

5
6 FPL proposes to recover the approximate \$77 million last core
7 amount evenly over the remaining months of life for each plant, i.e.
8 until March 2016 for St. Lucie 1, April 2023 for St. Lucie 2, July 2012
9 for Turkey Point 3, and April 2013 for Turkey Point 4. This would
10 result in approximately \$4.9 million of amortization in the January
11 2000 through December 2000 period. This approach, on a going
12 forward basis, will appropriately match the total costs of fuel to the
13 customers receiving service related to those costs.

14

15

16

CAPACITY PAYMENT RECOVERY CLAUSE

17

18 **Q. Please describe Page 3 of Appendix III.**

19 **A.** Page 3 of Appendix III provides a summary of the requested capacity
20 payments for the projected period of January 2000 through
21 December 2000. Total recoverable capacity payments amount to
22 \$375,954,541 (line 12) and include payments of \$209,971,047 to
23 non-cogenerators (line 1), payments of \$331,381,582 to cogenerators
24 (line 2), \$3,467,177 of Mission Settlement payments (line 3) and

1 \$4,700,000 relating to the St. John's River Power Park (SJRPP)
2 Energy Suspension Accrual (line 4a). This amount is offset by
3 revenues from capacity sales of \$25,602,455 (line 4), \$1,526,951 of
4 return requirements on Energy Suspension payments (line 4b) and
5 \$56,945,592 of jurisdictional capacity related payments included in
6 base rates (line 8) less a net overrecovery of \$84,268,889 (line 9).
7 The net overrecovery of \$84,268,889 includes the final overrecovery
8 of \$5,204,837 for the April 1998 through December 1998 period plus
9 the estimated/actual overrecovery of \$79,064,052 for the January
10 1999 through December 1999 period.

11

12 **Q. Please describe Page 4 of Appendix III.**

13 **A. Page 4 of Appendix III calculates the allocation factors for demand**
14 **and energy at generation. The demand allocation factors are**
15 **calculated by determining the percentage each rate class contributes**
16 **to the monthly system peaks. The energy allocators are calculated**
17 **by determining the percentage each rate contributes to total kWh**
18 **sales, as adjusted for losses, for each rate class.**

19

20 **Q. Please describe Page 5 of Appendix III.**

21 **A. Page 5 of Appendix III presents the calculation of the proposed**
22 **Capacity Payment Recovery Clause (CCR) factors by rate class.**

23

24 **Q. Please explain the calculation of the CCR Estimated/Actual True-**

1 **up amount you are requesting this Commission to approve.**

2 A. The Estimated/Actual True-up for the period January 1999 through
3 December 1999 is an overrecovery, including interest, of
4 \$79,064,052 (Appendix III, page 7, lines 17 plus 18). Appendix III,
5 pages 6-7 shows the calculation supporting the CCR
6 Estimated/Actual True-up amount.

7

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

10 A. Yes it is. The calculation of the true-up amount follows the procedures
11 established by this Commission as set forth on Commission
12 Schedule A2 "Calculation of True-Up and Interest Provision" for the
13 Fuel Cost Recovery clause.

14

15 **Q. Please explain the calculation of the Interest Provision.**

16 A. Appendix III, pages 8-9 show the calculation of the interest provision
17 and follows the same methodology used in calculating the interest
18 provision for the other cost recovery clauses, as previously approved
19 by this Commission.

20

21 The interest provision is the result of multiplying the monthly average
22 true-up amount (line 4) times the monthly average interest rate (line
23 9). The average interest rate for the months reflecting actual data is
24 developed using the 30 day commercial paper rate as published in

1 the Wall Street Journal on the first business day of the current and
2 subsequent months. The average interest rate for the projected
3 months is the actual rate as of the first business day in September
4 1999.

5 **Q. Have you provided a schedule showing the variances between**
6 **the Estimated/Actuals and the Original Projections?**

7 **A. Yes.** Appendix III, page 10, shows the Estimated/Actual capacity
8 charges and applicable revenues compared to the original
9 projections for the January 1999 through December 1999 period.

10

11 **Q. What is the variance related to capacity charges?**

12 **A. As shown in Appendix III, page 10, line 7, the variance related to**
13 **capacity charges is a \$68 million decrease. The primary reason for**
14 **the variance is a \$58 million increase in revenues from capacity**
15 **sales. This increase in revenues from capacity sales is primarily due**
16 **to increased Opportunity Sales as a result of FPL's diligent efforts to**
17 **market power not needed by FPL's retail customers. 100% of the**
18 **profit from these sales is credited to FPL's retail customers. The**
19 **variance is also due to a \$11 million decrease in payments to non-**
20 **cogenerators and a \$12 million decrease in payments to**
21 **cogenerators. The decrease in payments to non-cogenerators**
22 **represents Southern Company's credit adjustment in July 1999 and**
23 **capacity rates for UPS purchases being lower than expected. The**
24 **decrease in payments to cogenerators is primarily due to capacity**

1 payments to Florida Crushed Stone, Bloenergy and Broward South
2 being less than projected as the result of reduced capacity factors.

3

4 In addition to the variances cited above, FPL has included
5 approximately \$13 million for Cedar Bay in the estimated/actual true
6 up amount (see line 4c). This is as a result of a Court interpretation
7 of a contract dispute with Cedar Bay regarding the pricing of capacity
8 based on the dispatch of the Cedar Bay facility over the past few
9 years. The amount the Court directed FPL to pay includes interest
10 on the difference between the price FPL paid and the price it should
11 have paid pursuant to the Court decision.

12 **Q. What is the variance in Capacity Cost Recovery revenues?**

13 A. As shown on line 12, Capacity Cost Recovery revenues, net of
14 revenue taxes, are \$8.5 million higher than originally projected.

15 **Q. What effective date is the Company requesting for the new
16 factors?**

17 A. The Company is requesting that the new FCR and CCR factors
18 become effective with customer bills for January 2000 through
19 December 2000. This will provide for 12 months of billing on the FCR
20 and CCR factors for all our customers.

21 **Q. What will be the charge for a Residential customer using 1,000
22 kWh effective January 2000?**

23 A. The total residential bill, excluding taxes and franchise fees, for 1,000
24 kWh will be \$69.78. The base bill for 1,000 residential kWh is

1 \$43.26, the fuel cost recovery charge from Schedule E1-E, Page 9 of
2 Appendix II for a residential customer is \$18.89, the Conservation
3 charge is \$1.89, the Capacity Cost Recovery charge is \$4.77, the
4 Environmental Cost Recovery charge is \$.16 and the Gross Receipts
5 Tax is \$.71. A Residential Bill Comparison (1,000 kWh) is presented
6 in Schedule E10, Page 65 of Appendix II.

7

8 **Q. Does this conclude your testimony.**

9 **A. Yes, it does.**

1 MR. CHILDS: And mark the documents that she is
2 sponsoring for identification as Exhibit 18.

3 CHAIRMAN DEASON: They will be so identified.

4 BY MR. CHILDS (Continuing):

5 Q Ms. Dubin, would you summarize your testimony
6 as it relates to issues that you believe remain
7 outstanding?

8 A Yes, I will. My prefiled testimony in this
9 docket presents, for the Commission review and approval,
10 the fuel cost recovery factors and the capacity cost
11 recovery factors for the company's rate schedule for the
12 period January through December 2000. Additionally, my
13 testimony addresses FPL's request to recover the cost of
14 the nuclear last core which is included in the prehearing
15 order as Issue 18A.

16 FPL proposes to recover the approximate 77
17 million dollar last core fuel costs evenly over the
18 remaining life of each nuclear unit. This would result
19 in approximately 4.3 million dollars in January through
20 December 2000. This approach, on a going-forward basis,
21 will appropriately match the total cost of fuel to the
22 customers receiving service related to those costs. That
23 concludes my summary.

24 COMMISSIONER CLARK: Mr. Childs, I have a
25 question. I have two pieces of testimony.

1 MR. CHILDS: Yeah, I think you do. I think we
2 have all of the testimony and identified it. There
3 should be several sets, and they're all prefiled for
4 this witness.

5 COMMISSIONER CLARK: Several sets. I have --

6 MS. DUBIK: Commissioner, I believe one is the
7 true-up filing.

8 COMMISSIONER CLARK: I'm sorry?

9 MR. DUBIK: I believe one is the true-up
10 filing.

11 COMMISSIONER CLARK: It is, Sir. I'm just --
12 were they both inserted in the record?

13 MR. CHILDS: No, they weren't.

14 COMMISSIONER CLARK: Okay.

15 MR. CHILDS: Thank you though.

16 CHAIRMAN DEASON: It is your intention to
17 have -- I have testimony dated April 1, and I have
18 testimony dated October 1.

19 MR. CHILDS: Right.

20 CHAIRMAN DEASON: And it is your intent to have
21 both sets of testimony?

22 MR. CHILDS: I think I need to have both sets
23 of testimony inserted, yes.

24 CHAIRMAN DEASON: Okay. We'll clarify that on
25 the record that both sets of your testimony are

1 being inserted here.

2 MR. CHILDS: Well -- Okay.

3 CHAIRMAN DEASON: Whatever you wish,
4 Mr. Childs.

5 MR. CHILDS: Well, this is the testimony that
6 related to the issue that remained outstanding, and
7 I was simply going to try to identify the other one
8 and have that go in too, but this was the only one
9 where I think she is going to be summarizing it as
10 to an outstanding issue. The other one is dated
11 April 1, 1898.

12 BY MR. CHILDS (Continuing):

13 Q Is that right, Ms. Rubin?

14 A Yes, it is.

15 MR. CHILDS: Yes.

16 CHAIRMAN DEASON: And you want that inserted in
17 the record as well?

18 MR. CHILDS: I do, yes.

19 CHAIRMAN DEASON: Okay. Very well. And the
20 exhibit is attached to the October testimony, and
21 there is -- That was identified as Exhibit 19. Do
22 you also wish to have the exhibit attached to the
23 April 1 testimony?

24 MR. CHILDS: Yes.

25 CHAIRMAN DEASON: That will be identified as

1 Exhibit 20.

2 BY MR. CHILDS (Continuing):

3 Q Is that it?

4 A Yes, it is.

5 CHAIRMAN DEASON: Okay. The witness is now
6 tendered for cross?

7 MR. CHILDS: Yes, she is.

8 CHAIRMAN DEASON: Okay. Mr. Burgess.

9 (MR. BURGESS SHAKES HEAD NEGATIVELY)

10 CHAIRMAN DEASON: Staff.

11 MR. KEATING: Are we starting with staff on
12 cross?

13 CHAIRMAN DEASON: None of the other parties
14 have questions.

15 MR. KEATING: Okay. I'm sorry.

16 CROSS EXAMINATION

17 BY MR. KEATING:

18 Q Ms. Dubin, is it correct that the last core of
19 nuclear fuel relates to the unburned fuel remaining in
20 fuel assemblies at the time the nuclear unit ceases
21 operation?

22 A Yes, it is.

23 Q Okay. And is it correct that in 1996 the
24 Commission authorized Florida Power & Light to record an
25 annual 30 million dollars in nuclear amortization

1 beginning January 1st, 1996?

2 A I believe that's correct, but I was not -- did
3 not have a role in that docket.

4 MR. CHILDS: I'm sorry, I'm having difficulty
5 hearing you. It may be just my ears, but I can't
6 hear all of your question. Pardon me.

7 MR. KEATING: I'll try to speak more loudly
8 into the mike.

9 BY MR. KEATING (Continuing):

10 Q The previous question was: Is it correct that
11 in 1996 the Commission authorized Florida Power & Light
12 to record an annual 30 million dollars in nuclear
13 amortization beginning January 1st, 1996?

14 A And I believe my response was I did not have a
15 role in that docket, but I believe that is correct.

16 Q Okay. And is it also correct that in that
17 this year the Commission approved a stipulation between
18 Florida Power & Light, the Office of Public Counsel,
19 FPLNG, and the Coalition for Equitable Rates that
20 terminated the authorized 30 million dollars in annual
21 nuclear amortization?

22 A Yes, I believe that's correct too.

23 Q Okay. Subject to check, would you agree that
24 the accumulated nuclear amortization at the time of
25 termination was approximately 90.8 million dollars?

1 A Subject to check, yes.

2 Q Okay. And subject to check, would you agree
3 that the Commission's 1996 order authorizing Florida
4 Power & Light to record 30 million dollars annually to
5 nuclear amortization, did that order state the specific
6 account to which accumulated nuclear amortization remains
7 subject to determination by the Commission?

8 A Yeah, subject to check. And, again, I was not
9 part of that order.

10 Q I understand. What account does Florida Power
11 & Light record the cost of nuclear fuel assemblies under?

12 A I believe it's Account 120. But, Mr. Cochran,
13 I'm a rate analyst; I'm not an accountant, so I'm not
14 exactly sure.

15 Q Do you know what that account includes?

16 A The cost of fuel.

17 Q Couldn't the 30.8 million dollars that's been
18 accumulated in the nuclear amortization be used to offset
19 the 4.9 million dollars of amortization expense that
20 Florida Power & Light is requesting for the January to
21 December 2000 period?

22 A Maybe you could, but the reason why we're here
23 today is because Florida Power & Light believes that this
24 is an appropriate fuel adjustment item. Mr. Wade had
25 talked a little bit about, for example, the tank bottoms,

1 and I think that the fuel cost associated with last core
2 is very similar to that. In the tank bottoms, it's oil,
3 but it's a situation where you have oil that is below the
4 suction line of a tank, say, and you can't get to that
5 oil to use it. It becomes very dirty, sludgy, and it's
6 not burnable, but it is necessary for the operation of
7 the units to have that oil there. And since 1983, that
8 has been determined to be a fuel cost recovery item and
9 included as a fuel expense in the fuel clause, and we
10 would contend that last core is very similar. Of course
11 it's nuclear fuel, but it's fuel that is necessary for
12 the operation of the units. It's not burned, but since
13 it is necessary for the operation of the units, it should
14 be included as a fuel expense.

15 Q If the actual cost of the last core is lower
16 than Florida Power & Light's current estimate, will the
17 last core have been -- would the cost of the last core
18 have been over recovered?

19 A I'm sorry. I didn't hear the last part of your
20 question.

21 Q If the actual part of the last core is lower
22 than what Florida Power & Light has projected or
23 estimated it to be, will the last core costs have been
24 over recovered?

25 A Just like any other fuel expense that's

1 projected, you have an over- and under-recovery
2 situation, yes, which would be fixed up.

3 Q How would that be -- how would that -- Strike
4 that.

5 If there's a salvage value on the last core,
6 will the last core costs have been over recovered?

7 A Yes, but if there would be a salvage value,
8 that would be taken into account with the estimate of the
9 last core, similar to the way we do tank bottoms right
10 now. When there isn't salvage value, it's credited back
11 to the fuel clause.

12 Q So if an over recovery occurs, how would
13 Florida Power & Light credit the over recovery to its
14 customers?

15 A If an over recovery occurs, it would be handled
16 just like an over recovery in fuel adjustment. It would
17 be included in the line-up calculation and included in
18 the -- with interest and included in the next fuel
19 adjustment factors to the customers.

20 Q What assurance do Florida Power & Light
21 ratepayers have that they will receive the benefit of any
22 such over recovery if, at the time the nuclear units shut
23 down, electric generation has been deregulated and it is
24 found that the actual cost of the last core is less than
25 what Florida Power & Light projected?

1 A If deregulation occurs; is that your question?

2 Q If electric generation is deregulated,

3 A I guess it would be the same as in the
4 situation where you have an over and under recovery in
5 time adjustment; it would be handled the same way.

6 Q Could you explain your answer?

7 A You said when --

8 Q The question was: What assurance do the
9 ratepayers have that they'll receive the benefit of any
10 such over recovery if, at the time the unit is shut down,
11 electric generation has been deregulated? I believe you
12 said it would be treated the same way as an over recovery
13 in the fuel clause?

14 A Yes. I guess at the same time you may have an
15 over/under recovery in fuel, but it would be handled the
16 same way, I would think.

17 Q But if electric generation was deregulated,
18 would there still be a fuel clause?

19 A No, but I guess my answer went to -- at the
20 same time, I mean you'd have to -- you'd stop a fuel
21 clause, you probably wouldn't be even at that point
22 either, so --

23 Q But I think we've heard testimony that the cost
24 of the last core would not be known until the units are
25 shut down.

1 A A portion of it, yes.

2 Q Is it correct that the amortization of the last
3 core should have ideally begun at the time that each
4 nuclear unit became operational?

5 A I'm not sure that all the factors were known.
6 I believe Mr. Wade had talked a little bit about that,
7 but perhaps, and it certainly makes sense to begin
8 recovery now rather than waiting.

9 Q But it would have been ideal to have it begin
10 when each unit became operational?

11 A I guess in hindsight, yes.

12 Q If the Amortization had begun at that time, how
13 much of the currently projected costs would have been
14 recovered to date?

15 A I don't know. I think it depends on various
16 factors of some type when that would have started.

17 Q Is it correct that this under-recovered
18 amount -- this under-recovered amount would relate to a
19 historical deficiency in the amortization?

20 A I'm sorry. I didn't hear your question.

21 Q Is it correct that this amount relates to a
22 historical deficiency in the amortization?

23 A A historical deficiency in the amortization?
24 I'm sorry. Could you elaborate on that? I don't
25 understand.

1 Q Let me change historical deficiency to cause,
2 failure to adequately recover.

3 A The fuel cost? Is this what we're talking
4 about? Okay, there is a past deficiency, and then some
5 amount going forward. Yes.

6 COMMISSIONER JACOBS: That's, that's -- as I
7 understood it, at the beginning of the plant life,
8 you bought a whole set of fuel, and the last core
9 was a part of that. So what's going to happen is in
10 later refuelings, you're going to buy an amount that
11 should be just -- your need less the final core; is
12 that correct? Or you're projecting what your fuel
13 need would be less the final, the last core?

14 MS. DUBIN: Projecting what the final need is
15 and the fuel price also.

16 COMMISSIONER JACOBS: Okay. But you're never
17 going to repurchase the part that would cause you to
18 replenish to the last core, correct?

19 MS. DUBIN: I'm sorry. I'm never going to
20 repurchase?

21 COMMISSIONER JACOBS: Subsequent to the --
22 subsequent, you're never going to replenish that
23 part of the fuel that's making up your last core,
24 are you, or are you always replenishing that?

25 MS. DUBIN: You're always buying fuel for the

1 Q And future ratepayers would have the burden of
2 making up the failure in the past to recover those costs?

3 A Well, that's what we're trying to avoid so that
4 all of the customers during the last cycle of operation
5 are not picking up the total bill on this.

6 Q If your request to recover the last core of
7 nuclear fuel is approved, will Florida Power & Light
8 record a reserve on its books for the last core?

9 A I'm not sure.

10 CHAIRMAN DEASON: The answer was you're not
11 sure?

12 MS. DUBIN: I'm sorry. Can you repeat the
13 question one more time?

14 BY MR. KEATING (Continuing):

15 Q Yes. If Florida Power & Light's request to
16 recover the last core of nuclear fuel is approved, will
17 you record a reserve on your books for the last core of
18 nuclear fuel?

19 A I'm sorry. I believe it's yes, if that is the
20 correct -- the accounting folks have told me that it
21 would be included in Account 228.4, in accumulated
22 miscellaneous operating provision. That would be the
23 appropriate account to use.

24 Q How does Florida Power & Light receive
25 transmission revenues received from nonseparated, nonfirm

1 wholesale economy energy sales not made through the
2 broker network?

3 A They're included in the capacity cost recovery
4 clause.

5 Q Why does Florida Power & Light credit those
6 revenues through the capacity clause as opposed to the
7 fuel clause?

8 A The transmission revenues follow the clause --
9 the cost where the other costs go, and recoveries through
10 the capacity clause.

11 Q And you said where the other costs go. What
12 did you mean by that?

13 A For example, the transmission associated with
14 Schedule C are included in the fuel adjustment clause,
15 and so that those sales go through the fuel adjustment
16 clause, and the transmission revenues go to the same
17 clause.

18 Q And how does Florida Power & Light treat
19 generation-related gains from those same type of sales,
20 those nonseparated, nonfirm wholesale sales not made
21 through the broker network?

22 A They're included in the capacity revenues that
23 are flowed back to customers through the capacity cost
24 recovery clause.

25 Q Under what schedules does Florida Power & Light

1 make short-term nonfirm wholesale sales over the broker?

2 A The only schedule we use for the broker are
3 Schedule C.

4 Q Okay. And under what schedules can Florida
5 Power & Light make those sales off the broker?

6 A We classify them as opportunity sales, and they
7 also can include sales for emergency power.

8 Q Okay. Can Florida Power & Light make Schedule
9 C sales off the broker as well?

10 A No, they're only included on the broker system.

11 COMMISSIONER CLARK: I'm sorry. You say -- if
12 you do the broker system you do schedule C; is that
13 right?

14 MS. DUBIN: Yes.

15 COMMISSIONER CLARK: And if you do off-system
16 sales or opportunity sales, as you call them, what
17 schedule do you use?

18 MS. DUBIN: We call them opportunity sales or
19 schedule CS, or sometimes using emergency power.

20 COMMISSIONER CLARK: Or sometimes using what?

21 MS. DUBIN: Emergency, which would be like, I
22 believe, a Schedule A or B.

23 COMMISSIONER CLARK: But they have specific
24 rates in your tariff that you use?

25 MS. DUBIN: Yes.

1 BY MR. KEATING (Continuing):

2 Q Can Florida Power & Light make Schedule X sales
3 off the broker?

4 MR. CRITOS: Excuse me. I'm not sure but this
5 relates to any testimony of this witness, and I
6 don't think it does, and I would object.

7 CHAIRMAN DEASON: There's a possible objection
8 that it exceeds the scope of the proffered testimony.

9 MR. KEATING: And I think I would agree to an
10 extent that this goes beyond some of what Ms. Dubin
11 has filed proffered testimony on, but Florida Power &
12 Light has taken positions on these issues. These
13 questions don't go outside the scope of what we
14 discussed in Ms. Dubin's deposition. We feel that
15 on these issues in particular -- these are Issues 9
16 and 10, and I do have questions for Ms. Dubin on
17 Issue 11 as well -- that what we'd like to see is a
18 consistent treatment among the utilities as regards
19 to these four issues; and we think that, in order
20 for you to make that decision, that it would be best
21 to have information from all the utilities to
22 understand how they currently treat these revenues
23 and gains and what impact a possible change would
24 have on them.

25 CHAIRMAN DEASON: Do you still object,

1 Mr. Childs?

2 MR. CHILDS: I think so. I mean the witness
3 doesn't discuss it. We shouldn't state a position, and
4 we may, in fact, pursue through cross examination of
5 testimony, but I don't think it's appropriate to
6 inquire at this point.

7 CHAIRMAN DEASON: Okay. I'm sustaining the
8 objection. You need to move forward to something
9 else.

10 MR. KEATING: Commissioner Deason, if I could
11 add one more point.

12 CHAIRMAN DEASON: Surely.

13 MR. KEATING: Ms. Dublin's testimony -- Ms.
14 Dublin does have specific testimony regarding the
15 generic fuel issues in this docket, and those
16 numbers are affected by the treatment of these
17 revenues and gains. In order -- it seems like in
18 order to come to those numbers she has to have
19 information on how those -- it seems like she has to
20 have some information on how these are treated.

21 CHAIRMAN DEASON: I think it's beyond the scope
22 of her testimony to calculate those numbers as to
23 input from other sources, and you need to pursue
24 that with the other sources. Move on.

25 BY MR. KEATING (Continuing):

1 Q Ms. Dubin, under the Commission's current
2 procedures for this docket, is it correct that the
3 Commission establishes cost recovery factors on an annual
4 calendar year basis?

5 A Yes.

6 Q When must these factors be established in order
7 for Florida Power & Light to apply the new factor to
8 bills for the following calendar year?

9 A We finish up the numbers in September for
10 billing October 1.

11 Q Okay. And when must the Commission establish a
12 factor so that Florida Power & Light has time to
13 implement it for the following calendar year?

14 A FPL believes the current schedule is adequate.

15 Q I'm still not sure that you've answered my
16 question.

17 A I'm sorry.

18 Q When must the Commission establish a factor in
19 order for Florida Power & Light to have time to
20 adequately put that factor in place for the following
21 calendar year, to apply it to the appropriate billing
22 cycles?

23 A Billing needs probably 30 days.

24 Q Okay. So roughly at the end of November, by
25 the end of November?

1 A Yes.

2 Q Okay. And under the Commission's current
3 procedure for this docket, is it correct that Florida
4 Power & Light files its estimated true-up amounts for the
5 current year and its projected true-up amounts for the
6 following year in October of the current calendar year?

7 A Yes.

8 Q Okay. Did Florida Power & Light have any
9 difficulty making a timely filing this year?

10 A We did have a bit because of the hurricane,
11 Hurricane Irene.

12 Q If Florida Power & Light were to file its
13 estimated and projected true-up amounts on October 1st
14 and the Commission held a hearing and established factors
15 based on those filings on November 30th, which I believe
16 you said is the latest that we can do that in order for
17 you to apply those in line, is it correct that the
18 parties and the Commission would have 60 days basically
19 to analyze that information?

20 A Yes.

21 Q And under the Commission's current procedures
22 in this docket, that would be the maximum amount of time
23 for the Commission and parties to analyze these filings;
24 is that correct?

25 A I'm sorry. Could you repeat the question?

1 Q Yes. Under the Commission's current procedures
2 in this docket, 60 days would be the maximum amount of
3 time for the Commission and the parties to analyze
4 estimated and projected true-up amount filings, correct?

5 A Yes, with the exception of the actual portion
6 of it since we file the A schedules every month.

7 Q Okay. How does Florida Power & Light go about
8 preparing its projected true-up amounts?

9 A Its projected true-up amounts?

10 Q Yes.

11 A They're -- it's included with the projected
12 billing. Inputs are provided to our resource planning
13 group, and it's included in the Power Sim model
14 (phonetic), so similar to the way that we do the
15 projections.

16 Q So on what information are these amounts based?

17 A I'm sorry, what amount?

18 Q On what information are these amounts based?

19 A Fuel prices, plant operations, heat rates,
20 maintenance schedules, sales figures, just about
21 everything that can go into it. It simulates our system
22 and includes purchase power also.

23 Q When is that information available?

24 A It usually takes, oh, about eight weeks for us
25 to prepare cost. So eight weeks prior to, say, mid

1 September or early September. So we're looking at
2 providing those projections somewhere, I believe, in
3 July.

4 Q The projections that are filed ultimately in
5 October are --

6 A The inputs to the computer system.

7 Q The inputs are available in July?

8 A Right. Available to our resource planning
9 group that run -- that then runs the Power Sim
10 (phonetic) mode to produce the required E schedules for
11 the filings.

12 Q And you said it takes approximately eight weeks
13 for that information to be developed for filing. Is that
14 to get it developed into testimony and to go through the
15 steps necessary?

16 A Review process.

17 Q Review process?

18 A Yes.

19 Q Okay. How does Florida Power & Light go about
20 preparing its estimated true-up amount filing?

21 A Preparing the estimated true-up?

22 Q Yes.

23 A The similar way. It's run in conjunction with
24 the projected filing. The forecasts are done together.
25 It's usually one full forecast.

1 Q And what's -- what information is included in
2 the estimated true-up filing?

3 A The same as the projected, as well as -- It's
4 combined though with whatever actual data has occurred.

5 Q Okay. And typically, is that eight months
6 worth of actual data if you were to file in October?

7 A Yes, I believe this time we filed actuals
8 through August.

9 Q Okay. And you said that it's roughly the same
10 amount of time to develop that information and testimony
11 as it is for the projection?

12 A Well, they're done together. They're done
13 together. Otherwise there is a disjoint in the forecast.

14 Q If Florida Power & Light were required to file
15 its estimated true-up amounts 90 days prior to a late
16 November hearing in this docket, that filing would be due
17 in late August, correct?

18 A Yes.

19 Q Okay. So if Florida Power & Light was required
20 to file estimated amounts for the current year 90 days
21 prior to hearing, it would not be able to include actual
22 data for August in its filing, correct?

23 A That's correct.

24 Q Would it be able to include actual data for
25 July?

1 A The filing date would be when in August?

2 Q It would be in late August.

3 A Late August? Perhaps, because all the detail
4 for the prior month is available on the 20th of the
5 subsequent month; so July's information, all the details
6 involved with it was available on the 20th. So just
7 several days before then would we have it.

8 Q So if the Commission were to require filing of
9 estimated true-up amounts for the current year 90 days
10 prior to hearing rather than in early October as the
11 current procedure provides, we would be losing one month
12 worth of actual data?

13 A We would be losing one month of actual data;
14 and also, with fuel prices, the closer they are to the
15 time they're going to use them, hopefully the better the
16 estimates they are.

17 Q Would there be any other impacts on your
18 current year estimated true-up filing?

19 A You could carry a larger true-up amount to the
20 following year because of it.

21 Q Okay.

22 A And with the fuel adjustment, that could be a
23 significant amount of money.

24 MR. KEATING: I have no further questions.

25 CHAIRMAN DEASON: Commissioners.

1 COMMISSIONER CLARK: I have a question. When
2 did you make a decision that you were going to
3 pursue the last core issue in this case?

4 MS. DUBIN: I believe it was August or
5 September of this year.

6 COMMISSIONER CLARK: And then you proceeded to
7 gather data on the issue?

8 MS. DUBIN: We had been talking about it a
9 little bit earlier than that; so we had been
10 collecting data, yes.

11 COMMISSIONER CLARK: I guess one of the things
12 that concerns me about the time frame for this is
13 that when you have a new issue, that is it routinely
14 considered in the fee adjustment? That time
15 frame -- the requirement that we make a decision
16 essentially at the hearing doesn't leave much time
17 to sort of -- for the Commission staff to consider
18 it or the Commissioners to consider it, and it
19 strikes me that there are probably -- When you have
20 a new issue, it strikes me that they -- that at some
21 point prior to gathering the data you know that you
22 are going to pursue that. Would it be possible to
23 identify new issues in advance of the filing?

24 MS. DUBIN: I believe we could do that.

25 COMMISSIONER CLARK: Okay.

1 CHAIRMAN DEASON: Redirect.

2 MR. McWHIRTER: Mr. Chairman, can I ask her a
3 question on issue 4? I know that I waived my
4 opportunity when you went by the first time, but I
5 didn't realize that this was the witness to which
6 this question should be addressed.

7 CHAIRMAN DEASON: Please proceed.

8 CROSS EXAMINATION

9 BY MR. McWHIRTER:

10 Q Ms. Dubin, do you have a copy of your Schedule
11 E-2 available to you?

12 A I don't, but I can get one very quickly.

13 (WITNESS REVIEWED DOCUMENTS)

14 A I've got it now.

15 Q This will be the first year coming up that we
16 will have an annualized fuel cost, will it not?

17 A Yes, it will.

18 Q And heretofore, the cost changed beginning in
19 April and then changed again in October, and to some
20 degree, they tracked seasonal changes in cost. I've
21 examined the Line 15 on your Exhibit 2.

22 A Yes.

23 Q And it appears that there's a pretty wide range
24 in your fuel cost from month to month. For instance, the
25 fuel cost in July is 43.6% higher than it is in

1 February. By the same token, it's 27.88 higher than it
2 is in December. What objection would your company have,
3 if any, to having instead of one single fuel cost all
4 year long, have one cost for the months of May, June,
5 July and August, a four-month period, and another cost
6 for the shoulder months? You would still recover your
7 entire fuel costs, but it would give an incentive to
8 customers by pricing the electricity based upon the
9 actual cost incurred during that -- those periods?

10 A The feedback that I have received have been
11 just the opposite, that customers want to see more of a
12 level charge throughout the year and don't want to see
13 variations going up, especially in the summertime.

14 Q Are these residential customers, or are they
15 commercial and industrial customers?

16 A Some. Some residential; some others also.

17 Q You have for the residential customers a
18 budget-billing process, do you not --

19 A Yes, we do.

20 Q -- should they wish to have the same? And with
21 respect to these other customers, their bill really
22 changes by greater consumption in the summer, more so
23 than by the differential in the fuel price, doesn't it?

24 A For residential customers? Yes.

25 Q Yeah. Would Florida Power & Light be

1 disadvantaged in any fashion if it was able to cover all
2 of its costs using a differential fuel factor, one for
3 four months and one for eight months?

4 A I don't know that it would be disadvantaged,
5 but I'm not sure that we would want to do that either.
6 It's a more administrative -- more administratively
7 burdensome, and I'm not sure if the customers actually
8 want that.

9 Q You wouldn't have to come back for another
10 hearing? It would all be done at the same hearing, just
11 like today?

12 A I guess it could be.

13 Q Yeah. And that would save some of that
14 administrative cost, wouldn't it?

15 A Yes, it would.

16 MR. McWHIRTER: That's all the questions I
17 have.

18 CHAIRMAN DEASON: Redirect.

19 MR. CHILDS: I have no redirect. I'd like to
20 move the exhibits into evidence. I think it's 19
21 and 20.

22 CHAIRMAN DEASON: That's correct. Without
23 objection Exhibits 19 and 20 are admitted.

24 MR. CHILDS: And I'd like to ask that Witnesses
25 Wade and Dugin be excused.

1 CHAIRMAN DEASON: They may be excused.

2 MR. CHILES: All right.

3 CHAIRMAN DEASON: And we're going to take a
4 recess, and we'll reconvene in 15 minutes.

5 (BRIEF RECESS)

6 CHAIRMAN DEASON: Call the hearing back to
7 order.

8 MR. MCGEE: Florida Power will call Karl
9 Wieland.

10

11

12

13

14

15 Whereupon,

16

KARL H. WIELAND

17 was called as a witness by Florida Power Corporation and,
18 after being first duly sworn, was examined and testified
19 as follows:

20

DIRECT EXAMINATION

21

BY MR. MCGEE:

22

Q Mr. Wieland, do you have before you a document

23

captioned Docket Number 990001-E1 and identified as

24

direct testimony of Carl H. Wieland?

25

A Yes, I do.

1 Q Was that document prepared by you for your
2 direct testimony today?

3 A Yes.

4 Q And if you were asked -- well, strike that.

5 Let me ask you: Are there any corrections or
6 additions that you need to make to that prepared
7 testimony?

8 A No.

9 Q If I were to ask you the questions that are
10 contained in that testimony, would your answers today be
11 the same?

12 A Yes, they would.

13 MR. MCGEE: Yr. Chairman, we'd would ask that
14 Mr. Wieland's direct testimony be inserted into the
15 record as though read.

16 CHAIRMAN LEASON: Without objection it shall be
17 so inserted.

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FLORIDA POWER CORPORATION**DOCKET No. 990001-EI****Levelized Fuel and Capacity Cost Factors
January through December 2000****DIRECT TESTIMONY OF
KARL H. WIELAND**

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

2 A. My name is Karl H. Wieland. My business address is Post Office Box
3 14042, St. Petersburg, Florida 33733.

4

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

6 A. I am employed by Florida Power Corporation as Manager of Financial
7 Analysis.

8

9 **Q. Have the duties and responsibilities of your position with the Company**
10 **remained the same since you last testified in this proceeding?**

11 A. Yes.

12

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

14 A. The purpose of my testimony is to present for Commission approval
15 the Company's levelized fuel and capacity cost factors for the period
16 of January through December 2000. My testimony also addresses
17 three generic issues that have been raised by Staff.

1 **Q. Do you have an exhibit to your testimony?**

2 **A. Yes. I have prepared an exhibit attached to my prepared testimony**
3 **consisting of Parts A through D and the Commission's minimum filing**
4 **requirements for these proceedings, Schedules E1 through E10 and H1,**
5 **which contain the Company's levelized fuel cost factors and the**
6 **supporting data. Parts A through C contain the assumptions which**
7 **support the Company's cost projections, Part D contains the**
8 **Company's capacity cost recovery factors and supporting data.**
9

10 **FUEL COST RECOVERY**

11 **Q. Please describe the levelized fuel cost factors calculated by the**
12 **Company for the upcoming projection period.**

13 **A. Schedule E1, page 1 of the "E" Schedules in my exhibit, shows the**
14 **calculation of the Company's basic fuel cost factor of 2.050 ¢/kWh**
15 **(before line loss adjustment). The basic factor consists of a fuel cost**
16 **for the projection period of 2.02417 ¢/kWh (adjusted for jurisdictional**
17 **losses), a GPIF reward of 0.00303 ¢/kWh, and an estimated prior**
18 **period true-up of 0.02126 ¢/kWh.**

19 **Utilizing this basic factor, Schedule E1-D shows the calculation**
20 **and supporting data for the Company's levelized fuel cost factors for**
21 **secondary, primary, and transmission metering tariffs. To accomplish**
22 **this calculation, effective jurisdictional sales at the secondary level are**
23 **calculated by applying 1% and 2% metering reduction factors to**
24 **primary and transmission sales (forecasted at meter level). This is**

1 consistent with the methodology being used in the development of the
2 capacity cost recovery factors.

3 Schedule E1-E develops the TOU factors 1.262 On-peak and
4 0.885 Off-peak. The levelized fuel cost factors (by metering voltage)
5 are then multiplied by the TOU factors, which results in the final fuel
6 factors to be applied to customer bills during the projection period.
7 The final fuel cost factor for residential service is 2.053 ¢/kWh.

8
9 **Q. What is the change in the fuel factor from the current to the projected
10 period?**

11 **A. The average fuel factor increases from 1.893 ¢/kWh to 2.050 ¢/kWh,
12 an increase of 8.3%.**

13
14 **Q. Please explain the reasons for the increase.**

15 **A. The increase is due to three primary factors. First, the 1999 fuel factor
16 contained a net over-recovery credit of 0.0197 ¢/kWh whereas the
17 factor for 2000 includes an under-recovery charge of 0.0213 ¢/kWh,
18 a net increase of 0.0410 ¢/kWh or 26% of the total. Second, the
19 1999 factor included a credit for gains on economy sales. For the year
20 2000, those gains are credited in the Capacity Cost Recovery Clause.
21 This change results in an apparent increase in the fuel factor and
22 explains approximately 11% of the increase. Third, and most
23 significant, is the increase in oil and gas prices from 1999 to 2000,
24 combined with an increase in the consumption of those fuels because**

1 of growth in energy consumption. Oil prices are 20% higher in 2000
2 than was estimated for 1999; gas prices are 8% higher.

3
4 **Q. What is included in Schedule E1, line 4, "Adjustments to Fuel Cost"?**

5 **A.** Line 4 shows the recovery of the costs associated with conversion of
6 eleven combustion turbine units to burn natural gas instead of distillate
7 oil and an annual payment to the Department of Energy for the
8 decommissioning and decontamination of their enrichment facilities.
9 Recovery of the conversion for the peaking units have already been
10 approved by this Commission. The cost of peaker conversions included
11 in line 4 is \$3,536,000, the payment to the DOE is \$1,516,000, for a
12 total of \$5,052,000.

13
14 **Q. What is included in Schedule E1, line 6, "Energy Cost of Purchased
15 Power"?**

16 **A.** Line 6 includes energy costs for the purchase of 60 MWs from Tampa
17 Electric Company and the purchase of 409 MWs under a Unit Power
18 Sales (UPS) agreement with the Southern Company. The capacity
19 payments associated with the UPS contract are based on the original
20 contract of 400 MWs. The additional 9 MWs are the result of revised
21 SERC ratings for the five units involved in the unit power purchase,
22 providing a benefit to Florida Power in the form of reduced costs per
23 kW. Both of these contracts have been in place and have been
24 approved for cost recovery by the Commission. Capacity costs for
25 these purchases are included in the capacity cost recovery factor.

1 Q. What is included in Schedule E1, line 8, "Energy Cost of Economy
2 Purchases (Non-Broker)"?

3 A. Line 8 consists primarily of economy purchases from within or outside
4 the state which are not made through the Energy Broker Network
5 (EBN). Line 8 also includes energy costs for purchases from Seminole
6 Electric Cooperative (SECI) for load following, and off-peak
7 hydroelectric purchases from the Southeast Electric Power Agency
8 (SEPA). The SECI contract is an ongoing contract under which the
9 Company purchases energy from SECI at 95% of its avoided fuel cost.
10 Purchases from SEPA are on an as-available basis. There are no
11 capacity payments associated with either of these purchases. Other
12 purchases may have non-fuel charges, but since such purchases are
13 made only if the total cost of the purchase is lower than the
14 Company's cost to generate the energy, it is appropriate to recover the
15 associated non-fuel costs through the fuel adjustment clause rather
16 than the capacity cost recovery factor. Such non-fuel charges, if any,
17 are reported on line 10.

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

20
21 A. Florida Power has several wholesale contracts with Seminole, some of
22 which represent Seminole's own firm resources, and others that
23 provide for the sale of supplemental energy to supply the portion of
24 their load in excess of Seminole's own resources, 1218 MW in 2000.
25 The fuel costs charged to Seminole for supplemental sales are

1 calculated on a "stratified" basis, in a manner which recovers the
2 higher cost of intermediate/peaking generation used to provide the
3 energy. New contracts for fixed amounts of intermediate and peaking
4 capacity began in January of 1999. While those sales are not
5 necessarily priced at average cost, Florida Power is crediting average
6 fuel cost for the appropriate stratification (intermediate or peaking) in
7 accordance with Order No. PSC-97-0262-FOF-EI. The fuel costs of
8 wholesale sales are normally included in the total cost of fuel and net
9 power transactions used to calculate the average system cost per kWh
10 for fuel adjustment purposes. However, since the fuel costs of the
11 stratified sales are not recovered on an average system cost basis, an
12 adjustment has been made to remove these costs and the related kWh
13 sales from the fuel adjustment calculation in the same manner that
14 interchange sales are removed from the calculation. This adjustment
15 is necessary to avoid an over-recovery by the Company which would
16 result from the treatment of these fuel costs on an average system
17 cost basis in this proceeding, while actually recovering the costs from
18 these customers on a higher, stratified cost basis. Line 17 also
19 includes the fuel cost of sales made to the City of Tallahassee in
20 accordance with Order No. PSC-99-1741-PAA-EI. The stratified sales
21 shown on Schedule E6 include 91,658 MWh, of which 93% is priced
22 at average nuclear fuel cost, the balance at an estimated incremental
23 cost of 25 \$/MWh.

1 Q. How was the estimated true-up shown on line 28 of Schedule E1
2 developed?

3 A. The estimated true-up calculation begins with an over-recovery balance
4 of \$2,443,525 for the month of August. This balance was projected
5 to the end of December, 1999, including interest estimated at the
6 August ending rate of 0.433% per month. The development of the
7 estimated true-up amount for January through December 1999 period
8 is shown on Schedule E1B, and summarized on Schedule E1A. This
9 results in an estimated true-up on line 28 of Schedule E1 (Basic) of
10 0.02126 ¢/kWh for application in the January-December 2000
11 projection period.

12
13 Q. What are the primary reasons for the projected December-ending 1999
14 under-recovery of \$7.3 million?

15 A. Oil and gas prices have increased sharply and are forecast to remain
16 higher than the original 1999 projection. This increase results in fuel
17 costs for this period that are higher than previously forecasted. In
18 addition, the reprojection period contains an estimated \$3.2 million to
19 purchase 18,000 tons of SO₂ credits for the year 2000 and, as
20 discussed below, a \$4.5 million payment to Lake Cogen to true-up
21 energy payments to the level ordered by the court.

22
23 Q. On August 26, 1999, the Lake County circuit court entered a final
24 judgment in the lawsuit brought against Florida Power by Lake Cogen,
25 Ltd. regarding a dispute over the energy pricing provision of a

1 negotiated QF contract between the two parties. Please describe the
2 court's ruling and how it has been reflected in Florida Power's fuel and
3 purchased power costs?

- 4 A. The nature of the underlying dispute between Florida Power and Lake
5 Cogen has been described to the Commission in detail in at least three
6 separate proceedings (Docket Nos. 940771-EQ, 961477-EQ and
7 980509-EQ) and I will not belabor the matter here. Suffice it to say
8 that Florida Power contended that firm energy payments were required
9 under the contract when a hypothetical generating unit with only the
10 four contractually specified operating parameters would have operated,
11 with as-available energy payments being made at all other times. Lake,
12 on the other hand, contended that the operational status of the
13 hypothetical unit should be determined based on all of the operating
14 characteristics associated with an actual "bricks and mortar" plant,
15 which Lake claimed would result in the payment of firm energy prices
16 at all times.¹

17 The dispute arose in August 1994 when Florida Power began
18 making reduced energy payments in accordance with its "four
19 parameter" interpretation of the contract's hypothetical unit, which
20 then led to the lawsuit filed by Lake. Based on its interpretation of the
21 energy pricing provision, Lake claimed that Florida Power should have

¹ Lake also claimed that the firm energy price should be calculated based on the initial mix of water-borne and rail coal transportation to Crystal River Units 1 and 2, rather than the less costly transportation mix that Florida Power subsequently implemented.

1 made additional energy payments of \$16,134,372 (including interest)
2 through July 1999.

3 Under the court's ruling² (which also dismissed Lake's coal
4 transportation claim), firm energy payments are required during the
5 contract's On-Peak period (11 hours per day), with as-available energy
6 payments made during the remaining Off-Peak period. Calculated in
7 this manner, Florida Power was ordered to pay Lake an additional
8 \$6,101,662 for the period from August 1994 through July 1999, or
9 approximately 38% of the amount claimed by Lake. In addition, the
10 court ruled that its interpretation of the energy pricing provision applies
11 to all energy payments made under the contract from its inception in
12 July 1993. The result of this ruling was that Florida Power is entitled
13 to a credit of \$1,621,415 for the higher level of energy payments
14 made to Lake during the contract's initial 13-month period before
15 Florida Power implemented its "four parameter" pricing. The credit
16 reduced Lake's total pre-judgement award to \$4,480,247 (including
17 interest of \$104,112).

18 This one-time retrospective payment to Lake in accordance with
19 the court's final judgement has been included in Company's 1999 year-
20 end estimated/actual true-up balance. In addition, on a going forward
21 basis, an estimate of the energy payments Florida Power will make to
22 Lake pursuant to the pricing methodology established by the court's
23 ruling has been included in the estimated/actual true-up balance and in

² Lake has appealed the court's decision, but it has not been stayed and remains in effect pending the appeal.

1 the 12-month projections for calendar year 2000. As with the
2 retrospective increase in energy payments under the court's ruling for
3 the August 1994 - July 1999 period described above, the increase in
4 prospective energy payments represents approximately 38% of the
5 increase that would have resulted under the interpretation advocated
6 by Lake.

7
8 **Q. Has Florida Power confirmed the validity of using the "short-cut"**
9 **method of determining the equity component of EFC's capital structure**
10 **for calendar year 1998?**

11 **A. Yes.** Florida Power's Audit Services department has reviewed the
12 analysis performed by Electric Fuels Corporation (EFC). The revenue
13 requirements under a full utility-type regulatory treatment methodology
14 using the actual average cost of debt and equity required to support
15 Florida Power business was compared to revenues billed using equity
16 based on 55% of net long-term assets (short cut method). The
17 analysis showed that for 1998, the short cut method resulted in
18 revenue requirements which were \$153,127 or 0.056% lower than
19 revenue requirements under the full utility-type regulatory treatment
20 methodology. Florida Power continues to believe that this analysis
21 confirms the appropriateness of the short cut method.

22
23 **Q. Has Florida Power properly calculated the 1998 price for waterborne**
24 **transportation services provided by Electric Fuels Corporation?**

1 A. Yes. The 1998 waterborne transportation calculation has been
2 reviewed by Staff and Public Counsel and deemed properly calculated.

3

4 Q. Please explain the procedure for forecasting the unit cost of nuclear
5 fuel.

6 A. The cost per million BTU of the nuclear fuel which will be in the reactor
7 during the projection period (Cycle 12) was developed from the
8 unamortized investment cost of the fuel in the reactor. Cycle 12
9 consists of several "batches," of fuel assemblies which are separately
10 accounted for throughout their life in several fuel cycles. The cost for
11 each batch is determined from the actual cost incurred by the
12 Company, which is audited and reviewed by the Commission's field
13 auditors. The expected available energy from each batch over its life
14 is developed from an evaluation of various fuel management schemes
15 and estimated fuel cycle lengths. From this information, a cost per unit
16 of energy (cents per million BTU) is calculated for each batch.
17 However, since the rate of energy consumption is not uniform among
18 the individual fuel assemblies and batches within the reactor core, an
19 estimate of consumption within each batch must be made to properly
20 weigh the batch unit costs in calculating a composite unit cost for the
21 overall fuel cycle.

22

23 Q. How was the rate of energy consumption for each batch within Cycle
24 12 estimated for the upcoming projection period?

1 A. The consumption rate of each batch has been estimated by utilizing a
2 core physics computer program which simulates reactor operations
3 over the projection period. When this consumption pattern is applied
4 to the individual batch costs, the resultant composite Cycle 12 is \$0.33
5 per million BTU.

6
7 Q. Would you give a brief overview of the procedure used in developing
8 the projected fuel cost data from which the Company's basic fuel cost
9 recovery factor was calculated?

10 A. Yes. The process begins with the fuel price forecast and the system
11 sales forecast. These forecasts are input into the Company's
12 production cost model, PROSYM, along with purchased power
13 information, generating unit operating characteristics, maintenance
14 schedules, and other pertinent data. PROSYM then computes system
15 fuel consumption, replacement fuel costs, and energy purchases and
16 costs. This data is input into a fuel inventory model, which calculates
17 average inventory fuel costs. This information is the basis for the
18 calculation of the Company's levelized fuel cost factors and supporting
19 schedules.

20
21 Q. What is the source of the system sales forecast?

22 A. The system sales forecast is made by the forecasting section of the
23 Integrated Resource Planning Department using the most recent data
24 available. The forecast used for this projection period was prepared in
25 June 1999.

1 Q. Is the methodology used to produce the sales forecast for this
2 projection period the same as previously used by the Company in these
3 proceedings?

4 A. The methodology employed to produce the forecast for the projection
5 period is the same as used in the Company's most recent filings, and
6 was developed with an econometric forecasting model. The forecast
7 assumptions are shown in Part A of my exhibit.

8
9 Q. What is the source of the Company's fuel price forecast?

10 A. The fuel price forecast was made by the Fuels Supply Department
11 based on forecast assumptions for residual oil, #2 fuel oil, natural gas,
12 and coal. The assumptions for the projection period are shown in Part
13 B of my exhibit. The forecasted prices for each fuel type are shown in
14 Part C.

15 16 CAPACITY COST RECOVERY

17 Q. How was the Capacity Cost Recovery factor developed?

18 A. The calculation of the capacity cost recovery (CCR) factor is shown in
19 Part D of my exhibit. The factor allocates capacity costs to rate
20 classes in the same manner that they would be allocated if they were
21 recovered in base rates. A brief explanation of the schedules in the
22 exhibit follows.

23 Sheet 1: Projected Capacity Payments. This schedule contains
24 system capacity payments for UPS, TECO and QF purchases. The retail
25 portion of the capacity payments are calculated using separation

1 factors from the Company's most recent Jurisdictional Separation
2 Study.

3 Sheet 2: Estimated/Actual True-Up. This schedule presents the
4 actual ending true-up balance as of August, 1999 and re-forecasts the
5 over/(under) recovery balances for the next four months to obtain an
6 ending balance for the current period. This estimated/actual balance
7 of \$33,314,649 is then carried forward to Sheet 1, to be collected
8 during the January through December, 2000 period.

9 Sheet 3: Development of Jurisdictional Loss Multipliers. The
10 same delivery efficiencies and loss multipliers presented on Schedule
11 E1-F.

12 Sheet 4: Calculation of 12 CP and Annual Average Demand. The
13 calculation of average 12 CP and annual average demand is based on
14 1998 load research data and the delivery efficiencies on Sheet 3.

15 Sheet 5: Calculation of Capacity Cost Recovery Factors. The total
16 demand allocators in column (7) are computed by adding 12/13 of the
17 12 CP demand allocators to 1/13 of the annual average demand
18 allocators. The CCR factor for each secondary delivery rate class in
19 cents per kWh is the product of total jurisdictional capacity costs
20 (including revenue taxes) from Sheet 1, times the class demand
21 allocation factor, divided by projected effective sales at the secondary
22 level. The CCR factor for primary and transmission rate classes reflect
23 the application of metering reduction factors of 1% and 2% from the
24 secondary CCR factor.

1 **Q.** Please discuss the decrease in the CCR factor compared to the prior
2 period.

3 **A.** The CCR factor for the year 2000 reflects reductions in capacity
4 payments for the Southern Company UPS contract and savings from
5 the renegotiated QF contracts for Orange, Mulberry, and Royster. In
6 addition, the CCR now reflects gains from non-EBN economy sales that
7 were credited to the fuel clause in previous filings. Actual gains from
8 such sales have been credited to the CCR since January 1999 which
9 is the principal reason for the \$33.3 million over-recovery projected for
10 December, 1999 and another major contributor to the decrease of the
11 CCR factor.

12 13 **GENERIC ISSUES**

14 **Q.** What is the appropriate regulatory treatment for transmission revenue
15 received from non-separated wholesale energy sales not made through
16 the Energy Broker Network (EBN)?

17 **A.** The appropriate treatment is to include a jurisdictionally separated
18 portion of such revenue with the utility's jurisdictional operating
19 revenues. This treatment affords significance for the regulator when
20 analyzing a utility's jurisdictional earnings or establishing rates.

21 The jurisdictional portion of such revenue should be derived by a
22 separation factor reflecting the cost responsibilities of the jurisdictional
23 businesses for which transmission facilities are planned and built. A
24 utility utilizes the unused capacity of these facilities when engaged in
25 non-separated sales, and therefore the revenue generated from such

1 sales should be credited in proportion to those jurisdictional businesses
2 bearing the cost responsibilities for these facilities.

3
4 **Q. Is the above described treatment consistent with past Commission**
5 **practices?**

6 **A. Yes.** Both the Florida Public Service Commission (FPSC) and the
7 **Federal Energy Regulatory Commission (FERC) have afforded such**
8 **regulatory treatment for years.** Florida Power realizes approximately
9 **\$2.5 million from non-firm transmission use of its system.** The
10 **jurisdictional components of these revenues were considered in the**
11 **Company's last full rate proceedings before both the FPSC and the**
12 **FERC when rates were established and are included in current**
13 **surveillance report calculations to the FPSC of its jurisdictional**
14 **earnings.**

15
16 **Q. What is the appropriate regulatory treatment for the generation-related**
17 **gain on non-separated wholesale energy sales not made through the**
18 **EBN?**

19 **A. The jurisdictional portion of the generation-related gain of such sales**
20 **should recognize that such revenue is a contribution toward the fixed**
21 **costs of the facilities that enabled the transaction to take place.** Fixed
22 **costs are generally apportioned in ratemaking proceedings to rate**
23 **classes on the basis of their "demand" cost responsibility as contrasted**
24 **to their "energy" responsibility.** Since the Commission's practice is to
25 **pass the gains from non-separated sales through to customers via an**

1 adjustment clause, the appropriate adjustment clause for generation-
 2 related gains is the Capacity Cost Recovery Clause (CCR). This clause
 3 apportions items to rate classes on the basis of their "demand"
 4 responsibility, which is the more appropriate treatment for flowing
 5 gains from non-separated sales through to rate classes.

6
 7 **Q. Should the Commission eliminate the 20% shareholder incentive set**
 8 **forth in Order No. 12923, issued January 24, 1984 in Docket No.**
 9 **830001-EU-B?**

10 **A. No. In Order No. 12923, the Commission correctly acknowledged that**
 11 **"a positive incentive will preserve current levels of economy sales and**
 12 **may result in increased sales and that the 20% incentive is large**
 13 **enough to maximize the amount of economy sales and provide a net**
 14 **benefit to the ratepayer". The benefits of incentives are no less today**
 15 **than they were when this order was written. In fact, the opposite is**
 16 **true. As the generation market becomes more competitive, the case**
 17 **for incentives for regulated utilities becomes more compelling since**
 18 **they are competing with entrants that retain 100% of profits for their**
 19 **shareholders.**

20
 21 **Q. Does this conclude your testimony?**

22 **A. Yes.**

1 MR. McGEE: Mr. Chairman, he has two exhibits
2 that are attached to his testimony, Exhibits KEM-1
3 and 2. If you'd like to identify them separately or
4 as a composite, that would be acceptable to us.

5 CHAIRMAN DEASON: They will be identified as
6 Composite Exhibit Number 21.

7 BY MR. McGEE (Continuing):

8 Q Mr. Wieland, I'd like to ask you to provide us
9 with a summary of your testimony as they relate to what's
10 been referred to as the staff's genetic issues, which I
11 believe are Issues Number 9 through 12.

12 A Certainly. My testimony, as you said, covers
13 the full genetic issues that staff raised, and they
14 involve the treatment of transmission revenues on
15 nonbroker sales, the treatment of generation related
16 profits on these sales, whether or not the 80/20 split on
17 appropriate economy sales should be eliminated; and last,
18 if they are not, what kind of sales they should be
19 eligible for.

20 The testimony, my testimony recommends that we
21 maintain the status quo, meaning that the transmission
22 revenues should continue to be credited to operating
23 revenues rather than passed through the fuel, or OER
24 clause, and that the 80/20 split on economy savings be
25 retained. The final position that the company took on...

1 transmission revenues was somewhat modified to say that
2 we agree to flow the transmission revenues through the
3 fuel or ECCR clause as long as the Commission retains an
4 incentive provision for all economy sales.

5 We, at this time, are not advocating any
6 particular incentive system for economy sales. We do,
7 however, strongly believe that an incentive system of
8 some kind is good regulatory policy. Florida Power is
9 satisfied with the current incentive structure; however,
10 we would support flowing transmission revenues through
11 the fuel or ECCR clause as long as the 60/20 provision, or
12 something like it, is extended to all economy sales.
13 That concludes my summary.

14 MR. McSEE: We tender Mr. Wieland for cross
15 examination.

16 CHAIRMAN BLASON: Ms. Kaufman.

17 CROSS EXAMINATION

18 MS. GORDON KAUFMAN:

19 Q Good afternoon, Mr. Wieland.

20 A Good afternoon.

21 Q Mr. Wieland, would you agree with me that
22 utilities should take all prudent action to minimize cost
23 for its retail ratepayers?

24 A Yes.

25 Q Okay. You talk about the 60/20 split on Page

1 17 of your testimony; is that correct, beginning at line
2 7?

3 A Yes.

4 Q And you referenced the Commission's January
5 24th, 1984 order, correct?

6 A Yes.

7 Q Would you agree with me that the wholesale
8 market is certainly much more competitive today than it
9 was in January 1984?

10 A Yes, I think that's fair.

11 Q And would you agree there's a lot more entities
12 buying and selling on that market today than there were
13 in 1984?

14 A Yes.

15 Q I understood from your testimony, and also from
16 your summary, that you're in favor of retaining the 90/20
17 split; is that correct?

18 A We not only are in favor of retaining it, we
19 are in favor of expanding it and making it applicable to
20 all economy sales.

21 Q I understand. Now in regard to that incentive,
22 is it your testimony that if Florida Power Corporation
23 had some excess capacity and/or energy that currently the
24 retail ratepayers who are paying for it and it had an
25 opportunity to sell that on the wholesale market that it

1 would not take that action if there were not some
2 incentive for it to do so?

3 A I don't know that I said that directly, but
4 what I am saying is that, absent an incentive, I'm not
5 sure that utilities in general, or Florida Power
6 specifically for that matter, will necessarily over time
7 do as much as they will if they have incentives.

8 Q Okay. Well, let me try and ask that question
9 again, and let's try and talk about a specific
10 situation. If Florida Power Corp had some excess energy
11 or capacity today, say, and there was an -- that its
12 retail ratepayers didn't need -- there was an opportunity
13 for it to sell that on the wholesale market, is it your
14 testimony to the Commission that you would not take that
15 action in the absence of an incentive?

16 A I don't know that I can tell you that there's
17 any particular specific action that the company would
18 take tomorrow or not take tomorrow that it would take
19 today, but you've got to realize that in this more
20 complicated and more competitive market it takes
21 significantly more effort to engage in these kinds of
22 sales. It used to be quite simple years ago. You looked
23 at what your next-hour cost was, you plugged it into a
24 computer, and the broker system would match it up. Now
25 you're staffed up with an entire department. The

1 department costs money.

2 Now will there be as many people five years
3 from now doing that kind of thing as there are today? I
4 don't know. All I'm telling you is that it's my opinion
5 that there's going to be a temptation over time to maybe
6 not do quite as much absent incentives as they are with
7 incentives; and that's simply because people in
8 organizations react to those kinds of signals.

9 Q Let me ask you this: You would agree that if
10 Florida Power Corporation were going to construct, say, a
11 new generating facility they would have the obligation to
12 make the most cost-effective choice in deciding what that
13 unit would be; is that correct?

14 A Yes, that's correct.

15 Q Now do you think that Florida Power Corporation
16 should get some additional incentive for making that most
17 cost-effective choice?

18 A I'm not sure I understand that one.

19 Q Okay. Let me try that again. Let's say that
20 Florida Power Corporation is going to build a new unit on
21 its system. I think you're agreed that it would be their
22 obligation to their ratepayers to be sure they chose the
23 most cost-effective alternative, correct?

24 A Right.

25 Q Now should they get some additional incentive

1 beyond what this Commission has authorized as their
2 return on that plant in order to make that most
3 cost-effective choice?

4 A No, I think they should get the return that
5 they're entitled to.

6 Q You mentioned earlier that you have a marketing
7 department -- is that what you called it? -- that engages
8 in these wholesale transactions?

9 A Yes, it's a power marketing department, I think
10 it's called, or section.

11 Q And these are Florida Power Corporation
12 employees, correct?

13 A Yes.

14 Q Okay. And is it correct that their roles and
15 their salary is funded by the retail ratepayers? Their
16 salaries are in rate base?

17 A No, I would not say that because when our
18 last -- when the last rate case was, I don't believe we
19 had that group. So you could argue that today they're
20 being funded by the shareholder. Although I do believe
21 that if there were a rate case, even of course I think
22 their costs would be recoverable, subject to review by
23 the Commission.

24 Q If one of these wholesale transactions is with
25 an affiliated company -- I want you to assume that for a

1 moment -- wouldn't it be true that the affiliated company
2 would also be benefitting from the transaction?

3 A They could.

4 Q If you'd look at your testimony on Page 17, at
5 the very bottom there, you have a reference to the fact
6 that regulated utilities are competing with entrants that
7 retain 100% of their profit for shareholders. Do you see
8 that?

9 A Yes.

10 Q When you refer to entrants there, are you
11 referring to merchant plants?

12 A Essentially, yes.

13 Q Okay. And wouldn't you agree that no portion
14 of the cost of a merchant plant is funded by ratepayers?
15 Is that correct?

16 A I think that's generally correct, yes. It
17 would be wrong only if there were some type of contract
18 with a plant to a utility or something of that nature.

19 Q But typically, you'd agree that the costs of a
20 merchant plant are funded 100% by the shareholders of
21 that company?

22 A Yes.

23 Q Thank you.

24 MS. GORDON KAUFMAN: That's all I have.

25 CHAIRMAN DEASON: Mr. Burgess.

CROSS EXAMINATION

2 BY MR. BURGESS:

3 Q Mr. Wieland, what types of sales are the
4 80/20 -- is the 80/20 split currently being taken by
5 Florida Power?

6 A We take the 80/20 split on the, so-called, FRN
7 broker sales, those economy sales that go through the
8 Florida broker system, Schedule C and X.

9 Q And you make economy sales off the broker
10 system as well, correct?

11 A Yes.

12 Q What is the treatment that those off-broker
13 sales take?

14 A The generation-related portion flows through
15 the capacity clause 100% of it.

16 Q And can you tell me about the approximate
17 proportion of your economy sales that are on the broker
18 versus off the broker?

19 A I don't have the exact numbers, but the vast
20 majority of it is off-broker. I would say in excess of
21 90% of it is not being made through the FRN network or
22 the broker network.

23 Q Is this the culmination of a trend? In other
24 words, has it always been the proportionality, or has it
25 shifted?

1 A I would think most of them are, but I can't
2 really say that 100% of these transactions are nonfirm;
3 but I would say the majority of them are.

4 Q Do you know of any type that would not be
5 nonfirm?

6 A I can't think of one specifically, but then
7 again, I can't -- what I'm saying is I can't necessarily
8 rule out that there are not some that are characterized
9 as firm. The vast majority, I would say, would be
10 recallable or nonfirm.

11 Q If a utility who sells economy energy should
12 suddenly need that energy to serve its native load, can
13 it recall the economy energy?

14 A Yes, we would recall that.

15 Q Does the utility --

16 A In fact, we've recalled some that were
17 relatively firm, but I think we -- you know, even the
18 degree of firmness is not -- you know, it's not strictly
19 firm or nonfirm. There are a lot of nuances in between, and
20 I think we would always make sure that our retail
21 customers get first shot at everything we have available.

22 Q Does a utility who purchases the economy
23 energy -- or excuse, is the utility who purchases the
24 economy energy required to have the generation resources
25 on hand in case that energy transaction is not

1 consummated?

2 A I think that was true with the old Florida
3 broker system. I don't think that's necessarily true any
4 more today. You could, for example, be selling energy to
5 a marketer who remarkets it and you don't necessarily
6 know whether he has any generation or not.

7 Q Does an economy energy transaction displace
8 generation from the purchasing utility with lower cost
9 generation from the selling utility?

10 A I think so, but would you say that again?

11 Q Yes. Does economy energy -- does an economy
12 energy transaction displace generation from the
13 purchasing utility with lower cost generation from the
14 selling utility?

15 A Yes.

16 Q Under which FERC schedules can Florida Power
17 sell nonfirm, short-term wholesale energy or recallable
18 wholesale energy?

19 A I'm not really sure I have that complete
20 answer. I'm quite sure all of the schedules are
21 ultimately approved by the FERC, but certainly Schedules
22 C and X, the broker schedules, are normally termed
23 economy. We have Schedule 09, which is what we list most
24 of our schedules under, which is opportunity sales. But
25 I understand that there are some other -- several other

1 FERC schedules that are very much like the OS but for
2 some reason have different FERC names to it that I don't
3 even know offhand.

4 Q So the majority are made under the Schedule CX,
5 and OS?

6 A Well, The CX is pretty well in the minority any
7 more. The Schedule OS, or schedules very much like it,
8 which are cost-capped sales that are approved by FERC, I
9 think that those are the schedules that most of our sales
10 are made under.

11 Q And I believe you already stated that Florida
12 Power applies the 20% shareholder incentive to Schedules
13 C and X sales?

14 A Yes.

15 Q Are those sales only made over the broker?

16 A I don't -- Not necessarily. The best I can
17 recall, we have had the C and X schedules were
18 originally invented for the broker, but I think we've
19 made some Schedule C sales and purchases with the
20 Southern Company under the same A plus B over X split,
21 the savings concept; and that, technically, did not go
22 through the Florida broker system. So there may be
23 Schedule C sales that are beyond that.

24 Q When Florida Power participates in an economy
25 energy transaction, is it exceeding its obligation to

1 provide cost-effective electric service to its retail
2 ratepayers?

3 A No, I don't think so, but you could argue
4 exactly what that level truly is, meaning that there's
5 something that says here's present actions and a prudent
6 level of activity and perhaps there's something called an
7 outstanding level of activity that you might achieve if
8 you are properly incentivized.

9 Q What incentives does Florida have to purchase
10 economy energy -- does Florida Power have to purchase
11 economy energy?

12 A I would say the predominate incentive is to
13 lower rates.

14 Q Is there any other incentive?

15 A Nothing that comes to mind. I think that's
16 basically it.

17 Q So Florida Power shareholders don't receive any
18 direct financial incentive when Florida Power purchases
19 economy energy?

20 A No, they don't.

21 Q Okay. Does Florida Power recover the cost --
22 I'm sorry -- the capital and fixed O&M costs of its
23 generating resources through its base rates?

24 A Yes. Its generating resources, not purchases
25 though.

1 Q And these are the same generating resources
2 from which Florida Power would make an economy energy
3 sale?

4 A That's right.

5 Q How is an economy energy transaction through
6 the broker network arranged?

7 A Through the Florida broker network?

8 Q Yes.

9 A Well, my understanding is that on an hourly
10 basis the -- somebody in the marketing department
11 calculates what the next hour's incremental generation
12 cost is for each generating unit for a block of energy,
13 say a hundred megawatts, and they will then post that
14 number on the broker's computer. At the same time, the
15 company, as well as every other company that's on the
16 broker, posts what their decremental cost is, in other
17 words, the cost that it would -- the money they would
18 save if they cut back by a hundred megawatts. And then
19 the Florida broker just simply matches the highs and the
20 lows together, splits them by two, and then that
21 establishes transaction costs.

22 Q And how is a nonbroker economy energy
23 transaction arranged?

24 A In a whole host of ways, but mostly it's done
25 by people in the power marketing market. Most of it, I

1 believe, is done over the phone. People call. I don't
2 know that -- There may be some electronic information
3 that's available -- I'm not really what familiar with
4 it -- where they can find out what people are willing to
5 buy and sell for.

6 Q Can Florida Power sell economy energy at
7 market-based rates?

8 A We can to companies outside the State of
9 Florida.

10 Q So none of these sales would be made over the
11 broker, correct?

12 A No.

13 Q Okay. So for these types of economy energy
14 sales -- Strike that.

15 For all nonbroker economy sales, what percent
16 are made in state versus out of state?

17 A That I don't really know. I'm quite sure that
18 the majority of them are made outside the state, but
19 that's really a guess on my part. I don't have a good
20 number for that.

21 Q Can Florida Power make economy energy sales
22 over the broker using market-based pricing?

23 A No, the broker, at least as I defined the
24 broker, meaning the Florida broker system, is strictly an
25 incremental cost against incremental cost. The

1 transaction is determined by the computer system that
2 runs the broker. And market -- There are no market-based
3 prices in there.

4 COMMISSIONER CLARK: Can marketers use the --
5 buy on the broker system or sell on the broker
6 system?

7 WITNESS WIELAND: Yes, I believe that the
8 membership to the Florida broker system is fairly
9 open, so it used to be just utilities, but now a lot
10 of people, including power marketers, can actually
11 get on to the broker if they so desire.

12 COMMISSIONER CLARK: And are they restricted to
13 selling at cost as opposed to market price?

14 WITNESS WIELAND: Well, that's a good question,
15 Commissioner. I'm afraid I don't know the answer to
16 that one because there are power marketers that
17 don't actually, necessarily even have generating
18 units. So I'm not sure how they would determine
19 what the cost is. But as a matter -- as a practical
20 matter, I think people that want to charge market
21 price don't go near the broker system because the
22 prices tend to be a little bit lower, frankly. They
23 can get more money on the open market most of the
24 time, which is the same reason that we've tended to
25 cut back on the broker.

1 CHAIRMAN DEASON: What prevents them from
2 buying at your incremental cost and then then
3 selling it at market, which is above your
4 incremental cost?

5 WITNESS WILAND: Only our unwillingness to
6 sell at incremental cost. I mean our -- one of the
7 things that the power marketing group learns to do
8 over time is to figure out what people are willing
9 to pay and, you know, if we can -- we will sell it
10 clearly at a cost that is -- well, let's assume,
11 first of all, it's within Florida and it's cost
12 capped. We will sell it to them at the highest cost
13 that they're willing to pay, which may be almost
14 equal to whatever their avoided cost is. But it's
15 certainly not -- you know, it's not necessarily a
16 division or a split to savings or anything of that
17 nature. We will just charge what the market will
18 bear, in essence, and if we sell it in Florida, then
19 we're capped by the FERC rulings; but we can sell it
20 at less than that, if that's what it takes to make
21 the sale. If we sell outside the State of Florida
22 and we're not under market-cap regulation, you know,
23 we can charge some of those ridiculous numbers that
24 you've seen floating around of, in some rare
25 instances, a couple thousand dollars a megawatt.

1 hour.

2 CHAIRMAN DEASON: What do you mean by market
3 cap?

4 WITNESS WIELAND: Well, the rates on the
5 tariffs that we have have a ceiling, in essence.
6 They're cost based, but we do not have to sell it at
7 exactly the maximum price. So we can sell it at no
8 more than what the costs that support it are, but we
9 can't sell it for less.

10 CHAIRMAN DEASON: And that applies to the
11 broker?

12 WITNESS WIELAND: No, sir, that applies to
13 these OS type sales that I've mentioned.

14 CHAIRMAN DEASON: A broker is simply an
15 incremental analysis?

16 WITNESS WIELAND: Broker is purely our
17 incremental cost, somebody else's incremental -- or
18 decremental cost, I should say, A plus B over 2.

19 CHAIRMAN DEASON: And where does the split to
20 savings come in?

21 WITNESS WIELAND: Well, as it's used typically
22 with a broker, it's just that you take the seller's
23 incremental cost, plus the buyer's decremental cost,
24 you add them up, you divide by two, and that
25 establishes the transaction price. And so that

1 automatically gives each party, the seller and the
2 buyer, half of the difference.

3 CHAIRMAN DEASON: And then how does the 80/20
4 split determine into that?

5 WITNESS WIELAND: Okay. Maybe just use a
6 single example. Let's say that Florida Power's
7 incremental cost is \$20 a megawatt hour and someone
8 is -- the best or highest buy quote is \$30. The
9 computer would match the transaction at 25. Florida
10 Power then says, okay, our cost was 20, we got 25,
11 so we had a \$5 profit. Of that \$5, 80% or \$4 would
12 go to the customer; and the remaining dollar, or
13 20%, would go to the shareholder.

14 CHAIRMAN DEASON: And in that situation, the
15 buying utility saved \$5 for the ratepayers?

16 WITNESS WIELAND: Yes.

17 CHAIRMAN DEASON: Do they engage in a savings
18 from that transaction, or is it only the selling
19 utility that has the 80/20 split?

20 WITNESS WIELAND: No, the hundred percent of
21 the savings would flow to the buying utility's
22 customers. There's no profit incentive there.

23 BY MR. KEATING (Continuing):

24 Q Are you aware of any other Florida utilities
25 who can make economy energy sales over the broker using

1 market-based pricing?

2 A Well, I don't think the broker really is set up
3 or allows market-based pricing. Not that I'm aware of.

4 Q How does Florida Power currently treat
5 unbundled transmission revenues received from
6 nonseparated, nonfirm wholesale energy sales not made
7 through the broker?

8 A They're credited to operating revenues along
9 with all other transmission revenues.

10 Q Is it correct that customers will get the
11 benefit of these revenues whenever base rates are set?

12 A Yes.

13 Q When was Florida Power's last rate case?

14 A I believe it was -- 1992/93 were the two best
15 years.

16 Q Is it correct that Florida Power is currently
17 under a stipulation which establishes a four-year rate
18 freeze?

19 A Yes.

20 Q Okay. And when does that stipulation expire?

21 A I believe it's the end of June or July 1 of
22 2001, if I'm correct.

23 Q In the absence of a rate case, does crediting
24 transmission revenues to operating revenues reduce rates
25 to retail ratepayers?

1 A Yes.

2 Q How?

3 A Oh, I'm sorry. Reduces rates? No, not as --
4 I'm sorry, I answered that wrong.

5 As long as they're credited to operating
6 revenues, they won't be reducing rates until the next
7 rate case comes about.

8 Q Is it correct that FERC Order 888 required
9 investor-owned utilities to unbundle transmission charges
10 from economy energy sales?

11 A Yes.

12 Q And that order was issued in April 1996; is
13 that correct, to the best of your knowledge?

14 A I'll have to take your word for that because I
15 don't really know.

16 Q So would you agree that, assuming that the
17 order came out in 1996, that it came out after Florida
18 Power's last rate case?

19 A Yes, that's correct.

20 Q Okay. So any transmission revenues that
21 Florida Power identifies as a result of Order 888 are
22 currently not included in its rate base?

23 A That's correct.

24 Q In general, in a rate case, are transmission
25 costs allocated to the various rate classes on a demand

1 basis as opposed to an energy basis?

2 A Yes, they are.

3 Q When the Commission considered the appropriate
4 regulatory treatment for broker sales, I believe Florida
5 Power argued that the jurisdictional factor for
6 generation is different from the jurisdictional factor
7 for transmission; is that correct?

8 A That's right.

9 Q Okay. Is that still correct?

10 A Yes, it is.

11 Q Okay. I've got an exhibit that I'd like you to
12 take a look at. We'll pass that around right now.

13 MR. KEATING: I'd like that marked as -- for
14 identification.

15 CHAIRMAN DEASON: It will be identified as
16 Exhibit 22.

17 COMMISSIONER CLARK: Mr. Wieland, while he's
18 passing that out, I wanted to ask you a question
19 with respect to your answer on Page 15, and you just
20 touched on it right a few minutes ago. With respect
21 to nonseparated wholesale energy sales, it's your
22 testimony that the generation revenues should flow
23 back to the retail ratepayers; is that right?

24 WITNESS WIELAND: Yes, that's right.

25 COMMISSIONER CLARK: And that would be after

1 you separated it for that which is in the wholesale
2 jurisdiction and that's in the retail -- that which
3 is in the retail jurisdiction?

4 WITNESS WIELAND: Yes, that's correct. The
5 sales are first separated on a generation separation
6 basis, which for us, at least on the generation
7 side, is predominantly retail. I would say in
8 excess of 95%.

9 COMMISSIONER CLARK: All right. So then you
10 would have a -- you would split it 95 to the retail
11 and 5 to the wholesale?

12 WITNESS WIELAND: Right. That's right.

13 COMMISSIONER CLARK: Okay. And with
14 transmission, you would do it on the same basis but
15 the jurisdictional split is different?

16 WITNESS WIELAND: The jurisdictional split
17 is -- for the wholesale jurisdiction is much larger
18 because we have a substantial wholesale transmission
19 business where we don't provide any generation.

20 COMMISSIONER CLARK: Okay. But you would
21 still, I guess -- But you would make the split of
22 the transmission revenues the same way?

23 WITNESS WIELAND: Well, what we would -- first
24 of all, you know, we had advocated that the
25 transmission revenues be treated as credits to

1 operating income, but even in that, doing that, you
2 would still do the jurisdictional split correctly
3 based on transmission demands. If the Commission
4 rules that those revenues should be passed through
5 the -- through a clause, then our first
6 recommendation would be that they, like the
7 generation-related sales, should go through the
8 capacity cost clause; but they should still be
9 separated first on the same jurisdictional
10 transmission separation basis.

11 COMMISSIONER CLARK: I'm not sure I understand
12 it. Are you saying you're not advocating that it --

13 WITNESS WIELAND: You're not clear what our
14 position is?

15 COMMISSIONER CLARK: No, I'm not.

16 WITNESS WIELAND: That's more than likely
17 because we changed it somewhat, as I tried to say in
18 our opening remarks. We initially said that we, you
19 know, we are happy doing what we're -- what the
20 status quo is, what we're currently doing; and that
21 is the following: If you forget about the Schedule C
22 and X broker sales, because they really have come to
23 the point where they're no longer even relevant
24 they're so small, if you look at the nonbroker
25 sales, we have been, since January of '91, flowing

1 back 100% of the generation-related gain, in other
2 words, the net gain without the transmission
3 revenues, flowing those back 100% through the
4 capacity cost recovery clause.

5 COMMISSIONER CLARK: Okay.

6 WITNESS WIELAND: After, of course, the --
7 COMMISSIONER CLARK: Separation.

8 WITNESS WIELAND: -- retail wholesale
9 separation, right.

10 COMMISSIONER CLARK: Okay.

11 WITNESS WIELAND: We have been -- the
12 transmission revenues which we collect under the
13 open access tariff we have been separating on a
14 jurisdictional basis using about a 70/30 ratio and
15 crediting them to operating revenues, not flowing
16 them through in other words. And what we're --

17 COMMISSIONER CLARK: Wait a minute. That's --
18 You're saying that the 70% -- 100% of the 70% is
19 credited to what?

20 WITNESS WIELAND: To operating revenues, which
21 is an above the line, meaning it does not flow
22 through a clause. And that is typically how all
23 transmission revenues have been handled by the
24 Commission.

25 COMMISSIONER CLARK: Okay.

1 WITNESS WILFAND: And normally they are -- you
2 know, for example, we have nonfirm wheeling revenues
3 where we are a third-party wheeler, you know, we
4 might wheel from one utility to another. There's a
5 base-rate credit built into -- that was there even
6 in the '92/'93, and the actual results may be higher
7 or lower; but that's how the Commission has in the
8 past treated firm and non -- well, I should say
9 nonfirm -- transmission revenues. It's just that
10 these particular type of revenues are new. They
11 really came about as a result of FERC Order 888
12 because, if you recall prior to that, we didn't
13 charge anyone for transmission revenues on economy
14 sales. Basically just free, and -- but what has
15 happened now is we're still not charging for the
16 broker sales, but for all of these market sales are
17 open -- these market-based or opportunity sales
18 tariffs that are outside the broker, we are actually
19 charging a separate transmission fee. We have, to,
20 under the open access tariff. And that's really the
21 fee that we're talking about, so when we make an
22 economy transaction, we actually -- there's a
23 two-part bill. One is for the energy, the
24 generation, and then there's a shipping charge.

25 COMMISSIONER CLARK: And now are you advocating

1 the shipping charge be treated different than what
2 it is now?

3 WITNESS WIELAND: Well, what we're saying is
4 that the shipping charge has been taken as -- which
5 is a transmission charge -- as a credit to operating
6 revenues. There have been, I think, positions taken
7 that perhaps those also ought to be flowed through a
8 clause. And what we're saying is we have regarded
9 those revenues as somewhat of an incentive. I mean
10 we -- you know, let's be honest, we get about three
11 dollars per megawatt hour for those, and that's been
12 somewhat lucrative. It hasn't escaped our
13 attention.

14 So we, you know, even though we pass back a
15 hundred percent of all the generation revenues,
16 which is, by far, the bigger piece, there has been
17 this extra money we have been collecting which,
18 until the next rate case, we get to keep. That, I
19 think, has provided us with some incentive. And
20 what we're saying is if we pass back ultimately 100%
21 of the generation sales and 100% of the transmission
22 sales, there isn't going to be a whole lot left over
23 to be incentivized about.

24 COMMISSIONER CLARK: Okay.

25 WITNESS WIELAND: And from a regulatory policy

1 standpoint, I guess that's really the question that
2 you're going to have to wrestle with: Is that really
3 a good idea?

4 COMMISSIONER CLARK: So you want to keep it the
5 way it is now with respect to transmission revenues
6 being a credit to operating revenues and not being
7 passed through the capacity cost recovery clause?

8 WITNESS WIELAND: Correct.

9 COMMISSIONER CLARK: Okay.

10 WITNESS WIELAND: Or alternatively, and that's
11 what we've agreed to in our position and the issues
12 which has taken place since the testimony has been
13 filed, alternatively we think it's fair to pass
14 through these transmission revenues along with the
15 generation revenues as long as that pot of money
16 gets -- contains some incentive provision.

17 COMMISSIONER CLARK: Okay.

18 BY MR. KEATING (Continuing):

19 Q Mr. Wieland, do you have a copy of the exhibit
20 that was handed out?

21 A Yea.

22 Q Okay. If you could take a look at the first
23 and second pages of that exhibit. This was an
24 interrogatory response --

25 A Yes, I remember.

1 Q -- Florida Power provided. Does that look
2 familiar?

3 A Yes, it does.

4 Q Did you prepare that response?

5 A Yes.

6 Q Okay. What percentage of the sales listed on
7 the second page these are broker sales versus off broker
8 sales?

9 A On Page 11, those are all broker sales, 58%
10 broker sales.

11 Q Okay. I think those are the -- The purchases
12 are listed on Page 11.

13 A Oh, I'm sorry. The purchase -- I'm sorry,
14 these are purchases, right. The sales are on the --

15 Q The sales are on the following page?

16 A The sales are on the following page, right.

17 Q So roughly what percentage of the purchases
18 would be purchased -- trade over the broker?

19 A Well, unless I'm missing something, it's all of
20 it.

21 Q Okay. And is that the same -- the same is true
22 with sales on the second page?

23 A Yes.

24 Q I just want to be clear. None of the purchases
25 or sales listed on these two pages are off-broker sales.

1 or purchases?

2 A No. I mean if I'm reading it correctly, it
3 says it's the amount of economy energy that Florida Power
4 purchased and sold through the LEP; so those would
5 strictly be broker sales.

6 Q Well, then as a percent of total economy
7 purchases, how many are made over the broker, regardless
8 of these amounts and this exhibit?

9 A Well, I would say that, you know, if you go
10 back to '91 and -- well, '92, I guess, those years, I
11 would say those were predominantly 90% or more through
12 Schedule C and X at the Florida broker. You can see that
13 the megawatt hours decreased significantly. I would
14 venture to say that, in fact, if you look at the forecast
15 that we made for the year 2000, we didn't even bother
16 making a forecast, not necessarily that they're zero, but
17 they have virtually vanished. So today the forecast for
18 economy sales and purchases would be predominantly
19 nonbroker. I would, you know, say virtually 100%.

20 Q Okay. Could you turn to the next page of the
21 exhibit? It's the third page of the packet, and it's
22 entitled Late-Filed Exhibit Number 2 on the top right
23 corner.

24 A Okay.

25 Q Does this exhibit present Florida Power's

1 jurisdictional factors for generation and transmission?

2 A Yes, it does.

3 Q Okay. Could you point out where on the exhibit
4 these are?

5 A That would be on the line called "retail
6 separation factors and for production energy," which is a
7 generation separation factor. It's 97.2% retail. For
8 transmission allocation the percentage 69.4 retail; the
9 balance being wholesale.

10 Q Okay. And for what period are these factors
11 applicable?

12 A That is for the year 2000.

13 Q Okay.

14 A No, I take that back. That was based on a 1999
15 separation study. So those are separation factors that
16 are based on what's going on this year.

17 Q How is the separation factor for transmission
18 facilities determined by Florida Power?

19 A Well, I'm probably somewhat beyond my field of
20 expertise, but I add essentially it's done on a demand
21 basis. They add up each month what the demands are for
22 the wholesale business and what the demands are for the
23 retail business as a percentage of the total, and they
24 just average them out for the year. I'm sure it's a bit
25 more complex than that, but I think that's the essence of

1 it.

2 Q What impact -- what impact would there be on
3 Florida Power if the Commission decided that transmission
4 revenues should be separated into the wholesale and
5 retail jurisdictions using the jurisdictional factor for
6 generation rather than transmission?

7 A Well, if you look at the bottom line, that
8 would mean that Florida Power would be paying about 1.7
9 million dollars more a year than we are receiving.

10 And, Commissioners, if you recall, we've had
11 extensive testimony on that issue when we talked about
12 doing this for broker sales. I think he agreed at the
13 time that the amounts were very, very minimal; but since
14 these sales are much larger, the financial impact is much
15 bigger. But clearly we have -- we're obligated to give
16 33% of these revenues to wholesale customers. If at the
17 same time we also give 37% to retail customers, I think
18 it doesn't take long to conclude that we're paying more
19 than we're receiving. And the difference is that we
20 would be paying a million dollars more than we're
21 receiving.

22 Q I think you may have already answered this in
23 response to a question from one of the Commissioners, but
24 how does Florida Power treat generation-related gains on
25 nonseparated, nonfirm wholesale sales not made through

1 the broker?

2 A Nonseparated, nonfirm, nonbroker, if I follow
3 all that right, I think we're right now passing those
4 100% through the CCR.

5 Q Okay. Is it correct that prior to January 1999
6 Florida Power credited those gains to the fuel clause?

7 A That's right.

8 Q Why does -- why did Florida Power credit those
9 gains to the fuel clause prior to January 1999?

10 A I think prior to that it was really more of
11 following the treatment that we had used in the past for
12 broker sales and not really -- well, basically that's the
13 reason. I think we've just been used to doing it a
14 certain way, and we just continue to do it that way.

15 CHAIRMAN DEASON: What made you decide to
16 change?

17 WITNESS WIELAND: I think what really triggered
18 it, quite honestly, is we heard that FP&F was
19 passing it through the capacity clause. We looked
20 at that and thought that, you know, past treatment
21 of other economy sales, that that really was the
22 appropriate way to pass those through. The reason
23 being, that it's the -- that the capacity clause
24 allocates costs and revenues on a demand basis. And
25 it seemed to us very logical that if customers are

1 paying for the facilities that allow you to make
2 these sales and have costs allocated to them on a
3 demand basis that they ought to be receiving the
4 benefits that they create in the same proportion,
5 and so to us it made an awful lot of sense to do it
6 that way. We didn't really think we were running
7 around of Commission policy at that point in time, so
8 we just decided to start doing it that way.

9 CHAIRMAN BLASON: So the cost of the facilities
10 which enabled the sales to be made, they're being
11 recovered from ratepayers based upon a capacity
12 basis?

13 WITNESS WIELAND: Yes, sir.

14 CHAIRMAN BLASON: And so whatever revenues they
15 generate you thought should be passed through the
16 capacity clause to get the benefits back to the
17 customers who were paying the initial cost?

18 WITNESS WIELAND: Absolutely, yes. And the
19 same thing is true for -- if we have purchases that
20 enable us to make sales. They are -- customers are
21 paying those through the OCR, and they should get
22 any revenues in exactly the same proportion. So if
23 somebody pays 20% of the cost, they ought to get 20%
24 of the benefits. So to us that made an excellent
25 amount of sense.

1 BY MR. KEATING (Continuing):

2 Q Mr. Wieland, I believe you stated that the
3 majority of your economy, short-term, nonfirm, nonbroker
4 sales are made under the OS schedule; is that correct?

5 A Yes.

6 Q Okay. Do OS sales have a capacity component
7 included in the price?

8 A They have components that are not necessarily
9 fuel. They come in so many different varieties it's hard
10 to describe them all. But, you know, for example, it may
11 well be that there may be an option payment. Someone may
12 pay us a fixed, up-front amount of money in order to have
13 access to economy energy at a certain price a month down
14 the road. And I'm not sure what to call that payment,
15 but it's certainly something other than a pure energy
16 payment.

17 Q Typically, how much of the price would that
18 component comprise?

19 A I'm sorry, I didn't hear all that.

20 Q Typically, about how much of the price of an OS
21 sale would that component that you're referring to
22 comprise, the component other than fuel, if there is one?

23 A I really don't know. I would think it's, you
24 know, it's certainly less than the total; but I don't
25 know how big a portion it would be.

1 Q Does Florida Power plan and build capacity to
2 make GS sales?

3 A No.

4 Q Does Florida Power purchase energy under the GS
5 schedule?

6 A Well, we purchase energy that's available. We
7 don't necessarily care what schedule it comes under and,
8 you know, other people may have energy available that's
9 at a good price that who knows what it's called. It may
10 not even have a schedule name.

11 Q When Florida Power makes nonfirm economy energy
12 purchases, how are the costs of those purchases recovered
13 from the ratepayers?

14 A They're recovered through the fuel clause,
15 unless there is a specific capacity component. In which
16 case, that piece is recovered through the capacity
17 clause; but most of it is fuel, I would say.

18 Q Under the Commission's current procedures for
19 this docket, is it correct that the Commission
20 establishes cost recovery factors on an annual calendar
21 year basis?

22 A Yes.

23 Q And when must those factors be established in
24 order for Florida Power to apply the new factors to bills
25 for the following calendar year?

1 A Well, if the -- I take it you're asking when we
2 have to have the final numbers approved by the
3 Commission.

4 Q Correct.

5 A I would say as long as it's done by the first
6 week, sometime in the first week of December, that gives
7 us adequate time to have them in place by the end of the
8 month.

9 Q And is it correct that under the Commission's
10 current procedure for this docket Florida Power files its
11 estimated and projected true-up amounts in October?

12 A Yes.

13 Q Okay. How does Florida Power go about
14 preparing its projected true-up amounts?

15 A Well, we do it much like everybody else. We
16 come up with projections of energy, the prices,
17 purchases, sales, unit characteristics, et cetera. We
18 run them through a production costing model and come up
19 with the numbers.

20 Q And when is that information available to
21 Florida Power in relation to when --

22 A Well, as a practical matter, whenever it needs
23 to be, I guess. Now, typically, we do energy
24 forecasts -- we haven't even done it the same every year,
25 but I would typically say June or July of the year. We

1 make price forecasts whenever we need to. The budgets
2 are typically done at about the same time we're filing
3 right now, I would say, but they're not exactly
4 synchronized.

5 Q How much time is required for that information
6 to be developed and for testimony to be filed in this
7 docket?

8 A I don't remember offhand what our schedule is,
9 but I would say that we give ourselves at least six weeks
10 from when we kick the process off until everything is
11 filed here in Tallahassee.

12 Q How does Florida Power go about preparing its
13 estimated true-up filing?

14 A They're done at the same time.

15 Q If Florida Power was required to file estimated
16 amounts for the current year 30 days prior to hearing
17 rather than in early October, as is provided for in the
18 current Commission procedures, would Florida Power --
19 what impact would that have on Florida Power?

20 A Well, it would mean that we would have to file
21 it what, late August? You would have one month -- one
22 less month of actual data, but beyond that, I guess we
23 would just -- you know, if the Commission says we have to
24 file it by late August, we'll file it by late August. I
25 mean to allocate it, I guess, well, you know, we've had

1 six-month periods where we've had to file data as early
2 as July and somehow managed to do that, so I guess I'm
3 not terribly concerned with the schedule.

4 Q If the Commission were to approve staff's
5 position on Issue Number 3, that is, if Florida Power is
6 required to flow transmission revenues from nonseparated,
7 nonbroker wholesale energy sales through the capacity
8 clause, would that decision impact your proposed factors?

9 A It would impact it in a very - in a fairly
10 slight fashion. I would propose that we would do the
11 same thing with those as we have for other things we've
12 discussed here today and let the line-up catch up. It's
13 not a big enough number to really warrant changing the
14 numbers that we have.

15 Q Do you have any estimate on what that might be?

16 A I'm sorry?

17 Q Do you have any estimate on what that impact
18 might be?

19 (WITNESS REVIEWED DOCUMENT)

20 A If I recall, we had about 10 million dollars in
21 our capacity filing. No, let me back up a minute. We're
22 talking about the transmission revenues, right? Those, I
23 think, we're estimating to be somewhere around three to
24 four million.

25 Q Okay.

1 A On an annual basis.

2 Q Is your projection filing based on Florida
3 Power applying the 20% shareholder incentive to more
4 types of sales than you are currently applying the 20%
5 shareholder incentive?

6 A No, the projection assumes that 100% of the
7 generation revenues are flowed through the CCR. That's
8 about 10 million dollars, and then the estimated
9 transmission revenues on a retail basis would be --
10 actually on the late filed exhibit is the number that
11 we're estimating -- about 2.7 million dollars on a retail
12 basis. But our filing is based on flowing through 100%
13 of the generation piece, which is at 10 million, and zero
14 percent of the generation piece, which is at 2.7 million.

15 Q Has Florida Power included the cost of the last
16 core of the nuclear fuel in its projected fuel costs?

17 A No.

18 Q Okay. Has Florida Power considered methods for
19 recovery of that cost?

20 A Not that I'm aware of.

21 Q Thank you.

22 MR. KEATING: I have no further questions.

23 CHAIRMAN DEASON: Commissioners?

24 (NO RESPONSE)

25 CHAIRMAN DEASON: Redirect?

1 MR. MOGLE: None.

2 CHAIRMAN DEASON: Exhibits.

3 MR. MOGEE: Ask that Exhibit 21 be admitted
4 into the record.

5 CHAIRMAN DEASON: Without objection Exhibit 21
6 is admitted.

7 MR. KEATING: And staff would ask that, I
8 believe it's 22, be moved into the record.

9 CHAIRMAN DEASON: Without objection Exhibit 22
10 is admitted.

11 Thank you, Mr. Aleland.

12 We're going to recess -- adjourn for today and
13 reconvene tomorrow at 9:00, not 9:30, 9:00. See you
14 tomorrow.

15 (WHEREUPON, THE TRANSCRIPT IS CONTINUED IN
16 VOLUME 3 WITHOUT COMMISSION)

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11:277;17, 288;9, 288;12
12:288;11
120:187;12
148:188;18
15:210;21, 210;4, 288;18
188:188;8
188:187;2

158:182;13

17:240;1, 244;4

171:167;3

19:168#4, 216;20, 218;23

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194:168#5

185:167;4

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188#23:257;14

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1229:268;14

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266#257;18, 288;12
288:1:237;22
208#214;4, 214;8
24:188;7, 238;6
218:167;8
218:168;4, 168;8
218:167;7

22:188;8, 278;8

22:188;8

228:430#21

238:188;7

239:167#8

248:167;8

248:167;8

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30%:269;14

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33:14:188;8

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4:188;15;16

4#2 P.M.: 188;14

407%:188;17

43.4%:216;25

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7:240;2

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77:192;18

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80%:255;11

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245;4, 248;8, 258;3, 258;18

850:497-8314: 188;22

880:687-8715: 188;22

888:258;2, 258;21, 263;11

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