BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 010001-EI
FLORIDA POWER & LIGHT COMPANY

SEPTEMBER 20, 2001

IN RE: LEVELIZED FUEL COST RECOVERY
AND CAPACITY COST RECOVERY

PROJECTIONS
JANUARY 2002 THROUGH DECEMBER 2002

SUPPLEMENTAL TESTIMONY OF:

K. M. DUBIN
G. YUPP

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

SUPPLEMENTAL TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 010001-EI

September 20, 2001

Q. Please state your name and address.

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

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

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

Q. Have you previously testified in this docket?

A. Yes, I have.

Q. What is the purpose of your supplemental testimony?

A. The purpose of my supplemental testimony is to address generic and company-specific fuel adjustment issues identified in the revised Procedural Order PSC-01-1829-PCO-EI, issued on September 11, 2001 which were not addressed in my testimony filed on August 31, 2001.

Q. What is the appropriate estimated benchmark level for calendar year 2002 for gains on non-separated wholesale energy sales eligible for a shareholder incentive as set forth by Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI, issued September 26, 2000, for each investor-owned electric utility?

A. For the forecast year 2002, the three year average threshold consists of actual gains for 1999, 2000 and January through July 2001, and estimates for August through December 2001 (see below). Gains on sales in 2002 are to be measured against this three year average threshold, after it has been adjusted with the true up filing (scheduled to be filed in April 2002) to include all actual data for the year 2001.

1999	$59,183,161
2000	$37,400,076
2001	$17,026,999
Average threshold	$37,870,079

This average threshold is calculated using the methodology proposed by Staff in their memorandum dated September 20, 2000.

Q. What is the appropriate regulatory treatment for capital projects with an in-service date on or after January 1, 2002, that are expected to reduce long-term fuel costs?

A. The appropriate regulatory treatment for capital projects that are expected to reduce fuel costs is the treatment prescribed by the

Commission in Order No. 14546 in Docket No. 850001-EI-B where the Commission listed the types of costs that are recoverable through the Fuel Cost Recovery Clause. Item No. 10 in the Order states:

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

Q. What is the appropriate rate of return on the unamortized balance of capital projects with an in-service date on or after January 1, 2002, that are expected to reduce long term fuel costs?

A. Consistent with Commission practice, the return on the unamortized balance of capital projects should be computed using capital ratios and cost rates approved in the Company's last rate proceeding.

Q. If an investor-owned electric utility exceeds the ceiling on its authorized return on common equity, can and/or should the Commission reduce by a commensurate amount recovery of prudently incurred expenditures through the Commission's fuel and purchased power cost recovery clause?

A. No. It appears that this issue raises a legal question as well as a policy question. My testimony does not comment on the legal question. However, from a policy standpoint, the Fuel Cost Recovery Clause is designed for a specific purpose. It is an adjustment to reflect changes in fuel - a large and highly volatile expense item. The objective of the Fuel Cost Recovery Clause is to keep the utility financially whole and to provide proper price signals to customers.

Q. Is FPL's aerial survey method of its coal inventory at Plant Scherer as stated in Audit Disclosure No. 1 of Audit Control No. 01-053-4-1 consistent with the method set forth in Order No. PSC-97-0359-FOF-EI, in Docket No. 970001-EI, issued March 31, 1997?

A. No. Plant Scherer is located in Georgia and although the accounting procedures recognized by the Georgia Public Service Commission are similar to those stated in Order No. PSC-97-0359-FOF-EI, there are some differences. However, these differences have very little impact on the resulting coal inventory adjustments booked.

The Order states that the quantity of coal is to be adjusted at a weighted average cost using the most recent six months inventory data. For Scherer, the cost used is a weighted average unit cost for the month prior to the survey. The two methods provide similar results and over time tend to "wash". For example, from January 2000 through July 2001, the net difference between the two methods is ($239).

Additionally, the accounting procedures differ because Georgia requires more aerial surveys than does Order No. PSC-97-0359-FOF-EI. For Scherer, aerial surveys are performed four times a year rather than two. Performing these surveys more frequently has no significant impact on the coal inventory adjustments booked. For example, when changing the frequency of aerial surveys from quarterly to semi-annually for St. John River Power Park (SJRPP), the Commission Staff analyzed a two year test period and came to this conclusion. In Order No. PSC-95-1089-FOF-EI dated September 5, 1995 the Commission stated:

> "We approve the parties' agreement to permanently change the frequency of aerial coal inventory surveys from quarterly to semi-annually. In Order Number PSC-93-0443-FOF-EI, we approved a change in the frequency of aerial coal inventory surveys from quarterly to semi-annually for a two year test period. We directed our staff to review the impact of less frequent surveys on inventory adjustments upon completion of this test period. Staff's analysis showed that performing aerial coal inventory surveys semi-annually as opposed to quarterly has had no significant impact on the coal inventory adjustments booked..."

Q. What is the appropriate regulatory treatment for sales of natural gas and transportation capacity made by FPL to an affiliated or unaffiliated company?

A. When FPL's customers support the investment (i.e. pipeline capacity) used to make the sale, the revenues from these sales are flowed back to the retail customer through the Fuel Cost Recovery Clause. FPL believes this is appropriate. There is no distinction made between a sale made to an affiliated company versus a sale made to an unaffiliated company. The sale of natural gas and transportation capacity made by FPL to an affiliated company or an unaffiliated company is treated the same.

Q. **How should FPL allocate the costs associated with its sales of natural gas to Florida Power and Light Energy Services?**

A. The costs of the sale of natural gas to Florida Power & Light Energy Services as well as the sale of gas to unaffiliated companies is recovered through the price for the sale of that gas. Thus, all costs of the sale are allocated to the sales price.

Q. What is the appropriate regulatory treatment of Florida Power and Light Energy Services' revenues and costs made to customers within FPL's service area?

A. When Florida Power & Light Energy Services makes a sale within FPL's service area, the revenues and costs are included in FPL's base rate operations and reflected in the monthly surveillance report.

Q. What is the appropriate regulatory treatment of Florida Power and Light Energy Services' revenues and costs made to customers outside of FPL's service area?

A. When Florida Power & Light Energy Services makes a sale outside FPL's service area, these transactions are accounted for as a non-utility operation.

Q. Does this conclude your testimony.

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

SUPPLEMENTAL TESTIMONY OF GERARD YUPP

DOCKET NO. 010001-EI

September 20, 2001

Q. Please state your name and address.

A. My name is Gerard Yupp. My address is 11770 U. S. Highway One, North Palm Beach, Florida, 33408.

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

A. I am employed by Florida Power & Light Company (FPL) as Manager of Regulated Wholesale Power Trading in the Energy Marketing and Trading Division.

Q. Have you previously testified in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my supplemental testimony is to address fuel adjustment issues identified in the revised Procedural Order PSC-01-1829-PCO-EI, issued on September 11, 2001 which were not addressed in my testimony filed on August 31, 2001. My testimony presents and explains FPL's current and future fuel hedging strategies.

Q. Has FPL taken reasonable steps to manage the risks associated with its fuel and wholesale energy transactions through the use of physical and financial hedging practices?

A. Yes

Q. What hedging strategies has FPL implemented over the past year to manage the risks associated with its fuel and wholesale energy transactions?

A. FPL continually manages fuel and wholesale energy price risk to achieve cost and volatility minimization for its customers. Over the past year, FPL has taken a number of steps to mitigate the impact of high fuel prices on its customers. FPL is able to minimize costs through portfolio diversification, asset optimization and fuel hedging. FPL's generation mix consists of nuclear, coal, petroleum coke, oil, and natural gas-fired generation, as well as, purchased power contracts. This diversified mix of resources reduces the risk of fuel price volatility because FPL is not captive to one energy or fuel source. FPL also maintains diversification within its fuel and purchase power contracts through a mix of long-, mid- and short-term transactions.

Additionally, FPL has been able to optimize its assets through fuel switching between natural gas and oil, selling excess natural gas into the market and burning lower cost oil, optimizing FPL's firm natural gas transportation by selling delivered natural gas in the Florida markets when oil prices are below natural gas prices, and selling excess oil-fired generation and returning profits to FPL's customers. FPL has also implemented numerous hedging strategies to achieve cost minimization. As natural gas prices peaked, FPL began maximizing its oil inventory, as well as, aggressively procuring oil transportation. FPL also utilized natural gas storage for the first time. Storing natural gas allowed FPL to minimize its baseload natural gas requirements, when prices were high, while continuing to have the capability to withdraw natural gas on peak demand days to reliably meet its load. FPL has also bought natural gas with embedded options to achieve below market pricing. Finally, FPL has been able, at times, to exchange its winter must-take natural gas volumes for natural gas in the summer.

FPL continues to develop and implement hedging strategies on a daily basis to manage price risk and volatility. The fuel price increases during the past year has resulted in FPL becoming even more creative in finding ways to minimize fuel costs and volatility to its customers.

Q. Is FPL in the process of reviewing its hedging strategies and methods to manage the risks associated with its fuel and wholesale energy transactions?

A. Yes, FPL is in the process of reviewing its hedging strategies and methods to manage the risks associated with its fuel and wholesale energy transactions. FPL has hired Dean & Company, a strategy consultant firm, to explore alternative hedging strategies to enhance FPL's current program. We plan to report on the results of the Dean & Company study prior to the November Fuel Cost Recovery hearings.

Q. Should the Florida Public Service Commission encourage Florida Power & Light to enter into derivative transactions to manage the risks associated with its fuel and wholesale energy transactions?

A. Yes. The appropriate and controlled use of derivative instruments will support both FPL's and the Florida Public Service Commission's objective of fuel cost and volatility minimization to the customer.

Q. What is the appropriate regulatory treatment of the gains and losses that result from hedging fuel and wholesale energy transactions?

A. The appropriate regulatory treatment of the gains and losses that result from hedging fuel and wholesale energy transactions is to include both the gains and losses in the Fuel Clause.

Q. What is the appropriate regulatory treatment for the premiums received and paid for hedging fuel and wholesale energy costs?

A. Since the premiums received and paid are a direct and customary component of hedging fuel and wholesale energy, they should be included in the Fuel Clause, for the delivery period for which it relates, as a normal and acceptable component of procuring fuel.

Q. What is the appropriate treatment for the transaction costs associated with hedging fuel and wholesale energy costs?

A. Since the transaction costs associated with hedging fuel and wholesale energy are a direct and customary cost of hedging fuel and wholesale energy, they should be included in the Fuel Clause, for the delivery period for which it relates, as the normal and acceptable cost of hedging fuel and wholesale energy.

Q. For the period March 1999 to March 2001, were FPL's natural gas procurement practices reasonable?

A. FPL's natural gas procurement practices during this time period were reasonable and prudent. FPL's procurement strategies in this highly volatile market enabled FPL to achieve cost and volatility minimization to its customers.

Q. Would you please summarize your testimony?

A. I have presented and explained FPL's hedging strategies and have indicated that the strategies and methods are currently under review, and that FPL will be providing an update prior to the November hearing. I have also indicated FPL's recommendation on the regulatory treatment for the costs associated with an effective hedging program, as well as, the treatment for the gains and losses from the execution of a hedging program.

Q. Does this conclude your testimony?

A. Yes, it does.