BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 010001-EI

In the Matter of

FUEL AND PURCHASED POWER
COST RECOVERY CLAUSE AND
GENERATING PERFORMANCE
INCENTIVE FACTOR
_______________________________/

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VOLUME 5

Pages 522 through 697

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN E. LEON JACOBS, JR.
COMMISSIONER J. TERRY DEASON
COMMISSIONER LILA A. JABER
COMMISSIONER BRAULIO L. BAEZ
COMMISSIONER MICHAEL A. PALECKI

DATE: Wednesday, November 21, 2001

TIME: Commenced at 8:35 a.m.
Concluded at 1:05 p.m.

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

REPORTED BY: TRICIA DeMARTE
Official FPSC Reporter
(850) 413-6736

APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

P R O C E E D I N G S

(Transcript continues in sequence from Volume 4.)

CHAIRMAN JACOBS: So without objection, show the testimonies of Mr. Hartzog, Ms. Dubin, the original testimonies are entered into the record as though read. And you just moved the supplemental testimony of Mr. Hartzog as well, so that is entered into the record as though read.

MR. McWHIRTER: Mr. Chairman, I wanted to ask Ms. Dubin a couple of questions on the direct fuel testimony. She's going to take the stand on supplemental. Can I ask her those questions at that point?

MR. CHILDS: I don't think she had any remaining issues for that testimony. There were two gas issues that remained and not stipulated, so that was the only reason that her other testimony, I think, wasn't starred, and those have been deferred now. So I don't think she has anything at issue.

CHAIRMAN JACOBS: Were your questions --

MR. McWHIRTER: I was going to ask her questions similar to the ones I asked of Mr. -- Javier is his first name -- concerning wholesale transactions.

MR. CHILDS: Well, at this point -- maybe we can take that up later. At this point, I'm just moving it into --

CHAIRMAN JACOBS: Okay. For the moment we'll assume that you can ask the questions, and we'll deal with whatever objections arise at that time.

MR. McWHIRTER: Okay. That will be good.

CHAIRMAN JACOBS: So we now have Mr. Hartzog's original and supplemental, and Ms. Dubin's original testimony, and we will wait to have the supplementals --

MR. CHILDS: We had Mr. Yupp and Mr. Silva as well that I wanted to move in record.

CHAIRMAN JACOBS: Yes. Without objection, show Mr. Yupp's testimony and Mr. Silva's testimony are entered into the record as though read.

MR. CHILDS: And I'm sorry to take the time, but we have on -- starting on Page 34 a series of documents that are sponsored by FPL witnesses.

CHAIRMAN JACOBS: Very well.

MR. CHILDS: And if you would agree perhaps to give them simply -- each witness a number in sequence starting with the last number, that might take care of it. Mr. Yupp would be the next number.

CHAIRMAN JACOBS: Very well. We will mark Mr. Yupp's exhibits as Exhibit 24, Composite Exhibit 24.

(Exhibit 24 marked for identification.)

MR. CHILDS: And then Ms. Dubin's.

CHAIRMAN JACOBS: We'll mark Ms. Dubin's exhibits as Composite Exhibit 25.

(Exhibit 25 marked for identification.)

MR. CHILDS: Mr. Green is 26.

CHAIRMAN JACOBS: Yes, and Mr. Green will be 26.
(Exhibit 26 marked for identification.)
CHAIRMAN JACOBS: And Mr. Hartzog would be 27.
(Exhibit 27 marked for identification.)
MR. CHILDS: And then one more, Mr. Silva.
CHAIRMAN JACOBS: Mr. Silva will be 28.
(Exhibit 28 marked for identification.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF GERARD YUPP

DOCKET NO. 010001-EI

AUGUST 31, 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 testimony is to present and explain FPL's projections for (1) the dispatch costs of heavy fuel oil, light fuel oil, coal, petroleum coke, and natural gas, (2) the availability of natural gas to FPL, (3) the generating unit heat rates and availabilities, and

(4) the quantities and costs of interchange and other power transactions, as well as, a series of new power purchase agreements which will start in February of 2002. The projected values and the terms of the new agreements were used as input values to the POWRSYM model which was used to calculate the fuel cost to be included in the proposed fuel cost recovery factors for the period January through December, 2002.

On August 23, 2001, FPL filed a Petition to reduce its fuel adjustment factors beginning in October, 2001. As part of that Petition, FPL also filed its Fuel and Capacity Cost Recovery Schedules for 2002 and, rather than waiting until the filing scheduled date of September 20, 2001, FPL committed to file the supporting testimony on an expedited basis prior to the end of August, 2001. On August 6, 2001, Staff issued a memo asking that utilities address some issues regarding hedging and risk management. A discussion on this subject is not included in my testimony, however, I plan to file supplemental testimony addressing these hedging issues by the original filing date of September 20, 2001.

Q. Have you prepared or caused to be prepared under your supervision, direction and control an Exhibit in this proceeding?

A. Yes, I have. It consists of pages 1 through 15 of Appendix I of this filing.

Q. In addition to the "Base Case" fuel price forecast, have you prepared alternative fuel price forecasts?

A. Yes. In addition to the "Base Case" fuel price forecast, we have prepared, for fuel oil and natural gas supply, two alternate forecasts, a "Low" and a "High" price forecast.

Q. Why did you prepare alternate forecasts for fuel oil and gas supply only?

A. Because coal and petroleum coke prices have been and are expected to continue to be steady, and gas transportation costs are well defined.

Q. How is your testimony organized?

A. My testimony first describes the basis for the "Base Case" fuel price forecast for oil, coal and petroleum coke, and natural gas, as well as, the projection for natural gas availability. Then it describes the "Low" and "High" price forecasts for fuel oil and natural gas supply. Then my testimony addresses plant heat rates, outage factors, planned outages, and changes in generation capacity followed by projected interchange and purchased power transactions. Lastly, my testimony addresses a series of new purchase power agreements that start in February of 2002.

BASE CASE FUEL PRICE FORECAST

Q. What are the key factors that could affect FPL's price for heavy fuel oil during the January through December, 2002 period?

A. The key factors are (1) demand for crude oil and petroleum products (including heavy fuel oil), (2) non-OPEC crude oil production, (3) the extent to which OPEC production matches actual demand for OPEC crude oil, (4) the price relationship between heavy fuel oil and crude oil, and (5) the terms of FPL's heavy fuel oil supply and transportation contracts.

In the Base Case, world demand for crude oil and petroleum products is projected to be somewhat stronger in 2002 than in 2001 due to an assumed economic recovery during 2002, especially in Asia, and continued strong petroleum product demand in the United States and Europe. Although crude oil production capacity will be more than adequate to meet the projected strong crude oil and petroleum product demand, general adherence by OPEC members to its most recent production accord, and the continued alliance of Mexico and Norway with OPEC, will prevent significant overproduction and keep the supply of crude oil and petroleum products somewhat tight during most of 2002.

Q. What is the projected relationship between heavy fuel oil and crude oil prices during the January through December, 2002 period?

A. The price of heavy fuel oil on the U. S. Gulf Coast (1.0% sulfur) is projected to be approximately 85% of the price of West Texas Intermediate (WTI) crude oil during this period.

Q. Please provide FPL's projection for the dispatch cost of heavy fuel oil for the January through December, 2002 period.

A. FPL's Base Case projection for the system average dispatch cost of heavy fuel oil, by sulfur grade, by month, is provided on page 3 of Appendix I in dollars per barrel.

Q. What are the key factors that could affect the price of light fuel oil?

A. The key factors that affect the price of light fuel oil are similar to those described above for heavy fuel oil.

Q. Please provide FPL's projection for the dispatch cost of light fuel oil for the period from January through December, 2002.

A. FPL's Base Case projection for the system average dispatch cost of light oil, by sulfur grade, by month, is shown on page 4 of Appendix I in dollars per barrel.

Q. What is the basis for FPL's projections of the dispatch cost for St. Johns' River Power Park (SJRPP) and Scherer Plant?

A. FPL's projected dispatch cost for SJRPP is based on FPL's price projection for spot coal and petroleum coke delivered to SJRPP. The dispatch cost for Scherer is based on FPL's price projection for spot coal delivered to Scherer Plant.

For SJRPP, annual coal volumes delivered under long-term contracts are fixed on October 1st of the previous year. For Scherer Plant, the annual volume of coal delivered under long-term contracts is set by the terms of the contracts. Therefore, the price of coal delivered under long-term contracts does not affect the daily dispatch decision.

In the case of SJRPP, FPL will continue to blend petroleum coke with the coal in order to reduce fuel costs. It is anticipated that petroleum coke will represent 15% of the fuel blend at SJRPP during 2002. The lower price of petroleum coke is reflected in the projected dispatch cost for SJRPP, which is based on this projected fuel blend.

Q. Please provide FPL's projection for the dispatch cost for SJRPP and Scherer Plant for the January through December, 2002 period.

A. FPL's projected system weighted average dispatch cost of "solid fuel" (coal and petroleum coke) for this period, by month, in dollars per million BTU, delivered to plant, is shown on page 5 of Appendix I.

Q. What are the factors that can affect FPL's natural gas prices during the January through December, 2002 period?

A. In general, the key factors are (1) domestic natural gas demand and production, (2) natural gas storage levels, (3) natural gas imports, (4) heavy fuel oil prices, and (5) the terms of FPL's gas supply and transportation contracts.

The dominant fundamental factors influencing the projected price of natural gas in 2002 are: (1) projected domestic natural gas demand will increase by about 1.5 Bcf per day or 2.4% in 2002, from about 61.8 Bcf per day in 2001 to about 63.3 Bcf per day in 2002, primarily from increases in the power generation sector; (2) natural gas storage levels are now projected to be at historical highs going into the winter of 2001/2002, compared with historical lows during the winter of 2000/2001,(3) domestic natural gas production is expected to increase by 0.5 Bcf per day in 2002, primarily from the offshore Gulf of Mexico and Rocky Mountain regions reflecting the impact of a significant increase in U. S. natural gas directed rig count during the 1999 through mid-2001 period, and (4) imports from Canada will increase by about 0.4 Bcf per day reflecting an increase in Canadian production to fill the existing pipeline capacity into the Upper Midwest.

Q. What are the factors that affect the availability of natural gas to FPL during the January through December, 2002 period?

A. The key factors are (1) the existing capacity of natural gas transportation facilities into Florida, (2) the Phase V expansion of the Florida Gas Transmission Pipeline System, (3) the portion of that capacity that is contractually allocated to FPL on a firm, "guaranteed" basis each month, and (4) the natural gas demand in the State of Florida.

The current capacity of natural gas transportation facilities into the State of Florida is 1,650,000 million BTU per day. The Phase V expansion of the Florida Gas Transmission Pipeline System, for FPL's contractual requirements, is assumed to be complete by April 1, 2002 providing FPL with firm allocation of 750,000 to 874,000 million BTU per day, depending on the month. The complete Phase V expansion is scheduled for completion by May 1, 2003 increasing the capacity of the natural gas transportation facility into the State of Florida by 428,015 million BTU per day to 2,028,015 million BTU per day. Total demand for natural gas in the State during the January through December, 2002 period (including FPL's firm allocation) is projected to be between 113,000 and 695,000 million BTU per day below the pipeline's total capacity. This projected available pipeline capacity could enable FPL to acquire and deliver additional natural gas, beyond FPL's 710,000 to 874,000 million BTU per day of firm, "guaranteed" allocation, should it be economically attractive, relative to other energy choices.

Q. Please provide FPL's projections for the dispatch cost and availability (to FPL) of natural gas for the January through December, 2002 period.

A. FPL's Base Case projections of the system average dispatch cost in dollars per million BTU and availability of natural gas in thousand, million BTU's per day, by month, are provided on page 6 of Appendix I.

"LOW" and "HIGH" PRICE FORECASTS FOR FUEL OIL AND GAS SUPPLY

Q. What is the basis for the "Low" price forecast for fuel oil and gas supply?

A. The "Low" forecast prices for fuel oil and gas supply were set such that based on the consensus among FPL's fuel traders and energy market analysts, there is less than a 5% likelihood that the actual monthly average price of each fuel for each month in the January through December, 2002 period will be below the "Low" price forecast.

Q. Please provide the "Low" price forecasts for fuel oil and gas supply.

A. FPL's projection for the average dispatch cost of heavy fuel oil, by sulfur grade, by month, based on the "Low" price forecast is provided on page 7 of Appendix I, in dollars per barrel. FPL's projection for the average dispatch cost of light fuel oil based on the "Low" price forecast, by sulfur grade, by month, is shown on page 8 of Appendix I, in dollars per barrel. FPL's projections of the system average dispatch cost of natural gas based on the "Low" price forecast are provided on page 9 of Appendix I in dollars per million BTU.

Q. What is the basis for the "High" price forecast for fuel oil and gas supply?

A. The "High" forecast prices for fuel oil and gas supply were set such that based on the consensus among FPL's fuel traders and energy market analysts, there is less than a 5% likelihood that the actual average monthly price of each fuel for each month in the January through December, 2002 period will be above the "High" price forecast.

Q. Please provide the "High" price forecasts for fuel oil and gas supply.

A. FPL's projection for the average dispatch cost of heavy fuel oil, by sulfur grade, by month, based on the "High" price forecast is provided on page 10 of Appendix I, in dollars per barrel. FPL's projection for the average dispatch cost of light fuel oil based on the "High" price forecast, by sulfur grade, by month, is shown on page 11 of Appendix I, in dollars per barrel. FPL's projections of the system average dispatch cost of natural gas based on the "High" price forecast are provided on page 12 of Appendix I, in dollars per million BTU.

Q. Based on FPL's current (August, 2001) view of the fuel oil and natural gas markets, at what level do you now project prices will be during the January through December, 2002 period?

A. Based on current market conditions, and consistent with our August, 2001 forecast update, FPL now projects that actual fuel oil and gas prices during the January through December, 2002 period will be the closest to those projected in the "Base Case" price forecast, than the "Low" or "High" price forecast. Therefore, the projected fuel costs calculated by POWRSYM using the "Base Case" oil and gas price forecast are the most appropriate projected costs for the January through December, 2002 period. As stated in the testimony of Korel Dubin, the "Base Case" oil and gas price forecast was used to calculate the proposed Fuel Factor for the period January through December, 2002.

PLANT HEAT RATES, OUTAGE FACTORS, PLANNED OUTAGES, and CHANGES IN GENERATING CAPACITY

Q. Please describe how you have developed the projected unit Average Net Operating Heat Rates shown on Schedule E4 of Appendix II.

A. The projected Average Net Operating Heat Rates were calculated by the POWRSYM model. The current heat rate equations and efficiency factors for FPL's generating units, which present heat rate as a function of unit power level, were used as inputs to POWRSYM for this calculation. The heat rate equations and efficiency factors are updated as appropriate, based on historical unit performance and projected changes due to plant upgrades, fuel grade changes, or results of performance tests.

Q. Are you providing the outage factors projected for the period January through December, 2002?

A. Yes. This data is shown on page 13 of Appendix I.

Q. How were the outage factors for this period developed?

A. The unplanned outage factors were developed using the actual historical full and partial outage event data for each of the units. The historical unplanned outage factor of each generating unit was adjusted, as necessary, to eliminate non-recurring events and recognize the effect of planned outages to arrive at the projected factor for the January through December, 2002 period.

Q. Please describe significant planned outages for the January through December, 2002 period.

A. Planned outages at our nuclear units are the most significant in relation to Fuel Cost Recovery. Turkey Point Unit No. 4 is scheduled to be out of service for refueling from March 25, 2002, until April 24, 2002, or thirty days during the projected period. St. Lucie Unit No. 1 will be out of service for refueling from September 30, 2002, until October 30, 2002, or thirty days during the projected period. There are no other significant planned outages during the projected period.

Q. Please list any significant changes to FPL's "<u>continuous</u>" generation capacity, actual, or projected to take place during the period ending December 2002, that were not reflected in FPL's Fuel Cost Recovery filing of September 21, 2000.

A. The Fort Myers repowering project and the Sanford repowering project will increase both the Net Winter Continuous Capability (NWCC) and the Net Summer Continuous Capability (NSCC). This data is shown on page 14 of Appendix I. Please note that my September 21, 2000 filing showed a decrease in the generating capacity of these same units (Fort Myers and Sanford 4) consistent with our plans to repower them. In addition, my September 21, 2000 filing also showed an increase in the generating capacity at Ft. Myers during the first half of 2001.

INTERCHANGE and PURCHASED POWER TRANSACTIONS

Q. Are you providing the projected interchange and purchased power transactions forecasted for January through December, 2002?

A. Yes. This data is shown on Schedules E6, E7, E8, and E9 of Appendix II of this filing.

Q. What fuel price forecast for fuel oil and gas supply was used to

project interchange and purchased power transactions?

A. The interchange and purchased power transactions presented below, and on Schedules E6, E7, E8 and E9 of Appendix II of this filing were developed using the "Base Case" fuel price forecast for fuel oil and gas supply.

Q. In what types of interchange transactions does FPL engage?

A. FPL purchases interchange power from others under several types of interchange transactions which have been previously described in this docket: Emergency - Schedule A; Short Term Firm - Schedule B; Economy - Schedule C; Opportunity Sales - Schedule OS; and UPS Replacement Energy - Schedule R.

For services provided by FPL to other utilities, FPL has developed amended Interchange Service Schedules, including AF/AS (Emergency), BF/BS (Scheduled Maintenance), CF (Economy), and DF/DS (Outage). These amended schedules replace and supersede existing Interchange Service Schedules A, B, C, D, and X for services provided by FPL.

Q. Does FPL have arrangements other than interchange agreements for the purchase of electric power and energy which are included in your projections?

A. Yes. FPL purchases coal-by-wire electrical energy under the 1988 Unit Power Sales Agreement (UPS) with the Southern Companies. FPL has contracts to purchase nuclear energy under the St. Lucie Plant Nuclear Reliability Exchange Agreements with Orlando Utilities Commission (OUC) and Florida Municipal Power Agency (FMPA). FPL also purchases energy from JEA's portion of the SJRPP Units. Additionally, FPL purchases energy and capacity from Qualifying Facilities under existing tariffs and contracts.

Q. Please provide the projected energy costs to be recovered through the Fuel Cost Recovery Clause for the power purchases referred to above during the January through December, 2002 period.

A. Under the UPS agreement FPL's capacity entitlement during the projected period is 928 MW from January through December, 2002. Based upon the alternate and supplemental energy provisions of UPS, an availability factor of 100% is applied to these capacity entitlements to project energy purchases. The projected UPS energy (unit) cost for this period, used as an input to POWRSYM, is based on data provided by the Southern Companies. For the period, FPL projects the purchase of 8,044,726 MWH of UPS Energy at a cost of $130,405,510. The total UPS Energy projections are presented on Schedule E7 of Appendix II.

Energy purchases from the JEA-owned portion of the St. Johns River Power Park generation are projected to be 2,994,183 MWH for the period at an energy cost of $43,833,400. FPL's cost for energy purchases under the St. Lucie Plant Reliability Exchange Agreements is a function of the operation of St. Lucie Unit 2 and the fuel costs to the owners. For the period, we project purchases of 537,366 MWH at a cost of $1,677,600. These projections are shown on Schedule E7 of Appendix II.

In addition, as shown on Schedule E8 of Appendix II, we project that purchases from Qualifying Facilities for the period will provide 6,794,037 MWH at a cost to FPL of $148,745,520.

Q. Has FPL entered into any new purchase arrangements for electric power which are included in your projections?

A. Yes. There are four new purchase arrangements for electric power included in our projections. FPL has purchased 50 MWs of firm capacity and energy from Florida Power Corporation for 2002. Additionally for 2002, FPL has purchased exclusive rights for the output (energy and capacity) from seven new combustion turbines, totaling approximately 1,000 MWs. These agreements were entered into with Progress Energy Ventures, Reliant Energy

Services, and Oleander Power Project L.P. These new arrangements are summarized on page 15 of Appendix I.

Q. Will FPL be providing the fuel for the operation of the facilities supporting the new purchase power agreements?

A. Yes. FPL will be providing the fuel for the operation of these facilities and the costs are included in Schedule E3 of Appendix II.

Q. How were energy costs related to purchases from Qualifying Facilities developed?

A. For those contracts that entitle FPL to purchase "as-available" energy we used FPL's fuel price forecasts as inputs to the POWRSYM model to project FPL's avoided energy cost that is used to set the price of these energy purchases each month. For those contracts that enable FPL to purchase firm capacity and energy, the applicable Unit Energy Cost mechanism prescribed in the contract is used to project monthly energy costs.

Q. Please describe the method used to forecast the off system sales and economy purchases.

A. The quantity of off system sale and economy purchase transactions are projected based upon estimated generation costs and expected market conditions.

Q. What are the forecasted amounts and costs of off system sales?

A. We have projected 1,815,000 MWH of off system sales for the period. The projected fuel cost related to these sales is $71,497,100. The projected transaction revenue from the sales is $96,245,000. The gain for Off System sales is $17,838,370 and is credited to our customers.

Q. In what document are the fuel costs of off system sales transactions reported?

A. Schedule E6 of Appendix II provides the total MWH of energy, total dollars for fuel adjustment, total cost, and total gain for off system sales.

Q. What are the forecasted amounts and cost of energy being sold under the St. Lucie Plant Reliability Exchange Agreement?

A. We project the sale of 493,502 MWH of energy at a cost of $1,525,200. These projections are shown on Schedule E6 of Appendix II.

Q. What are the forecasted amounts and costs of economy energy

purchases for the January to December, 2002 period?

A. The costs of these purchases are shown on Schedule E9 of Appendix II. For the period FPL projects it will purchase a total of 2,349,273 MWH at a cost of $77,144,669. If generated, we estimate that this energy would cost $92,036,539. Therefore, these purchases are projected to result in savings of $14,891,871.

SUMMARY

Q. Would you please summarize your testimony?

A. Yes. In my testimony I have presented FPL's fuel price projections for the fuel cost recovery period of January through December, 2002, including FPL's "Base Case," and "Low" and "High" price forecasts for fuel oil and gas supply. I have explained why the projected fuel costs developed using the "Base Case" price forecast are the most appropriate for the January through December, 2002 period. In addition, I have presented FPL's projections for generating unit heat rates and availabilities, the quantities and costs of interchange and other power transactions for the same period and the new purchase arrangements for electric power. These projections were based on the best information available to FPL and they were used as inputs to the POWRSYM model in developing the projected Fuel Cost Recovery Factors for the January through December, 2002 period.

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.

BEFORE THE PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF R. SILVA

DOCKET NO. 010001-EI

APRIL 2, 2001

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

A. My name is Rene Silva and my business address is 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. **Mr. Silva, would you please state your present position with Florida Power and Light Company (FPL).**

A. I am Manager of Economic Analysis, Planning, and Regulatory Response, in the Power Generation Division of FPL.

Q. **Mr. Silva, have you previously presented testimony in this docket?**

A. Yes, I have.

Q. **Mr. Silva, what is the purpose of your testimony?**

A. The purpose of my testimony is to report the actual performance for the Equivalent Availability Factor (EAF) and Average Net Operating Heat Rate (ANOHR) for the eighteen (18) generating units used to determine the Generating Performance Incentive Factor (GPIF). I have compared the actual performance of each unit to the targets that were approved in Commission Order No. PSC-99-2512-FOF-EI issued December 22, 1999, for the period January through December, 2000, and have performed the calculations prescribed by the GPIF Rule based on this comparison. My testimony presents the result of my calculations, which is an incentive reward for the period.

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

A. Yes, I have. It consists of one document. Page 1 of that document is an index to the contents of the document.

Q. What is the incentive amount you have calculated for the period January through December, 2000?

A. I have calculated a GPIF incentive reward of $ 9,004,713.

Q. Please explain how the reward amount is calculated?

A. The steps involved in making this calculation are provided in Document No. 1. Page 2 of Document No. 1 provides the GPIF Reward/Penalty Table (Actual) which shows an overall GPIF performance point value of +4.48 corresponding to a GPIF reward of $9,004,713. Page 3 provides the calculation of the maximum allowed incentive dollars. The calculation of the system actual GPIF performance points is shown on page 4. This page lists each unit, the unit's performance indicators (ANOHR and EAF), the weighting factors and the associated GPIF points.

Page 5 is the actual EAF and adjustments summary. This page lists each of the eighteen (18) units, the actual outage factors and the actual EAF, in columns 1 through 5. Column 6 is the adjustment for planned outage variation. Column 7 is the adjusted actual EAF, which is calculated on page 6, and Column 8 is the target EAF. Column 9 contains the Generating Performance Incentive Points for availability as determined from the tables submitted to, and approved by, the Commission prior to the start of the period. These tables are shown on pages 8 through 25.

Page 7 shows the adjustments to ANOHR. For each of the eighteen (18) units, it shows the target heat rate formula, the actual Net Output Factor (NOF) and the actual ANOHR in columns 1 through 4. Since heat rate varies with NOF, it is necessary to determine both the target and actual heat rates at the same NOF. This adjustment is to provide a common basis for comparison purposes and is shown numerically for each GPIF unit in columns 5 through 8. Column 9 contains the Generating Performance Incentive Points that have been determined from the table submitted for each unit and approved by the Commission prior to the beginning of the period. These tables are also shown on pages 8 through 25.

Q. Are there any changes to the targets approved through Commission Order No. PSC-99-2512-FOF-EI?

A. No, the approved targets have not changed.

Q. Please explain the primary reason or reasons why FPL will be rewarded under the GPIF for the January through December, 2000 period?

A. The primary reason that FPL will receive a reward for the period was that Turkey Point Nuclear Units 3 and 4 and St. Lucie Nuclear Units 1 and 2 achieved better availability than was targeted.

Q. Please summarize the effect of FPL's nuclear unit availability on the GPIF reward?

A. Turkey Point Unit 3 operated at an adjusted actual EAF of 90.1%, compared to its target of 84.6%. This results in a +10.00 point reward, which corresponds to a GPIF reward of $1,786,877.

Turkey Point Unit 4 operated at an adjusted actual EAF of 89.2%, compared to its target of 84.6%. This results in a +10.00 point reward, which corresponds to a GPIF reward of $1,780,032.

St. Lucie Unit 1 operated at an adjusted actual EAF of 100.0%, compared to its target of 93.6%. This results in a +10.00 point reward, which corresponds to a GPIF reward of $2,336,290.

St. Lucie Unit 2 operated at an adjusted actual EAF of 90.3%, compared to its target of 84.6%. This results in a +10.00 point reward, which corresponds to a GPIF reward of $1,777,140.

The total GPIF reward due to the nuclear units' actual availability performance is $7,680,339.

Q. Please summarize each nuclear unit's performance as it relates to the ANOHR of the units.

A. Turkey Point Unit 3 operated with an adjusted actual ANOHR of 11,095 BTU/KWH. This ANOHR is within the ± 75 BTU/KWH deadband around the projected target, therefore there is no GPIF reward or penalty.

Turkey Point Unit 4 operated with an adjusted actual ANOHR of 11,088 BTU/KWH This ANOHR is within the ± 75 BTU/KWH deadband around the projected target, therefore there is no GPIF reward or penalty.

St. Lucie Unit 1 operated with an adjusted actual ANOHR of 10,805 BTU/KWH. This ANOHR is within the ± 75 BTU/KWH deadband around the projected target, therefore there is no GPIF reward or penalty.

St. Lucie Unit 2 operated with an adjusted actual ANOHR of 10,837 BTU/KWH. This ANOHR is within the ± 75 BTU/KWH deadband around the projected target, therefore there is no GPIF reward or penalty.

In total, the nuclear units' heat rate performance results in no GPIF reward or penalty.

Q. What is the total GPIF incentive reward for FPL's nuclear units?

A. $7,680,339.

Q. Mr. Silva, would you summarize the performance of FPL's fossil units?

A. Yes, six (6) of the fourteen (14) fossil generating units performed better than their availability targets, while the remaining units performed worse than their targets. The combined fossil unit availability performance results in a GPIF reward of $567,927.

Three (3) of the fourteen (14) fossil units operated with ANOHR's that were better than their projected targets and two (2) units operated with ANOHR's that were worse than their projected targets. The remaining nine (9) units operated with ANOHR's that were within the ± 75 BTU/KWH deadband around the projected targets and they will receive no incentive reward or penalty. In total, the combined fossil units heat rate performance results in a GPIF reward of $756,447.

In total, the GPIF reward for FPL's fossil units for the period of January through December, 2000 is $1,324,374

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF R. SILVA

DOCKET NO. 010001-EI

SEPTEMBER 20, 2001

Q. Please state your name and business address.

A. My name is Rene Silva and my business address is 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. Mr. Silva, would you please state your present position with Florida Power and Light Company (FPL).

A. I am the Manager of Business Services in the Power Generation Business Unit of FPL.

Q. Mr. Silva, have you previously had testimony presented in this docket?

A. Yes, I have.

Q. Mr. Silva, what is the purpose of your testimony?

A. The purpose of my testimony is to present the target unit average net operating heat rates and target unit equivalent availability for the period of January through December, 2002, for use in determining the Generating Performance Incentive Factor (GPIF).

Q. Mr. Silva, please summarize what the FPL system targets are for Equivalent Availability Factor (EAF) and Average Net Operating Heat Rate (ANOHR).

A. For the period of January through December, 2002, FPL projects a weighted system equivalent planned outage factor of 4.3 % and a weighted system equivalent unplanned outage factor of 6.1 %, which yield a weighted system equivalent availability target of 89.6 %. The targets for this period reflect planned refueling outages for two nuclear units. FPL also projects weighted system average net operating heat rate target of 9187 BTU/KWH for the period January through December, 2002. As discussed later in this testimony, these targets represent fair and reasonable values when compared to historical data. FPL therefore requests that the targets for these performance indicators be approved by the Commission.

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

A. Yes, I have. It consists of one document. The first page of this document is an index to the contents of the document. All other pages are numbered according to the latest revisions of the GPIF Manual as approved by the Commission.

Q. Have you established target levels of performance for the units to be considered in establishing the GPIF for FPL?

A. Yes, I have. In my Document No.1, pages 6 and 7, contain the information summarizing the targets and ranges for unit equivalent availability and average net operating heat rates for the twenty-two (22) generating units which FPL proposes to be considered as GPIF units for the period of January through December, 2002. The Sheets presented in these pages were prepared in accordance with the latest revisions of the GPIF Manual. All of these targets have been derived utilizing methodologies as adopted in Section 4, Subsection 2.3 of the GPIF Manual.

Q. Please summarize FPL's methodology for determining equivalent availability targets?

A. The GPIF Manual requires that the equivalent availability target for each unit be determined as the difference between 100% and the sum of the Planned Outage Factor (POF) and the Unplanned Outage Factor (UOF). The POF for each unit is determined by the length of the planned outage during the projected period. The GPIF Manual also requires that the sum of the most recent twelve month ending average forced outage factor (FOF) and maintenance outage factor (MOF) be used as the starting value for the determination of the target unplanned outage factor (UOF). The UOF is then adjusted to reflect recent unit performance and known unit modifications or equipment changes. This adjustment is applied to units, which have had, during the historical period, or are forecasted to have, during the projection period, planned outages.

Q. Mr. Silva, were the EAF targets for the GPIF units determined using the methodology as described in the GPIF Operating Manual?

A. Yes.

Q. How did you select the units to be considered when establishing the GPIF for FPL?

A. The twenty-two (22) units which FPL proposes to use for the period of January through December, 2002, represent the top 80.3% of the total forecasted system net generation for this period. These units were selected in accordance with the GPIF Manual Section

3.1, using the estimated net generation for each unit taken from the production costing simulation program, POWRSYM, which forms the basis for the projected levelized fuel cost recovery factor for the period. As shown on page 3 of document 1, two of the base load units were excluded from the GPIF. They are the Ft. Myers Repowering unit and the Sanford Unit 5 Repowering. The repowering of both units from conventional steam units to combined cycle units constitute a major design change affecting both their generation capacity and their performance. As a result, the future performance of these units will not be comparable to their historical performance. Therefore, consistent with the GPIF Manual, Section 2.2.1.3, these units should be excluded from the GPIF calculations for at least one year to establish a minimal history to use in projecting future performance. Because of the exclusions of these two units, which accounted for 13.3% of the forecasted system generation, seven additional units were added to the GPIF to reach the required 80% cumulative projected system generation.

Q. Mr. Silva, from the heat rate targets and equivalent availability range projections, do FPL's generation performance targets represent a reasonable level of efficiency?

A. Yes. These targets are reasonable and in some cases very challenging.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 010001-EI

April 2, 2001

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

A. My name is Korel M. Dubin, and my business address is 9250 West Flagler Street, Miami, Florida, 33174. I am employed by Florida Power & Light Company (FPL) as the 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 testimony in this proceeding?

A. The purpose of my testimony is to present the schedules necessary to support the actual Fuel Cost Recovery Clause (FCR) and Capacity Cost Recovery Clause (CCR) Net True-Up amounts for the period January 2000 through December 2000. The Net True-Up for the FCR is an underrecovery, including interest, of $76,807,071. The FCR underrecovery of $76,807,071 has already been reflected in the midcourse correction effective April 2, 2001 approved by the Commission on March 13, 2001. The Net True-Up for the CCR is an underrecovery, including interest, of $2,850,420. I am requesting Commission approval to include the CCR true-up amount of $2,850,420 in the calculation of the CCR factors for the period January 2002 through December 2002.

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

A. Yes, I have. It consists of two appendices. Appendix I contains the FCR related schedules and Appendix II contains the CCR related schedules. FCR Schedules A-1 through A-9 for the January 2000 through December 2000 period have been filed monthly with the Commission and served on all parties. These schedules are incorporated herein by reference.

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

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

FUEL COST RECOVERY CLAUSE (FCR)

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

A. Appendix I, page 3, entitled "Summary of Net True-Up", shows the calculation of the Net True-Up for the period January 2000 through December 2000, an underrecovery of $76,807,071 which has already been reflected in the midcourse correction effective April 2, 2001 as approved by the Commission on March 13, 2001. The calculation of the true-up amount for the period follows the procedures established by this Commission as set forth on Commission Schedule A-2 "Calculation of True-Up and Interest Provision".

The actual End-of-Period underrecovery for the period January 2000 through December 2000 of $594,812,447 is shown on line 1. The estimated/actual End-of-Period overrecovery for the same period of $518,005,376 is shown on line 2. (One half of the $518,005,376 was included in the calculation of the FCR factor for the period January 2001 through December 2001 and the remaining half is to be included in the calculation of the FCR factor for the period January 2002 through December 2002. Line 1 less line 2 results in the Net True-Up for the period January 2000 through December 200 shown on line 3, an underrecovery of $76,807,071.

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

A. Yes. Appendix I, pages 4 through 5, entitled "Calculation of Final True-up

Amount", shows the calculation of the FCR End-of period true-up for the period January 2000 through December 2000.

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

A. Yes. Appendix I, page 6, entitled "Calculation of Final True-up Variances", shows the actual fuel costs and revenues compared to the estimated/actuals for the period January 2000 through December 2000.

Q. Please describe the variance.

A. The final underrecovery of $76,807,071 for the period January 2000 through December 2000 is primarily due to an approximate $77.0 million or 3.4% increase in Adjusted Total Fuel Costs & Net Power Transactions (see Appendix I, page 6, Line A7) offset by an approximate $1.4 million variance in Jurisdictional Fuel Revenues (See Appendix I, page 6, Line D3). The balance is $1.2 million in interest (See Appendix I, page 6, Line D8).

The $77 million variance in Jurisdictional Fuel Costs and Net Power Transactions is primarily due to a $109 million or 5.4% increase in Fuel Cost of System Net Generation (Appendix I, page 6, Line A1a), plus a $9.8 million or 17.3% increase in Energy Cost of Economy Purchases (Appendix I, page 6, Line A4) plus a $5.9 million or 4.0% increase in Purchased Power (Appendix I, page 6, Line A3a). These amounts are offset by a $24.5 million increase in Fuel Cost of Power Sold (Appendix I, page 6, Line A2a), a $16.9

million increase in projected Revenues from Off-System Sales (Appendix I, page 6, Line A2b), and $6.2 million in Adjustments to Fuel Cost (Appendix I, page 6, Lines 6a-6e).

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

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

Q. What is FPL's threshold amount to be used to calculate incentives on off-system sales in 2001?

A. $52,953,147 is the threshold amount based on the average of the last three years of actual gains on off-system sales. Gains on sales in 2001 are to be measured against this three-year average threshold. In testimony filed on September 21, 2000 in this docket, FPL provided an estimated/ actual threshold amount of $47,377,5412. This estimated/actual amount consisted of actual gains for 1998, 1999 and January through July 2000, and estimates for August through December 2000. The purpose of this testimony is to update the estimates for August through December 2000 with actual data. The actual gains for the entire year 2000 is $37,400,076. The actual gains for 1998 through 2000 are provided below:

1998 $62,276,203

1999 $59,183,161

2000 $37,400,076

Three-year average threshold $52,953,147

CAPACITY COST RECOVERY CLAUSE (CCR)

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

A. Appendix II, page 3, entitled "Summary of Net True-Up Amount" shows the calculation of the Net True-Up for the period January 2000 through December 2000, an underrecovery of $2,850,420, which I am requesting to be included in the calculation of the CCR factors for the January 2002 through December 2002 period.

The actual End-of-Period overrecovery for the period January 2000 through December 2000 of $39,560,855 (shown on line 1) less the estimated/actual End-of-Period overrecovery for the same period of $42,411,275, (shown on line 2) results in the Net True-Up underrecovery for the period January 2000 through December 2000 (shown on line 3) of $2,850,420.

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

A. Yes. Appendix II, pages 4 through 5, entitled "Calculation of Final True-up

Amount", shows the calculation of the CCR End-of period true-up for the period January 2000 through December 2000. The End of-Period true-up shown on page 5, line 17 plus line 18 is an overrecovery of $39,560,855.

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

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

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

A. Yes. Appendix II, page 6, entitled "Calculation of Final True-up Variances", shows the actual capacity charges and applicable revenues compared to the estimated/actuals for the period January 2000 through December 2000.

Q. Please describe the variance.

A. As shown on line 7, actual net capacity charges on a Total Company basis were approximately $11 million lower than the estimated/actual projection. This variance was primarily due to approximately $3 million lower than expected Payments to Non-Cogenerators caused by lower payments to Southern Company due to a decrease in capacity rates for UPS purchases. Additionally, as a result of reduced capacity factors, payments to

Cogenerators (Cedar Bay, Florida Crushed Stone, and Broward North) were approximately $6 million lower than projected. And, Revenues from Capacity Sales were approximately $2 million higher due to higher than projected sales. As shown on line 12, actual Capacity Cost Recovery revenues, net of revenue taxes, were approximately $13.7 million lower than the estimated/actual projection. The approximate $11 million cost variance offset by the approximate $13.7 million revenue variance results in a $2.7 million underrecovery as shown on line 15. The balance is interest of $143,412 as shown on line 16.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 010001-EI

August 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, 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 testimony?

A. The purpose of my testimony is to present for Commission review and approval the calculation of the Estimated/Actual True-up amounts for the Fuel Cost Recovery Clause (FCR) and the Capacity Cost Recovery Clause (CCR) for the period January 2001 through December 2001.

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

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

FCR Schedules A-1 through A-9 for January 2001 through July 2001 have been filed monthly with the Commission, are served on all parties and are incorporated herein by reference.

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

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

FUEL COST RECOVERY CLAUSE

Q. Please explain the calculation of the FCR Estimated/Actual True-up amount you are requesting this Commission to approve.

A. Appendix I, pages 2 and 3, show the calculation of the FCR Estimated/Actual True-up amount. The calculation of the estimated/actual true-up amount for the period January 2001 through December 2001 is an overrecovery, including interest, of $151,894,067 (Appendix I, Page 3, Column 13, Line C11).

Appendix I, pages 2 and 3 also provide a summary of the Fuel and Net Power Transactions (lines A1 through A7), kWh Sales (lines B1 through B3), Jurisdictional Fuel Revenues (line C1 through C3), the True-up and Interest Provision for this period (lines C4 through C10), and the End of Period True-up amount (line C11).

The data for January 2001 through July 2001, columns (1) through (7) reflects the actual results of operations and the data for August 2001 through December 2001, columns (8) through (12), are based on updated estimates.

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

Q. Please summarize the variance schedule provided as page 4 of Appendix I.

A. The variance calculation of the Estimated/Actual data compared to the midcourse correction projections for the January 2001 through December 2001 period is provided in Appendix I, Page 4.

FPL's midcourse correction filing dated February 2, 2001 projected Total Fuel and Net Power Transactions to be $2.736 billion for January through December 2001 (See Appendix I, page 4, Column 2, Line D6). The estimated/actual projected Jurisdictional Total Fuel Cost and Net power Transactions is now projected to be $2.622 billion for the period January through December 2001 (Actual data for January through July 2001 and Revised Estimates for August through December 2001) (See Appendix I, Page 4, Column 1, Line D6). Therefore, Jurisdictional Total Fuel Cost and Net Power Transactions are $113.5 million lower than projected. (See Appendix I, Page 4, Column 3, Line D6)

Additionally, Jurisdictional Fuel Revenues for 2001 are $43.0 million higher than projected (Appendix I, Page 4, Column 3, Line D3), resulting in a difference of $156.5 million. This $156.5 million less $4.6 million in interest results in the $151.9 million overrecovery. During the majority of the year, the Company was in an underrecovery position; therefore, the interest reduces the overrecovery at year-end. Monthly interest amounts are provided on Appendix I, Page 2 and 3, Line C8.

Q. **Please explain the variances causing the $151.9 million overrecovery.**

A. As shown on Appendix I, page 4, line A5, the variance in Total Fuel

Costs and Net Power Transactions is $109 million or a 3.9% decrease from the original projections. This variance is mainly due to a $170 million or 6.8% decrease in the Fuel Cost of System Net Generation due primarily to lower than projected costs of heavy oil and natural gas. The variance also includes a $8.7 million decrease in Energy Payments to Qualifying Facilities and a $3.7 million variance in additional revenues from off-system sales. These amounts are offset by a $14.7 million variance in Power Sold, a $30.7 million increase in Purchased Power and a $28.0 million increase in Energy Cost of Economy Purchases.

The $170 million decrease in the cost of System Generation is due primarily to lower than originally projected oil and gas costs. This is due to FPL's ability to switch from heavy oil to natural gas consumption resulting in savings of $150 million. FPL plans to burn 99,947,104 MMBTU less heavy oil than was included in the midcourse correction filing, offset by 100,228,196 MMBTU higher gas burn than was included in the midcourse correction filing. The projected average unit cost of heavy oil included in the midcourse correction filing was $4.12 per MMBTU. The estimated/actual average unit cost of heavy oil is $3.94 per MMBTU, a decrease of $0.18 or -4.27%. (The estimated/actual monthly unit cost of heavy oil ranges from $4.48 per MMBTU to $3.53 per MMBTU). The projected average unit cost of natural gas (excluding fixed transportation costs) included in the midcourse correction filing was $5.57 per MMBTU. The estimated/actual average unit cost of natural gas is $4.40 per MMBTU, a decrease of $1.17 or -21.0%. (The estimated/actual monthly unit cost of natural gas ranges from $9.52 per MMBTU to $3.41 per MMBTU). The unit cost comparisons are annual average figures. The Commission A-Schedules provide monthly unit cost comparisons for oil and gas.

Q. Were these calculations made in accordance with the procedures previously approved in this Docket?

A. Yes, they were.

Q. What is the true-up amount that will be reflected in the fuel factor for January through December 2002?

A. $107,108,621. In order to mitigate the impact of a large underrecovery on customers, FPL spread the 2000 estimated/actual true-up underrecovery amount of $518,005,376 over 2 years beginning in 2001. One-half of the $518,005,376 or $259,002,688 was included in the fuel factor for January through December 2001 and is currently being collected. The remaining $259,002,688 is to be carried forward and included in the fuel factor for January through December 2002. This $259,002,688 underrecovery less the estimated/actual $151,894,067 overrecovery for 2001 to be addressed in this filing, produces a resulting true-up amount of

$107,108,621 underrecovery which will be reflected in the fuel factor for January through December 2002.

CAPACITY PAYMENT RECOVERY CLAUSE

Q. Please explain the calculation of the CCR Estimated/Actual True-up amount you are requesting this Commission to approve.

A. The Estimated/Actual True-up for the period January 2001 through December 2001 is an overrecovery of $25,003,278, including interest (Appendix II, Page 3, Lines 17 plus 18). Appendix II, Pages 2-3 shows the calculation supporting the CCR Estimated/Actual True-up amount.

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

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

Q. Please explain the calculation of the Interest Provision.

A. The calculation of the interest provision follows the same methodology used in calculating the interest provision for the other cost recovery clauses, as previously approved by this Commission.

The interest provision is the result of multiplying the monthly average true-up amount times the monthly average interest rate. The average interest rate for the months reflecting actual data is developed using the 30 day commercial paper rate as published in the Wall Street Journal on the first business day of the current and subsequent months. The average interest rate for the projected months is the actual rate as of the first business day in August 2001.

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

A. Yes. Appendix II, Page 4, shows the Estimated/Actual capacity charges and applicable revenues (January through July 2001 reflects actual data and the data for August through December 2001 is based on updated estimates) compared to the original projections for the January 2001 through December 2001 period.

Q. What is the variance related to capacity charges?

A. As shown in Appendix II, Page 4, Column 3, Line 11, the variance related to capacity charges is a $10.5 million or a 2.2% decrease. The primary reasons for this variance is a $23.1 million increase in payments to non-cogenerators offset by a $33.5 million decrease in payments to cogenerators.

The $23.1 million increase in payments to non-cogenerators is primarily due to additional short term capacity purchases of $25.8

million and higher than estimated payments to Southern Company, offset by lower than estimated capacity payments to SJRPP. The $33.5 million decrease in payments to cogenerators is primarily due to lower than projected Capacity payments to Cedar Bay. Florida Crushed Stone and Royster also received less than projected payments as the result of reduced Capacity Factors.

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

A. As shown on Appendix II, Page 4, Column 3, Line 14, Capacity Cost Recovery revenues, net of revenue taxes, are $12.8 million higher than originally projected. The $12.8 million higher revenues plus the $10.5 million lower costs results in the true-up amount of $23.3 million overrecovery reported on Column 3, Line 15. This amount plus interest of $1.7 million reported on Column 3, Line 16 results in the final overrecovery of $25.0 million.

Q. Does this conclude your testimony.

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 010001-EI

August 31, 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 testimony?

A. The purpose of my testimony is to present for Commission review and approval the fuel cost recovery factors (FCR) and the capacity cost recovery factors (CCR) for the Company's rate schedules for the period January 2002 through December 2002. The calculation of the fuel factors is based on projected fuel cost, using the "base case" forecast as described in the testimony of FPL Witness Gerry Yupp, and operational data as set forth in Commission Schedules E1 through E10, H1 and other exhibits filed in this proceeding and data previously approved by the Commission. I am also providing projections of avoided energy costs for purchases from small power producers and cogenerators and an updated ten year projection of Florida Power & Light Company's annual generation mix and fuel prices.

On August 23, 2001 FPL filed a petition to reduce its fuel adjustment factors beginning in October 2001. As part of that Petition, FPL also filed its Fuel and Capacity Cost Recovery Schedules for 2002 and, rather than waiting until the filing scheduled date of September 20, 2001, FPL committed to file the supporting testimony on an expedited basis prior to the end of August 2001. Therefore, FPL is submitting this testimony early. Additionally, although the majority of the Fuel and Capacity Schedules were already provided with the August 23, 2001 petition, for convenience, a complete set of these schedules is included with this testimony.

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

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

FCR Schedules A-1 through A-9 for January 2001 through August 2001 have been filed monthly with the Commission, are served on all parties and are incorporated herein by reference.

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

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

FUEL COST RECOVERY CLAUSE

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

A. 2.890¢ per kWh. Schedule El, Page 3 of Appendix II shows the calculation of this twelve-month levelized fuel factor. Schedule E2, Pages 10 and 11 of Appendix II indicates the monthly fuel factors for January 2001 through December 2001 and also the twelve-month levelized fuel factor for the period.

Q. Has the Company developed a twelve-month levelized fuel factor

for its Time of Use rates?

A. Yes. Schedule E1-D, Page 8 of Appendix II, provides a twelve-month levelized fuel factor of 3.145¢ per kWh on-peak and 2.777¢ per kWh off-peak for our Time of Use rate schedules.

Q. Were these calculations made in accordance with the procedures previously approved in this Docket?

A. Yes, they were.

Q. What is the true-up amount that FPL is requesting to be included in the fuel factor for the January 2002 through December 2002 period?

A. FPL is requesting to include a net true-up underrecovery of $245,208,621 in the fuel factor for the January 2002 through December 2002 period.

Pursuant to Commission Order No. PSC-00-2385-FOF-EI, FPL has included an underrecovery of $259, 002,688 in the fuel factor for the period January 2002 through December 2002. The Commission authorized recovery of the $518,005,376 estimated/actual 2000 true-up underrecovery over two years beginning in 2001. One-half of the $518,005,376 or $259,002,688 was included in the fuel factor for January through December 2001 and is currently being collected. The remaining $259,002,688 is included in the fuel factor for January through December 2002.

Additionally, FPL is requesting to include an overrecovery of $13,794,067 in the fuel factor for the period January 2002 through December 2002. On August 20, 2001, FPL filed its Estimated/Actual True-up, an overrecovery of $151,894,067, for the period January 2001 through December 2001. This overrecovery was a result of lower than projected costs of heavy oil and natural gas in the latter part of 2001. Furthermore, FPL projects declining fuel prices for 2002. As a result, FPL filed a petition on August 23, 2001 to reduce its fuel factors for the period October 2001 through December 2001 by $138,100,000, in order to reduce customer bills as soon as possible and hold bills level through 2002. The $13,794,067 overrecovery which is being included in the fuel factors for the period January 2002 through December 2002 is the remaining portion of the Estimated/Actual true-up overrecovery of $151,894,067 from the period January 2001 through December 2001. This $13,794,067 overrecovery, minus the $259,002,688 underrecovery from 2000 results in the net true-up underrecovery of $245,208,621 which FPL is requesting to include in its fuel factor for January 2002 through December 2002.

Q. What adjustments are included in the calculation of the twelve-month levelized fuel factor shown on Schedule E1, Page 3 of

Appendix II?

A. As shown on line 29 of Schedule E1, Page 3 of Appendix II, a \$245,208,621 underrecovery is included. This amount is the result of one-half of the estimated/actual fuel cost underrecovery of \$259,002,688 for the January 2000 through December 2000 period, plus the \$13,794,067 overrecovery carried forward from 2001. This amount divided by the projected retail sales of 94,729,311 MWH for January 2002 through December 2002 results in an increase of 0.2589¢ per kWh before applicable revenue taxes. In his testimony for the Generating Performance Incentive Factor, FPL Witness Rene Silva calculated a reward of \$9,004,713 for the period ending December 2000 which is being applied to the January 2002 through December 2002 period. This \$9,004,713 divided by the projected retail sales of 94,729,311 MWH during the projected period results in an increase of 0.0095¢ per kWh, as shown on line 33 of Schedule E1, Page 3 of Appendix II.

Additionally, pursuant to Order No. PSC 00-2385-FOF-EI, issued on December 12, 2000, FPL is including the cost associated with the Okeelanta/Osceola settlement agreement in its Fuel and Capacity Cost Recovery calculations for the period January 2002 through December 2002. The total amount of the settlement payment is \$222.5 million, which will be recovered over a five-year period, using a ratio of 21% of costs through Fuel and 79% of costs through

Capacity. For the period January through December 2002, $10,942,995 is included in the Fuel Cost Recovery Clause and $41,166,505 is included in the Capacity Cost Recovery Clause.

Q. In 1999, FPL requested to recover approximately $5.0 million through the fuel clause and approximately $13 million through the capacity clause regarding a contract dispute with Cedar Bay. What is the status of this issue?

A. In testimony filed on October 1, 1999 in Docket No. 990001-EI, FPL requested to recover approximately $5.0 million through the fuel clause and approximately $13 million through the capacity clause for Cedar Bay. This is a result of a Court's ruling of a contract dispute with Cedar Bay regarding the pricing of energy provided by Cedar Bay to FPL and the pricing of capacity based on the dispatch of the Cedar Bay facility over the past few years. The amounts the Court directed FPL to pay includes interest on the difference in the price FPL paid and the price it should have paid pursuant to the Court decision. In Order No. PSC-99-2512-FOF-EI, Docket No. 990001-EI, issued on December 22, 1999, the Commission allowed FPL to recover these costs through its fuel and capacity cost recovery charges but stated:

"FPL seeks to recover through the fuel clause energy payments made to the Cedar Bay cogeneration facility as a result of a court's interpretation of the energy pricing provisions of FPL's contract with Cedar Bay. We believe that FPL's request raises a policy issue that would more appropriately be decided by the full Commission in a separate proceeding, rather than the three-Commissioner panel assigned to this proceeding. The full Commission previously considered the policy implications of related issues involving FPC and Lake Cogen, Ltd. in other dockets, and should consider the policy implications of this issue as well. We note that the majority of these payments appear to be the type of costs that this Commission would routinely allow to be recovered through the fuel clause. We also note that these payments reflect a small percentage of FPL's total fuel costs. Therefore, pending resolution of this issue by the full Commission, we approve recovery of these payments as proposed through FPL's fuel cost recovery factors. If the full Commission determines that any portion of these payments should not be recovered through the fuel clause, that portion shall be subject to refund with interest". (The Commission restated this same decision for the capacity portion of the payment).

Since the Commission's decision, FPL appealed the judgements but was unsuccessful. For example, after moving unsuccessfully for a re-trail or to set aside or alter the judgment, FPL appealed the entire judgment to the Florida First District Court of Appeal in October 1999. On March 4, 2000, FPL, after determining that the success on the $5 million Energy Payment claim was unlikely, dropped its appeal of that claim and in April of 2000 paid that portion of the judgment to Cedar Bay with statutory interest.

On October 24, 2000 the Appellate Court heard oral argument on the remaining Capacity claim and denied FPL's appeal without opinion by order dated October 30, 2001. FPL timely moved for rehearing which was denied in December 2000 and the Capacity Payment judgment became final and non-appealable. FPL paid Cedar Bay the full amount of the Capacity Payment judgment plus statutory interest on January 19, 2001.

After the Commission's decision in December of 1999, Docket No. 991780-EG was opened so that the full Commission could address this fuel and capacity payment issue. Waiting on completion of the appeals process, no schedule had been established in Docket No. 991780-EG. Since, all appeals have been exhausted and all payments have been made, and since a change was made this past year for the fuel panel to consist of the full Commission, FPL believes it is appropriate to bring this issue to closure in the fuel docket.

CAPACITY PAYMENT RECOVERY CLAUSE

Q. Please describe Page 3 of Appendix III.

A. Page 3 of Appendix III provides a summary of the requested capacity payments for the projected period of January 2002 through December 2002. Total recoverable capacity payments amount to $573,968,082 (line 15) and include payments of $273,617,298 to non-cogenerators (line1). This $273,617,298 includes $76.7 million for additional capacity contracts as described in the testimony of FPL witness Gerry Yupp. Total recoverable Capacity payments (line 15) also include payments of $337,969,830 to cogenerators (line 2), $3,353,202 of Mission Settlement payments (line 3), $41,166,505 of Okeelanta/Osceola Settlement payments (line 4), and $3,623,340 relating to the St. John's River Power Park (SJRPP) Energy Suspension Accrual (line 6). This amount is offset by transmission revenues from capacity sales of $6,909,530 (line 5), $2,507,148 of return requirements on Energy Suspension payments (line 7) and $56,945,592 of jurisdictional capacity related payments included in base rates (line 11) less a net overrecovery of $22,152,857 (line 12). The net overrecovery of $22,152,587 includes the final underrecovery of $2,850,420 for the January 2000 through December 2000 period that was filed with the Commission on April 2, 2001, plus the estimated/actual overrecovery of $25,003,277 for the January 2001 through December 2001 period, which was filed with the

Commission on August 20, 2001.

Q. Please describe Page 4 of Appendix III.

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

Q. Please describe Page 5 of Appendix III.

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

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

A. The Company is requesting that the new FCR and CCR factors become effective with customer bills for January 2001 through December 2001. This will provide for 12 months of billing on the FCR and CCR factors for all our customers.

Q. What will be the charge for a Residential customer using 1,000 kWh effective January 2001?

A. The total residential bill, excluding taxes and franchise fees, for 1,000 kWh will be $81.66. The base bill for 1,000 Residential kWh is $43.26, the fuel cost recovery charge from Schedule E1-E, Page 9 of Appendix II for a residential customer is $28.96, the Conservation charge is $1.81, the Capacity Cost Recovery charge is $6.80, the Environmental Cost Recovery charge is $0.00 and the Gross Receipts Tax is $.83. A Residential Bill Comparison (1,000 kWh) is presented in Schedule E10, Page 65 of Appendix II.

Q. Does this conclude your testimony.

A. Yes, it does.

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 J. R. HARTZOG

DOCKET NO. 010001 - EI

NOVEMBER 5, 2001

Q. Please state your name and address.

A. My name is John R. Hartzog. My business address is 700 Universe Boulevard, Juno 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, Nuclear Financial & Information Services in the Nuclear Business Unit.

Q. Have you previously filed testimony in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present and explain FPL's incremental security costs associated with the events of September 11, 2001 to be included in the proposed fuel cost recovery factors. The recovery of these costs is discussed in the supplemental Testimony of FPL witness K. M. Dubin.

Q. **What is the basis for the additional security costs?**

A. FPL's nuclear plants rely on a "defense in depth" approach to security. Essentially, multiple barriers of increasing restrictions for access to plant components and systems are utilized. Historically, FPL has had a highly effective security program as demonstrated by Nuclear Regulatory Commission "force on force" inspections utilizing military Special Forces as mock adversaries. Both Turkey Point and St. Lucie successfully passed such inspections within the last few years. As a result of the September 11th events, FPL has deepened the security defense in depth, requiring additional manpower. This is consistent with new expectations regarding nuclear plant security and NRC Advisories. FPL is in frequent contact with the NRC, and NRC recommendations are implemented as made. The incremental cost of this additional manpower is being captured in accounts established for that purpose. In the past, FPL's fossil units have had security based on fences, gates and limited personnel access. In light of the events of September 11, 2001 especially at Turkey Point and its close proximity to the nuclear units, FPL has also enhanced the security at selected fossil units.

Q. How much are the incremental security costs in response to the September 11, 2001 events?

A. FPL expects to expend approximately $1.5 Million for additional security at its nuclear facilities, and $300,000 at its fossil facilities in 2002. There are significant uncertainties in these costs, since it is vital that FPL respond to changing threat levels in a proactive manner. In addition, various assistance levels from governmental organizations will be required, including, as a minimum, local law enforcement and the Florida National Guard. FPL anticipates that some of these governmental organizations will seek reimbursement of associated costs for providing assistance.

Q. Does this conclude your testimony?

A. Yes, it does.

J. R. HARTZOG

resumed the stand as a witness on behalf of Florida Power and Light Company and, having been previously sworn, testified as follows:

DIRECT EXAMINATION

BY MR. CHILDS:

Q All right. I think where we were was Mr. Hartzog's testimony had been admitted into the record as though read, and at this point, I'd like to ask, Mr. Hartzog, if you'd summarize your testimony.

A My supplemental presents the incremental power plant security costs associated with the events of September 11th to be included in the fuel recovery factors. The additional security costs are driven primarily by the Nuclear Regulatory Commission advisories which have established the highest level of security at nuclear facilities that have ever existed.

Florida Power & Light has an obligation to safeguard the health and safety of the public, the safeguard and security of our employees, and to protect our assets. Florida Power & Light is taking and will continue to take all necessary and prudent precautions to do so.

In addition, the Nuclear Regulatory Commission reviews our security plans and their implementation. The failure to adequately protect our nuclear units in light of continued concerns over terrorist activity could have severe consequences, including unit shutdowns. The incremental security costs associated with nuclear security projected for 2002 is $1.56 million.

In addition, our fossil units, primarily the Turkey Point fossil units, due to their proximity to the Turkey Point nuclear units are projected to incur approximately $300,000 of additional cost. The details of security measures taken particularly at the nuclear units are not appropriate to be discussed, primarily because such disclosure of such details would weaken the effectiveness of the security measures, and in fact, many of these details are protected from disclosure to the public by the Code of Federal Regulations.

It should be noted that the security precautions taken are changing, and have changed frequently, and will continue to change in light of the circumstances and the changes in Nuclear Regulatory Commission requirements. That concludes my summary.

MR. CHILDS: We tender Mr. Hartzog.

MR. VANDIVER: No questions.

CHAIRMAN JACOBS: Any questions, Mr. McWhirter or Ms. Kaufman?

CROSS EXAMINATION

BY MR. McWHIRTER:

Q Mr. Hartzog, can you give us any indication about the magnitude of the change in cost, a million-seven? Currently, what do you project it will be --

A That's slightly less than 20 percent of our --

Q Twenty percent more?

A Twenty percent more.

Q And this is -- Florida Power & Light collects about $6 billion a year in revenue?

A I believe that's correct.

MR. McWHIRTER: I have no further questions.

CHAIRMAN JACOBS: Staff.

MR. KEATING: No questions.

CHAIRMAN JACOBS: Commissioners.

I will ask you the same question I asked the prior witness. Without disclosing any of the details, are you undertaking some analysis of what the relative risk aversion quotient would be for your company?

THE WITNESS: Our approach is to work with state, local, and federal officials to determine the threats and based on the threats and the credibility of threats to determine what additional precautions need to be taken. Clearly, there is a trade-off, as you've stated, about the relative risk versus the costs associated with precautions, and that is being considered at all levels.

CHAIRMAN JACOBS: And this is all consistent with your prior practices and efforts at emergency preparation and disaster?

THE WITNESS: Yes, sir, it is.

CHAIRMAN JACOBS: Very well. No further questions. Redirect.

MR. CHILDS: I have none.

CHAIRMAN JACOBS: And we would move -- let's see. We didn't move all of these exhibits in, did we? If you'd asked for them to be moved? Let me just be clear on the record now.

MR. CHILDS: I beg your pardon?

CHAIRMAN JACOBS: I was so busy writing down, I'm not sure if I officially moved the exhibits in the record.

MR. CHILDS: I don't know, but if it's okay, I might just wait until I get finished with all the witnesses and move all the FPL exhibits at that time.

CHAIRMAN JACOBS: That's fine. That will work. Thank you. You're excused, Mr. Hartzog.

(Witness excused.)

MR. CHILDS: And I'd like to call as our next witness, Dr. Green.

CHAIRMAN JACOBS: Ms. Dubin, I believe.

MR. CHILDS: I'd like to take Ms. Dubin last, if that's okay, because she kind of sums up --

CHAIRMAN JACOBS: If that's fine with the parties, that's fine.

LEONARDO E. GREEN

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

DIRECT EXAMINATION

BY MR. CHILDS:

Q Would you state your name and address, please.

A My name is Leonardo Green. I work for Florida Power & Light. The address is 9250 West Flagler, Miami, Florida 33174.

Q And what is your position with Florida Power & Light?

A I'm the manager for load forecasting in the resource assessment and planning business unit.

Q Do you have before you a document entitled, "Testimony of L. E. Green, Docket Numbers 010001-EI and 010002-EI, November 5, 2001"?

A Yes.

Q And that was prepared by you as your supplemental testimony?

A Yes.

Q Do you have any changes to make to that testimony?

A No changes.

Q And I believe that the document you are sponsoring has been marked for identification as Exhibit 26. Do you adopt this as your testimony?

A Yes, I do.

MR. CHILDS: And we ask that the supplemental testimony of Dr. Green be inserted into the record as though read.

CHAIRMAN JACOBS: Without objection, show the supplemental testimony of Dr. Green is entered into the record as though read.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF L. E. GREEN

DOCKET NOS. 010001-EI, 010002-EI

NOVEMBER 5, 2001

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

A. My name is Leonardo E. Green. My business address is 9250 West Flagler Street, Miami, Florida 33174.

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

A. I am employed by Florida Power & Light Company (FPL) as a Load Forecast Manager, in the Resource Assessment and Planning Business Unit.

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

A. No, I have not.

Q. **Please state your education and business experience.**

A. I received a Doctor of Philosophy Degree in Economics from the University of Missouri-Columbia, Missouri, in 1983. I joined FPL in April of 1986 and in July of 1991, I became Manager of Load Forecasting within the Resource Assessment and Planning Business Unit. I am responsible for coordinating the entire economics and load forecasting effort for FPL. Prior to joining FPL, I worked for Seminole Electric Cooperative as the Load Forecasting Supervisor in the Rates and Corporate Planning Department. I have held several Assistant Professorships of Economics and Statistics research and teaching positions with the University of Missouri, Florida International University, NOVA University, and the University of South Florida.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present and explain revisions to FPL's load forecasts due to the events of September 11, 2001. The revised load forecast was an input to POWERSYM, a model used to calculate the fuel budget for the period January 2002 through December 2002.

Q. Have you prepared an exhibit in this proceeding?

A. Yes. I am sponsoring Exhibit ____(LEG-1) which consists of four documents included in Appendix I.

Q. What is the outlook for the national economy for the rest of 2001 and for 2002?

A. At the beginning of October, Data Resources Inc. of Standard and Poors (DRI-WEFA) stated that prior to September 11, 2001 the national economy was already in a downward slide, but the terrorist attack will probably cause the tumble to accelerate, likely pushing the U.S. economy into a recession. In its most recent

U.S. Economic Review of October 2001, DRI-WEFA pronounced, "It no longer seems possible for the U.S. economy to escape a recession...the question of whether the U.S. economy escapes a recession appears to have been settled by the September 11 terrorist attacks." DRI-WEFA now expects both the third and fourth quarters of 2001 to register declines in Gross Domestic Product (GDP), a measure of total domestic output, and they project only a 1% real overall growth for the entire year. Their forecast of a decline in third quarter GDP has recently been proved correct with the announcement of a 0.4% decline for the quarter. Their outlook for year 2002 has the economy growing at a real rate of 1.3 %, starting out weak and then picking up strength in the latter part of the year in response primarily to federal programs stimulus. Prior to September 11, 2001 the forecasted real growth in GDP for 2001 was 1.6 % and 2.6 % for 2002.

Q. Will Florida's economy be impacted by the national economy?

A. Yes. The terrorist attacks of September 11, 2001 strike at the heart of the state's economy. The combined effects of the slowing US economy and the perceived risks of air travel will adversely affect Florida's economy. DRI-WEFA expects international visitation to Florida from September to December of this year to be 50% lower than the same period last year, a result of the weakening global economy and security fears. Domestic travel is also forecasted to be 30% less than the same period last year, as fewer Americans will be willing to travel in the coming months, both because of anxiety about flying and because of concern about employment security and declining income.

The revision to the forecast for Florida made by DRI-WEFA shows that the annual nominal growth rate in gross state product (GSP), the total output of the state, will be lower in 2002 by approximately $3.8 billion, or a loss of about 0.5% of the total GSP.

Florida state revenue forecasters apparently share this view of Florida's economy in 2002. They have estimated that the state's tax revenue will be $1.3 billion less than the originally estimated $50 billion. Announced job cuts, the number of lay-offs, the rise in the number of unemployment claims, low hotel occupancy rates, and the reduced number of flights and tourist visitors are further evidence of the contraction in the Florida's economy.

Q. Will FPL's service territory experience a similar downturn in economy as the rest of the state?

A. In all probability, it will be more severe than the state's downturn. It has been observed historically that the three largest counties in FPL service territory have experienced a larger impact of economic slowdowns relative to other major counties in the state. For example, in past recessions unemployment rates have been higher in Miami-Dade, Broward and Palm Beach Counties compared to Duval, Hillsborough and Pinellas Counties, as shown in Appendix I, Page 1 of 4. In addition, per capita income, another key economic indicator, has also declined significantly during recessions in the counties served by FPL relative to other Florida counties as shown in Appendix I, Page 2 of 4. Therefore, I believe that this recent slowdown will have a greater impact on FPL's service territory relative to non- FPL service areas.

Q. Is the projected economic slowdown the basis for the revision to the FPL sales forecast?

A. Yes. The expected and actual effects of the attacks of September 11, 2001 are compelling enough to warrant a revision to the near term outlook of the state's economy and the corresponding impact on the demand for electricity. The original sales forecast used for the fuel, capacity and conservation clause filings in August and September of 2001 was produced under the assumption that Florida's economy was experiencing a mild slowdown in the year 2001, but then it would rebound with good economic growth in the year 2002. Prior to September 11, Florida had been spared the worst of the national economic slowdown. Its lesser reliance on manufacturing, higher reliance on tourism and a somewhat greater reliance on international markets cushioned the effects of a weakening U.S. economy. Even though Florida's employment growth had slowed, it was still fairly strong compared to the rest of the nation, and Florida boasted of a low unemployment rate of 4.2%.

The economic outlook has changed significantly since September 11, 2001. From an auspicious position, Florida's economy has become more vulnerable because the most impacted industries are relatively more vital to the Florida economy than most other states. These heavily impacted industries are tourism, air travel, merchandise trade, airline services, and the cruise industry. Of course, the downturn in these industries will have spillover employment and income effects on the rest of sectors that encompass the Florida economy.

Q. How does an economic recession affect the usage of electricity?

A. The growth in usage of electricity comes from the overall growth in per capita use of electricity by all customers and the growth in the number of new customers. Both per capita usage of electricity and growth of new customers are linked directly to the performance of the local and national economy. When the economy is booming, usage of electricity is up in all sectors: residential, commercial, industrial and others. Furthermore, if the economy is strong there will be new jobs that attract new customers, new households develop, and retirees coming from other states increase in numbers. The reverse also holds, if the economy is performing poorly, customers are more apprehensive as to how their reduced income is spent, restricting their level of consumption of goods and services. Electricity demand and sales begin to slacken when income falls. Job contractions reduce the number of new customers coming to the state seeking employment opportunities. New household formations are postponed.

Appendix I, Page 3 of 4 shows the effect of the last three national recessions on Florida's Per Capita Income, the customer growth in FPL's service territory, and the changes in electricity use per customer. The recession years are highlighted and they correspond to the years of 1974-1975, 1982, and 1990-1992. In all three recessions, Florida's Real Per Capita Income growth and growth in electricity use per customer in FPL's service area are negative. This data supports my earlier observation that as customers' personal incomes decline, the use of electricity per customer also declines. This does not imply that growth in total use of electricity will decline, since there is still growth in customers, even in recession years. In Appendix I, Page 3 of 4, it can also be seen that with each recession year, the absolute growth in the number of customers drops significantly from the year prior to the recession to the year following the recession. The smaller growth in the number of customers results in a lower growth in sales of electricity than would be expected if there was no contraction in the economy.

Q. What is the impact of a recession on FPL's outlook on electricity sales?

A. Appendix I, Page 4 of 4 shows FPL's revisions in the level of projected sales and customers for 2001 and 2002. FPL produced a new outlook for energy sales by changing the economic assumptions utilized in its forecasting models. FPL made use of the more recent economic outlook for the State of Florida produced by DRI-WEFA that incorporated the revision resulting from the events of September 11. The new projected use of electricity per customer was slightly higher than the 2001 estimated value, but it was 2.5 % lower that the forecast produced with economic assumptions prior to September 11. So even DRI-WEFA's economic forecast resulting in slightly higher per customer usage appears conservative given the actual declines in usage experienced in prior recessions.

Customer growth outlook has changed from 85,643 to 65,000 new customers in 2002. The recession outlook has resulted in a reduction in forecasted growth of approximately 20,000 less new customers in 2002. In order to forecast customer growth, FPL models depend on population projections obtained from the Bureau of Economic and Business Research of the University of Florida (BEBR). However, BEBR has not updated the population projections as a result of the terrorist attacks of September 11. Therefore, FPL's projection of customer growth is based upon growth in customers during prior recessions.

The decline in the growth of the number of customers from the year prior to a recession to the year following a recession can be seen on Appendix I, Page 3 of 4. In the three recessions since 1972, FPL has seen a significant decline in the growth of customers from the year prior to the recession to the year following the recession. In the 1974/75 recession, FPL experienced a decline in the growth of customers of almost 64 thousand (1973 versus 1976). In the 1982 recession, FPL experienced a decline in the growth of customers of roughly 29 thousand (1981 versus 1983). In the 1990/91/92 recession, FPL experienced a decline in the growth of customers of approximately 36 thousand (1989 versus 1993). A simple average of the decline in growth from those three prior recessions would suggests that FPL might anticipate a reduction in the growth of customers due to recession of 43 thousand. However, two of those three recessions were longer term, and this recession is forecast to be relatively shorter. In addition, assuming a customer growth reduction of 43,000 would have reduced FPL's customer growth to 49,000, a lower level than FPL has experienced in any year since 1972, including the low year of growth in 1992 following Hurricane Andrew. So, it was considered prudent to take a more conservative approach. FPL projected that it would lose approximately 27,000 customers from the year prior to the recession (2000) to the year following the recession (2002). This is close to but lower than the decline in customer growth experienced during the 1982 recession, and it leaves 2002 customer growth at 65,000 customers, which is about the average new customer growth seen for most of the decade of the 1990s.

The combination of the revised use per customer multiplied by the new projection of customers results in a projected level of sales of 100,158 gWh in 2002, a 1.7 % growth over 2001 as shown on Page 4 of Appendix I. This level of sales is 2.9% lower than the forecast used in the fuel, capacity, and conservation clause filings in August and September of 2001.

Q. Please summarize your testimony.

A. The change in Florida's economic look for 2002, brought on by the events of September 11, 2001, warrants a revision to FPL's sales forecast. The performance of Florida's economy determines electricity usage per customer and the level of customer growth. The growth of both of these factors is forecast to decline from the levels forecast prior to September 11, 2001, resulting in lower forecast electricity sales in FPL's service territory. The revision in the sales and customer forecast is in line with but more conservative than the observed outcomes from previous recessions. FPL's revised sales forecast is well founded and reasonable. Furthermore, it is consistent with the most recent projections by the State of Florida legislative revenue estimating conference.

Q. Does this conclude your testimony?

A. Yes, it does.

MR. CHILDS: Before I ask him to summarize his testimony, I would like leave to ask him one or two additional questions orally based upon current events.

CHAIRMAN JACOBS: Very well.

BY MR. CHILDS:

Q Dr. Green, can you give us some indication of what the load has been experienced by FPL after September 11th of this year?

A Yes. Through August, the projection of FPL sales for this year was 3.9 percent. Through August, we were right on the money, maybe .1, .2 variance. In September of this year, our sales were off by 2.4 percent. In October of this year, our sales were off by 4 percent. Month to date, in November our sales are off by 6.2 percent.

Q All right. Now, would you summarize your prefiled testimony?

A The purpose of my testimony is to present and explain the revisions to FPL's load forecasts, and this is due primarily to the events of September 11, 2001. We believe that the effects of the attacks of September 11 are complete enough to warrant a revision to our sales forecasts for next year. The original sales forecast used for fuel, capacity, and conservation clause filings that were done in August and September of this year were made under the assumption that this year we would observe a mild slowdown, and then we would have good economic growth in the year 2002. This has changed significantly since September 11.

It is now a consensus among all forecasting units in the United States -- I'm talking of Standard and Poor's, DRI-WEFA, the National Association of Business Economies, the Blue Chip Consensus Financial Forecast, the Manufacturers Alliance Forecast -- that the U.S. economy has now entered into a recession. The recession is projected to and was observed to be a negative .4 percent growth for the third quarter of this year, and it is estimated that when this number is revised later on, this negative .4 percent might actually be a negative 1 percent. And then we're expecting another quarter of negative growth and very sluggish growth at the beginning of next year. Sometime in the latter part of next year, we're expecting the economy to recover.

In the last three recessions, and I'm talking of 1974, '75, 1982 and 1990, 1991 and 1992, Florida's real per capita income went negative in every single one of those recessions. The implication that we're making is that as per capita income goes negative, use per customer goes negative. And in the exhibits that I have prepared, on Page 3 it shows that for every single recession, per capita income went negative. Also, in each one of those three recessions every time per capita income went negative, the use per customer of electricity also went negative.

Likewise, in that same exhibit, it shows that if we compared the year prior to the recession with the year after the recession, the growth in customer falls by the average of 46,000 new customers. Based on this information and based on the most recent economic outlook that we have received from DRI-WEFA, we have revised our level of sales for 2002, and the revision is substantial. Originally, we were projecting to grow by 3.5 percent in the year 2002. It has been revised down to 1.6 percent, a 2.9, almost a 3 percent reduction in growth of sales for next year. Whereas, customers traditionally have fallen by 46,000 customers on the average, we have opted to lower our projection of growth in customers for next year by about 20,000 customers. What we believe is that we have a forecast that is still yet conservative, meaning to say that it still could be worse than what we have projected here.

We have used DRI economic forecasts, which is the same one the state legislature has used in estimating their tax budget. And I should mention here that they have revised their tax revenue for next year down by $1.3 billion from their original $50 billion that they were estimating prior to the September 11 event.

In my exhibit, also, Pages 1 and 2, I'd like to call your attention as to how we see FPL's service territory being affected vis-a-vis the rest of the state. I have highlighted in red boxes the unemployment rate that Florida's -- first, I'm showing the unemployment rates for the last recessions that have occurred in the major counties in Florida. In every recession, FPL's service territory's unemployment rate is worse than the state's average. If we compare the major counties like, for example, Miami-Dade, West Palm Beach, and Broward, the unemployment rate is much higher than the average. Whereas, if you compare, for example, Duval, Hillsborough, Pinellas, their average unemployment rate is below the state's average. So we believe it is highly likely, it's highly probable that FPL's service territory will be more adversely affected than the rest of the state.

On Page 2, I show the same information for per capita income, and my statement also holds with regard to per capita income. That concludes my summary.

MR. CHILDS: We tender the witness.

MR. VANDIVER: No questions.

CHAIRMAN JACOBS: Mr. McWhirter.

MR. McWHIRTER: No questions.

CHAIRMAN JACOBS: Staff.

MR. KEATING: Staff has no questions.

CHAIRMAN JACOBS: Commissioners.

COMMISSIONER DEASON: I guess I have a question. I understand the focus of your testimony is the revisions to sales forecasts as a result of the economic downturn which was primarily driven by the unforeseen events which happened on

September the 11th. I guess my question is, with the revised sales forecast, do we also have revised fuel costs as a result of that reduced consumption?

THE WITNESS: For my forecasts, we did not revise the fuel forecasts. The questions regarding fuel forecasts should be addressed to the following witness, but on my forecast, we did not adjust prices when preparing the --

COMMISSIONER DEASON: That's outside of your area?

THE WITNESS: That's out of my area.

COMMISSIONER DEASON: Okay. Thank you.

CHAIRMAN JACOBS: Redirect.

MR. CHILDS: We call Ms. Dubin.

CHAIRMAN JACOBS: No redirect.

MR. CHILDS: I have no redirect.

CHAIRMAN JACOBS: Thank you. You're excused, Mr. Green.

THE WITNESS: Thank you.

(Witness excused.)

KOREL M. DUBIN

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

DIRECT EXAMINATION

BY MR. CHILDS:

Q Would you state your name and address?

A My name is Korel Dubin. My address is Florida Power

& Light Company, 9250 West Flagler Street, Miami, Florida 33174.

Q By whom are you employed and in what capacity?

A I'm employed by Florida Power & Light Company as manager of regulatory issues in the regulatory affairs department.

Q Do you have before you a document entitled, "Supplemental Testimony of Korel M. Dubin, Docket Number 010001-EI, November 5, 2001"?

A Yes, I do.

Q Was that prepared by you as your supplemental testimony for this proceeding?

A Yes.

Q And the documents you are sponsoring has already been marked as Exhibit 25. Do you have any changes or corrections to make to your testimony?

A No, I do not.

Q Do you adopt it as your testimony?

A Yes, I do.

MR. CHILDS: We ask that the supplemental testimony of Ms. Dubin be inserted into the record as though read.

CHAIRMAN JACOBS: Without objection, show the supplemental testimony is entered into the record as though read.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

SUPPLEMENTAL TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 010001-EI

November 5, 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 present for Commission review and approval revised fuel cost recovery factors (FCR) and revised capacity cost recovery factors (CCR) for FPL's rate schedules for the period January 2002 through December 2002. This revision is due to a reduced sales forecast, from 94,729,311 retail MWH to 91,929,691 retail MWH as discussed in the testimony of FPL Witness Leo Green, and incremental costs for increased security at FPL's plants as discussed in the testimony of FPL Witness John Hartzog.

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

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

FUEL COST RECOVERY CLAUSE

Q. What is the proposed revised levelized fuel factor for which the Company requests approval?

A. 2.860¢ per kWh. Schedule EI, Page 1 of Appendix II shows the calculation of this revised twelve-month levelized fuel factor. As shown on Line 30, the Total Jurisdictional Fuel Cost is $2,578,571,684, a reduction of $106,970,864 from the August 31, 2001 filing due to the decrease in Net Energy for Load. Schedule E2, Pages 4 and 5 of Appendix II indicates the revised monthly fuel factors for January 2002 through December 2002 and also the revised twelve-month levelized fuel factor for the period. The fuel factor has been revised from the August 31, 2001 filing to reflect the reduction in the sales forecast as described in the testimony of FPL Witness Leo Green. Additionally, the fuel factor has been revised to include the additional plant security costs as described in the testimony of FPL Witness John Hartzog.

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

A. Yes. Schedule E1-D, Page 2 of Appendix II, provides a revised twelve-month levelized fuel factor of 3.138¢ per kWh on-peak and 2.735¢ per kWh off-peak for our Time of Use rate schedules.

Q. Were these calculations made in accordance with the procedures previously approved in this Docket?

A. Yes, they were.

Q. Is FPL proposing to include any additional costs in the calculation of the revised fuel cost recovery factors?

A. Yes. FPL requests that it be allowed to recover incremental costs for increased security at FPL's plants as a result of the events of September 11, 2001, as described in the testimony of FPL Witness John Hartzog. For 2002 these costs are projected to be $1,860,000 and are reflected on Schedule E1, Page 1, Line 3a of Appendix II.

FPL is requesting recovery of these incremental security costs through the FCR consistent with the Federal Energy Regulatory Commission's (FERC) Statement of Policy issued on September 14, 2001 which states:

"In light of tragic events that have taken place in our country this week and the high state of alert the country is now experiencing, the Commission believes it is appropriate to provide regulatory guidance on certain energy infrastructure reliability and security matters that may be affected by this Commission's rate jurisdiction. The Commission understands that electric, gas, and oil companies may need to adopt new procedures, update existing procedures, and install facilities to further safeguard their electric power transmission grid and gas and oil pipeline systems. The Commission is aware that there may be uncertainty about companies' ability to recover the expenses necessary to further safeguard our energy infrastructure, especially if they are operating under frozen or indexed rates. In order to alleviate this uncertainty, the Commission wants to assure the companies we regulate that we will approve applications to recover prudently incurred costs necessary to further safeguard the reliability and security of our energy supply infrastructure in response to the heightened state of alert. Companies may propose a separate rate recovery mechanism, such as a surcharge to currently existing rates or some other cost recovery method.

The Commission will give its highest priority to processing any filing made for the recovery of extraordinary expenditures to safeguard the reliability of our energy transportation systems and energy supply infrastructure. The Commission views the reliability of our Nation's energy transportation systems and energy supply infrastructure as critical to meeting the energy requirements essential to the American people. The Commission calls for the cooperation of the energy industry, customers, and state and local governments to provide any additional safeguards necessary to protect the country's vital energy transportation systems and energy supply infrastructure."

Additionally, NARUC will be introducing a resolution on "Supporting Recovery in State Regulated Rates of Extraordinary Expenditures Necessary to Safeguard National Energy Suppliers" at the Electricity and Gas Committees on November 12, 2001. The resolution states:

"Resolved, that States should approve applications by gas and electric companies subject to their jurisdiction to recover prudently incurred costs necessary to further safeguard the reliability and security of our energy supply infrastructure and should allow companies to propose separate rate recovery mechanisms, such as a surcharge to existing rates or deferred accounting treatment."

FPL believes it is essential to increase security to protect and maintain its fuel supply so that we can continue to provide economical nuclear and fossil generation. Clearly, the inability to operate one or more of our generating units, particularly our nuclear generating units, will have a significant adverse impact on our fuel costs. Additionally, FPL believes it is appropriate to recover the incremental security costs through the fuel cost recovery clause. There are significant uncertainties in these costs. Moreover, it is vital that FPL respond to changing threat levels in a proactive manner. For example, as described in the testimony of FPL Witness John Hartzog, these costs may include the cost of additional security from the national guard. For these reasons FPL believes it is appropriate to bring this issue to the Commission for their consideration and approval. Even if the Commission is concerned about whether the use of the fuel clause is the most appropriate continuing method of recovery, FPL suggests that the clause should be used as an interim recovery method.

CAPACITY PAYMENT RECOVERY CLAUSE

Q. Please describe the revisions made to the CCR.

A. Projected retail sales for 2002 were revised downward from 94,729,311 MWH to 91,929,691 MWH as discussed in the testimony of FPL Witness Leo Green. Page 2 of Appendix III presents the calculation of the revised Capacity Payment Recovery Clause (CCR) factors by rate class due to this decreased sales forecast.

Q. What effective date is FPL requesting for the new factors?

A. FPL is requesting that the revised FCR and CCR factors become effective with customer bills for January 2002 through December 2002. This will provide for 12 months of billing on the FCR and CCR factors for all our customers.

Q. What will be the revised charge for a Residential customer using 1,000 kWh effective January 2002?

A. The total residential bill, excluding taxes and franchise fees, for 1,000 kWh will be $81.63. The base bill for 1,000 Residential kWh is $43.26. The fuel cost recovery charge for a residential customer is $28.66, a reduction of $0.30 from the fuel charge filed on August 31, 2001 and a reduction of $1.75 from the current fuel charge. The conservation charge is $1.87, an increase of $0.06 from the conservation charge filed on September 20, 2001. The Capacity Cost Recovery charge is $7.01, an increase of $0.21 from the capacity charge filed on August 31, 2001 and an increase of $1.74 from the current capacity charge. The environmental cost recovery charge is $0.00 and the Gross Receipts Tax is $0.83. A 1,000 kWh residential bill comparing this revision to the originally filed charges and a comparison to current charges is presented in Schedule E10, Page 14 of Appendix II.

Q. Does this conclude your testimony.

A. Yes, it does.

BY MR. CHILDS:

Q Would you please summarize your testimony.

A Yes. Thank you. The purpose of my supplemental testimony is to present for Commission review and approval revised fuel cost recovery factors and revised capacity cost recovery factors for FPL's rate schedules for the period January 2002 through December 2002 due to the events of the September 11th, 2001 terrorist attacks.

FPL has revised its sales forecast due to the events of September 11th which were not known at the time FPL filed its projected 2002 fuel and capacity factors. The impact on FPL's fuel cost is a reduction of more than $100 million from FPL's originally filed fuel cost projection. Therefore, on November 5th, FPL filed revised fuel and capacity cost recovery factors for 2002 reflecting the impact of this reduced sales forecast.

Additionally, FPL requests it be allowed to recover incremental costs for increased security at FPL's plant as a result of the events of September 11th. FPL is requesting recovery of these incremental costs, security costs, through the fuel clause. The FERC Statement of Policy issued on September 14, 2001, states: "In light of tragic events that have taken place in our country this week and the high state of alert the country is now experiencing, the Commission believes it is appropriate to provide regulatory guidance on certain energy infrastructure, reliability, and security matters that may be affected by this Commission's rate jurisdiction. The Commission understands that electric, gas, and oil companies may need to adopt new procedures, updating existing procedures, and install facilities to further safeguard their electric power transmission grid and gas and oil pipeline systems. The Commission is aware that there may be uncertainty about companies' ability to recover the expenses necessary to further safeguard our energy infrastructure.

"In order to alleviate this uncertainty, the Commission wants to assure the companies we regulate that we will approve applications to recover prudently incurred costs necessary to further safeguard the reliability and security of our energy supply infrastructure in its response to the heighten state of alert. Companies may propose a separate rate recovery mechanism such as a surcharge to currently existing rates or some other cost recovery method."

Additionally, last week, NARUC approved a resolution on supporting recovery in state regulated rates of extraordinary expenses necessary to safeguard national energy suppliers. The resolution states -- resolved that states should approve applications by gas and electric companies subject to their jurisdiction to recover prudently incurred costs necessary to further safeguard the reliability and security of our energy supply infrastructure and should allow companies to propose a separate rate recovery mechanism such as a surcharge to existing rates or deferred accounting treatment.

FPL believes it is essential to increase security to protect and maintain its fuel supply so that we can continue to provide economical nuclear and fossil generation. Clearly, the inability to operate one or more of our generating units, particularly one of our nuclear generating units, will have a significant adverse impact on our fuel costs. Therefore, FPL believes it is appropriate to recover incremental security costs through the fuel cost recovery clause. For these reasons, FPL believes it is appropriate to bring this issue to the Commission for their consideration and approval.

This concludes my summary.

MR. CHILDS: We tender the witness for cross-examination.

CHAIRMAN JACOBS: Mr. Vandiver.

MR. VANDIVER: No questions.

CHAIRMAN JACOBS: Mr. McWhirter.

CROSS EXAMINATION

BY MR. McWHIRTER:

Q Ms. Dubin, the current security costs are $1.7 million in increased cost?

A 1.86 million.

Q 1.86. And Mr. Hartzog says it may go up as much as 20 percent?

A Yes.

Q So that would be a little bit over $2 million?

A Yes.

Q And under your testimony, your fuel costs for 2002 are going to be something like $2.5 billion?

A Yes, that's true.

Q And Mr. Hartzog said, and I guess you can confirm or refute, the total revenue of Florida Power Corporation is something like 6 --

A Florida Power & Light, sir.

Q Florida Power & Light, I'm so sorry. There is a difference, isn't there?

A Yes, there is.

Q It's around $6 billion; is that --

A Yes, I believe so.

Q So that would mean that about -- your base revenues bring in about $3.5 billion?

A Something like that.

Q Are you currently --

A Let me point out, though, that the security costs particularly are -- these are incremental security costs to protect our power plants. The nuclear power plants are much more efficient and provide great fuel savings to customers, about $750 million a year. So we're talking about spending that money to protect that $750 million.

Q I'm certainly not objecting, and I certainly endorse the expenditure. The only concern I would have is the pressing necessity to establish a whole new cost recovery procedure because of the extraordinary magnitude of this $1.86 million cost. And I haven't been able to determine why that is so extraordinary on the basis of --

A Well, we believe that these are extraordinary times, and we believe that these -- additional security is important to protect the power plants. When you say "additional procedures," that's what we're trying to avoid here, is by including it in the fuel adjustment charge, it's already part of a process, one that's filed and reviewed and audited. So it wouldn't be a lot of incremental administrative work or review. It becomes part of that process. And the incremental costs would be there in order to continue to operate those power plants and produce those fuel savings.

Q At the present time, is your utility earning above or below the midpoint of its last authorized rate of return?

A Our company is right now under a revenue sharing mechanism pursuant to the stipulation settlement agreement.

Q And so you're sharing revenue to the extent that your revenue exceeds the ceiling of your authorized rate of return.

A There's a revenue sharing mechanism as part of the stipulation. I believe, subject to check, that we flowed back to the customers this past year $120 million.

Q And what portion did you keep of the revenues in excess of the top of your authorized return under that sharing mechanism?

A I don't know off the top of my head, Mr. McWhirter.

Q Is it around -- my recollection is 30 percent of the amount by which your revenues exceed the top of your authorized ceiling?

A I don't know off the top of my head.

Q What is your most recent return on equity?

A Mr. McWhirter, I'm not sure that I know that.

Q Well, I won't ask any more questions along those lines. On your revised fuel filing, you show that your cost of generation is going down from what it was when you made your September 20th filing.

A Yes. Due to the decrease in load, we would expect our fuel costs to go down by a little over $100 million.

Q And your -- the generation component is likewise going down because, I guess, fuel costs have gone down?

A From last year, yes.

Q Yeah. Now, you anticipate also an improvement in the power you purchase from other parties in the wholesale market from $20 a megawatt hour to now you think you can purchase it for $19.78 on average?

A Where are you looking, Mr. McWhirter?

Q I'm looking at your Exhibit E1 as revised in early

November at Line 13, I guess it is.

A Yes, it's 1.9786.

Q That's $19.78 a megawatt hour?

A Yes, it is.

Q And do you buy power from Tampa Electric Company?

A Yes, I believe we do.

Q And what do you pay Tampa Electric for the power you buy? Do you know?

A Mr. McWhirter, you're a little out of my area. It's more Mr. Yupp's --

Q I won't ask that question because I think it's beyond the supplemental.

A Okay.

Q The power you purchase under your projections will be less than the cost of power to generate. Would it be fair to say that your customers will benefit as a result of the fact that you're able to purchase power on the wholesale market for less than it would cost you to generate it with your own facilities?

A Yes.

Q And then you're going to sell power on the wholesale market, and you're going to sell it for $37.25?

A Yes.

Q And all of that power less the incentive that you're given is passed through to the customers through the fuel cost?

A Yes.

Q Would it be fair to say that those off-system sales will substantially benefit the retail consumers by lowering your overall fuel cost?

A Yes.

MR. McWHIRTER: I have no further questions.

THE WITNESS: Thank you.

CHAIRMAN JACOBS: Staff.

CROSS EXAMINATION

BY MR. KEATING:

Q Ms. Dubin, in what accounts has FPL recorded its security costs since its last rate case?

A Since its last rate case?

Q Yes.

A FPL's security costs are recorded in general ledger accounts 506, 524, and 549.

Q And I apologize, I intended to hand out a last staff exhibit before I started with the questions here, and some of the responses you may be able to refer back to those exhibits for.

A Okay.

MR. KEATING: This exhibit consists of certain specified responses to staff's fifth and sixth set of interrogatories from Florida Power & Light Company. Staff would ask that this composite exhibit be marked as 29.

CHAIRMAN JACOBS: Mark these as separate -- mark them separate?

MR. KEATING: As one composite exhibit. I believe there's just one --

CHAIRMAN JACOBS: Okay. Show them marked as Exhibit 29, Composite Exhibit 29.

MR. CHILDS: Which one are we marking as Exhibit 29?

MR. KEATING: I apologize. There's some miscommunication. We handed out two exhibits. The first was the composite exhibit including the interrogatory responses. We'd ask that that be marked as Exhibit 29, and the second, the deposition of --

CHAIRMAN JACOBS: Say that again.

MR. KEATING: We ask that the staff composite exhibit consisting of the interrogatory responses be marked as 29, and the second exhibit --

CHAIRMAN JACOBS: The transcript would be 30.

MR. KEATING: -- the transcript of the deposition is 30. I apologize, I had forgotten that that had not been included in our larger composite exhibit that was marked earlier.

CHAIRMAN JACOBS: Show those marked.

(Exhibits 29 and 30 marked for identification.)

BY MR. KEATING:

Q Ms. Dubin, you had indicated that Florida Power &

Light since its last rate case has recorded security costs and general ledger accounts 506, 524, and 549; is that correct?

A That's correct.

Q Could you describe these accounts?

A They are the accounts in the FERC guidelines that specify recovery of security costs.

Q Okay. Would you agree, subject to check, that Account 506 is titled, "Miscellaneous Steam Power Expenses"?

A Yes.

Q And that 524 is miscellaneous nuclear power expenses?

A Yes.

Q And that 549 is miscellaneous other power generation expenses?

A Yes.

Q And are security expenses specifically identified as the kinds of expenses to include in those accounts?

A Yes, I believe so. But the -- I would make a distinction between the normal security costs that we would have and the incremental security costs that we have due the extraordinary events that have taken place in the country.

Q Other than the fact that these incremental security costs have arisen as a result of the September 11th tragedy, are there any -- are they in any way different from other power plant security costs that FPL recovers in base rates?

A They're incremental due to the events of

September 11th, and they go particularly to the power plants and the ability to operate them. If, for any reason, we'd have to shutdown one of these units, the impact on fuel would be a significant adverse impact. Clearly, the inability to operate one or more nuclear units would have a significant impact on our fuel cost. We have estimated that when you compare nuclear fuel to gas for the year, the nuclear units save the customers $750 million a year. If you break that down in a day, one day in replacement fuel costs covers those security costs.

Q How is Florida Power & Light currently accounting for the incremental security costs as a result of the September 11th tragedy?

A Subject to check, they would be included in the accounts here.

Q In the Accounts 506, 524, and 549?

A Yes.

Q On what basis are those accounts allocated in base rates?

A They are allocated on a demand basis.

Q And expenses that go through the fuel clause are allocated on an energy basis; correct?

A Yes. And if you went to the FERC resolution and the NARUC resolution, they both go towards a surcharge type of a recovery or a cost recovery mechanism, and that would then be on a cents per kWh energy basis that all customer classes would be treated the same.

Q Didn't those resolutions also offer deferred accounting treatment?

A Yes, they did.

Q If the incremental power plant security costs were to be recovered through the fuel factor and FPL's other security costs, those that are, I guess, nonincremental, were to be recovered through base rates, doesn't that result in an inconsistent treatment and an inconsistent allocation of those costs to those customers?

A Mr. Keating, they may be different, but we believe that this is an extraordinary case. We're in an extraordinary situation. And, again, the reason for recovery through the fuel mechanism would be to protect the fuels and to make sure that those units continue to operate and the customers continue to receive the benefit of that lower cost fuel.

Q Why are Florida Power & Light's current security costs allocated on a demand basis?

A That's the -- in the last cost of service, that's how they were allocated, based on that study.

Q Would you agree that they're allocated on that basis because they are related to capacity?

A I believe so. Again, though, I'm talking of the incremental security costs as a direct result of the increased security because of the situation we have now.

Q If you could, turn to Page 14 of the composite exhibit that has been marked as 29. I'm sorry, Page 13.

A Yes.

Q It's staff's Interrogatory 172 and Florida Power & Light's response. You cite the Commission's Order 14546 as the Commission decision which may indicate that the fuel clause is the appropriate mechanism for recovery of these costs?

A Yes.

Q And in particular, you cite Item Number 10 of that order. And I'll just read from the interrogatory response citing Item Number 10, which states, "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, the recovery of such costs should be made on a case-by-case basis after Commission approval."

And you may have touched on this before, but how are these incremental security costs going to result in fuel savings to customers?

A Well, first, let me comment. This order, I believe, provides the flexibility to recover costs that are not normally recovered through fuel adjustment to bring to the Commission on a case-by-case basis. It talks of fuel savings. The incremental security costs that we're talking about go directly to being able to continue to operate those units, and the inability to operate -- if we had to shutdown the nuclear units, for example, would result in additional fuel costs to customers, replacement fuel cost to customers, more than $750 million. And in that respect, we believe it goes towards this. Additionally, there is some uncertainty in those costs also.

Q Again, looking at Item 10 on this interrogatory response. Couldn't these incremental security costs be recognized or anticipated in the cost levels used to determine base rates, considering that there is a rate proceeding currently open for Florida Power & Light?

A There could be a number of ways to recover these. FPL believes it is most appropriate to include them in the fuel adjustment. Again, we want to make sure that we can continue to provide economical fossil and nuclear generation, and because of that, we think it's appropriate to include them here.

COMMISSIONER JABER: Ms. Dubin, give me an example of what the incremental costs were. And I'm not looking for the amounts, but, you know, obviously, in your Turkey Point plant you have to have personnel --

THE WITNESS: Yes.

COMMISSIONER JABER: -- that is available at the plant all the time. And I don't want to make you uncomfortable and have you reveal any of the security measures, but post-September 11th, you had to increase the personnel, for example. That's what you call incremental security costs?

THE WITNESS: Yes.

COMMISSIONER JABER: Okay. And when the National Guard was sent out recently -- that's public information, that was in the newspaper --

THE WITNESS: Right.

COMMISSIONER JABER: -- that's not anything that you reimburse our government for; right?

THE WITNESS: Well, not currently, Commissioner. There are ongoing negotiations with the government as far as who would pay for the National Guard. That has not quite been determined, and that goes to some of the uncertainty in these costs.

BY MR. KEATING:

Q I just have a couple more questions. If you could, turn to Page 7 of what's been marked as Exhibit 29, and that's the interrogatory and response to Number 166.

A Yes.

Q That interrogatory asks what the estimated value of fuel assets and fuel infrastructure at FPL's nuclear facilities is --

A Yes.

Q -- which requires the additional security costs.

A Uh-huh.

Q And is it correct that that amount is 106.1 million as FPL has estimated it?

A Yes. The value of the nuclear fuel and the reactors located at St. Lucie and Turkey Point is 106.1 million as of August 28th, 2001.

Q And turning to the next page in that exhibit, Interrogatory 167 asks for the estimated value of nonfuel assets and infrastructure, and the estimate that Florida Power & Light provided is 1.1 billion; is that correct?

A Yes. The net book value of FPL's nuclear units as of August 31st, 2001 was $1.1 billion.

Q Given the disparity in those two numbers, would you agree that the additional security costs are aimed more at protecting the nonfuel assets rather than fuel?

A I think the additional security costs go to protect everything there and -- both fuel and nonfuel. But again, the inability to operate those plants results in a direct adverse impact in fuel on FPL's customers.

Q So really, these increased security costs from your testimony would have an indirect impact on fuel savings?

A An indirect impact on fuel savings?

Q Yes. Well, let me ask it a different way. How do the incremental security costs have a direct effect on fuel savings?

A If we don't have adequate security at those units and we would have -- and would have to shutdown a unit, the impact is direct on the customers. If you're not operating a nuclear unit, you're generating with something else which is more expensive.

Q Do the additional security costs which FPL is seeking to recover through the fuel clause vary depending on how many kilowatt hours the nuclear power plants generate?

A No.

MR. KEATING: Thank you. That's all the questions I have.

CHAIRMAN JACOBS: Commissioners.

COMMISSIONER DEASON: Yeah, I have a question on Page 7 of your supplemental testimony, and I'm trying to understand the dynamics that work here. And I'm comparing the fuel factors as they existed with the original forecast and how they are revised. And I understand that there is a reduction of 30 cents for residential customers in the fuel cost recovery charge, but then there's an increase in the capacity cost recovery charge of 21 cents. Am I characterizing your testimony correctly?

THE WITNESS: Yes, Commissioner.

COMMISSIONER DEASON: Okay. Can you explain to me the dynamics in place why the revision to the sales forecast and then the resulting decrease in the overall expenditure for fuel would result in a decrease in the fuel charge factor but an increase in the capacity cost recovery factor?

THE WITNESS: Yes, Commissioner. In the case of the capacity factor, our projections for our capacity costs remain the same. It's simply that we're dividing them over less sales, which increases the cents per kWh.

COMMISSIONER DEASON: So the reduction in sales forecast, there's no associated reduction in the capacity charge.

THE WITNESS: No, there is not. But conversely for fuel adjustment, we took the revised load forecast and reran our POWRSYM run to redispatch the units, so that not only do you have the sales component lower than the number that you are dividing with, but actually you reduce your costs by about $100 million.

COMMISSIONER DEASON: Okay. Thank you. The other question I have relates to the incremental security costs. I guess my question is, you're not seeking to recover more than your actual costs, obviously.

THE WITNESS: No. We're just asking to recover the incremental costs for the security.

COMMISSIONER DEASON: How do we -- well, let me ask you this. Do you see this as a one-time event, or is this something that you foresee as being part of recurring fuel adjustment hearings years in the future?

THE WITNESS: Commissioner, that's part of it. I'm not sure how long it's going to last. There is some uncertainty about it.

COMMISSIONER DEASON: Well, then you would agree then it's necessary -- under your proposal, if it were adopted, it would be necessary to be able to have separate accounting for prior 9/11 security cost and post-9/11 security costs because they're going to be given separate treatment when it comes to cost recovery, one in base rates and one in a recovery mechanism.

THE WITNESS: Yes.

COMMISSIONER DEASON: Does that create any accounting problems for Florida Power & Light?

THE WITNESS: No. I believe we would put it in a account for recovery through the fuel adjustment. We would account for the incremental costs that way.

CHAIRMAN JACOBS: Ms. Dubin, in your analysis of the incremental expenses, has there been any inquiry made as to other revenues that might go towards these expenses and specifically FEMA and other agencies like that that have historically come in and addressed these types of issues? Have you done an analysis as to what those might be?

THE WITNESS: Commissioner, those are ongoing, and they go towards what Commissioner Jaber had asked about the National Guard. We're definitely in ongoing negotiations on who and what other ways this would be paid for. The incremental costs I'm talking about are mostly -- are ones that are done per the NRC advisories.

CHAIRMAN JACOBS: In your -- feel free to let me know if this is outside of your scope of experience, but I believe you self-insure your -- you're self-insured, aren't you?

THE WITNESS: Commissioner, that is outside the scope of my area.

CHAIRMAN JACOBS: Okay. Let me ask this then. Are you aware of to what extent you provide -- you pay into a fund for that?

THE WITNESS: Yes, I believe so, but that is out of my area of expertise.

CHAIRMAN JACOBS: Okay. And if you pay into a fund, has there been any analysis of the impact of that fund or the payments into that fund based on these new security measures?

THE WITNESS: I have no knowledge of that.

CHAIRMAN JACOBS: Okay. And the thought being that normally that's based on some level of risk to your facilities. And what I hear you saying is that you're paying to remove a substantial portion of that risk or at least perceived risk. It would occur to me that then whatever that fund is intended to cover, it should be reduced as well. Do you agree?

THE WITNESS: I'm not sure, Commissioner.

CHAIRMAN JACOBS: Okay. If you -- as you incur these additional expenses, is there some -- well, I heard the discussion that some of this is allocated through a demand.

And I assume in that manner there will be appropriate allocation across respective classes of customers, so then there will be allocation to wholesale and retail in that manner done.

THE WITNESS: Yes, yes.

CHAIRMAN JACOBS: What happens -- does any of that take into consideration plant outages and those sorts of things? In other words, it would occur to me that expenses for security on a facility that's on a plant outage would be an unreasonable expense. Is that reasonable? Is that a fair statement?

THE WITNESS: I'm sorry, the security costs when a unit has an outage?

CHAIRMAN JACOBS: Yeah.

THE WITNESS: I think the security that we're talking about is there --

CHAIRMAN JACOBS: Regardless.

THE WITNESS: -- regardless.

CHAIRMAN JACOBS: Okay. So during plant outages and all, these expenses would continue.

THE WITNESS: Yeah, even with the outage there's still fuel located at those plants.

CHAIRMAN JACOBS: But the security measures here don't necessarily deal with protecting the fuel. It's protecting the physical security of the location; isn't that correct?

THE WITNESS: Both, both the plant and the fuel supply.

CHAIRMAN JACOBS: So there are incremental expenses to protecting your fuel supply on these locations?

THE WITNESS: It's security to cover the whole facility, which would be the plant and the fuel that's located there.

CHAIRMAN JACOBS: That's all the questions I have.

Redirect.

MR. CHILDS: I have a few questions.

REDIRECT EXAMINATION

BY MR. CHILDS:

Q Ms. Dubin, staff asked you several questions about -- I think it's Page 13 of their Composite Exhibit 29 where you reference order number -- or Order Number 14546 is referenced.

A Yes.

Q Would you turn to that?

A Yes.

Q In there the response quotes Item 10 from that order, and it identifies that certain costs which can be recovered through the fuel adjustment. And I want you to look at the words "normally recovered through base rates," which is in the first line of the quote. That doesn't say, does it, normally included or recovered through base rates but only if allocated on an energy basis?

A No, it does not.

Q In fact, don't you recover now certain costs of the fuel adjustment that are not -- would not normally be allocated on an energy basis?

A Yes.

Q Would you give us an example of some of those?

A For example, railcars to deliver coal, those types of costs.

Q Gas pipeline?

A Yes.

Q Re-rating of a nuclear power plant?

A Yes, thermal uprate of the nuclear -- of Turkey Point. Yes.

Q And would you characterize the fuel savings resulting from those activities as being indirect?

A No. I believe that they're direct fuel savings associated with those.

Q Okay. And also isn't St. Lucie 2 allocated significantly or substantially on an energy basis --

A Yes.

Q -- already?

A Yes.

MR. CHILDS: That's all I have.

CHAIRMAN JACOBS: That means we can go to all of the exhibits.

Thank you. You are excused, Ms. Dubin.

(Witness excused.)

MR. CHILDS: Yes. I move Exhibits 24 through 28, which are all of the FPL exhibits.

CHAIRMAN JACOBS: Very well. Without objection, show Exhibits 24 through 28 are admitted.

(Exhibits 24 through 28 admitted into the record.)

CHAIRMAN JACOBS: Staff.

MR. KEATING: Staff would move 29 and 30.

CHAIRMAN JACOBS: Without objection, show Exhibits 29 and 30 are admitted.

(Exhibits 29 and 30 admitted into the record.)

CHAIRMAN JACOBS: And you have Exhibit 17. Did you --

MR. KEATING: Yes. Staff would like to move Exhibit 17 at this time.

CHAIRMAN JACOBS: Without objection, show Exhibit 17 is admitted.

(Exhibit 17 admitted into the record.)

CHAIRMAN JACOBS: Is there any other matter for the record? I believe that takes care of all of the cases and all the dockets.

Staff, are we prepared to look at these issues today?

MR. KEATING: Yes. It may be useful to take a short break so that staff can get together in the short time and work out its oral recommendations on these issues.

CHAIRMAN JACOBS: All right. Let's take --

COMMISSIONER DEASON: Can't we just take 15 minutes?

CHAIRMAN JACOBS: -- yes, let's take 15 minutes. Fifteen minutes.

MR. KEATING: That will be fine. Thank you.

(Brief recess.)

CHAIRMAN JACOBS: We'll go back on the record. Staff, explain to us how we'll proceed through the recommendations.

MR. KEATING: All right. Commissioners, Staff is prepared to provide an oral recommendation on all of the issues today. And we recognize there's been some -- a lot of discussion on certain of the issues, and if it's your pleasure, if there's any particular issue that you'd like to have a written recommendation on post-hearing --

COMMISSIONER DEASON: Let me -- before we get into the specific issues, there's something that I want to mention. We have deferred Issues 11 through 14; correct?

MR. KEATING: I'm sorry?

COMMISSIONER DEASON: We have deferred Issues 11 through 14. They're going to be the subject of a future review?

MR. KEATING: That's correct.

COMMISSIONER DEASON: Okay. So you're not going to be making any recommendation on those today, obviously.

MR. KEATING: Right.

COMMISSIONER DEASON: I just wanted to mention that I think that's the appropriate thing to do. I'm in total support of it. I just don't want the agreement, you know, that these items be deferred be misconstrued that somehow the Commission doesn't have an extreme interest in these matters. And I believe, as one Commissioner, that it's still incumbent upon the utilities to continue their review in whatever measures they think appropriate to take, that they shouldn't see us deferring these issues as a signal that they need to stop whatever actions or initiatives they have taken heretofore, that those efforts should continue. That's just one Commissioner expressing that, and I just wanted to make sure that that was clear. And it was on my mind at the time, so I thought I'd just go ahead and do it right now before we get into the nitty-gritty of some of the other issues.

MR. KEATING: And the staff intends to continue to follow up on these without trying to let these issues drop anytime soon and to try to get a resolution on these quickly. There's a management audit that's being conducted, among other things.

COMMISSIONER JABER: Mr. Chairman, with that, I can actually make a motion for you as it relates to all of the stipulated issues that will go quickly.

CHAIRMAN JACOBS: Yes. Let's begin with the stipulated.

COMMISSIONER JABER: Okay. Regarding all the stipulated issues -- on our copy I think it starts at Page 41, Commissioners --

CHAIRMAN JACOBS: Yes.

COMMISSIONER JABER: -- and it goes through to the top of 57. I can move all of those issues.

COMMISSIONER PALECKI: I can second that.

CHAIRMAN JACOBS: A motion and a second. Any further discussion?

All in favor?

COMMISSIONER JABER: Aye.

COMMISSIONER PALECKI: Aye.

COMMISSIONER DEASON: Aye.

CHAIRMAN JACOBS: Aye.

COMMISSIONER BAEZ: Aye.

CHAIRMAN JACOBS: Opposed?

Show the stipulated issues identified on those pages as approved.

MR. KEATING: From here, staff would recommend that we address company-specific issues and those issues that have a fallout effect on others first, and then address the fallout issues last which would be, essentially, the dollar amounts and the factors to put in place. I believe the issues that do have a fallout effect --

CHAIRMAN JACOBS: Excuse me. One moment. Just for the record, let's make sure that our vote on the stipulated issues included the amended position on Issue 28. I wanted to be sure that that was officially for the record.

COMMISSIONER JABER: That was my intent, Mr. Chairman, yes.

CHAIRMAN JACOBS: Okay. Now, you may proceed.

MR. KEATING: I believe the issues that remain that have a fallout effect on other issues are 17B and C, which relate respectively to incremental security costs recovery and updated forecasts, Issue 18K which is Florida Power & Light specific, regarding the amount of their security costs, and then 21C, D, G, and H which relate to TECO's wholesale transactions. And we can take those up in any particular order.

COMMISSIONER PALECKI: What were the last issue numbers?

MR. KEATING: The last issues were 21C, D, G, and H.

COMMISSIONER PALECKI: Thank you.

MR. KEATING: And we could probably take those up in any particular order.

CHAIRMAN JACOBS: Very well. Let's take -- let's go with 17 --

MR. KEATING: 17B.

CHAIRMAN JACOBS: -- B.

MR. McNULTY: Commissioners, 17B is, "Should the Commission allow recovery of the investor-owned utilities' incremental security costs, related to recent national security concerns, through the fuel and purchased power cost recovery clause, on either an interim or permanent basis?"

Staff's recommendation on this issue is that the utilities should not be allowed recovery through the fuel clause for these types of costs. The Commission should however take up consideration of these -- of the appropriate recovery method for incremental security costs in the first quarter of 2002.

And after studying in greater depth, the best method to recover incremental security costs for all investor-owned utilities should be basically to allow these -- the allocation of -- excuse me. A concern that we would have, would be that the allocation of these expenses to rate classes be in a manner consistent with current recovery practices. However, in the meantime, the Commission should allow the utilities to defer incremental power plant security costs as other regulatory assets for costs incurred beginning January 1, 2002 so that these costs are not ignored.

COMMISSIONER JABER: Let me ask you a question. The only cost information we have in the record is from Florida

Power & Light. They filed their testimony that indicates some of the cost information.

MR. McNULTY: That's correct.

COMMISSIONER JABER: And if we were inclined to allow FPL to put some of those incremental costs through the clause, there isn't anything that prevent us in the true-up to -- we true them up in the next hearing.

MR. McNULTY: Correct.

COMMISSIONER JABER: If we decide not to allow FPL to put those costs through the fuel clause, we put these companies in a position of including these costs in rate cases.

MR. McNULTY: Ostensibly, recovery through the rate cases, yes.

COMMISSIONER JABER: Okay. Now, as it relates to FPL, we have an ongoing rate proceeding, but let's assume that there wasn't one -- well, and there are companies that don't have rate proceedings pending. It might be that the amount of the costs actually puts them in the posture of filing rate cases. We don't know. We don't have that testimony in this record.

MR. McNULTY: That's correct.

COMMISSIONER JABER: Now -- and if those costs are uncertain -- if those costs are uncertain, it may be that the companies -- I guess what I'm trying to do is not restrict the Commission but at the same time not take the opportunity for cost recovery away from the companies during proceedings we have pending. I mean, I think -- FPL is sort of in a unique situation because they've included the testimony in this proceeding, and we have a pending rate case. I'm more concerned with the companies I know are obviously affected, that don't have rate cases.

MR. McNULTY: Let me add just at least one piece of information to that, and that's that for the one utility that has come forward, Florida Power & Light, to indicate what their costs -- they anticipate being, those costs are for the purpose of protecting nuclear facilities. And even those costs that they -- the smaller amount of costs that are -- have been established in the record for the purposes of protecting fossil plants are -- you know, they are also, as a primary purpose, protecting a nearby nuclear facility.

So when we talk about any utility that may not be in a rate case situation at this time, we're talking about a particular company that may not have nuclear facilities.

COMMISSIONER JABER: But the security measures apply to all of the electric plants, regardless of whether it's nuclear, coal or oil.

MR. McNULTY: Right. And these incremental costs, at least those that have been filed by Florida Power & Light, are describing costs that are external costs in nature. Costs for local, state, federal security measures. Those kinds of costs, those incremental costs, have fallen mostly towards the protection of nuclear facilities.

COMMISSIONER JABER: Do you agree that what the ultimate costs will be and whether those costs are recurring is not yet clear?

MR. McNULTY: It's not clear what these costs are going to be. I don't think anyone knows, and that's as much as, I guess, I could say about that.

COMMISSIONER JABER: Commissioners, I've struggled with this issue because the reality of September 11th changed, obviously, a lot, and it certainly changed the way we should look at these issues. My struggle is this, I don't want to, because of the lack of certainty, create a situation where we're getting rate cases every year just because of the impact related to the updated security measures. Of course -- and I have to reconcile that with, we only have information from FPL thus far.

COMMISSIONER PALECKI: Commissioner Jaber, I agree with you. I have a concern that I would like to send a very strong message to all of the investor-owned utilities that we encourage the utilities to protect their generation assets in times of emergency. The second concern I have is that we don't know what those costs will be over a long-term period. What we're seeing right now in the next year or two, it may be an anomaly. I would prefer seeing these costs collected at least in the short term through the fuel clause and perhaps down the road conduct another study or a docket to determine if there might be a better way. But I think for now, I'm fairly comfortable allowing these costs to go through the clause, and I'm also of the opinion that by doing so we're sending a message that we encourage our utilities to protect these assets.

COMMISSIONER DEASON: Let me say that I'm in agreement with that. First of all, let me say that I think everyone would agree that we're in an extraordinary situation. And when you find yourselves in an extraordinary situation, you need to sometimes take extraordinary steps. I classify it as extraordinary. I don't want that to be misconstrued. I think it's certainly within our discretion to classify these costs such that they would be eligible for recovery through a fuel adjustment mechanism. I believe that there is a nexus between fuel savings and our policy for trying to encourage fuel savings, and what we find here is maintaining the fuel savings which exist from these facilities.

I think it's also clear that there is potential volatility in the amounts of these costs, which is another reason that fuel costs are in a clause to begin with. There is volatility in the nature of these costs. I have comfort in that these costs will be trued up. The witness from Florida Power & Light indicated that they can be separately accounted for, and with that assurance and that they can be audited and be verified and they can also be reviewed in the upcoming rate proceeding. Also, I believe there's a better match in the timing between the incurrence of these costs and the recovery of those costs if we go ahead and allow recovery in the fuel adjustment proceeding.

So for all of those reasons -- and I agree, too, with Commissioner Palecki that it sends the right messages to the utilities. I'm confident our utilities would expend what is necessary regardless of whether we approved the recovery or the deferral of these amounts. But I think it shows a partnership between the customers of the utility and the utility, and that these measures are taken in the interest of the customers. I think that we -- to some extent, we all feel like we're under attack and that this is a move in the right direction. And I think this is the appropriate thing to do at this time.

COMMISSIONER JABER: Yeah. Now, saying all of that, I would go a step further, though, and not require the other companies to come in just yet. There was a separate issue as it relates to the other companies. I am supportive of allowing FPL's costs as submitted in the supplemental testimony to pass through the clause, but allowing the companies, the other companies, when they deem appropriate to seek whatever recovery they deem it appropriate, and that might not happen. I mean, it may be that for whatever reason there aren't incremental costs or not of a nature that would warrant a separate petition.

COMMISSIONER DEASON: Let me echo that too. And I would notice that it would seem to be that the bulk of these costs are nuclear generation related, and we only have two companies with nuclear facilities. I wouldn't want my comments to be interpreted that the companies feel obligated now to come forward with a proposal to recoup incremental security costs, but that's within their discretion. They need to evaluate on that -- on their own, find out what's best for their particular situation. And if they feel it appropriate, they would certainly have that latitude to do that in the future. But I'm not -- I don't want to insinuate that because other companies have not come forward that somehow they're derelict, because I think that is not the case at all.

CHAIRMAN JACOBS: Commissioners, I agree absolutely that this is a very challenging issue, one that I have been involved with for probably too long. And the companies are in a difficult position. We participated initially with the task force here, and it was absolutely clear that the preeminent concern was on public health and safety. And the companies were cooperating in trying to address those issues.

And the uncertainty of these events absolutely project a level of risk that no one could anticipate. However, I am also just as convinced that they are very smart people, very intelligent people who work in these companies who have been involved with disasters of substantial magnitudes. I have never been more impressed than when I toured the Turkey Point facility and saw what happened at that facility when Hurricane Andrew went through. It was an incredible example of the fortitude of the company and its resilience in its ability to recover.

For those very reasons, I say it is absolutely correct not only to engage in these practices, but to do them in a reasoned orderly fashion. I believe that we are too early in this process to understand what that really means. I'm not prepared at this point to say that, you know, any means of any expenditure is absolutely on its face appropriate to be passed through to the ratepayer. That's not to say that it's not a reasonable thing for the companies to engage in this exercise to go and look at what the means and measures that are necessary to employ, but I also think it is absolutely important to go explore what would come from other means of support for security measures that are being undertaken. Will that happen in a true-up process with a fuel clause? Will we see those expenses come back in later on to reduce the increase in the fuel clause that occurs because we allow security expenses in? I don't know. Those questions remain unanswered, and I would love to see those questions answered before we embark on that analysis.

I've seen also that there is an incredible determination from the public. And I reason I think that's a reasonable view to take is that there is an incredible determination from the decision-makers in this country, in this state to secure these means. And you don't want to send a message that, you know, come talk to this Commission before you make an expenditure. We absolutely have to send a message and a signal to the company that, go forward, pursue reasonable and efficient measures of enhancing your security.

But my experience in Y2K and my experience here confirms the idea that a reasoned analysis is incredibly important here, and it confirms the idea that our signals will be taken for what they say. And I hate to say this, but it's true. If we don't make it clear that we're expecting reasoned decisions and we will impose upon those decisions a reasoned analysis, we will be setting expectations as well. And my desire today is set the expectation that, go forward, undertake very reasoned measures, come to us with adequate support and proof of how those were necessary in the context of your operations, and I think there's every expectation that those expenses should be recovered.

I'm not clear yet that this recovery clause is the place, and it may very well turn out that it is. I'm not ruling that out as well, but we're too early in the analysis for me to have a clear understanding on that today.

COMMISSIONER JABER: Okay. Commissioners, on 17B my motion would be to deny staff's recommendation and to allow FPL to recover the incremental security costs through the fuel cost recovery clause. That recognizes that this doesn't preclude the Commission from down the road looking at a different manner or mechanism of handling the cost recovery after the costs become more defined.

COMMISSIONER PALECKI: I would second the motion.

CHAIRMAN JACOBS: A motion and a second. Further discussion?

All in favor?

COMMISSIONER PALECKI: Aye.

COMMISSIONER BAEZ: Aye.

COMMISSIONER JABER: Aye.

COMMISSIONER DEASON: Aye.

CHAIRMAN JACOBS: Opposed?

Nay.

Show it passes, four-to-one.

17C.

MR. McNULTY: Commissioners, 17C is, "Should the Commission require the investor-owned electric utilities' levelized fuel cost recovery factors and the net purchased power cost recovery amounts for the period January 2002 through December 2002 to be based upon updated energy, demand, and price forecasts that include the economic impact of increased national security concerns since September 11, 2001?"

And staff's recommendation is, no, the utilities should not be required to revise their forecasts and their factors as such. While FPL did revise their fuel and capacity factors based on revised energy and demand forecasts associated with the changed economic environment of September 11th, 2001, Florida Power Corporation, Tampa Electric Company, and Gulf Power Company did not revise their factors based on updated forecasts.

Commission Order 13994 indicates that revised filings and revised factors based on changed assumptions are not required unless an over- or underrecovery in excess of 10 percent is anticipated. There is no evidence in this proceeding to suggest that the utilities' proposed factors would result in this threshold level of over- or underrecovery. Thus, staff recommends that these utilities should not be required to base their fuel and capacity factors on revised forecasts.

COMMISSIONER JABER: Okay. Bill, I think to be consistent with our vote on 17B and what I -- and what the Commissioners discussed, I think all I need to do is move your recommendation on 17C. Wouldn't that be consistent?

MR. McNULTY: I believe so.

COMMISSIONER DEASON: I believe that's correct, too, and I'd second the motion.

CHAIRMAN JACOBS: A motion and a second. Any further discussion?

All in favor.

COMMISSIONER DEASON: Aye.

COMMISSIONER BAEZ: Aye.

CHAIRMAN JACOBS: Aye.

COMMISSIONER JABER: Aye.

COMMISSIONER PALECKI: Aye.

CHAIRMAN JACOBS: Show that passes.

18K. Commissioners, let me make sure -- were there any discussions on any of the other issues, or are we going to go back and deal with all those fallouts? Because that was my anticipation, we'll go back and deal with all the others as fallouts; correct?

MR. KEATING: I believe that the remaining non-fallout issues are 18K and 21C, D, G, and H.

CHAIRMAN JACOBS: Right. 18K.

COMMISSIONER DEASON: I can move -- well, I know it's staff's position that we do not allow recovery, but I believe that the amounts which Florida Power & Light have come forward and identified, given that there's going to be the ability to segregate these amounts and they would be subject to true-up, that the amounts that have been presented by Florida Power & Light would be reasonable for recovery through this fuel adjustment proceeding.

COMMISSIONER JABER: Second.

CHAIRMAN JACOBS: Moved and seconded. Any further discussion?

All in favor?

COMMISSIONER JABER: Aye.

COMMISSIONER DEASON: Aye.

COMMISSIONER BAEZ: Aye.

COMMISSIONER PALECKI: Aye.

CHAIRMAN JACOBS: Opposed?

Nay.

Show that passes.

21C, I believe, is the next --

MS. HARLOW: Mr. Chairman, with your permission, staff would like to take up 21D first, please.

CHAIRMAN JACOBS: Okay. Is that okay? 21D.

MS. HARLOW: 21D is the issue, "For the period January 1998 to December 2000, were TECO's decisions regarding its wholesale energy purchases from and its wholesale energy sales to nonaffiliated entities reasonable?"

Staff's position on this issue is that the evidence indicates that TECO's actions regarding its wholesale transactions during this period were indeed reasonable. No evidence has been presented that suggests that TECO's actions taken in managing its wholesale transactions or in allocating the costs associated with these transactions are inappropriate during this time period.

Staff does not believe that further study of this issue is warranted at this time. TECO hasn't entered into any new long-term separated firm wholesale sales agreement since 1995. The last new firm sale of any kind made by TECO was a nine-month nonseparated sale in 1998.

TECO's reserve margins were estimated to be 15 percent or greater over the planning horizon at the time each of the current firm contracts were signed. All of TECO's firm sales are cost-based with FERC-approved pricing. None of the existing firm contracts are market-priced. Only one of TECO's separated sales is currently recallable. TECO presented evidence that this sale has been recalled to serve firm load. No evidence has been presented that TECO is managing its current firm contracts inappropriately or that it was inappropriate to enter into TECO's current separated sales.

With regard to nonfirm nonseparated sales, TECO is currently only entering into these types of sales agreements. TECO has a policy of recalling these sales if capacity is needed to serve both firm and nonfirm retail load. FIPUG's Witness Collins stated that the issue at hand was not whether TECO's management of its wholesale sales was appropriate but rather whether TECO's costs, including purchased power costs, are allocated appropriately to wholesale customers.

Capital and O&M costs for generating plant necessary to make separated sales are allocated to wholesale customers appropriately. This reduces capital costs for retail customers when putting new plant in service for which total capacity is not immediately needed to serve retail load. A complete review of the effect of separated sales on retail customers must include the reduction in capital costs associated with serving separated wholesale customers. Staff agrees with FIPUG's Witnesses Collins and Pollock that separated sales should be charged average system fuel costs. Staff also agrees with FIPUG that average system fuel costs should include both generation and purchased power costs. The Commission's Order Number PSC-97-0262-FOF-EI required that on a perspective basis separated sales should be allocated average system fuel costs. TECO appears to be adhering to this Commission policy.

Only one of TECO's separated sales has fuel costs based on a specified unit. TECO's one unit sale was entered into in 1989, prior to the Commission's order regarding charging fuel costs -- excuse me, system average fuel costs to separated sales. Staff disagrees with FIPUG that retail customers are being charged for 100 percent of TECO's purchased power costs. Staff further disagrees with FIPUG that separated wholesale customers are not paying for TECO's purchased power costs but are charged rates based solely on fuel costs for so-called low cost generation. Staff notes that FIPUG Witness Collins' subsidy calculation is based on this incorrect assumption. Purchased power costs allocated to separated wholesale customers are included in the total fuel costs paid by separated customers as indicated on Line 29 of Schedules A1 and E1. A comparison of Line 29 and 30 on the E1 Schedule supports the position that on a going-forward basis, TECO expects the average fuel cost per megawatt hour charged to separated wholesale customers to be approximately the same as that for retail customers.

Staff agrees with FIPUG that nonseparated sales should be charged incremental fuel costs and that these costs should be used to determine the gains on these sales. This is consistent with the Commission's ruling in Docket Number 010283-EI. TECO's policy regarding using incremental fuel costs whether from generation or purchased power to calculate the gains on nonseparated sales is apparently consistent with the Commission's order and FIPUG's position. Given TECO's use of incremental fuel costs to calculate the gains, staff disagrees with FIPUG that retail customers received little benefit from nonseparated sales. Retail customers receive 100 percent of the gains from these sales up to a benchmark based on past sales after which gains were shared 80/20 between retail ratepayers and shareholders.

With regard to TECO's buy-through purchases for its nonfirm retail customers, there was no evidence in the record that TECO's purchases or buy-through power on behalf of interruptible retail customers was inappropriate. FIPUG's witnesses stated that the cost per kilowatt hour of buy-through power was increasing. The record indicates that no buy-through power was purchased by TECO from TECO affiliates. Therefore, there is no reason to believe that TECO has an incentive to purchase high-priced buy-through power.

And that concludes staff's discussion of that issue.

COMMISSIONER DEASON: First of all, I'd like to say I want to commend staff for your very thorough analysis of this complex issue on such a short turnaround, and I can wholeheartedly move adoption of your recommendation.

COMMISSIONER JABER: Second.

COMMISSIONER PALECKI: I'd just like to discuss this further. I agree with Commissioner Deason that -- and support the staff's recommendation. Based on the record in this proceeding we cannot say that TECO has violated any existing Commission policy with its allocation of costs between wholesale and retail. And I believe that there needs to be predictability and uniformity in Commission policy so that our utilities can base their behavior on what this Commission has pronounced.

What I'm not sure I'm comfortable about is whether on a going-forward basis we need to look at our policy with regard to allocation of costs between wholesale and retail. And I certainly support the staff's recommendation with regard to this fuel proceeding. But I think I heard enough in this proceeding to give me some pause as to whether or not we need to look more closely at our policy with regard to this issue. So I guess what I'm saying is, I support the staff's recommendation wholeheartedly, but I don't want to close off this issue to study this further on a going-forward basis.

COMMISSIONER DEASON: Let me make it clear that my motion is not to go forward with opening any investigation at this point. So if that's what your contemplating, I think we're in a disagreement on that. I think we have -- we're duty-bound to continue to monitor situations. And if circumstances dictate that there's something that needs to be modified, I think staff will be diligent in their responsibilities and bring that to our attention. But as far as us today opening an investigation, that's not part of my motion, and if there's a majority of the Commission that wants to do that, my only word of advice would be, clearly at this point define what you think is the problem areas that we can focus the investigation on that. I'm not sure there's anything right at this point that's broken that needs any investigation.

So I'm not trying -- you know, if there's something that can be identified, and we can clearly say that this particular area needs to be investigated for this reason, I may be convinced, but right now I don't know what that is. And before we embark on such an endeavor, I certainly think it would be incumbent upon us to identify that. But just to let me reiterate, my motion is to adopt staff's recommendation which at this point does not envision opening an investigation docket.

COMMISSIONER JABER: That was my second. I was clear on your motion and that was second. But I think, staff, also you may want to just take an opportunity to let Commissioner Palecki and the rest of us know that you have looked at this issue each year. This is not sort of -- this isn't unique to this year's proceeding, and you do monitor the allocation of costs between wholesale and retail. Do you want to --

MS. HARLOW: That's correct. And I'd also like to make the brief point that if you look back at the witnesses' testimony, FIPUG's witnesses' testimony, I believe the company is actually allocating the costs according to FIPUG's own desires. And I simply believe that it was a misinterpretation of the A Schedules by those witnesses. So I believe what FIPUG asked for in their list of requirements was indeed what the company is adhering to.

CHAIRMAN JACOBS: Let me ask this. I recognize that in this particular instance -- and let me say up front. I can agree with the analysis, and I think you have done a good job at looking at these facts, but let me take it a little bit broader than these facts.

As I understand it, a lot of the genesis of the contracts come because of the juxtaposition of the wholesale manner of contracting versus how that gets treated in the retail jurisdiction. Is that -- in other words, when a wholesale contract can be based on a certain level of allocating costs versus what has to happen in the retail, there is some tension. Is that a fair statement?

MS. HARLOW: Well, I believe there may be some conflict if I were analyzing this issue myself. I believe there may be some conflict or some cause for pause about how the costs are allocated. In this case, it's 94 percent, 6 percent wholesale. And so the staff does look at, is the 94 percent appropriate? And it's based on the relative loads of the two groups, retail versus wholesale, and we do indeed look at that.

CHAIRMAN JACOBS: Understood. And again, I'm trying to project a little bit outside of these particular fact circumstances. And let me say this, as we move -- if it is anticipated that we move towards a market where you will have a much more prominent component of wholesale transactions, okay, that tension that exists even at 94/6 will still exist and perhaps will grow is my question.

MS. HARLOW: Well, again, keep in mind that you would have to look at separated sales versus nonseparated sales and how those costs are allocated differently to each of those two different types of sales.

CHAIRMAN JACOBS: And it is your anticipation, then, that in that new environment all of those will be separated?

MS. HARLOW: We certainly don't see TECO taking those actions at this point in time, and in our analysis we only looked at TECO. But the movement we have seen on TECO's part recently is all the new contracts that have been signed since 1998 that are -- to my knowledge, have been nonseparated sales.

CHAIRMAN JACOBS: And even for the unit power sales, would you anticipate that those become system versus unit -- continue to be unit-based?

MS. HARLOW: Well, on a perspective basis, according to the Commission's order, that is the action that TECO would be required to take, yes, sir.

CHAIRMAN JACOBS: And so understand my -- and this is really kind of like -- think about this as we move forward to these marketplaces. As we move forward and under those criteria, that argument while fairly minor in this point, perhaps even moot, can take on more credibility because it could very well occur that the -- that to the extent you have these nonseparated transactions that will grow in their volume and prominence, you could have these issues, these tensions that will continue to grow. And my only suggestion is, if Commissioner Deason is asking for identification of some issue, don't rule that out. If you're going to look at how you're going to define this, don't just narrow it down to specifically whether the i's were dotted here and the t's were crossed because I believe they were. I think these things were done.

But let's look at the overall market that we say we want to have, which is a market where you have diversity and you have good, strong, robust competition. And if that's what you want, are we enunciating policies now to promote that? And as we go down the road, let's be clear about that. Okay. That's my only suggestion. If we identify issues, let's do that.

COMMISSIONER DEASON: Let me say that I think this Commission has -- to the degree that we have the ability and under the current statutory framework, we have taken steps to try to foster competition. And one of the ways we have done that is, we've given incentives to companies to make cost-effective wholesale sales. That is competition. Maybe it's a limited competition, but nevertheless it's competition. And I think that TECO has taken appropriate actions consistent with that policy.

CHAIRMAN JACOBS: I agree. I do not dispute that at all. All I'm suggesting is, as we move forward and if you really want to explore how to get good, strong competition and to put this agency in a position to be able to address that effectively -- because understand, what you're going to be doing is more and more upsetting here looking at this kind of a story.

This story is not going to go away. It's going to become the predominant story that you're going to see, and I heard a very well engaged discussion here on these issues. I guarantee you that you have -- this argument will not go away. It will become more engaged and become more pronounced. And if we don't begin to get clear about how we're going to address it, it will become overwhelming. That's all I'm saying. Thank you.

COMMISSIONER JABER: A motion and a second.

CHAIRMAN JACOBS: I had a motion and a second.

COMMISSIONER BAEZ: Is there a second? Second.

CHAIRMAN JACOBS: I'm sorry, there was a second.

So all in favor on Issue 21D as in David?

COMMISSIONER JABER: Aye.

CHAIRMAN JACOBS: Aye.

COMMISSIONER DEASON: Aye.

COMMISSIONER BAEZ: Aye.

COMMISSIONER PALECKI: Aye.

CHAIRMAN JACOBS: Opposed?

Show it passes.

COMMISSIONER PALECKI: And I would just like to state that, as I said, I fully support the staff's recommendation, and insofar as I have any concerns on a going-forward basis, I'll sit down with staff.

COMMISSIONER DEASON: And I'll certainly have an open mind if you find anything.

COMMISSIONER PALECKI: Thank you.

COMMISSIONER DEASON: I'm not aware of anything at this point.

CHAIRMAN JACOBS: So now we will go to 21C. Do you want to go there? I thought you said you wanted to do D first and then C; correct?

MS. HARLOW: Yes, sir. Thank you. Moving on to Issue 21C, which is, "For the period January 1998 to December 2000, were TECO's decisions regarding its wholesale energy purchases from and its wholesale energy sales to Hardee Power Partners reasonable?"

Staff's position is that TECO's transactions regarding Hardee Power Partners during this period of time were, indeed, reasonable. No evidence has been presented that suggests that TECO's actions regarding its wholesale energy purchases from and its wholesale energy sales to Hardee Power Partners were inappropriate during this time period.

Staff does not believe that further study of this issue is warranted at this time. TECO's contract with Hardee Power Partners is FERC-approved and cost-based. The original contract was appropriately compared to other available capacity and energy options. TECO's latest amendment to the contract compares favorably to the forwards energy market price even if the capacity costs of the Hardee contract are included.

Further, the separated sale of 145 megawatts to TECO Power Services from Hardee is TECO's only unit-based sale. This contract was signed in 1989 and expires on December 31, 2002. This sale was reviewed in the Hardee need determination by this Commission. TECO has no plans to renegotiate this sale at this time. The Big Bend 4 capacity will then flow back to TECO's retail ratepayers at the contract's expiration date.

And this concludes staff's discussion of this issue.

COMMISSIONER DEASON: Once again, I appreciate staff's very thorough analysis, and I would move adoption of staff's recommendation.

COMMISSIONER BAEZ: Second.

CHAIRMAN JACOBS: Motion and seconded. Any further discussion?

All in favor.

COMMISSIONER JABER: Aye.

COMMISSIONER DEASON: Aye.

COMMISSIONER BAEZ: Aye.

CHAIRMAN JACOBS: Aye.

COMMISSIONER PALECKI: Aye.

CHAIRMAN JACOBS: Opposed?

Show it approved.

21H I believe is the next one.

COMMISSIONER JABER: G?

CHAIRMAN JACOBS: Did you mention G?

MS. DRAPER: We have 21G first.

CHAIRMAN JACOBS: Did you say G? I'm sorry, I missed it, 21G.

COMMISSIONER DEASON: Is staff's recommendation as contained in the prehearing order?

MS. DRAPER: Yes. 21G reads, "Does Tampa Electric currently allocate 100 percent of purchased power costs to retail customers? If so, what action, if any, should the Commission take?"

And based on the evidence we heard today, staff's position remains as stated in the prehearing order.

COMMISSIONER DEASON: I move staff's recommendation.

COMMISSIONER PALECKI: Second.

CHAIRMAN JACOBS: Motion and seconded. Any further discussion?

All in favor?

COMMISSIONER JABER: Aye.

COMMISSIONER DEASON: Aye.

COMMISSIONER BAEZ: Aye.

CHAIRMAN JACOBS: Aye.

COMMISSIONER PALECKI: Aye.

CHAIRMAN JACOBS: Opposed?

Show it approved.

MR. BOHRMANN: Issue 21H is, "Should Tampa Electric's separated wholesale sales be charged average system fuel costs and should nonseparated sales be charged system incremental costs?"

Staff's recommendation is as stated in the prehearing order, and based upon the evidence heard the past two days, staff has not heard anything that would alter its recommendation.

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

COMMISSIONER JABER: Second.

CHAIRMAN JACOBS: Motion and seconded. Any further discussion?

All in ?

COMMISSIONER DEASON: Aye.

COMMISSIONER PALECKI: Aye.

COMMISSIONER JABER: Aye.

CHAIRMAN JACOBS: Aye.

COMMISSIONER BAEZ: Aye.

CHAIRMAN JACOBS: Opposed?

Show it approved.

Now, as I understood it, that was the last issue that had --

MR. KEATING: That is all of the issues that are not fallouts, yes. The remaining issues are 1, 2, 3, 4, and 7.

COMMISSIONER DEASON: Well, let me ask you, I may be confused, when do we deal with Florida Power & Light's revised sales forecast and the resulting changes to the fuel cost and fuel factors?

MR. KEATING: I believe that Florida Power & Light's positions on these issues all reflect the revised factors. We don't have a -- I guess --

COMMISSIONER DEASON: It's not a separately stated issue.

MR. KEATING: -- it's not a separately stated issue on whether we accept those revised factors.

COMMISSIONER DEASON: So we just need to clarify which forecast and which factors we're approving when we get to Florida Power & Light; correct?

MR. KEATING: Yes.

COMMISSIONER DEASON: Okay.

CHAIRMAN JACOBS: Did you say Issue 3 just now?

MR. KEATING: 1, 2, 3, 4, and 7. And staff can address these as we go through them. I would make one point with respect to Issue 1 at the start. With all the companies except for TECO, staff had taken the position as shown in the prehearing order. For Florida Power Corporation, Florida Power & Light, our position indicates an underrecovery amount for each that is in agreement with the companies numbers. We had elaborated on our position by stating that the Commission maintains jurisdiction over revenues credited and costs charged to the fuel and purchased power cost recovery clause pending resolution of Issues 18A and 19D.

Now, those were two of the hedging-related issues that were deferred from this proceeding. 18A was specific to Florida Power & Light's actions for a specified period of time, going back to March '99, and Florida Power Corporation's Issue 19D was specific to Florida Power Corporation's actions for that -- roughly that same period of time, I believe.

It's staff's belief that the Commission does have the jurisdiction to go back and look at those numbers. Even though there's a final true-up number that's approved in that proceeding and that the case law supports going back and disallowing imprudent costs, I think Florida Power & Light would prefer to not concede that issue at this point. So staff would withdraw that portion of its position after the underrecovery amount on Issue 1 for Florida Power Corporation and Florida Power & Light, and allow the Commission's jurisdiction to go back -- to reach back to whatever period we would look at to be resolved if and when necessary.

COMMISSIONER JABER: Mr. Keating, let me take you back. I got stuck on Commissioner's Deason's question. I thought that the positions you have under staff for FPL do include the changes as a result of the supplemental testimony on the updated factors that we received from FPL.

MR. BOHRMANN: The updated retail sales forecasts would have an impact upon the factors for 2002, but these numbers in Issue 1 only deal with expenses incurred in the year 2000.

COMMISSIONER JABER: Okay. But as it relates to the issues going forward, where the supplemental testimony updated or modified the older numbers, you've put that into your position, haven't you?

MS. DRAPER: Staff's position on Issue 4, the levelized fact, and Issue 7, all the factors include FPL's updated testimony and forecasts.

COMMISSIONER JABER: All right. Thank you.

COMMISSIONER DEASON: I can move approval of staff's recommendation on Issue 1.

COMMISSIONER JABER: Second.

COMMISSIONER PALECKI: Second.

CHAIRMAN JACOBS: Motion and seconded.

All in favor?

COMMISSIONER JABER: Aye.

COMMISSIONER DEASON: Aye.

COMMISSIONER PALECKI: Aye.

CHAIRMAN JACOBS: Aye.

COMMISSIONER BAEZ: Aye.

CHAIRMAN JACOBS: Show it approved.

MR. KEATING: One thing I should point out on Issue 1, staff had not taken a position yet for TECO pending resolution of Issues 21C and D, and I'll let staff inform you what that number is that we'd be recommending.

MR. BOHRMANN: Staff agrees with TECO's position for Issue 1.

COMMISSIONER DEASON: Well, then just clarify to that what we just -- that's your recommendation, and we just approved that, and I don't think there's -- I contemplated that was the situation when I made the motion.

MR. BOHRMANN: Thank you. Issue 2 is, "What are the appropriate estimated/actual fuel adjustment true-up amounts for the period January 2001 through December 2001?"

This issue had already been stipulated as for FPC -- two divisions of FPC and for Gulf, and staff's positions for Florida Power --

CHAIRMAN JACOBS: You mean FPU.

MR. BOHRMANN: Excuse me?

CHAIRMAN JACOBS: You said stipulated for two divisions of FPC. You meant FPU.

MR. BOHRMANN: FPUC. Excuse me, FPUC. Staff's position for Florida Power and FPL are reflected in the prehearing order on Page 13, and staff agrees with Tampa Electric's number as it's reflected for Issue 2.

COMMISSIONER DEASON: Move staff.

COMMISSIONER PALECKI: Second.

CHAIRMAN JACOBS: Motion and seconded. Any further discussion?

All in favor?

COMMISSIONER JABER: Aye.

COMMISSIONER DEASON: Aye.

COMMISSIONER BAEZ: Aye.

CHAIRMAN JACOBS: Aye.

COMMISSIONER PALECKI: Aye.

CHAIRMAN JACOBS: Opposed?

Show it approved.

MR. BOHRMANN: Issue 3, "What are the appropriate total fuel adjustment true-up amounts to be collected/refunded from January 2002 to December 2002?"

This issue, once again, had been stipulated as for the two divisions of FPUC and for Gulf Power. And our positions for Florida Power and FPL are reflected on Page 14 of the prehearing order, and staff agrees with Tampa Electric's position for Issue 3.

COMMISSIONER DEASON: Move staff.

COMMISSIONER BAEZ: Second.

COMMISSIONER PALECKI: Second.

CHAIRMAN JACOBS: Moved and seconded. All in favor?

COMMISSIONER JABER: Aye.

CHAIRMAN JACOBS: Aye.

COMMISSIONER PALECKI: Aye.

COMMISSIONER BAEZ: Aye.

COMMISSIONER DEASON: Aye.

CHAIRMAN JACOBS: Opposed?

Show it approved.

MS. DRAPER: Issue 4 reads, "What are the appropriate levelized fuel cost recovery factors for the period January 2002 to December 2002?"

The issue shows stipulated for FPUC, Gulf, and FPC. And staff agrees with respect to FPL and TECO with their position as stated.

COMMISSIONER DEASON: Move staff.

COMMISSIONER JABER: Okay. So, for example, on this issue, under FPL, they've got no position pending resolution of 17B and 18K.

MS. DRAPER: And those were resolved where TECO had presented their numbers, so it doesn't -- the way FPL has presented the numbers, so it doesn't change the 2.860 cents per kilowatt hour.

COMMISSIONER JABER: Okay. Great. I can second.

CHAIRMAN JACOBS: Moved and seconded. All in favor?

COMMISSIONER DEASON: Aye.

COMMISSIONER PALECKI: Aye.

CHAIRMAN JACOBS: Aye.

COMMISSIONER JABER: Aye.

COMMISSIONER BAEZ: Aye.

CHAIRMAN JACOBS: Opposed?

Show it approved.

Issue 7, I believe; right?

MS. DRAPER: Issue 7 is, "What are the appropriate fuel cost recovery factors for each rate class?"

And again, it has been stipulated for FPUC, Gulf, and FPC. And with respect to FPL and TECO, staff agrees with the way the utilities have presented the numbers.

COMMISSIONER DEASON: Move staff.

COMMISSIONER PALECKI: Second.

CHAIRMAN JACOBS: Moved and seconded.

All in favor?

COMMISSIONER JABER: Aye.

COMMISSIONER DEASON: Aye.

CHAIRMAN JACOBS: Aye.

COMMISSIONER BAEZ: Aye.

COMMISSIONER PALECKI: Aye.

CHAIRMAN JACOBS: Opposed?

Show it approved.

Are there any other issues that we need to address now specifically?

MR. KEATING: I believe that that addresses all of the issues.

CHAIRMAN JACOBS: Anything from the parties?

Thank you very much. This is always quite an experience. Thank you, parties, for the diligence. If there's nothing else to come before us today, we're adjourned.

(Hearing concluded at 1:05 p.m.)

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STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, TRICIA DeMARTE, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

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

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

DATED THIS 3RD DAY OF DECEMBER, 2001.

Tricia DeMarte

TRICIA DeMARTE
FPSC Official Commission Reporter
(850) 413-6736