BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 020001-EI

In the Matter of

FUEL AND PURCHASED POWER COST RECOVERY CLAUSE WITH GENERATING PERFORMANCE INCENTIVE FACTOR.
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VOLUME 2

PAGES 183 THROUGH 243

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN LILA A. JABER
COMMISSIONER J. TERRY DEASON
COMMISSIONER BRAULIO L. BAEZ
COMMISSIONER MICHAEL A. PALECKI
COMMISSIONER RUDOLPH "RUDY" BRADLEY

DATE: Wednesday, November 20, 2002

TIME: Commenced at 9:30 a.m.
Adjourned at 4:20 p.m.

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

REPORTED BY: JANE FAUROT, RPR
Chief, Office of Hearing Reporter Services
FPSC Division of Commission Clerk and Administrative Services
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I N D E X

WITNESSES

EXHIBITS

PROCEEDINGS

(Transcript continues in sequence from Volume 1.)

CHAIRMAN JABER: Okay. Should we resolve the stipulated issues now, Mr. Keating?

MR. KEATING: I believe we can go ahead and address the stipulated issues. I do have a document that I delivered to each of the Commissioner's offices yesterday afternoon that is about four pages. It includes the issues that have been stipulated since the issuance of the prehearing order. If anyone needs a copy of that, I do have some extra copies of that.

CHAIRMAN JABER: Commissioners, it should be a document that starts with Issues 1 and 2, and the last page has Issue 17D, is that correct?

MR. KEATING: That's correct.

CHAIRMAN JABER: Do you have it? Okay. It looks like the Commissioners have it. Mr. Keating, go ahead and give us a few more copies just in case. Let me see, Commission Bradley. That's it. Commissioner Baez. Thank you. All right, Mr. Keating.

MR. KEATING: That document is really just intended to supplement what is reflected as stipulated in the prehearing order, and it may be helpful to go ahead and mark that as an exhibit.

CHAIRMAN JABER: No, I think we should just rule on the stipulations.

MR. KEATING: Okay.

MR. BADDERS: If I may?

CHAIRMAN JABER: Go ahead.

MR. BADDERS: I believe there are some additional stipulations that are not reflected either in the prehearing order or this handout at least with regard to Gulf Power, and I can address those if you would like.

CHAIRMAN JABER: Great. I say we go issue-by-issue, Mr. Keating, and rule on each issue. And if there are additional stipulations just let us know.

MR. KEATING: There are four issues that are stipulated with respect to only Gulf Power and/or Florida Public Utilities. Because they weren't stipulated with respect to all the utilities they aren't listed as stipulated issues here. Otherwise it gets a little hard to keep track of. But those are certainly stipulations we can recommend approval of as we get through those issues.

CHAIRMAN JABER: Okay. So can we start with Issue 1?

MR. KEATING: Yes. Staff would recommend approval of the stipulation on Issue 1 that is shown in the handout.

CHAIRMAN JABER: Oh, I see. This is why you would need the handout identified as an exhibit because the language is not included in the prehearing order.

MR. KEATING: The language, right, is only included in this handout.

CHAIRMAN JABER: Okay. I think we are on Exhibit 11?

MR. KEATING: I think we are on 10.

CHAIRMAN JABER: The four page document that was prepared by Staff that is identified as issues stipulated after issuance of prehearing order as of November 19th, 2002, shall be identified as Exhibit 10.

And, Commissioners, if you look under the position for Issue 1, that is the stipulated position, and I need a motion to accept the position on that issue.

(Exhibit 10 marked for identification.)

COMMISSIONER PALECKI: I move approval.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: There has been a motion and a second to accept the stipulation on Issue 1. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 1 is resolved. Issue 2.

COMMISSIONER DEASON: Move it.

COMMISSIONER PALECKI: Second.

CHAIRMAN JABER: Motion and a second to accept the stipulation on Issue 2. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 3.

COMMISSIONER DEASON: Move it.

COMMISSIONER PALECKI: Second.

CHAIRMAN JABER: All those in favor of accepting the stipulation on Issue 3 indicate by saying aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 3 is resolved.

Issue 4, Mr. Keating.

MR. KEATING: Issue 4 is a fallout issue, but with respect to Gulf Power and Florida Public Utilities that issue is stipulated, and I can point you to the page in the prehearing order. It is at Pages 11 and 12 of the prehearing order.

CHAIRMAN JABER: Okay. And you said with respect to Gulf and who?

MR. KEATING: Florida Public Utilities Company. So staff can recommend approval of the positions for Florida Public Utilities and Gulf.

CHAIRMAN JABER: Commissioners, do I have a motion to accept the stipulated positions of Gulf and Florida Public Utilities on Issue 4?

COMMISSIONER PALECKI: So moved.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 5.

MR. KEATING: Issue 5 is a proposed stipulation that is reflected on Page 41 of the prehearing order, and Staff would recommend approval of that proposed stipulation.

COMMISSIONER PALECKI: I would move acceptance.

THE WITNESS: Second.

CHAIRMAN JABER: Motion and a second to accept the stipulation on Issue 5. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 6.

MR. KEATING: Issued 6 is a proposed stipulation as shown on Page 42 of the prehearing order.

COMMISSIONER PALECKI: Move it.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 6 is accepted. Issue 7.

MR. KEATING: On Issue 7, this is jumping back to Page 12 of the prehearing order, this issue is stipulated with respect to Gulf Power and Florida Public Utilities Company only, and Staff can recommend approval of the positions for Florida Public Utilities and Gulf Power that are presented in the prehearing order.

COMMISSIONER DEASON: So moved.

COMMISSIONER BAEZ: Second.

CHAIRMAN JABER: There has been a motion and a second to accept the stipulation as it relates to Gulf and Florida

Public Utilities for Issue 7. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 8.

MR. KEATING: Issues 8 through 10 are shown as proposed stipulations beginning on Page 43 and continuing to Page 44 of the prehearing order, and Staff can recommend approval of those proposed stipulations.

CHAIRMAN JABER: Issues 8 through 10, Commissioners.

COMMISSIONER PALECKI: Move acceptance.

CHAIRMAN JABER: There has been a motion and a second to approve the stipulation on Issues 8 through 10. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 11 has been withdrawn. Issue 12.

MR. KEATING: The proposed stipulation for Issue 12 is shown in the four-page handout as a stipulation reached after issuance of the prehearing order, and Staff can recommend approval of that proposed stipulation.

COMMISSIONER PALECKI: Move it.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 12, the stipulation has been accepted. Issues 13A through 13E.

MR. KEATING: 13A through 13E, the proposed stipulations on those issues are set forth on Pages 44 and 45 of the prehearing order, and Staff can recommend approval of those proposed stipulations.

COMMISSIONER PALECKI: Move acceptance.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: There has been a motion and a second to approve the stipulations for 13A through 13E. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: 13A through 13E have been accepted.

13F.

MR. KEATING: I believe 13F is still an issue that remains in dispute.

MR. McGEE:: Madam Chairman, I think we may have a bit of a breakthrough on 13F and 13H. Excuse me, I am one issue ahead of myself. We have a stipulation that is not reflected either in the prehearing order or the handout for 13G and H.

CHAIRMAN JABER: Okay. We will look forward to those, then. On 13F.

MR. KEATING: 13F remains in dispute.

CHAIRMAN JABER: Okay. 13G and 13H we have a stipulation?

MR. KEATING: It is my understanding that the parties can stipulate to Staff's position as shown on Page 20 of the prehearing order for Issue 13G.

CHAIRMAN JABER: Commissioners, a motion to accept Staff's position as a stipulation for 13G.

COMMISSIONER PALECKI: Move it.

COMMISSIONER BAEZ: Second.

CHAIRMAN JABER: Motion and a second. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: That resolves 13G. 13H.

MR. KEATING: The proposed stipulation on Issue 13H is shown on Page 3 of the handout. Staff can recommend approval of that proposed stipulation.

COMMISSIONER PALECKI: Move it.

COMMISSIONER BAEZ: Second.

CHAIRMAN JABER: All those in favor of accepting the stipulation on 13H say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: That resolves 13H. 13I.

MR. KEATING: I would jump back to Page 46 of the prehearing order that contains the proposed stipulations. Staff can recommend approval of the proposed stipulation shown there for Issue 13I.

COMMISSIONER PALECKI: Move it.

COMMISSIONER DEASON: I'm sorry, let me find it.

CHAIRMAN JABER: No problem. Page 46.

COMMISSIONER DEASON: We keep skipping back and forth.

CHAIRMAN JABER: Page 46 is the position for 13I.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: The stipulation for 13I is accepted. Now we are on Page 22, Issue 14A.

MR. KEATING: I believe Issue 14A is still in dispute.

CHAIRMAN JABER: All right. 14B.

MR. KEATING: And I believe Issue 14B may still be in dispute. Just for the Commissioners' information, Staff has changed its position since the time the prehearing order was issued and we agree with Florida Power and Light's number on that issue. I'm just not aware of whether Public Counsel or FIPUG agree to that number, as well.

CHAIRMAN JABER: Have you had an opportunity to talk to Public Counsel and FIPUG yet?

MR. KEATING: I have not.

CHAIRMAN JABER: Mr. Vandiver and Ms. Kaufman, it looks like Staff has changed its position on 14B to agree with FPL's position. Do you have an outstanding --

MR. VANDIVER: We are prepared to change to no position at this time.

CHAIRMAN JABER: No position? Okay.

MS. KAUFMAN: And, Chairman Jaber, we will take no position, as well.

CHAIRMAN JABER: Which means that if there is a proposed stipulation you don't have a position on that?

MR. VANDIVER: Yes.

MS. KAUFMAN: Yes.

CHAIRMAN JABER: With that, Staff, are you recommending that we accept your position as a stipulation?

MR. KEATING: I would recommend that -- yes, that the Commission approve Staff's position as shown on Page 23 of the prehearing order as the stipulation with one change to that position, the dollar amount that is shown on the fifth line from the bottom of Staff's position should be changed to $3,278,147.

CHAIRMAN JABER: Power and Light, I assume you have no objection to that proposed stipulation.

MR. BUTLER: That's right. With that change we would accept staff's position.

COMMISSIONER BRADLEY: That is 14B, right?

CHAIRMAN JABER: Yes, sir.

COMMISSIONER BRADLEY: Move it.

COMMISSIONER PALECKI: Move acceptance of the stipultation.

CHAIRMAN JABER: Motion and a second to accept Staff's position on 14B. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: That resolves 14B. 14C takes us back to Page 46.

COMMISSIONER DEASON: I can move 14C.

COMMISSIONER PALECKI: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: 14C is approved.

MR. KEATING: And for Issues 16A and 16B, the proposed stipulations on those issues are reflected on Pages 46 and 47 of the prehearing order, and Staff can recommend approval of those proposed stipulations.

COMMISSIONER PALECKI: Move acceptance of the stipulation.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: All those in favor say aye. This is approving 16A and 16B. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: 16A and 16B are approved. 16C.

MR. KEATING: The proposed stipulation on Issue 16C is shown an Page 3 of the handout, and Staff would recommend approval of that proposed stipulation.

COMMISSIONER PALECKI: Move it.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: That resolves 16C. 17A and 17B are found on Page 47.

COMMISSIONER PALECKI: Move acceptance of 17A and 17B.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: That resolves 17A and 17B. 17C.

MR. KEATING: I believe 17C is still in dispute.

CHAIRMAN JABER: All right. 17D.

MR. KEATING: The proposed stipulation on Issue 17D is shown on Page 4 of the handout, and Staff can recommend approval of that proposed stipulation.

COMMISSIONER PALECKI: Move acceptance of the stipulation in 17D.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: There has been a motion and a second to accept the stipulation on 17D. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: That resolves 17D. 17E is found on Page 48 of the prehearing order.

COMMISSIONER BAEZ: Move it.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: There has been a motion and a second. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: 17F and 17G.

COMMISSIONER PALECKI: Move 17F and 17G.

CHAIRMAN JABER: They are on Page 48 of the prehearing order.

COMMISSIONER PALECKI: Move it.

COMMISSIONER DEASON: You made a motion to approve. F and G?

COMMISSIONER PALECKI: Yes.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: 17F and 17G are approved. 18 and 19 are on Page 49.

COMMISSIONER PALECKI: Move acceptance of 18 and 19.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: That resolves 18 and 19. Now, Issue 20, 21, and 22.

MR. KEATING: There are no Issues 20, 21, and 22. Those were place holders for potential company-specific issues that didn't materialize.

CHAIRMAN JABER: Okay. Issues 23A and 23B are found on Page 50 of the prehearing order.

COMMISSIONER PALECKI: Move acceptance of 23A and 23B.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issues 23A and 23B are resolved. Issues 24 through 26 are on Pages 50 and 51.

COMMISSIONER DEASON: I move the proposed stipulations on Issues 25 -- I'm sorry, 24, 25, and 26.

COMMISSIONER PALECKI: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issues 24 through 26 are approved. Issue 27.

MR. KEATING: On Issue 27 we'll have to jump back to Section 8 of the prehearing order, Page 29. That issue is stipulated with respect to Gulf Power Company using the -- I believe using the language in Staff's position shown on Page 30 of the prehearing order, and Staff could recommend approval of the proposed stipulation with respect to Gulf Power Company on Issue 27.

CHAIRMAN JABER: Commissioners, I need a motion to accept the stipulation as it relates to Gulf on Issue 27.

COMMISSIONER DEASON: And it is Staff's position that is being stipulated to?

MR. KEATING: Yes.

COMMISSIONER BRADLEY: 27?

CHAIRMAN JABER: Yes, on Issue 27 Gulf has agreed to Staff's position.

COMMISSIONER PALECKI: So move.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: There has been a motion and a second to accept Staff's position as a stipulation as it relates to Gulf. All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: Issue 28 is found on Page 51 of the prehearing order.

COMMISSIONER PALECKI: Move acceptance of the stipulation on Issue 28.

COMMISSIONER DEASON: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: That resolves Issue 28. Issue 29.

MR. KEATING: Again, we'll have to jump back to Section 8 of the prehearing order, Page 30 and -- actually 30 through 32 or 33. Staff can recommend approval of the proposed stipulation with Gulf Power Company on that issue, I believe using Gulf Power's position, which is the same as Staff's position.

COMMISSIONER BRADLEY: Which page is it?

CHAIRMAN JABER: On Page 30, Issue 29. There is a stipulation between Gulf and Staff to accept Staff's position.

COMMISSIONER DEASON: So move.

COMMISSIONER PALECKI: Second.

CHAIRMAN JABER: All those in favor say aye.

(Unanimous affirmative vote.)

CHAIRMAN JABER: So Issue 29 is resolved as it relates to Gulf. Okay.

Are there any other stipulations?

MR. KEATING: There are none that I am aware of. I believe that leaves us with three company-specific issues concerning security cost recovery and then the fallout issues that will depend on the resolution of those issues for Florida Power and Light, Florida Power, and Tampa Electric.

CHAIRMAN JABER: Well, I don't know about all that, but here is my list so you all compare to my list. Issues 4, 7, 14A, 17C, 27, and 29 I have we have to come back to.

MR. McGEE: 13F, as well.

CHAIRMAN JABER: 13F, thank you. Are there any other ones?

MR. KEATING: You said it better than I did.

CHAIRMAN JABER: Thank you, you're kind. That leaves us witnesses now.

MR. BADDERS: As a preliminary matter, Gulf Power Company has no witnesses, and I'm asking to be excused from the remainder of the hearing. And I'm being waved at by at least one Commissioner.

CHAIRMAN JABER: I don't know. Let me take that up with the full Commission. You may be excused. Thank you, Mr. Badders. Anything else? All right.

Were there requests for opening statements in this proceeding?

MR. KEATING: We haven't received any requests for opening statements to date.

CHAIRMAN JABER: Is there a desire to have opening statements in this proceeding? All right, no opening statements. How about I ask the witnesses to stand, please, and take the oath.

(Witnesses sworn.)

CHAIRMAN JABER: Mr. Cochran, did you all agree on an order for the witnesses?

MR. KEATING: I believe we are starting with Florida Power Corporation's Witness Javier Portuondo.

CHAIRMAN JABER: Okay. Florida Power, call your witness.

MR. McGEE: Florida Power calls Mr. Portuondo.

Madam Chairman, while he is taking the stand, just to be clear and particularly for the court reporter, Mr. Portuondo's testimony that was filed on September 9th has been amended on two occasions. The same pages of the testimony were refiled in both occasions, so subsequently when I asked to have his testimony inserted into the record Pages 2, 3, and 4 with the notation revised 10/22/02 at the top should replace Pages 2, 3, and 4 in the original filing.

CHAIRMAN JABER: When we identify the testimony and have it inserted into the record, Mr. McGee, if you will just make that clarification and then after the proceeding make sure that the court reporter has the pages, that would be great.

MR. McGEE: I will do that.

CHAIRMAN JABER: Thank you.

Thereupon,

JAVIER PORTUONDO

was called as a witness for Florida Power Company, and having first been duly sworn was examined and testified as follows:

DIRECT EXAMINATION

BY MR. McGEE:

Q Would you give us your name and business address, please?

A My name is Javier Portuondo. My business address is 100 Central Avenue, St. Petersburg, Florida.

Q And what is your position in testifying in this proceeding today?

A I am the Manager of Regulatory Services for Florida.

Q Mr. Portuondo, did you file true-up testimony in May of this year, estimated actual testimony for the year 2002 in August of this year, and projection testimony for the year 2003 in September of this year?

A Yes, I did.

Q You may have heard the prior discussion, do you also have in addition to those three sets of prefiled testimony the revised pages and E-schedules that were filed to amend your September 20th testimony on October 22nd?

A Yes, I do.

Q With the revisions that are contained in the October 22nd filing, are there any additions -- are there any other additions or corrections that you need to make to your prefiled testimony?

A No, there are not.

Q And if you were asked the questions that are contained in those sets of prefiled testimony, would your answers be the same today?

A Yes, they would.

MR. McGEE: Madam Chairman, we ask that Mr. Portuondo's prefiled testimony be inserted into the record as though read.

CHAIRMAN JABER: The prefiled testimony of Mr. Portuondo as amended and refiled on October 22nd shall be inserted into the record as though read.

MR. McGEE: Mr. Portuondo's testimony itself contains no issues that are directly in dispute. Issues 4 and 7 that you identified earlier which are open for Florida Power are fallout issues that will depend on the resolution of Issue 13F. Given that situation, unless you prefer otherwise I was going to skip requesting a summary from him.

CHAIRMAN JABER: Thank you.

MR. McGEE: And in that case we will tender him for cross.

CHAIRMAN JABER: You don't have an objection to skipping a summary?

MR. VANDIVER: Good afternoon, Mr --

CHAIRMAN JABER: And there are no --

I'm sorry, Mr. Vandiver. Hang on one second.

And there weren't exhibits?

MR. McGEE: Excuse me, you are right.

CHAIRMAN JABER: I'm sorry, Mr. Vandiver.

MR. McGEE: His exhibits are identified as JP-1 and 2 relating to true-up testimony and JP-3 and 4 relating to his projection testimony. We ask to have those marked for identification.

CHAIRMAN JABER: JP-1 through JP-4 are identified as Composite Exhibit 11. And let me take this opportunity to admit in the record Exhibit 10.

(Exhibit 10 admitted into the record, and Exhibit 11 marked for identification.)

FLORIDA POWER CORPORATION

DOCKET NO. 020001- EI

Fuel and Capacity Cost Recovery Final True-up Amounts for January through December 2001

DIRECT TESTIMONY OF JAVIER PORTUONDO

Q. Please state your name and business address.

A. My name is Javier Portuondo. My business address is P. O. Box 14042, St. Petersburg, Florida 33733.

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

A. I am employed by Progress Energy Service Company, LLC, in the capacity of Manager, Regulatory Services - Florida.

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

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe Florida Power Corporation's (FPC or the Company) Fuel Cost Recovery Clause final true-up amount for the period of January through December 2001, and the Company's Capacity Cost Recovery Clause final true-up amount for the same period.

Q. Have you prepared exhibits to your testimony?

A. Yes, I have prepared a three-page true-up variance analysis which examines the difference between the estimated fuel true-up and the actual period-end fuel true-up. This variance analysis is attached to my prepared testimony and designated Exhibit No. __ (JP-1). Also attached to my prepared testimony and designated Exhibit No. _____ (JP-2) are the Capacity Cost Recovery Clause true-up calculations for the January through December 2001 period. My third exhibit presents the revenues and expenses associated with the purchase of the Tiger Bay facility approved in Docket 970096-EQ and the corresponding amortization. This presentation is also attached to my prepared testimony and designated Exhibit No. _____ (JP-3). In addition, I will sponsor the applicable Schedules A1 through A9 for the period-to-date through December 2001, which have been previously filed with the Commission, and are also attached to my prepared testimony for ease of reference and designated as Exhibit No. _____ (JP-4).

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

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

FUEL COST RECOVERY

Q. What is the Company's jurisdictional ending balance as of December 31, 2001 for fuel cost recovery?

A. The actual ending balance as of December 31, 2001 for true-up purposes is an over-recovery of $1,500,794.

Q. How does this amount compare to the Company's estimated 2001 ending balance included in the Company's projections for the calendar year 2002?

A. An estimated under-recovery of $23,640,300 was included in the 2002 projections and is being collected from customers through FPC's currently effective fuel cost recovery factor. When this ending balance is compared to the actual year-end over-recovery balance of $1,500,794, the final true-up attributable to the twelve-month period ended December 31, 2001 is an over-recovery of $25,141,094.

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

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

Q. What factors contributed to the period-ending jurisdictional over-recovery of $1,500,794 as shown on your Exhibit No. __ (JP-1)?

A. The factors contributing to the over-recovery are summarized on Sheet 1 of 3. An increase in the fuel cost factor effective 3/29/01 due to a mid-course correction partially offset by lower jurisdictional KWH sales due to milder than normal weather conditions as well as a weaker than projected economy resulted in jurisdictional fuel revenues exceeding the forecast by $31.5 million. The $2.2 million favorable variance in jurisdictional fuel and purchased power expense was primarily attributable to lower system net generation offset by higher than projected coal prices.

When the differences in jurisdictional revenues and jurisdictional fuel expenses are combined, the net result is an over-recovery of $33.7 million related to the January through December 2001 true-up period. Other factors not directly related to the period are a true-up (including interest) carryover from 2000 of $29.7 million and an interest provision of $2.5 million. This results in an actual ending over-recovery balance of $1.5 million as of December 31, 2001.

Q. Please explain the components shown on Exhibit No. ____ (JP-1), Sheet 2 of 3 which produced the $1.4 million favorable system variance from the projected cost of fuel and net purchased power transactions.

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

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

A. As can be seen from Sheet 2 of 3, variances in the amount of MWH requirements from each energy source (column B) combined to produce a cost decrease of $92.9 million. I will discuss this component of the variance analysis in greater detail below.

The heat rate variance for each source of generated energy (column C) reflected a favorable variance of $17.8 million. This variance was primarily the result of decreased peaking unit operation as a component of the Company's generation mix.

A cost increase of $109.3 million resulted from the price variance (column D), which was caused by a number of sources detailed on lines 1 through 19 of Sheet 2 of 3, of exhibit (JP-1). The most significant factor contributing to the unfavorable variance was an increase in coal prices. The higher coal prices not only increased the cost of generation (line 3, column D), but were also reflected in the higher energy payments to qualifying facilities (line 11, column D) since nearly all the contracts are tied to coal unit pricing.

Q. What were the major contributors to the $92.9 million cost decrease associated with the variance in MWH requirements?

A. The primary reason for the favorable variance in MWH requirements was the 1.2 million decrease in KWH sales. The effect that generation mix has on total net system fuel and purchased power cost is another reason for the favorable variance in MWH requirements.

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

A. Yes, Exhibit No. _____ (JP-4) shows other jurisdictional adjustments to fuel expense. Noteworthy adjustments shown in the footnote to line 6b on page 1 of 4, Schedule A2 of this exhibit include recovery of the Company's investment in 11 previously approved combustion turbine gas conversion projects at Intercession City Units P7-10, Debary Units P7-P9, Bartow Units P2 and P4, and Suwannee Units P1 an P3.

Q. Did FPC's customers benefit during the true-up period from its investment in the Gas Conversion projects previously approved by the Commission?

A. Yes. The estimated system fuel savings for the period related to FPC's approved gas conversion projects was $18,926,065. The total system depreciation and return was $2,678,434, resulting in a net system benefit to the Company's customers of $16,247,631. A schedule of depreciation and return by gas conversion unit is included in Exhibit No. ___ (JP-1), Sheet 3 of 3.

Q. What is the status of the Lake Cogen settlement payment?

A. In April 2001 the Fifth District Court of Appeal ruled that FPC was underpaying Lake Cogen. The calculation of the energy payments was modified effective July 2001 and a settlement payment of $19,860,307 was issued to Lake Cogen in September 2001. The payment is comprised of a $16,129,949 recalculation of the billing from August 1994 through June 2001 plus interest of $3,730,358.

Q. Has FPC included any sulfur dioxide emission allowance transactions in fuel expense for the true-up period?

A. Yes, during the true-up period the Company included $195,446 of emission allowances in fuel expense.

Q. Were any other adjustments of note included in the current true-up period?

A. Yes. On January 20, 1997, FPC entered an agreement with Tiger Bay Limited Partnership to purchase the Tiger Bay cogeneration facility and terminate the five related purchase power agreements (PPAs).

The purchase agreement approved in Docket No. 970096-EQ was executed on July 15, 1997, at which time Tiger Bay became one of FPC's generating facilities. Pursuant with the terms and conditions of the approved stipulation, FPC placed approximately $75 million of the purchase price into rate base, with the remaining amount set up as a regulatory asset for the retail jurisdiction, according to FPC's jurisdictional separation at that time. The stipulation allows FPC to continue collecting revenues from its ratepayer's as if the five related purchase power agreements were still in effect. The revenues collected would then be used to offset all fuel expenses relating to the Tiger Bay facility and interest applicable to the unamortized balance of the retail portion of the Tiger Bay regulatory asset, with any remaining balance used to amortize the regulatory asset.

Following this methodology, a $47.4 million adjustment was made to remove the cost of fuel consumed by the Tiger Bay facility during the true-up period, since these costs were recovered from the PPA revenues. Exhibit No. ______ (JP-3) shows a year-end retail balance for the Tiger Bay regulatory asset of $95,325,521, computed in accordance with the approved stipulation. This balance reflects an additional reduction of $97.9 million from discretionary accelerated amortization contributed by the Company apart from the fuel adjustment amortization mechanism. $63.9 million of the reduction was deferred from 2000 and the remaining $34.0 million was from 2001.

Q. Has the three-year rolling average gain on economy sales included in Florida Power's filing for the November, 2001 hearings been updated to incorporate actual data for all of year 2001?

A. Yes. Florida Power's three-year rolling average gain on economy sales, based entirely on actual data for calendar years 1999 through 2001, is $11,052,574.

Year	Actual Gain	Three Year Average
1999	13,934,910	
2000	8,939,098	
2001	10,283,714	11,052,574

CAPACITY COST RECOVERY

Q. What is the Company's jurisdictional ending balance as of December 31, 2001 for capacity cost recovery?

A. The actual ending balance as of December 31, 2001 for true-up purposes is an under-recovery of $11,499,656.

Q. How does this amount compare to the estimated 2001 ending balance included in the Company's projections for calendar year 2001?

A. When the estimated under-recovery of $3,712,132 to be collected during the calendar year 2002 is compared to the $11,499,656 actual under-recovery, the final net true-up attributable to the twelve-month period ended December 2001 is an under-recovery of $7,787,524.

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

A. Yes. The calculation of the final net true-up amount follows the procedures established by the Commission, as set forth on Schedule A2, "Calculation of True-Up and Interest Provision" for fuel cost recovery.

Q. What factors contributed to the actual period-end under-recovery of $11.5 million?

A. Exhibit No. _____ (JP-2), sheet 1 of 3, entitled "Capacity Cost Recovery Clause Summary of Actual True-Up Amount," compares actual results to the original forecast for the period. As can be seen from sheet 1, a reduction in actual jurisdictional revenues of $11.1 million due to reduced customer usage was the primary reason for the $11.5 million period-end under-recovery. Net capacity expenses were $.2 million higher than the forecast.

Q. Does this conclude your testimony?

A. Yes, it does.

FLORIDA POWER CORPORATION

DOCKET NO. 020001-EI

Fuel and Capacity Cost Recovery
Estimated/Actual True-Up Amounts
January through December 2002

DIRECT TESTIMONY OF
JAVIER PORTUONDO

Q. Please state your name and business address.

A. My name is Javier Portuondo. My business address is Post Office Box 14042, St. Petersburg, Florida 33733.

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

A. I am employed by Progress Energy Service Company, LLC, in the capacity of Manager, Regulatory Services - Florida.

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

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present for Commission approval Florida Power Corporation's (Florida Power or the Company) estimated/actual fuel and capacity cost recovery true-up amounts for the period of January through December 2002.

Q. Do you have an exhibit to your testimony?

A. Yes. I have prepared an exhibit attached to my prepared testimony consisting of Parts A through D and Commission Schedules E1 through E9, which contain the calculation of the Company's true-up balances and the supporting data. Parts A through C contain the assumptions which support the Company's reprojection of fuel costs for the months of August through December 2002. Part D contains the Company's reprojected capacity cost recovery true-up balance and supporting data.

FUEL COST RECOVERY

Q. How was the estimated true-up over-recovery of $29,030,823 shown on Schedule E1-B, Sheet 1, line 20, developed?

A. The estimated true-up calculation begins with the actual balance of $7,943,497, taken from Schedule A2, page 3 of 4, for the month of July. This balance was projected to the end of December, 2002, including interest estimated at the July ending rate of 0.145% per month. The development of the actual/estimated true-up amount for the period ending December 2002 is shown on Schedule E1-B.

Q. What are the primary reasons for the projected December-ending 2002 over-recovery of $29.0 million?

A. The primary reason for the projected over-recovery is a $25.1 million variance between the projected and actual true-up balance at the end of the prior 2001 recovery period. The derivation of this true-up variance is shown on Sheet 1 of Exhibit ___ (JP-1) to my April 2002 final true-up testimony for the 2001 period. In addition, a slight reduction in actual fuel prices through July 2002 compared to forecasted prices contributed to the over-recovery.

Q. Has Florida Power included any new categories of costs in the calculation of its estimated/actual true-up amount?

A. Yes, Florida Power requests that it be allowed to recover the incremental costs for increased security at its power plants as a result of the 9/11 events. For 2002, these incremental security costs are projected to be $5.2 million. In addition, the Company has included incremental operating and maintenance expenses of $0.5 million associated with the initiation a financial hedging program to augment and enhance its fuel procurement capabilities. Both the incremental security and hedging expenses are reflected on Schedule E1-B, Sheet 1, Line 8 and will be discussed in greater detail below.

Q. What has led Florida Power to request recovery of its incremental security costs through the fuel clause?

A. As a result of the 9/11 terrorist attacks, the federal government has mandated the implementation of specific security measures at all electric generating stations with increased emphasis on nuclear powered generating stations. Since the initial attacks, Florida Power has taken proactive measures to protect its generating facilities and fuel supply against not only the obvious security concerns, but also against the potentially significant adverse impact on fuel costs that would result from the loss of these facilities' output. In February 2002, the Nuclear Regulatory Commission (NRC) issued an order that codified certain more stringent safeguards and security measures that were initially imposed on nuclear plant licensees with less formality in the wake of the 9/11 events. These more stringent requirements will remain in effect until further notice from the NRC. Additionally, a final order from the NRC is due in September 2002 that may impose further security requirements.

The issue of fuel cost recovery for the costs associated with these heightened security measures was addressed by the Commission at the November 2001 fuel adjustment hearing in response to an individual utility's request for cost recovery. At that time, Florida Power was in the process of reviewing the most appropriate recovery alternative for its own incremental security costs. The Company has since concluded, similar to the Commission's conclusion at the prior fuel adjustment hearing, that the significance and volatility of these generation-related security costs make them appropriate for fuel clause recovery. On that basis, Florida Power has these incremental power plant security costs in its estimate/actual true-up filing and asks that the Commission approve this treatment.

Q. What is the basis for Florida Power's request to recover its incremental hedging expenses through the fuel clause?

A. Florida Power's request is based on and consistent with the Proposed Resolution of Issues agreed to by the parties and approved by the Commission on August 12, 2002 in concluding its investigation of utility risk management practices in Docket No. 011605-EI. Paragraph 4 of the approved Resolution of Issues states: "Each investor-owned electric utility may recover through the fuel and purchased power cost recovery clause prudently incurred incremental operating and maintenance expenses incurred for the purpose of initiating and/or maintaining a new or expanded non-speculative financial and/or physical hedging program". The hedging program expenses shown on Schedule E1-B, Sheet 1, of my exhibit are incremental under the criteria also stated in Paragraph 4. In addition, these expenses constitute prudently incurred costs associated with the initial design and development of an advanced hedging program and supporting infrastructure which are necessary to effectively engage in the sophisticated transactions and financial instruments utilized in the current commodities market.

Q. How does the current fuel price forecast compare with the forecast used in the Company's 2002 mid-course correction filing?

A. Forecasted prices for coal were virtually the same as used in the mid-course filing. The natural gas forecast decreased by $.28 per MMBTU, or 8%, to $3.16 per MMBTU. Forecasted residual oil prices decreased by 6%

to $21.90 per barrel. The price of distillate oil also decreased by 6% to $31.60 per barrel. Oil and gas prices were lower than originally projected primarily due to increased storage levels, mild weather and economic weakness.

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

A. The fuel price forecast was made by the Regulated Commercial Operations Department based on forecast assumptions for residual (#6) oil, distillate (#2) oil, natural gas, and coal. The assumptions for the reprojection period are shown in Part B of my exhibit. The forecasted prices for each fuel type are shown in Part C.

CAPACITY COST RECOVERY

Q. How was the estimated true-up under-recovery of $4,764,887 shown on Part D, Line 28, developed?

A. The estimated true-up calculation begins with the actual balance of $(13,502,773), for the month of July. This balance was projected to the end of December, 2002, including interest estimated at the July ending rate of 0.145% per month.

Q. What are the major changes between the original projection for the year 2002 and the actual/estimated reprojection?

A. The variance between the projected and actual true-up balance at year-end 2001 is an under-recovery $7.8 million. The derivation of this true-up variance is shown on Sheet 1 of Exhibit ___ (JP-2) to my April 2002 final true-up testimony for the 2001 period. Offsetting this negative variance were reduced capacity payments due to negotiated contract extensions and lower than projected payments for the Company's UPS purchase, primarily due to a prior period adjustment.

Q. Does this conclude your testimony?

A. Yes.

FLORIDA POWER CORPORATION

DOCKET NO. 020001-EI

Levelized Fuel and Capacity Cost Recovery Factors January through December 2003

DIRECT TESTIMONY OF JAVIER PORTUONDO

Q. Please state your name and business address.

A. My name is Javier Portuondo. My business address is Post Office Box 14042, St. Petersburg, Florida 33733.

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

A. I am employed by Progress Energy Service Company, LLC, in the capacity of Manager, Regulatory Services - Florida.

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

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present for Commission approval Florida Power Corporation's (Florida Power or the Company) levelized fuel and capacity cost factors for the period of January through December 2003.

A. Yes. I have prepared an exhibit attached to my prepared testimony consisting of Parts A through E and the Commission's minimum filing requirements for these proceedings, Schedules E1 through E10 and H1, which contain the Company's levelized fuel cost factors and the supporting data. Parts A through C contain the assumptions which support the Company's cost projections, Part D contains the Company's capacity cost recovery factors and supporting data, and Part E contains the calculation of recoverable depreciation expense and return on capital associated with Florida Power's new Hines Unit 2 in accordance with the rate reduction stipulation approved by the Commission last April.

FUEL COST RECOVERY

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

A. Schedule E1, page 1 of the "E" Schedules in my exhibit, shows the calculation of the Company's basic fuel cost factor of 2.342 ¢/kWh (before metering voltage adjustments). The basic factor consists of a fuel cost for the projection period of 2.41907 ¢/kWh (adjusted for jurisdictional losses), a GPIF reward of 0.00161 ¢/kWh, and an estimated prior period true-up credit of 0.08072 ¢/kWh.

Utilizing this basic factor, Schedule E1-D shows the calculation and supporting data for the Company's final levelized fuel cost factors for service received at secondary, primary, and transmission metering voltage levels. To perform this calculation, effective jurisdictional sales at the secondary level are calculated by applying 1% and 2% metering reduction factors to primary and transmission sales, respectively (forecasted at meter level). This is consistent with the methodology used in the development of the capacity cost recovery factors. The final fuel cost factor for residential service is 2.345 ¢/kWh.

Schedule E1-E develops the Time Of Use (TOU) multipliers of 1.219 On-peak and 0.905 Off-peak. The multipliers are then applied to the levelized fuel cost factors for each metering voltage level, which results in the final TOU fuel factors for application to customer bills during the projection period.

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

A. The projected average fuel factor for 2003 of 2.342 ¢/kWh is a decrease of 0.157 ¢/kWh, or 6.3%, from the current fuel factor of 2.499 ¢/kWh, excluding the credit of 0.136 ¢/kWh that was included in the current factor as a means to refund the interim base rate revenues provided in the stipulation approved by the Commission in Docket No. 000824-EI. For a residential customer using 1,000 kWh, the change represents a reduction of $1.58.

Q. Please explain the reasons for the decrease.

A. The decrease is primarily driven by a reduction in projected coal prices due to a high inventory levels nation-wide because of the continued weakness in the economy and the mild 2001/2002 winter season. Also contributing to the lower fuel factor is a more favorable fuel mix due to an increase in coal generation resulting from the reduction in coal prices. Partially offsetting this decrease is an increase in residual oil prices because of continued unrest in the Middle East.

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

A. Line 4 shows the recovery of the costs associated with conversion of combustion turbine units to burn natural gas instead of distillate oil ($427,000), the annual payment to the Department of Energy for the decommissioning and decontamination of their enrichment facilities ($1,726,622), the expected cost of purchasing emission allowances ($4,800,000), the recovery of the depreciation and return associated with Hines Unit 2 ($4,955,620), the incremental costs to increased power plant security as a result of the 9/11 events ($3,525,500), and the incremental operating and maintenance expenses associated with the initiation of a financial hedging program ($554,312). These fuel cost adjustments total $15,989,054.

The last three adjustments, Hines Unit 2, power plant security, and the financial hedging program, are new fuel cost components for which Florida Power is requesting recovery. They will be further addressed later in my testimony.

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

A. Line 6 includes energy costs for the purchase of 60 MWs from Tampa Electric Company and the purchase of 413 MWs under a Unit Power Sales (UPS) agreement with the Southern Company. The capacity payments associated with the UPS contract are based on the original contract of 400 MWs. The additional 13 MWs are the result of revised SERC ratings for the five units involved in the unit power purchase, providing a benefit to Florida Power in the form of reduced costs per kW. Both of these contracts have been approved for cost recovery by the Commission. The capacity costs associated with these purchases are included in the capacity cost recovery factor.

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

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

Q. How was the Gain on Other Power Sales, shown on Schedule E-1, Line 15a, developed?

A. Florida Power estimates the total gain on non-separated sales during 2003 to be $4,207,370, which is below the three-year rolling average for such sales of $8,238,615 by $4,031,245. Based on the sharing mechanism approved by the Commission in Docket No. 991779-EI, the total gain will be distributed to customers.

Q. How was Florida Power's three-year rolling average gain on economy sales determined?

A. The three-year rolling average of $8,238,615 is based on calendar years 2000 through 2002, and was calculated in accordance with Order No. PSC-00-1744-PAA-EI, issued September 26, 2000 in Docket 991779-EI. Actual gains for 2000 and 2001 were based on information supplied to the Commission in the monthly fuel adjustment filings ("A" schedules). The estimated gain for 2002 was supplied to the Commission in Florida Power's Estimated/Actual True-up filing, submitted August 20, 2002, on Schedule E1-B, Sheet 2, Lines 14a and 15a.

Q. Why has the depreciation expense and return on capital associated with Hines Unit 2 been included in the Adjustments to Fuel Cost entry you described earlier?

A. The stipulation approved by the Commission this past April in Florida Power's base rate review proceeding (Docket No. 000824-EI) provides that the Company will be allowed the opportunity to recover the depreciation expenses and return on capital for its new Hines Unit 2 through the fuel clause beginning with the unit's commercial operation through the end of 2005, subject to the limitation the costs of Hines Unit 2 recovered over this period may not exceed the cumulative fuel savings provided by the unit over the same period. Because Hines Unit 2 is scheduled to begin commercial operation in November 2003, these two cost components of the unit for November and December 2003 have been included in the projection period for recovery in accordance with the stipulation. Part E of my exhibit shows the calculation of the depreciation expense and return on capital associated with Hines Unit 2.

Q. What has led Florida Power to request fuel clause recovery of the incremental security costs that you stated earlier had been included in Schedule E1, line 4, "Adjustments to Fuel Cost"?

A. As I explained in my reprojection testimony for 2002, the 9/11 terrorist attacks resulted in the federal government mandating the implementation of specific security measures at all electric generating stations, with increased emphasis on nuclear powered generating stations. Since the initial attacks, Florida Power has taken proactive measures to protect its generating facilities and fuel supply against not only the obvious security concerns, but also against the potentially significant adverse impact on fuel costs that would result from the loss of these facilities' output. In February 2002, the Nuclear Regulatory Commission (NRC) issued an order that codified certain more stringent safeguards and security measures that were initially imposed on nuclear plant licensees with less formality in the wake of the 9/11 events. These more stringent requirements will remain in effect until further notice from the NRC. Additionally, a final order from the NRC is due in September 2002 that may impose further security requirements.

The issue of fuel cost recovery for the costs associated with these heightened security measures was addressed by the Commission at the November 2001 fuel adjustment hearing in response to an individual utility's request for cost recovery. At that time, Florida Power was in the process of reviewing the most appropriate recovery alternative for its own incremental security costs. The Company has since concluded, similar to the Commission's conclusion at the prior fuel adjustment hearing, that the significance and volatility of these generation-related security costs make them appropriate for fuel clause recovery. On that basis, Florida Power has these incremental power plant security costs in its 2003 projected fuel adjustment filing and asks that the Commission approve this treatment.

Q. What is the basis for Florida Power's request for fuel clause recovery of its incremental O&M costs of the financial hedging program included in Schedule E1, line 4, "Adjustments to Fuel Cost?

A. As I also explained in my reprojection testimony for 2002, Florida Power's request is based on and consistent with the Proposed Resolution of Issues agreed to by the parties and approved by the Commission on August 12, 2002 in concluding its investigation of utility risk management practices in Docket No. 011605-EI. Paragraph 4 of the approved Resolution of Issues states: "Each investor-owned electric utility may recover through the fuel and purchased power cost recovery clause prudently incurred incremental operating and maintenance expenses incurred for the purpose of initiating and/or maintaining a new or expanded non-speculative financial and/or physical hedging program". The hedging program expenses included on

Schedule E1, Line 4, of my exhibit are incremental under the criteria also stated in Paragraph 4. These expenses, which will be incurred for the initial design and development of an advanced hedging program and supporting infrastructure, are necessary to effectively engage in the sophisticated transactions and financial instruments utilized in the current commodities market.

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

A. Florida Power has several wholesale contracts with Seminole, some of which represent Seminole's own firm resources, and others that provide for the sale of supplemental energy to supply the portion of their load in excess of Seminole's own resources, 1437 MW in 2003. The fuel costs charged to Seminole for supplemental sales are calculated on a "stratified" basis, in a manner which recovers the higher cost of intermediate/peaking generation used to provide the energy. New contracts for fixed amounts of intermediate and peaking capacity began in January of 2000. While those sales are not necessarily priced at average cost, Florida Power is crediting average fuel cost for the appropriate stratification (intermediate or peaking) in accordance with Order No. PSC-97-0262-FOF-EI. The fuel costs of wholesale sales are normally included in the total cost of fuel and net power transactions used to calculate the average system cost per kWh for fuel adjustment purposes. However, since the fuel costs of the stratified sales are not recovered on an average system cost basis, an adjustment has been made to remove these costs and the related kWh sales from the fuel adjustment calculation in the same manner that interchange sales are removed from the calculation. This adjustment is necessary to avoid an over-recovery by the Company which would result from the treatment of these fuel costs on an average system cost basis in this proceeding, while actually recovering the costs from these customers on a higher, stratified cost basis.

Line 17 also includes the fuel cost of sales made to the City of Tallahassee in accordance with Order No. PSC-99-1741-PAA-EI. The stratified sales shown on Schedule E6 include 99,867 MWh, of which 93% is priced at average nuclear fuel cost, the balance at an estimated incremental cost of $25 per MWh. Other transactions included on Line 17 are the 50 MW sale to Florida Power & Light and a 15 MW sale to the City of Homestead.

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

A. The cost per million BTU of the nuclear fuel which will be in the reactor during the projection period (primarily Cycle 13) was developed from the unamortized investment cost of the fuel in the reactor. Cycle 13 consists of several "batches," of fuel assemblies which are separately accounted for throughout their life in several fuel cycles. The cost for each batch is determined from the actual cost incurred by the Company, which is audited and reviewed by the Commission's field auditors. The expected available energy from each batch over its life is developed from an evaluation of various fuel management schemes and estimated fuel cycle lengths. From this information, a cost per unit of energy (cents per million BTU) is calculated for each batch. However, since the rate of energy consumption is not uniform among the individual fuel assemblies and batches within the reactor core, an estimate of consumption within each batch must be made to properly weigh the batch unit costs in calculating a composite unit cost for the overall fuel cycle. The projected cost per million BTU for Cycle 14, which will be in effect following the fall 2003 refueling outage, was calculated using the same methodology.

Q. How was the rate of energy consumption for each batch within Cycles 13 & 14 estimated for the upcoming projection period?

A. The consumption rate of each batch has been estimated by utilizing a core physics computer program which simulates reactor operations over the projection period. When this consumption pattern is applied to the individual batch costs, the resultant composite cost of Cycles 13 & 14 are $0.33 and $.34 per million BTU respectively.

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

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

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

A. The system sales forecast is made by the forecasting section of the Accounting Department using the most recent data available. The forecast used for this projection period was prepared in April 2002.

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

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

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

A. The fuel price forecast was made by the Regulated Commercial Operations Department based on forecast assumptions for residual (#6) oil, distillate (#2) oil, natural gas, and coal. The assumptions for the projection period are shown in Part B of my exhibit. The forecasted prices for each fuel type are shown in Part C.

CAPACITY COST RECOVERY

Q. How was the Capacity Cost Recovery factor developed?

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

Sheet 1: Projected Capacity Payments. This schedule contains system capacity payments for UPS, TECO and QF purchases. The retail portion of the capacity payments are calculated using separation factors from the Company's most recent Jurisdictional Separation Study available at the time this filing was prepared (projected through 12/31/02).

Sheet 2: Estimated/Actual True-Up. This schedule presents the actual ending true-up balance as of July, 2002 and re-forecasts the over/(under) recovery balances for the next five months to obtain an ending balance for the current period. This estimated/actual balance of $(4,764,887) is then carried forward to Sheet 1, to be collected during the January through December, 2003 period.

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

Sheet 4: Calculation of 12 CP and Annual Average Demand. The calculation of average 12 CP and annual average demand is based on 2001 load research data and the delivery efficiencies on Sheet 3.

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

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

A. The projected average retail CCR factor of 0.94851 ¢/kWh is 2.6% higher than the previous year's factor of 0.92417 ¢/kWh. The increase is primarily due to the annual contractual escalation in capacity payments. Also contributing to the increase is the fact that capacity costs projected for 2002 included a true-up under-recovery of $3.7 million from the prior year, while the projected 2003 costs include a larger true-up under-recovery of $4.7 million.

OTHER ISSUES

Q. Has Florida Power confirmed the validity of the methodology used to determinine the equity component of Progress Fuels Corporation's capital structure for calendar year 2001?

A. Yes. Florida Power's Audit Services department has reviewed the analysis performed by Progress Fuels Corporation. The revenue requirements under a full utility-type regulatory treatment methodology using the actual average cost of debt and equity required to support Florida Power business was compared to revenues billed using equity based on 55% of net long-term assets (short cut method). The analysis showed that for 2001, the short cut method resulted in revenue requirements which were $152,417, or .05%, lower than revenue requirements under the full utility-type regulatory treatment methodology. Florida Power continues to believe that this analysis confirms the appropriateness of the short cut method.

Q. Has Florida Power properly calculated the market price true-up for coal purchases from Powell Mountain?

A. Yes. The calculation has been made in accordance with the market pricing methodology approved by the Commission in Docket No. 860001-EI-G.

Q. Has Florida Power properly calculated the 2001 price for waterborne transportation services provided by Progress Fuels Corporation?

A. Yes. Florida Power has performed its calculation of the 2001 waterborne transportation price under the same methodology as the previous calculations that have been approved by the Commission. The details of the 2001 calculation have been presented and explained to Staff, Public Counsel and FIPUG at a noticed meeting. Their review identified no issue or objection regarding the consistency or accuracy of the calculation.

Q. Does this conclude your testimony?

A. Yes.

MR. McGEE: Mr. Portuondo is tendered for cross.

CHAIRMAN JABER: Mr. Vandiver, go ahead.

MR. VANDIVER: Thank you.

CROSS EXAMINATION

BY MR. VANDIVER:

Q Good afternoon, Mr. Portuondo.

A Good afternoon.

Q All my questions relating to Issue 13F. Did your company reach a settlement of its rate case last year?

A Yes, we did.

Q Were you a part of the negotiations leading up to that settlement?

A Yes, I was.

Q Do you recall the date of that settlement?

A Not off the top of my head, no, I don't.

Q Would you accept subject to check it was in May of 2002?

A Yes.

Q So that agreement was entered into well after the terrorist attacks of 9/11?

A Yes, it was.

Q I would like to draw your attention to Section 12 of the stipulation and ask that you read the last sentence into the record, please?

A "FPC will not use the various cost-recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates except as provided in Section 9."

Q What are the various cost-recovery clauses?

A The fuel adjustment clause, capacity cost-recovery, energy conservation, environmental cost-recovery.

Q And what is the accounting definition of a capital item?

A A capital asset is by definition an asset which has a useful life greater than a year.

Q So that includes like a building, a truck?

A Correct.

Q Okay. What is the meaning of the qualifier new?

A I am assuming it is costs incurred post-settlement.

Q So post meaning --

A Following the settlement.

Q Okay. During the course of your negotiations, were any special connotations or meaning given to the term new capital items other than what you have described?

A Well, I think it goes hand-in-hand with traditionally and historically.

Q And that was my next question. What does the phrase, "Which have historically and traditionally would be recoverable through base rates," mean?

A Those are costs that the Commission has approved as recoverable through base rates in prior proceedings, or vice versa, has deemed to be recoverable through pass-through clauses in past proceedings.

Q Can you give me some examples of which of these traditionally and historic items that have been recoverable through base rates?

A Power plants, transmission lines, general office buildings.

Q Okay. Now, in Issue 13F, Florida Power is seeking to recover security costs, is that correct?

A Yes, it is.

Q Okay. And that brings us to the other piece of this exhibit, the other sheet of paper that I gave you?

MR. VANDIVER: Commissioner Jaber, or Chairman Jaber, I think I forgot to get a number for this. Can I get these two identified. I think the next number might be 11.

CHAIRMAN JABER: It's 12, but the two-page document from Order Number PSC-02-0655 we will identify as Exhibit 12.

MR. VANDIVER: Very well. And the next one would be from Staff's Second Set of Interrogatories, Interrogatory Number 28.

CHAIRMAN JABER: Okay. FPC's response to Staff's Interrogatory 28 will be identified as Exhibit 13.

(Exhibit 12 and 13 marked for identification.)

MR. VANDIVER: Very well.

BY MR. VANDIVER:

Q And this response, does it not, breaks out Florida Power's request for security costs in this docket, does it not?

A Yes, it does.

Q And encompassed within these security costs there are categories of costs, there are some O&M costs and some capital costs, would you agree with that?

A Florida Power upon review of the circumstances that brought about the expenditure of these costs deemed them all to be current period expenses, current period O&M expenses.

Q Now, I appreciate that, but would you agree that some of these costs would traditionally and historically be recovered through base rates as capital items?

A Under normal circumstances, yes, some of these would be considered capital.

Q Okay. And I know that you provided in response to a Staff data request via e-mail what you considered would be those capital costs?

A Yes, I did.

(Transcript continues in sequence in Volume 3.)

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

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

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

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

DATED THIS 26TH DAY OF NOVEMBER, 2002.

Jane Faurot

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