BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 040001-EI

In the Matter of

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

ELECTRONIC VERSIONS OF THIS TRANSCRIPT ARE
A CONVENIENCE COPY ONLY AND ARE NOT
THE OFFICIAL TRANSCRIPT OF THE HEARING,
THE .PDF VERSION INCLUDES PREFILED TESTIMONY.

VOLUME 1

Page 1 through 188

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN BRAULIO L. BAEZ
COMMISSIONER J. TERRY DEASON
COMMISSIONER RUDOLPH "RUDY" BRADLEY
COMMISSIONER CHARLES M. DAVIDSON

DATE: Monday, November 8, 2004

TIME: Commenced at 9:30 a.m.

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

REPORTED BY: LINDA BOLES, RPR
Official FPSC Reporter
(850) 413-6734

APPEARANCES:

LEE L. WILLIS, ESQUIRE, and JAMES D. BEASLEY, ESQUIRE, Ausley & McMullen Law Firm, Post Office Box 391, Tallahassee, 32302, appearing on behalf of Tampa Electric Company.

VICKI GORDON KAUFMAN, ESQUIRE, and JOSEPH McGLOTHLIN, ESQUIRE, McWhirter, Reeves Law Firm, 117 South Gadsden Street, Tallahassee, Florida 32301, appearing on behalf of Florida Industrial Power Users Group.

JOHN T. BUTLER, Steel, Hector & Davis Law Firm, 200 South Biscayne Boulevard, Suite 4000, Miami, Florida 33131-2398, appearing on behalf of Florida Power & Light Company.

R. WADE LITCHFIELD, ESQUIRE, and NATALIE FUTCH SMITH, ESQUIRE, Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420, appearing on behalf of Florida Power & Light Company.

BONNIE E. DAVIS, ESQUIRE, Progress Energy Florida, Inc., 106 East College Avenue, Suite 800, Tallahassee, Florida 32301-7740, appearing on behalf of Progress Energy Florida, Inc.

JAMES MCGEE, ESQUIRE, Post Office Box 14042, St. Petersburg, Florida 33733-4042, appearing on behalf of Progress Energy Florida.

PPEARANCES CONTINUED:

JON MOYLE, JR., ESQUIRE, and BILL HOLLIMON, ESQUIRE, oyle, Flanigan Law Firm, The Perkins House, 118 North Gadsden treet, Tallahassee, Florida 32301, appearing on behalf of Tom hurbuck.

PATRICIA A. CHRISTENSEN, ESQUIRE, Office of Public ounsel, c/o The Florida Legislature, 111 W. Madison Street, 812, Tallahassee, Florida 32399-1400, appearing on behalf of he Citizens of the State of Florida.

ADRIENNE VINING, ESQUIRE, and COCHRAN KEATING, SQUIRE, FPSC General Counsel's Office, 2540 Shumard Oak oulevard, Tallahassee, Florida 32399-0850, appearing on behalf f the Commission Staff.

I N D E X

WITNESSES

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
1	Comprehensive Stipulated Exhibit List	39	
2	Composite Stip-2	39	
3	GJY-1	39	
4	GJY-2	39	
5	KMD-1	39	
6	KMD-2	39	
7	KMD-3	39	
8	KMD-4	39	
9	KMD-5	39	
10	KMD-6	39	
11	PS-1	39	
12	PS-2	39	
13	TLH-1	39	
14	TLH-2	39	
15	TLH-3	39	
16	TLH-4	39	
17	TLH-5	39	
18	TLH-6	39	
19	TLH-7	39	
20	TLH-8	39	
21	GMB-1	39	
22	GMB-2	39	
23	HRB-1	39	

EXHIBITS

UMBER:		ID.	ADMTD.
4	HRB-2	39	
5	TAD-1	39	
6	TAD-2	39	
7	TAD-3	39	
8	LSN-1	39	
29	LSN-2	39	
30	HHB-1	39	
31	JP-1T	39	
32	JP-1R	39	
33	JP-1P	39	
34	JP-1S	39	
35	PRM-1T	39	
36	PRM-1P	39	
37	MFJ-1T	39	
38	MFJ-1P	39	
39	SSW-1	39	
40	SSW-3	39	
41	JDJ-1	39	
42	JDJ-2	39	
43	JDJ-3	39	
44	JDJ-4	39	
45	WAS-1	39	
46	DRK-1	39	

EXHIBITS

NUMBER:		ID.	ADMTD.
47	JTW-1	39	
48	JTW-2	39	
49	DED-1	39	
50	DED-2	39	
51	DED-3	39	
52	DED-4	39	
53	DED-5	39	
54	DED-6	39	
55	DED-7	39	
56	DED-8	39	
57	DED-9	39	
58	DED-10		

P R O C E E D I N G

CHAIRMAN BAEZ: We'll call this hearing to order. Good morning. And this is the annual fuel clause hearing and hoedown.

Counsel, will you read the notice or notices.

MS. FLEMING: Pursuant to notice issued by the clerk of the Commission on September 21st, 2004, this time and place has been set for the purpose of conducting a hearing in the following dockets: 040001-EI, 040002-EG, 040003-GU, 040004-GU and 040007-EI.

CHAIRMAN BAEZ: Thank you.

COMMISSIONER DEASON: Did you have all that memorized?

MS. FLEMING: No. I had to write those down.

COMMISSIONER DEASON: Oh, okay. You looked like you were --

CHAIRMAN BAEZ: She looked down once.

COMMISSIONER DEASON: I was going to say, wow.

CHAIRMAN BAEZ: We'll take appearances. And I guess we should just take appearances on all the dockets together.

MS. FLEMING: Yes, Commissioner.

CHAIRMAN BAEZ: And we'll start on stage left and just move on down the line. If there's anybody that has to enter an appearance, they ought to move down quickly, if you're not -- if you haven't taken a seat already.

Go ahead, Mr. Butler.

MR. BUTLER: Thank you. Good morning, Commissioners. ohn Butler of the law firm Steel, Hector & Davis appearing on ehalf of FPL in the 01 and 07 dockets. Also appearing on ehalf of FPL in the 01 docket is Wade Litchfield and Natalie utch Smith.

CHAIRMAN BAEZ: Thank you. Mr. Beasley.

MR. BEASLEY: Thank you, Mr. Chairman. James D. ›easley and Lee L. Willis with the law firm of Ausley & IcMullen in Tallahassee. We're representing Tampa Electric :ompany in the 01, 02 and 07 dockets.

MR. McGEE: James McGee on behalf of Progress Energy 'lorida in the 01 and 02 dockets. Appearing with me is Bonnie)avis in the 01 docket.

MR. MOYLE: Jon Moyle, Jr., with the Moyle, Flanigan ,aw Firm on behalf of Mr. Tom Churbuck, and we are in the)40001 docket. I'd also like to enter an appearance, I'd like :o do it on behalf of my law partner Bill Hollimon.

MR. PERKO: Gary Perko of the Hopping, Green & Sams ,aw Firm on behalf of City Gas Company of Florida in the 03 and)4 dockets, and Progress Energy Florida in the 07 docket.

MS. CHRISTENSEN: Patty Christensen on behalf of the)ffice of Public Counsel appearing in the 01, 02, 03 and 07 lockets.

MS. KAUFMAN: Good morning. Vicki Gordon Kaufman of the McWhirter, Reeves Law Firm. I'm appearing on behalf of the Florida Industrial Power Users Group in the 01, 02 and 07 dockets, and appearing with me in the 01 docket is Joseph McGlothlin of our firm.

CHAIRMAN BAEZ: Thank you, Ms. Kaufman. Is there anyone else that needs to enter an appearance at this time?

MR. BUTLER: Chairman Baez, I'm sorry, but I need to add that Ms. Smith also is appearing on behalf of FPL in the 02 docket.

CHAIRMAN BAEZ: Very well. Let the record reflect.

Now we can move on to some preliminary matters.

MS. BROWN: Mr. Chairman, if we might enter an appearance on behalf of the Commission.

CHAIRMAN BAEZ: Of course, and I'm sorry.

MS. BROWN: That's all right. I'm Martha Carter Brown appearing for the Commission in the 02 and 04 dockets.

MS. STERN: Marlene Stern appearing on behalf of the Commission in the 07 docket.

MS. FLEMING: Katherine Fleming appearing on behalf of the Commission in the 03 docket.

MS. VINING: Adrienne Vining and Cochran Keating appearing on behalf of the Commission in the 01 docket.

CHAIRMAN BAEZ: Thank you, staff.

Now we can move on to some preliminary matters. And although I know that some of these dockets have stipulations, I think we need to change it up a little bit. We need to try and take up some things that don't need Commission votes right now. If there are rulings and things -- I guess I'm speaking on the 01 docket, which my understanding is the only one that has, that has rulings just from the presiding officer at this point, we can probably take those up now. I'm just trying to buy some time here. So we can take up whatever there's outstanding that we can take up on the 01 docket, if that's all right.

MS. VINING: Well, actually I would think it would make more sense perhaps to go through the stipulated dockets first to get, to get those taken care of, but it's up to you.

CHAIRMAN BAEZ: Well, yeah, it would be better, except that we only got -- we have a math problem. Okay? So if we can go ahead --

MS. VINING: At your pleasure then we can go to the preliminary matters for the fuel docket.

CHAIRMAN BAEZ: All right. So then please tee, tee up, tee up the 01 preliminary matters for me.

MS. VINING: We do have one pending confidentiality request that was filed by Gulf on the 3rd, but I don't think a ruling needs to be made at this time because none of the information that's the subject of the request should be entered into the record and all of Gulf's issues were stipulated.

There's also a motion for protective order that Progress Energy Florida filed late last week that I believe a ruling needs to be made on.

CHAIRMAN BAEZ: All right. And just, just for clarity's sake, that's a ruling from the presiding officer at this point?

MS. VINING: Yes.

CHAIRMAN BAEZ: Okay. We don't need to hear argument on that, or do you know if the motion is unopposed?

MS. VINING: I don't believe there's any opposition to the motion, but you could ask the parties if they do.

CHAIRMAN BAEZ: Ms. Kaufman and Ms. Christensen? And I think --

MS. KAUFMAN: I just wanted to inquire, this is the motion that was filed on Friday by Progress Energy related to the deposition exhibits?

MS. VINING: That's correct.

MS. KAUFMAN: We have no objection.

CHAIRMAN BAEZ: Okay. Ms. Christensen?

MS. CHRISTENSEN: No objection at this time.

CHAIRMAN BAEZ: All right. We'll go ahead and grant the motion for protective order. And then I have another, another outstanding motion for Progress as well.

MS. VINING: Yeah. On Friday they filed a motion for leave to file revised supplemental testimony for Javier Portuondo.

CHAIRMAN BAEZ: And this is opposed?

MS. VINING: Yes, it is.

CHAIRMAN BAEZ: Can, can we hear from the parties? Mr. McGee.

MR. McGEE: Progress Energy filed the motion for leave to revise the supplemental testimony that Mr. Portuondo had originally filed on October 25th. The purpose of the revision was to provide further updates based on actual data to what was referred to as hurricane-related fuel costs. The, the effect of the update is to lower the estimate of the costs from approximately $25 million to approximately $17.5 million, and that's based on data that was not available when he filed his original supplemental testimony.

I'm advised that the parties are currently discussing that motion, and if it would be possible to, to defer ruling for right now --

CHAIRMAN BAEZ: We'll defer ruling for right now and move on. Ms. Vining, is there anything else that needs -- any other pending motions at this point since we're, we're in for a penny, we're in for a pound now, we're on 01. So I see that we do have -- we may have some other outstanding motions. I think we can take them up at this point just to clear the field.

MS. VINING: Right. There's also a joint motion for reconsideration of the prehearing officer's decision not to spin off Florida Power & Light's purchased power agreements, and that was a joint motion by FIPUG and Churbuck. And they also have a request for oral argument on the motion.

CHAIRMAN BAEZ: All right. And just for -- just to kick this off, what's your -- do you have a recommendation on oral argument, and we'll take that one up first?

MS. VINING: My recommendation would be that oral argument be granted.

CHAIRMAN BAEZ: Very well. Commissioners, any objection to granting oral argument on the motion? Seeing none, we'll fix the time at a -- before we begin.

I do have one preliminary matter. How do you spell that on the record? You can leave that out then.

(Laughter.)

There is a preliminary matter concerning the motion for reconsideration. Commissioners, I'm assuming that you haven't seen it, but I will acknowledge at this point that I received a letter from Senator Mike Bennett, and I have been in contact with or had discussions with staff counsel and the general counsel as to what the best way to treat this is. And I don't know what you all have come up with, but if you can enlighten us as to how we should be treating it in its most expeditious manner.

MS. VINING: We reviewed the letter and it appears as though it might meet the definition of an ex parte communication, and as such our recommendation would be that it be marked as an exhibit for the hearing and, and moved into the record.

CHAIRMAN BAEZ: Very well.

MS. VINING: That way to avoid all problems with the document.

CHAIRMAN BAEZ: Nonetheless, that requires some distribution. I mean, have we -- have the parties received copies of the letter?

MS. VINING: Yes, the parties have received a copy this morning.

CHAIRMAN BAEZ: Have the Commissioners received copies of --

MS. VINING: They have not, but I can distribute a copy at this time.

CHAIRMAN BAEZ: All right. Would you please do that.

Ms. Vining, is, is it -- would it be appropriate to mark it as an exhibit now? And the reason I ask is staff has gone through great pains to simplify the exhibit process, and I fear this will, this will be the, the, the death knell of the numbering system.

MS. VINING: Right. It will screw up the order of numbers; right?

CHAIRMAN BAEZ: I'm sorry?

MS. VINING: Right. Because we have a discrete numbered list.

CHAIRMAN BAEZ: Yes, exactly. You know, I don't, I don't know if we need to mark it now or mark it later.

MS. VINING: We can wait and mark it once you mark the stipulated list for entrance into the record.

CHAIRMAN BAEZ: Very well. And at this point I think we can, we've got everything that we need before the Commissioners in order to hear oral argument on the motion for reconsideration; correct?

MS. VINING: I believe so.

CHAIRMAN BAEZ: Okay. And the motion is by Mr. -- is on the part of Mr. Moyle's client?

MR. MOYLE: It's a joint motion --

CHAIRMAN BAEZ: It's a joint motion.

MR. MOYLE: -- by Mr. Churbuck and FIPUG.

CHAIRMAN BAEZ: And Ms. Kaufman. Okay. Well, did you all decide who --

MR. MOYLE: I was going to take the lead on it.

CHAIRMAN BAEZ: You were going to take the lead on it?

MR. MOYLE: And if Ms. Kaufman had anything to add, I was hoping you'd let her do that at the end.

MS. KAUFMAN: That's right, Mr. Chairman.

CHAIRMAN BAEZ: Very well. Let's do five minutes a side, please.

MR. MOYLE: And I'll try to be brief. Again for the record, Jon Moyle on behalf of Mr. Churbuck.

This matter resulted from the Office of Public 'ounsel and FIPUG filing a motion to remove dockets related to .he approval of the UPS agreement, a 955-megawatt deal, from .he fuel docket. And in addition to, I think, arguing that .his was not appropriate in the fuel docket, it was for a :ontract that didn't come into being until 2010, OPC and FIPUG ırgued that the issues were very complex and required a ;ignificant amount of time, energy, effort to review them and :hat the existing schedule did not provide sufficient time. 'hey, in their pleadings, showed how discovery could not be :onducted thoroughly and completely with the compressed time :rame that this Commission was being asked to make a decision ıpon.

I would also note, and we will get into this, I :hink, at the hearing, that the contract itself allowed for the .atter of a six-month time frame or when transmission rights vere secured by Florida Power & Light, whichever is, is later. (ou're being asked today to in essence approve this very :omplex, significant agreement in a two-month time frame. ?PL's first pleading that was filed that said, hey, we're ısking the Commission to, to approve these contracts was filed, I think, on September 11th or thereabouts. So you really, really don't have much time. It would be about two months as of today that you would have to review this very complex issue.

The original pleading was filed by Office of Public

Counsel and FIPUG. Mr. Churbuck, who I represent, subsequently joined in the motion.

I would like to point out one thing in the order, and I'll quote, if I could, the order made the finding, "Upon review of the pleadings and consideration of the arguments, I find that the issues related to the UPS purchased power agreements submitted for approval for cost recovery purposes by both FPL and PEF," that's not relevant for the purposes of this motion because that's already been taken care of and is not actively being considered in this docket, "that that should not be removed from this proceeding."

"FPL maintains that if it does not obtain Commission approval for its proposed UPS agreements by early 2005, that could be tantamount to a denial of the contracts. I find this fact to be persuasive."

Mr. Churbuck would suggest that this order was really not based on, on any facts. There were no affidavits submitted. A lot of the testimony that you're going to hear today goes to the issue of timing and whether there is a need to approve this, this contract now or whether you can have additional time to consider the complex issues raised by the contract.

So what we would suggest that the Commission do is to defer ruling on the motion for reconsideration to allow for the introduction of, of factual evidence to this very point that is in dispute. And we think it was inappropriate for a factual finding to be made while there is disputed evidence and a disputed issue that the Commission has not yet received evidence on, there's been no cross-examination of witnesses and what not. So for that reason, we would either request that the motion for reconsideration be granted and the matter be spun out into a separate proceeding where you would have additional time to consider the matter, or that the ruling be deferred and you consider and weigh the evidence that will be provided to you on this disputed issue of fact. Thank you.

CHAIRMAN BAEZ: Ms. Kaufman, anything to add?

MS. KAUFMAN: Yes, Mr. Chairman, just briefly. Vicki Kaufman on behalf of FIPUG. And we originally moved, as Mr. Moyle said, with Public Counsel to remove these issues because, number one, there's been very limited time for the parties, and I would suggest perhaps for the Commission as well, to look at such a large purchase in terms of megawatts and in terms of dollars.

In addition, I would suggest to you that the Commission has in other cases, for example, the TECO Transport case, removed issues that required additional analysis from what's thought of as the perhaps traditional fuel adjustment hearings. And I would also point out to you that just at the last fuel adjustment hearing in 2003, the Commission explicitly commented on the fact that, in regard to another issue, you ıight recall the Gannon shutdown issue, that it was somewhat ıncomfortable with considering some of these complex and difficult issues in the context of what's a very truncated time frame.

We agree with Mr. Moyle's comments that the question of whether this -- if this deal isn't approved right now, it's going to evaporate is certainly a question of fact, and that fact can't be found prior to the hearing.

We would suggest to you that, with all due respect, that the prehearing officer's ruling that these matters be considered today be, be reconsidered and that this item be spun out for a more thorough consideration in a separate docket. Thank you.

CHAIRMAN BAEZ: Mr. Butler or Ms. Futch.

MS. SMITH: Natalie Smith for FPL. Commissioners, you have heard nothing that was not already argued in the motions to remove. Further, the motion to remove -- the motion for reconsideration did not ask for deferral of this matter.

FPL respectfully requests that you deny Mr. Churbuck, who is the president of the Calpine Corporation subsidiary company, and FIPUG's joint motion for reconsideration of the order that rejected their request to remove issues related to the UPS agreements into a separate docket.

The joint motion does not meet the standard for reconsideration under Florida law because the joint motion fails to point to any issue of fact or law that the prehearing officer overlooked or failed to consider in rendering the order.

The joint motion is an improper attempt by FIPUG and Mr. Churbuck to reargue matters that have already been considered by the prehearing officer in denying the motions to remove. Mr. Churbuck and FIPUG argued that their joint motion for reconsideration should be granted for two reasons. First, they make a hypertechnical and legally incorrect argument that the joint motion should be granted because the prehearing officer made a finding of fact that was not based on sworn testimony or other evidence. Second, they incorrectly assert the prehearing officer overlooked one of the arguments made in their motions to remove.

With respect to the first argument, the order denying the spinoff request was not an evidentiary ruling subject to Section 120.57(1). While joint movants correctly quote Section 120.57(1) and the requirements for findings of facts and the issuance of a final order, joint movants ignore that Section 120.57(1) only applies to hearings involving disputed issues of material fact.

The prehearing officer did not make a finding of fact within the meaning of 120.57(1) when he determined as a preliminary procedural matter based on the pleadings and arguments of the parties that the motions to remove should be denied. FIPUG and Mr. Churbuck cannot argue that a violation of Section 120.57(1) has occurred before the 120.57(1) hearing even takes place.

The prehearing officer's order denying the spinoff motions are not based and need not be based on record evidence. Pursuant to Section 120.569(1)(e) of the Florida Administrative Procedure Act, the signatures of the parties on the pleadings certified to the prehearing officer that the arguments and the pleadings are based upon reasonable inquiry and can support the requested ruling. Nothing more is required to support the prehearing officer's decision on a pretrial motion to remove issues to a separate docket.

The second reason the joint movants argue that the order rejecting the spinnoff request should be denied is because they say the prehearing officer did not address one of their arguments in the motions to remove, that the proposed purchased power agreements are too complex to be considered in the fuel and purchased power cost recovery clause docket. This is merely an attempt by joint movants to reargue their motions to remove.

The prehearing officer's order clearly states that this complexity argument was made and considered. The prehearing officer, on Page 1 of the order, summarizes the argument that the PPAs are too complex for this docket.

On Page 2 of the order, the prehearing officer summarizes FPL's response to this argument. On Page 3 of the order, the prehearing officer expressly states that he reviewed the pleadings and considered the enumerated arguments. Based on that review, he determined that the UPS purchased power agreement should not be removed from this proceeding. There is no requirement that the prehearing officer state with particularity the weight that he assigned to each of the arguments, and the joint movants cited no authority for their argument.

The joint movants are simply attempting to reargue matters that have already been considered by the prehearing officer, which is prescribed by the case law related to motions for reconsideration. The joint motion for reconsideration thus fails to meet the standard for reconsideration under Florida law. The joint movants did not identify a point of fact or law that the prehearing officer overlooked or failed to consider in denying the motions to remove.

The interests that they assert are those of the merchant power companies who favor any delay in these proceedings. Again, Mr. Churbuck is the president of a Calpine Corporation subsidiary company, and the two witnesses who have submitted testimony sponsored by FIPUG are both employees of merchant power companies. They seek any delay in these proceedings.

FPL respectfully requests that the joint motion for reconsideration be denied. John Butler may have something to add.

MR. BUTLER: Very briefly let me just add, Commissioners, that it was the movants who raised this as a prehearing matter. They wanted it resolved as a prehearing matter. It was resolved as a prehearing matter; they lost. Now what they're wanting to do is to get it postponed and have it considered something at the end of the hearing. I think that would be very inappropriate and very inefficient. You know, there was an issue in this docket, 14A, that was going to cover the subject of whether to remove. It was taken out based on the decision by the prehearing officer that removal was not going to be granted as a prehearing matter. And I think it would be very confusing to the proceeding to sort of insert it provisionally or, you know, make its status in question by deferring ruling 'til the end of the hearing.

The only other thing I'd like to point out is that, you know, the order denying the motion to remove, you know, says that FPL maintains it does not -- if it does not obtain Commission approval for its proposed UPS agreements by early 2005, that could be tantamount to a denial of the contracts. I find this fact to be persuasive. That is the case -- it's a real problem, a fatal problem with spinning this matter off to a separate hearing. The staff and the Commission has had evidence from Mr. Hartman and the exhibits attached to ír. Hartman's testimony available to it throughout the period ;t was considering the motion to remove. That evidence shows .hat -- you know, what the prehearing officer found is, in 'act, the case, and I just fail to see how anything is going to)e gained from leaving this thing open until the end of the ıearing. Thank you.

CHAIRMAN BAEZ: Commissioners, questions of the ›arties?

COMMISSIONER DEASON: I have a question for 1s. Smith.

CHAIRMAN BAEZ: Go ahead, Commissioner.

COMMISSIONER DEASON: If we deny the motion for :econsideration and we take evidence on the issue and the Commission is uncomfortable making a decision, can the Commission on its own motion defer ruling on the question even :hough it may jeopardize the contract approval?

MS. SMITH: Would you like to address that, John?

MR. BUTLER: I'm sorry. I'm not quite sure --

COMMISSIONER DEASON: The question is are we --

MR. BUTLER: -- of the factual pattern of what you are describing. Could you -- the procedure that you had in nind, I'm sorry, Commissioner Deason.

COMMISSIONER DEASON: If the Commission denies the notion for reconsideration, takes evidence on the contract and is uncomfortable making a decision based upon the evidence that s going to be taken at this hearing, can the Commission on its wn motion decide to defer the issue and take it at a later ime, even though it could jeopardize the approval contract late?

MR. BUTLER: Absolutely.

COMMISSIONER DEASON: Okay.

CHAIRMAN BAEZ: Commissioner Davidson?

COMMISSIONER DAVIDSON: No question. I had a motion.

CHAIRMAN BAEZ: Any other questions? Let me -- no other questions. Go ahead with your motion, sir.

COMMISSIONER DAVIDSON: Commissioners, it doesn't appear to me that FIPUG and Calpine have met the standard for reconsideration here. It does appear to be an attempt to argue, reargue matters that were before the prehearing officer and decided by the prehearing officer. I completely understand that the parties submitting the motion may not like the outcome, but such disagreement for me does not a basis for reversal make.

We individually may or may not have reached the same result, but that's not the standard for reconsideration. As such, in view of the standard, the facts before us and the arguments heard today, I move that we deny the motion for reconsideration.

COMMISSIONER DEASON: Second.

CHAIRMAN BAEZ: Motion and a second. All those in avor, say aye.

(Unanimous affirmative vote.)

CHAIRMAN BAEZ: Okay. That takes care of the motion for reconsideration.

Mr. McGee, we're going to -- we can -- I recognize that we have an outstanding motion on the supplemental that you asked to, to defer. We're going to probably move back to -- I think we can take care of the other dockets that might have stipulations to be offered at this point. Would that fit with your need for time?

MR. McGEE: Yes, that would be fine. Thank you.

CHAIRMAN BAEZ: Okay. Very well.

* * * * *

CHAIRMAN BAEZ: And we are back on Docket 01.

Mr. McGee, you've had, by my count, approximately 45 extra seconds to --

MR. McGEE: Mr. Chairman, we've had the opportunity to discuss the subject matter of the motion with the Office of Public Counsel. We have not had that opportunity to discuss what we have concluded with Public Counsel with the other parties, FIPUG and staff, and so we would like to ask if we could continue the deferral until we have our next break.

CHAIRMAN BAEZ: And I just want to -- and I -- well, we're coming up on a break in about half an hour or so. I just want to make sure that by holding, holding off on this motion, Ms. Vining, we're not impeding the progress on the docket that we have to make at this point.

MS. VINING: I suppose that would depend on the order of witnesses you would like to take, Chairman Baez.

CHAIRMAN BAEZ: Is there -- does -- okay. Then let's discuss that. Is there some change in the order of witnesses that, that we need to make in order to accommodate holding this, this motion off?

MS. VINING: Well --

CHAIRMAN BAEZ: I'm assuming there is because it's, it's --

MS. VINING: Well, did you still want to take up Mr. Hartman's testimony first? He's one of the first witnesses that wasn't excused. He would be the first witness.

CHAIRMAN BAEZ: Yeah. We had, we had discussed, we had discussed that. And I think, I think the idea was to hold Mr. Hartman off 'til just before the rebuttal witness corresponding to his testimony; is that, is that correct?

MS. VINING: Yes. You had indicated to me that you wanted to take up the witnesses on the other issues before we get to the FPL purchased power agreement issues.

CHAIRMAN BAEZ: Very well.

MS. VINING: So that would be Mr. Portuondo first.

CHAIRMAN BAEZ: So that would -- say that again. I'm sorry.

MS. VINING: In the prehearing order --

CHAIRMAN BAEZ: I'm only dealing with Mr. -- with Witness Hartman at this point.

MS. VINING: He would be the first live witness --

CHAIRMAN BAEZ: Right.

MS. VINING: -- as the order stands in the prehearing order currently.

CHAIRMAN BAEZ: Right. Uh-huh.

MS. VINING: But as I recall, you had indicated earlier that you would prefer to hear from the other utility witnesses on other outstanding issues before we got to Mr. Hartman.

CHAIRMAN BAEZ: Very well. And that would leave Mr. Portuondo up first. And, Mr. McGee, how does that comport with your needs to --

MR. McGEE: It might complicate it to some extent. He has his direct testimony as well as the supplemental testimony. It's the revision to the supplemental testimony that we're discussing right now.

CHAIRMAN BAEZ: How much time do you need?

MR. McGEE: Very little.

CHAIRMAN BAEZ: Okay. Then why don't we -- Commissioners, if it's all right with you, why don't we take a 15-minute break and come back at 10:30 and we can start, we can hopefully start taking witnesses.

(Recess taken.)

CHAIRMAN BAEZ: Go back on the record.

Ms. Vining, have you had a chance to speak with Progress concerning what changes we need to make to the order of witnesses or, or not?

MS. VINING: Yes. We discussed their motion for leave to file supplemental or to revise their supplemental testimony. And I believe that they're going to withdraw the motion at this time, but Ms. Davis can speak to that.

CHAIRMAN BAEZ: Ms. Davis, I'm sorry. I didn't see you. Can you go ahead and update us?

MS. DAVIS: Commissioners, Bonnie Davis, Progress Energy. The parties have reached agreement that's going to include withdrawing the motion to file revised supplemental testimony and at the same time revising the direct testimony that was filed in August and September. So I believe we can wrap the whole thing up when we put Mr. Portuondo on the stand and go through the revisions to his direct testimony. But the net impact is that we would withdraw the supplemental testimony and the motion related to it.

CHAIRMAN BAEZ: Very well. And we can look forward to taking up Mr. Portuondo in whatever order we wind up establishing at this point. I think there's really only one change. That's going to put him in the leadoff spot.

MS. DAVIS: Yes, sir.

CHAIRMAN BAEZ: Okay. Very well.

MS. KAUFMAN: Chairman Baez.

CHAIRMAN BAEZ: Oh, Ms. Kaufman.

MS. KAUFMAN: Just so it's clear, Mr. Portuondo had :wo sets of revised testimony, and it's my understanding that ›oth of those sets are going to be withdrawn and the :orrections made to his direct.

MS. DAVIS: That's correct. Yes.

CHAIRMAN BAEZ: Ms Davis? Okay. So we're -- all :ight. Very well.

Now, Ms. Vining, let's go back and revisit the order ›f witnesses at this point. We had discussed taking Witness Iartman and placing that testimony just prior to Witness)ismukes; is that correct?

MS. VINING: That would be correct.

CHAIRMAN BAEZ: Now I am showing, as you had suggested, then it would be Mr. Portuondo, then Witness Knapp, Nitness Smith and Witness Jordan; is that correct?

MS. VINING: Yes, that's correct.

MR. BEASLEY: Mr. Chairman, Witness Jordan's direct and rebuttal testimony, I think all of the issues addressed in those testimonies have been stipulated, and we would ask that her testimony, you consider that for stipulating into the record subject to her remaining here for the duration of the hearing.

CHAIRMAN BAEZ: Very well. And I know that I have been --

MS. VINING: Let me just say, Ms. Jordan's testimony relates to fallout issues for TECO.

CHAIRMAN BAEZ: Correct.

MS. VINING: And there is one remaining company-specific issue for TECO that's open. So as a result that's why Ms. Jordan wasn't excused, because there might be an effect on the fallout on the numbers related to TECO's one remaining company-specific issue.

CHAIRMAN BAEZ: But her testimony is pretty much on standby, nevertheless, according to what Mr. Beasley said.

MS. VINING: Yes.

CHAIRMAN BAEZ: Ms. Christensen, you had something to add?

MS. CHRISTENSEN: I had a different issue. Ms. Donna Davis for Progress Energy filed supplemental testimony. We also have cross-examination questions for her. I guess I would recommend that she follow Mr. Portuondo, and then Mr. Knapp.

MS. DAVIS: Mr. Chairman, the testimony of Ms. Davis was allowed by order of the prehearing officer, but she does not appear in the list of witnesses.

CHAIRMAN BAEZ: You saw me drawing a blank, did you?

MS. DAVIS: Yes.

CHAIRMAN BAEZ: Aha.

MS. DAVIS: So we would concur that it would be logical for her to testify after Mr. Portuondo.

CHAIRMAN BAEZ: Very well. Then we will insert Witness Davis right after Witness Portuondo.

MS. KAUFMAN: Mr. Chairman?

CHAIRMAN BAEZ: Yes.

MS. KAUFMAN: In regard to -- I know we're kind of jumping around. In regard to Mr. Beasley's comments about Ms. Jordan's testimony being stipulated, we do not have a problem with that. But I just wanted to mention, and I discussed this with Mr. Beasley last week, Ms. Jordan addresses Issue 17C, which is an issue related to the flow back of the money from your decision on the TECO Transport case. We've stipulated to that issue, and Ms. Jordan did a recalculation late in the game and filed some revised testimony to show how that money was going to flow back.

We've reviewed that calculation. At this point we're not sure that it was done in the most appropriate way, given that this adjustment relates to coal transportation. But having said all that, we don't intend to challenge it here. I just raise it because we intend to look at it in the upcoming period, and I didn't want there to be any suggestion that since we've stipulated to 17C, we have waived our ability to take a closer look at the, at the calculation.

CHAIRMAN BAEZ: Mr. Beasley, that's your

understanding as well?

MR. BEASLEY: That's my understanding, yes, sir.

CHAIRMAN BAEZ: Very well.

MR. BEASLEY: And with that I would ask that Ms. Jordan's testimony be stipulated in, with the understanding that she will remain at the hearing until, until any fallout issues are resolved.

CHAIRMAN BAEZ: We'll let the record reflect that Ms. Jordan is on standby and is not expected to take the stand.

MR. BEASLEY: Thank you, sir.

MR. BUTLER: Chairman Baez.

CHAIRMAN BAEZ: Mr. Butler.

MR. BUTLER: Somebody I think might be in sort of the same category is Korel Dubin. K. M. Dubin is not listed on here with an asterisk for excusal, but that, I understand, is because of the fact that when this was generated, there was not yet an understanding on Issue 31A, but I believe there is now. And if that's correct, then I think she would be excused as well.

CHAIRMAN BAEZ: There is no -- well, although, yes, you're correct, I don't think we've taken up stipulations on this docket yet. But subject, subject to that, that's my understanding as well, and we'll let the record reflect that Ms. Dubin's excusal is contingent on something.

MR. BUTLER: Okay.

CHAIRMAN BAEZ: And we'll, we'll take that up. Thanks for reminding me.

Are there any other witness issues that we need to take up at this point, or we can move along?

MS. DAVIS: Mr. Chairman.

CHAIRMAN BAEZ: Ms. Davis, you started this.

MS. DAVIS: One other housekeeping issue.

CHAIRMAN BAEZ: Yes.

MS. DAVIS: Mr. Sam Waters is a witness for our company, and he testified on two issues, the contract relating to Shady Hills and the Southern letter of intent contract. And because the prehearing officer ruled that the issue would be dropped for us on the Southern contract, we would like to withdraw that portion of Mr. Waters' testimony that related to the Southern contract. And we have an errata sheet to distribute to the Commission, the parties and the court reporter, if now would be the appropriate time to do it.

CHAIRMAN BAEZ: Well, since he wasn't slated to -- I'm showing him as one of the witnesses that were excused. We might, we might as well do that at this, at this time, if there's something that you need to circulate.

MS. KAUFMAN: Mr. Chairman, could I inquire of Ms. Davis about that comment? I just want to be clear that --

CHAIRMAN BAEZ: You can ask it to me and I'll defer to her, you know.

MS. KAUFMAN: Okay. Whatever the right process is. 'hat Mr Waters' entire rebuttal is withdrawn; is that correct?

CHAIRMAN BAEZ: Well, is it, Ms. Davis?

MS. DAVIS: Yes, I think so. Yes.

MS. KAUFMAN: Thank you, Mr. Chairman.

CHAIRMAN BAEZ: Okay. And we'll make the appropriate ıotations to the record.

Ms. Vining, I think we can move on to the witnesses ɔr to the testimony and --

MS. VINING: Did you say exhibits or testimony?

CHAIRMAN BAEZ: Just the testimony at this point, ɔecause we're going to need to make some, some notations as to Vitness Waters' testimony, whatever it is that we're entering ınto the record.

MS. VINING: Yes. I would also note that in the ɔrehearing order we've already reflected the removal of Exhibits SSW-2 and SSW-4 from the record, and that's also reflected in the composite stipulated exhibit list too.

CHAIRMAN BAEZ: Very well. We can go ahead and admit the prefiled testimony.

MS. VINING: Yes.

CHAIRMAN BAEZ: All right. And, and at this moment, without objection, we will admit the prefiled testimony as reflected in the prehearing order into the record as though read, noting also the errata sheet that modifies or corrects the direct testimony exhibits of Sam Waters on behalf of Progress.

MS. VINING: And these are all the witnesses that have an asterisk that have been excused?

CHAIRMAN BAEZ: Correct. And then the comprehensive exhibit only deals with the excused witnesses as well; correct?

MS. VINING: Actually it covers exhibits for all witnesses.

CHAIRMAN BAEZ: Then we're probably going to have to hold off on, on taking this up or --

MS. VINING: I think we could go ahead and have it entered into the record, unless there's an objection from any of the parties.

CHAIRMAN BAEZ: All right. Is there objection to entering the exhibits as set forth in the comprehensive stipulated exhibits list? I'm assuming the parties have had this for some, for some time.

MS. VINING: Yes. It was provided to the parties last week, and I gave each of them a copy of it this morning as well.

CHAIRMAN BAEZ: Very well. Ms. Kaufman.

MS. KAUFMAN: Mr. Chairman, I have no objection.

CHAIRMAN BAEZ: Ms. Christensen?

MS. CHRISTENSEN: No objection.

CHAIRMAN BAEZ: Very well. Then let's -- I still, I

-

MS. VINING: I was going to say what we would do is e would ask that the comprehensive stipulated exhibit list be .arked as Exhibit 1.

CHAIRMAN BAEZ: We'll mark it as Exhibit 1.

(Exhibit 1 marked for identification.)

MS. VINING: And the rest of the exhibits be marked .ccording to what's listed in the comprehensive stipulated :xhibit list.

CHAIRMAN BAEZ: And the succeeding exhibits contained .herein marked in sequential order as reflected in Exhibit 1.)kay.

(Exhibits 2 through 58 marked for identification.)

MS. VINING: Did you move it into the record?

CHAIRMAN BAEZ: I don't think we can move it into the :ecord until we've, we've had the outstanding witnesses, the ,itnesses supporting actually --

MS. VINING: Okay.

CHAIRMAN BAEZ: I mean, they haven't been before us ,et, you see. We're still holding out witnesses.

MS. VINING: Okay.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF GERARD YUPP

DOCKET NO. 040001-EI

APRIL 1, 2004

Q. Please state your name and address.

A. My name is Gerard Yupp. My business address is 700 Universe Boulevard, 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 testified in the prior Fuel and Purchased Power Cost Recovery docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide a review of FPL's 2003 hedging activity, including the detail required by Item 5 of the Resolution of Issues in Docket 011605-EI approved by the Florida

Public Service Commission per Order No. PSC-02-1484-FOF-EI, which states:

> "5. Each investor-owned utility shall provide, as part of its final true-up filing in the fuel and purchased power cost recovery docket, the following information: (1) the volumes of each fuel the utility actually hedged using a fixed price contract or instrument; (2) the types of hedging instruments the utility used, and the volume and type of fuel associated with each type of instrument; (3) the average period of each hedge; and (4) the actual total cost (e.g. fees, commissions, options premiums, futures gains and losses, swaps settlements) associated with using each type of hedging instrument".

Q. Are you sponsoring an exhibit for this proceeding?

A. Yes. It consists of the following document:

GJY-1: 2003 Hedging Activity

Q. Please describe FPL's hedging objectives.

A. FPL's fuel procurement strategy aims to benefit FPL's customers by reducing fuel price volatility and, to the extent possible, mitigating fuel price increases, while maintaining the opportunity to take advantage of price decreases in the marketplace.

Q. Please summarize FPL's 2003 hedging activity.

A. Throughout the first half of 2003, FPL continued to develop a more robust hedging program by acquiring new systems and personnel to expand and enhance its hedging capabilities. Consistent with the hedging strategy that was described in FPL's presentation to the Staff and the parties on June 30, 2003, FPL implemented its expanded hedging program in the summer of 2003.

The results of FPL's 2003 hedging activity are presented in Exhibit GJY-1. FPL's 2003 hedging activities helped to reduce fuel price volatility and deliver greater price certainty for FPL's customers. FPL will continue to constantly monitor the fundamentals of the energy markets and as conditions change, FPL will make further adjustments to its hedging program to meet FPL's objective of reduced fuel price volatility. FPL also will continue to utilize the additional resources (systems and personnel) it acquired as a result of Order PSC-02-1484-FOF-EI issued on October 30, 2002, to meet its goals and the goals of its customers.

Q. Does your Exhibit GJY-1 provide the detail on FPL's 2003 hedging activities required by Item 5 of the Resolution of Issues?

A. Yes.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF GERARD J. YUPP

DOCKET NO. 040001-EI

SEPTEMBER 9, 2004

Q. Please state your name and address.

A. My name is Gerard J. Yupp. 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 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) generating unit heat rates and availabilities, (4) the quantities and costs of wholesale (off-system) power and purchased power transactions, and (5) FPL's Risk Management Plan for fuel procurement in 2005. Additionally, my testimony will briefly discuss the year-to-date results of FPL's hedging program for 2004 and FPL's hedging strategy beyond the 2005 projected period. The projected values for (1) through (4) were used as input data to the POWRSYM model that FPL uses to calculate the fuel costs to be included in the proposed fuel cost recovery factors for the period of January through December 2005.

Q. How is your testimony organized?

A. My testimony first describes the basis for the fuel price forecast for oil, coal and petroleum coke, and natural gas, as well as, the projection for natural gas availability. A description of FPL's forecast methodology change for 2005 is also included in this part of the testimony. The second part of the testimony addresses plant heat rates, outage factors, planned outages, and changes in generation capacity. This is followed by a description of projected wholesale (off-system) power and purchased power transactions. Next, the testimony describes FPL's 2005 Risk Management Plan for fuel procurement, as outlined in Order PSC- 02-1484-FOF-EI issued on October 30, 2002. This section includes an overview of FPL's fuel hedging objectives and an itemization of projected, prudently-incurred incremental operating and maintenance expenses for maintaining FPL's expanded, non-speculative financial and physical hedging program for the projected period. Lastly, the testimony provides a discussion of FPL's 2004 hedging activities and a description of FPL's hedging plans beyond the 2005 recovery period.

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 the entire Appendix I and Schedules E2, E3, E4, E5, E6, E7, E8 and E9 of Appendix II of this filing.

FUEL PRICE FORECAST

Q. Has FPL's forecast methodology changed for the 2005-recovery period?

Yes. For natural gas commodity prices, the forecast methodology has changed to the NYMEX Natural Gas Futures contract (forward curve). For light and heavy fuel oil prices, FPL will utilize Over-The-Counter (OTC) forward market prices. FPL is implementing this change in an effort to align its price projections with its expanded hedging program. The forward curves for both natural gas and fuel oil represent expected future prices at a given point in time. The basic assumption made with respect to the forward curves is that all available data that could impact the price of natural gas and fuel oil in the future is incorporated into the curve at all times. The forward curves represent real prices that FPL can transact at for its hedging program. The methodology allows FPL to better react to changing market conditions.

For the projected price of coal and petroleum coke, and the availability of natural gas, FPL's forecast methodology has not changed.

Q. What are the key factors that could affect FPL's price for heavy fuel oil during the January through December 2005 period?

A. The key factors that could affect FPL's price for heavy oil are (1) worldwide demand for crude oil and petroleum products (including domestic 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, (5) the price relationship between heavy oil and natural gas and (6) the terms of FPL's heavy fuel oil supply and transportation contracts.

World demand for crude oil and petroleum products is projected to increase slightly in 2005 over 2004 average levels primarily due to increases in demand in the U.S. (primarily for gasoline and distillates, including light fuel oil) and in the Pacific Rim countries. Although crude oil production and worldwide refining capacity will be adequate to meet the projected increase in crude oil and petroleum product demand, general adherence by OPEC members to its most recent production accord, and limited spare OPEC productive capacity, should prevent significant overproduction of crude oil. When coupled with the continuation of historically low domestic crude oil and petroleum product inventory levels, the supply of crude oil and petroleum products will remain somewhat tight during most of 2005.

Q. What is the projected relationship between heavy fuel oil and crude oil prices during the January through December 2005 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. Please note, however, that in order to meet the growth in U.S. demand for gasoline and distillates, including light fuel oil, refineries will be operating at record levels during most of 2005. Because heavy fuel oil is essentially a residual product of the distillation process, this high level of refinery operation has resulted in a high level of heavy fuel oil supply. Without a corresponding increase in projected heavy fuel oil demand, the increase in heavy fuel oil supply should result in a further widening of the price differential between worldwide crude oil and domestic heavy fuel oil prices.

Q. Please provide FPL's projection for the dispatch cost of heavy fuel oil for the January through December 2005 period.

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

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

A. The key factors that could affect the price of light fuel oil are similar to those described above for heavy fuel oil except that, because light fuel oil is a distillate product and not a residual of the refining process, there is no reason to expect an over-supply of light fuel oil comparable to that described above for heavy fuel oil. Therefore, FPL anticipates that light fuel oil prices will track increases in worldwide crude oil prices more closely than will be the case for heavy fuel oil prices.

Q. Please provide FPL's projection for the dispatch cost of light

fuel oil for the January through December 2005 period.

A. FPL's projection for the system average dispatch cost of light oil, by month, is provided on page 3 of Appendix I.

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, in each case 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 coal in order to reduce fuel costs. It is anticipated that petroleum coke will represent 17% of the fuel blend at SJRPP during 2005. 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 of SJRPP and Scherer Plant for the January through December 2005 period.

A. FPL's projection for the system average dispatch cost of "solid fuel" for this period, by plant and by month, is shown on page 3 of Appendix I.

Q. What are the factors that can affect FPL's natural gas prices during the January through December 2005 period?

A. In general, the key factors are (1) North American natural gas demand and domestic production, (2) LNG and Canadian natural gas imports, (3) heavy fuel oil and light fuel oil prices, and (4) the terms of FPL's natural gas supply and transportation contracts. The dominant factors influencing the projected price of natural gas in 2005 are: (1) projected natural gas demand in North America will continue to grow moderately in 2005, primarily in the electric generation sector; and (2) domestic natural gas production in 2005 is projected to be slightly above average 2004 levels. The balance of the supply to meet demand will come from increased Canadian and LNG imports.

Q. What are the factors that affect the availability of natural gas to FPL during the January through December 2005 period?

A. The key factors are (1) the existing capacity of the Florida Gas Transmission (FGT) pipeline system into Florida, (2) the existing capacity of the Gulfstream natural gas pipeline system into Florida, (3) the limited number of receipt points into the Gulfstream natural gas pipeline system, (4) the portion of FGT capacity that is contractually allocated to FPL on a firm basis each month, (5) the assumed volume of natural gas which can move from the Gulfstream pipeline into FGT at the Hardee and Osceola interconnects, and (6) the natural gas demand in the State of Florida.

The current capacity of FGT into the State of Florida is about 2,030,000 million BTU per day and the current capacity of Gulfstream is about 1,100,000 million BTU per day. FPL currently has firm natural gas transportation capacity on FGT ranging from 750,000 to 874,000 million BTU per day, depending on the month. Additionally, FPL has acquired 350,000 million BTU per day of firm natural gas transportation on Gulfstream to fuel the new Manatee Unit 3 and Martin Unit 8 projects. This firm transport contract on Gulfstream begins on June 1, 2005 and runs through June 1, 2028. Total demand for natural gas in the state of Florida during the

January through December 2005 period (including FPL's firm allocation) is projected to be between 550,000 and 700,000 million BTU per day below the total pipeline capacity into the state. FPL projects that it could acquire, if economic, an additional 463,000 to 613,000 million BTU per day of natural gas transportation beyond its current 750,000 to 874,000 million BTU per day of firm allocation on FGT and 350,000 million BTU per day of firm allocation on Gulfstream. This projection is based on the current capability of the two interconnections between Gulfstream and FGT pipeline systems and the availability of capacity on each pipeline.

Q. Please provide FPL's projections for the dispatch cost and availability of natural gas for the January through December 2005 period.

A. FPL's projections of the system average dispatch cost and availability of natural gas, by transport type, by pipeline and by month, are provided on page 3 of Appendix I.

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

Q. Please describe how FPL developed the projected 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, and/or from the results of performance tests.

Q. Are you providing the outage factors projected for the period January through December 2005?

A. Yes. This data is shown on page 4 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 2005 period.

Q. Please describe the significant planned outages for the January through December 2005 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 and replacement of the reactor vessel head from April 9, 2005 until June 13, 2005 or 65 days during the projected period. St. Lucie Unit No. 1 will be out of service for refueling and replacement of the reactor vessel head from October 3, 2005 until December 2, 2005 or 60 days during the projected period.

Q. Please list any changes to FPL's generation capacity projected to take place during the January through December 2005 period.

A. The conversion of Martin Unit 8 to combined cycle will increase FPL's net summer peak capability (NSPC) by 793 MW. Also, the addition of combined cycle Manatee Unit 3 will increase FPL's NSPC by 1,107 MW.

WHOLESALE (OFF-SYSTEM) POWER AND PURCHASED POWER TRANSACTIONS

Q. Are you providing the projected wholesale (off-system) power and purchased power transactions forecasted for January through December 2005?

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

Q. In what types of wholesale (off-system) power transactions does FPL engage?

A. FPL purchases power from the wholesale market when it can displace higher cost generation with lower cost power from the market. FPL will also sell excess power into the market when its cost of generation is lower than the market. Purchasing and selling power in the wholesale market allows FPL to lower fuel costs for its customers as all savings and gains are credited to the customer through the Fuel Cost Recovery Clause. Power purchases and sales are executed under specific tariffs that allow FPL to transact with a given entity. Although FPL primarily transacts on a short-term basis, hourly and daily transactions, FPL continuously searches for all opportunities to lower fuel costs through purchasing and selling wholesale power, regardless of the duration of the transaction. FPL can also purchase and sell power during emergency conditions under several types of Emergency Interchange agreements that are in place with other utilities within Florida.

Q. Does FPL have additional agreements for the purchase of electric power and energy that 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 has purchased exclusive dispatch rights for the output of 6 combustion turbines totaling approximately 950 MW (the output varies depending on the season). The agreements for the combustion turbines are with Progress Energy Ventures, Reliant Energy Services, and Oleander Power Project L.P. FPL provides natural gas for the operation of each of these three facilities as well as light fuel oil for two of the facilities. FPL has also purchased 150 MW of capacity and energy from Calpine Energy Services out of the Osprey Energy Center. This agreement runs through April 30, 2005. Lastly, 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 2005 period.

A. Under the UPS agreement, FPL's capacity entitlement during the projected period is 931 MW from January through December 2005. 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 8,049,486 MWh of UPS Energy at a cost of $136,358,000. 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 2,757,125 MWh for the period at an energy cost of $41,267,000. 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, FPL projects purchases of 537,383 MWh at a cost of $1,710,800. These projections are shown on Schedule E7 of Appendix II.

FPL projects to dispatch 633,479 MWh from its combustion turbine agreements at a cost of $50,923,113. These projections are shown on Schedule E7 of Appendix II.

In addition, as shown on Schedule E8 of Appendix II, FPL projects that purchases from Qualifying Facilities for the period will provide 7,227,963 MWh at a cost to FPL of $160,556,000.

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

A. For those contracts that entitle FPL to purchase "as-available" energy, FPL used its 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 wholesale (off-system) power purchases and sales.

A. The quantity of wholesale (off-system) power purchases and sales are projected based upon estimated generation costs, generation availability and expected market conditions.

Q. What are the forecasted amounts and costs of wholesale (off-

system) power sales?

A. FPL has projected 2,460,000 MWh of wholesale (off-system) power sales for the period of January through December 2005. The projected fuel cost related to these sales is $115,254,050. The projected transaction revenue from these sales is $133,365,000. The projected gain for these sales is $11,084,350 and is credited to our customers.

Q. In what document are the fuel costs for wholesale (off-system) power 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 wholesale (off-system) power sales.

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

A. FPL projects the sale of 448,894 MWh of energy at a cost of $1,408,227. These projections are shown on Schedule E6 of Appendix II.

Q. What are the forecasted amounts and costs of wholesale (off-system) power purchases for the January to December 2005 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 1,219,396 MWh at a cost of $51,185,840. If generated, FPL estimates that this energy would cost $61,951,692. Therefore, these purchases are projected to result in savings to FPL's customers of $10,765,852.

2005 RISK MANAGEMENT PLAN

Q. Has FPL completed its risk management plan as outlined in Order PSC- 02-1484-FOF-EI issued on October 30, 2002?

A. Yes. FPL's 2005 Risk Management Plan is provided on pages 5 and 6 of Appendix I.

Q. Please describe FPL's hedging objectives.

A. FPL's fuel hedging objectives are to effectively execute a well-disciplined and independently controlled fuel procurement strategy to manage fuel price stability (volatility minimization), to potentially achieve fuel cost minimization and to achieve asset optimization. FPL's fuel procurement strategy aims to mitigate fuel price increases and reduce fuel price volatility, while maintaining the opportunity to benefit from price decreases in the marketplace for FPL's customers.

Q. Does FPL's hedging plan for 2005 include strategies to mitigate the replacement fuel costs associated with the extended outages of Turkey Point Unit No. 4 and St. Lucie Unit No. 1 due to the reactor vessel head replacements?

A. Yes. FPL's fuel hedging strategies incorporate all of FPL's planned unit outages for a given time period. FPL takes mitigation steps to lower the impact of all plant outages, through the procurement of fuel and purchased power.

Q. Does FPL project to incur incremental operating and maintenance expenses with respect to maintaining an expanded, non-speculative financial and/or physical hedging program for which it is seeking recovery in the January through December 2005 period?

A. Yes. FPL projects to incur incremental expenses of $466,745 for its Trading and Operations group and $86,400 for its Systems Group. The expenses projected for the Trading and Operations Group are for salaries of the three personnel that were added to support FPL's enhanced hedging program. The expenses projected for the Systems Group are composed of incremental annual license fees and automation upgrades for FPL's volume forecasting software. Volume forecasting is done on a continuous basis to help FPL manage its hedge positions by adjusting those positions according to updated fuel volume forecasts on an ongoing basis. The incremental expenses for annual license fees and automation upgrades are necessary to fully support FPL's expanded hedging program.

Q. Are these projected hedging expenses prudent?

A. Yes, for the reasons just described.

2004 HEDGING SUMMARY

Q. Has FPL's 2004 hedging strategies been successful in reducing fuel price volatility and delivering greater price certainty to its customers?

Yes. FPL's hedging strategies during 2004 have been successful in reducing fuel price volatility and delivering greater price certainty to its customers. Additionally, FPL's customers have realized, through September 2004, approximately $134.5 million in savings versus the market on natural gas hedges that have settled. FPL's customers have also realized, through July 2004, approximately $25.5 million in savings versus the market on fuel oil hedges that have settled. In other words, had FPL not had hedged during 2004; its customers would have incurred an additional $160 million in fuel expenses on a year-to-date basis. FPL also has hedges in place for both natural gas and fuel oil for the remainder of 2004 that have not come to settlement.

Although the savings described above have been very beneficial to FPL's customers, it is important to realize that the main goal of hedging is to reduce fuel price volatility and deliver greater price certainty. Savings from hedging will be realized in a rising market; however the opposite holds true in a falling market. Either way, if the hedging program achieves its goal of reducing fuel price volatility, then it should be judged a success.

FPL constantly monitors the fundamentals of the energy markets and as conditions change, FPL will make further adjustments to its hedging program to meet FPL's objective of reduced volatility to its customers. FPL will continue to utilize the additional resources (both systems and personnel) it acquired as a result of Order PSC-02-1484-FOF-EI issued on October 30, 2002, to meet its goals and the goals of its customers.

Q. **Does FPL have plans to extend its hedging program farther into future periods?**

A. Yes. FPL believes that it is appropriate to begin extending its hedging program farther into the future. FPL has historically hedged its portfolio only through the end of the next recovery period. FPL believes that additional benefits can be attained by hedging up to two years past the next recovery period. As with the initial expansion of the hedging program FPL will approach this extension of its hedging program into the future gradually and cautiously.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF J. R. HARTZOG

DOCKET NO. 040001-EI

August 10, 2004

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 testified in predecessors to this docket?

A. Yes, I have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present and explain FPL's increased incremental nuclear power plant security costs

("Incremental security costs") for the period January 2004 through December 2004.

Q. What was FPL's projection of 2004 incremental nuclear security costs that was filed in Docket No. 030001-EI?

A. In its September 13, 2003 filing, FPL projected 2004 incremental nuclear security costs to be $12 million.

Q. What is FPL's current projection of those costs?

A. FPL's current projection of 2004 incremental nuclear security costs is $50.2 million.

Q. Please explain the reason for this increase.

A. These additional costs are necessary to ensure that FPL is in compliance with Nuclear Regulatory Commission (NRC) Design Basis Threat (DBT) Order EA-03-086 dated April 29, 2003 (the "DBT Order"). In its September 13, 2003 filing, FPL projected $2.05 million for compliance with the DBT Order. FPL's current projection for complying with that order is $40.36 million.

Q. What has changed since FPL's filing in Docket No. 030001- EI that requires additional expenditures to comply with the DBT Order?

A. The original DBT Order only stated in broad outline the levels of personnel, equipment and armament against which plants must defend. It provided no details about how those resources might be deployed against a particular plant, much less about the type of facilities and actions that the plant should use to defend itself. When FPL projected its costs of complying with the DBT Order in September 2003, very little information was available as to what meeting the DBT would actually entail.

Subsequent to that original projection, a series of frequent meetings has been conducted among the NRC, nuclear industry and the Nuclear Energy Institute (NEI). The meetings resulted in several revisions to the original DBT Order with the latest revision being issued as recently as May 2004. Even as refined by those revisions, there are still outstanding issues about the DBT Order that require further clarification. Meetings are continuing to resolve those issues. Finally, the NRC is currently in the process of developing and implementing Force on Force exercises (FOF) to test the defenses of licensed plants. A pilot FOF exercise was held at Turkey Point in

April 2004. Based on current requirements, the exercise was a success, but it led to the NRC's identifying additional requirements for FPL to satisfy in complying with the DBT Order.

As a result of the NRC's revisions to the DBT Order and interpretations of how it is to applied, FPL is now aware of substantial commitments of personnel and facilities that it must make in order to comply with the DBT Order.

Q. Please provide an explanation of FOF Exercises.

A. FOF exercises are a method the NRC utilizes to test a nuclear site's ability to defend against the criteria for DBT requirements. The exercises also test to ensure adequate protection of public health, safety and common defense security is maintained.

Q. To the extent permitted by NRC safeguards requirements, please provide a brief description of the additional commitments of personnel and facilities that FPL must make in order to comply with the DBT Order.

A. The commitments include additional security personnel, bullet resistant enclosures, additional fencing, lighting and gates, additional communication systems and equipment, remote surveillance equipment and software modifications, vehicle barrier system and terrain modifications. I should note that complying with the DBT Order is especially complicated at Turkey Point due to the fossil units that are located immediately adjacent to the nuclear units.

Q. Are there other factors that impact the costs of complying with the DBT Order?

A. Yes. There are a limited number of vendors that are qualified to perform the new requirements imposed by the NRC. FPL is competing with the rest of the nuclear industry for the services of those vendors to meet the DBT Order's tight compliance deadline. In addition, a large portion of the increased compliance costs is for the construction or modification of buildings and other structures at the plants. The price of gasoline has directly affected the cost of steel, and cement prices have increased dramatically due to China's purchasing the majority of all cement that would otherwise be imported.

Q. Do the increased incremental nuclear security costs you have described meet the Commission's criteria for recovery through the Capacity Costs Recovery Clause?

A. Yes, they do. All of the increased incremental costs are necessary to respond to additional, post-9/11 security requirements, and none of the increased costs were included in FPL's most recent MFRs.

Q. Can FPL now be certain what will be required to comply with the DBT Order?

A. While the compliance picture is much clearer now than it was when FPL projected 2004 incremental nuclear security costs in Docket No. 030001-EI, unfortunately there still remains a measure of uncertainty. The process of defining what is required to comply with the DBT Order is still not finished, so it is possible that the NRC could impose further requirements that FPL would have to satisfy. Moreover, the current deadline for complying with the DBT Order is October 29, 2004. It will be a race against time for FPL to implement by that deadline all the plant changes that FPL now knows are needed. If FPL is not able to complete all those changes by the deadline, it may need to implement temporary compensatory measures (primarily, additional personnel). Implementing compensatory measures would likely have the effect of deferring some of the projected construction costs into 2005, but increasing personnel costs for 2004.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF J. R. HARTZOG

DOCKET NO. 040001-EI

September 9, 2004

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 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 and explain FPL's projections of nuclear fuel costs for the thermal energy (MMBTU) to be produced by our nuclear units, the costs of disposal of spent nuclear fuel, the costs of decontamination and decommissioning (D&D), and additional plant security costs; to update the inspections and repairs to the reactor pressure vessel heads since the issuance of NRC Bulletin (IEB) 2002-02; and to update the status of certain litigation that affects FPL's nuclear fuel costs. Both nuclear fuel and disposal of spent nuclear fuel costs were input values to POWERSYM used to calculate the costs to be included in the proposed fuel cost recovery factors for the period January 2005 through December 2005.

<u>**Nuclear Fuel Costs**</u>

Q. What is the basis for FPL's projections of nuclear fuel costs?

A. FPL's nuclear fuel cost projections are developed using projected energy production at our nuclear units and their operating schedules, for the period January 2005 through December 2005.

<u>**Spent Nuclear Fuel Disposal Costs**</u>

Q. Please provide FPL's projection for nuclear fuel unit costs and energy for the period January 2005 through December 2005.

A. FPL projects the nuclear units will produce 257,760,861 MMBTU of energy at a cost of $0.3072 per MMBTU, excluding spent fuel disposal costs, for the period January 2005 through December 2005.

Projections by nuclear unit and by month are in Appendix II, on Schedule E-3, starting on page 12.

Q. Please provide FPL's projections for spent nuclear fuel disposal costs for the period January 2005 through December 2005 and explain the basis for FPL's projections.

A. FPL's projections for spent nuclear fuel disposal costs of approximately $21.5 million are provided in Appendix II, on Schedule E-2, starting on page 10. These projections are based on FPL's contract with the U.S. Department of Energy (DOE), which sets the spent fuel disposal fee at 0.9303 mills per net kWh generated, which includes transmission and distribution line losses.

<u>Decontamination and Decommissioning Costs</u>

Q. Please provide FPL's projection for Decontamination and Decommissioning (D&D) costs to be paid in the period January 2005 through December 2005 and explain the basis for FPL's projection.

A. FPL's projection of $6.87 million for D&D costs is based on the amount to be paid during the period January 2005 through December 2005 and is included in Appendix II, on Schedule E-2 starting on page 10.

Nuclear Plant Security Costs

Q. **Please provide FPL's projection for incremental security costs to be paid in the period January 2005 through December 2005 and explain the basis for FPL's projection.**

A. FPL has projected that it will incur $12.5 million in incremental security costs during the period January 2005 through December 2005. These costs relate to ongoing activities associated with NRC requirements for heightened security measures. In addition, for reasons I will explain, FPL currently anticipates deferring to 2005 approximately $10 million of the $40.36 million that we estimated in August would be spent during 2004 on complying with the NRC's Design Basis Threat (DBT) Order.

In my August testimony on the 2004 estimated/actual true-up, I noted that FPL might need an extension of time to complete all the changes necessary to comply with the DBT Order. FPL has now decided that an extension is needed and has filed a request for an extension with the NRC. If granted, the extension will result in deferring some of the DBT changes past the October 29, 2004 deadline and into 2005. The projected cost of the DBT changes to be deferred is approximately $10 million. The extension request contemplates that FPL will take compensatory measures (primarily the posting of additional security personnel) until all required DBT changes are completed.

The cost impact of the compensatory measures on FPL's estimate of $40.36 million in overall DBT compliance costs will be minimal. Since that estimate was prepared, there have been modifications to the scope of various DBT projects that will reduce the cost of those projects. This reduction will substantially offset the cost of the compensatory measures. Of course, the NRC has continued to inject changes into the DBT compliance process, so the estimated costs of compliance may change yet again.

Reactor Pressure Vessel Head Inspection Status

Q. What is the status of the reactor head inspections for the St. Lucie and Turkey Point Units that are being conducted pursuant to NRC Bulletin IEB 2002-02?

A. The NRC issued IEB 2002-02 on August 9, 2002 to address concerns related to visual inspections of the reactor head. This bulletin resulted in all four FPL units being categorized as high susceptibility, requiring ultrasonic testing in addition to visual inspections until the reactor heads are replaced.

St. Lucie Unit 1 performed ultrasonic inspections of the reactor head during the refueling outage beginning on March 22, 2004. The total duration for the refueling outage was approximately 30 days. The inspections detected no indications and no repairs to the reactor head were necessary. The total cost of the inspections was approximately $6.6 million.

St. Lucie Unit 2 is scheduled to perform ultrasonic inspections during the refueling outage beginning on November 28, 2004.

Turkey Point Unit 3 is scheduled to replace the reactor vessel head during the refueling outage beginning on September 25, 2004. The estimated duration of this outage is 65 days.

Turkey Point Unit 4 performed ultrasonic inspections of the reactor head during the refueling outage beginning on October 6, 2003. The total duration for the refueling outage was approximately 30 days. The inspections detected no indications and no repairs to the reactor head were necessary. The total cost of the inspection was approximately $5.3 million. Unit 4 is scheduled to replace the reactor vessel head during the refueling outage beginning on April 9, 2005. The estimated duration of that outage is 65 days.

Litigation Status Update

Q. Are there currently any unresolved disputes under FPL's nuclear fuel contracts?

A. Yes.

1. Spent Fuel Disposal Dispute. The first dispute is under FPL's contract with the Department of Energy (DOE) for final disposal of spent nuclear fuel. In 1995, FPL along with a number of electric utilities, states, and state regulatory agencies filed suit against DOE over DOE's denial of its obligation to accept spent nuclear fuel beginning in 1998. On July 23, 1996, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Circuit) held that DOE is required by the Nuclear Waste Policy Act (NWPA) to take title and dispose of spent nuclear fuel from nuclear power plants beginning on January 31, 1998.

On January 11, 2002, based on the Federal Circuit's ruling, the Court of Federal Claims granted FPL's motion for partial summary judgement in favor of FPL on contract liability.

While there is no trial date scheduled at this time for the FPL damages claim, on May 21,2004, the Court of Federal Claims ruled following a trial that another nuclear plant owner, Indiana Michigan Power Company, was not entitled to any damages arising out of the Government's failure to begin disposal of spent nuclear fuel by January 31, 1998. Indiana Michigan can appeal the Court's decision to the U.S. Court of Appeals for the Federal Circuit.

2(a). <u>Uranium Enrichment Pricing Disputes – FY 1993 Overcharges.</u> FPL is currently seeking to resolve a pricing dispute concerning uranium enrichment services purchased from the United States (U.S.) Government, prior to July 1, 1993.

On August 20, 2001, the Court entered judgment for FPL for $6.075 million. DOE appealed the judgement to the Federal Circuit. On October 4, 2002, the Federal Circuit reversed the judgment and remanded the case back to the Court of Federal Claims for further consideration. The Federal Circuit directed the Court of Federal Claims to determine whether DOE had other appropriate, but unrecovered, costs sufficient to justify its FY 1993 SWU price. On May 28, 2003, the Court of Federal Claims granted the

Government's motion for judgment on the record and dismissed FPL's claims, finding that DOE had other costs sufficient to justify its FY 1993 SWU price. On June 15, 2004, the Federal Circuit again reversed the May 28, 2003 judgment and remanded the case back to the Court of Federal Claims for further consideration. At this time, it is unknown whether the Government will seek rehearing by the Federal Circuit, seek review by the U.S. Supreme Court, or do nothing and proceed on remand to the Court of Claims.

2(b). Uranium Enrichment Services Contract. DOE was required under FPL's uranium enrichment services contract with DOE to establish a price for enrichment services pursuant to DOE's established pricing policy, based on recovery of DOE's appropriate costs over a reasonable period of time. In the course of discovery in the FY1993 overcharge case discussed above, FPL and the other utility plaintiffs uncovered two other cost components that DOE improperly included in its cost recovery calculation. At trial in the FY1993 case, FPL and the other plaintiffs asserted that these additional costs had been improperly included in DOE's cost recovery calculation for its FY1993 SWU price. The Court denied recovery on these issues, concluding that ruling on the merits of these issues would prejudice DOE in the particular chronology of the FY1993 litigation.

On October 10, 2001, FPL and 21 other U.S. and foreign utility plaintiffs filed new lawsuits in the U.S. Court of Federal Claims alleging that DOE breached the uranium enrichment services contract by inappropriately including two amounts in its cost recovery calculation in violation of the pricing provisions of the contracts: Imputed interest on the Gas Centrifuge Enrichment Project (GCEP) for FY1986 through FY1993, and costs relating to the production of high assay uranium (i.e., uranium produced primarily for military customers) (High Assay Costs) for FY1992 through FY1993. The GCEP and High Assay Costs claims are described in greater detail below. FPL's lawsuit has been stayed by the Court of Federal Claims pending the outcome of the appeal of the judgment concerning the FY 1993 uranium enrichment claims, discussed in item 2(a) above.

<u>GCEP Claim</u>. In 1976, Congress first authorized the construction of GCEP as additional Government uranium enrichment capacity to meet the then-projected future demand. This future demand never materialized and, by 1985, DOE found itself in a plant over capacity

position and the highest cost worldwide producer of enrichment services. In 1985, DOE cancelled the GCEP and wrote-off the entire $3.6 billion from the DOE Uranium Enrichment Activity's 1986 financial statements relating to accumulated costs of plant construction, termination costs, and imputed interest associated with GCEP. DOE failed to exclude the entire $3.6 billion from its calculation in setting the uranium enrichment services price. Beginning in FY1986, DOE improperly left approximately $773 million of imputed interest in its cost recovery calculations and price determination. This amount is reflected in the calculation of the Contract's SWU price for FY1986 through FY1993. DOE determined that none of the capital costs of GCEP were used to provide enrichment services to customers. Additionally, under well-recognized economic and accounting principles, imputed interest should have been treated as inseparable from the underlying GCEP costs. Therefore, none of the capital investment in GCEP – neither the underlying principal nor the imputed interest - should have been included in the cost recovery calculation for the contract prices.

<u>High Assay Costs</u>. In 1991, DOE adjusted the financial statements of the Uranium Enrichment Activity by removing approximately $1.14 billion in accumulated losses and other costs relating to the

production of High Assay uranium. DOE made this adjustment based on its conclusion that the Uranium Enrichment Activity no longer had any responsibility for the High Assay program, which produced uranium for military purposes. Despite removing such costs from the financial statements, DOE improperly included approximately $394 million of High Assay costs in calculating the price for uranium enrichment services for FY1992 through FY1993.

FPL's lawsuit alleges that DOE breached the contract by including these costs in the uranium enrichment services price charged to FPL. FPL is claiming that it is owed a refund of $16,086,328.91 plus interest.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF PAMELA SONNELITTER

DOCKET NO. 040001-EI

APRIL 1, 2004

Q. Please state your name and business address.

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

Q. Ms. Sonnelitter, would you please briefly describe your educational background and your experience with Florida Power and Light Company (FPL).

A. I am the General Manager of Business Services in the Power Generation Division of FPL. I received a Bachelor of Science degree in Electrical Engineering from Boston University in 1981. I also received Master of Engineering and Master of Business Administration degrees in 1985 from Widener University in Chester, Pennsylvania. I have been employed by FPL Group since 1995. In that time, I have held various positions within FPL Energy's Business Management Department from March 1995 through October 2003 and have been in my current position in FPL Power Generation Division since November 2003. Prior to my employment with FPL, I worked for Niagara Mohawk Power Corporation for nine years; 2

years in fossil generation engineering and 7 years in project engineering and asset management positions in their unregulated independent power subsidiary. Prior to my employment with NMPC, I worked for E.I. duPont de Nemours and Co., Inc. for 5 years as an instrument and electrical design engineer.

Q. 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 fifteen (15) 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-02-1761-FOF-EI issued December 13, 2002, for the period January through December 2003, and I 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:

PS -1: Document No. 1

Page 1 of the 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, 2003?

A. I have calculated a GPIF incentive reward of $6,615,282.

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 +2.89 corresponding to a GPIF reward of $6,615,282. 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 GPIF 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 fifteen (15) 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. 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 29.

Page 7 shows the adjustments to ANOHR. For each of the fifteen (15) units, it shows, in columns 2 through 4, the target heat rate formula, the actual Net Output Factor (NOF) and the actual ANOHR. 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 29.

Q. Are there any changes to the targets approved through Commission Order No. PSC-02-1761-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, 2003 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 Unit 1 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 88% compared to its target of 85.4%. This results in a +8.67 point reward, which corresponds to a GPIF reward of $1,861,452.

Turkey Point Unit 4 operated at an adjusted actual EAF of 91.8% compared to its target of 85.4%. This results in a +10.00 point reward, which corresponds to a GPIF reward of $2,154,057.

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 $2,801,160.

St. Lucie Unit 2 operated at an adjusted actual EAF of 85.6% compared to its target of 85.4%. This results in a +0.67 point reward, which corresponds to a GPIF reward of $147,332.

The total GPIF reward due to the nuclear units' actual availability performance is $6,964,002.

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 11,084 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 11,132 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 10,824 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 10,878 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. $6,964,002

Q. Ms. Sonnelitter, would you summarize the performance of FPL's fossil units?

A. Yes, eight (8) of the eleven (11) fossil generating units performed better than or equal to their availability targets, while the remaining units performed worse than their targets. The combined fossil unit availability performance results in a GPIF reward of $152,504.

Two (2) of the eleven (11) fossil units operated with ANOHR that was better than their projected target and two (2) units operated with ANOHRs that were worse than their projected targets. The remaining seven (7) units operated with ANOHRs 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 penalty of $501,224. In total, FPL's fossil units received a penalty of $348,720 for the period of January through December 2003.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF P. SONNELITTER

DOCKET NO. 040001-EI

SEPTEMBER 17, 2004

Q. Please state your name and business address.

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

Q. 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 Division of FPL.

Q. Have you previously had testimony presented in this docket?

A. Yes, I have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the target unit equivalent availability factors (EAF) and the target unit average net operating heat rates (ANOHR) for the period of January through December, 2005, for use in determining the Generating Performance Incentive Factor (GPIF).

Q. Please summarize the 2005 system targets for EAF and ANOHR for the units to be considered in establishing the GPIF for FPL.

A. For the period of January through December, 2005, FPL projects a weighted system equivalent planned outage factor of 7.3% and a weighted system equivalent unplanned outage factor of 6.2%, which yield a weighted system equivalent availability target of 86.5%. The targets for this period reflect planned refueling outages for two nuclear units. FPL also projects a weighted system average net operating heat rate target of 9,399 Btu/kWh for the period January through December, 2005. As discussed later in this testimony, these targets represent fair and reasonable values when compared to historical data. Therefore, FPL 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. Document No.1, pages 6 and 7, contains the information summarizing the targets and ranges for EAF and ANOHR for the 13 generating units which FPL proposes to be considered as GPIF units for the period of January through December, 2005. These pages were prepared in accordance with the latest revisions of the GPIF Manual. All of these targets have been derived utilizing the methodologies adopted in the GPIF Manual.

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

A. The GPIF Manual requires that the EAF 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, if any, scheduled for the projected period. The UOF is determined by the sum of the historical average forced outage factor (FOF) and maintenance outage factor (MOF). The UOF is then adjusted to reflect recent unit performance and known unit modifications or equipment changes.

Q. Please summarize FPL's methodology for determining ANOHR targets.

A. To develop the ANOHR targets, historic ANOHR vs. unit net output factor curves are developed for each GPIF unit. The historic data is analyzed for any unusual operating conditions and changes in equipment that will materially affect the predicted heat rate. A regression equation that best fits the data is calculated and a statistical analysis of the historic ANOHR variance with respect to the best fit curve is also performed to identify unusual observations. The resulting equation is used to project ANOHR for the unit using the net output factor from the POWERSYM model. This projected ANOHR value is then used in the GPIF tables and in the calculations to determine the possible fuel savings or losses due to improvements or degradations in heat rate performance. This process is consistent with the GPIF Manual.

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

A. The GPIF units were selected in accordance with the GPIF Manual 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. The 13 units which FPL proposes to use for the period of January through December 2005 represent the top 81.2% of the total forecasted system net generation for this period excluding five units: the Ft. Myers repowered unit, the Sanford repowered units 4 and 5, the Martin unit 8 conversion to combined cycle and the Manatee combined cycle unit 3. The repowering of the Ft. Myers and Sanford units and the conversion of Martin unit 8 to combined cycle constitute a major design change affecting both their generation capacity and the performance of these units. As a result, the future performance of these units will not be comparable to their historical performance. Manatee unit 3 will be a new unit for 2005 and so it does not yet have any historical performance from which to project future performance. Therefore, consistent with the GPIF Manual, the above mentioned units will be excluded from the GPIF calculations until we have enough operating history to use in projecting future performance.

Q. Do FPL's EAF and ANOHR performance targets represent a reasonable level of generation efficiency?

A. Yes, they do.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 040001-EI
Fuel and Purchased Power Cost Recovery Clause

Direct Testimony of
George M. Bachman
on behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. George M. Bachman, 401 South Dixie Highway, West Palm Beach, Florida 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

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

A. I have a Bachelor of Science Degree in Business Administration from Indiana University in 1981, with a concentration in Accounting. I subsequently joined Southeastern Public Service Company, and served as the Assistant controller at the time of my departure in January 1985, when I joined Florida Public Utilities Company. My positions through 1998 included General Accounting Office Manager, Accounting Manager, and Controller. In 1999 I was appointed to my current position, Chief Financial Officer and Treasurer of Florida Public Utilities Company. As the senior financial and accounting official of the Company I have overall fiduciary responsibility and oversee the accounting and finance department with all related functions.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the calculation of the Jan. 2003 through Dec. 2003 purchased power costs for recovery in the Jan. - Dec. 2005 period. These calculations are based on twelve months of actual data.

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

A. Yes. Exhibit________ (GMB-2) consists of Schedules M1 and F1 for the Marianna and Fernandina Beach Divisions. These schedules were prepared from the records of the company.

Q. What has FPUC calculated as the net true-up amount to be applied in the Jan. - Dec. 2005?

A. For Marianna the net true-up amount to be recovered is an under recovery of $280,576. For Fernandina Beach the calculation is an overrecovery of $535,273.

Q. How were these amounts calculated?

A. They are the difference between the final true-up amount for the Jan. - Dec. 2003 period and the actual/estimated amount for the Jan. - Dec. 2003 period.

Q. What was the final true-up amount for Jan. - Dec. 2003?

A. For Marianna it was $624,353 underrecovery and for Fernandina Beach it was $1,837,973 overrecovery.

Q. What have you calculated to be the true-up amount for the Jan. - Dec. 2003 period?

A. Using six months actual and six months estimated amounts, we calculated an underrecovery for Marianna of $343,777 and an overrecovery of $1,302,700 for Fernandina Beach. (Ref. GMB-1, schedule EI-B of 1st true-up filing and testimony)

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 040001-EI
CONTINUING SURVEILLANCE AND REVIEW OF
FUEL COST RECOVERY CLAUSES OF ELECTRIC UTILITIES

Direct Testimony of
George M. Bachman
On Behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. George M. Bachman, 401 South Dixie Highway, West Palm Beach, FL 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Have you previously testified in this Docket?

A. Yes.

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

A. I will briefly describe the basis for the computations that were made in the preparation of the various Schedules that we have submitted in support of the January 2005 - December 2005 fuel cost recovery adjustments for our two electric divisions. In addition, I will advise the Commission of the projected differences between the revenues collected under the levelized fuel adjustment and the purchased power costs allowed in developing the levelized fuel adjustment for the period January 2004 - December 2004 and to establish a "true-up" amount to be collected or refunded during January 2005 - December 2005.

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

A. Yes.

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

A. We have filed Schedules E1, E1A, E2, E7, and E10 for Marianna and

E1, E1A, E2, E7, E8, and E10 for Fernandina Beach. They are included in Composite Prehearing Identification Number GMB-2. Schedule E1-B and E1-B1 for both Marianna and Fernandina Beach were filed last month in Composite Prehearing Identification Number GMB-1.

These schedules support the calculation of the levelized fuel adjustment factor for January 2005 - December 2005. Schedule E1-B shows the Calculation of Purchased Power Costs and Calculation of True-Up and Interest Provision for the period January 2004 - December 2004 based on 6 Months Actual and 6 Months Estimated data.

Q. In derivation of the projected cost factor for the January 2005 - December 2005, period, did you follow the same procedures that were used in the prior period filings?

A. Yes.

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

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

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

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

Q. Please address the calculation of the total true-up amount to be collected or refunded during the January 2005 - December 2005.

A. We have determined that at the end of December 2004 based on six months actual and six months estimated, we will have under-recovered $854,985 in purchased power costs in our Marianna division. Based on estimated sales for the period January 2005 - December 2005, it will be necessary to add .27146¢ per KWH to collect this under-recovery.

In Fernandina Beach we will have under-recovered $69,844 in purchased power costs. This amount will be refunded at .01973¢ per KWH during the January 2005 - December 2005 period (excludes GSLD1 customers). Page 3 and 10 of Composite Prehearing Identification Number GMB-2 provides a detail of the calculation of the true-up amounts.

Q. What are the final remaining true-up amounts for the period January 2003 - December 2003 for both divisions?

A. In Marianna the final remaining true-up amount was an under-recovery of $624,352. The final remaining true-up amount for Fernandina Beach was over-recovery of $1,837,973.

Q. What are the estimated true-up amounts for the period of January 2004 - December 2004?

A. In Marianna, there is an estimated under-recovery of $230,633. Fernandina Beach has an estimated under-recovery of $1,907,817.

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

A. In Marianna the total fuel adjustment factor as shown on Line 33, Schedule E1, is 2.790¢ per KWH. In Fernandina Beach the total fuel adjustment factor for "other classes", as shown on Line 43, Schedule E1, amounts to 1.950¢ per KWH.

Q. Please advise what a residential customer using 1,000 KWH will pay for the period January 2005 - December 2005 including base rates, conservation cost recovery factors, and fuel adjustment factor and after application of a line loss multiplier.

A. In Marianna a residential customer using 1,000 KWH will pay $70.67, an increase of 7.31 from the previous period. In Fernandina Beach a customer will pay $57.47, an increase of $7.59 from the previous period.

Q. Does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
H. R. Ball
Docket No. 040001-EI
Date of Filing: April 1, 2004

Q. Please state your name, business address and occupation.

A. My name is H. R. Ball. My business address is One Energy Place, Pensacola, Florida 32520-0780. I am the Fuel Manager for Gulf Power Company.

Q. Please briefly describe your educational background and business experience.

A. I graduated from the University of Southern Mississippi in Hattiesburg, Mississippi in 1978 with a Bachelor of Science Degree in Chemistry and graduated from the University of Southern Mississippi in Long Beach, Mississippi in 1988 with a Masters of Business Administration. In 1978, I began my employment with the Southern Company at Mississippi Power's (MPC) Plant Daniel as a Plant Chemist. In 1982, I transferred to MPC's Fuel Department as a Fuel Business Analyst. I was promoted in 1987 to Supervisor of Chemistry and Regulatory Compliance at Plant Daniel. In 1998, I was promoted to Supervisor of Coal Logistics with Southern Company Fuel Services in Birmingham, Alabama. My responsibilities included administering coal supply and transportation agreements and managing the coal inventory program for the Southern Electric System. In March, 2003, I transferred to my current position as Fuel Manager for Gulf Power Company.

Q. What are your duties as Fuel Manager for Gulf Power Company?

A. I manage the Company's fuel procurement, inventory, transportation, budgeting, contract administration, and quality assurance programs to ensure that the generating plants operated by Gulf Power are supplied with an adequate quantity of fuel in a timely manner and at the lowest practical cost.

Q. What is the purpose of your testimony in this docket?

A. The purpose of my testimony is to summarize Gulf Power Company's fuel expenses and to certify that these expenses were properly incurred during the period January, 2003 through December, 2003. Also, it is my intent to be available to answer questions that may arise among the parties to this docket concerning Gulf Power Company's fuel expenses.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes, I have.

Counsel: We ask that Mr. Ball's Exhibit consisting of two schedules be marked as Exhibit No. _____(HRB-1).

Q. During the period January, 2003 through December, 2003 how did Gulf Power Company's recoverable fuel expenses compare with the projected expenses?

A. Gulf's recoverable fuel cost of net generation was $316,735,243 or 1.27% above the projected amount of $312,764,596. Actual generation was

14,987,878 MWH compared to the projected generation of 15,926,090 or 5.89% below projections. The resulting actual average fuel cost was 2.1133 cents per KWH or 7.6% above the projected amount of 1.9639 cents per KWH. The higher total fuel expense is attributed to the higher market fuel prices on all fuel types for the period. Fuel costs for coal on a $/ton basis were 3.65% higher than forecasted. Fuel cost for gas on a $/MCF basis was 47.53% higher than forecasted. The higher average per KWH fuel cost is attributed to a much higher cost of generation from natural gas fired units than projected. This information is from Schedule A-3 of the Monthly Fuel Filing for the month of December, 2003.

Q. How much spot coal did Gulf Power Company purchase during the period?

A. Excluding Plant Scherer Unit 3, Gulf purchased 1,704,849 tons of coal or 34% of its total coal purchased on the spot market. Schedule 1 of my exhibit consists of a list of contract and spot coal purchases for the period.

Q. How did the total projected cost of coal purchased compare with the actual cost?

A. The total actual cost of coal purchased was $222,283,781 (sum of lines 17 & 30 period to date on Schedule A5) compared to the projected cost of $204,343,933 or 8.78% greater than projected. The higher cost was primarily due to greater than expected spot coal prices in 2003.

Q How did the total projected cost of coal burned compared to the actual cost?

A. The total cost of coal burned was $218,539,794 which is the sum of lines 2 and 2A on Schedule A-3. This is 2.79% higher than our projection of $212,603,342. On a fuel cost per MMBTU basis, the actual cost of coal plus boiler lighter. fuel was $1.65 per MMBTU which is 4.43% greater than the projected cost of $1.58 per MMBTU. The higher per unit cost of coal is attributed to higher than anticipated coal prices for spot coal purchases.

Q. How did the total projected cost of natural gas burned compare to the actual cost?

A. The total cost of natural gas burned for generation was $95,419,659 which is from line 47 on Schedule A-5. This is 4.27% lower than our projection of $99,672,719. The decrease can be attributed to lower than forecasted generation on gas fired units as a direct result of higher prices for natural gas. On a natural gas cost per unit basis, the actual burn cost was $6.88 per MMBTU which is 41.56% higher than the projected cost of $4.86 per MMBTU.

Q. For the period in question, what volume of natural gas was actual hedged using a fixed price contract or instrument?

A. Gulf Power's hedged 7,400,000 MMBTU of natural gas in 2003 using fixed price financial swaps.

Q. What types of hedging instruments were used by Gulf Power Company and what type and volume of fuel was hedged by each type of instrument?

A. Natural gas was hedged using financial swaps that fixed the price of gas to a certain price. These swaps settled against either a NYMEX Last Day price or Gas Daily price. The entire amount (7,400,000 MMBTU) of gas hedged was hedged using these financial instruments as reflected on Schedule 2 of my exhibit.

Q. What was the actual total cost (e.g., fees, commissions, option premiums, futures gains and losses, swap settlements) associated with each type of hedging instrument?

A. Schedule 2 of my exhibit consists of a table of all natural gas hedge transactions and associated costs. No fees, commissions, or option premiums were paid. Gulf's 2003 hedging program resulted in a net financial gain of $4,847,268 (settlement gains less support costs from lines 2 and 3 of Schedule A-1 period-to-date).

Q. Did fuel procurement activity during the period in question follow Gulf Power's Risk Management Plan for Fuel Procurement filed with the Florida Public Service Commission on September 20, 2002?

A. Yes, Gulf Power's fuel strategy in 2003 complied with the Risk Management Plan and the actual results achieved compared favorably with the projected results in the plan. Supply of all fuel types and associated transportation to Gulf's generating plants are secured through a combination of long term contracts and spot purchase orders as specified in the plan. The result was that Gulf's generating plants had an adequate supply of fuel available at all times to meet the electric generation demands of its customers. Fuel cost volatility was mitigated by compliance with the Risk Management Plan. In 2003 Gulf's average cost of fuel consumed was $2.16 per MMBTU which was 8% higher than the original projection of $2.00 per MMBTU. However, the actual cost of fuel was reduced to $2.12 per MMBTU once adjustments to fuel costs were made to account for gas hedging and other fuel cost credits. Gulf was able to hold per unit fuel costs to very reasonable levels for its customers during a period of volatile market fuel prices by implementation of its Fuel Risk Management Plan.

Q. Were there any other significant developments in Gulf's fuel procurement program during the period?

A. No.

Q. Should Gulf's fuel purchases for the period be accepted as reasonable and prudent?

A Yes, Gulf's coal supply program is based on a mixture of long term contracts and spot purchases at market prices. Coal suppliers are selected using procedures that assure reliable coal supply, consistent quality, and competitive delivered pricing. The terms and conditions of coal supply agreements have been administered appropriately. Natural gas is purchased using agreements that tie price to published market index schedules and is transported using a combination of firm and interruptible gas transportation agreements. Natural gas storage is utilized to assure that supply is available during times when gas supply is curtailed or unavailable. Gulf's fuel oil purchases were made from qualified vendors using an open bid process to assure competitive pricing and reliable supply.

Q. Mr. Ball, does this complete your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
H. R. Ball
Docket No. 040001-EI
Date of Filing: August 10, 2004

Q. Please state your name and business address.

A. My name is H. R. Ball. My business address is One Energy Place, Pensacola, Florida 32520-0335. I am the Fuel Manager for Gulf Power Company.

Q. Please briefly describe your educational background and business experience.

A. I graduated from the University of Southern Mississippi in Hattiesburg, Mississippi in 1978 with a Bachelor of Science Degree in Chemistry and graduated from the University of Southern Mississippi in Long Beach, Mississippi in 1988 with a Masters of Business Administration. In 1978, I began my employment with the Southern Company at Mississippi Power Company (MPC) as a Plant Chemist at Plant Daniel. In 1982, I transferred to MPC's Fuel Services Department as a Fuel Business Analyst. In 1987, I was promoted to Supervisor of Chemistry and Regulatory Compliance at Plant Daniel. In 1998, I was promoted to Supervisor of Coal Logistics with Southern Company Services Fuel Services Department located in Birmingham, Alabama. My responsibilities in this position included administering coal supply and transportation agreements and managing the coal inventory program for the Southern Electric System. In March, 2003, I was promoted to my current position as Fuel Manager for Gulf Power Company.

Q. What are your duties as Fuel Manager for Gulf Power Company?

A. I manage the Company's fuel procurement, inventory, transportation, budgeting, contract administration, and quality assurance programs to ensure that the generating plants operated by Gulf Power are supplied with an adequate quantity of fuel in a timely manner and at the lowest practical cost.

Q. What is the purpose of your testimony in this docket?

A. The purpose of my testimony is to compare Gulf Power Company's projected fuel expenses with estimated/actual costs for the period January, 2004 through December, 2004 and to summarize any noteworthy developments in Gulf's fuel program. Also, it is my intent to be available to answer questions that may arise among the parties to this docket concerning Gulf Power Company's fuel expenses.

Q. During the period January, 2004 through December, 2004 how will Gulf Power Company's recoverable fuel cost of System Net Generation compare with the original projection of fuel cost?

A. Gulf's projected recoverable fuel cost of System Net Generation for the period is currently $372,845,690 or 9.59% above the original projected amount of $340,226,335. Total net system generation is expected to be 15,605,983 MWH compared to the original projected generation of 16,251,250 MWH or 3.97% below projections. The resulting average fuel cost is expected to be $2.389 per KWH or 14.12% above the original projected amount of $2.094 per KWH. The higher total fuel expense and average per unit fuel cost is attributed to higher than projected coal and natural gas prices for the period and a higher percentage of generation from natural gas fired units than was originally projected. This current projection of fuel cost of system net generation is captured in the exhibit to Witness Davis's testimony, Line A1.

Q. How did the total projected cost of coal burned compare to the actual cost for the first six months of 2004?

A. The total cost of coal burned was $109,980,769 which is 2.77% greater than our projection of $107,013,117. On a fuel cost per KWH basis, the actual cost was 1.75 cents per KWH which is 4.79% greater than the projected cost of 1.67 cents per KWH.

Q. How did the total projected cost of natural gas burned compare to the actual cost during the first six months of 2004?

A. The total cost of natural gas burned for generation was $58,794,448 which is 9.50% higher than our projection of $53,691,768. On a natural gas cost per unit basis, the actual cost was 5.13 cents per KWH which is 2.19% greater than the projected cost of 5.02 cents per KWH. The total cost of natural gas burned for generation is higher than projected due to higher than projected natural gas prices and a greater actual amount gas fired generation than projected.

Q. For the period in question, what volume of natural gas was actually hedged using a fixed price contract or instrument?
A. Gulf Power hedged 4,200,000 MMBTU of natural gas, for the period January through June of 2004 using fixed price financial swaps.

Q. What types of hedging instruments were used by Gulf Power Company and what type and volume of fuel was hedged by each type of instrument?
A. Natural gas was hedged using financial swaps that fixed the price of gas to a certain price. These swaps settled against either a NYMEX Last Day price or Gas Daily price. The entire amount (4,200,000 MMBTU) of gas hedged was hedged using these financial instruments.

Q. What was the actual total cost (e.g., fees, commission, option premiums, futures gains and losses, swap settlements) associated with each type of hedging instrument?
A. No fees, commission, or option premiums were paid. Gulf's gas hedging program has resulted in a net financial gain of $3,539,578 for the period January through June, 2004.

Q. Were Gulf Power's actions through June 30, 2004 to mitigate fuel and purchased power price volatility through implementation of its non-speculative financial and/or physical hedging programs prudent?
A. Yes, Gulf's physical and financial fuel hedging programs have resulted in more stable fuel prices and lower fuel costs than would have otherwise

occurred if these programs had not been utilized.

Q. Are Gulf Power's actual and projected operation and maintenance expenses for 2004 for its non-speculative financial hedging programs to mitigate fuel and purchased power price volatility reasonable for cost recovery purposes?

A. Yes, the O&M costs associated with managing the fuel hedging programs are a small percentage of the total benefit received from these programs. As an example, the budgeted recoverable O&M cost of managing the gas hedging program for the period January through December, 2004 is $32,866 while the total financial gain credited to fuel expense from the gas hedging program through June 2004 was $3,550,710.

Q. Were there any other significant developments in Gulf's fuel procurement program during the period?

A. No.

Q. Should Gulf's fuel purchases for the period be accepted as reasonable and prudent?

A. Yes, Gulf's coal supply program is based on a mixture of long term contracts and spot purchases at market prices. Coal suppliers are selected using procedures that assure reliable coal supply, consistent quality, and competitive delivered pricing. The terms and conditions of coal supply agreements have been administered appropriately. Natural gas is purchased using agreements that tie price to published market index schedules and is transported using a combination of firm and interruptible gas transportation agreements. Natural gas storage is utilized to assure that supply is available during times when gas supply is curtailed or unavailable. Gulf's fuel oil purchases were made from qualified vendors using an open bid process to assure competitive pricing and reliable supply.

Q. Mr. Ball, does this complete your testimony?

A. Yes, it does.

GULF POWER COMPANY

Before the Public Service Commission
Prepared Direct Testimony of
H. R. Ball
Docket No. 040001-EI
Date of Filing: September 9, 2004

Q. Please state your name and business address.

A. My name is H. R. Ball. My business address is One Energy Place, Pensacola, Florida 32520-0335. I am the Fuel Manager for Gulf Power Company.

Q. Have you previously filed testimony with this Commission in this docket?

A. Yes, I have.

Q. Please briefly describe your educational background and business experience.

A. I graduated from the University of Southern Mississippi in Hattiesburg, Mississippi in 1978 with a Bachelor of Science Degree in Chemistry and graduated from the University of Southern Mississippi in Long Beach, Mississippi in 1988 with a Masters of Business Administration. In 1978, I began my employment with the Southern Company at Mississippi Power Company (MPC) as a Plant Chemist at Plant Daniel. Since that time I have held positions of increasing responsibility at MPC in the Fuel Services Department as a Fuel Business Analyst and as Supervisor of Chemistry and Regulatory Compliance at Plant Daniel, and at Southern Company Services Fuel Services as Supervisor of Coal Logistics located in Birmingham, Alabama. My responsibilities at SCS Fuel Services included administering coal supply and transportation agreements and managing the coal logistics and inventory program for the Southern Electric System. In March 2003, I was promoted to my current position, Fuel Manager for Gulf Power Company.

Q. What are your duties as Fuel Manager for Gulf Power Company?

A. I manage the Company's fuel procurement, inventory, transportation, budgeting, contract administration, and quality assurance programs to ensure that the generating plants operated by Gulf Power are supplied with an adequate quantity of fuel in a timely manner and at the lowest practical cost.

Q. What is the purpose of your testimony in this docket?

A. The purpose of my testimony is to support Gulf Power Company's projection of fuel expenses for the period January 1, 2005 through December 31, 2005. Also, it is my intent to be available to answer questions that may arise among the parties to this docket concerning Gulf Power Company's fuel expense projections.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes, I have prepared an exhibit that compares actual and projected fuel costs for the past ten years. The purpose of this exhibit is to indicate the accuracy of Gulf's short term fuel expense projections.

Counsel: We ask that Mr. Ball's Exhibit , consisting of one schedule, be marked as Exhibit No. _____ (HRB-1).

Q. Has Gulf Power Company made any changes to its methods for projecting fuel expenses for this period?

A. No.

Q. Does the 2005 projection of fuel expenses reflect any major changes in Gulf's fuel procurement program for this period?

A. No. Gulf will receive 1.9 million tons of coal under an existing coal supply agreement with Peabody Coal Sales, 0.6 million tons of coal under an existing coal supply agreement with Peabody COALTRADE, Inc., and 1.2 million tons of coal under an existing coal supply agreement with Interocean Coal Sales, LDC. Gulf's remaining coal requirements, if any, will be purchased in the market through the Request for Proposal (RFP) process that has been used by Southern Company Services - Fuel Services as agent for Gulf for many years. Coal will be delivered under existing coal transportation contracts. Natural gas requirements will be purchased from various suppliers using firm quantity agreements with market pricing for base needs and on the daily spot market when necessary. Natural gas transportation will be secured using a combination of firm and spot transportation agreements.

Q. What fuel price hedging programs will be utilized by Gulf to protect the customer from fuel price spikes?

A. Natural gas prices will be hedged financially using instruments that conform to Gulf's established guidelines for hedging activity. Coal supply and transportation prices will be hedged physically using term agreements with either fixed pricing or term pricing with escalation terms tied to various published market price indexes.

Q. How does the total projected fuel cost for the 2005 period compare to the projected fuel cost for the same period in 2004?

A. The total updated cost of fuel to meet 2004 system net generation needs, filed in testimony under this docket on August 10, 2004, is projected to be $372,845,690. The projected total cost of fuel to meet system net generation needs in 2005 is $393,442,768. This is an increase of $20,597,078 or 5.52%. Total system net generation in 2005 is projected to be 15,728,660 MWH which is 122,677 MWH or .8% higher than is currently projected for 2004. On a fuel cost per KWH basis, the 2004 projected cost is 2.389 cents per KWH and the 2005 projected fuel cost is 2.5014 cents per KWH. This is an increase of 0.1124 cents per KWH or 4.7%. This higher projected total fuel expense and average per unit fuel cost reflects a continued trend of increases in the forecasted price of coal and natural gas to fuel Gulf's generating units. The projection of fuel cost of system net of system net generation for 2005 is captured in the exhibit to Witness Davis's testimony, Line A1.

Q. Mr. Ball, does this complete your testimony?

A. Yes. it does.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Terry A. Davis
Docket No. 040001-EI
Fuel and Purchased Power Capacity Cost Recovery
Date of Filing: April 1, 2004

Q. Please state your name, business address and occupation.

A. My name is Terry Davis. My business address is One Energy Place, Pensacola, Florida 32520-0780. I am the Regulatory Team Leader in the Rates and Regulatory Matters Department of Gulf Power Company.

Q. Please briefly describe your educational background and business experience.

A. I graduated in 1979 from Mississippi College in Clinton, Mississippi with a Bachelor of Science Degree in Business Administration and a major in Accounting. Prior to joining Gulf Power, I was an accountant for a seismic survey firm, Geophysical Field Surveys in Jackson, Mississippi. In that capacity, I was responsible for accounts receivable, accounts payable, sales, use, and fuel tax returns, and various other accounting activities. In 1986, I joined Gulf Power as an Associate Accountant in the Plant Accounting Department. Since then, I have held various positions of increasing responsibility with Gulf Power in Accounts Payable, Financial Reporting, and Cost Accounting. In 1993, I joined the Rates and Regulatory Matters area, where I have participated with increasing responsibility in activities related to the cost recovery clauses, the rate case, budgeting, and other regulatory functions. In 2003, I was promoted to my current position, which includes supervision of the Company's Fuel, Capacity and Environmental Cost Recovery Clause filings, administration of Gulf's retail electric tariff, and review of other regulatory filings submitted by the Company.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes, I have.

Counsel: We ask that Ms. Davis' Exhibit consisting of four schedules be marked as Exhibit No. _____ (TAD-1).

Q. Are you familiar with the Fuel and Purchased Power (Energy) true-up calculations for the period of January 2003 through December 2003 and the Purchased Power Capacity Cost true-up calculations for the period of

January 2003 through December 2003 set forth in your exhibit?

A. Yes. These documents were prepared under my direction.

Q. Have you verified that to the best of your knowledge and belief, the information contained in these documents is correct?

A. Yes, I have.

Q. What is the amount to be refunded or collected through the fuel cost recovery factors in the period January 2005 through December 2005?

A. A net amount to be refunded of $2,535,018 was calculated as shown on Schedule 1 of my exhibit.

Q. How was this amount calculated?

A. The $2,535,018 was calculated by taking the difference in the estimated January 2003 through December 2003 under-recovery of $23,923,505 and the actual under-recovery of $21,388,487, which is the sum of the Period-to-Date amounts on lines 7 and 8 shown on Schedule A-2, page 2, of the monthly filing for December 2003. The estimated true-up amount for this period was approved in Order No. PSC-03-1461-FOF-EI dated December 22, 2003. Additional details supporting the approved estimated true-up amount are included on Schedule E1-A filed August 12, 2003.

Q. Ms. Davis has the estimated benchmark level for gains on non-separated wholesale energy sales eligible for a shareholder incentive been updated for 2004?

A. Yes, it has.

Q. What is the actual threshold for 2004?

A. Based on actual data for 2001, 2002, and now 2003, the threshold is calculated to be $2,415,211.

Q. The Commission approved Gulf's hedging program in October 2002. What incremental hedging support costs related to administering Gulf's approved hedging program is Gulf seeking to recover for 2003?

A. Gulf has included $14,809 as shown on the December 2003 Period-to-Date Schedule A-1 for incremental hedging support costs related to administering the approved hedging program during the 2003 recovery period.

Q. Is Gulf seeking to recover any gains or losses from hedging settlements in the 2003 recovery period?

A. Yes. On the December 2003 Fuel Schedule A-1, Period to Date, Gulf has recorded a net gain of $4,862,077 related to hedging activities in 2003. Mr. Ball will address the details of those hedging activities in his testimony.

Q. Ms. Davis, you stated earlier that you are responsible for the Purchased Power Capacity Cost true-up calculation. Which schedules of your exhibit relate to the calculation of these factors?

A. Schedules CCA-1, CCA-2, and CCA-3 of my exhibit relate to the Purchased Power Capacity Cost true-up calculation for the period January 2003 through December 2003.

Q. What is the amount to be refunded or collected in the period January 2005 through December 2005?

A. An amount to be refunded of $1,053,779 was calculated as shown in Schedule CCA-1, of my exhibit.

Q. How was this amount calculated?

A. The $1,053,779 was calculated by taking the difference in the estimated January 2003 through December 2003 over-recovery of $1,058,876 and the actual over-recovery of $2,112,655, which is the sum of lines 10 and 11 under the total column of Schedule CCA-2. The estimated true-up amount for this period was approved in Order No. PSC-03-1461-FOF-EI dated December 22, 2003. Additional details supporting the approved estimated true-up amount are included on Schedule CCE-1A filed August 12, 2003.

Q Please describe Schedules CCA-2 and CCA-3 of your exhibit.

A. Schedule CCA-2 shows the calculation of the actual over-recovery of purchased power capacity costs for the period January 2003 through December 2003. Schedule CCA-3 of my exhibit is the calculation of the interest provision on the over-recovery for the period January 2003 through December 2003. This is the same method of calculating interest that is used in the Fuel and Purchased Power (Energy) Cost Recovery Clause and the Environmental Cost Recovery Clause.

Q. Ms. Davis, does this complete your testimony?

A. Yes, it does.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Terry A. Davis
Docket No. 040001-EI
Fuel and Purchased Power Capacity Cost Recovery
Date of Filing: August 10, 2004

Q. Please state your name, business address and occupation.

A. My name is Terry Davis. My business address is One Energy Place, Pensacola, Florida 32520-0780. I am the Supervisor of Treasury and Regulatory Matters at Gulf Power Company.

Q. Please briefly describe your educational background and business experience.

A. I graduated in 1979 from Mississippi College in Clinton, Mississippi with a Bachelor of Science Degree in Business Administration and a major in Accounting. Prior to joining Gulf Power, I was an accountant for a seismic survey firm, Geophysical Field Surveys in Jackson, Mississippi. In that capacity, I was responsible for accounts receivable, accounts payable, sales, use, and fuel tax returns, and various other accounting activities. In 1986, I joined Gulf Power as an Associate Accountant in the Plant Accounting Department. Since then, I have held various positions of increasing responsibility with Gulf Power in Accounts

Payable, Financial Reporting, and Cost Accounting. In 1993, I joined the Rates and Regulatory Matters area, where I have participated with increasing responsibility in activities related to the cost recovery clauses, the rate case, budgeting, and other regulatory functions. In 2004, I was promoted to my current position.

My responsibilities now include supervision of: tariff administration, cost of service activities, calculation of cost recovery factors, the regulatory filing function of the Rates and Regulatory Matters Department, and various treasury activities.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes, I have.

Counsel: We ask that Ms. Davis' Exhibit consisting of five schedules be marked as Exhibit No. _____ (TAD-2).

Q. Are you familiar with the Fuel and Purchased Power (Energy) estimated true-up calculations for the period of January 2004 through December 2004 and the Purchased Power Capacity Cost estimated true-up calculations for the period of January 2004 through December 2004 set forth in your exhibit?

A. Yes, these documents were prepared under my supervision.

Q. Have you verified that to the best of your knowledge and belief, the information contained in these documents is correct?

A. Yes, I have.

Q. How were the estimated true-ups for the current period calculated for both fuel and purchased power capacity?

A. In each case the estimated true-up calculations include six months of actual data and six months of estimated data.

Q. Ms. Davis, what has Gulf calculated as the fuel cost recovery true-up to be applied in the period January 2005 through December 2005?

A. The fuel cost recovery true-up for this period is an increase of .2409¢/kwh. As shown on Schedule E-1A, this includes an estimated under-recovery for the January through December 2004 period of $29,107,969, plus a final over-recovery for the January through December 2003 period of $2,535,018 (see Schedule 1 of Exhibit TAD-1 in this docket filed on April 1, 2004). The resulting net under-recovery of $26,572,951 and will be recovered during 2005.

Q. Ms. Davis, you stated earlier that you are responsible for the Purchased Power Capacity Cost true-up calculation. Which schedules of your exhibit relate to the calculation of these factors?

A. Schedules CCE-1a and CCE-1b of my exhibit relate to the Purchased Power Capacity Cost true-up calculation to be applied in the January 2005 through December 2005 period.

Q. What has Gulf calculated as the purchased power capacity factor true-up to be applied in the period January 2005 through December 2005?

A. The true-up for this period is a decrease of .0170¢ as shown on Schedule CCE-1a. This includes an estimated over-recovery of $817,151 for January 2004 through December 2004. It also includes a final true-up over-recovery of $1,053,779 for the period of January 2003 through December 2003 (see Schedule CCA-1 filed April 1, 2004). The resulting over-recovery is $1,870,930.

Q. Ms. Davis, does this complete your testimony?

A. Yes, it does.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Terry A. Davis
Docket No. 040001-EI
Fuel and Purchased Power Cost Recovery
Date of Filing: September 9, 2004

Q. Please state your name, business address and occupation.

A. My name is Terry Davis. My business address is One Energy Place, Pensacola, Florida 32520-0780. I am the Supervisor of Treasury and Regulatory Matters at Gulf Power Company.

Q. Please briefly describe your educational background and business experience.

A. I graduated in 1979 from Mississippi College in Clinton, Mississippi with a Bachelor of Science Degree in Business Administration and a major in Accounting. Prior to joining Gulf Power, I was an accountant for a seismic survey firm, Geophysical Field Surveys in Jackson, Mississippi. In that capacity, I was responsible for accounts receivable, accounts payable, sales, use, and fuel tax returns, and various other accounting activities. In 1986, I joined Gulf Power as an Associate Accountant in the Plant Accounting Department. Since then, I have held various positions of increasing responsibility with Gulf Power in Accounts

Payable, Financial Reporting, and Cost Accounting. In 1993, I joined the Rates and Regulatory Matters area, where I have participated with increasing responsibility in activities related to the cost recovery clauses, the rate case, budgeting, and other regulatory functions. In 2004, I was promoted to my current position.

My responsibilities now include supervision of: tariff administration, cost of service activities, calculation of cost recovery factors, the regulatory filing function of the Rates and Regulatory Matters Department, and various treasury activities.

Q. Have you previously filed testimony before this Commission in this on-going docket?

A. Yes, I have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss the calculation of Gulf Power's fuel cost recovery factors for the period January 2005 through December 2005. I will also discuss the calculation of the purchased power capacity cost recovery factors for the period January 2005 through December 2005.

Q. Are you familiar with the Fuel and Purchased Power Cost Recovery Clause Calculation for the period of January 2005 through December 2005?

A. Yes, these documents were prepared under my supervision.

Q. Have you verified that to the best of your knowledge and belief, the information contained in these documents is correct?

A. Yes, I have.

Counsel: We ask that Ms. Davis's Exhibit consisting of fourteen schedules, be marked as Exhibit No. _____(TAD-3).

Q. What has been included in this filing to reflect the GPIF reward/penalty for the period of January 2003 through December 2003?

A. The GPIF result is shown on Line 33 of Schedule E-1 as an increase of .0057¢/kwh, thereby rewarding Gulf $625,280.

Q. What is the appropriate revenue tax factor to be applied in calculating the levelized fuel factor?

A. A revenue tax factor of 1.00072 has been applied to all jurisdictional fuel costs as shown on Line 31 of Schedule E-1.

Q. Ms. Davis, what is the levelized projected fuel factor for the period January 2004 through December 2004?
A. Gulf has proposed a levelized fuel factor of 2.822¢/kwh. It includes projected fuel and purchased power energy expenses for January 2005 through December 2005 and projected kwh sales for the same period, as well as the true-up and GPIF amount. The levelized fuel factor has not been adjusted for line losses.

Q. How does the levelized fuel factor for the projection period compare with the levelized fuel factor for the current period?
A. The projected levelized fuel factor for 2005 is .363 cents/kwh more or 14.8 percent higher than the levelized fuel factor for 2004 upon which current fuel factors are based.

Q. Ms. Davis, how were the line loss multipliers used on Schedule E-1E calculated?
A. They were calculated in accordance with procedures approved in prior filings and were based on Gulf's latest mwh Load Flow Allocators.

Q. Ms. Davis, what fuel factor does Gulf propose for its largest group of customers (Group A), those on Rate Schedules RS, GS, GSD, and OSIII?

A. Gulf proposes a standard fuel factor, adjusted for line losses, of 2.837¢/kwh for Group A. Fuel factors for Groups A, B, C, and D are shown on Schedule E-1E. These factors have all been adjusted for line losses.

Q. Ms. Davis, how were the time-of-use fuel factors calculated?

A. These were calculated based on projected loads and system lambdas for the period January 2005 through December 2005. These factors included the GPIF and true-up, and were adjusted for line losses. These time-of-use fuel factors are also shown on Schedule E-1E.

Q. How does the proposed fuel factor for Rate Schedule RS compare with the factor applicable to December 2004 and how would the change affect the cost of 1000 kwh on Gulf's residential rate RS?

A. The current fuel factor for Rate Schedule RS applicable through December 2004 is 2.472¢/kwh compared with the proposed factor of 2.837¢/kwh. For a residential customer who uses 1000 kwh in January 2005, the fuel portion of the bill would increase from $24.72 to $28.37.

Q. Has Gulf updated its estimates of the as-available avoided energy costs to be shown on COG1 as required by Order No. 13247 issued May 1, 1984, in Docket No. 830377-EI and Order No. 19548 issued June 21, 1988, in Docket No. 880001-EI?

A. Yes. A tabulation of these costs is set forth in Schedule E-11 of my Exhibit TAD-3. These costs represent the estimated averages for the period from January 2005 through December 2006.

Q. What amount have you calculated to be the appropriate benchmark level for calendar year 2005 gains on non-separated wholesale energy sales eligible for a shareholder incentive?

A. In accordance with Order No. PSC-00-1744-AAA-EI, a benchmark level of $2,524,525 has been calculated for 2005. The actual gains for 2002, 2003, and the estimated gains for 2004 on all non-separated sales have been averaged to determine the minimum projected threshold for 2005 that must be achieved before shareholders may receive any incentive. As demonstrated on Schedule E-6, page 2 of 2, Gulf's projection reflects a credit to customers of 100 percent of the gains on non-separated sales for 2005. The estimated gains on all non-separated sales are projected to be only slightly higher than the benchmark. Any sharing above the benchmark would not occur until December.

Q. You stated earlier that you are responsible for the calculation of the purchased power capacity cost (PPCC) recovery factors. Which schedules of your exhibit relate to the calculation of these factors?
A. Schedule CCE-1, including CCE-1a and CCE-1b, and Schedule CCE-2 of my exhibit relate to the calculation of the PPCC recovery factors for the period January 2005 through December 2005.

Q. Please describe Schedule CCE-1 of your exhibit.
A. Schedule CCE-1 shows the calculation of the amount of capacity payments to be recovered through the PPCC Recovery Clause. Mr. Bell has provided me with Gulf's projected purchased power capacity transactions. Gulf's total projected net capacity expense which includes a credit for transmission revenue for the period January 2004 through December 2004 is $24,009,955. The jurisdictional amount is $23,205,313. This amount is added to the total true-up amount to determine the total

purchased power capacity transactions that would be recovered in the period.

Q. Has there been any change that would affect the capacity clause estimated true-up for 2004 filed by Gulf on August 10, 2004?

A. Yes. The actual capacity over/under recovery calculation for July 2004 resulted in an under-recovery of $3,165,061 as shown on revised Schedule CCE-1b of my exhibit. This amount is $973,270 less than the amount projected on the original version of this schedule filed on August 10, 2004. I have revised this schedule and included the new estimated true-up amount for capacity on Schedule CCE-1b and in the resulting calculations on Schedule CCE-1 and CCE-2.

Q. What methodology was used to allocate the capacity payments to rate class?

A. As required by Commission Order No. 25773 in Docket No. 910794-EQ, the revenue requirements have been allocated using the cost of service methodology used in Gulf's last full requirements rate case and approved by the Commission in Order No. PSC-02-0787-FOF-EI issued June 10, 2002, in Docket No. 010949-EI. For purposes of the PPCC Recovery Clause, Gulf has allocated the net purchased power capacity costs to rate class with 12/13th on demand and 1/13th on energy. This allocation is consistent with the treatment accorded to production plant in the cost of service study used in Gulf's last rate case.

Q. How were the allocation factors calculated for use in the PPCC Recovery Clause?

A. The allocation factors used in the PPCC Recovery Clause have been calculated using the 2003 load data filed with the Commission in accordance with FPSC Rule 25-6.0437. The calculations of the allocation factors are shown in columns A through I on Page 1 of Schedule CCE-2.

Q. Please describe the calculation of the cents/kwh factors by rate class used to recover purchased power capacity costs.

A. As shown in columns A through D on page 2 of Schedule CCE-2, the 12/13th of the jurisdictional capacity cost to be recovered is allocated to rate class based on the demand allocator, with the remaining 1/13th allocated based on energy. The total revenue requirement assigned to each rate class shown in column E is then divided by that class's projected kwh sales for the twelve-month period to calculate the PPCC recovery factor. This factor would be applied to each customer's total kwh to calculate the amount to be billed each month.

Q. What is the amount related to purchased power capacity costs recovered through this factor that will be included on a residential customer's bill for 1000 kwh?

A. The purchased power capacity costs recovered through the clause for a residential customer who uses 1000 kwh will be $2.10.

Q. When does Gulf propose to collect these new fuel charges and purchased power capacity charges?

A. The fuel and capacity factors will be effective beginning with the first Bill Group for January 2005 and continuing through the last Bill Group for December 2005.

Q. Ms. Davis, does this complete your testimony?

A. Yes, it does.

GULF POWER COMPANY
Before the Florida Public Service Commission
Direct Testimony and Exhibit of
L. S. Noack
Docket No. 040001-EI
Date of Filing April 1, 2004

Q. Please state your name, address, and occupation.

A. My name is Lonzelle S. Noack. My business address is One Energy Place, Pensacola, Florida 32520-0335. My current job position is Power Generation Specialist, Senior for Gulf Power Company.

Q. Please describe your educational and business background.

A. I received my Bachelor of Science degree in Environmental Engineering from the University of Florida in 1995 and received my Master of Business Administration degree from the University of West Florida in 2000. I joined Gulf Power in 1995 as an Environmental Engineer and served in that role with increasing levels of responsibility for over six years. Major responsibilities included coordination of federal and state air-related compliance testing for all Gulf Power generating units, management of the Continuous Emission Monitoring (CEM) System program at each of the Company's generating facilities, and coordination of the Company's air compliance reporting to state and federal regulatory agencies. I was also responsible for serving as Gulf's Environmental Subject Matter Expert on Company and system-wide compliance teams. As previously mentioned in my testimony, my current job position is Power Generation Specialist, Senior at Gulf Power Company. In this position, I am responsible for preparing all GPIF filings as well as other generating plant reliability and heat rate performance reporting.

Q. Ms. Noack, what is the purpose of your testimony in this proceeding?
A. The purpose of my testimony is to present GPIF results for Gulf Power Company for the period of January 1, 2003, through December 31, 2003.

Q. Ms. Noack, have you prepared an exhibit that contains information to which you will refer in your testimony?
A. Yes. I have prepared an exhibit consisting of five schedules.

Q. Ms. Noack, was this exhibit prepared by you or under your direction and supervision?
A. Yes. It was.

Counsel: We ask that Ms. Noack's exhibit, consisting of five schedules, be marked for identification as Exhibit__ (LSN-1).

Q. Ms. Noack, is there any other information which has been supplied to the Commission pertaining to this GPIF period which requires amendment?

A. Yes. Some corrections have been made to the actual unit performance data, which was submitted monthly to the Commission during this time period. These corrections are based on discoveries made during the final data review to ensure the accuracy of the information reported in this filing. The actual unit performance data tables on pages 16 through 31 of Schedule 5 of Exhibit_(LSN-1) incorporate these changes. The data contained in these tables is the data upon which the GPIF calculations were made.

Q. Ms. Noack, would you now review the Company's equivalent availability results for the period?

A. Actual equivalent availability and adjusted actual equivalent availability figures for each of the Company's GPIF units are shown on page 15 of Schedule 5. Pages 3 through 10 of Schedule 2 contain the calculations for the adjusted actual equivalent availabilities.

A calculation of GPIF availability points based on these availabilities and the targets established by Commission Order PSC-02-1761-FOF-EI is on page 11 of Schedule 2. The results are: Crist 4, +10.00; Crist 5, +10.00; Crist 6, +10.00 points; Crist 7, +10.00 points; Smith 1, -10.00 points; Smith 2, +10.00 points; Daniel 1, +10.00 points; and Daniel 2, +10.00 points.

Q. Ms. Noack, what were the heat rate results for the period?

A. The detailed calculations of the actual average net operating heat rates for the Company's GPIF units are on pages 2 through 9 of Schedule 3.

As was done for the prior GPIF periods, and as indicated on pages 10 through 17 of Schedule 3, the target equations were used to adjust actual results to the target bases. These equations, submitted in September 2002, are shown on page 20 of Schedule 3.

As calculated on page 21 of Schedule 3, the adjusted actual average net operating heat rates correspond to the following GPIF unit heat rate points: -4.69 for

Crist 4, -1.51 for Crist 5, +1.08 for Crist 6, 0.00 for Crist 7; -8.67 for Smith 1, 0.00 for Smith 2; +6.46 for Daniel 1; and +3.65 for Daniel 2.

Q. Ms. Noack, what number of Company points was achieved during the period, and what reward or penalty is indicated by these points according to the GPIF procedure?

A. Using the unit equivalent availability and heat rate points previously mentioned, along with the appropriate weighting factors, the number of Company points achieved is +2.82, as indicated on page 2 of Schedule 4. This calculated to a reward in the amount of $625,280.

Q. Ms. Noack, would you please summarize your testimony?

A. Yes. In view of the adjusted actual equivalent availabilities, as shown on page 11 of Schedule 2, and the adjusted actual average net operating heat rates achieved, as shown on page 21 of Schedule 3, evidencing the Company's performance for the period, Gulf calculates a reward in the amount of $625,280 as provided for by the GPIF plan.

Q. Ms. Noack, does this conclude your testimony?
A. Yes.

GULF POWER COMPANY
Before the Florida Public Service Commission
Direct Testimony of
L. S. Noack
Docket No. 040001-EI
Date of Filing September 9, 2004

Q. Please state your name, address, and occupation.

A. My name is Lonzelle S. Noack. My business address is One Energy Place, Pensacola, Florida 32520-0335. My current job position is Power Generation Specialist, Senior for Gulf Power Company.

Q. Please describe your educational and business background.

A. I received my Bachelor of Science degree in Environmental Engineering from the University of Florida in 1995 and received my Master of Business Administration degree from the University of West Florida in 2000. I joined Gulf Power in 1995 as an Environmental Engineer and served in that role with increasing levels of responsibility for over six years. Major responsibilities included coordination of federal and state air-related compliance testing for all Gulf Power generating units, management of the Continuous Emission Monitoring (CEM) System program at each of the Company's generating facilities, and coordination of the Company's air compliance reporting to state and federal regulatory agencies. I was also responsible for serving as Gulf's Environmental Subject Matter Expert on Company and system-wide compliance teams. As previously mentioned in my testimony, my current job position is Power Generation Specialist, Senior at Gulf Power Company. In this position, I am responsible for preparing all GPIF filings as well as other generating plant reliability and heat rate performance reporting.

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

A. The purpose of my testimony is to present GPIF targets for Gulf Power Company for the period of January 1, 2005 through December 31, 2005.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes. I have prepared one exhibit consisting of three schedules.

Q. Was this exhibit prepared by you or under your direction and supervision?

A. Yes, it was.

Counsel: We ask that Ms. Noack's exhibit be marked for identification as Exhibit_(LSN-2).

Q. Which units does Gulf propose to include under the GPIF for the subject period?
A. We propose that Crist Units 4, 5, 6, and 7, Smith Units 1 and 2, and Daniel Units 1 and 2, continue to be the Company's GPIF units. The projected net generation from these units, which represent all of Gulf's qualifying base and intermediate load units for GPIF, is approximately 79% of Gulf's projected net generation for 2005.

Q. What are the target heat rates Gulf proposes to use in the GPIF for these units for the performance period January 1, 2005 through December 31, 2005?
A. I would like to refer you to Page 43 of Schedule 1 of my Exhibit_(LSN-2) where these targets are listed.

Q. How were these proposed target heat rates determined?
A. They were determined according to the GPIF implementation manual procedures for Gulf.

Q. Describe how the targets were determined for Gulf's proposed GPIF units.

A. Page 2 of Schedule 1 of Exhibit_(LSN-2) shows the target average net operating heat rate equations for the proposed GPIF units, and Pages 4 through 39 of Schedule 1 contain the weekly historical data used for the statistical development of these equations. Pages 40 through 42 of Schedule 1 present the calculations that provide the unit target heat rates from the target equations.

Q. Were the maximum and minimum attainable heat rates for each proposed GPIF unit, indicated on Page 43 of Schedule 1 of Exhibit_(LSN-2), calculated according to the appropriate GPIF implementation manual procedures?

A. Yes.

Q. Are there any current or projected changes in the fuel mix for any of the proposed GPIF units that that may affect the applicability of these heat rate targets?

A. Yes. Plant Daniel Units 1 and 2, which for the past few years have been burning a high-Btu bituminous coal, have recently switched to a blend of approximately 60% high-Btu bituminous coal and 40% low-Btu sub-bituminous coal. This change in fuel is due to current economics and results in lower costs to customers than if the units continued to burn the high-Btu coal only.

However, this change in fuel is also expected to increase the heat rates of these units above the targets set in this filing. This expected increase is not an indication of a change in unit efficiency but is more a reflection of the change in heat content and properties of the fuel being burned.

Because the heat rate targets in this filing were set according to the GPIF implementation manual, which required the targets to be set based on the recent historical high-Btu coal burn for Daniel Units 1 and 2, the heat rate targets in this filing are only applicable to these units when burning high-Btu coal. Consequently, there is no reasonable way to determine what portion of the projected heat rates will be due to actual unit performance and what portion will be due to the lower-Btu fuel mix. The GPIF process was not established to reward or penalize units for fuel switching. Therefore, the heat rate targets set in this filing for Daniel Units 1 and 2 will not be applicable for 2005 if the units continue to burn this new projected fuel mix.

Q Please describe how the company proposes to address this change in fuel in future GPIF filings.

A. Since there is no historical data on which to set reasonable targets for the projected change in fuel for Daniel Units 1 and 2, Gulf proposes to exclude Plant Daniel Units 1 and 2 from the GPIF heat rate calculations for the year 2005 time period and for the months in 2004 when these units burn this same fuel mix. In accordance with past commission orders, this exclusion will be accomplished by setting the units' ANOHRs (Average Net Operating Heat Rates) equal to their respective target ANOHRs at Actual Conditions. This will be indicated in the 2005 GPIF Results Filing submitted in the spring of 2006 and in the 2004 GPIF Results Filing that will be submitted in the spring of 2005. This procedure results in producing neither a reward nor a penalty for ANOHR for these two units.

If adequate data is available, the Btu/lb independent variable that was stipulated and approved in Commission Order PSC-99-2512-FOF-EI will be added to the target heat rate equations for Daniel Units 1 and 2 beginning with the 2006 GPIF Target Filing submitted in the fall of 2005. This process should account for the change in fuel for these units at that time. This Btu/lb variable could not be added to this year's target filing because there was not adequate data representing the lower-Btu fuel burn. Without adequate data, the Btu/lb variable is not significant or meaningful in the heat rate target equations.

Q. What are the proposed target, maximum, and minimum equivalent availabilities for Gulf's units?
A. The target, maximum, and minimum equivalent availabilities are listed on Page 4 of Schedule 2 of Exhibit_(LSN-2).

Q. How were the target equivalent availabilities determined?
A. The target equivalent availabilities were determined according to the standard GPIF implementation manual procedures for Gulf and are presented on Page 2 of Schedule 2 of Exhibit_(LSN-2).

Q. How were the maximum and minimum attainable equivalent availabilities determined for each unit?
A. The maximum and minimum attainable equivalent availabilities, which are presented along with their respective target availabilities on Page 4 of Schedule 2 of Exhibit_(LSN-2), were determined per GPIF manual procedures for Gulf.

Q. Ms. Noack, has Gulf completed the GPIF minimum filing requirements data package?

A. Yes, we have completed the minimum filing requirements data package. Schedule 3 of my Exhibit_(LSN-2) contains this information.

Q. Ms. Noack, would you please summarize your testimony?
A. Yes. Gulf asks that the Commission accept:

1. Crist Units 4, 5, 6 and 7, Smith Units 1 and 2, and Daniel Units 1 and 2 for inclusion under the GPIF for the period of January 1, 2005 through December 31, 2005.

2. The target, maximum attainable, and minimum attainable average net operating heat rates, as proposed by the Company and as shown on Page 43 of Schedule 1 and also on Page 5 of Schedule 3 of my Exhibit_(LSN-2).

3. The proposal to exclude Daniel Units 1 and 2 from the GPIF heat rate calculations for the year 2005 time period and for the affected months in 2004 when these units burn a significantly lower-Btu coal mix than they have historically. If adequate data is available, this change in fuel mix will be accounted for by adding a Btu/lb independent variable to the target heat rate equations

beginning with the 2006 Target Filing that will be submitted in the fall of 2005.

4. The target, maximum attainable, and minimum attainable equivalent availabilities, as proposed by the Company and as shown on Page 4 of Schedule 2 and also on Page 5 of Schedule 3 of my Exhibit_(LSN-2).

5. The weekly average net operating heat rate least squares regression equations, shown on Page 2 of Schedule 1 and also on Pages 20 through 35 of Schedule 3 of my Exhibit_(LSN-2), for use in adjusting the annual actual unit heat rates to target conditions.

Q. Ms. Noack, does this conclude your testimony?
A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
H. Homer Bell
Docket No. 040001-EI
Date of Filing: April 1, 2004

Q. Please state your name, business address and occupation.

A. My name is H. Homer Bell, and my business address is One Energy Place, Pensacola, Florida 32520. I am a Senior Engineer in the Generation Services Department of Gulf Power Company.

Q. Have you previously filed testimony with this Commission?

A. Yes. I have filed testimony in support of Gulf Power Company's projection and true-up of capacity and energy costs in previous fuel cost recovery dockets.

Q. Please summarize your educational and professional background.

A. I received my Bachelor of Science Degree in Electrical Engineering from Mississippi State University in 1980 and I received my Master of Business Administration Degree from the University of Southern Mississippi in 1982. That year I joined Gulf Power Company (Gulf) as an associate engineer in Gulf's Pensacola District Engineering Department, and have since held engineering positions in the Rates and Regulatory Matters Department and the Transmission and System Control Department. I was promoted to my current position as Senior Engineer in the Generation Services Department in 2002. I am primarily responsible for the administration of Gulf's Intercompany Interchange Contract (IIC) and coordination of Gulf's generation planning activities.

During my years of service with the Company, I have gained experience in the areas of distribution operation, maintenance, and construction; retail and wholesale electric service tariff administration; wholesale transmission service tariff administration; IIC and bulk power sales contract administration; and transmission and control center operations.

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

A. The purpose of my testimony is to summarize Gulf's purchased power recoverable costs for energy purchases and sales that were incurred during the January 2003 through December 2003 recovery period. I will compare these actual costs to the amounts projected in Gulf's September 2002 fuel filing for the 2003 recovery period and discuss the reasons for the differences.

I will also summarize the Company's purchased power capacity cost that resulted during the January 2003 through December 2003 recovery period. I will compare this actual figure to the amount projected in Gulf's October 24, 2002 amended filing and discuss the reasons for the difference.

Q. During the period January 2003 through December 2003, what was Gulf's actual purchased power recoverable cost for energy purchases and how did it compare with the projected amount?

A. Gulf's actual total purchased power recoverable cost for energy purchases, as shown on line 13 of the December 2003 Period-to-Date Schedule A-1 was $31,174,907 for 1,441,205,751 KWH as compared to the projected amount of $6,912,775 for 285,605,000 KWH filed on September 20, 2002. The actual cost per KWH purchased was 2.1631 ¢/KWH as compared to the projected amount of 2.4204 ¢/KWH, or 11% under the projection.

Q. What were the events that influenced Gulf's purchase of energy?

A. During the January 2003 through December 2003 recovery period, milder regional weather that followed January's cold conditions resulted in lower than forecasted loads for the year across most of the Southern electric system (SES). In addition, SES nuclear and hydro generation was higher than expected. Because the SES companies that own nuclear and hydro facilities retain this low cost generation to serve their loads, this additional generation and the lower SES loads increased the amount of energy from other SES resources that was available to meet Gulf and system load requirements. At many times during the year, this newly available energy was a lower cost resource than Gulf's own generation, particularly its gas-fired unit. While the total SES territorial load was 4% lower than projected, Gulf's territorial load was actually 5% over budget due primarily to the addition of new customers. Therefore, in order to meet its higher load obligations, Gulf purchased significantly more energy at a lower unit cost than was forecasted for the 2003 recovery period without having to generate as much energy as expected from its gas-fired unit.

Q. During the 2003 recovery period, what was the fuel cost effect of Gulf's increased purchases?

A. Although Gulf purchased energy at a lower unit cost, the significant increase in the volume of purchases that were made to serve Gulf's higher actual load requirements resulted in an increased purchased power cost that contributed to Gulf's higher 2003 recoverable fuel and purchased power cost.

Q. During the period January 2003 through December 2003, what was Gulf's actual purchased power fuel cost for energy sales and how did it compare with the projected amount?

A. Gulf's actual total purchased power fuel cost for energy sales, as shown on line 19 of the December 2003 Period-to-Date Schedule A-1 was $87,397,406 for 4,495,596,626 KWH as compared to the projected amount of $98,584,000 for 4,822,911,000 KWH. The actual fuel cost per KWH sold was 1.9441 ¢/KWH, or 5% under the projected amount of 2.0441 ¢/KWH.

Q. What were the events that influenced Gulf's sale of energy?

A. The milder regional weather pattern that significantly reduced the territorial loads experienced by other SES operating companies and the increase in SES nuclear and hydro generation that served owning companies' loads reduced the need for Gulf's higher cost generating resources to serve SES load requirements. Therefore, during the January 2003 through December 2003 recovery period, Gulf sold less energy to the pool at a lower than projected unit price.

Q. During the 2003 recovery period, what was the fuel cost effect of Gulf's lower sales?

A. The lower than budgeted volume of sales that were made at lower unit prices resulted in lower than anticipated recoverable sales revenue that is a credit, or reduction to Gulf's fuel cost of generation and purchased power costs. Therefore, the lower revenue from sales contributed to Gulf's higher 2003 recoverable fuel and purchased power cost.

Q. During the period January 2003 through December 2003, how did Gulf's actual net purchased power capacity cost compare with the net projected cost?

A. The actual net capacity cost for the January 2003 through December 2003 recovery period, shown on line 4 of Schedule CCA-2, was $6,918,446. Gulf's projected net purchased power capacity cost for the same period was $8,210,882, as indicated on Line 4 of Schedule CCE-1 that was filed October 24, 2002 in Docket No. 020001-EI. The difference between the actual net capacity cost and the projected net capacity cost for the recovery period is $1,292,436, or a decrease of 16%.

Q. Please explain the reason for the decrease in Gulf's capacity cost.

A. The capacity cost decrease for the January 2003 through December 2003 recovery period is primarily due to Gulf's lower IIC reserve sharing cost produced by changes in SES operating companies' owned capacity amounts. Gulf's owned capacity that is used in the IIC reserve sharing calculation remained near the projected level, while the actual megawatts of owned capacity for other SES companies were lower than projected. Therefore, other SES companies were responsible for sharing a greater percentage of system reserves, and Gulf's capacity reserve purchases were reduced.

Also, Gulf's transmission revenues associated with energy sales were $275,187 above the October 2002 projection. Therefore, these increased revenues and Gulf's lower IIC reserve sharing cost produced the overall lower capacity cost for the January 2003 through December 2003 cost recovery period.

Q. Was Gulf's actual 2003 IIC capacity cost prudently incurred and properly allocated to Gulf?

A. Yes. Gulf's capacity costs were incurred in accordance with the reserve sharing provisions of the IIC, a Federal Energy Regulatory Commission approved contract in which Gulf has been a participant for many years. These years of Gulf's participation in the integrated SES that is governed by the IIC have produced substantial benefits for Gulf's territorial customers, and have been recognized as being prudent by the Florida Public Service Commission in previous proceedings and reviews.

Per contractual agreement, Gulf and the other SES operating companies are obligated to provide for the continued operation of its electric facilities in the most economical manner that achieves the highest possible service reliability. The coordinated planning of future SES generation resource additions that produce adequate reserve margins for the benefit of all SES operating companies' customers facilitates this "continued operation" in the most economical manner.

Furthermore, the IIC provides for mechanisms to facilitate the equitable sharing of the costs associated with the operation of facilities that exist for the mutual benefit of all the operating companies. In 2003, Gulf's reserve sharing cost represents the equitable sharing of the costs that the SES operating companies incurred to ensure that adequate generation reserve levels are available to provide reliable electric service to territorial customers. This cost has been properly allocated to Gulf per the terms of the IIC.

Q. Does this conclude your testimony?
A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
H. Homer Bell
Docket No. 040001-EI
Date of Filing: August 10, 2004

Q. Please state your name, business address and occupation.

A. My name is H. Homer Bell, and my business address is One Energy Place, Pensacola, Florida 32520. I am a Senior Engineer in the Generation Services Department of Gulf Power Company.

Q. Have you previously filed testimony in this Docket?

A. Yes.

Q. Please summarize your educational and professional background.

A. I received my Bachelor of Science Degree in Electrical Engineering from Mississippi State University in 1980 and I received my Master of Business Administration Degree from the University of Southern Mississippi in 1982. I joined Gulf Power Company (Gulf) as an associate engineer in Gulf's Pensacola District Engineering Department, and have since held engineering positions in the Rates and Regulatory Matters Department and the Transmission and System Control Department. I was promoted to my current position as Senior Engineer in the Generation Services Department in 2002. I am primarily responsible for the administration of Gulf's Intercompany Interchange Contract (IIC) and coordination of Gulf's generation planning activities.

During my years of service with the company, I have gained experience in the areas of distribution operation, maintenance, and construction; retail and wholesale electric service tariff administration; wholesale transmission service tariff administration; IIC and bulk power sales contract administration; and transmission and control center operations.

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

A. The purpose of my testimony is to summarize Gulf 's actual / estimated true-up projections of purchased power recoverable energy purchases and sales for the January 2004 through December 2004 recovery period. I will compare these January 2004 through December 2004 estimated true-up amounts to the amounts originally projected in Gulf's September 2003 fuel filing for the period and discuss the reasons for the differences.

I will also summarize the actual / estimated true-up projection of net capacity expenses for the January 2004 through December 2004 recovery period. I will compare this figure to the amount projected in Gulf's September 2003 capacity filing for the period and discuss the reasons for the difference.

Q. During the period January 2004 through December 2004, what is Gulf's actual / estimated purchased power recoverable cost for energy purchases and how does it compare with the September 2003 projected amount?

A. Using actual data for January through June 2004 and a revised projection for July through December 2004, Gulf's total estimated purchased power recoverable cost for energy purchases, shown on line 12 of the January 2004 - December 2004 Schedule E-1B-1 is $37,730,135. The estimated amount of purchased energy is 1,038,928,144 KWH. The September 2003 projected cost of energy purchases was $12,776,000 for 477,038,000 KWH. The estimated true-up cost per KWH purchased is 3.6316 ¢/KWH as compared to the originally projected cost of 2.6782 ¢/KWH, or 36% higher than the projection made last fall.

Q. What are the primary reasons for the difference between Gulf's original projection and the current projection of Gulf's energy purchases?

A. During the period January through June 2004, the Southern electric system (SES) experienced higher costs for coal and natural gas, a higher than projected load, and a reduced amount of low cost energy from its hydro generation facilities due to weather conditions. These factors were primarily responsible for rising energy production costs on the SES. In order to lower total system energy production costs, the SES purchased increased amounts of off-system energy from market resources when this proved to be more economical than the commitment and utilization of SES generation resources for load service.

Because this energy was purchased at the prevailing market price driven by higher natural gas and coal prices, Gulf's overall energy purchases on a cents per KWH basis were higher than originally projected for the January through June 2004 period.

Gulf's fuel and purchased power cost projection for July through

December 2004 has been updated to reflect the latest marginal fuel prices for SES generating units, the reduced utilization of SES hydro resources, and the anticipated level of off-system market purchases to complement SES generation resources. This updated projection indicates that Gulf is expected to continue to purchase more energy at a higher cost per KWH than originally projected for the remainder of this year. Therefore, Gulf's current projection reflects additional energy purchases at a higher cost per KWH for the January 2004 through December 2004 recovery period, and the resulting energy purchase cost is reflected on line A-3 of Witness Davis' testimony exhibit.

Q. During the period January 2004 through December 2004, what is Gulf's actual / estimated purchased power fuel cost for energy sales and how does it compare with the amount approved by the FPSC in the November 2003 hearing?

A. Using actual data for January through June 2004 and a revised projection for July through December 2004, Gulf's total estimated purchased power fuel cost for energy sales for January through December 2004, shown on line 18 of the January 2004 - December 2004 Schedule E-1B-1, is $127,871,199. The estimated amount of energy sales is 4,795,059,850 KWH. The amount originally projected was $108,525,000 for 5,077,002,000 KWH. The estimated / actual true-up cost per KWH sold is 2.6667 ¢/KWH as compared to 2.1376 ¢/KWH, or 25% higher than originally projected.

Q. What are the primary reasons for the difference between Gulf's original projection and the current projection of Gulf's energy sales?

A. During January through June of the current recovery period, Gulf sold more energy than projected due to higher loads experienced by other SES operating companies for most of the months through June 2004. These higher SES loads, caused by weather conditions and increased regional economic activity, enabled Gulf to deliver more energy from its resources to meet SES companies' needs.

Gulf sold this energy at a higher cost per KWH due to higher marginal SES fuel costs that produced higher pool interchange rates for energy supplied to the SES pool. Therefore, during the first six months of 2004, Gulf sold more energy to the pool at a higher than projected cost per KWH.

Gulf's revised fuel and purchased power cost projection for July through December 2004 indicates that Gulf is expected to sell a lower volume of energy, but at a higher cost per KWH. This will result in higher than originally projected sales revenue. Therefore, Gulf's current projection reflects a lower volume of energy sales at a higher cost per KWH for the January through December 2004 recovery period, and the resulting energy sales revenue is reflected on line A-2 of Witness Davis' testimony exhibit.

Q. During the period January 2004 through December 2004, what is Gulf's projection of actual / estimated net purchased power capacity transactions and how does it compare with the company's projection of net capacity transactions made last fall?

A. As shown on Line 4 of Schedule CCE-1b, Gulf's total estimated net capacity cost for the January 2004 through December 2004 recovery period, consisting of January through June actual amounts and the originally projected amount for July through December 2004, is $19,233,875. Gulf's originally projected net capacity cost of $19,542,907 for the recovery period is shown on Line 4 of Schedule CCE-1 that was filed in September 2003. The difference between these projections is a cost decrease of $309,032, or 2% lower than the cost that was approved in the November 2003 hearing.

Q. Please explain the reasons for the decrease in capacity cost.

A. The slight overall capacity cost decrease currently projected for the January 2004 through December 2004 period is due to Gulf's lower actual Intercompany Interchange Contract (IIC) reserve sharing cost and higher actual transmission service revenues that were experienced through June 2004. As I have previously mentioned, the SES experienced higher loads during the first six months of 2004. This reduced the amount of system reserves to be shared through the IIC reserve equalization process. Because Gulf was responsible for its percentage of these lower system reserves, it was therefore a lower net purchaser of capacity reserves through the IIC during the January through June 2004 period.

In addition to lower IIC capacity costs, Gulf's transmission revenues were higher than expected for the first six months of this recovery period due to Gulf's higher energy sales. These increased revenues had the affect of reducing Gulf total capacity costs for the period.

Gulf's IIC reserve sharing cost in July through December 2004 is not expected to differ significantly from those included in the September 2003 projection for these months. Therefore, Gulf's lower reserve purchases and higher transmission revenues during January through June 2004 are the primary reasons for Gulf's $309,032 capacity cost decrease for the entire 2004 cost recovery period.

Q. Does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Direct Testimony of
H. Homer Bell
Docket No. 040001-EI
Date of Filing: September 9, 2004

Q. Please state your name, business address and occupation.

A. My name is H. Homer Bell, and my business address is One Energy Place, Pensacola, Florida 32520. I am a Senior Engineer in the Generation Services Department of Gulf Power Company.

Q. Have you previously filed testimony with this Commission?

A. Yes. I have filed testimony in support of Gulf Power Company's projection and true-up of capacity and energy costs in this docket.

Q. Please summarize your educational and professional background.

A. I received my Bachelor of Science Degree in Electrical Engineering from Mississippi State University in 1980 and I received my Master of Business Administration Degree from the University of Southern Mississippi in 1982. That year I joined Gulf Power Company (Gulf) as an associate engineer in Gulf's Pensacola District Engineering Department, and have since held engineering positions in the Rates and Regulatory Matters Department and the Transmission and System Control Department. I was promoted to my current position as Senior Engineer in the Generation Services Department in 2002. I am primarily responsible for the administration of Gulf's Intercompany Interchange Contract (IIC) and coordination of Gulf's generation planning activities.

During my years of service with the company, I have gained experience in the areas of distribution operation, maintenance, and construction; retail and wholesale electric service tariff administration; wholesale transmission service tariff administration; IIC and bulk power sales contract administration; and transmission and control center operations.

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

A. The purpose of my testimony is to support Gulf Power Company's (Gulf) projection of purchased power recoverable costs for energy purchases and sales for the period January 2005 - December 2005. I will also support Gulf's projection of purchased power capacity costs for the January 2005 - December 2005 recovery period.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes. I have one exhibit to which I will refer.

Counsel: We ask that Mr. Bell's Exhibit HHB-1 be marked for identification as Exhibit_____(HHB-1).

Q. What is Gulf's projected purchased power recoverable cost for energy purchases for the January 2005 - December 2005 recovery period?

A. Gulf's projected recoverable cost for energy purchases, shown on line 13 of Schedule E-1 of the projection filing, is $18,804,000. The purchases associated with this amount result from Gulf's participation in the coordinated operation of the Southern electric system (SES) power pool. This projected amount is used by Gulf's witness Ms. Davis as an input in the calculation of the fuel and purchased power cost adjustment factor.

Q. What is Gulf's projected purchased power fuel cost for energy sales for the January 2005 - December 2005 recovery period?

A. The projected fuel cost for energy sales, shown on line 19 of Schedule E-1, is $121,543,000. The sales associated with this amount result from Gulf's participation in the coordinated operation of the SES power pool. This projected amount is used by Gulf's witness Ms. Davis as an input in the calculation of the fuel and purchased power cost adjustment factor.

Q. Please compare Gulf's projected purchased power recoverable costs for energy purchases and sales for the January 2005 - December 2005 recovery period to the company's most recent projected costs for January 2004 - December 2004 recovery period and explain the reasons for the differences.

A. Gulf's projected purchased power recoverable cost for energy purchases for the 2005 recovery period is $18,926,135 lower than the $37,730,135 cost that was included in Gulf's August 2004 estimated/actual true-up filing for the 2004 recovery period. In 2005, Gulf is expected to generate more energy from its units to serve its territorial load. This will result in the company purchasing less energy from the SES power pool at a slightly lower cost per kWh than was estimated for the 2004 recovery period in Gulf's August 2004 true-up filing.

Gulf's projected purchased power fuel cost for energy sales in 2005 is $6,328,199 lower than the $127,871,199 amount that was included in Gulf's August 2004 estimated/actual true-up filing for the 2004 recovery period. Although Gulf is projected to sell less energy in 2005 due to higher generation retained for its territorial customers' needs, the cost per kWh for Gulf's pool energy sales is projected to be higher due to the continuing trend of increased fuel costs for SES generating units. Because the cost related to these sales is fully paid by the purchasing utility, Gulf's customers will receive credit for the cost of the related energy generation.

Q. What information is contained in your exhibit?

A. My exhibit lists the long-term power contracts that are included for capacity cost recovery, their associated megawatt amounts, and the resulting capacity dollar amounts. Also listed on my exhibit are the revenues produced by several market-based service agreements between the SES operating companies and entities outside the system that were included in Gulf's 2004 projection.

Q. Which power contracts produce capacity transactions that are recovered through Gulf's purchased power capacity cost adjustment factor?

A. Two power contracts that produce recoverable capacity transactions are the SES Intercompany Interchange Contract (IIC), under which Gulf participates in the SES reserve equalization process, and Gulf's cogeneration purchased power contract with Solutia. The Commission has authorized the Company to include capacity transactions under the IIC for recovery through the purchased power capacity cost adjustment factor. Gulf will continue to have IIC capacity transactions during the January 2005 - December 2005 recovery period. The energy transactions under this contract are recovered through the fuel cost adjustment factor.

The Gulf/Solutia cogeneration purchased power contract enables Gulf to purchase 19 megawatts of firm capacity until June 1, 2005. Gulf has included the contract's cost for the months of January through May 2005 in this projection. The energy transactions under this contract have also been approved by the Commission for recovery, and these costs are included for cost recovery purposes through the fuel cost adjustment factor.

Q. Are there any other arrangements that produce capacity transactions that are recovered through Gulf's purchased power capacity cost adjustment factor?

A. Yes. Gulf, as a member of the SES, will continue to participate in several market-based service agreements with non-associated entities that were included in Gulf's capacity cost projections for the January 2004 -

December 2004 recovery period. During the 2005 recovery period, the fixed revenues received from the generator and load balancing services provided under these agreements will produce credits that will lower Gulf's overall 2005 projected capacity costs. Any energy transactions associated with these agreements are handled for cost recovery purposes through the fuel cost adjustment factor.

Q. What are Gulf's IIC capacity transactions that are projected for the January 2005 - December 2005 recovery period?

A. As shown on my Exhibit HHB-1, IIC capacity purchases in the amount of $23,865,725 are projected for the 2005 recovery period.

Q. What is the cost of Gulf's capacity purchase from Solutia that is projected for the January 2005 - December 2005 recovery period?

A. As shown on my Exhibit HHB-1, Gulf is projected to pay $311,010, or $62,202 per month through May 2005, to Solutia for the firm capacity purchase made pursuant to the Commission approved contract. This monthly amount has not changed from the amount that was projected for recovery in 2004. The contract will expire June 1, 2005 and there will be no monthly payments for the months June through December of the 2005 recovery period.

Q. What amount of revenues associated with Gulf's market-based service agreements is projected for the January 2005 - December 2005 recovery period?

A. As shown on my Exhibit HHB-1, Gulf is projected to receive a total of $66,780 for services provided under market-based agreements with non-associated entities.

Q. Are there other projected revenues that Gulf has included in its capacity cost recovery clause for the 2005 recovery period?

A. Yes. In accordance with Florida Public Service Commission Order No. PSC-99-2512-FOF-EI, issued December 22, 1999, Gulf will continue to include an estimate of transmission revenues in its capacity cost recovery clause projection. For the 2005 recovery period, Gulf expects to receive transmission revenues in the amount of $100,000. This amount is shown on Schedule CCE-1 of Gulf's witness Ms. Davis' testimony.

Q. What are Gulf's total projected net capacity transactions for the January 2005 - December 2005 recovery period?

A. As shown on my Exhibit HHB-1, the IIC capacity purchases, the Solutia contract purchases, and the revenues from market-based service agreements will result in a projected net capacity cost of $24,109,955. Including the estimated transmission revenues that are shown on Schedule CCE-1, Gulf's total projected net capacity cost for the 2005 recovery period is $24,009,955. This figure is used by Gulf's witness Ms. Davis as an input into the calculation of the total capacity transactions to be recovered through the purchased power capacity cost adjustment factor for this annual recovery period.

Q. **Please compare Gulf's January 2005 - December 2005** total projected net capacity cost to those projected costs for January 2004 - December 2004 recovery period and explain the reason for the difference.

A. Gulf's 2005 net capacity cost is projected to be $4,467,048 higher than the September 2003 estimate of $19,542,907 due primarily to Gulf's higher IIC capacity reserve sharing cost produced by Gulf's increased purchases of capacity reserves under the provisions of the IIC.

Q. What factors contribute to Gulf's increased purchases of SES capacity reserves during the January 2005 – December 2005 recovery period?

A. In 2005, SES capacity additions that have been planned and committed to serve system load growth will produce a higher level of temporary system capacity reserves to be shared, or equalized, by all SES operating companies. These higher system reserves insure that capacity is available to serve projected system load which increases the bulk power reliability of the grid.

Because Gulf's 2005 load is projected to increase, Gulf will purchase more system capacity reserves in order to provide the level of reserves needed to reliably serve its growing customer requirements. Therefore, Gulf's IIC capacity cost will be correspondingly higher during the January 2005 - December 2005 recovery period.

Q. Does this conclude your testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 040001-EI

Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December, 2003

DIRECT TESTIMONY OF
PAMELA R. MURPHY

Q. Please state your name and business address.

A. My name is Pamela R. Murphy. My business address is P.O. Box 1551, Raleigh, North Carolina 27602.

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

A. I am employed by Progress Energy Carolinas in the capacity of Director, Gas & Oil Procurement & Logistics.

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

A. Yes, my responsibilities for the procurement and trading of natural gas and oil on behalf of Progress Energy Florida (Progress Energy or the Company) have remained the same.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to summarize the results of Progress Energy's Risk Management Plan for 2003, and to provide the information required by Order No. PSC-02-1484-FOF-EI, which approved the resolution of the hedging-related issues pending before the Commission in Docket No. 011605-EI.

Q. Have you prepared exhibits to your testimony?

A. Yes, I have prepared Exhibit No. ___ (PRM-1T), a three-page summary of the results of the Company's Risk Management Plan for the true-up period, and Exhibit No. ___ (PRM-2T), a one-page listing of the hedging information required by the Commission-approve resolution of issues in Docket No. 011605-EI, both of which are attached to my prefiled testimony.

Q. Did Progress Energy encounter any force majeure events in 2003?

A. Yes, Progress Energy encountered two force majeure events. One occurred on Florida Gas Transmission pipeline system as a result of a pipeline leak downstream of compressor #4. The other was a result of Tropical Storm Claudette in the Gulf of Mexico that disrupted a portion of our contracted natural gas supplies.

Q. What measures did Progress Energy take during these force majeure events to maintain the load of its customers?

A. Progress Energy continued to serve customer load through the increased use of residual (No. 6) and distillate (No. 2) oil to the extent necessary during the force majeure event that occurred on Florida Gas Transmission pipeline system. During the tropical storm force majeure event, the Company again used No. 2 fuel oil to the extent necessary and worked with

Gulfstream Natural Gas and Florida Gas Transmission to use a portion of the excess gas in their pipelines until production resumed.

Q. What measures did Progress Energy undertake to minimize other risks identified in its Risk Management Plan?

A. Progress Energy continued to perform its daily management activities outlined in the Plan to monitor and, to the extent possible, mitigate risks to customers.

Q. Did Progress Energy follow the processes and guidelines outlined in the Plan?

A. Yes, all processes and guidelines were followed and no trading or credit violations occurred.

Q. What hedging activities did Progress Energy undertake for fuel and wholesale power?

A. Progress Energy did not hedge wholesale power and coal prices for 2003. However, the Company did make economic purchases as well as short-term wholesale power sales that resulted in overall savings to its customers of approximately $15.4 million. With respect to natural gas, Progress Energy met all of its hedging strategy objectives to 1) mitigate price risk and volatility, 2) provide gas price certainty, 3) maintain a diverse portfolio, and 4) enhance potential for ratepayer's savings. To that end, the following transactions were entered into by Progress Energy:

1.) A zero-cost collar for a 20,000 MMBtu per day supply of gas for the three-month period of December 2002 through February 2003. The contract was exercised in February 2003, resulting in savings to customers of $190,400.

2) For March 2003, Progress Energy elected to exercise a contractual option to convert a term purchase from index to daily pricing. This price conversion resulted in customer savings of $875,300.

3) Progress Energy had several fixed price contracts that resulted in savings to customers of $18,706,426. As of December 31, 2003, the fixed priced contracts had a favorable mark-to-market value through 2010 of approximately $61 million.

4) The Company exercised a contractual option to fix the price on various shipments of residual oil in 2003, which resulted in a net additional cost to customers of $1,229,174.

To summarize, the Company met its 2003 hedging objectives and provided total net savings to customers of $18,542,952, in addition to savings of approximately $15.4 million from economic power purchases and short-term off-system power sales.

Q. Does this conclude your testimony?

A. Yes, it does.

PROGRESS ENERGY FLORIDA

DOCKET NO. 040001-EI

Fuel and Capacity Cost Recovery

January through December, 2005

DIRECT TESTIMONY OF PAMELA R. MURPHY

Q. Please state your name and business address.

A. My name is Pamela R. Murphy. My business address is P. O. Box 1551, Raleigh, North Carolina 27602.

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

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

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

A. Yes, my responsibilities for the procurement and trading of natural gas and oil on behalf of Progress Energy Florida (Progress Energy or the Company) have remained the same.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present and address Progress Energy's Risk Management Plan for fuel procurement in 2005. In addition, I will address the Company's actions to mitigate price volatility through its hedging strategies.

Q. Has Progress Energy developed its Risk Management Plan for fuel procurement in 2005 in accordance with the Resolution of Issues proposed by Staff and approved by the Commission in Docket No. 011605-EI?

A. Yes. Progress Energy's Risk Management Plan was prepared in accordance with the Resolution of Issues approved by the Commission in Docket No. 011605 – EI and is attached to my prepared testimony as Exhibit No. ___ (PRM-1). Certain information in the exhibit has been redacted, consistent with the Company's request for confidential classification of this information.

Q. What are the objectives of Progress Energy's hedging plans for 2005?

A. The objectives of Progress Energy's natural gas and No. 6 (heavy oil) fuel oil hedging plans are as follows:

1) Mitigate price risk and volatility, 2) provide gas price certainty to smooth out natural gas prices over time, 3) maintain a diverse portfolio of volumes and prices over time, and 4) where the potential exists and is consistent with our first three objectives to provide ratepayer savings through lower natural gas and No. 6 heavy oil costs.

Q. Please describe the hedging activities Progress Energy plans for 2005 for its natural gas requirements.

A. Progress Energy has been conducting and will continue to conduct gas physical hedging in accordance with the Company's approved natural gas hedging strategy. As reflected in the August 2004 generation fuel forecast for 2005, the Company hedged approximately 39% of its projected natural gas usage at a fixed price of $4.79/MMBtu.

Q. Please describe the hedging activities Progress Energy's plans for No. 6 heavy oil in 2005?

A. The Company's No. 6 heavy oil hedging strategy was implemented in June 2004. The Company will be using financial over-the-counter swaps to hedge its projected No. 6 heavy oil requirements. To date for 2005, the Company has hedged approximately 42% of its projected No. 6 heavy oil usage at a fixed price of $4.43/MMBtu. Due to the small amount of hedges executed prior to the August 2004 generation fuel forecast, they were not included in that forecast.

Q. What is Progress Energy's time frame for hedging forward prices of natural gas and residual oil?

A. The Company's current hedging strategy extends for a two-year rolling seasonal period. For example, in the summer of 2004, Progress Energy will consider hedges forward through the summer of 2006.

Q. What were the results of Progress Energy's hedging activities during the January through July 2004 period?

A. In addition, the Company's hedging activities produced customer savings of approximately $26 million. For the seven-month period from January through July 2004, Progress Energy hedged approximately 53% of its natural gas consumption. For No. 6 heavy oil, the hedging program was implemented in June 2004. Approximately 16% of the June-July 2004 No.6

residual oil consumption was hedged. The Company's hedging activities for natural gas for the period resulted in reducing price volatility 23 percent, providing customer savings of approximately $26 million.

Q. Does this conclude your testimony?

A. Yes, it does.

(Transcript continues in sequence with Volume 2.)

TATE OF FLORIDA)
CERTIFICATE OF REPORTER
OUNTY OF LEON)

I, LINDA BOLES, RPR, Official Commission eporter, do hereby certify that the foregoing proceeding was eard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically eported the said proceedings; that the same has been ranscribed under my direct supervision; and that this ranscript constitutes a true transcription of my notes of said roceedings.

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

DATED THIS 16th day of November, 2004.

Linda Boles

LINDA BOLES, RPR
FPSC Official Commission Reporter
(850) 413-6734