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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Progress Energy Florida, Inc.'s petition for approval of storm cost recovery clause for extraordinary expenditures related to Hurricanes Charley, Frances, Jeanne, and Ivan.	Docket No.: 041272 Submitted for Filing: March 18th, 2005

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PROGRESS ENERGY FLORIDA'S
REQUEST FOR OFFICIAL RECOGNITION

Pursuant to Section 120.569(i), Florida Statutes, Progress Energy Florida ("PEF") requests that the Florida Public Service Commission ("PSC") make official recognition of the items listed below, consisting of the following:

1. American Red Cross – Hurricane Season 2004 Stewardship Report (attached as Exhibit 1).

2. Executive Order Numbers 04-182, 04-192, 04-206, and 04-217, promulgated by Governor Jeb Bush and declaring states of emergency on account of Hurricanes Charley, Frances, Ivan, and Jeanne, respectively (attached as Exhibit 2).

3. Petition by Florida Power & Light Company to the Commission for authorization to increase the annual storm fund accrual and to establish a corresponding storm fund reserve objective, filed September 28,2001, Docket No. 011298-EI (attached as Exhibit 3).

4. Testimony and Exhibits of Moray Dewhurst, in re: Review of the Retail Rates of Florida Power & Light Company, dated January 28,2002, Docket No. 001148-EI (attached as Exhibit 4).

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5. Direct Testimony of Theodore J. Kury on behalf of Publix Supermarkets, Inc., in re: Review of the Retail Rates of Florida Power & Light Company, filed March 4, 2002, Docket No. 001148-EI (attached as Exhibit 5).

6. In re: Review of the retail rates of Florida Power & Light Company, Order No. PSC-02-0501, Docket No. 001148-EI (April 11,2002) (Order Approving Settlement, Authorizing Midcourse Correction, and Requiring Rate Reductions) (attached as Exhibit 6).

7. Special Agenda Conference, in the Matter of Review of the Retail Rates of Florida Power & Light Company, dated March 22,2002, Docket No. 001148-EI (attached as Exhibit 7).

8. In re: Petition of Florida Power Corporation for authorization to implement a self-insurance program for storm damage to its T&D Lines and to increase annual storm damage expenses, Order No. PSC-93-1522-FOF-EI, Docket No. 930867-EI, 1993 Fla. PUC Lexis 1339 (Oct. 15, 1993) (attached as Exhibit **8).**

9. In re: Petition to implement a self-insurance mechanism for storm damage to transmission and distribution system and to resume and increase annual contribution to storm and property insurance reserve fund by Florida Power and Light Company, Order No, PSC-93-0918-FOF-EI, Docket No. 930405-EI, 1993 Fla. PUC Lexis 761 (June 17, 1993) (attached as Exhibit 9).

10. In re: Petition to implement a self-insurance mechanism for storm damage to transmission and distribution system and to resume and increase contribution to storm and property insurance reserve fund by Florida Power & Light Company, Order No.

PSC-95-0264-FOF-EI, Docket No. 930405-EI, 1995 Fla. PUC Lexis 275 (Feb. 27,1995) (attached as Exhibit 10).

11. In re: Petition for authorization to increase the annual storm fund accrual commencing January 1, 1995 to $20.3 million; to add approximately $51.3 million of recoveries for damage due to Hurricane Andrew and the March 1993 Storm; and to re-establish the storm reserve for the costs of Hurricane Erin by increasing the storm reserve and charging to expense approximately $5.3 million, by Florida Power & Light Company, Order No. PSC-95-1588-FOF-EI, Docket No. 951167-EI, 1995 Fla. PUC Lexis 1744 (Dec. 27, 1995) (attached **as** Exhibit 11).

12. In re: Petition for authority to increase annual storm fund accrual commencing January 1, 1997, to $35 million by Florida Power & Light Company, Order No. PSC-98-0953-FOF-EI, Docket No. 971237-EI, 1998 Fla. PUC **Lexis** 1376 (July 14, 1998) (attached as Exhibit 12).

13. In re: Petition for Approval of Special Accounting Treatment of Expenditures Related to Hurricane Erin and Hurricane Opal by Gulf Power Company, Order No. PSC-96-0023-FOF-EI, Docket No. 951433-EI, 1996 Fla. PUC Lexis 26 (Jan. 8, 1996) (attached **as** Exhibit 13).

14. In re: Investigation into Currently Authorized Return on Equity and Earnings of Florida Power Corporation; In re: Petition for Authorization to Implement a Self-Insurance Program for Storm Damage to its Transmission and Distribution (T&D) Lines and to Increase Annual Storm Damage Expense by Florida Power Corporation, Order No. PSC-94-0852-FOF-EI, Docket No. 940621-EI, 1994 Fla. PUC Lexis 867 (July 13, 1994) (attached as Exhibit 14).

15. In re: Fuel and purchased power cost recovery clause with generating Performance incentive factor, Order No. PSC-04-0411-FOF-EI, Docket No. 040001-EI, 2004 Fla. PUC Lexis 411 (April 21,2004) (attached as Exhibit 15).

16. In re: Fuel and purchase power cost recovery clause with generating performance incentive factor, Order No. PSC-03-1461-FOF-EI, Docket No. 03000-EI, 2003 Fla. PUC Lexis 874 (Dec. 22,2003) (attached as Exhibit 16).

17. In re: Fuel and purchased power cost recovery clause and generating, performance incentive factor, Order No. PSC-01-2516-FOF-EI, Docket No. 010001-EI, 2001 Fla. PUC Lexis 1429 (Dec. 26,2001) (attached **as** Exhibit 17).

18. In re: Fuel and Purchased Power Cost Recovery Clause and Generating Performance Incentive Factor, Order No. PSC-95-1089-FOF-EI, Docket No. 950001-EI, 1995 Fla. PUC Lexis 1230 (Sept. 5, 1995) (attached **as** Exhibit 18).

19. In re: Petition for approval of Consumptive Water Use Monitoring Activity and Smith Wetlands Mitigation Plan as new programs for cost recovery through the Environmental Cost Recovery Clause by Gulf Power Company, Order No. PSC-00-2092-PAA-EI, Docket No. 000808-EI, 2000 Fla. PUC Lexis 1417 (Nov. 3,2000) (attached as Exhibit 19).

20. In re: Fuel and purchased power cost recovery clause and generating performance incentive factor, Order No. PSC-02-1761-FOF-EI, Docket No. 020001-EI, 2002 Fla. PUC Lexis 1120 (Dec. 13,2002) (attached as Exhibit 20).

The PSC has full authority and ability, pursuant to Section 120.569(i), Florida Statutes, to consider the foregoing items in connection with this proceeding.

WHEREFORE, PEF respectfully requests that the PSC take official recognition of the foregoing items.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished to the following individuals by electronic mail and regular U.S. Mail the 18th day of March, 2005.

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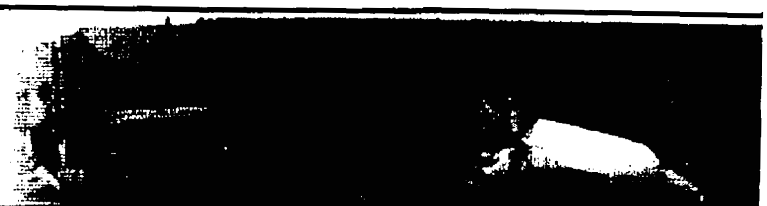
Sugarmills Woods Civic
Association, Inc.

Attorney

American Red Cross

Together, we can save a life



Supporters

Hurricane Season 2004

Our supporters **helped** us save **lives and** bring comfort to **those** in the southeastern United States. The American **Red** Cross is grateful for the wonderful **response** from **individuals, families,** volunteers **and** corporate partners nationwide who have given *so* generously of their time **and** money to **assist in the** relief effort related to 2004 hurricane activity. The devastation from these storms **is** horrific **and** widespread, The **response by** the American people to the victims of these disasters has been nothing short *of* magnificent. The **Red Cross** appreciates and thanks all **who have** partnered in this relief effort.

The following report **is provided to give** an ongoing portrayal of Red *Cross* efforts related to the four major hurricanes that struck the continental United States during August **and** September in 2004. **All figures** provided in this report are internal **Red Cross** numbers, which are currently unaudited. The **Red Cmss** continues to deliver services to those affected **by** the hurricanes, and for that **reason,** this report **is** not **a** final account of **this** massive operation.

Regular **weekly updates** of new information and updated numbers **will be** provided until our **operations are** concluded. We hope that you will visit this online site frequently to remain abreast of our **efforts** in **response** to the 2004 hurricanes.

The American **Red** Cross thanks you *for* your generosity **and** your **support.**

Stewardship Report

Charley. Frances. Ivan. Jeanne.
There's no doubt these names will go down in history.

Within *a* **span** of **six weeks** four major Category 3 and Category 4 hurricanes slammed into the southeastern United **States** producing **profound damage to** homes and building structures across Florida and the surrounding states **before** crawling north along the eastern seaboard. While the storms lost the bulk of their punch after hitting the **coast,** each **one carved** a path of heavy rain, widespread flooding, destructive high winds **and** even tornados before completely dissipating.

- ▸ *Hurricanes* **Charley, Frances,** Ivan **&Jeanne**
- ▸ Impacted States
- ▸ **Damage** Assessment
- ▸ Related Content

Hurricane **Charley** was the first to arrive on the heels of a drenching Tropical Storm Bonnie in the **middle** of

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August. The strongest of the four hurricanes, the *Category* **4** Charley **packed** 145-mile-per-hour **winds** that **swept** onto Florida's west mast, destroying **thousands** of homes **and** other structures, bringing storm **surges** of **up to** 15 feet, toppling trees **and power** lines, **and** claiming 33 lives.

Millions of residents and vacationers battened down the hatches and evacuated the Florida Keys in preparation for the one-two punch of Bonnie and Charley. In addition to the heavy damage to homes and businesses, six hospitals were reported damaged or destroyed.

The Red Cross was on the scene immediately after Charley **struck** assisting storm **victims.**

Hurricane Frances followed just three weeks after Charley and it prompted the largest evacuation in Florida 's history with 2.8 million people ordered or urged to leave their homes. What was spared by Charley was pounded by Frances, and presidential disaster declarations were made in four states. Damage was reported as far north as New York , and 45 fatalities were confirmed.

Frances crashed **ashore Saturday,** September **4** th near Stuart, Florida , **as a** Category 2 storm with an eye *that* stretched for 70 **miles.** She carried **winds of** 105 mph.

The stow-moving hurricane **knocked out** power far six million people, uprooted trees, ripped the roofs off of homes and **businesses,** flattened **gas** station **canopies** and **slammed** moored **boats** into one **another.** By **Sunday evening, September 5th**, Frances **had** become **a tropical storm,** crawling across the state with sustained winds of **seventy** miles **per** hour. **After crossing a comer** of **the** ***Gulf of*** **Mexico, Frances crowded** into the Florida Panhandle on Monday, taking another **swing at the** storm-weary **state.**

A third *hurricane* **in a** month, **Ivan, struck the** Gulf **Coast stales and Florida Panhandle on Thursday, September 16th.**

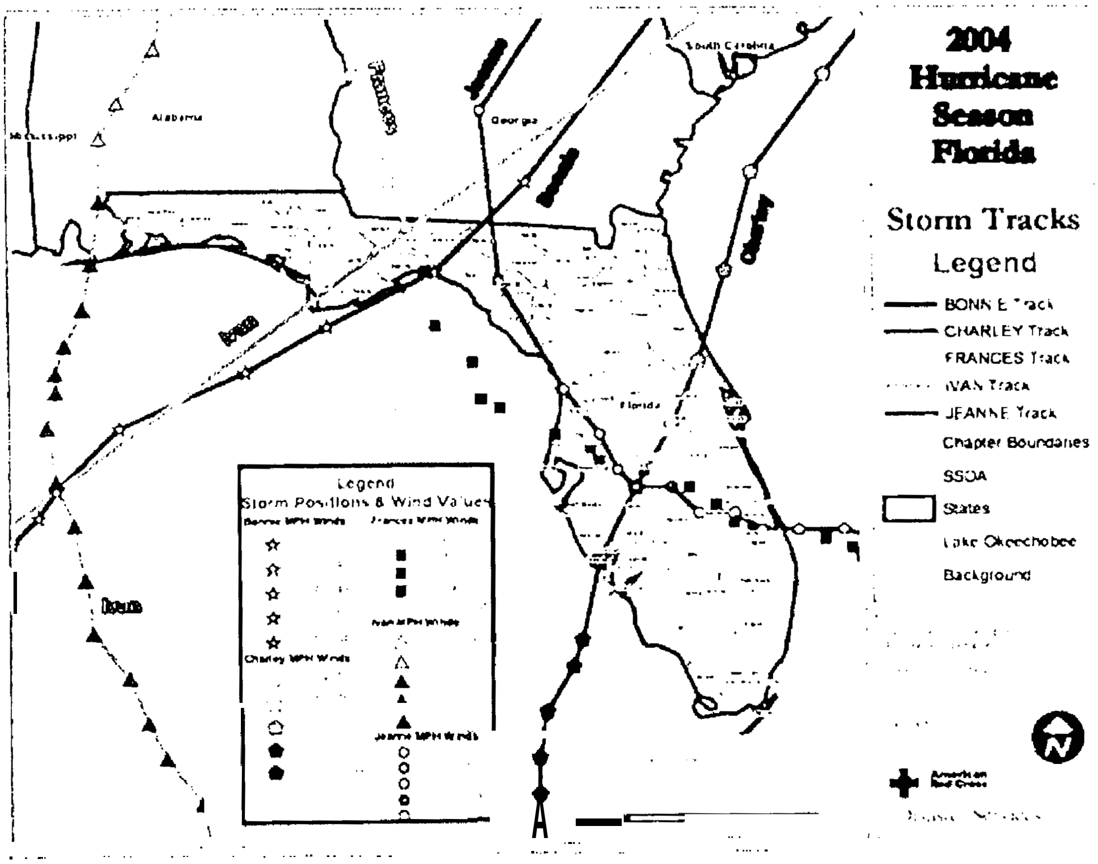
Hurricane Ivan showed up more than **a week after Frances,** slamming into Gulf **Shores** Beach , **Alabama with 130-mile-per-hourwinds and generating as many as 50 tornadoes as** far north **as** Virginia **and** Maryland. Major **disaster** declarations **were declared** in nine **states** and 63 storm-related **deaths** have been confirmed.

Ivan **made** landfall **striking Alabama and** Florida **coastlines** on Thursday, **September** 16**th** ***as a*** strong Category **3 storm. It wreaked havoc along** the southern gulf coast from **Mobile** , Alabama to Pensacola and Panama City, lashing the region with fierce winds, bringing **coastal storm surges** of **10 feet to 15** feet, **and** dropping torrential rain. More than 2 million ***residents*** **along coastal** Louisiana, Mississippi, **Alabama and Florida were ordered** to **evacuate their** homes, **and** severe damage was **reported** throughout **the entire** region.

Hurricane Jeanne was the **last** to arrive, **but** she **packed** no **weaker a** punch. The **Category 3 storm stretched** 400 **miles in width and tracked nearly the same** path **as** Frances just **weeks** prior, **and** 13 storm-related fatalities **have** been confirmed in Florida.

Jeanne plowed **into** Florida on **September 25th** with blustering winds and torrential heavy **rain. Nearly 2** million people were **asked** *or* ordered **to** evacuate low-lying **areas,** barrier **islands and mobile** homes in the **storm's** path. The hurricane **washed** out bridges and flooded **mads** in an **area** already reeling from **previous storms. More** than 2.64 million customers **were affected by power** outages in **Florida. Several** counties **issued** boil **water** notices as **creeks,** streams, canals, and rivers **am** filled to **capacity** from earlier hurricanes. Jeanne was downgraded **to** a tropical storm packing rain **and wind as she moved** inland, **but remained** a **very** dangerous situation for the East Coast Chat equally battered **by the season's** hurricane activity.

Hurricanes 2004 - Storm Tracking



Impacted States

In responding to the four major hurricanes, **as well** as other tropical storms, our **work** has touched nearly one-third of the **United States including:**

- Tropical **Storm** Bonnie **and** Hurricane Charley:

  Florida — South Carolina
  North Carolina — **Virginia**

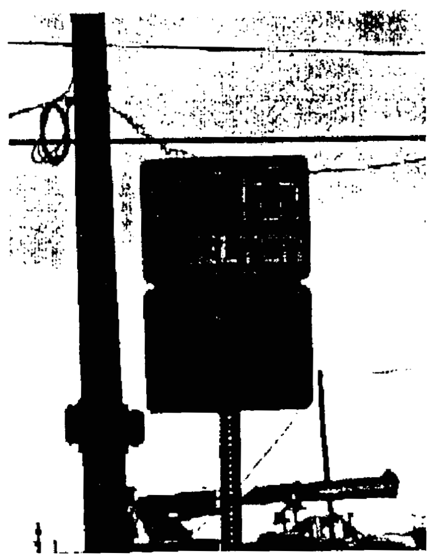
- Hurricane Frances:

  Florida — Ohio
  Georgia — Pennsylvania
  Maryland — **South** Carolina
  New York — Virginia
  North Carolina — U.S. Virgin **Islands**

- Tropical Storm Gaston:

  South Carolina — Virginia

- Hurricane Ivan:



Alabama	Mississippi	Tennessee
Florida	New Jersey	Texas
Georgia	North Carolina	Virginia
Louisiana	Ohio	West Virginia
Maryland	Pennsylvania	

- Hurricane Jeanne:

Florida	North Carolina	Puerto Rico
Georgia	South Carolina	U.S. Virgin Islands

Red Cmss humanitarian service continues as thousands of storm victims are faced with rebuilding what's been lost. We have been working around the clock in the hardest-hit areas, particularly throughout Florida, and our work will continue until every victim makes it through this very difficult time.

Home Damage Assessment

The damage unique to each storm became almost unrecognizable. The storms combined damaged 330,200 homes. Of that amount, 27,476 homes were completely destroyed. Hundreds of roads and bridges were washed out by heavy flooding, businesses were destroyed, roofs were ripped off of buildings, trees were uprooted, power lines snapped, and boats and other water craft were completely lost.

	Destroyed	Major	Minor	Affected	Total
Charley	12,019	19,095	32,755	23,048	86,917
Frances	2,181	5,318	14,386	19,361	41,246
Ivan	8,322	18,850	46,779	67,572	142,123
Jeanne	4,354	14,045	18,656	22,859	59,914
Total Homes	27,476	57,308	112,576	132,840	330,200

Definitions of Assessment

Destroyed indicates the dwelling is currently uninhabitable and cannot be made habitable without extensive repairs that would prove to be *too* costly.
Major indicates that a dwelling is not currently habitable but can be made habitable with repairs.
Minor indicates the dwelling has sustained damage and will require repairs, but is currently habitable whether or not the occupants have chosen to remain in the dwelling following the disaster event.
Affected indicates the dwelling has sustained "extremely minor" damage. In this *category*, most *of* this damage would be cansidered nuisance damage such as a few shingles blown off, a couple of broken windows, debris in the yard or on or near the dwelling, and minor contents damage.

Related Content:

- Red *Cross* Responds To The Largest Natural Disaster In Its History
- Florida Governor Jeb Hush Visits the American Red Cross
- Recovery Continues in Southeast
- Carolinas Clean Up After Frances, Get Heady for Ivan
- One Month of Red *Cross* Response for Hurricane Frances, Charley and Preparing for Ivan
- Red Cross Responds With Massive Relief Effort For Hurricane Frances
- Hurricane Charley Triggers Massive Red Cross Response

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STATE OF FLORIDA

OFFICE OF THE GOVERNOR

EXECUTIVE ORDER NUMBER 04-182

(Emergency Management)

WHEREAS, on August 10,2004, the National Hurricane Center advised that Tropical Storm Bonnie may strengthen into a Category 1 hurricane with sustained surface winds exceeding 65 knots; and

WHEREAS, at present 'Tropical Storm Bonnie threatens a number of communities in the northwestern portion of the State of Florida with extreme weather conditions which pose an immediate danger to the lives and property of persons in those communities; and

WHEREAS, on August 10,2004, the National Hurricane Center further advised that Tropical Storm Charley is likely to strengthen into **a** Category I hurricane with sustained surface winds exceeding 70 knots; **and**

WHEREAS, at present Tropical Storm Charley likewise threatens a number of communities in the southern and southwestern portions of the State of Florida with extreme weather conditions which also pose an immediate danger to the lives and property of persons in those communities; and

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WHEREAS, it is likely that within a matter of hours Tropical Storm Bonnie and Tropical Storm Charley will strike a number of communities in different sections of the State at the same time, so that the immediate evacuation of persons from those communities to safe locations is vital to their safety; and

WHEREAS, the difficulties inherent in coordinating the timely evacuation of persons from threatened communities in different sections of the State require immediate action; and

WHEREAS, special equipment, personnel and other resources may be needed in order to ensure the timely evacuation of persons from the threatened communities and the safe movement of the evacuees to other communities in the State acting as destinations for the evacuees; and

WHEREAS, central coordination and direction of the use of such resources for the local evacuation measures are needed to ensure the timely evacuation of the threatened communities; and

WHEREAS, yet other emergency measures may be needed to protect the lives and property of the people in the threatened communities, and the general welfare of the State of Florida;

NOW, THEREFORE, I, JEB BUSH, as Governor of Florida, by virtue of the authority vested in me by Article IV, Section 1(a) of the Florida Constitution and by the Florida Emergency Management Act, as amended, and all other applicable laws, do hereby promulgate the following Executive Order, to take immediate effect:

Section 1. Because of thc foregoing conditions, I hcrcby find that 'Tropical Storm Bonnic **and** 'Tropical Storm Charley thrcatcn thc State of Florida with a major disaster. I thcrcfore declare that a statc of cmergency exists in thc Statc of Florida, and that the evacuation of multiple counties in thc Statc may bc necessary because of thc impending landfall of both 'Tropical Storms. I further find that central authority ovcr thc evacuation of thcsc counties is nccdcd to coordinate thcsc cvacuations, that thcse evacuations cxcccd the capability **of** the local governments in thesc communities, and that shelters in other counties arc needed to accommodatc thc evacuees. 1, thcrcfore, declarc that a state of crncrgcncy also exists in all destination counties that open shelters to accommodate evacuees from thc communities threatened by these Tropical Storms.

Section 2. I hereby designate thc Director of the Division of Emergency Management as thc State Coordinating Officer for the duration of this cmergency and as **my** Authorized Reprcscntative. In exercising thc powers delegated by this Executive Order, the State Coordinating Officer shall confer with thc Governor to the fullest extcnt practicable. In accordance with Sections 252.36(1)(a) and 252.36(5), Florida Statutcs, I hcrcby delegate to thc **State** Coordinating Officer thc following powers, which he shall exercise as nccdcd to meet this crncrgcncy:

A. The authority to activatc the Comprehensive Emergency Management Plan;

B. The authority to invoke and administer the Statewidc Mutual **Aid** Agreement, and the further authority to coordinate the allocation of resources under that Agreement so as best to meet *this* cmcrgcncy;

C. The authority to invoke and administer the Emergency Management Assistance Compact and other Compacts and Agreements existing between the State of Florida and other Slates, and the further authority to coordinate the allocation of resources from such other States that arc made available to the State of Florida under such Compacts and Agreements so as best to meet this emergency;

D. The authority to **seek** direct assistance from any and all agencics of the United States Government **as** may be needed to meet the emergency;

E. The authority to distribute any and all **supplies** stockpiled to meet the emergency;

F. The authority to suspend the effect of any statute or rule governing the conduct of state business and the further authority to suspend the effect of any statute, rule, ordinance, or order of any state, regional, or local governmental entity, to the extent needed to **procure** any and all necessary **supplies,** commodities, services, temporary premises, and other resources, to include, without limiting the **generality** of **the** foregoing, any and all statutes and rules which affect budgeting, printing, purchasing, leasing, and the conditions of employment and the compensation of employees; **provided,** that the **State** Coordinating Officer shall have authority to suspend the effect of any statute, rule, ordinance, or order only to the extent necessary to ensure the timely performance of'vital emergency response functions;

G. The authority to direct all state, regional and local governmental agencies, including law enforcement agencics, to identify personnel needed from those agencies to assist in meeting the needs created by this crncrgcncy, **and** to place all such personnel under the direct command of the State Coordinating Officer to meet this crncrgcncy;

H. The authority to activate the Continuity of Operations Plans of all state, regional and local governmental agencies;

I. The authority to seize **and** utilize any and all real or personal property as needed to meet this emergency, subject always to the duty of the State to compensate the owner;

J. The authority to **order** the evacuation of all persons from any or all of the communities referred to in Section 1 **of** this Executive Order, the authority to direct the sequcncc in which such evacuations shall be carried out, and the further authority to regulate the movement ofpcrsons **and** traffic to, from, or within any location in the State to the extent needed to cope with this crncrgcncy;

K. The authority to reverse the **flow** of traffic on any **and** all highways or portions of highways of the State Highway System **as** needed to facilitate the evacuation of the affected communities;

L. The authority to regulate the return of the evacuees *to* their home communities; and

M. The authority to designate such Deputy State Coordinating Officers as the State Coordinating Officer may deem necessary to cope with the emergency.

<u>Section 3.</u> I hereby order the Adjutant General to activate the Florida National Guard for the duration of this emergency, and I hereby place the National Guard under the authority of the State Coordinating Officer for the duration *of* this emergency.

Section 4. I hercby direct all state, regional and local agcncics to placc any and all available rcsourccs under thc authority of the *State* Coordinating Officer as nccdcd to meet this cmcrgcncy.

Scction 5. I hcrcby dcsignatc all statc, rcgional and local govcrnmcntal facilities including, without limiting the generality of thc forcgoing, all public clcmcntary and secondary schools, all Community Colleges, and all State Universities, for use as shcltcrs to ensure thc propcr reception and carc of all cvacuccs.

Section 6. I hereby find that thc demands placed upon the funds appropriated to thc agcncics of the State of Florida and to local agcncics may be inadequate to pay thc costs of this disaster. In accordance with Section 252.37(2), Florida Statutcs, to thc cxtcnt that funds appropriated to thc agcncics of the State and to local agencies may be inadequate to defray the costs of this disastcr, I hereby direct thc transfer of sufficient funds from unappropriated surplus, from the Budgct Stabilization Fund, and from the Working Capital Fund, in that order of priority.

Scction 7. Medical profcssionals and workers, social workcrs, and counselors with good and valid professional licenses issued by Statcs othcr than thc Statc of Florida shall bc allowcd to render such services in thc State of Florida during this cmcrgcncy for pcrsons affected by this cmcrgcncy, with thc condition that such scrviccs be rendcrcd to such persons frcc of chargc, and with thc further condition that such scrviccs bc rcndcrcd undcr thc auspices of thc American Rcd Cross.

Section 8. In accordance with Sections 501.160(2) and 501.160(3), Florida Statutes, I hereby place all persons on noticc that it is unlawful for any pcrson to rent or sell, or offer to rent or sell at an unconscionable price, any essential equipment, services, or supplies whose consumption or use is necessary because of the emergency. Such services shall include, without limiting the generality of the foregoing, any rental of hotel, motel, or other transient lodging facilities, and any rental of storage facilities. In accordance with Sections 501.160(1)(b), Florida Statutes, any price exceeding the average price for such essential equipment, services, or supplies for the thirty (30) days immediately preceding the date of this Executive Order shall create a presumption that the price is unconscionable unless such increase is caused by actual costs incurred in connection with such essential equipment, services, or supplies, or is caused by national or international economic trends.

Section 9. This Executive Order shall be deemed to have taken effect on August 10,2004, and all actions taken by the Director of the Division of Emergency Management with respect to Tropical Storm Bonnie or Tropical Storm Charley before the issuance of this Executive Order are hereby ratified. This Executive Order shall expire sixty (60) days from the date hereof unless extended.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused the Great Seal of the State of Florida to be affixed, at Tallahassee, the Capitol, this 10th day of August, 2004.

GOVERNOR

ATTEST:

SECRETARY OF STATE

STATE OF FLORIDA

Office of the Governor

THE CAPITOL
TALLAHASSEE, FLORIDA 32399-0001

JEB BUSH
GOVERNOR

EXECUTIVE ORDER NUMBER 04-192

(Emergency Management)

WHEREAS, on August 10,2004, the Governor issued Executive Order 04-182 to declare a state of emergency because of Hurricane Charley; and

WHEREAS, Hurricane Charley came ashore in the southwestern portion of the State as a Category 4 hurricane and devastated communities in the southwestrrn and central portions of the State; and

WHEREAS, the Statc is now trying to recover from the impact of Hurricane Charley, although it may take years to do *so;* and

WHEREAS, on September 1, 2004, the National Hurricane Center advised that Hurricane Frances has continued to strengthen into a Category 4 hurricane, with sustained surface winds exceeding 135 mph, and that it may strengthen even further; and

WHEREAS, Hurricane Frances threatens a number of communities in the State af Florida with extreme weather conditions which pose an immediate danger to the lives and property of persons in thosc communities; and

WHEREAS, it is likely that Hurricane Frances will strike thosc communities within a matter of days, making the orderly evacuation of persons from those communities vital to the safety of the residents; and

WHEREAS, special equipment, personnel and other resources in addition to thosc needed for Hurricane Charley may be required in order to ensure the timely evacuation of persons from the threatened communities and the safe movement of the evacuees to other communities in the Statc acting as destinations for the evacuees; and

WHEREAS, emcrgcncy measures in addition to thosc needed for Hurricane Charley may be needed to protect the lives and property of persons in the threatened communities, and the general welfare of the State of Florida; and

WHEREAS, central coordination and direction of the use of such resources for the local evacuation measures are needed to ensure the timely evacuation of the threatened communities;

NOW, THEREFORE, I, JEB BUSH, as Governor of Florida, by virtue of the authority vested in me by Article IV, Section 1(a) of the Florida Constitution and by the Florida Emergency Management Act, as amended, and all other applicable laws, do hereby promulgate the following Executive Order, to take immediate effect:

Section 1. Because of the foregoing conditions, I hereby find that Hurricane Frances, alone and in combination with the destruction by Hurricane Charley, threatens the State of Florida with a catastrophic disaster. I therefore declare that a state of emergency exists in the State of Florida, and that the evacuation of multiple counties in the State may be necessary because of Hurricane Frances. I further find that central authority over the evacuation of these counties is needed to coordinate these evacuations, that these evacuations exceed the capability of the local governments in these communities, and that shelters in other counties are needed to accommodate the evacuees. I therefore declare that a state of emergency also exists in all destination counties that open shelters to accommodate evacuees from the communities threatened by Hurricane Frances.

Section 2. I hereby incorporate Executive Order 04-182, as amended, by reference into this Executive Order, and all mission assignments and orders issued by the State Coordinating Officer and Deputy State Coordinating Officers in connection with Hurricane Charley under the authority of Executive Order 04-182, as amended, are hereby ratified and extended as if issued on this date. Executive Order 04-182, as amended, is also hereby extended, so that its date of expiration will coincide with the expiration of this Executive Order.

Section 3. I hereby designate the Director of the Division of Emergency Management as the State Coordinating Officer for the duration of this emergency and as my Authorized Representative. In exercising the powers delegated by this Executive Order, the State Coordinating Officer shall confer with the Governor to the fullest extent practicable. In accordance with Sections 252.36(1)(a) and 252.36(5), Florida Statutes, I hereby delegate to the State Coordinating Officer the following powers, which he shall exercise as needed to meet this emergency:

A. The authority to activate the Comprehensive Emergency Management Plan;

B. The authority to invoke and administer the Statewide Mutual Aid Agreement, and the further authority to coordinate the allocation of resources under that Agreement so as best to meet this emergency;

N. The authority to enter such orders as may be needed to implement any or all of the foregoing powers.

Section 4. I hereby order the Adjutant General to activate the Florida National Guard for the duration of this emergency, and I hereby place the National Guard under the authority of the State Coordinating Officer for the duration of this emergency.

~~Section 5.~~ I hereby direct each county in the State of Florida, at the discretion of the State Coordinating Officer, to activate its Emergency Operations Center and its County Emergency Management Plan, as needed to ensure an immediate state of operational readiness, and I further direct each county in the State, at the discretion of the State Coordinating Officer, to open and activate all shelters to accommodate all evacuees.

~~Section 6.~~ I hereby direct all state, regional and local agencies to place any and all available resources under the authority of the State Coordinating Officer as needed to meet this emergency.

~~Section 7.~~ I hereby designate all state, regional and local governmental facilities including, without limiting the generality of the foregoing, all public elementary and secondary schools, all Community Colleges, and all State Universities, for use as shelters to ensure the proper reception and care of all evacuees.

~~Section 8.~~ I find that the special duties and responsibilities resting upon some state, regional and local agencies and other governmental bodies in responding to the disaster may require them to deviate from the statutes, rules, ordinances, and orders they administer, and I hereby give such agencies and other governmental bodies the authority to take formal action by emergency rule or order in accordance with Sections 120.54(4) and 252.46(2), Florida Statutes, to the extent that such actions are needed to cope with this emergency. Without limiting the generality of the foregoing, I hereby order the following:

A, I hereby give all agencies of the State, including the collegial bodies within those agencies, the authority to suspend the effect of any statute, rule, ordinance, or order of any state, regional, or local governmental entity, to the extent needed to procure any and all necessary supplies, commodities, services, temporary premises, and other resources, to include, without limiting the generality of the foregoing, any and all statutes and rules which affect budgeting, printing, purchasing, leasing, and the conditions of employment and the compensation of employees, but any such statute, rule, ordinance, or order shall be suspended only to the extent necessary to ensure the timely performance of disaster response functions.

B. I hereby direct the Department of Transportation to waive the collection of tolls and other fees and charges for the use of the Turnpike and all other transportation facilities, regardless of whether such facilities are components of the State Highway System, to the extent such waiver may be needed to facilitate the evacuation of the affected communities; to reverse the flow of traffic on any and all highways or portions of highways of the State Highway System as may be needed to facilitate the evacuation of the affected communities; to close any and all highways or portions of highways as may be needed for the safe and efficient transportation of evacuees to those counties the State Coordinating Officer may designate as destination counties for evacuees in this emergency; to waive fuel taxes levied on vehicles registered in other States that are owned or operated by governmental agencies of those States, or by public utility companies or parties under contract with them, and to waive by special permit the registration requirements and the hours of service requirements for such vehicles; to waive the size and weight restrictions for divisible loads on any vehicles transporting emergency equipment, services and supplies, and by special permit to designate alternate size and weight restrictions for all such vehicles fur the duration of the emergency; and to waive by special permit the warning signal requirements in the Utility Accommodations Manual to accommodate public utility companies from other jurisdictions which render assistance in restoring vital services, to the extent such waivers are needed to meet this emergency.

C. At the request of the Director of Emergency Management of any county, I hereby direct the Department of Health to take aver the operation of all shelters in that county that are intended for use by those evacuees with special personal, medical or psychological needs, and to station licensed medical professional and paraprofessional personnel at those shelters as needed to provide appropriate reception and care for such evacuees.

D. I hereby give all agencies of the State the authority to allow overnight stays by employees of the State who travel a distance of less than fifty (50) miles for the performance of official duties in connection with this emergency, and the authority to allow employees of the State reimbursement for the cost of meals during Class C travel incurred in connection with this emergency.

I,. I hereby give all agencies of the State responsible for the use of state buildings and facilities the authority to close such buildings and facilities in those portions of the State affected by the emergency, to the extent nccdcd to meet this emergency.

F. I hereby give all agencies of the State, including the collegial bodies within those agencies, the authority to abrogate the time requirements, notice requirements, and deadlines fur final action an applications for permits, licenses, rates, and other approvals under any statutes or rules under which such applications arc deemed to be approved unless disapproved in writing by specified deadlines, and all such time requirements that have not yet expired as of the date of this Executive Order are hereby suspended and tolled to the extent needed to meet this emergency.

G. I hcrcby give all agencies of the State with employees certified by the American Red Cross as disaster service volunteers within the meaning of Section 110.120(3), Florida Statutes, the authority to release any such cmployccs for such service as requested by the American Ked Cross as nccdcd to meet the emergency.

Section 9. I hereby find that the demands placed upon the funds appropriated to the agencies of the State of Florida and to local agencies may be inadequate to pay the costs of this disaster. In accordance with Section 252.37(2), Florida Statutes, to the extent that funds appropriated to the agencies of the State and to local agencies may be inadequate to defray the costs of this disaster, I hereby direct the transfer of sufficient funds from any unappropriated surplus funds, or from the Working Capital Fund, or from the Budget Stabilization Fund.

Section 10. Medical professionals and workers, social workers, and counselors with good and valid professional licenses issued by States other than the State of Florida shall be allowed to render such services in the State of Florida during this emergency for persons affected by the disaster, with the condition that such services be rendered to such persons free of charge, and with the further condition that such services be rendered under the auspices of the American Red Cross.

Section 11. In accordance with Sections 501.160(2) and 501.160(3), Florida Statutes, I hereby place all persons on notice that it is unlawful for any person in the State of Florida to rent or sell, or offer to rent or sell at an unconscionable price, any essential equipment, services, or supplies whose consumption or use is necessary because of the emergency. Such services shall include, without limiting the generality of the foregoing, any rental of hotel, motel, or other transient lodging facilities, and any rental of storage facilities. In accordance with Section 501.160(1)(b), Florida Statutes, any price exceeding the average price far such essential equipment, services, or supplies for the thirty (30) days immediately preceding the date of this Executive Order shall create a presumption that the price is unconscionable unless such increase is caused by actual costs incurred in connection with such essential equipment, services, or supplies, or is caused by national or international economic trends.

Section 12. All state agencies that enter emergency final orders or rules, or take other final actions based on the existence of this emergency shall advise the State Coordinating Officerin writing of the action taken as soon as practicable, but in no event later than the expiration of sixty (60) days from the date of this Executive Order.

Section 13. This Executive Order shalt be deemed to have taken effect on September 1, 2004, and all actions taken by the Director of the Division of Emergency Management with respect to Hurricane Frances before the issuance of this Executive Order are hereby ratified. This Executive Order shall expire sixty (60) days from the date hereof unless extended.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused the Great Seal of the State of Florida to be affixed, at Tallahassee, the Capitol, this 1st day of September, 2004.

Jeb Bush

GOVERNOR

ATTEST:

SECRETARY OF STATE

STATE OF FLORIDA

OFFICE OF THE GOVERNOR

EXECUTIVE ORDER NUMBER 04-206

(Emergency Management)

WHEREAS, on August 10,2004, the Governor issued Executive Order 04-182 to declare a state of emergency because of Hurricane Charley; and

WHEREAS, on August 13,2004, Hurricane Charley came ashore in the southwestern portion of the State as a Category 4 hurricane and devastated communities in the southwestern and central portions of the State; and

WHEREAS, on September 1,2004, the Governor issued Executive Order 04- 192 to declare a state of emergency because of Hurricane Frances; and

WHEREAS, on September 5,2004, Hurricane Frances came ashore as a Category 2 hurricane and devastated communities in the central, eastern and northeastern portions of the State; and

WHEREAS, the State is now trying to recover from the cumulative impacts of Hurricanes Charley and Frances, and has called on a massive infusion of resources from the United States Government and from other States to the communities stricken by these disasters; and

WHEREAS, on September 10,2004, the National Hurricane Center advised that Hurricane Ivan has now become a Category 4 hurricane, with sustained surface winds exceeding 140 miles per hour, and that it may strengthen even further; and

WHEREAS, Hurricane Ivan threatens a number of communities in the State of Florida with extreme weather conditions which pose an immediate danger to the lives and property of persons in those communities; and

WHEREAS, it is likely that Hurricane Ivan will strike those communities within a matter of days, so that the immediate evacuation of persons from those communities is vital to the safety of the residents; and

WHEREAS, special equipment, personnel and other resources in addition to those needed for Hurricanes Charley and Frances may be required in order to ensure the timely evacuation of persons from the threatened communities and the safe movement of the evacuees to other communities in the State acting as destinations for the evacuees; and

WHEREAS, emergency measures in addition to those needed for Hurricanes Charley and Frances may be needed to protect the lives and property of persons in the threatened communities, and the general welfare of the State of Florida; and

WHEREAS, central coordination and direction of the use of such resources for the local evacuation measures are needed to ensure the timely evacuation of the threatened communities;

NOW, THEREFORE, I, JEB BUSH, as Governor of Florida, by virtue of the authority vested in me by Article IV, Section 1(a) of the Florida Constitution and by the Florida Emergency Management Act, as amended, and all other applicable laws, do hereby promulgate the following Executive Order, to take immediate effect:

<u>Section 1.</u> Because of the foregoing conditions, I hereby find that Hurricane Ivan, alone and in combination with the destruction by Hurricanes Charley and Frances, threatens the State of

Florida with yet another catastrophic disaster. I therefore declare that a state of emergency exists in the State of Florida, and that the evacuation of multiple counties in the State may be necessary because of Hurricane Ivan. I further find that central authority over the evacuation of these counties is needed to coordinate these evacuations, that these evacuations exceed the capability of the local governments in these communities, and that shelters in other counties are needed to accommodate the evacuees. I therefore declare that a state of emergency also exists in all destination counties that open shelters to accommodate evacuees from the communities threatened by Hurricane Ivan.

<u>Section 2.</u> I hereby incorporate Executive Order 04-192, as amended, by reference into this Executive Order, and all mission assignments and orders issued by the State Coordinating Officer and Deputy State Coordinating Officers in connection with Hurricanes Charley and Frances under the authority of Executive Order 04-192, as amended, are hereby ratified and extended as if issued on this date. Executive Order 04-192, as amended, is also hereby extended, so that its date of expiration will coincide with the expiration of this Executive Order.

<u>Section 3.</u> I hereby designate the Director of the Division of Emergency Management as the State Coordinating Officer for the duration of this emergency and as my Authorized Representative. In exercising the powers delegated by this Executive Order, the State Coordinating Officer shall confer with the Governor to the fullest extent practicable. In accordance with Sections 252.36(1)(a) and 252.36(5), Florida Statutes, I hereby delegate to the State Coordinating Officer the following powers, which he shall exercise as needed to meet this emergency:

A. The authority to activate the Comprehensive Emergency Management Plan;

€3. The authority to invoke and administer the Statewide Mutual Aid Agreement, and the further authority to coordinate the allocation of resources under that Agreement so as best to meet this emergency;

C. The authority to invoke and administer the Emergency Management Assistance Compact and other Compacts and Agreements existing between the State of Florida and other States, and the further authority to coordinate the allocation of resources from such other States that are made available to the State of Florida under such Compacts and Agreements so as best to meet this emergency;

D. The authority to seek direct assistance from any and all agencies of the United States Government as may be needed to meet the emergency;

E. The authority to distribute any and all supplies stockpiled to meet the emergency;

I;. In accordance with Sections 252.36(5)(a) and 252.46(2), Florida Statutes, the authority to suspend existing statutes, rules, ordinances, and orders for the duration of this emergency to the extent that literal compliance with such statutes, rules, ordinancw, and orders m y be inconsistent with the performance of essential functions;

G. The authority to direct all state, regional and local governmental agencies, including law enforcement agencies, to identify personnel needed from those agencies to assist in meeting the needs created by this emergency, and to place all such personnel under the direct command of the State Coordinating Officer to meet this emergency;

XI, The authority to activate the Continuity of Operations Plans of all state, regional and local governmental agencies;

I. The authority to seize and utilize any and all real or personal property as needed to meet this emergency, subject always to the duty of the State to compensate the owner;

J. The authority to order the evacuation of all persons from any portions of the State threatened by the disaster, the authority to direct the sequence in which such evacuations shall be carried out, and the further authority to regulate the movement of persons and traffic to, from, or within any location in the State to the extent needed to cope with this emergency;

K. The authority to reverse the flow of traffic on any and all highways or portions of highways of the State Highway System as needed to facilitate the evacuation of the affected communities;

L. The authority to regulate the return of the evacuees to their home communities;

M. The authority to designate such Deputy State Coordinating Officers as the State Co-ordinating Officer may deem necessary to cope with the emergency; and

N. The authority to enter such orders as may be needed to implement any or all of the foregoing powers.

Section 4. I hereby order the Adjutant General to activate the Florida National Guard for the duration of this emergency, and I hereby place the National Guard under the authority of the State Coordinating Officer for the duration of this emergency.

Section 5. I hereby direct each county in the State of Florida, at the discretion of the State Coordinating Officer, to activate its Emergency Operations Center and its County Emergency Management Plan, as needed to ensure an immediate state of operational readiness, and I further direct each county in the State, at the discretion of the State Coordinating Officer, to open and activate all shelters to accommodate all evacuees.

Section 6. I hereby direct all state, regional and local agencies to place any and all available resources under the authority of the State Coordinating Officer as needed to meet this emergency.

Section 7. I hereby designate all state, regional and local governmental facilities including, without limiting the generality of the foregoing, all public elementary and secondary schools, all Community Colleges, and all State Universities, for use as shelters to ensure the proper reception and care of all evacuees.

Section 8. I find that the special duties and responsibilities resting upon some state, regional and local agencies and other governmental bodies in responding to the disaster may require them to deviate from the statutes, rules, ordinances, and orders they administer, and I hereby give such agencies and other governmental bodies the authority to take formal action by emergency rule or order in accordance with Sections 120.54(4) and 252.46(2), Florida Statutes, to the extent that such actions are needed to cope with this emergency. Without limiting the generality of the foregoing, I hereby order the following:

A. I hereby give all agencies of the State, including the collegial bodies within those agencies, the authority to suspend the effect of any statute or rule governing the conduct of state business, and the further authority to suspend the effect of any statute, rule, ordinance, or order of any state, regional, or local governmental entity, to the extent needed to procure any and all necessary supplies, commodities, services, temporary premises, and other resources, to include, without limiting the generality of the foregoing, any and all statutes and rules which affect budgeting, printing, purchasing, leasing, and the conditions of employment and the compensation of employees, but any such statute, rule, ordinance, or order shall bc suspended only to the extent necessary to ensure the timely performance of disaster response functions.

B. 1 hmby give all agencies of the State, including the collegial bodies within those agencies, the authority to abrogate the time requirements, notice requirements, and deadlines for final action on applications fur permits, licenses, rates, and other approvals under any statutes or rules under which such applications arc deemed to bc approved unless disapproved in writing by specified deadlines, and all such time requirements that have not yet expired as of the date of this Executive Order arc hmby suspended and tolled to the extent needed to meet this emergency.

C. I hmby give all agencies of the State with employees certified by the American Red Cross as disaster service volunteers within the meaning of Section 110.120(3), Florida Statutes, the authority to release any such employees for such service as requested by the American Red Cross as needed to meet the emergency.

Section **9.** I hmby find that the demands placed upon the funds appropriated to the agencies of the Statc of Florida and to local agencies may be inadequate to pay the costs of this disaster. In accordance with Section 252.37(2), Florida Statutes, to the extent that funds appropriated to the agencies of the State and to local agencies may bc inadequate to defray the costs of this disaster, I hereby direct the transfer of sufficient funds from unappropriated surplus, from the Budget Stabilization Fund, and from the Working Capital Fund.

Section 10. Medical professionals and workers, social workers, and counselors with good and valid professional licenses issued by States other than the State of Florida shall bc allowed to render such services in the State of Florida during this emergency for persons affected by the disaster, with the condition that such services be rendered to such persons free of charge, and with the further condition that such services be rendered under the auspices of the American Ked Cross.

Section 11. In accordance with Sections 501.160(2) and 501.160(3), Florida Statutes, I hereby place all persons on notice that it is unlawful for any person in the State of Florida to rent or sell, or offer to rent or sell at an unconscionable price, any essential equipment, services, or supplies whose consumption or use is necessary because of the emergency. Such services shall include, without limiting the generality of the foregoing, any rental of hotel, motel, or other transient lodging facilities, and any rental of storage facilities. In accordance with Section 501.160(1)(b), Florida Statutes, any price exceeding the average price for such essential equipment, services, or supplies for the thirty (30) days immediately preceding the date of this Executive Order shall create a presumption that the price is unconscionable unless such increase is caused by actual costs incurred in connection with such essential equipment, services, or supplies, or is caused by national or international economic trends.

Section 12. All state agencies that enter emergency final orders or rules, or take other final actions based on the existence of this emergency shall advise the State Coordinating Officer in writing of the action taken as soon as practicable, but in no event later than the expiration of sixty (60) days from the date of this Executive Order.

Section 13. This Executive Order shall be deemed to have taken effect on September 10, 2004, and all actions taken by the Director of the Division of Emergency Management with respect to Hurricane Frances before the issuance of this Executive Order are hereby ratified. This Executive Order shall expire sixty (60) days From the date hereof unless extended.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused the Great Seal of the State of Florida to be affixed, at Tallahassee, the Capitol, this 10th day of September, 2004.

GOVERNOR

ATTEST:

SECRETARY OF STATE

STATE OF FLORIDA

OFFICE OF THE GOVERNOR

EXECUTIVE ORDER NUMBER 04-217

{Emergency Management)

WHEREAS, on August 10, 2004, the Governor issued Executive Order 04-182 to declare a state of emergency for Hurricane Charley, which came ashore in the southwestern portion of the State as a Category 4 hurricane and devastated communities in the southwestern and central portions of the State; and

WHEREAS, on September 1, 2004, the Governor issued Executive Order 04-192 to declare a state of emergency for Hurricane Prances, which came ashore on September 5, 2004 as a Category 2 hurricane and devastated communities in the central, eastern and northeastern portions of the State; and

WHEREAS, on September 10, 2004, the Governor issued Executive Order 04-206 to declare a state of emergency for Hurricane Ivan, which made landfall in the northwestern portions of the State as a Category 3 hurricane and caused the destruction of many communities there; and

WHEREAS, the different sections of the State are now trying to recover from the cumulative impacts of Hurricanes Charley, Frances and Ivan, demanding a massive infusion of its own resources, a6 well as resources from the United States Government and from other States to the communities stricken by these disasters; and

WHEREAS, on September 24, 2004, the National Hurricane Center advised that Hurricane Jeanne has now become a Category 2 hurricane, with sustained surface winds exceeding 100 miles per hour, and that it may strengthen even further; and

WJIEKEAS, Hurricane Jeanne threatens a number of communities in the State of Florida with extreme weather conditions which pose an immediate danger to the lives and property of persons in those communities; and

WHEREAS, it is likely that Hurricane Jeanne will strike those communities within a matter of days, so that: the immediate evacuation of persons from those communities is vital to the safety of the residents; and

WHEREAS, special equipment, personnel and other resources in addition to those needed for Hurricanes Charley, Frances and Ivan may be required in order to ensure the timely evacuation of persons from the threatened communities and the safe movement: of the evacuees to other communities in the State acting as destinations for the evacuees; and

WHEREAS, emergency measures in addition to thoee needed for Hurricanes Charley, Frances and Ivan may be needed to protect the lives and property of persons in the threatened communities, and the general welfare of the State of Florida; and

WHEREAS, central coordination and direction of the use of such resources for the local evacuation measures are needed to ensure the timely evacuation of the threatened communities;

NOW, THEREFORE, I, JEB BUSH, as Governor of Florida, by virtue of the authority vested in ma by Article IV, *Section* 1(a) of the Florida Constitution and by the Florida Emergency Management Act, as amended, and all other applicable laws, do hereby promulgate the following Executive Order, to take immediate effect:

Section 1. Because of the foregoing conditions, I hereby find that; Hurricane Jeanne, alone and in combination with the destruction by Hurricanes Charley, Frances and Ivan, threatens the State of Florida with yet; another catastrophic disaster. I therefore declare that a state of emergency exists in the State of Florida, and that the evacuation of multiple counties in the State may be necessary because of Hurricane Jeanne. I further find that central authority over the evacuation of these counties is needed to coordinate these evacuations, that these evacuations exceed the capability of the local governments in these communities, and that shelters in other counties arc needed Lo accommodate the evacuees. I therefore declare that a state of emergency also exists in all destination *counties* that open shelters to accommodate evacuees from the communities threatened by Hurricane Jeanne,

Section 2. I hereby incorporate Executive Order 04-206, as amended, by reference into this Executive Order, and all mission assignments and orders issued by the State Coordinating Officer and Deputy State Coordinating *Officers* in connection with Hurricanes Charley, Frances and Ivan under the authority of Executive Order 04-206, as amended, are hereby ratified and extended as if issued on this date. Executive Order 04-206, as amended, is also hereby extended, so that its date of expiration will coincide with the expiration of this Executive Order.

Section 3. I hereby designate the Director of the Division of Emergency Management as the State Coordinating Officer far the duration of this emergency and as my Authorized Representative. In exercising the powers delegated by this Executive Order, the State Coordinating Officer shall confer with the Governor to the fullest: extent practicable. In accordance with Sections 252.36(1)(a) and 252.36(5), Florida Statutes, I hereby delegate to the State Coordinating Officer the following powers, which he shall exercise as needed to meet this emergency:

A. The authority *to* activate the Comprehensive Emergency Management Plan;

B. The authority to invoke and *administer* the Statewide Mutual Aid Agreement, and the further authority to coordinate the allocation of resources under that Agreement so as best to meet this emergency;

C. The authority to invoke and administer the Emergency Management Assistance Compact and other Compacts and Agreements existing between the State of Florida and other States, and the further authority to coordinate the allocation *of* resources that arc made available to the State of Florida from such other States under such Cornpacts and Agreements so as best to meet this emergency;

D. The authority to seek direct assistance from any and all agencies of the United States Government as may be needed to meet the emergency;

E. The authority to distribute any and all supplies stockpiled to meet the emergency;

F. In accordance with Sections 252.36(5)(a) and 252.46(2), Florida Statutes, the authority to suspend existing statutes, rules, ordinances, and orders for the duration of this emergency to the extent that literal compliance with such statutes, rules, ardinancea, and orders may be inconsistent with the performance of essential functions;

G. The authority to direct a11 state, regional and local governmental agencies, including law enforcement agencies, to identify personnel needed from those agencies to assist in meeting the needs created by this emergency, and to place all such personnel under the direct command of the State Coordinating Officer to meet this emergency;

H. The authority to activate the Continuity of Operations Plans of:'all state, regional and local governmental agencies;

I, The authority to seize and utilize any and all real or personal property as needed to meet this emergency, subject always to the duty of the State to compensate the owner;

J. The authority to order the evacuation of all persons from any portions of the State threatened by the disaster, the authority to direct the sequence in which such evacuations shall be carried out, and the further authority to regulate the movement: of persons and traffic to, from, or within any location in the State Lo the extent: needed to cope with this emergency;

K. The authority to reverse the flow of traffic on any and all highways or portions of highways of the State Highway System as needed to facilitate the evacuation of the affected communities;

L. The authority to regulate the return of the evacuees to their home communities;

M. The authority to designate such Deputy State Coordinating Officers as the State Coordinating Officer may deem necessary to cope with the emergency; and

N. The authority to enter such orders as may be needed to implement any or all of the foregoing powers.

Section 4. I hereby order the Adjutant General to activate the Florida National Guard for the duration of this emergency, and I hereby place the National Guard under the authority of the State Coordinating Officer for the duration of this emergency.

Section 5. I hereby direct each county in the State of Florida, at the discretion of the State Coordinating Officer, to activate its Emergency Operations Center and its County Emergency Management Plan, as needed to ensure an immediate state of operational readiness, and I further direct each county in the State, at the discretion of the State

Coordinating Officer, to open and activate all shelters to accommodate all evacuees.

Section 6. I hereby direct all state, regional and local agencies to place any and all available resources under the authority of the State Coordinating Officer as needed to meet this emergency.

Section 7. I hereby designate all state, regional and local governmental facilities including, without limiting the generality of the foregoing, all public elementary and secondary schools, all Community Colleges, and all State Universities, for use as shelters to ensure the proper reception and care of all evacuees.

Section 8. I find that the special duties and responsibilities westing upon some state, regional and local agencies and other governmental bodies in responding to the disaster may require them to deviate from the statutes, rules, ordinances, and orders they administer, and I hereby give such agencies and other governmental bodies the authority to take formal action by emergency rule or order in accordance with Sections 120.54(4) and 252.46(2), Florida Statutes, to the extent that such actions are needed to cope with this emergency. Without limiting the generality of the foregoing, I hereby order the following:

A. I hereby give all agencies of the State, including the collegial bodies within those agencies, the authority to suspend the effect of any statute, rule, ordinance, or order of any state, regional, or local governmental entity, to the extent needed to procure any and all necessary supplies, commodities, services, temporary premises, and other resources, to include, without limiting the generality of the foregoing, any and all statutes and rules which affect budgeting, printing, purchasing, leasing, and the conditions of employment and the compensation of employees, but any such statute, rule, ordinance, or order shall be suspended only to the extent necessary to ensure the timely performance of disaster response functions.

B. I hereby give all agencies of the State, including the collegial bodies within those agencies, the authority to abrogate the time requirements, notice requirements, and deadlines for final action on applications for permits, licenses, rates, and other approvals under any statutes or rules under which such applications are deemed to be approved unless disapproved in writing by specified deadlines, and all such time requirements that have not yet expired as of the date of this Executive Order are hereby suspended and Lolled to the extent needed to meet this emergency.

C. I hereby give all agencies of the State with employees certified by the American Red Cross as disaster service volunteers within the meaning of Section 110.120(3), Florida Statutes, the authority to release any such employees for such service as requested by the American Red Cross as needed to meet the emergency.

Section 9. I hereby find that the demands placed upon the funds appropriated to the agencies of the State of Florida and to local agencies may be inadequate to pay the costs of this disaster. In accordance with Section 252.37(2), Florida Statutes, to the extent that funds appropriated to the agencies of the State and to local agencies may be inadequate to defray the costs of this disaster, I hereby direct the transfer of sufficient funds from unappropriated surplus, or from the Working Capital Fund, or from the Budget Stabilization Fund.

Section 10. Medical professionals and workers, social workers, and counselors with good and valid professional licenses issued by States other than the State of Florida shall be allowed to render such services in the State of Florida during this emergency for persons affected by the disaster, with the condition that such services be rendered to such persons free of charge, and with the further condition that such services be rendered under the auspices of the American Red Cross ox the Florida Department of Health.

Section 11. In accordance with Sections 501.160(2) and 501.160(3), Florida Statutes, I hereby place all persons on notice that it is unlawful for any person in the State of Florida to rent or sell, or offer to rent or sell at an unconscionable price, any essential equipment, services, or supplies whose consumption or use is necessary because of the emergency. Such services shall include, without limiting the generality of the foregoing, any rental of hotel, motel, or other transient lodging facilities, and any rental of storage facilities. In accordance with Section 501.160(1)(b), Florida Statutes, any price exceeding the average price for such essential equipment, services, or supplies €or the thirty (30) days immediately preceding the date of this Executive Order shall create a presumption that the price is unconscionable unless such increase is caused by actual costs incurred in connection with such essential equipment, services, or supplies, or is caused by national or international economic trends.

Section 12. All state agencies that enter emergency final orders or rules, or take other final actions based on the existence of this emergency shall advise the State Coordinating Officer in writing of the action taken as soon as practicable, but in no event later than the expiration of sixty (60) days from the date of this Executive Order.

Section 13. This Executive Order shall be deemed to have taken effect on September 24, 2004, and all actions taken by the Director of the Division of Emergency Management with respect to Hurricane Jeanne before the issuance of this Executive Order arc hereby ratified. This Executive Order shall expire sixty (60) days from the date hereof unless extended.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused the Great Seal of the State of Florida to be affixed, at Tallahassee, the Capitol, this 24th day of September, 2004.

GOVERNOR

ATTEST:

SECRETARY OF STATE

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Florida **Power &** Light Company to Increase **the Annual** Storm Fund **Accrual.**	))))	Docket No. 011299-EI **Filed:** September 28, 2001

PETITION

Florida Power **& Light** Company ("FPL"), pursuant to Florida Statutes Section 366.05(1) and Rules 28-106.201, 28-106.301, **and** 25-6.0143, **Florida Administrative** Code, **hereby** petitions the Commission **for** authorization to **increase** the annual storm **fund accrual** commencing **January** 1,2002, by $30 million to $50.3 million **and** to **establish a corresponding** storm fund reserve objective of **$500** million **to be achieved over** five years. **In support** of this Petition, FPL **states:**

1. Florida **Power & Light** Company is **a** utility subject to the **jurisdiction** of the Florida Public Service Commission **pursuant** to Chapter **366,** Florida ***Statutes.*** **Its offices** are located at 9250 West Flagler Street, Miami, Florida 33174.

2. All pleadings, notices, staff recommendations, orders **or other** documents **required** *to* **be served,** filed by **any** party or **issued** by the Commission in **this proceeding should** be sent **to** the following individuals:

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Introduction and Background

3. By this Petition, FPL is requesting that the annual storm fund accrual be increased from the presently authorized $20.3 million to $50.3 million, an increase of $30 million. This increase is necessary and appropriate to increase the level of the Reserve for Storm Damage (the Reserve) so that it is sufficiently robust to address the risks to FPL and its customers. FPL submits that the annual accrual needs to be raised so that the Reserve balance is likely to stabilize or increase, thereby reducing dependence on special assessments to customers to address the cost associated with unpredictable weather events.

4. FPL further submits that a $30 million increase in the annual accrual would allow the Reserve to begin moving toward a goal of $500 million if the Company does not experience a period of severe storms or a catastrophic storm. FPL's objective is to accumulate a reserve such that there would only be a modest possibility of that reserve level being exceeded in a 5-year period. Based on the attached analysis, it is highly unlikely that the Reserve would exceed $500 million within 5 years. FPL proposes to and would agree to file updated studies at least every five years for review by the Cornmission. FPL acknowledges that it cannot change the annual accrual amount and related funding without Commission authority.

5. Since 1993, with the unavailability of insurance in significant amounts after the substantial losses associated with Hurricane Andrew, FPL has implemented a self-insurance approach with the Commission's approval to address the cost necessary to repair its system as a result of storm damage (other particular losses were also included). As a result of various proceedings before the Commission, including the review of studies and reports submitted by FPL, the Commission found that FPL should implement a self-insurance approach for the cost of repairing and restoring its system in the event of hurricane or storm damage. Order No. PSC-

93-0918-FOF-EI . The Commission initially established the currently effective annual accrual of $20.3 million in 1995, by Order NO. PSC-95-1588-FOF-EI. Presently, without appropriate adjustment to the annual accrual, the balance in the Reserve is expected to decline.

6. In its 1995 Order, the Commission noted that FPL's Transmission and Distribution Insurance Replacement Study demonstrated that a self-insurance program had two fundamental, interrelated characteristics: (1) an annual accrual amount and (2) emergency relief mechanisms to prevent insolvency in the storm fund. The Order continued by noting that "the annual accrual needs to be sufficiently low so as to prevent unbounded storm fund growth and yet large enough to reduce reliance upon emergency relief mechanisms in the event of catastrophic weather events." Order No. PSC-95-1588-FOF-EI at p.2.

7. In 1997, FPL sought to have the annual storm fund accrual increased from $20.3 million to $35 million. In reaching its decision, the Commission concluded that the appropriate reserve level should include insurance deductibles and that the reasonable level for the reserve was $370 million in 1997 dollars. Order No. *PSC-98-0953-FOF-EI.* (The $370 million included the cost of an "Andrew type" event escalated from 1992 to 1997 plus the $20 million fir insurance deductibles.)

8. While not specifically addressing the conclusions of the studies offered by FPL in its 1997 filing, the Cornmission found that the current annual accrual of $20.3 million would permit the Reserve to *attain the* $370 million level in 1997 dollars in approximately four years. The Order continued by directing FPL to file a study addressing the reasonableness of the level of the Reserve and accrual by no later than December 31, 2002. The Commission concluded, "if there are no significant charges to the reserve, the fund balance should reach the target level ($370 million) about that time".

9. As of August 31, 2001, the balance in the Reserve for FPL was only $251.4 million as compared to $251.3 million at December 1997 (the amount considered in the last Order). Because of actual losses covered by the Reserve, the annual $20.3 million accrual plus the fund earnings were barely sufficient to offset the costs incurred since the Company's last storm fund petition. Consequently, at the current time, the Reserve level of $251.4 million is inadequate according to the Commission's prior findings. For an "Andrew type" event based reserve level, the Reserve would need to be escalated further from the 1997 amount of $370 million. The annual accrual plus fund earnings are substantially less than the expected annual loss to be charged against the Reserve. Therefore, with an annual accrual of only $20.3 million, the actual Reserve balance can never increase except over the short term with abnormally low storm activity.

10. This condition injects substantial instability in the fund, increases the risk that the fund will become insolvent, greatly increases the probability that significant retrospective assessments will be required and will inevitably lead to higher long-term customer costs.

FPL's Current Analysis and Request

11. FPL has commissioned studies addressing the reasonableness of the level of its Reserve and annual accrual as called for by Order No. PSC-98-0953-FOF-EX. The studies containing this information were prepared by EQE International and are titled Storm Reserve Loss Analysis and the Storm Reserve Solvency Analysis. In addition, EQE issued its Storm Reserve Funding Recommendations. The three documents are attached to this Petition as Appendices A, B, and C respectively and are incorporated herein.

12. Due to the unpredictability of major storms and thus the resulting damage from such, a storm fund reserve is necessary under a self-insurance approach. This approach allows FPL to assure reasonable costs to customers for the costs of repairs to its transmission and distribution system and to cover non-T&D windstorm damage insurance deductibles. Similarly, an annual accrual amount for the Reserve should be sufficiently large to cover normally anticipated losses (frequent low severity storms) and only use special assessments/rate adjustments for the larger, less frequent events. As can be seen from the results of the EQE analyses, both the current Reserve balance of $251.4 million and the annual accrual level of $20.3 million *are* inadequate to *achieve this* objective which, over the long run, will lead to more frequent need for special assessments/rate adjustments. This condition will lead to higher long-term customer costs. As stated by the Commission in Order No. PSC-95-1588-FOF-EI:

> The annual accrual needs to be sufficiently low so as to prevent unbounded storm fund growth and yet large enough to reduce reliance upon emergency relief mechanisms in the event of catastrophic weather events.

Therefore, FPL is requesting to increase the annual accrual to $50.3 million. This is an amount which, when added to the expected fund earnings, provides a reasonable chance for the Reserve to stabilize, or at least begin to move toward the desired level.

13. Because storms vary in size and frequency, a storm loss evaluation must cover a long period of time to adequately measure the associated risk of loss, Three general tasks needed to be performed: determine the dollar value of exposure to loss; evaluate the impact on the Reserve of alternative levels of accrual; and, target the appropriate Reserve amount. In the Storm Reserve Loss Analysis prepared by EQE, the

results of the estimates of the expected annual exposures to FPL's Reserve from various categories of potential uninsured losses are evaluated.

The EQE Storm Reserve Loss Analysis shows that the statistically calculated annual exposure for all the categories of losses covered by the Reserve is $60.3 million per year. Of this total, $55.0 million is attributable to statistically projected losses from windstorm peril to transmission and distribution lines (including the cost of repair, restoration and staging for storm response and repair) and $4.3 million is attributable to the windstorm insurance deductibles for non-transmission and distribution assets. The remaining $1 million addresses the nuclear retrospective premium exposure and losses *in excess* of insurance for nuclear exposure which are also chargeable against the Reserve. The $60.3 million does not represent the accrual level because FPL already has an established Reserve that will continue to produce future earnings as contemplated in EQE's analysis. The current replacement value of FPL's T & D assets used in *the* study is approximately $10 billion. The expected annual damage, as explained *in* the EQE study, is the annual damage calculated from all storms with varying severity and frequency. The expected annual damage represents the statistically estimated average windstorm damage to T & D assets and windstorm insurance deductibles for non-transmission and distribution assets on *an* annual basis and over a long period of time. Obviously, as with any probabilistic simulation, there is the potential for wide variations from average values for any short period of time. The Aggregate Damage Exceedance Probabilities Table in EQE's Storm Reserve Funding Recommendations is illustrative of this point and shows for instance that in a one year period there is a 2.5% probability that aggregate windstorm damage to the T&D assets and non-T&D deductibles will exceed $500 million. Over a five-year period, there is an 18.1% probability that the $500 million aggregate windstorm loss level would be exceeded. The applicable probabilities for various levels of loss also are presented in the table and reflect the risks that a particular level of reserve (as well as earnings and accruals during the appropriate period) will be adequate to cover the losses expected to occur during that period As the probability that the expected losses would exceed a particular reserve level increases, so does the likelihood that special assessments to address unpredictable weather events will be necessary.

FPL believes that the current level of its Reserve and annual accrual creates a substantial risk that the fund will be inadequate in the short term, necessitating potentially large retrospective assessments. The Reserve will continue to be inadequate over the longer term as the expected annual losses exceed the annual contributions to the fund and earnings on the fund forcing the Reserve balance closer and closer to a negative balance. Of course, this movement towards a minimal or negative reserve balance further increases the risk of the fund being inadequate and therefore increases the need and frequency for retrospective assessments to cover the anticipated losses. This condition fails to meet an essential characteristic of self-insurance and represents a condition that the Commission has stated should be minimized.

14. FPL had EQE perform the Storm Reserve Solvency Analysis to evaluate the performance of the Reserve at various accrual levels. Annual accrual levels between $10 million and $80 million were studied under consistent financial and administrative assumptions. Key assumptions (for analytical purposes only and not meant to imply that FPL would discontinue or alter the accrual and corresponding funding absent Commission approval) were as follows: that if the Reserve exceeded $500 million,

accruals would drop by *50%* and if it reached $750 million, accruals would be suspended (to insure *that* there was not unbounded growth); that if the reserve fell below zero, funds were borrowed and paid off over 5-years with a special assessment/rate increase; that the Reserve balance earned 3.5% after tax; and that borrowing cost was 4% after tax.

The Solvency Analysis determined that at annual accrual levels below $45 million, deficits addressed by special assessments/rate increases make up 35%-55% of the total cost. From $45 to $55 million annual accrual levels, the deficit funding drops to 25%-30% of the total while at annual accrual levels above $60 million, deficit funding drops to below 25%. It should be emphasized that because of the potential of infrequent catastrophic storms, at all reasonable accrual levels, there will still be the need for some level of post event funding through special assessmentdrate increases (see Total Cost per Customer Chart in EQE's Recommendation Report).

15. Finally, FPL requested that EQE develop Storm Reserve Funding Recommendations for an appropriate annual accrual and a target reserve balance to be achieved over five years. Here, FPL sought an EQE recommendation which, considering the expected losses, would provide sufficient funds to,

- achieve lowest long-term customer costs, balanced with
- dampened volatility of the reserve (i.e., reduced reliance on special assessments/rate increases); and
- cover the costs of most storms but not those from the most catastrophic events.

Based on previous Commission orders, FPL believes that these are the fundamental regulatory objectives that should be considered.

EQE Recommendations

16. Under the analysis by EQE, an estimate of the storm reserve assets in each year of the simulation period was provided with an accounting for the annual accrual, the investment income and the expenses and losses for the fund. As explained in the study, the EQE analysis concentrated on *three* key performance measures, solvency of the Reserve, stability of the Reserve (i.e. need for special assessments), and overall cost to the customer. Based upon this evaluation and reflecting a balancing of the three criteria, EQE concluded that the annual accrual should be in the range of $45 - $55 million. The EQE analysis concluded that an accrual at the level of $45 -- $55 million annually, together with the expected earnings on the fund, permits the Reserve balance to stabilize or grow moderately and provides the best balance in meeting the solvency, stability and cost criteria. It can be seen that the EQE analysis establishes that the probability of the fund exceeding $500 million in 5 years is very low. EQE also recommended a five-year target reserve level of between $400 - $500 million.

17. Because FFL realizes that the current level of the Reserve is too low and that the resulting risk of fund inadequacy is too great, it submits that it is appropriate to (1) permit the accrual to increase by $30 million to $50.3 million a year and (2) establish a target reserve level of $500 million with a goal of obtaining this level over the next 5 years. The use of a target of $500 million achieves a reasonable balance between the uncertainty of losses and increases the chances that special assessments will be avoided. Future studies, for which FPL proposes and would agree to file at least every five years for review by the Commission, would take into account inflation, further asset additions and, of course, windstorm losses in the interim.

18. In an abundance of caution, FPL wishes to point out that there will continue to be risk that the Reserve balance, even after an increase in the annual accrual, will be inadequate to cover some catastrophic losses as well as the risk that in the short term, the actual losses experienced will not permit the Reserve balance to grow or to grow as expected. Nevertheless, FPL believes that it is very appropriate to begin movement in the direction of increasing the annual accrual so that routine losses under FPL's self-insurance program can be more realistically addressed and the risk of inadequate funds for repair and/or assessments to customers is reduced.

WHEREFORE, FPL respectfully requests the Commission to approve an increase in the annual accrual to the storm fund to $50.3 million and to establish a target Reserve of $500 million,

DATED this 28th day of September 2001.

Respectfully submitted,

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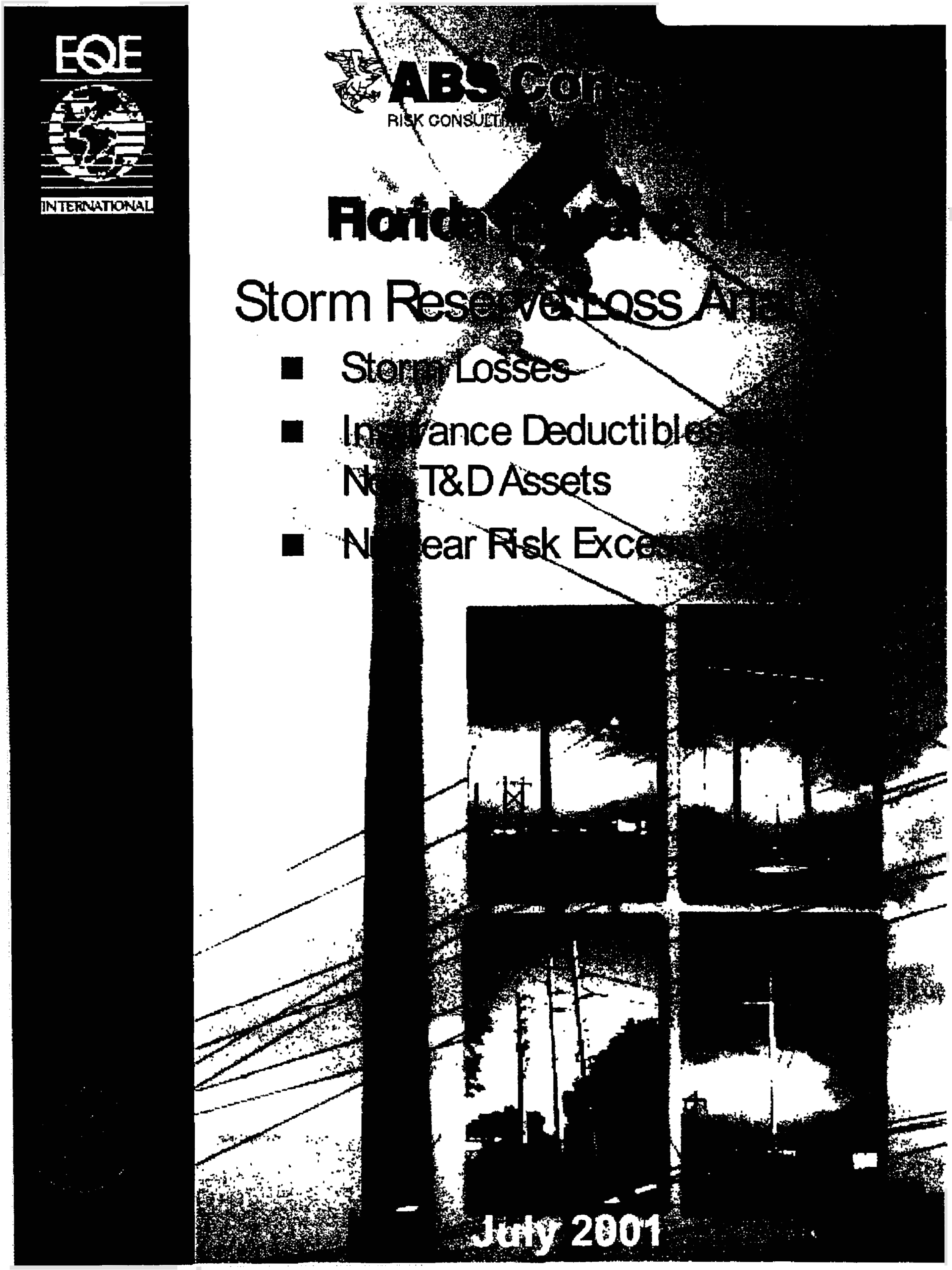
Attorneys for Florida Power & Light Company

BY:

MATTHEW M. CHILDS, P.A.

Appendix A



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Executive Summary

Florida Power and light Company's (FPL) Storm Reserve may be called upon for payment of uninsured losses resulting from several causes. These include

- Windstorm losses from transmission and distribution (T & D)
- Insurance policy deductibles from Non T & D losses
- Retrospective insurance assessment from industry nuclear accidents, and
- Losses in *excess* of insurance coverage from nuclear accidents at FPL plants.

This study estimates the expected annual exposures *to* FPL's Storm Reserve from these sources. Expected annual losses are shown below:

Expected Annual Losses	$ (Millions)	Comments
Transmission and Distribution Assets – Windstorm Peril	55.0	Uninsured losses from hurricanes, tropical storms, and winter storms
Non T & D Assets – Windstorm Peril	4.3	Losses arising from payment of deductibles on insurance policies
Windstorm Subtotal	59.3	
Retrospective assessments from industry nuclear accidents	0.5	Property and third-party liability assessments from mutual insurers
Losses in excess of insurance from FPL nuclear accidents	0.5	Property losses to FPL nuclear plants in excess of insurance
Nuclear Subtotal	1.0	

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Tables

Figures

1. Windstorm Risk Profile

INSURED	Florida bower & Light		
ASSETS	Transmission and Distribution(T & D) System consisting of: transmission towers and conductors; and distribution poles, transformers, conductors, lighting, and other miscellaneous assets. Non T & D assets consisting of fossil and nuclear power plants, buildings, substations and other miscellaneous assets.		
LOCATION	All *assets* are located within the State of Florida.		
ASSET VALUE	Normal T 4 D replacement value is approximately $10.3 billion, of which approximately 20% is transmission and 80% is distribution. Normal Non T & D replacement value is approximately $17.1 billion.		
LOSS PERIL	Hurricanes (SSI 1 to 5), Tropical Storms, and Winter Storms		
EXPECTED ANNUAL DAMAGE	$59.3 million		
1% AGGREGATE DAMAGE WCEEDANCE VALUE	$828 million (one year)		
AGGREGATE DAMAGE EXCEEDANCE PROBABILITES	One Year	Three Years	Five Years
$150 million	9.0%	31.4%	52.4%
$200 million	7.6%	25.0%	43.3%
$250 million	6.0%	20.4%	36.8%
$300 million	4.9%	17.5%	31.5%

2. Transmission and Distribution Loss Analysis

Florida Power and Light Company's (FPL) transmission and distribution (T & D) systems are exposed to and in the past have sustained damage from hurricanes, tropical storms, and winter storms. The exposure of these assets to storm damage is described and potential losses are quantified in this report. Loss analyses were performed using the advanced computer model simulation program USWIND deveioped by EQE.

The exposure is analyzed from both a scenario approach, which models specific storm characteristics, and a probabilistic approach, which considers the full range of potential storm characteristics and corresponding losses. Scenario analysis produce expected or most likely damage amounts resulting from defined storms, Probabilistic analyses identify the probability of damage exceeding a specific dollar amount. Damage is defined as the cost associated with repair and/or replacement of T & D assets necessary to promptly restore service in a post storm environment. This cost is typically larger than the costs associated with scheduled repair and replacement programs.

Factors considered in the analysis include the location of FPL's overhead and underground T & D assets, the probability of storms of different intensities and/or landfall points impacting those assets, the vulnerability of those assets to storm damage, and the costs to repair assets and restore electrical service. The computer model simulations were benchmarked to loss data from FPL in hurricanes Andrew, Erin, Gordon, Georges, Floyd and Irene.

Loss Estimation Methodology

The basic components of the T & D windstorm risk analysis include:

- **Assets at** risk: **define** and locate

- **Storm hazard: apply probabilistic storm model for the region**
- **Asset vulnerabilities: severity (wind speed) versus damage**
- **Portfolio Analysis: probabilistic analysis -damage/ loss**

These are analysis components are summarized herein.

3. Transmission and Distribution Assets at Risk

FPL's Transmission and Distribution (T & D) system assets consist of transmission towers and conductors; and distribution poles, transformers, conductors, lighting, and other miscellaneous assets. The total normal replacement value of these assets is approximately $10.3 billion, 20% of which is transmission and 80% of which is distribution. Normal replacement value is the cost of replacing the assets under normal non-catastrophe conditions. Table 3-1 shows the percent distribution of T & D values and the amount above/below ground, since vulnerability to loss is substantially different for each category.

Table 3-1

FPL TRANSMISSION AND DISTRIBUTION ASSET VALUES
(%)

	TRANSMISSION	DISTRIBUTION	TOTAL
BELOW GROUND	3.0%	39.5%	42.6%
ABOVE GROUND	19.2%	38.2%	57.4%
TOTAL	22.3%	77.7%	100.0%

FPL's Transmission and Distribution assets are distributed unevenly across their Florida service territory, encompassing a large portion of the state. Table 3-2 shows the values within Florida for the counties that make up 92% of the total T & D values, indicating a concentration of values in the southern portion of the state. Figure 3-1 is a map of FPL's transmission system, while Figures 3-2 and 3-3 are maps summarizing the overhead and underground distribution values, respectively.

Table 3-2

T & D VALUES BY COUNTY, LARGEST COUNTIES

County (major city)	Value ($Thousands)
Dade (Miami)	2,257,060
Broward (Ft. Lauderdale)	1,727,260
Palm Beach (W. Palm Beach)	1,508,286
Brevard (Melborne)	625,037
Sarasota (Sarasota)	490,773
Lee (Fort Meyers)	422,422
Volusia	407,634
Manatee (Bradenton)	343,402
Saint Lucie (Fort Pierce)	304,237
Martin (Stewart)	291,496
Collier Naples)	291,002
Charlotte (Port Charlotte)	228,217
Indian River (Vero Beach)	159,696
Putnam (Palatka)	159,272
Flagler	138,517
Saint Johns (St. Augustine)	134,245
21 Other counties	766,277
Total	10,262,833

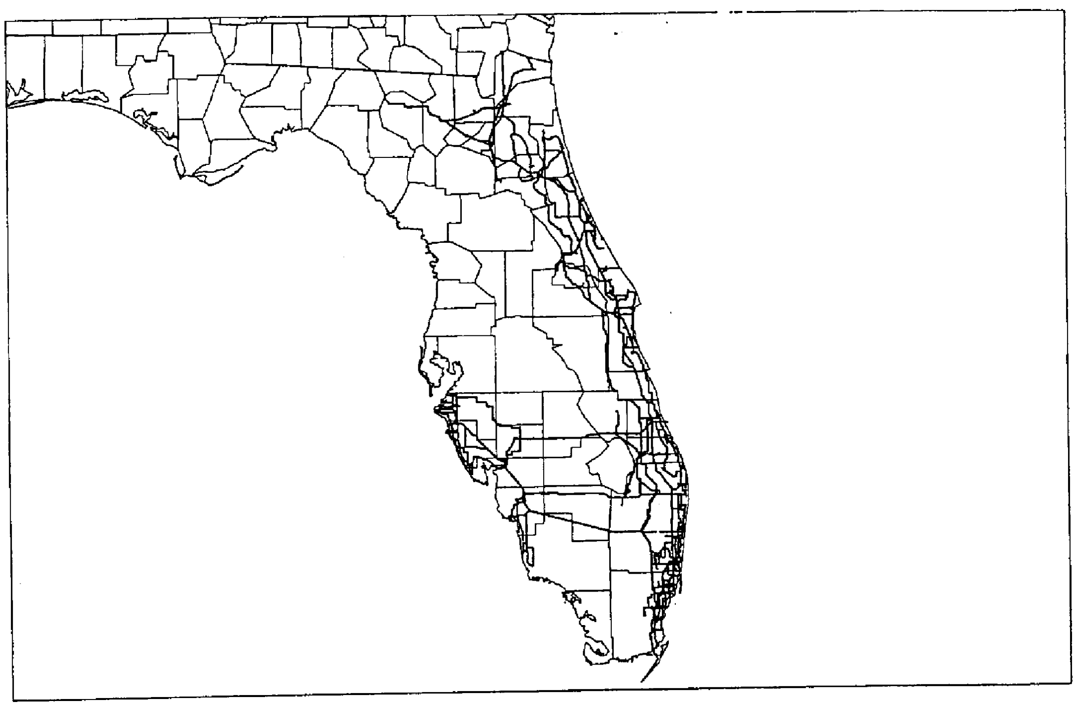


Figure 3-1 : FPL Overhead **Transmission** Structures

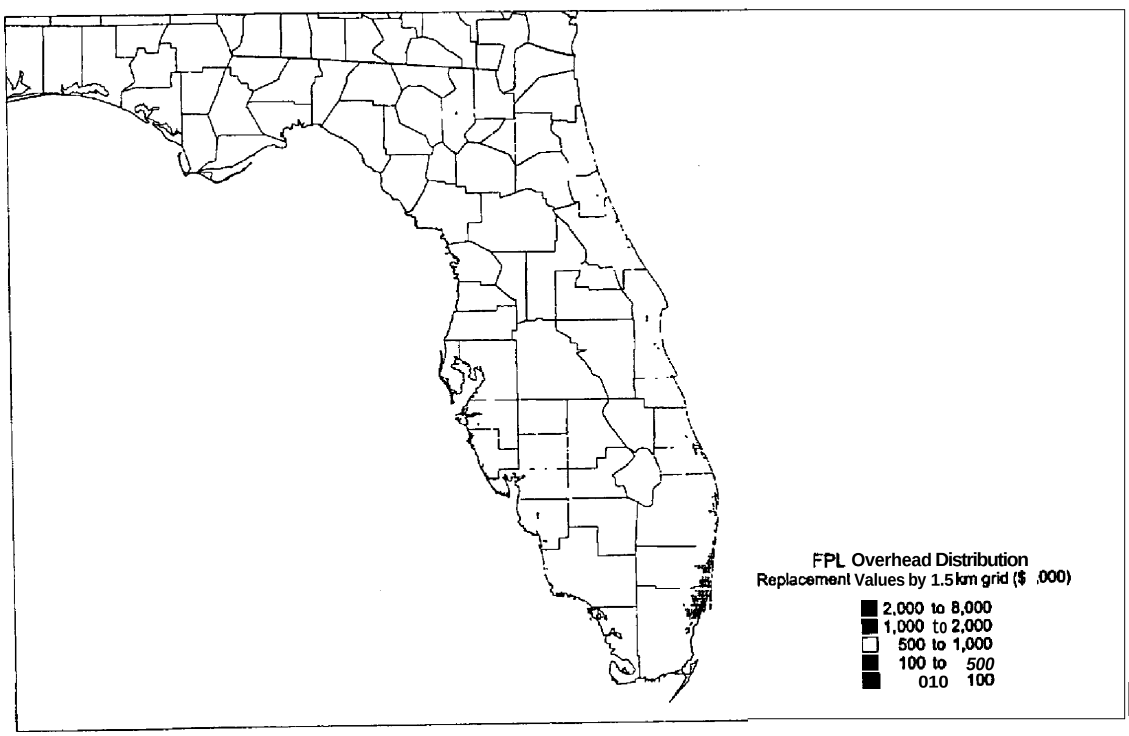


Figure 3-2: FPL Overhead Distribution

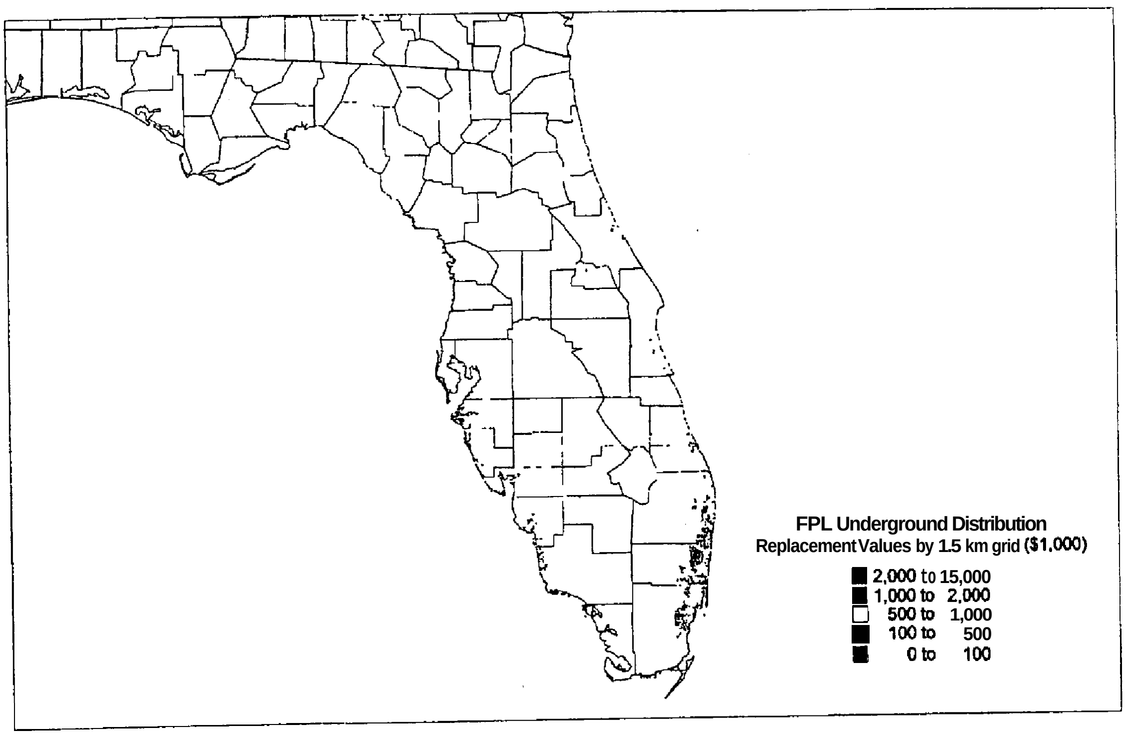


Figure 3-3: FPL Underground Distribution

4. Windstorm Hazard in Florida

4.1 Hurricane Hazard

The historical record for hurricanes on the Gulf and Atlantic coasts of the United States consists of approximately 100 years for which reasonably accurate information is available. For example, since 1900, there have been 62 humcanes SSI 1 or greater (see Table 4-1 for description of the Saffir-Simpson Intensity (SSI) scale) which have made landfall in the state of Florida. Going back further, written descriptions of storms are available, but it becomes increasingly difficult to estimate actual storm intensities and track locations in a reliable manner consistent with the later data. For this reason all hypothetical storms used in this analysis, as well as their corresponding frequencies, have been based only on hurricanes that have occurred since 1900.

Since the historical record is too sparse to simply extrapolate future hurricane landfall probabilities, a series of hypothetical storms was generated in the USWIND probabilistic storm database, essentially "filling in" the gaps in the historical data. This provides an estimate of future potential storm locations (landfall), track, severity and frequency consistent with the observed historical data.

EQE developed its hurricane model, using the National Oceanic and Atmospheric Administration (NOAA) model as the base, to determine individual risk wind speeds. The NOAA model was designed to model only a few specific types of storms. While the eye of the hurricane follows the selected track, the EQE model uses up to a dozen different storm parameters to estimate wind speeds at all distances away from the eye.

The hurricane intensities used for the analyses conform to basic NOAA information regarding hurricane intensity recurrence relationships corresponding to locations along the coast. Much of FPL's service territory includes the coastal area where many of these humcanes have made landfall. If they were to re-occur, many of these storms would cause significant amounts of damage to FPL's T & D assets.

The Miami-Dade region is in the highest risk region of Florida due to the frequency and higher severity of hurricanes in this area combined with the population concentration compared to the other areas of Florida.

Table 4-1

THE SAFFIR-SIMPSON INTENSITY (SSI) SCALE
(NOTE THAT WINDSPEEDS GIVEN ARE I-MINUTE SUSTAINED)

Saffir-Simpson Intensity (SSI)	Central Pressure (mb)	Maximum Sustained Winds (mph)	Storm-Surge Height (ft)	Damage
1	≥ 980	74-95	4-5	Damage mainty to trees, shrubbery, and unanchored mobile homes
2	965-979	96-110	6-a	Some trees blown down; major damage to exposed mobile homes; some damage to roofs of buildings
3	945-964	111-130	9-12	Foliage removed from trees; large trees blown down; mobile homes destroyed; some structural damage to small buildings
4	920-944	131-155	13-18	All signs blown down; extensive damage to roofs, windows, and doors; complete destruction of mobile homes; flooding inland as far as 6 mi.; major damage to lower floors of structures near shore
5	< 920	> 155	> 18	Severe damage to windows and doors; extensive damage to roofs of homes and industrial buildings; small buildings overturned and blown away; major damage to lower floors of all structures less than 15 ft. above sea level within 500m of shore

The statistical probability of a Category 1, 2, 3, 4 or 5 hurricane making landfall in FPL's Southeastern service territories is shown in Table 4-2 below.

Table 4-2

ANNUAL PROBABILITY OF LANDFALLING STORMS

Region	SSI 1	SSI 2	SSI 3	SSI 4	SSI 5
(Dade/Broward/Palm Beach)	4.8%	5.3%	6.3%	2.4%	0.4%

4.2 Tropical Storm Hazard

In addition to storms strong enough to be classified as hurricanes, Florida is exposed to the threat of tropical storms (one-minute sustained wind speeds between 39 and 74 mph). The frequency of tropical storms in Florida is approximately equal to that of hurricanes (note that the wind speed range associated with hurricanes is much wider, i.e. 74 mph to well over 155 mph).

EQE's tropical storm model was developed using methods very similar to those used to develop the hurricane model, generating a series of hypothetical storms representing the full range of tropical storms in terms of landfall location and track, severity, and frequency consistent with the observed historical data. As in the development of the hurricane model, the historical data has been reviewed for accuracy and consistency, and the analysis has been based only on storms that have occurred since 1900.

4.3 Winter Storm Hazard

On average, about 15 mid-latitude storms a year bring high winds to Florida, mainly during the winter. Most of these storms have winds only in the 40 to 50 mph gust range and thus have little effect. The more severe events, however, can cause losses on the same scale as a tropical storm or weak hurricane.

In assessing this hazard, historical windstorm data for the past 45 years was obtained from the National Climatic Data Center (NCDC). This data included gust wind speed observations for over 600 storms, at a network of over 300 stations. Several different aspects of the data were examined in order to construct a model for storm sizes, shapes, locations, and wind fields. The resulting winter storm hazard model provides a way to characterize the wind fields for the full range of possible winter storms, including location, severity, and frequency information,

In computing winter storm losses to FPL, approximately 150,000 winter storms in Florida (10,000 years) were modeled, For each storm, the center, shape, geographical orientation, and wind speeds were defined on the basis of algorithms developed from the NCDC data. The wind field for each storm was integrated with the vulnerability function and FPL's distribution asset locations to compute the loss to FPL. The frequencies and computed losses for all 150,000 winter storms were combined to calculate the expected annual loss and the per occurrence and annual aggregate exceedance curves.

5. Transmission and Distribution Asset Vulnerabilities

Aerial transmission and distribution lines and structures have suffered damage in past hurricanes, tropical storms and winter storms. Damage patterns tend to be most severe in coastal areas due to a combination of wind and storm surge. Underground distribution lines in coastal regions have also been subject to storm damage. Damage to inland aerial lifelines tends to be less severe with greater contributions to damage from wind-borne debris. The types of wind-borne debris can include trees and tree limbs, and roofing materials as well as structure debris at higher wind speeds.

FPL aerial transmission and distribution structures are designed to sustain design-level hurricane winds. These design criteria specify design wind speeds for both transmission and distribution structures. Design criteria for transmission structures are micro-zoned, or segmented, into geographic areas that correspond to the expected wind hazard for the area. Distribution poles, on the other hand, are assumed to have one design standard for the entire service territory.

Vulnerabilities of T & D assets are based upon FPL provided wind speed versus damage data from Hurricane Andrew to distribution poles and transformers. Other vulnerabilities were developed using FPL-provided data on hurricane, tropical storm, and winter storm damage data, FPL design standards, and engineering judgments of the relative performance of the structures and material types.

6. Summary of Transmission and Distribution Portfolio Analysis

EQE analyzed the FPL portfolio of transmission and distribution (T & D) assets subject to a suite of probabilistic storms and a series of scenario storms using the proprietary computer program, USWIND . The probabilistic storm analyses provide non-exceedance probabilities over a range of loss levels while the scenario landfall storm series provides a damage distribution for selected storms at landfalls within the areas of FPL's highest asset concentrations. A brief discussion of benchmark studies is also presented since it provides estimates of FPL losses from six recent storms

6.1 Hurricane and Tropical Storm Probabilistic Analysis

The probabilistic loss analysis is performed using USWIND . The hurricane hazard uses the USWIND probabilistic database *that* models the coastline in 10-mile segments and models more than 1,500 hypothetical storms for each segment. The net result is a stochastic storm database of more than 500,000 events that represents possible hurricanes affecting the eastern United States, along both the Gulf and the Atlantic coasts. Each hurricane in the database has been defined by associating a central pressure with a unique *storm* track. In addition, each hurricane is assigned an annual frequency of occurrence, which depends on *the* storm track location and the storm intensity as measured by central pressure.

Tropical storms are modeled using a set of approximately 250,000 additional events, representing the full range of potential tropical storms affecting the Gulf and Atlantic coasts of the United States. As in the stochastic hurricane database, each tropical storm in *the* database has been defined by associating a central pressure with a unique storm track. In addition, each tropical storm is assigned an annual frequency of occurrence, which depends on the storm track location and *the* storm intensity as measured by central pressure.

For each location in the portfolio, the wind speed is calculated, and based on the type of asset, the degree of damage is estimated. The result for each asset location is an estimate of the mean damage and associated uncertainty. Total portfolio damage, defined as expected (mean) damage, is the sum of *the* individual property's damage. Uncertainty of an individual asset's damage is calculated to determine the total portfolio damage uncertainty, taking into account correlation between assets. Knowledge of the total portfolio damage probabilistic distribution permits estimation of total portfolio damage with varying probability levels.

'Given the annual frequency and the portfolio loss for each event, a probabilistic database of losses is developed. By manipulating this database, various loss exceedance or non-exceedance distributions are generated.

6.2 Landfall Analyses for SSI Ranges

In order to provide further insight into FPL's risk profile twelve scenario landfall storm series were analyzed for *six* storm intensities. The storm series are located in the areas of highest asset concentration in South Florida, and high storm frequency and severity. The landfall locations were mileposts 1450, 1460, 1470, 1480, 1490, 1500,1510,1520, 1530, 1540, 1550, and 1560. See Figure 6-1 for a map of Swth Florida showing the landfall locations. These mileposts extend north from the Dade-Monroe County border to northern Palm Beach County, at approximately 10-mile intervals. At each milepost, the full set of stochastic storms within each SSI category was analyzed on FPL's T & D portfolio. Including variations on intensity, azimuth, radius to maximum winds, forward speed, and inland decay rate, approximately 1500 hurricanes were analyzed at each milepost, or about 300 per SSI category, on average. Likewise, approximatety 750 tropical storms were analyzed at each milepost.

Within each SSI category, on average two to three storm intensities were analyzed, or approximately one *set* of storms for each range of 10 mph (one-minute sustained wind speed). For each milepost and SSI category, the frequency-weighted average damage was computed from all stochastic storms making landfall at that milepost and within that SSI category. Tropical storms were treated similarly, as a single category. Figures 6-2 through *6-7* provide these results graphically.

6.3 Benchmark Studies

Several hurricane benchmark studies were performed to calibrate and validate the T & D vulnerability functions and storm model. Storm data and losses from six recent storms that affected FPL service areas were utilized. These include Hurricane Andrew (1992), Hurricane Erin (1995), Hurricane Gordon (1994), Hurricane Georges (1998), Hurricane Floyd (1999), and Hurricane Irene (1999). The FPL asset portfolio was analyzed for each historic *storm* using USWIND , and the results are compared against reported FPL losses *in* Table 6-1 below. These historic storm simulations allow calibration of the model to forecast restoration and repair costs to damaged FPL system assets. These costs typically include the cost of damaged capital plant and equipment as well as payroll, associated vehicle, inventory, and support costs for the restoration efforts. Repair and restoration costs are typically much greater than normal replacement values-

These six storms are important benchmarks because they are relatively recent, all having occurred in the last eight years. Moreover, relatively 'good" exposure and claims data are available for these storms. The comparisons between simulated losses and FPL historic lasses show reasonable correlation for the storm simulations and provide a relevant measure of the model's validity.

Table 6-1

COMPARISON OF EQE HISTORIC LOSS SIMULATION WITH FPL HISTORIC HURRICANE LOSSES (DOLLARS IN THOUSANDS)

Storm	Andrew 1992	Erin 1995	Floyd 1999	Georges 1998	Gordon 1994	Irene 1999
Transmission	$59,793,270	$495,539	$58,162	$83,098	$67,617	$2,196,226
Distribution	$378,496,112	$9,006,142	$8,315,153	$9,073,910	$6,031,159	$54,399,910
Total	$438,289,381	$9,501,681	$8,373,315	$9,157,009	$6,098,775	$56,596,136
FPL Actual Losses	$283,580,000	$6,000,000	$11,200,000**	$11,500,000	$5,100,000	$55,000,000
FPL Losses in 1999 $ *	$438,872,215	$8,027,733	$11,200,000	$12,368,250	$7,338,753	$55,000,000
Relative Difference	-0.1%	18.4%	-25.2%	-26.0%	-16.9%	2.9%

* FPL Losses in 1999 were adjusted by approximately 4% per year.

** Floyd was adjusted for cost associated with advance storm staging.

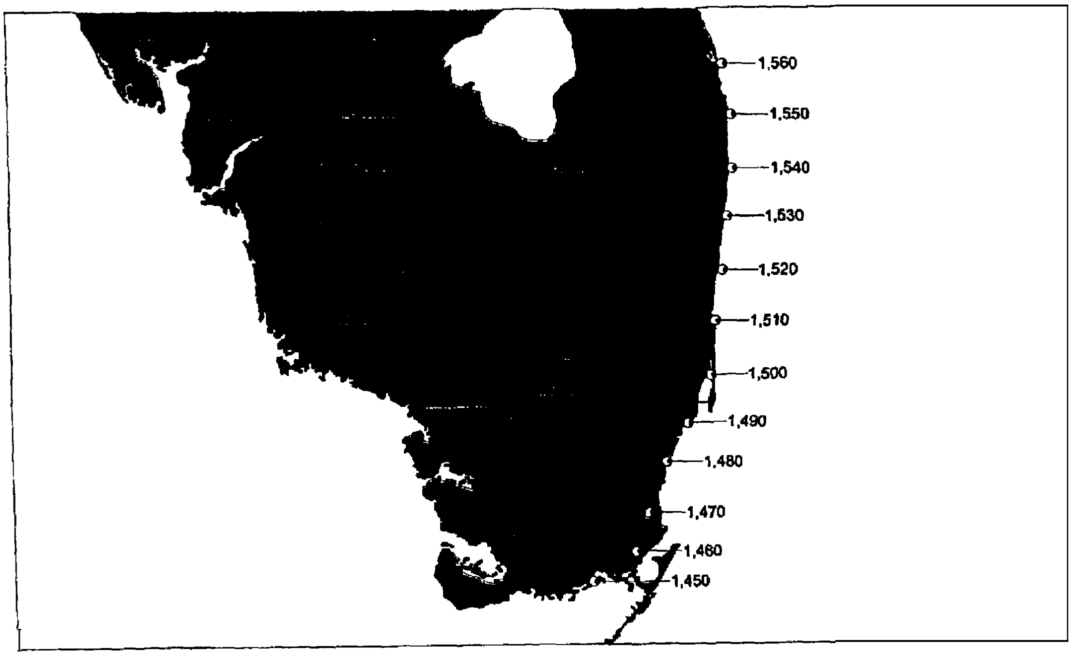


Figure 6-1: Scenario Storm Landfall Mileposts

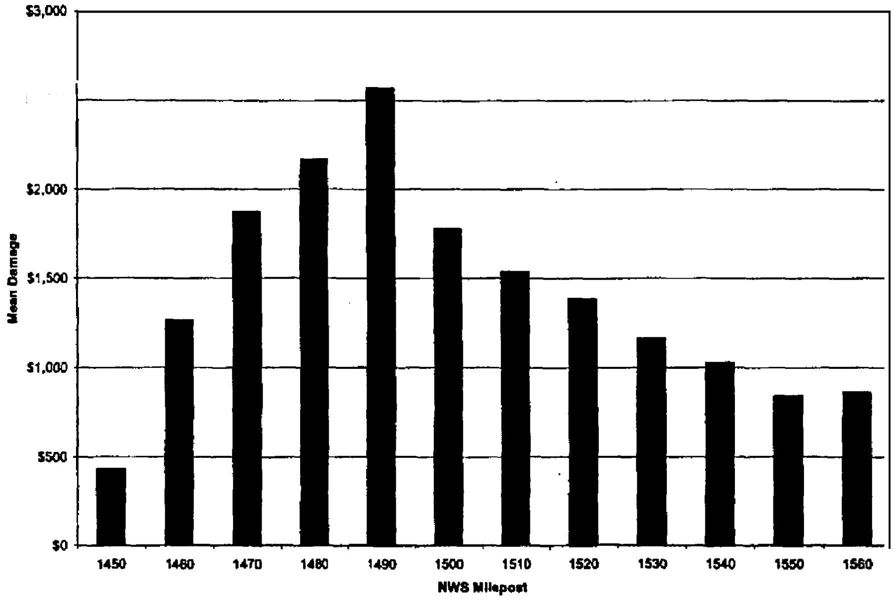


Figure 6-2: Frequency Weighted Average Damage from Tropical Storms

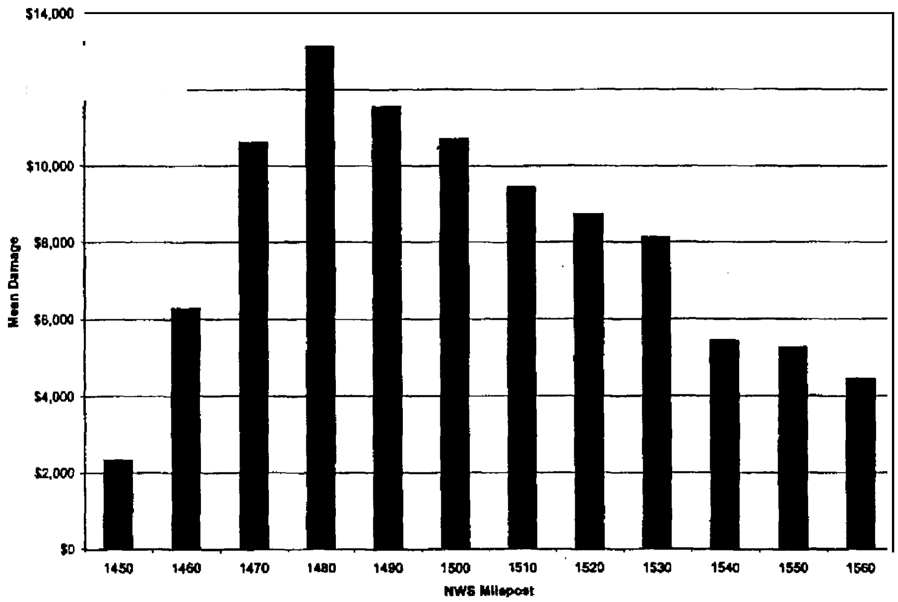


Figure 6-3: Frequency Weighted Average Damage from SSI I Landfalls

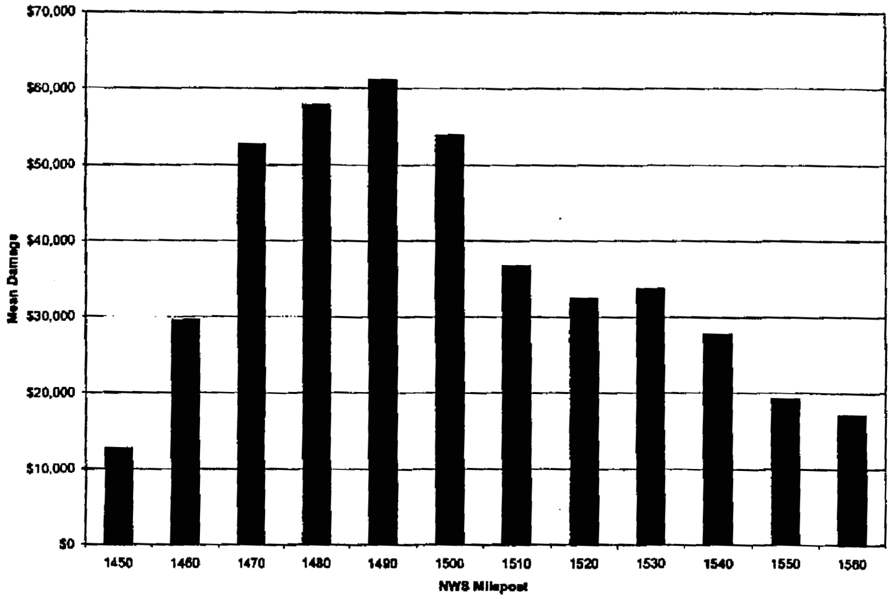


Figure 6-4: Frequency Weighted Average Damage from SSI 2 Landfalls

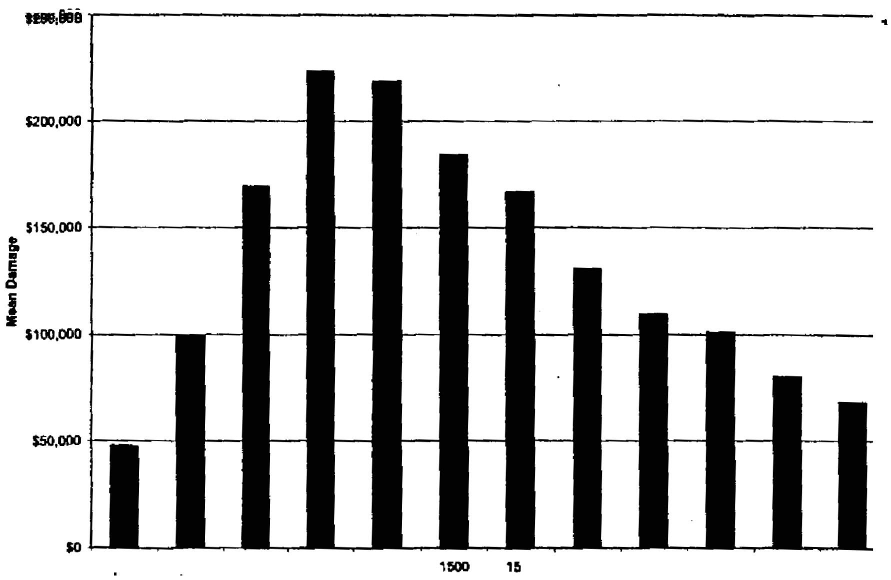
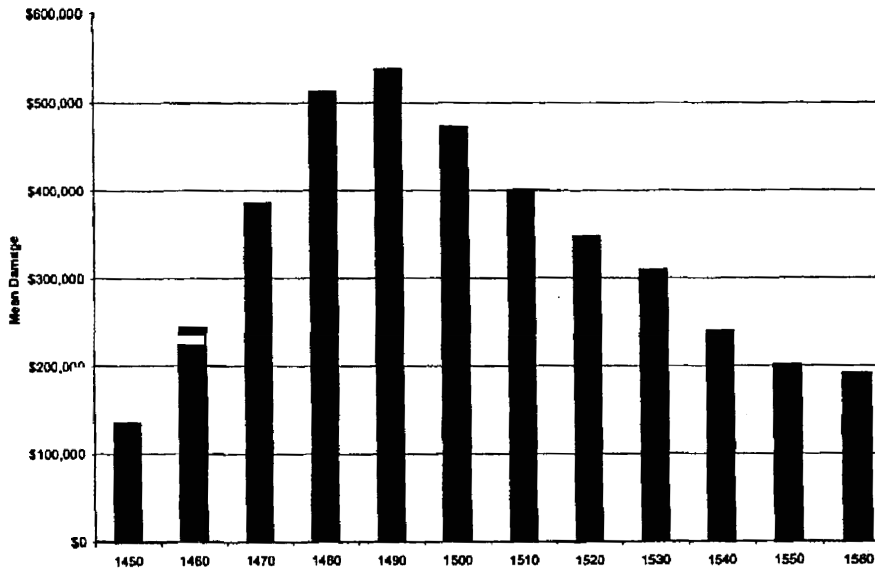


Figure 6-5: Frequency Weighted Average Damage from SSI 3 Landfalls



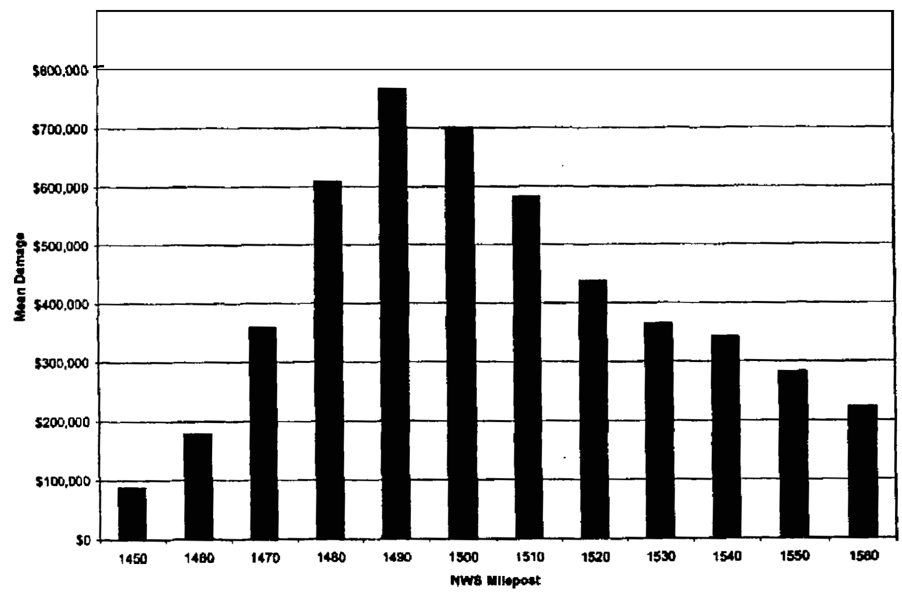


Figure 6-7: Frequency Weighted Average Damage from SSI 5 Landfalls

6.4 Winter Storm Probabilistic Analysis

EQE analyzed the FPL portfolio of T & D assets subject to a suite of probabilistic winter storms using methodology described in the windstorm hazard chapter above. The probabilistic storm analyses provide non-exceedance probabilities over a range of loss levels, The expected annual loss from winter storms was found to be *$875,000.* This value represents the average annual loss attributable *to* winter storms over a long period of time.

Table 6-2 summarizes the per occurrence and annual aggregate non-exceedance curves for winter storm losses to FPL's T & D assets. The annual aggregate winter storm loss with a 1% probability of exceedance is $17.939 million.

Table 6-2

PER OCCURRENCE AND ANNUAL AGGREGATE WINTER STORM NON-EXCEEDANCE PROBABILITIES

$ (THOUSANDS)

Annual Probability of Non-Exceedance	Per-Occurrence Winter Storm Loss	Annual Aggregate Winter Storm Loss
50.00	-	-
70.00	-	-
80.00	32	28
90.00	859	883
95.00	3,120	3,231
99.00	17,483	17,939

7. Staging Costs for Non-Landfalling Storms

FPL monitors hurricane forecasts and arranges for the pre-positioning of personnel and equipment, "staging", in anticipation of post-hurricane storm restoration activities. These decisions are made in advance of hurricane landfall. On occasion, *these* staging decisions are taken and actual hurricane landfall occurs outside FPL's service territory. The expected annual costs associated with these infrequent events are modeled and are described below.

Hurricane Modeling Aspects

The first task in modeling the staging costs for non-landfalling storms was to construct a model relating hurricane occurrences along an offshore 'decision horizon' to landfall locations and probabilities along the coast in or near FPL's service territory. The appropriate time horizon was determined to be about 24 hours before potential landfall in Florida. This time horizon was then translated into a 'decision horizon', i.e. an offshore line corresponding to the appropriate time of hurricane passage before landfall, based on climatological averages of hurricane forward speed. Given passage of a hurricane across this decision horizon, distributions of landfall locations, intensities, and probabilities were developed from historical hurricane track data. These distributions vary according to location along the decision horizon. These concepts are illustrated in Figure 7-1 below.

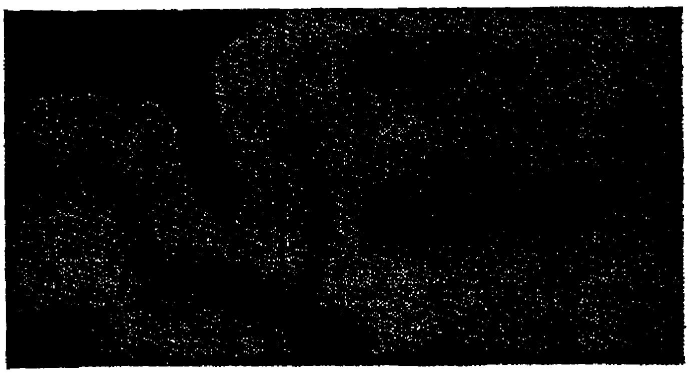


Figure 7-1: Hurricane Modeling Process for Quantification of Staging Costs

The central issue with staging costs is the probability that hurricane forecasts (where and at what intensity) may differ from actual hurricane landfalls. The distributions of landfall locations and intensities were sampled from in pairs, in order to model such differences. Specifically, for each 10 nautical mile stretch of the decision horizon and each 10 mph (one-minute sustained) wind speed range, 100 potential outcomes in terms of landfall location and intensity were generated, based on smoothed historical data. From these 100 outcomes, all 10000 pairs of outcomes (100*100) were used to model staging costs, with the first outcome of each pair representing the hurricane forecast, and the second outcome of the pair representing the actual hurricane occurrence.

Staging Cost Modeling

A model for staging costs was developed from FPL staging cost and decision information provided by FPL. The inputs to the model are pairs of hurricane outcomes. These input parameters are forecasted landfall location (milepost), forecasted intensity (wind speed), actual landfall location (milepost), and actual intensity (wind speed). Staging costs are only calculated for situations in which the forecasted landfall is within FPL's service territory, and the actual landfall is not within FPL's service territory. For these situations, the staging costs are determined on the basis of the forecasted landfall location and intensity, based on staging cost information provided by FPL. For all other situations, the staging cost is assumed to be zero.

Expected annual staging costs are estimated to be $2.4 million.

8. Non T & D Assets at Risk

FPL's Non T & D assets consist of fossil and nuclear power plants, buildings, substations and other miscellaneous assets. The total normal replacement value of these assets is approximately $17.1 billion. Normal replacement value is the cost of replacing the assets under normal non-catastrophe conditions. Table 8-1 shows the distribution of values among power plants, substations, buildings, and miscellaneous assets.

Table 8-1

FPL NON T & D ASSET VALUES

	$(Thousands)	%
Fossil Power Plants	7,762,705	45%
Substations	2,667,862	16%
Buildings and miscellaneous assets	1,021,230	6%
Nuclear Power Plants	5,685,432	33%
TOTAL	17,137,237	100%

FPL's assets are distributed unevenly across their service territory, encompassing a large portion of the state of Florida. Assets are located in the USWIND storm model either by latitude and longitude or by ZIP code centroid using the best information available from FPL databases at the time of the analysis.

8.1 Storm Exposures

FPL buildings, power plants and switchyard assets are exposed to and insured against losses due to hurricanes. These assets have in the past sustained damage from hurricanes, and FPL has paid insurance deductibles on policies from the FPL Storm Reserve. Loss analyses were performed using the advanced computer model simulation program USWIND developed by EQE.

The FPL Non T & D portfolio consists of three policies, with three per occurrence deductibles. Two policies apply *to* Turkey Point and St. Lucie nuclear plant assets and have deductibles of $1 million *each.* The third policy applies to the balance of insured property, buildings, fossil power plants and substations with a deductible of 2% of loss, $10 million minimum and $15 million maximum per occurrence.

8.2 Storm Analysis Results

EQE analyzed the FPL portfolio of Non T & D assets subject to a suite of probabilistic storms using the proprietary computer program USWIND. The probabilistic storm analyses provide non-exceedance probabilities over a range of loss levels. The expected annual loss from payment of deductibles was found to be $4.3 million. This represents the average annual deductible paid on non-nuclear property insurance policies over a long period of time. Table *8-2* summarizes the results of the analysis, in terms of per occurrence and annual aggregate non-exceedance probabilities.

Table 8-2

PER OCCURRENCE AND ANNUAL AGGREGATE DEDUCTIBLE NON-EXCEEDANCE PROBABILITIES

$ (THOUSANDS)

Annual Probability of Non-Exceedance	Per Occurrence Deductible	Annual Aggregate Deductible
50.00	21	22
70.00	1,669	1,763
80.00	12,195	12,889
90.00	15,845	16,006
95.00	16,054	17,066

99.00	16,901	31,803

9. Summary of Windstorm Risk Analysis

The loss analysis EQE has performed for FPL includes two main components: a windstorm risk analysis, and an assessment of the risks posed by exposure of FPL's nuclear assets to accidents. This chapter summarizes the results of the windstorm risk analysis, which has been described in the preceding chapters. The nuclear risk analysis is summarized in the following chapter.

9.1 Expected Annual Losses

Expected annual losses to FPL from all windstorm perils are estimated to be $59.3 million. The contributions to this total from the various sources are summarized in Table 9-1.

Table 9-1

EXPECTED ANNUAL STORM LOSSES

Hurricane Peril		
Distribution Assets - Tropical Storms	1.5	Sustained wind speeds of 39-74 Mph
Distribution Assets - Winter Storms	0.9	Gust wind speeds of 40-50 Mph
Storm Staging Costs	2.4	FPL Pre-storm mobilization
Transmission Assets – Hurricane and Tropical Storm Peril	6.2	SSI 1 through 5 and tropical storms
T & D Subtotal	55.0	
Non T&D Assets – Hurricane and Tropical Storm Peril	4.3	Losses arising from payment of deductibles on insurance policies
Non T & D Subtotal	4.3	
Total	59.3	

9.2 Aggregate Damage Exceedance for One, Three, and Five Years

Aggregate damage exceedance calculations are developed by keeping a running total of damage from all *possible events* in a given time period, including all uninsured costs from windstorms. At the end of each time period, the aggregate damage for all events is then determined by probabilistically summing the damage distribution from each event, taking into account the event frequency. The process considers the probability of having zero events, *one* event, two events, etc. during *the* time period.

Table 9-2 summarizes this analysis for three time periods: one, three, and five years, for damage layers between zero and over one billion dollars.

For each damage layer shown, the probability of damage exceeding a specified value is shown. For example, the probability of damage exceeding *$500* million in one year is 2.5%, while it is 9.2% and 18.1% *for* three and five year periods. The analysis calculates the probability of damage from all storms and aggregates the total, resulting in increasing exceedance probabilities for the three and five year periods when compared to the one year value.

Table 9-2 also shows, for each damage layer, the contribution of that layer to the expected annual damage of $59.3 million, which is the annual damage calculated from all storms with varying severity and frequency. The expected annual damage represents all uninsured costs from windstorms on an annual basis over a long period of time.

For the example given above, the contribution to the $59.3 million expected annual damage in the $500 *to* $550 million layer is $1.211 million for the one-year period. For the three-year and five-year periods, *the* contribution to the expected damage over the period *is* provided for each layer. *For* example, the total expected damage over a three-year period *is* $177.805 million (three times the expected annual damage), $4.306 million of which is contributed by the layer from $500 to *$550* million.

Table 9-2

AGGREGATE STORM DAMAGE EXCEEDANCE PROBABILITIES
AND EXPECTED DAMAGE IN 1, 3, & 5 YEARS, BY LAYER

Damage Layer	1 year		3 year		5 year	
($millions)	Exceedance Probability	Expected Annual Damage ($000)	Exceedance Probability Over 3 Years	Expected Damage Over 3 Years ($000)	Exceedance Probability Over 5 Years	Expected Damage Over 5 Years ($000)
$0	82.420%	18,483	99.860%	39,107	100.000%	46,026
50	21.156%	8,466	58.876%	24,765	83.769%	37,324
100	13.536%	5,772	41.753%	18,032	65.765%	29,469
150	9.819%	4,269	31.413%	13,989	52.373%	23,918
200	7.637%	3,413	25.016%	11,354	43.264%	20,054
250	6.007%	2,668	20.407%	9,398	36.838%	17,104
300	4.911%	2,268	17.501%	8,038	31.525%	14,661
350	4.069%	1,868	14.648%	8,737	27.029%	12,630
400	3.496%	1,615	12.745%	5,805	23.300%	10,870
450	2.978%	1,384	10.662%	4,969	20.279%	9,608
500	2.538%	1,211	9.219%	4,306	18.078%	8,514
550	2.259%	1,020	8.046%	3,825	15.815%	7,471
600	1.932%	903	7.153%	3,335	13.855%	6,598
650	1.693%	792	6.142%	2,952	12.484%	5,826
700	1.491%	687	5.298%	2,415	10.862%	5,152
750	1.236%	575	4.751%	2,251	9.699%	4,589
800	1.086%	506	4.185%	1,974	8.557%	4,269
850	0.952%	468	3.615%	1,723	7.617%	3,428
900	0.819%	382	3.274%	1,575	6.872%	3,203
950	0.703%	308	2.909%	1,311	6.020%	2,857
≥$1,000	0.604%	2,211	2.571%	9,942	5.268%	22,769
Total		59,268		177,805		296,341

9.3 Per Occurrence Probabilities

Another approach *to* quantify losses *is* to calculate the damage for each time period from the *single* ***largest*** *and most likely event,* and apply the deductible to that event to calculate the loss. This is called a per-occurrence exceedance curve. The exceedance curve considers the possibility that damage/losses may be from any event in the probabilistic storm database. Because it includes effects from only the largest event, the per occurrence probabilities are always less than the aggregate probabilities. The amount of difference between the two cases indicates the damage and loss contributions from more than one event in any given period. This can provide additional insight into the risk associated with a second event. For FPL's portfolio, the one-year per Occurrence probabilities are approximately 90%-95% of the aggregate probabilities, indicating that most of the risk of damage and loss is associated with one major storm as opposed to two or more storms for a given period.

10. Nuclear Assets at Risk

Nuclear Exposures

FPL Storm Reserve exposures due to property damage and third party liabilities could arise from two sources:

- Nuclear accidents at FPL's four nuclear units located at Turkey Point and at St. Lucie, and
- Nuclear accidents at plants in nuclear mutual insurance pools

Storm Reserve obligations could result from *these* exposures as a result of mutual insurance obligation retrospective assessments *("retros")* or as a result of low probability events and losses in excess of insurance coverage.

Potential financial exposures to the Storm Reserve were developed using nuclear industry studies that provide the frequency and severity of nuclear accidents. These analyses provide estimates of the expected annual losses from these events.

Florida Power and Light Nuclear Plants

Florida Power and Light owns and operates four Pressurized Water Reactor units: *two* at Turkey Point and two at St. Lucie. Property damage and third party liabilities are insured through Nuclear Electric Insurance Limited (NEIL) and under Federal Price-Anderson legislation. Losses in excess of this insurance could represent liabilities to *the* FPL Storm Reserve.

Industry Nuclear Plants

The commercial nuclear power plants in the U.S. are insured through insurance mutual structures. Property damage resulting from operation *of* these plants is insured through NEIL, a nuclear utility insurance mutual. Third party liabilities resulting from operations are insured on a mutual basis under Federal Price-Anderson legislation. Losses at any of the commercial reactors in the US. could result in mutual insurance obligation retrospective assessments ("retros"). "Retros" could represent liabilities to the FPL Storm Reserve.

10.1 Nuclear Accident Frequencies

Nuclear power plant severe accident risks have been the subject of intensive study and analysis in the United States and overseas. Probabilistic Risk Assessments (PRA) have become the accepted methodology for analysis and quantification of these very low probability (1 in 100,000 to 1 in a million per year) but extreme consequence ($1 billion to $10 billion) events. PRA's are generally performed at two levels. These are:

- Level 1 — Analyses of nuclear plant system performance; develops the frequency and severity of nuclear core damage events as a result of equipment failure, operator errors and external events.

- Level 2 — Analysis of containment response; develops the frequency and severity of events that result in radioactive releases from containment, given the Occurrence of a core damage event.

Level 1 and 2 PRA studies provide frequency measures of loss to FPL's Storm Reserve. level 1 and 2 PRA frequencies apply to potential property damage and third-party liabilities, respectively.

Level 1 Core Damage Events

The total frequency of nuclear power plant core damage is composed of contributions *from* normal operations, shutdown and refueling and from external events. In 1988 and 1991, the U.S. Nuclear Regulatory Commission requested all commercial nuclear power plant licensees to initiate an assessment of accident risks due to power operations and of external events such as earthquakes, hurricanes, fires and floods (Reference 2). Many of these studies have utilized PRA methods that allow quantification of reactor core damage frequencies (CDF's) on a common basis. The results of these studies have been utilized as the basis for estimation of severe accident risks that could result in financial obligations to FPL's Storm Reserve.

In addition, the NRC and owners have conducted some number of Level 1 PRA studies at nuclear plants to assess the risk of core damage due to shutdown and refueling operations. The results of these research PRA studies have been utilized as the basis for estimation of risk contributions due to these periodic plant operations states (Reference 3).

The total risk of core damaging events from internal, external, and shutdown operations is estimated to be about 8/100,000 per reactor year for the U.S. industry. Considering there are approximately 100 reactor units in the mutual pool, the total frequency is about 8/1,000 core damage events per reactor year.

Level 2 Core Damage and Containment Failure Events

Core Damage and Containment Failure Events have been the subject of more limited study at operating commercial nuclear plants than the Level 1 PRA studies mandated by the NRC. The result of the studies performed and the regulatory reviews performed by the NRC has led to the view that the frequency of release given core damage to be at least 1 in 10 or lower probability than core damage.

10.2 Severity of Nuclear Losses

FPL's Storm Reserve has potential loss exposures to nuclear power plant operation resulting in property damage and third party liability as discussed below.

FPL Property Damage/Losses

Uninsured losses may result directly from an event resulting in property damage which exceeds FPL's *$2.75* billion NEIL II insurance coverage. Insured events that could result in this large a loss would most likely result from a class of severe accidents involving extensive reactor core melt. Storm Reserve liabilities resulting from core damage events that exceed FPL's existing insurance limit was estimated based *on* a study by ANI/MAELU of property damage exposures (Reference 4). The ANI/MAELU study estimates the expected loss from a core damage event at their "Reference Reactor" to be $2.5 billion. This expected value of loss represents a 50% probability of a loss being above or below this value. The study reports three sets of core damage losses. The first is below the limit of $2.75 billion. The second is approximately $3 billion, and the last is a range from $3.7 billion to $6.5 billion. The later two sets of events have a conditional probability of occurrence of 15% each. The most likely loss greater than the FPL $2.75 billion insurance limit is estimated to be about $1,215 million. The expected annual loss is the product of the annual frequency of core damage events times the expected loss. For FPL's four nuclear units, the *expected* annual loss is estimated to be $0.5 million per year.

FPL Third-Party Losses

Uninsured losses may result directly from an event resulting in third-party liability which exceeds the Price-Anderson limit of about $9 billion. Losses in excess of this limit were judged to be small enough to neglect from this analysis.

Industry Property Damage/Loss

Property damage exposures may also occur due to core damage events at *other* nuclear plants participating in the NEIL mutual insurance program as a result of retrospective assessments to participants. NEIL's current policyholder surplus, reinsurance contracts, deferred taxes, and policyholder distributions should allow NEIL to meet their stated mission of 'covering two full-limit losses" (Reference 5). NEIL also states that "... the company can call upon the Members for payment of proportionate retrospective premium adjustments, in whole or in part, to cover losses..." NEIL could also elect not to call a "retro" following a loss, considering their capacity to cover *two* Limit Losses. Should one of NEIL's member utilities experience a core damage event and loss, FPL may be obligated to provide a full or partial "retro" from the Storm Reserve, The expected post loss scenario is therefore considered to be a partial (50%) 'retro" of $27 million. FPL's full "retro" exposure is $54 million. The expected annual "retro" cost, considering the frequency of core damage events industry wide and the number of reactors participating in the NEIL insurance arrangement, is $0.2 million.

Third-Party Liability

Third-party liability exposures could result from a major core damage event accompanied by a release of radioactive materials at both FPL and non-FPL nuclear plants, These exposures would result from retrospective assessments under Price-Anderson legislation. Nuclear licensees are currently obligated under Price-Anderson to fund third-party liability losses up to about $9 billion. The "retro" *cost* for a full Price Anderson limit loss would be $363 million. Considering the frequency of core damage and release events industry wide and the number *of* reactors participating under the Price-Anderson legislation, the expected annual *cost* to FPL is $0.3 million.

The estimated total nuclear exposure of the *Storm* Reserve is shown in Table 10-1. The exposures provided are best estimates of the annual losses that could *occur*. There are significant uncertainties associated with the risk *of* reactor accidents, the lasses that could result, and the actions that could be taken by organizations with responsibility for assessment of "retro" to FPL. Uncertainties associated with individual variables used in these estimates are large, and the range of annual exposure could be as large as an order of magnitude.

Table 10-1

EXPECTED ANNUAL LOSSES FROM NUCLEAR ACCIDENTS TO THE FPL STORM RESERVE

	Accident Frequency (events/year)	Accident Severity $(millions)	Expected Annual Loss $(millions)
		Excess of Insurance	
Property Damage	4/10,000	1,215	0.5
Third-party Liability	4/100,000	nil	nil
Subtotal			**0.5**
Industry Assets/Losses		*"Retros"*	
Property Damage	8/1,000	27	0.2
Third-party Liability	8/10,000	363	0.3
Subtotal			*0.5*
Total			**1.0**

11. References

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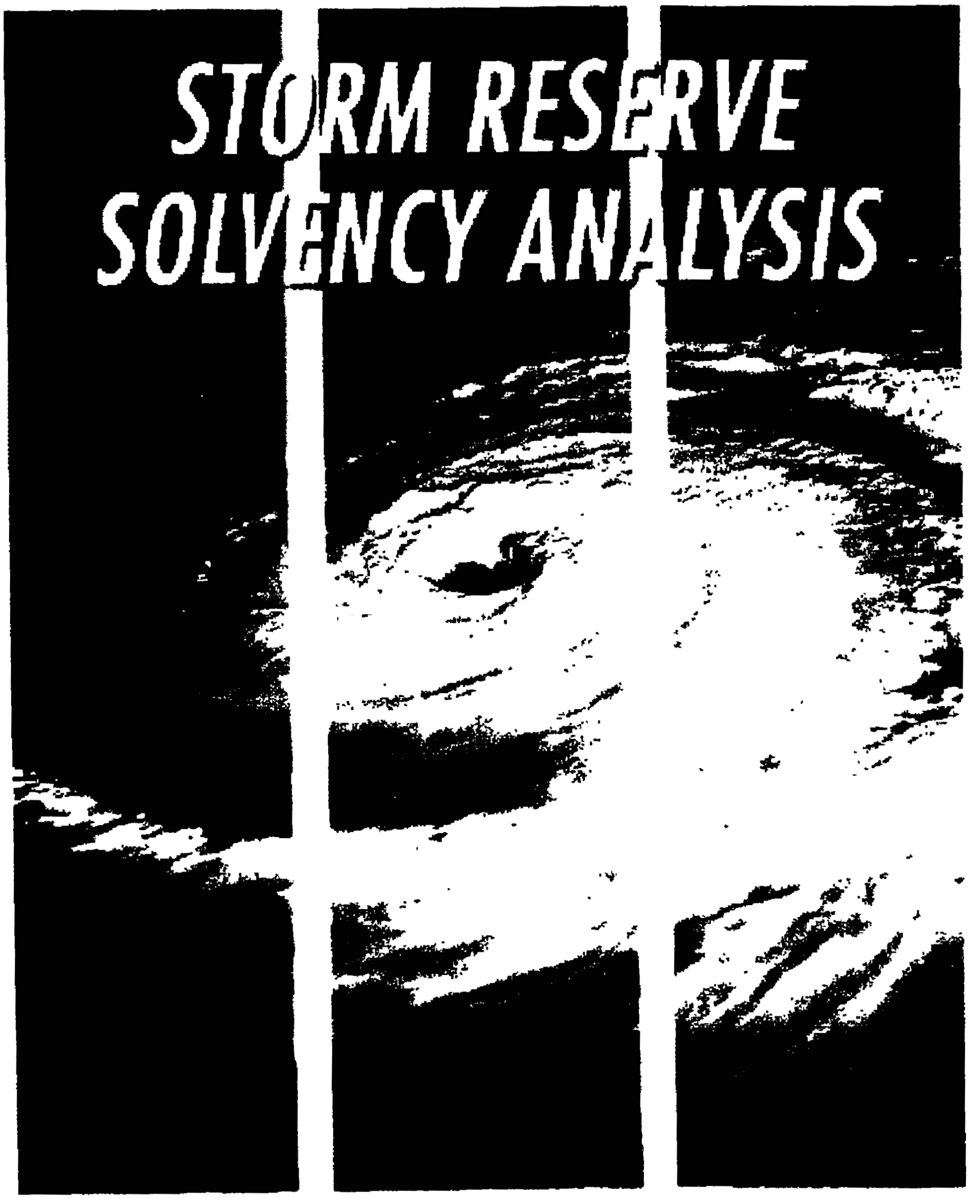
Appendix B

EQE INTERNATIONAL



Florida Power & Light

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Executive Summary

EQE has performed several analytic studies relative to the Storm Reserve at the request of Florida Power & Light Company (FPL). These studies and reports include:

- The Storm Reserve Loss Analysis (the "Loss Analysis): This probabilistic storm analysis study estimates the uninsured windstorm losses to which FPL *is* exposed:
- The Storm Reserve Solvency Analysis (the "Solvency Analysis"): This dynamic financial simulation analysis evaluates the performance of the Storm Reserve, given the potential uninsured losses determined from the Loss Analysis, at various annual accrual levels; and
- The Storm Reserve Funding Recommendation report (the "Recommendations"): This report draws on the Loss Analysis and Solvency Analysis, together with FPL financial objectives, and recommends annual accrual levels and a five-year Storm Reserve balance target range.

The recommendation on annual accrual level and target Storm Reserve balance are based on FPL's desire to achieve a balance among lowest long-term customer cost, reduced Storm Reserve volatility, and annual accrual levels that fund most frequent storms but not all infrequent catastrophic events.

EQE recommends an annual accrual in the range of $45 to $55 million with an objective of reaching a target Storm Reserve balance range *of* $400 to $500 million within five years.

Storm Reserve Loss Analysis

EQE performed a probabilistic analysis of windstorm losses for FPL, to determine their potential impact on the Storm Reserve over periods of one, three and five years. The analysis included Transmission and Distribution (T & D) losses as well as windstorm insurance deductibles attributable to non-T & D assets. The total expected annual uninsured cost from all windstorms is estimated to be $59.3 million.

The expected annual loss estimate represents the average annual cost associated with repair of windstorm damage and service restoration activities over a long period of time. The expected annual loss is also known as the "Pure Premium," which when insurance is available is the insurance premium level needed to pay just the expected losses. Insurance companies add their expense cost and profit margin to the Pure Premium to develop the premium charged to customers.

Storm Reserve Solvency Analysis

EQE performed a dynamic financial simulation analysis of the impact of the estimated windstorm losses on the FPL Storm Reserve. This Solvency Analysis performed 10,000 simulations of windstorm losses within the FPL service territory, each covering a 30-year period, to determine the effect of the charges for loss on the Storm Reserve. Monte Carlo simulations were used to generate loss samples consistent with the expected $59.3 million Loss Analysis results. The analysis provides an estimate of the Storm Reserve assets in each year of the simulation accounting for the annual accrual, investment income, expenses, and losses using a financial model.

The analysis concentrated on looking at three key performance measures: solvency of the Storm Reserve, stability of the Storm Reserve (i.e. need for special assessments / rate increases), and overall cost to the customer. All three criteria need to be considered, since low accrual levels tend to jeopardize the solvency of the Storm Reserve and increase long term customer costs, and high accrual levels can result in a Storm Reserve balance that grows quickly.

Alternative administrative policies, differentiated on the basis of the annual accrual, and the scheme of Reserve balance levels at which the normal accrual is reduced or suspended entirely due to growth in the Reserve were evaluated. Annual accruals evaluated were $10 million to $80 million in steps of $10 million, with three additional cases at $35, $45, and $55 million. With respect to the Reserve balance thresholds, two scenarios exist: one in which the annual accrual is reduced by 50% at $500 million and suspended at $750 million (Scenario A), and one in which the thresholds are $400 million and $600 million, respectively (Scenario 6). The former scenario (Scenario A) is recommended, as it minimizes volatility as measured by the need for special assessments / rate increases.

Where the Storm Reserve balance was negative at the end of a year, it was assumed that the deficit was covered by borrowing funds (at an after tax interest rate of 4%). When borrowing was required, an assessment or rate increase was assumed to be immediately instituted to repay the shortfall over a five-year period. Balances in the Storm Reserve were assumed to be invested and earned a 3.5% after tax return.

Analysis Results

Storm Reserve solvency can be viewed in terms of the expected surplus or deficit of the Storm Reserve over the 30-year period, Based on the simulated loss distributions, deficits to the Storm Reserve could exist for all annual accrual levels analyzed, although their level begins to moderate at accruals above $45 million. Accrual levels above $45 million will result in a lower probability of Storm Reserve deficits and will have a higher probability of generating positive Storm Reserve growth, thus reducing both customer cost and the need for special assessments / rate increases.

Storm Reserve volatility can be viewed in terms of the fraction of total annual cost per customer contributed by special assessments / rate increases. The volatility can be characterized by three ranges of need for special assessments / rate increases:

- Annual accrual levels below $45 million, where deficits occur and special assessments / rate increases make up 35% to 55% of the total annual cost per customer.
- Annual accrual levels between $45 and 55 million where small surpluses occur and special assessments / rate increases make up 25 to 35% of the total annual cost to the customer.

- Annual accrual levels of $60 million or greater where special assessments / rate increases make up less than 25% of the total annual cost per customer.

The need for special assessments / rate increases does not decrease to zero for any of the accrual levels analyzed. This is an effect of capping the Storm Reserve at $750 million and the potential that losses in excess of a billion dollars could occur. Should one of these low probability events occur, special assessments / rate increases would be required even at the maximum capped Storm Reserve balance. There is approximately a 1% chance in one year and an 8% chance in five years that storm losses could exceed the maximum cap ($750 million).

Cost to the customer can be viewed in terms of the sum of the annual accruals, borrowing costs, special assessments / rate increases, and deficits (or surpluses). Costs to the customer decrease rapidly as accruals approach the $45 million level. Total customer costs continue to decrease, but more gradually for accruals of $45 million and larger.

Assumptions

The analysis performed included certain conservative assumptions regarding loss exposures. These include assumptions regarding storm frequency and severity, future FPL system growth, and future increased cost for system restoration due to inflation:

- The analysis is based on storm frequency and severity distributions developed from the entire 100-year historical record. Year-to-year variability in storm frequency and severity distributions has not been included. Specifically, variability associated with El Nino / Southern Oscillation (ENSO) has not been considered. Further, there has been no attempt to model longer term variations such as the relatively quiet period for North Atlantic hurricanes that occurred from about 1970 to the mid 1990's, or the more active periods before and after. The length of each quiet or active period is thought to be about 25 to 30 years, and the current period of higher activity began only about five years ago; therefore it is quite possible that the next 30 years could be characterized by higher levels of activity than average.

- The analysis considered no future growth of the FPL customer base and system assets. FPL customer base has grown 1% to 2% per year over the past decade.
- The analysis assumed that future system restoration cost would be at comparable price levels to the present. Recent inflationary cost increases for new transmission and distribution assets have increased at 1% to 3.5% per year over the past decade.

Given these conservative assumptions, inflation in assets and repair costs could cause the Storm Loss estimates to be higher. The uncertainties represented by these assumptions are within the overall uncertainties of the storm hazards and the recommendations provided represent a sound approach in the short term of the next three to five years. Should FPL experience either a single catastrophic storm loss or a series of more moderate storms that seriously hamper the Storm Reserve's growth to the recommended target amount, the Storm Reserve annual accrual level could require retrospective review.

Recommendations

Based on the analysis performed, we recommend a minimum annual accrual level in the range of $45 to $55 million, with a target Storm Reserve balance of $400 to $500 million within the next three to five years. These accrual levels and this target Storm Reserve balance, considering the expected losses, should provide sufficient funds to:

- Lower long term customer costs,
- Dampen volatility of the Storm Reserve,
- Fund most storms losses but *not* those from the most severe catastrophic events

It should be noted that there is no single way *to* establish appropriate annual accrual level or target Storm Reserve balance. Both storm frequencies and severities have large uncertainties. Consequently any accrual level can be either inadequate given a single rare event, or result in increases to the Storm Reserve balance *if* no events occur within any given short number of storm seasons.

We believe that the accruals and target Storm Reserve balances in the recommended ranges will significantly improve the likelihood of achieving the three established criteria of balancing lower long-term customer cost, Storm Reserve volatility, and coverage for the majority of storm scenarios.

Table of Contents

I. Introduction

The Storm Reserve Solvency Analysis consisted of running 10,000 iterations of windstorm loss simulations, each one covering a 30-year period, through a financial model to determine the effect of the losses on the Storm Reserve. The analysis considered two administrative parameters with respect to management of the Storm Reserve: the annual accrual, and the Storm Reserve balance levels at which the normal accrual is reduced or suspended entirely due to growth in the Reserve (minimum / maximum and maximum Reserve balance thresholds, respectively).

A total of 22 different scenarios were identified and modeled in the analysis. The 22 scenarios consist of II levels of annual accrual and two combinations of maximum and minimum / maximum Reserve balance thresholds as follows:

- Annual accrual options
  $10 Million
  $20 Million
  $30 Million
  $35 Million
  $40 Million
  $45 Million
  $50 Million
  $55 Million
  $60 Million
  $70 Million
  $80 Million

- Reserve balance thresholds

	Reserve Balance	Accrual Reduction
Schedule A		
* Maximum:	$750 Million	100%
* Minimum/ Maximum:	$500 Million	50%
Schedule B		
* Maximum:	$600 Million	100%
* Minimum/ Maximum:	$400 Million	50%

With respect to the Reserve balance thresholds, whenever the Reserve balance exceeds the indicated threshold the annual accrual is reduced by the indicated percentage.

II. Storm Loss Simulations

The 10,000 iterations of windstorm toss simulations used in the Storm Reserve Solvency Analysis were probabilistically generated using EQE's USWIND™ Catastrophe Model. The USWIND™ probabilistic loss analysis calculated the losses to FPL for a comprehensive set of hypothetically possible storms. The basis for such an analysis was the USWIND™ probabilistic database, which is a finely segmented set of hypothetical storms affecting the Gulf and Atlantic coasts of the United States.

The hypothetical hurricane and tropical storm database was developed by dividing the coastline into 10-mile segments and modeling more than 1,500 hypothetical hurricanes and approximately 750 hypothetical tropical storms for each segment. The net result is a stochastic storm database more than 750,000 hurricane and tropical storm events. In addition, each stochastic event is assigned an annual frequency of occurrence based on the storm track location and the storm intensity as measured by central pressure. A database of approximately 500,000 stochastic winter storm events was developed by a different process, through a simulation based on an analysis of historical winter storm wind fields.

Based on the annual frequency and the loss estimate for each stochastic event, a probabilistic database of losses can be developed. From this database, various loss exceedance distributions can be statistically generated. For this analysis, an annual aggregate loss distribution was generated by combining all of the losses to FPL's Transmission and Distribution (T & D) assets, as well as insurance deductibles for non T & D assets and anticipated staging costs, calculated on the basis of the stochastic event sets described above. The expected annual loss calculated was $59.3 million.

The Storm Reserve Solvency Analysis consisted of performing Monte Carlo simulations to generate loss samples consistent with the loss exceedance distribution. Each loss sample has an equal likelihood of occurrence, and the annual probability of non-exceedance for the samples ranged from 0 to 0.9999. Since the annual aggregate loss distribution was used, the possibility that more than one storm in a given year may affect the Storm Reserve was included in the analysis.

The next step was to use a random walk technique to generate 10,000 sequences of 30 years each. In each random walk, a sequence of 30 loss samples was selected from the loss distribution, resulting in one hypothetical set of occurrences for the 30-year period. The sampling was done in such a manner that each year has a unique and statistically independent set of loss points, yet for each of the 30 years, all of the 10,000 loss points are equally likely.

Note that the analysis is based on storm frequency and severity distributions developed from the entire 100-year historical record. Year-to-year variability in storm frequency and severity distributions has not been included. Specifically, variability associated with El Nino / Southern Oscillation (ENSO) has not been considered. Further, there has been no attempt to model longer term variations such as the relatively quiet period for North Atlantic hurricanes that occurred from about 1970 to the mid 1990's, or the more active periods before and after. The length of each quiet or active period is thought to be about 25 to 30 years, and the current period of higher activity began only about five years ago; therefore it is quite possible that the next 30 years could be characterized by higher levels of activity than average.

Further, the analysis considered no future growth of the FPL customer base and system assets. FPL customer base has grown 1% to 2% per year over the past decade.

Finally, note that the analysis assumed that future system restoration cost would be at comparable price levels to the present. Recent inflationary cost increases for new transmission and distribution assets have increased at 1% to 3.5% per year over the past decade.

III. Financial Analysis

The financial model used in this analysis was developed by EQE, based on discussions with FPL, specifically for the Storm Reserve Solvency Analysis. During this process, FPL thoroughly reviewed the model, made suggestions, and generally helped to ensure that the final product properly reflects how the Reserve operates. The financial model takes into account the Storm Reserve's beginning balance, annual accrual, investment income, losses, and expenses, to determine the ending Reserve balance for each simulation. A representative example of the financial model covering an 11-year period can be found in Appendix A.

Selected terms utilized in the financial model that describe key parameters are defined as follows:

- Reserve Balance - This is the value of the Storm Reserve.
- Annual Accrual - This is the annual accrual being added to the Reserve through expense accruals. This is an input variable with the analysis looking at 11 accrual levels ($10 million to $80 million in steps of $10 million, with three additional cases at $35, $45, and $55 million).
- Minimum / Maximum Reserve - If the Reserve balance grows to this level the annual accrual is reduced until losses drop the Reserve balance below the minimum/ maximum Reserve threshold. This is an input variable with the analysis looking at two thresholds ($400 million and $500 million).
- Reduction in Accrual - This is the amount of reduction that will be made in the annual accrual if the Reserve balance exceeds the minimum / maximum Reserve threshold. The analysis reduces the accrual by 50% when the minimum / maximum Reserve threshold is exceeded.
- Maximum Reserve - If the Reserve balance grows to this level, the annual accrual is suspended until losses reduce the Reserve balance below the maximum Reserve threshold. This is an input variable with the analysis looking at two thresholds ($600 million and $750 million).
- Investment Income - This is the after-tax rate of return on investments. It is calculated as the average of the beginning Reserve balance and ending Reserve balance for the prior year times the after-tax rate of return. However, for year one the income was calculated as the initial Reserve balance times the after-tax rate of return. If the average

balance is less than zero, the investment income is assumed to be zero. A 3.5% after-tax rate of return was used in the analysis.

- 1st Line of Credit - This is *the* limit on the line of credit that the Storm Reserve can draw on when the Reserve balance goes below zero due to losses. The line of credit limit was assumed to be $300 million in the analysis.

- 1st Line of Credit Interest Rate - This is the interest rate that applies when the line of credit is used. The analysis does not include the cost of maintaining the line of credit. A 4.0% after-tax interest rate was used in the analysis.

- 2nd Line of Credit - If the 1st line of credit *is* exhausted, FPL will draw on other resources *to* cover the losses. It is assumed that this is an unlimited line of credit in the analysis.

- 2nd Line of Credit Interest Rate - This *is* the interest rate that applies when the line of credit is used. The analysis does not include the cost of maintaining the line of credit, A 4.0% after-tax interest rate was used in the analysis.

The financial model also provides for special assessments / rate increases to maintain a positive Reserve balance:

- Special Assessment - A special assessment is assumed to be made when the Reserve balance is insufficient to cover the losses. When this occurs, FPL will draw on its lines of credit to cover the shortfall. A special assessment is then assumed to be made over the next five years to cover the cost of paying back the principal and interest on the lines of credit.

The financial model starts with a Reserve balance of $247 million as of June 30, 2001, as the beginning balance. It then uses the damage estimates developed from EQE's USWIND™ Catastrophe Model to determine the potential impact of the various options being considered for each of the 10,000 simulations covering a 30-year period.

In doing this, the financial model first determines the net *inflow* (outflow) by adding the annual accrual, investment income, and special assessment together, and then subtracting losses from the total for each year. Once this is done, the ending Reserve balance for the year is determined by adding the net inflow (outflow) to the beginning Reserve balance.

The financial model also determines when the lines of credit have to be used. This occurs when the losses for the year cannot be covered by the beginning Reserve balance. Whenever this occurs, the lines of credit are used *to* make up the difference. The lines of credit are then paid back whenever a positive net inflow (outflow) exists.

Finally, the financial model also tracks the impact of the special assessments / rate increases on FPL's customers. The impact is shown as a rate per customer. In addition, the model monitors the credit requirement for each year and which lines of credit are being used along with the repayment of principal and outstanding balance for each line of credit,

IV. Analysis Results

A total of 22 alternative administrative policies were evaluated in the simulations described earlier. The two key variables are the annual accrual, and the scheme of Reserve balance levels at which the normal accrual is reduced or suspended entirely due to growth in the Reserve (minimum / maximum and maximum Reserve balance thresholds, respectively). With respect to the Reserve balance thresholds, *two* scenarios exist. In Schedule A, the annual accrual is reduced by 50% at $500 million and suspended *at* $750 million. In Schedule B, the thresholds are $400 million and $600 million, respectively. Each scenario analyzed can be identified based on these variables according to the following chart (all dollar amounts are shown in millions):

			Thresholds	
Number	Scenario ID			Maximum
1	10A			$750
2	10B			$600
3	20A			$750
4	208			$600
5	30A			$750
6	300			$600
7	35A	$35	$500	$750
8	358	$35	$400	$600
9	40A	$40	$500	$750
10	40B	$40	$400	$600
11	45A	$45	$500	$750
12	450	$45	$400	$600
13	50A	$50	$500	$750
14	50B	$50	$400	$600
15	55A	$55	$500	$750
16	550	$55	$400	$600
17	60A	$60	$500	$750
18	60B	$60	$400	$600
19	70A	$70	$500	$750
20	70B	$70	$400	$600
21	BOA	$80	$500	$750
22	80B	$80	$400	$600

Each scenario ID is made up of the annual accrual ($10 million to $80 million in steps of $10 million, with three additional cases at $35, $45, and $55 million), and the Reserve balance thresholds for adjustments in the annual accrual level (Schedule A or B). Therefore, a scenario code of 40A means a $40 annual million accrual, with adjustments in the annual accrual level at $500 million and $750 million.

The analysis concentrated on looking at three key performance measures: solvency of the Storm Reserve, stability of the Storm Reserve (i.e. need for special assessments / rate increases), and overall cost to the customer. All three criteria need to be considered, since low accrual levels tend to jeopardize the solvency of *the* Storm Reserve and increase long term customer costs, and high accrual levels can result in a *Storm* Reserve balance that grows quickly.

The individual analysis results for all the scenarios can be found in the appendices. Appendix B presents a table showing, for each scenario considered, the mean values of the annual accrual, special assessments / rate increases, investment income, interest expense, and storm losses, as well as the annual net inflow or outflow of Reserve assets. Appendix C displays the probability of the Reserve being depleted in each scenario, resulting in the need to borrow against the lines of credit, Appendix D contains a series of charts showing for the different cases the expected value as well as the upper and lower bounds on the Reserve assets in each year. Finally, Appendix E summarizes the findings from the analysis, showing the relative costs for the scenarios considered.

Storm Reserve solvency can be viewed in terms of the expected surplus or deficit of the Storm Reserve over the 30-year period. Based on the simulated loss distributions, deficits to the Storm Reserve could exist for all annual accrual levels analyzed, although their level begins to moderate at accruals above $45 million. Accrual levels above $45 million will result in a lower probability of Storm Reserve deficits and will have a higher probability of generating positive Storm Reserve growth, thus reducing both customer cost and the need for special assessments / rate increases.

Storm Reserve volatility can be viewed in terms of the fraction of total annual cost per customer contributed by special assessments / rate increases. The volatility can be characterized by three ranges of need for special assessments / rate increases:

- Annual accrual levels below $45 million, where deficits occur and special assessments / rate increases make up 35% to 55% of the total annual cost per customer.

- Annual accrual levels between $45 and 55 million where small surpluses occur and special assessments / rate increases make up 25 to 35% of the total annual cost to the customer.

- Annual accrual levels of $60 million or greater where special assessments / rate increases make up less than 25% of the total annual cost pet customer.

The need for special assessments / rate increases does not decrease to zero for any of the accrual levels analyzed. This is an effect of capping the Storm

Reserve at $750 million and the potential that losses in excess of a billion dollars could occur. Should one of these low probability events occur, special assessments / rate increases would be required even at the maximum capped Storm Reserve balance. There is approximately a 1% chance in one year and an 8% chance in five years that storm losses could exceed the maximum cap ($750 million).

Cost to the customer can be viewed in terms of the sum of the annual accruals, borrowing costs, special assessments / rate increases, and deficits (or surpluses), Costs to the customer decrease rapidly as accruals approach the $45 miltion level. Total customer costs continue to decrease, but more gradually for accruals of $45 million and larger.

Based on the above, the most viable scenario groups are in the *$45* to $55 million range of annual accrual levels, To minimize volatility as measured by the need for special assessments / rate increases, the A scenarios are preferred. Therefore the following scenarios come closest to meeting the performance criteria:

- Scenario 45A
  $45 Million Annual Accrual
  Accrual reduced 50% at $500 million Reserve Balance
  Accrual reduced to $0 at $750 million Reserve Balance

- Scenario 50A
  $50 Million Annual Accrual
  Accrual reduced 50% at $500 million Reserve Balance
  Accrual reduced to $0 at $750 million Reserve Balance

- Scenario 55A
  $55 Million Annual Accrual
  Accrual reduced 50% at $500 million Reserve Balance
  Accrual reduced to $0 at $750 million Reserve Balance

All three scenarios selected provide reasonable alternatives for administering the Storm Reserve. However, as mentioned in the section on Storm Loss Simulations, the analysis included certain assumptions that tend toward a conservative estimation of annual accrual levels required to maintain the Reserve. These include assumptions regarding storm frequency and severity, future FPL system growth, and future increased cost for system restoration due to inflation.

Appendix A

FLORIDA POWER AND LIGHT – STORM RESERVE SOLVENCY ANALYSIS
Financial Model
Summary of Assumptions

Starting Reserve Balance	$247,498,000	
Annual Contribution	$20,000,000	(Variable)
Min/Max Reserve	$500,000,000	(Variable)
Reduction in Contribution	50%	When reserve exceeds Min/Max the contribution is reduced by this factor
Maximum Reserve	$750,000,000	(Variable - When the reserve reaches the Maximum the annual contribution is suspended)
Number of Customers	*3,877,270*	
Investment Inc.	3.5%	(After Tax Rate)
1st Line of Credit	$300,000,000	
1st LOC Interest Rate	4.0%	(After Tax Rate)
2nd Line of Credit	Unlimited	
2nd LOC Interest Rate	4.0%	(After Tax Rate)
Special Assessment		Equal to one fifth of total Credit Line Draw Plus Interest
Credit Line Principal		Equal to one fifth of total Credit Line Draw
Deductible Amount	$16,000,000	Total Deductible amount for property covered by insurance
Deductible Threshold	$50,000,000	If T&D losses exceed Deductible Threshold it is assumed that the damage to other property will exceed the Deductible Amount and the full Deductible Amount is applied against the fund Otherwise the other losses are assumed to be minor and a Deductible Amount is not added.

FLORIDA POWER AND LIGHT – STORM RESERVE SOLVENCY ANALYSIS
Financial Model
(Dollars in thousands)

	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year	9th Year	10th Year	11th Year
Beginning Reserve Balance	247,498,000	160,160,430	187,294,453	97,374,913	122,356,627	(69,798,071)	(351,991,680)	(267,004,472)	(178,617,776)	(86,695,612)	8,903,439
Gross Contribution	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000	*20,000,000*
Investment Inc.	8,662,430	7,134,023	6,080,460	4,981,714	3,845,302	919,775	0	0	0	0	0
Special Assessment											
1st Year	0	0	0	0	0						
2nd Year		0	0	0	0	0					
3rd Year			0	0	0	0	0				
4th Year				0	0	0	0	0			
5th Year					0	0	0	0	0		
6th Year						15,678,539	15,678,539	15,678,539	15,678,539	15,678,539	
7th Year							63,388,336	63,388,336	63,388,336	63,388,336	63,388,336
8th Year								0	0	0	0
9th Year									0	0	0
10th Year										0	0
11th Year											0
Special Assessment Total	0	0	0	0	0	15,678,539	79,066,875	79,066,875	79,066,875	79,066,875	63,388,336
Total	**28,662,430**	**27,134,023**	**26,080,460**	**24,981,714**	**23,845,302**	**36,598,314**	**99,066,875**	**99,066,875**	**99,066,875**	**99,066,875**	**83,388,336**
EXPENSES:											
Loss (T & D)	100,000,000	0	100,000,000	0	200,000,000	300,000,000	0	0	0	0	0
Loss (Other)	16,000,000	0	16,000,000	0	16,000,000	16,000,000	0	0	0	0	0
Interest 1st LOC		0	0	0	0	2,791,923	12,000,000	10,680,179	7,144,711	3,467,824	0
Interest 2nd LOC		0	0	0	0	0	2,079,667	0	0	0	0
Total Expenses	**116,000,000**	**0**	**116,000,000**	**0**	**216,000,000**	**318,791,923**	**14,079,667**	**10,680,179**	**7,144,711**	**3,467,824**	**0**
Net Inflow (Outflow)	(87,337,570)	27,134,023	**(89,919,540)**	24,981,714	**(192,154,698)**	**(282,193,609)**	84,987,208	88,306,696	91,922,164	95,599,051	**83,388,336**
Ending Reserve Balance	**160,160,430**	**187,294,453**	97,374,913	122,356,627	(69,798,071)	(351,991,680)	**(267,004,472)**	**(178,617,776)**	(86,695,612)	8,903,439	**92,291,774**

FLORIDA POWER AND LIGHT – STORM RESERVE SOLVENCY ANALYSIS
Financial Model - continued
(Dollars in thousands)

	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year	9th Year	10th Year	11th Year
Credit Requirement	0	0	0	0	69,798,071	282,193,609	0	0	0	0	0
1st Credit Line Draw-Effective	0	0	0	0	69,798,071	230,201,929	0	0	0	0	0
2nd Credit Line Draw-Effective	0	0	0	0	0	51,991,680	0	0	0	0	0
Repayment of Principal											
Principal 1st LOC	0	0	0	0	0	0	32,995,528	88,386,696	91,922,164	86,695,612	0
Principal 2nd LOC	0	0	0	0	0	0	51,991,680	0	0	0	0
1st Credit Line Balance	0	0	0	0	69,798,071	300,000,000	267,004,472	178,617,776	86,695,612	0	0
2nd Credit Line Balance	0	0	0	0	0	51,991,680	0	0	0	0	0
Assess. Impact/Customer	0.0000	0.0000	0.0000	0.0000	0.0000	4.0437	20.3924	20.3924	20.3924	20.3924	16.3487

Appendix B

Appendix B

The table in this section shows the expected annual net inflow (outflow) for the Storm Reserve based on the annual accrual, special assessments / rate increases, investment income, interest expense on borrowing, and hurricane damage. The first scenario (10A) shows that there is an expected annual net outflow of $18.8 million dollars a year, which would reduce the Reserve balance each year. Conversely, the last scenario (80B) produces an expected annual net inflow of $7.5 million dollars, which would add value *to* the Reserve balance each year. It can be noted from the table that the expected annual accrual amount is different from (and less than) the 'nominal' accrual amount. For example, scenario 40A represents one of the cases with a $40 million annual accrual amount. However, the average amount of the annual accrual *for* this scenario is only about $34.5 million. This is because there is some likelihood that the accrual amount will be reduced by 50% to 100% at some time over the thirty year period because of the Reserve balance exceeding certain thresholds.

SCENARIO	ACCRUAL	SPECIAL ASSESSMENTS	INVESTMENT INCOME	INTEREST EXPENSE	HURRICANE DAMAGE	NET INFLOW (OUTFLOW)
10a	9,988	34,005	3,056	6,592	59,268	(18,811)
10b	9,950	34,021	3,043	6,594	59,268	(18,850)
20a	19,622	27,322	5,076	4,245	59,268	(11,493)
20b	19,219	27,529	4,892	4,273	59,268	(11,902)
30a	28,011	21,537	7,761	2,841	59,268	(4,799)
30b	26,946	22,064	7,187	2,907	59,268	(5,978)
35a	31,515	19,165	9,168	2,368	59,268	(1,788)
35b	30,059	19,858	8,339	2,451	59,268	(3,464)
40a	34,504	17,132	10,545	1,999	59,268	914
40b	32,665	17,981	9,452	2,097	59,268	(1,267)
45a	36,998	15,403	11,854	1,712	59,268	3,275
45b	34,812	16,395	10,478	1,821	59,268	596
50a	39,062	13,937	13,081	1,484	59,268	5,328
50b	36,566	15,070	11,405	1,604	59,268	2,169
55a	40,729	12,696	14,214	1,302	59,268	7,069
55b	37,969	13,949	12,255	1,430	59,268	3,474
60a	42,065	11,662	15,234	1,155	59,268	8,538
60b	39,110	12,985	13,039	1,287	59,268	4,578
70a	44,017	10,009	17,026	934	59,268	10,849
70b	40,800	11,480	14,350	1,074	59,268	6,287
80a	45,315	8,792	18,477	782	59,268	12,534
80b	41,962	10,416	15,356	929	59,268	7,537

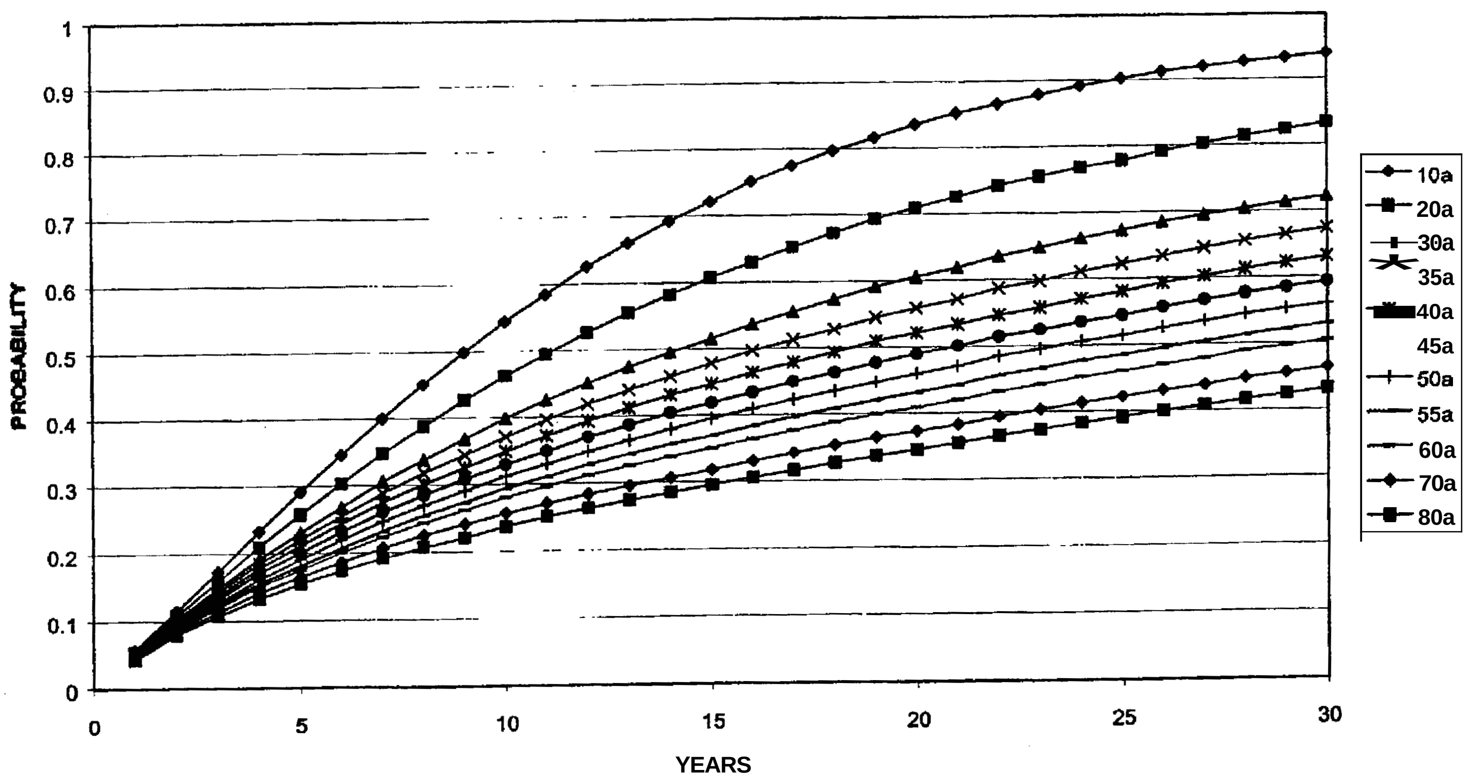
Appendix C

Appendix C

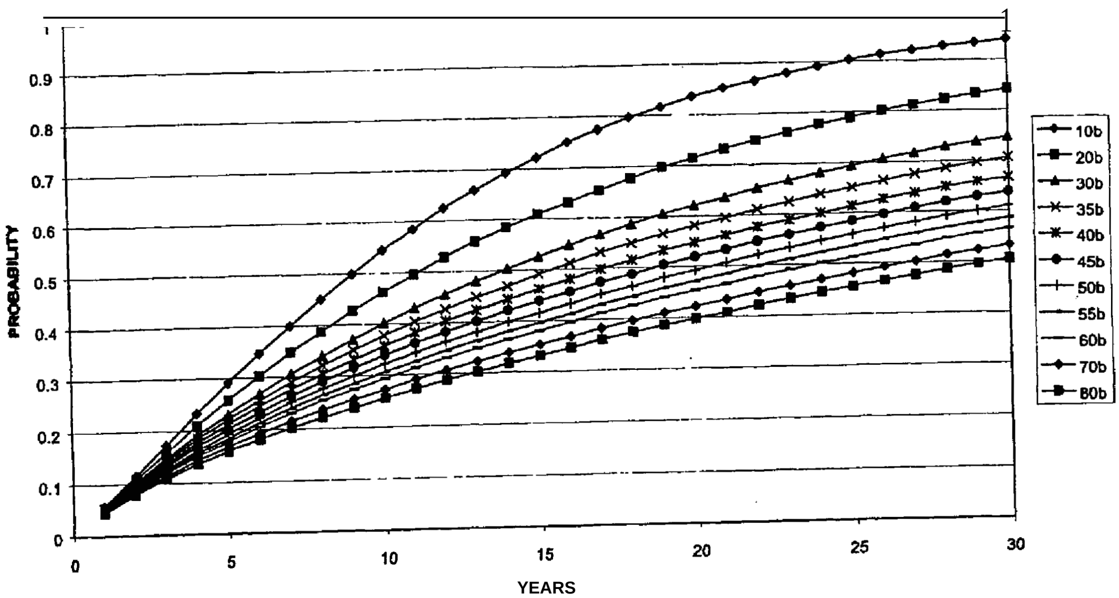
The charts in this section show the probability that the Storm Reserve assets will be inadequate to cover hurricane losses at some time during the relevant time horizon for each of the scenarios. Whenever this occurs it' is assumed that the Storm Reserve borrows funds and requests special assessments/ rate increases to pay the losses. For example, a probability of 0.3 corresponding to the 10 year mark means that there is a 30% likelihood that borrowing will be necessary at least once during the first ten years of the storm fund *to* pay for hurricane losses.

The first chart summarizes the probabilities of borrowing for all 11 annual accrual levels based on accrual schedule A. The second chart summarizes the probabilities of borrowing for all 11 annual accrual levels based on accrual schedule B. For example, from the first chart, it can be seen that for scenario 80A (annual accrual of $80 million, minimum/ maximum threshold of $500 million, maximum threshold of $750 million) the corresponding probability of borrowing is about 43% over the 30-year period. From the second chart, it can be seen that for scenario 10B (annual accrual of $10 million, minimum/ maximum threshold of $400 million, maximum threshold of $600 million), there is about a 94% likelihood that borrowing will be necessary at some time during the 30-year period.

FLORIDA POWER & LIGHT - STORM FUND SOLVENCY ANALYSIS
Cumulative Probability of Borrowing / Special Assessments
Scenario A, Annual Accrual Amounts =
$10M, $20M, $30M, $35M, $40M, $45M, $50M, $55M, $60M, $70M, $80M



FLORIDA POWER & LIGHT - STORM FUND SOLVENCY ANALYSIS
Cumulative Probability of Borrowing / Special Assessments
Scenario B, Annual Accrual Amounts =
$10M, $20M, $30M, $35M, $40M, $45M, $50M, $55M, $60M, $70M, $80M



Appendix D

Appendix D

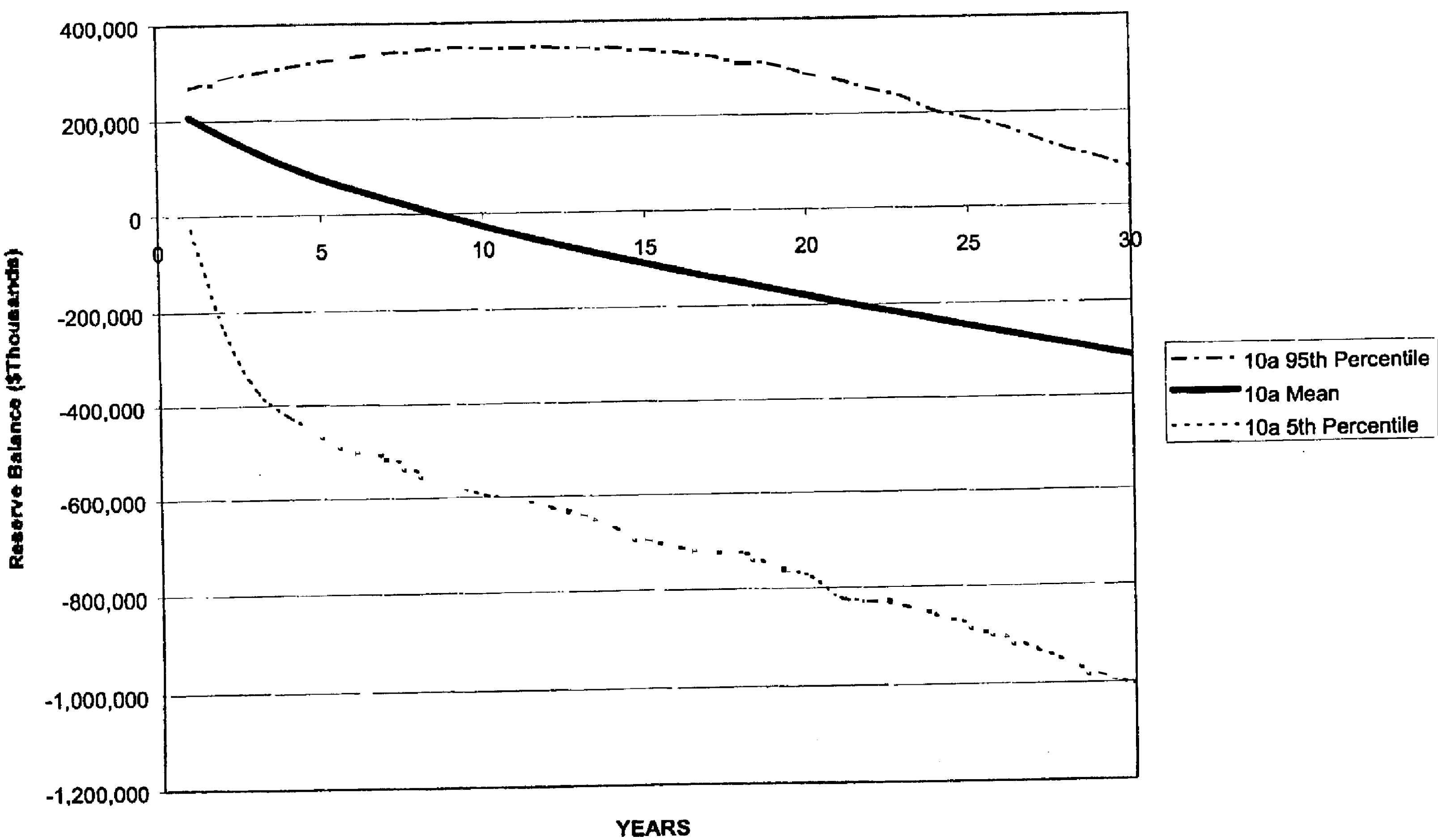
The charts in this section show the impact of the various scenarios on the Storm Reserve. Each chart shows the mean value of the Reserve balance over the 30-year period and the upper and lower bounds defined respectively as the 95th and 5th percentiles of non-exceedance.

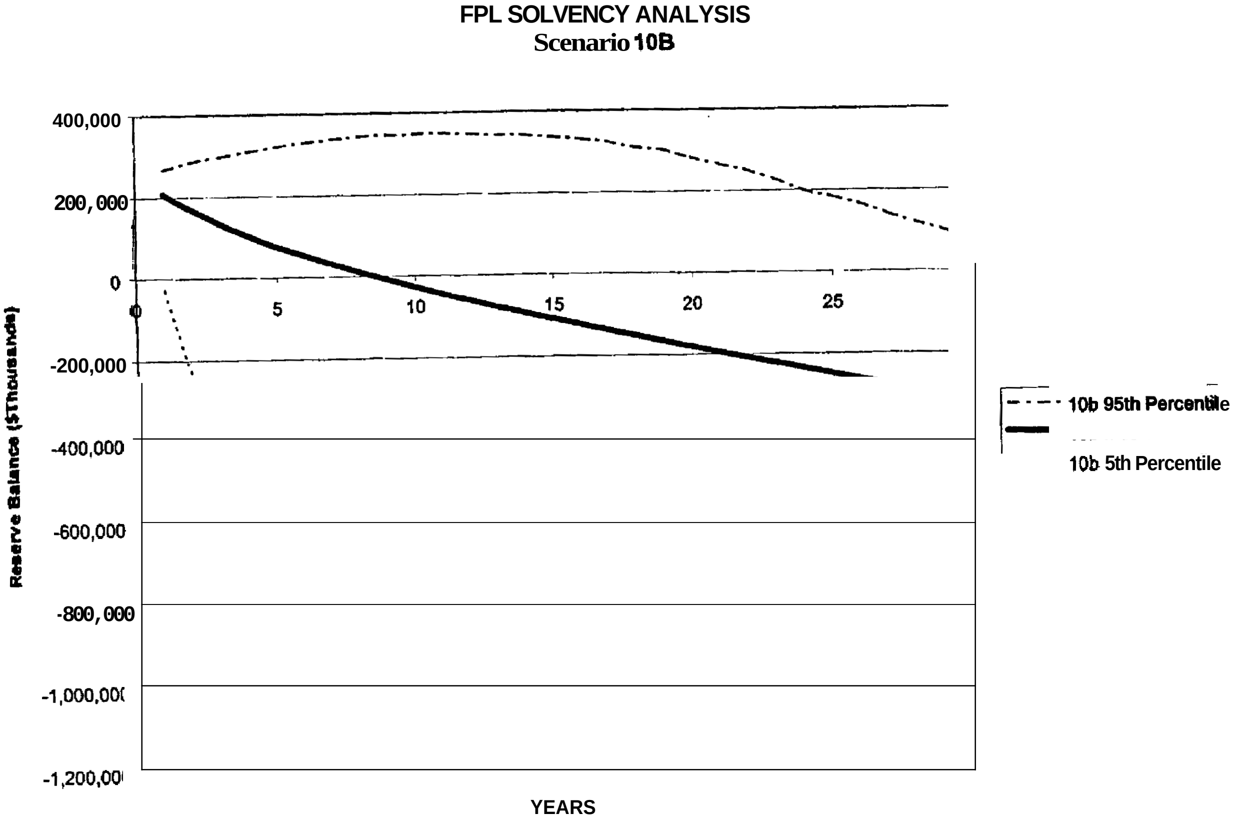
For example, the expected value (mean curve) of the Storm Reserve balance gains from *$247* million to $313 million under the $45 million scenario over the 15-year period. The upper bound under this scenario at the end of the 15-year period is approximately $769 million and the lower bound is approximately -$348 million. This can also be interpreted as this scenario having a 90% probability that the Storm Reserve balance will be between $769 million and -$348 million with an expected Storm Reserve balance of $313 million at the end of the 15-year period.

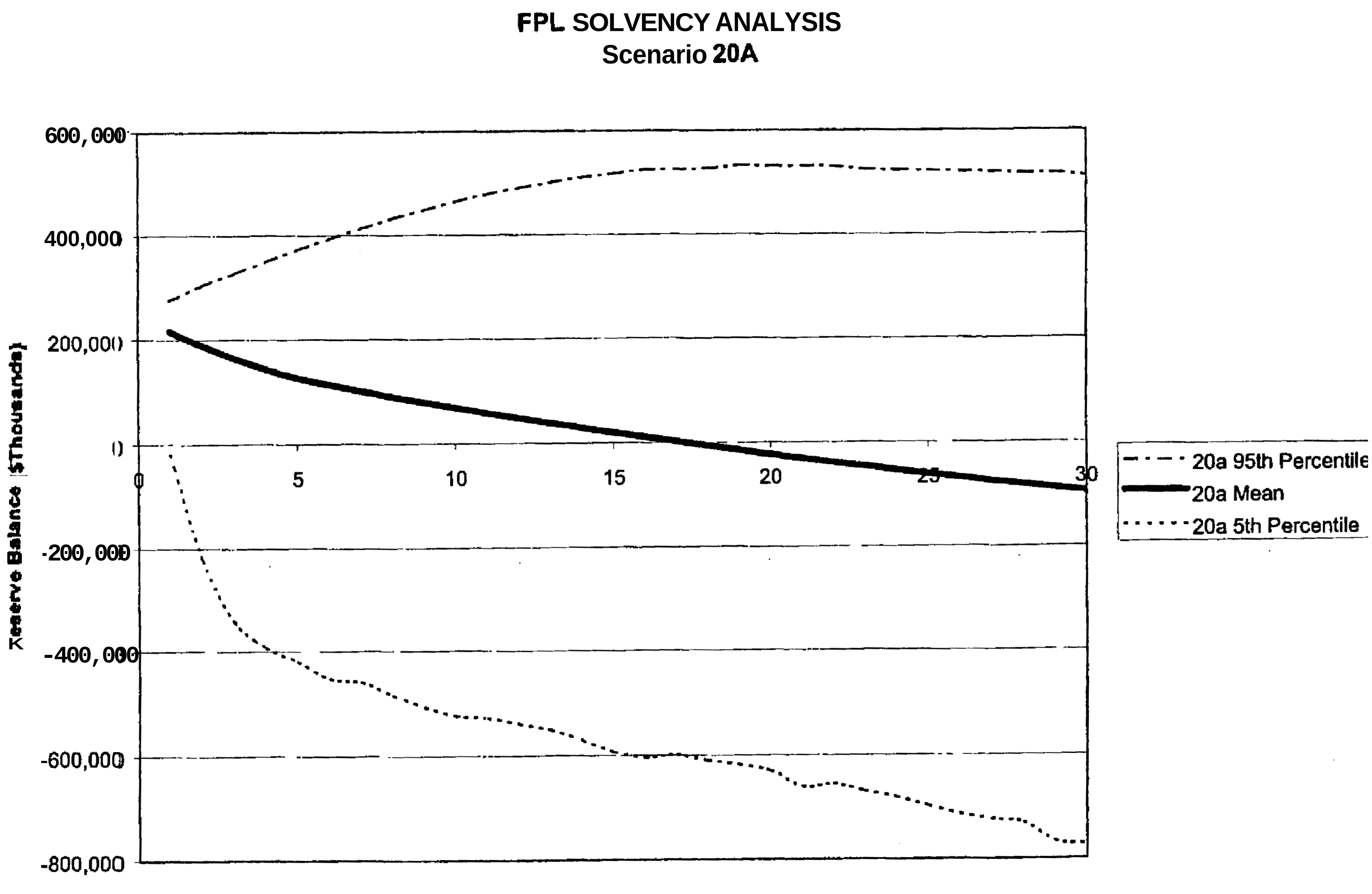
Similarly, the expected value (mean curve) of the Storm Reserve balance gains from $247 million to $361 million under the $50 million scenario over the 15-year period. The upper bound under this scenario at the end of the 15-year period is approximately $793 million and the lower bound is approximately -$304 million. This can also be interpreted as this scenario having a 90% probability that the Storm Reserve balance will be between $793 million and -$304 million with an expected Storm Reserve balance of $361 million at the end of the 15-year period.

Finally, the expected value (mean curve) of the Storm Reserve balance gains from $247 million to $405 million under the $55 million scenario over the 15-year period. The upper bound under this scenario at the end of the 15-year period *is* approximately $812 million and the lower bound is approximately -$260 million. This can also be interpreted as this scenario having a 90% probability that the Storm Reserve balance will be between $812 million and -$260 million with an expected Storm Reserve balance of $405 million at the end of the 15-year period.

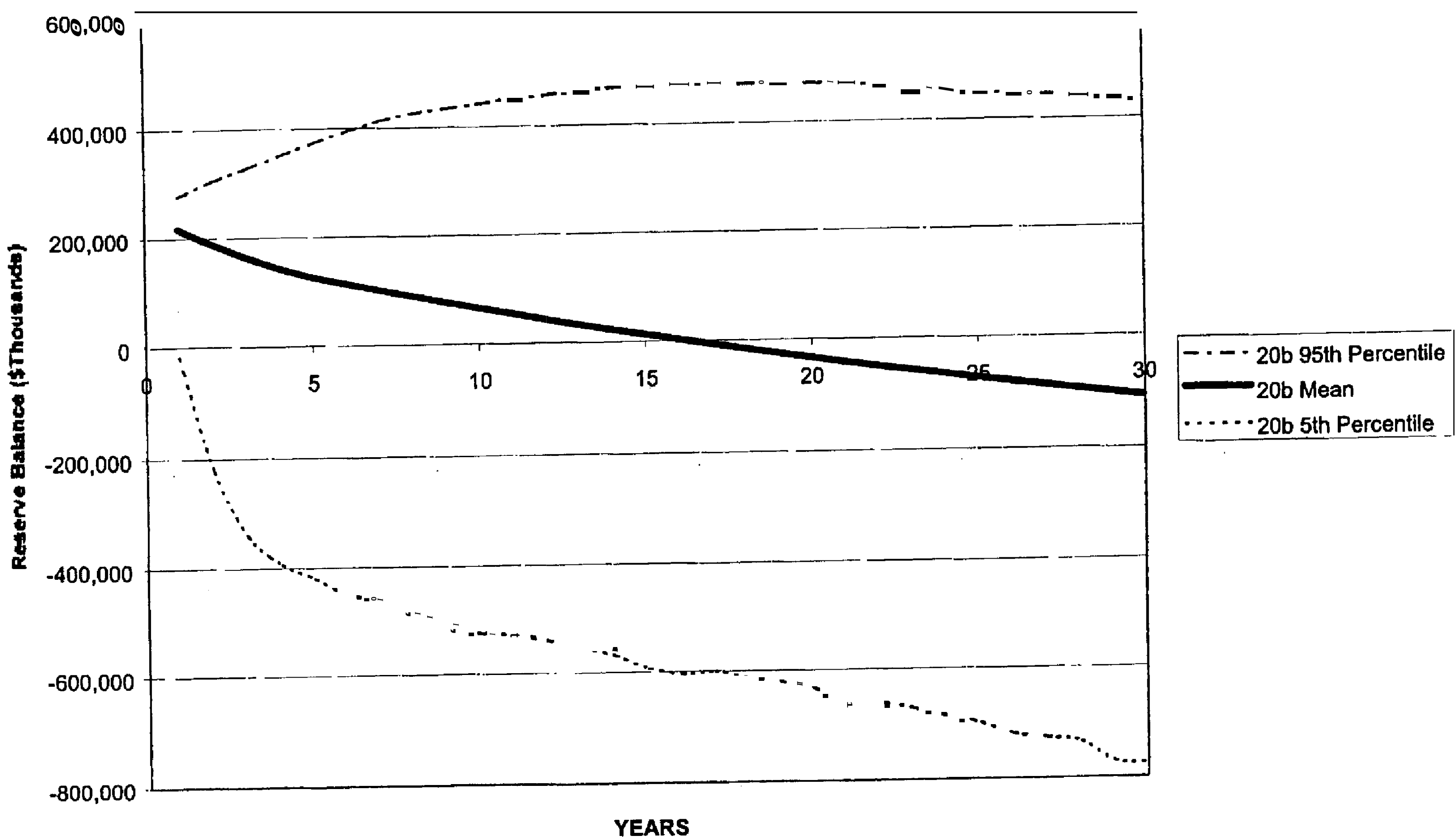
FPL SOLVENCY ANALYSIS
Scenario 10A



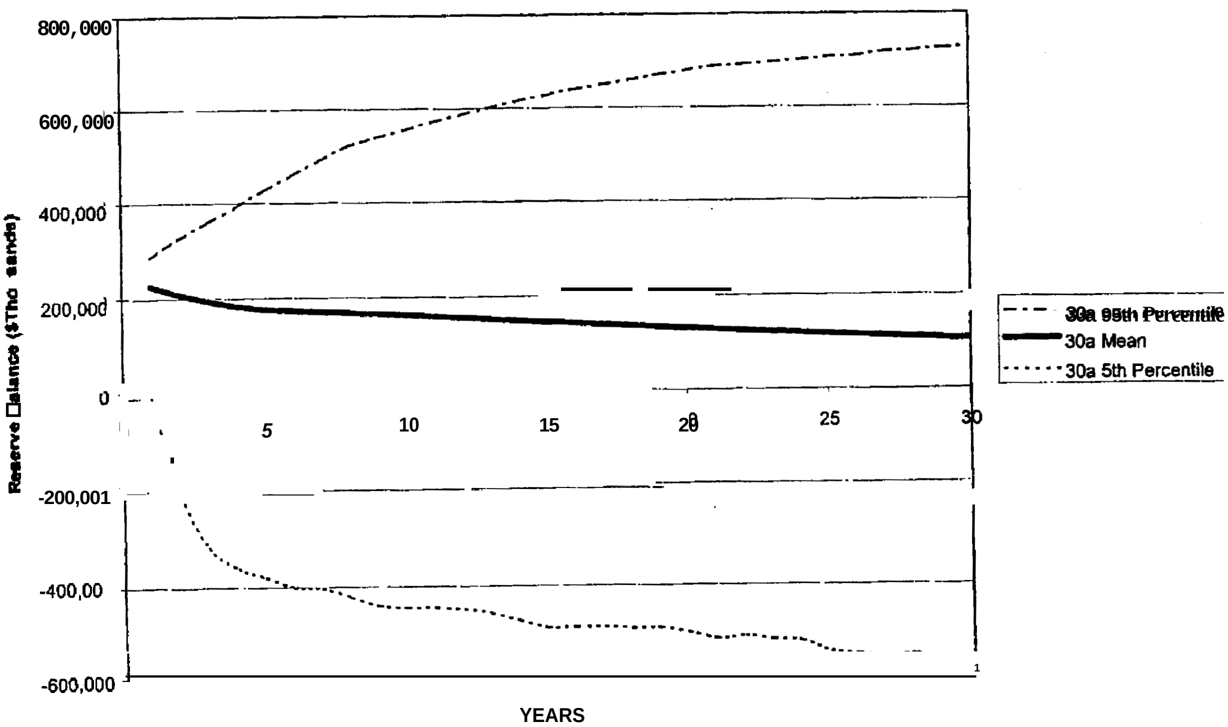

FPL SOLVENCY ANALYSIS
Scenario 10B
400,000
200,000
0
-200,000
-400,000
-600,000
-800,000
-1,000,000
-1,200,000
0
5
10
15
20
25
Reserve Balance ($Thousands)
YEARS
10b 95th Percentile
10b 5th Percentile

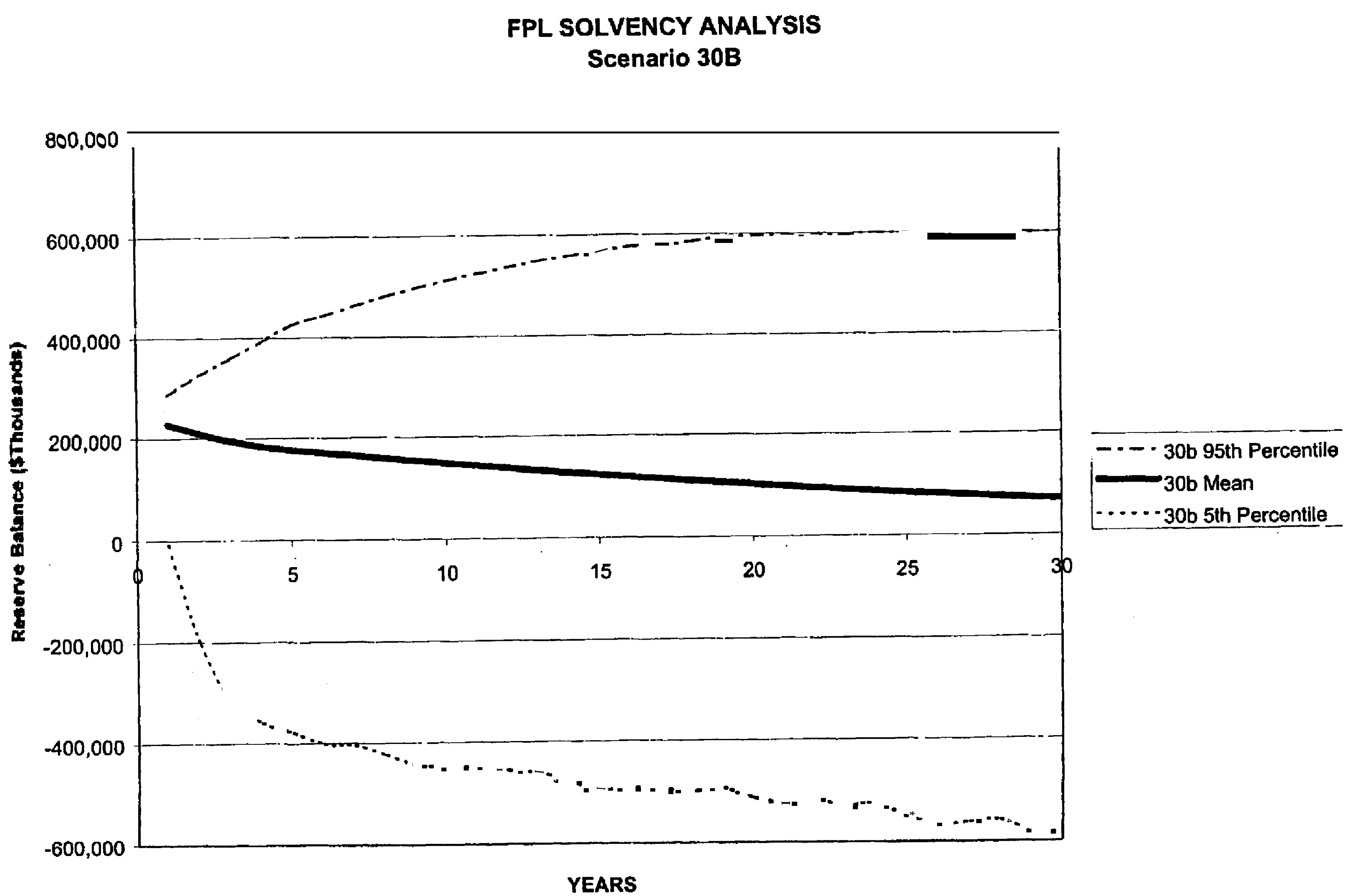

FPL SOLVENCY ANALYSIS
Scenario 20A
600,000
400,000
200,000
0
-200,000
-400,000
-600,000
-800,000
Reserve Balance ($Thousands)
0
5
10
15
20
25
30
20a 95th Percentile
20a Mean
20a 5th Percentile

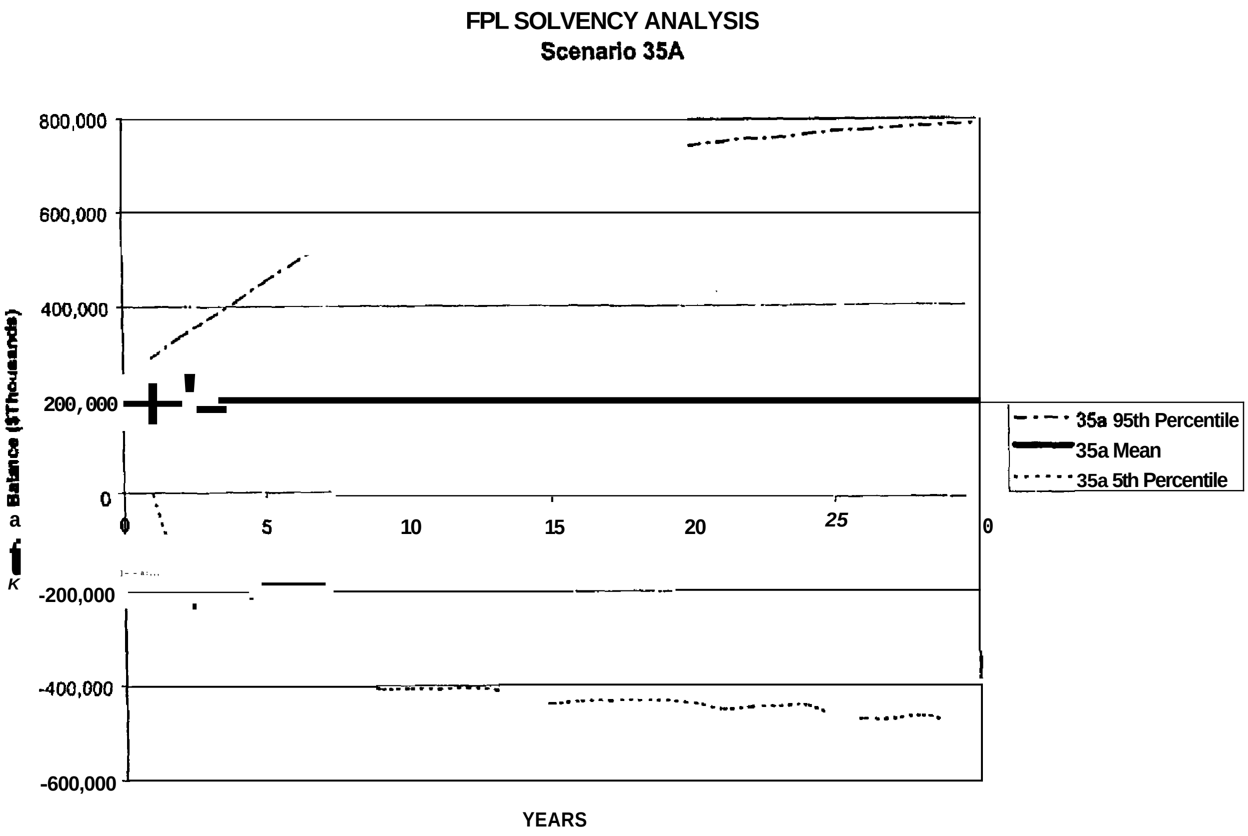
FPL SOLVENCY ANALYSIS
Scenario 20B

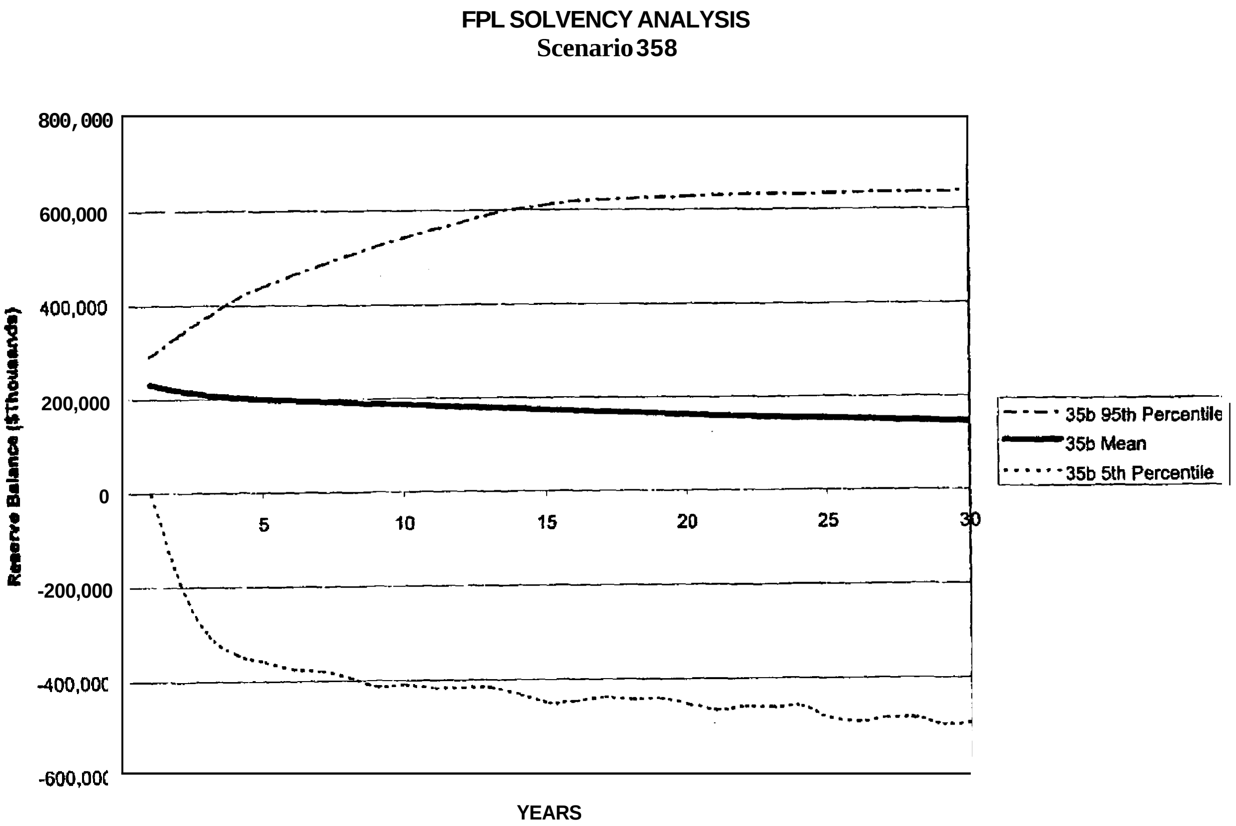


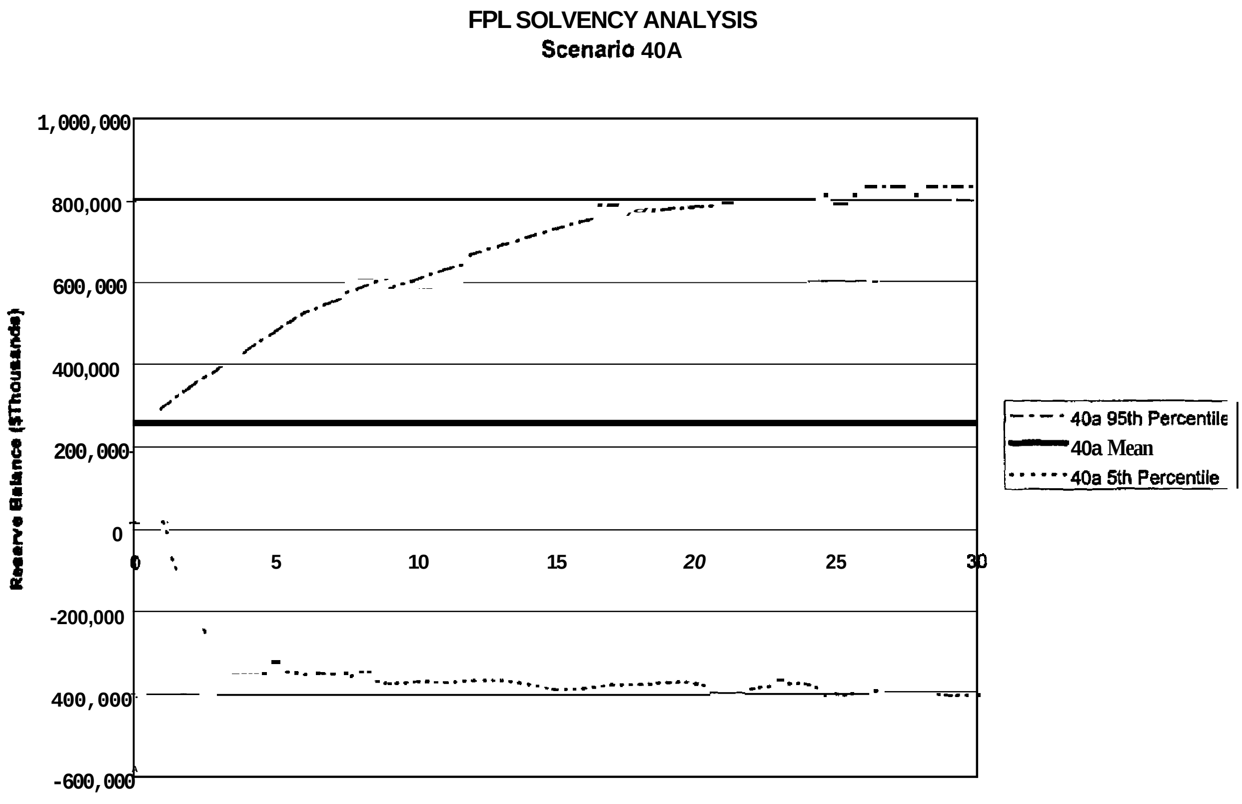
FPL SOLVENCY ANALYSIS
Scenario 30A




FPL SOLVENCY ANALYSIS
Scenario 30B
800,000
600,000
400,000
200,000
0
-200,000
-400,000
-600,000
Reserve Balance ($Thousands)
0
5
10
15
20
25
30
YEARS
30b 95th Percentile
30b Mean
30b 5th Percentile

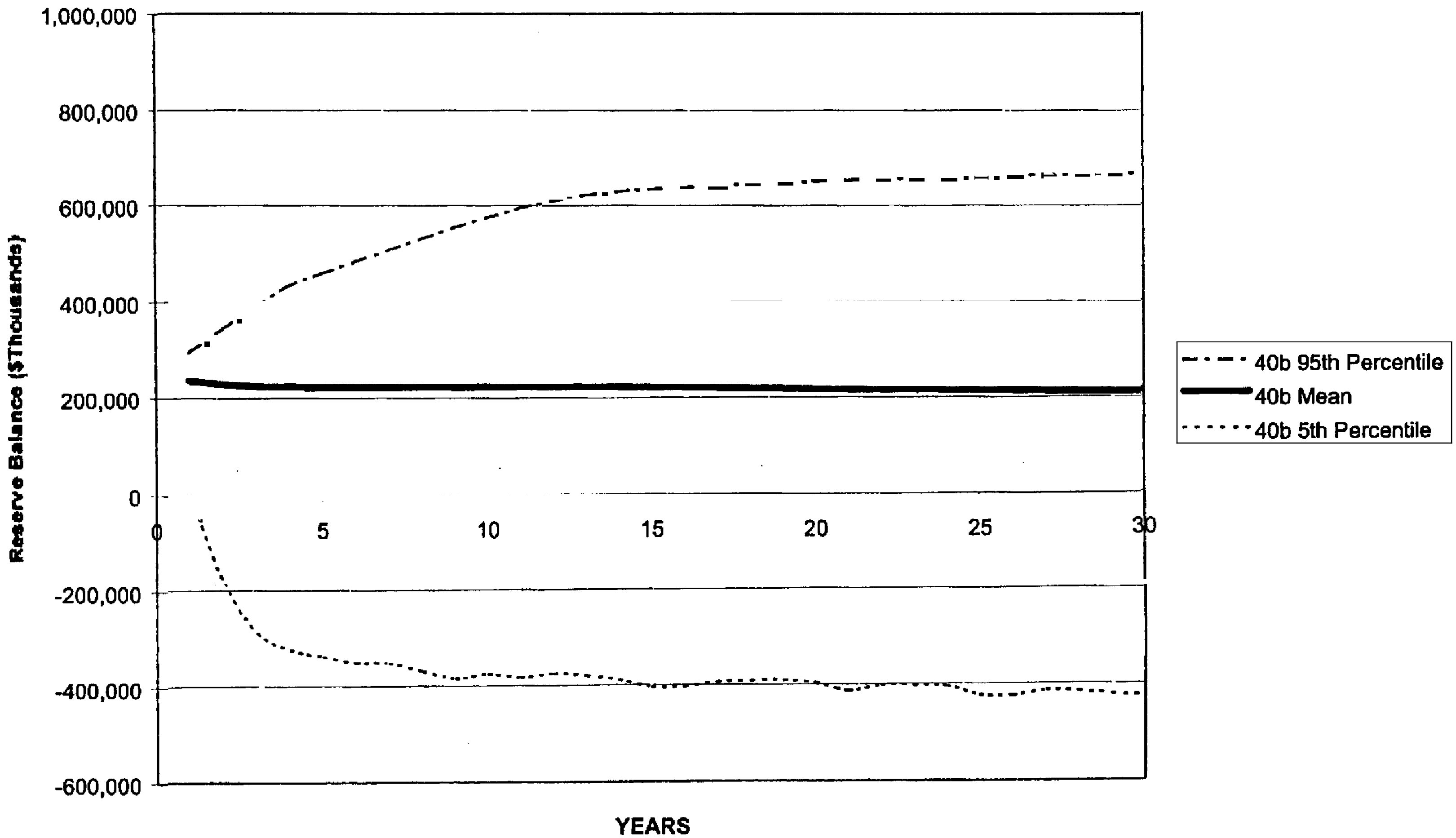

FPL SOLVENCY ANALYSIS
Scenario 35A
800,000
600,000
400,000
200,000
0
-200,000
-400,000
-600,000
0
5
10
15
20
25
35a 95th Percentile
35a Mean
35a 5th Percentile
YEARS


FPL SOLVENCY ANALYSIS
Scenario 358
800,000
600,000
400,000
200,000
0
-200,000
-400,000
-600,000
Reserve Balance ($Thousands)
5
10
15
20
25
30
YEARS
35b 95th Percentile
35b Mean
35b 5th Percentile

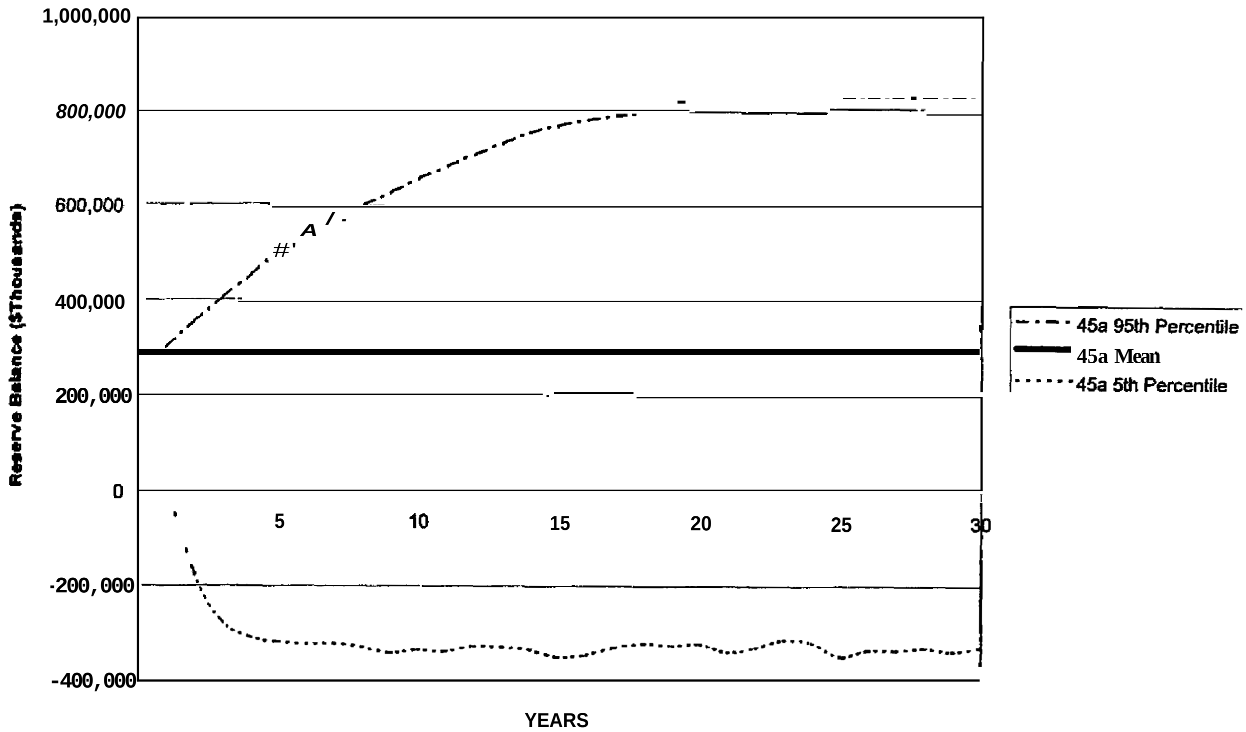


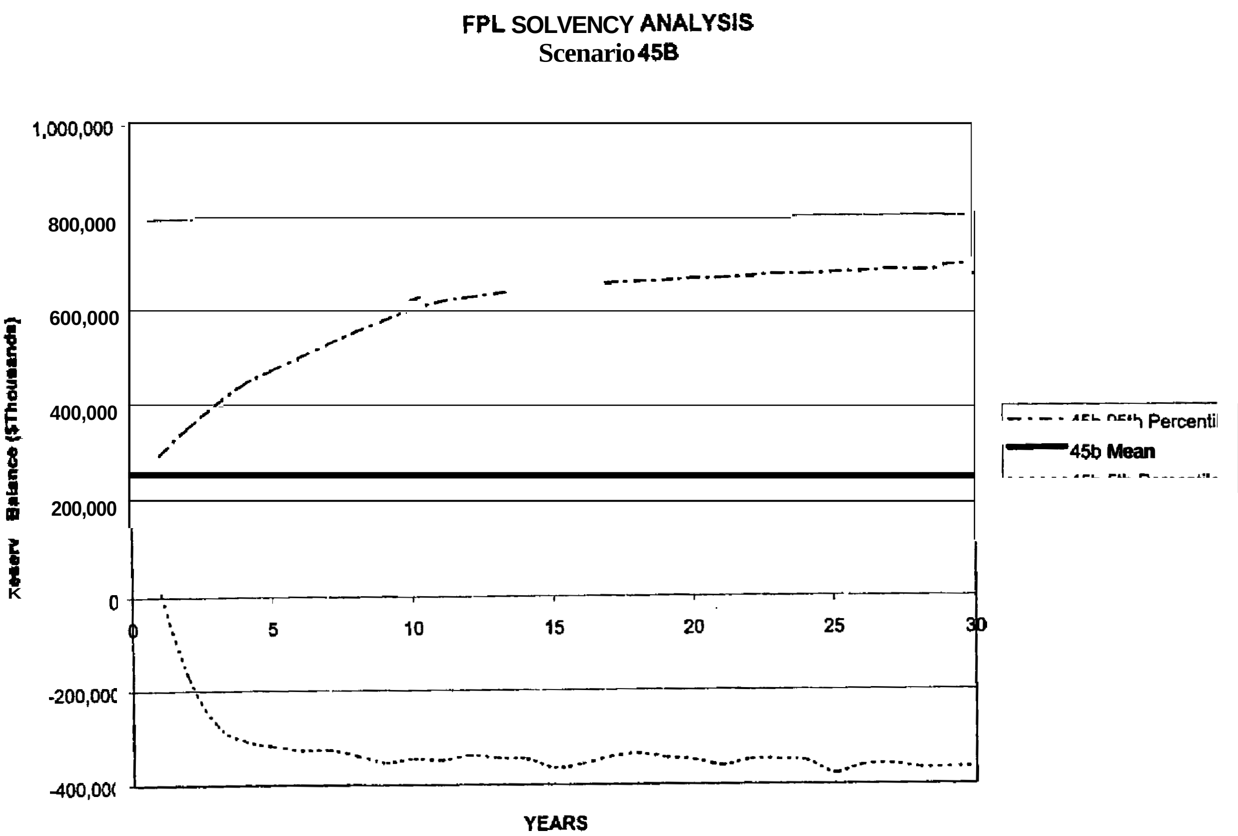
FPL SOLVENCY ANALYSIS
Scenario 40A
1,000,000
800,000
600,000
400,000
200,000
0
-200,000
400,000
-600,000
Reserve Balance ($Thousands)
0
5
10
15
20
25
30
40a 95th Percentile
40a Mean
40a 5th Percentile

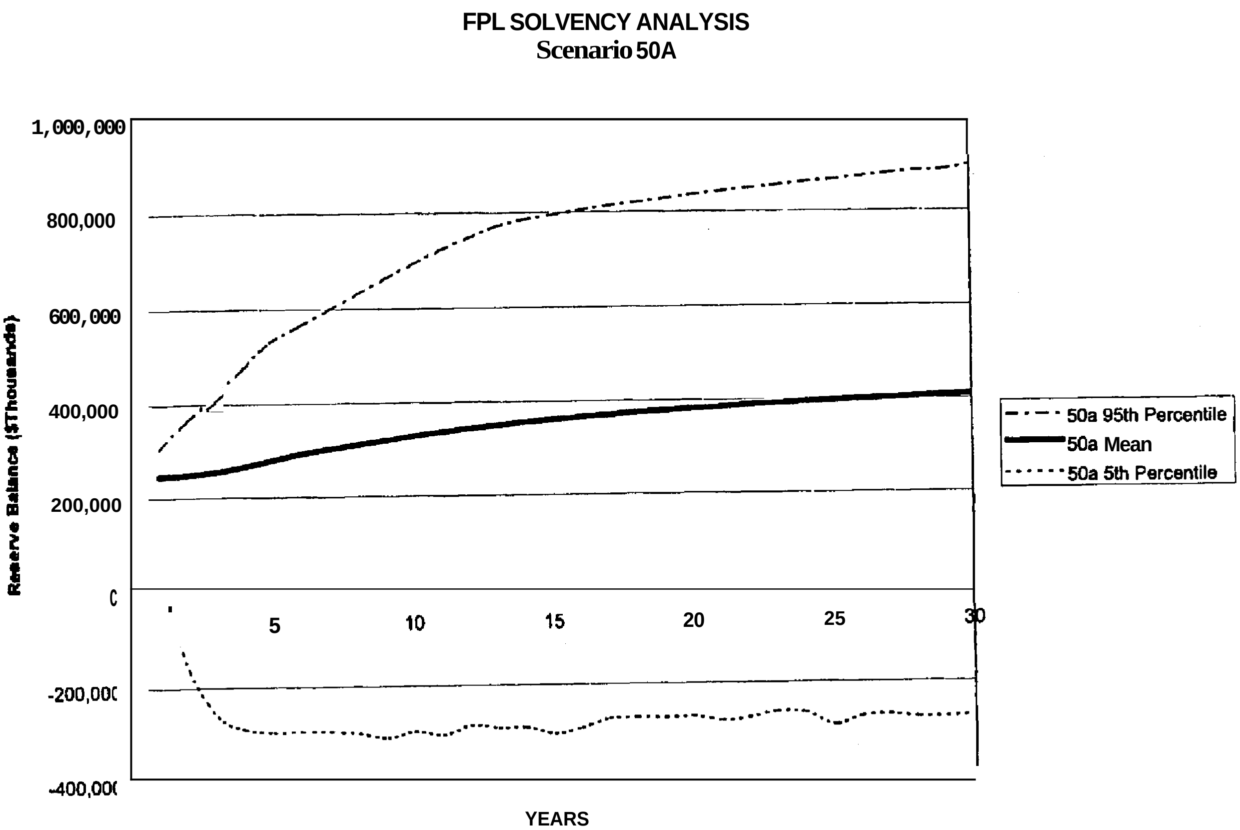
FPL SOLVENCY ANALYSIS
Scenario 40B



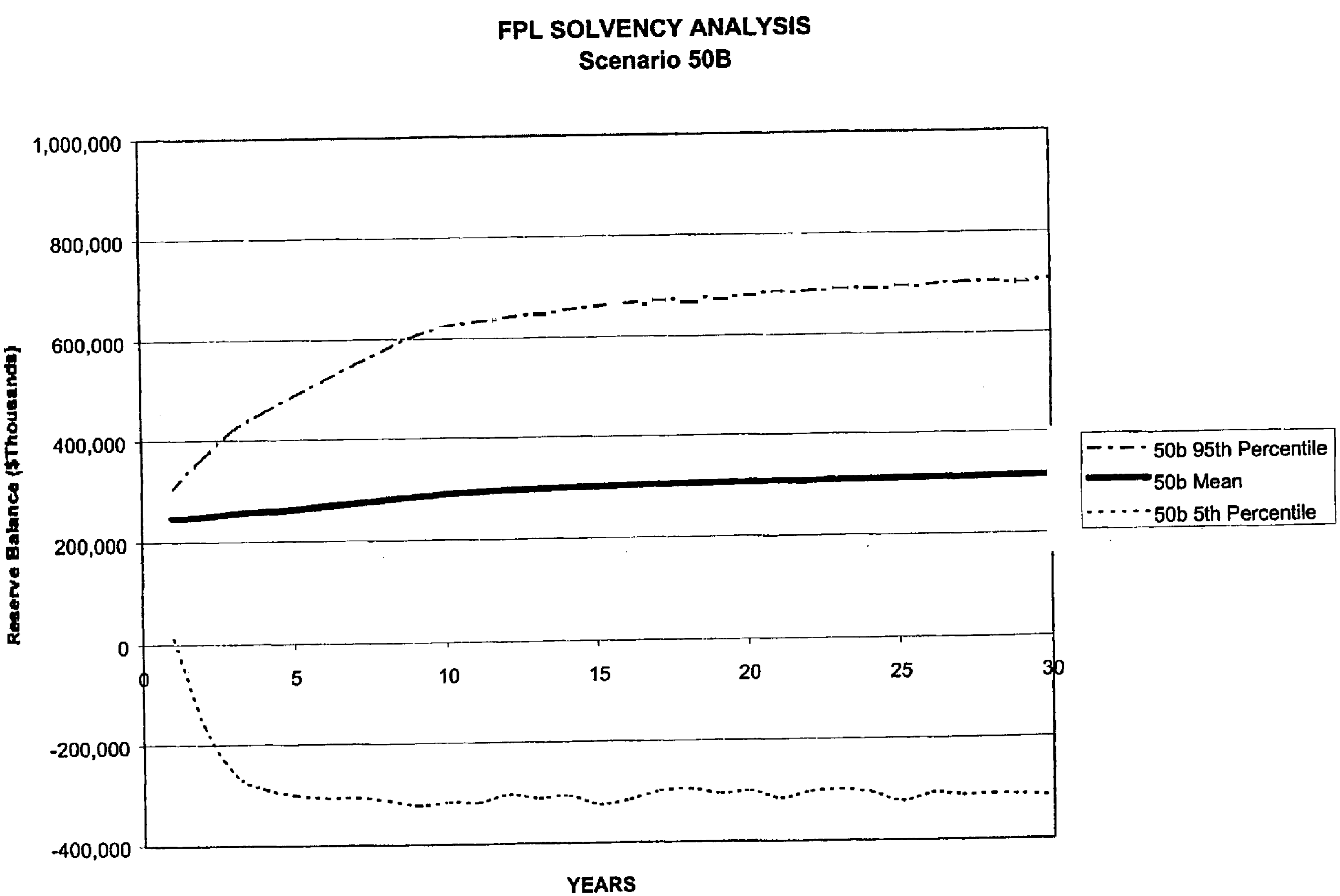
FPL SOLVENCY ANALYSIS
Scenario 45A

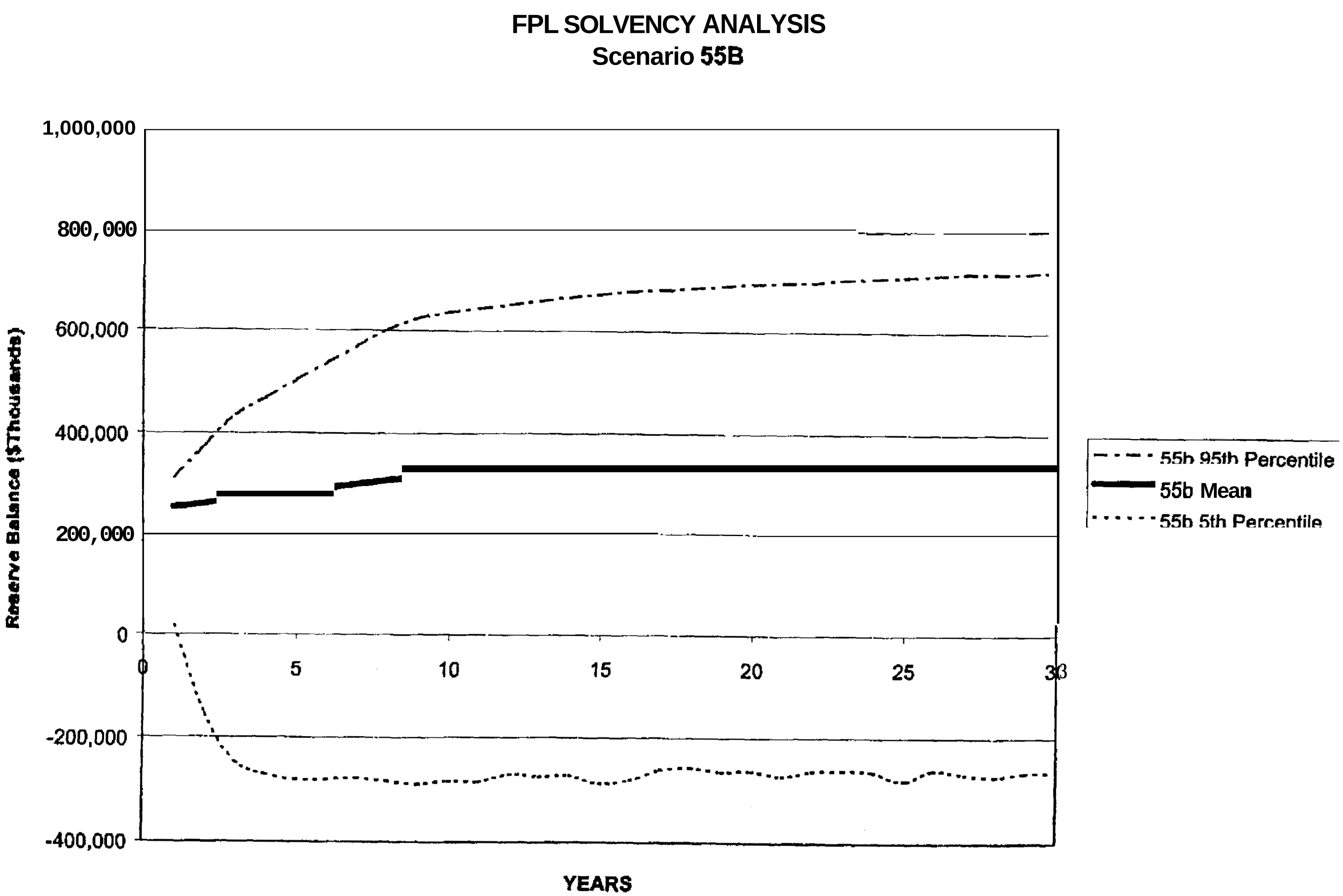



FPL SOLVENCY ANALYSIS
Scenario 45B
1,000,000
800,000
600,000
400,000
200,000
0
-200,000
-400,000
Reserve Balance ($Thousands)
0
5
10
15
20
25
30
YEARS
45b Mean

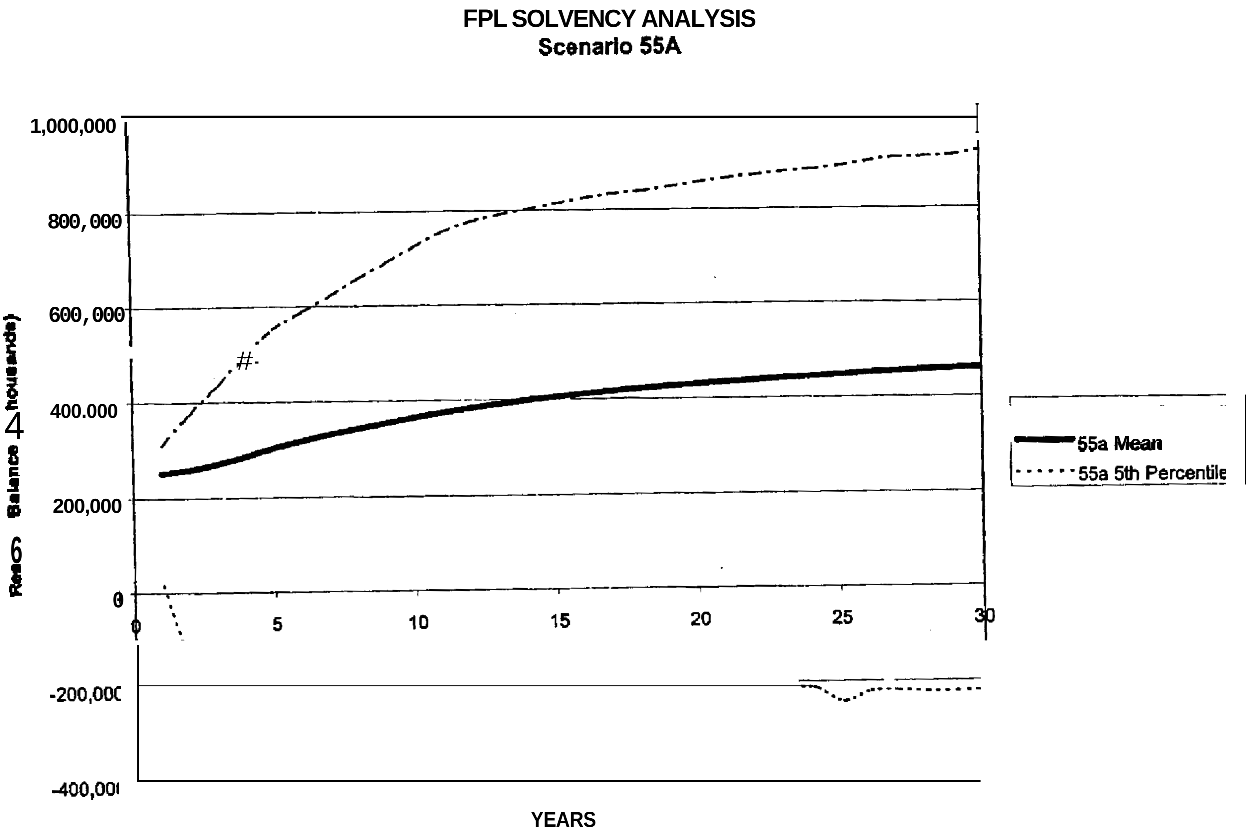


FPL SOLVENCY ANALYSIS
Scenario 50A
1,000,000
800,000
600,000
400,000
200,000
0
-200,000
-400,000
Reserve Balance ($Thousands)
5
10
15
20
25
30
YEARS
50a 95th Percentile
50a Mean
50a 5th Percentile

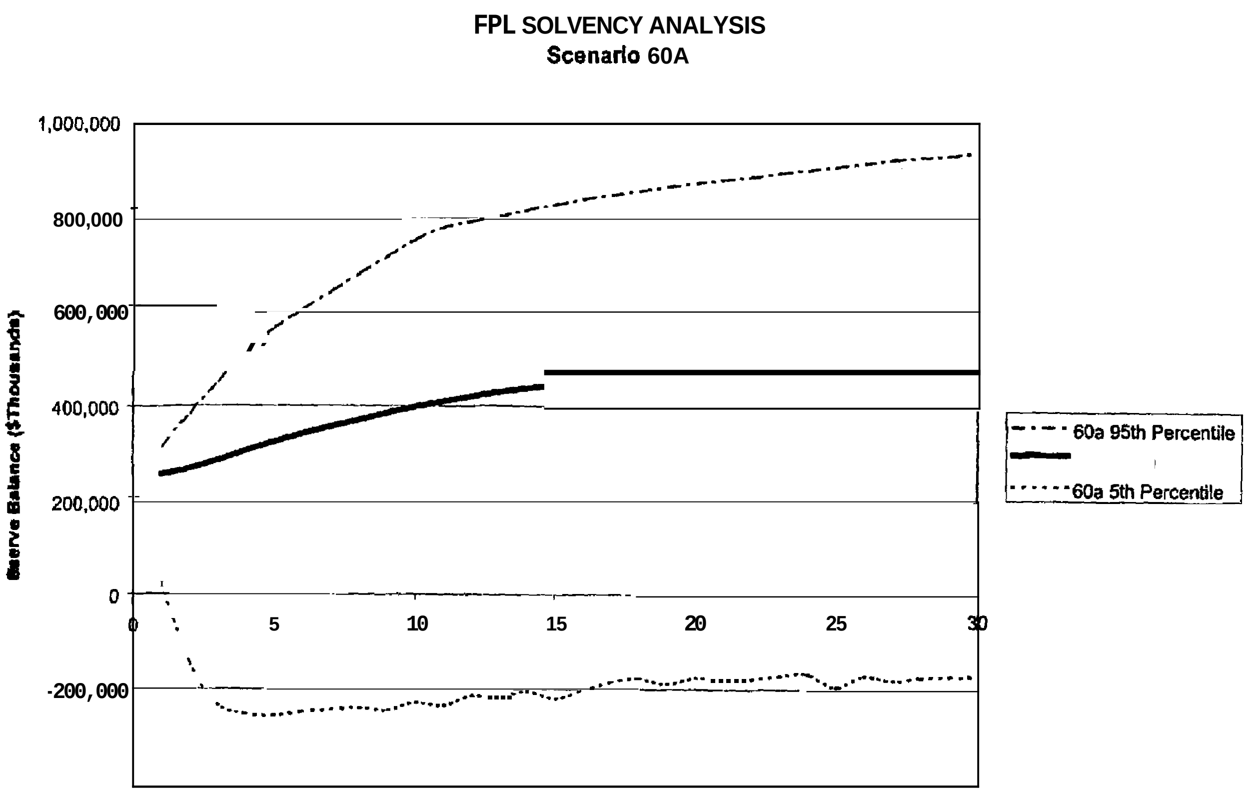

FPL SOLVENCY ANALYSIS
Scenario 50B
1,000,000
800,000
600,000
400,000
200,000
0
-200,000
-400,000
Reserve Balance ($Thousands)
0
5
10
15
20
25
30
YEARS
50b 95th Percentile
50b Mean
50b 5th Percentile



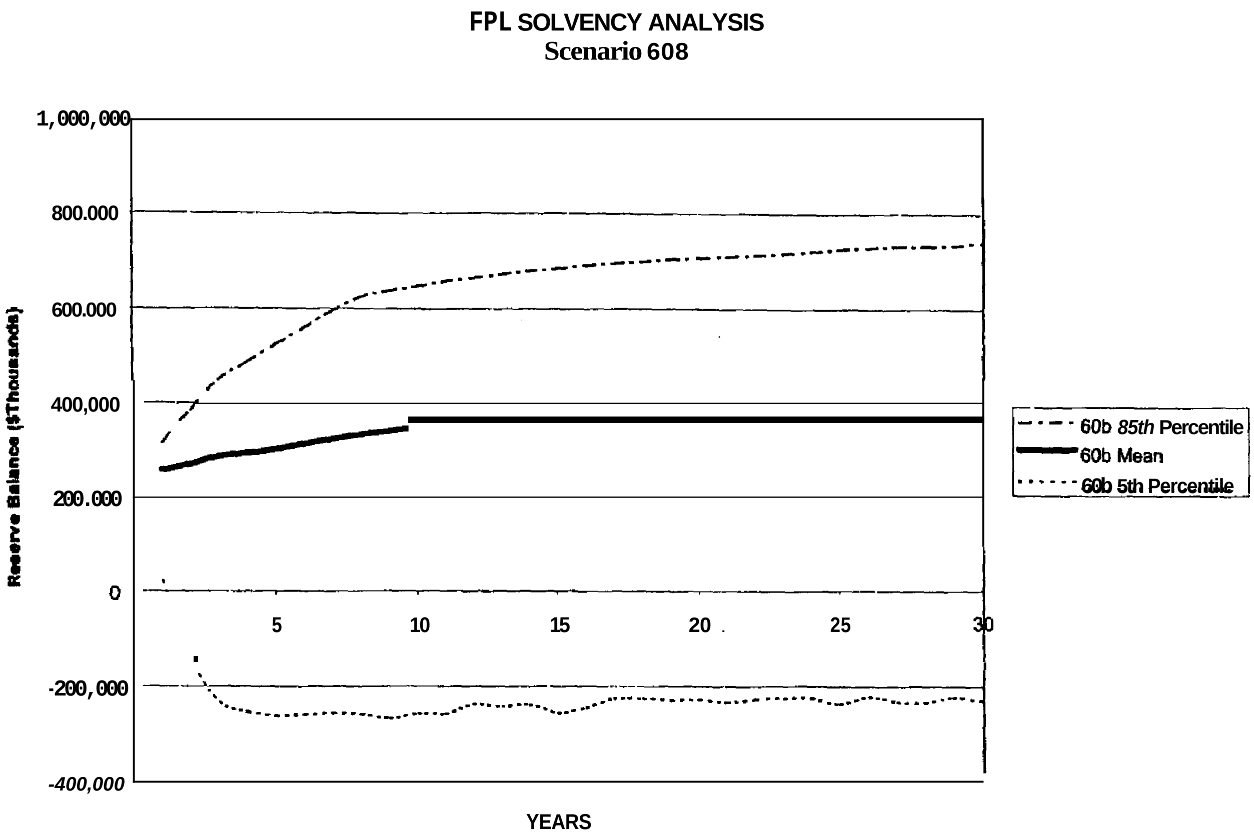
FPL SOLVENCY ANALYSIS
Scenario 55B
1,000,000
800,000
600,000
400,000
200,000
0
-200,000
-400,000
Reserve Balance ($Thousands)
0
5
10
15
20
25
30
YEARS
55b 95th Percentile
55b Mean
55b 5th Percentile



FPL SOLVENCY ANALYSIS
Scenario 55A
1,000,000
800,000
600,000
400.000
200,000
0
-200,000
-400,000
Reserve Balance (thousands)
0
5
10
15
20
25
30
YEARS
55a Mean
55a 5th Percentile

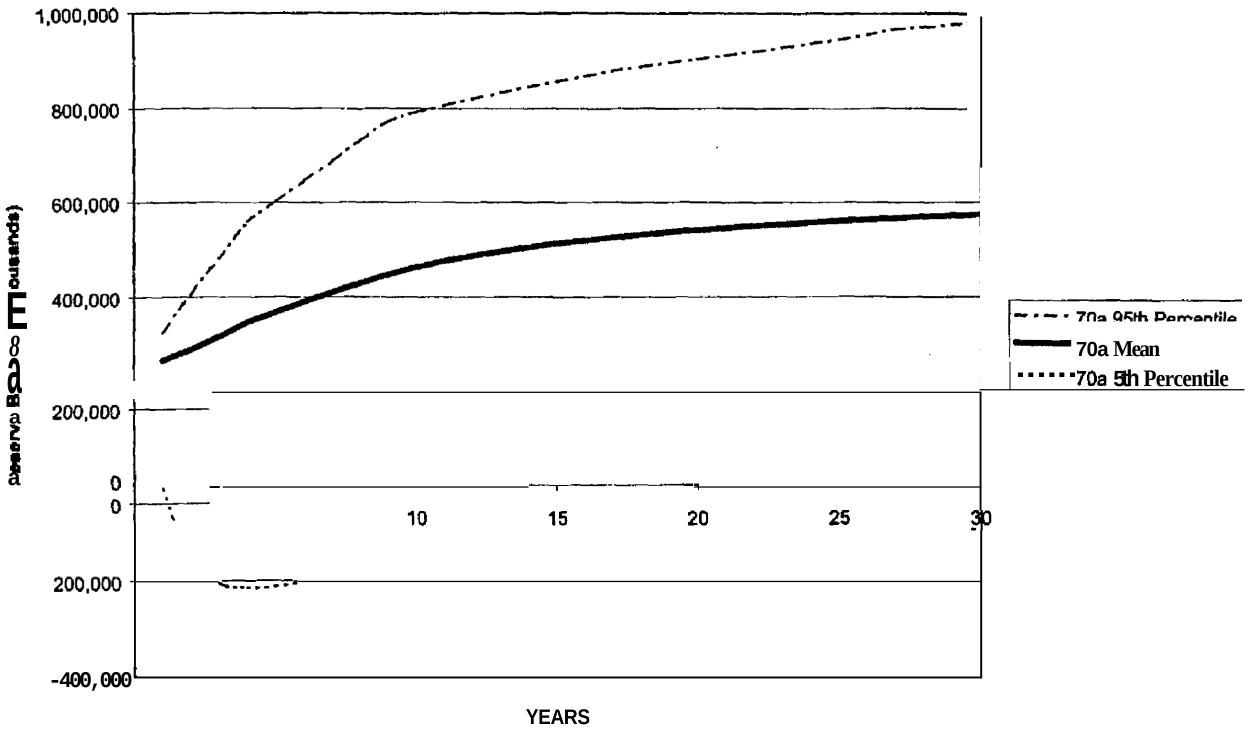


FPL SOLVENCY ANALYSIS
Scenario 60A
1,000,000
800,000
600,000
400,000
200,000
0
-200,000
Reserve Balance ($Thousands)
0
5
10
15
20
25
30
60a 95th Percentile
60a 5th Percentile

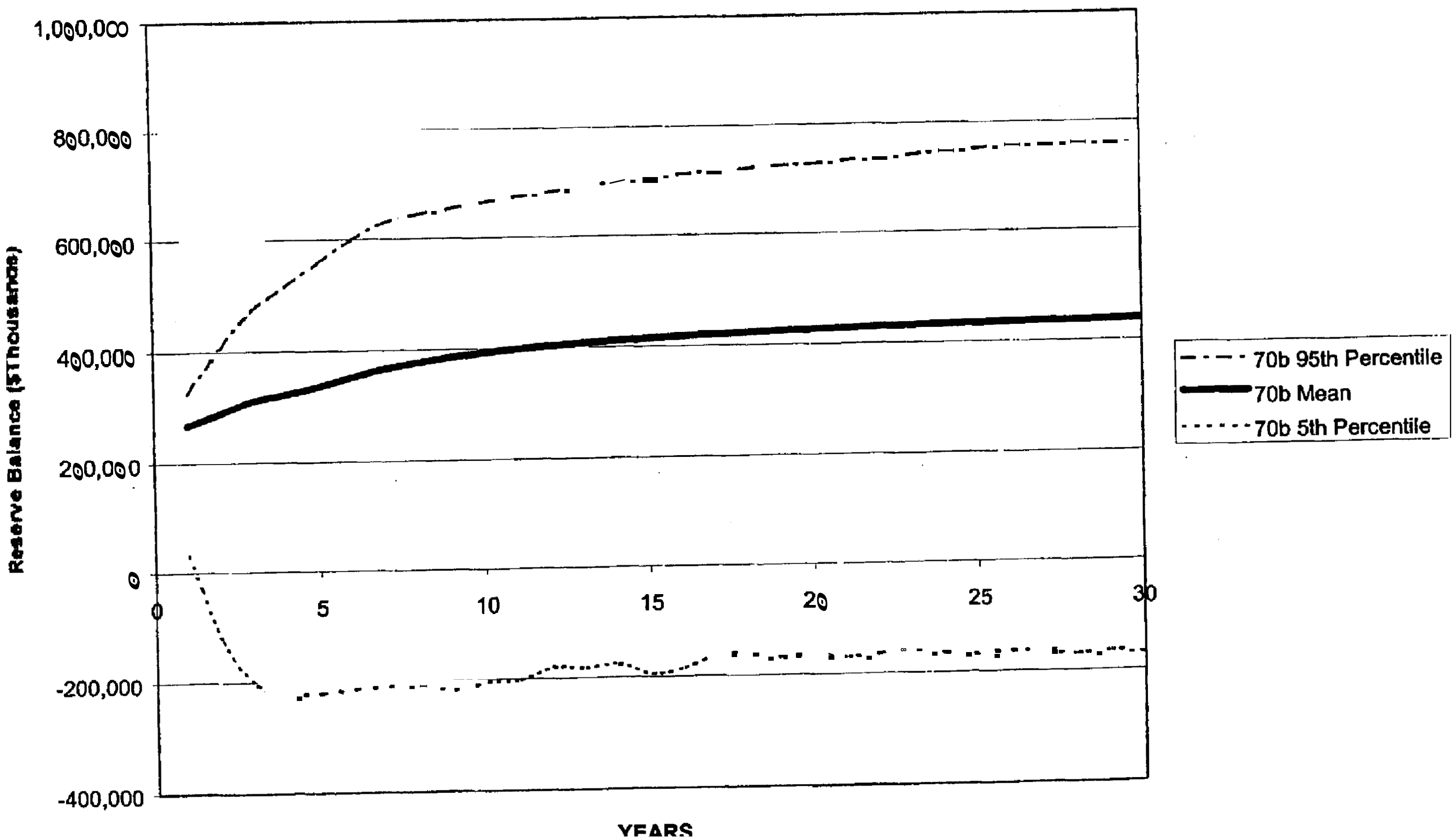


FPL SOLVENCY ANALYSIS
Scenario 608
1,000,000
800.000
600.000
400,000
200.000
0
-200,000
-400,000
Reserve Balance ($Thousands)
5
10
15
20
25
30
YEARS
60b 85th Percentile
60b Mean
60b 5th Percentile

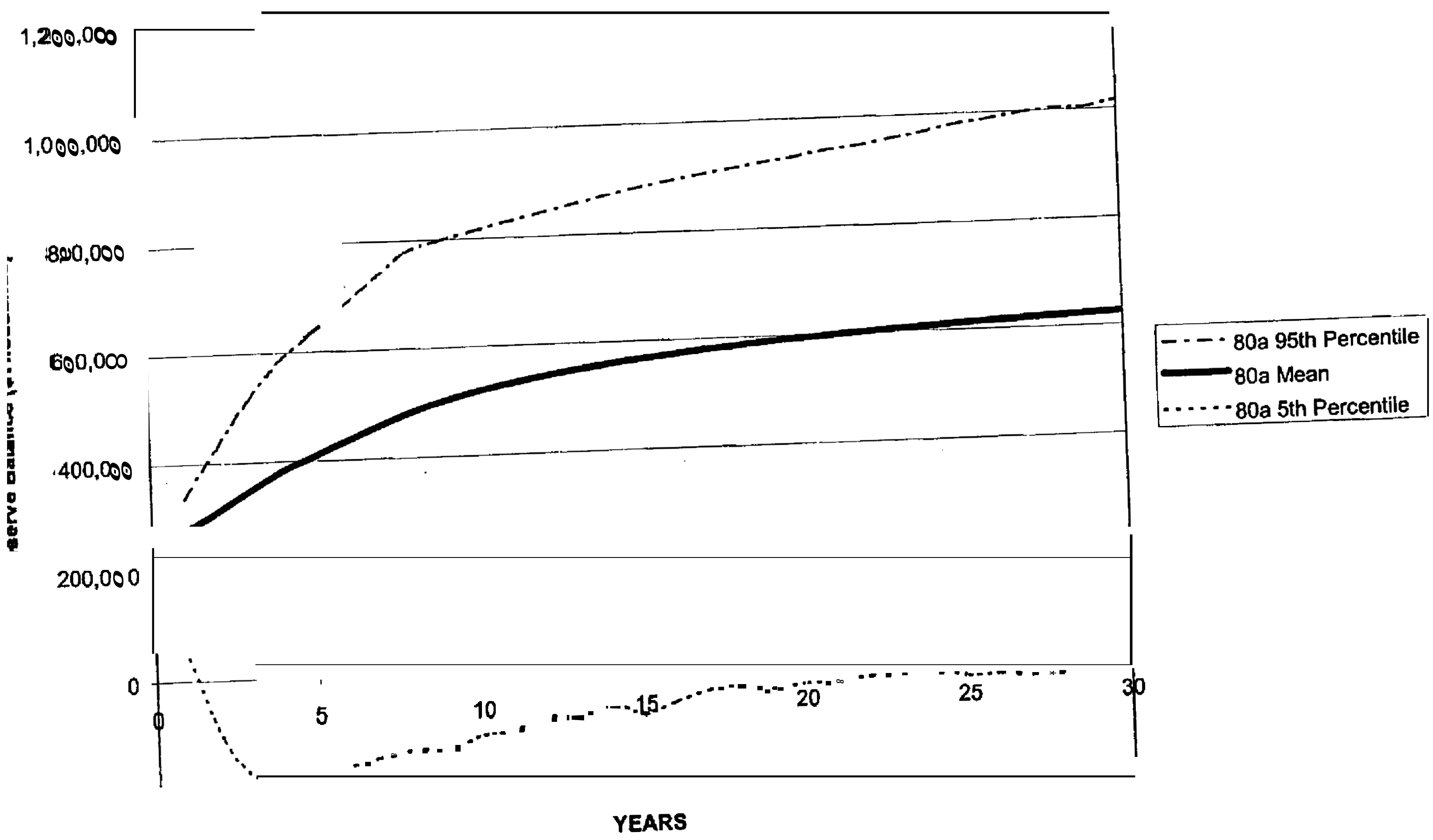
FPL SOLVENCY ANALYSIS
Scenario 70A

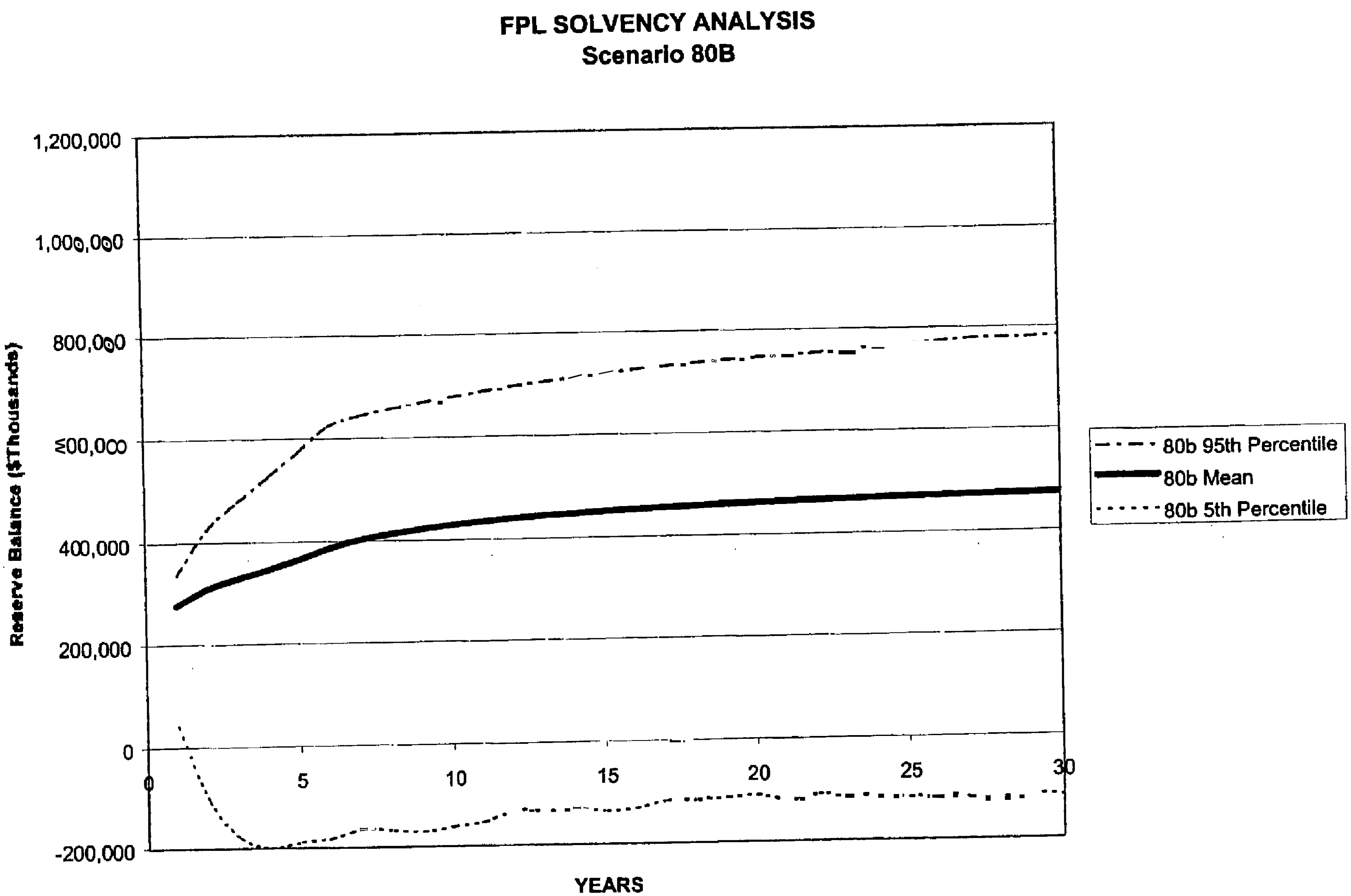


FPL SOLVENCY ANALYSIS
Scenario 70B



FPL SOLVENCY ANALYSIS
Scenario 80A




FPL SOLVENCY ANALYSIS
Scenario 80B
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
-200,000
Reserve Balance ($Thousands)
0
5
10
15
20
25
30
YEARS
80b 95th Percentile
80b Mean
80b 5th Percentile

Appendix E

Appendix E

The focus of the analysis was on the three key performance measures: the overall *cost* to the customer, the stability of the Storm Reserve (i.e., need for special assessments / rate increases), and coverage for most storms. The analysis sought to identify the approximate range of minimum accrual levels that adequately satisfy these performance criteria.

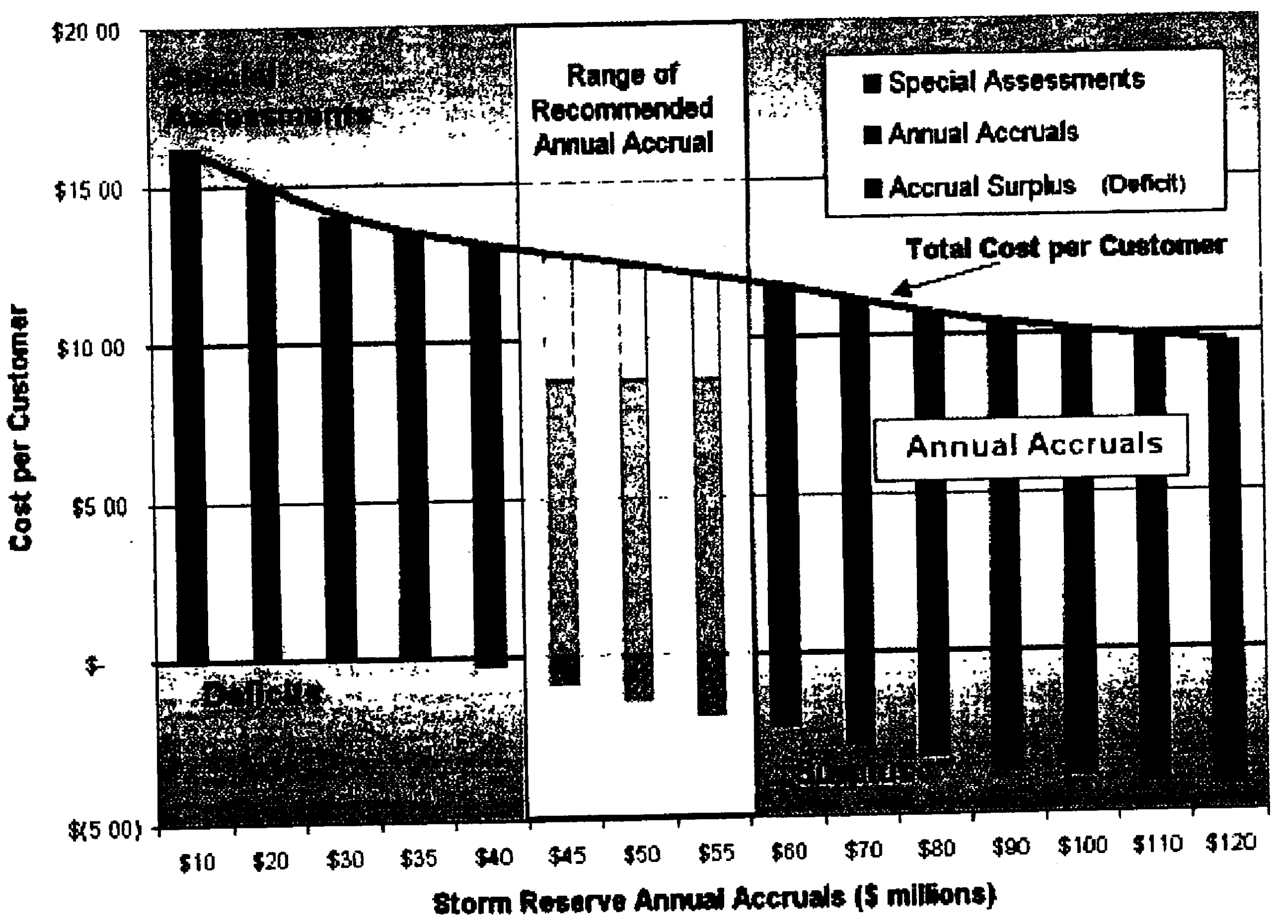
The *two* charts that follow summarize the results of the analysis, for Scenario A and Scenario B. In the charts, costs are shown on an expected annual basis per customer. The total cost per customer is considered to be the sum of three components, two direct and one indirect. The two direct components are the range of annual accruals and the special assessments / *rate* increases. In addition, the indirect, long-term cost of accumulating Storm Reserve deficits (surpluses) is added (subtracted). The analysis was extended to accruals beyond $80 million (to $120 million) *to* better show the overall trends.

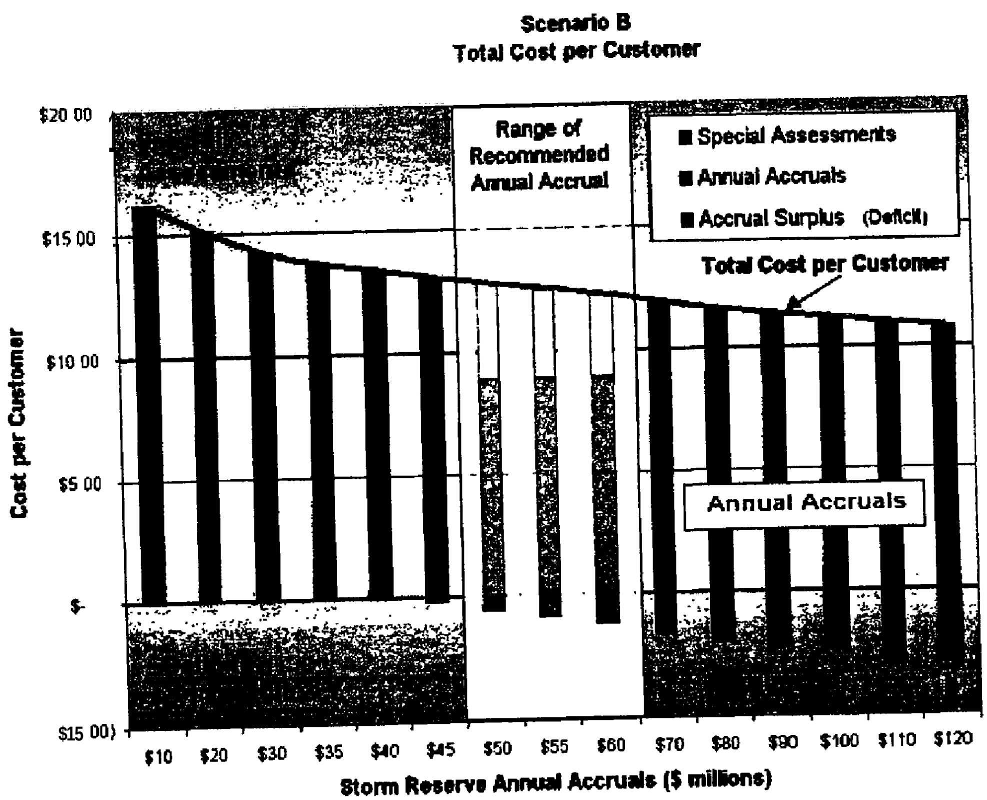
The total cost per customer declines as accruals are increased through $120 million (and presumably beyond). With annual accrual levels of $45 to $55 million the Storm Reserve balance begins to grow toward the recommended Storm Reserve target range. Therefore our recommendation is an annual accrual level *of* at least $45 million.

Storm Reserve volatility can be measured by the need for special assessments / rate increases. These additional funding demands decline as annual accruals increase. Needs for special assessments / rate increases are significantly greater below $45 million annual accrual than they are above this level,

Lastly, the potential need for special assessments never declines to zero. This is due to the continued possibility of infrequent catastrophic losses that could exhaust the Storm Reserve. None of the analyzed accrual scenarios allowed sufficiently large Storm Reserve balance to allow self sustained reserve growth and therefore coverage for these rare events. Annual accruals of $45 to $55 million allow coverage of most storms but do not cover these infrequent severe events.

Scenario A
Total Cost per Customer



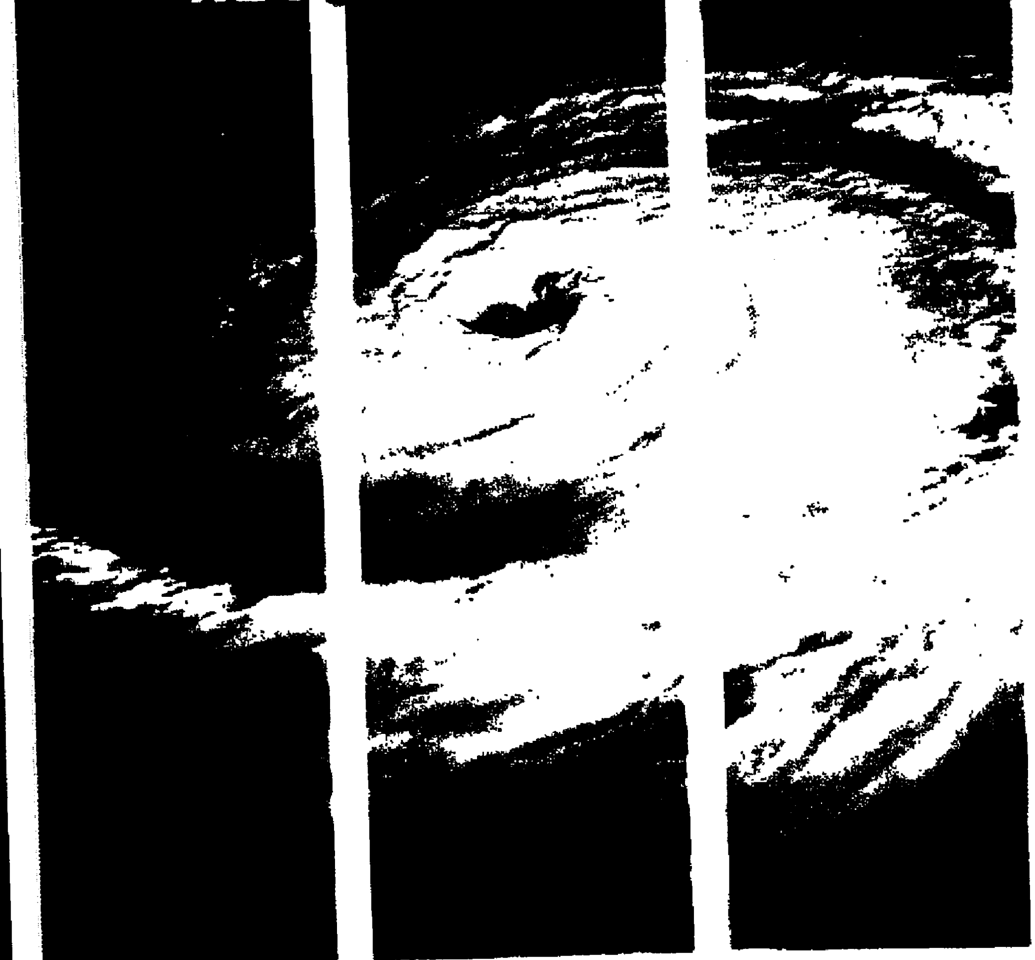

Scenario B
Total Cost per Customer
Range of Recommended Annual Accrual
Special Assessments
Annual Accruals
Accrual Surplus (Deficit)
Total Cost per Customer
Annual Accruals
$20.00
$15.00
$10.00
$5.00
$-
$(15.00)
Cost per Customer
$10
$20
$30
$35
$40
$45
$50
$55
$60
$70
$80
$90
$100
$110
$120
Storm Reserve Annual Accruals ($ millions)

Appendix C

EQE INTERNATIONAL

ABS Consulting
RISK CONSULTING DIVISION

STORM RESERVE FUNDING RECOMMENDATIONS



Florida Power & Light

August 31, 2001

Executive Summary

EQE has performed several analytic studies relative to the Storm Reserve at the request of Florida Power & Light Company (FPL). These studies and reports include:

- The Storm Reserve Loss Analysis (the "Loss Analysis"): This probabilistic storm analysis study estimates the uninsured windstorm losses to which FPL is exposed:

- The Storm Reserve Solvency Analysis (the "Solvency Analysis"): This dynamic financial simulation analysis evaluates the performance of the Storm Reserve, given the potential uninsured losses determined from the Loss Analysis, at various annual accrual levels; and

- The Storm Reserve Funding Recommendation report (the "Recommendations"): This report draws on the Loss Analysis and Solvency Analysis, together with FPL objectives, and recommends annual accrual levels and a five-year Storm Reserve balance target range.

The recommendation on annual accrual level and target Storm Reserve balance are based on FPL's desire to achieve a balance among lowest long-term customer *cost,* reduced Storm Reserve volatility, and annual accrual levels that fund most frequent storms but not all infrequent catastrophic events.

EQE recommends an annual accrual in *the range* of $45 to $55 million with an objective of reaching a target Storm Reserve balance range of $400 to $500 million within five years.

Storm Reserve Loss Analysis

EQE performed a probabilistic analysis of windstorm losses for FPL, to determine their potential impact on the Storm Reserve over periods of one, three and five years. The analysis included Transmission and Distribution (T 8 D) losses as well as windstorm insurance deductibles attributable *to* non-T & D assets. The total expected annual uninsured cost from all windstorms is estimated to be $59.3 million.

The expected annual loss estimate represents the average annual cost associated with repair of windstorm damage and service restoration activities over a long period of time. The *expected* annual loss is also known as the 'Pure Premium,"which when insurance is available *is* the insurance premium level needed to pay just the expected losses. Insurance companies add their expense cost and profit margin to the Pure Premium *to* develop the premium charged to customers.

Storm Reserve Solvency Analysis

EQE performed a dynamic financial simulation analysis of the impact of the estimated windstorm losses on the FPL Storm Reserve. This Solvency Analysis performed 10,000 simulations of windstorm losses within the FPL service territory, each covering a 30-year period, to determine the *effect* of the charges for *loss* on the Storm Reserve. Monte Carlo simulations were used to generate loss samples consistent with the expected $59.3 million Loss Analysis results. The analysis provides an estimate of the Storm Reserve assets in each year *of* the simulation accounting for the annual accrual, investment income, expenses, and losses using a financial model.

The analysis concentrated on looking at three key performance measures: solvency of the Storm Reserve, stability of the Storm Reserve (i.e. need for special assessments/ rate increases), and overall cost to the customer. All three criteria need to be considered, since low accrual levels tend to jeopardize the solvency of the Storm Reserve and increase long term customer costs, and high accrual levels can result in a Storm Reserve balance that grows quickly.

Alternative administrative policies, differentiated on the basis of the annual accrual, were evaluated. Annual accruals between $10 million and $80 million were evaluated.

Administrative policies reduced the annual accrual by 50% at a *$500* million Storm Reserve balance and suspended them at $750 million. Where the Storm Reserve balance was negative at the end of a year, it was assumed that the deficit was covered by borrowing funds (at an after tax interest rate of 4%). When borrowing was required, an assessment or rate increase was assumed to be immediately instituted to repay the shortfall over a five-year period. Balances in the Storm Reserve were assumed to be invested and earned a 3.5% after tax return.

Analysis Results

Storm Reserve solvency can be viewed in terms *of* the expected surplus or deficit of the Storm Reserve over the 30-year period. Based on the simulated loss distributions, deficits to the *Storm* Reserve could exist for all annual accrual levels analyzed, although their level begins to moderate at accruals above $45 million. Accrual levels above $45 million will result in a lower probability *of* Storm Reserve deficits and will have a higher probability *of* generating positive Storm Reserve growth, thus reducing both customer cost and the need for special assessments / rate increases.

Storm Reserve volatility can be viewed in terms *of* the fraction of total annual cost per customer contributed by special assessments / rate increases. The volatility can be characterized by three ranges of need for special assessments / rate increases:

- Annual accrual levels below $45 million, where deficits occur and special assessments / rate increases make up 35% to 55% of the total annual cost per customer.
- Annual accrual levels between $45 and 55 million where small surpluses occur and special assessments / rate increases make up 25 to 35% of the total annual cost to the customer.
- Annual accrual levels of $60 million or greater where special assessments / rate increases make up less than 25% of the total annual cost per customer.

The need for special assessments / rate increases does not decrease *to* zero *for* any of the accrual levels analyzed. This is an effect *of* capping the Storm Reserve at $750 million and the potential that losses in excess of a billion dollars could occur. Should one of these low probability events occur, special assessments would be required even at the maximum capped Storm Reserve balance. There is approximately a 1% chance in one year and an 8% chance in five years that storm losses could exceed the maximum cap ($750 million).

Cost to the customer can be viewed in terms of the sum of the annual accruals, borrowing costs, special assessments / rate increases, and deficits (or surpluses). Costs to the customer decrease rapidly as accruals approach the $45 million level. Total customer costs continue *to* decrease, but more gradually for accruals of $45 million and larger.

Assumptions

The analysis performed included certain conservative assumptions regarding loss exposures. These include assumptions regarding storm frequency and severity, future FPL system growth, and future increased *cost* for system restoration due to inflation:

- The analysis is based on storm frequency and severity distributions developed from the entire 100-year historical record. Year-to-year variability in storm frequency and severity distributions has not been included. Specifically, variability associated with El Nino / Southern Oscillation (ENSO) has not been considered. Further, there has been no attempt to model longer term variations such as the relatively quiet period for North Atlantic hurricanes that occurred from about 1970 to the mid 1990's, or the more active periods before and after. The length of each quiet or active period is thought to be about 25 to 30 years, and the current period of higher activity began only about five years ago; therefore *it is* quite possible that the next 30 years could be characterized by higher levels of activity than average.
- The analysis considered no future growth of the FPL customer base and system assets. FPL customer base has grown 1% to 2% per year over the past decade.
- The analysis assumed that future system restoration cost would be at comparable price levels to the present. Recent inflationary *cost* increases for new transmission and distribution assets have increased at 1% to 3.5% per year over the past decade.

Given these conservative assumptions, inflation in assets and repair costs could cause the Storm Loss estimates to be higher. The uncertainties represented by these assumptions are within the overall uncertainties of the storm hazards and the recommendations provided represent a sound approach in the short term of the next three to five years. Should FPL experience either a single catastrophic storm loss or a series of more moderate storms that seriously hamper the Storm Reserve's growth to the recommended target amount, the Storm Reserve annual accrual level could require retrospective review.

Recommendations

Based on the analysis performed, we recommend a minimum annual accrual level in the range of $45 to $55 million, with a target Storm Reserve balance of $400 to $500 million within the *next* three *to* five years. These accrual levels and this target Storm *Reserve* balance, considering the expected losses, should provide sufficient funds to:

- Lower long term customer costs,
- Dampen volatility of the Storm Reserve,
- Fund most storms losses but not those from the most severe catastrophic events

It should be noted that there is no single way to establish appropriate annual accrual level or target Storm Reserve balance. Both storm frequencies and severities have large uncertainties. Consequently any accrual level can be either inadequate given a single rare event, or result in increases to the Storm Reserve balance if no events occur within any given short number of storm seasons.

We believe that the accruals and target Storm Reserve balances in the recommended ranges will significantly improve the likelihood of achieving the three established criteria of balancing lower long-term customer *cost,* Storm Reserve volatility, and coverage for the majority of storm scenarios.

Aggregate Damage Exceedance for One, Three, and Five years

Aggregate damage exceedance calculations are developed by keeping a running total of damage from *all possible events* in a given time period, including all uninsured costs from windstorms. At the end of each time period, the aggregate damage *for* all events is then determined by probabilistically summing the damage distribution from each event, taking into account the event frequency. The process considers the probability of having zero events, one event, two events, etc. during the time period.

The table on the following page summarizes this analysis for three time periods: one, three, and five years, for damage layers between zero and over one billion dollars.

For each damage layer shown, the probability of damage exceeding a specified value is shown. For example, the probability of damage exceeding $500 million *in* one year *is* 2.5%, while it is 9.2% and 18.1% for three and five year periods. The analysis calculates *the* probability of damage from all storms and aggregates the total, resulting in increasing exceedance probabilities for the three and five year periods when compared to the one year value.

The table also shows, for each damage layer, the contribution of that layer to the expected annual damage of $59.3 million, which is the annual damage calculated from all storms with varying severity and frequency. The expected annual damage represents all uninsured costs from windstorms on an annual basis over a long period *of* time.

For *the* example given above, the contribution to the $59.3 million expected annual damage in the $500 to $550 million layer is $1.211 million *for* the one-year period. For the three-year and five-year periods, the contribution to the expected damage over the period is provided for each layer. For example, the total expected damage over a three-year period is $177.805 million (three times the expected annual damage), $4.306 million of which is contributed by the layer from $500 to $550 million.

AGGREGATE DAMAGE EXCEEDANCE PROBABILITIES AND EXPECTED DAMAGE IN 1, 3, & 5 YEARS, BY LAYER

Damage Layer	1 year		3 year		5 year	
($millions)	Exceedance Probability	Expected Annual Damage ($000)	Exceedance Probability Over 3 Years	Expected Damage Over 3 Years ($000)	Exceedance Probability Over 5 Years	Expected Damage Over 5 Years ($000)
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
200	7.637%	3,413	25.016%	11,354	43.264%	20,054
250	6.007%	2,668	20.407%	9,398	36.838%	17,104
300	4.911%	2,268	17.501%	8,038	31.525%	14,661
350	4.069%	1,868	14.648%	6,737	27.029%	12,630
400	3.496%	1,615	12.745%	5,805	23.300%	10,870
450	2.978%	1,384	10.662%	4,969	20.279%	9,608
500	2.538%	1,211	9.219%	4,306	18.078%	8,514
550	2.259%	1,020	8.046%	3,825	15.815%	7,471
600	1.932%	903	7.153%	3,335	13.855%	6,598
650	1.693%	792	6.142%	2,952	12.484%	5,826
700	1.491%	687	5.298%	2,415	10.862%	5,752
750	1.236%	575	4.751%	2,251	9.699%	4,589
800	1.086%	506	4.185%	1,974	8.557%	4,269
850	0.952%	460	3.615%	1,723	7.617%	3,428
900	0.819%	382	3.274%	1,575	6.872%	3,203
950	0.703%	308	2.909%	1,327	6.020%	2,857
≥$1,000	0.604%	2,211	2.571%	9,942	5.268%	22,769
Total		59,268		177,805		296,341

Effect of Scenario Selected on Storm Reserve Balance

The chart on the next page shows the impact of three annual accrual scenarios on the Storm Reserve: $45 million, $50 million, and $55 million. For each annual accrual amount, the chart shows the mean value of the Storm Reserve balance over the 15-year period, and the upper and lower bounds defined, respectively as the 95" and 5th percentiles of non-exceedance.

Note that the expected value (mean curve) of the Storm Reserve balance gains from $247 million to $313 million under the *$45* million scenario over the 15-year period. The upper bound under this scenario at the end *of the* 15-year period is approximately $769 million and the lower bound is approximately -$348 million. This can also be interpreted as this scenario having a 90% probability that the Storm Reserve balance will be between $769 million and -$348 million with an expected Storm Reserve balance *of* $313 million at the end of the 15-year period.

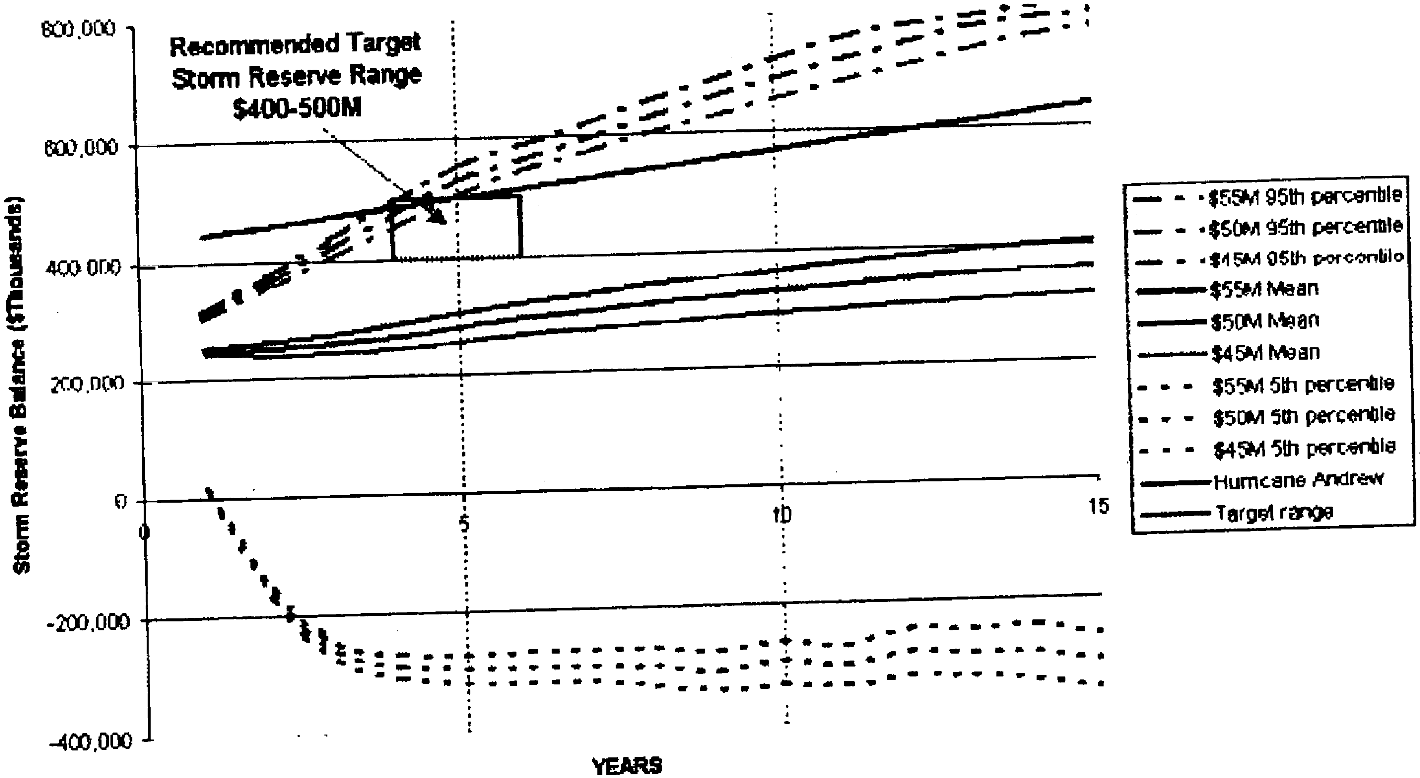
Similarly, the expected value (mean curve) of the Storm Reserve balance gains from $247 million to $361 million under the *$50* million scenario over the 15-year period. The upper bound under this scenario at the end of the 15-year period is approximately $793 million and the lower bound is approximately -$304 million. This can also be interpreted as this scenario having a 90% probability that the Storm Reserve balance will be between $793 million and -$304 million with an expected Storm Reserve balance of $361 million at the end of the 15-year period.

Finally, the expected value (mean curve) *of* the Storm Reserve balance gains from $247 million *to* $405 million under the *$55* million scenario over the 15-year period. The upper bound under this scenario at the end of the 15-year period *is* approximately $812 million and the lower bound is approximately -$260 million. This can also be interpreted as this scenario having a 90% probability that the Storm Reserve balance will be between $812 million and -$260 million with an expected Storm Reserve balance of $405 million at the end of the 15-year period.

For comparison purposes, the line corresponding to the loss experienced in Hurricane Andrew is shown, adjusted for system growth and inflation. Also, the recommended Storm Reserve balance target range of $400 to $500 million is indicated.

In none of the recommended accrual scenarios would the expected Storm Reserve balance grow significantly beyond the recommended target range within the next four to six years.

FPL SOLVENCY ANALYSIS
Comparison of $45, $50, and $55 million annual accrual levels
(with $500/$750 million funding reduction/suspension levels)



Total Cost and Storm Reserve Stability as a Function of Accrual Amount

The focus of the analysis was on the three key performance measures: the overall cost to the customer, the stability of the Storm Reserve (i.e., need for special assessments / rate increases), and coverage for most storms. The analysis sought to identify the approximate range of minimum accrual levels that adequately satisfy these performance criteria.

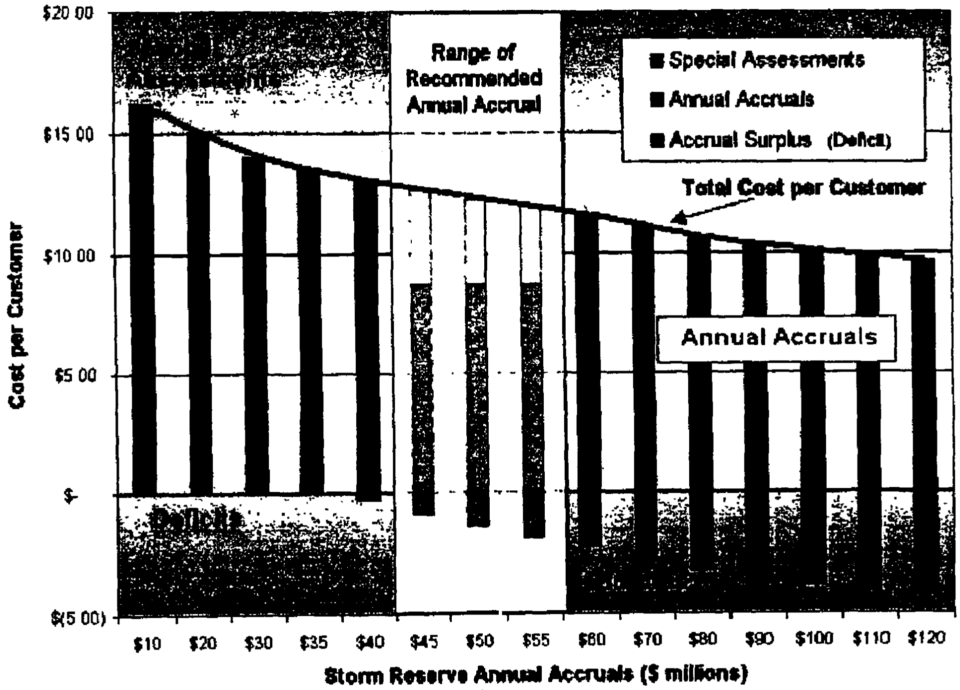
The chart on the following page summarizes the results of the analysis. In the figure, costs are shown on an expected annual basis per customer. The total cost per customer is considered to be the sum of three components, two direct and one indirect. The two direct components are the range of annual accruals and the special assessments / rate increases. In addition, the indirect, long-term cost of accumulating Storm Reserve deficits (surpluses) is added (subtracted). The analysis was extended to accruals beyond $80 million (to $120 million) to better show the overall trends.

The total cost per customer declines as accruals are increased through $120 million (and presumably beyond}. With annual accrual levels of $45 to $55 million the Storm Reserve balance begins to grow toward the recommended Storm Reserve target range. Therefore our recommendation is an annual accrual level of at least $45 million.

Storm Reserve volatility can be measured by the need for special assessments / rate increases. These additional funding demands decline as annual accruals increase. Needs for special assessments / rate increases are significantly greater below $45 million annual accrual than they are above this level.

Lastly, the potential need for special assessments never declines to zero. This is due to the continued possibility of infrequent catastrophic losses that could exhaust the Storm Reserve. None of the analyzed accrual scenarios allowed sufficiently large Storm Reserve balance to allow self sustained reserve growth and therefore coverage for these rare events. Annual accruals *of $45* to *$55* million allow coverage of most storms but do not cover these infrequent severe events.

Total Cost per Customer



Administrative policies reduced the annual accrual by 50% at a $500 million Storm Reserve balance and suspended them at $750 million. Where the Storm Reserve balance was negative at the end of a year, it was assumed that the deficit was covered by borrowing funds (at an after tax interest rate of 4%). When borrowing was required, an assessment or rate increase was assumed to be immediately instituted to repay the shortfall over a five-year period. Balances in the Storm Reserve were assumed to be invested and earned a 3.5% after tax return.

Analysis Results

Storm Reserve solvency can be viewed in terms of the expected surplus or deficit of the Storm Reserve over the 30-year period. Based on the simulated loss distributions, deficits to the Storm Reserve could exist for all annual accrual levels analyzed, although their level begins to moderate at accruals above $45 million. Accrual levels above $45 million will result in a lower probability of Storm Reserve deficits and will have a higher probability of generating positive Storm Reserve growth, thus reducing both customer cost and the need for special assessments / rate increases.

Storm Reserve volatility can be viewed in terms of the fraction of total annual cost per customer contributed by special assessments / rate increases. The volatility can be characterized by three ranges of need for special assessments / rate increases:

- Annual accrual levels below $45 million, where deficits occur and special assessments / rate increases make up 35% to 55% of the total annual cost per customer.
- Annual accrual levels between $45 and 55 million where small surpluses occur and special assessments / rate increases make up 25 to 35% of the total annual cost to the customer.
- Annual accrual levels of $60 million or greater where special assessments / rate increases make up less than 25% of the total annual cost per customer.

The need for special assessments / rate increases does not decrease to zero for any of the accrual levels analyzed. This is an effect of capping the Storm Reserve at $750 million and the potential that lasses in excess of a billion dollars could occur. Should one of these low probability events occur, special assessments would be required even *at* the maximum capped Storm Reserve balance. There is approximately a 1% chance in one year and an 8% chance in five years that storm losses could exceed the maximum cap ($750 million).

Cost to the customer can be viewed in terms of the sum of the annual accruals, borrowing costs, special assessments / rate increases, and deficits (or surpluses). *Costs to* the customer decrease rapidly as accruals approach the $45 million level. Total customer costs continue to decrease, but more gradually for accruals of $45 million and larger.

Assumptions

The analysis performed included certain conservative assumptions regarding loss exposures. These include assumptions regarding storm frequency and severity, future FPL system growth, and future increased cost for system restoration due to inflation:

- The analysis is based on storm frequency and severity distributions developed from the entire 100-year historical record. Year-to-year variability in storm frequency and severity distributions has not been included. Specifically, variability associated with El Nino / Southern Oscillation (ENSO) has not been considered. Further, there has been no attempt *to* model longer term variations such as the relatively quiet period for North Atlantic hurricanes that occurred from about 1970 to the mid 1990's, or the more active periods before and after. The length of each quiet or active period is thought to be about 25 to 30 years, and the current period of higher activity began only about five years ago; therefore it is quite possible that the next 30 years could be characterized by higher levels of activity than average.
- The analysis considered no future growth of the FPL customer base and system assets. FPL customer base has grown 1% to 2% per year over the past decade.
- The analysis assumed that future system restoration cost would be at comparable price levels to the present. Recent inflationary cost increases for new transmission and distribution assets have increased at 1% to 3.5% per year over the past decade.

Given these conservative assumptions, inflation in assets and repair *costs* could cause the Storm Loss estimates to be higher. The uncertainties represented by these assumptions are within the overall uncertainties of the storm hazards and the recommendations provided represent a sound approach in the short term of the next three to five years. Should FPL experience either a single catastrophic storm loss or a series of more moderate storms that seriously hamper the Storm Reserve's growth to the recommended target amount, the Storm Reserve annual accrual level could require retrospective review.

Recommendations

Based on the analysis performed, we recommend a minimum annual accrual level in the range of $45 to $55 million, with a target Storm Reserve balance of $400 to $500 million within the next three to five years. These accrual levels and this target Storm Reserve balance, considering the expected losses, should provide sufficient funds *to:*

- Lower long term customer costs,
- Dampen volatility of the Storm Reserve,
- Fund most storms losses *but* not those from the most severe catastrophic events

It should be noted that there is no single way *to* establish appropriate annual accrual level or target Storm Reserve balance. Both storm frequencies and severities have large uncertainties. Consequently any accrual level can be either inadequate given a single rare event, or result in increases *to* the Storm Reserve balance if no events occur within any given short number of storm seasons.

We believe that the accruals and target Storm Reserve balances in the recommended ranges will significantly improve the likelihood of achieving the three established criteria of balancing lower long-term customer *cost,* Storm Reserve volatility, and coverage fur the majority of storm scenarios.

Aggregate Damage Exceedance for One, Three, and Five years

Aggregate damage exceedance calculations are developed by keeping a running total of damage from *all possible events* in a given time period, including all uninsured costs from windstorms. At the end of each time period, the aggregate damage for all events is then determined by probabilistically summing the damage distribution from each event, taking into account the event frequency. The process considers the probability of having zero *events,* one event, two events, etc. during the time period.

The table an the following page summarizes this analysis for three time periods: one, three, and five years, for damage layers between zero and over one billion dollars.

For each damage layer shown, the probability of damage exceeding a specified value is shown. For example, the probability of damage exceeding $500 million in one year is 2.5%, while it is 9.2% and 18.1% for three and five year periods. The analysis calculates the probability of damage from all storms and aggregates the total, resulting in increasing exceedance probabilities for the three and five year periods when compared to the one year value.

The table also shows, for each damage layer, the contribution of that layer to the expected annual damage of $59.3 million, which is the annual damage calculated from all storms with varying severity and frequency. The expected annual damage represents all uninsured costs from windstorms on an annual basis over a long period of time.

For the example given above, the contribution to the $59.3 million expected annual damage in the $500 to $550 million layer is $1.211 million for the one-year period. For the three-year and five-year periods, the contribution to the expected damage over the period is provided for each layer. For example, the total expected damage over a three-year period is $177.805 million (three times the expected annual damage), $4.306 million of which is contributed by the layer from $500 to $550 million.

AGGREGATE DAMAGE EXCEEDANCE PROBABILITIES
AND EXPECTED DAMAGE IN 1, 3, & 5 YEARS, BY LAYER

Damage Layer	1 year		3 year		5 year	
($millions)	Exceedance Probability	Expected Annual Damage ($000)	Exceedance Probability Over 3 Years	Expected Da[illegible] Ov[illegible] Years ($000)	Exceedance Probability Over 5 Years	Expected Damage Over 5 Years ($000)
$ 0	82.420%	18,483	99.860%	39,107	100.000%	46,026
50	21.156%	8,466	58.876%	24,765	03.769%	37,324
100	13.536%	5,772	41.753%	18,032	65.765%	29,469
150	9.819%	4,269	31.413%	13,989	52.373%	23,918
200	7.637%	3,413	25.016%	11,354	43.264%	20,054
250	6.007%	2,668	20.407%	9,398	*36.838%*	47,104
300	4.911%	2,268	17.501%	8,038	31.525%	14,661
350	4.069%	1,868	14.648%	6,737	27.029%	12,630
400	3.496%	1,615	12.745%	5,805	23.300%	10,870
450	2.978%	1,384	10.662%	4,969	20.279%	9,608
500	2.538%	1,211	9.219%	4,306	18.078%	8,514
550	2.259%	1,020	8.046%	3,825	15.815%	7,471
600	1.932%	903	7.153%	3,335	13.855%	6,598
650	1.693%	792	6.142%	2,952	12.484%	5,826
700	1.491%	687	5.298%	2,415	10.862%	5,152
750	1.236%	575	4.751%	2,251	9.699%	4,589
800	1.086%	506	4.185%	1,974	8.557%	4,269
850	0.952%	460	3.615%	1,723	7.617%	3,428
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≥$1,000	0.604%	2,211	2.571%	9,942	5.268%	22,769
Total		59,268		177,805		296,341

Effect of Scenario Selected on Storm Reserve Balance

The chart on the next page shows the impact of three annual accrual scenarios on the Storm Reserve: $45 million, $50 million, and $55 million. For each annual accrual amount, the chart shows the mean value of the Storm Reserve balance over the 15-year period, and the upper and lower bounds defined respectively as the 95th and 5th percentiles of non-exceedance.

Note that the expected value (mean curve) of the Storm Reserve balance gains from $247 million to $313 million under the $45 million scenario over the 15-year period. The upper bound under this scenario at the end of the 15-year period is approximately $769 million and the lower bound is approximately -$348 million. This can also be interpreted as this scenario having a 90% probability that the Storm Reserve balance will be between $769 million and -$348 million with an expected Storm Reserve balance of $313 million at the end of the 15-year period.

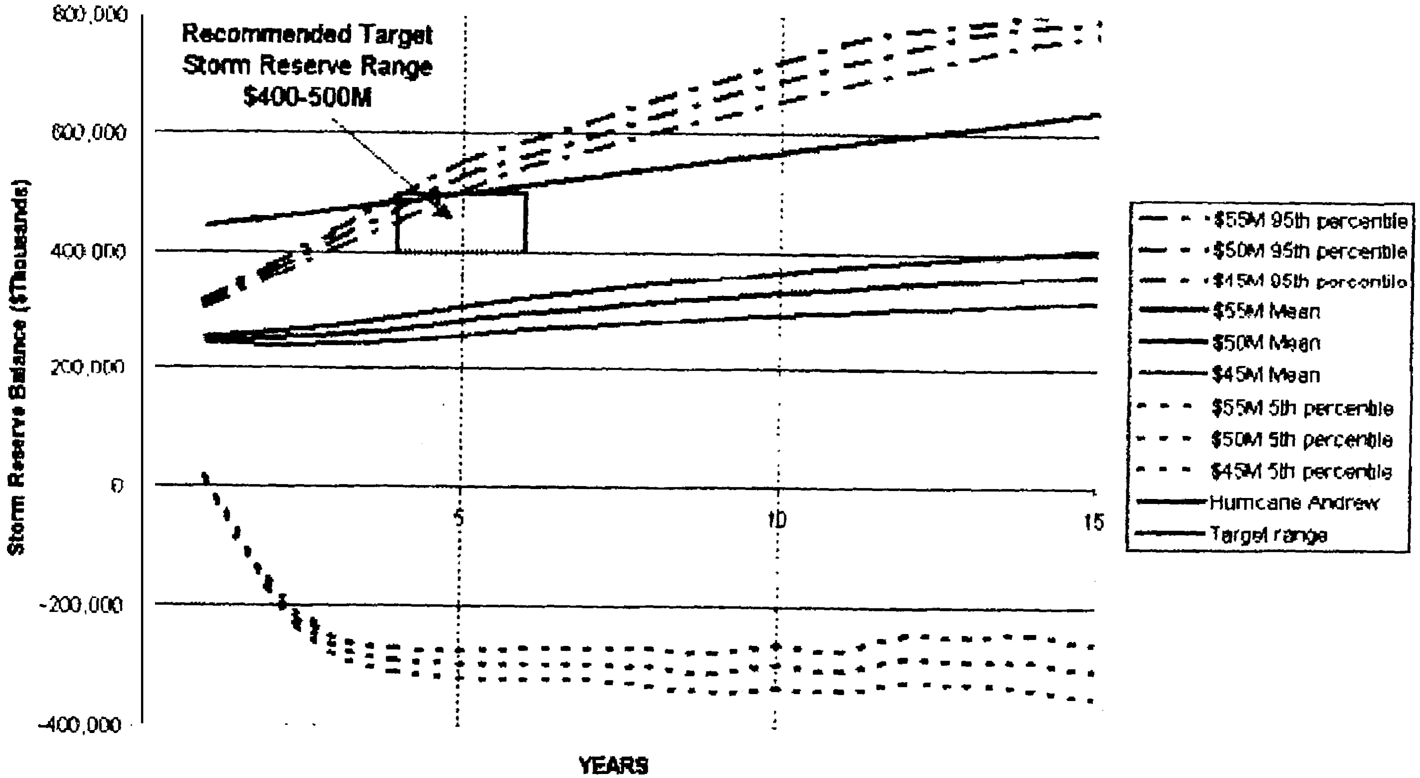
Similarly, the expected value (mean curve) of the Storm Reserve balance gains from $247 million to $361 million under the $50 million scenario over the 15-year period. The upper bound under this scenario at the end of the 15-year period is approximately $793 million and the lower bound is approximately -$304 million. This can also be interpreted as this scenario having a 90% probability that the Storm Reserve balance will be between $793 million and -$304 million with an expected Storm Reserve balance of $361 million at the end of the 15-year period.

Finally, the expected value (mean curve) of the Storm Reserve balance gains from $247 million to $405 million under the $55 million scenario over the 15-year period. The upper bound under this scenario at the end of the 15-year period is approximately $812 million and the lower bound is approximately -$260 million. This can also be interpreted as this scenario having a 90% probability that the Storm Reserve balance will be between $812 million and -$260 million with an expected Storm Reserve balance of $405 million at the end of the 15-year period.

For comparison purposes, the line corresponding to the loss experienced in Hurricane Andrew is shown, adjusted for system growth and inflation. Also, the recommended Storm Reserve balance target range of $400 to $500 million is indicated.

In none of the recommended accrual scenarios would the expected Storm Reserve balance grow significantly beyond the recommended target range within the next four to six years.

FPL SOLVENCY ANALYSIS
Comparison of $45, $50, and $55 million annual accrual levels
(with $500/$750 million funding reduction/suspension levels)



Total Cost and Storm Reserve Stability as a Function of Accrual Amount

The focus of the analysis was on the three key performance measures: the overall cost to the customer, the stability of the Storm Reserve (i.e., need for special assessments / rate increases), and coverage for most storms. The analysis sought to identify the approximate range of minimum accrual levels that adequately satisfy these performance criteria.

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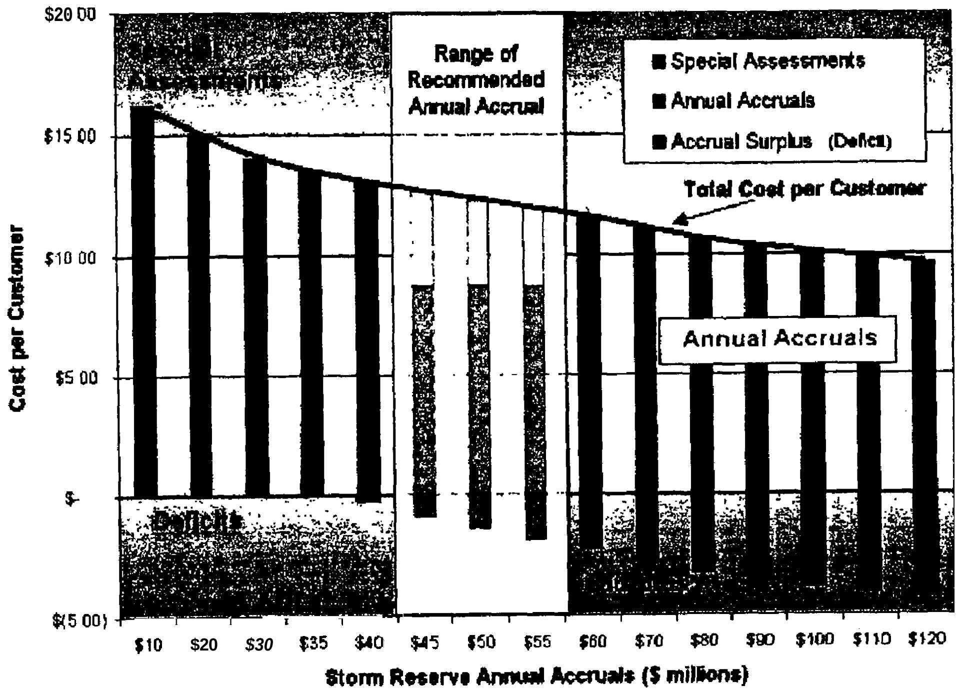
Lastly, the potential need for special assessments never declines to zero. This is due to the continued possibility *of* infrequent catastrophic losses that could exhaust the Storm Reserve. None of the analyzed accrual scenarios allowed sufficiently large Storm Reserve balance to allow self sustained reserve growth and therefore coverage for these rare events. Annual accruals of $45 to $55 million allow coverage of most storms but do not cover these infrequent severe events.

Total Cost per Customer



ORIGINAL

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January 28, 2002

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RECEIVED-FPSC
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COMMISSION CLERK

- VIA HAND DELIVERY –

Ms. Blanca S. Bayó
Director of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 001148-EI

Dear Mr. Bayó:

I am enclosing for filing in the above docket the original and fifteen (15) copies of the prefiled testimony and exhibits for the following Florida Power & Light Company ("FPL") witnesses:

Mark R. Bell 01061-02	K. Michael Davis 01067-02
M. Dewhurst 01062-02	Paul J. Evanson 01068-02
William W. Hamilton 01063	Steven P. Harris 01069-02
01064 Dr. J. Stuart McMenamin	Rosemary Morley 01070-02
Armando J. Olivera 01065	James K. Peterson 01071-02
John M. Shearman 01066	Samuel S. Waters 01072-02

FPL is filing these witnesses' testimonies today in accordance with Order No. PSC-02-0089-PCO-EI, dated January 15, 2002. FPL's witnesses sponsor and explain the MFRs FPL has previously filed in this docket. Together with the MFRs, their testimonies demonstrate that FPL's 2002 test year results do not support any reduction in FPL's base rates.

Sincerely,

John T. Butler, P. A.

AUS
CAF
CMP
COM Stay
CTR
ECR
GCL 1
OPC 1
MMS
SEC 1
OTH

Enclosures
cc: Counsel of record (w/copy of enclosures)

RECEIVED & FILED
FPSC-BUREAU OF RECORDS

EXHIBIT
4

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that true and correct copies of the prefiled testimony and exhibits of Mark R. Bell, K. Michael Davis, M. Dewhurst, Paul J. Evanson, William W. Hamilton, Steven P. Harris, Dr. J. Stuart McMenamin, Rosemary Morley, Armando J. Olivera, James K. Peterson, John M. Shearman and Samuel S. Waters were served by hand delivery (*) or overnight delivery this 28th day of January, 2002 to the following:

Robert V. Elias, Esq.*
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Room 370
Tallahassee, FL 32399-0850

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Washington, DC 20006

By: ______________________
John T. Butler, P. A.

BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 001148-EI
FLORIDA POWER & LIGHT COMPANY

JANUARY 28,2002

IN RE: REVIEW OF THE RETAIL RATES
OF FLORIDA POWER & LIGHT COMPANY

TESTIMONY & EXHIBITS OF:

M. DEWHURST

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF MORAY P. DEWHURST

DOCKET NO. 001148-EI

JANUARY 28, 2002

Q. Please state your name and business address.

A. Moray P. Dewhurst, 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. What is your employment capacity?

A. I serve as Senior Vice President of Finance and Chief Financial Officer of Florida Power & Light Company ("FPL" or the "Company").

Q. Please describe your educational and professional background and experience.

A. I have a bachelor's degree in Naval Architecture from MIT and a master's degree in Management, with a concentration in finance, from MIT's Sloan School of Management. I have approximately twenty years of experience consulting to Fortune 500 and equivalent companies in many different industries on matters of corporate and business strategy. Much of my work has involved financial strategy and financial re-structuring. I was appointed to my present position in July of 2001.

Q. What is the purpose of your testimony?

A. My testimony will support and supplement the testimony of Mr. Avera on the appropriate Return on Equity ("ROE") that should be established in this proceeding, the proposed ROE award of 30 basis points, the appropriate capital structure for the Company, and tbe need for an increase in the annual accrual for the Company's Storm Damage Fund.

Q. What MFRs are you sponsoring?

A. I sponsor or co-sponsor the following MFRs: A-12b, A-12c, C-21, C-28, C-50, D-1, D-3a, D-3b, D-4a, D-6, D-7,D-8, D-9, D-10a, D-10b, D-1la, and F-17.

Q. Please summarize your testimony.

A. Over the past several years, with the benefit of steady, predictable growth in customers and usage, and a stable planning environment, the Company has been able to keep costs relatively low while simultaneously improving customer service. Base rates have continued to decline in both nominal and inflation-adjusted terms. Today, however, the Company faces a more challenging economic environment, the continuing need to develop capacity resources to provide larger reserve margins than in the past, and an uncertain regulatory outlook.

FPL's current financial condition is strong; however, there are significant uncertainties as to the near-term future. The uncertainties center around several issues: the outcome of these proceedings, the speed and extent of the recovery from the present depressed overall levels of economic activity in our service area, as well as the possible course of electricity industry restructuring in Florida.

In September 2001, FPL's credit rating was downgraded by S&P from "AA-" to "A." We were disappointed with the downgrade; however, we believe it serves as an important signal of the need to maintain a strong financial position. Despite the downgrade, today FPL's financial ratios are within to slightly above the target ranges of an "A" rated utility for the financial indicators considered by the Florida Public Service Commission (the "Commission") in prior rate cases.

We have been able to serve an increasing number of customers, with increasing levels of reliability and quality, while decreasing base rates and providing customers with annual refunds. We believe the successful results of the past few years have been due to the superior efforts of the Company's management, operating within a balanced and stable regulatory framework provided by the Commission, We believe that it is important, where possible, to maintain stability in the regulatory and planning framework. Thus, despite the fact that we anticipate increasing financial pressure, as indicated by our 2002 test year filings and the information provided for 2003, we are not seeking an increase in base rates at this time, although one certainly may be justified. As Mr. Evanson noted, we plan to monitor our situation very closely.

Notwithstanding that FPL is not seeking an increase in base rates at this time, the Commission should prospectively adjust FPL's authorized ROE to be consistent with the best projections of the cost of capital in the test year and beyond. I concur with Mr. Avera's finding that the current cost of equity for FPL is approximately 12.85%. The Commission should also provide tangible recognition for the superior results FPL has achieved by adding a performance award of 30 basis points to the current cost of equity. Thus the midpoint of FPL's authorized ROE should be set at 13.15%. Because we are not requesting an increase in base rates at this time and our projected ROE is forecast to be 11.83% in 2002, the upward adjustment of ow authorized ROE, or an ROE award for superior results, would function as an incentive rather than as the set point for base rates.

Q. **Please characterize the significance of any Commission action in these proceedings.**

A. To stay abreast of the growing number of customers and their growing electricity needs, we will have to continue to expand our distribution and transmission network as well as increase the generation resources available to us. We are mindful of the need to maintain the excellent reliability and customer service record that we have demonstrated over the past several years. To meet these challenges it will be vital for us to remain a strong company in the eyes of the investment community, which will only come by continuing to earn a reasonable, stable return and maintaining a strong equity position to accommodate current and future uncertainty. Any actions that adversely affect investors' perceptions of the financial strength of the Company will be detrimental to our ability to sustain the superior performance we have provided customers over the past decade. In addition, we believe it will be very important to investors to remove the uncertainty surrounding the Company's revenues as a result of this proceeding.

SECTION I – FPL'S CURRENT FINANCIAL CONDITION

Q. What measures of financial integrity do you recommend the Commission consider when evaluating the financial condition of the Company?

A. In evaluating our financial condition, the Commission should consider the same indicators of financial integrity that are considered by the financial community. Any company is only as strong as investors understand it to be, and recent events have clearly shown how quickly a company can shift from being financially secure to being unable to execute the most fundamental business processes if investors lose confidence in its financial strength. Different standards must necessarily be applied to different circumstances, but the core measures of financial strength are common.

The most basic measures of financial strength that investors look to are profitability and capital structure. Profitability captures the essential requirement of being able, over time, to provide investors with a fair return on the capital they have placed at risk, while capital structure addresses the requirement to be able to absorb unexpected shocks. We submit that with respect to both types of measures, investors are currently more demanding of companies in our industry than they have been in the recent past. It is clear from recent events that companies whose profitability and/or capital structure are perceived by investors to be at risk of significant weakening in the future become highly vulnerable. Many companies in our industry have suffered significant adverse effects from rapid declines in investor sentiment associated with uncertainty as to their financial strength.

Specific measures that capture a company's profitability are many. Perhaps the *most* comprehensive is a company's return on equity, since it is indicative of the company's ability to cover the risk-adjusted return expectations of all classes of investors. Other things equal, a higher or lower ROE represents greater or lesser financial *security* to both equity and debt holders. Similarly, measures of capital structure are many, but the ratio of debt to total capital, appropriately defined and measured, is a reasonable general indicator, Other things equal, a lower debt ratio represents greater ability to absorb the effects of transient financial "shocks," and vice versa. In addition to these broad indicators, investors also may look to more specific measures of financial security as part of their overall assessment of a company's health.

Q. **Are there additional, specific measures of financial integrity that are reviewed by financial rating agencies which you believe the Commission should consider in evaluating FPL's financial condition, and what do those indicators show for FPL?**

A. Standard & Poors considers several financial ratios that the Commission should consider. Adjusting out the temporary impact caused by the collection of FPL's unusually large fuel underrecovery, FPL's performance relative to those financial ratios for the 2002 test year are:

	2002 FPL	S&P "A" Targets
Total debt to total capital:	43.7%	43.0 - 49.5%
Funds from operations to average total debt :	32.1%	24.5 - 30.5%
Funds from operations interest coverage:	5.3x	3.8 - 4.5x
Pretax interest coverage:	4.3x	3.3 - 4.0x

FPL's ratios are within or slightly above the targets established by Standard & Poors for an "A" rated utility, though it should be noted that numerical ratios are not the only factors that S&P or investors consider in determining overall financial strength. It should also be noted that S&P's target ratios were published in June 1999, and a higher interest rate assumption is embedded in the targets than FPL has experienced. This explains why FPL's funds from operations interest coverage ratio of 5.3x is higher than the target, while FPL's funds from operations to average total debt ratio of 32.1% is more consistent with the target range- Since interest rates can change rapidly, somewhat more weight is likely attached to the debt ratios.

Q. What conclusion should the Commission draw from FPL's projected performance on each of these indicators?

A. Our current capital structure provides adequate financial strength to accommodate the inherent uncertainties of the industry, taking due regard of the risk factors affecting the industry and the Company today. Any weakening in any of these areas would clearly be perceived by investors as a decline in our overall financial strength. As discussed later in my testimony, this would be detrimental to customers, since it would ultimately undermine our ability to provide highly reliable service at costs below industry averages.

SECTION II - RETURN ON EQUITY

Q. What is your recommendation for a return on equity?

A. FPL's projected ROE in 2002 of 11.83% is below Mr. Avera's projections of what the cost of equity will be in 2002 and beyond, and is less than fully competitive under current market conditions. I concur with the judgment of Mr. Avera that the best estimate of the Company's cost of equity is 12.85%, and I submit that a premium of 30 basis points to recognize the Company's superior performance, and to provide an incentive for future performance, is fully warranted on the merits, and is consistent with the Commission's prior decisions. Adding this premium yields a mid-point for allowed ROE of 13.15%. In keeping with prior Commission policy, a 1% band should be established on either side of the mid-point, resulting in a return on equity range of 12.15% to 14.15%.

Q. Do you concur with Mr. Avera's recommendations?

A. Yes. I have reviewed his work in this proceeding and concur with his recommendations. I believe the Commission should establish the cost of equity for FPL at 12.85% and then add an award for our superior performance of 30 basis points.

Q. What should the Commission consider in determining the Company's ROE?

A. A company's ROE is an important indicator both of the economic return that the company can provide to its equity holders and, as I have discussed earlier, of the overall financial strength of the enterprise. It is axiomatic that any company must provide a prospective return to shareholders that is at least as good as the return that the shareholders could expect to earn on an investment of equivalent risk characteristics. Failure to do so will result in a loss of equity value and the inability to access capital markets at a reasonable cost. As I understand the Commission's task, it is, among other things, to look at risk through the eyes of current and potential equity investors and to set an allowed ROE that, if achieved by the Company, will induce the needed level of investment at the lowest reasonable cost and fairly compensate the historical equity holders for the utilization of their assets. This level of ROE, if achieved by the Company and coupled with prudent management of the capital structure, will also satisfy investors' requirements for financial strength.

Investors' requirements at any particular point in time are set both by general conditions and risks and by company-specific conditions and risks. Virtually all conditions affect both debt holders and equity holders; however, they may affect these classes of investors differentially. In setting an allowed ROE, therefore, the Commission should look to all the risk factors affecting a company but should emphasize those that have the greatest impact on equity holders. In the following responses I have addressed these factors.

Q. What general economic risk factors should the Commission consider in determining the Company's ROE?

A. Two major factors affect the entire utility industry today that have not been present in recent years and that tend to increase investors' perceptions of risk. First is the currently depressed level of economic activity at both the state and national level. The over-all level of economic activity directly affects the Company's sales revenues and thus explains the downward revisions in our sales forecast in the test year. However, current economic events also induce a degree of uncertainty that has not been present for many years. The current economic slowdown is the first recession since 1990-1; it also has shown a pattern very inconsistent with prior post-WW II slowdowns. On top of the general uncertainty associated with the slowdown must be placed the specific uncertainties associated with the effects of the terrorist attacks in September 2001. These have had a disproportionate effect here in Florida, a tourist dependent state, which relies greatly on intangibles like consumer confidence as a driver of economic activity.

The second general factor that has increased the uncertainty and risk associated with the utility industry overall is the continuing theme of restructuring at the wholesale and retail levels. While Florida has not taken any action in this area beyond an in-depth study of the issues, we are not immune to the increase in risk as *seen through investors' eyes.* From an investment perspective *all* geographies have witnessed an increase in uncertainty both because the future path of regulation is unclear and because *the* likely effects of a particular regulatory scheme are now understood to be much less predictable than previously thought. From an investor perspective, the fact that a particular state has put on hold plans for restructuring does not reduce the level of uncertainty beyond the very short term and in some respects actually increases uncertainty and, therefore, risk.

Q. Please identify and describe company-specific risk factors that are important in determining FPL's ROE.

A. There are five company-specific risk factors that I will discuss.

Growth

The interaction of general economic uncertainty and the underlying strong growth of our service territory creates a particular set of risks for FPL. We expect to continue to experience growth in the number of customers moving into our service territory; however, recent economic events have forced us to lower our expectations and at the same time increase the range of outcomes that we must prepare for. While our expectations for customer growth in the short-term have been reduced, significant capital expenditures are still forecasted over the next few years to meet customer growth and increased demand. Due to the long-term construction cycle of building utility assets, a strong balance sheet is needed to counter adverse market conditions that may arise during the construction period. To ensure access to capital markets for the necessary capital to meet growth, FPL will have to provide a fair return on equity to investors today, and over the extended period when the Company is active in the capital markets.

Customer Base

The majority of our revenues come from our residential and commercial customers. Compared to utilities in other states, Florida has a low industrial load. From an investor perspective this reduces risk. Our customer mix has not greatly changed over the last few years; thus there should be no unusual change in this risk factor.

Volatile Economy

As indicated earlier, the Florida economy has been particularly affected by the current economic uncertainty, in large part because of the heavy reliance on tourism. As service providers, we naturally absorb the consequences of this uncertainty, which, from an investor perspective represents additional company-specific risk.

Nuclear Generation

FPL has four nuclear generating units, Turkey Point Units 3 and 4 and St. Lucie Units 1 and 2. Together, these contribute 16.6% of available capacity and approximately 26% of actual supply, owing to their high reliability and their low-cost position in the economic dispatch. FPL has the highest percentage of generation from nuclear resources of any utility in the state. While our customers have enjoyed cost savings over the years from these units, the investment community assigns a higher level of risk to a utility that has nuclear units in its generating portfolio. In addition, as the plants age, there is an increasing maintenance risk, as illustrated by the recent need for reactor vessel head penetration inspections. On balance, the trade-off has been an excellent one for our customers. On a total cost basis (i.e., including depreciation and a fair allowance for capital recovery and assuming a risk premium for nuclear) our cost per kWh for nuclear-produced power is significantly less than the equivalent cost for fossil-fueled plants. Recent estimates of fuel cost savings alone, comparing the fuel costs of our nuclear and natural gas units, show that the nuclear units save approximately $750 million per year in fuel cost. It would be inconsistent to take advantage during the rate-setting process of the very large customer savings in variable cost without also compensating equity holders for the risk premium associated with nuclear power.

Geographic Position

Florida's geographic location exposes our electrical systems to a higher likelihood of adverse weather events. Although we plan for this contingency with our Storm Damage Fund, all other factors being equal, it increases risk.

Florida's geographic position also exposes the Company to certain additional risk factors. As a peninsula, with limited physical connection to adjacent geographies, Florida is more exposed to fuel supply disruptions. While we have compensated for this in part through significant use of fuel-switching capability, which has had the additional benefit of keeping fuel costs lower than they otherwise would have been, the risk associated with our peninsular position has increased somewhat recently with the increasing uncertainty surrounding future natural gas prices.

Q. What conclusion should the Commission draw from these qualitative risk factors?

A. I believe it is important for the Commission to be aware of these risk factors as it considers both the appropriate level of ROE and the capital structure that we have maintained at FPL. In my judgment, Mr. Avera's analysis has appropriately considered these factors insofar as it is possible to incorporate them quantitatively. A 12.85% ROE would fairly incorporate these risk factors. As noted earlier, the addition of a proposed 30 basis point performance award recognizing the superior management performance that the Company bas achieved over a sustained period of time leads to our recommendation of a mid-point allowed ROE of 13.15%. The Commission's customary practice is to establish a 1% band on either side of the mid-point. We see no reason to depart from that standard practice in this proceeding. Therefore, I recommend a range of return on equity of 12.15% to 14.15%.

SECTION III - CAPITAL STRUCTURE

Q. Is there a relationship between your recommendation on the allowed ROE and the Company's capital structure?

A. Yes. My recommendation of the appropriate ROE assumes the Company's current capital structure. Taken together, the current capital structure and the recommended ROE satisfy the criteria described earlier – offering a fair, prospective, risk-adjusted return for shareholders, and ensuring the financial integrity of the Company. Were the Commission to adopt the position that the Company's balance sheet is currently under-leveraged, I would have to increase the recommended ROE to compensate €or the increased financial risk that such a position would contemplate.

Q. What is your specific recommendation for an equity ratio for FPL for regulatory purposes?

A. I recommend continuing the adjusted equity ratio of 55.83%, which was established in FPL's 1999 Stipulation and Settlement Agreement (the "Revenue Sharing Agreement") between FPL and the Office of Public Counsel that was approved by the Commission. As provided in the Agreement, the adjusted equity ratio equals common equity divided by the sum of common equity, preferred equity, debt, and off-balance sheet obligations. Nothing has happened in the interim that would suggest that the ratio should be reduced, and in fact the changes that have occurred more recently would tend to drive the required ratio in the opposite direction. While I believe, as indicated above, that the combination of a 12.15%-14.15% allowed ROE band and a 55.83% adjusted equity ratio is appropriate for the current environment, I also believe it would be inconsistent for the Commission to seek to reduce the financial strength of the Company at a time when all the key risk drivers point to a period of increased risk.

Q. What is FPL's current equity ratio?

A. Since the Revenue Sharing Agreement took effect in 1999 we have maintained our equity position, on an adjusted basis, near the capped level of 55.83%.

Q. What are the benefits to FPL's customers of a strung equity ratio?

A. A strong equity ratio promotes a strong capital structure. The primary benefits of a strong capital structure are flexibility and security. With respect to the first, it is clear from the discussion of the qualitative and quantitative risk factors that go into the determination of the return on equity that flexibility is a crucial element of FPL's ability to manage risk. The statutory obligation to serve all customers at their desired level of demand, coupled with the uncertainty inherent in unforeseen events, means that FPL must go to the capital markets as service needs dictate rather than at the point in time that might be the most advantageous from a market perspective. The inability to time market entry is somewhat offset by a strong equity position. Balance sheet strength and flexibility are also manifested in the ability to absorb unexpected financial shocks.

Recent examples of the customer benefiting from a strong equity ratio include: (1) the Company's ability to access the short-term debt markets and carry some of the approximately $600 million in fuel under-recovery for a period of several years and; (2) the Company's ability to carry $222.5 million associated with the Osceola and Okeelanta contract buy-outs for a one year deferral, followed by recovery spread over a five year period. We were able to implement these alternatives, which spared customers "rate shocks," because of our strong equity ratio. Our ability to consider a wide range of financing alternatives to deal with unexpected financial events, and to present them to the Commission for consideration, is directly linked to our strong equity position.

A strong capital structure also provides security, In this respect it acts much like insurance to provide security against relatively low odds but high negative outcome events. While balance and judgment are always required, it is imprudent to operate any business without proper protection against the downside. As noted earlier, recent events have demonstrated how quickly strong positions can deteriorate in our industry. I believe customers benefit from a strong equity ratio in the same way they benefit from insurance.

Q. Please explain your reference to FPL's equity position on an adjusted basis.

A. In evaluating the adequacy of the capital structure of any company, investors will *take* into account major financial commitments, whether these are reflected on the balance sheet or not. In the case of a utility that has an obligation to serve its customers, the financial community commonly *takes* into account obligations associated with purchased power agreements ("PPAs"). This fairly acknowledges the fact that a long-term contractual commitment *to* purchase firm capacity behaves economically much like debt, imposing fixed charges independent of a company's revenues and, thus, should be accounted for in evaluating the financial strength of the company.

In the *case* of FPL, we have several long-term purchase contracts that supply about 20% of the energy we sell to our retail customers. In addition, FPL has a long-term lease for nuclear fuel. These obligations significantly increase the fixed charge leverage of the Company and are generally understood by the investment community. They are explicitly evaluated by the rating agencies, who examine each contract and assign it a rating that dictates how much of the nominal total value of the contract will be added to FPL's debt obligations for rating purposes. The net effect is to increase the relative share of debt and debt-like instruments in the capital structure. Accordingly, FPL will need to maintain a higher unadjusted equity ratio to attain the same level of financial security with PPAs than without.

Different contracts have different characteristics. A "take-or-pay" contract, for example, imposes more effective leverage than does a contract that leaves FPL with options as to when or how much to take. Similarly, a fixed obligation for power is more onerous than a capacity contract with a variable energy call option. The rating agencies (Standard & Poor's and Moody's Investor Service) that perform these analyses will not disclose their specific calculations. They publish their ultimate conclusion but do not reveal their assessments of individual contracts. In addition *to* individual company evaluations, however, they do offer general guidelines. Working with these two pieces of information I believe that the off-balance sheet adjustment made by the rating agencies for FPL's current obligations is in the 7-8% range.

Q. Do you believe an adjustment of this type is appropriate?

A. Yes. In general I agree with the judgment of the financial community that an adjustment for off-balance sheet obligations should be made in assessing the financial condition of a utility, particularly in view of the impact of the obligation to serve on the market timing issue. In addition, while our own calculation of the appropriate amount *to* include might be different, I believe that the rating agencies' overall assessment fairly represents the general investor viewpoint and is thus directly relevant. It is therefore reasonable for the Commission to make a comparable adjustment when it evaluates the financial strength of FPL.

Q. Why is it important that regulatory policy be consistent with the perspective of the financial community on this issue?

A. There are two reasons. First, as I understand the goals of regulatory policy, one of *the* Commission's tasks is to set rates such that investors have the prospect, though not the guarantee, of earning a reasonable rate of return. In doing *so*, the Commission must look to capital markets for evidence of investor requirements. Rating agencies, acting as independent risk assessors on behalf of investors generally, are an important source of evidence in this regard. The fact that they include off-balance sheet obligations should be strong evidence of the relevance of these obligations to financial risk.

In addition, however, there are sound fundamental economic reasons for viewing purchased power obligations as part of the financial profile. These obligations are similar to debt from a financial perspective. Moreover, they represent avoided capacity – capital expenditures and rate base that would otherwise have been included like other assets – but with a fixed obligation. Whereas all other assets are supported by a cushion in the form of the most junior financial claim (common equity), which bears the ultimate risk of financial fluctuations, these PPAs have no such support, The Company is required to meet these obligations and cannot, in a weak year, return less than the contractual commitment. From the Company's perspective, it is as though the capacity represented by these contracts were 100% financed by debt. The major bond rating agencies include a portion of the present value of these contracts as debt in their analysis. Logically, this effect should be incorporated into the overall assessment of financial structure.

Q. How does an adjusted equity ratio of 55.83% compare with the recommendations of the financial community?

A. Taken together with all the other indicators of our current financial and risk profiles, the adjusted 55.83% equity ratio puts us within the range expected by the financial community for "A" rated utilities. Achieving an equity ratio within this range means that it is not likely to form the basis for a decision to change the credit quality of the Company. This would also send a signal to the capital markets of the Commission's continued commitment to support the financial integrity of the service providers subject to its jurisdiction.

A decision on rates that leads to a reduction in this ratio would put further pressure on FPL's financial standing. It is perhaps worth noting that the consequences of a downgrade from the "A" band to the "BBB" band are typically more significant than those from the "AA" to "A" downgrade that we experienced last year. In addition, the rating agencies are typically much slower to upgrade ratings than to downgrade them – in other words, a short period of time in poor standing tends to lead to a downgrade, but a disproportionately longer period is needed at an improved standing before the improvement is acknowledged in upgraded ratings.

Q. **Does the Company have any evidence of the effects of changing equity ratios from its past experience?**

A. Coincident with the remarkable improvements in operating performance over the past ten-plus years that other witnesses have demonstrated, FPL has also directly witnessed the linkage between rating agency assessments and capital structure. In the early 1990s, we had much lower equity ratios – and correspondingly lower ratings, given the then-prevailing rating agency methodologies. As we improved performance, reduced costs and regained financial flexibility, we saw ratings improve. Today, the standards that the rating agencies apply *are* rather more stringent, reflecting the increased perceptions of risk for the industry as a whole, but the relationship between relative financial strength and relative rating performance remains.

Clearly, the Commission has enabled the Company to strengthen its financial position in terms of its reduced rate base and stronger capital structure as a result of its flexible, incentive-driven regulation since 1995, while at the same time lowering customer rates. It would, I submit, be perverse for the Commission to recognize the benefit that customers have already received from the Company's performance improvements through lower rates while simultaneously seeking to reintroduce the financial inflexibility and lack of security that investors experienced in the late 1980s and early 1990s.

Q. What would the consequences be if the Commission reduced the Company's adjusted equity ratio below 55.83% for regulatory surveillance purposes?

A. The immediate consequence would be a need to adjust the actual equity ratio to correspond with that on which rates were set. The Company could not afford to have equity capital tied up with no prospect of an appropriate return. Thus, equity would be withdrawn from FPL and replaced with debt. The debt would likely be long maturity, to match as best as can be the essentially infinite maturity of the equity it was replacing.

A second consequence would be an increase in risk associated with the new capital structure. Rates of return required to compensate investors of all classes appropriately would increase. These increases in risk-adjusted rates of return would diminish whatever apparent savings came from reducing the initial equity ratio. The net reduction in revenue requirements would be modest, and offset by the impact of the additional risk created by the more highly leveraged capital structure.

It is well established in financial theory that changes in capital structure have very little effect on overall firm value in competitive markets within the typical range found among companies operating in the same line of business. This is because increases in leverage are offset by increases in risk, and the net economic cost of the increase in risk offsets the apparent benefit of the lower superficial cost of debt. If this were not the case, we would observe increases in a company's stock price whenever debt ratios increase. Empirically, this does not occur. Unfortunately, in the rate-setting process it is easy to overlook the offsetting risk effect, because the costs of extra risk, though real, are not directly observable, while the differences between the formally applied allowances for the costs of equity and debt are very obvious.

Despite this complexity, both sound regulatory principles and common fairness suggest that the Commission must seek accurately to reflect the increased risk that comes with greater leverage. We believe that the Commission has done this well in the recent past and that, especially in light of the greater uncertainties surrounding the future of the industry today, it would be most unwise to impose greater risk on investors and, ultimately, customers. It will be much harder to recover from adverse economic circumstances, as the experiences of several companies in our industry, both regulated and not, clearly indicates.

SECTION IV - ROE AWARD

Q. Please explain the ROE award *sought* by the Company in this proceeding.

A. We believe that FPL has compiled a superior record of performance improvement over the past decade or so. The ultimate test, of course, is that we have been able to reduce our rates, while increasing our reliability and quality of service and increasing the number of customers we serve and the overall level of their demand. We believe an appropriate acknowledgment of this superior performance would be to adjust the mid-point of our allowable ROE band upward by 30 basis points to 13.15%. This would have the effect of providing an incentive and sending a strong signal to other companies.

Q. In what specific ways has the Company earned the opportunity for an incentive of this nature?

A. The Commission should evaluate the end result, that is, our base rates, and our performance in three key areas:

1. Reliability of Service
2. Quality of Service
3. Reduction in O&M Costs.

Other witnesses in this proceeding will testify in detail about the Company's specific achievements in each of these areas. I will indicate who these witnesses are with a brief comment and then go on to discuss the magnitude of the award and the potential impact on our earnings. I should point out that there is an independent source that the Commission should consider when examining these areas, namely Mr. Shearman's testimony.

Q. Please comment on the Company's achievement in improving reliability.

A. The focus here should be on the improved reliability of our generating units, that is, the improvement in their availability rates, and the results of our work on the distribution system, which has resulted in a reduction in the duration and frequency of outages at the distribution level. In their testimony, Mr. Waters and Mr. Olivera provide the specifics of these achievements within their respective areas.

Q. What about the Company's achievement in quality of service?

A. FPL has improved an already excellent record of customer service with, for example, ow state of the art Customer Care Centers. This is detailed in the testimony of Mr. Hamilton, and is supported by the reactions of our customers at our service hearings at the beginning of this proceeding.

Q. Please comment on the reductions in O&M costs FPL achieved throughout the 1990s.

A. As fully outlined in the testimony of Mr. Evanson and Mr. Shearman, FPL achieved unprecedented reductions in operating expenses during the decade of the 1990s. FPL's non-fuel O&M cost per kWh in 2000 was almost 40% lower than in 1991. These improvements were made possible by the Company accepting substantial short-term risks. As it turns out, both the Company and customers benefited from FPL's approach.

Q. Doesn't the Company expect an increase in its O&M expenses in 2002?

A. Yes, but O&M costs per kWh is still at low levels. The current and prospective cost pressures – driven to some extent by unusual economic circumstances – should not obscure the much larger overall point, which is the huge magnitude of the overall performance improvement since FPL's last rate case. Had FPL not undertaken these extraordinary expense reductions, the level of expense included in test year calculations would have been much higher. What FPL seeks to be acknowledged for is the exceptionally low base on which test year expenses are built.

Q. What is the relationship between the O&M benchmark test and the ROE adder FPL seeks?

A. As shown and described in Mr. Davis' testimony and Document KMD-8, with two minor exceptions, FPL passes the Commission's O&M benchmark test with flying colors for the years leading up to and including the test year. Thus it is entirely appropriate and consistent for the Commission to recognize the Company's achievements in this area with an increase in the allowed rate of return.

Q. Why do you recommend a 30 basis point award?

A. While it is partly a matter of art rather than science, the magnitude of the award is meant to be consistent with the Commission's actions in previous dockets in which ROE awards or penalties have been given. The level should be large enough to motivate FPL's continued performance improvement – recall that, absent a rate increase, there is no guarantee that FPL can attain its authorized ROE – but not so large as to effectively undermine the Commission's oversight function.

Q. What would be the impact of the award on FPL and other companies subject to the Commission's jurisdiction?

A. As shown in MFR A12b, with no change in base rates FPL is projected to earn 11.83% in the test year, or the very bottom of the range recommended by Mr. Avera. An award that shifted the allowed range up 30 basis points would be a very challenging incentive for the Company. At the same time an award to FPL would be an important signal to other companies as to both the Commission's willingness to recognize extraordinary achievement and the level of effort required to receive an award. In addition, however, such an award would provide the prospect - absent major changes in capital market conditions - of several years of stability in the planning and pricing environment, which is highly desirable if FPL is to develop future performance improvements.

SECTION V - STORM DAMAGE FUND

Q. How does FPL plan to pay for repairs to its system caused by storm damage?

A. Since 1993, FPL has utilized a self-insurance approach to address the cost necessary to repair its system in the event of hurricane or storm damage.

Q. Why did FPL choose to utilize a self-insurance approach?

A. The substantial losses associated with Hurricane Andrew in 1992 essentially eliminated the commercial market for storm insurance in anything like the amounts needed to provide adequate protection to FPL's extensive network of assets and its ability to quickly restore reliable service. Due to the unpredictability of major storms and the damage that results from them, a storm fund reserve is necessary under a self-insurance approach, just as a commercial insurance company maintains surplus to be ready to pay against claims. This approach allows FPL to minimize costs to customers for repairs to its transmission and distribution (T&D) system and for non-T&D windstorm damage insurance deductibles.

Q. Has the Commission previously approved a self-insurance approach?

A. Yes. By Order No. PSC-93-0918-FOF-EI, the Commission concurred that FPL should implement a self-insurance approach for the cost of repairing and restoring its system in the event of hurricane or storm damage.

Q. What financing mechanisms does FPL use for its self-insurance?

A. FPL has a funded reserve and lines of credit up to $1 billion which will be used to pay for repairs. The funded reserve, which is 100% dedicated to this purpose and may not be used for any other purpose, is invested conservatively, so that the funds are readily available at short notice.

Q. How is the reserve funded?

A. FPL makes contributions to the fund on an after-tax basis based on an annual accrual of $20.3 million per Order No. PSC-95-1588-FOF-EI.

Q. Is the $20.3 million annual accrual still appropriate?

A. No. Based on December 2001 data, since FPL's last storm fund filing in 1997, the annual accrual of $20.3 million plus the fund earnings has not been sufficient to offset the costs incurred to restore service following storms that have occurred since then. The annual accrual should be increased to $50.3 million.

Q. What was the storm fund reserve in FPL's last filing and what is it today?

A. At December 1997, the amount considered in the last filing, the storm fund reserve balance was $251.4 million. At December 2001, the balance had declined to $234.7 million. This represents erosion of $16.7 million, despite a currently authorized annual accrual of $20.3 million. We believe the five-year target level for the reserve should be set at $500 million, because it is a reasonable balance between the uncertainty of losses and the risk that rates would have to be immediately increased to finance the restoration of service.

Q. Has FPL performed a study to determine the reasonableness of the annual accrual and an appropriate reserve level?

A. FPL commissioned studies addressing the reasonableness of the level of its storm fund reserve and annual accrual. The studies were prepared by and are being sponsored by Mr. Harris of ABS Consulting.

Q. What direction was provided by FPL to ABS Consulting in the preparation of the studies?

A. FPL requested that ABS Consulting determine what levels of losses the Company is statistically exposed to and to develop recommendations for an appropriate annual accrual and a target reserve balance to be achieved over five years considering certain fundamental regulatory objectives.

Q. What ace the fundamental regulatory objectives?

A. FPL believes that the regulatory objectives should be: (1) achieve lowest long-term customer costs; balanced with (2) dampened volatility of the reserve (i.e., reduced reliance on special assessments/rate increases); and (3) cover the costs of most storms, but not those from the must catastrophic events. ABS Consulting's analysis suggests that strictly from a cost perspective larger reserves are better. However, FPL recognizes that the cost objective must be balanced by other considerations.

Q. Please summarize the study results.

A. ABS Consulting recommended that, given the objectives noted above, the annual accrual should be in the range of $45 - $55 million with a five-year target reserve level of between $400 - $500 million.

Q. What annual accrual amount and target reserve level is FPL requesting?

A. Assuming that the Commission does not reduce FPL's base rates, FPL requests an increase to the annual storm fund accrual, commencing January 1, 2002, by $30 million to $50.3 million and the establishment of a corresponding storm fund reserve objective of *$500* million to be achieved over five years.

Q. Why do you believe these levels are appropriate?

A. First, FPL realizes that the current level of its reserve is too low and that the resulting risk of fund inadequacy is *too* great. In FPL's last storm proceeding, the Commission concluded that the reasonable level for the reserve was $370 million in 1997 dollars (Order No. PSC-98-0953-FOF-EI). However, as I have indicated, the reserve balance has actually declined with the current funding level of $20.3 million per year, despite a period of relatively low losses from actual storms, relative to what statistically could have been expected.

Second, the current annual accrual plus expected fund earnings are substantially less than the expected annual loss to be charged against the Reserve. Therefore, with an annual accrual of only $20.3 million, the actual Reserve balance will not increase except over the short term with abnormally low storm activity.

Finally, as stated by the Commission in Order No. PSC-95-1588-FOF-EI: "The annual accrual needs to be sufficiently low so as to prevent unbounded storm fund growth and yet large enough to reduce reliance upon emergency relief mechanisms in the event of catastrophic weather events." From a public policy viewpoint, minimizing emergency relief funding mechanisms, whether through rate increases or special assessments, is preferable since during post catastrophic storm periods consumers have the least resources to support these extraordinary costs.

The use of a target of $500 million achieves a reasonable balance between the uncertainty of losses and increases the chances that special assessments will be avoided.

Q. How can the Company ensure that the requested annual accrual of $50.3 million would prevent unbounded growth?

A. FPL proposes to file updated studies at least every five years for review by the Commission. Based on the ABS Consulting analysis, it is highly unlikely that the reserve would exceed $500 million within 5 years.

Q. Has the Commission allowed for a 5-year review of other funded reserves?

A. Yes. For example, the Commission currently requires FPL to file a study that allows the Commission to review its nuclear decommissioning costs at least every five years,

Q. Can FPL change its storm fund accrual without Commission authorization?

A. NO.

Q. What would be the impact of your recommendations concerning ROE, capital structure, the ROE award and the storm fund accrual on the Company's financial performance?

A. Implementation of my recommendations would result in no change to our key indicators since no change in rates is proposed. It would therefore keep FPL in a strong financial position, able to protect our credit rating, able to attract equity investment on reasonable terms, able to finance system expansion at a reasonable cost, and able to respond with the flexibility we need to unforeseen events. We would have an incentive that encourages us to build on the superior performance results we have achieved thus far. Finally, my recommendation on the storm fund will allow FPL to achieve and maintain a reasonable plan for responding to major storms in our service territory. In the long run, all of these things add up to delivering reliable, adequate electric service at the lowest reasonable costs to our customers.

Q. Does this conclude your direct testimony?

A. Yes.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of the Retail Rates of Florida Power & Light Company

DOCKET NO. 001148-EI

Submitted for Filing:
March 4, 2002

DIRECT TESTIMONY OF THEODORE J. KURY ON BEHALF OF PUBLIX SUPER MARKETS, INC.

EXHIBIT
5

DIRECT TESTIMONY OF
THEODORE J. KURY ON BEHALF OF
PUBLIX SUPER MARKETS, INC.

Q: PLEASE STATE YOUR NAME AND OCCUPATION.

A. My name is Theodore J. Kury and I am a Senior Economist with SVBK Consulting Group, Inc., a subsidiary of Alliant Energy Integrated Services, located at 37 N. Orange Ave, Suite 710, Orlando, Florida 32801.

Q: PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A: A detailed description of my education and experience is included in my resume attached as Exhibit No.___(TJK-2).

Q: ON WHOSE BEHALF ARE YOU SPONSORING THIS TESTIMONY?

A: I am sponsoring this testimony on behalf of Publix Super Markets, Inc. ("Publix").

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A: I was retained by Publix to review the financial analyses and associated rates of return and common equity capital sponsored by Mr. Paul Evanson, Mr. Moray Dewhurst, and Dr. William E. Avera for Florida Power & Light Company ("FPL" or "the Company"). In the event that I disagreed with their financial analyses and return proposals, I was charged to develop and present a more realistic return proposal.

In addition, I have some concerns regarding the increased storm damage accrual proposed by Mr. Steven Harris and the load forecast adjustments proposed by Dr. J. Stuart McMenamin. These are addressed at the end of my testimony.

RATE OF RETURN

Q: HAVE YOU HAD AN OPPORTUNITY TO REVIEW THE *COMPANY'S* FINANCIAL ANALYSES AND RETURN PROPOSALS?

A: Yes, I have. My analysis of FPL's filing has led me to conclude that the return proposal propounded by Mr. Evanson, Mr. Dewhurst, and Dr. Avera is excessive, and therefore inequitable. If granted in this proceeding, this rate of return would unfairly enrich FPL Group, Inc. ("FPL Group"), the parent and sole common equity holder of FPL, at the expense of the Florida customers. In keeping with my charge from Publix, I performed a market-based financial analysis that produced common equity cost estimates and fair rate of return recommendations that, in my judgement, more accurately reflect the current and prospective financial circumstances of FPL and the capital market.

Q: PLEASE IDENTIFY THE FOUR EXHIBITS THAT ACCOMPANY YOUR TESTIMONY.

A: I have prepared four exhibits, attached herein, numbered TJK-3 through TJK-6 to supplement my testimony. Exhibit No.___(TJK-3) shows FPL's proposed rate of return, Exhibit No.___(TJK-4) shows the results of my Discounted Cash Flow analysis, Exhibit No.___(TJK-5) is my proposed rate of return for FPL, and Exhibit No.___(TJK-6) is a comparison of modeled and actual FPL storm damage.

Q: WHAT CONCLUSIONS HAVE YOU DRAWN REGARDING THE RATE OF RETURN FOR FPL IN THIS CASE?

A: My recommended return on common equity for FPL is 9.92%, resulting in an overall rate of return of 7.72%, as shown in Exhibit No.___(TJK-5). The effect of this rate of return is approximately $175 million to the FPL retail customer.

Q: WHAT CONSTITUTES A *COMPANY'S* RATE OF RETURN?

A: The rate of return is also known as a weighted average cost of capital. This is the average *cost* of long-term debt, short-term debt, accumulated deferred income taxes, other deferred balances, preferred stock, and common equity weighted by the percentage of each component in the company's capital *structure.*

Q: WHAT IS FPL'S CAPITAL STRUCTURE?

A: FPL's capital structure, shown in Exhibit No.___(TJK-3), was reported in Schedule D-1 of the Minimum Filing Requirements filed by FPL in this docket, as revised on November 9, 2001. This reflects FPL's 13 month average capital structure for the test year ended 12/31/2002.

Q: WHAT IS THE COST OF FPL'S LONG TERM DEBT?

A: FPL has claimed that its cost of long-term debt is 6.25%, shown in Exhibit No.___(TJK-3). This is the average annualized contractual *cost* of all outstanding long-term debt contained in the capital structure. It includes annual interest charges and amortization of premiums, discounts, and *expenses,* expressed as a percentage. However, the Company's claimed *cost* of long term debt is based on a cost of 7.37% for $250 d o n of long-term debt *that* was estimated to be issued in 2001 and another $250 million of long-term debt to be issued in 2002. In its response to Staff's Seventh Set of Interrogatories, Interrogatory No. 249, the Company demonstrates that this cost projection is based on the 30 Year Treasury Bond Yield from the June 1, 2001 Blue Chip Financial Forecast plus a credit spread of 1.67% based on an interpolation between Aaa and Baa bond ratings. If the 30 Year Treasury Bond Yield is updated to the closing at February 25,2002 of 5.37%, the cost of the new debt falls to 7.04%. Applying this cost of 7.04% to FPL's Schedule D results in a revised cost of long-term debt of 6.22%. This revised cost of long-term debt is shown in Exhibit No.___(TJK-5).

Q: WHAT IS THE COST OF FPL'S SHORT TERM DEBT?

A: FPL's cost of short-term debt is 4.92%, shown in Exhibit No.___(TJK-3). This is the average annualized contractual cost of all outstanding short-tern debt contained in the capital structure, It includes annual interest charges and amortization of premiums, discounts, and expenses, expressed as a percentage.

Q: WHAT IS THE COST OF FPL'S PREFERRED STOCK?

A: FPL's cost of preferred stock is 4.51%, shown in Exhibit No.___(TJK-3). This is the average annualized contractual cost of all outstanding preferred stock contained in the capital structure, expressed as a percentage.

Q: WHAT IS THE COST OF FPL'S COMMON EQUITY?

A: FPL's witness, Dr. Avera, proposes a cost of common equity of 12.85%, which is adjusted upward by 30 basis points to 13.15% based on the recommendation of FPL witness Dewhurst. As I explain later in my testimony, this proposed cost of equity is excessive due to the improper application of a growth rate, the improper inclusion of a flotation cost adjustment, and the improper inclusion of a reward mechanism. I am proposing a cast of common equity of 9.92%, as shown in

Exhibit No.___(TJK-5). This represents a fair and reasonable rate of return on FPL's common equity.

Q: WHAT CONSTITUTES A FAIR AND REASONABLE RATE OF RETURN ON COMMON EQUITY?

A The concept of a fair and reasonable rate of return on common equity is a relatively straightforward deduction from modern economic and finance theory. It is based on the economic principle of risk-adjusted, investor opportunity costs. At this conceptual level, the fair rate of return is normally not the subject of great dispute. By contrast, its estimation in regulatory proceedings is typically controversial.

Fortunately, there are sensible and useful economic and financial guidelines or standards established by the Supreme Court in the Bluefield and Hope opinions which may be employed in the estimation of this all-important common equity cost measure.[1] These Court-established economic guidelines serve as the underpinnings of both my financial analysis and final estimates of the fair and reasonable rate of return on FPL's common equity.

In the Hope opinion, for example, the Court provided the basic standards and tests of a fair rate of return on equity as:

1. ... the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks.

[1] Bluefield Water Works and Improvement Company v. Public Service Commission of West Virginia, 262 U.S. 879, S93 (1923). Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591 (1944).

2. The return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and attract capital.

The Court has thus established two standards -- a standard of risk-adjusted, comparable return to investors and a standard of capital attraction -- as essential characteristics of a fair rate of return on common equity.

These standards are precise analogues of the generally recognized operational principles of a free market, viz., that a firm, in order to maintain its ability to attract capital at reasonable rates, must be able to earn a rate of return on common equity which is at least equal to the risk-adjusted opportunity costs of investors in the market. The risk-adjusted opportunity costs of investors in the market, in turn, may be defined as the rate that investors could earn by placing their capital in other enterprises entailing comparable measures of risk exposure. In terms of regulatory principles, the Court-established standards of regulation mandate that regulated firms be granted the opportunity to earn a rate of return on common equity which is equal to the risk-adjusted opportunity costs of investors in the market.

The Court-established regulatory concept of a fair rate of return on common equity incorporates considerations of both equity and economic efficiency. The rate will be equitable to investors in that it just compensates them for the risk to which they are exposed in purchasing and/or holding the common stock of a specific firm. At the same time, that rate will be equitable to customers in that it is the minimum supply price required to assure a continuing supply of equity capital to the company. The fair rate of return thus achieves the primary objective of regulation -- a balancing of the competing interests of customers and stockholders. The fair rate of return, being the market-established minimum supply price of equity capital, is that rate which is both necessary and sufficient to maintain the financial integrity and capital attracting ability of the firm.

A rate of return greater than that which is necessary and sufficient would serve to both enrich investors at the expense of customers and to encourage an excessive rate of investment spending, resulting in a misallocation of resources coupled with a larger-than-necessary future revenue requirement and level of rates. A rate of return that is less than sufficient would result in inadequate profits, thus penalizing investors and inhibiting the firm's ability to meet its public service responsibility. The fair rate of return, therefore, is not only equitable, but is also economically efficient in that it is the level that is sufficient to guarantee the firm's access to necessary capital, while assuring its ability to serve customers at the market-established minimum, necessary cost

Q: WOULD YOU EXPLAIN THE METHOD YOU USE TO DEVELOP YOUR RATE OF RETURN RECOMMENDATION?

A: My primary analysis is based upon the traditional specifications of the Two-Stage Discounted Cash Flow ("DCF") stock valuation model.

Q: PLEASE EXPLAIN WHY YOU PLACE PRIMARY RELLANCE UPON THE DCF MODEL.

A: The DCF method is analytically sound in that it is rooted in observable economic behavior, relatively explicit in terms of method, assumptions, data requirements, and calculations; and, when reasonably applied, produces estimates consistent with the regulatory standards established in the Bluefield and Hope decisions. Moreover, because of its explicit nature, it is a method by which the results may be tested or replicated.

The logic of the DCF model derives from the sensible and Widely applied notion that the value or market price of any asset is a direct reflection of the prospective bolder's perception of the ability of that asset to yield a flow of services or income over time. This concept is illustrated in the equation below:

$$P_t = \frac{D_t}{(1+r)} + \frac{D_t(1+g_{t+1})}{(1+r)^2} + \ldots + \frac{D_t(1+g_{t+n}) + P_{t+n}}{(1+r)^{n+1}}$$

Where:

P_t = Market price at time t;

D_t = Expected dividend payment at time t;

r = Investors' discount rate;

g_t = Investors' expected dividend growth rate at time t.

The discount rate represents investors' risk-adjusted opportunity costs and is equal to the investor-perceived rate of return on comparable risk alternatives available in the market. This variable (r) is frequently referred to as the investor capitalization rate, i.e., the rate at which investors capitalize a prospective flow of income payments.

This stock valuation model simply says that, given the market price of a stock at a point in time, investors will make buy-sell decisions with respect to that particular stock, and thus alter its price, by comparing its potential to yield a rate of return (an expected flow of dividends and capital gains) with the rate of return currently being earned on comparable risk stocks. If the rate of return on the stock of a given company is either greater or less than is being earned on comparable risk stocks, then investors will alter their buy-sell decisions in such a way as to change the market price of the stock so as to equalize rates of return among assets with similar risks.

If it is assumed that the market evaluates the income potential of a stock over a long period of time and that the prospective growth rate of dividends can be reasonably described by a compound rate, then the DCF equation above can be simplified mathematically into the more familiar DCF equation:

$$P_1 = \frac{D_1}{r-g}$$

This equation simply says that the observed market price of a share of stock is equal to the current nominal dividend divided by the difference between the investor capitalization rate and the rate of growth expected by investors.

Consider, for example, a common stock which is currently paying a $2.00 per annum dividend (D) which is expected to grow in the foreseeable future at a 3.0 percent annual compound rate (g) for a company which has an investors' risk-adjusted opportunity cost or capitalization rate (r) of 11.0 percent. Under these circumstances, the stock in question would necessarily have an equilibrium, or market-clearing, price (P) of $25.00 per share. If the actual market price were either higher or lower than $25.00 per share, supply and demand forces would operate to drive the price to the

$25.00 figure. Given the dividend yield and expected rate of growth, this is the only price which allows investors to receive a rate of return equal to the 11.0 percent posited as currently available on comparable risk alternatives in the market, i.e., a rate of return which is just equal to investors' risk-adjusted opportunity costs.

The use of this DCF stock valuation model for estimating the market-determined cost of common equity (r) is based on the presumption that meaningful measures of P, D, and g can be estimated. If such measures can be established, then the cost of common equity can be estimated by solving for r in the following equation:

$$r = \frac{D_t}{P_t} + g$$

In order to allow for the real world fact that dividends are most commonly paid on a quarterly basis, the above equation can be respecified as:

$$r = \frac{D_t(1 + 0.5g)}{P_t} + g$$

Q: ARE FPL'S DIVIDEND YIELDS AND GROWTH FACTORS READILY AVAILABLE?

A: No, FPL's common equity is not publicly traded. All of the common equity of FPL is held by its parent company, FPL Group. FPL-specific information is thus not available. The theory of efficient markets relies on a large number of buyers and sellers and thousands of transactions to determine the fair market value of a commodity. These conditions are not met in the case of FPL's common equity.

Q: HOW WOULD THE COST OF FPL'S COMMON EQUITY BE DETERMINED?

A: FPL is a wholly-owed subsidiary of FPL Group, and, as such, has no market presence for its common equity. All FPL common equity comes through the parent company, FPL Group. This means that the cost of common equity capital to FPL can be no greater than the cost of common equity capital to FPL Group. It follows, then, that in this proceeding it is appropriate for the analysis to focus on F'PL Group, to estimate the cost of common equity capital on FPL Group, and to impute this equity cost rate to FPL.

Q: HOW *CAN* THE COST OF FPL GROUP'S COMMON EQUITY BE DETERMINED WITH A MARKET-BASED METHODOLOGY?

A: The DCF method can be applied to F'PL Group and a group of utilities that are *similar* to FPL Group. Because investors should require the same return from companies with similar risks, the requited return on a group of comparable companies can be used to infer the required return on FPL Group.

Q: PLEASE EXPLAIN *YOUR* COMPARABLE GROUP DCF RESULTS.

A: I prepared DCF analyses using the data available in the Value Line Investment *Survey* ('Value Line"). Value Line rates the relative Safety and Financial Strength for each company it evaluates. FPL Group is rated 2 for Safety and A for Financial Strength. For my comparable group, I chose companies within the Electric Utility industry group that are electric-only utilities, and are rated either 2 for Safety or A for Financial Strength. There are 7 such companies.

For the dividend yield component of the DCF model, I used the average dividend yield for the previous three months ending January 31, 2001, the most recent month as of the date of writing. For the growth component, I implemented a "two-stage" DCF model, consisting of the average of a short-term and a long-term growth rate.

For the short-term growth rate, I used the average of Value Line's three-to-five year projected growth rates of earnings and dividends. However, an assumption of the DCF model is that investors have a long-term investment horizon, and these growth estimates are only valid for the short term. It is reasonable to assume that investors will base long-term expectations on the rate at which the economy is expected to grow. For a long-term growth rate, therefore, I have used the long-term nominal Gross Domestic Product forecast of 6.1% from the 2002 Annual Energy Outlook published by the Department of Energy's Energy Information Administration. I then averaged these short-term and long-term growth rates to determine the growth rate used in the DCF model, I performed the DCF calculation for each company in the comparable group for FPL Group, and averaged these DCF results to determine a fair rate of return on FPL Group's common equity.

Q: WHY DO YOU RELY ON VALUE LINE'S DATA AND RANKINGS?

A: When dealing with the expectations of investors, it is best to get information from a source on which investors rely. Value Line is a widely disseminated investment advisory letter, available in public libraries across the country. Value Line's Safety and Financial Strength ratings encompass a broad spectrum of financial data, leading to Value Line's assessment of a company's business and financial risk. Further, while interest coverage ratios, common equity ratios, and other traditional measures of financial strength could be individually examined, the Value Line ratings provide a non biased opinion based on significant market research.

Q: WHAT ARE THE RESULTS OF YOUR COMPARABLE GROUP ANALYSIS OF DCF MODELS?

A: The average 3-month dividend yield for FPL Group through January 31,2001 was 4.05%. The average of the Value Line Dividend and Earnings growth rates is 4.00%. When averaged with the long-term growth rate, this results in a Two-Stage growth rate of 5.05%. Applying the DCF equation with these inputs results in a common equity return of 9.20%. Applying the DCF equation to the other members of the comparable group and averaging these returns results in an average return on common equity of 9.92%. These calculations are shown in the attached Exhibit No.___(TJK-4).

Q: HOW DO YOU RECONCILE YOUR RECOMMENDED RETURN ON COMMON EQUITY WITH DR. AVERA'S RECOMMENDED RETURN OF 13.15%?

A: Dr. Avera's analysis differs from mine on three major points. First, Dr. Avera uses only short-term growth rates, rather than a growth rate recognizing both long and short-term trends. Second, Dr. Avera employs a flotation cost adjustment to his cost of common equity. Third, Dr. Avera employs a reward mechanism of 30 basis points to his cost of common equity.

Q: IS THE GROWTH RATE USED BY DR. AVERA REASONABLE?

A No. Dr. Avera has used earnings estimates published by I/B/E/S, Value Line, Zacks Investment

Research, and First Call Corporation in his DCF model. These growth rates are analysts' projections of short-term earnings growth only, typically the next three to five years. The DCF model assumes a constant, infinite growth rate, and it is inappropriate to assume that investors expect such a short-term rate to continue indefinitely. This is why I chose a two-stage growth rate, a combination of a short-term rate and a long-term rate. This two-stage growth rate better reflects investor expectations over the time horizon of the DCF model. In addition, Dr. Avera has used growth rates based on the product of an earnings retention ratio and an earned rate of return on book equity, or a so-called "b x r" growth rate. This growth rate is inappropriate for use in a DCF model because the DCF model itself is used to derive the rate of return on equity, yet an assumption of earned rate of return must be made in order to determine a growth rate.

Q: WHAT ARE FLOTATION COSTS?

A: Flotation costs are the costs associated with new issues of debt or equity. They include expenses such as underwriting expenses, the printing of stock certificates or bonds, and any associated administrative expenses. Dr. Avera has included a flotation cost adjustment of 25 basis points.

Q: DO YOU AGREE WITH DR. AVERA'S FLOTATION COST ADJUSTMENT TO HIS COST OF COMMON EQUITY?

A: No, I do not. FPL has not announced its intention to issue any common equity in the future, so this adjustment is designed to recover costs from the Florida customer that FPL has no intention of incurring.

Q: WHAT IS THE EFFECT OF THIS FLOTATION COST ADJUSTMENT ON FPL'S RETAIL CUSTOMERS?

A If the 25 basis points are multiplied by FPL's equity ratio of 55.56%, the resulting impact on FPL's overall weighted average cost of capital is an increase of 13.89 basis points. Multiplied by FPL's rate base of $9.873 billion, this flotation cost adjustment increases FPL's revenue requirement by approximately $13.7 million after taxes and approximately $22 million before taxes. The Florida customer will thus be paying $22 million per year to recover costs that do not exist.

Even if the Commission decides that a flotation cost adjustment is necessary, the adjustment should not be applied to the portion of common equity financed by retained earnings. There are no costs of underwriting, printing stock certificates, or program administration associated with retained earnings.

Q: WHAT REWARD PROVISION HAS MR. DEWHURST PROPOSED?

A: Mr. Dewhurst has proposed a 30 basis point increase to the return on equity proposed by Dr. Avera.

Q: WHY HAS MR. DEWHURST PROPOSED THIS REWARD MECHANISM?

A: Mr. Dewhurst contends that FPL should be rewarded for "the superior efforts of the Company's management". (Dewhurst p. 3) As evidence of this superior effort he cites the return of excess revenues to customers and an increase in operating efficiency.

Q: *CAN* THE RETURN **OF EXCESS** REVENUES **BE** ATTRIBUTED **TO** SUPERIOR **EFFORTS OF** THE *COMPANY'S* **MANAGEMENT?**

A: **No, it cannot.** The **revenues** earned by FPL *are* **directly attributable to** its **level of sales.** FPL **witness Waters has explained that "FPL develops** econometric models to **explain and** predict **the level of energy sales. Explanatory factors,** such as the **weather,** the **price** of electricity, **the economic conditions in Florida, the** number of customers **and** seasonal factors **are used to** develop **the** forecast **of** energy **sales."(Waters p.** *56)* **Mr. Waters does not** mention **any variables** that relate to *the* **performance of** management. Further, FPL **witness** McMenamin **details** the **independent variables used** in the load factor **regressions on pages 3** and **4 of his testimony and** states **that "The fit** for the Net Energy model is **extremely strong** (R **square = .98,** Mean **Absolute** Percentage **Error** = **1.7%)".** (McMenamin **p. 6) This** means **that these factors, outside of the influence of** FPL **management, explain 98%** of the variation **in Net** Energy. Even **if we** attribute **some** portion **of the** unexplained variation to **"management skill",** it **is at most 2%.**

Q: *CAN* **ANY DECREASE** MFPL **COSTS AND IMPROVEMENT IN CUSTOMER SERVICE BY** ATTRIBUTED **TO** SUPERIOR EFFORTS **OF** THE COMPANY'S MANAGEMENT?

A **Apparently** not **entirely.** FPL **witness** Dewhurst **states that, "Over the past several years,** with *the* benefit of **steady,** predictable growth **in** customers **and usage,** and **a stable planning environment, the Company has** been **able to keep** *costs* **relatively low while** simultaneously improving customer **service."** (Dewhurst **p. 2)** Therefore, **even** FPL's own witnesses admit **that these objectives are** influenced **by** economic **and regulatory** factors **beyond** the control of **FPL** management,

Q: DO YOU AGREE WITH THE REWARD MECHANISM PROPOSED BY MR. DEWHURST?

A. No, I do not. He seeks to encourage the Company to maximize its cost cutting and other efficiency improvements, but the Company's return on equity may increase for many reasons, many out of its control. The Company's rate of return may increase if sales increase due to extreme weather, if customers act to shift load to off peak hours, or if the Company were to implement imprudent reductions in operation and maintenance costs. The Company has done nothing positive in any of these instances, yet would be rewarded.

Further, a DCF analysis such as Dr. Avera's is a mathematical attempt to determine a fair rate of return for FPL, that is, a risk-adjusted opportunity cost of equity capital. Any increase above and beyond that rate of return is, by definition, unfair to the Florida customer.

Q: DO YOU BELIEVE A REWARD MECHANISM IS APPROPRIATE?

A: No. My testimony proposes a fair rate of return on common equity for FPL. In return for this fair rate of return, FPL is obligated to provide reliable electric service at the least cost. The only reward that my client receives for keeping their frozen food frozen is continued operation. FPL is not entitled to any additional reward for doing its job properly.

Q: DO YOU HAVE OTHER CONCERNS WITH THE REWARD MECHANISM?

A: Yes. I am concerned with the Company's desire to be rewarded without accountability. When questioned about a system that would provide for penalties in the case of frequent outages, FPL witness Armando J. Olivera states that "Implementing a new regulatory regime that penalizes utilities for "frequent outages" raises a host of policy issues that are more appropriately addressed in an industry-wide rulemaking. Such issues include: whether the mechanism should be based on a company's overall reliability versus isolated incidents, whether benchmarks or standards are required to assure specific levels of reliability, whether the approach should be symmetrical in operation (i.e. also authorizing surcharges fur no or "less than frequent" outages), whether the costs of implementing such a program exceed the benefits, and whether such a program would expose the utilities and the Commission to a tidal wave of new complaints and causes of action." (Olivera p. 9) Mr. Olivera's issues just as appropriately apply to the implementation of a reward mechanism.

Q: MR. DEWHURST CITES SEVERAL RISK FACTORS SUPPORTING A HIGHER ROE. DO YOU AGREE THAT THESE RISK FACTORS REQUIRE A HIGHER ROE?

A: No. The risk factors cited by Mr. Dewhurst: general economic uncertainty and growth of service territory, customer base, volatile economy, nuclear generation, and geographic position, are all accounted for within the Financial Strength and Safety ratings of Value Line. While the some of the companies within my comparable p u p may have different specific risk factors than FPL, Value Line has rated them as having similar degrees of risk Further, over 40% of FPL's revenues go through adjustment clauses that substantially lower risks to investors as compared to companies with lower portions of their revenues "guaranteed".

Q: DO YOU BELIEVE THAT YOUR RECOMMENDED RATE OF RETURN IS EQUITABLE FOR FPL AND THE FLORIDA CUSTOMER?

A: Yes, I do. My recommended rate of return is fair to FPL and to the Florida customers.

STORM DAMAGE ACCRUAL

Q: WHAT ARE *YOUR* CONCERNS WITH THE PROPOSED INCREASE IN THE STORM DAMAGE ACCRUAL?

A: I am concerned that the storm damage model developed by Mr. Harris overstates the damage that could be reasonably expected for FPL's transmission and distribution assets. At more reasonable damage expectations, *the* increase in the storm damage accrual proposed by Mr. Dewhurst will cause the storm damage fund to continue to grow to levels beyond what is *necessary* to maintain system integrity.

Q: WHY DO YOU THINK THAT MR. HARRIS' MODEL OVERSTATES EXPECTED STORM DAMAGE?

A: I have examined the Table 6-1 of the storm Reserve Loss Analysis, Document SPH-1, Page 23 of 44, in which Mr. Harris' compares his model's storm damage estimates for six storms *to* the actual losses sustained by FPL. Table 6-1 shows *that* Mr. Harris' model has predicted actual storm losses within 1%, with nominal storm costs escalated 4% per year to reflect 1999 d o h . Mr. Harris states that he has used 4% despite his assertion that 'Recent inflationary cost increases for new transmission and distribution assets have increased at 1% to 3.5% per year over *the* past decade." (Harris p. *6)* However, as shown in Exhibit No.___(TJK-6), Mr. Harris did not escalate historical costs at 4% in Table 6-1. He has, without explanation, escalated historical costs at 7.55% for three storms and 6.44% for Andrew. If actual costs are escalated at the 4% that Mr. Harris claims to use in his table, his model has overestimated FPL actual losses by 13.68%. Further, if escalators based on the Handy-Whitman Index of Utility Construction Costs for the Southeast United States ("Handy-Whitman") are applied, his model has overestimated FPL actual losses by over 25%. These calculations are shown on Exhibit No.___(TJK-6).

I have some additional concerns with the table on Exhibit SPH-3, Page 8 of 12, which lists the Aggregate Damage Exceedance Probabilities for his model. Hurricane Andrew was the most costly Atlantic coast hurricane in the past 100 years. If the *Handy-whitman* index is used to express the costs incurred by FPL as a result of Hurricane Andrew in 2001 dollars, the cost is approximately $342 million. An examination of Mr. Harris' table on Page 8 of 12 shows that the probability of *exceeding* this damage level, within his model, in any one year is 4.069%. In other words, Mr. Harris' model predicts a storm of Andrew's damage capability *or greater* once *every* 25 years. This prediction is a gross overstatement of what has been historically observed.

Q: DO YOU HAVE A RECOMMENDATION REGARDING THE LEVEL OF FPL'S STORM DAMAGE ACCRUAL?

A: Yes. I believe that the current level of storm damage accrual is sufficient.

Q: WHY DO YOU BELIEVE THAT THE CURRENT LEVEL OF STORM DAMAGE ACCRUAL IS SUFFICIENT?

A: In its response to Publix First Set of Interrogatories, Interrogatory No. 4, FPL provided a detail of annual Storm and Property Insurance Reserve activity since 1994. Since 1996, contributions to the reserve have totaled $121.8 million, and fund earnings have totaled approximately $63 million. In the same time period, storm costs charged to the reserve have totaled approximately $145 million, allowing the reserve to grow by $58 million (after a deposit of insurance proceeds).

In the testimony of FPL witness Dewhurst, he argues that the current accrual level is insufficient and states that "the reserve balance has actually declined with the current funding level of $20.3 million per year, despite a period of relatively low losses from actual storms, relative to what statistically could have been expected". (Dewhurst p. 31) Data available from the National Hurricane Center shows that for the period 1900-1996, 57 hurricanes have directly hit the entire state of Florida, an average of 0.58 storms per year. In the five years since, FPL service territory alone has been damaged by three hurricanes that directly hit the state of Florida (Georges, Irene, and Gabrielle), and another that made landfall in North Carolina (Floyd). This certainly appears to be average or even above average storm activity for the past five years, and yet the level of the reserve has increased nearly $13 million during this time.

In addition, in its response to Staff's Seventh Set of Interrogatories, Interrogatory No. 247, FPL states that it has had T&D insurance on poles and wires since 1999, with a deductible of $50 million. In his deposition on February 28, 2002, Mr. Dewhurst indicated that the policy covers 16% of losses above the deductible; therefore, FPL does have some additional protection against storm damage. Other options such as the extension of FPL's line of credit or prospective cost recovery proceedings are available in the event of another "Andrew"-type catastrophe.

Q: WHAT IS THE EFFECT OF YOUR RECOMMENDATION ON THE FLORIDA CUSTOMER?

A: My recommendation to maintain the storm damage accrual at its current level will reduce the revenue requirement to the Florida customer by approximately $29.8 million.

LOAD FORECAST ADJUSTMENTS

Q: HAS FPL MADE ANY ADJUSTMENTS TO ITS LOAD FORECAST?

A: Yes. Dr. J. Stuart McMenamin has testified that FPL has changed four assumptions in their load forecast in the wake of the attacks on September 11,2001. In its revised load forecast, FPL has assumed lower customer growth, lower real per capita income, has removed added telecom load, and has removed an error adjustment term.

Q: DO YOU BELIEVE THAT FPL SHOULD HAVE MADE THESE ADJUSTMENTS TO ITS LOAD FORECAST?

A: No, I do not. FPL should not be allowed to selectively change only such assumptions that will skew its load forecast downward If FPL believed that it was necessary to revise the assumptions in its load forecast, then it should revise all of the assumptions, and not just the assumptions that will decrease the forecast. Dr. McMenamin has stated in his testimony that the elasticity of real per capita income is positive; therefore, FPL knew that by revising its estimate downward, it would be decreasing its load forecast. Dr. McMenamin justifies the removal of the telecom load by stating that the Internet bubble has just now burst, when in fact technology stocks have been in a steep decline for over a year. And M y , FPL's intercept adjustment is simply an ad-hoc shifting of the regression line downward without any statistical justification. FPL has essentially allowed a preordained conclusion to determine the assumptions, rather than allow a complete, consistent set of assumptions to determine the conclusion.

Q: DO YOU HAVE A RECOMMENDATION AS TO THE PROPER LOAD FORECAST FOR FPL?

A Yes. I believe that the proper load forecast for FPL should be based on a complete, consistent set of assumptions, such as the original load forecast.

Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A. Yes, it does.

Exhibit No.___(TJK-2)

THEODORE J. (TED) KURY

Position

Senior Economist, SVBK Consulting Group

Education

B.A. in Economics
State University of New York at Buffalo
Buffalo, New York

M.A. in Economics
State University of New York at Buffalo
Buffalo, New York

[45 credit hours post MA graduate work 3

Professional and Business History

SVBK CONSULTING GROUP	1996 - Present
University of Central Florida Adjunct Faculty in the School of Business Administration, Department of Economics	1997 - Present
University of Central Florida	1996
State University of New York at Buffalo	1993 - 1995

Professional Experience

Mr. Kury is a Senior Economist in the Firm and has been extensively involved in assisting clients with electric industry restructuring issues. He has presented expert testimony pertaining to issues relating to stranded cost calculation and recovery, market pricing, and public policy concerns before the New Hampshire Public Utilities Commission and has assisted in the preparation of expert testimony on restructuring issues before the Federal Energy Regulatory Commission and various state commissions. He has participated in technical conferences and generic proceedings held to set policy issues associated with restructuring. Mr. Kury has been instrumental in developing stranded cost recovery alternatives for mediation and settlement negotiation. Mr. Kury has been involved with helping clients value electric generation assets and analyze alternate rate structures, as traditional regulation gives way to the advent of competition.

Mr. Kury has assisted clients with resource management issues. He has been instrumental in developing chronological generation computer models and market price forecasting to explore the effects of a competitive electric market on the way a utility makes its decisions. He has also aided utilities in expanding their business options in the marketing of capacity and energy.

Mr. Kury has been involved in a variety of electric, water and wastewater utility projects. He has represented clients in rate proceedings, including review of company filings, and assistance in the development of testimony, cross-examination of witnesses, and legal briefs and pleadings. Mr. Kury has prepared retail rate and cost-of-service studies, including the preparation and development of allocated cost-of-service computer models, determination of net revenue requirements, forecasting and development of billing determinants, rate design, rate comparisons, and the development of rate/tariff sheets. In addition, Mr. Kury has been responsible for developing computerized models for numerous financial and economic analyses for a variety of projects nationwide.

Mr. Kury has been involved in the development of consulting engineers' or financial feasibility reports for use in revenue bond official statements supporting the issuance of utility revenue bonds. These letter reports include historical and projected operating results, debt service coverage calculations, water use projections, and rate determination.

Mr. Kury also teaches economic theory at the University of Central Florida, and is a frequent speaker there on transitions from a regulated monopoly to a competitive industry.

Prior to joining SVBK, Mr. Kury was employed as an instructor at the State University of New York at Buffalo where he taught micro- and macro-economics. He has also worked for the University of Central Florida under a research grant in the field of industrial organization and technological change.

Papers and Publications

"The Use of Voluntary Export Restrictions as a Weapon in International Trade" - Presented for Dr. Winston Chang's graduate seminar on international trade.

"A Probit Analysis of Rehiring Recisions in Major League Baseball" - Presented for Dr. In-Moo Kim's graduate seminar on the econometrics of limited-dependent variables.

Publix Super Markets
Exhibit No.___(TJK-3)
Filed FPL Cost of Capital - 13 Month Average (in $000)

	FPSC Adjusted Retail	Ratio	Cost Rate	Weighted cost
Common Equity	5,505,315	55.56%	11.83%	6.57%
Preferred Stock	227,170	2.29%	6.59%	0.15%
Long-Term Debt	2,808,533	28.34%	6.25%	1.77%
Short-Term Debt	52,463	0.53%	4.20%	0.02%
Customer Deposits	268,464	2.71%	6.02%	0.16%
Investment Tax Credit				
Deferred Tax Credit - Weighted Cost	130,531	1.32%	9.86%	0.13%
Deferred Income Taxes	916,379	9.25%	0.00%	0.00%
Total Capital Structure	9,908,855			8.81%

Notes:

'The weighted cost of the deferred investment tax credit is the weighted average cost of Common Equity, Preferred Stock and Long Term Debt as shown:

Common Equity	5,505,315	64.46%	11.83%	7.63%
Preferred Stock	227,170	2.66%	6.59%	0.18%
Long-Term Debt	2,808,533	32.88%	6.25%	2.06%
Total				9.86%

Publix Super Markets
Exhibit No.___(TJK-4)
DCF Results

Company	Ticker Symbol	Valne Line Safety	Value Line Financial Strength	3 Month Dividend Yield	Value Line Earnings	Value Line Dividends	ST Growth Rate'	LT AEO Growth Rate	2 Stage Growth Rate'	DCF³
FPL Group	FPL	2	A	4.05%	4.50%	3.50%	4.00%	6.10%	5.05%	9.20%
Black Hills Corp	BKH	2	A	3.65%	11.00%	3.50%	7.25%	6.10%	6.68%	10.45%
CLECO	CNL	2	B++	4.25%	8.00%	2.50%	5.25%	6.10%	5.68%	10.04%
Empire District	EDE	2	B++	6.15%	4.50%	0.00%	2.25%	6.10%	4.18%	10.46%
Otter Tail	OTTR	2	B++	3.63%	5.50%	2.00%	3.75%	6.10%	4.93%	8.64%
Southern Company	SO	2	B++	5.56%	6.50%	2.50%	4.50%	6.10%	5.30%	11.01%
UIL Holdings	UIL	2	B++	5.70%	3.00%	0.00%	1.50%	6.10%	3.80%	9.61%
Average										9.92%

Notes:

'Average of Value Line Earnings and Dividends Growth Rates

²Average of Short Term and Long Term Growth Rate

'Dividend Yield multiplied by 1 plus 0.5 times the Growth Rate plus the Growth Rate

Publix Super Markets
Exhibit No.___(TJK-5)
Proposed FPL Cost of Capital - 13 Month Average (in $000)

	FPSC Adjusted Retail	Ratio	Cost Rate	Weighted Cost
Common Equity	5,505,315	55.56%	9.92%	5.51%
Preferred Stock	227,170	2.29%	6.59%	0.15%
Long-Term Debt	2,808,533	28.34%	6.22%	1.76%
Short-Term Debt	52,463	0.53%	4.20%	0.02%
Customer Deposits	268,464	2.71%	6.02%	0.16%
Investment Tax Credit				
Deferred Tax Credit - Weighted Cost	130,531	1.32%	8.61%	0.11%
Deferred Income Taxes	916,379	9.25%	0.00%	0.00%
Total Capital Structure	9,908,855			7.72%

Notes:

'The weighted cost of the deferred investment tax credit is the weighted average cost of Common Equity, Preferred Stock and Long Term Debt as shown:

Common Equity	5,505,315	64.46%	9.92%	6.39%
Preferred Stock	227,170	2.66%	6.59%	0.18%
Long-Term Debt	2,808,533	32.88%	6.22%	2.05%
Total				8.61%

Publix Super Markets
Exhibit No.__(TJK-6)
FPL Historical Storm Damage Comparisons

Storm Damage per SPH-I Page 23 of 44 (Table 6-1)

Storm	Andrew	Erin	Floyd	Georges	Gordon	Irene	All
Year	1992	1995	1999	1998	1994	1999	
Model Losses - Transmission	$59,793,270	$495,539	$58,162	$83,098	$67,617	$2,196,226	$62,693,912
Model Losses - Distribution	$378,496,112	$9,006,142	$8,315,153	$9,073,910	$6,031,159	$54,399,910	$465,322,386
Total Model Losses	$438,289,382	$9,501,681	$8,373,315	$9,157,008	$6,098,776	$56,596,136	$528,016,298
FPL Actual Losses	$283,580,000	$6,000,000	$11,200,000	$11,500,000	$5,100,000	$55,000,000	$372,380,000
FPL Losses in $1999	$438,872,215	$8,027,733	$11,200,000	$12,368,250	57,338,753	$55,000,000	$532,806,951
Difference	-$582,833	$1,473,948	-$2,826,685	-$3,211,242	-$1,239,977	$1,596,136	-$4,790,653
Relative Difference	-0.13%	18.36%	-25.24%	-25.96%	-16.90%	2.90%	-0.90%
Actual Cost Escalation Rate	6.44%	7.55%		7.55%	7.55%		

Table 6-1 Restated Utilizing Stated Growth Rate of 4.00%

Storm	Andrew	Erin	Floyd	Georges	Gordon	Irene	All
Year	1992	1995	1999	1998	1994	1999	
Model Losses - Transmission	$59,793,270	$495,539	$58,162	$83,098	$67,617	$2,196,226	$62,693,912
Model Losses - Distribution	$378,496,112	$9,006,142	$8,315,153	$9,073,910	$6,031,159	$54,399,910	$465,322,386
Total Model Losses	$438,289,382	$9,501,681	$8,373,315	$9,157,008	$6,098,776	$56,596,136	$528,016,298
FPL Actual Losses	$283,580,000	$6,000,000	$11,200,000	$11,500,000	$5,100,000	$55,000,000	$372,380,000
FPL Losses in $1999	$373,171,934	$7,019,151	$11,200,000	$11,960,000	$6,204,930	$55,000,000	$464,556,015
Difference	$65,117,448	$2,482,530	-$2,826,685	-$2,802,992	-$106,154	$1,596,136	$63,460,283
Relative Difference	17.45%	35.37%	-25.24%	-23.44%	-1.71%	2.90%	13.66%
Actual Cost Escalation Rate	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	

Table 6-1 Resteted Utilizing Handy-Whitman Escalators

Storm	Andrew	Erin	Floyd	Georges	Gordon	Irene	All
Year	1992	1995	1999	1998	1994	1999	
FPL Actual Losses	$283,580,000	$6,000,000	$11,200,000	$11,500,000	$5,100,000	$55,000,000	$372,380,000
Transmission Portion	$38,687,169	$312,917	$77,796	$104,360	$56,544	$2,134,288	$41,373,074
Distribution Portion	$244,892,831	$5,687,083	$11,122,204	$11,395,640	$5,043,456	$52,865,712	$331,006,926
Transmission in 1999$	$48,078,620	$333,324	$77,796	$104,057	$64,648	$2,134,288	$50,792,733
Distribution in 1999$	$281,486,012	$5,965,472	$11,122,204	$11,472,121	$5,522,033	$52,865,712	$368,433,554
FPL Losses in 1999%	$329,564,632	$6,298,796	$11,200,000	$11,576,177	$5,586,681	$55,000,000	$419,226,287
Total Model Lasses	$438,289,382	$9,501,681	$8,373,315	$9,157,008	$6,098,776	$56,596,136	$528,016,298
Difference	$108,724,750	$3,202,885	-$2,826,685	-$2,419,169	$512,095	$1,596,136	$108,790,011
Relative Difference	32.99%	50.85%	-25.24%	-20.90%	9.17%	2.90%	25.95%
Actual Cost Escalation Rate	2.17%	1.22%		0.66%	1.84%		

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of the retail rates of Florida Power & Light Company.	DOCKET NO. 001148-EI
In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.	DOCKET NO. 020001-EI ORDER NO. PSC-02-0501-AS-EI ISSUED: April 11, 2002

The following Commissioners participated in the disposition of this matter:

LILA A. JABER, Chairman
J. TERRY DEASON
BRAULIO L. BAEZ
MICHAEL A. PALECKI
RUDOLPH "RUDY" BRADLEY

ORDER APPROVING SETTLEMENT, AUTHORIZING MIDCOURSE CORRECTION, AND REQUIRING RATE REDUCTIONS

BY THE COMMISSION:

I. CASE BACKGROUND

Docket No. 001148-EI was opened on August 15,2000, to review Florida Power & Light Company's (FPL) proposed merger with Entergy Corporation (Entergy), the formation of a transco, and their effects on FPL's rates and earnings. On April 2,2001, FPL Group, Inc. announced that the proposed merger with Entergy had been terminated. By Order No. PSC-01-1346-PCO-EI, issued June 19,2001, in Docket No. 001148-EI, FPL was directed to file Minimum Filing Requirements (MFRs) to provide the Commission and all other interested parties the data necessary to begin an evaluation of the level of its earnings. FPL filed its initial set of MFRs on September 17,2001, with additional filings on October 1, 2001, October 15, 2001, and November 9, 2001. FPL filed testimony on January 18 and 28,2002. Hearings were scheduled for April 10-12, and 15-16,2002.

On March 14,2002, the following documents were filed:

- Joint Motion For Approval Of Stipulation And Settlement
- Stipulation And Settlement

EXHIBIT
6

- Florida Power & Light Company's **Agreed** Motion To Suspend Schedule For Hearings And Prehearing Procedures And To Suspend Discovery (Agreed Motion)

- Petition Of Florida Power & Light Company For Adjustment to its Fuel Adjustment Factors

FPL's Agreed Motion was granted by Order No. PSC-02-0348-PCO-EI, issued **March** 14,2002. By this Order, we approve the Stipulation and Settlement, and the Petition for **Adjustment** to FPL's **Fuel** Adjustment Factors. Jurisdiction over these matters is vested in the Commission by various provisions of Chapter 366, Florida Statutes, including Sections 336.04, 366.05, and ***366.06,*** Florida Statutes.

II. STIPULATION **AND** SETTLEMENT

The Stipulation and Settlement (Stipulation) which is included in this Order **as** ATTACHMENT 1, and is incorporated herein **by** reference, is being proffered as a full **and** complete resolution of all matters pending in Docket No. 001148-EI. The Stipulation **was** signed by all of the parties except for the South Florida Hospital and Healthcare Association. The major elements contained in the Stipulation are as follows:

- $250 million permanent base rate reduction effective April 15,2002 (7.03% base rate reduction) (Paragraph 2)

- Continuation of **a** revenue cap and **a** revenue sharing plan for 2002 through 2005 (Paragraph 7)

- Discretionary ability to reduce depreciation **expense** by **up** to $125 million annually (Paragraph 10)

- Withdrawal of FPL's request to increase the annual Storm Damage Reserve accrual **(Paragraph 13)**

As part of the Stipulation, FPL has requested **a** $200 million mid-course correction to reduce its fuel cost recovery factors for the remainder of 2002, effective April 15,2002. That petition is addressed in Section III of this Order.

The Stipulation recites 16 items of agreement among the signatories. Most of the provisions are self-explanatory, but several of the items merit comment or clarification. These are as follows:

PARAGRAPH 2: The $250 million annual base rate reduction is **an** additional reduction over and above the previously implemented $350 million annual rate reduction authorized in Order No. PSC-99-0519-AS-EI, issued March 17, 1999, in Docket No. 990067-EI.

The proposed Stipulation provides for a reduction in base rates of 7.03% for all rate classes except outdoor lighting and street lighting. The Stipulation also provides for a similar reduction in all service charges. It is appropriate to exclude the lighting classes because these classes **are** already significantly below parity. This allocation methodology differs from FPL's previous rate stipulations that allocated the reduction on a kwh basis. The percentage reduction in base rates is a better method of allocating a decrease because all classes receive the same percentage reduction in base rates, Under an energy allocation, a larger percentage of the total reduction ***goes*** to larger commercial and industrial customers relative to residential and small commercial customers.

In Order No. PSC-01-1346-PCO-EI, we stated **that one** of **the** reasons for requiring **MFRs was** to examine the rate relationships among classes. FPL's rate structure has not been formally reviewed **since** its last rate case in **1983.** Since then, new classes have been added and customers have shifted among rate classes seeking more advantageous rates. Based on FPL's cost of service study, there are disparities among the rates of return by class. In a rate case, one of the goals of rate design is to **set** rates that reflect the costs to serve that class or, stated differently, to set the rate of return for each class equal to the system rate of return. We recognize, however, that a Stipulation **is** a negotiated document with all participants making some concessions. While the proposed across-the-board percentage reduction does not move FPL's rate structure towards parity, it does not worsen it. Accordingly, **we** find that the across-the-board reduction is reasonable.

The Stipulation will result in a decrease of $5.41 in the total monthly bill of a residential customer who uses 1,000 kilowatt hours, as shown on ATTACHMENT 2, Page 1 of 2. This **decrease** reflects both the base rate reduction and the fuel adjustment clause mid-course correction approved in Section III of **this** Order. The rate reductions will become effective for meters read on and after April 15,2002.

PARAGRAPH 3: Per the terms of this provision, "FPL will no longer have an authorized Return on Equity (ROE) range for the purpose of addressing earnings levels." However, FPL will still have a currently authorized ROE range of 10.00% to 12.00%, with an 11.00% midpoint, for all other **purposes,** such as cost recovery clauses **and** Allowance for Funds Used During Construction.

PARAGRAPH 7: Although it **is** not explicitly stated in the Stipulation, 100% of the retail base **rate** revenues exceeding the retail **base** rate revenue cap will be refunded to retail customers on an annual basis.

PARAGRAPH 10: This provision is clarified to indicate that the up to $125 million annual credit to depreciation expense is to be on a calendar year basis.

PARAGRAPH 13: FPL is withdrawing its request to increase its Storm Damage Reserve accrual by $30 million annually.

PARAGRAPH 15: This provision states that all matters in Docket No. 001148-EI are resolved by the Stipulation and Settlement. While the ratemaking aspects of the docket are resolved, there are still issues that may need to be addressed in other forums, such as those related to GridFlorida and to FPL Energy Services.

We have reviewed the terms of the Stipulation, and it appears to be a reasonable resolution of the issues regarding FPL's level of earnings and base rates. The proposed $250 million base rate reduction affords FPL's ratepayers significant and immediate relief. The Stipulation also extends the revenue cap and revenue sharing plan through 2005. Since the inception of the existing revenue sharing plan in 1999, FPL has refunded $128 million to date and expects to refund an additional $84 million for the year ended April 14,2002. We find that the Stipulation and Settlement is in the best interests of FPL's ratepayers, the parties, and FPL, and is therefore approved.

III. FPL'S PETITION FOR AN ADJUSTMENT TO ITS FUEL COST RECOVERY FACTORS

Consistent with the Stipulation, FPL filed a petition in Docket No. 020001-EI seeking to reduce its levelized fuel cost recovery factor to 2.630 cents per kwh, effective April 15, 2002. This will have the effect of reducing the amount collected through the fuel adjustment clause by $200 million during the last eight and one half months of 2002.

Absent this $200 million reduction, FPL would experience an end-of-period (December 2002) net over-recovery amount of approximately $211.2 million based on current projections. This amount represents 8.6% of FPL's total fuel and net power transactions costs as forecasted in its projection testimony in Docket No. 010001-EI. Since FPL filed its projection testimony in Docket No. 010001-EI, its forecasted 2002 fuel cost of system net generation has decreased by $193.4 million. This reduction appears to be related primarily to a 12.2% drop in projected natural gas costs and secondarily to a 3.3% drop in retail energy sales.

In the interest of matching fuel revenues with fuel costs, FPL's proposal to refund part of its anticipated over-recovery balance to its ratepayers sooner rather than later is appropriate. Therefore, FPL's Petition for Adjustment to its.Fuel Adjustment Factors is granted. The fuel cost recovery factors set forth in Attachement 2, page 2 of 2, which is incorporated herein by reference, shall become effective April 15, 2002. However, we have not yet analyzed the prudence of FPL's actual or projected 2002 fuel costs. The prudence of FPL's 2002 fuel costs will be addressed at the evidentiary hearing scheduled in Docket No. 020001-EI, commencing November 20, 2002.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Settlement and Stipulation filed on March 14, 2002, which is included in this Order as ATTACHMENT 1 and is incorporated by reference herein, is approved. It is further

ORDERED that FPL's Petition for Adjustment to its Fuel Adjustment Factors is granted. It is further

ORDERED that Docket No. 001148-EI shall be closed. It is further

ORDERED that Docket No. 020001-EI shall remain open.

By ORDER of the Florida Public Service Commission this 11th day of April, 2002.

BLANCA S. BAYO, Director
Division of the Commission Clerk
and Administrative Services

By: Kay Flynn, Chief
Bureau of Records and Hearing Services

This is a facsimile copy. Go to the Commission's Web site, http://www.floridapsc.com or fax **a request to 1-850-413-7118,** for a copy of **the** order with **signature.**

(S E A L)
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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW
APPLICABLE TO SECTION II OF THIS ORDER

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of the Commission Clerk and Administrative Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater utility by filing a notice of appeal with the Director, Division of the Commission Clerk and Administrative Services and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days after the issuance of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW
APPLICABLE TO SECTION III OF THIS ORDER

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida **Statutes**, as **well** as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be **granted** or result in the relief sought.

Mediation may be **available** on a case-by-case basis. If mediation is conducted, ***it* does** not affect a **substantially** interested **person's** right **to** a hearing.

Any party adversely **affected** by Section III of this **order**, which is preliminary, procedural or intermediate in nature, may **request: (1)** reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued **by** a Prehearing Officer; (2) reconsideration within 15 days pursuant **to Rule** 25-22.060, Florida Administrative Code, if issued by the Commission; **or** (3) judicial review **by** the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the **First** District **Court** of **Appeal**, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative **Code.** Judicial review of a preliminary, procedural or intermediate ruling **or** order is available if review of the final action will **not** provide an adequate remedy. Such review may be **requested from** the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.

ATTACHMENT 1

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Review of the Retail Rates of Florida Power & Light Company	DOCKET NO. 001148-EI

STIPULATION AND SETTLEMENT

WHEREAS, the Florida Public Service Commission (FPSC) has initiated a review of retail rates for Florida Power & Light Company (FPL);

WHEREAS, the Office of Public Counsel (OPC), The Florida Industrial Power Users Group (FIPUG), Publix Super Markets, Inc. (Publix), Thomas P. and Genevieve Twomey, Dynegy Midstream **Services** LP, Florida Retail Federation and Lee County have intervened, and have signed this Stipulation and Settlement;

WHEREAS, FPL has provided the minimum filing requirements (MFRs) as required by the FPSC and such MFRs have been thoroughly reviewed by the FPSC Staff and the Parties to this proceeding;

WHEREAS, FPL has filed comprehensive testimony in support of and detailing its MFRs;

WHEREAS, the parties in this proceeding have conducted extensive discovery on the MFRs and FPL's testimony;

WHEREAS, the Parties to this Stipulation and Settlement have undertaken to resolve the issues raised in this review so as to effect a prompt reduction in base rates charged to customers, to maintain a degree of stability to FPL's base rates and charges, and to provide incentives to FPL to continue to promote efficiency through the term of this Stipulation and Settlement;

WHEREAS, FPL is currently operating under a stipulation and settlement agreement (Current Agreement) agreed to by OPC and other parties, and approved by the FPSC by Order PSC 99-0519-AS-EI;

WHEREAS, the Current Agreement provided for a $350 million permanent annual rate reduction for retail customers commencing April 15, 1999 and a revenue sharing plan under which $128 million in refunds have been provided to retail customers to date, with $84 million in additional refunds projected for the twelve-month period ending April 14, 2002; and

WHEREAS, an extension of revenue sharing through 2005, and an additional permanent rate reduction will further be beneficial to retail customers;

NOW THEREFORE, in consideration of the foregoing and the covenants contained herein, the Parties hereby stipulate and agree:

1. Upon approval and final order of the FPSC, this Stipulation and Settlement will become effective on April 15, 2002 (the "Implementation Date"), and continue through December 31, 2005.

2. FPL will reduce its base rates by an additional permanent annual amount of $250 million. The base rate reduction will be reflected on FPL's customer bills by reducing all base charges for

each rate schedule, excluding SL-1 and OL-1, by 7.03%. FPL will begin applying the lower base rate charges required by this Stipulation and Settlement to meter readings made on and after the Implementation Date.

3. Effective on the Implementation Date, FPL will no longer have an authorized Return on Equity (ROE) range for the purpose of addressing earnings levels, and the revenue sharing mechanism herein described will be the appropriate and exclusive mechanism to address earnings levels.

4. For surveillance reporting requirements, FPL's achieved ROE will be calculated based upon an adjusted equity ratio as provided for in the Current Agreement.

5. No party to this Stipulation and Settlement will request, support, or seek to impose a change in the application of any provision hereof. OPC, FIPUG, Publix, Thomas P. and Genevieve Twomey, Dynegy Midstream Services LP, Florida Retail Federation and Lee County will neither seek nor support any additional reduction in FPL's base rates and charges, including interim rate decreases, to take effect prior to the expiration of this Stipulation and Settlement unless such reduction is initiated by FPL. FPL will not petition for an increase in its base rates and charges, including interim rate increases, to take effect before the end of this Stipulation and Settlement, except as provided for in Section 8.

6. During the term of this Stipulation and Settlement, revenues which are above the levels stated herein will be shared between FPL and its retail electric utility customers -- it being expressly understood and agreed that the mechanism for earnings sharing herein established is not intended to be a vehicle for "rate case" type inquiry concerning expenses, investment, and financial results of operations.

7. Commencing on the Implementation Date and for the remainder of 2002 and for calendar years 2003, 2004 and 2005, FPL will be under a Revenue Sharing Incentive Plan as set forth below. For purposes of this Revenue Sharing Incentive Plan, the following retail base rate revenue threshold amounts are established:

I. Revenue Cap - Retail base rate revenues above the retail base rate revenue cap will be refunded to retail customers on an annual basis. The retail base rate revenue cap for 2002 will be $3,740 million. For 2002 only, the refund to customers will be limited to 71.5% (April 15 through December 31) of the retail base rate revenues exceeding the cap. The retail base rate revenue caps for 2003, 2004 and 2005 will be $3,840 million, $3,940 million and $4,040 million, respectively. Section 9 explains how refunds will be paid to customers.

II. Sharing Threshold - Retail base rate revenues between the sharing threshold amount and the retail base rate revenue cap will be divided into two shares on a 1/3, 2/3 basis. FPL's shareholders shall receive the 1/3 share. The 2/3 share will be refunded to retail customers. The sharing threshold €or 2002 will be $3,580 million in retail base rate revenues. For 2002 only, the refund to the customers will be limited to 71.5% (April 15 through December 31) of the 2/3 customer share. The retail base rate revenue sharing threshold amounts for calendar years 2003, 2004 and 2005 will be $3,680 million, $3,780 million and $3,880 million, respectively. Section 9 explains how refunds will be paid to customers.

8. If FPL's retail base rate earnings fall below a 10% ROE as reported on an FPSC adjusted or pro-forma basis on an FPL monthly earnings surveillance report during the term of this Stipulation and Settlement, FPL may petition the FPSC to amend its base rates notwithstanding the provisions of Section 5. Parties to this Stipulation and Settlement are not precluded from participating in such a proceeding. This Stipulation and Settlement shall terminate upon the effective date of any Final Order issued in such proceeding that changes FPL's base rates.

9. All refunds will be paid with interest at the 30-day commercial paper rate as specified in Rule 25-6.109, Florida Administrative Code, to retail customers of record during the last three months of each applicable refund period based on their proportionate share of base rate revenues for the refund period. For purposes of calculating interest only, it will be assumed that

revenues to be refunded were collected evenly throughout the preceding refund period at the rate of one-twelfth per month. All refunds with interest will be in the form of a credit on the customers' bills beginning with the first day of the first billing cycle of the second month after the end of the applicable refund period. Refunds to former customers will be completed as expeditiously as reasonably possible.

10. In Order No. PSC 99-0519-AS-EI, FPL was authorized to record an amortization amount of up to $100 million per year for each of the three years of the settlement agreement which was to be applied to reduce nuclear and/or fossil production plant in service. Under this provision, FPL recorded $170,250,000. Starting with the effective date of this Stipulation and Settlement, FPL may, at its option, amortize up to $125,000,000 annually as a credit to depreciation expense and a debit to the bottom line depreciation reserve over the term of this Stipulation and Settlement. The amounts so recorded will first go to offset the $170,250,000 bottom line amortization amount that has previously been recorded, with any additional amounts recorded to a bottom line negative depreciation reserve during the term of this Stipulation and Settlement. Any such reserve amount will be applied first to reduce any reserve excesses by account, as determined in FPL's depreciation studies filed after the term of this Stipulation and Settlement, and thereafter will result in reserve deficiencies. Any such reserve deficiencies will be allocated to

individual reserve balances based on the ratio of the net book value of each plant account to total net book value of all plant. The amounts allocated to the reserves will be included in the remaining life depreciation rate and recovered over the remaining lives of the various assets. Additionally, depreciation rates as addressed in Order Nos. PSC 99-0073-FOF-EI, PSC 00-2434-FAA-EI and PSC 01-1337-PAA-EI will not be changed for the term of this Stipulation and Settlement.

11. Employee dental expenses are considered to be a prudently incurred expense and will be treated as such, including for surveillance reporting, as of the Implementation Date.

12. Additional amortization expense which is being recorded as an offset to the ITC interest synchronization adjustment shall no longer be recorded after the Implementation Date of this Stipulation and Settlement.

13. FPL will withdraw its request for an increase in the annual accrual to the Company's Storm Damage Reserve. In the event that there are insufficient funds in the Storm Damage Reserve and through insurance, FPL may petition the FPSC for recovery of prudently incurred costs not recovered from those sources. The fact that insufficient funds have been accumulated in the Storm Damage Reserve to cover costs associated with a storm event or events shall not be evidence of imprudence or the basis of a disallowance. Parties to

this Stipulation and settlement are not precluded from participating in such a proceeding.

14. On April 15, 2002, FPL shall effect a mid-course correction of its Fuel Cost Recovery Clause to reduce the fuel clause factor based on projected over-recoveries, in the amount of $200 million, for the remainder of calendar year 2002. The fuel adjustment clause shall continue to operate as normal, including but not limited to, any additional mid-course adjustments that may become necessary and the calculation of true-ups to actual fuel clause expenses. FPL will not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates.

15. This Stipulation and Settlement is contingent on approval in its entirety by the FPSC. This Stipulation and Settlement will resolve all matters in this Docket pursuant to and in accordance with Section 120.57(4), Florida Statutes (2001). This Docket will be closed effective on the date the FPSC Order approving this Stipulation and Settlement is final.

16. This Stipulation and Settlement dated as of March 12, 2002 may be executed in counterpart originals, and a facsimile of an original signature shall be deemed an original.

In Witness Whereof, the Parties evidence their acceptance and agreement with the provisions of this Stipulation and Settlement by their signature.

Florida Power & Light Company
700 Universe Boulevard
Juno Beach, Fl 33408

By:______________________________
W. G. Walker, III

Office of Public Counsel
111 West Madison Street, Suite 810
Tallahassee, FL 32399

By:______________________________
Jack Shreve

Florida Industrial Power Users Group

McWhirter, Reeves, McGlothlin,
Davidson, Decker, Kaufman,
Arnold & Steen, P.A.
Tampa, FL 33601-3350

By:______________________________
John W. McWhirter, Jr.

Florida Retail Federation

Greenberg, Traurig, Hoffman, Lipoff,
Rosen & Quentel, P.A.
P.O. Drawer 1838P.0. Box 3350
Tallahassee, FL 32302

By:______________________________
Ronald C. LaFace

Lee County

Landers and Parsons, P.A.
310 West College Avenue
Tallahassee, FL 32301

By:______________________________
Robert Scheffel Wright

Publix Super Markets, Inc.

Gray, Harris & Robinson, P.A.
301 East Pine Street, Suite 1400
Orlando, FL 32801

By:______________________________
Thomas A. Cloud

Thomas P. and Genevieve Twomey

Michael Twomey, Esq.
P.O. Box 5256
Tallahassee, FL 32314-5256

By:______________________________
Michael Twomey, Esq.

Dynegy Midstream Services LP

Gray, Harris & Robinson, P.A.
301 East Pine Street, Suite 1400
Orlando, FL 32801

By:______________________________
Thomas A. Cloud

RESIDENTIAL FUEL COST RECOVERY FACTORS FOR THE PERIOD: **April 15,2002 - December :**

NOTE: This schedule reflects a midcourse correction to Florida Power & Light Company's fuel factors effective April 15, 2002.

		Florida Power & Light Co.	Florida Power Corporation	Tampa Electric Company	Gulf] Con
Present (cents per kwh):	January 2002 - April 14, 2002	2.866	2.692	3.313	
Proposed (cents per kwh):	April 15, 2002 - December 2002	**2.635**	**2.692**	**3.313**	**:**
	Increase/Decrease:	-0.231	0.000	0.000	(

TOTAL MONTHLY BILL - RESIDENTIAL SERVICE - 1,000 KILOWATT HOURS

PRESENT **January 2002 - April 14, 2002**	Florida Power & Light Co.	Florida Power Corporation	Tampa Electric Company	Gulf 1 Con
Base Rate Charges	43.26	49.05	51.92	
Fuel and Purchased Power Cost Recovery Clause	28.66	26.92	33.13	
Energy Conservation Cost Recovery Clause	1.87	2.07	1.16	
Environmental Cost Recovery Clause	0.00	N/A	1.59	
Capacity Cost Recovery Clause	7.01	11.32	3.79	
Gross Receipts Tax (1)	0.83	2.29	2.35	
Total	**$81.63**	**$91.65**	**$93.94**	**$(**

PROPOSED **April 15, 2002 - December 2002**	Florida Power & Light Co. (3)	Florida Power Corporation	Tampa Electric Company	Gulf 1 Con
Base Rate Charges	40.22	49.05	51.92	
Fuel and Purchased Power Cost Recovery Clause	26.35	26.92	33.13	
Energy Conservation Cost Recovery Clause	1.87	2.07	1.16	
Environmental Cost Recovery Clause	0.00	N/A	1.59	
Capacity Cost Recovery Clause	7.01	11.32	3.79	
Gross Receipts Tax (1)	0.77	2.29	2.35	
Total	**$76.22**	**$91.65**	**$93.94**	**$(**

PROPOSED INCREASE/(DECREASE)	Florida Power & Light Co.	Florida Power Corporation	Tampa Electric Company	Gulf 1 Con
Base Rate Charges	-3.04	0.00	0.00	
Fuel and Purchased Power Cost Recovery Clause	-2.31	0.00	0.00	
Energy Conservation Cost Recovery Clause	0.00	0.00	0.00	
Environmental Cost Recovery Clause	0.00	0.00	0.00	
Capacity Cost Recovery Clause	0.00	0.00	0.00	
Gross Receipts Tax (1)	-0.06	0.00	0.00	
Total	**($5.41)**	**$0.00**	**$0.00**	**!**

(1) Additional gross receipts tax is 1% for Gulf, FPL and FPUC-Fernandina Beach. FPC, TECO and FPUC-Marianna have removed all GRT from their rates,

2.5% is shown separately. (2) Fuel costs include purchased power demand costs of 1.726 for Marianna and 1.888cents/KWH for Fernandina allocated to tl
(3) Proposed FPL base rate charges reflect reduction resulting from proposed stipulation and settlement in Docket No. 001148-EI.

FUEL ADJUSTMENT FACTORS IN CENTS PER KWH BASED ON LINE LOSSES BY RATE GROUP
April 15, 2002 - December 2002

			BEFORE LINE LOSSES			LINE	AD
				TIME OF USE		LOSS	
COMPANY	GROUP	RATE SCHEDULES	Standard	On/Peak	Off/Peak	MULTIPLIER	Standard
FP&L	A	RS-1,RST-1,GST-1,GS-1,SL-2	2.630	2.915	2.502	1.00210	2.635
	A-1	SL-1,OL-1, PL-1	2.568	NA	NA	1.00210	2.573
	B	GSD-1,GSDT-1, CILC-1(G)	2.630	2.915	2.502	1.00202	2.635
	C	GSLD-1,GSLDT-1, CS-1, CST-1	2.630	2.915	2.502	1.00078	2.632
	D	GSLD-2,GSLDT-2, CS-2, CST-2, OS-2, MET	2.630	2.915	2.502	0.99429	2.614
	E	GSLD-3,GSLDT-3,CS-3,CST-3,CILC-1(T),ISST-1(T)	2.630	2.915	2.502	0.95233	2.504
	F	CILC-1(D),ISST-1(D)	NA	2.915	2.502	0.99331	NA
FPC	1	Distribution Secondary Delivery	2.692	3.273	2.442	1.00000	2.692
	2	Distribution Primary Delivery	2.692	3.273	2.442	0.99000	2.665
	3	Transmission Delivery	2.692	3.273	2.442	0.98000	2.638
	4	Lighting Service	2.597	NA	NA	1.00000	2.597
TECO	A	RS, RST, GS, GST, TS	3.301	4.518	2.783	1.00350	3.313
	A-1	SL-2,OL-1,3	3.301	NA	NA	NA	3.054
	B	GSD, GSDT, GSLD, GSLDT, SBF, SBFT	3.301	4.518	2.783	1.00090	3.304
	C	IS-1 & 3, IST1 &3, SBI-1 & 3, SBIT1 & 3	3.301	4.518	2.783	0.97920	3.232
GULF	A	RS,GS,GSD,OS-III,OS-IV, SBS (100 to 499 kW)	2.212	2.680	2.013	1.01228	2.239
	B	LP, SBS (Contract Demand of 500 to 7499 kW)	2.212	2.680	2.013	0.98106	2.170
	C	PX, PXT, RTP,SBS (Contract Demand above 7499 kW)	2.212	2.680	2.013	0.96230	2.129
	D	OS-1,OS-2	2.182	NA	NA	1.01228	2.208
FPUC							
Fernandina	A	RS	3.983	NA	NA	1.00000	3.983
Beach:	B	GS	3.732	NA	NA	1.00000	3.732
	C	GSD	3.581	NA	NA	1.00000	3.581
	D	OL, OL-2, SL-2, SL-3, CSL	2.591	NA	NA	1.00000	2.591
	E	GSLD					
Marianna:	A	RS	4.059	NA	NA	1.00000	4.060
	B	GS	4.042	NA	NA	1.00000	4.042
	C	GSD	3.654	NA	NA	1.00000	3.654
	D	GLSD	3.492	NA	NA	1.00000	3.492
	E	OL, OL-2	2.529	NA	NA	1.00000	2.529

F	SL1-2, SL-3	2.526	NA	NA	1.00000	2.526

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 001148-EI

In the Matter of

REVIEW OF THE RETAIL RATES OF FLORIDA POWER & LIGHT COMPANY.

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.

PROCEEDINGS: SPECIAL AGENDA CONFERENCE

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

DATE: Friday, March 22, 2002

TIME: Commenced at 8:35 a.m.
Concluded at 10:05 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

EXHIBIT
tabbies
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APPEARANCES:

PAUL EVANSON, and R. WADE LITCHFIELD, Florida Power & Light Company, 700 Universe Boulevard, Juno Beach, Florida 33408-0420, appearing on behalf of Florida Power & Light Company.

KENNETH L. WISEMAN, Andrews & Kurth, L.L.P., 1701 Pennsylvania Avenue, N.W., Suite 300, Washington, D.C. 20006-5805, appearing on behalf of South Florida Hospital and Health Care Association.

ROBERT SCHEFFEL WRIGHT, Landers & Parsons, P.A., 310 West College Avenue, Tallahassee, Florida 32302, appearing on behalf of Lee County.

MICHAEL B. TWOMEY, Post Office Box 5256, Tallahassee, Florida 32314-5256, appearing on behalf of Thomas and Genevieve Twomey.

SEANN FRAZIER, Greenberg, Traurig, P.A., 101 East College Avenue, Tallahassee, Florida 32302, appearing on behalf of Florida Retail Federation.

VICKI GORDON KAUFMAN, McWhirter, Reeves, McGlothlin, Davidson, Decker, Kaufman, Arnold and Steen, P.A., 117 South Gadsden Street, Tallahassee, Florida 32301, appearing on behalf of Florida Industrial Power Users Group.

APPEARANCES CONTINUED:

JACK SHREVE, Public Counsel, Office of the Public Counsel, c/o The Florida Legislature, 111 W. Madison Street, Suite 812, Tallahassee, Florida 32399, appearing on behalf of the Citizens of the State of Florida.

ED PASCHALL, 200 West College Avenue, Tallahassee, Florida 32301, appearing on behalf of AARP.

ROBERT V. ELIAS, FPSC Division of Legal Services, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Commission Staff.

P R O C E E D I N G S

CHAIRMAN JABER: Good morning. We're going to go ahead and get started with the Agenda. This is a special agenda. There's no notice to be read or anything like that.

MR. ELIAS: No.

CHAIRMAN JABER: I suppose it would be appropriate to say that we are here to consider the proposed settlement that was filed by FP&L, et al. We are going to allow some time for parties to make presentations. I have to tell you that I'm going to allow you up to five minutes. We'll start with Mr. Evanson over here and move this way. Feel free to take up to five minutes, but we wilt be brief in the presentations.

Go ahead, Mr. Evanson.

MR. LITCHFIELD: Commissioner Jaber, if it would be acceptable to you, we'd defer initially to Mr. Shreve, if that's all right.

CHAIRMAN JABER: Absolutely.

MR. LITCHFIELD: Thank you.

CHAIRMAN JABER: Good morning.

MR. SHREVE: Good morning. We do appreciate the Commission taking this matter up as early as you have so that we can get these benefits to the customers. And I will be brief. We have several Intervenors here that would like to speak this morning.

I think you've all seen the settlement and I'm sure the Staff has thoroughly reviewed it. It calls for a $250 million decrease in rates, which brings the total decrease to $600 million.

In addition to that, we have some protections in there allowed to Florida Power & Light in case there are anymore downturns which have to be covered. We have protection for the customers in the way of a rebate and a sharing program such as we did last time with what we feel very comfortable with on the sharing points. The last agreement has produced or will have produced when the agreement is up in April over $200 million in refunds. We feel this agreement will do just as much, if not much more, as far as refunds go.

It's been a pleasure to work with all of the parties in this case. And after Mr. Evanson completes his remarks, I would like for the Commission, if we could, to give the parties that are here an opportunity to speak and say what their thoughts are on the agreement.

Here again, it's been a team effort. We've all worked together on this and feel that we've produced a settlement that is beneficial to the ratepayers in the State of Florida. Thank you.

CHAIRMAN JABER: Thank you, Mr. Shreve. Mr. Evanson?

MR. EVANSON: Okay. Good morning. I'm delighted to be here to seek your final order of approval of this settlement agreement which I believe is in the best interest of all the parties, including especially the FPL customers.

I'd first like to express our appreciation to the Commission for encouraging the settlement and to end this protracted, costly rate review proceeding. And I'd also like to express my appreciation to Jack Shreve, the Office of Public Counsel, and all the Intervenors for their constructive approach in negotiating this agreement with us, sometimes negotiating it too well, perhaps.

Reaching this agreement, reaching this settlement agreement came after a very thorough and complete review of FPL's operations by your Staff as well as all the Intervenors in the case.

FPL filed or produced over 1,300 pages of minimum filing requirements, 4,100 responses to discovery, 750 pages of direct testimony from 13 expert witnesses with over 100,000 pages of documents attached. So the record, the record demonstrates this was a comprehensive and exhaustive review of our operations.

Now, as Mr. Shreve said, this agreement provides for an annual permanent base rate reduction of $250 million or seven percent for all of our customers, and in addition a midcourse fuel correction of $200 million. This will put FPL's rates about 18 to 20 percent below national averages.

The new agreement is patterned after the existing agreement, which was entered into in 1999 and which cut base rates by $350 million. With the approval of this agreement, base rates will then be $600 million below the level of only three years ago. And, frankly, we know of no company that has ever cut rates by that order of magnitude.

Like its predecessor, the new agreement also provides for future revenue sharing. And under the existing agreement, we estimate that over $200 million in special one-time refunds to customers will be paid over the term of that agreement.

The agreement also continues the innovative incentive-based regulatory structure championed by FPL, the Office of Public Counsel and this Commission. The approach offers FPL the opportunity to be rewarded to the extent that, and really only to the extent that it improves operational efficiencies and drives costs out of the system.

The FPL incentive during the term of the agreement becomes the benefit to customers at the end of the agreement through permanent rate cuts, which is exactly what this new agreement is all about.

I believe the State of Florida and this Commission are leading the nation in enlightened and progressive utility regulation.

So in summary, I think this settlement is really a win, win, win. I think it's a win for our customers, it's a win for our shareholders and I think it's a win for the State of Florida, and I urge your prompt, final order of approval of it so that our customers may begin to enjoy these lower rates beginning April 15th. Thank you very much.

CHAIRMAN JABER: Thank you, Mr. Evanson. Any other parties to the settlement?

MR. SHREVE: Commissioner, if I might. We do have several of the parties represented here, and I'll call on all that I know that are represented here. And, once again, I would like to point out that this is a docket that the Commission opened. You elected to have this rate review. And if the Commission had not opened it, then there's probably a very good chance that we wouldn't be at the tables now with this rate reduction. So I'd like to thank the Commission and congratulate you on opening this docket. It is a different situation than we normally have as far as a full-blown rate case petitioned by the parties, but that's where we are.

I'd like to call, mention that we have had good cooperation, excellent cooperation with everyone, and a few people would like to make a few brief remarks. I'd like to first call on Scheff Wright, if I could, who represents Lee County. And this is one of the first times we've actually had a county involved, and I think it's excellent that we have a local government involved like this.

CHAIRMAN JABER: Mr. Wright.

MR. WRIGHT: Thank you, Madam Chairman. Scheff Wright appearing on behalf of Lee County, Florida.

Lee County supports the stipulation and settlement. I'd like to echo the comments of Mr. Shreve and Mr. Evanson; thank the Commission very much for undertaking to hear the settlement this quickly so that we can get the benefits of the settlement in place for all of FPL's customers as soon as possible.

This settlement is fair, reasonable and appropriate. It provides a good incentive-based regulatory structure. It's specifically beneficial to Lee County government as well as to all FPL's residential, commercial, industrial and institutional customers in Lee County and everywhere else in FPL's service territory. We support the settlement. We thank you for your prompt consideration of the settlement and we urge you to approve it. Thanks.

MR. SHREVE: Publix Super Market is represented by Tom Cloud. Mr. Cloud was on the road and I think unable to be here. I'm not sure if anyone else had come in for Tom, but he was, worked hard on all aspects of this case and the settlement.

Ron LaFace representing the Florida Retail Federation has worked diligently with us on this, and Seann Frazier, I know, is here from the firm. I think Mr. LaFace is tied up in the Legislature probably since this is the last day of the session. So if, Seann, if you had any comments you wanted to make.

MR. FRAZIER: We just want to echo the sentiments and express our appreciation for this settlement. Thank you.

CHAIRMAN JABER: Thank you.

MR. SHREVE: Mr. McWhirter has worked diligently with us in this, he is back in Tampa today, representing the Florida Industrial Power Users Group. This is a group that we have in, I guess, every single case and it's always good to have them in here. They're real stalwart in their representation and work in all of the cases. And although John is not here, Vicki Kaufman is here representing FIPUG.

MS. KAUFMAN: Thank you, Madam Chairman, Mr. Shreve. Vicki Gordon Kaufman on behalf of the Florida Industrial Power Users Group. We echo all the comments that you have heard.

As Mr. Shreve said, FIPUG has a long history of participation before this Commission in rate cases and other matters that affect large consumers. We wish that all our cases would have such a happy conclusion as this one.

We're very appreciative of the hard work of the Commission Staff, the Commissioners and all the parties, and we echo the comments that this is a settlement that's in the interest of all the ratepayers of Florida. Not only does it have tremendous benefits to all of the ratepayers, but it also has resulted in the elimination of some protracted litigation that has saved my clients and others as well a lot of costs. We'd rather see that money corning back to the customers than being expended on litigation before the Commission. So we wholeheartedly support the settlement and also ask for your final approval of it today. Thank you.

CHAIRMAN JABER: Ms. Kaufman, I just wanted you to know that all your cases can conclude like this, if you want. I couldn't let that go.

MR. SHREVE: Madam Chairman, one of our larger clients we're going to have appear here today and make some comments; Mr. Ed Paschall of AARP. Ed has come back from Israel specifically for this hearing. I appreciate Ed coming out. Ed always works with us, and we're happy to be able to converse with them throughout these proceedings and have worked with them and tried to cooperate with our, really with our largest single consumer group in the state. And they've worked with us on every case that we've had and it's always a pleasure, and I appreciate Ed coming out.

CHAIRMAN JABER: Good morning.

MR. PASCHALL: Good morning, Madam Chairman, members of the Commission. It's always a pleasure for us to have the opportunity to come over here and speak to the Public Service Commission, and especially in this case since it appears pretty much that the deal has been done and it looks like a good deal for everybody who is involved in it.

We would like to extend our compliments to all of the parties who were involved in the deliberations that led to this negotiated settlement, which does appear to be a very good one for, as was mentioned a few minutes ago, a win, win, win situation, that it should be a great benefit to everybody, especially to a lot of the older people whom we represent and who can certainly use every dollar that they can save as far as their utilities are concerned because that's one of their highest costs when it comes to their continuing their existence either in the summer or in the winter. So we think this is good, a good agreement and we hope that you will speedily approve it. Thank you very much.

CHAIRMAN JABER: Thank you, Mr. Paschall.

MR. SHREVE: And of the parties that signed on the agreement, last and by far from least, Mr. Mike Twomey. We were wondering about Mike, but he did receive his fee from his mother and dad last night, as I understand it. And I'd like to ask if Mike would, if he has any comments he'd like to make. Mike has worked with us hard on this and he's a hard man to please, but he's up here.

CHAIRMAN JABER: Are you saying you saved Mr. Twomey for last, is that what you're saying?

MR. TWOMEY: Not the best for last necessarily.

Madam Chairman, Commissioners, Mike Twomey on behalf of Thomas and Genevieve Twomey. I'd like to just briefly recognize some folks probably or chronologically, I guess, in the order of this case.

First, I'd like to commend your Staff for bringing this **case** to you and urging the filing that brings us to this point. They deserve a lot of credit for that.

Next, y'all deserve credit for accepting the recommendation and ordering the filing in this case and sticking to that throughout.

Next, of course, would be the parties and Staff for engaging in the very thorough discovery they engaged in, which **gave us** reams of data Mr. **Evanson spoke** to moments **ago, which** should have given confidence to all the parties that this settlement **is** in the **best** interest of the consumers and the company and give y'all confidence and your Staff confidence **as** well that we had all the information we needed to make a reasonable judgment of what the reduction should be.

Next, of course, I'd iike to compliment Jack Shreve and the management of the company for engaging in these settlement negotiations and the other parties that played a role in that, but particularly Jack Shreve for doing **such a** great job for the consumers and for the company, being **as** reasonable **as** they have been.

As one advocate in this case, **I** think the settlement is excellent for the consumers of Florida, **I** assume it's **good** **for the** company as well, and would urge **your acceptance of** it. **Thanks.**

CHAIRMAN JABER: Thank you, Mr. Twomey.

MR. SHREVE: Okay. Madam Chairman, I think it's good that Mr. Twomey pointed out the one thing that this Commission did want and that everyone wanted was all the information that was needed to review, and I think that has been thoroughly reviewed, particularly by your Staff and all the parties and the discovery that we've had in it.

South Florida Hospital Association is also a party. Mr. Wiseman or the association has not signed on the agreement, but I'd like to call on him, if he has any remarks at this time.

CHAIRMAN JABER: Give me your name one more time.

MR. WISEMAN: Kenneth Wiseman for the South Florida Hospital Health Care Association.

First of all, I want to express our appreciation to Jack Shreve for the hard work that he's done in trying to craft what would be a universal settlement of any support in the concept of attempting to reach a settlement. Unfortunately, we cannot support the settlement in this case and I guess I'm feeling a little bit lonely over here, given the other comments.

But that being said, let me also say at the outset, and I say this with no disrespect whatsoever to the Commission, but I'm somewhat chagrined that we have but five minutes to present our position because we thought at least that we'd be given the opportunity to present a thorough analysis to show why this settlement should not be approved.

CHAIRMAN JABER: How much time do you need, Mr. Wiseman?

MR. WISEMAN: I would need at least a half an hour.

CHAIRMAN JABER: Okay. Commissioners, what's your pleasure? I mean, we've read the settlement. We really are here to discuss the proposed settlement. It was a proceeding that the Commission initiated. How about you do the best you can with 15 minutes.

MR. WISEMAN: All right. I'll take a shot at that. Thank you very much,

The first item that I'd like to point out that we disagree with strenuously is the proposition that the $250 million cost-of-service reduction is adequate. We believe that if we were given the opportunity to present evidence in this case, we could show that a cost-of-service reduction more along the lines of a minimum of $500 million is what's needed in this case, and we think the evidence would support that.

Now I don't have time, I don't believe, to go through the items individually as I had intended. But we have presented testimony concerning specific items that are included in FPL's test year, projected test year cost-of-service that are inappropriate. And when you compile those items together, it amounts to, I believe it's approximately $475 million in cost-of-service reductions.

On top of that, certain items that we can quantify at this time, but which were, we intended to develop through cross-examination and on brief, relate to FPL's requested return on equity, which we believed the evidence that's in the case right now, if you simply look at the evidence presented by Dr. Olivera, FPL's witness on return on equity, would support a 100 to 200 basis point reduction in the midpoint return on equity that he's proposed. And that produces an additional $47 million reduction to FPL's test year cost-of-service.

On top of that, there are, there's an issue related to the Sanford repowering project. Based upon the evidence that is available to us right now, we know that there's a cost overrun of approximately $100 million on that project. FPL's ratepayers shouldn't be required to pay for a cost overrun that's caused by FPL's inefficient process of constructing the repowering project. That would produce another $13 million per year reduction to the test year cost-of-service.

So when you add those items up together, and these are items that we can quantify right now, we come up with $535 million in cost-of-service reductions. And to be honest, when we compare that to the $250 million reduction that's called for in the settlement, the $250 million reduction does not seem adequate and we don't believe that it's, it will result in just and reasonable rates.

One particular item that I want to talk about in the cost-of-service reductions relates to FPL's capital structure. FPL has an extraordinarily thick equity component in its capital structure. It's 64 percent. That's excessive for an A-rated utility. If you look at Standard & Poor's, Standard & Poor's suggests that an A-rated utility facing, having a risk profile similar to FPL's should have a capital structure of approximately 50 percent common equity. That's, in fact -- by the way, the 50 percent common equity is directly consistent with a comparison group that Mr., I'm sorry, Dr. Olivera used in his testimony on behalf of FPL.

Standard & Poor's and Moody's have both said that FPL Group is engaged in high-risk business activities by its nonregulated affiliates. Those nonregulated affiliates are involved in building independent power projects in other states, And it's because of those unregulated activities in the high business risk that FPL Group has to have a very thick equity component in order to provide credit protection.

Now the effect of having that equity component, that thick equity component is FPL's ratepayers are subsidizing the activities of unregulated affiliates. And, again, those activities are the construction of power plants in other states that in no way serve the ratepayers in Florida.

The effect of that item alone is approximately $173 million in the test year cost-of-service. So you take that item alone and you're bumping right up against the

$250 million reduction that the settlement provides without even getting into the other items that I would include in our quantification of $500 million in cost-of-service reductions.

Now those are the items -- so far I've referred to items that we can quantify, but I want to stress that there are a lot of items that we can't quantify at this time. And, frankly, that's because FPL has been stonewalling on discovery in this case.

There's no question but that FPL has been engaged in numerous transactions with unregulated business affiliates. The law is clear that we have the right in discovery to obtain information about those activities to find out whether they're impacting rates or not.

In fact, as we're sitting here today, there's an order from Commissioner Baez acting as presiding officer requiring FPL to produce that information, but FPL hasn't done it. Instead what it did is it filed what we regard as a frivolous motion for reconsideration, which was a way of FPL stonewalling and not providing the information to which we're entitled.

Now what are those activities? First of all, there is a -- FPL Group's 2000 annual report indicated that the FPL Group owned interest in an entity called Adelphia Communications Corp. It sold that at a $150 million gain. The annual report also indicated that FPL Group redeemed interest in a cable TV partnership for a $108 million gain. We know for sure that FPL's been engaged in activities at least with Adelphia, and *we* were trying *to* find out whether it **was** engaged in activities, business activities with this other organization **as** well.

The business activities with Adetphia, FPL admits that Adelphia uses FPL property **in** conducting Adelphia's business. **Now** FPL does get rentals, rent revenues from Adelphia, but the question is are those adequate or not? Are they covering the costs or are **FPL's** ratepayers subsidizing Adelphia's investors?

We'd like to get discovery about that, but we have been denied discovery at this point because FPL just hasn't turned it over, notwithstanding the order from Commissioner Baez.

FPL also sold property in 2000 to an affiliate called FiberNet. **Now** those **assets,** and FPL admits this, those assets, it was a fiber optic network, originally were constructed to support FPL's utility operations. Since the transfer to FiberNet, FPL's rental revenues **have** dropped precipitously. I think that creates **a** clear question: What **is** going **on** with this affiliate? Again, we've sought information about this and FPL **has stonewalled.** We **haven't gotten the information.**

There's another affiliate named Land Resource Investment Company. FPL surveillance reports clearly disclose that millions of dollars of FPL property have been shed and provided to that entity. But, again, we don't know what the purpose of that is and whether that's resulting in a transfer of ratepayer value over to the investors in the unregulated business activities.

COMMISSIONER JABER: Mr. Wiseman, I just want to give you a heads-up that you have just two or three minutes left.

MR. WISEMAN: All right. Thank you.

The point is that there's an inadequate record in this proceeding. Neither the Commission nor really any members that signed onto the stipulation have any knowledge of what the impact is of the unregulated business activities on FPL's rates.

Since I only have a couple of minutes, I'll cut to the end. The bottom line is that we think there's inadequate information about FPL's dealings with affiliates. We believe that if you look at FPL's resource planning process, that also is a matter that's not been disclosed on this record because FPL stonewalled on providing discovery concerning it. And we know at a minimum that it's resulted in a $100 million overrun in at least one case.

FPL's rates haven't been examined on a comprehensive basis in 18 years. And, again, I don't say this -- well, I say this with no disrespect to the Commission, but that has got to be a record for a regulated public utility in this, in this country.

It's time that FPL's rates be examined comprehensively. What we would ask is that you defer ruling on this stipulation; that what you do is you allow the discovery process to be completed so that we obtain the information concerning FPL's affiliate dealings and concerning its resource planning process; that after obtaining that discovery, you hold a hearing on the merits of the settlement proposal to find out whether the settlement proposal, in fact, results in just and reasonable rates. And that's a determination that we submit can only be based upon a full and adequate administrative record, and that's not something that the Commission has currently before it. Thank you very much.

CHAIRMAN JABER: Thank you, Mr. Wiseman. Staff, I've got -- and, parties, I know you probably want to respond, but let's allow you to respond after the Commissioners ask questions as well.

Staff, I have a series of questions. Some go to the points raised by Mr. Wiseman, some go to your recommendation and some really serve to clarify for me the terms of the settlement.

I was trying to understand the revenue sharing mechanism, first of all. And, Dale, I'm sorry to skip around on you like this, but the revenue sharing mechanism; if I understood it correctly, for the Year 2002, all revenues between $3,580,000 and $3,740,000 would be shared one-third to the shareholders and two-thirds to retail customers. Now because we're, we've already started 2002, there's **a** cap, if **I** understand **it** correctly, for the Year 2002 to 71.5 percent of the revenues exceeding the **cap.**

MR. MAILHOT: That's correct.

CHAIRMAN JABER: For the Year 2003, revenues between $3,680,000 **and** $3,840,000 are shared, again, one-third to shareholders, two-thirds to the retail consumer.

MR. MAILHOT: That's right.

CHAIRMAN JABER: All -- and this **is** critical. **I** want to make sure I'm doing this right. All revenue over $3,840,000 will be refunded entirely to the retail customer. **Is** that your understanding of this Settlement?

MR. MAILHOT: **Yes.**

CHAIRMAN JABER: For the Year 2004, **all** revenues between $3,780,000 and $3,940,000 are shared, again, one-third to the shareholders, two-thirds to the retail customers, and all revenue over the $3,940,000 will **be** refunded entirely to the consumers.

MR. MAILHOT: **Yes.**

CHAIRMAN JABER: In the Year 2005, which, if we accept **the settlement, will be** the **last year** of **the settlement;** right? That's **all revenues** between $3,880,000 and $4,040,000 will be shared one-third to shareholders and two-thirds to retail consumers. All, all revenue over $4,040,000 will be refunded entirely to the retail consumer.

MR. MAILHOT: That's correct. But all those amounts are billions, yes.

CHAIRMAN JABER: All right. Now I want to understand -- what did you say?

MR. MAILHOT: They're all billions.

CHAIRMAN JABER: Oh, thank you. See.

MR. LITCHFIELD: We appreciate that clarification from Staff.

CHAIRMAN JABER: So do I. So do I. So do I.

Now I want to understand the cost-of-service study. It's my understanding that the cost-of-service study filed by FP&L shows that some groups are below parity and some are above parity.

MS. KUMMER: Yes, ma'am.

CHAIRMAN JABER: For the hospital group, it's your representation that the Hospital Association is currently below parity.

MS. KUMMER: I would assume without first-hand knowledge that they would be served under one of the general service demand classes, and those are all below parity to some degree. Yes, ma'am.

CHAIRMAN JABER: What do you mean by parity?

MS. KUMMER: Parity is a bit of a short-hand term in cost-of-service. The purpose of a cost-of-service study is to determine if a class's revenue recovers the costs necessary to serve that class.

A benchmark we use is to compare the rate of return within a class to the system rate of return. That's what we call a parity ratio. If the system, if the class rate of return is higher than the system rate of return, it's above parity. If it's below the system rate of return, it's below parity.

CHAIRMAN JABER: And through the rate case proceeding, as I recall when we initiated the proceeding, one of the discussions we had was let's make sure that the rate classes are at parity, they're where they need to be in terms of contribution levels. And had -- if this Commission decides to go forward with the rate proceeding, what that means for the Hospital Association is we take them to parity, which in dollars, and, again, correct me if I'm wrong, but in dollars that equates to a rate increase.

MS. KUMMER: In a theoretical sense, that's correct, that we do try to bring classes as close to parity as possible in a rate case. In a case where we have a revenue reduction across the board, what would likely happen is they would get less of an increase perhaps than other classes are above parity if -- for classes which are already below parity. And that, in fact, is what happened with the lighting classes, as stated in the stipulation, that they did not get a decrease for those classes because they're already so far below parity, we didn't feel that it was necessary.

CHAIRMAN JABER: Now how does the stipulation address that? If I understand the stipulation correctly, it actually keeps the classes right where they are and allows the rate reduction to be shared with all classes regardless of the fact that they're not at parity.

MS. KUMMER: That's the proposal. It is an across-the-board reduction. This is different from what has been proposed and accepted in the other stipulations offered by the company and the parties in that those were allocated on energy. If you allocate the decrease on energy, more of the decrease goes to large customers simply because they have more kilowatt hours to allocate it on.

This method of allocating on a percentage across the board does not help parity, but it does not make it worse the way an energy allocation would tend to do.

CHAIRMAN JABER: Now from the recommendation, just a couple of things I need to understand, on Page 4 you make the comparison of a percentage reduction in base rates to, in the fashion that the stipulation sets forth, to sort of a base rate reduction based on an energy allocation. And Staffs recommendation is the settlement actually does it better, that an allocation based on energy usage is, is, and I'm reading into your sentence, is almost unfair.

MS. KUMMER: It tends --

CHAIRMAN JABER: Can you elaborate?

MS. KUMMER: That is correct. An energy allocation, again, tends to give a larger percentage of the decrease to the larger customer classes, the commercial classes which are already below parity. The across-the-board increase gives everybody a fairer shot at the pot of dollars to decrease those, yes.

CHAIRMAN JABER: In the last stipulation was the rate reduction done based on an energy allocation?

MS. KUMMER: Yes, ma'am. And we much prefer the across-the-board.

CHAIRMAN JABER: On Page 5 of your recommendation, when you're going through the individual items of the stipulation, you make reference to the fact that Item 10 probably should be clarified.

MR. SLEMKEWICZ: Yes. That the -- that -- they can take that credit of up to $125 million against depreciation expense, but it would be on a calendar year basis. So for 2002 it would just be over the rest of the year and then it would be on an annual calendar year basis for the rest of the agreement.

CHAIRMAN JABER: But the purpose of your statement, is that something we, if we accept the settlement, we should clarify in the order or should we seek clarification from the parties? What is it you need to accomplish this clarification?

MR. SLEMKEWICZ: Well, we've been looking at the, you know, the plan -- the existing plan ends this April. And we just wanted to make sure that it did not keep going from April to April on an annual basis for their proposal. And we just wanted to make sure they're doing it on a calendar year basis rather than April to April.

COMMISSIONER DEASON: Under your proposal or the way that you view this, what would be the maximum amount of credit which could be taken in the Year 2002?

MR. SLEMKEWICZ: They could take the entire $125 million, if they decided to do that.

COMMISSIONER DEASON: But it would be from April to December 31, and then after, every subsequent year it would be a calendar year basis until the termination of the agreement, which is in 2005.

MR. SLEMKEWICZ: That's correct.

COMMISSIONER DEASON: Okay. Is that the parties' understanding as well?

MR. LITCHFIELD: That's correct.

CHAIRMAN JABER: Mr. Shreve?

MR. SHREVE: Yes.

CHAIRMAN JABER: All right. Finally, Staff, we heard Mr. Wiseman's remarks. Do you have any concern that you didn't have responses to your discovery or that there was stonewalling on your discovery? The parties have represented that actually there's adequate discovery and adequate information in the case. I want to make sure that Staff agrees with that.

MR. MAILHOT: I believe the company has provided responses to all of our questions so far.

CHAIRMAN JABER: And, Staff, if I've done my math correctly and understand the revenue sharing mechanism, it's actually a continuation of the revenue sharing plan that has been existence, in existence that will expire April 15th of this year. And do you have any idea of what that equates to in dollars at the end of 2005? How big of a revenue refund, rate refund are we talking about for the consumers of the State of Florida at the end of 2005?

MR. MAILHOT: Beginning in April of 2002?

CHAIRMAN JABER: Yes.

MR. MAILHOT: Roughly, if you add in the midcourse correction, it's probably to a billion dollars over three and three-quarters years.

CHAIRMAN JABER: Dale, I can't hear you.

MR. MAILHOT: It's probably close to a billion dollars over three and three-quarters years in total.

CHAIRMAN JABER: Commissioners, those are all the questions I have right now. Any questions?

COMMISSIONER DEASON: Madam Chairman, I have just a few questions concerning the agreement and Staffs recommendation, more, I think, clarification than anything else. If now is the appropriate time, I can ask those questions.

CHAIRMAN JABER: Absolutely.

COMMISSIONER DEASON: Okay. I'll direct this at Staff and then, if I need further amplification, I'll address it to the parties. But I'm looking at the agreement itself, which is Page 14 of the recommendation, and I'm looking at Paragraph 12. And this is, this concerns amortization expense that's recorded as an offset to the investment tax credit interest synchronization adjustment.

I just need further understanding. Exactly what, what does this accomplish and what's the reason for it?

MR. MAILHOT: Items 11 and 12 actually are very old items from the company's last rate case, and they should have been or they should be addressed at the time of the company's next rate case. And this is really, it's somewhat of a cleanup item for something that they've been recording for the last probably 15 years at least.

COMMISSIONER DEASON: So this is something that if we had actually taken this matter to hearing, this would have been something that would have been accomplished, at least it would have been Staffs recommendation to have accomplished this in the final order?

MR. MAILHOT: That's correct.

COMMISSIONER DEASON: Okay. The, the other question I have, I guess this *is* probably more appropriatety addressed to the company, and it has to do with the ability of the company to, to book credit amounts to the depreciation expense up to $125 million per year. And we got, just got clarification as to how that would work during the, during the duration of this agreement.

I, I can understand the necessity for this. It gives the company some, some flexibility. This agreement is over a number of years and you cannot look into a crystal ball and know exactly what's going to transpire during that period of time. I guess it gives the company some ability to have some consistency and stabilize earnings, if necessary.

I guess my question, I guess I'm looking for some assurance from the company, is that this provision will not be utilized unnecessarily. I think that I'm looking for a commitment that the company will continue its, its stellar track record in the past of being efficient in managing their company effectively to the benefit of its stockholders and its customers and that these amounts will not be utilized unless necessary, and that's the kind of comfort I'm looking for. And if someone can address that, I certainly would appreciate it.

MR. EVANSON: Well, Commissioner Deason, we certainly intend to continue to operate the company in the same efficient manner we have in the past and we certainly will be making every effort to improve operational efficiency and productivity. And I think that's also inherent in the agreement that's giving us that incentive to continue to do it, number one.

Number two, on the depreciation side, I think it's likely that we would avail ourselves of that provision probably to the fullest extent probably in every year. And I say that for not, not primarily because of the earnings impact, but also because when we actually compare ourselves, our depreciation rates to all of our various peers in the industry, it's very clear that our rates are far higher than most. In fact, they may be the highest in the industry in terms of the depreciation rate that we're taking.

So we've done a lot to do that, we've changed a lot of policies, and I think perhaps we've gone too far in that area. We did, as you know, in the '90s under the depreciation, special depreciation program approved by the Commission take perhaps an additional billion dollars of special depreciation secondly. And then when we go back and look at the remaining book value of our assets, they are extremely low and extremely low compared to industry averages. The fossil is about, I think it's almost a fourth of what the industry average is; the nuclear is about the same order of magnitude. So in a sense we've significantly -- it appeared to me relative to industry and also relative to market value, those assets have been very highly depreciated.

And indeed, as you know, when the 2020 Study Commission was looking at issues of transferring assets out of rate base unlike almost every jurisdiction in the country that had a concern about stranded costs, the issue that, that raised in the Commission was really stranded benefit because the assets are depreciated to that degree.

So, frankly, we think it's appropriate to look at that depreciation and that, and that this reduction is probably bringing depreciation to an appropriate level. And since we will not be having, I believe, not having a full review of depreciation by the Staff during that period, we think the review probably would have shown that we were overdepreciating.

So it serves a few purposes, but I think it certainly would serve the purpose of bringing our depreciation more in-line. And I think after we've taken that, to the extent that we take the full $125 million, we actually will be in-line with peer groups.

So, first, I think we probably will be taking it but, secondly and most importantly, it will have no impact whatsoever on our intense effort to continue to improve operations.

COMMISSIONER DEASON: When is, when is the next depreciation study due to be filed?

MR. EVANSON: Depreciation study?

COMMISSIONER DEASON: Depreciation study, yes.

MR. EVANSON: I think it otherwise would have been filed in 2003. And I believe, the attorneys can correct me, I believe under this agreement that'll be postponed until --

CHAIRMAN JABER: Ms. Lee, you have the date?

MS. LEE: Yes. The company was granted a waiver to file their depreciation study April 30th, 2003, unless there was a settlement in the rate case, at which time it would come forth that they would come forward.

CHAIRMAN JABER: Come forth when?

MS. LEE: That date would be relooked at, come forward, it would be a lot sooner than the April 2003 date.

COMMISSIONER DEASON: So when do we anticipate that the next study will be due?

MS. LEE: It is my understanding talking with the company, they can file a study by October the 30th of this year, recognizing the settlement goes through.

MR. ELIAS: And, Commissioners, if I might add, we recognize that one of the explicit terms of the settlement is that depreciation rates will not change during the term of the settlement, but we still see validity to the study and getting the information and keeping tabs on it on a regular basis.

COMMISSIONER DEASON: Well, I'm glad we're having this discussion because it's clarifying to me the purpose of this latitude which is given to the company that it's really not a cushion to be able to absorb earnings or unforeseen circumstances. This is really an effort to get depreciation, at least in the view of the company, to a level to where it needs to be. That's what I understand the explanation. Am I oversimplifying it, Mr. Evanson?

MR. EVANSON: Well, I think there are two aspects. That's clearly one, and I think one that otherwise is overlooked. But the second is certainly it helps, it does cushion the earnings impact to the company on, from a $250 million rate cut.

COMMISSIONER DEASON: I guess what I'm', I'm hopeful that we can avoid, and it gives me some comfort in your representation that this is really an effort to get depreciation reserves, not the rates, the rates stay the same, get the depreciation reserves in the long-term where they, they need to be.

We know that if, if we underdepreciate or overdepreciate, there has to be corrective measures taken after the next study. And my effort, I mean, my concern is try -- I want the depreciation reserves to be as accurate as possible. I want to hopefully avoid though erratic changes in depreciation rates. And I know that this agreement keeps rates frozen, depreciation rates frozen during the entire period. I would hope that after the conclusion of this settlement, if it is approved, that we would not find ourselves in a situation where depreciation reserves are way out of balance from where they should, theoretically should be. And you've given me the indication that you think this is a step in the right direction to get those, actually to get those, as a positive thing to get the reserves where they should be.

MR. EVANSON: Right.

COMMISSIONER DEASON: I'm looking for some feedback from Staff. Does Staff share that view or does Staff feel like that it's just too unpredictable at this point to forecast that far ahead as to where depreciation reserves should be?

MS. LEE: Commissioner, I think it's too early to tell, as the story goes.

I am concerned with the company's statement that all of the sudden their plant is, quote, overdepreciated. My personal opinion is this reversal of depreciation expense, if you will, is a cushion, a management of, to help them manage earning. And it's interesting, at least to me, that the prior stipulation where the company was recording additional depreciation expense, and I think it was in the magnitude of up to $100 million a year in discretionary amortization expense, and the caveat was that that accelerated amount would not be carried forward in the design of depreciation rates. Follow me through, you're booking additional depreciation expense, which would, if it was included in the reserve, would lower your depreciation rate. That stipulation did not allow us to include it in the depreciation rate design.

Now when it's going the other way, they're going to credit the, the expense, they want that included in the depreciation, depreciation rate design next time, which will lower depreciation rates even further.

COMMISSIONER DEASON: We have -- under the previous stipulation though **we** have accumulated some $170 million in recognition of that additional, additional depreciation.

MS. LEE: Right.

COMMISSIONER DEASON: And that that's going to be the first item which is going to be addressed in the flexibility of the company to book $125 million per year; correct?

MS. LEE: Exactly. Essentially reversing that out. Uh-huh.

COMMISSIONER DEASON: Okay.

CHAIRMAN JABER: Commissioners, any other questions?

COMMISSIONER BRADLEY: **Yes, I** have a question.

Item 13, and by no means am **I** encouraging an increase, but **I** just need some explanation of Item 13. You know, one of your service areas is Dade County, and I'm just curious **as** to what the impact of Item 13 **is** going to be upon your quality of service if, in fact, we have another no-name storm come through South Florida. **What** are your **plans** to, **to** **deal** with that, if we have another catastrophic event such **as** what we **had a** couple of years ago?

MR. LITCHFIELD: We do have reserves. This is Wade Litchfield on behalf of FPL. We do have a storm fund reserve which would be used as well as insurance proceeds to finance reconstruction of any portion of the system that happened to be taken down by a major storm. We would hope that would be sufficient.

To the extent that it wasn't and we needed additional funds, we would make that request of the Commission at that time. But that is our plan.

We had asked to increase the accrual in the reserve in the storm fund, but as part of the give and take in the course of reaching a settlement we had agreed to withdraw a request in that regard. We feel, however, though that we have the good faith of the Commission backing us, as well as, to some extent, the reserves and the insurance proceeds to back us in those instances.

COMMISSIONER BRADLEY: One other question.

CHAIRMAN JABER: Uh-huh. Go ahead.

COMMISSIONER BRADLEY: Now this is not going to result in any layoffs within your labor force, is it? I'm thinking about the crews that need to be available.

MR. LITCHFIELD: The agreement of the -- the settlement agreement will not result in layoffs, is that your question, Commissioner Bradley?

COMMISSIONER BRADLEY: Yes. Will it?

MR. LITCHFIELD: Will it?

COMMISSIONER BRADLEY: Yes.

MR. EVANSON: Well, I wouldn't say the settlement as such would, but we continually and regularly look at improving our operations and our productivity. And I'd say over the whole decade of the '90s we have regularly perhaps made reductions of one kind or another in personnel; some years greater, some years not.

So this, this in and of itself doesn't change that, although it certainly makes it more challenging to achieve what people might consider satisfactory return because there will be a lot of pressure on the company to try to make those satisfactory returns. But we're not going to do it. We're not going to jeopardize service in any way as a result of that.

COMMISSIONER BRADLEY: Okay.

CHAIRMAN JABER: Just to follow-up, just to drive this point home, one of the things, frankly, I was impressed with as I went to your service hearings in particular was the amount of customers that came out in support of FP&L's service. And only a handful in terms of -- you know, it's ail relative, I'm sure. But in terms of how many customers you serve, it was just a handful of people that were not pleased with your quality of service. And as I recall, those concerns were immediately addressed by your staff, and there were a lot of concerns with respect to the rate levels.

But similar to Commissioner Deason, I guess I'm looking for your assurance that if we accept this settlement at the end of the discussion, that the good quality of service that you do provide will not be jeopardized in any manner.

MR. EVANSON: That's absolutely so. And the agreement that we're entering into is really very similar and analogous to the agreement that we entered into three years ago. And I think, as you noted, the quality of service has actually improved significantly during that three-year period. So our intention is clearly to try to continue that going forward, and this will in no way, signing this, approving this agreement would in no way jeopardize that.

CHAIRMAN JABER: Commissioners, any other questions?

COMMISSIONER PALECKI: I'd just like to ask a follow-up question to Commissioner Bradley's inquiry, inquiry regarding the storm damage reserve.

I recollect that this reserve fund was created after Hurricane Andrew because it was impossible to get reasonable, reasonably-priced insurance after that disaster.

Has that situation changed in Florida Power & Light's territory and do you have a situation now where you can purchase insurance at a more reasonable rate?

MR. EVANSON: The insurance has improved a little bit. Certainly right after Hurricane Andrew you could not get any insurance coverage at almost any reasonable price. It has improved, but I think the, the economics is such that to the extent you can reasonably build the fund, it's more economic to do that than to purchase insurance. And what we've tried to do is get a mix of the two because the insurance gives you a big benefit day one, big coverage day one; whereas, the fund builds up over time.

COMMISSIONER PALECKI: What is the level of the fund?

MR. EVANSON: So we don't, we still don't have insurance more, the levels necessarily that we'd like or the rates the way they are. I think now it's about $100 million of insurance coverage. At the time of Hurricane Andrew it was $350 million with a premium of about, I believe it was $3 million, maybe even less. It was like a one percent. So since then the percentage premiums have increased significantly.

COMMISSIONER PALECKI: So your situation now is that you're insured in the amount of $100 million?

MR. EVANSON: $100 million, $100 million at certain levels.

COMMISSIONER PALECKI: And that's in addition --

MR. EVANSON: It's kind of complicated because there are deductibles and then it goes in certain levels.

COMMISSIONER PALECKI: And that's in addition to the storm fund?

MR. EVANSON: Yes.

COMMISSIONER PALECKI: Thank you.

CHAIRMAN JABER: Commissioner Baez?

COMMISSIONER BAEZ: Just one follow-up on that because this Section 13 of the -- is Section 13 creating **a** right *of* recovery that didn't exist before? Does the agreement, is the agreement offering you the ability to **come** back and, **and** recover prudently incurred costs in **excess** of whatever the storm reserve **was** that didn't exist before?

MR. EVANSON: Well, no, it doesn't change, I think, what was there before. Actually what, what makes the most economic sense, **and I** think what we came in and requested some time ago from the Commission after Hurricane Andrew **was, was an** agreement or a rule from the Cornmission that to the extent that there were losses, significant losses from the storm, that we **would** have the ability to recover them via a **clause** over a three-to-five year period. That's probably **--** that's more economic, **makes** more economic sense, you might say, using that word generally, than it **is** even to **set up** a fund.

But the Commission at that time said that that logic made a lot of **sense** and, to the extent you are short, why don't you come **in** and we'll talk about it then? And I think what this **is** doing is continuing that **same** logic. So there's not a **change** in **my** mind in the **substance** of **where we were before that** provision.

COMMISSIONER BAEZ: Thank you.

CHAIRMAN JABER: Commissioner Bradley?

COMMISSIONER BRADLEY: Yes. Just to, not to belabor the point, but so then the Commission should assume then that you have sufficient funds to cover a catastrophic event at this time in this particular reserve fund?

MR. EVANSON: No. We, we have, we have what we think is adequate for most occurrences. But I could tell you surely if a storm like Hurricane Andrew hit Miami and came right up the east coast through Palm Beach, there would not be nearly enough assets in that fund in insurance and it would be a significant impact to the company, and there's no doubt I would be here before you asking for some kind of special relief on it because you could be talking about billions of dollars in that case.

COMMISSIONER BRADLEY: Okay.

CHAIRMAN JABER: Mr. Shreve, we've had some discussion this morning. Is there anything that you've heard this morning that changes your opinion or your involvement in this settlement being, in your opinion, a good settlement?

MR. SHREVE: No, Commissioner, there's not. And I do have a couple of comments, if I may.

I don't really have any argument or disagreement with Mr. Wiseman's statements on the issues that he made. As you know, we come in with what we consider a strong case and put forth every issue before this Commission that we feel is justified and credible. I will have to say we have not always won on the issues that we have, even though they're totally justified, and we always intend to put on that strong case, knowing we won't necessarily win on every issue and certainly the company will not win on every issue. So we take that into consideration.

Our case actually issue by issue would have called for larger cuts in some issues than Mr. Wiseman's would, and I think he did a good job in putting those issues together.

Some of the parties filed for less of a rate reduction than we have in the settlement. So I think you have to take it in perspective. If we could get some type of assurance from the Commission that we could have our way on all the issues, you'd be surprised what we'd have.

CHAIRMAN JABER: We'll see what we can do.

MR. SHREVE: But we don't have that assurance.

CHAIRMAN JABER: We'll see what we can do for you.

MR. SHREVE: Well, I appreciate that, and y'all have done well. You've provided us an opportunity here to file and get the discovery. And on the discovery, we, of course, have had some arguments with Florida Power & Light, as we do with all the utilities on the discovery, sometimes they're things that we think we might be entitled to that they might disagree and we come to you and have those straightened out. And I think we have, we've certainly had arguments in this case. I think we've availed ourselves of the procedures and done well and had good cooperation with some disagreement: on what we should have.

Back to the point about the issues. We understand that and we'll always continue to put forth the strongest credible issues we can.

The Commission is not, does not lose any authority in this. As you know, and the parties have discussed this, we do not take away any of your authority to bring Florida Power & Light back, if you deem to at some time in the future, just like you did this last time. And Mr. Wiseman may have done the wise thing -- that's a bad pun -- the correct thing here. I mean, the other parties are bound by this that have signed on the stipulation. Mr. Wiseman has not, so the Hospital Association, I think if they decided they wanted to pursue something in addition at a later time, they could. I don't think they're bound in some ways the same way the other parties are.

Just to go into a little of the logic or background of this agreement and possibly some other agreements. And, you know, we've had quite a few stipulations that have come out. I guess the first really -- now we started having stipulations with some refunds in cases before basically on overearnings. Then we moved into really an incentive-type stipulation with Bell was the first really large one where we had a $300 million rate cut with refunds that amounted to over, over $300 million during the four-year term of that agreement.

We then tailored things differently with Florida Power & Light and with Gulf in the last one because I think using the revenue as a measurement rather than ROE, it puts the customers in a position to benefit from the funds while putting the company, of revenues, while putting the company in a position to go ahead and take advantage of whatever efficiencies that they can. And even though they do that, where in the past we might have had an argument about ROE, we don't have that argument because we're dealing with revenues.

Some of the reasons that we're able to get the decrease in the last case was because of the write down of the assets which you had going on for several years. We were able to take advantage of that and that's the reason we were able, a large part of the reason we were able to get the decreases we were last time.

I think that the settlement last time where we received all the benefits on a revenue basis put the company in a position to better manage, to be more efficient, while not taking away any of the service oversight that you have, they still have to tow the mark on that and everyone expects that, but they had to be more efficient, cut costs. And by tailoring the agreement the way we did, we now are able to take advantage again at this point of those same efficiencies that were caused by the last agreement. And I would look forward to this happening in the future.

The Commission does not have the authority to order refunds except in a situation where we have an interim rate decrease, we come in and put the order in and get the stake in the grounds. If you could come in here and order that the company refund everything above the top of the range, I would accept it in a minute and it would be great, but you don't have that.

In this situation we have what I consider a very large justified rate cut. The company's filing after 9/11, which really impacted this case and Florida Power's case, we had to take that into consideration because revenues dropped and their estimates dropped by over $100 million. We had to take that into consideration.

Now what we've done is got a large increase here with a safety net for the customers because if the, if we've left money on the table, those sales come back, then we are going to share in that two-thirds or a certain part of it and then get everything back above that. This is one reason to tailor agreements because you don't have that authority, and we can do that, give the company some comfort and certainly give the customers and all of our parties some comfort there. And that's one of the reasons that I feel to go forward with a settlement because we're in a position to go ahead and work things both **ways,** where in your situation you could come out, have a rate cut ordered, we'd have a bottom of the range, top of the range, and the only way we'd get any money out of them later is to bring them back in, bring them down to the **top** of the range with another rate case. This way we're going to be able to participate in that **so** that the rate cut **is** not the end of it. If it **is** the end of it, then it means we probably got **as** much as we possibly could have gotten **under** the circumstances and they didn't bring anything **else,** didn't have anything **else** fall out on the table and we didn't leave anything there.

CHAIRMAN JABER: Mr. Shreve, also just on that point, in terms of the rate case expense to go forward with **a** proceeding, what was the company asking for in terms of recovery for rate case expense? Do you recall?

MR. SHREVE: I don't recall **and** it had not been completed, as **I** understand it.

CHAIRMAN JABER: FP&L, can you give me a number?

MR. SHREVE: $10 to $11 million, which --

CHAIRMAN JABER: $10 to $11 million in rate case **expense.**

MR. SHREVE: **Yes.** Right.

CHAIRMAN JABER: ***So*** in **terms** of **going** forward **with** a proceeding, it's the retail customers that **pay** the cost of litigation.

MR. SHREVE: That's correct in all of the cases, not just the power case. But that's right. And that would have continued to increase. And, of course, that's something the company is going to have to eat at this point.

So like I say, I understand Mr. Wiseman's positions. We had positions that would be comparable, not less in any situation. Some of the other parties accepted our position, some of the other parties came in actually with lower than we have in the final settlement.

So I'm very pleased with the settlement. I understand where Mr. Wiseman is coming from. I don't think he is precluded from bringing any actions in the future, as certainly the Public Service Commission is not precluded and you can do whatever you feel is necessary at any time. And we feel -- I feel that this is a good result.

CHAIRMAN JABER: Staff, I want to ask you the same question I asked Mr. Shreve. Is there anything you heard today that changes your recommendation?

MR. MAILHOT: No, there's not.

CHAIRMAN JABER: Okay. Thank you. Commissioner Bradley, did you have a question?

COMMISSIONER BRADLEY: I'd like to make a motion.

CHAIRMAN JABER; Okay. Let me set the stage for the motion, if you don't mind.

COMMISSIONER BRADLEY: Okay.

CHAIRMAN JABER: Commissioners, I don't know what the motion will be and I certainly don't know what the vote will be at the end of the day, but I want to bring us back to how we started this proceeding and have that be part of your consideration and just sort of make a bare statement before we conclude.

When we initiated the proceeding, I want to take you back to what the circumstances had been, there was an interim report coming out of the Energy Commission that made certain recommendations and asked the Commission certain questions that, frankly, we could not answer because it had been a number of years since anyone looked at FPL's base rates and their earnings levels. That's one factor.

There was the discussion of a Transco, original transmission organization, but a broader RTO, and we couldn't with comfort understand what the cost of transmission would be and the impact on the retail ratepayers. There was the discussion of a merger that subsequently failed, but we wanted to understand where the efficiencies were to be gained by the retail ratepayers and what benefits should be flowed through to the retail ratepayers,

And finally I know as one Commissioner I had heard many, many complaints and received many, many E-mails related to what FP&L's rates were. And you may recall, we just felt like that had gone on too long and it was time for the PSC to take action and we did. And we set the course of initiating a proceeding and our Staff has done a tremendous job in gathering the data and giving me personally a comfort level that we have thoroughly reviewed where the base rates are now and are comfortable with the settlement.

The merger has failed and I know that we've looked at where those efficiencies are and where the benefits to the retail ratepayers belong and how incentive-based approaches can accomplish what we were trying to accomplish from day one. That's sort of the historical perspective that I've had to come back to in analyzing this settlement. It's easy to get excited about a settlement because it closes out a proceeding. It's very, very easy for me to get excited about a good settlement that I know benefits Florida citizens at the end of the day because not only does it put money back in their pocket, especially after September 11th and tough economic times, but it gives us comfort in answering their questions, it gives us comfort in saying to them quality of service at FP&L is good, and it gives me comfort in saying all the parties, but for one, and that's okay, have come to the table, the consumer advocates have come to the table and represented that this is a good settlement on the behalf of the citizens of the State of Florida.

Commissioner, you have a motion?

COMMISSIONER DEASON: Madam Chairman, if you could indulge me for just a moment before the motion and, please, Commissioner Bradley, if I may.

I'm not going to make a motion but I just want to say something. And I, I think that -- and like you, Madam Chairman, I don't know what the motion is going to be or what the vote is going to be at the end of today. But I think that -- I think this Commission -- to some extent, the Commission and obviously the Staff should recognize that in order for a settlement to be brought forward, regardless of whether this is voted up or down, but for a settlement to be brought forward, I think it speaks volumes on the effectiveness of regulation in this state because I do not think that unless regulation is strong and effective, yet fair, you've got to have those, that's a prerequisite for the parties to feel comfortable corning forward with even proposing a stipulation. And if this Commission was predisposed to favor one side or another, I don't think we would ever see a settlement. We'd always be in a hearing mode and we'd be making decisions that way. And that's not a bad thing, but I think settlements offer a lot. I think they offer parties the ability to be innovative, look at things in a different light and provide flexibilities that in a very strict regulatory role sometimes we're prohibited from doing.

So I think the fact that the parties have brought forth a settlement is a very positive thing. I think it speaks well of the regulation that exists in this state and has existed for a period of time, for a long period of time. I think this Commission has been cognizant of the changes that have been happening in the industry. We have tried to be forward looking.

Florida Power & Light approached this Commission years ago with the idea that there were a number of assets on their books which really did not belong there as we approached a more competitive environment, and I think this Commission took action to try to recognize that and eliminate those regulatory assets off the books. We also looked at their, their depreciation levels and determined that the amount of depreciation and the reserves needed to be looked at and to be more reflective of companies that may be entering into a competitive environment.

To some extent I'm comforted by the fact that apparently we've reached our goals because the company now is saying that, if anything, they may be in an overly depreciated state, and I guess that's where the flexibility comes in to, to address that.

I think Mr. Shreve has indicated that we certainly retain our full ability to, to maintain our jurisdiction over the quality of service of this company. And I, I recognize the, the improvements that have been made, that Mr. Evanson identified, and that we as a Commission, I think, would expect that that high quality of service continue. And I think we've gotten an indication from the management that it is their desire to not only maintain but to constantly strive to improve the quality of service that's provided to their customers.

So I, I also want to reiterate something that you said, Madam Chairman, and it's something that is identified in the, in the "whereases" to the stipulation, and that is the fact that there has been a full set of minimum filing requirements filed in this proceeding, there has been comprehensive testimony filed, there's been extensive discovery. I think that this, if this settlement is approved, that it is consistent with the idea that we have conducted a thorough rate review for this company. And I think it would be unfair to say that this Commission has not conducted a thorough rate review for this company because we would have. I think that all of the information is there.

There's one other thing that I would like to mention, too, and that is that parties, when they present their, their positions to the Commission, I think that they, they take firm positions and they do a very credible job advocating for their particular clients and their positions, but it's advocacy. And I don't think anyone really fully expects that when they file testimony, that they're going to win on 100 percent of every position that they filed. And that goes for intervenors as well as the company. And I think that what we as a Commission need to do, we need to balance what we have here in front of us, the certainty that it brings and the immediate benefits that it brings with the uncertainty that may be the result of a full, a full hearing. So those are my comments.

CHAIRMAN JABER: I think we better take statements before we take up the motion. So, Commissioner Baez, let me defer to you for the next statement. But let me also recognize that you are the prehearing officer on this case and, absent your leadership, not to take away from the efforts of the parties, the tremendous efforts of all the parties, but if it wasn't for your leadership in bringing this case forward in the time scheduling that you have and with the insistence that you have that the issues be clearly defined and that all parties have an opportunity to present their prefiled testimony in the fashion that they did, I don't think we would have gotten that far. So I'd take an opportunity to commend you and also recognize you for comments.

COMMISSIONER BAEZ: Thank you, Madam Chairman. On time and under budget, I guess.

CHAIRMAN JABER: Overworked and underpaid.

COMMISSIONER BAEZ: Overworked and underpaid. We don't even have to talk about that.

You know, last night I was thinking about, you know, how all this was going to happen and what I might have to say about it. And I think when we opened the docket, I guess it was back in July, June or July, I, I thought I might have detected a tinge of nostalgia over the opening of some kind of rate review. And I realized that that was just a cold chill that -- I think back about Scrooge, you know, the ghosts of rate cases past and so on.

Going back to something that Commissioner Deason had said, which I think really expresses how I feel about this, I think, you know, he makes the point that we do have a complete record, and I think that in and of itself sort of expresses what, what kind of role this Commission, this new Commission, as the Chairman likes to say, bas tried to carve out for itself. And I think that's, that's a shining example of it.

And at this point I want to compliment the Staff. I'm not given to do this, I'm not given to doing this publicly, but I have a lot of residual guilt, so I want to, I want to say it out loud.

Y'all have been terrific with this. Whatever nice things the Chairman said about me I owe all to you because you've kind of, you've always been there to answer my questions and, and to tell me, tell me your, your reason, thoughts on, on certain issues, and I think that in large part has been a reason why this thing, you know, this, we've gotten to this point today.

Again, going back to what Commissioner Deason said, we don't get negotiated agreements if we don't have complete records, if our Staff and the Commission hasn't sought out to let's lay the issues bare and let's give everyone a, a well-leveraged position to negotiate with. I think that's, I think that's crucial to this, to this part. And what it really all adds up to is a light touch of, of regulation, and I commend the Staff and I commend the rest of the Commissioners for that as well.

Let's not forget this lesson. Let's not forget this feeling, because I think it can do us all some good. This is the way, certainly from my perspective this is the way that I would like things to proceed. And obviously nothing -- everything didn't go perfectly and there's always some, some aspects of processes and aspects of dockets and how, how the parties work together that we can always look to improve, but I think we can all be proud of ourselves to this result. And I guess everybody has been disclaiming the result of a vote and so on, and I'll join them in that as well. But I think the fact that we have a product that certainly a majority of the participants have stood up and said they're proud of, that they think is a good result certainly comforts me.

For one, I know how hard Mr. Shreve goes at it, so, so the fact that, that his -- simply put, his opinion means a lot on this because he does such a good job of representing the ratepayers. And certainly the company coming forward in a reasonable manner and also endorsing this agreement gives great comfort as well. And I'd like to get a motion on the floor to join. I want to thank you all.

CHAIRMAN JABER: I think Commissioner Palecki wanted to make a statement.

COMMISSIONER PALECKI: I have just a very brief statement. First, I'd like to thank all of the parties and our Staff for the hard work that they've done in this docket. This has been a very thorough, comprehensive and exhaustive review of Florida Power & Light's operations. And I believe as a result of the thoroughness of the discovery that was done in this docket the parties were able to negotiate from a position of strength. And I believe that's why we're here today with what I think is a very favorable settlement.

I'd like to reiterate something that Chairman Jaber pointed out earlier. We went to seven customer service hearings in seven different communities and heard from the customers of Florida Power & Light in those communities, and we heard very few negative comments. Most customers who attended those customer service hearings testified as to the high quality of service they were receiving from Florida Power & Light. I know that what we heard at the customer service hearings is also borne out in the level of customer complaints that we receive from Florida Power & Light. They have been very low. And this is something that hasn't always been the case. Five, seven years ago the quality of service was not what we see today, and Florida Power & Light is to be commended for showing tremendous improvements in the quality of service in their territory. I know our own data that we collect from the utility shows that the level of outages and interruptions to Florida Power & Light's customers have decreased over the last five years.

I believe that Florida Power & Light has shown that they are an efficient, well-run company providing low cost, high quality service, and I believe that the ratepayers of the State of Florida will benefit from this settlement.

CHAIRMAN JABER: Thank you, Commissioner Palecki.

Commissioner Bradley, we're going to let you make the motion. I hope you make the right one.

MR. LITCHFIELD: Madam Chairman, if I might before that happens.

CHAIRMAN JABER: Go ahead, Mr. Litchfield.

MR. LITCHFIELD: For purposes of clarification, we have two requests before the Commission today. One, to ask that you accept and approve the, the stipulation and settlement agreement, and the other, to implement the midcourse correction in the fuel adjustment clause.

CHAIRMAN JABER: Right. Those are Issue 1 and Issue 2 respectively, if I'm not mistaken. Yes.

MR. LITCHFIELD: Yes. Thank you.

CHAIRMAN JABER: We're voting out the recommendation.

Commissioner Palecki, would you like to make a motion on each issue or do you want to do it in one?

COMMISSIONER DEASON: Commissioner Bradley.

CHAIRMAN JABER: What did I say?

COMMISSIONER DEASON: Palecki.

CHAIRMAN JABER: Okay. Commissioner Bradley, do you want to make a motion on everything?

COMMISSIONER BRADLEY: I'd like to make a motion on everything in block.

But, first of all, let me say this, with all due respect to the Florida Hospital Association, it's very unusual to have nine parties come together and to have everyone agree. It's exceptional when you have eight of nine agree to the proposed stipulation and agreement and to come in here today and to be willing to sign that document.

Having served in the Florida Legislature for many years and having dealt with many issues that were very, very contentious and in some instances debated for long periods of time, I grew to have a vast amount of respect for Mr. Paschall and, and Mike Twomey. And believe you me, if they agree to the settlement, it must be good for, for the ratepayers and the consumers of Florida because I don't think I've ever had them agree to, to anything that I've listened to debate about because they were dead set against some things that were involved in the process and they let it be known. So that in itself sends a strong message to me.

Mr. Shreve, I can tell you that your reputation preceded my first meeting with you and me getting acquainted with you. You have a reputation for working to ensure that the ratepayers of Florida get a fair shake in every proceeding.

That's, these --just to have these three people here today saying that this is a good agreement or a good situation for the ratepayers of Florida sends a strong message to me and hopefully it sends the same message to my counterparts on this Commission.

Therefore, what I would like to do is this. I would like to support Staffs recommendation, and that is to have the Commission enter a final order today in block taking in both issues. And I would urge my fellow Commissioners to vote with me to, to, in support of that final order.

CHAIRMAN JABER: Thank you, Commissioner Bradley. We have a motion to accept Staffs recommendation to approve the proposed stipulation and settlement in Issue 1, and a motion to accept Staffs recommendation to approve FP&L's petition for adjustment to its fuel adjustment factors as contained in Issue 2, and a motion to close this docket by final agency action in Issue 3. Need a second.

COMMISSIONER PALECKI: I would second the motion.

CHAIRMAN JABER: The motion and a second. All those in favor, say aye.

(Simultaneous affirmative vote.)

CHAIRMAN JABER: Show Item 12A, Staff, approved unanimously. That concludes this agenda conference.

MR. ELIAS: There is a fourth issue with respect to --

CHAIRMAN JABER: Oh. After close the docket?

MR. ELIAS: It's a fuel docket.

CHAIRMAN JABER: And, Commissioner Bradley, your motion included keeping the fuel docket open?

COMMISSIONER BRADLEY: Yes.

CHAIRMAN JABER: And we had a second to that and we voted unanimously, Mr. Elias. Thank you.

I want to take an opportunity to congratulate all the parties and to thank you for your cooperation in bringing this all together.

Mr. Shreve, I wanted to close in particular with you by telling you you are far too humble in your efforts. You are an outstanding public servant and I congratulate you in particular.

FP&L, I hope other companies take your lead. And, also, now that I know that you are capable of coming to the table, guess what? I'll expect it over and over again. Mr. Shreve?

MR. SHREVE: Commissioners, if I may, and now that the vote has been taken, this certainly can't be intended to sway anyone. I wanted to tell you that I think this Commission, all of you, thank you for your remarks, Mr. Bradley and everyone, this result is in large, large part to your credit. And the Staff of the Public Service Cornmission has worked very hard on this. All of the parties without exception have been a pleasure to work with and worked diligently. Paul Evanson, Bill Walker and Bill Feaster (PHONETIC) have been great to try and, although we didn't always agree, negotiate a settlement with.

And I would like to last, we have a relatively small staff, but Roger Howell and Billy Dee Smith, you couldn't believe the work they put in and what they accomplished. Thank you.

MR. EVANSON: Could I add my -- could I echo Mr. Shreve's comments? I think it was, this is a fair settlement, give and take on all sides, but I'm especially pleased that it continues incentive-based regulation in the state that Jack and FPL and the Commission and the Staff have really supported. I think it makes Florida a model for how states ought to regulate wires companies and I think it's a giant step forward. And I thank the Commission and I thank the Staff for all its constructive work and being part of this process, and we really have enjoyed working with you, with all of you. Thank you.

CHAIRMAN JABER: Thank you, Mr. Evanson.

MR. SHREVE: And although I would like to have had him have the last word --

CHAIRMAN JABER: I think Mr. Twomey should have the last word.

MR. SHREVE: He usually does.

I would like to say that -- one thing I had wanted to mention. This is a $600 million rate reduction since '99 with hundreds of millions of dollars of refunds and more to come, and I don't know of any utility in the country that has accomplished this and I don't know of any Public Service Commission in the country that has accomplished this and you're to be congratulated.

CHAIRMAN JABER: Thank you, sir. We're done. Go home.

(Concluded at 10:05 a.m.)

STATE OF FLORIDA)

CERTIFICATE OF REPORTER

COUNTY OF LEON)

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

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

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

DATED THIS 27TH DAY OF MARCH, 2002.

____

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

In Re: Petition of Florida Power Corporation for authorization to implement a self-insurance program for storm damage to its T&D Lines and to increase annual storm damage expenses

DOCKET NO. 930867-EI; ORDER NO. **PSC-93-1522-FOF-EI**

Florida Public Service Commission

1993 Fla. PUC LEXIS 1339

93 FPSC 10:253

October 15, 1993

PANEL: [*1]

The following Commissioners participated in the disposition of this matter: **SUSAN** F. **CLARK;** JULIA L. JOHNSON; LUIS J. LAUREDO

OPINION: NOTICE OF PROPOSED **AGENCY** ACTION

ORDER GRANTING REQUEST TO SELF-INSURE

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected **files** a petition for a formal proceeding, pursuant to Rule *25-22.029, Florida Administrative Code,* within 14 days of the date of issuance of this order.

On September 1, 1993, Florida Power Corporation (FPC) petitioned to implement a self-insurance program for storm damage to its transmission and distribution facilities (T&D lines) in the event of hurricane, tornado, or other damage due to natural disasters. FPC also petitioned to increase annual storm damage expense from $ 100,000 to $ 3 million, to replace commercial insurance, which FPC asserts is no longer adequate or available on reasonable terms. FPC requested that a decision be made on an expedited basis, because its current insurance coverage expires on **[*2]** November 1,1993.

To facilitate an expedited procedure, Mr. John Scardino, Vice President and Controller of FPC, filed testimony concurrently with the Company's Petition. Mr. Scardino testified that, through August 31, 1993, T&D lines were insured to $ 85 million on a per occurrence basis, subject to a deductible of $ 10 million. On September 1, 1993, $ 15 million of this coverage expired, and the remaining $ 70 million will expire on November 1, 1993,

Mr. Scardino stated that FPC is experiencing difficulty in renewing its insurance program for T&D lines. The Company solicited quotations from current carriers, prospective carriers in the United States and London, and Line Insurance Company, a mutual that the utility industry organized several months ago to offer T&D coverage to electric utilities on a risk sharing basis. Mr. Scardino further testified:

In summary, average rates per dollar of coverage ranged from 6% - 16% representing an increase of 500 - 1500% over current rates. Deductibles ranged from $ 10 - $ 100 million representing an increase of as much as 900% over our current program. In addition to the annual premium the Line Insurance mutual quote includes an up **[*3]** front capital

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contribution plus a potential retroactive premium. All quotes received were for coverage on an aggregate annual basis versus the present per occurrence basis. (Pages 6-7)

Therefore, we have concluded that a self-insurance approach is the most reasonable and prudent at this time. Additional facts supporting this conclusion are as follows:

a) FPC's average annual storm loss history is $ .7 million using a 20 year period and $ 1.4 million over the most recent 10 years . . .

b) Current deductibles for **firm** quotes being offered are 10 to 15 times our annual average loss experience for the most recent 10 year period.

c) Current pricing, notwithstanding high deductibles, is ***6*** to 15 times that of a year ago (9/1/92).

d) Current average pricing is over 3.5 times our annual average loss experience for the most recent 10 year period. (Pages 7-8)

FPC believes that a limited industry mutual program would require that they share risks disproportionate to their actual storm experience. FPC proposes to accrue funds to its Storm and Property Reserve, rather than pay premiums to an insurance company. Although some level of "traditional" insurance coverage is currently **[*4]** available, it does not appear to be adequate in price or amount.

On an ongoing basis, we will require FPC to evaluate alternative plans to provide protection against the risks associated with storm damage to its transmission and distribution system. **FPC** shall file with the Commission an annual report addressing: 1) its efforts to obtain traditional insurance for this risk; 2) the status of the proposed industry-wide program and any decision made to participate or not to participate in that program; 3) an update of its evaluation of the company's exposure and the adequacy of the reserve; and 4) its assessment of the feasibility and cost effectiveness of a risk sharing plan among the investor-owned electric utilities in Florida.

We find that the concept of self-insurance for T&D Lines is reasonable for FPC at this time. In light of the high cost and inadequate amount of T&D insurance available to FPC, we believe that the company should have the discretion to self-insure, but we stress the importance of constant reevaluation by FPC as the insurance climate in Florida changes.

We also believe that FPC should increase its annual contribution to its Storm and Property Insurance Reserve. **[*5]** FPC is now collecting $ 1 million annually in base rates for T&D property damage. This consists of 1993 annual storm damage expense of $ .1 million and property insurance premiums associated with T&D coverage of $ .9 million, The Company has requested an additional $ 2 million, for a total annual storm damage expense of $ **3** million.

FPC estimates that $ 3 million is adequate to begin rebuilding **a** storm damage reserve, based on the 20-year history of actual storm damage incurred by the Company. The reserve would be used to cover storm damage experience for all losses not covered by insurance, including T&D lines and deductibles associated with other property insurance. Mr. Scardino predicted a reserve balance of $ .1 million on December **31 ,** 1993.

Exhibit JS-1, Part C, attached to the testimony of John Scardino, presents a summary of storm damage experience for the period 1973-1993. The reserve balance remained at $ 1,643,000 from 1981 to 1985, when **it** was completely wiped out by $ 4,440,000 in storm damage from hurricanes Elena and Kate. The reserve was rebuilt to $4,244,000 by 1992, and was then depleted by the October 1992 tornadoes followed by the March 1993 **[*6]** "storm of the century."

We are concerned that $ 3 million might not be adequate. FPC shall submit a study (similar to that required of FPL in Order No. PSC-93-0918-FOF-EI), evaluating the amount that should be annually accrued to the reserve. This study shall be filed three months from the date of the vote in this docket. FPC's study shall provide information concerning the treatment of T&D damages under its existing policy, a listing of the type of storm-related expenses FPC intends to draw from the reserve fund, and what type of accounting entries will be made for each item. Until the appropriate amount is determined, FPC shall accrue storm damage expense at the $ 3 million level beginning November 1, 1993, with the understanding that this amount may be trued-up, depending upon our findings based upon the study.

We also believe that FPC should continue use of an unfunded Storm and Property Insurance Reserve. FPC witness Scardino testified that an unfunded reserve is preferred because "the costs of establishing and maintaining a fund are not justified when compared to the expected balance of the fund." According to Mr. Scardino, "the purpose of a funded reserve is to assure **[*7]** that liquid funds are available to immediately initiate the repair of damage to quickly restore safe and reliable electric service. **A** dedicated line of credit will provide the same certainty of availability of funds."

We agree. Given the size of FPC's capital structure, a potential $ 100 million increase in debt will not affect the Company's financial risk. Therefore, we find that an unfunded method shall be used for FPC's Storm and Property Insurance Reserve.

Mr. Scardino proposes that, in the event that actual experience from storm damage exceeds the reserve balance at any given point in time, the excess costs should be deferred through the creation of a regulatory asset to be recovered from the customers over a five year period through a mechanism to be determined by this Commission.

This Commission already has a rule in place to govern the use of Account 228.1, Accumulated Provision for Property Insurance. Rule *25-6.0143(4)(b), Florida **Administrative** Code,* provides that, ". . . each and every loss or cost which is covered by the account shall be charged to that account and shall not be charged directly to expenses. Charges shall **[*8]** be made to accumulated provision accounts regardless of the balance in those accounts."

If FPC experiences significant storm related damage, it can petition for appropriate regulatory action. In the past, this Commission has allowed recovery of prudent expenses and has allowed amortization of storm damage expense. Extraordinary events such as hurricanes have not caused utilities to earn less than a fair rate of return. FPC shall be allowed to defer storm damage loss over the amount in the reserve until we act on any petition filed by the company.

No prior approval will be given for the recovery of costs to repair and restore T&D facilities in excess of the Reserve balance. However, we will expeditiously review any petition for deferral, amortization or recovery of prudently incurred costs in excess of the reserve.

FPC is requesting approval for a dedicated line of credit to assure that funds will be available to initiate the necessary repairs and restore reliable electric service as soon as possible after storm damage. According to **FPC** witness Scardino, an amount of $ 100 million is requested based on the industry's actual storm damage experience, **the** estimated cost of repairs **[*9]** based on the company's investment in T&D lines, and the level of insurance coverage historically held by the company.

We believe that FPC should be able to secure a dedicated line of credit for the purpose of financing storm damage expenses and deductibles associated with other property insurance. We will not, however, pre-approve any specific amount for FPC's line of credit. Although a $ 100 million line of credit appears to be reasonable **at** this time, it may not be appropriate, FPC's liquidity, T&D inventory, and T&D investment will vary through time. The lines of credit needed in the future may change. It is FPC's responsibility to determine lines of credit that will be needed for storm damage recovery. FPC should carefully consider the amount of liquidity needed to cover potential costs.

This docket shall be held open until FPC has filed its study and we have determined the appropriate annual storm damage expense to be accrued to the reserve.

It is therefore,

ORDERED by the Florida Public Service Commission that the request to implement a self insurance program for storm damage to its transmission and distribution facilities, filed by Florida Power Corporation **[*10]** on September 1, 1993, is hereby granted to the extent set forth in the body of this order. It is further

ORDERED that Florida Power Corporation shall evaluate alternative plans to provide protection against the risks associated with storm damage to its transmission and distribution system, and shall file with the Commission, within one year from the issuance of this Order, and annually thereafter a report addressing: 1) its efforts to obtain traditional insurance for this risk; 2) the status of the proposed industry-wide program on any decision made to participate or not to participate in that program; 3) an update of its evaluation of the Company's exposure and the adequacy of the reserve; and 4) its assessment of the feasibility and cost effectiveness of a risk sharing plan among the investor-owned electric utilities in Florida. It is further

ORDERED that Florida Power Corporation shall submit a study by January 12, 1994, as described within the body of this Order evaluating the amount that should be annually accrued to its reserve. It is further

ORDERED that this docket shall remain open pending evaluation of the aforesaid studies to be filed **by** Florida Power Corporation. **[*11]** It is further

ORDERED that this Order shall become final unless an appropriate petition for formal proceeding is received by the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

By ORDER of the Florida Public Service Commission, this 15th day of October, 1993.

In Re: Petition to implement a self-insurance mechanism for storm damage to transmission and distribution system and to resume and increase annual contribution to storm and property insurance reserve fund by Florida Power and Light Company

DOCKET NO. 930405-EI; ORDER NO. PSC-93-0918-FOF-EI

Florida Public Service Commission

*1993 Fla. PUC LEXIS 761; 144 **P.**U.R.4th **518***

93 FPSC 6:362

June 17, 1993

PANEL: [*1]

The following Commissioners participated in the disposition of this matter: J. TERRY **DEASON,** Chairman, THOMAS M. BEARD, SUSAN F. CLARK, JULIA L. JOHNSON, LUIS J. LAUREDO

OPINION: ORDER AUTHORIZING SELF-INSURANCE AND RE-ESTABLISHING ANNUAL FUNDING OF STORM **DAMAGE** RESERVE

On April 19, 1993, Florida Power and Light Company (FPL) filed its petition to implement a self-insurance mechanism for storm damage to its transmission and distribution (T&D) system and to resume and increase annual contribution to its storm and property insurance reserve fund. Because the expiration of FPL's current T&D insurance on May 31, 1993, FPL requested consideration of its request on **an** emergency basis. Pursuant to notice, a hearing on FPL's petition was held on May 17, 1993.

Prior to Hurricane Andrew, FPL had a T&D insurance limit of $ 350 million per occurrence with a 1992 premium of $ 3.5 million. The new T&D coverage that has been offered to FPL consists of a $ 100 million annual aggregate loss limit with a minimum premium of $ 23 million. In addition, FPL has been exploring other options for T&D coverage such as an industry-wide insurance program through Edison Electric Institute. However, the **[*2]** coverage available to FPL is expected to be only $ 35 million. Even if FPL opted to take advantage of this coverage, it would appear to be inadequate given the estimated $270 million of T&D damage caused by Hurricane Andrew.

None of the parties disagree with the premise that FPL needs to implement some type of self-insurance program for repairing and restoring its T&D system in the event of future hurricane or other storm damage. While there might be some controversy over the exact form of the self-insurance program, the record demonstrates the need for self-insurance and the adverse effects that Hurricane Andrew has had on FPL's efforts to obtain reasonably priced T&D insurance at an adequate level of coverage.

We believe the concept of self-insurance for FPL's T&D facilities is a reasonable approach for FPL to follow at this time. Although some level of "traditional" insurance coverage might be currently available, it does not appear to be adequate to meet FPL's needs in either price or amount. In the future, a combination of self-insurance and traditional insurance may become a viable alternative that FPL should pursue.

Accordingly, we find that FPL shall implement **[*3]** a self-insurance approach for the costs of repairing and restoring its transmission and distribution system in the event of hurricane or storm damage.

In its petition, FPL also asks for Commission approval to establish $ 300 million of lines of credit dedicated to the payment of storm related T&D damages. FPL believes that in the event of a severe storm, $ 300 million of lines of

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credit will be necessary to provide assured and immediate cash flow above the liquidity in the Storm & Property Reserve to make the repairs required to the T&D system. FPL proposes to offset the carrying costs of these lines of credit against the annual contribution to the storm damage reserve.

Because FPL's liquidity, storm damage reserve and T&D inventory will continuously vary through time, it is difficult to establish a specific amount of lines of credit for storm damage needed by FPL. The needs will vary through time depending on FPL's circumstances.

FPL will have access to lines of credit, T&D inventory, temporary cash investments, and the cash portion of the Storm & Property Damage Reserve as sources of liquidity in the event of a storm, all of which will vary through time. Therefore, we do **[*4]** not decide that $ 300 million or any other amount is the appropriate line of credit amount. The company shall have the discretion to increase or decrease the amount of any line of credit established for storm damage liquidity. Because FPL's circumstances continuously change, we find that the amount of the lines of credit shall not be the subject of pre-approval by the Commission.

We find that FPL shall resume and increase its contribution to the Storm and Property Insurance Reserve Fund by $ 7.1 million, net-of-tax, effective June 1, 1993. The amounts contributed to the fund shall not be reduced by the commitment fees for any dedicated lines of credit.

Rule *25-6.0143, F.A.C.*, "Use of Accumulated Provision Accounts 228.1, 228.2, and 228.4", states, in part, the following:

(4)(a) The provision level and annual accrual rate . . . shall be evaluated at the time of a rate proceeding and adjusted as necessary. However, a utility may petition the Commission for a change in the provision level and accrual outside a rate proceeding. . . .

(c) No utility shall fund any account. . . unless the Commission approves such funding. . **[*5]** . .

FPL requested and the Commission granted that FPL stop its accrual to its fund in 1991. The earnings from the fund were to continue accruing to the fund. FPL has requested that it again begin contributing amounts to its fund.

The amount of the contribution requested is $ 7.1 million, net-of-tax, less any commitment fees for dedicated lines of credit. The company requested that the contributions begin on June 1, 1993.

The amount of $ 7.1 million represents $ 3 million embedded in rates for the storm fund and an additional $4.1 million for the traditional T&D insurance that is embedded in rates. The $ 7.1 is not based upon a study that indicates the appropriate amount that should be accruing to the fund, but represents the amounts in base rates for the associated items. FPL witness Hoffman testified that the appropriate amount should be determined in a rate case in accordance with the rule.

The evidence suggests that the annual expected amount of storm damage expenses is approximately $ 19.5 million. However, witness Hoffman states that amount is not appropriate for the storm damage reserve since it does not take into account the amount of the reserve in place and the **[*6]** storm damage mechanism proposed by the Company. He further testified that a Monte Carlo simulation analysis, a probability model, needs to be performed.

We do not believe that $ 7.1 million, net-of-tax, is the appropriate amount to go to the fund, but the record in this expedited case does not support an amount that we believe is appropriate. We find that FPL shall submit a study indicating the appropriate amount that should be contributed to the fund annually. The study shall be filed three months from the date of the vote in this docket. Until the appropriate amount is determined, FPL should fund at the $ 7.1 million, net-of-tax, level beginning June 1, 1993. This is with the understanding that the amount beginning June 1, 1993 may be trued-up depending upon our findings based upon the submitted study.

From the record in this docket it is unclear what storm related expenses FPL intends draw from the reserve fund. For example it is unclear whether normal salaries would be charged to the fund if employees worked on storm related tasks. In addition, employees repairing storm damage would be required to spend time away from their everyday work tasks which would result **[*7]** in "catch up" expense. It is unclear from the record whether FPL intends to draw "catch up" expense from the reserve fund. The record reflects that such "catch up" expense is not recoverable under FPL's current insurance policy. In addition it is unclear whether the cost of damaged assets would be accounted for at replacement cost or net book value. For example, if there were $ 100 million of net book value of assets that were destroyed and it took $200 million to replace those, what accounting entries would be made?

FPL shall address these questions in the company study discussed above. The company shall also provide information concerning the treatment of all Hurricane Andrew related transmission and distribution damages under its existing policy. The company study shall include a listing of the type of storm related expenses FPL intends to draw from the reserve fund, and what type of accounting entries would be made for each item,

FPL also requested that the $ **7.1** million be reduced by the commitment fees associated lines of credit. FPL witness Hoffman testified that the costs for other lines of credit are run through base rates. We believe there is no reason to treat **[*8]** the cost of these lines of credit any differently. There are costs associated with FPL's access to the markets. Therefore we find that the commitment fees shall not be offset against the $7.1 million contributed to the storm damage reserve.

Accordingly, we find that FPL shall submit a study detailing what it believes the appropriate amount that should be annually accrued to the reserve. The company shall include in the study the costs it intends to charge to the reserve. The study shall be filed with the Commission no later than three months after the vote in this docket.

FPL seeks approval for a Storm Loss Recovery Mechanism that would guarantee 100% recovery of expense from ratepayers, over and above the base rates in effect at the time of implementation. This would effectively transfer all risk associated with storm damage directly to ratepayers, and would completely insulate the utility from risk. We decline to approve such a mechanism at this time.

FPL's cost recovery proposal goes beyond the substitution of self-insurance for its existing policy. The utility wants a guarantee that storm losses will have no effect on its earnings. We believe it would be inappropriate **[*9]** to transfer all risk of storm loss directly to ratepayers. The Commission has never required ratepayers to indemnify utilities from storm damage. Even with traditional insurance, utilities are not free from this risk. This type of damage is a normal business risk in Florida.

FPL's proposal does not take into account the utility's earnings or achieved rate ***of*** return. If the company was already earning an adequate return on equity, its storm-related expenses could be amortized in whole or in part over five years. If the magnitude of the loss is great, the utility could draw on its line of credit and then petition the Commission to act quickly to allow expense recovery from ratepayers.

Storm repair expense is not the type of expenditure that the Commission has traditionally earmarked for recovery through an ongoing cost recovery clause. Conservation, oil backout, fuel and environmental costs are currently recoverable under Commission created cost recovery clauses. These expenses are different from storm repair expense in that they are ongoing rather than sporadic expenditures.

If FPL experiences significant storm-related damage, it can petition the Commission for appropriate **[*10]** regulatory action. In the past, the Commission has acted appropriately to allow recovery of prudent expenses and has allowed amortization of storm damage expense. Extraordinary events such as hurricanes have not caused utilities to earn less than a fair rate of return, and FPL has shown no reason to believe that the Commission will require a utility to book exorbitant storm losses without recourse.

Therefore, we decline to authorize the implementation of a Storm Loss Recovery Mechanism, in addition to the base rates in effect at the time, for the recovery, over a period of five years, of all prudently incurred costs in excess of the reserve to repair or restore T&D facilities damaged or destroyed by a storm.

If **a** hurricane strikes, FPL can petition at that time for appropriate regulatory action, In the past, we have acted appropriately to allow recovery of prudent expenses and allowed storm damage amortization. We do not believe that regulated utilities should be required to earn less than a fair rate of return because of extraordinary events such as hurricanes or storms.

If FPL suffers storm damage and finds it necessary to draw on its lines of credit, it will be able to request **[*11]** that some or all of the storm related costs be passed on to the customers. In such an emergency situation, this Commission will act quickly to protect the company and its customers. FPL shall be allowed to defer the storm damage loss until the Commission acts on any petition filed by the company.

The Commission will expeditiously review any petition for deferral, amortization *or* recovery of prudently incurred costs in excess of the reserve. Our vote today does not foreclose or prevent further consideration at a future date of some type of a cost recovery mechanism, either identical or similar to what has been proposed in this petition. The

Commission could implement a cost recovery mechanism, or defer the costs, or begin amortization, or such other treatment as is appropriate, depending on what the circumstances are at that time.

Given our decision not to authorize implementation of a Storm Loss Recovery Mechanism, we find that the issue of whether FPL should authorized to increase customer rates if its earned return on equity is within the allowed range is moot.

Given our decision not to authorize implementation of a Storm Loss Recovery Mechanism, we find that the [*12] issue of when the five year amortization period should begin is moot.

Given our decision not to authorize implementation of a Storm Loss Recovery Mechanism, we find that the issue of how the total cost eligible for recovery should be allocated to the various rate classes is moot.

We find that it is not necessary to approve the reasonableness of FPL's estimate of future hurricane activity and related damages to reach our decision on FPL's petition.

We find that FPL shall not be required to increase its Storm and Property Insurance Reserve to recognize the annual accruals which have been included in customer rates but were suspended at the company's request beginning January 1, 1991, by Order No. 24728, entered in Docket No. 910257-EI on July 1, 1991.

Order No. 24728 issued July 1, 1991, permitted FPL to discontinue its annual charge to the Reserve Fund, effective January 1, 1991. However, the Commission required the fund's earnings to be reinvested in the fund. Office of Public Counsel witness Larkin argues that the Company should be required to increase the reserve fund level "to reflect the amounts that would have accrued to the storm and property insurance reserve fund from [*13] January 1, 1991 though the present, since ratepayers have continued to provide the amounts through rates." He states that customer rates were not decreased in any way to reflect the change and the ratepayers still continue to pay the $ 3 million annual amount through rates. Exhibit 9 indicates that the fund would be increased by $ 7,912,650 and the reserve would be increased by $ 8,312,450 to restate the fund and reserve as though the charges had not been discontinued.

While it is true that customer rates were not reduced, FPL received Commission approval through an order to discontinue charging the reserve. In the order, the Commission stated that the "Reserve Fund is sufficient at its present level to cover possible losses." The decision to discontinue the accrual was based on the best information available. Since that time, it is obvious that facts and circumstances have changed. FPL shall not be required to retroactively fund the reserve.

We find that FPL shall file, at least annually, beginning with the year ended December 31, 1993 a report reflecting the company's efforts in obtaining reasonably priced T&D insurance coverage or other alternatives to replace [*14] the self-insurance approach approved in this docket.

FPL's witness Hoffman recognized that market conditions could quickly change and that reasonably priced insurance might become available: "our not taking this insurance may signal to the market that it's just not reasonable, And we may see same price movement in the not too distant future. We don't expect it during this hurricane season, but it might happen fairly quickly". Thus, the company should, on an ongoing basis, continue its efforts to obtain reasonably priced insurance from the traditional market.

Mr. Hoffman indicated that FPL is evaluating the possibility of participating in the industry wide program which may become available. The evidence suggests, that if there is any coverage available, it would begin in August of this year. It appears that the maximum amount that would be available to FPL would be about $ 35 million.

However, exhibit 5 shows that in the event of Category III or less storm landing only in FPL's service territory, the current reserve and $35 million in insurance would cover most of the expected damage. If this coverage proves cost-effective and available, it would diminish the risk to FPL's [*15] ratepayers. Thus, the company should continue to evaluate this option.

It is axiomatic that insurance is not an exact science. To be successful, an insurance company must, over the long term, collect premiums and earn investment income that exceed the claims paid and operating expenses incurred. The ability to do that depends on an accurate assessment of the risks assumed. FPL's analysis suggest that in the event of a Category V storm in its service area the "estimated damage" to the T&D system is approximately 422 million dollars. If this estimate is wrong or if circumstances change, the current combination of reserves and available liquidity might not be adequate. Further, the cost-effectiveness of alternatives would be evaluated against an incorrect standard, Thus, the company should continue to evaluate and update its best estimate of the likelihood and degree of damage to its T&D system from this peril.

Mr. Hoffman recognized that the other Florida investor-owned electric utilities would face similar difficulties in obtaining reasonably priced T&D insurance when their policies expire later this year. He conceded that there could be some benefit to a cooperative **[*16]** risk sharing plan among the investor-owned utilities. Approaching the market for traditional insurance **as** a group could make an underwriter more receptive to assuming the risk. Assuming that traditional insurance continues to be unavailable or unreasonably priced, there could be considerable benefits derived from a pooled reserve and shared lines of credit approach. It could prove cost-effective over time, for all the ratepayers to fund one reserve and/or combine to obtain excess levels of coverage over the amount of the reserve. **We** believe this option must be fully evaluated.

Accordingly, the company shall, on an ongoing basis, evaluate alternative plans to provide protection against the risks associated with storm damage to its transmission and distribution system. The company shall file with the Commission, an annual report, beginning on January 1, 1994 addressing: I) its efforts to obtain traditional insurance for this risk; 2) the status of the proposed industry-wide program and any decision made to participate or not to participate in that program; 3) an update of its evaluation of the company's exposure and the adequacy of the reserve; and 4) its assessment of the feasibility **[*17]** and cost-effectiveness of a risk sharing plan among the investor-owned electric utilities in Florida.

In consideration of the foregoing, it is

ORDERED by the Florida Public Service Commission that FPL shall be permitted to implement a self insurance approach for the costs of repairing and restoring its transmission and distribution system in the event of hurricane, storm damage or other natural disaster. It is further

ORDERED that this Commission will neither approve nor disapprove $ 300 million as an appropriate line of credit amount dedicated to providing liquidity for storm-related transmission and distribution system repairs. It is further

ORDERED that FPL shall resume and increase its contribution to the Storm and Property Insurance Reserve Fund by $ 7.1 million, net-of-tax, effective June 1, 1993. The amounts contributed to the fund shall not be reduced by the commitment fees for any dedicated lines of credit. It is further

ORDERED that FPL shall submit a study indicating the appropriate amount that should be contributed to the Storm and Property Insurance Reserve Fund annually. The company shall include in the study the types of costs it intends to charge **[*18]** to the reserve and information concerning the treatment of all Hurricane Andrew related transmission and distribution damages under its existing policy. The study shall be filed three months from the date of the vote in this docket. It is further

ORDERED that we decline to authorize the implementation of a Storm Loss Recovery Mechanism, in addition to the base rates in effect at the time, for the recovery, over a period of five years, of all prudently incurred costs in excess of the reserve to repair or restore T&D facilities damaged or destroyed by a storm. It is further

ORDERED that FPL shall not be required to increase its Storm and Property Insurance Reserve to recognize the annual accruals which have been included in customer rates but were suspended at the company's request beginning January 1, 1991, by Order No. 24728, entered in Docket No. 910257-EI on July 1, 1991. It is further

ORDERED that FPL shall file, at least annually, beginning January 1, 1994, a report reflecting the company's efforts in obtaining reasonably priced T&D insurance coverage or other alternatives to replace the self-insurance approach approved in this docket.

By ORDER of the Florida Public Service **[*19]** Commission this 17th day of June, 1993.

In Re: Petition to implement a self-insurance mechanism for storm damage to transmission and distribution system and to resume and increase annual contribution to storm and property insurance reserve fund by FLORIDA POWER & LIGHT COMPANY

DOCKET NO. 930405-EI; ORDER NO. PSC-95-0264-FOF-EI

Florida Public Service Cornmission

***1995** Fla. PUC LEXIS 275*

95 **FPSC** 2:407

February 27, 1995

PANEL: [*1]

The following Commissioners participated in the disposition of this matter: SUSAN F. CLARK, Chairman; J. TERRY DEASON; JOE GARCIA; JULIA L. JOHNSON; DIANE K. KIESLING

OPINION: NOTICE OF PROPOSED AGENCY ACTION ORDER APPROVING STORM **DAMAGE** STUDY AND ADJUSTMENTS TO SELF INSURANCE MECHANISM

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule *25-22.029, Florida Administrative Code.*

On April 19, 1993, Florida Power & Light Company (FPL) filed its petition to implement a self-insurance mechanism for storm damage to its transmission and distribution (T&D) system and to resume and increase its annual contributions to its Storm and Property Insurance Reserve Fund (Storm Fund). Because FPL's current T&D insurance expired on May 31, 1993, FPL requested consideration of its request on an emergency basis. Pursuant to notice, a hearing on FPL's petition was held on May 17, 1993.

In Order No. PSC-93-0918-FOF-EI, issued **[*2]** June 17, 1993, we found that FPL should implement a self-insurance approach. In addition, we found that FPL should have the discretion to establish a line of credit for storm damage liquidity; however, we found that the amount of the line of credit should not be subject to pre-approval by the Commission nor should the amounts contributed to the Storm Fund be reduced by the commitment fees for any dedicated lines of credit. We also required FPL to submit a study detailing the appropriate amount that should be annually accrued to the reserve and the costs it intends to charge to the Storm Fund. Additionally, the study was to include information concerning the treatment of all Hurricane Andrew related T&D damages under existing policy. Until the appropriate amount was determined, an annual accrual of $ 7.1 million, net-of-tax, to the Storm Fund **was** set with the understanding that the amount beginning June 1, 1993, may be trued-up depending upon our findings resulting from the submitted study.

FPL submitted its study October 1, **1993.** Over the past year, there have been several meetings regarding the study and related issues. These efforts have resulted in an agreement **[*3]** between the parties and staff on the appropriate level of annual contribution to the Storm Fund.

INCREASE IN STORM **DAMAGE** ACCRUAL

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FPL's analysis of the annual accrual amount is based on the results of a statistical model which estimates the impact to the balance of the Storm Fund due to various accrual amounts and special customer assessments. For modeling purposes, a special customer assessment was defined as the amount required to return the Storm Fund to the target level over a five year period. The Storm Fund target was $ 75,000,000 which was the approximate fund balance at the time of the study analysis. The amount of storm damage in a given year was indexed to an estimate of the long term average annual damage level of $ 20,300,000 but allowed to fluctuate above or below it.

The model was then used to simulate the Storm Fund balance over 33 years under four policies. The analysis of these policies provides insight to various self insurance approaches. FPL recommended Policy III while staff believes the study supports a compromise between Policies II and III.

Policy I sets the annual accrual equal to the long term annual average, assumes no special assessments [*4] and future losses exceeding the annual accrual are drawn from the Storm Fund. FPL's analysis suggests this policy is the most volatile with relatively high potential for large positive or negative balances. However, negative fund balances will result if the estimate is lower than the cumulative effect of actual damages. For example, if this policy were in place at the time of Hurricane Andrew, the $270,000,000 in T&D damages would have depleted the Storm Fund and FPL would have petitioned for relief. Therefore, this policy is not appropriate because it is not sufficiently robust to address the risks to FPL and its customers. Any error in estimating annual storm damage level and frequency **of** storms would tend to have a dramatic impact on the Storm Fund balance. **A** high degree of confidence in the accuracy of weather forecasting is required to justify a substantial increase in the annual accrual amount. Staff believes this degree of precision in weather forecasting does not exist. Absent a rate case setting, implementing this policy also creates equity issues.

Policy II sets the annual accrual equal to the long term annual average and provides for special assessments to [*5] maintain the Storm Fund. FPL's analysis suggests this policy is the most likely to cause the Storm Fund to increase over time. Any errors in under estimating annual storm losses would be addressed through special assessments and, therefore, the Storm Fund is expected to remain solvent. However, this policy only addresses relief for FPL and suffers in similar areas as Policy I with regard to weather forecasting and inter-generational equity issues.

Policy III sets the annual accrual to the current amount of $7,100,000 and provides for special assessments to maintain the Storm Fund. FPL's analysis suggests this policy is the most likely to have an equal probability in having a positive Storm Fund balance as **a** negative fund balance in any given year. This means that the Storm Fund balance is not expected to increase or decrease but remain relatively constant over time. The difference between the accrual amount and cumulative storm losses are addressed through special assessments. However, this policy tends to place the burden of self insurance on FPL's customers through special assessments. This is because the accrual amount is only 35 percent of FPL's estimated [*6] long term average of annual storm damages and eventually special assessments are expected to exceed the accrual amount. Staff believes that both FPL and its customers would be better insured if the accrual amount were increased such that the Storm Fund is likely to grow which in turn would decrease dependence on special assessments to address unpredictable weather events.

Policy IV assumes no annual accrual and provides for special assessments to maintain the fund. Staff agrees that this policy is a "pay-as-you-go" policy which relies on the Commission approving FPL's petitions for relief and spreading the costs over FPL's large customer base. This policy is not a viable alternative but helps to understand the interactions between an accrual amount, special assessments and the fund balance. As stated in the study, Attachment **3**, page 6,

". . . This policy illustrates that the amount chosen for annual accrual can be relatively arbitrary so long as it is within a range low enough so as not to result in unbounded growth in expected future Storm Reserve balances, and if it is combined with a mechanism to address insolvency."

Staffs review of FPL's study indicates that an increase [*7] above the current $ 7,100,000 annual accrual is needed because the fund should be expected to grow due to the unpredictable nature of weather and to reduce dependence on a relief mechanism such as a special customer assessment. On page 6 of the study, FPL indicates that at least $ 9,000,000 in annual accrual is required to achieve some fund growth if there are any special assessments. Staffs concerns were addressed in various meetings and discussions on this matter and related issues with FPL, OPC and FIPUG. **As** a result of this dialogue, FPL sent to staff a proposed agreement (Attachment **A)** on December 20, 1994, to increase the storm damage accrual to $ 10,100,000 annually effective January 1, 1994. We find that the proposed agreement should be approved; however, the accrual amount and solvency of the Storm Fund should be reviewed and appropriately adjusted subject to Modified Minimum Filing Requirements or other rate proceeding.

STORM DAMAGE STUDY

FPL's study provided sufficient analysis to indicate the appropriate annual amount that should be contributed to the storm damage reserve fund at this time.

In addition, the study addressed the issues raised in the **[*8]** order concerning the types of expenses that would be charged to the reserve. However, we have the authority to review any expenses charged to the reserve for reasonableness and prudence. FPL stated that it would use the actual restoration cost approach for determining the appropriate amounts to be charged to the reserve. This methodology is consistent with the manner in which replacement cost insurance works.

In accounting for the restoration and replacement costs to plant, the gross original cost of the replaced plant should be retired by a credit to the plant accounts and a debit to the depreciation reserve. Then, a credit would be made to the plant accounts so that the replacement gross plant would be reduced by the available balance of the storm reserve until it is equal to the value of the plant it replaced. In addition, the depreciation reserve would be credited with an amount equal to the gross cost of the replaced plant. This would restore the plant accounts and depreciation reserve to their original values prior to the damage caused by the storm. In the event that the storm reserve is not sufficient to cover the credits to the plant accounts and the depreciation reserve, **[*9]** the utility would need to seek recovery through a petition to this Commission.

FPL also provided a summary of the treatment of the costs to restore its facilities damaged by Hurricane Andrew. **As** noted on page 7 of the study, FPL had not submitted its full claim at the time that the study was filed.

We are considering the appropriateness of opening a rulemaking proceeding to establish uniform guidelines for determining when the storm damage reserve should be charged and what costs should be charged to it.

TROPICAL STORM GORDON COSTS

By letter dated December 30, 1994 (Attachment B), FPL requested that it be allowed to expense, in 1994, approximately $4.5 million of costs to repair storm damage and restore service due to Tropical Storm Gordon. Rule *25-6.0143(1)(b), F.A.* C., requires that charges be made to the Accumulated Provision for Property Insurance (Storm Fund) account for all occurrences in accordance with the schedule of risks to be covered which are not covered by insurance. FPL is effectively requesting a waiver of this rule in order to expense the storm damage costs related to Tropical Storm Gordon.

We have expressed **[*10]** our concern that the accrual amount for storm damage needs to be increased above its current level in order for the Storm Fund to grow and thereby reduce FPL's dependence on a relief mechanism such as a special customer assessment. **If** FPL's request is approved, the Storm Fund will be $4.5 million greater than it would be otherwise.

Based on the November **30,** 1994 earnings surveillance report, FPL was earning 12.25% return on equity (ROE). This is within the company's authorized ROE range of 11.0% to 13.0%. The reported earned ROE of 12.25% includes the expense of Tropical Storm Gordon. Expensing the costs of Tropical Storm Gordon resulted in a reduction in reported earnings of approximately .07% ROE. We do not believe this significantly impacts FPL's earnings.

Approval of FPL's request will have no negative impact on its customers. Since FPL does not appear to be overearning during 1994, no refund for 1994 is likely. Approval of FPL's request may have a beneficial impact on its customers in the future. Expensing the costs of Tropical Storm Gordon results in a greater Storm Fund balance that may avoid or reduce the need for **a** special assessment in the case of a **[*11]** major storm.

FPL's request to expense the **$4.5** million cost of Tropical Storm Gordon in 1994 it therefore approved,

Based on the foregoing, it is

ORDERED that the request of Florida Power & Light Company to increase its annual storm damage accrual to $ 10,100,000, effective January 1, 1994, is hereby granted. The storm damage fund shall continue to be funded on a net-of-tax basis. It is further

ORDERED that the storm damage study submitted by Florida Power & Light Company is hereby found to be adequate. It is further

ORDERED that the request of Florida Power & Light Company to expense the $4.5 million cost of Tropical Storm Gordon rather than withdrawing it from the storm damage fund is hereby granted. It is further

ORDERED that this Order shall become final and effective and this docket shall be closed unless an appropriate petition for formal proceedings is received by the Division of Records and Reporting, 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on the date indicated in the Notice of Further Proceedings or Judicial Review.

By ORDER of the Florida Public Service Commission, this 27th day of February, 1995.

[*12] ATTACHMENT **A**

December 20, 1994

Ms. Roberta Bass, Supervisor

Division of Electric and Gas

Florida Public Service Commission

101 East Gaines Street

Tallahassee, Florida 32399-0859

Re: Docket No. 930405-EI, Petition To Implement **A** Self-Insurance Mechanism For Storm Damage To Transmission And Distribution System and To Resume And Increase Annual Contribution To Storm And Property Insurance Reserve Fund By Florida Power and Light Company

Dear Ms. Bass:

I am writing to follow through on recent discussions with you and your staff regarding the above referenced docket.

As you are aware this docket was opened in April 1993 by Petition of Florida Power and Light Company (FPL). Hearings were held in May 1993 and Order No. PSC-93-0913-FOF-EI was entered in June 1993. While the Order addressed all aspects of the Petition, of interest here is that FPL was ordered to ". . . submit a study indicating the appropriate amount that should be contributed to the Storm and Property Insurance Reserve Fund annually." That study was filed in October 1993 and FPL suggested the appropriate annual contribution to the Storm and Property Insurance Reserve Fund (Storm Fund) was $ 7.1 million. This **[*13]** issue is scheduled for consideration by the Florida Public Service Commission at its January 31, 1995 Regular Agenda Conference.

On several occasions this year at the request of your staff we have held discussions with and provided information to your staff and Public Counsel staff regarding the study and related issues. **As** a result of these discussions, I believe that FPL and Staff have reached agreement on the appropriate level of annual contribution to the Storm Fund by FPL.

PROPOSED AGREEMENT

Upon approval by the Florida Public Service Commission (Commission), Florida Power and Light Company will increase its annual net-of-tax contribution to the Storm and Property Insurance Reserve Fund from $7.1 million annuatly to $ 10.1 million annually. The increased annual contribution shall be for calendar year 1994 and subsequent years until such time as the Commission re-addresses the issue in a rare proceeding or other docket. The Storm and Property Insurance Reserve Fund will continue to be a funded reserve.

I appreciate your efforts in the handling of this matter. If you have any questions, please do not hesitate to call me or Bill Feaster in our Tallahassee **[*14]** office.

Sincerely,

W. G. Walker, III

Vice President, Regulatory Affairs

ATTACHMENT B

December 30, 1994

Mr. Timothy J. Devlin, Director

Division of Auditing and Financial Analysis

Florida Public Service Commission

101 East Gaines Street

Tallahassee, Florida 32399-0850

Re: Proposed Treatment of Costs Associated With Tropical Storm Gordon

Dear Mr. Devlin:

As we are all aware, in mid-November Tropical Storm Gordon ravaged south Florida for several days, finally passing the width of the state from West to East and back out to sea. During the course of the storm approximately 600,000 Florida Power & Light Company (FPL) customers experienced a related service interruption and FPL expended approximately $4.5 million to repair storm damage and restore service. It is appropriate that these costs be charged to the Storm and Property Insurance Reserve Fund (Storm Reserve).

As you are also aware, the Florida Public Service Commission (Commission) has an open docket (Docket No. 930405-EI) to determine the appropriate level of annual contribution to FPL's Storm Fund in the post Hurricane Andrew environment. On December 20, 1994, FPL offered a proposed agreement to settle **[*15]** that docket (letter attached), FPL's proposal is to increase its annual expense accrual to the Storm Reserve from $ 7.1 million to $ 10.1 million. The expense accruals would continue to be contributed to the Storm Fund on an after tax basis. We anticipate Commission consideration in January 1995.

The analysis associated with FPL's proposal was predicated upon a study and Monte Carlo simulation which used 1994 as its base year and a 1994 year-end balance in the Storm Reserve of approximately $ 94 million. The year-end 1994 Storm Reserve balance was a projected amount based upon the first ten months of 1994. This projection did not anticipate Tropical Storm Gordon. For this reason it is FPL's intention to, upon approval, re-establish the Storm Reserve to its pre-Tropical Storm Gordon level. That is to say, FPL will keep the Storm Reserve whole by not withdrawing the approximately $ 4.5 million cost of Tropical Storm Gordon from the Storm Fund. This will not only solidify the assumption for the year-end 1994 Storm Reserve balance used in our previous analysis, but also maintains the Storm Fund itself at a higher level than would otherwise be the case. We see this **[*16]** as positive for both our customers and FPL.

Thanks in advance for your consideration of this matter. If you have any questions or comments, please do not hesitate to call me.

Sincerely,

Bill Feaster

Manager, Regulatory Affairs

DISSENTBY: KIESLING

DISSENT

Commissioner Kiesling dissents on the issue of Tropical Storm Gordon Costs. Commissioner Kiesling would deny Florida Power & Light Company's request to expense the $ 4.5 million in storm costs and would order the costs withdrawn from storm damage reserves.

In Re: Petition for authorization to increase the annual storm fund accrual commencing January 1, 1995 to $20.3 million; to add approximately $ 51.3 million of recoveries for damage due to Hurricane Andrew and the March 1993 Storm; and to re-establish the storm reserve for the costs of Hurricane Erin by increasing the storm reserve and charging to expense approximately $ 5.3 million, by Florida Power & Light **Company**

DOCKET NO. 951167-EI; ORDER NO. PSC-95-1588-FOF-EI

Florida Public Service Commission

1995 Fla. PUC LEXIS 1744

95 FPSC 12:359

December 27, 1995

PANEL: [*1]

The following Commissioners participated in the disposition of this matter: **SUSAN** F. CLARK, Chairman, J TERRY DEASON, JOE GARCIA, JULIA L. JOHNSON, **DIANE** K. KIESLING

OPINION: NOTICE OF PROPOSED AGENCY ACTION ORDER GRANTING APPROVAL FOR INCREASE TO ANNUAL STORM FUND ACCRUAL AND TREATMENT OF RECOVERIES AND EXPENSES FOR STORM **DAMAGE** LOSSES

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule *25-22.029, Florida **Administrative** Code.*

CASE BACKGROUND

By Order No. PSC-93-0918-FOF-EI, issued June 17, 1993, the Commission ermitted Florida Power & Light Company (FPL or the Company) to implement a self-insurance approach or plan for the costs of repairing and restoring its transmission and distribution (T & D) system in the event of hurricane, storm damage or other natural disaster. FPL also was granted the discretion to establish a line of credit for storm damage liquidity. In addition, FPL was required [*2] to submit a study detailing what it believed to be the appropriate amount that should be accrued annually to the reserve and what costs it intended to charge to the storm fund. Until the appropriate amount was determined, an annual accrual of $ 7.1 million, net-of-tax, to the storm fund was set effective June 1, 1993.

By Order No. PSC-95-0264-FOF-EI, issued February 27, 1995, the Cornmission found the storm damage study submitted by FPL to be adequate. Based upon the study, the Commission allowed FPL to increase its annual storm damage accrual to $ 10.1 million, effective January 1, 1994. The storm fund was to continue to be funded on a net-of-tax basis, Further, FPL's request to expense the $4.5 million cost of Tropical Storm Gordon during 1994, rather than withdrawing it from the storm damage fund, was granted.

On September **28,** 1995, FPL filed a petition to increase its annual storm fund accrual to $20.3 million commencing January 1, 1995; to add approximately $ 51.3 million of recoveries for damage due to Hurricane Andrew and the March 1993 Storm, which are not required for system repairs, to the storm reserve and contribute the after tax amount to the storm fund; and to re-establish [*3] the storm reserve for the costs of Hurricane Erin by increasing the

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storm reserve and charging to expense approximately $ 5.3 million. In addition, FPL is requesting that funds from the final pending claims attributable to Hurricane Andrew and the March 1993 Storm be added to the reserve and fund. FPL is also requesting that $4.7 million of insurance proceeds already received be recorded as **a** liability to cover future costs instead of being added to the storm reserve and fund.

DECISION

As mentioned above, FPL was required to file a storm study report. The report, titled Transmission and Distribution Insurance Replacement Study," was filed with the Commission on October 1, 1993. FPL's study demonstrated that a self-insurance program has two fundamental characteristics that are interrelated: an annual accrual amount and an emergency relief mechanism to prevent insolvency in the storm fund. The annual accrual needs to be sufficiently low so as to prevent unbounded storm fund growth and yet large enough to reduce reliance upon emergency relief mechanisms in the event of catastrophic weather events.

FPL's study demonstrated that an annual accrual of $ 20,300,000 would **[*4]** allow for storm fund growth, decrease reliance on the relief mechanism and provide an adequate level of insurance. The study also indicated that in order to achieve minimal storm fund growth a $ 9,000,000 annual accrual combined with a provision for emergency relief is required. By Order PSC-95-0264-FOF-EI, issued February 27, 1995, the Commission approved an increase in the Company's annual accrual amount to $ 10,100,000 effective January 1, 1994.

FPL now is proposing to increase the annual accrual amount to $20,300,000. In a letter dated November **14,** 1995, the Company expanded on its explanation of why it is appropriate to increase the annual accrual at this time. When the $ 10,100,000 annual accrual was approved, FPL states it had anticipated that the availability of insurance would improve. Instead, the potential for commercial or other insurance is less now than before. Since the only cost effective measure at this time is self-insurance, an increase in the annual accrual is needed to provide an adequate level of insurance to FPL and its customers.

We agree with FPL and find that a storm damage accrual of $20,300,000 commencing January 1, 1995 is appropriate.

FPL asserts **[*5]** that of the total insurance recoveries received for damage caused by Hurricane Andrew and the March 1993 Storm, approximately $ 51.3 million, will not be required for identified system repairs. FPL wishes to add this amount to its storm reserve and contribute the after tax amount to its storm fund. In addition to the $ 51.3 million recovery, there is a final pending claim of approximately $ **8** to $ 16 million that FPL anticipates will be settled by December **31,** 1995. FPL did not specifically address the disposition of this pending claim in its petition.

The $ 51.3 million and the funds from the final pending claim result from differences between the negotiated settlement amounts reached with insurance carriers and the costs charged by FPL to the storm work orders for Hurricane Andrew and the March 1993 Storm. Some negotiated issues which contributed to this difference were: (1) recovery of amounts in excess of the net book value for certain assets, primarily materials and supplies inventory, that FPL has now decided will not be replaced; (2) what costs, direct as well as indirect, were to be covered by the insurance contracts; and (3) the amount of future repair costs where the extent **[*6]** of damage is not readily apparent.

We find it appropriate that the $ 51.3 million in proceeds already received from Hurricane Andrew and the March 1993 Storm be added to FPL's storm reserve and the after tax amount contributed to the storm fund. Because the final pending damage claim is of the same nature as the $ 51.3 million recovery, we find it fitting for this amount to be added in the same manner to the reserve and fund when received.

FPL suffered extensive salt water damage to underground facilities as a result of Hurricane Andrew and the March 1993 Storm. It is the Company's intent to repair these facilities as they fail, or during any normal upgrading of the facilities. Certain of these facilities are expected to fail in the near future. Based on engineering estimates of anticipated future repair costs, an insurance settlement of $6.7 million was reached. This is a final settlement; if the repairs exceed this amount the Company will not be able to file for additional insurance reimbursement.

It appears from FPL's petition that the Company wishes to establish a separate liability for the $ 6.7 million, rather than placing it in the reserve. The $ 6.7 million **[*7]** received by the Company represents a settlement of claims for which neither the actual total amount nor the timing of the replacement can be accurately determined. This is exactly the situation a storm reserve is designed to cover. Therefore, we find that this amount shall be added to the reserve and the after tax amount added to the fund. By doing so, the amount can be invested and accrue interest. This will help to mitigate any costs for repairs should they exceed the Company's original estimates. **As** the repairs are actually completed, the reserve shall be charged for the cost of the repairs.

As a result of Hurricane Erin, which made landfall in FPL's service territory near Vero Beach, Florida on August 1, 1995, FPL experienced approximately $ 5.3 million in damage to its T & D system. FPL acknowledges that "these costs are chargeable to the storm reserve and qualify for payment from the storm fund." The Company, however, requests a different treatment. FPL has requested approval to increase the storm reserve and charge to expense the $ 5.3 million in costs. The net effect of this accounting treatment is that the loss is expensed and the reserve remains **at** the higher lever. FPL's **[*8]** proposal has the advantage of maintaining the reserve at the higher level with no increase in rates; but, the purpose of the reserve is to replace insurance that has either become unavailable or cost prohibitive, and to provide for losses to facilities and equipment, not covered by insurance, through storms and similar type hazards.

Previously, by Order No. PSC-95-0264-FOF-EI, issued February 27, 1995, this Commission permitted FPL to expense the **$4.5** million cost of Tropical Storm Gordon rather than withdrawing it from the storm damage reserve. At the time, the storm damage reserve balance was approximately $ 93 million and the annual accrual was $ 7.1 million. Because we believed that those levels were too low,, we allowed the $4.5 million cost of Tropical Storm Gordon to be expensed instead of charging the reserve. Thereby, we preserved the existing reserve level.

In this docket, the Company based its request for the $ **20.3** million accrual on its original "Transmission and Distribution Insurance Replacement Study of October 1, 1993." In addition to concluding that $ 20.3 million was the appropriate accrual amount, the study also concluded that $ 109.5 million was an "adequate" **[*9]** reserve balance for 1998. Based upon our decision above to increase the annual accrual to $20.3 million, it is estimated that by December 31, 1995, FPL's storm reserve will be $ 189.3 million.

Ordinarily, this balance would be considered sufficiently high so that a $ 5.3 million charge would not draw down the reserve balance to an unreasonable level. We, however, recognize that FPL has experienced a catastrophic loss from Hurricane Andrew and that the potential for another loss of this magnitude exists. Although FPL may petition the Commission for emergency relief if FPL experiences a catastrophic loss, we believe that it is reasonable to maintain the reserve at the higher balance for now. Therefore, we approve FPL's request to re-establish the storm reserve and expense the $ 5.3 million of losses from Hurricane Erin.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Florida Power & Light Company shall increase its annual storm fund accrual to $20.3 million commencing January 1, 1995. It is further

ORDERED that the Florida Power & Light Company shall add the $ 51.3 million in proceeds already received and any future pending receipts **[*10]** for damage from Hurricane Andrew and the March 1993 Storm to its storm reserve, and contribute the after-tax amount to the storm fund. It is further

ORDERED that Florida Power & Light Company shall add the $6.7 million insurance settlement for future repair costs to the underground facilities to the storm reserve, and contribute the after-tax amount to the storm fund. It is further

ORDERED that Florida Power & Light Company shall re-establish the storm reserve and charge to expense the approximately $ **5.3** million in costs from Hurricane Erin. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule *25-22.036, Florida **Administrative Code,*** is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket should be closed.

By ORDER of the Florida Public **[*11]** Service Commission, this 27th day of December, 1995.

Commissioner Kiesling dissented on the issue of expensing costs of Hurricane Erin.

In re: Petition for authority to increase annual storm fund accrual commencing January 1, 1997, to $ 35 million by Florida Power & Light Company

DOCKET NO. 971237-EI; ORDER NO. **PSC-98-0953-FOF-EI**

Florida Public Service Commission

1998 Fla. PUC LEXIS 1376

98 FPSC 7:354

July 14, **1998**

PANEL: [*1]

The following Commissioners participated in the disposition of this matter: **JULIA** L. JOHNSON, Chairman, J. TERRY DEASON, **SUSAN** F. CLARK, JOE **GARCIA,** E. LEON JACOBS, JR.

OPINION: NOTICE OF PROPOSED AGENCY ACTION ORDER MAINTAINING **ANNUAL** STORM DAMAGE ACCRUAL **AT** CURRENT LEVEL **AND** REQUIRING STUDIES

BY THE COMMISSTON:

NOTICE is hereby given **by** the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for **a** formal proceeding, pursuant to Rule *25-22.029, Florida Administrative* ***Code.***

I. CASE **BACKGROUND**

By Order No. 24728, issued July 1, 1991, in Docket No. 910257-EI, the Commission approved Florida Power & Light Company's ("FPL" or "the Company") request to discontinue the annual accrual to its storm damage reserve, FPL asserted, and the Commission found, that given the level of insurance coverage in place for FPL's transmission and distribution (T&D) facilities, the balance in the reserve was sufficient.

In August ***of*** 1992, Hurricane Andrew severely damaged FPL's T&D system, While the damage **[*2]** claims related to Hurricane Andrew were paid, FPL's insurers canceled the coverage, effective May 31, 1993.

On April 19, 1993, FPL filed a petition to implement a self-insurance mechanism for storm damage to its T&D system and to resume and increase the annual contribution to its storm and property insurance reserve fund to $ 7.1 million. The amount of $ 7.1 million represented $ 3 million embedded in rates for the storm fund accrual and an additional $ **4.1** million for the traditional T&D insurance that was also embedded in rates. The $ 7.1 million was not based upon a risk study that indicated the appropriate amount that should be accrued to the fund, given the expected exposure. Because of the expiration of FPL's T&D insurance on May 31, 1993, FPL requested consideration of its request on an emergency basis. **A** hearing on FPL's petition was held on May 17, 1993.

By Order No. PSC-93-0918-FOF-EI, issued June 17, **1993,** in Docket No. 930405-EI, we authorized the Company to implement a self-insurance approach or plan for the costs of repairing and restoring its T&D system in the event **of** hurricane, storm damage or other natural disaster. FPL also was granted the discretion to establish **[*3]** a line of credit for storm damage liquidity. In addition, FPL was required to submit a study detailing what it believed to be the appropriate amount that should be accrued annually to the reserve and what costs **it** intended to charge to the storm fund. Until the appropriate amount was determined, an annual accrual of $ 7.1 million, net-of-tax, to the storm fund was

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set effective June 1, 1993. We denied FPL's request to "pre-approve" a surcharge on customer bills for damages in the event the reserve balance was inadequate. We indicated that in the event of a shortfall in the reserve, FPL could file a petition seeking appropriate action.

FPL filed the required study in October of 1993. FPL's 1993 study suggested that an annual accrual of $ 20.3 million would allow for storm fund growth, decrease reliance on the customer bill surcharge mechanism and provide an adequate level of insurance. The study also indicated that in order to achieve minimal storm fund growth, a $ 9 million annual accrual combined with a provision for emergency relief was required.

By Order No. PSC-95-0264-FOF-EI, issued February 27,1995, in Docket No. 930405-EI, we found the storm damage study to be adequate. [*4] Based upon the study, we authorized FPL to increase its annual storm damage accrual to $ 10.1 million, effective January 1, 1994. The storm fund was to continue to be funded on a net-of-tax basis.

On September 28, 1995, FPL filed a petition to, among other things, increase its annual storm fund accrual to $ 20.3 million commencing January 1, 1995; and to add approximately $ 51.3 million of recoveries for damage due to Hurricane Andrew and the March 1993 Storm to the storm reserve and contribute the after tax amount to the storm fund. By letter dated November 14, 1995, the Company expanded its explanation of why it was appropriate to increase the annual accrual at that time. When the $ 10.1 million annual accrual was approved, FPL stated it had anticipated that the availability of insurance would improve. Instead, the potential for commercial or other insurance was less than before. FPL asserted that since the only cost effective measure available at that time was self-insurance, an increase in the annual accrual was needed to provide an adequate level of insurance to FPL and its customers.

By Order No. PSC-95-1588-FOF-EI, issued December 27, 1995, in Docket No. 951167-EI, [*5] we approved FPL's petition to increase the accrual to $20.3 million, funded on a net-of-tax basis. **As** of December **31,** 1997, the balance in the reserve was $251.3 million.

On September 23, 1997, FPL filed a petition seeking authorization to increase its storm fund accrual to $35 million, effective January 1, 1997. This Order addresses FPL's petition.

II. APPROPRIATE ANNUAL STORM DAMAGE ACCRUAL

FPL attached to its petition two reports prepared by EQE International, Inc. (EQE) as support for increasing the accrual. The first is a Hurricane Loss Estimation Study for Transmission and Distribution Assets. This study is a probabilistic analysis of FPL's potential T&D replacement costs due to hurricane events. No nuclear expenses or events were included in this study. The analysis addresses different storm tracks, various storm intensities, storm frequencies, the geographic location of existing T&D facilities, as well as FPL's experiences with storm damages to T&D facilities. EQE concluded that FPL's annual accrual for funding T&D hurricane restoration should be $42.3 million because this figure is representative of FPL's expected annual damage estimate. EQE also indicated [*6] that FPL's highest reasonable risk in any single year within the next 50 years is approximately $ 559 million. These results are indexed to achieving sufficient coverage for all the damage caused **by** 98% of **all** storm events over a 50 year period. Appendix E of the study shows that distribution facilities comprise 80% or $ 35 million of the expected annual damage.

FPL seeks to increase the annual accrual to $35 million to a storm fund which will be used for transmission restorations, distribution restorations and possibly certain nuclear events not covered by other insurance. We agree with FPL to the extent that a 98% coverage level for all events over a 50 year period is excessive. We are not persuaded that any harm will result to FPL's ratepayers if the annual contribution remains at its current level as long as the fund is used primarily for T&D restorations due to significant weather events.

The second report FPL attached to its petition is titled Storm Reserve Solvency Analysis. This report addresses policy considerations for capping the fund as well as the reasonableness of certain funding levels assuming an annual damage level of $ 42.3 million. While this report is informative, [*7] it provides no specific conclusions on the fund cap amount nor on the appropriate funding level for regulatory purposes because it assumes an annual damage amount which we do not believe is appropriate for regulatory purposes.

In its Petition, FPL stated that "a funding level sufficient to protect against another 'Andrew type' event is appropriate." An Andrew **type** event is defined by FPL in its Petition at page 2, as $ 350 million, which reflects inflation and system growth since 1992. However, FPL stated that the $350 million covers T&D only and an additional $20 million is necessary for property deductibles under the traditional insurance coverage which it currently holds. Rule *25-6.0143(1)(a), Florida **Administrative** Code,* provides, among other things, that insurance deductibles may be charged against the reserve account. Therefore, we believe the reserve level should include this amount for insurance deductibles, and that a reasonable level for the reserve is $ 370 million in 1997 dollars.

The requested $ 35 million accrual would allow the reserve to reach Andrew level in approximately three years, while the current $ 20.3 [*8] million accrual will attain this level in approximately four years, assuming minimal future charges to the reserve. This calculation includes a reduction to the reserve of $ 14.5 million in charges associated with the 1998 "Groundhog Day" storm. In either scenario, any charges against the reserve will lengthen the amount of time needed to reach the $ 370 million.

FPL has two lines of credit totaling $ 900 million, $ 300 million is specifically designated for storm damage. FPL also has approximately $ 152 million, net-of-tax, in a funded reserve. It should be noted that the after tax amount in the fund equates to approximately $247 million in storm costs. This is true because the amounts contributed to the fund are not tax deductible until actual storm costs are incurred, i.e., the difference between the $ 152 million and $ **247** million is the tax benefit realized when FPL takes a deduction for the expenses. FPL's financial resources from the lines of credit and the fund appear to be sufficient to cover most storm emergencies. However, the costs of storm damage incurred over and above the balance in the reserve and the costs of the use of the lines of credit would still have to be [*9] recovered from the ratepayers.

In the event FPL experiences catastrophic losses, it is not unreasonable or unanticipated that the reserve could reach a negative balance. Rule *25-6.0143(4)(b), Florida **Administrative** Code*, recognizes that charges to a reserve may exceed the reserve balance resulting in a negative balance, as was the case of Gulf Power Company in Order No. PSC-96-0023-FOF-EI, issued January 8, 1996, in Docket No. 951533-EI. According to FPL's Response to Interrogatories 1 and 2, it has never experienced a negative reserve balance since the reserve's inception in **1946.** The December 1997 balance of $ 251.3 million, is, we believe, sufficient to protect against most emergencies. In cases of catastrophic loss, FPL continues to be able to petition the Commission for emergency relief, **as** reflected in Order No. PSC-95-1588-FOF-EI.

Therefore, we find that FPL shall continue the current $ 20.3 million annual accrual. Further, FPL shall file a study addressing the reasonableness of the level of the reserve and accrual by no later than December 31, 2002. **If** there are no significant charges to the reserve, the fund balance should reach [*10] the target level about that time.

Given our decision to maintain the annual accrual at $20.3 million, FPL's request to implement the increase effective January 1, 1997 is moot.

111. APPROPRIATE USES OF STORM DAMAGE RESERVE

FPL's study did not include any analysis of the appropriate reserve balance necessary to cover the possibility of retrospective assessments associated with FPL's insurance of its nuclear facilities. The best information available suggests that the probability of such an assessment is low. This Commission has ongoing regulatory authority to review and determine the prudence of charges to this reserve and fund. It is not disputed that this reserve and fund is available to cover uninsured losses to FPL's transmission and distribution system, as well as insurance deductibles. We take this opportunity to make it clear that, consistent with Rule 25-6.0143, ***Florida Administrative** Code*, this reserve and fund is also available to cover retrospective assessments incident to FPL's property insurance for its nuclear facilities.

IV. SEPARATION OF TRANSMISSION, DISTRIBUTION, **AND** OTHER AMOUNTS

FPL does not separate [*11] transmission, distribution, and other amounts for purposes of the reserve, fund and expense. It should be stressed that this is not a physical separation, but merely an accounting allocation that should not affect the fund investments or any insurance risk. FPL was asked to develop a separations methodology for T&D, Nuclear, and Other. The Company responded:

> Florida Power & Light (FPL) believes it is inappropriate to allocate the reserve and fund to transmission, distribution, nuclear and other and is not aware of any methodology that could be used to appropriately allocate the Storm Reserve and Fund between functions. Previous insurance coverage for storm damage to Transmission and Distribution property was not separable. If by dividing the current Storm Reserve and Fund balances into discrete portions, FPL would be required to insure Transmission and Distribution property separately, any hope of future insurability would be virtually eliminated, resulting in higher costs and less flexible risk management. It would be counter productive to create an artificial separation of funds when any real storm will have a mixture of Transmission and Distribution damages which will

differ [*12] from the hypothetical separation. A separation may not be in the best interests of ratepayers, until and unless changes in regulation make such separation appropriate. In addition, any separation of the Funds between functions resulting in the liquidation or retirement of certain investments could result in losses accruing to the Storm Fund.

Without reaching the conclusion that such a separation is appropriate, we believe a reasonable methodology could be developed by the Company. FPL's storm damage study based its separation of T&D on the replacement value of the T&D assets. FPL has agreed to perform the requested study. Therefore, we find that FPL shall file a methodology for separating T&D and Other by December 31, 1998.

V. ESTABLISHMENT OF A TRUST FUND FOR STORM DAMAGE RESERVE

Currently, the storm fund is not a trust fund. The Cornmission does not have sufficient information to determine whether or not FPL should establish a trust fund. One advantage of a trust fund is that the funds could only be released by the trustee for the intended purpose as defined in the trust agreement. This would assure that the storm fund accrual, recovered through the company's rates, [*13] is used only for its intended purpose. Many allowances, such as nuclear decommissioning accruals and pension expense, are subject to trust funds. However, the tax consequences of having a trust fund, as opposed to not having one, have not been fully examined. Given the significant amount of money in this funded reserve, it is appropriate to examine the issue in greater detail. FPL has agreed to perform the study. Therefore, we find that FPL shall file a study addressing the feasibility of establishing a trust fund for the storm damage reserve fund by December 31, 1998.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that FPL shall continue the current $ 20.3 million annual accrual. It is further

ORDERED that FPL shall file a study addressing the reasonableness of the level of the reserve and annual accrual by no later than December 31, 2002. It is further

ORDERED that, consistent with Rule *25-6.0143, Florida Administrative Code,* this reserve and fund is available to cover retrospective assessments incident to FPL's property insurance for its nuclear facilities. It is further

ORDERED that FPL shall file a methodology [*14] for separating Transmission, Distribution and Other assets covered by this reserve and fund no later than December 31, 1998. It is further

ORDERED that FPL shall file a study addressing the feasibility of establishing a trust fund for the storm damage reserve and fund no later than December 31, 1998. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided by Rule *25-22.036, Florida Administrative Code,* is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto. It is further

ORDERED that in the event this Order becomes final, this Docket shall be closed.

By ORDER of the Florida Public Service Commission this 14th day of July, 1998.

BLANCA S. BAYO, Director

Division of Records and Reporting

DISSENTBY: CLARK AND GARCIA

commissioners Clark and Garcia dissent from the decisions to maintain the annual accrual at the current level and to require [*15] the studies concerning an accounting separation and the feasibility of establishing a trust fund.

In Re: Petition For Approval of Special Accounting Treatment of Expenditures Related to Hurricane Erin and Hurricane Opal by Gulf Power Company

DOCKET NO. 951433-EI; ORDER NO. PSC-96-0023-FOF-EI

Florida Public Service Cornmission

1996 Fla. PUC LEXIS 26

96 FPSC 1:137

January **8**, 1996

PANEL: [*1]

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman, J. TERRY DEASON, JOE **GARCIA, JULIA L.** JOHNSON, **DIANE** K. KIESLING

OPINION: NOTICE OF PROPOSED AGENCY ACTION ORDER GRANTING APPROVAL OF SPECIAL ACCOUNTING TREATMENT OF EXPENDITURES RELATED TO HURRICANE ERIN AND HURRICANE OPAL

BY THE COMMISSION:

NOTICE IS HEREBY GIVEN by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule *25-22.029, Florida Administrative Code.*

CASE **BACKGROUND**

By Order No. 9628, issued September 23, 1982, the Commission permitted Gulf Power Company (Gulf or the Company) to raise its annual accrual to the Accumulated Provision for Property Insurance account from $ **809,717** to $ 1,200,000 before taxes.

Due to the financial impact of Hurricane Erin and Hurricane Opal, on November 17, 1995, Gulf filed a petition to increase its annual accrual from $ 1.2 million to $ 3.5 million beginning in 1996; and to amortize approximately $ 9 million [*2] of hurricane-related expenditures to the accumulated provision account over the five-year period of 1996-2000. Additionally, the Company requested that it be allowed to apply any earnings over a 12.75% return on equity (ROE) for calendar year 1995 to the accumulated provision account and that this petition be brought before the Cornmission for disposition on or before December 19, 1995, prior to the closing of its books for 1995.

DECISION

As of August 2, 1995, Gulf had a balance of approximately $ 12 million in its accumulated provision account. On August 3, Hurricane Erin inflicted $ 11 million in costs chargeable against the accumulated provision account. On October **4,** Gulfs service area was struck by Hurricane Opal resulting in additional damages of approximately $ 9 million chargeable against the accumulated provision account,

Gulfs petition basically addresses relief for the 1995 hurricane-related expenses of approximately $ 9 million in excess of the accumulated provision account balance to avoid the effect on earnings that would otherwise r[illegible]

EXHIBIT

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has proposed increasing the annual accrual to the Accumulated Provision for Property Insurance account from [*3] $ 1.2 million to $ 3.5 million.

Based on current information, we are uncertain that an annual accrual of $ 3.5 million is the appropriate amount. It is evident that the accumulated provision account needs to be re-established and increasing the annual accrual amount should facilitate growth in the accumulated provision account. There is, however, no basis for determining the reasonableness of the proposed $ 3.5 million annual accrual amount. Therefore, we order Gulf to submit a study which addresses the appropriate accumulated provision account balance and the appropriate annual accrual amount. The study should include the impact of random storm events, their intensities and paths, on the accumulated provision account balance and the annual accrual amount. The study shall be filed six months from the date of this Order.

Until the study is submitted and reviewed, we find it appropriate for Gulf to increase its annual accrual by $2.3 million to $ 3.5 million. This increase is subject to adjustment pending the Commission's findings based upon review of the submitted study.

Gulf has requested that its revised accrual to the accumulated provision account be effective January 1, 1996. [*4] Although we recognize that the Company's choice of the January 1, 1996, effective date is predicated upon its already formulated budget for calendar year 1996, we believe that it is more appropriate to revise the accrual amount effective October 1, 1995.

Gulf stated in its petition that without timely administrative relief, it would be required to charge approximately $ 9 million of Hurricane Opal related expenditures to expense in 1995. Instead, Gulf requests permission to defer approximately $ 9 million to be amortized to the accumulated provision account over the five year period of 1996-2000. We find Gulfs determination of the proper treatment of these expenditures **to** be incorrect.

The Company is not required to expense the $ 9 million in 1995 because the Commission Rule *25-6.0143(4)(b), Florida* ***Administrative*** *Code,* entitled "Use of Accumulated Provision Accounts 228.1,, 228.2, and **228.4**" states that:

> ...Charges shall be made to accumulated provision accounts regardless of the balance in those accounts.

When the Commission considered this rule, we realized that there could be times when charges to the accumulated [*5] provision account could exceed the balance in the account, resulting in a negative balance.

Based upon the foregoing, the Company shall charge the accumulated provision account for **all** actual expenditures related to the hurricanes even if that results in a negative balance to the account. Since the expenses will not be deferred, it is not appropriate to amortize them. Also, by charging the reserve for the expenditures, Gulfs concern about charging the expenditures to expenses in 1995 is eliminated.

By Order No, PSC-95-0985-FOF-EI, dated August 10, 1995, Gulfs proposal to cap 1995 earnings at 12.75%, with any earnings over this amount subject to the Commission's disposition, was approved. The exact disposition of any excess earnings was left to our discretion. In addition, Gulf agreed to petition the Commission no later than April 1, 1996, to determine the specific disposition of any deferred revenues and interest. Gulf stated in its current petition that:

> ...although it does not presently appear likely that the situation will come to pass, consistent with the Company's proposal approved by Order No. PSC-95-0985-FOF-EI, in Docket No. 950837-EI, it would be the intent of [*6] the Company to apply any earnings for calendar year 1995 in excess of 12.75% return on equity (ROE) to the Company's uninsured property damage reserve."

We agree with the Company. If the actual achieved earnings do exceed 12.75%, all excess earnings shall be applied to the accumulated provision account.

The expenses related to the two hurricanes named above have not been reviewed by the Commission. In Order No. PSC-95-0264-FOF-EI, issued February 27, 1995, related to the self-insurance mechanism for Florida Power & Light Company, the Commission stated: "...we have the authority to review any expenses charged to the reserve for reasonableness and prudence." In Order No. PSC-95-0255-FOF-EI, issued February 23, 1995, related to Tampa Electric Company's self-insurance mechanism, the Cornmission stated: "we retain the right *to* review the costs and disallow any that are found to be inappropriate."

In accordance with our prior treatment of expenses related to individual utility self-insurance mechanisms, we retain the right to review Gulfs charges to the Accumulated Provision for Property Insurance Account related to these two storms, at any time, for reasonableness and prudence and **[*7]** to disallow any that are found to be inappropriate.

After charging the accumulated provision account for actual hurricane related expenditures, a negative balance will result. Even with the approval of the increase in the annual accrual to $ 3.5 million, effective October 1, 1995, the accumulated provision account will have a negative balance until late 1997, assuming no further charges are made due to future storm activity. This obviously is not desirable since the Company is in a self-insurance position. Therefore, we find it appropriate to allow the Company the flexibility to increase its annual accrual to the accumulated provision account when the Company believes it is in a position, from an earnings standpoint, to do so. Once the accumulated provision account balance reaches $ 12 million or such other level approved by us, the Company shall not increase its accrual above the annual accrual amount last approved by the Commission.

In addition, the Company shall inform the Division of Auditing and Financial Analysis when a decision is made to increase the annual accrual, and shall provide a statement on its future earnings surveillance report when the adjustment is **[*8]** made to increase the amount charged to expense.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Gulf Power Company's request to increase the annual accrual to the accumulated provision account from $ 1.2 million to $3.5 million is approved effective October 1, 1995. It is further

ORDERED that Gulf shall submit a storm study, as described in the body of this order, within six months from the date of this order. It is further

ORDERED that Gulf shall be required to expense the approximately $ 9 million in damages attributable to Hurricane Opal against the accumulated provision account. It is further

ORDERED that Gulf apply any earnings for calendar year **1995** in excess of 12.75% return on equity to the accumulated provision account. It is further

ORDERED that expenses related to Hurricanes Erin and Opal charged to Gulfs accumulated provision account are subject to Commission review at any time. It is further

ORDERED that Gulf is allowed the flexibility to increase its annual accrual above the $ 3.5 million approved above until the accumulated provision account **balance** reaches $ 12 million or such other level approved by this Commission, as **[*9]** discussed in the body of this order. It is further

ORDERED that Gulf shall inform the Division of Auditing and Financial Analysis when a decision is made to increase the annual accrual, and shall provide a statement on its future earnings surveillance report when the adjustment is made to increase the amount charged to expense.

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective unless an appropriate petition, in the form provided **by** Rule *25-22.036, **Florida Administrative** Code*, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further Proceedings or Judicial Review" attached hereto, It is further

ORDERED that in the event this Order becomes final, this Docket shall remain open pending Commission review of Gulfs storm study.

By ORDER of the Florida Public Service Commission, this 8th day of January, 1996, In Re: Investigation into Currently Authorized Return on Equity and Earnings of Florida Power Corporation; In Re: Petition for Authorization to Implement a Self-Insurance Program for Storm Damage to its Transmission and Distribution (T & D) Lines and to Increase Annual Storm Damage Expense by Florida Power Corporation

DOCKET NOS. 940621-EI, 930867-EI; ORDER NO. **PSC-94-0852**-FOF-EI

Florida Public Service Commission

1994 Fla. PUC LEXIS 867

94 FPSC 7:108

July 13, 1994

PANEL: [*1]

The following Commissioners participated in the disposition of this matter: J. TERRY DEASON, Chairman, SUSAN F. CLARK, JULIA L. JOHNSON, DIANE K. KIESLING

OPINION: NOTICE OF PROPOSED AGENCY ACTION ORDER ESTABLISHING EARNINGS CAP FOR 1994, ACCELERATING AMORTIZATION AND INCREASING STORM DAMAGE RESERVE

BY THE COMMISSION:

Notice is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files **a** petition for formal proceeding pursuant to Rule *25-22.029, Florida **Administrative Code.***

On May 20, 1994, Florida Power Corporation (FPC), the Office of Public Counsel (OPC) and Staff participated in a conference call to discuss FPC's currently authorized return on equity (ROE) and earnings. **As** a result of that meeting and subsequent discussions, FPC filed a formal proposal on June 9, 1994. This proposal is appended to this Order as "Attachment **A**". FPC proposes to cap its 1994 earnings at a 12.50% ROE, to apply any overearnings to first accelerate the Sebring going concern value and then increase the storm damage **[*2]** accrual, and to permanently increase its storm damage accrual to $ 6,000,000 annually effective January 1, 1994. The proposal is only valid if accepted in its entirety.

The Sebring going concern value is currently being amortized over a four year period. If the acceleration of the Sebring amortization is insufficient to reduce the 1994 achieved ROE to 12.50%, additional storm damage expense will be recognized in order to achieve the 12.50% ROE. The cap is below the top of FPC's currently authorized range of 13.00%. Within the context of FPC's total offer and the fact that approval of the offer will **save** litigation costs if the order is not protested, we find the ROE cap of 12.50% and the contingent proposal to accelerate the amortization of the Sebring going concern value/recognize additional storm damage expense to be reasonable and hereby approve the proposal.

FPC has also offered to permanently increase its annual storm damage accrual from $ 3,000,000 to $ **6,000,000**, effective January 1, 1994. The appropriate storm damage accrual level is currently under review in Docket No. **930867**-EI. A study has been submitted in that docket and our review of that study indicates that **[*3]** an increase above the current $ 3,000,000 annual accrual is needed. Accordingly, we find that FPC's proposal to permanently increase its storm damage accrual is reasonable and hereby approve the proposal.

It is therefore,

ORDERED that FPC's June 19, 1994 proposal to cap its 1994 earnings at 12.5%, **apply** any amount in excess of that level to the Sebring going concern amortization/storm damage expense and permanently increase its storm damage expense accrual to $ 6,000,000 effective January 1, 1994 is approved. It is further

ORDERED that Docket No. 930867-EI and Docket No. 940621-EI shall be closed if no substantially affected person timely files a protest to this proposed agency action.

By ORDER of the Florida Public Service Commission, this 13th day of July, 1994.

ATTACHMENT **A**

ORDER NO. **PSC-94-0852-FOF-EI**

DOCKET NOS. 940621-EI **AND** 930867-EI

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Florida Power CORPORATION

JOHN SCARDINO, JR., Vice President and Commander

June 9, 1994

Mr. Timothy Devlin, Director
Division of Auditing and Financial Analysis
Florida Public Service Cornmission
101 East Gaines Street
Tallahassee, Florida 32399

Re: Florida Power Financial Performance - [*4] Update

Dear Mr. Devlin:

As a result of a recent telephone conversation between Ms. Beth **Salak** and myself, **I** am submitting this correspondence in order to replace the Company's original response to Staffs concerns on FPC's financial performance, dated June 3, 1994.

Staffs proposed 12.5% cap on ROE

Florida Power will agree that the Company's regulatory return on equity (ROE) for 1994 not exceed 12.50%, calculated on an "FPSC adjusted" basis. In addition, the Company's currently authorized range of 11% - 13% for return on equity would remain intact and would revert to being the basis for measuring achieved regulatory results in calendar year 1995 and beyond. It is Florida Power's understanding from our telephone conference that all reasonable and prudent expenses would be allowed in the calculation of the return on equity even if the expense was considered non recurring, i.e. expenses recorded for early out program, and that no adjustment would be made for abnormal weather,

In the event the Company's ROE for 1994 exceeds 12.50%, the amortization of the Sebring going concern value will be accelerated. If amortization of the entire Sebring going concern value is not [*5] sufficient to reduce the 1994 achieved ROE to 12.50%, Florida Power agrees to recognize additional storm damage expense in order to achieve 12.50%. Also, it is the Company's understanding that after the December 1994 Surveillance Package is submitted, the FPSC Staff would audit the results and prepare a recommendation based on their findings.

Staffs proposed Sebring "going concern" write-off

Florida Power will agree to accelerate the write-off of the Sebring going concern value as requested by staff to the extent the Company's 1994 return on equity exceeds the limitation described above.

Staffs proposed storm damage accrual

Florida Power is willing to increase the annual storm damage accrual to $ 6.0 million. The revised annual accrual was determined by supplementing the average expected annual storm damage from the Company's study ($ **4.3** million) with the most recent 5-year average damage to the Company's system caused by acts of nature other than hurricanes ($ 1.7 million). Examples of other acts of nature include tornados, storm of the century and the seaweed incident.

The annual accrual would become effective January 1, **1994** and would remain in place **[*6]** until such time as the FPSC authorizes a change in the annual accrual. The Company requests that our agreement result in the closing of Docket No. 930867-HI, Authorization to implement a self insurance reserve for storm damage.

It is the Company's intention that the above responses be considered by Staff in the aggregate and that acceptance of one response with modifications to the other responses will not be acceptable.

If you have any questions, I would be pleased to discuss them with you in greater detail. Please feel free to contact me in this regard.

Sincerely,

Attachment

FLORIDA POWER CORPORATION

SUMMARY OF FPSC CONFERENCE CALL

MAY 20, 1994

ATTENDEES

FPC	FPSC STAFF		OFFICE OF PUBLIC COUNSEL
John Scardino, Jr.	Beth Salak	Dale Mailhot	Roger Howe
David P. Devade	Ann Caussaeux	John Blankenwicz	
	Andrew MauRey	Fat Lee	
	James Breman	Dennis Kummer	

A telephone conference was held in the morning of May 20 with the above listed people in attendance. The conference was requested by FPSC Staff for the purpose of identifying three major concerns affecting Florida Power's current financial performance, The Staffs request was prompted by the **[*7]** FPSC decision to lower TECO's allowed range on Common Equity in October **1993,** as well as comparable actions with companies in the telecommunications and natural gas industries. The Staff has requested the Company to respond in writing to their proposal by Friday June

The three concerns raised by the FPSC Staff are listed as follows:

RETURN ON EQUITY - PROPOSED CAP **AT** 12.50% FPSC Adjusted Basis

The Earnings Cap would only apply to calendar year **1994** results as reported in the Company's monthly surveillance package filed with the FPSC. The Company's current allowed range of AGE of 11% - 13% would remain intact. After the Company submits its December **1994** Surveillance Package, the FPSC staff would audit the results and prepare a recommendation based on their findings. The Staff indicated that all reasonable and prudent expenses would be allowed in the calculation of the Return on Equity even if the expense was considered non recurring. In addition no adjustment would be made for abnormal weather.

FPSC Staff Position:

Florida Power's return on equity as reported on an FPSC Adjusted basis has exceeded the authorized end point of 12% thru March 1993. The Staff fait conceded **[*8]** to propose an Earnings Cap for Florida Power after analyzing current capital market trends and considering the outstanding earnings agreement at United Telephone and the recent action on

TECO's allowed range on ROE. The Staff also indicated that a 15 basis point premium to acknowledge the increased risk between the Company and TECO was factured into the determination of the proposed 12.50% earnings cap,

FLORIDA POWER CORPORATION

SUMMARY OF FPSC CONFERENCE CALL

MAY 20,1994

SEBRING GOING CONCERN VALUE - WRITE OFF IN 1994

The expected unamortized balance of $3.2 million at December 31, 1994 would be written off in 1994 business. The impact on return on equity is approximately 14 basis points.

FPSC Staff Position:

The Staff believes that the Going Concern Value is of little significance to the Company and should be written off in 1994 business. **Also,** an immediate write off would benefit future earnings and place the Company in a more competitive position.

STORM **DAMAGE** ACCRUAL **-** CURRENT ACCRUAL UNDERSTATED

The FPSC Staff presented two schedules to the company demonstrating their concern that the current annual accrual OF $ **3** million is too low. The **[*9]** first scenario would require the Company to increase the annual accrual over time by $ 1.3 million in order to cover the average expected annual damage of **$4.3** million. The second scenario (worst case) would require the Company to increase the annual accrual to $ 10.2 million in order to cover the average expected annual damage of **$4.3** million and build a reserve equal to prior insurance level of $ **90** million in 10 years.

FPSC Staff Position:

The Staff believes that a storm damage reserve should cover both operating and capital exposures and as a result constructed their schedules comparing the Company's annual accrual of $ 3 million (O&M only) to the average expected annual damage amount of $4.3 million (O&M and Capital). The Company impressed upon Staff that it was not our intention to build a reserve including capital because past practice has always focused on O&M only due to the inconsistent experience and also because incremental capital dollars incurred to restore the system would be recovered through future [Illegible Text] rates. The discussion then focused on the issue of interoperational equity if future customers were **asked** to compensate the Company for new **[*10]** plant as well as the unrecovered portion of plant damaged due to a hurricane. The Staff is also concerned about availability of funds to restore the system and at what point the Company should consider converting from an unfunded reserve to a funded reserve. Finally, the Company reminded Staff that the decision to utilize a self insurance reserve was predicated on economics and if an annual expense increase to $ 10 million were proposed, we would pursue reinstating our insurance policies at a lower annual expense.

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor

DOCKET NO. 040001-EI; ORDER NO. **PSC-04-0411**-FOF-EI

Florida Public Service Commission

2004 Fla. PUC LEXIS 411

04 FPSC 4:261

April 21,2004, Issued

PANEL: [*1] BRAULIO L. BAEZ, Chairman; J. TERRY DEASON, Commissioner; LILA **A.** JABER, Commissioner; RUDOLPH "RUDY" BRADLEY, Commissioner; **CHARLES** M. DAVIDSON, Commissioner; BLANCA **S.** BAYO, Director

OPINIONBY: BAEZ; DEASON; JABER; BRADLEY; DAVIDSON; BAYO

OPINION: The following Commissioners participated in the disposition of this matter:

BRAULIO L. BAEZ, Chairman

J. TERRY DEASON

LILA **A.** JABER

RUDOLPH "RUDY" BRADLEY

CHARLES M. DAVIDSON

ORDER DISPOSING OF MOTIONS FOR RECONSIDERATION / CLAFUFICATION OF FINAL ORDER

BY THE COMMISSION:

By Order No. PSC-03-1461-FOF-EI, issued December 22,2003, in Docket No. 030001-EI ("Fuel Order"), this Commission established fuel and capacity cost recovery factors for investor-owned electric utilities to apply for billing purposes in calendar year 2004. On January 6, 2004, Tampa Electric Company ("Tampa Electric") filed a motion for reconsideration of that portion of the Fuel Order which addressed the costs and savings associated with the shutdown of Tampa Electric's Gannon Units 1-4. At the same time, Tampa Electric filed a request for oral argument, which **was** granted at the outset of our deliberations. The Office of Public Counsel ("OPC"), Florida Industrial Power **Users Group [*2]** ("FIPUG"), and Florida Retail Federation (collectively, "Intervenors") filed a joint response in opposition to Tampa Electric's motion on January 13, 2004.

On January **6,** 2004, the Intervenors filed a joint motion for reconsideration of that same portion of the Fuel Order. Tampa Electric filed a response in opposition to Intervenors' joint motion on January 13, 2004.

On January **6,** 2004, Florida Power & Light Company ("FPL") filed a motion for clarification or, in **the** alternative, reconsideration of that portion of the Commission's Fuel Order concerning **a** growth adjustment used to establish the baseline for determining incremental power plant security costs. No party filed a response to FPL's motion.

We have jurisdiction over this subject matter pursuant to Chapter 366, Florida Statutes, including ***Sections 366.04***, *366.05*, and *366.06, Florida Statutes.*

I. **TAMPA** ELECTRIC'S MOTION FOR RECONSIDERATION

As noted in the Fuel Order, Tampa Electric is required to cease operating coal-fired generation at its Gannon Station by December 31,2004, pursuant to a Consent Final Judgment [*3] ("CFJ") entered into with the Florida Department of Environmental Protection, signed December 6, 1999, and a Consent Decree ("CD") entered into with the United States Environmental Protection Agency and Department of Justice, signed February 29, 2000. The Fuel Order addresses, among other things, the recovery of replacement fuel costs incurred by Tampa Electric as a result of its decision *to* shut down Gannon Units 1-4 prior to December 31,2004, and a sharing of savings achieved by Tampa Electric as a result of the shutdown. In addressing these matters, we stated, at page 21 of the Fuel Order, the following:

> But for TECO's decision to cease operations at Gannon Units 1 through 4 when it did, the company would not have incurred the replacement fuel costs that we have determined to be reasonable, Further, but for that same decision, the company would not have achieved O&M savings estimated at $ 10,521,000 for 2003. Because these O&M savings derive from the same finite decision that resulted in replacement fuel costs, we believe that, under the unique Circumstances presented, the replacement fuel costs to be borne by customers should be offset to some extent by the amount of savings. [*4] . . . Taking into account all of the competing evidence in the record on this point and the unique circumstances presented, we believe that a fair and reasonable sharing of the O&M savings associated with the units' closure will be achieved by providing 80% of the estimated O&M savings, or $ 8,416,800, to ratepayers as an offset to TECO's recoverable fuel costs, and providing TECO the benefit of the remaining 20% of the O&M savings.

Arguments of the Parties

In its motion for reconsideration, Tampa Electric first argues that this Commission erred by effectively disallowing recovery of prudently incurred costs. Tampa Electric notes that we found that the replacement fuel costs associated with Tampa Electric's decision to shut down Gannon Units 1-4 were prudently incurred. Tampa Electric asserts that we are legally obligated to allow full recovery of those costs.

Next, Tampa Electric argues that this Commission erred by considering base rate costs as the basis for an adjustment to fuel and purchased power costs. Tampa Electric asserts that an evaluation of base rate costs may be performed only during a full rate proceeding when all expenses and investments are considered, and [*5] that our decisions in the fuel and purchased power cost recovery clause ("fuel clause") proceedings must be confined to fuel and purchased power costs.

Further, Tampa Electric argues that, assuming it is appropriate to consider base rate costs in the fuel clause, this Cornmission erred by failing to consider cast factors other than O&M costs in determining whether savings were achieved as a result of the shut down of Gannon Units 1-4. Tampa Electric asserts that we erroneously focused on only one estimate of O&M savings associated with the shut down of Gannon Units 1-4 and failed to consider other costs related to the same transaction, in particular increases in O&M costs related to Tampa Electric's other generating units. Tampa Electric asserts that to determine if savings exist, we must calculate the combined effect of all of the factors directly related to compliance with the CFJ and CD, including increased investment in generating plant, increased depreciation expense, and increased maintenance expenses at other generating units. Otherwise, according to Tampa Electric, we would fail to adhere to the principle of symmetry that requires both ratepayers and utilities be treated in [*6] a similar manner.

Finally, Tampa Electric argues that this Commission failed to consider several unintended adverse consequences of its decision. Tampa Electric claims that based on our decision and the principle of symmetry, we would be required to allow a surcharge to fuel adjustment factors for increases in costs prudently incurred by a utility when it takes actions which increase O&M expenses or investment which then reduce the utility's fuel and purchased power costs, such as scheduled maintenance costs that improve reliability and availability of a generating plant. Further, Tampa Electric asserts that our decision operates as a significant and unintended penalty which will have a chilling effect on a utility's pursuit of O&M savings under circumstances where it runs the risk that such savings will be isolated and used to offset recovery of prudently incurred fuel and purchased power costs. In addition, Tampa Electric asserts that our decision injected uncertainty in Tampa Electric's full recovery of prudently incurred costs required to comply with the CFJ and CD.

In their joint response, Intervenors argue that Tampa Electric's motion for reconsideration inappropriately reargues [*7] points that this Commission considered and rejected in its deliberations on this issue. Intervenors note that Tampa Electric, at the Prehearing Conference, objected to inclusion of the issue now subject to reconsideration on the grounds that it mixed base rate and fuel cost recovery concepts, but that the issue was deemed appropriate by the Prehearing Officer. Intervenors assert that Tampa Electric, having not challenged that decision, cannot now complain that the issue is beyond the scope of the fuel clause. The Intervenors further contend that this Commission did not overlook or fail to consider Tampa Electric's position that we could not consider base rate costs as the basis for an adjustment to fuel and purchased power costs. Intervenors state that the issue was discussed in both the testimony of Tampa Electric witness Jordan and FIPUG witness Brown, and that witness Jordan acknowledged that this Commission has, on a case-by-case basis, allowed recovery of certain expenses through the fuel clause that would traditionally be recovered through base rates. Intervenors further state that, in our deliberations, we explicitly discussed and rejected Tampa Electric's position, noting [*8] instances in which this Commission had permitted capital and O&M expenditures, typically base rate items, to be recovered through the fuel clause.

Intervenors also assert that we did not err by disallowing recovery of prudent expenses because we did not disallow recovery of such expenses. Rather, according to Intervenors, this Commission ordered a sharing of O&M savings associated with the closure of Gannon Units 1-4,

Further, Intervenors assert that this Commission did not overlook or fail to consider the **full** context in which its decision was made. Intervenors assert that we heard, considered, and discussed extensive evidence concerning the totality of the circumstances surrounding closure of Gannon Units 1-4 and the related costs. In response to Tampa Electric's arguments concerning "symmetry" of Commission decisions, Intervenors assert that without the sharing of savings required by the Fuel Order, the ratepayers would have suffered harm while Tampa Electric benefited.

Finally, Intervenors contend that Tampa Electric's assertions of adverse unintended consequences from the Fuel Order are merely conjecture, unsupported by experience following this Commission's past decisions to [*9] allow recovery of base rate items through the fuel clause, and inconsistent with the language in the Fuel Order indicating that our decision was based on the unique circumstances presented.

Analysis and Conclusions

The standard of review for a motion for reconsideration of a Cornmission order is whether the motion identifies a point of fact or law that this Commission overlooked or failed to consider in rendering the order. See *Stewart Bonded Warehouse, Inc. v. Bevis, 294 So.2d 315 (Fla. 1974); Diamond Cab Co. v. King, 146 So.2d 889 (Fla.* 1962); and *Pingree v. Quaintance, 394 So.2d 162 (Fla. 1st DCA 1981).* In a motion for reconsideration, it is not appropriate to reargue matters that have already been considered. *Sherwood v. State, 111 So.2d 96 (Fla. 3rd DCA 1959);* citing State ex.rel. *Jaytex Realty* Co. *v. Green, 105 So.2d 817 (Fla. 1st DCA 1958).* Furthermore, a motion for reconsideration should not be granted "based upon an arbitrary feeling that a mistake **may** have been made, but should be based upon specific factual matters [*10] set forth in the record and susceptible to review." Stewart Bonded Warehouse, Inc. **vs.** Bevis.

For the reasons set forth below, we conclude that Tampa Electric has not identified any point of fact or law that this Cornmission overlooked or failed to consider in rendering that portion of the Fuel Order which addressed the costs and savings associated with the shutdown of Tampa Electric's Gannon Units 1-4.

As noted above, Tampa Electric first argues that this Commission erred by effectively disallowing recovery of prudently incurred costs. This argument, however, mischaracterizes our decision. We determined that the replacement fuel costs incurred by Tampa Electric as a result ***of*** its decision to shut down Gannon Units 1-4 when it did were prudently incurred. We did not "disallow" any portion of those costs. Instead, we determined that the shutdown of Gannon Units 1-4 resulted in O&M savings for Tampa Electric in 2003 and that these savings, because they resulted from the same finite decision which led to the replacement fuel costs to be borne by ratepayers, should be shared with ratepayers through an offset to the costs being recovered by Tampa Electric through the fuel clause. [*11] In other words, **we** allowed recovery of all prudently incurred replacement fuel costs, then chose to offset those costs by a percentage of the associated O&M savings realized by Tampa Electric as a means of allowing ratepayers to share in those savings. Pursuant to Chapter 366, Florida Statutes, this Commission has the exclusive authority and the obligation to set rates that it deems fair, just, reasonable, and compensatory. We firmly believe that we acted fully within our authority when we ordered that Tampa Electric's recoverable fuel costs be offset by O&M savings resulting from the same finite decision which led to replacement fuel costs. Thus, we find that we did not err in this regard.

Second, Tampa Electric argues that this Commission erred by considering base rate costs as the basis for an adjustment to fuel and purchased power costs. The argument that "the Commission's decision in the fuel and purchased power proceeding must be confined to fuel and purchased power costs" is at odds with a long history of decisions in which this Commission allowed recovery of certain expenses through **the** fuel clause that would traditionally be recovered through base rates, such as capital and **[*12]** O&M expenses. See, e.g., Order No. 11217, issued October 1, 1982, in Docket No. 820155-EU (allowing recovery through the fuel clause of capital expenses associated with 500kV transmission line pursuant to oil-backout rule); Order No. 11223, issued October 5, 1982, in Docket No. 820055-EU, and Order No. 11658, issued March 2, 1983, in Docket No. 820533-EU (allowing recovery through the fuel clause of capital and O&M expenses associated with converting Gannon units from oil-fired to coal-fired pursuant to oil-backout rule); Order No. 23366, issued August 17, 1990, in Docket No. 900001-EI, pages 5-6 (allowing recovery through the **fuel** clause of capital expenses associated with rail cars used to transport coal); Order No. PSC-93-1331-FOF-EI, issued September 13, 1993, in Docket No. 930001-EI, pages *5-6* (allowing recovery through the fuel clause of capital expenses associated with natural gas pipeline lateral); Order No. PSC-95-1089-FOF-EI, issued September **5,** 1995, in Docket No. 950001-EI, pages 9-10 (allowing recovery through the fuel clause of capital expenses associated with conversion of combustion turbine from single-fuel to dual-fuel capability); Order No. PSC-02-1484-FOF-EI, **[*13]** issued October 30, 2002, in Docket No. 011605-EI (allowing recovery through the fuel clause of incremental O&M expenses associated with new or expanded hedging programs); and Order No. PSC-02-1761-FOF-EI, issued December 13, 2002, in Docket No. 020001-EI, pages 3-4, 5-7, 9-11, 14-15 (allowing recovery through the fuel clause of incremental power plant security costs). Even in the Fuel Order that is the subject of Tampa Electric's motion for reconsideration, Tampa Electric was authorized to recover incremental power plant security costs, a type of cost traditionally recovered through base rates rather than the fuel clause. The rationale behind these decisions has largely been to allow recovery through the fuel clause of non-fuel costs not recognized or anticipated at the time of the utility's last rate case that, if expended, would create fuel cost savings for customers. Under this approach, customers benefit from fuel cost savings while the utility is made whole for the non-fuel expenses necessary to achieve that benefit. We simply applied the converse of the rationale in this instance: customers were allowed to share in non-fuel cost savings achieved while the utility was made whole **[*14]** for its additional fuel expenses.

Consistent with this history and consistent with our statutory authority and obligation *to* set fair, just, reasonable, and compensatory rates, we find that we did not err by considering non-fuel costs as the basis for an adjustment to fuel and purchased power costs, Chapter 366, Florida Statutes, makes no distinction between cost recovery mechanisms, i.e., base rates and fuel clause recovery, where it requires this Commission to set fair, just, reasonable, and compensatory rates. Further, it is clear from the record that we considered Tampa Electric's argument and rejected it. We heard testimony from Tampa Electric witness Jordan and FIPUG witness Brown concerning the appropriateness of offsetting replacement fuel costs with associated O&M savings. In our deliberations, we took note of past decisions "mixing" fuel and non-fuel cost recovery in the fuel clause and, while recognizing that this was the first instance in which we were confronted with a situation where increased fuel costs resulted from the same finite decision which led to O&M savings, determined that we were not constrained from reaching the result we reached simply because the O&M **[*15]** savings at issue were non-fuel costs.

Third, Tampa Electric argues that, assuming it is appropriate to consider base rate costs in the fuel clause, this Cornmission erred by failing to consider cost factors other than O&M costs in determining whether savings were achieved as a result of the shut down of Gannon Units 1-4. We had before us extensive testimony from Tampa Electric concerning the totality of the circumstances surrounding the decision to shut down Gannon Units 1-4 when it did and found that the estimate of O&M savings set forth in Exhibit MJM-5 to the testimony of OPC witness Majoros was the best statement of savings to use for the purpose of offsetting replacement fuel costs incurred **as** a result of Tampa Electric's decision to shut down Gannon Units 1-4 when it did. Thus, we find that we did not fail to consider the extensive evidence before us concerning the other cost factors suggested by Tampa Electric.

Fourth, Tampa Electric argues that this Commission failed to consider several unintended adverse consequences of its decision, suggesting that we would be required to allow a surcharge to fuel adjustment factors for increases in costs prudently incurred by a utility when **[*16]** it takes routine actions, such as scheduled maintenance, which increase O&M expenses or investment but reduce the utility's fuel and purchased power costs. We clearly took this into consideration, pointing out in the Fuel Order that our decision was based on the very unique circumstances presented. In our deliberations, we noted that we were presented with an extraordinary circumstance where four generating units were required to be shut down as opposed to a Circumstance where more modest O&M savings were generated by a new efficiency procedure. Further, in our deliberations, we made clear that we are not advocating a review of all O&M savings achieved by utilities for purposes of crediting such savings through the fuel clause. While we could not reasonably have speculated as to every possible consequence of our decision, we certainly considered the potential precedential **value** of our decision and clearly limited the decision to the extraordinary circumstances presented.

For the reasons set forth above, we deny Tampa Electric's motion for reconsideration.

11. INTERVENORS' MOTION FOR RECONSIDERATION

The Intervenors seek reconsideration of the same portion of the Fuel Order for which **[*17]** Tampa Electric seeks reconsideration. The Intervenors argue that the Fuel Order does not go far enough in sharing with customers the O&M savings resulting from the shutdown of Gannon Units 1-4. Rather than arguing that we erred in reaching our decision, the Intervenors argue that the **Fuel** Order did not properly reflect our vote. The Intervenors assert that the Fuel Order erroneously used the $ 10.5 million "Net Savings" shown in Exhibit MJM-5 to the testimony of OPC witness Majoros to represent the O&M savings related to replacement fuel costs through December 31, 2004, when the amount in Exhibit MJM-5 represented only O&M savings for 2003. The Intervenors assert that we intended Exhibit MJM-5 to be used as the formula for calculating O&M savings that should be offset against associated replacement fuel costs, but that the Fuel Order failed to account for 2004 savings. According to the Intervenors, using MJM-5 as a formula for calculating "Net Savings" for 2003 and 2004 results in a total offset of $ **31.9** million, after the 80/20 sharing of savings ordered by this Commission.

In response, Tampa Electric asserts that the Intervenors failed to identify any point of fact or **law** that **[*18]** this Commission overlooked or failed to consider in rendering the Fuel Order. Tampa Electric asserts that our deliberations reveal that our clear intent was to use the O&M savings reflected in Exhibit MJM-5 as the appropriate offset for all relevant time periods, Thus, Tampa Electric argues that the Fuel Order correctly reflects our intent.

Based on the standard **of** review set forth in part II of this Order, we find that the Intervenors' motion for reconsideration fails to identify any point of fact or law that this Commission overlooked **or** failed to consider in rendering the Fuel Order. Further, the transcript of our deliberations makes clear our intent to use the O&M savings shown in Exhibit MJM-5 as the only offset to replacement fuel costs incurred as a result of the shut down of Gannon Units **1-4.**

From our deliberations, the Intervenors have taken a single use of the word "formula" out of context and attempted to use that single reference as the basis for an additional $ 21.4 million offset that is not suggested anywhere else in our deliberations or vote. Further, the Intervenors have attempted to use references to Tampa Electric's "decision to cease operations at Gannon Units **[*19]** 1 through **4** prior to December 31,2004" as the basis for asserting that we must have intended to use Exhibit MJM-5 as **a** formula for calculating 2003 *and 2004* O&M savings to be offset against replacement fuel costs. Throughout the transcript of our deliberations, however, it is clear that we recognized the O&M savings reflected in Exhibit MJM-5 as the amount of savings we wished to use to offset replacement fuel costs. It is also clear that **we** recognized that Exhibit MJM-5 reflected estimates of 2003 O&M savings only. Nowhere in the transcript of our deliberations do we suggest that an additional offset is required. The motion on this issue, which was unanimously approved, reads as follows:

I would move that we would recognize the amount in Scenario 5 of Exhibit MJM-5 as O&M savings, and that we would attribute 80 percent of that savings to the ratepayers, which would be whatever that number calculates to be, something in excess of **$ S** million would be a reduction in fuel costs that would be passed through to customers.

In restating the motion before the vote, the Chairman added that "we recognize that the last six months of 2003 will be affected." Accordingly, we find that the **[*20]** Fuel Order precisely reflects our vote.

For the reasons set forth above, we deny Intervenors' motion for reconsideration.

III. FPL'S MOTION FOR CLARIFICATION/RECONSIDERATION

By its motion, FPL **asks** us to clarify that the portion of our Fuel Order approving an adjustment of the baseline used to determine incremental recoverable costs to reflect growth in kWh sales ("gross-up adjustment") **is** intended to apply only to incremental power plant security costs. FPL notes that the Commission staff witness who proposed this adjustment filed testimony in response solely to the limited issue of the appropriate methodology for determining incremental power plant security costs. FPL further notes that at hearing the staff witness clarified that he was proposing a gross-up adjustment to apply only to incremental power plant security costs, consistent with the limited issue to which his testimony was directed. FPL states that the Fuel Order, however, does not explicitly state that this gross-up adjustment will apply only to incremental power plant security costs recoverable through the capacity cost recovery clause. If, by our Fuel Order, we intend to **apply** the gross-up adjustment to determine **[*21]** the amount of other incremental costs recoverable through cost recovery clauses, then FPL asks that we reconsider that decision.

In addressing this issue, we stated, at page 30 of the Fuel Order, the following:

> We agree with staff witness Brinkley that base amounts used for calculating incremental security costs for recovery through the capacity cost recovery clauses should be adjusted for growth or decline in energy sales in kilowatt-hours from the base year to the current year.
>
> By adjusting the base year amounts for growth in energy sales, we believe utilities will collect through the capacity clause only those expenses that are truly incremental to the level of costs being recovered through base rates. For those utilities currently operating under a revenue sharing plan approved by this Commission, current year revenues shall be reduced by the amount of revenues refunded through the utility's sharing plan prior to application of this growth adjustment.

Given the limited issue that we were asked to decide and the staff witness's clarification that his testimony was intended to address only that issue, we find that the clarification sought by FPL is appropriate. While the **[*22]** Fuel Order does make specific reference to "incremental security costs for recovery through the capacity cost recovery clauses," we clarify that our approval of the gross-up adjustment was intended to apply only to incremental power plant security costs recoverable through the capacity cost recovery clause. In making this clarification, we **do** not preclude ourselves from considering or approving any future proposal to more broadly apply the gross-up adjustment to determine the amount of other incremental costs recoverable through cost recovery clauses.

In sum, we grant FPL's motion to clarify Order No. PSC-03-1461-FOF-EI to more precisely **reflect** our vote.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that Tampa Electric Company's motion for reconsideration of Order No. PSC-03-1461-FOF-EI is denied, It is further

ORDERED that the Office of Public Counsel, Florida Industrial Power Users Group, and Florida Retail Federation's joint motion for reconsideration of Order No. PSC-03-1461-FOF-EI is denied. It is further

ORDERED that Florida Power & Light Company's motion for clarification or, in the alternative, reconsideration of Order No. PSC-03-1461-FOF-EI **[*23]** is granted as set forth in the body of this Order. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission this 21st day of April, 2004.

BLANCA S. **BAYO,** Director

Division of the Commission Clerk and Administrative Services

In re: Fuel and purchased power cost recovery clause with generating performance incentive factor

DOCKET NO. 030001-EI; ORDER NO. PSC-03-1461-FOF-EI

Florida Public Service Commission

2003 Flu. PUC LEXIS 874

03 FPSC 12:477

December 22, 2003, Issued

[*1] APPEARANCES: JOHN T. BUTLER, ESQUIRE, Steel Hector & Davis LLP, Miami, Florida, On behalf of Florida Power & Light Company (FPL); NORMAN H. HORTON, JR., ESQUIRE, Messer Caparello & Self, P.A., Tallahassee, Florida, On behalf of Florida Public Utilities Company (FPUC); RUSSELL BADDERS, ESQUIRE, Beggs & Lane, Pensacola, Florida, On behalf of Gulf Power Company (Gulf); JAMES **A.** MCGEE, ESQUIRE; BONNIE DAVIS, ESQUIRE, Progress Energy Florida, Inc., St. Petersburg, Florida, On behalf of Progress Energy Florida, Inc. (PEF); JAMES D. BEASLEY, ESQUIRE, LEE L. WILLIS, ESQUIRE; KENNETH R. HART, ESQUIRE, Ausley & McMullen, Tallahassee, Florida, On behalf of Tampa Electric Company (TECO); RONALD C. LAFACE, ESQUIRE, Greenberg Traurig, P.A., Tallahassee, Florida, On behalf of Florida Retail Federation (FRF); MICHAEL B. TWOMEY, ESQUIRE, Tallahassee, Florida, On behalf of Catherine **L.** Claypool, Helen Fisher, William Page, Edward A. Wilson, Sue E. Strohm, Mary Jane Williamson, Betty J. Wise, Carlos Lissabet, and Lesly **A.** Diaz (TECO Residential Customers) and Sugarmill Woods Civic Association (Sugarmill Woods); JOHN W. MCWHIRTER, Jr., ESQUIRE, McWhirter Reeves McGlothlin **[*2]** Davidson Kaufman & Arnold, P. **A.,** Tampa, Florida; VICKI GORDON KAUFMAN, ESQUIRE, McWhirter Reeves McGlothlin Davidson Kaufman & Arnold, P. **A.,** Tallahassee, Florida, On behalf of Florida Industrial Power Users Group (FIPUG); ROBERT D. VANDIVER, ESQUIRE, Associate Public Counsel, Office of Public Counsel,,c/o The Florida Legislature, Tallahassee, Florida, On behalf of the Citizens of the State of Florida (OPC); **WM.** COCHRAN KEATING, IV, ESQUIRE; JENNIFER A. RODAN, ESQUIRE, Florida Public Service Commission, Tallahassee, Florida, On behalf of the Commission Staff (Staff).

PANEL: The following Commissioners participated in the disposition of this matter: LILA **A.** JABER, Chairman; J. TERRY DEASON; BRAULIO L. BAEZ; RUDOLPH "RUDY" BRADLEY; CHARLES M. DAVIDSON

OPINION: ORDER APPROVING PROJECTED EXPENDITURES **AND** TRUE-UP AMOUNTS FOR FUEL ADJUSTMENT FACTORS; GPIF TARGETS, RANGES, **AND** REWARDS; AND PROJECTED EXPENDITURES AND TRUE-UP AMOUNTS FOR CAPACITY COST RECOVERY FACTORS

As part of this Commission's continuing fuel and purchased power cost recovery and generating performance incentive factor proceedings, a hearing was held on November 12-14,2003, in this docket. The hearing addressed the [*3] issues set out in Order No. PSC-03-1264-PHO-EI, issued November 7,2003, in this docket (Prehearing Order). Several of the positions on these issues were stipulated or not contested by the parties and presented to us for approval, but some contested issues remained for our consideration. As set forth fully below, **we** approve each of the stipulated and uncontested positions presented. Our rulings on the remaining contested issues are also discussed below.

We have jurisdiction over this subject matter pursuant to the provisions of Chapter 366, Florida Statutes, including *Sections 366.04*, *366.05*, and *366.06, Florida* ***Statutes.***

I. GENERIC FUEL COST RECOVERY ISSUES

EXHIBIT
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A. Shareholder Incentive Benchmarks

The parties stipulated that the actual benchmark levels for calendar year 2003 for gains on non-separated wholesale energy sales eligible for a shareholder incentive pursuant to Order No. PSC-00-1744-PAA-EI are as follows:

FPL:	$ 21,657,720
Gulf:	$ 1,405,575
PEF:	$ 8,283,799
TECO:	$ 1,546,058

Based on the evidence in the record, we approve these amounts as reasonable. [*4]

The parties also stipulated that the estimated benchmark levels for calendar year 2004 for gains on non-separated wholesale energy sales eligible for a shareholder incentive pursuant to Order No. PSC-00-1744-PAA-EI are as follows:

FPL:	$ 13,554,731
Gulf:	$ 2,016,185
PEF:	$ 8,239,266
TECO:	$ 1,261,681

Based on the evidence in the record, we approve these amounts as reasonable.

B. Base Level for Hedging-Related O&M Expenses

The parties did not contest that the appropriate base level for purposes of determining the incremental operation and maintenance expenses for each investor-owned electric utility's non-speculative financial and/or physical hedging program to mitigate fuel and purchased power price volatility are as follows:

FPL:	There is no one general base level that would be appropriate for the expanded hedging program. Each category of cost requested for recovery must be evaluated on a case by case, item by item basis to determine what portion, if any, of that category of cost was included in FPL's 2002 MFRs.
Gulf:	$ 0
PEF:	$ 0
TECO:	$ 169,153

Based on the evidence in the record, we approve these amounts as reasonable.

II. COMPANY-SPECIFIC FUEL [*5] COST RECOVERY ISSUES

A. Florida Power & Light Company

Prudence of Hedging-Related Actions

The parties stipulated that FPL's actions through December 31,2002, to mitigate fuel and purchased power price volatility through implementation of its non-speculative financial and physical hedging programs were prudent. The parties further stipulated that FPL's hedging transactions are subject to staff audit and review and that such audit and review may be conducted to ascertain any relationship between utility and affiliate hedging activities to ensure that ratepayers are not assuming the risk of loss on hedging transactions without receiving a commensurate share of any hedging gain. Based on the evidence in the record, we approve these stipulations as reasonable.

Incremental Hedging Program O&M Expenses

The parties did not contest that FPL's actual and projected operation and maintenance expenses for 2002 through 2004 for its non-speculative financial and physical hedging programs are reasonable for cost recovery purposes. The evidence in the record indicates that since the inception of FPL's expanded hedging program in 2002, FPL has prudently managed the program to increase [*6] the sophistication of its market analysis, forecasting, trade monitoring, and risk management capabilities. The evidence further indicates that this increased sophistication facilitates the expansion of FPL's hedging activities on a well-informed and well-controlled basis. Based on the evidence in the record, we find that FPL's actual and projected operation and maintenance expenses for 2002 through 2004 for its non-speculative financial and physical hedging programs are reasonable for cost recovery purposes with the understanding that the expenses for 2003 and **2004** are subject to audit and true-up through the normal course of our fuel and purchased power cost recovery clause proceedings.

Recovery of Railcar Costs to Deliver Coal to Plant Scherer

The parties stipulated that FPL should be allowed to recover through the fuel clause the costs for 137 additional railcars to deliver coal to Plant Scherer. The evidence in the record indicates that these railcars are necessary to provide transportation of low-cost Powder River basin coal for use at Plant Scherer Unit **4.** Accordingly, based on the evidence in the record, we approve recovery of these costs through the fuel clause.

[*7] B. Florida Public Utilities Company

Consolidation of Fuel Rates

The parties stipulated that this Cornmission, pursuant to separate petition, should address consolidation of the fuel rates for FPUC's Marianna and Fernandina Beach divisions concurrent with revisions to FPUC's base rates at the conclusion of Docket No. 030438-EI.

C. Gulf Power Company

Prudence of Hedging-Related Actions

The parties stipulated that Gulfs actions through December 31,2002, to mitigate fuel and purchased power price volatility through implementation of its non-speculative financial and physical hedging programs were prudent. The parties further stipulated that Gulfs hedging transactions are subject to staff audit and review and that such audit and **review** may be conducted to ascertain any relationship between utility and affiliate hedging activities to ensure that ratepayers are not assuming the risk of loss on hedging transactions without receiving a commensurate share of any hedging gain. Based on the evidence in the record, we approve these stipulations as reasonable.

Incremental Hedging Program O&M Expenses

The parties stipulated that Gulfs actual and projected operation **[*8]** and maintenance expenses for 2002 through 2004 for its non-speculative financial and physical hedging programs are reasonable for cost recovery purposes. Eased on the evidence in the record, we find that Gulf's actual and projected operation and maintenance expenses for 2002 through 2004 for its non-speculative financial and physical hedging programs are reasonable for cost recovery purposes with the understanding that the expenses for 2003 and 2004 are subject to audit and true-up through the normal course of our fuel and purchased power cost recovery clause proceedings.

D. Progress Energy Florida, Inc.

Methodology to Determine Equity Component of PFC's Capital Structure

The parties stipulated that PEF has confirmed the appropriateness of the "short-cut" methodology used to determine the equity component of Progress Fuels Corporation's (PFC) capital structure for calendar year 2002. **We** approve this stipulation as reasonable.

Calculation of Market Price True-Up for Powell Mountain Coal

The parties stipulated that PEF properly calculated the market price true-up for coal purchases from Powell Mountain in accordance with the market pricing methodology approved by **[*9]** this Commission in Docket No. 860001-EI-G. We approve this stipulation as reasonable.

Price for Waterborne Transportation Service from PFC

The parties stipulated that this Commission should retain jurisdiction to make adjustments, **if** necessary, to PEF's calculation of its 2002 price for waterborne coal transportation services (WCTS) provided by PFC pursuant to the market pricing methodology (market price proxy) approved by this Commission in Order No. PSC-93-1331-FOF-EI, issued September **13,** 2003, in Docket No. 030001-EI. To avoid double recovery of upriver transportation costs (i.e., costs to transport coal from mine to barge) through both its market price proxy and commodity costs for purchases made FOB Barge, PEF indicates that it makes adjustments that reflect the ratio of FOB Barge purchases made at the time of the market price proxy's inception. Our staffs auditor found that PFC's contract for purchase **of** synfuel from KRT/Massey was FOB Barge by the terms of that contract. Based on this finding, our staff believes that an adjustment may be necessary. The parties stipulated that this Commission should allow the parties further time to review this matter to determine **[*10]** whether and to what extent an adjustment should be made to the costs incurred under that contract. We approve these stipulations as reasonable.

Prudence of Hedging-Related Actions

The parties stipulated that PEF's actions through December 31,2002, to mitigate fuel and purchased power price volatility through implementation of its non-speculative financial and/or physical hedging programs were prudent. The parties further stipulated that PEF's hedging transactions are subject to staff audit and review and that such audit and review may be conducted to ascertain any relationship between utility and affiliate hedging activities to ensure that ratepayers are not assuming the risk of Loss on hedging transactions without receiving **a** commensurate share of any hedging gain. Based on the evidence in the record, we approve these stipulations as reasonable.

Incremental Hedging Program O&M Expenses

The parties stipulated that PEF's actual and projected operation and maintenance expenses for 2002 through 2004 for its non-speculative financial and/or physical hedging programs are reasonable for cost recovery purposes. We approve this stipulation as reasonable with the understanding **[*11]** that the expenses for 2003 and 2004 are subject to audit and true-up through the normal course of our fuel and purchased power cost recovery clause proceedings.

Elimination of Market Price Proxy for Waterborne Transportation Service Provided by PFC

By Order No. PSC-93-1331-FOF-EI, issued September 13, 1993, in Docket No. 930001-EI, this Commission approved a stipulation establishing a market price proxy for domestic waterborne coal transportation service (WCTS) provided to PEF through its affiliate, PFC. This market price proxy is adjusted annually and establishes the price PEF pays PFC for waterborne transportation of coal from multiple points on the Mississippi/Ohio River System to PEF's Crystal River plant site. This market price proxy also represents the amount PEF recovers from its ratepayers for this service. This market price proxy was based on the amounts that PFC (formerly known as Electric Fuels Corporation, or EFC) paid its transportation suppliers, or vendors, for waterborne coal transportation services in **1992.** This base cost ($ 23.00) was approved as the rate for 1993 and has been adjusted annually by the weighted average of a set of five cost indices: CPI-U (the **[*12]** Consumer Price Index-Urban); PPI (the Producer Price Index); No. 2 Diesel Fuel Index; AHE (Average Hourly Earnings); and RCAF-U (Rail Cost Adjustment Factor-Unadjusted). Any governmental impositions placed on vendors of EFC after 1992 which the vendors choose to pass on to PFC are then added to the index-adjusted price.

By Order No. PSC-94-0390-FOF-EI, issued April 4, 1994, in Docket No. 940001-EI, this Commission approved a counterpart to the domestic market price proxy for foreign coal transportation for all shipments of coal received "freight on board" (F.O.B.) at the International Marine Terminal (IMT) in New Orleans. The foreign market price proxy was determined to be a price equal to 50.2% of the domestic market price proxy. It was established on the basis of the proportion of EFC's transloading and Gulf transport barging costs to EFC's total 1992 waterborne transportation costs. Arithmetically, the resulting market proxy price is the same **as** simply multiplying the combination of the 1992 transloading and Gulf transport barging costs ($ 11.56) times the same composite index used to escalate the domestic market price proxy each year.

Witness William B. McNulty, on behalf of **[*13]** the Commission's staff, testified that both the existing domestic and foreign market price proxies should be eliminated for all components of waterborne coal transportation n1 on a going-forward basis except for any component for which the utility is unable to obtain competitive bids. Witness McNulty asserted that for any such component, the Commission should establish a new market price proxy based on carefully determined base price, escalators, and weightings. Witness McNulty also proposed an administrative process whereby the Cornmission could make a transition from the use of the existing market price proxies to his proposed mechanism.

n1 Mr. McNulty identified the components of WCTS provided to PEF through PFC as follows: (1) upriver transport (moving coal from mine to river); (2) upriver terminalling (transloading coal to river barges); (3) river transport (moving coal by barge down the Ohio/Mississippi River system from the upriver terminal to a terminal near New Orleans); **(4)** Gulf terminalling (transloading coal for storage and blending at a terminal near New Orleans); and (5) Gulf transport (moving coal by ocean tug/barge across the Gulf of Mexico from a terminal near New Orleans to PEF's Crystal River plant).

[*14]

In his testimony, Mr. McNulty presented an analysis of both the domestic and foreign market price proxies in comparison to PFC's actual cost of providing WCTS to PEF for 2002. Mr. McNulty also addressed the profits that PFC should be allowed to receive in return for the additional risk it assumed when the market proxy mechanism was implemented. Based on his analysis, Mr. McNulty concluded that, due to adjustment of the **1993** base price by application of the escalators approved as part of the market price proxy mechanisms, both market price proxies exceeded the costs of providing service in 2002 and allowed PFC to achieve significantly more profit than it would have in the absence of the proxy. (It is important to note that PFC also carried the risk that market prices would exceed the proxy price.) Further, Mr. McNulty testified that the growth rate of the domestic market price proxy has not reflected the growth rate of the waterborne coal transportation market, and that the application of the proxy escalators and their respective weightings yield inaccurate estimates of market price because they do not reflect the prevailing cost changes in the industry. Mr. McNulty also testified **[*15]** that the foreign market price proxy is now obsolete because it is based on a ratio of Gulf transport costs to total costs that existed ten years ago but has changed since that time. Mr. McNulty stated that it is particularly important that the foreign market price proxy be eliminated or modified because PEF's foreign coal purchases are expected to increase significantly in 2004 and *2005*.

To remedy this situation, Mr. McNulty proposed that this Commission eliminate both market price proxies effective at the end of 2004 and require PFC to use competitive bidding for each component of **WCTS** that it provides for PEF as its current contracts expire. Mr. McNulty testified that competitive markets exist for most of the components of WCTS included in the market price proxies, but that it is unclear whether a market exists for the Gulf transport component required by PEF. Mr. McNulty proposed that for any component of **WCTS** for which PFC is unable to obtain competitive bids, the Commission should establish a new market price proxy based on carefully determined base price, escalators, and weightings.

Mr. McNulty proposed that no action should be taken regarding the current market price proxy **[*16]** mechanism as it applies to 2002, 2003, and 2004. Mr. McNulty asserted that it would be inappropriate for the Commission to apply a new WCTS cost recovery method on a retroactive basis to 2002. Mr. McNulty also asserted that it would be inappropriate to use a new WCTS cost recovery method for 2003 and 2004 because PFC and PEF have relied upon such regulatory treatment in contracting for services in the near term. Mr. McNulty noted that PFC's existing contracts are scheduled to expire in late 2004 or early 2005.

PEF did not offer testimony to rebut Mr. McNulty's testimony. Witness Javier Portuondo, on behalf of PEF, testified that while he may not completely agree with the cost data that Mr. McNulty used as the basis for his testimony, he does agree with the methodology outlined by Mr. McNulty under which the existing market price proxies would terminate at the end of 2004 followed by competitive bidding and the establishment, where necessary, of new market price proxies.

Based on the evidence in the record, we find that the domestic and foreign market price proxies established in Order No. PSC-93-1331-FOF-EI and Order No. PSC-94-0390-FOF-EI, respectively, should be eliminated and **[*17]** cease to operate beginning January 1,2004. We further find that the proxies, as trued-up through the established practice in this docket, shall serve as the basis for cost recovery for 2002 and 2003 waterborne coal transportation service provided to PEF through PFC. Mr. McNulty has recommended that we allow the existing market price proxies to continue in effect through the end of 2004. However, based on Mr. McNulty's conclusion that the proxies we have approved may nonetheless allow PFC to earn an unreasonably high profit on the services it provides for PEF, we believe the proxies should cease operation sooner, on January 1, 2004. Because PEF was not previously on notice that the proxies may cease to serve as the basis for cost recovery for either 2002 or 2003, we decline to adjust PEF's recoverable amounts under the proxies for those years as a matter of fundamental fairness. Until our vote in this proceeding to terminate the proxies, the proxies have provided regulatory certainty to PEF, its customers, and its investors by serving as the basis for determining the recoverable price for the services provided to PEF through PFC.

We elect not to adopt any particular methodology for [*18] determining PEF's recoverable waterborne coal transportation service costs at this time. We believe that additional input from PEF and intervenors on this subject will allow us to make a more fully informed decision, Therefore, we direct our staff to open a new docket for the purpose of establishing a new system for determining the just, reasonable, and compensatory rate for PEF's waterborne coal transportation service for 2004 and beyond.

E. Tampa Electric Company

Benchmark Price for Waterborne Coal Transportation Services Provided by TECO Affiliates

The parties stipulated that the appropriate 2002 waterborne coal transportation benchmark price for transportation services provided by TECO affiliates is $ 23.87 per ton. Further, the parties stipulated that TECO's actual costs associated with transportation service provided by TECO affiliates are below the 2002 waterborne transportation benchmark price. We approve these stipulations as reasonable.

Prudence of Hedging-Related Actions

The parties stipulated that TECO's actions through December 31,2002, to mitigate fuel and purchased power price volatility through implementation of its non-speculative financial and [*19] physical hedging programs were prudent. Based on the evidence in the record, we approve this stipulation as reasonable.

Incremental Hedging Program O&M Expenses

The parties stipulated that TECO's actual and projected operation and maintenance expenses for 2002 through 2004 for its non-speculative financial and physical hedging programs are reasonable for cost recovery purposes. Based on the evidence in the record, we find that TECO's actual and projected operation and maintenance expenses for 2002 through 2004 for its non-speculative financial and physical hedging programs are reasonable for cost recovery purposes with the understanding that the expenses fur 2003 and 2004 are subject to audit and true-up through the normal course of our fuel and purchased power cost recovery clause proceedings.

Replacement Fuel Costs Associated with Ceasing Operations at Gannon Units 1-4

Pursuant to a Consent Final Judgment (CFJ) entered into with the Florida Department of Environmental Protection, signed December 6, 1999, and a Consent Decree (CD) entered into with the United States Environmental Protection Agency and Department of Justice, signed February 29,2000, TECO must cease operating [*20] coal-fired generation at its Gannon Station n2 by December 31, 2004. Specifically, the CD requires TECO to repower coal-fired generating capacity at Gannon of no less than 200 megawatts (MW) by May 1,2003. As a result, according to TECO witness William T. Whale, Gannon Units 5 and 6 are being repowered from coal to natural gas and are being renamed as Bayside Units 1 and 2, respectively. n3 Mr. Whale stated that the shutdown schedules for Gannon Units 5 and 6 are driven by the in-service dates of Bayside Units 1 and 2.

n2 Mr. Whale described the Gannon Station Units as follows: Gannon Unit 1 was commissioned in 1957 and, prior to being shut down and placed on long-term reserve standby, had a net capacity rating of 94 MW; Gannon Unit 2 was commissioned in 1958 and, prior to being shut down and placed on long-term reserve standby, had a net capacity rating of 100 MW; Gannon Unit 3 was commissioned in 1960 and has a net capacity rating of 155 MW; Gannon Unit 4 was commissioned in 1963 and has a net capacity rating of 100 MW. Each of the Gannon units has one boiler supplying steam to one steam turbine generator. [*21]

n3 Mr. Whale described the Bayside Units as follows: Bayside Unit 1 went into commercial operation on April 24,2003, with a net capacity of 690 MW in the summer and 779 MW in the winter; Bayside Unit 2 is expected to be in service January 15,2004, with a net capacity of 908 MW in the summer and 1,022 MW in the winter.

Mr. Whale testified that to achieve the required May 1, 2003, in-service date for Bayside Unit 1, Gannon Unit 5 was shut down on January 30,2003, to convert its steam turbine generator to the Bayside Unit 1 combined cycle configuration. He further testified that due to the planned January 15,2004, in-service date for Bayside Unit 2, the shutdown date for Gannon Unit 6 would occur around September 30, 2003. Mr. Whale stated that Gannon Units 3 and 4 would be shut down around October 15,2003, so that Bayside Unit 2 could utilize the transmission facilities currently used for the operation of Gannon Unit 4. He testified that the existing transmission facilities cannot accommodate the operation of both Bayside Unit 2 and Gannon Unit 4, making it necessary for Gannon Unit 4 to cease [*22] operations to allow for the tie-in and testing of Bayside Unit 2 prior to its commercial operation.

Mr. Whale testified that TECO never anticipated or planned for the shutdown of Gannon Units 1 through 4 to occur exactly on December 31,2004. He testified that TECO made a determination that it would attempt to keep the units running as long as reliably possible without incurring significant expenditures given the age of the units, the short remaining life, and the associated outage time necessary for any planned maintenance work. Mr. Whale stated that in light of TECO's obligations to cease coal-fired generation at the station and the age of the units, the company determined that the most prudent approach to maintenance was to use a "patch and go" approach which required limited investment with minimal planned outage time.

Mr. Whale testified that by the summer of 2002, TECO began to perform detailed evaluations, considering numerous options, for possible shutdown dates for Gannon Units 1 through 4. Mr. Whale stated that the company ran multiple scenarios to evaluate ratepayer impacts (including fuel and purchased power costs), operation and maintenance (O&M) impacts, and wholesale [*23] sales opportunities for off-system sales. Mr. Whale testified that by late 2002, it became apparent that the units needed to be shut down in 2003. Mr. Whale asserted that this realization was driven primarily by four factors: the declining availability and reliability of the units; the significant expenditures that would need to be incurred in an effort to keep the units running reliably; the potential for safety incidents; and the short window of time until the units would be required to shut down under the CFJ and CD, regardless of how much the company might invest in an effort to keep them operating. Mr. Whale stated that, based on these considerations, a plan was formalized to shut down Gannon Units 1 and 2 on March 15,2003, and Gannon Units 3 and 4 in September 2003. Mr. Whale indicated that these plans were communicated to the Florida Department of Environmental Protection, the Environmental Protection Agency, and the Department of Justice on February 7,2003.

Mr. Whale testified that given the current condition of Gannon Units 1 through 4, TECO estimated that it would need to incur additional O&M expense of approximately $ 57 million to keep the units operating somewhat [*24] reliably beyond the actual and currently planned shutdown dates and through 2004. Mr. Whale asserted that to the extent the performance of the units continues to decline despite investment in repairs and maintenance, there could be additional costs incurred to replace power during forced unplanned outages.

TECO witness Benjamin F. Smith testified that in TECO's February, 2003, and most recent analysis, TECO did not project the need to purchase replacement firm capacity as a result of the shutdown of the Gannon Units to meet its summer 2003 reserve margin requirements, due to the April 2003 in-service date of Bayside Unit 1. Mr. Smith stated that the company **did** anticipate purchasing supplemental energy as needed in 2003. Mr. Smith asserted that TECO projects it will purchase 50 MW of firm capacity for its summer 2004 reserve margin requirement and anticipates purchasing supplemental energy as needed in 2004. Mr. Smith testified that although TECO projects its system capacity and energy needs, it is neither feasible nor appropriate to isolate and then attribute costs to a single variable, such as the shutdown of the Gannon units, on an actual basis due to system dynamics. Mr. Smith [*25] identified these system dynamics as including unit forced outages, operating restrictions, weather, customer demand, and statewide transmission and stability issues.

TECO witness Joann T. Wehle testified that the replacement fuel costs associated with the shutdown of Gannon Units I through 4 are reasonable. Ms. Wehle stated that TECO's units are operated to provide safe, reliable electric service to ratepayers, and the company procures the fuel to operate all units based on their economic dispatch. Ms. Wehle further stated that TECO follows its Commission-reviewed fuel procurement policies and procedures. Referring to Mr. Whale's testimony, Ms. Wehle stated that TECO's decision to shut down Gannon Units 1 through 4 in 2003 was arrived at only after careful and deliberate evaluation of many dynamic, competing and complex factors. Therefore, Ms. Wehle concluded, costs for replacement fuel due to the shutdown of Gannon Units 1 through 4 in 2003 are reasonable and prudently incurred and should be approved for recovery through the fuel clause.

Witness Michael J. Majoros, testifying on behalf of OPC, asserted that as a result of the early closure of Gannon Units 1 through 4, TECO's stockholders [*26] would receive benefits in the form of lower operating expenses, while

TECO's ratepayers would be charged higher rates for replacement fuel costs associated with the early closure. Mr. Majoros contended that this Commission should offset TECO's requested fuel cost recovery amounts by the incremental O&M savings associated with the closure of the Gannon units, so that TECO's stockholders are neither better nor worse off as a result of the early closure while ratepayers receive some offset to the higher fuel costs. Mr. Majoros asserted that the O&M savings are $9.1 million for 2003 and $ 16.0 million for 2004,

Mr. Majoros testified that TECO, as part of its 2002 Ten Year Site Plan, stated it would operate Gannon Units 1 through 4 until the December 31,2004, deadline set forth in the CD and CFJ and would repower Gannon Units 5 and 6 by May, 2003, and **May,** 2004, respectively. Mr. Majoros further testified that the 2002 TECO budget process contemplated closure of Gannon's coal units in September, 2004, in compliance with the CFJ and CD agreements. Mr. Majoros noted that on February 6,2003, TECO announced its decision to shut down the Gannon plant early, anticipating that Gannon Units **[*27]** 1 and 2 would cease operations in mid-March 2003, and Gannon Units **3** and 4 would cease operations by October, 2003. Mr. Majoros asserted that although TECO claimed it made this decision in late January and early February, 2003, he believes that TECO made a corporate decision as early as October 2002 to shut down the units in **2003. As** support, the witness referenced a document dated October 3,2002, showing TECO's "base case" as assuming Gannon Units 1 and 2 would shut down on March 15, 2003, Units 3 and **4** would run until September 1,2003 (or until the budgeted O&M dollars were gone), and Units 5 and ***6*** would shut down in February and September, 2003, respectively.

In his testimony, Mr. Majoros contended that TECO's decision to shut down Gannon Units 1 through 4 on this schedule was an economic decision designed to allow the company to meet its internal earnings goals more so than a decision based on safety and reliability concerns. Mr. Majoros also questioned the basis for TECO witness Whale's estimate of $ 57 million to keep the Gannon Units running reliably through 2004. Mr. Majoros asserted that this estimate was based on achieving an 80% to 85% availability factor for the units **[*28]** as opposed to a 60% availability factor that more realistically reflects the typical availability of the units and which would require less cost to achieve.

In support of Mr. Majoros' testimony, OPC witness William M. Zaetz testified that safety and reliability were not factors in TECO's decision to shut down Gannon Units 1 through 4 and that any perceived safety or reliability concerns were a result of TECO's failure to conduct adequate preventative maintenance. Mr. Zaetz asserted that he had never seen a plant shut down for safety reasons and that if the decision to close the Gannon units was based on safety concerns, the unit should have been shut down immediately rather than be allowed to continue to run. Mr. Zaetz testified that the Gannon units were running as would be expected given the maintenance conducted on those units. Mr. Zaetz concluded that TECO made a conscious decision to run the Gannon units as long as it could without spending any dollars to increase reliability or to make them safer, and that Gannon's performance was predictable, while any side effects that resulted were dealt with **by** spending the least amount of money possible.

Witness Sheree L. Brown, on behalf **[*29]** of FIPUG and FRF, testified that the Commission should require TECO to offset its replacement power costs associated with the closure of the Gannon units by her calculation **of** the O&M savings associated with the units' closure. Ms. Brown asserted that this would be a fair and equitable result due to the following: the decision to shut down the units early was a voluntary decision **by** TECO within its control; the requirement to shut down the units by the end of 2004 was a direct result of claimed violations by the United States Environmental Protection Agency; the ratepayers will suffer continued harm through additional replacement power costs from 2005 through 2007; and the ratepayers have also paid TECO for the environmental modifications which were challenged by the **EPA.**

On rebuttal, TECO witness J. Denise Jordan, disputed Ms. Brown's calculation of an adjustment to offset replacement power costs with O&M savings associated with the closure of the Gannon units. Ms. Jordan indicates that Ms. Brown's calculation was not based in fact, and, given the proper facts, should have yielded **a** much smaller amount. In any event, Ms. Jordan disagreed that any adjustment was necessary and responded **[*30]** to each of the points raised by Ms. Brown as a basis for making an adjustment. First, Ms. Jordan responded that Tampa Electric makes "voluntary" company decisions after careful and complete analysis, as was the scheduling decision for shutting down Gannon Units 1 through 4. She asserted that is no reason to mix or offset base rate revenue or expenses with fuel adjustment revenue or expenses. Second, Ms. Jordan responded that Tampa Electric did not admit violations of environmental requirements but settled litigation initiated by the EPA and DEP because settlement appeared to be the most prudent and cost-effective alternative in light of the litigation and the risks inherent in such litigation. Third, Ms. Jordan responded that Ms. Brown's assertion that ratepayers will suffer continued harm through additional replacement power costs from 2005 through 2007 is misplaced because any such additional costs stem directly from the fact that the coal units at Gannon Station are required to cease operation after December 31,2004. Fourth, Ms. Jordan responded that Ms.

Brown's assertion that the ratepayers' have paid TECO for the environmental modifications that were challenged by the **EPA [*31]** is cumulative and ignores the fact that those modifications were in the economic interest of Tampa Electric's customers.

Ms. Jordan also responded to OPC witness Majoros' calculation of O&M savings associated with closure of the Gannon units, stating that it is fundamentally flawed because it is based on information gathered through discovery but taken out of context. In addition, Ms. Jordan responded to Mr. Majoros' assertion that O&M amounts not spent at Gannon Station represent a savings to TECO that will result in increased earnings to benefit shareholders, and that an offset to recoverable fuel costs is appropriate. First, referring to witness Whale's rebuttal testimony, discussed below, Ms. Jordan stated that TECO did not simply cut O&M spending at its Gannon units, but focused its investment strategies to obtain a better value from its O&M expenditures. Second, Ms. Jordan stated that Mr. Majoros provided no support for his allegation that the company's O&M spending decisions resulted in savings for shareholders but only made a statement that, as a general proposition, increased earnings benefit shareholders. Third, Ms. Jordan stated that Mr. Majoros ignored the structure of **[*32]** cost-based ratemaking in Florida. Ms. Jordan stated that investor-owned utilities collect base rates and operate within an allowable earnings range, and that TECO should not be penalized based only on an assertion that shareholders might benefit from increased earnings without a demonstration of such earnings.

On rebuttal, TECO witness Whale responded to the testimony of Mr. Zaetz and Mr. Majoros. Mr. Whale first challenged Mr. Zaetz's qualifications to make **a** determination as to the safe operational capability of the Gannon units, asserting that Mr. Zaetz has never been a plant manager, maintenance manager, or operations manager; that there is no indication that he has experience in the decision-making process of determining when a unit would need to be shut down, whether for safety or any other reason; and that his testimony does not indicate that he is a Certified Safety Professional or has obtained any industry-recognized safety credentials. Mr. Whale also asserted that Mr. Zaetz has no basic knowledge of the operations of the Gannon units.

Mr. Whale disagreed with Mr. Zaetz' testimony that neither safety nor reliability was a factor in TECO's decision to shut down Gannon Units **[*33]** 1 through **4** in 2003, stating that TECO arrived at the decision to shut down the Gannon units in 2003 after consideration of many complex factors including safety, reliability, and other issues. Mr. Whale also responded *to* Mr. Zaetz' assertions that any plant can be repaired, regardless of its safety level, and that TECO's failure to repair the aging Gannon facilities demonstrated that the company's concern about continuing to operate the units was solely budgetary. Mr. Whale asserted that the fact that a unit or plant may be repaired does not indicate that making the repairs is a good business decision. Mr. Whale stated that TECO implemented its "patch and go" maintenance strategy to maximize the benefits of its maintenance spending given that Gannon Station would have to be shut down in the near term, regardless of the amounts of time and dollars spent repairing and maintaining it. **Mr.** Whale asserted that the company's maintenance spending was re-focused on the activities that would **keep** the Gannon units running safely for limited investment, and improve the operations of the company's other plants, which were not subject to shutdown on or before December **31**, 2004. Further, Mr. **[*34]** Whale asserted that in addition to the repair costs to improve the safety and reliability of the Gannon units, TECO would have had to spend significant time and dollars planning outages to repair and replace components, procuring replacement equipment, installing the new equipment, and replacing capacity of the affected units while they were off-line for the planned outages.

In response to Mr. Majoros' testimony, Mr. Whale asserted that TECO never had a plan to operate the units until December 31,2004, but instead recognized that the units' shutdown would require flexibility to respond to dynamic conditions as the deadline approached. Mr. Whale further testified that TECO's estimates of the O&M investments needed to keep Gannon Units 1 through 4 until December 31,2004, show a range of costs from $ **37** million to $ 57 million to achieve an approximate 60% and 85% availability, respectively. Mr. Whale stated that under either scenario, keeping the units running through 2004 would be a very expensive proposition after which TECO would have nothing to show for the expenditures because the units would no longer be permitted to burn coal.

Based on the evidence in the record, we are persuaded **[*35]** that TECO's decision to shut down Gannon Units 1 through 4 when it did **was** a prudent decision. The evidence indicates that TECO estimated expenditures of $ **37** million to maintain those units at 60% availability until December 31,2004, the last date that the units could be operated pursuant to the CFJ and CD. The evidence further indicates that Gannon Units 1 through **4** were not needed for reliability purposes in 2004 due to the addition of Bayside Units **1** and 2. We find that, given TECO's obligations to cease coal-fired generation at the station and the age **of** the units, the company was prudent in implementing the "patch and go" maintenance approach it chose which required limited investment with minimal planned outage time. Based on our finding that TECO's decision to shut down Gannon Units 1 through **4** was a prudent decision and on Ms. Wehle's testimony supporting the reasonableness of the replacement fuel costs, we find that the replacement fuel costs associated with the early shut down of Gannon Units 1 through 4 were prudently incurred.

We also recognize that TECO's decision to shut down the Gannon units when it did yielded savings to the company in O&M expenses. The record indicates [*36] that in 2002, TECO conducted an analysis to determine the cost impacts associated with potential closure dates for Gannon Units 1 through 4. That analysis, set forth in Exhibit MJM-5 to OPC witness Majoros' testimony, showed, among other things, TECO's estimates of O&M savings and replacement fuel costs for 2003 associated with five different closure scenarios. On cross-examination, TECO witness Jordan identified one of the scenarios as best reflecting actual events. Under that scenario, TECO estimated O&M savings of $ 10,521,000.

But for TECO's decision to cease operations at Gannon Units 1 through 4 when it did, the company would not have incurred the replacement fuel costs that we have determined to be reasonable. Further, but for that same decision, the company would not have achieved O&M savings estimated at $ 10,521,000 for 2003. Because these O&M savings derive from the same finite decision that resulted in replacement fuel costs, we believe that, under the unique circumstances presented, the replacement fuel costs to be borne by customers should be offset to some extent by the amount of savings. We are confronted with testimony from witnesses Majoros, Zaetz, and Brown that [*37] make a fair case for offsetting replacement fuel costs by the entire $ 10,521,000. We are also confronted with our finding that TECO's decision to shut down the units when it did was prudent and based on sound economic, reliability, and safety concerns, which tends to support TECO's argument that no offsetting should occur. Taking into account all of the competing evidence in the record on this point and the unique circumstances presented, we believe that a fair and reasonable sharing of the O&M savings associated with the units' closure will be achieved by providing 80% of the estimated O&M savings, or $ 8,414,800, to ratepayers as an offset to TECO's recoverable fuel costs, and providing TECO the benefit of the remaining 20% of the O&M savings.

Gains or Losses on Resale of Surplus Coal Associated with Ceasing Operations at Gannon Units 1-4

Based on our finding that TECO's decision to shut down Gannon Units 1 through 4 when it did was prudent, we find that TECO should record any gain or loss on the resale of surplus coal associated with closure of those units as a credit or charge to the fuel clause.

Dead Freight Coal Transportation Costs Associated with Ceasing Operations [*38] at Gannon Units 1-4

The evidence in the record indicates that TECO will not incur dead freight costs for coal transportation related to the shutdown of Gannon Units 1 through 4, and the company's projected 2004 fuel and purchased power costs did not include any dead freight costs. Therefore, the question of the appropriate regulatory treatment for such costs is moot.

Review of Amounts Paid to HPP

We decline to review the amounts paid by TECO under its contract with Hardee Power Partners (HPP) simply because HPP was sold. This Commission has previously approved the contract for cost recovery purposes and reviewed it as recently as 2001. The evidence in the record indicates that the rates, terms, and conditions of the contract have not changed as a result of the sale of HPP, and that the contract will not be amended, changed, or assigned as a result of the sale. No evidence to the contrary has been offered by any party to indicate that any specific problem concerning this contractual arrangement should be addressed.

III. APPROPRTATE PROJECTED EXPENDITURES **AND** TRUE-UP AMOUNTS FOR FUEL COST RECOVERY **FACTORS**

Based on the evidence in the record, we approve the following as the [*39] appropriate final fuel adjustment true-up amounts for the period January 2002 through December 2002:

FPL:	$ 72,467,176 over-recovery
FPUC-Fernandina Beach:	$ 1,167,570 over-recovery
FPUC-Marianna:	$ 78,631 under-recovery
Gulf:	$ 1,056,921 over-recovery
PEF:	$ 66,271,472 under-recovery
TECO:	$ 28,662,327 under-recovery

Based on the evidence in the record, we approve the following as the appropriate estimated/actual fuel adjustment true-up amounts for the period of January 2003 through December 2003:

FPL:	$ 344,729,859 under-recovery
FPUC-Fernandina Beach:	$ 135,130 over-recovery
FPUC-Marianna:	$ 265,146 under-recovery
Gulf:	$ 23,923,505 under-recovery
PEF:	$ 144,154,788 under-recovery
TECO:	$ 88,345,118 under-recovery

Based on the evidence in the record, we approve the following as the appropriate total **fuel** adjustment true-up amounts to be collected/refunded from January 2004 through December 2004:

FPL:	$ 344,729,859 under-recovery
FPUC-Fernandina Beach:	$ 1,302,700 over-recovery
FPUC-Marianna:	$ 343,777 under-recovery
Gulf:	$ 22,866,584 under-recovery
PEF:	$ 210,426,260 under-recovery
TECO:	$ 91,007,445 under-recovery

Based on the evidence in the record, **[*40]** we approve the following as the appropriate projected net fuel and purchased power cost recovery amounts to be included in the fuel cost recovery factors for the period January 2004 through December 2004:

FPL:	$ 3,380,102,249
FPUC-Fernandina Beach:	$ 13,835,447
FPUC-Marianna:	$ 11,706,084
Gulf:	$ 259,212,752
PEF:	$ 1,344,114,962
TECO:	$ 736,077,577

We note that the amount approved above for PEF includes PEF's 2004 projected costs for waterborne **coal** transportation service provided by its affiliate, PFC, based on a market price proxy that, pursuant to this Order, will cease to operate as a means for determining cost recovery as of January 1,2004. **As** previously stated in this Order, we have directed our staff **to** open **a** new docket for the purpose of establishing a new system for determining the just, reasonable, and compensatory rate for PEF's waterborne coal transportation service for 2004 and beyond. Through the true-up process in this docket, the amount approved above for PEF will be adjusted to reflect the rate for 2004 that is established through the new docket.

Based on the evidence in the record and stipulation of the parties we approve the following as the **[*41]** appropriate revenue tax factors to be applied in calculating each investor-owned electric utility's levelized fuel factor for the projection period January 2004 through December 2004:

FPL:	1.01597
FPUC-Fernandina Beach:	1.01597
FPUC-Marianna:	1.00072
Gulf:	1.00072
PEF:	1.00072
TECO:	1.00072

Based on the evidence in the record and the resolution of the generic and company-specific fuel cost recovery issues discussed above, we approve the following as the appropriate levelized fuel cost recovery factors for the period January 2004 through December 2004:

FPL:	3.742 {cents]/kWh
FPUC-Fernandina Beach:	1.569 [cents]/kWh
FPUC-Marianna:	2.430 [cents]/kWh
Gulf:	2.459 [cents]/kWh
PEF:	3.453 [cents]/kWh
TECO:	3.922 [cents]/kWh

Based on the evidence in the record and stipulation of the parties, we approve the following **as** the appropriate fuel recovery line loss multipliers to be used in calculating the fuel cost recovery factors charged to each rate class/delivery voltage level class:

FPL:

GROUP	RATE SCHEDULE	MULTIPLIER
A	RS-1, GS-1, SL2	1.00206
A-1 *	SL-1, OL-1, PL-1	1.00206
B	GSD-1	1.00199
C	GSLD-1 & CS-1	1.00093
D	GSLD-2, CS-2, OS-2 & MET	.99366
E	GSLD-3 & CS-3	.95529
A	RST-1, GST-1	
	ON-PEAK	1.00206
	OFF-PEAK	1.00206
B	GSDT-1, CILC-1(G)	
	ON-PEAK	1.00199
	OFF-PEAK	1.00199
C	GSLDT-1 & CST-1	
	ON-PEAK	1.00093
	OFF-PEAK	1.00093
D	GSLDT-2 & CST-2	
	ON-PEAK	.99497
	OFF-PEAK	.99497
E	GSLDT-3, CST-3, CILC-1(T) & ISST-1(T)	
	ON-PEAK	.95529
	OFF-PEAK	.95529
F	CILC-1(D) & ISST-1(D)	
	ON-PEAK	.99317
	OFF-PEAK	.99317

* The multiplier applicable to customers taking service under Rate Schedule SBS is determined as follows: customers with a Contract Demand in the range of 100 to 499 KW will use the recovery factor applicable to Rate Schedule GSD; customers with a Contract Demand in the range of 500 to 7,499 KW will use the recovery factor applicable to Rate Schedule LP; and customers with a Contract Demand over 7,499 KW will use the recovery factor applicable to Rate Schedule PX.

[*42]

FPUC:

		Multiplier
Fernandina Beach	All Rate Schedules	1.0000
Marianna	All Rate Schedules	1.0000

GULF:

GROUP	RATE SCHEDULE	MULTIPLIER
A	RS, GS, GSD, GSDT, SBS, OSIII, OSIV	1.00526
B	LP, LPT, SBS	0.98890
C	PX, PXT, SBS, RTP	0.98063
D	OSI, OSII	1.00529

PEF:

GROUP	DELIVERY VOLTAGE LEVEL	MULTIPLIER
A	Transmission	0.9800

B	Distribution Primary	0.9900
C	Distribution Secondary	1.0000
D	Lighting Service	1.0000

TECO:

GROUP	MULTIPLIER
A	1.0043
A1	n/a *
B	1.0005
C	0.9745

* **Group** A1 is based on Group A, 15% of On-Peak and 85% of Off-Peak.

Based on the evidence in the record and the resolution of the generic and company-specific fuel cost recovery issues discussed above, we approve the following as the appropriate fuel recovery factors for each rate class/delivery voltage level class adjusted for line losses:

FPL:

GROUP	RATE SCHEDULE	FUEL RECOVERY FACTOR ([cent] /kWh)
A	RS-1, GS-1, SL2	3.750
A-1 *	SL-1, OL-1, PL-1	3.678
B	GSD-1	3.749
C	GSLD-1 & CS-1	3.745
D	GSLD-2, CS-2, OS-2 & MET	3.718
E	GSLD-3 & CS-3	3.575
A	RST-1, GST-1	
	ON-PEAK	4.090
	OFF-PEAK	3.599
B	GSDT-1, CILC-1 (G)	
	ON-PEAK	4.090
	OFF-PEAK	3.598
C	GSLDT-1 & CST-1	
	ON-PEAK	4.085
	OFF-PEAK	3.595
D	GSLDT-2 & CST-2	
	ON-PEAK	4.061
	OFF-PEAK	3.573
E	GSLDT-3, CST-3, CILC-1 (T) & ISST-1 (T)	
	ON-PEAK	3.899
	OFF-PEAK	3.431
F	CILC-1(D) & ISST-1(D)	
	ON-PEAK	4.054
	OFF-PEAK	3.567

* WEIGHTED AVERAGE 16% ON-PEAK AND 85% OFF-PEAK

[*43]

FPUC-Marianna:

Rate Schedule	Fuel Recovery Factor (per kWh)
RS	$,04056
GS	$ .04005
GSD	$ .03738

GSLD	$,03536
OL	$ .02912
SL	$ .02903

FPUC-Fernandina Beach:

Rate Schedule	Fuel Recovery Factor (per kWh)
RS	$,02968
GS	$ .02941
GSD	$,02765
CSL	$ .01956
OL	$ .01956
SL	$ .01956

GULF:

GROUP	RATE SCHEDULE	FUEL RECOVERY FACTOR ([cent]/kWH) STANDARD	TIME OF USE ON-PEAK	OFF-PEAK
A	RS, GS, GSD, SBS, OSIII, OSFV	2.472	2.866	2.304
B	LP, LPT, SBS	2.432	2.820	2.267
C	PX, PXT, RTP, SBS	2.411	2.796	2.248
D	OSI, OSII	2.449	N/A	N/A

* The recovery factor applicable to customers taking service under Rate Schedule SBS is determined as follows: customers with a Contract Demand in the range of 100 to 499 KW will use the recovery factor applicable to Rate Schedule GSD; customers with a Contract Demand in the range of 500 to 7,499 KW will use the recovery factor applicable to Rate Schedule LP; and customers with a Contract Demand over 7,499 KW will use the recovery factor applicable to Rate Schedule PX.

PEF:

GROUP	DELIVERY VOLTAGE LEVEL	FUEL RECOVERY FACTOR ([cent]/kWH) STANDARD	TIME OF USE ON-PEAK	OFF-PEAK
A	Transmission	3.389	4.440	2.931
B	Distribution Primary	3.423	4.484	2.961
C	Distribution Secondary	3.458	4.530	2.991
D	Lighting Service	3.279		

[*44]

TECO:

RATE SCHEDULE	FUEL RECOVERY FACTOR ([cent]/kWh)
RS, GS, TS	3.939
RST and GST	4.943 (on peak) 3.421 (off peak)
SL-2, OL-1, and OL-3	3.649
GSD, GSLD, and SBF	3.924
GSDT, GSLDT, EV-X, and SBFT	4.924 (on peak) 3.408 (off peak)
IS-1, IS-3, SBI-1, and SBI-3	3.822
IST-1, IST-3, SBIT-1, and SBIT-3	4.796 (on peak) 3.319 (off peak)

IV. GENERIC CAPACITY COST RECOVERY ISSUES

Methodology for Determining Incremental Costs of Post-9/11 Security Measures

By Order No. PSC-01-2516-FOF-EI, issued December 26,2001, in Docket No. 010001-EI, and Order No. PSC-02-1761-FOF-EI, issued December 13,2002, in Docket No. 020001-EI, this Commission authorized recovery through the capacity cost recovery clause of certain incremental power plant security expenses incurred as a result of measures taken in response to the terrorist attacks of September 11,2001. In this docket, we are **asked** to determine the appropriate methodology for determining which of these costs are incremental to costs already being recovered in a utility's base rates. On this issue, we heard testimony from FPL witness Korel M. Dubin, PEF witness Javier Portuondo, TECO witness J. Denise Jordan, and staff witness **[*45]** Matthew Brinkley.

Having reviewed the evidence in the record, we find that the appropriate methodology consists of the evaluation process proposed by PEF witness Portuondo, set forth below, together with a base amount adjustment method proposed by witness Brinkley. This methodology is based on the principle that costs already reflected in base rates should be removed from the costs to be recovered through a cost recovery clause to ensure that costs are not recovered twice, once through base rates and once through the clause. The evaluation process that we approve, as proposed by witness Portuondo, is as follows:

> 1. First, the utility shall remove any O&M expenses associated with a project that were included in the MFRs from the rate proceeding that established the utility's current base rates. If none are found, all project costs are eligible for further evaluation. **Any** costs that are found to have been included in the MFRs are excluded from the project's recoverable costs at that point.
>
> 2. After this initial review, the utility shall identify any specific project costs that, although not associated directly with the project in the MFRs, are reflected elsewhere in base rates. This **[*46]** step is performed by determining whether the cost would be incurred regardless of the new project.
>
> 3. Finally, the utility shall determine whether the new project will create any offsetting O&M savings associated with related activities, in which case the savings are credited to the project or task to reduce its total cost.

We agree with staff witness Brinkley that base amounts used for calculating incremental security costs for recovery through the capacity cost recovery clauses should be adjusted for growth or decline in energy sales in kilowatt-hours from the base year to the current year. By adjusting the base year amounts for growth in energy sales, we believe utilities will collect through the capacity clause only those expenses that are truly incremental to the level of costs being recovered through base rates. For those utilities currently operating under a revenue sharing plan approved by this Commission, current year revenues shall **be** reduced by the amount of revenues refunded through the utility's sharing plan prior to application of this growth adjustment.

Finally, we find that utilities seeking recovery of incremental security costs through the capacity clause shall **[*47]** provide a breakdown of those costs by project groups and identify any base rate items that were removed. This requirement is intended to enhance our staffs ability to review and audit these costs.

V. COMPANY-SPECIFIC **CAPACITY** COST RECOVERY ISSUES

A. Florida Power & Light Company

Based on the evidence in the record, we find that FPL's incremental security expenses for 2002 through 2004 associated with the measures taken in response to post-September 11,2001, security requirements are reasonable for cost recovery purposes, with the understanding that the expenses for 2003 and 2004 are subject to audit and true-up through the normal course of our fuel and purchased power cost recovery clause proceedings. Included in FPL's 2004 cost projections is 62% of a Nuclear Regulatory Commission (NRC) fee increase attributable to Homeland Security costs. We find this projection reasonable.

B. Progress Energy Florida, Inc.

Based on the evidence in the record, we find that PEF's incremental security expenses for 2002 through 2004 associated with the measures taken in response to post-September 11,2001, security requirements are reasonable for cost recovery purposes, with the understanding **[*48]** that the expenses for 2003 and 2004 are subject to audit and true-up through the normal course of our fuel and purchased power cost recovery clause proceedings. Included in PEF's 2004 cost projections is approximately **88%** of an NRC fee increase attributable to Homeland Security costs. PEF has agreed that the appropriate percentage of this fee increase to include for cost recovery is 62%. Because the difference in these amounts has **a** negligible effect on the capacity cost recovery factors, we find that an adjustment for this difference may be made through the true-up process in the next annual fuel and purchased power cost recovery hearing.

C. Tampa Electric Company

Based on the evidence in the record, we find that TECO's incremental security expenses for 2002 through 2004 associated with the measures taken in response to post-September 11,2001, security requirements are reasonable for cost recovery purposes, with the understanding that the expenses for 2003 and 2004 are subject to audit and true-up through the normal course of our fuel and purchased power cost recovery clause proceedings.

VI. APPROPRIATE PROJECTED EXPENDITURES **AND** TRUE-UP AMOUNTS FOR **CAPACITY** COST RECOVERY **[*49]** FACTORS

Based on the evidence in the record and the resolution of the company-specific capacity cost recovery issues discussed above, we approve the following final capacity cost recovery true-up amounts for the period January 2002 through December 2002:

FPL:	$ 12,676,723 over-recovery
GULF:	$ 193,696 over-recovery
PEF:	$ 4,497,883 over-recovery
TECO:	$ 314,462 under-recovery

Based on the evidence in the record and the resolution of the company-specific capacity cost recovery issues discussed above, we approve the following estimated/actual capacity cost recovery true-up amounts for the period **January** 2003 through December 2003:

FPL:	$ 16,048,425 over-recovery
GULF:	$ 1,058,876 over-recovery
PEF:	$ 1,188,735 under-recovery
TECO:	$ 1,847,047 under-recovery

Based on the evidence in the record and the resolution of the company-specific capacity cost recovery issues discussed above, we approve the following total capacity cost recovery true-up amounts to **be** collected/refunded during the period January 2004 through December 2004:

FPL:	$ 28,725,148 over-recovery
GULF:	$ 1,252,572 over-recovery
PEF:	$ 3,309,148 over-recovery
TECO:	$ 2,161,509 under-recovery

[*50]

Based on the evidence in the record and the resolution of the generic and company-specific capacity cost recovery issues discussed above, we approve the following projected net purchased power capacity cost recovery amounts to be included in the recovery factor for the period January 2004 through December 2004:

FPL:	$ 580,834,356
GULF:	$ 17,619,376
PEF:	$ 301,641,556
TECO:	$ 40,590,196

At our next annual fuel and purchased power cost recovery hearing, as part of the final true-up process for 2003 capacity costs, FPL, PEF, and TECO should demonstrate that no double-recovery of security costs has occurred after applying the base year growth adjustment approved in this Order, above.

Based on the evidence in the record and stipulation of the parties, we approve the following jurisdictional separation factors to be applied to determine the capacity costs to be recovered during the period January 2004 through December 2004:

FPL:	98.84301%
GULF:	96.50187%
PEF:	Base - 95.957%, Intermediate - 86.574%, Peaking - 74.562%
TECO:	95.43611%

Based on the evidence in the record and the resolution of the generic **and** company-specific capacity cost recovery issues discussed above, **[*51]** we approve the following projected capacity cost recovery factors for each rate class/delivery class for the period January 2004 through December 2004:

FPL:

Rate Class	Capacity Recovery Factor ($/kW)	Capacity Recovery Factor ($/kWh)
RS1	-	.00625
GS1	-	.00613
GSD1	2.35	-
OS2	-	.00603
GSLD1/CS1	2.39	-
GSLD2/CS2	2.30	-
GSLD3/CS3	2.25	-
CILCD/CILCG	2.37	-
CILCT	2.33	-
MET	2.38	-
OL1/SL1/PL-1	-	.00170
SL2	-	.00410
Rate Class	Capacity Recovery Factor (Reservation Demand Charge) ($/kW)	Capacity Recovery Factor (Sum of Daily Demand Charge) ($/kW)
ISST1D	.29	.14
SST1T	.27	.13
SST1D	.28	.13

GULF:

Rate Class	Capacity Recovery Factor (cents/kWh)
RS, RSVP	.194
GS	.188
GSD, GSDT, GSTOW	.157
LP, LPT	.135
PX, PXT, RTP, SBS	,118
0s-I, OS-II	.057
0s-I11	.122
OS-IV	.056

FPC:

Rate Class	Capacity Recovery Factor (cents/kWh)
Residential	0.877
General Service Non-demand - Secondary	0.795
@ Primary Voltage	0.787
@ Transmission Voltage	0.779
General Service 100% Load Factor	0.506
General Service Demand - Secondary	0.698
@ Primary Voltage	0.691
@ Transmission Voltage	0.684
Curtailable - Secondary	0.628
@ Primary Voltage	0.621
@ Transmission Voltage	0.615
Interruptible - Secondary	0.529
@ Primary Voltage	0.524
@ Transmission Voltage	0.518
Lighting	0.157

[*52]

TECO:

Rate Class	Capacity Recovery Factor (cents/kWh)
RS	.267
GS, TS	.244
GSD, EV-X	.210
GSLD, SBF	.185
IS-1, IS-3, SBI-1, SBI-3	.016
SL/OL	.105

VII. GENERATING PERFORMANCE INCENTIVE FACTOR (GPIF) **ISSUES**

The parties stipulated that the appropriate Generation Performance Incentive Factor (GPIF) rewards/penalties for performance achieved during the period January 2002 through December 2002 are those set forth in Attachment **A** to this Order, which is incorporated by reference herein. We approve these stipulations as reasonable.

The parties stipulated that the appropriate GPIF targets/ranges for the period January 2004 through December 2004 are those set forth in Attachment **A** to this Order, which is incorporated by reference herein. We approve these stipulations as reasonable.

VIII. OTHER **MATTERS**

The parties stipulated that the new fuel adjustment charges and capacity cost recovery factors approved in this Order should be effective beginning with the first billing cycle for January 2004 and thereafter through the last billing cycle for December 2004. The parties also stipulated that the first billing cycle may start before January 1, 2004, and the last billing cycle **[*53]** may end after December 31, 2004, so long as each customer is billed for twelve months regardless of when the factors became effective. We approve these stipulations as reasonable.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the stipulations and findings set forth in the body of this Order are hereby approved. It is further

ORDERED that Florida Power & Light Company, Progress Energy Florida, Inc., Tampa Electric Company, Gulf Power Company, and Florida Public Utilities Company are hereby authorized to apply the fuel cost recovery factors set forth herein during the period January 2004 through December 2004. It is further

ORDERED that the estimated true-up amounts contained in the fuel cost recovery factors approved herein are hereby authorized subject to final true-up, and further subject to proof of the reasonableness and prudence of the expenditures upon which the amounts are based. It is further

ORDERED that Florida Power & Light Company, Progress Energy Florida, Inc., Gulf Power Company, and Tampa Electric Company are hereby authorized to apply the capacity cost recovery factors as set forth herein during the period January 2004 through **[*54]** December 2004. It is further

ORDERED that the estimated true-up amounts contained in the capacity cost recovery factors approved herein are hereby authorized subject to final true-up, and further subject to proof of the reasonableness and prudence of the expenditures upon which the amounts are based.

By ORDER of the Florida Public Service Commission this 22nd day of December, 2003.

BLANCA S. BAYO, Director

Division of the Commission Clerk and Administrative Services

DISSENTBY: JABER

DISSENT:

CHAIRMAN LILA A. JABER dissents from the Commission's decision, in part, with the following opinion:

On the issue of modifying or eliminating the method for calculating Progress Energy Florida's (PEF) market price proxy for waterborne coal transportation service that was established by Order No. PSC-93-1331-FOF-EI, Chairman Jaber concurs in part and dissents in part as follows.

I commend and agree with the majority's decision to initiate a separate proceeding to establish a mechanism to replace the current proxy mechanism outlined in Order No. PSC-93-1331-FOF-EI. I, too, believe that a separate proceeding will provide stakeholders the opportunity to present and the Commission the opportunity to [*55] hear additional, detailed evidence on whether a competitive bidding (RFP) process, or some other process, will result in a more suitable mechanism.

Moreover, I commend and agree with the majority's opinion that we must provide regulatory certainty for both customers and the businesses we regulate. In fact, it is our obligation to provide such certainty. Certainty creates a business environment that promotes investment and good, reliable service. In that regard, my dissent is limited to the following.

I believe that staff witness McNulty's testimony was extremely compelling. Repeatedly, witness McNulty stated that the proxy mechanism established by Order No. PSC-93-1331-FOF-EI has resulted in Progress Fuels Corporation achieving excessive margins in previous years for the waterborne coal transportation service it provides to PEF. Therefore, I would have gone further than the majority by retaining our jurisdiction to determine, at a minimum, the recoverable amount of PEF's 2003 waterborne coal transportation costs, until the separate proceeding could be completed and the appropriate audit for that year performed. I believe this regulatory approach would keep both the customers and [*56] the utility whole. Using this approach, I do not find it necessary at this time to determine that Order No, PSC-93-1331-FOF-EI should be modified such that the proxy mechanism would cease January 1,2004. By making that determination, I believe the majority eliminated the option of establishing a transition period. My preferred approach would be to decide the fate of the current proxy mechanism concurrently with our decision on what a new mechanism, if any, should be. I do not believe that the parties had an adequate opportunity to suggest a more sufficient mechanism in this proceeding.

In re: Fuel and purchased power cost recovery clause and generating performance incentive factor.

DOCKET NO. 010001-EI; ORDER NO. **PSC-01-2516-FOF-EI**

Florida Public Service Commission

2001 Fla. PUC LEXIS 1429

01 FPSC 12:667

December 26,2001

DISPOSITION: [*1] ORDER APPROVING PROJECTED EXPENDITURES **AND** TRUE-UP AMOUNTS FOR FUEL ADJUSTMENT FACTORS; GPIF TARGETS, RANGES, **AND** REWARDS; **AND** PROJECTED EXPENDITURES **AND** TRUE-UP AMOUNTS FOR CAPACITY COST RECOVERY FACTORS

APPEARANCES: **JAMES A.** MCGEE, ESQUIRE, Florida Power Corporation, St. Petersburg, Florida, On behalf of Florida Power Corporation (FPC).

MATTHEW M. CHXLDS, ESQUIRE, Steel Hector & Davis LLP, Tallahassee, Florida, On behalf of Florida Power & Light Company (FPL).

JEFFREY A. STONE, ESQUIRE, and RUSSELL BADDERS, ESQUIRE, Beggs & Lane, Pensacola, Florida, On behalf of Gulf Power Company (Gulf).

LEE L. WILLIS, ESQUIRE, and JAMES D. BEASLEY, ESQUIRE, Ausley & McMullen, Tallahassee, Florida, On behalf of Tampa Electric Company (TECO).

TOM CLOUD, ESQUIRE, Gray, Harris and Robinson, P. A., Tallahassee, Florida, On behalf of Publix Super Markets, Inc. (Publix).

JOHN W. MCWHIRTER, JR., ESQUIRE, and VICKI GORDON KAUFMAN, ESQUIRE, McWhirter Reeves McGlothlin Davidson Decker Kaufman Arnold & Steen, **P.** A., McWhirter Reeves McGlothlin Davidson Decker Kaufman Arnold & Steen, P. A., Tallahassee, Florida, On behalf of Florida Industrial Power Users Group (FIPUG).

ROBERT D. VANDIVER, ESQUIRE, **[*2]** Associate Public Counsel, Office of Public Counsel, c/o The Florida Legislature, Tallahassee, Florida, On behalf of the Citizens of the State of Florida (OPC).

WM. COCBRAN KEATING, IV, ESQUIRE, Florida Public Service Commission, Tallahassee, Florida, On behalf of the Commission Staff (Staff).

PANEL: The following Commissioners participated in the disposition of this matter: E. LEON **JACOBS, JR.**, Chairman; J. TERRY DEASON; LILA **A.** JABER; BRAULIO L. BAEZ; MICHAEL A. PALECKI

OPINION: As part of this Commission's continuing fuel and purchased power cost recovery and generating performance incentive factor proceedings, a hearing was held on November 20-21, 2001, in this docket. The hearing addressed the issues set out in the Prehearing Order for this docket. Several of the positions on these issues **were**

EXHIBIT

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stipulated by the parties and presented to us for approval, but some contested issues remained for our consideration. As set forth fully below, we approve each of the stipulated positions presented. Our rulings on the remaining contested issues are also discussed below.

We have jurisdiction over this subject matter pursuant to the provisions of Chapter **366,** Florida Statutes, including *Sections 366.04* [*3] , *366.05*, and *366.06, Florida Statutes.*

I. GENERIC FUEL COST RECOVERY ISSUES

A. Shareholder Incentive Benchmarks

The parties stipulated that the estimated benchmark levels for calendar year 2001 for gains on non-separated wholesale energy sales eligible for a shareholder incentive pursuant to Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI are as follows:

FPC:	$ 11,880,954
FPL:	$ 52,953,147
GULF:	$ 886,926
TECO:	$ 4,768,644

Based on the evidence in the record, we approve this stipulation as reasonable.

The parties also stipulated that the estimated benchmark levels for calendar year 2002 for gains on non-separated wholesale energy sales eligible for a shareholder incentive pursuant to Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI are as follows:

FPC :	$ 11,354,219
FPL :	$ 37,870,079
GULF:	$ 1,208,241
TECO:	$ 2,289,019

Based on the evidence in the record, we approve this stipulation as reasonable.

B. Regulatory Treatment of Capital Projects Expected to Reduce Long-Term Fuel Costs

The parties stipulated that the appropriate regulatory treatment for capital projects **[*4]** with **an** in-service date on or after January 1,2002, that are expected to reduce long-term fuel costs is the treatment prescribed by this Commission in Order No. 14546 in Docket No. 850001-EI-B where we listed the types of costs that are recoverable through the Fuel Cost Recovery Clause. Item No. 10 in that Order states:

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

In addition, the parties stipulated that the appropriate rate of return on the unamortized balance of capital projects with an in-service date on or after January 1,2002, is the utility's cost of capital based on the midpoint of its authorized return on equity. We approve these stipulations as reasonable.

C. Recovery of Incremental Power Plant Security Costs

In this proceeding, FPL requests approval to recover incremental power plant security costs, related to recent national security concerns, through the fuel and purchased power cost **[*5]** recovery clause ("fuel clause"). Based on the evidence in the record, we approve FPL's request. We find that recovery of this incremental cost through the fuel clause is appropriate in this instance because there is **a** nexus between protection of FPL's nuclear generation facilities and the fuel cost savings that result from the continued operation of those facilities. Further, we believe that this type of cost is a potentially volatiie cost, making it appropriate for recovery through a cost recovery clause. We are comforted that the true-up mechanism inherent in the fuel clause will ensure that ratepayers pay no more than the actual costs incurred. In addition, we find that recovery of this cost through the fuel clause provides a good match between the timing of the incurrence and recovery of the cost.

We believe that approving recovery of this incremental power plant security cost through the fuel clause sends an appropriate message to Florida's investor-owned electric utilities that we encourage them to protect their generation assets in extraordinary, emergency conditions as currently exist. FPL is the only utility seeking recovery of this cost in this proceeding. By our decision, **[*6]** we do not intend to require other investor-owned electric utilities to seek similar recovery at this time, given the unique circumstances of each utility. In addition, recognizing that these costs are not now clearly defined, we do not foreclose our ability to consider an alternative recovery mechanism for these costs at a later time.

D. Use of Updated Energy, Demand, and Price Forecasts

On August 31,2001, FPL filed its petition for approval of fuel cost recovery factors and capacity cost recovery factors based, in part, on its forecast of sales for 2002. On November 5,2001, FPL filed a petition for approval of revised fuel cost recovery factors and capacity cost recovery factors based on a reduction in its sales forecast for 2002. In support of this petition, witness Green testified that the impact of the September 11,2001, attacks on the United States changed Florida's economic outlook for 2002 and, thus, warrants a revision to FPL's sales forecast. Witness Green testified that the performance of Florida's economy determines electricity usage per customer and the level of customer growth. **He** further testified that the growth of both of these factors is forecast to decline **[*7]** from the levels forecast prior to September 11,2001, resulting in lower forecast electricity sales in FPL's service territory.

We believe that the use of FPL's revised 2002 sales forecast in establishing its 2002 fuel cost recovery factors and capacity cost recovery factors is appropriate. The factors that we approve for FPL in this Order, below, are based on FPL's revised sales forecast. We do not, however, require other investor-owned electric utilities to base their fuel and capacity cost recovery factors on updated sales forecasts at this time. We note that this matter was addressed in Order No. 13694, issued September 20, 1984, which requires utilities to inform this Commission of material and significant changes in the basic assumptions underlying their fuel and capacity cost recovery factors. The Order indicates that these cost recovery factors should be revised if changed assumptions would result in an anticipated overrecovery or underrecovery in excess of ten percent. No evidence was presented in this proceeding to suggest that FPC, Gulf, or TECO's proposed fuel and capacity cost recovery factors would result in this threshold variance.

II. COMPANY-SPECIFIC FUEL COST **[*8]** RECOVERY **ISSUES**

A. Florida Power & Light Company

The parties agree that FPL's aerial survey method of its coal inventory at Plant Scherer as stated in Audit Disclosure No. 1 of Audit Control No. 01-053-4-1 is not consistent with the method set forth in Order No. PSC-97-0359-FOF-EI, in Docket No. 970001-EI, issued March 31, 1997. Plant Scherer is located in Georgia and is operated by Georgia Power Company. The accounting procedures required of Georgia Power Company by the Georgia Public Service Commission are similar to those stated in Order No. PSC-97-0359-FOF-EI, with some differences. These different accounting procedures produce nearly identical coal inventory adjustments. However, FPL agrees to report aerial survey results and calculations of necessary coal inventory adjustments as soon as Georgia Power Company provides these adjustments to FPL. It is understood that this exception to the method specified in Order No. PSC-97-0359-FOF-EI is applicable to Plant Scherer only. The parties stipulated to this treatment. We approve this stipulation as reasonable.

The parties stipulated that FPL reasonably evaluated the costs associated with Florida Power & Light Company's purchase **[*9]** of 50 MW firm capacity and associated energy from Florida Power Corporation against the market price for similar capacity and energy and, thus, that these costs are reasonable. We approve this stipulation as reasonable.

The parties also stipulated FPL reasonably evaluated the costs associated with Florida Power & Light Company's purchase **of** approximately 1,000 MW of capacity and associated energy from Progress Energy Ventures, Reliant Energy Services, and Oleander Power Project L.P. against the market price for similar capacity and energy and, thus, that these costs are reasonable. We approve this stipulation as reasonable.

The parties stipulated that FPL should be permitted to recover through the fuel and capacity cost recovery clauses payments made to Cedar Bay resulting from litigation between FPL and Cedar Bay. In Order No. PSC-99-2512-FOF-EI, Docket No. 990001-EI, this Commission, by panel decision, allowed FPL to recover these costs as proposed through the fuel and capacity cost recovery clauses pending resolution of this issue by the full Commission. After our decision in December of 1999, Docket No. 991780-EG was opened so that the full Cornmission could address this issue. **[*10]** Waiting on completion of the appeals process, no schedule had been established in Docket No. 991780-EG. All appeals have now been exhausted and all payments have been made. Because the full Commission now hears this docket, we bring this issue to closure by approving the parties' stipulation as reasonable,

We find that the appropriate level of FPL 2002 incremental power plant security costs, related to recent increased national security concerns, allowed for recovery through the fuel clause is $ 1,860,000. As stated above, these amounts shall be subject to true-up to ensure that the ratepayers pay no more than the actual costs incurred in 2002.

B. Florida Power Corporation

The parties stipulated that FPC has confirmed the appropriateness of the "short-cut" methodology used to determine the equity component of Electric Fuels Corporation's capital structure for calendar year 2000. **We** approve this stipulation as reasonable.

The parties stipulated that FPC properly calculated the market price true-up for coal purchases from Powell Mountain in accordance with the market pricing methodology approved by this Commission in Docket No, 860001-EI-G. We approve this stipulation as reasonable. **[*11]**

The parties stipulated that FPC properly calculated the 2000 price for waterborne transportation services provided by Electric Fuels Corporation in accordance with the market pricing methodology approved by this Commission in Docket No. 930001-EI. We approve this stipulation as reasonable.

The parties stipulated that FPC's replacement fuel costs associated with the unplanned outage at Crystal River Unit 2, commencing on June 1, 2000, were reasonable. The record indicates that this outage began when a high voltage disconnect switch failed, which resulted in a high energy fault that caused significant damage to the generator rotor. The record also indicates that FPC could not have foreseen that the operation of this switch, which **had** been operated under similar circumstances many times, would lead to the damage that occurred. The parties agree that the resulting three-month outage to remove, repair, and reinstall the generator rotor was reasonable. Based on the evidence **in** the record, we approve this stipulation as reasonable.

The parties stipulated that payments made by FPC to Lake Cogen, Ltd. (Lake) pursuant to the outcome of contract litigation between FPL and Lake are appropriate **[*12]** for recovery through the fuel clause. Florida's Fifth District Court of Appeals ruled that FPC is required to pay Lake the firm energy rate for all hours that the avoided unit would operate and that the avoided unit would operate at all times other than periods for maintenance and repair. This ruling led to a stipulation requiring FPC to pay Lake $ 19,860,307to resolve the historical energy pricing dispute. The stipulation also provides **45** days per year for maintenance periods during which Lake will be **paid** the as-available energy rate. The ruling by the court and subsequent stipulation results in costs over the life of the contract approximately $ 60 million (net present value) greater than the costs would have been under FPC's position in the litigation, but approximately $ 13.7 million (net present value) less than the costs would have been under Lake's position in the litigation. The parties also stipulated that the energy payments FPC is to make to Lake on a going forward basis are appropriate for recovery through the fuel clause. Based on the evidence in the record, we approve these stipulations as reasonable.

C. Florida Public Utilities Company

The record indicates that **[*13]** for the period October 2000 through September 2001, FPUC billed its GSD customers in the Marianna Division under the Street Lighting **(SL) fuel** cost recovery factor, which is lower than the GSD fuel cost recovery factor. The Commission-approved SL fuel cost recovery factor was 2.608 cents/kWh for the period October 2000 through December 2000, and 2.421 cents/kWh for the period January 2001 through September 2001. The Commission-approved GSD fuel cost recovery factor was 3.599 cents/kWh for the period October 2000 through December 2000, and 3.472 cents/kWh for the period January 2001 through September 2001. The parties stipulated to these facts.

The parties have also stipulated that the appropriate corrective action is for FPUC to backbill the affected customers for the shortfall through an adjustment on their future bill(s), pursuant to Rule *25-6.106(1), Florida* ***Administrative*** *Code.* Under the provisions of this rule, FPUC shall allow the customers to pay for the unbilled service over the same length of time as the error occurred, or some other mutually agreeable time period. We approve these stipulations as reasonable.

D. Tampa Electric **[*14]** Company

Stipulated Matters

The parties stipulated that the appropriate 2000 waterborne coal transportation benchmark price for transportation services provided by TECO affiliates is $ 26.23 per ton. We approve this stipulation **as** reasonable.

The parties stipulated that TECO's actual costs associated with transportation service provided by TECO affiliates are below the 2000 waterborne transportation benchmark price. We approve this stipulation as reasonable.

The parties stipulated that TECO reasonably evaluated the lease of 39 portable generators to provide 70 MW of peaking capacity against the market price for similar capacity and energy and, thus, that TECO's lease of those generators was reasonable. We approve this stipulation as reasonable.

The parties stipulated that TECO's proposal to refund $ 6.37 million from 1999 earnings to its ratepayers from January 2002 to March 2002 is reasonable. Order No. PSC-01-0113-PAA-EI, issued in Docket No. 950379-EI, provides that TECO refund $ 6,102,126, plus interest, as of December 3 1,2000 to the time the actual refund is completed. OPC protested this order and, at the time of our vote on this matter, OPC's protest had not been decided. **[*15]** Thus, we could not determine the final refund amount at the time of our vote. However, the parties agree that the amount will be at least $ 6.37 million. The parties stipulated that TECO has properly allocated this amount among its rate classes. Based on the evidence in the record, we approve these stipulations **as** reasonable.

TECO's Wholesale Transactions with Non-Afilliated Entities

For the reasons set forth below, we find that the evidence in the record shows that TECO's decisions concerning its wholesale energy purchases from and sales to non-affiliated entities were reasonable during the period January 1998 through December 2000.

The evidence indicates the following facts. TECO has not entered into any new long-term separated firm wholesale sales since 1995. The last new firm sale of any kind made by TECO was a nine month non-separated sale in 1998. TECO's reserve margins were estimated to be fifteen percent or greater over the planning horizon at the time each of the current firm contracts was signed. All of TECO's firm sales are cost-based, with FERC-approved pricing; none of the existing firm contracts are market-priced. Only one of TECO's separated sales is recallable. **[*16]** TECO has recalled this contract to serve firm load. These facts suggest that TECO appropriately entered into its current separated sales and is appropriately managing its current firm contracts. No evidence was presented to suggest otherwise, The evidence further indicates that TECO is currently entering only into new non-firm non-separated **sales** agreements, and TECO has a policy of recalling these sales if capacity is needed to serve both firm and non-firm retail load.

FIPUG's witness Collins stated that the issue at hand is not whether TECO's management of its wholesale sales was appropriate, but rather whether TECO's costs, including purchased power costs, are allocated appropriately to wholesale customers. We find that TECO has appropriately allocated **its** costs to wholesale customers.

First, capital and O&M costs for the generating plant necessary to make separated sales are allocated to wholesale customers, This reduces capital costs for retail customers when putting new plant in service for which total capacity is not immediately needed to serve retail load. A complete review of the effect of separated sales on retail customers must include the reduction in capital costs associated **[*17]** with serving separated wholesale customers.

Second, we agree with FIPUG's witnesses Collins and Pollock that fuel costs should be allocated to separated sales based on average system fuel cost. We also agree with FIPUG that average system fuel costs should include both generation and purchased power costs. Order No. PSC-97-0262-FOF-EI, issued March 11, 1997, in Docket No. 970001-EI, required that on **a** prospective basis, separated sales should be allocated average system fuel costs. The evidence indicates that TECO appears to be adhering to this policy. Only one of TECO's separated sales has fuel costs based on a specified unit. All other sales are based on average system fuel costs. TECO's only unit based sale was entered into in 1989, prior to issuance of Order No. PSC-97-0262-FOF-EI.

FIPUG witness Collins asserted that TECO's retail customers are being charged for 100 percent of TECO's purchased power costs. Witness Collins also asserted that separated wholesale customers are not paying for TECO's purchased power costs, but are charged rates based solely on fuel costs for "low-cost generation." We disagree with these assertions. Purchased power costs allocated to separated wholesale **[*18]** customers are included in the total fuel costs paid by separated customers included on line 29 of TECO's Schedules **A-1** and E-1. **A** comparison of line 29 and **30** on TECO's E-1 schedule supports the position that on a going-forward basis, TECO expects the average fuel costs per MWH charged to separated wholesale customers to be approximately the same as that for retail customers.

We agree with FIPUG witness Pollock that non-separated sales should be charged incremental fuel costs, and that these costs should be used to determine the gains on these sales. We also agree with witness Pollock that incremental fuel costs can be either based on generation or purchased power costs. This is consistent with the treatment we approved in Order No. PSC-01-2371-FOF-EI, issued December 7,2001, in Docket No. 010283-EI. TECO's policy of using incremental fuel costs, whether from generation or purchased power, to calculate the gains on non-separated sales appears to be consistent with our ruling in that Order. Given TECO's use of incremental fuel costs to calculate the gains, we disagree with FIPUG's assertion that retail customers receive little benefit from non-separated sales. Retail ratepayers receive **[*19]** 100% of the gains from these sales up to a benchmark based on past sales, after which gains are shared 80/20 between retail ratepayers and shareholders.

We find that the greater weight of the evidence shows that TECO is managing its wholesale purchases appropriately and allocating the costs from its purchases appropriately. TECO's new planned short-term firm purchases appear to be cost-effective.

We find that the greater weight of the evidence shows that TECO's purchases of buy-through power on behalf of interruptible retail customers were appropriate. Witnesses Collins and Pollock stated that the cost per kWh of buy-through power was increasing, The record indicates that no buy-through power was purchased by TECO from TECO affiliates. Therefore, there is no reason to believe that TECO has an incentive to purchase unreasonably high priced buy-through power.

TECO's Wholesale Transactions with Hardee Power Partners

We find that the evidence in the record shows that TECO's decisions concerning its wholesale energy purchases from and sales to Hardee Power Partners were reasonable during the period January **1998** through December 2000. No evidence was presented that indicated TECO **[*20]** is abusing the Hardee Power Partners contract or allocating the costs of this contract inappropriately. We do not believe that further study of this issue is warranted **at** this time.

The record indicates that TECO's contract with Hardee Power Partners is FERC-approved and cost-based. The original contract was appropriately compared to other available capacity and energy options. TECO's latest amendment to the contract compares favorably to the forwards energy market price, even if the capacity costs of the Hardee contract are included.

Further, TECO's separated sale of 145 megawatts to TECO Power Services from Hardee is TECO's only unit-based sale. This contract was signed in 1989 and expires on December 31,2002. The record indicates that TECO has no plans to renegotiate this sale upon expiration of the contract. At the expiration of this contract, the capacity **from** TECO's Big Bend Unit 4 reserved for this contract will be available to serve TECO's retail ratepayers.

Allocation of TECO's Purchased Power Costs

We find that TECO does not allocate 100% of purchased power costs to retail customers. Purchased power costs include an energy and a capacity component. The evidence shows **[*21]** that a jurisdictional separation factor is applied to TECO's projected total system fuel and purchased power costs for 2002, which includes the cost of generated power and the energy component of purchased power. The evidence also shows that a jurisdictional demand separation factor is applied to TECO's total capacity payments for 2002. Applying energy and demand jurisdictional separation factors to TECO's total purchased power costs appropriately allocates a portion of TECO's purchased power costs to wholesale customers.

E. Gulf Power Company

The parties stipulated that Gulfs replacement fuel costs for the unplanned outage at Crist Unit 2, commencing on August 2,2000, were reasonable. The record indicates that Gulf did not buy any additional fuel to specifically compensate for the unavailability of this peaking unit. Further, during the majority of this unplanned outage, Crist Unit 2 would not have been called upon in economic dispatch had it been available. We approve this stipulation as reasonable.

The parties agreed that Gulf inadvertently overstated the emission allowance costs related to Interchange Sales in August, 2000, which understated net recoverable fuel expense **[*22]** by $ **385,796** in 2000. Gulf made **a** correcting entry in July 2001 and has included this amount for recovery in this docket but is not requesting any back interest on the understated fuel expense. The parties stipulated that these corrective actions were appropriate. We approve this stipulation as reasonable.

III. APPROPRIATE PROJECTED EXPENDITURES **AND** TRUE-UP **AMOUNTS** FOR FUEL COST RECOVERY FACTORS

Based on the evidence in the record and the resolution of the generic and company-specific fuel cost recovery issues discussed above, we approve the following as the appropriate final fuel adjustment true-up amounts for the period of January 2000 through December 2000:

FPC:	$ 29,378,219 underrecovery
FPL:	$ 76,807,071 underrecovery
FPUC-Marianna:	$ 60,625 underrecovery
FPUC-Fernandina Beach:	$ 109,370 underrecovery
GULF:	$ 6,907,921 overrecovery
TECO;	$ 23,129,476 underrecovery

Based on the evidence in the record and the resolution of the generic and company-specific fuel cost recovery issues discussed above, **we** approve the following as the appropriate estimated/actual fuel adjustment true-up amounts for the period of January 2001 through December 2001:

FPC: $ 33,346,822 overrecovery. Pending resolution of our review of FPC's risk management for natural gas purchases from March 1999 through March 2001, this Commission maintains jurisdiction over revenues credited and costs charged to the fuel and purchased power cost recovery clause.

FPL; $ 13,794,067 overrecovery. Pending resolution of our review of FPL's risk management for natural gas purchases from March 1999 through March 2001, this Commission maintains jurisdiction over revenues credited and costs charged to the fuel and purchased power cost recovery clause.

[*23]

FPUC-Marianna:	$ 1,548 underrecovery
FPUC-Fernandina Beach:	$ 92,507 overrecovery
GULF:	$ 17,609,612 underrecovery
TECO:	$ 65,543,259 underrecovery

Based on the evidence in the record and the resolution of the generic and company-specific fuel cost recovery issues discussed above, we approve the following as the appropriate total fuel adjustment true-up amounts to be collected/refunded from January 2002 through December **2002:**

FPC: $ 23,640,300 underrecovery. This amount includes the $ 27,608,904 underrecovery this Commission deferred for recovery until 2002. Pending resolution of our review of FPC's risk management for natural gas purchases from March 1999 through March 2001, this Commission maintains jurisdiction over revenues credited and costs charged ***to*** the fuel and purchased power cost recovery clause.

FPL: $ 245,208,621 underrecovery. Pending resolution of our review of FPL's risk management for natural gas purchases from March 1999 through March 2001, this Commission maintains jurisdiction over revenues credited and costs charged to the fuel and purchased power cost recovery clause.

FPUC-Marianna:	$ 62,173 to be collected
FPUC-Fernandina Beach:	$ 16,863 to be collected
GULF:	$ 10,701,691 underrecovery
TECO:	$ 88,672,735 underrecovery.

[*24]

Based on the evidence in the record and the resolution of the generic and company-specific fuel cost recovery issues discussed above, we approve the following as the appropriate levelized fuel cost recovery factors for the period January 2002 through December 2002:

FPC:	2.687 [cents] /kWh

FPL:	2.860 [cents] /kWh
FPUC-Marianna:	2.333 [cents] /kWh
FPUC-Fernandina Beach:	2.095 [cents] /kWh
GULF:	2.212 [cents] /kWh
TECO:	3.301 [cents] /kWh

Based on the evidence in the record and the resolution of the generic and company-specific fuel cost recovery issues discussed above, we approve the following as the appropriate fuel recovery line loss multipliers to be used in calculating the fuel cost recovery factors charged to each rate class/delivery voltage level class:

FPC:

Group	Delivery Voltage Level	Line Loss Multiplier
A.	Transmission	0.9800
B.	Distribution Primary	0.9900
C.	Distribution Secondary	1.0000
D.	Lighting Service	1.0000

FPL: The appropriate Fuel Cost Recovery Loss Multipliers are as provided on pages 17-18 of this Order.

FPUC:

Marianna	Multiplier
All Rate Schedules	1.0000
Fernandina Beach	
All Rate Schedules	1.0000

GULF: [*25] See table below:

Group	Rate Schedules *	Line Loss Multipliers
A	RS, GS, GSD, GSDT, SBS, OSIII, OSIV	1.01228
B	LP, LPT, SBS	0.98106
C	PX, PXT, SBS, RTP	0.96230
D	OSI, OSII	1.01228

* The multiplier applicable to customers taking service under Rate Schedule SBS is determined as follows: customers with a Contract Demand in the range of 100 to 499 KW will use the recovery factor applicable to Rate Schedule GSD; customers with a Contract Demand in the range of 500 to 7,499 KW will use the recovery factor applicable to Rate Schedule LP; and customers with a Contract Demand over 7,499 KW will use the recovery factor applicable to Rate Schedule PX.

TECO:

Group	Multiplier
Group A	1.0035
Group A1	n/a *
Group B	1.0009
Group C	0.9792

* Group A1 is based on Group A, 15% of On-Peak and 85% of Off-Peak.

Based on the evidence in the record and the resolution of the generic and company-specific fuel cost recovery issues discussed above, we approve the following as the appropriate fuel recovery factors for each rate class/delivery voltage level class adjusted for line losses:

FPC: Fuel Cost Factors (cents/kWh)

Group	Delivery Voltage Level	Standard	Time Of Use On-Peak	Time Of Use Off-Peak
A.	Transmission	2.638	3.208	2.393

FPC : Fuel Cost Factors (cents/kWh)

Group	Delivery Voltage Level	Standard	Time Of Use On-Peak	Off-Peak
B.	Distribution Primary	2.665	3.241	2.417
C.	Distribution Secondary	2.692	3.273	2.442
D.	Lighting Service	2.597		

[*26]

FPL:

GROUP	RATE SCHEDULE	AVERAGE FACTOR	FUEL RECOVERY LOSS MULTIPLIER	FUEL RECOVERY FACTOR
A	RS-1,GS-1,SL2	2.860	1.00210	2.866
A-1 *	SL-1,OL-1,PL-1	2.799	1.00210	2.805
B	GSD-1	2.860	1.00202	2.865
C	GSLD-1 & CS-1	2.860	1.00078	2.862
D	GSLD-2,CS-2,OS-2 & MET	2.860	.99429	2.843
E	GSLD-3 & CS-3	2.860	.95233	2.723

GROUP	RATE SCHEDULE	AVERAGE FACTOR	FUEL RECOVERY LOSS MULTIPLIER	FUEL RECOVERY FACTOR
A	RST-1,GST-1			
	ON-PEAK	3.138	1.00210	3.145
	OFF-PEAK	2.735	1.00210	2.741
B	GSDT-1,CILC-1(G)	3.138	1.00202	3.144
	ON-PEAK	2.735	1.00202	2.740
	OFF-PEAK			
C	GSLDT-1 & CST-1	3.138	1.00078	3.140
	ON-PEAK	2.735	1.00078	2.737
	OFF-PEAK			
D	GSLDT-2 & CST-2	3.138	.99429	3.120
	ON-PEAK	2.735	.99429	2.719
	OFF-PEAK			
E	GSLDT-3,CST-3 CILC-1(T)&ISST-1(T)			
	ON-PEAK	3.138	.95233	2.988
	OFF-PEAK	2.735	.95233	2.604
F	CILC-1(D) & ISST-1(D)			
	ON-PEAK	3.138	.99331	3.117
	OFF-PEAK	2.735	.99331	2.717

* WEIGHTED AVERAGE 16% ON-PEAK **AND** ***85%*** OFF-PEAK

FPUC: Marianna;

Rate Schedule	Adjustment
RS	$,04060

GS	$ .04042
GSD	$ .03654
GSLD	$ .03492
OL	$ .02529
SL	$,02526

Fernandina Beach:

Rate Schedule	Adjustment
RS	$ .03983
GS	$ .03732
GSD	$,03581
CSL	$,02591
OL	$ .02591
SL	$ .02591

[*27]
GULF:

		Fuel Cost Factors [cent] /KWH		
		Standard	Time of Use	
Group	Rate Schedules *		On-Peak	Off-Peak
A	RS, RSVP, GS, GSD, SBS, OSIII, OSIV	2.239	2.713	2.038
B	LP, LPT, SBS	2.170	2.629	1.975
C	PX, PXT, RTP, SBS	2.129	2.579	1.938
D	OSI, OSII	2.208	N/A	N/A

* The recovery factor applicable to customers taking service under Rate Schedule SBS is determined as follows: customers with a Contract Demand in the range of 100 to 499 KW will use the recovery factor applicable to Rate Schedule GSD; customers with a Contract Demand in the range of 500 to 7,499 KW will use the recovery factor applicable to Rate Schedule LP; and customers with a Contract Demand over 7,499 KW will use the recovery factor applicable to Rate Schedule PX.

TECO:

Rate Schedule	Fuel Charge Factor (cents per kWh)	
Average Factor	3.301	
RS, GS and TS	3.313	
RST and GST	4.535	(on-peak)
	2.793	(off-peak)
SL-2, OL-1 and OL-3	3.054	
GSD, GSLD, and SBF	3.304	
GSDT, GSLDT, EV-X and SBFT	4.523	(on-peak)
	2.786	(off-peak)
IS-1, IS-3, SBI-1, SBI-3	3.232	
IST-1, IST-3, SBIT-1, SBIT-3	4.425	(on-peak)
	2.725	(off-peak)

We approve as reasonable the following [*28] stipulations as to the appropriate revenue tax factor to be applied in calculating each company's levelized fuel factor for the projection period January 2002 through December 2002:

FPC:	1.00072
FPL:	1.01597
FPUC-Fernandina Beach:	1.01597
FPUC-Marianna:	1.00072
GULF:	1.01597
TECO:	1.00072

IV. APPROPRIATE PROJECTED EXPENDITURES **AND** TRUE-UP AMOUNTS FOR **CAPACITY** COST RECOVERY FACTORS

We approve as reasonable the following stipulations as to the appropriate final capacity cost recovery true-up amounts for the period January 2000 through December 2000:

FPC:	$ 1,402,548 underrecovery
FPL:	$ 2,850,420 underrecovery
GULF:	$ 340,856 overrecovery
TECO:	$ 589,079 underrecovery

We approve as reasonable the following stipulations as to the appropriate estimated/actual capacity cost recovery true-up amounts for the period January 2001 through December 2001:

FPC:	$ 2,309,584 underrecovery
FPL:	$ 25,003,277 overrecovery
GULF:	$ 1,515,391 overrecovery
TECO:	$ 4,971,024 underrecovery

We approve as reasonable the following stipulations as to the appropriate total capacity cost recovery true-up amounts to be collected/refunded during the period January 2002 through **[*29]** December 2002:

FPC:	$ 3,712,132 to be collected
FPL:	$ 22,152,857 to be refunded
GULF:	$ 1,856,247 to be refunded
TECO;	$ 5,560,103 to be collected

We approve as reasonable the following stipulations as to the appropriate projected net purchased power capacity cost recovery amounts to be included in the recovery factor for the period January 2002 through December 2002 are as follows:

FPC:	$ 343,015,424
FPL:	$ 573,968,082
GULF:	$ 2,346,103
TECO:	$ 52,600,466

We approve as reasonable the following stipulations as to the appropriate jurisdictional separation factors to be applied to determine the capacity costs to be recovered during the period January 2002 through December 2002:

FPC:	Base - 97.560%, Intermediate - 71.248%, Peaking - 76.267%.
FPL:	99.03598%
GULF:	96.50747%
TECO:	91.89189%

We approve as reasonable the following stipulations as to the appropriate projected capacity cost recovery factors for each rate class/delivery class for the period January 2002 through December 2002:

FPC:

Rate Class	Capacity Recovery Factor (cents/kWh)
Residential	1.132
General Service Non-demand - Secondary	0.849
@ Primary Voltage	0.840
@ Transmission Voltage	0.832
General Service 100% Load Factor	0.621
General Service Demand - Secondary	0.737

Rate Class	Capacity Recovery Factor (cents/kWh)
@ Primary Voltage	0.730
@ Transmission Voltage	0.722
Curtailable - Secondary	0.526
@ Primary Voltage	0.520
@ Transmission Voltage	0.515
Interruptible - Secondary	0.612
@ Primary Voltage	0.606
@ Transmission Voltage	0.599
Lighting	0.181

[*30]

FPL:

Rate Class	Capacity Recovery Factor ($/kW)	Capacity Recovery Factor ($/kWh)
RS1	-	,00701
GS1	-	,00608
GSD1	2.34	-
OS2	-	.00310
GSLD1/CS1	2.40	-
GSLD2/CS2	2.38	-
GSLD3/CS3	2.49	-
CILCD/CILCG	2.51	-
CILCT	2.53	-
MET	2.55	-
OL1/SL1/PL-1	-	,00182
SL2	-	.00445

Rate Class	Capacity Recovery Factor (Reservation Demand Charge) ($/kW)	Capacity Recovery Factor (Sum of Daily Demand Charge) ($/kW)
ISST1D	.31	.15
SST1T	.29	.14
SST1D	.30	.14

GULF:

Rate Class	Capacity Recovery Factor (cents/kWh)
RS, RST, RSVP	.027
GS, GST	.027
GSD, GSDT	.021
LP, LPT	.018
PX, PXT, RTP, SBS	.016
0s-I, OS-II	.003
OS-III	,016
OS-IV	.008

TECO:

Rate Class	Capacity Recovery Factor ($/kWh)
RS	.00379

Rate Class	Capacity Recovery Factor
	($/kWh)
GS, TS	.00350
GSD	.00269
GSLD, SBF	.00245
IS-1, IS-3, SBI-I, SBI-3	.00022
SL/OL	.00041

The parties stipulated to the following:

> The appropriate adjustment to Gulfs total recoverable capacity payments to reflect the former capacity transactions (credit) embedded in Gulf's base rates, as reflected on line 8 of Schedule CCE-1 should be based on the time period from January 1, [*31] 2002, up to the date Gulfs new base rates become effective. According to information provided for Gulfs rate case synopsis, the effective date of **new** base rates is expected to be June 6,2002. The adjustment to recoverable capacity payments to reflect the capacity embedded in base rates should cover the period from January 1,2002,through June 5,2002, **a** period of 156 days. The amount of the adjustment should be $706,060 ($ 1,652,000/365 days x 156 days). If the effective date of Gulfs new base rates varies from June *6,* 2002, the amount of the adjustment should be revised, with an appropriate adjustment to the true-up amount to reflect the revised amount.
>
> Gulfs current base rate increase request, as filed, reflects adjustments to remove capacity transactions consistent with the calculations currently being made for the purchased capacity cost recovery clause. It is Gulfs position that if the partial year adjustment is made to the PPCC as described above, a corresponding adjustment should be made to Gulfs base rate increase request. This will ensure that the new base rates resulting from Docket No. 010949-EI and the PPCC factors established in this docket are calculated [*32] on a consistent basis. The adjustment to Gulfs base rate increase request is appropriately addressed in Docket No. 010949-EI.
>
> We approve this stipulation as reasonable.

V. GENERATING PERFORMANCE INCENTIVE FACTOR (GPIF) **ISSUES**

The parties stipulated that the appropriate Generation Performance Incentive Factor (GPIF) rewards/penalties for performance achieved during the period January 2000 through December 2000 are those set forth **in** Attachment **A** to this Order, which is incorporated **by** reference herein. We approve these stipulations as reasonable.

The parties stipulated that the appropriate GPIF targets/ranges for the period January 2002 through December 2002 are those set forth in Attachment **A** to this Order, which is incorporated by reference herein. We approve these stipulations as reasonable.

The parties stipulated that the actual 2000 heat rates for TECO's Big Bend Units # 1 and # 2 should be adjusted for the flue gas desulfurization's (FGD) impact on Tampa Electric's 2000 reward/penalty. We approved similar adjustments to the actual data for Big Bend Unit **3** from July 1995 to March **1998,** when TECO initiated flue gas desulfurization for that unit. In the next three fuel [*33] adjustment hearings, these adjustments will be necessary for the actual heat rate data for the years 2001, 2002, and 2003. We approve this stipulation as reasonable.

The parties stipulated that the heat rate targets for the year 2002 for TECO's Big Bend Units # 1 and # **2** should be adjusted for the FGD's impact on Tampa Electric's eventual 2002 reward/penalty. Adjustments to the heat rates for these units ensures comparability between heat rate targets, which are modeled using historical data, and the actual data for the same periods. These adjustments will also be necessary for the heat rate targets for the year 2003, which will be addressed in Docket No. 020001-EI. We approve this stipulation as reasonable.

VI. OTHER MATTERS

The parties stipulated that the new fuel adjustment charge and capacity cost recovery factors approved in this Order should be effective beginning with the first billing cycle for January 2002 and thereafter through the last billing cycle for December 2002. The parties also stipulated that the first billing cycle may start before January 1,2002, and the last billing cycle may end after December 31,2002, so long as each customer is billed for twelve [*34] months regardless of when the factors became effective. We approve these stipulations as reasonable.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the stipulations and findings set forth in the body of this Order are hereby approved. It is further

ORDERED that Florida Power & Light Company, Florida Power Corporation, **Tampa** Electric Company, Gulf Power Company, and Florida Public Utilities Company are hereby authorized to apply the fuel cost recovery factors set forth herein during the period of January 2001 through December 2001. It is further

ORDERED that the estimated true-up amounts contained in the fuel cost recovery factors approved herein are hereby authorized subject to final true-up, and further subject to proof of the reasonableness and prudence of the expenditures upon which the amounts are based. It is further

ORDERED that Florida Power & Light Company, Florida Power Corporation, Gulf Power Company, and Tampa Electric Company are hereby authorized to apply the capacity cost recovery factors as set forth herein during the period January 2001 through December 2001. It is further

ORDERED that the estimated true-up amounts contained in [*35] the capacity cost recovery factors approved herein are hereby authorized subject to final true-up, **and** further subject to proof of the reasonableness and prudence of the expenditures upon which the amounts are based.

By ORDER of the Florida Public Service Commission this 26th day of December, 2001.

BLANCA S. BAYO, Director

Division of the Commission Clerk and Administrative Services

Attachment **A**

GPIF REWARDS/PENALTIES

January 2000 to December 2000

Utility	Amount	Reward/Penalty
Florida Power Corporation	$ 266,919	Reward
Florida Power and Light Company	$ 9,004,713	Reward
Gulf Power Company	$ 379,732	Reward
Tampa Electric Company	$ 1,095,745	Reward

Utility/ Plant/Unit	EAF		Heat Rate	
FPC	Target	Adjusted Actual	Target	Adjusted Actual
Anclote 1	92.4	84.5	10,022	10,177
Anclote 2	83.9	86.7	10,025	10,085
Crystal River 1	90.3	89.1	9,851	9,840
Crystal River 2	75.3	53.4	9,851	9,735
Crystal River 3	93.4	96.8	10,357	10,333
Crystal River 4	75.7	77.1	9,422	9,308
Crystal River 5	94.0	91.2	9,394	9,313
Bartow 3	82.8	80.9	10,140	10,201
Tiger Bay	79.1	81.0	7,590	7,695
FPL	Target	Adjusted Actual	Target	Adjusted Actual
Cape Canaveral 1	92.4	90.8	9,511	9,541
Cape Canaveral 2	78.2	77.2	9,690	9,764

Utility		Amount	Reward/Penalty	
Fort Lauderdale 4	93.5	91.3	7,349	7,334
Fort Lauderdale 5	93.5	89.9	7,358	7,303
Fort Myers 2	92.7	88.9	9,321	9,442
Manatee 2	71.7	81.1	10,162	10,131
Martin 3	94.2	95.3	6,996	6,770
Martin 4	91.6	95.3	6,906	6,685
Port Everglades 3	95.8	94.6	9,748	9,631
Port Everglades 4	88.2	83.7	9,664	9,647
Putnam 1	91.2	92.9	8,937	0,934
Sanford 4	92.3	90.8	10,016	10,522
Sanford 5	89.3	91.8	10,290	10,247
Turkey Point 3	84.6	90.1	11,066	11,095
Turkey Point 4	84.6	89.2	11,093	11,088
St. Lucie 1	93.6	100.0	10,854	10,805
St. Lucie 2	84.6	90.3	10,a72	10,837
Scherer 4	94.2	98.0	9,989	10,036

Gulf	Target	Adjusted Actual	Target	Adjusted Actual
Crist 6	84.3	73.5	10,629	10,515
Crist 7	77.3	79.2	10,236	10,241
Smith 1	90.6	92.6	10,332	10,227
Smith 2	89.2	91.5	10,137	10,143
Daniel 1	75.3	80.0	10,237	10,267
Daniel 2	74.5	81.3	10,105	10,046

TECO	Target	Adjusted Actual	Target	Adjusted Actual
Big Bend 1	78.1	74.3	10,127	10,091
Big Bend 2	80.6	83.2	10,061	9,811
Big Bend 3	76.3	79.6	10,197	9,841
Big Bend 4	84.4	86.1	9,976	9,799
Gannon 5	75.3	57.2	10,562	10,766
Gannon 6	72.2	28.2	10,507	10,529

[*36]

GPIF TARGETS

January 2002 to December 2002

Utility/ Plant/Unit		EAF		Heat Rate
FPC	EAF	POF	EUOF	
Anclote 1	91.7	0.0	8.3	10,183
Anclote 2	81.7	13.2	5.2	10,090
Bartow 3	80.2	11.5	8.4	10,053
Crystal River 1	86.8	0.0	13.3	9,750
Crystal River 2	65.1	20.6	14.3	9,619
Crystal River 3	96.2	0.0	3.8	10,283
Crystal River 4	76.5	20.0	3.5	9,413
Crystal River 5	94.5	0.0	5.5	9,376
Tiger Bay	80.3	13.4	6.3	8,267
FPL	EAF	POF	EUOF	

Utility/ Plant/Unit	EAF			Heat Rate
FPC	EAF	POF	EUOF	
Cape Canaveral 1	90.3	0.0	9.7	9,163
Cape Canaveral 2	88.2	3.8	7.7	9,209
Ft Lauderdale 4	91.8	2.7	5.5	7,351
Ft Lauderdale 5	91.9	2.7	5.4	7,303
Manatee 1	81.5	7.7	10.8	9,861
Manatee 2	85.4	7.9	6.4	10,054
Martin 1	89.2	4.1	6.4	9,147
Martin 2	90.8	4.1	4.8	8,884
Martin 3	94.9	0.0	5.1	6,828
Martin 4	87.9	4.2	5.4	6,734
Port Everglades 3	94.3	0.0	5.7	9,355
Port Everglades 4	86.0	7.9	5.8	9,192
Putnam 1	84.7	4.8	5.7	8,679
Riviera 3	84.4	0.0	15.6	9,809
Riviera 4	93.1	0.0	6.9	9,797
Turkey Point 1	85.4	7.4	6.9	8,960
Turkey Point 2	94.3	0.0	5.7	9,410
Turkey Point 3	93.6	0.0	6.4	11,137
Turkey Point 4	86.0	8.2	5.8	11,079
St Lucie 1	86.0	8.2	5.8	10,793
St Lucie 2	93.6	0.0	6.4	10,826
Scherer 4	84.4	11.8	3.6	10,098
Gulf	EAF	POF	EUOF	
Crist 4	90.9	6.3	2.8	10,499
Crist 6	77'3	15.9	6.8	10,546
Crist 7	79.7	10.1	10.2	10,196
Smith 1	90.7	6.8	2.5	10,054
Smith 2	86.6	10.7	2.7	10,050
Daniel 1	88.0	2.5	9.5	10,191
Daniel 2	70.7	21.6	7.7	9,906
TECO	EAF	POF	EUOF	
Big Bend 1	77.3	3.8	18.9	10,111
Big Bend 2	66.7	19.2	14.1	9,815
Big Bend 3	67.5	15.3	17.2	10,036
Big Bend 4	82.6	5.8	11.6	10,089
Gannon 5	56.7	15.3	27.9	10,716
Gannon 6	63.9	18.1	18.0	10,704
Polk 1	78.0	7.7	14.3	10,087

[*37]

In Re: Fuel and Purchased Power Cost Recovery Clause and Generating Performance Incentive Factor.

DOCKET NO. 950001-EI; ORDER NO. PSC-95-1089-FOF-EI

Florida Public Service Commission

1995 Fla. PUC LEXIS 1230

95 FPSC 9:9

September 5, 1995

[*1]

James A. McGee, Esquire, Post Office Box 14042, St. Petersburg, FL 33733-4042, On behalf of Florida Power Corporation.

Matthew M. Childs, P.A., Esquire, Steel Hector & Davis, 215 South Monroe Street, Suite 601, Tallahassee, FL 32301, On behalf of Florida Power & Light Company.

Norman H. Horton, Jr., Esquire, Messer, Vickers, Caparello, Madsen, Goldman & Metz, P. A., Post Office Box 1876, Tallahassee, FL 32302- 1876, On behalf of Florida Public Utilities Company.

Jeffrey A. Stone, Esquire, and Russell A. Badders, Esquire, of Beggs & Lane, 700 Blount Building, 3 West Garden Street, P.O. Box 12950, Pensacola, FL 32576-2950, On behalf of Gulf Power Company.

Lee L. Willis, Esquire, James D. Beasley, Esquire, Macfarlane Ausley Ferguson & McMullen Post Office Box 391 Tallahassee, Florida 32302, On behalf of Tampa Electric Company.

Joseph A. McGlothlin, Esquire, Vicki Gordon Kaufman, Esquire, McWhirter, Reeves, McGlothlin, Davidson, Rief & Bakas, 117 South Gadsden Street, Tallahassee, Florida 32301, On behalf of the Florida Industrial Power Users Group.

John Roger Howe, Esquire, Deputy Public Counsel, Office of Public Counsel, c/o The Florida Legislature, 111 West Madison Street, **[*2]** Room 812, Tallahassee, Florida 32399-1400, On behalf of the Citizens of the State of Florida.

Vicki D. Johnson, Esquire, Florida Public Service Commission, Gerald L. Gunter Building, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, On behalf of the Commission Staff.

Prentice P. Pruitt, Esquire, Florida Public Service Commission, Gerald L. Gunter Building, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, On behalf of the Commissioners.

PANEL:

The following Commissioners participated in the disposition of this matter: J. TERRY DEASON, JOE A. GARCIA, DIANE K. KIESLING

OPINION: ORDER APPROVING PROJECTED EXPENDITURES AND TRUE-UP AMOUNTS FOR FUEL ADJUSTMENT FACTORS; GPIF TARGETS, RANGES, AND REWARDS; PROJECTED EXPENDITURES AND TRUE-UP AMOUNTS FOR OIL BLACKOUT COST RECOVERY FACTORS; AND PROJECTED FACTORS;

AND PROJECTED EXPENDITURES AND TRUE-UP AMOUNTS FOR CAPACITY COST RECOVERY FACTORS

BY THE COMMISSION:

As part of this Commission's continuing fuel cost recovery, oil backout cost recovery, capacity cost recovery, and environmental cost recovery proceedings, hearings are held semi-annually. Pursuant to notice, a hearing was held in this docket and in Docket No. 950007-EI [*3] August 9, 1995. The hearing addressed the issues set out in the body of the Prehearing Order, Order No. PSC-95-0946-PHO-EI, issued August 4, 1995. The participating parties stipulated to a resolution of all the issues presented, and we hereby approve the stipulations **of** all the parties as described below. The approved fuel, oil backout, and capacity cost recovery factors are set forth in Attachment 2 which is incorporated in this Order.

Generic Fuel Adjustment Issues

The parties agreed to, and we approve as appropriate, the following final fuel adjustment true-up amounts for the period October, 1994 through March, 1995:

FPC: $ 2,021,123 underrecovery.

FPL: $ 12,465,206 overrecovery.

FPUC: Marianna: $ 66,717 overrecovery. Fernandina Beach: $ 86,437 overrecovery.

GULF: $ 1,737,576 underrecovery.

TECO: $5,963,794 underrecovery.

The parties agreed to, and we approve as appropriate the following estimated fuel adjustment true-up amounts for the period April, 1995 through September, 1995:

FPC: $ 8,628,315 underrecovery

FPL: $ 50,864,415 underrecovery.

FPUC: Marianna: $ 35,293 underrecovery.

Ferandina Beach: $72,499 underrecovery.

GULF: $ 875,443 [*4] underrecovery.

TECO: $ 2,961,361 underrecovery.

The parties agreed to, and we approve as appropriate the total fuel adjustment true-up amounts to be collected during the period October, 1995 through March, 1996:

FPC: $ 10,649,438 underrecovery.

FPL: $ 38,399,209 underrecovery.

FPUC: Marianna: $ 31,424 overrecovery.

Fernandina Beach: $ 13,938 overrecovery.

GULF: $ 2,613,019 underrecovery,

TECO: $ 8,925,155 underrecovery.

The parties agreed to, and we approve as appropriate the following levelized fuel cost recovery factors for the period October, 1995 through March, 1996:

FPC: 1.783 cents per kwh.

FPL: 1.769 cents per kwh.

FPUC: Marianna: 2.819 cents per kwh.

Fernandina Beach: 3.612 cents per kwh.

GULF: 2.210 cents per kwh.

TECO: 2.365 cents per kwh.

For billing purposes, the new fuel adjustment charge, oil backout charge and capacity cost recovery charge shall be effective beginning with the specified fuel cycle and thereafter for the period October, 1995 through March, 1996. Billing cycles may start before October 1, 1995, and the last cycle may be read after March 31, 1996, so that each customer is billed for six months, regardless [*5] of when the adjustment factor became effective.

TECO's oil backout factor shall be collected during the period October, 1995 through December, 1995. Gulfs capacity factors shall be effective for the period October, 1995 through September, 1996.

The parties also agreed to, and we approve as appropriate, the following fuel recovery line loss multipliers to be used in calculating the fuel cost recovery factors charged to each rate class:

FPC:

Group	Delivery Voltage Level	Line Loss Multiplier
A.	Transmission	0.9800
3.	Distribution Primary	0.9900
C.	Distribution Secondary	1.0000
D.	Lighting Service	1.0000

FPL:

Group	Multiplier
A	1.00197
A-1	1.00197
B	1.00196
C	1.00171
D	0.99678
E	0.96190
F	0.99827

FPUC:

Marianna

Rate Schedule	Multiplier
RS	1.0126
GS	0.9963
GSD	0.9963
GSLD	0.9963
OL, OL-2	1.0126
SL-1, SL-2	0.9881

Fernandina Beach

All Rate Sche- dules	1.0000

GULF: See table below:

Group	Rate Schedules	Line Loss Multipliers
A	RS, GS, GSD, SBS OSIII, OSIV	1.01228
B	LP, SBS	0.98106
C	PX, RTP, SBS	0.96230
D	OSI, OSII	1.01228

TECO:

	Multiplier
Group A	1.0064
Group A1	1.0064 *
Group B	1.0012
Group C	0.9721

* Group A1 is based on Group A, 15% of On-Peak and 85% of Off-Peak.

[*6]

Also, the parties stipulated that the appropriate Fuel Cost Recovery Factors for each rate group adjusted for line losses are as follows:

FPC:

Fuel Cost Factors (cents per kwh)

Group	Delivery Voltage Level	Standard	Time Of Use On-Peak	Time Of Use Off-Peak
A.	Transmission	1.750	2.140	1.591
B.	Distribution Primary	1.768	2.162	1.607
C.	Distribution Secondary	1.786	2.184	1.623
D.	Lighting Service	1.728		

FPL:

GROUP	RATE SCHEDULE	AVERAGE FACTOR	FUEL RECOVERY LOSS MULTIPLIER	FUEL RECOVERY FACTOR
A	RS-1, GS-1, SL-2	1.779	1.00197	1.773
A-1	SL-1, OL-1	1.763	1.00197	1.766
B	GSD-1	1.769	1.00196	1.773
C	GSLD-1 & CS-1	1.769	1.00171	1.772
D	GSLD-2, CS-2, OS-2 & MET	1.769	0.99678	1.764
E	GSLD-3 & CS-3	1.769	0.96190	1.702
A	RST-1, GST-1			

GROUP	RATE SCHEDULE	AVERAGE FACTOR	FUEL RECOVERY LOSS MULTIPLIER	FUEL RECOVERY FACTOR
	ON-PEAK	1.812	1.00197	1.815
	OFF-PEAK	1.754	1.00197	1.757
3	GSDT-1			
	CILC-1 (G)			
	ON-PEAK	1.812	1.00196	1.815
	OFF-PEAK	1.754	1.00196	1.757
C	GSLDT-1 &			
	CST-1			
	ON-PEAK	1.812	1.00171	1.815
	OFF-PEAK	1.754	1.00171	1.756
D	GSLDT-2 &			
	CST-2			
	ON-PEAK	1.812	0.99678	1.806
	OFF-PEAK	1.754	0.99678	1.748
E	GSLDT-3, CST-3			
	CILC-1 (T)&			
	ISST-1 (T)			
	ON-PEAK	1.812	0.96190	1.743
	OFF-PEAK	1.754	0.96190	1.687
F	CILC-1 (D)&			
	ISST-1 (D)			
	ON-PEAK	1.812	0.99827	1.809
	OFF-PEAK	1.754	0.99827	1.750

[*7]

FPUC:

Marianna

Rate Schedule	Adjustment
RS	4.875 cents per kwh
GS	4.657 cents per kwh
GSD	4.145 cents per kwh
GSLD	4.169 cents per kwh
OL, OL-2	2.938 cents per kwh
SL-1, SL-2	2.854 cents per kwh

Fernandina Beach

Rate Schedule	Adjustment
RS	5.228 cents per kwh
GS	5.292 cents per kwh
GSD	4.500 cents per kwh
OL, & SL	4.123 cents per kwh

GULF: See table below:

Gro	Rate Schedules *	Fuel Cost Factors Cents Per kwh	
		Standard	Time of Use

u P			On-Peak	Off-Peak
A	RS, GS, GSD, SBS, OSIII, OSIV	2.237	2.315	2.209
B	LP, SBS	2.268	2.244	2.141
C	PX, RTP, SBS	2.127	2.201	2.100
D	OSI, OSII	2.232	N/A	N/A

* The recovery factor applicable to customers taking service under Rate Schedule SBS is determined as follows: customers with a Contract Demand in the range of 100 to 499 KW will use the recovery factor applicable to Rate Schedule GSD; customers with a Contract Demand in the range of 500 to 7,499 KW will use the recovery factor applicable to Rate Schedule LP; and customers with a Contract Demand over 7,499 KW will use the recovery factor applicable to Rate Schedule PX.

TECO: [*8]

	Standard	On-Peak	Off-Peak
Group A	2.380	2.597	2.297
Group A1	2.342	-	-
Group B	2.368	2.583	2.285
Group C	2.299	2.508	2.218

The parties agreed to, and we approve as appropriate the following revenue tax factor to be applied in calculating each company's levelized fuel factor for the projection period of October, 1995 through March, 1996:

FPC: 1.00083

FPL: 1.01609

FPUC: Fernandina Beach: 1.01609

Marianna: 1.00083

GULF: 1.01609

TECO: 1.00083

COMPANY SPECIFIC FUEL ADJUSTMENT ISSUES

Florida Power and Light Company

The parties agreed to, and we approve as appropriate FPL's request to recover the costs associated with purchasing 462 rail cars for use at Plant Scherer through the Fuel and Purchased Power Cost Recovery Clause. Pursuant to Order 14546, issued July 8, 1985, unanticipated fuel-related costs not included in the computation of base rates may be considered for recovery through a utility's fuel clause. When economically beneficial to a utility's ratepayers, the cost of purchasing or leasing rail cars is considered to be a fuel-related expense that should be recovered through the fuel clause.

FPL projects that the purchase [*9] of 462 high capacity aluminum rail cars for delivery of coal to Plant Scherer at a cost of $ 24,024,000 will save its ratepayers more than $ 24 million above the cost of the rail cars. The purchase of these rail cars enabled FPL to obtain favorable transportation rate savings from railroad companies that exceed the recoverable cost of the purchase. On January 1, 1995, FPL began recovering the actual cost of the 462 rail cars. FPL will continue recovering these costs through its fuel clause, as they provide substantial savings in the form of reduced fuel costs to FPL's ratepayers. FPL will recover straight-line depreciation over 15 years, applicable taxes, and, until we revise FPL's capital ratios or its cost rates, a return on average investment at its current weighted average cost of capital **of** 9.2897%.

We approve the parties' stipulation that at this time, the impact of sales under FPL's Real Time Pricing - General Service (RTP-GX) is not of sufficient magnitude to necessitate adjustments to FPL's fuel cost recovery projections,

Also, the parties agreed that FPL will not recover the cost of implementing a change from an 18 month fuel cycle operation to a 24 month fuel cycle operation **[*10]** of St. Lucie Units 1 and 2 through the Fuel Cost Recovery Clause. While these implementation costs are generally recoverable through the fuel and purchased power cost recovery clause, it is not appropriate at this time to pre-approve recovery of the costs. Our determination of the appropriateness of these costs for recovery through the clause will be made at the time Florida Power and Light Company includes the costs in its fuel cost recovery projections.

Florida Power Corporation

In accordance with the agreement of the parties, we find that FPC can recover its cost of converting Intercession City combustion turbine units P7 and P9 to burn natural gas. The conversion is estimated to save FPC's ratepayers more than $ 20 million over the next 5 years at a cost of approximately $2.5 million. Order No. 14546, issued July **8,** 1985, allows a utility to recover fossil-fuel related costs that result in fuel savings, even if those costs were not previously addressed in determining base rates. FPC may recover the projected cost of conversion through its fuel clause beginning July 1, 1995. The cost may be depreciated over the next five years using straight line depreciation. FPC **[*11]** may also recover a return on average investment at the rate authorized in Docket 910890-EI, 8.37%, as well as applicable taxes. Our staff will request an audit of actual costs once the conversion is complete to true-up original projections and to verify the prudence of the individual cost components included for recovery.

The parties stipulated that FPC may include the increase in fuel cost associated with the Auburndale Power Partners settlement in the Fuel and Purchased Power Cost Recovery Clause. We approved recovery of these costs at our August 1, 1995, Agenda Conference in Docket No. 950567-EQ.

We confirmed the validity of the methodology used to determine the equity component of Electric Fuels Corporation's **cap**ital structure for calendar year 1994. The appropriateness of the "short-cut" methodology used to determine the equity component of EFC's capital structure was confirmed in the annual audit by our staff of EFC's revenue requirements.

The parties also stipulated that FPC properly calculated the market price true-up for coal purchases from Powell Mountain. The calculation was made in accordance with the market pricing methodology approved by us in Docket No. 860001-EI-G. **[*12]**

Tampa Electric Company

There was no controversy among the parties regarding the 1994 benchmark price for coal Tampa Electric Company purchased from its affiliate, Gatliff Coal Company. We find the appropriate price is $ 40.08/Ton. TECO's actual costs were below the 1994 benchmark.

The parties also agreed to, and we approve, the 1994 waterborne coal transportation benchmark price of $25.70 for transportation services provided by TECO's affiliates. TECO's actual costs were below the 1994 benchmark. The following issues will be deferred to the next fuel and purchased power cost recovery proceeding:

> Should TECO separate Oil Backout Cost Recovery costs by wholesale and retail jurisdiction prior to calculating the oil backout factor? Should TECO refund the non-jurisdictional portion of Oil Backout Cost Recovery costs previously recovered from **its** ratepayers?

Generic Generating Performance Incentive Factor Issues

There was no controversy among the parties as to the appropriate GPIF reward or penalty for past performance. The parties agreed to, and we approve, the following GPIF rewards or penalties for the period October, 1994 through March, 1995:

FPC: $ **183,528 [*13]** reward.

FPL: $ 3,090,162 reward.

GULF: No reward or penalty.

TECO: $471,209 penalty.

The parties also agreed to targets and ranges for the period October, 1995 through March, 1996. We approve those targets and ranges as follows:

FPC: See Staff Attachment 1 **,** Page 2 of 2.

FPL: See Staff Attachment 1, Page 2 of 2.

GULF: The parties agreed to, and we approve, adjusting Gulf Power Company's reward/penalty amount for the October 1994 through March 1995 fuel adjustment period (winter 1994 period), because the change in Plant Daniel's fuel supply was not accounted for when the heat rate targets were set. Those targets were based on historical data (covering the months April 1991 through March 1994) that were not comparable to the data of that fuel adjustment period.

> The historical period used for the targets now being set for the October 1995 through March 1996 fuel adjustment period (Winter 1995 period) is April 1992 through March 1995. The data for the first thirty months in the historical period are not comparable with the data for the other **six** months or with the data that will be generated by the actual performance of the units during the Winter 1995 period. **[*14]** Therefore, we are changing the October 1995 through March 1996 heat rate targets for the Daniel units to avoid a similar situation in the August 1996 fuel adjustment hearing. We approve removing Gulf Power Company's Plant Daniel heat rates from the GPIF for the winter 1995 period. (See Staff Attachment 1, Page 2 of 2.)

TECO: See Staff Attachment 1, Page 2 of 2.

Company-Specific GPIF Issues

Gulf Power Company

The parties have stipulated that Gulf Power Company's October 1994 through March 1995 GPIF amount will be adjusted to exclude Plant Daniel Unit 1 and Unit **2.** For the months in the winter 1994 period, Gulf Power Company changed the fuel supply for Plant Daniel Units 1 and 2. The newer fuel type was of a lower BTU content and a higher moisture content than the fuel previously burned. The historical data used for establishing the forecasted heat rate was not comparable to the data generated by the performance of the Daniel units during the winter 1994 period. **As** a result, the actual heat rates are higher than those forecasted. When a change in fuel supply occurs, the utility should adjust or eliminate the heat rate from the GPIF until there is enough historical **[*15]** data reflecting conditions comparable to the target period.

The company did not address the effects of the change in fuel supply until the true-up filing was filed in May 1995, well after the winter 1994 targets were set. Adjustment or elimination of targets should occur prior to the fuel adjustment proceeding in which the rewards or penalties are determined.

Based on the available data, we cannot determine which portion of the higher-thaw forecasted heat rates are caused by the change in the fuel supply and which portion is caused by the actual performance of the units. Consequently, we approve the stipulation and find that Gulf should be given neither **a** reward nor a penalty.

Generic Oil Backout Issues

The parties agreed to, and we approve as appropriate the following final oil backout true-up amount for the October, 1994 through March, 1995 period:

FPL: Zero.

TECO: $222,410 overrecovery.

The parties agreed to, and we approve as appropriate the following estimated oil backout true-up amount for the period April, 1995 through September, 1995:

FPL: Zero.

TECO: $686,843 overrecovery.

The parties agreed to, and we approve as appropriate the following total oil backout **[*16]** true-up amount to be collected during the period October, 1995 through March, 1996:

FPL: Zero.

TECO: $909,253 overrecovery. Pursuant to Order No. PSC-95-0580-FOF-EI issued in Docket No. 950379-EI on May 10, 1995, this amount will be collected during the period October 1, 1995 through December 31, 1995.

Further, the parties agreed to, and we approve as appropriate the following oil backout cost recovery factor for the period October, 1995 through March, 1996:

FPL: Zero.

TECO: .058 cents per kwh. Pursuant to Order No. PSC-95-0580-FOF-EI issued in Docket No. 950379-EI on May 10, 1995, this amount will be collected during the period October 1, 1995 through December 31, **1995.**

Company Specific Oil Backout Issues

Florida Power & Light Company

We approve the parties stipulation that FPL's Oil Backout Clause will be eliminated in accordance with the following methodology:

> Cost recovery through the oil-backout cost recovery clause, which is currently a rate of .012 cents per kwh, will cease with the final billing cycle in September 1995.
>
> Any remaining true-up dollars related to oil-backout costs through September **1995** will be recovered or refunded as a one time **[*17]** line item adjustment to fuel costs through the fuel and purchased power cost recovery clause during the period April 1, 1996 through September 30, 1996.
>
> Concurrent with ceasing recovery through the oil-backout cost recovery clause, the non-fuel energy charge for all base rates will be increased by .009 cents per kwh beginning with the first billing cycle in October 1995.
>
> Beginning October 1995, for earning surveillance purposes, the oil-backout investment and expenses will be included as a part of regular operations in the rate base and the income statement.

Generic Capacity Cost Recovery Issues

The parties agreed that the following final capacity cost recovery true-up amounts are appropriate for the period October, 1994 through March, 1995, which we approve:

FPC: $ 4,061,575 underrecovery.

FPL: $4,856,873 overrecovery.

GULF: $ 35,386 underrecovery.

TECO: $667,853 underrecovery.

We approve the following estimated capacity cost recovery true-up amount for the period **April,** 1995 through September, 1995:

FPC: $ 3,449,626 overrecovery.

FPL: $ 7,472,759 underrecovery.

GULF: $ 190,165 overrecovery.

TECO: $622,234 overrecovery.

We also approve [***18**] the following total capacity cost recovery true-up amount to be collected during the period October, 1995 through March, 1996:

FPC: $ 611,949 underrecovery.

FPL: $2,615,886 underrecovery.

GULF: $ 154,779 overrecovery. To be collected during the period October 1995 through September 1996.

TECO: $ 45,619 underrecovery.

We approve the following projected net purchased power capacity cost recovery amount to be included in the recovery factor for the period October, 1995 through March, 1996:

FPC: $ 122,003,909.

FPL: $ 218,222,960.

GULF: $ 11,805,117 for the period October, 1995 through September 1996.

TECO: $ 11,347,579.

Finally, we approve the projected capacity cost recovery factors for the period October, 1995 through March, 1996:

FPC:

Rate Class	Cents per kwh
RS	1.073
GS-Trans.	.a34
GS-Pri.	.843
GS-Sec.	.851
GS-100% L.F.	.587
GSD-Trans.	,699
GSD-Pri.	.706
GSD-Sec.	.713
CS-Trans.	.585
CS-Pri.	.591
CS-Sec.	.597
IS-Trans.	.586
IS-Pri.	,592
IS-Sec.	.598
Lighting	.214

FPL:

RATE CLASS	CAPACITY RECOVERY FACTOR ($ /KW)	CAPACITY RECOVERY FACTOR ($ /KWH)
RS1	-	0.00694
GS1	-	0.00680
GSD1	2.54	-
052	-	0.00473
GSLD1/CS1	2.58	-
GSLD2/CS2	2.59	-
GSLD3/CS3	2.48	-
CILCD/CILCG	2.58	-
CILCT	2.48	-
MET	2.68	-
OL1/SL1	-	0.00192
SL2	-	0.00458

[*19]

Rate Class	Capacity Recovery Factor (Reservation Demand) Charge) ($ /KW)	Capacity Recovery Factor (Sum Of Daily Demand Charge)($ /KW)
ISST1D	.33	.15
SST1T	.31	.15
SST1D	.32	.15

GULF:

Rate Schedule	Recovery Factor (cents per kwh)
RS,RST	.168
GS,GST	.165
GSD,GSDT	.128
LP,LPT, SBS	.111
PX,PXT,RTP, SBS	.089
OS-I,OS-II	.011
OS-III	.100
OS-IV	.011

TECO: The appropriate factors are as follows:

Rate Schedules	Factor
RS	.229 cents per kwh
GS, TS	.211 cents per kwh
GSD	.159 cents per kwh
GSLD, SBF	.145 cents per kwh
IS-1 & 3, SBI-I & 3	.013 cents per kwh
SL, OL	.035 cents per kwh

Company Specific Capacity Cost Recovery Issues

Florida Power Corporation

We approve Florida Power Corporation's request to recover the Termination Payments associated with its settlement agreement with Auburndale Power Partners, Limited Partnership.

Gulf Power Company

We find it reasonable and appropriate for Gulf Power Company to change the cycle for setting the purchased power capacity cost recovery factors from two sets of six-month factors (October-March; April-September) to one set of twelve-month factors (October-September).

The nature of [*20] Gulf's purchased power capacity costs recovered through the capacity cost recovery factors, in conjunction with Gulfs seasonal differences in energy (kwh) sales, is such that the current six-month recovery cycle causes a major difference in the recovery factors between the April-September and the October-March recovery periods. Gulfs capacity costs and Kwh sales do not vary as widely from year to year as they do from one of the current six-month recovery periods to the next. By changing the recovery cycle to one set of twelve-month factors established on an annual basis, Gulfs customers will benefit because the resulting factors will be levelized over the year.

Generic Aerial Coal Inventory Issue

We approve the parties' agreement to permanently change the frequency of aerial coal inventory surveys from quarterly to semi-annually. In Order Number PSC-93-0443-FOF-EI, we approved a change in the frequency of aerial coal inventory surveys from quarterly to semi-annually for a two year test period. We directed our staff to review the impact of less frequent surveys on inventory adjustments upon completion of this test period. Staffs analysis showed that performing aerial [*21] coal inventory surveys semi-annually as opposed to quarterly has had no significant impact on the coal inventory adjustments booked; therefore, we approve a permanent change in the frequency of aerial coal inventory surveys to semi-annually. In addition, each utility will provide aerial survey data to our Division of Electric and Gas upon performance of an aerial survey, whether or not the survey results in an adjustment to booked inventory. This will enable our staff to continue to monitor future coal inventory adjustments.

In consideration of the above, it is

ORDERED by the Florida Public Service Commission that the findings and stipulations set forth in the body of this Order are hereby approved. It is further

ORDERED that investor-owned electric utilities subject to our jurisdiction are hereby authorized to apply the fuel cost recovery factors set forth herein during the period of October, 1995 through March, 1996, and until such factors are modified by subsequent Order. It is further

ORDERED that the estimated true-up amounts contained in the above fuel cost recovery factors are hereby authorized subject to final true-up, and further subject to proof of the reasonableness [*22] and prudence of the expenditures upon which the amounts are based. It is further

ORDERED that the Generating Performance Incentive Factor rewards and penalty stated in the body of this Order shall be applied to the projected levelized fuel adjustment factors for the period of October, 1995 through March, 1996. It is further

ORDERED that the targets and ranges for the Generating Performance Incentive Factors set forth herein are hereby adopted for the period of October, 1995 through March, 1996. It is further

ORDERED that the estimated true-up amounts included in the above Oil Backut Cost Recovery Factors are hereby authorized subject to final true-up, and further suhiect to proof of the reasonableness and prudence of the expenditures upon which the amounts are based. It is further

ORDERED that the investor-owned electric utilities, except for Gulf Power Company, are hereby authorized to apply the capacity cost recovery factors set forth herein during the period of October, 1995 through March, 1996 and until such factors are modified by subsequent Order. Gulf Power Company is authorized to **apply** its capacity cost recovery factors during the period October 1995 through September [*23] 1996. It is further

ORDERED that the estimated true-up amounts contained in the above capacity cost recovery factors are hereby authorized subject to final true-up, and further subject to proof of the reasonableness and prudence of the expenditures upon which the amounts are based.

By ORDER of the Florida Public Service Commission, this 5th day of September, 1995. September. 1995.

Staff Attachment 3

GPIF REWARDS/PENALTIES
October 1994 **to** March 1995

Florida Power Corporation $ 183,528 Reward
Florida Power and Light Company $ 3,090,162 Reward
Gulf Power Company $ 0
Tampa Electric Company $ 471,209
Penalty

Utility Plant/Unit	EAF Target	EAF Adj. Actual	Heat Rate Target	Heat Rate Adj. Actual
FPC				

GPIF REWARDS/PENALTIES
October 1994 to March 1995

Florida Power Corporation $ 183,528 Reward
Florida Power and Light Company $ 3,090,162 Reward
Gulf Power Company $ 0
Tampa Electric Company $ 471,209
Penalty

Utility Plant/Unit	EAF Target	EAF Adj.	EAF Actual	Heat Rate Target	Heat Rate Adj.	Heat Rate Actual
FPC	Target	Adj.	Actual	Target	Adj.	Actual
Anclote 1	90.8		89.6	9,905		10,023
Anclote 2	96.7		99.4	9,805		10,053
Crystal River 1	73.9		78.5	10,177		10,218
Crystal River 2	70.4		58.1	9,975		9,811
Crystal River 3	92.8		99.0	10,400		10,364
Crystal River 4	94.2		97.6	9,289		9,327
Crystal River 5	72.8		75.8	9,247		9,253
FPL	Target	Adj.	Actual	Target	Adj.	Actual
Cape Canaveral 1	92.4		91.3	9,291		9,111
Cape Canaveral 2	89.9		91.2	9,338		9,473
Fort Lauderdale 4	92.6		97.2	7,225		7,225
Fort Lauderdale 5	92.7		98.4	7,198		7,166
Fort Myers 2	93.3		95.7	9,294		9,466
Manatee 2	95.7		97.2	9,758		10,029
Port Everglades 3	94.5		94.7	9,307		9,308
Putnam 1	94.2		95.5	8,670		8,765
Riviera 3	90.9		96.3	9,713		9,466
Riviera 4	82.8		82.4	9,672		9,665
Sanford 4	94.6		98.5	9,755		9,821
Sanford 5	94.1		93.2	9,692		9,478
Scherer 4	84.3		84.0	9,833		9,814
St. **Johns** River 1	76.8		78.8	9,336		9,510
St. Johns River 2	95.1		96.3	9,375		9,420
St. Lucie 1	60.6		59.7	10,854		10,810
St. Lucie 2	91.6		97.2	10,763		10,869
Turkey Point 3	93.6		97.3	10,865		10,882
Turkey Point 4	60.6		60.3	11,002		10,862
Gulf	Target	Adj.	Actual	Target	Adj.	Actual
Crist 6	83.6		87.6	10,410		10,341
Crist 7	69.2		88.1	10,317		10,110
Smith 1	87.7		90.7	10,137		10,228
Smith 2	84.8		86.9	10,237		10,303
Daniel 1	85.4		86.0	10,287		10,557
Daniel 2	94.8		88.2	9,923		10,130
TECO	Target	Adj.	Actual	Target	Adj.	Actual.
Big Bend 1	85.4		91.8	9,957		9,935
Big Bend 2	62.3		58.4	9,895		9,932
Big Bend 3	69.4		70.6	9,610		9,926
Big Bend 4	89.4		87.6	9,832		10,092
Gannon 5	88.1		94.2	10,454		10,524
Gannon 6	75.9		81.2	10,288		10,662

[*24]

GPIF TARGETS
October 1995 to March 1996

Utility/ Plant/Unit	Equivalent Availability Company EAF	POF	EUOF	Staff	Heat Rate Company	Staff
FPC	EAF	POF	EUOF			
Anclote 1	98.7	1.1	0.2	Agree	9,679	Agree
Anclote 2	81.1	18.6	0.4	Agree	9,703	Agree
Crystal River 1	85.9	2.7	11.4	Agree	10,124	Agree
Crystal River 2	60.3	24.6	15.1	Agree	9,767	Agree
Crystal River 3	79.8	17.5	2.7	Agree	10,382	Agree
Crystal River 4	94.0	0.0	6.0	Agree	9,329	Agree
Crystal River 5	94.5	0.0	5.5	Agree	9,160	Agree
FPL	EAF	POF	EUOF			
Cape Canaveral 1	91.1	0.0	8.9	Agree	9,330	Agree
Cape Canaveral 2	90.8	0.0	9.2	Agree	9,436	Agree
Fort Lauderdale 4	87.7	8.7	3.6	Agree	7,288	Agree
Fort Lauderdale 5	87.7	8.7	3.6	Agree	7,248	Agree
Fort Myers 2	94.1	0.0	5.9	Agree	9,308	Agree
Port Everglades 3	83.1	8.7	8.2	Agree	9,133	Agree
Port Everglades 4	96.0	0.0	4.0	Agree	9,132	Agree
Putnam 1	96.0	0.0	4.0	Agree	8,777	Agree
Putnam 2	95.3	0.0	4.7	Agree	8,596	Agree
Scherer 4	96.0	0.0	4.0	Agree	9,939	Agree
St. Johns River 1	96.0	0.0	4.0	Agree	9,335	Agree
St. Lucie 1	89.6	3.3	7.1	Agree	10,828	Agree
St. Lucie 2	58.8	29.0	12.2	Agree	10,856	Agree
Turkey Point 1	82.9	13.7	3.4	Agree	9,279	Agree
Turkey Point 2	95.2	0.0	4.8	Agree	9,524	Agree
Turkey Point 3	79.8	14.8	5.4	Agree	10,874	Agree
Turkey Point 4	76.8	16.9	6.3	Agree	10,912	Agree
Gulf	EAF	POF	EUOF			
Crist 6	88.9	4.4	6.7	Agree	10,892	Agree
Crist 7	44.3	44.3	11.5	Agree	10,898	Agree
Smith 1	95.9	0.6	3.5	Agree	10,144	Agree
Smith 2	84.7	13.7	1.7	Agree	10,166	Agree
Daniel 1	47.4	42.6	10.0	Agree	n/a	Agree
Daniel 2	80.3	14.2	5.5	Agree	n/a	Agree
TECO	EAF	POF	EUOF			
Big Bend 1	85.4	0.0	14.6	Agree	9,931	Agree
Big Bend 2	67.9	21.3	10.8	Agree	9,837	Agree
Big Bend 3	87.4	0.0	12.6	Agree	9,596	Agree
Big Bend 4	82.9	8.7	8.4	Agree	9,989	Agree
Gannon 5	63.6	28.4	8.0	Agree	10,178	Agree
Gannon 6	81.9	3.8	14.3	Agree	10,348	Agree

[*25]

ATTACHMENT 2

RESIDENTIAL FUEL FACTORS FOR THE PERIOD: October 1995 - March 1996

	Fla. Power Corp.	Fla. Power Electric	Tampa Power	Gulf	Florida Public Utilities (2)
& Light				Mari-anna	Fernan-dina

RESIDENTIAL FUEL FACTORS FOR THE PERIOD: October 1995 - March 1996

	Fla. Power & Light	Fla. Power Corp.	Tampa Electric	Gulf Power	Florida Public Utilities (2) Mari-anna	Fernan-dina
Present (cents per kwh): April - September 1995	1.747	1.894	2.401	2.343	5.151	5.036
Proposed (cents per kwh): October 1995 - March 1996	1.773	1.786	2.380	2.237	4.875	5.228
Increase/ Decrease:	0.026	-0.108	-0.021	-0.106	-0.276	0.192

TOTAL COST FOR 1,000 KILLOWATT HOURS - RESIDENTIAL SERVICE

PRESENT:April-September 1995	Fla. Power & Light	Fla. Powr Corp.	Tampa Electric	Gulf Power	Florida Public Utilities (2) Marianna	Fernandina
Base Rate	47.38	49.05	51.92	43.25	20.43	19.20
Fuel	17.47	18.94	24.01	23.43	51.51	50.36
Oil Backout	0.12	N/A	0.81	N/A	N/A	N/A
Energy Conseration	2.51	335	1.53b0.26	0.18	0.12	
Environmental Cost Recovery	0.20	N/A	N/A	1.36	N/A	N/A
Capacity Recovery	4.15	9.18	1.87	0.70	NA	NA
Gross Receipts	0.74	2.06	2.05	0.71	1.85	0.71
Total	$ 72.47	$ 82.58	$ 82.19	$ 69.71	$ 73.97	$ 70.39

PROPOSED: October 1995-Power March 1996	Fla. Power & Light	Fla. Tampa Corp.	Gulf Electric	Power	Florida Public Utilities (2) Marianna	Fernandina
Base Rate	47.47(3)	49.05	51.92	43.25	20.43	19.20
Fuel	17.73	17.86	23.80	22.37	48.75	52.28
Oil Backout	N/A(3)	N/A	0.58(4)	N/A	N/A	N/A.
Energy Conservation	2.51	3.35	1.53	0.26	0.18	0.12
Environmental Cost Recovery	0.23	N/A	N/A	1.53	N/A	N/A
Capacity Recovery	6.94	10.73	2.29	1.68	N/A	N/A
Gross Receipts Tax (1)	0.77	2.08	2.05	0.71	1.78	0.73
Total	$ 75.65	$ 83.07	$ 82.17	$ 69.80	$ 71.14	$ 72.33

Fla. Power Power | Fla. Tampa | Gulf | Florida Public Utilities (2)

PROPOSED

TOTAL COST FOR 1,000 KILLOWATT HOURS - RESIDENTIAL SERVICE

PRESENT:April-September	Fla. Power	Fla. Powr	Tampa	Gulf	Florida Public Utilities (2)	
1995	& Light	Corp.	Electric	Power	Marianna	Fernandina
INCREASE/(DECREASE)	& Light	Corp.	Electric	Power	Marianna	Fernandina
Base Rate	0.09	0.00	0.00	0.00	0.00	0.00
Fuel	0.26	-1.08	-.021	-1.06	-2.76	1.92
Oil Backout	-0.12	N/A	-0.23	N/A	N/A	N/A
Energy Conservation	0.00	0.00	0.00	0.00	0.00	0.00
Environmental Cost Recovery	0.13	N/A	N/A	0.17	N/A	N/A
Capacity Recovery	2.79	1.55	0.42	0.98	N/A	N/A
Gross Receipts Tax (1)	0.03	0.02	0.00	0.00	-0.07	0.02
Total	$ 3.18	$ 0.49	($ 0.02)	$ 0.09	($ 2.83)	$ 1.94

(1) Additional gross receipts tax is 1% for Gulf, FPL and FPUC - Fernandina Beach, FPC, TECO and FPUC-Marianna have removed all GRT from their rates, and thus entire 2.5% is shown separately. (2) Fuel costs include purchased power demand costs of 2.02 for Marianna and 1.616 cents/KWH for Fernandina allocated to the residential class.
(3) Effective 10/1/95, FPL Oil Backout was eliminated, and base rates were increased by .009 cents/kwh. (4) Effective 1/1/96 TECO oil backout will be eliminated.

[*26]

FUEL ADJUSTMENT FACTORS IN CENTS
PER KWH BASED ON LINE LOSSES
BY RATE GROUP
FOR THE PERIOD: October 1995-March 1996

COMPANY	GROUP	RATE SCHEDULES
FP&L	A	RS-1,RST-1,GST-1,GS-1,SL-2
	A-1	SL-1,OL-1
	B	GSD-1,GSDT-1,CILC-1 (G)
	C	GSLD-1,GSLDT-1,CS-1, CST-1
	D	GSLD-2,GSLDT-2, CS- 2, CST-2,OS-2, MET
	E	GSLD-3,GSLDT-3,CS-3,CST-3,CILC- (T), ISST-1(T)
	F	CILC-1(D),ISST-1(D)
FPC	A	Transmission Delivery
	B	Distribution Primary Delivery
	C	Distribution Secondary Delivery
	D	OL-1, SL-1
TECO	A	RS, GS,TS
	A-1	SL-2, OL-1,3
	B	GSD, GSLD, SBF
	C	IS-1,IS-3, SBI-1&3
GULF	A	RS, GS, GSD, OS-III, OS-IV, SBS(100 TO 500 kW)
	B	LP, SBS(Contract Demand of 500 to 7499kW)
	C	PX, SBS(Contract Demand above 7499 kW)

FUEL ADJUSTMENT FACTORS IN CENTS
PER KWH BASED ON LINE LOSSES
BY RATE GROUP
FOR THE PERIOD: October 1995-March 1996

COMPANY	GROUP	RATE SCHEDULES
	D	OS-1, OS-2
FPUC Fernandina	A	RS
	B	GS
	C	GSD
	D	OL, OL-2, SL-2, SL-3, CSL
	E	GSLD
Marianna	A	RS
	B	GS
	C	GSD
	D	GLSD
	E	OL, OL-2
	F	SL-1, SL-2

BEFORE LINE LOSSES

COMPANY	Standard	TOU On/Peak	TOU Off/Peak	LINE LOSS MULT
FP&L	1.769	1.812	1.753	1.00197
	1.762	NA	NA	1.00197
	1.769	1.812	1.753	1.00196
	1.769	1.812	1.753	1.00171
	1.769	1.812	1.753	0.99678
	1.769	1.812	1.753	0.96190
	NA	1.812	1.753	0.99827
FPC	1.786	2.184	1.623	0.98000
	1.786	2.184	1.623	0.99000
	1.786	2.184	1.623	1.00000
	1.728	NA	NA	1.00000
TECO	2.365	2.580	2.282	1.00640
	2.365	NA	NA	N/A
	2.365	2.580	2.282	i.00120
	2.365	2.580	2.282	0.97210
GULF	2.210	2.287	2.182	1.01228
	2.210	2.287	2.182	0.98106
	2.210	2.287	2.182	0.96230
	2.205	NA	NA	1.01228
FPUC Fernandina	5.228	NA	NA	1.00000
	5.292	NA	NA	1.00000
	4.500	NA	NA	1.00000
	NA			
Marianna	4.814	NA	NA	1.01260

BEFORE LINE LOSSES

COMPANY	Standard	TOU On/Peak	TOU Off/Peak	LINE LOSS MULT
	4.674	NA	NA	0.99630
	4.160	NA	NA	0.99630
	4.184	NA	NA	0.99630
	2.901	NA	NA	1.01260
	2.889	NA	NA	0.98810

[*27]

FINAL FACTORS
ADJUSTED FOR LINE LOSSES

COMPANY	Standard	TOU On/Peak	TOU Off/Peak
FP&L	1.773	1.815	1.757
	1.766	NA	NA
	1.773	1.815	1.757
	1.772	1.815	1.756
	1.764	1.806	1.748
	1.702	1.743	1.687
	NA	1.809	1.750
FPC	1.750	2.140	1.591
	1.768	2.162	1.607
	1.786	2.184	1.623
	1.728	NA	NA
TECO	2.380	2.597	2.297
	2.342	NA	NA
	2.368	2.583	2.285
	2.299	2.508	2.218
GULF	2.237	2.315	2.209
	2.168	2.244	2.141
	2.127	2.201	2.100
	2.232	NA	NA
FPUC			
Fernandina	5.228	NA	NA
	5.292	NA	NA
	4.500	NA	NA
	4.123	NA	NA
	4.799		
	$ 6.18/CP KW		
Marianna	4.875	NA	NA
	4.657	NA	NA
	4.145	NA	NA
	4.169	NA	NA
	2.938	NA	NA
	2.854	NA	NA

PROPOSED CAPACITY COST RECOVERY FACTORS

For the Period: October 1995 - March 1996

COMPANY	RATE SCHEDULE	RECOVERY FACTOR (CENTS PER KWH)
FPL	RS1	0.694
	GS1	0.680

PROPOSED CAPACITY COST RECOVERY FACTORS

For the Period: October 1995 - March 1996

COMPANY	RATE SCHEDULE	RECOVERY FACTOR (CENTS PER KWH)	
	OL1/SL1	0.192	
	SL2	0.458	
	OS2	0.473	
		RECOVERY FACTOR (DOLLARS PER KW)	SDD
	GSD1	$ 2.54	
	GSLD1/CS1	$2.58	
	GSLD2/CS2	$ 2.59	
	GSLD3/CS3	$ 2.48	
	ISST1D = RDC/SDD	$ 0.33	$ 0.15
	SST1T = RDC/SDD	$ 0.31	$ 0.15
	SST1D = RDC/SDD	$ 0.32	$ 0.15
	CILCD,CILCG	$ 2.58	
	CILCT	$ 2.48	
	MET	$ 2.68	
		RECOVERY FACTOR (CENTS PER KWH)	
FPC	RS	1.073	
	GS -Transmission	0.834	
	GS - Primary	0.843	
	GS - Secondary	0.851	
	GS - 100% Load Factor	0.587	
	GSD-Transmission	0.699	
	GSD-Primary	0.706	
	GSD-Secondary	0.713	
	CS - Transmission	0.585	
	CS - Primary	0.591	
	CS - Secondary	0.597	
	IS-Transmission	0.586	
	IS-Primary	0.592	
	IS - Secondary	0.598	
	LS - Lighting Service	0.214	
TECO	RS	0.229	
	GS, TS	0.211	
	GSD	0.159	
	GSLD, SBF	0.145	
IS-1 & 3, SBI-1 & 3	0.013		
	SL/OL	0.035	
GULF	RS, RST	0,168	
	GS,GST	0.165	
	GSD,GSDT	0.128	
	LP,LPT,SBS	0.111	
	PX,PXT, RTP,SBS	0.089	
OS-1,OS-II	0.011		
	OS-III	0.100	
	OS-IV	0.011	

[*28]

FUEL & PURCHASED POWER COST RECOVERY CLAUSE CALCULATION

ESTIMATED FOP, THE PERIOD: October 1995 - March 1996

FLORIDA POWER & LIGHT COMPANY

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated Cents/KWH
1. Fuel Cost of System Net Generation (E3)	417,528,933	28,646, 867,000	1.45750
2. Spent NUC Fuel Disposal Cost (E2)	9,735,106	(a) 10,421, 491,000	0.09341
3. Fuel Related Transactions	9,545,708	0	0.00000
4. Natural Gas Pipeline Enhancements	0	0	0.00000
4a. Fuel *Cost* of Sales to FKEC	(7,864,873)	(404,485,000)	1.94442
5. TOTAL COST OF GENERATED POWER	428,944,874	28,242, 382,000	1.51880
6. Fuel Cost of Purchased Power - Firm (E8)	74,735,775	4,536,582,000	1.64740
7. Energy Cost of Sch. C,X Economy Purchases (Broker)(E9)	35,224,190	1,982,228,000	1.77700
8. Energy Cost of Economy Purchases (Non-Broker)(E9)	3,596,840	172,921,000	2.08005
9. Energy Cost of Sch. E. Purchases (E9)	0	0	0.00000
10. Capacity Cost of Sch. E Economy Purchases (E2)	0	0	0.00000
11. Payments to Qualifying Facilities (E8A)	45,648,557	2,620,366,000	1.74207
12. TOTAL COST OF PURCHASED POWER	159,205,362	9,312,097,000	1.70966
13. TOTAL AVAILABLE KWH		37.554.479.000 37,554, 479,000	
14. Fuel Cost of Economy Sales (E7)	(7,807,923)	(351,787,000)	2.21950
15. Gain on Economy Sales - 80% (E7A)	(1,394,650)	(a)(351,787, 000)	0.39645
16. Fuel Cost of Unit Power Sales (SL2 Partpts)(E7)	(1,166,445)	(258,199,000)	0.45176
17. Fuel,Cost of Other Power Sales (E7)	0	0	0.00000
18. TOTAL FUEL COST			

FUEL & PURCHASED POWER COST RECOVERY
CLAUSE CALCULATION

ESTIMATED FOR THE PERIOD: October 1995 - March 1996

FLORIDA POWER & LIGHT COMPANY

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated Cents/KWH
& GAINS OF POWERSALES	(10,369,018)	(609,986,000)	1.69988
19. Net Inadvertant Interchange (E4)	0	0	0.00000
20. TOTAL FUEL AND NET POWER TRANSACTIONS	577,781,218	36,944,493,000	1.56392
21. Net Unbilled (E4)	(a)(10,906,210	(697,365,000)	-0,03064
22. Company Use (E4)	(a)1,733,344	110,833,000	0.00487
23. T & D Losses (E4)	37,555,779(a)	2,401,392,000	0.10551
24. Adjusted System KWH Sales	577,781,218	35,594, 103,000	1.62325
25. Wholesale KWH Sales	2,392,361	147,382,000	1.62324
26. JURISDICTIONAL KWH SALES	575,388,857	35,466, 721,000	1.62325
27. Jurisdictional KWH Sales Adjusted for Line Loss - 1.0007	575,791,629	35,446, 721,000	1.62439
28. True-up * (derived in Attachment C)	38,399,209	35,446, 721,000	0.10833
29. TOTAL JURISDICTIONAL FUEL COST	614,190,838	35,446, 721,000	1.73270
30. Revenue Tax Factor			1.01609
31. Fuel Cost Adjusted for Taxes			1.76058
32. GPIF*	3.090.162	356.721.000	0.00872
33. Total fuel cost including GPIF	617,281,000	35,446, 721,000	1.76930
34. TOTAL FUEL COST FACTOR ROUNDED TO THE NEAREST .001 CENTS PER KWH:			1.769

*Based on Jurisdictional Sales
(a) included for informational purposes only.

[*29]
FLORIDA POWER CORPORATION

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated Cents/KWH
1. Fuel Cost of System Net Generation (E3)	159,890,455	10,617, 595,000	1.50590
2. Spent NUC Fuel Disposal Cost (E2)	2,548,589	(a) 2,725, 763,000	0.09350
3. Coal Car Investment	0	0	0.00000
4. Adjustments to Fuel Cost	337,518	0	0.00000
5. TOTAL COST OF GENERATED POWER	162,776,562	10,617, 595,000	1.53308
6. Energy Cost of Purchased Power - Firm (E7)	14,246,520	765,546,000	1.86096
7. Energy Cost of Sch. C,X Economy Purchases (Broker)(E9)	5,865,450	255,000,000	2.30018
8. Energy Cost of Economy Purchases (Non-Broker)(E9)	446,190	18,000,000	2.47883
9. Energy Cost of Sch. E. Purchases (E9)	0	0	0.00000
10. Capacity Cost of Sch. E Economy Purchases (E9)	0	0 (a)	0.00000
11. Payments to Qualifying Facilities (E8)	71,343,180	3,616,658,000	1.97263
12. TOTAL COST OF PURCHASED POWER	91,901,340	4,655,204,000	1.97416
13. TOTAL AVAILABLE KWH		15,272,799, 000	
14. Fuel Cost of Economy Sales (E6)	(4,027,850)	(240,000,000)	1.67827
14a. Gain on Economy Sales- 80% (E6)	(768,000)	(240,000, 000) (a)	0.32000
15. Fuel Cost of Other Power Sales (E6)	0	0	0.00000
15a. Gain on Other Power Sales (E6)	0	(a) 0	0.00000
16. Fuel Cost of Seminole Backup Sales (E6)	0	0	0.00000
16a. Gain on Seminole Back-Up Sales (E6)	0	(a) 0	0.00000
17. Fuel Cost of Seminole Supplemental Sales (E6)	(6,475,200)	(340,802,000)	1.89999
18. TOTAL FUEL COST			

FLORIDA POWER CORPORATION

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated Cents/KWH
AND GAINS OF POWER SALES	(11,271,050)	(580,802,000)	1.94060
19. Net Inadvertant Interchange	0	0	
20. TOTAL FUEL AND NET POWER TRANSACTIONS	243,406,852	14,691, 997,000	1.65673
21. Net Unbilled	((a)8,533,082)	515,065,000	-0.05973
22. Company Use	(a)1,565,582	(94,500,000)	0.01096
23. T & D Losses	(a)13,699,782	(826,932,000)	0.09590
24. Adjusted System KWH Sales	243,406,852	14,285, 630,000	1.70386
25. Wholesale KWH Sales(Excluding Seminole Supplemental)	(7,963,707)	(471,670,000)	1.68841
26. JURISDICTIONAL KWH SALES	235,443,145	13,813,960, 000	1.70439
27. Jurisdictional KWH Sales Adjusted for Line Loss - 1.0014	235,772,765	13,813,960, 000	1.70677
28. Prior Period True-Up * (El-B, sheet 1)	10,649,438 960,000	13,813,	0.07344
28a. Market Price True-up for 1994.	(503,961)	13,813,960, 000	-0.00365
29. TOTAL JURISDICTIONAL FUEL COST	245,918,242	13,813, 960,000	1,78022
30. Revenue Tax Factor			1.00083
31. Fuel Cost Adjusted for Taxes	246,122,355		1.78170
32. GPIF*	183,528	13,813, 960,000	0.00130
33. Total fuel cost including GPIF	246,305,883	13,813, 960,000	1.78300
34. TOTAL FUEL COST FACTOR ROUNDED TO THE NEAREST .001 CENTS PER KWH:			1.783

* Based on Jurisdictional Sales

FLORIDA POWER CORPORATION

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated Cents/KWH

(a) included for informational purposes only.

[*30]
TAMPA ELECTRIC COMPANY

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated Cents/KWH
1. Fuel Cost of System Net Generation (E3)	164,565,603	8,010,293,000	2.05443
2. Spent NUC Fuel Disposal Cost	0	0	0.00000
3. Coal Car Investment	0	0	0.00000
4. Adjustments to Fuel Cost	596,298	(a) 8,010,293,000	0.00744
5. TOTAL COST OF GENERATED POWER	165,161,901	8,010,293,000	2.06187
6. Fuel Cost of Purchased Power - Firm (E7)	1,784,000	30,971,000	5.76023
7. Energy Cost of Sch. C,X Economy Purchases (Broker)(E9)	70,700	2,439,000	2.89873
8. Energy Cost of Economy Purchases (Non-Broker)(E9)	0	0	0.00000
9. Energy Cost of Sch. E. Purchases (E9)	0	0	0.00000
10. Capacity Cost of Sch. E Economy Purchases (E2)	0	0(a)	0.00000
11. Payments to Qualifying Facilities (E8)	3,391,700	233,010,000	1.45560
12. TOTAL COST OF PURCHASED POWER	5,246,400	266,420,000	1.96922
13. TOTAL AVAILABLE KWH		8,276,713,000	
14. Fuel Cost of Economy Sales (E6)	13,954,300	928,923,000	1.50220
15. Gain on Economy Sales - 80% (E6)	2,257,520	(a)928,923,000	0.24303
16. Fuel Cost of Schedule D Sales (Jurisdictional)(E6)	474,100	32,195,000	1.47259
16a. Fuel Cost of Schedule D Sales - Separated (E6)	2,995,300	231,916,000	1.29155
16b. Fuel Cost Schedule D Sales TPS Separated (E6)	1,437,500	63,735,000	2.25543
16c. Fuel Cost Schedule J Sales Juris. (E6)	822,800	51,422,000	1.60009

TAMPA ELECTRIC COMPANY

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated Cents/KWH
18. TOTAL FUEL COST AND GAINS OF POWER SALES	21,941,520	1,308,191,000	1.67724
19. Net Inadvertant Interchange	0	0	
19b. Interchange and Wheeling Losses	0	22,805,000	
20. TOTAL FUEL AND NET POWER TRANSACTIONS	148,466,781	6,945,717,000	2.13753
21. Net Unbilled	(a)(3,428,192)	(160,381,000)	-0.05062
22. Company Use	(a)338,585	15,840,000	0.00500
23. T & D Losses	(a)6,792,322	317,765,000	0.10029
24. Adjusted System KWH Sales	148,466,781	6,772,493,000	2.19220
25. Wholesale KWH Sales	(816,380)	(37,607,000)	2.17082
26. JURISDICTIONAL KWH SALES	147,650,401	6,734,886,000	2.19232
27. Jurisdictional KWH Sales Adjusted for Line Loss - 1.00005	147,724,226	6,734,886,000	2.19342
28. True-up*	8,925,155	6,734,886,000	0.13252
29. Peabody Coal Contract Buyout Amort.	2,975,681	6,734,886,000	0.04418
30. TOTAL JURISDICTIONAL FUEL COST	159,625,062	6,734,886,000	2.37012
31. Revenue Tax Factor			1.00083
32. Fuel Cost Adjusted for Taxes	159,757,551		2.37209
33. GPIF* (Already adjusted for taxes)	(471,209)	6,734,886,000	-0.00700
34. Total Fuel Cost including GPIF	159,286,342	6,734,886,000	2.36509
35. TOTAL FUEL COST FACTOR ROUNDED TO THE NEAREST .001 CENTS PER KWH:			2.365

*Based on Jurisdictional Sales
(a) included for informational purposes only.

[*31]

GULF POWER COMPANY

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated Cents/KWH
1. Fuel Cost of System Net Generation (E3)	88,082,064	4,449,710,000	1.9795
2. Net Cost of Emission Allowances	0	0	0.0000
3. Adjustments toFuel cost	0	0	0.0000
4. TOTAL COST OF GENERATED POWER	88,082,064	4,449,710,000	1.9795
5. Fuel Cost of Purchased Power - Firm (E7)	0	0	0.0000
6. Energy Cost of Sch. C,X Economy Purchases (Broker)(E9)	9,801,000	530,330,000	1.8481
7. Energy Cost of Economy Purchases (Non-Broker)(E9)	0	0	0.0000
8. Energy Cost of Sch. E. Purchases (E9)	0	0	0.0000
9. Capacity Cost of Sch. E Economy Purchases (E2)	0	0(a)	0.0000
10. Payments to Qualifying Facilities (E8)	0	0	0.0000
11. TOTAL COST OF PURCHASED POWER	9,801,000	530,330,000	1.8481
12. TOTAL AVAILABLE KWH (line 4 + line 11)		4,980,040,000	
13. Fuel Cost of Economy Sales (E6)	(567,000)	(27,290,000)	2.0777
14. Gain on Economy Sales - 80% (E6)	(65,600)	(a)0	0.0000
15. Fuel Cost of Unit Power Sales (E6)	(10,290,000)	(561,760,000)	1.8317
16. Fuel Cost of Other Power Sales	(4,309,000)	(216,418,000)	1.9911
17. TOTAL FUEL COST AND GAINS OF POWER SALES	(15,231,600)	(805,468,000)	1.8910
18. Net Inadvertant Interchange	0		
19. TOTAL FUEL AND NET POWER TRANSACTIONS	82,651,464	4,174,572,000	1.9799
20. Net Unbilled	0	0	0.0000
21. Company Use	(a)200,128	10,108,000	1.9799
22. T & D Losses	(a)4,474,356	225,989,000	1.9799
23. Adjusted System KWH Sales	82,651,464	3,938,475,000	2.0986
24. Wholesale KWH Sales	3,070,818	146,327,000	2.0986

GULF POWER COMPANY

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated Cents/KWH
25. JURISDICTIONAL KWH SALES	79,580,646	3,792,148,000	2.0986
26. Jurisdictional KWH Sales Adjusted for Line Loss - 1.00140	79,692,058	3,792,148,000	2.1015
27. True-up*	2,613,019	3,792,148,000	0.0689
28. Total Jurisdictional Fuel Cost	82,305,077	3,792,148,000	2.1704
29. Revenue Tax Factor		1.01609	
30. Fuel Cost Adjusted for Taxes			2.2053
31. Special Contract Recovery Cost	175,432	3,792,148,000	0.0046
32. GPIF* 0	3,792,148,000	0.0000	
33. Total Fuel Cost including GPIF	82,305,077	3,792,148,000	2.2099
34. TOTAL FUEL COST FACTOR ROUNDED TO THE NEAREST .001 CENTS PER KWH:			2.210

*Based on Jurisdictional Sales
(a) included for informational purposes only.
[*32]
FLORIDA PUBLIC UTILITIES--MARIANNA

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated cents/KWH
1.Fuel Cost of System Net Generation(E3)	0	0	0.00000
2.Spent NUC Fuel Disposal Cost (E2)	0	0	0.00000
3.Coal Car Investment	0	0	0.00000
4.Adjustments to Fuel Cost	0	0	0.00000
5.TOTAL COST OF GENERATED POWER	0	0	0.00000
6.Fuel Cost of Purchased Power - Firm (E7)	2,615,028	127,829,000	2.04572
7.Energy Cost of Sch.C,X Economy Purchases (Broker)(E9)	0	0	0.00000
8.Energy Cost of Economy Purchases (Non-Broker)(E9)	0	0	0.00000
9.Energy Cost of Sch.E Purchases (E9)	0	0	0.00000

FLORIDA PUBLIC UTILITIES--MARIANNA

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated cents/KWH
10.Demand & Non Fuel	2,925,509	(a) 127,829, 000	2.28826
Cost of Purchased Power (E2)			
10a.Demand Costs of Purchased Power	(a) 2,041,015		
10b.Non-Fuel Energy & Customer Costs of Purchased Power	(a) 884,044		
11.Energy Payments to	0	0	0.00 000
Qualifying Facilities (E8A)			
12.TOTAL COST OF PURCHASED POWER	5,540,087	127,829,000	4.33398
13.TOTAL AVAILABLE KWH	5,540,087	127,829,000	4.33398
14.Fuel Cost of Economy Sales (E6)	0	0	0.00000
15.Gain on Economy Sales - 80% (E6)	0	0	0.00000
16.Fuel Cost of Unit Power Sales (E6)	0	0	0.00000
17.Fuel Cost of Other Power Sales	0	0	0.00000
18.TOTAL FUEL COST AND GAINS OF POWER SALES	0	0	0.00000
19.Net Inadvertent Interchange	0	0	0.00000
20.TOTAL FUEL AND NETPOWER TRANSACTIONS	5,540,087	127,829,000	4.33398
21.Net Unbilled	(a)(21,973)	(507,000)	-0.01785
22.Company Use	(a) 5,417	125,000	0.00440
23.T & D Losses	(a) 221,596	5,113,000	0.18002
24.ADJUSTED	5,540,087	123,098,000	4,5055
24. ADJUSTED SYSTEM KWH SALES	(a) 5,540,087	123,098,000	4.5055
25.Less Total Demand Cost Recovery	2,041,015		
26.JURISDICTIONAL KWH SALES	3,499,072	123,098,000	2.84251
27.Jurisdictional KWH Sales Adjusted for Line Loss - 1.00	3,499,072	123,098,000	2.84251
28.True-up*	(31,424)	123,098,000	-0.02553
29.TOTAL JURISDICTIONAL	3,467,648	123,098,000	2.81698

FLORIDA PUBLIC UTILITIES--MARIANNA

CLASSIFICATION	classification Associated $	classification Associated KWH	Classification Associated cents/KWH
FUEL COST			
30.Revenue Tax Factor			1.00083
31.Fuel Cost Adjusted for Taxes	3,499,562	0	2.81932
32.GPIF*	0	123,098,000	0.00000
33.Total Fuel Cost	3,467,648	123,098,000	2.81932
34.TOTAL FUEL COST FACTOR ROUNDED TO THE NEAREST .001 CENTS PER KWH:			2.819

* Based on Jurisdictional Sales
(a) included for informational purposes only.
[*33]
FLORIDA PUBLIC UTILITIES-FERNANDINA BEACH

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated cents/KWH
1.Fuel Cost of System Net Generation (E3)	0	0	0.00000
2.Spent NUC Fuel Disposal Cost (E2)	0	0	0.00000
3.Coal Car Investment	0	0	0.00000
4.Adjustments to Fuel Cost	0	0	0.00000
5.TOTAL COST OF GENERATED POWER	0	0	0.00000
6.Fuel Cost of Purchased Power - Firm (E7)	2,700,752	146,382,000	1.84500
7.Energy Cost of Sch.C,X Economy Purchases (Broker)(E9)	0	0	0.00000
8.Energy Cost of Economy Purchases (Non-Broker)(E9)	0	0	0.00000
9.Energy Cost of Sch.E Purchases (E9)	0	0	0.00000
10.Demand & Non Fuel Cost of Purchased Power (E2)	4,845,339	146,382,000	3.31006
10a.Demand Costs of Purchased Power	(a) 2,436,000		
10b.Non-Fuel Energy and Customer Costs of Purchased Power (E2)	(a} 2,409,339		
11.Energy Payments to Qualifying	0	0	0.00000

FLORIDA PUBLIC UTILITIES-FERNANDINA BEACH

CLASSIFICATION Facilities (E8A)	Classification Associated $	Classification Associated KWH	Classification Associated cents/KWH
12.TOTAL COST OF PURCHASED POWER	7,546,091	146,382,000	5.15507
13.TOTAL AVAILABLE KWH	7,546,091	146,382,000	5.15507
14.Fuelost of Economy Sales (E6)	0	0	0.00000
15.Gain on Economy Sales - 80% (E6)	0	0	0.00000
16.Fuel Cost of Unit Power Sales (E6)	0	0	0.00000
17.Fuel Cost of Other Power Sales	0	0	0.00000
18.TOTAL FUEL COST AND GAINS OF POWER SALES	0	0	0100000
19.Net Inadvertent Interchange			
20.TOTAL FUEL AND NET POWER TRANSACTIONS	7,546,091	146,382,000	5.15507
21.Net Unbilled	(a)(284,560)	(5,520,000)	-0.19907
22.Company Use	(a) 9,021	175,000	0.00631
23.T & D Losses	(a) 452,770	8,783,000	0.31675
24.Adjusted System KWH Sales	7,546,091	142,944,000	5.27905
25.Wholesale KWH Sales	0	0	0.00000
26.JURISDICTIONAL KWH SALES	7,546,091	142,944,000	5.27905
27.Jurisdictional KWH Sales Adjusted for Line Loss - 1.00	7,546,091	142,944,000	5.27905
27a.GSLD KWH Sales	36,000,000		
27b.Other Classes KWH Sales		106,944,000	
27c.GSLD CP KW		(a) 162,000	
28.GPIF			
29.True-up*	(13,938)	142,944,000	-0.00975
30.TOTAL JURISDICTIONAL FUEL COST	7,532,153	142,944,000	5.26930
30a.Demand Purchased Power Costs (line 10a)	(a) 2,436,000		
30b.Non-Demand Purchase	(a) 5,110,091		

FLORIDA PUBLIC UTILITIES-FERNANDINA BEACH

CLASSIFICATION	Classification Associated $	Classification Associated KWH	Classification Associated cents/KWH
Power Costs (lines 6t 10b+11)			
30c.True-up Over/Under Recovery (line 29)	(13,938)(a)		
APPORTIONTMENT OF DEMAND COSTS			
31.Total Demand Costs	2,436,000		
32.GSLD Portion of Demand Costs Including line losses line 27c $ 6.18)	1,101,160	162,000 kw	$ 6.18
33.Balance to Other Classes	1,434,840	106,944,000	1.34167
APPORTIONMENT OF NON-DEMAND COSTS			
34.Total Non-Demand Costs (line 30b)	5,110,091		
35.Total KWH Purchased (line 12)		146,382,000	
36.Average Cost per KWH Purchased			3.49093
37.Avg. Cost Adjusted for Transmission line losses (line 36* 1.03)			3.59566
38.GSLD Non-Demand Costs (line 27a * line 37)	1,294,337	36,000,000	3.59538
39.Balance to Other Customers	3,815,754	106,944,000	3.56799
GSLD PURCHASED POWER COST RECOVERY FACTORS			
40a.Total GSLD Demand Costs (Line 32)	1,001,160	162,000 kw	$ 6.18
40b.Revenue Tax Factor			1.01609
40c. GSLD Demand Purchased Power factor adjusted for taxes and rounded:			$ 6.28
40d.Total Current GSLD Non-Demand Costs (line 38)	1,294,337	36,000,000	3.5938
40e.Total Non-Demand Costs including true-up	1,294,337	36,000,000	3,5938
40f.Revenue Tax Factor			1.01609
40g.GSLD Non-demand costs adjusted			3.653

FLORIDA PUBLIC UTILITIES-FERNANDINA BEACH

CLASSIFICATION for taxes	Classification Associated $	Classification Associated KWH	Classification Associated cents/KWH
OTHER CLASSES PURCHASED POWER COST RECOVERY FACTORS			
41a.Total Demand and Non-Demand Purchased Power Costs of other classes (lines 33+39)	5,250,594	106,944,000	4.90967
41b.Less: Total Demand Cost Recovery	(a) 1,434,840		
41c.Total Other Costs to be Recovered	(a) 3,5815,754	106,944,000	3.56799
41d.Other Classes' Portion of True-up (line 30 C)	(13,938)	106,944,000	-0.01303
41e.Total Demand and Non-Demand Costs including True-up	3,801,816	106,944,000	3.55496
42.Revenue tax factor			3.61216
43.OTHER CLASES PURCHASED POWER FACTOR ADJUSTED FOR TAXES ROUNDED TO THE NEAREST .001 CENTS PER KWH:			3.612

*Based on Jurisdictional Sales
(a) included for informational purposes only.
[*34]

In re: Petition for approval of Consumptive Water Use Monitoring Activity and Smith Wetlands Mitigation Plan as new programs for cost recovery through the Environmental Cost Recovery Clause by Gulf Power Company

DOCKET NO. 000808-EI; ORDER NO. PSC-00-2092-PAA-EI

Florida Public Service Commission

2000 Fla. PUC LEXIS 1417

01 FPSC 2:42

November 3,2000

PANEL: [*1] The following Commissioners participated in the disposition of this matter: J. TERRY DEASON, Chairman, E. LEON JACOBS, JR., LILA **A.** JABER, BRAULIO L. **BAEZ**

OPINION: NOTICE OF PROPOSED AGENCY ACTION ORDER GRANTING IN **PART AND** DENYING IN PART PETITION FOR COST RECOVERY UNDER THE ENVIRONMENTAL COST RECOVERY CLAUSE

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary **in** nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule *25-22.029, Florida **Administrative** Code.*

I. CASE BACKGROUND

On June 30,2000, Gulf Power Company (Gulf) petitioned this Commission for approval of the Company's Consumptive Water Use Monitoring Activity and Smith Unit 3 Wetlands Mitigation Plan as new programs for cost recovery through the Environmental Cost Recovery Clause (ECRC).

Section 366.8255, *Florida Statutes,* the ECRC, gives us the authority to review and decide whether **a** utility's environmental compliance costs are recoverable through the ECRC. Guidelines **[*2]** for environmental cost recovery through the ECRC have been established by order. Order No. PSC-94-1207-FOF-EI, issued October **3,** 1994, in Docket No. 940042-EI, states in part, ". . . a utility's petition for cost recovery must describe proposed activities and projected costs, not costs that have already been incurred." (emphasis in original, p. 5.) Thus, utilities are expected to petition the Commission for approval of new projects in advance of the project costs being incurred.

Furthermore, Order No. PSC-94-0044-FOF-EI, issued January 12, **1994** in Docket No. **930613**-EI, established three criteria for costs to be recovered through the ECRC. According to the Order, costs may be recovered through the ECRC if:

> (1) such costs were prudently incurred after April 13, 1993;
> (2) the activity is legally required to comply with a governmentally imposed environmental regulation enacted, became effective, **or** whose effect was triggered after the company's last test year upon which rates are based; and,
> (3) such costs are not recovered through some other cost recovery mechanism or through base rates. (p. 6-7)

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II. MONITORING OF CONSUMPTIVE WATER USE

Gulf is required to install [*3] and maintain in-line totaling water flow meters on all existing and future water supply wells at Gulf's Crist and Smith electric generating plants. This requirement is a part of the Consumptive Use and Individual Water Use permits issued by the Northwest Florida Water Management District (NWFWMD).

Rule *40A-2.381, Florida Administrative Code,* provides the specific basis for the NWFWMD's authority to impose a condition on any permit issued by the NWFWMD. Therefore, the Consumptive Water Use Monitoring Activity is legally required to comply with a governmentally imposed environmental regulation. Furthermore, Gulf has attested that there are no in-line totaling water flow meters currently installed on any of Gulfs existing water supply wells.

The relevant permits and the associated requirements for Plant Crist and Plant Smith were issued on November 30, 1999, and August 26, 1999: respectively. Gulfs Smith Plant meters must be installed by August 31,2000, and Gulfs Crist Plant meters must be installed by December 31,2000. The new requirement is also expected to be a condition of the permit renewal for Plant Scholz in 2005.

Gulfs most recent [*4] cost estimate for the Consumptive Use Monitoring Activity **is** $205,000 for calendar year 2000. Gulf does not expect to incur any maintenance expenses in the first five years after installation of the flow meters. After that period, additional O&M expenses, currently estimated at a 5-year cycle cost of $ 9,000, may be required for the flow meters to be re-calibrated. Costs related to the Plant Scholz flow meters, to **be** determined when the permit is renewed in 2005, are also expected to be incurred in this program. Gulf uses a combination of bidding and past experience to develop the cost estimates. The costs presented in the petition were projected costs rather than costs that had already been incurred.

Based on Gulfs representation of its actions taken to date, we find that Gulf has been prudent with respect to the proposed program. The NWFWMD set forth the specific compliance requirement for Gulf, and thus no alternative compliance approaches are relevant. We shall continue to monitor and evaluate the prudence matter through the ECRC true-up process, in Docket No. 000007-EI, as Gulfs actual costs and other relevant information become available. To insure that the most cost effective [*5] compliance action is taken, Gulf shall continue to monitor costs, trends, technology, and other relevant factors.

We find that Gulfs Consumptive Water Use Monitoring Activity Program qualifies for recovery through the ECRC based on the guidelines established in Order No. **PSC-94-**1207-FOF-EZ and Order No. PSC-94-0044-FOF-EI. The actual expenditures/expenses will be addressed in an up-coming true-up cycle and will be subject to audit. Issues that will determine the specific amount recoverable through the ECRC, such as whether specific costs were prudently incurred and whether they have already been recovered in other mechanisms, will be further examined and resolved in Docket No. 000007-EI. Gulf has not requested a change in the ECRC factors that have been approved **for 2000.** Based on the information provided, we find that there is no potential for a significant rate impact, Therefore, the review of Gulfs expenses should be addressed at the November 2000 ECRC hearing.

111. WETLAND MITIGATION PLAN

The Smith Unit 3 Wetlands Mitigation Plan (Smith Plan) is the second activity for which Gulf seeks recovery through the ECRC. This environmental requirement is associated with [*6] the planned construction of the new Smith Unit 3 in Bay County. We have not previously determined whether environmental costs associated with construction of new power plants should be recoverable through the ECRC.

The new Unit 3 will result in the unavoidable loss of wetlands that are regulated by the Florida Department of Environmental Protection (FDEP) and the United States Army Corps of Engineers **(USACE).** To offset the loss of wetlands, the FDEP and the USACE required that existing wetlands near the site be enhanced. Gulf is required to enhance 130 acres of wet pine plantation within a 232-acre parcel of land. The 130 acres will be preserved in perpetuity through a conservation easement or transferred to **a** resource agency. Various tree species will be planted and monitored for five years. Reporting requirements are also a part of the Smith Plan. This new program **will** be initiated after Gulfs last test year upon which its current base rates were established.

The Smith Plan is required by the final order issued in DOAH Case No. 99-2641EPP. This final order meets the definition of "environmental laws or regulations" in *Section 366.8255(1)(c), Florida Statutes.* [*7] We therefore find that the Smith Plan is legally required to comply with a governmentally-imposed environmental regulation.

In its petition, Gulf projected $ 1,270,000 in costs related to the Smith Plan for calendar year 2000. Gulfs most recent cost estimates for the Smith Plan are $ 360,000 for calendar year 2000 and a total of $ 870,000 through calendar year 2005. These expenditures include land purchase and site preparation ($ 360,000), tree planting ($ 340,000), and monitoring and reports to FDEP ($ 170,000). The reduced cost estimates are due to **a** combination of factors, including the timing of tree planting and the availability of trees that can achieve the same mitigation objective at a lower cost. These types of costs are normally recorded as part of the in-service costs of new power plants.

The difference between the Smith Plan and prior ECRC petitions is that the Smith Plan is associated with construction of a new power plant, not modifications of an existing power plant. Gulf acknowledges this fact, Gulf believes all environmental compliance costs associated with new power plant construction are appropriate for cost recovery through the ECRC.

Gulf argues that **[*8]** approval of the Smith Plan for recovery through the ECRC is consistent with the ECRC and subsequent Commission orders implementing the statute. Gulf points out that costs associated with new facilities meet the definition of "environmental compliance costs" in *Section 366.8255(1)(d), Florida Statutes.* That term is defined as "all costs or expenses incurred by **an** electric utility in complying with environmental laws or regulations." Furthermore, Gulf contends that its petition is consistent with the Commission's criteria for recovery in Order Nos. PSC-94-1207-FOF-EI and PSC-94-0044-FOF-EI implementing the ECRC (Those criteria were restated in Part II of this Order). Therefore, Gulf maintains that the Smith Plan should be approved regardless of whether it is associated with new power plant construction.

The ECRC is silent on whether environmental costs associated with new plants should be recoverable through the ECRC. The statute allows the Commission some discretion in deciding which prudently incurred environmental costs can be approved. Section 366.8255(2) states:

> An electric utility may submit to the commission a petition describing **[*9]** the utility's proposed environmental compliance activities and projected environmental compliance costs in addition to any Clean Air Act compliance activities and costs shown in **a** utility's filing under Section 366.825. **If** approved, the commission shall allow recovery of the utility's prudently incurred environmental compliance costs. (Emphasis added.)

The ECRC falls short of expressly requiring that all prudently incurred environmental costs be approved for recovery. Furthermore, *Section 366.01, Florida Statutes*, states that the provisions of Chapter ***366*** are to be liberally construed to protect the public welfare. Therefore, we find that whether the cost of the Smith Plan may be recovered through the ECRC is a matter of agency discretion and policy.

Of the various cost recovery clauses associated with the electric industry, only the ECRC and conservation clauses are embodied in statute. The other similar clauses - fuel and capacity - were created by Cornmission Order. We believe that it is informative to consider the rationale for creating the other clauses.

It appears the intent of the clauses is to address costs that may fluctuate or **[*10]** increase significantly and unpredictably from year to year. In such cases, the costs included in **a** test year would not adequately capture future costs. The fuel clause, which was the first to be created, is **a** good example. The docket that created the current version of clause, Docket No. 74680-CI, was opened in response to the dramatic rise in fuel costs in the mid-1970s. See Order No. 6357, issued November 26, 1974. At that time, the cost of fuel was a significant and volatile part of the utilities' expenses. The clause provided a method for ensuring that utilities could recover fluctuating costs **quickly.** See id.; Order No. 13452, issued in Docket No. 820001-EU-A, on June 22, 1984.

Construction of a new plant can not be characterized as an unpredictable event. It is a predictable event, as evidenced by inclusion of new plants in the utilities' ten-year site plans, submitted annually, and the requirement to solicit bids for construction of new plants in Rule *25-22.082, Florida Administrative Code*. Because the event of construction is predictable, the utility is able to anticipate when it will incur costs. Furthermore, **[*11]** much of the planning process is under the control of the utility, unlike costs of fuel or changing environmental regulations for existing plants which increase the costs upon which base rates are set. Thus, the rationale behind the clauses does not apply in the case ofplanned construction of a new power plant.

Approval of Gulfs petition would set a precedent for recovery, through the ECRC, of a class of expenses that is quite large. Because many of the components of a new plant must meet environmental requirements, a substantial percentage of the cost of a new plant could be recovered through the ECRC. For example, it could be argued that the cost of selective catalytic reduction could be recovered through the ECRC. Tampa Electric Company estimates the cost of the Gannon repowering will be over $ 600 million. Furthermore, some environmental requirements are inextricably bound with construction requirements, which makes it *very* difficult, if not impossible, to distinguish between environmental compliance costs and construction costs.

Finally, even if Gulf is not authorized to recover the cost of the Smith Plan through the ECRC, it can include the costs in its monthly earnings surveillance **[*12]** reports and, if prudent, recover the costs through base rates. This is the method that has always been used to recover costs associated with construction of new **power** plants.

For the reasons discussed above, we find that the cost of the Smith Plan is not recoverable through the ECRC.

Based on the foregoing, it is hereby

ORDERED by the Florida Public Service Commission that the Petition of Gulf Power Company for Approval of Cost Recovery for New Environmental Programs is granted for the costs associated with monitoring consumptive water use, as discussed in Part II of this Order. It is further

ORDERED that the Petition of Gulf Power Company for Approval of Cost Recovery for New Environmental Programs is denied for costs associated with the Smith Unit **3** wetland mitigation plan, as discussed in Part III of this Order. It is further

ORDERED that the provisions of this Order, issued as proposed agency action, shall become final and effective upon the issuance of a Consummating Order unless an appropriate petition, in the form provided **by** Rule ***28-106.201, Florida Administrative Code,*** is received by the Director, Division of Records and Reporting, **[*13]** 2540 Shumard Oak Boulevard, Tallahassee, Florida **32399-0850,** by the close of business on the date set forth in the "Notice of Further Proceedings" attached hereto. It is further

ORDERED that in the event this Order becomes final, this docket shall be closed.

By ORDER of the Florida Public Service Cornmission this 3rd day of November, 2000.

BLANCA **S. BAYO,** Director

Division of Records and Reporting

In re: Fuel and purchased power cost recovery clause and generating performance incentive factor.

DOCKET NO. 02000 1-EI; ORDER NO. **PSC-02-1761-FOF-EI**

Florida Public Service Commission

2002 Fla. PUC LEXIS 1120

02 FPSC 12:312

December 13,2002, Issued

DISPOSITION: [*1] ORDER APPROVING PROJECTED EXPENDITURES **AND** TRUE-UP AMOUNTS FOR FUEL **ADJUSTMENT** FACTORS; GPIF TARGETS, RANGES, **AND REWARDS; AND** PROJECTED EXPENDITURES **AND** TRUE-UP AMOUNTS FOR CAPACITY COST RECOVERY FACTORS

APPEARANCES: **JAMES A.** MCGEE, ESQUJRE, Florida Power Corporation, St. Petersburg, Florida On behalf of Florida Power Corporation (FPC).

JOHN T. BUTLER, ESQUIRE, Steel Hector & Davis LLP, Miami, Florida On behalf of Florida Power & Light Company (FPL).

RUSSELL BADDERS, ESQUIRE, Beggs & Lane, Pensacola, Florida On behalf of Gulf Power Company (GULF).

JAMES D. **BEASLEY,** ESQUIRE, Ausley & McMullen, Tallahassee, Florida On behalf of Tampa Electric Company (TECO).

VICKI GORDON KAUFMAN, ESQUIRE, McWhirter Reeves McGlothlin Davidson, Decker Kaufman & Arnold, P. A., Tallahassee, Florida On behalf of Florida Industrial Power Users Group (FIPUG).

ROBERT D. VANDIVER, ESQUIRE, Associate Public Counsel, Office of Public Counsel, c/o The Florida Legislature, Tallahassee, Florida On behalf of the Citizens of the State of Florida (OPC).

WM. COCHRAN KEATING, IV, ESQUIRE, Florida Public Service Commission, Tallahassee, Florida On behalf of the Cornmission Staff (Staff).

PANEL: The following Commissioners **[*2]** participated in the disposition of this matter: LILA **A.** JABER, Chairman; J. TERRY DEASON; BRAULIO L. **BAEZ;** MICHAEL **A.** PALECKI; RUDOLPH "RUDY" BRADLEY

OPINIONBY: BAYO

OPINION: BY THE COMMISSION:

As **part** of this Commission's continuing fuel and purchased power cost recovery and generating performance incentive factor proceedings, a hearing was held on November 20-21,2002, in this docket. The hearing addressed the issues set out in Order No. PSC-02-1591-PHO-EI, issued November 18,2002, in this docket (Prehearing Order), Several of the positions on these issues were stipulated by the parties and presented to us for **approval,** but some

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contested issues remained for our consideration, **As** set forth fully below, we approve each of the stipulated positions presented. Our rulings on the remaining contested issues are also discussed below.

We have jurisdiction over this subject matter pursuant to the provisions of Chapter ***366,*** Florida Statutes, including *Sections 366.04*, *366.05*, and *366.06, Florida Statutes.*

I. GENERIC FUEL COST RECOVERY ISSUES

A. Shareholder Incentive Benchmarks

The **[*3]** parties stipulated that the estimated benchmark levels for calendar year 2002 for gains on non-separated wholesale energy sales eligible for a shareholder incentive pursuant to Order No. PSC-00-1744-PAA-EI are as follows:

FPC:	$ 11,052,574
FPL:	$ 38,143,278
GULF:	$ 1,197,565
TECO:	$ 2,129,628

Based on the evidence in the record, we approve this stipulation as reasonable.

The parties also stipulated that the estimated benchmark levels for calendar year 2003 for gains on non-separated wholesale energy sales eligible for a shareholder incentive pursuant to Order No. PSC-00-1**744-PAA-EI** are **as** follows:

FPC:	$ 8,238,615
FPL:	$ 21,165,387
GULF:	$ 1,174,292
TECO:	$ 1,640,452

Based on the evidence in the record, we approve this stipulation as reasonable.

B. Ongoing Regulatory Treatment of Incremental Power Plant Security Costs

In response to an issue which asked whether the Commission should require recovery ***of*** incremental security costs, incurred in response to the terrorist acts of September 11, 2001, through base rates beginning January 1,2006, or the effective date of **a** final order from the utility's next base rate proceeding, whichever comes first, the **[*4]** parties stipulated to the following:

> The Commission should continue to monitor the nature and longevity of incremental security costs being recovered through a cost recovery clause to determine whether **and** to what extent such costs should be recovered through base rates. Security costs have traditionally been recovered through base rates, although in Order No. PSC-01-2516-FOF-EI, issued December 26,2001, the Commission authorized Florida Power & Light Company to recover incremental security costs due to recent national security concerns through the fuel adjustment clause.

We approve this stipulation as reasonable. We note, however, as set forth below, we have found that the treatment of FPL's and FPC's incremental security costs shall be reassessed at the conclusion of the term of the settlements approved in FPL's and FPC's most recent base rate proceedings, Docket Nos. 001**148-EI** and 000824-EI, respectively.

II. COMPANY-SPECIFIC FUEL COST RECOVERY ISSUES

A, Florida Power & Light Company

Incremental Hedging Program Expenses

The parties stipulated that FPL's actual and estimated expenditures of $ 3,278,147 for incremental 2002 and 2003 expenses associated with **[*5]** its hedging program are reasonable. Pursuant to Order No. PSC-02-1484-FOF-EI, issued October 30, 2002, in Docket No. 011605-EI, **the** Commission authorized each investor-owned electric utility to recover prudently-incurred incremental operation and maintenance expenses incurred for the purpose of initiating and/or maintaining a new or expanded non-speculative financial and/or physical hedging program designed to mitigate fuel and purchased power price volatility for its retail customers. The parties stipulated that FPL has incurred or expects to incur incremental expenses of $ 3,278,147 during 2002 and 2003 that meet these criteria. Accordingly, the parties Stipulated that, subject to audit and true-up, this Commission should authorize FPL to recover this amount through the fuel and purchased power cost recovery clause (or, fuel clause). We approve this stipulation as reasonable.

Regulatory Treatment of O&M Expense Associated with Inspection and Repair of Reactor Pressure Vessel Heads

As part of its projection filing made September 20,2002, FPL requested recovery of $ 32.6 million through the fuel and purchased power cost recovery clause for operation and maintenance expenses **[*6]** associated with the inspection and repair of the reactor pressure vessel heads at FPL's four nuclear units. To dispose of FPL's request, the parties stipulated to the following:

> FPL would recover the total cost of inspection and repair of the reactor pressure vessel heads at its four nuclear units in base rates by amortizing the cost over a five year period. This regulatory treatment would result in no change to FPL's existing base rates during the period of FPL's current rate stipulation. This amortization would begin in 2002 based on the current estimate of the total inspection and repair costs of $67.3 million for 2002 through 2004. FPL would adjust this estimate based on actual and updated cost estimates, with the amortization changing beginning in the month of the updated estimate. FPL would not accumulate **AFUDC** on the unamortized portion of the inspection and repair costs.

We approve this stipulation, which is set forth in detail in Attachment **A** to this Order and incorporated herein by reference, as reasonable.

Recovery of Incremental 2002 and 2003 Security Costs

As part of its projection filing made September 20, 2002, as amended November 4,2002, FPL requested **[*7]** recovery of $ 12.7 million through the fuel and purchased power cost recovery clause for incremental 2002 and 2003 security costs. FPL's witness Hartzog asserted that these costs were incurred to comply with directives set forth in Nuclear Regulatory Commission (NRC) Order No. EA-02-26, issued February 25,2002. Both OPC and FIPUG opposed FPL's request, based largely on a specific provision in the Settlement and Stipulation approved by this Commission in Order No. PSC-02-0501-AS-EI, issued April 11,2002, to resolve FPL's most recent base rate proceeding in Docket No. 001148. That provision states: "FPL will not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates." Through cross-examination of FPL's witness Dubin, FIPUG questioned the propriety of FPL's request to the extent that the incremental costs for which FPL sought recovery included new capital items which had traditionally and historically been recoverable through base rates. The record indicates that approximately $ 1.3 million of these costs would be classified as capital items under normal circumstances.

By Order No. PSC-01-2516-FOF-EI, **[*8]** issued December 26,2001, in Docket No. 010001-EI, we approved FPL's request to recover through the fuel clause incremental 2001 security costs stemming from the terrorist attacks of September 11,2001. In that Order, we found that such recovery was appropriate because there is a nexus between protection of nuclear generation facilities and the fuel cost savings that result from the continued operation of those facilities. In addition, we noted that this type of cost was a potentially volatile cost, making it appropriate for recovery through a cost recovery clause. Further, we stated that approving recovery of these incremental power plant security costs through the fuel clause would send an appropriate message to Florida's investor-owned electric utilities to encourage them to protect their generation assets in the extraordinary, emergency conditions that existed at the time. Recognizing that the costs were not clearly defined, we stated that we did not foreclose our ability to consider an alternative recovery mechanism for these costs at a later time.

We recognize that FPL's incremental 2002 and 2003 security costs, like its incremental 2001 security costs approved in Order No. **[*9]** PSC-01-2516-FOF-EI, arise out of the extraordinary circumstances of the terrorist attacks of September 11, 2001. The record indicates that FPL's incremental 2002 and 2003 security costs were incurred to comply with NRC Order No. EA-02-26, which established the type of protections that operators of nuclear generating facilities in the United States were required to implement at their plants. Prior to the events of September 11, 2001, and the issuance of our order approving fuel clause recovery for FPL's incremental 2001 security costs, security costs were traditionally and historically recoverable through base rates. However, because of the extraordinary nature of the costs in question and the unique circumstances under which they arose, we find that these costs do not clearly fall within the classification of "items which traditionally and historically would be recoverable through base rates." We believe that our order approving fuel clause recovery for FPL's incremental 2001 security costs, which did not make a distinction between capital items and expensed items, put the parties to the Settlement and Stipulation on notice that the

Commission viewed these costs as extraordinary. [*10] Accordingly, we approve recovery of FPL's incremental 2002 and 2003 security costs through a cost recovery clause. Because these costs are extraordinary, these costs shall be treated as current year expenses. Further, we require that these expenses be separately accounted to enhance our staffs ability to audit them.

Although FPL requested recovery of these costs through the fuel and purchased power cost recovery clause, witness Dubin agreed on cross-examination that recovery of these costs through the capacity cost recovery clause would cause these costs to be allocated among the rate classes on the same basis as those FPL security costs currently being recovered through base rates, i.e., allocated on a demand basis. To ensure a consistent allocation of all FPL security costs, witness Dubin stated that FPL would agree to recover its incremental 2002 and 2003 security costs through the capacity cost recovery clause. We believe this treatment is reasonable.

In conclusion, we approve recovery of FPL's incremental 2002 and 2003 security costs of approximately $ 12.7 million through the capacity cost recovery clause. Further, we find that these costs shall be treated as current year [*11] expenses. Finally, we find that the treatment of these costs shall be reassessed at the conclusion of the term of the Settlement and Stipulation approved in Order No. PSC-02-0501-AS-EI to determine whether these costs should continue to be recovered through a cost recovery clause or would more appropriately be recovered through base rates,

B. Florida Power Corporation

Methodology to Determine Equity Component of PFC's Capital Structure

The parties stipulated that FPC has confirmed the appropriateness of the "short-cut" methodology used to determine the equity component of Progress Fuels Corporation's (formerly, Electric Fuels Corporation) (PFC) capital structure for calendar year 2001. We approve this stipulation as reasonable.

Calculation of Market Price True-Up for Powell Mountain Coal

The parties stipulated that FPC properly calculated the market price true-up for coal purchases from Powell Mountain in accordance with the market pricing methodology approved by this Commission in Docket No. 860001-EI-G, We approve this stipulation as reasonable.

Calculation of Price for Waterborne Transportation from PFC

The parties stipulated that FPC properly calculated the 2001 [*12] price for waterborne transportation services provided by Progress Fuels Corporation in accordance with the market pricing methodology approved by this Commission in Docket No. 930001-EI. We approve this stipulation as reasonable.

Definition of "Fuel Savings"

The parties stipulated that the appropriate interpretation of the term "fuel savings" as contemplated in paragraph nine of the stipulation approved by Order No. PSC-02-0655-AS-EI, in Docket Nos. 000824-EI and 020001-EI, issued May 14, 2002, is as follows: the difference between estimated jurisdictional fuel and net power transaction costs under a change case scenario and the actual jurisdictional fuel and net power transaction costs. In the instant case, the change case represents a scenario in which Florida Power's Hines Unit 2 becomes unavailable at least one day prior to the unit's projected commercial in-service date until December 31,2005. Florida Power should assume no material reduction in operational reliability takes place in the change case scenario. We approve this stipulation as reasonable.

Definition of "Recovery Period"

The parties stipulated that the appropriate interpretation of the term "recovery period" [*13] as contemplated in paragraph nine of the stipulation approved by Order No. PSC-02-0655-AS-EI, in Docket Nos. 000824-EI and 020001-EI, issued May 14, 2002, is as follows: a period commencing with the commercial in-service date of Florida Power's Hines Unit 2 until December 31, 2005. We approve this stipulation as reasonable.

Recovery of Depreciation and Return for Hines Unit 2

The parties stipulated that FPC's recovery of $ 4,955,620 fur depreciation and return associated with its Hines Unit 2 is reasonable. Under the terms of the stipulation among FPC and several parties, the Commission, by Order No. PSC-02-0655-AS-EI, in Docket Nos. 000824-EI and 020001-EI, issued May 14,2002, authorized FPC to recover an amount equal to the depreciation expense and a return of 8.37 percent on FPC's average investment for Hines Unit 2, up to the cumulative fuel savings for Hines Unit 2 during the recovery period. The parties stipulated that although fuel savings are expected to be less than the depreciation and return for Hines Unit 2 for 2003, fuel savings during the recovery period, as defined above, are expected to be greater than the depreciation and return on Hines Unit 2 during this period. **[*14]** We approve this stipulation as reasonable.

Incremental Hedging Program Expenses

The parties stipulated that FPC's estimated expenditures of $ 554,3 12 for incremental 2003 expenses associated with its hedging program are reasonable. Pursuant to Order No. PSC-02-1484-FOF-EI, issued October 30,2002, in Docket No. 011605-EI, the Commission authorized each investor-owned electric utility to recover prudently-incurred incremental operation and maintenance expenses incurred for the purpose of initiating and/or maintaining a new or expanded non-speculative financial and/or physical hedging program designed to mitigate fuel and purchased power price volatility for its retail customers. The parties stipulated that FPC expects to incur incremental expenses of $ 554,3 12 during 2003 that meet these criteria. Accordingly, the parties stipulated that, subject to audit **and** true-up, this Commission should authorize FPC to recover this amount through the fuel and purchased power cost recovery clause. We approve this stipulation as reasonable.

Recovery of Incremental 2002 and 2003 Security Costs

As part of its projection filing made September 20,2002, FPC requested recovery of $ 7,825,500 **[*15]** through the fuel and purchased power cost recovery clause for incremental 2002 and 2003 security costs. FPC's witness Portuondo asserted that these costs were incurred to comply with directives set forth in Nuclear Regulatory Commission (NRC) Order No. EA-02-26, issued February 25,2002. Both OPC and FIPUG opposed FPC's request, based largely on **a** specific provision in the Settlement and Stipulation approved by this Commission in Order No. PSC-02-0655-AS-EI, issued May 14, 2002, to resolve FPC's most recent base rate proceeding in Docket No. 000824. That provision states: "FPC **will** not use the various cost recovery clauses to recover new capital items which traditionally and historically would be recoverable through base rates . . .." Through cross-examination of witness Portuondo, OPC and FIPUG questioned the propriety of FPC's request to the extent that the incremental costs for which FPC sought recovery included new capital items which had traditionally and historically been recoverable through base rates. The record indicates that approximately $4.1 million of these costs would be classified as capital items under normal circumstances.

We recognize that **FPC's** incremental 2002 **[*16]** and 2003 security costs, like FPL's incremental 2001 security costs approved in Order No. PSC-01-2516-FOF-EI, arise out of the extraordinary circumstances of the terrorist attacks of September 11,2001. The record indicates that FPC's incremental 2002 and 2003 security costs were incurred to comply with NRC Order No. EA-02-26, which established the type of protections that operators of nuclear generating facilities in the United States were required to implement at their plants. Prior to the events of September 11,2001, and the issuance of our order approving fuel clause recovery for FPL's incremental 2001 security costs, security costs were traditionally and historically recoverable through base rates. However, because of the extraordinary nature of the costs in question and the unique circumstances under which they arose, we find that these costs do not clearly fall within the classification of "items which traditionally and historically would be recoverable through base rates." We believe that our order approving fuel clause recovery for FPL's incremental 2001 security costs, which did not make a distinction between capital items and expensed items, **put** the parties to the Settlement **[*17]** and Stipulation on notice that the Commission viewed these costs as extraordinary. Accordingly, we approve recovery of FPC's incremental 2002 and 2003 security costs through a cost recovery clause. Because these costs are extraordinary, these costs shall be treated as current year expenses. Further, we require that these expenses be separately accounted to enhance our staffs ability to audit them.

Although FPC requested recovery of these costs through the fuel and purchased power cost recovery clause, witness Portuondo agreed on cross-examination that recovery of these costs through the capacity cost recovery clause would cause these costs to be allocated among the rate classes on the same basis as those FPC security costs currently being recovered through base rates, i.e., allocated on a demand basis. To ensure a consistent allocation of all FPC security costs, witness Portuondo stated that FPC would agree to recover its incremental 2002 and 2003 security costs through the capacity cost recovery clause. We believe this treatment is reasonable.

In conclusion, we approve recovery of FPC's incremental 2002 **and** 2003 security costs of approximately $ 7,825,500 through the capacity cost **[*18]** recovery clause. Further, we find that these costs shall be treated as current year expenses. Finally, we find that the treatment of these costs shall be reassessed at the conclusion of the term of the Settlement and Stipulation approved in Order No. PSC-02-0655-AS-EI to determine whether these costs should continue to be recovered through a cost recovery clause or would more appropriately be recovered through base rates.

Review of Market Price Proxy for Waterborne Transportation from PFC to FPC

The parties stipulated that this Commission should not open a docket to evaluate whether the market price proxy for waterborne transportation service provided by PFC to FPC is still valid and reasonable. Instead, the parties stipulated that such a review should take place as part of our continuing fuel and purchased power cost recovery clause proceedings. We approve this stipulation as reasonable.

C. Gulf Power Company

Calculation of One-Time Adjustment per Revenue Sharing Plan

The parties stipulated that Gulf correctly calculated its one-time adjustment of $ 73,471 pursuant to Gulfs revenue sharing plan approved by Order No. PSC-99-2131-S-EI, issued October 28, 1999, in Docket **[*19]** No. 990250-EI. We approve this stipulation as reasonable.

New Agreements for Sale of Non-Firm Capacity and Energy

The parties stipulated that ratepayer benefits will be produced by the two new agreements for the sale of wholesale non-firm capacity and associated energy described at pages 5 and **6** of Gulf witness Bell's direct testimony, filed September 20,2002. The parties agree that revenue Gulf receives from these two transactions is expected to be greater than the incremental costs associated with the transactions, and that the difference between revenue received and the incremental costs from these two contracts will be a contribution to Gulfs fixed costs. The parties agree that Gulf will account for the revenues from these two contracts consistent with Order Nos. PSC-99-2512-FOF-EI, PSC-00-1744-PAA-EI, and PSC-01-2371-FOF-EI. We approve this stipulation as reasonable.

Incremental Hedging Program Expenses

The parties stipulated that Gulf's estimated expenditures of $ 79,240 for incremental 2003 expenses associated with its hedging program are reasonable. Pursuant to Order No. PSC-02-1484-FOF-EI, issued October 30, 2002, in Docket No. 011605-EI, the Commission authorized **[*20]** each investor-owned electric utility to recover prudently-incurred incremental operation and maintenance expenses incurred for the purpose of initiating and/or maintaining a new or expanded non-speculative financial and/or physical hedging program designed to mitigate fuel and purchased power price volatility for its retail customers. The parties stipulated that Gulf expects to incur incremental expenses of $ 79,240 during 2003 that meet these criteria. Accordingly, the parties stipulated that, subject to audit and true-up, this Commission should authorize Gulf to recover this amount through the fuel and purchased power cost recovery clause. We **approve** this stipulation as reasonable.

D. Tampa Electric Company

Coal Transportation Services Provided by TECO Affiliates

The parties stipulated that the appropriate 2001 waterborne coal transportation benchmark price for transportation services provided by TECO affiliates is $ 25.13 per ton. Further, the parties stipulated that TECO's actual costs associated with transportation service provided by TECO affiliates are below the 2001 waterborne transportation benchmark price. We approve these stipulations as reasonable.

Proposed **[*21]** Sale of Polk Unit 1 Gasifier

To resolve an issue which asked what action this Commission should take to protect retail customers from fuel cost increases that may result from the proposed sale of TECO's Polk Unit 1 coal gasification unit, the parties stipulated to the following:

> Tampa Electric's business plan includes taking financial advantage of Section 29 tax credits related to its Polk Power Station's coal gasification unit ("gasifier"). Because the syngas produced by the gasifier must be sold in an arm's length transaction in order for the seller to reap the Section 29 tax credit benefits, Tampa Electric cannot own the gasifier itself and achieve these benefits. The purpose of the transaction is to allow a third party to benefit from the **tax credits,** which are available **through** 2007. In turn, **those** tax benefits would be shared with Tampa Electric in connection with the price it will pay for the syngas as the fuel to run the Polk Unit One generator. In order for the third party owner to qualify for the tax credits, coal will be the feedstock.

> No sale of the Polk gasifier has occurred as of the date of this stipulation. If a sale occurs, it is expected to be completed during [*22] the first half of 2003 at which time impacts to the fuel and purchased power cost recovery clause will be reported on the company's monthly fuel filings. The fuel and purchased power cost recovery clause will include the third party charge for the cost of syngas less tax credit benefits. The fuel cost charged to customers for syngas shall not exceed the cost of feedstock to the gasifier. The Commission will have jurisdiction in the 2003 fuel adjustment proceeding to ensure that the interests of Tampa Electric's retail customers are appropriately protected. Tampa Electric contemplates that a sale of the Polk Unit One gasifier will not adversely impact the fuel and purchased power cost recovery factors for retail customers.

We approve this stipulation as reasonable.

Incremental Hedging Program Expenses

The parties stipulated that estimated expenditures of $ 415,000 for incremental 2003 expenses associated with TECO's hedging program are reasonable. Pursuant to Order No. PSC-02-1484-FOF-EI, issued October 30,2002, in Docket No. 011605-EI, the Commission authorized each investor-owned electric utility to recover prudently-incurred incremental operation and maintenance expenses [*23] incurred for the purpose of initiating and/or maintaining a new or expanded non-speculative financial and/or physical hedging program designed to mitigate fuel and purchased power price volatility for its retail customers. The parties stipulated that TECO expects to incur incremental expenses of $ 415,000 during 2003 that meet these criteria. Accordingly, the parties stipulated that, subject to audit and true-up, this Commission should authorize TECO to recover this amount through the fuel and purchased power cost recovery clause. We approve this stipulation as reasonable.

Recovery of Incremental 2001,2002, and 2003 Security Costs

As part of its projection filing made September 20,2002, TECO requested recovery of $ 1,204,598 through the fuel and purchased power cost recovery clause for incremental operation and maintenance (O&M) expenses associated with 2001,2002, and 2003 security costs. TECO witness Jordan asserted that although these costs were not incurred to comply with any government mandate, they were incurred to implement measures consistent with guidelines developed by Presidential Homeland Security directive and the North American Electric Reliability Council (NERC) [*24] in response to the September 11, 2001, terrorist attacks. Through cross-examination of witness Jordan, OPC and FIPUG established that the security measures for which TECO requests cost recovery were not mandated by any government agency and that none of the TECO facilities being secured are nuclear facilities subject to NRC Order No. EA-02-26.

We recognize that TECO's incremental O&M expenses associated with 2001,2002, and 2003 security costs, like FPL's incremental 2001 security costs approved in Order No. PSC-01-2516-FOF-EI, arise out of the extraordinary circumstances of the terrorist attacks of September 11,2001. The record indicates that the incremental O&M expenses associated with TECO's 2001,2002, and 2003 security costs were, or will be, incurred consistent with guidelines provided by NERC and TECO's internal assessment of the additional protections needed at its facilities. Accordingly, we approve recovery of the incremental O&M expenses associated with TECO's 2001,2002, and 2003 security costs through a cost recovery clause. Because these costs are extraordinary, these costs shall be treated as current year expenses. Further, we require that these expenses be separately [*25] accounted to enhance our staffs ability to audit them.

Although TECO requested recovery of these costs through the fuel and purchased power cost recovery clause, witness Jordan agreed on cross-examination that recovery of these costs through the capacity cost recovery clause would cause these costs to be allocated among the rate classes on the same basis as those TECO security costs currently being recovered through base rates, i.e., allocated on a demand basis. To ensure a consistent allocation of all FPC security costs, witness Jordan stated that TECO would agree to recover its incremental O&M associated with 2001, 2002, and 2003 security costs through the capacity cost recovery clause. In addition, on cross-examination, witness Jordan indicated that TECO anticipated moving those costs into base rates at TECO's next traditional rate case. We believe this treatment is reasonable.

In conclusion, we approve recovery of incremental O&M expenses of $ 1,204,598, associated with TECO's 2001, 2002, and 2003 security costs, through the capacity cost recovery clause. These costs shall be treated as current year expenses and shall be separately accounted to enhance our staffs ability to [*26] audit them.

Review of Waterborne Coal Transportation Benchmark Price for Services Provided by TECO Affiliates

The parties stipulated that this Cornmission should not open a docket to evaluate whether the waterborne coal transportation benchmark price for services provided to TECO by TECO affiliates is still valid and reasonable. Instead, the parties stipulated that such a review should take place as part of our continuing fuel and purchased power cost recovery clause proceedings. We approve this stipulation as reasonable.

III. APPROPRIATE PROJECTED EXPENDITURES **AND** TRUE-UP AMOUNTS FOR FUEL COST RECOVERY FACTORS

Based on the evidence in the record and stipulation of the parties, we approve the following as the appropriate final fuel adjustment true-up amounts for the period January 2001 through December 2001:

FPC:	$ 25,141,094 overrecovery
FPL:	$ 103,006,559 overrecovery
FPU-Marianna:	$ 88,866 underrecovery
FPU-Fernandina Beach:	$ 133,516 overrecovery
GULF:	$ 12,368,122 underrecovery
TECO:	$ 8,984,160 underrecovery

We note that the true-up amount for FPL was included in FPL's April 15, 2002, midcourse correction. We also note that TECO and FIPUG agree that the fuel [*27] cost true-up for TECO for the years covered in FIPUG's pending appeal in Florida Supreme Court Case No. SC02-187 and subsequent years will remain subject to examination in the event the Supreme Court remands the case to the Commission for further action.

Based on the evidence in the record, stipulation of the parties, and the resolution of the generic and company-specific fuel cost recovery issues discussed above, we approve the following as the appropriate estimated/actual fuel adjustment true-up amounts for the period of January 2002 through December 2002:

FPC:	$ 9,444,666 overrecovery
FPL:	$ 7,047,788 underrecovery
FPU-Marianna:	$ 59,133 underrecovery
FPU-Fernandina Beach:	$ 194,807 overrecovery
GULF;	$ 16,703,076 underrecovery
TECO:	$ 5,818,569 overrecovery

We note that the amounts shown above for FPC and FPL have been adjusted from the amounts stipulated by the parties to be consistent with our decisions, above, to allow recovery of incremental security costs through the capacity cost recovery clause rather than the fuel clause. In addition, **we** note that TECO and FIPUG agree that the fuel cost true-up for TECO for the years covered in FIPUG's pending appeal in Florida [*28] Supreme Court Case No. SC02-187 and subsequent years will remain subject to examination in the event the Supreme Court remands the case to the Commission for further action.

Based on the evidence in the record, stipulation of the parties, and the resolution of the generic and company-specific fuel cost recovery issues discussed above, we approve the following as the appropriate total fuel adjustment true-up amounts to be collected/refunded from January 2003 through December 2003:

FPC:	$ 34,585,760 overrecovery
FPL:	$ 7,047,788 underrecovery
FPU-Marianna:	$ 147,999 underrecovery
FPU-Fernandina Beach:	$ 328,323 overrecovery
GULF:	$ 29,071,198 underrecovery
TECO:	$ 3,165,591 underrecovery

We again note that the amounts shown above for FPC and FPL have been adjusted from the amounts stipulated by the parties to be consistent with our decisions, above, to allow recovery of incremental security costs through the capacity **cost** recovery clause **rather** than the fuel clause. **Also, we** again note that TECO and FIPUG **agree** that the fuel cost true-up for TECO for the years covered in FIPUG's pending appeal in Florida Supreme Court Case No. SC02-187 and subsequent years will remain subject [*29] to examination in the event the Supreme Court remands the case to the commission for further action.

Based on the evidence in the record and the resolution of the generic and company-specific fuel cost recovery issues discussed above, we approve the following as the appropriate levelized fuel cost recovery factors for the period January 2003 through December 2003:

FPC:	2.321 [cents] /kWh
FPL:	2.727 [cents] /kWh
FPUC-Marianna:	2.248 [cents] /kWh
FPUC-Fernandina Beach:	2.272 [cents] /kWh
GULF:	2.348 [cents] /kWh
TECO:	3.002 [cents] /kWh

Based on the evidence in the record and stipulation of the parties, we approve the following as the appropriate fuel recovery line loss multipliers to be used in calculating the fuel cost recovery factors charged to each rate class/delivery **voltage** level class:

FPC:

Group	Delivery Voltage Level	Line Loss Multiplier
A.	Transmission	0.9800
B.	Distribution Primary	0.9900
C.	Distribution Secondary	1.0000
D.	Lighting Service	1.0000

FPL: The appropriate Fuel Cost Recovery Loss Multipliers are as provided on page 20 of this Order.

FPUC:

Marianna	Multiplier
All Rate Schedules	1.0000
Fernandina Beach	
All Rate Schedules	1.0000

[*30]

GWLF: **See** table below:

Group	Rate Schedules*	Line Loss Multipliers
A	RS, GS, GSD, GSDT, SBS, OSIII, OSIV	1.00482
B	LP, LPT, SBS	0.98404
C	PX, PXT, SBS, RTP	0.97453
D	OSI, OSII	1.00469

*The multiplier applicable to customers taking service under Rate Schedule SBS is determined as follows: customers with a Contract Demand in the range of 100 to 499 KW will use the recovery factor applicable to Rate Schedule GSD; customers with a Contract Demand in the range of 500 to 7,499 KW will use the recovery factor applicable to Rate Schedule LP; and customers with a Contract Demand over 7,499 KW will use the recovery factor applicable to Rate Schedule PX.

TECO:

Group	Multiplier
Group A	1.0043
Group A1	n/a*
Group B	1.0005
Group C	0.9745

*Group A1 is based on Group A, 15% of On-Peak and 85% of Off-Peak.

Based on the evidence in the record and the resolution of the generic and company-specific fuel cost recovery issues discussed above, we approve the following as the appropriate fuel recovery factors for each rate class/delivery voltage level class adjusted for line losses:

FPC:

		Fuel Cost Factors (cents/kWh)		
			Time Of Use	
Group	Delivery Voltage Level	Standard	On-Peak	Off-Peak
A.	Transmission	2.279	2.778	2.062
B.	Distribution Primary	2.302	2.806	2.083
III.	Distribution Secondary	2.325	2.834	2.104
D.	Lighting Service	2.241		

[*31]

FPL:

GROUP	RATE SCHEDULE	AVERAGE FACTOR	FUEL RECOVERY LOSS MULTIPLIER	FUEL RECOVERY FACTOR
A	RS-1, GS-1, SL-2	2.727	1.00206	2.733
A-1*	SL-1, OL-1, PL-1	2,676	1.00206	2.682
B	GSD-1	2.727	1.00199	2.732
C	GSLD-1 & CS-1	2.727	1.00083	2.729
D	GSLD-2, CS-2, OS-2 & MET	2.727	.99417	2.711
E	GSLD-3 & CS-3	2.727	.95413	2.602

GROUP	RATE SCHEDULE	AVERAGE FACTOR	FUEL RECOVERY LOSS MULTIPLIER	FUEL RECOVERY FACTOR
A	RST-I, GST-1			
	ON-PEAK	2.967	1.00206	2.973
	OFF-PEAK	2.620	1.00206	2.625
B	GSDT-1, CILC-1 (G)			
	ON-PEAK	2.967	1.00199	2.973
	OFF-PEAK	2.620	1.00199	2.625
C	GSLDT-1 & CST-1			
	ON-PEAK	2.967	1.00083	2.970
	OFF-PEAK	2.620	1.00083	2.622
D	GSLDT-2 & CST-2			
	ON-PEAK	2.967	.99417	2.950
	OFF-PEAK	2.620	.99417	2.605
E	GSLDT-3, CST-3			

	CILC-1(T)&ISST-1(T)			
	ON-PEAK	2.967	.95413	2.831
	OFF-PEAK	2.620	.95413	2.500
F	CILC-1(D) & ISST-1(D)			
	ON-PEAK	2.967	,99300	2.946
	OFF-PEAK	2.620	.99300	2.602

"WEIGHTED AVERAGE 16% ON-PEAK AND 85% OFF-PEAK

FPUC:

Marianna:

Rate Schedule	Adjustment
RS	$ .03846
GS	$ .03797
GSD	$ .03533
GSLD	$ .03335
OL	$ .02707
SL	$ .02711

[*32]

Fernandina Beach:

Rate Schedule	Adjustment
RS	$,03745
GS	$ .03624
GSD	$ .03445
CSL	$ .02955
OL	$ .02955
SL	$ .02955

GULF:

		Fuel Cost Factors [cent] /KWH		
		Standard	Time of Use	
Group	Rate Schedules*		On-Peak	Off-Peak
A	RS, RSVP, GS, GSD, SBS, OSIII, OSIV	2.359	2.749	2.193
B	LP, LPT, SBS	2.311	2.692	2.148
C	PX, PXT, RTP, SBS	2.288	2.666	2.127
D	OS-I/II	2.333	N/A	N/A

*The recovery factor applicable to customers taking service under Rate Schedule SBS is determined as follows: customers with a Contract Demand in the range of 100 to 499 KW will use the recovery factor applicable to Rate Schedule GSD; customers with a Contract Demand in the range of 500 to 7,499 KW will use the recovery factor applicable to Rate Schedule LP; and

Fuel Cost Factors
[cent] /KWH

Group	Rate Schedules'	Standard	Time of Use On-Peak	Time of Use Off-Peak

customers with a Contract Demand over 7,499 KW will use the recovery factor applicable to Rate Schedule PX.

TECO:

Rate Schedule	Fuel Charge Factor (cents per kWh)
RS, GS and TS	3.015
RST and GST	3.831 (on-peak)
	2.590 (off-peak)
SL-2, OL-1 and OL-3	2.777
GSD, GSLD, and SBF	3,004
GSDT, GSLDT, EV-X and SBFT	3.817 (on-peak)
	2.580 (off-peak)
IS-1, IS-3, SBI-1, SBI-3	2.925
IST-1, IST-3, SBIT-1, SBIT-3	3.718 (on-peak)
	2.513 (off-peak)

[*33]

Based on the evidence in the record and stipulation of the parties, we approve the following revenue tax factors to be applied in calculating each company's levelized fuel factor for the projection period January 2003 through December 2003:

FPC:	1.00072
FPL:	1.01597
FPUC-Fernandina Beach:	1.01597
FPUC-Marianna:	1.00072
GULF:	1.00072
TECO:	1.00072

IV. APPROPRIATE PROJECTED EXPENDITURES AND TRUE-UP AMOUNTS FOR CAPACITY COST RECOVERY FACTORS

Based on the evidence in the record and stipulation of the parties, we approve the following final capacity cost recovery true-up amounts for the period January 2001 through December 2001:

FPC:	$ 7,787,524 underrecovery
FPL:	$ 2,528,058 underrecovery
GULF:	$ 819,509 underrecovery
TECO:	$ 2,416,932 overrecovery

Based on the evidence in the record, stipulation of the parties, and the resolution of the security cost recovery issues discussed above, we approve the following estimated/actual capacity cost recovery true-up amounts for the period January 2002 through December 2002:

FPC:	$ 1,118,497 underrecovery
FPL:	$ 43,743,474 overrecovery
GULF:	$ 353,333 overrecovery
TECO:	$ 3,944,986 underrecovery

We note that the **[*34]** amounts shown above for FPC and FPL have been adjusted from the amounts stipulated by the parties to be consistent with our decisions, above, to allow recovery of incremental security costs through the capacity cost recovery clause rather than the fuel clause.

Eased on the evidence in the record, stipulation of the parties, and the resolution of the security cost recovery issues discussed above, we approve the following total capacity cost recovery true-up amounts to be collected/refunded during the period January 2003 through December 2003:

FPC: $ 8,906,021 underrecovery to be collected
FPL: $ 41,215,416 overrecovery to be refunded
GULF: $ 466,176 underrecovery to be collected
TECO: $ 1,528,054 underrecovery to be collected

We note that the amounts shown above for FPC and FPL have been adjusted from the amounts stipulated by the parties to be consistent with our decisions, above, to allow recovery of incremental security costs through the capacity cost recovery clause rather than the fuel clause.

Based on the evidence in the record, stipulation of the parties, and the resolution of the security cost recovery issues discussed above, we approve the following projected net [*35] purchased power capacity cost recovery amounts to be included in the recovery factor for the period January 2003 through December 2003 are as follows:

FPC: $ 364,782,172
FPL: $ 580,352,176
GULF: The projected net purchased power capacity cost recovery amount to be included in the recovery factor for the period January 2003 through December 2003 is $ 8,395,872. This amount includes the projected net Southern Intercompany Interchange Contract (IIC) cost for 2003 of $ 7,596,458, compared with the reprojected net IIC cost for 2002 of $ 2,544,246. The company needs to demonstrate in the 2003 true-up process that the IIC cost is prudently incurred and is allocated to Gulf and its customers equitably.
TECO: $ 40,958,606

Based on the evidence in the record and stipulation of the parties, we approve following jurisdictional separation factors to be applied to determine the capacity costs to be recovered during the period January 2003 through December 2003:

FPC: Base - 95.957%, Intermediate - 86.574%, Peaking - 74.562%
FPL: 99.01742%
GULF: 96.50187%
TECO: 95.43611%

Based on the evidence in the record, stipulation of the parties, and the resolution of the security cost [*36] recovery issues discussed above, we approve the following projected capacity cost recovery factors for each rate class/delivery class for the period January 2003 through December 2003:

FPC:

Rate Class	Capacity Recovery Factor (cents/kWh)
Residential	1.188
General Service Non-demand - Secondary	0.891
@Primary Voltage	0.882
@Transmission Voltage	0.873
General Service 100% Load Factor	0.653
General Service Demand - Secondary	0.773
@Primary Voltage	0.766
@Transmission Voltage	0.758
Curtailable - Secondary	0.550
@Primary Voltage	0.544
@Transmission Voltage	0.539
Interruptible - Secondary	0.642
@Primary Voltage	0.635
@Transmission Voltage	0.629

Rate Class	Capacity Recovery Factor (cents/kWh)
Lighting	0.189

FPL:

Rate Class	Capacity Recovery Factor ($ /kW)	Capacity Recovery Factor ($ /kWh)
RS1	-	.00653
GS1	-	.00599
GSD1	2.35	-
OS2	-	.00394
GSLD1/CS1	2.34	-
GSLD2/CS2	2.31	-
GSLD3/CS3	2.32	-
CILCD/CILCG	2.44	-
CILCT	2.35	-
MET	2.45	-
OL1/SL1/PL-1	-	.00308
SL2	-	.00426

Rate Class	Capacity Recovery Factor (Reservation Demand Charge) ($ /kW)	Capacity Recovery Factor (Sum of Daily Demand Charge) ($ /kW)
ISST1D	.30	.14
SST1T	.28	.13
SST1D	.29	.14

GULF:

Rate Class	Capacity Recovery Factor (cents/kWh)
RS, RSVP	,095
GS	,092
GSD, GSDT, GSTOU	.077
LP, LPT	.066
PX, PXT, RTP, SBS	.058
Os-I, 0s-I1	.028
0s-I11	.060
OS-IV	.027

[*37]

TECO:

Rate Class	Capacity Recovery Factor (cents/kWh)
RS	.277
GS, TS	.253
GSD	.218
GSLD, SBF	,192
IS-1, IS-3, SBI-1, SBI-3	.017
SL/OL	.112

V. GENERATING PERFORMANCE INCENTIVE FACTOR (GPIF) ISSUES

The parties stipulated that the appropriate Generation Performance Incentive Factor (GPIF) rewards/penalties for performance achieved during the period January 2001 through December 2001 are those set forth in Attachment B to this Order, which is incorporated by reference herein. We approve these stipulations as reasonable.

The parties stipulated that the appropriate GPIF targets/ranges for the period January 2003 through December 2003 are those set forth in Attachment B to this Order, which is incorporated by reference herein. We approve these stipulations as reasonable, The parties stipulated that the actual 2001 heat rates for TECO's Big Bend Units # 1 and # 2 should be adjusted for the flue gas desulfurization's (FGD) impact on Tampa Electric's 2001 reward/penalty. We approved similar adjustments to the actual data for Big Bend Unit 3 from July 1995 to March 1998, when TECO initiated flue gas desulfurization for that unit. In the next two fuel adjustment hearings, **[*38]** these adjustments will be necessary for the actual heat rate data for the years 2002 and 2003, We approve this stipulation as reasonable.

The parties stipulated that the heat rate targets for the year 2003 for TECO's Big Bend Units # 1 and # 2 should be adjusted for the FGD's impact on Tampa Electric's eventual 2003 reward/penalty. Adjustments to the heat rates for these units ensures comparability between heat rate targets, which are modeled using historical data, **and** the actual data for the same periods. We approve this stipulation as reasonable.

VI. OTHER MATTERS

The parties stipulated that the new fuel adjustment charges and capacity cost recovery factors approved in this Order should be effective beginning with the first billing cycle for January 2003 and thereafter through the last billing cycle for December 2003. The parties also stipulated that the first billing cycle may start before January 1,2003, and the last billing cycle may end after December 31,2003, so long as each customer is billed for twelve months regardless of when the factors became effective. We approve these stipulations as reasonable.

Based on the foregoing, it is

ORDERED by the Florida Public Service **[*39]** Commission that the stipulations and findings set forth in the body of this Order are hereby approved. It is further

ORDERED that Florida Power & Light Company, Florida Power Corporation, Tampa Electric Company, Gulf Power Company, and Florida Public Utilities Company are hereby authorized to apply the fuel cost recovery factors set forth herein during the period January 2003 through December 2003. It is further

ORDERED that the estimated true-up amounts contained in the fuel cost recovery factors approved herein are hereby authorized subject to final true-up, and further subject to proof of the reasonableness **and** prudence of the expenditures upon which the amounts are based. It is further

ORDERED that Florida Power & Light Company, Florida Power Corporation, Gulf Power Company, and Tampa Electric Company are hereby authorized to apply the capacity cost recovery factors as *set* forth herein during the period January 2003 through December 2003. It is further

ORDERED that the estimated true-up amounts contained in the capacity cost recovery factors approved herein are hereby authorized subject to final true-up, and further subject to proof of the reasonableness and prudence of the expenditures **[*40]** upon which the amounts are based.

By ORDER of the Florida Public Service Commission this 13th day of December, 2002.

BLANCA *S*. BAYO, Director

Division of the Commission Clerk and Administrative Services

ATTACHMENT **A**

PROPOSED RESOLUTION OF ISSUE

DOCKET NO. 020001-EI

OCTOEER 10,2002

Components of Proposed Resolution:

1. **As** an alternative to collecting the incremental inspection and repair costs for the Reactor Pressure Vessel Head Project (the "Project") through the Fuel and Purchased Power Cost Recovery Clause (the "**Fuel Clause**"**),** FPL will recover the total cost of the Project in base rates by amortizing the cost over a 5-year period. No change to FPL's existing base rates will result from this amortization during the period of FPL's current rate stipulation. The amortization will begin in 2002 based on the current estimate of the total inspection and repair costs of $ 67.3 million for 2002 through 2004. This estimate will be adjusted based on actual and updated estimates, with amortization changing

beginning in the month of the updated estimate. In other words, the unamortized amount of the updated inspection and repair costs will be divided by the remaining months. **[*41]** FPL will not accumulate AFUDC on the unamortized portion of the inspection and repair costs.

2. FPL will withdraw its testimony and petition that concern the recovery of the Project costs through the Fuel Clause; provided, however, that in the event this proposed resolution is not approved by the Commission, FPL may renew its petition for recovery of Project costs through the Fuel Clause without prejudice to any party's rights to support or oppose said petition.

3. FPL understands that Staff will withdraw the following discovery requests: Staffs Second Request for Production of Documents, Nos. 12 - **18** and Staffs Third Set of Interrogatories Nos. **68, 73,** 74, 75, 76, 81 and **82,** without prejudice to its right to renew those discovery requests if FPL were to renew its petition for recovery of the Project costs through the Fuel Clause **as** contemplated in Paragraph 3.

4. FPL's current annual estimates for the Project are provided below:

Inspection and Repair Estimate ($ millions)

2002	2003	2004	Total
$ 13.5	$ 39.1	$ 14.7	$ 67.3

5 Year Amortization of the Project

(Current Estimate: $ 67.3 million)

2002	2003	2004	2005	2006	TOTAL
$ 13.46	$ 13.46	$ 13.46	$ 13.46	$ 13.46	$ 67.3

[*42]
5. This proposed resolution may be executed in counterparts, and all such counterparts shall constitute one instrument binding on the signatories, notwithstanding that all signatories are not signatories to the original or the same counterpart. Facsimile transmission of an executed copy of this proposed resolution shall be accepted as evidence of a party's execution of the proposed resolution.

Agreed and accepted on behalf of:

Florida Power & Light Company
Steel Hector & Davis LLP
Suite 4000
200 South Biscayne Boulevard
Miami, Florida 53131-2398

By:

John T. Butler, **P.A.**

Date: 10/10/02

Office of Public Counsel
111 West Madison Street, Suite 310
Tallahassee, FL 32399

By:

Jack Shreve, Esq.

Date: 10/10/02

Florida Industrial Power Users Group
McWhirter, Reeves, McGlothlin,
Davidson, Decker, Kaufman,

Arnold & Steen, P **A.,**
P.O. Box 3350
Tampa, FL 33601-3350

By:

John W. McWhirter, **Jr.,** Esq.

Date: 10/14/02

ATTACHMENT **B**

GPIF REWARDS/PENALTIES

January 2001 to December 2001

Utility	Amount	Reward/Penalty
Florida Power Corporation	4 608,057	Reward
Florida Power and Light Company	$ 7,019,431	Reward
Gulf Power Company	$ 369,198	Penalty
Tampa Electric Company	$ 831,029	Penalty

[*43]

Utility/ Plant/Unit	EAF		Heat Rate	
		Adjusted		Adjusted
FPC	Target	Actual	Target	Actual
Anclote 1	78.6	79.5	10,091	10,126
Anclote 2	92.8	92.7	10,083	10,230
Crystal River 1	76.4	78.5	9,831	9,815
Crystal River 2	84.2	90.1	9,788	9,761
Crystal River 3	85.5	84.2	10,247	10,268
Crystal River 4	95.4	93.8	9,389	9,395
Crystal River 5	67.6	83.9	9,360	9,324
Bartow 3	93.9	84.5	10,105	10,270
Tiger Bay	78.7	81.3	7,190	7,138

		Adjusted		Adjusted
PPL	Target	Actual	Target	Actual
Cape Canaveral 1	84.5	63.3	9,581	9,524
Cape Canaveral 2	94.5	91.5	9,721	9,453
Fort Launderdale 4	93.2	93.7	7,337	7,509
Fort Launderdale 5	93.2	93.6	7,336	7.441
Manatee 1	78.3	80.1	10,066	10,029
Manatee 2	90.1	95.5	10,216	10,166
Martin 1	87.7	90.6	9,734	9,867
Martin 2	90.9	94.3	9,876	9,950
Martin 3	92.5	95.8	6,874	6,830
Martin 4	93.1	97.7	6,797	6,738
Port Everglades 3	84.5	58.4	9,447	9,441
Fort Everglades 4	93.7	95.3	9,632	9,703
Turkey Point 1	92.4	96.9	9,319	9,422
Turkey Point 3	86.0	89.4	11,121	11,079
Turkey Point 4	93.6	98.4	11,095	11,075
St. Lucie 1	85.7	89.6	10,877	10,006
St. Lucie 2	85.7	89.0	10,821	10,831
Scherer 4	87.9	87.8	10,043	10,020

		Adjusted		Adjusted
Gulf	Target	Actual	Target	Actual

Utility/ Plant/Unit	EAF		Heat Rate	
Crist 6	76.1	76.6	10,502	10,811
Crist 7	76.4	65.3	10,184	10,285
Smith 1	88.7	90.8	10,113	10,073
Smith 2	87.5	88.5	10,058	10,037
Daniel 1	74.5	82.7	10,075	9,919
Daniel 2	75.2	80.7	9,872	10,106
TECO	Target	Adjusted Actual	Target	Adjusted Actual
Big Bend 1	69.5	63.9	10,118	10,530
Big Bend 2	77.9	73.4	9,895	10,079
Big Bend 3	71.8	71.3	9,932	9,917
Big Bend 4	83.9	82.3	9,944	10,197
Gannon 5	68.4	61.2	10,762	10,197
Gannon 6	67.4	75.0	10,596	10,569
Polk 1	78.5	82.8	10,146	10,254

[*44]

GPIF TARGETS

January 2003 to December 2003

Utility/ Plant/Unit	EAP				Heat Rate	
				Company	Staff	
FPC	RAF	PCF	EUOF			
Anclote 2	89.8	5.8	4.5	Agree	10,091	Agree
Crystal River 1	90.8	0.0	9.2	Agree	9,742	Agree
Crystal River 2	62.6	21.1	16.3	Agree	9,566	Agree
Crystal River 3	69.0	7.7	3.4	Agree	10,327	Agree
Crystal River 4	91.6	1.9	6.5	Agree	9,329	Agree
Crystal River 5	94.6	0.0	5.4	Agree	9,340	Agree
Hines 1	85.6	9.6	4.6	Agree	7,259	Agree
				Company	Staff	
FPL	EAF	POF	EUOF			
Cape Canaveral 2	89.5	0.0	10.5	Agree	9,030	Agree
Ft Launderdale 4	91.7	2.7	5.6	Agree	7,435	Agree
Ft Launderdale 5	90.3	2.7	7.0	Agree	7,366	Agree
Manatee 2	87.7	7.7	4.6	Agree	9,862	Agree
Martin 1	91.8	3.8	4.4	Agree	9,546	Agree
Martin 2	83.5	9.6	6.9	Agree	9,590	Agree
Martin 3	92.8	2.2	5.0	Agree	6,829	Agree
Martin 4	93.8	2.2	4.0	Agree	6,753	Agree
Turkey Point 1	95.1	9.6	5.3	Agree	9,128	Agree
Turkey Point 2	94.9	0.0	5.1	Agree	9,512	Agree
Turkey Point 3	85.4	8.2	6.4	Agree	11,148	Agree
Turkey Point 4	85.4	8.2	6.4	Agree	11,119	Agree
St. Lucie 1	93.6	0.0	6.4	Agree	10,834	Agree
St. Lucie 2	85.4	8.2	6.4	Agree	10,843	Agree
Scherer 4	93.6	0.0	6.4	Agree	9,992	Agree
				Company	Staff	
Gulf	EAF	POF	EUOF			
Crist 4	91.2	6.3	2.5	Agree	10,591	Agree
Crist 5	89.6	6.3	3.9	Agree	10,418	Agree

Utility/ Plant/Unit	EAP				Heat Rate	
Crist 6	84.3	6.2	7.5	Agree	10,501	Agree
Crist 7	79.5	8.2	12.3	Agree	10,150	Agree
Smith 1	86.8	11.0	2.2	Agree	10,029	Agree
Smith 2	67.8	27.9	4.3	Agree	10,113	Agree
Daniel 1	70.1	23.0	6.9	Agree	10,042	Agree
Daniel 2	83.0	8.2	8.8	Agree	9,789	Agree

		Company			Staff	
TECO	EAF	POF	EUOF			
Big Bend 1	69.9	5.8	24.4	Agree	10,533	Agree
Big Bend 2	63.0	3.8	33.2	Agree	10,111	Agree
Big Bend 3	67.3	3.8	28.9	Agree	10,132	Agree
Big Bend 4	77.7	9.6	12.7	Agree	10,028	Agree
Gannon 5	73.9	0.0	28.1	Agree	10,862	Agree
Gannon 6	75.9	0.0	24.3	Agree	10,775	Agree
Polk 1	74.6	12.1	13.4	Agree	10,382	Agree

[*45]