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DEPARTMENT OF THE AIR FORCE
AIR FORCE LEGAL SERVICES AGENCY/UTILITY LITIGATION TEAM
TYNDALL AIR FORCE BASE, FLORIDA

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Director Division of Commission Clerk
and Administrative Service
2450 Shumard Oak Blvd
Tallahassee, FL 32399-0850

July 28, 2005

Dear Director,

The Federal Executive Agencies, by and through the undersigned counsel of the Air Force Utility Litigation Team, encloses herewith the original and 15 copies of the pre-hearing statement in **DOCKET NO. 050045-EL.**

Sincerely

Craig Paulson

CRAIG PAULSON, Major, USAF

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: PETITION FOR RATE INCREASE BY FLORIDA POWER & LIGHT COMPANY	))	**DOCKET NO. 050045-EI**

FEDERAL EXECUTIVE AGENCIES PRE-HEARING STATEMENT

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1. The name of all known witnesses that may be called by the party, and the subject matter of their testimony;

   a. Dr. Dennis Goins will testify on rate design, revenue spread and cost of service.

   b. Mr. Matt Kahal will testify on rate of return issues.

2. A description of all known exhibits that may be used by the party, whether they may be identified on a composite basis, and the witness sponsoring each;

   a. Pre-filed testimony of Dr. Goins with supporting schedules, and statement of qualifications.

   b. Pre-filed testimony of Matt Kahal with supporting schedules and statement of qualifications.

3. A statement of basic position in the proceeding;

   a. As stated in the Joint Complaint and Petition and Request for a Decrease in Rates previously filed in conjunction with other interveners, the FEA believes a rate decrease is in order. The FEA's position is based in part on the positions that the $100 million requested for the GridFlorida RTO is unreasonable, unsubstantiated and imprudent; the approximately $50 million requested as an ROE performance incentive is not justified;

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the $120 million requested for the storm reserve is highly over inflated; a large portion of the depreciation reserve should be credited to customers; and the requested ROE is over inflated.

b. With regard to the ROE, if the commission provides a bonus for service quality(performance incentive), then a reasonable rate of return would be 9.0 to 10.0 percent, with a midpoint value of 9.5 percent. If the service quality bonus is denied, then the fair return on equity is 9.0 to 9.5 percent. With a 9.5 percent return on equity, the overall rate of return is 6.74 percent, based on the company's projected future test year capital structure. This includes a cost of long-term debt of 5.65 percent. With respect to the service quality adjustment, FP&L's relatively high retail rates (compared to those of the benchmark utilities) weakens the case for the proposed 0.5 percent performance bonus.

c. FPL'S proposed 12CP and 1/13th allocation/classification methodology should be approved.

d. The Commission rule of thumb should be followed and no rate should be increased by more than 150% percent of the average system increase.

e. The energy charges in FP&L's proposed CILC rates should be reduced by the appropriate energy-related unit cost of gas turbine production capacity assigned to CILC-1G, CILC-1D, and CILC-1T customers.

4. A statement of each question of fact the party considers at issue, the party's position on each such issue, and which of the party's witnesses will address the issue;

a. Issue: What is the correct cost of equity (issue list #49)?

Position: FP&L's market required cost of equity is approximately 9.0 to 9.5 percent, Matt Kahal will address this issue.

b. Issue: What is the correct flotation expense cost to be used in determining the cost of equity (issue list #49)?

Position: The correct flotation expense cost to be used in determining the cost of equity is 0.1 percent, Matt Kahal will address this issue.

c. Issue: What is the correct cost of new long-term debt(issue list #47)?

Position: The correct cost of new long-term debt for 2005 and 2006 is no more than 6.0 percent, the embedded cost of long term debt is 5.65%, Matt Kahal will address this issue.

d. What is the appropriate overall weighted average cost of capital(issue list #51)?

Position: 6.74 percent, Matt Kahal will address this issue

e. Issue: When allocating a change in revenue requirements, should any rate receive an increase greater than 150% percent of the average system increase (issue list #108)?

Position: No rate should receive an increase greater than 150% percent of the average system increase, Dr. Goins will address this issue.

f. Issue: In determining the appropriate energy charges, should the proposed CILC rate energy charge collect fixed costs of energy-related gas turbine production capacity assigned to the CILC class (issue list # 111)?

Position: The CILC rate should not include the fixed costs of energy-related gas turbine production capacity. FP&L's proposed CILC rates fail to properly take into account the customer investment in installed generating capacity to qualify for the CILC rate. Dr. Goins will address this issue.

5. A statement of each question of law the party considers at issue and the party's position on each such issue;

a. None

6. A statement of each policy question the party considers at issue, the party's position on each such issue, and which of the party's witnesses will address the issue;

a. Issue: Should rate of return reflect a performance factor as proposed by FP&L (issue list #48)?

Position: The burden is on the company to show that it deserves a performance factor and customer rate impacts and level of rates should be considered to obtain an end result that appropriately balances customer and shareholder interests if and when the company carries it's burden. Matt Kahal will address this issue.

b. Issue: Are rate increases in excess of 150% of the system average increase consistent with the policy that discourages rate shock and the policy of gradualism?

Position: The policy against rate shock and the policy of gradualism would be best served by limiting the rate increase of any class to 150% of the system average increase. Dr. Goins will address this issue.

c. Should CILC customers that installed generating capacity be required to pay for any combustion turbine capacity used to meet peaking requirements(issue list #111)?

Position: CILC customers that installed generating capacity should not be required to pay for combustion turbine capacity used to meet peaking requirements. Dr. Goins will address this issue.

7. The FEA has not stipulated to any issues at this time.

8. At this time the FEA have no pending motions or other matters upon which action is requested.

9. At this time the FEA have no requests or claims for confidentiality pending with the Commission.

10. The FEA do not have any objections to any witness's qualifications as an expert.

Dated this 27th day of July 2005.

Respectfully submitted,

Craig Paulson

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Utility Litigation and Negotiation Attorney

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of this pleading has been served by First Class U.S. Mail this 27th day of July 2005 on the following:

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