BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 050001-EI

In the Matter of

FUEL AND PURCHASED POWER
COST RECOVERY CLAUSE WITH
GENERATING PERFORMANCE INCENTIVE
FACTOR.
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VOLUME 1

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BEFORE:	CHAIRMAN BRAULIO L. BAEZ COMMISSIONER J. TERRY DEASON COMMISSIONER RUDOLPH "RUDY" BRADLEY COMMISSIONER LISA POLAK EDGAR COMMISSIONER ISILIO ARRIAGA
DATE:	Monday, November 7, 2005
TIME:	Commenced at 1:00 p.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LINDA BOLES, RPR, CRR Official FPSC Reporter (850) 413-6734

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P R O C E E D I N G S

CHAIRMAN BAEZ: Good afternoon, ladies and gentlemen. We'll reconvene the hearing. Commissioners, we are, we are on Docket 01, the fuel and purchased power cost recovery clause. We've already taken appearances. And we have quite a few preliminary matters to address this afternoon. Ms. Vining, do you want to walk us through them?

MS. VINING: All the preliminary matters?

CHAIRMAN BAEZ: Yeah.

MS. VINING: Okay. We have --

CHAIRMAN BAEZ: Or all the ones that you know of. I'm sure there may be more.

MS. VINING: Yeah. That's true. We have OPC's motion for summary final order or, in the alternative, motion to defer ruling until service hearing held.

CHAIRMAN BAEZ: Okay.

MS. VINING: Next we have OPC's motion to defer issue of prudence and reasonableness of PEF's coal costs, and OPC also filed a motion for oral argument with that motion.

Then we have FIPUG's request for official recognition, FPL's motion for protective order, and FPUC's motion for extension of time.

CHAIRMAN BAEZ: All right. And maybe we can handle these -- I want to leave the motion for summary final until the last. It would probably be most appropriate.

MS. VINING: Okay. You want to start out with something simple?

CHAIRMAN BAEZ: Huh?

MS. VINING: Something simple hopefully?

CHAIRMAN BAEZ: Yes. Let's, let's start building confidence and some momentum here and get some easy ones out of the way.

Mr. Horton, we'll take up your motion for extension of time first.

MR. HORTON: Thank you, Mr. Chairman. We had received a request for discovery from staff and Public Counsel, and we filed a motion for protective order which was denied. That order was issued Thursday. It required us -- Thursday, yes, Thursday afternoon. It required us to produce the documents by Friday at noon, which was not possible to do.

To make a long story short, they are, in fact, here today and available. We contacted staff and Public Counsel and worked out an arrangement where they can review those documents. So in an abundance of caution, I filed a motion for extension of time.

CHAIRMAN BAEZ: All right. And so my understanding is that that's already being, it's already being addressed. We can go ahead and grant the motion just for efficiency's sake. I'm assuming staff doesn't have objections. So we'll show that motion granted.

Next, Mr. Butler, your motion for protective order, which I don't think I have in front of me. No.

MS. VINING: I can bring you a copy.

CHAIRMAN BAEZ: Does it sound like the rest of the motions for protective order? Is it -- Mr. Butler, can you walk us through it?

MR. BUTLER: Yes, I can. It's really ministerial, Chairman Baez.

CHAIRMAN BAEZ: That's what we're here for, to be ministerial.

MR. BUTLER: Well, then I've come to the right place.

It's simply an order that would extend your normal confidential treatment procedures to -- for documents that are used at the hearing to some documents that were produced pursuant to a temporary protective order to the Office of Public Counsel. And our understanding of the rule on confidential classification, there's an expectation to convert the motion for temporary protective order into a motion for protective order if the documents are to be used at hearing. We're simply asking that they be handled pursuant to the procedures that are set out in the prehearing order.

CHAIRMAN BAEZ: Ms. Christensen, there's no objection to just formalizing the protective order?

MS. CHRISTENSEN: No.

MS. VINING: Staff has no objection either.

CHAIRMAN BAEZ: Very well. Show the motion granted.

Next, official recognition. That would be Mr. Perry.

MR. PERRY: Yes. On this past Friday FIPUG filed a request for official recognition for some -- what it is is the November 4th, 2005, NYMEX market data for natural gas prices. And the basis for making that request was that the NYMEX market price data constitutes either facts that are not subject to dispute because they are generally known within the territorial jurisdiction of the court pursuant to Section 90.202(11) and/or facts that are not subject to dispute because they're capable of accurate and ready determination by resert to sources whose accuracy cannot be questioned pursuant to Section 90.202(12). And I have copies of the document itself. If you don't have that available to you, I'd be glad to distribute it to you.

CHAIRMAN BAEZ: Well, can you describe -- maybe you don't even have to go through all that trouble. Can you describe what it is, the documents that you're trying to have officially recognized?

MR. PERRY: It's a three-page document that is titled "Natural Gas, September 4th, 2005, Session Expanded Table." And what it does is it shows the NYMEX data for the period December 2005 through December 2010 as of November 4th, 2005.

CHAIRMAN BAEZ: And my understanding is -- well, I'm going to let -- do you have anything more at this point?

MR. PERRY: I think that about covers it. I'd be willing to make any type of other clarifications.

CHAIRMAN BAEZ: Okay. Mr. Glenn, you had filed a response in opposition, or Ms. Raepple. I'm sorry.

MS. RAEPPLE: Yes. Good afternoon. Carolyn Raepple on behalf of Progress Energy Florida. And we do oppose FIPUG's request that you grant official recognition of these futures prices that were downloaded from the NYMEX website. These futures prices purport to reflect prices paid during a single session on a single day for natural gas to be delivered over a period extending from December 2005 through December 2010. These are not facts that are beyond dispute, as required by the statutory sections of the evidence code that have been cited by FIPUG's counsel.

Upon receiving the request from FIPUG late in the day on Friday through an email, I used the hot link in that email to look at the document for which they were requesting official recognition. When I got, hit that hot link and got to the NYMEX website, the first thing that you see is a viewing and usage agreement that NYMEX requires you to agree to before you can even look at the document. This document for some reason was not included in what was filed. I was surprised to find that -- when I got a copy from the clerk's office this morning, I was surprised to see that that agreement was not part of the filing because it was part of what I received electronically by hitting the hot link. But I have copies of it here, if you'd like to see it.

The usage agreement includes a statement which is in all bold, it's the only bolded paragraph in the, in the agreement, in which NYMEX states that it makes no representations or warranties express or implied with respect to the NYMEX market data or the transmission timeliness, accuracy or completeness thereof. So NYMEX, who publishes the data on their website, is unwilling to warrant its accuracy. So I think it goes without saying that these facts or this data in the chart cannot be beyond dispute when the publisher of the data says they will not warrant its accuracy.

CHAIRMAN BAEZ: Do you -- and I guess at this point I need to ask a question because I'm seeing that there's NYMEX information as part of the comprehensive exhibit that we're going to discuss a little later. What is the difference between what Mr. Perry is offering for official recognition and the information that is being submitted as part of the comprehensive exhibit? Other than the dates, I guess, because yours covers the information and Mr. Perry's is proffering runs through 2010. So other than the dates, is there any --

MS. RAEPPLE: I think that the primary difference is that FIPUG is asking you to officially recognize data and they're not putting it on through a witness so that the data can be explored and the accuracy discussed; whereas, the comprehensive exhibit is being offered through a witness, so the opportunity is there to explore the, the exhibit through the witness.

CHAIRMAN BAEZ: All right. And, and a question again so that I can understand. Mr. Perry, you're not intending, you're not intending for that information to supplant the information contained herein, or does that even matter?

MR. PERRY: No. I mean, I think that in any event the NYMEX information is more informational. It's, it's not a guarantee necessarily that the prices will be that on any particular day. It's a, it's a market information and it's an indicator of the prices over time. And so we're not saying -- we're not trying to introduce this information to say, yes, the prices will definitely be this or that. And I think if we use this information at all, it'll be on cross-examination of the utility's witnesses, and they'll certainly have the opportunity to make any points for or against the utility of the NYMEX data at that time. We're not trying to introduce this information by way of having it as a, as a set fact, as a fact set in stone. It'll, it'll be used for the purposes of cross-examination, and the utility's witnesses will have the opportunity to rebut the value of the data at that time.

CHAIRMAN BAEZ: Well, then, then why -- I guess maybe I'm missing the point of having it officially recognized. What's your intention with that request?

MR. PERRY: I think the intention was to have the -- to --

CHAIRMAN BAEZ: I mean, I guess if you see my point, whatever you intend on using it for is still available to you without, without entering, without entering into, you know, entertaining any official recognition. I'm just, I guess I'm missing the point or the purpose.

MR. PERRY: Well, I mean, we do want it as part of the record, but we intend to use it as part of cross-examination so that the witnesses would have the opportunity to rebut it. And we're not -- it's, it's a source of data that you can refer to and you can give it any weight, of course, that you see fit. And so from that perspective, we think that it's appropriate for official recognition. You can give it whatever weight you want to.

CHAIRMAN BAEZ: Ms. Vining, do you want to weigh in on this?

MS. VINING: Staff doesn't object if the Commission wants to take official notice of this. But if in an abundance of caution you're not inclined to grant this request, then, of course, Mr. Perry could just get this exhibit in on cross.

CHAIRMAN BAEZ: I mean, and I guess the missing answer to the question is, you know, Ms. Raepple referred to some, some couching language or disclaimer language. Is that normally -- I guess, is the information that staff is, is including in this exhibit, is it subject to the same disclaimer to your knowledge?

MS. VINING: Yes, it is, because it came from the same source.

CHAIRMAN BAEZ: Very well. Okay. We can take official recognition of it. And as has been discussed, Ms. Raepple, I mean, I think it's subject to impeachment or you can challenge the, the data contained therein for its accuracy or even its meaningfulness at the appropriate time.

MS. RAEPPLE: All right. Thank you.

MR. PERRY: Thank you, Commissioner.

CHAIRMAN BAEZ: What do we have left?

There's, there's a motion --

MS. VINING: Right. The motion to defer or the motion for summary final order, whatever your pleasure is.

CHAIRMAN BAEZ: Well, the -- and, and my understanding is if we take up a motion, the motion to defer and do anything with it, it may render the dispositive motion moot at this point -- or there's no relationship between the two?

MS. VINING: No. No. No. No relationship. Different utility. Yeah.

CHAIRMAN BAEZ: So many dockets, so many motions. Let's do the motion to defer first.

MR. McGLOTHLIN: Mr. Chairman, Commissioners, that's

OPC's motion.

CHAIRMAN BAEZ: Mr. McGlothlin.

MR. McGLOTHLIN: And this is not your standard motion to defer, Commissioners. OPC contends that it has the right to present evidence, affirmative evidence on a particular issue in the future proceedings in the ongoing cost recovery case because it is the costs that are the subject of the issue.

CHAIRMAN BAEZ: Mr. McGlothlin, can I -- I'm sorry to interrupt. And, Ms. Vining, can you make clear, this is, this is a Commission decision on the motion; correct? Or would it be, I mean --

MS. VINING: I think that would be up to you because deferral of an issue could be viewed as a procedural matter similar to dropping an issue at the prehearing conference.

CHAIRMAN BAEZ: I'm not comfortable with that.

MS. VINING: Okay. Well --

CHAIRMAN BAEZ: So, you know, at the risk of incurring the wrath of my colleagues, I'm going to have to rope you all in on this one. So, Mr. McGlothlin, if you want to start again, start again. If not, you can pick up where you left off.

Commissioners, we are all in on this decision. Okay? Go ahead, sir.

MR. McGLOTHLIN: By way of quick background, our position is that pursuant to precedence of the Commission, because the costs that are the subject of this issue will not be incurred until 2005 and 2006 and the true-ups to consider such costs will not be completed until a future point in time, the Commission has jurisdiction. And OPC has the affirmative right to be heard with its direct case in future proceedings on the ongoing cost recovery clause. For that reason, we suggest that it would be administratively efficient to defer the entire consideration of this issue to a future point in time. Otherwise, you'll be hearing, under the current scheme, our cross-examination of PEF witness or witnesses, and then there will be the long hiatus of a substantial amount of time before you would hear the completion of that case. And that seems very inefficient and undesirable to me.

But how do we get to that point in terms of our contention that we have the ability to bring this to the Commission's attention at a future point in time? First of all, we've flagged an issue relating to the prudence of the manner in which Progress Fuels Corporation procured some coal for the supply of Crystal River Units 1 and 2 and 4 and 5 during the period 2005 and 2006. And it's important to identify who the players are with respect to this issue, who is Progress Fuels Corporation. Progress Fuels Corporation, by corporate relationships, is an affiliate of Progress Energy Florida, and Progress Fuels Corporation refers to itself as the coal procurement arm of Progress Energy Florida. But Progress

Fuels Corporation also is in the business of mining and selling coal and over time has sold coal to guess who, Progress Fuels Corporation, who then arranges for delivery to the utility site at Crystal River.

In addition, Progress Fuels Corporation owns or has ownership interest in about four subsidiaries, all of whom are in the business of either mining or marketing coal, and Progress Fuels Corporation deals with them routinely as it deals with others in the coal procurement process. So while the issue or the prudence of the utility's procurement functions is always at issue, that is particularly the case when the arrangements have the potential for self-dealing at less than arm's length. And so we believe this particular issue warrants careful scrutiny.

More specifically, we've identified some prices that Progress Energy paid to Progress Fuels Corporation in the first several months of 2005, and through discovery we've ascertained that those transactions relate to the procurement and contracting process that Progress Fuels Corporation engaged in in 2004 ending in a contract signed in 2005, January 2005.

Because these costs will not be completely incurred and the quantities will not be known until a future point in time, we would ask you to defer or, if you do not defer, at least confirm that we will be given an opportunity to present testimony as we intend to do through the services of our consultant Robert Sansom (phonetic), whose affidavit we attached to the motion to defer.

Now Progress Energy's response to our contentions on this subject and the most recent motion are these: First, they contend that OPC is somehow at fault. OPC is late, its efforts to obtain information on the subject are belated and, therefore, it's our own fault. I'm going to demonstrate, again through citing a precedent to you, that far from being late, we're actually ahead of schedule with respect to the routine the Commission has established for identifying prudence issues related to procurement efforts.

Progress Energy also contends that the time to gauge the prudence of a procurement decision is close in time to the occasion of the contracting itself, and, again, that's wrong. And I can demonstrate through precedent that is wrong.

Most importantly, I believe, is this: Progress Energy's contention would take the concept of burden of proof and stand it on its head because the end result, if you accept Progress Energy's argument, would be that it can come to the Commission and make no affirmative showing, be completely silent on the issue of the prudence of a particular procurement transaction, and then say it's up to OPC or staff or other parties to unearth any issue, and if we don't do it soon, then we're out of luck. But that's, that's completely at odds with, with the principle of the burden of proof and with the legal precedent established by this Commission as, as appealed to the Florida Supreme Court.

I want to refer you to Page 4 of the motion to defer. There I quote from the Commission's Order 12645. In that order, the Commission set out at length the process it intends the utilities to follow with respect to true-ups in general and with respect to its jurisdiction over the prudence issue and, more specifically, the burden of proof it believes is with the utility. And I'll read just a section of it beginning in the second quoted paragraph. "Although the burden of proving the prudence of its actions will remain with the utility, the question of prudence will arise only as facts regarding fuel procurement justify scrutiny. Hopefully we will be presented with complete analyses of procurement decisions in a timely manner."

Well, there the Commission wasn't talking about OPC's presentation of a timely analysis of procurement decisions. It's talking about the burden on the utility to do so. "At the true-up hearing that follows the six-month period, a utility will still be free to present whatever evidence of prudence it chooses to provide. We note that certain utilities have periodically presented broad statements as to the prudence of their fuel procurement activities. Such presentations are not inappropriate, but they hardly elucidate the subject matter. Fuel procurement is an exceedingly complex matter, and a determination of the prudence of procurement decisions requires complex analysis. While a utility may feel satisfied that it has properly met its burden by such a presentation, we expect the quality and quantity of evidence to be presented in support of the prudence of fuel procurement decisions to match the complexity of the subject matter. We will, therefore, accept any relevant proof a utility chooses to present a true-up, but we will not adjudicate the question of prudence, nor consider ourselves bound to do so until all relevant facts are analyzed and placed before us. We will be free to revisit any transaction until we explicitly determine the matter to be fully and finally adjudicated."

Now applying this order to the present circumstances, one needs to make one transition; that is, at the point in time in which this order was issued, the Commission was dealing with six-month projection periods. And it was saying that the time it expected the utility to address prudence of procurement decisions was during the true-up following the projection period. Now the Commission uses annual projections. But in this instance the procurement decision made in the fall of 2004 ending in contracts early in 2005 will impact the quantities delivered and costs incurred during 2005 and 2006. And so that's why I contend that we have the ability to raise this prudence issue at a future point in time, and that's why I contend that with respect to the program laid out by the

Commission in this order and others, OPC is far from being late with this issue. In fact, we are ahead of schedule.

Now I have one more order to refer to, and that is Order 13452 issued in the 820001 docket in June of 1984. In this particular case, the Commission revisited the prudence of the decision of Gulf Power Company to buy coal from what was called the Maxine Mines years after it had approved the true-up, and Gulf contended that it was, that the Commission no longer had jurisdiction to do so. And the Commission rejected that position, and its order was later affirmed by the Supreme Court.

At Page 10 of that order the Commission said, "Significant controversy has arisen over the manner in which we should review Gulf's actions to determine whether its decisions regarding Maxine Mine coal purchases were prudent. Theories have ranged from a prohibition against looking at the prudence of entering into a contract at any time except immediately after it is entered into," à la Progress Energy in this case, "to a proposal to review the prudence of a contract from a purely retrospective basis. The fact that it is a utility's action rather than our own that we are reviewing dictates that the utility contract problems will not come to our attention immediately. Many problems in procurement have a gradual aspect which can be perceived by the persons directly involved but not by third parties. Any approach to reviewing the prudence of contract decisions must recognize the propriety of looking at past actions; otherwise, the natural lag in our ability to detect procurement problems will preclude us from acting on them. An approach that limits the review of prudence to contemporaneous events fails to recognize the duty of this Commission to protect the ratepayers' interests and the fact that utilities are not entitled to recover expenses imprudently approved."

And if you'll bear with me, I'm almost through citing your past orders, but this last one, I believe, is significant. Page 19 of the same order: "Because of the very time-consuming nature of reviewing fuel procurement decisions and because the utility has possession of the information relevant to the case, the burden to demonstrate prudence necessarily falls on the utility. When a utility does not come forward to demonstrate the prudence of its expenditures, that issue, that issue is still viable for this Commission to determine. The fact that it takes a long time for the Commission staff to reconstruct fuel procurement decisions weighs very heavily in favor of continued jurisdiction, particularly in light of the fact that the issue of prudence has not previously been decided. Our view of the fuel adjustment clause involves a trade-off; in exchange for quick rate relief, a utility is subject to the risk, whether large or small, that the Commission may ultimately determine that a portion of the rate award should be disallowed. If a utility does not come forward and inform the Commission as to the prudence of its actions as a predicate to rate relief, it should expect to have the Commission visit the question of prudence when it becomes aware of facts that justify an inquiry. The ratepayers of this state are entitled to consideration in all ratemaking proceedings."

Again, applying this whole, this conclusion of the Commission to the present case, Progress Energy has not come forward and demonstrated the prudence in an affirmative showing to this Commission.

Now in testimony that you will hear on other subjects, Progress Energy is going to talk about the RFP it issued prior to entering new contracts for waterborne transportation, and it's also going to affirmatively address the procurement decisions that led to coal costs incurred in 2004. But with respect to the flagged, the issue flagged by Public Counsel, it has made no affirmative case. You will see a position statement, you will see witnesses identified, associated with 13L, but they're simply being made available for cross-examination. Responses to discovery are not a mechanism for satisfying the utility's burden of proof. Making a witness available for cross-examination is not a vehicle for satisfying the utility's burden of proof. And the Office of Public Counsel cannot be precluded from its opportunity to make a direct case.

At one point in time we had thought that the, the most feasible and logical means of handling this issue would be through a spin-off. That motion was denied by the Prehearing Officer and we accept that ruling, but we do not waive our ability to present a direct case which we intend to do through Mr. Sansom in the future. That being the case, we suggest that administrative efficiency requires that this entire issue be deferred. Thank you.

CHAIRMAN BAEZ: Thank you, Mr. McGlothlin.

Mr. Perko.

MR. PERKO: Good afternoon, Commissioners. Gary Perko again on behalf of Progress Energy Florida.

I think it's important to point out here that the cases that Mr. McGlothlin has cited do not in any way suggest, nor am I aware of any instances where the Commission has stated that the utility has an affirmative burden to prove up every fuel procurement decision it's made over the course of a year. The cases that Mr. McGlothlin cited and others even recognize that it's not inappropriate for the utility to present its true-up costs and projected costs. It's only when facts are observed that justify further analysis that you get into the terms of prudence.

Now the Office of Public Counsel raised this issue after we filed our direct testimony. They chose not to file direct testimony to demonstrate any facts that call into question the prudence of the decisions they're now challenging, so we had no opportunity to provide rebuttal testimony. However, that being said, we do have a witness on the stand who has filed testimony regarding the mark-to-market analysis of 2004 coal purchases who is available to answer the questions that OPC has raised through its motion and affidavit, which I would again emphasize is not evidence.

I would also point out an interesting statement that Mr. McGlothlin omitted, that in our response we noted that Office of Public Counsel suggested that information regarding the quantities of deliveries made in 2005 and 2006 were necessary to address this issue. We disagreed because the purchases in question, although they are for delivery in 2005 and 2006, those purchases were the result of procurement decisions made in 2004. And what we were saying in our response was information from 2005 and 2006 does not have any bearing on the prudence of decisions made in 2004. That's simply hindsight. And the quote that Mr. McGlothlin did not read specifically states, "The use of pure hindsight in assessing the prudence as past action is patently unfair. A utility should not be charged with knowledge of facts which could not be foreseen or expected to comply with future regulatory policies. Expectations are not always borne out. The prudence of the decision-making should be viewed from the perspective of the decision-maker at the time the decision was made." We have the gentleman, Mr. Pitcher, who was involved in the procurement decisions that OPC is now challenging. He's prepared to address the issues that they've raised. The fact is they have not raised specific facts, that I would say they haven't met their burden of going forward in legal terms. But, nevertheless, we have a witness here who's ready to address these issues. He can do so succinctly through cross-examination and redirect, if necessary. And we believe it's more -- it's better for purposes of administrative convenience to resolve this issue now while we have the witnesses before us, we have the evidence before us, than to delay in another docket on an issue that OPC itself raised in this docket.

MR. McGLOTHLIN: May I respond quickly?

CHAIRMAN BAEZ: Please.

MR. McGLOTHLIN: Commissioners, Mr. Perko said that OPC chose not to file testimony on October 3rd. We were not in the position to file testimony on October 3rd. One reason for the request for the spin-off and the other reason for the motion to defer is because we have only got our consultant on board, and he confirms that we do have an issue that raises significant questions and it should be pursued. And that is why we've filed the motion to defer.

But the fact that we did not file on October 3rd does not impact at all on our ability to do so in the future because the Commission has said that the time to review prudence is during the true-up process, and we aren't there yet with respect to the costs that are associated with these particular transactions. We flagged this issue at a point in time based upon our review of some monthly 423 forms. We did not know until a later point in time the connection between those individual monthly prices and the procurement process. But the fact is that, that this issue is not ripe and will not be ripe until you have the full picture, which includes not only the examination of the transaction, but the impact on the amounts that customers must pay.

And in terms of the hindsight, we don't, we don't propose to use hindsight. But we do propose to intend to put on testimony of an expert who will opine as to whether, based upon the information available to Progress Energy at the time, Progress Energy through Progress Fuels did an adequate job or did not do an adequate job of consulting the market prior to entering these transactions.

MR. PERKO: Mr. Chairman, since Mr. McGlothlin is getting, got a second bite of the apple, I'd ask for the same courtesy.

As far as the ability to put on a witness by October 3rd, I don't think there's any question that OPC had that ability. This docket is an ongoing docket. These procurement decisions were made as a result of solicitations in

April 2004 and September 2004. They've had the opportunity for over a year to conduct any discovery they deem necessary, to hire any consultant they deem necessary, and to develop the case that they could put on in October. They chose to raise this issue and then did not have the testimony that they thought they were going to get. I think at this point to suggest that they need more time is a bit disingenuous. Staff shortly after the close of last year's hearing on November 14th issued Progress a request for production of documents for all the coal solicitations in 2004 as well as other fuel solicitations in 2004, including those that Mr. McGlothlin is talking about. There's no reason why OPC couldn't have gotten that information at the time. It had a full year to review it to prepare for this hearing. So I think it's -- the suggestion that they need more time is just not, just not valid. And, again, we're here, we have a witness available who can answer the questions that Mr. McGlothlin has raised in his motion and his affidavit, and we think it's in the best interest of administrative convenience to go ahead and do that and get the matter resolved today.

CHAIRMAN BAEZ: Commissioners, questions of the parties? Commissioner Deason.

COMMISSIONER DEASON: I have a question for Mr. McGlothlin. If your motion to defer is granted, what happens to the costs associated with the transactions in question?

MR. McGLOTHLIN: Our position would be that the company would collect them, but they would be subject to refund upon future visitation.

COMMISSIONER DEASON: Thank you.

CHAIRMAN BAEZ: Any other questions?

Ms. Vining, you, through the discovery process, got some -- the suggestion is that you got similar information or you got information relevant to the, to the issue that Mr. McGlothlin wants to have deferred.

What is it between -- what is the difference between the information that you got, if you know, what is the difference between the information that you were able to get on what is being argued was a timely basis for, for this incarnation of the docket or this timing and the information that, that Mr. McGlothlin sought to get and seemingly there was not enough time or the timing wasn't right for it? What's the difference?

MS. VINING: I would just say that we did get those contracts earlier this year, and staff has also looked at the 423 forms, which I know that OPC didn't get in an unredacted form until September.

Staff did not have an issue with it during the pendency of this past year, but I will say that staff has had concerns since they attended the deposition of Progress's witness.

And I would point out that even if you deny OPC's motion, they can just come back next year and have the same issue. So I do find Mr. McGlothlin's idea of administrative efficiency persuasive because you can address it now, you can deny his motion, but they can come back next year and ask about any transactions that happened in the last part of 2005 and 2006 as well. So for what that's worth.

CHAIRMAN BAEZ: Commissioners, any other questions?

I think that was -- Ms. Vining, was that an unofficial recommendation to grant the motion or --

MS. VINING: I'll put it this way, I don't have an objection to granting OPC's motion.

CHAIRMAN BAEZ: Okay.

MS. VINING: I'm not going to formally say that we agree with that.

CHAIRMAN BAEZ: I'm sorry?

MS. VINING: I'm not going to go to the point of saying we agree with everything they said in the motion.

CHAIRMAN BAEZ: Okay. All right. Fair enough. Commissioner Bradley.

COMMISSIONER BRADLEY: Well, if OPC has the prerogative to ask these same questions next year, what does granting the motion administratively do to the hearing, achieve?

CHAIRMAN BAEZ: Well, let me ask you this --

COMMISSIONER BRADLEY: I mean, denying the motion, I'm sorry, or granting the motion.

CHAIRMAN BAEZ: And let me tack something on to that, Mr. McGlothlin, before you answer. Commissioner Deason asked you a question, what would be the intent of those, of that recovery, the 2005 recovery at this point, and you said something, it would be subject to refund.

MR. McGLOTHLIN: Our position and our expectation would be that the Commission would allow the recovery of those dollars, but it would be understood that the Commission had not finally ruled and that that recovery may be subject to an adjustment if in the future the Commission determines that there was some imprudence on the part of the utility and unreasonable costs incurred.

CHAIRMAN BAEZ: All right. And what about, what about what Ms. Vining said in terms of Public Counsel's opportunity to readdress the issue for 2006 that would include the latter part of 2005 doesn't jibe with, with -- isn't it the same thing?

MR. McGLOTHLIN: If I understood Ms. Vining correctly, I think she was agreeing with my point that because the Commission has by precedent established that the appropriate point in time for, for dealing with the prudency transaction is not at the time the transaction was entered but rather following the true-up of the costs that are related to that, we have that ability to raise this in future proceedings.

CHAIRMAN BAEZ: Well, I guess -- and I guess my point is this. If you have the ability to raise it in future proceedings, what, what is it, what exactly are you losing, absent a deferral, if you still have the opportunity to address the issue?

MR. McGLOTHLIN: I think only the expectation that I would be called on or expected to cross-examine today, when that could be more efficiently done and would be more productive for the Commissioners if it all happened at once. That is Progress Energy puts on its direct case that, by the way, it has not made yet, we make our affirmative showing which we have the opportunity to do under the precedents, and then they have at us, we have at them all in one sitting.

CHAIRMAN BAEZ: Mr. Perko.

MR. PERKO: Mr. Chairman, I'm going to have to disagree with that. I mean, they -- OPC raised the issue in this proceeding. And if we go forward and address it, as we suggest the Commission can do, and get the information it needs to make a decision, they can make a decision on this record. There's no reason to keep it open until next year.

CHAIRMAN BAEZ: But do you -- are you disagreeing, are you disagreeing with what now, I guess, in answer to two separate questions and two separate people at this table have asserted that OPC has the ability to address this issue at -- what is it, it would be the 2006 --

COMMISSIONER BRADLEY: Next year.

CHAIRMAN BAEZ: -- at the true-up; is that what, was that what we said?

MR. PERKO: I would agree with that if, if the Commission doesn't address this issue now. If we address it now --

CHAIRMAN BAEZ: Well, we seem to have, we seem to have two different, we seem to have two different concepts of what goes away and what's preserved. Mr. McGlothlin, I mean -- and I guess the question, the question was, and I don't want to put words in --

MR. PERKO: The question -- I'm sorry, Mr. Chairman. But the question as it's been raised is to the procurement decisions made in 2004. That issue can be addressed now. We have the information regarding the facts that were available at the time those procurement decisions were made.

Now a subsequent true-up period is not going to provide you any additional information to judge the reasonableness of that decision at that time.

CHAIRMAN BAEZ: Mr. McGlothlin --

MR. PERKO: So if the issue is addressed in this docket, as we suggest it should be, then the issue of the, of the reasonableness and prudence of the contract is done. And I don't agree with Mr. McGlothlin's suggestion, if I understand it correctly, that all we would be doing today is taking cross-examination of Progress witnesses, Progress Fuels' witness, and then allowing him at some future date to provide direct testimony. I certainly do not agree with that.

MR. McGLOTHLIN: But the reason why I am right and he is wrong is that the, is that the Commission by order has established that the time to review prudence is at the time of true-up, not at the time the transaction was entered for the very rationales that the Commission laid down in those orders, and that is the Commission and parties in front of the Commission cannot be expected to have the same information that the utility has, and, by the way, the utility has not demonstrated, until these things play out over time. And that is why it would be prejudicial to OPC and the citizens it represents to expect us to be in a position of making a case during this hearing.

CHAIRMAN BAEZ: Commissioners --

MR. McGLOTHLIN: One more thought. I think Mr. Perko argued that there are no facts that warrant a scrutiny. The purpose of the affidavit that I attached was to demonstrate that based upon the discovery to date there are serious concerns about those transactions, including the, the, apparently the fact that Progress Energy, Progress Fuels Corporation, after issuing an extensive RFP to dozens of bidders and receiving 37 proposals, awarded a portion of that contract or that need for 2005/2006 to Progress Fuels which did not have the cheapest bid. Now they've got an answer for that in a pleading, but that's not -- an assertion made in a pleading for the first time in response to our motion is not a vehicle for satisfying burden of proof.

MR. PERKO: An assertion made in --

CHAIRMAN BAEZ: Hang on. Hang on.

MR. McGLOTHLIN: In addition, in the affidavit Mr. Samson points out that when Progress Fuels continued to acquire additional coal for 2005/2006, there was no formal solicitation. There was only phone calls to a total of about five entities, one of whom was Progress Fuels Corporation, the other four of which were foreign coal suppliers.

CHAIRMAN BAEZ: All right. Mr. Perko, you were holding on.

MR. PERKO: Yes, Your Honor. I apologize for the outburst. But I think it's also important to point out that when I said facts, I meant evidentiary facts. There is no evidence submitted by OPC of any facts that justify further scrutiny of these contracts at this time. He submitted no evidence, he submitted no testimony; there's a dearth of record evidence on there. And I would suggest that he has not met his burden of going forward to suggest that further scrutiny is required. Nevertheless, because we have a witness here who can answer those questions, we think it is an appropriate time to deal with these issues. And as far as the question of whether it's appropriate to do it at a true-up, when the costs are trued up, I would suggest to you that these contracts did involve 2005 deliveries, so to a certain extent they are involved in the true-up of this proceeding. So it's not procedurally out of line either.

CHAIRMAN BAEZ: Questions, Commissioners? Now you see why I dragged you all into this. Okay.

COMMISSIONER EDGAR: Mr. McGlothlin, do you need more time?

MR. McGLOTHLIN: For the direct presentation we intend to make, yes, we do.

COMMISSIONER EDGAR: And I understand the arguments that you've raised and that you have a witness who is here, and we want to make good use of that time and we are all here and you are all here. Separate from that, what is your objection to giving OPC more time?

MR. PERKO: Commissioner, we'd just like to come to closure on the issue. As I said, we've got the witness here; he can raise all the factual assertions that have been raised in Mr. McGlothlin's affidavit.

COMMISSIONER BRADLEY: Mr. Chairman.

CHAIRMAN BAEZ: But, Mr. Perko, you recognize, you recognize that, that either, either way recovery isn't being foreclosed, it's just being -- I mean, assuming you don't prevail on your objection, monies are collected and the issue goes forward to a point where it can be settled by this Commission at a later date. But it doesn't -- you know, we're not losing any time on the important stuff, which is picking up the, picking up the recovery in the meantime.

MR. PERKO: We understand that.

CHAIRMAN BAEZ: If the case is what it is, it'll be that way six months from now or whenever it would go, and, again, assuming a later date for consideration of the issue. I mean, do you at least accept that?

MR. PERKO: Yes, Your Honor, we understand that.

CHAIRMAN BAEZ: Okay. Commissioner Bradley.

COMMISSIONER BRADLEY: Right. I asked this question previously and I don't think anyone answered it. If OPC can get the same thing done that it's trying to accomplish today next year, why, why should -- I mean, what purpose does it delay, sir?

CHAIRMAN BAEZ: Mr. McGlothlin, you're on.

MR. McGLOTHLIN: The delay would enable the Commission to entertain the presentation of this issue at one point in time, at which time Progress Energy could make its showing and be subject to cross-examination, and ours will just make his showing and be subject to cross-examination. We could have argument and presentation of the issue to the Commission in a setting and in a manner that makes far more sense than the disjointed process that this present schedule would necessarily involve. We want -- we intend to make the direct case and we'd like to make it in a more logical and sensible fashion, which I think argues for the deferral of the entire matter.

COMMISSIONER BRADLEY: Well, that still doesn't answer my question though. What purpose does a delay or deferral serve if you can accomplish the same, if you can achieve the same thing you're trying to, if you can achieve the same purpose next year that you're trying to, that you say that you're being denied today? It seems to me that you've been arguing this issue, this point for quite a while rather than preparing to, to deal with it today. I don't think this is the first time -- is this the first time this issue has come up?

MR. McGLOTHLIN: In this form it is. As I mentioned in my earlier argument, we first suggested a spin-off which was denied. But this is not, not the same issue. We've now suggested that if it's going to stay in this docket, the logical way to deal with it is to defer it so that all parties can have their day in court, if you will, at the same time and the Commission can make some informed judgments about what it hears in a better setting.

COMMISSIONER BRADLEY: So you requested a spin-off and the spin-off was denied and now you would like to have it deferred because you didn't get the spin-off; is that what the issue is?

MR. McGLOTHLIN: The thing that's common to both the spin-off and the request for deferral is that in each instance we wanted the ability to make a direct presentation through a consultant. The spin-off, we thought, was justified not only on the basis of our desire to make a presentation, but because of what we believe would be the complexity of the issue involved. You've ruled that we don't get a spin-off. We accept that. But we're not foreclosed from saying that in the context of the ongoing cost recovery proceeding, because we have not reached a point of true-up, this, this matter is not really ripe for the Commission to have a complete picture, nor are we foreclosed from making a, putting on the evidence of a consultant at that point in time.

CHAIRMAN BAEZ: Commissioners, other questions or a motion?

COMMISSIONER DEASON: Mr. Chairman, I'm prepared to have a motion and then we can have a debate, if needed.

CHAIRMAN BAEZ: Okay.

COMMISSIONER DEASON: I'm going to move that we grant the motion to defer. And in making that, I don't think there's really a, a one right or wrong answer to this particular question that is in front of us, but I would make some observations.

One is that the entire process that we follow here in the fuel adjustment is one of extraordinary effort on the parties' part, the Commission's. We realize how significant fuel costs are in the overall scheme of providing quality service, we realize that fuel costs vary, and we go to great efforts to try to get current recovery, but we also realize that there are going to be issues raised from time to time that are going to need more time than can be encompassed, well, in this situation a yearly review.

Mr. Chairman, I can remember when we did fuel adjustment monthly, and then I can remember when we did it semiannually, and now we're doing it yearly.

CHAIRMAN BAEZ: My gosh, you did this monthly?

COMMISSIONER DEASON: Maybe we could move it out every two or three years. That's facetious to say that. But the process is one where there is an ongoing jurisdiction and review. And I think it's going to be more efficient for us to have this issue in front of us in one coherent, consistent presentation where the burden still clearly rests with, with Progress Energy, but we can hear their case, their direct case, we can hear Public Counsel's case. I think it'll give time, more time for staff to be involved as well, and other parties too.

So for those reasons -- and besides, I'm hearing the Public Counsel, who is the advocate for the citizens of Florida, saying, in answer to Commissioner Edgar's question, they feel they need more time to present a case which they think is significant and one that needs to be presented to the Commission. And if we're going to err, I'd like to err on that side. So those are the reasons that I would move that we grant the motion to defer.

CHAIRMAN BAEZ: Is there a second?

COMMISSIONER EDGAR: I say ditto to all that, and second.

CHAIRMAN BAEZ: And a second. Very well, Commissioners. There's a motion and a second to grant the motion for deferral. All those in favor, say aye. All those nay.

(Unanimous affirmative vote.)

CHAIRMAN BAEZ: Very well. Staff, can you at least, at least lay out for the Commissioners what the next steps are, when they can expect this back. I'm hearing during the true-up. That's midyear?

MS. VINING: You mean having the issue in front of you?

CHAIRMAN BAEZ: Uh-huh.

MS. VINING: I would think next year's fuel hearing.

CHAIRMAN BAEZ: Next year's fuel hearing?

MS. VINING: Yes.

CHAIRMAN BAEZ: All right. Very well. Thank you, thank you to the parties.

Now, Ms. Vining, we have one more?

MS. VINING: Yes, one more, and that'll be OPC's motion for summary final order.

CHAIRMAN BAEZ: Okay.

MS. CHRISTENSEN: Good afternoon, Commissioners. OPC has filed its motion for summary final order because we believe that there are no genuine issues of material fact regarding the fundamental facts of this case and that as a matter of law we are entitled to a summary final order.

Taking FPUC's plan at face value based on the testimony they filed and on FPUC's petition, we believe FPUC's proposed plan would result in unfair and unreasonable rates. There is no dispute, there is no dispute regarding the fact that FPUC has current purchased power contracts with fixed fuel rates. There's no dispute that under any future contracts it is likely that the fuel cost in any purchased power agreement will be flowed through at market prices. Further, there's no dispute that upon the expiration of the current contracts it is likely that the individual customer bills will increase approximately $30 per 1,000 kilowatt hours; and that FPUC proposes a plan to collect a surcharge from its customers over a two-year period and flow back that money over three years to step up the current rate to the anticipated market rate, i.e., increase the rate to $30 per 1,000 kilowatt hours; and that FPUC proposes to collect the money on a usage basis by customer group. OPC believes that this results in unfair and unreasonable rates on its face. Given these undisputed facts as presented in FPUC's testimony and petition, again, the plan results in unfair and unreasonable rates.

It produces unreasonable rates and unfair rates in several ways. First, it causes intergenerational inequities. Second, it causes interclass subsidizations. Intergenerational inequities are created because the current customers end up paying for future customers' use. A customer could leave the system before the expiration of the plan and he wouldn't get a refund and he would end up paying for the future customers. It also creates interclass subsidization because some of the customers may pay the full surcharge while others may only pay a portion or none at all, but they would all receive the payback based on their usage rates. And there is no discrimination in the plan based on who pays in and how much that customer pays in.

Moreover, if a customer changes his usage rate either by increasing it or decreasing it after the two-year pay-in period, that customer will end up being subsidized or subsidizing others. These problems are inherent in the plan and lead to unjust and unreasonable rates regardless of any other factors.

Moreover, the customers at the customer meetings that were held in the affected service areas overwhelmingly objected to the plan. The customers have expressed some of the same concerns that I've addressed in my previous argument.

If the Commission denies the summary final order, I would urge that the Commission defer ruling on the surcharge issue until service hearings are set and held in the service areas. While the customer -- while customer meetings were held, it is not the same or a substitute for holding hearings to take public testimony in the affected areas, nor has the fuel hearing been noticed as a service hearing to take public testimony. It is the Commission's practice that service hearings be held in affected territories when a rate increase is at issue, as is the case here. And while we have done our best to contact those who came to the customer meetings about the fuel service hearing, it is not the same as noticing all the customers in the affected areas that a hearing on the issue will be held in their area to take public testimony. And we urge that the Commission -- we urge that the Commission set service hearings in the service areas and require that the company provide notice to all the customers. Thank you.

CHAIRMAN BAEZ: Mr. Horton.

MR. HORTON: Thank you, Mr. Chairman.

Commissioners, the standard for the issuance of a summary final order is that there be no genuine issue of material fact, and the burden of establishing that is on the moving party; in this instance, the Office of Public Counsel.

The requirement is that there be no genuine issue of material fact, not that there's just one, two or few, but no issues.

OPC says that the plan does not do some things and that, therefore, there are no genuine issues of material fact. Even if they are right on that, there are indeed issues of material fact, and we disagree on that point. As a matter of fact, OPC has been pursuing production of documents and is reviewing those documents today in order to evaluate the proposal. They said they can't evaluate the proposal without, without reviewing those documents. You can't be, you can't be saying there are no genuine issues of material fact, while on the other hand you're saying we've got to review these to determine whether or not what you're saying is correct. You just can't have it both ways. There are genuine issues of material fact.

OPC says that the plan does not address a couple of the items and that, therefore, the rates are unjust and unreasonable. We absolutely disagree that these rates are unjust and unreasonable. The proposed additive that we have submitted to you in our testimony in the petition would be applied in a nondiscriminatory manner. It's applied to all similarly situated customers. Everyone is treated the same way. The company doesn't benefit from this additive that we've proposed. There's no issue of a revenue increase or rate of return. There's none of that involved in here. So there's absolutely no basis for them to make the statement that the rates are unjust and unreasonable, and actually they offer no support for that.

This is really nothing more than, than an argument, a reargument on the service hearings and an attempt to defer, delay your consideration of this issue.

Entry of a summary final order is a very serious action, as y'all have recognized on a number of occasions. This is not the first time that you've had to consider entering a summary final order, and you've done so very sparingly. You've recognized the serious nature; it ends everything. It may be appropriate in some cases, but it's certainly not appropriate here. Public Counsel has not carried their burden to demonstrate that there's no material fact.

As to the alternative, Public Counsel wants a decision deferred until after there's a service hearing. Quality of service is not an issue in this proceeding, so I assume that they're using the term "service hearing" in a more generic manner. As Ms. Christensen noted, there have been customer meetings. The company sent every customer a notice of those customer meetings outlining the proposal. That notice was reviewed and approved by the Commission staff before it was mailed out. And there were newspapers ads in the newspapers of local circulation in the two areas.

Customers did attend; several submitted additional written comments as a follow-up. Not surprisingly, the customers that attended and submitted their comments don't favor the plan. That's not all of our customers.

The only thing accomplished with a service hearing is to incur additional expense and additional time and it's unnecessary. It would simply delay a resolution of this process, and we think that this has been before the Commission, it's been before Public Counsel long enough. No real purpose is served by deferring. We think that the summary final order should be denied and proceed with the process. We have our witnesses here ready to address the plan, and, as I said, Public Counsel is currently reviewing documents. Thank you.

CHAIRMAN BAEZ: Mr. Horton, a quick question. The information that you say Public Counsel is currently reviewing, was that what was subject to the motion to compel and the motion for protective order and all that sort?

MR. HORTON: Yes, sir. Yes, sir.

CHAIRMAN BAEZ: Okay. And the motion for extension of time, et cetera?

MR. HORTON: Yes, sir. And there are two other motions that I'll have to get to in a moment.

CHAIRMAN BAEZ: Oh, wonderful.

MR. HORTON: Yes.

CHAIRMAN BAEZ: Okay. Commissioners, questions?

COMMISSIONER DEASON: I have a question, Mr. Chairman

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CHAIRMAN BAEZ: Commissioner Deason.

COMMISSIONER DEASON: -- for Ms. Christensen. If we deny the motion for summary final order, where do we find ourselves at that point? I know that if that happens, you want customer hearings as opposed to customer meetings that took place earlier. But where would we find ourselves procedurally for what's in front of us today at this hearing?

MS. CHRISTENSEN: What I guess I would envision is that certainly the panel of witnesses are present. We would take cross -- I would have the opportunity to cross-examine them. Obviously FPUC would put on their case, I would cross-examine them, and then we would defer ruling on the merits of the issue until customer service hearings were held.

We certainly have concerns that -- we disagree strongly with FPUC that it's not necessary to have customer input on this. This is a customer-driven issue. The reason that FPUC has said that they wanted to have this surcharge in the first place is for the customers' benefit. And I think to try and make a decision on this issue without customer testimony that can be considered by the Commission, which testimony or comments, I should say, that are taken at customer meetings are not evidence that can be considered by this Commission. I mean, that really is the crux of the problem here. That, you know, while customers came and gave their input as to their feelings on the plan, that's not testimony that this Commission could consider in this proceeding. And that's why we feel so strongly that these customers should be given the opportunity to come to a service hearing in their areas at times where they, that it's easy for them to come and give their input to the Commission, whether that be positive or negative. And I can only tell you generally that it was not positive from the customer meetings, but that doesn't mean that at the service hearings there may be customers that believe this is a positive plan. But, regardless, it's necessary input. And I think after those customer service hearings would be held, then either the Commission could schedule a Special Agenda or actually bring it up in a regular Agenda item and make a ruling on this.

CHAIRMAN BAEZ: Can you -- now the customer meetings that are referred to, what were those, what were those meetings about? Because my -- certainly Mr. Horton represented that the, that the plan as it's referred to that we're discussing here was, was before the customers at the time of the customer meeting. What was the customer meeting about?

MS. CHRISTENSEN: I have no dispute that the customer meetings were about the plan and making their presentation to customers, similar to you would have in a water proceeding where you go out in the, at the beginning of the case and take customer testimony, particularly in a PAA proceeding. And I'll tell you truthfully, it's always been OPC's position that this issue had no -- did not belong in the fuel proceeding, that it should have been through a separate proceeding. But in the way that this has worked out, it is in this proceeding and we are --

CHAIRMAN BAEZ: Here it is. Right.

MS. CHRISTENSEN: -- left to deal with this in this proceeding. You know, and like I said, we feel very strongly that this is a customer-driven issue and that customer input on this issue is critical to the Commission's decision in this matter.

CHAIRMAN BAEZ: Commissioner Deason.

COMMISSIONER DEASON: Mr. Chairman, perhaps now is a good time for me to follow through on a commitment that I made. I attended these customer meetings. And a number of the customers raised the question as to how their thoughts and inputs at that customer meeting were going to be communicated to the other Commissioners, and I assured them that I would communicate that to you all. I can't do that outside of a public hearing. And now we're in a public hearing, so I can communicate that to you.

There was dissatisfaction by the customers with the plan. They -- I think there was, there was some concern that it was, while it was not expressed explicitly by the customers, they were concerned that there was no formal means for them to have their, their wishes known to the other Commissioners, since I was the only Commissioner there, and there was no obligation for any other Commissioner to be there because it was just a customer meeting. It was not a hearing.

CHAIRMAN BAEZ: Right. I was thinking, did I miss something?

COMMISSIONER DEASON: And I assured them that our staff would communicate with all of the Commissioners and I assured them that the parties in this hearing now will communicate to the Commissioners and that there will be an opportunity for expert testimony on the question so that it will be, it will be given the attention that it deserves. So I made that -- and I made the commitment to at least one or two individuals that I would communicate to my fellow Commissioners the dissatisfaction that was expressed by the customers, and a lot of the dissatisfaction with the items which Ms. Christensen raised about the possibility of cross-subsidization between customer classes, and questions about timing and whether a particular customer leaves the system or joins the system at a certain time, they may benefit or be harmed by the particular plan. And I'm sure these are aspects of the plan that FPUC's witnesses probably are prepared to address at some point if we go forward with it. So I feel like I've met my commitment to --

CHAIRMAN BAEZ: True to your word, Commissioner

Deason.

COMMISSIONER DEASON: -- to the customers in attendance that I have communicated that to you all.

CHAIRMAN BAEZ: The -- well, Ms. Christensen, do you think, do you think that three different people at least communicating, albeit not, not under sworn testimony and so forth, but, I mean --

MS. CHRISTENSEN: I understand what you're saying and I'd like to say yes, but I'm afraid that technically --

CHAIRMAN BAEZ: We shouldn't even talk about this out loud, should we?

MS. CHRISTENSEN: It's not testimony. It's not evidence.

CHAIRMAN BAEZ: I understand. And we're --

MS. CHRISTENSEN: And my concern is that this Commission has to make its decision based on the testimony that's in the record.

CHAIRMAN BAEZ: Agreed.

MS. CHRISTENSEN: And we do not have a mechanism to provide that customer testimony.

CHAIRMAN BAEZ: Agreed.

MS. CHRISTENSEN: And I think obviously Commissioner Deason has made his best efforts to communicate their thoughts to you today. But still we're going to end up with a problem at the end of the service hearing that their thoughts and comments are not going to be made part of the record. And maybe that was an oversight that should have been corrected when the customer meetings were set up, maybe they should have been set up as service hearings in the first place and we would have avoided this, but that's not the case, so.

CHAIRMAN BAEZ: Ms. Christensen, Commissioner Deason did allude to the fact that to the extent that the Commissioners were, and I'm asking you, I guess, he related to us the fact that a lot of the customers' complaints at the customer meeting were of the sort that are essentially covered by, covered by, in fact, the policy arguments that you're making as part of, as part of your argument, the intergenerational inequities and so on and so forth.

Do you -- are those the kinds of questions that you might be confident that you can elicit some answers to from Mr. Horton's witnesses to the extent that you can get, if not the words of the customers, but the, the, the substantive objections of the customers as has been related to us on the record and create a, you know, I guess create just as good a basis as any for consideration?

MS. CHRISTENSEN: Well, certainly while I intend to address the concerns that were raised by the customers that I'm aware of --

CHAIRMAN BAEZ: I'm sure you do.

MS. CHRISTENSEN: -- from the customer meeting, that certainly doesn't address if they were to raise other concerns at a service hearing which I'm not aware of at this point.

CHAIRMAN BAEZ: Clearly.

MS. CHRISTENSEN: You know, and like I said, I mean, it has been the Commission's practice when you're talking about a general rate increase to go out and have testimony in the service areas, whether or not --

CHAIRMAN BAEZ: Is this a general rate increase?

MS. CHRISTENSEN: Well, it's an unusual circumstance. This is -- they are asking for --

CHAIRMAN BAEZ: Because I have a problem. I can, I can swallow it when a newspaper mischaracterizes what we're doing here right now as a rate increase. But I think we -- at least the people that are involved in the process need to be a little bit more accurate than that. Is it a rate increase, is that, is that your --

MS. CHRISTENSEN: From a customer's perspective, a surcharge on their bill on a kilowatt percent hour is going to be a rate increase to them. And from that perspective it is a surcharge. It will be an increase in their rates that they will have for two years.

CHAIRMAN BAEZ: It'll be an increase -- no, but, again, if we start referring to it as a rate increase, then, yes, then maybe, maybe the need for customer hearings and so on and so forth might be appropriate or even mandated in this case.

But, but I want us to be very careful that what we're -- you're not making the argument that by statute the Commission is legally bound to have a service hearing on this issue, are you?

MS. CHRISTENSEN: Well, I think in my motion I have cited to the rule that talks about where the Commission goes out in those types of proceedings and has service hearings.

This is, I will admit, an unusual circumstance because the surcharge which will result in a rate increase to customers over the next two years is not something that I think is contemplated, frankly, under the statute; at least this has never been done before. So for me to be able to tell you that your rule covers this precise instance, I think probably in the spirit of the rule it does.

CHAIRMAN BAEZ: Fair enough.

MS. CHRISTENSEN: But I wouldn't probably go as far as saying that it's something that's clearly identified in the rule because that rule generally pertains to base rate increases.

CHAIRMAN BAEZ: And I want -- and I'm sorry. I don't mean to -- I just want the distinction made clear. It's -- call it a pet peeve about what we're doing in fuel clause hearings and so on.

MS. CHRISTENSEN: Right. But I want to make -- this will be perceived by the customers as an increase in their bills. It's a surcharge. It's an odd, unusual type of thing which I think would fall within the spirit of that rule. And I think the Commission has given great deference to trying to provide service hearings for customers when there will be an increase in their bills, particularly since this is an unusual circumstance.

CHAIRMAN BAEZ: You know, I'm very, I'm very wary with the way things, with the way things have been going in the past few years of establishing a precedent of having service hearings. And, again, speaking as someone who perhaps shortly won't have, won't have to worry about these things, but I'm very wary about this Commission having to start or starting a precedent of having service hearings, customer service hearings on fuel, on fuel, fuel clause issues. It might be a good idea, it might not, but it's definitely not something that we should be starting anew here.

Commissioner Bradley had a question or comment and then Commissioner Deason.

COMMISSIONER BRADLEY: Right. And I wouldn't, I wouldn't want us to get a rate issue confused with a surcharge. I think that's an unfair characterization. A rate increase is permanent. A surcharge is hopefully temporary.

CHAIRMAN BAEZ: Yeah. Well, Commissioner, I mean, Ms. Christensen makes a valid point. Perception is everything.

Now how much, how much of the responsibility any of us in this room bears for that perception is a whole other matter. But at least for my part I'd like us to be, I'd like us to be clear for everyone who may develop a perception about this as to what we're talking about.

COMMISSIONER BRADLEY: Well, I think that it's important that we be very clear that the surcharge is not a permanent increase. It's just there to take care of an extenuating, hopefully an extenuating circumstance; hurricane cost recovery. I guess in the case of, in the case that we're dealing with, we're dealing with a surcharge that may be attached to the fuel because of an extenuating, some, several extenuating weather events. And hopefully -- I mean, I -- you know, we've had a discussion about permanency of them, but hopefully we will see the same thing happening with fuel costs that's used to generate energy as we see with, that's happening at the gas stations, at some point they will turn back to the negative.

And I think it's unfair -- I know that there's some customers who are listening to this. I think we need to be very clear to them that there is a difference between a rate increase and the use of a surcharge in order to meet hopefully a temporary situation.

CHAIRMAN BAEZ: Commissioner Deason.

COMMISSIONER DEASON: Yes, Mr. Chairman. Often times what you call something or what label you put on it sometimes can distort or give a perception of one thing or the other. I mean, what's in front of us today could easily be called a rate shock mitigation plan. That sounds more palatable than a surcharge, but it's still the same thing.

But to the company's credit, I think they do have a genuine concern about the potential rate shock on their customers. But there are impacts on customers and there were a lot of concerns raised by customers in this plan.

Mr. Chairman, I don't think that this matter, that as it currently exists, I don't think that we can grant summary final order. I think that is an extreme remedy. I think that, as Mr. Horton indicated, it's something the Commission has used extremely conservatively, and I think that there are questions of fact that need to get in front of the Commission.

As to the, having customer hearings, it may be that if we go forward with the hearing today and hear the witnesses, then the Commission may be better informed as to do they think this rises to the level to where it would be advantageous and a wise use of Commission time and resources to conduct official customer hearings with court reporters and transcripts and, and comprise evidence in the record. So I would suggest that maybe we just deny the summary final order, go ahead, hear the witnesses and the cross-examination, and then just defer ruling on the customer hearings until we have that information in front of us.

CHAIRMAN BAEZ: Commissioner, well, I for one, I think that's reasonable. I mean, it, it may be that based on the, based on the record we have up to a point the Commission may feel comfortable enough to rule one way or another. But I'm certainly amenable, Commissioner, to keeping the deferral on tap, as it were, for after, after we have the cross-examination and the hearing that we've got scheduled today.

Commissioners, there's -- I guess I don't want to call it half a motion, but that is, in fact -- there's a motion to deny the summary final order portion of, of the filing. Is there a second?

COMMISSIONER BRADLEY: Second.

COMMISSIONER ARRIAGA: Second.

CHAIRMAN BAEZ: We have two seconds. All those in favor, say aye.

(Unanimous affirmative vote.)

CHAIRMAN BAEZ: Very well. And by your motion, necessarily we're going to hold the request for a deferral and service hearings, I don't know what the magic word is, we're going to hold off on it until after, until we get to the end and see what we've got at that point. Very well. Thank you.

Mr. Horton.

MR. HORTON: Yes, Mr. Chairman, I have two other easy motions.

CHAIRMAN BAEZ: Very well. Where were you at the beginning of all of this, Mr. Horton? You knew what we were trying to do.

MR. HORTON: I thought the last one was an easy one.

CHAIRMAN BAEZ: Go ahead, sir.

MR. HORTON: With respect to the discovery and the protective order, in the protective order the Prehearing Officer recognized that the materials that we're going to produce, would be producing were considered confidential business information. This morning I filed a temporary protective order as to the review of that material by Public Counsel and a motion for confidential treatment. I don't -- Ms. Christensen probably hasn't even seen the temporary protective order because it was sent out after everybody was over here, but I don't think she has an objection. We talked about that last week.

MS. CHRISTENSEN: No. I don't have an objection to a temporary protective order or a protective order as necessary for the documents he's talking about.

CHAIRMAN BAEZ: The motion that you're presenting is for, is for a protective order?

MR. HORTON: Temporary protective order as to Public Counsel and a motion for confidential treatment as to the Commission, yes, sir.

CHAIRMAN BAEZ: We'll grant both motions. Show them granted. And you had another one or --

MR. HORTON: No. That was the two of them.

CHAIRMAN BAEZ: We're done? Outstanding.

Let's -- can we take ten minutes and then we'll be back and start, start compiling a record of sorts.

(Recess taken.)

CHAIRMAN BAEZ: We'll go back on the record. And it has been brought to my attention that we have perhaps a couple of brief additional preliminary matters that we can dispense with right away. And in the time-honored practice of doing the easy things first, Mr. Perko, you need to have a witness excused; correct?

MR. PERKO: Yes, Mr. Chairman. In light of the Commission's decision to defer the Issue 13L, I believe that all the issues that Mr. Pitcher was going to testify about have either been dropped or stipulated. So I have tried to canvass counsel, and I believe I got everyone except for Mr. Wright, and I think everyone is agreeable to stipulating Mr. Pitcher's testimony exhibits into the record.

CHAIRMAN BAEZ: Perhaps then, Mr. Lavia, do you have anything for Mr. Pitcher?

MR. LAVIA: No objection.

CHAIRMAN BAEZ: No objection? Great.

MS. VINING: Staff has no objection.

CHAIRMAN BAEZ: No objections? Perfect. So then we can show Mr. Pitcher excused.

MR. PERKO: And introduce his testimony.

CHAIRMAN BAEZ: Oh, maybe we should do that now.

MS. VINING: Well, do you want to wait until we mark exhibits?

MR. PERKO: We can do that.

CHAIRMAN BAEZ: Can you, can you give us, can you give me -- we will get to it. But at least for practical purposes, the witness is going to be excused in due course.

Mr. Beasley, you have more good news.

MR. BEASLEY: Mr. Chairman, I have the same question for the witnesses Aldazabal and Wehle for Tampa Electric Company. Their issues have either been dropped or stipulated or address fallout matters that are not contested. So I would ask that we'd be able to stipulate their testimony and exhibits at the appropriate time.

CHAIRMAN BAEZ: Right. As of prehearing, I only show that staff had questions for them; no one else did.

MS. VINING: We no longer have questions.

CHAIRMAN BAEZ: Yeah. You no longer --

MS. VINING: Right.

CHAIRMAN BAEZ: Well, what I'm saying is that you were, you were the outliers on that and now you -- or is there anyone else --

MS. VINING: No, I'm not sure. I don't know what the other Intervenors' postures are.

CHAIRMAN BAEZ: Let's tee it up for the rest of the parties. Witnesses Wehle and Aldazabal, Aldazabal, as we say in the old country, does anyone have any questions for Witness Aldazabal, Witness Wehle? Seeing none.

MS. CHRISTENSEN: OPC has no questions for those witnesses.

CHAIRMAN BAEZ: You don't have questions. Mr. Perry, just making sure.

MR. PERRY: None of those witnesses.

CHAIRMAN BAEZ: Okay. Speak up or forever hold your, whatever it is you hold. Very well. And we will enter their testimony, prefiled testimony and exhibits into the record in due course, perhaps shortly.

Any other preliminary matters before, before we actually get started on this road? No.

Okay. Where were we, prefiled testimony?

MS. VINING: Well, actually now we can move on to the exhibits.

CHAIRMAN BAEZ: I'm sorry?

MS. VINING: Exhibits.

CHAIRMAN BAEZ: Exhibits?

MS. VINING: Yes. We would ask at this time that the Comprehensive Stipulated Exhibit List be marked as Exhibit

1 and entered into the record. I've distributed a copy of that to all the parties, and all the Commissioners should have that as well.

CHAIRMAN BAEZ: And if you'd just give me two seconds so I can locate my copy. Here we go. All right. And just, just to make sure, it's listing 1 through 75 inclusive? I just want to make sure I've got the right one.

MS. VINING: I'm sorry?

CHAIRMAN BAEZ: It's the one listing 1 through 75 inclusive?

MS. VINING: Yes, Chairman.

CHAIRMAN BAEZ: Okay. So I have the right one. Great. Without objection, show the list titled "Comprehensive Stipulated Exhibits" marked as Exhibit 1.

MS. VINING: Okay. And we'd also ask that it be entered into the record at this time.

CHAIRMAN BAEZ: And without objection, show it admitted into the record.

(Exhibit 1 marked for identification and admitted into the record.)

MS. VINING: And I guess I'd also note that we would ask that the exhibits be marked as listed in Exhibit 1.

CHAIRMAN BAEZ: The Exhibit Number 1 also includes a further sequential list of all the prefiled exhibits to the hearing, and they are marked 2 through 75 as listed therein.

MS. VINING: Correct.

(Exhibits 2 through 75 marked for identification.)

MR. PERKO: Mr. Chairman, just for clarification, under PEF exhibit labeled 42, JP-1R, that would be the revised JP-1R of Mr. Portuondo's supplement testimony of September 9th; correct?

MS. VINING: Correct, as revised in JP-1S.

MR. PERKO: Thank you.

MS. VINING: So, in other words, 42 --

CHAIRMAN BAEZ: 44 would be revisions to Exhibits Numbers 42 and 43.

MS. VINING: 44, revised 42, and I'm just confirming to Mr. Perko that that corrected exhibit is what you would have and what will be entered into the record.

CHAIRMAN BAEZ: Okay.

MR. PERKO: What I wanted to make sure, we had an Exhibit JP-1R to the August testimony that we substituted revised Exhibit JP-1R for in September. So I want to make sure that this Exhibit 42 is the revised JP-1R.

MS. VINING: Yes.

MR. PERKO: Thank you.

CHAIRMAN BAEZ: Very well. Ms. Vining.

MS. VINING: Yes. I would also note at this time that the exhibits marked 2 and 3 in the list are two different staff composite exhibits that I believe are stipulated, and 2 is nonconfidential items and 3 are the confidential items in the staff's composite exhibit.

CHAIRMAN BAEZ: Are all the parties clear as to which one is which? And there's no objections, I'm assuming. Very well.

MS. VINING: So I would ask that those be entered into the record at this time.

CHAIRMAN BAEZ: Without objection, show Exhibits 2 and 3 entered into the record.

(Exhibits 2 and 3 admitted into the record.)

MR. BEASLEY: Mr. Chairman, if it's the appropriate time, I could move the admission of Mr. Aldazabal's Exhibit 66, 67 and 68, and Ms. Wehle's Exhibits 69, 70 and 71.

CHAIRMAN BAEZ: Without objection, show Exhibits 66, 67, 68, 69, 70, and 71 admitted into the record.

(Exhibits 66 through 71 admitted into the record.)

MS. VINING: Okay. At this time I think we can move on to the testimony for excused witnesses.

CHAIRMAN BAEZ: Okay. There are a number of witnesses who are marked by an asterisk in the prehearing order. Can you -- give me a page number, would you?

MS. VINING: In the prehearing order?

CHAIRMAN BAEZ: Yeah.

MS. VINING: That's going to be Page 5 on to 6. The first one that's marked with an asterisk is Sonnelitter for

FPL.

CHAIRMAN BAEZ: Very well. Without objection, show the direct testimony of Witness Sonnelitter entered into the record as though read.

MS. VINING: And Ms. Sonnelitter has two exhibits associated with her testimony which have been marked as 19 and 20.

CHAIRMAN BAEZ: Without objection, show Exhibits 19 and 20 admitted.

(Exhibits 19 and 20 admitted into the record.)

MS. VINING: Next would be the three witnesses of Gulf, which are witnesses Ball, Davis and Noack.

CHAIRMAN BAEZ: Without objection, show the direct testimony of Gulf witnesses Ball, Davis and Noack entered into the record as though read.

MS. VINING: And associated with their testimony are Exhibits 34 through 40.

CHAIRMAN BAEZ: And without objection, show Exhibits 34 through 40 admitted.

(Exhibits 34, 35, 36, 37, 38, 39 and 40 admitted into the record.)

MS. VINING: Next is Robert Oliver for Progress Energy. Oh, I'm sorry. Excuse me. Mr. Pitcher has been excused at this point too, so his testimony can be entered into the record as though read.

CHAIRMAN BAEZ: Yes. Without objection, show the direct testimony of Witness Pitcher entered into the record as though read. And if you can point me to --

MS. VINING: Sure. His exhibits are 51 through 61.

CHAIRMAN BAEZ: Without objection, show Exhibits 51 through 61 inclusive admitted.

(Exhibits 51, 52, 53, 54, 55, 56, 57, 58, 59, 60 and 61 admitted into the record.)

CHAIRMAN BAEZ: Next is Witness Oliver.

MS. VINING: If you'd like, we could take up the three Progress witnesses together, Robert Oliver, Samuel Waters and Michael Jacob.

CHAIRMAN BAEZ: Very well. Without objection, show the direct testimony of witnesses Oliver, Waters and Jacob admitted into the record as though read.

MS. VINING: And the associated exhibits for those three witnesses are 62 through 65.

CHAIRMAN BAEZ: Without objection, show Exhibits 62, 63, 64 and 65 admitted.

(Exhibits 62, 63, 64 and 65 admitted into the record.)

MS. VINING: And now we have three of TECO's witnesses.

CHAIRMAN BAEZ: We've already --

MS. VINING: Right. You've entered in the exhibits, but I don't know if the testimony has been inserted into the record.

CHAIRMAN BAEZ: Okay. Without objection, we can show the direct testimony of Witness Aldazabal, Smith and Wehle entered into the record as though read. And the associated exhibits for Aldazabal and Wehle have been previously entered or admitted. And the -- does Smith have --

MS. VINING: Smith does not have any exhibits.

CHAIRMAN BAEZ: Does not have any. Very well.

MS. VINING: And with that, I believe those are all the witnesses who have been excused.

BEFORE THE PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF PAMELA SONNELITTER

DOCKET NO. 050001-EI

APRIL 1, 2005

Q. Please state your name and business address.

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

Q. Would you please state your present position with Florida Power and Light Company (FPL).

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

Q. Have you previously testified in the predecessor to this Docket?

A. Yes, I have

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to report the actual performance for the Equivalent Availability Factor (EAF) and Average Net Operating Heat Rate (ANOHR) for the sixteen (16) generating units used to determine the Generating

Performance Incentive Factor (GPIF). I have compared the actual performance of each unit to the targets that were approved in Commission Order No. PSC-03-1461-FOF-EI issued December 22, 2003, for the period January through December 2004, and I have performed the calculations prescribed by the GPIF Rule based on this comparison. My testimony presents the result of my calculations, which is an incentive reward for the period.

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

A. Yes, I have. It consists of one document:

PS -1: Document No. 1

Page 1 of the document is an index to the contents of the document.

Q. What is the incentive amount you have calculated for the period January through December, 2004?

A. I have calculated a GPIF incentive reward of $10,816,748.

Q. Please explain how the GPIF reward amount is calculated.

A. The steps involved in making this calculation are provided in Document No. 1. Page 2 of Document No. 1 provides the GPIF Reward/Penalty Table (Actual), which shows an overall

GPIF performance point value of +4.35 corresponding to a GPIF reward of $10,816,748. Page 3 provides the calculation of the maximum allowed incentive dollars. The calculation of the system actual GPIF performance points is shown on page 4. This page lists each GPIF unit, the unit's performance indicators (ANOHR and EAF), the weighting factors and the associated GPIF points.

Page 5 is the actual EAF and adjustments summary. This page lists each of the sixteen (16) units, the actual outage factors and the actual EAF, in columns 1 through 5. Column 6 is the adjustment for planned outage variation. Column 7 is the adjusted actual EAF, which is calculated on page 6. Column 8 is the target EAF. Column 9 contains the Generating Performance Incentive Points for availability as determined by interpolating from the tables shown on pages 8 through 23. These tables are based on the targets and target ranges submitted to, and approved by, the Commission prior to the start of the period. Page 7 shows the adjustments to ANOHR. For each of the sixteen (16) units, it shows, in columns 2 through 4, the target heat rate formula, the actual Net Output Factor (NOF) and the actual ANOHR. Since heat rate varies with NOF, it is necessary to determine both the target and actual heat rates at the same NOF. This adjustment is to provide a common basis for comparison purposes and is shown numerically for each GPIF unit in columns 5 through 8. Column 9 contains the Generating Performance Incentive Points as determined by interpolating from the tables shown on pages 8 through 23. These tables are based on the targets and target ranges submitted to, and approved by, the Commission prior to the start of the period.

Q. Has FPL made any adjustments to the actual equivalent availability factor (EAF) of the GPIF units as a result of the hurricanes that hit FPL's service territory during 2004?

A. Yes. The GPIF Manual, Section 3, Paragraph 4.3.1, states: "Adjustments to the equivalent availability performance indicator will be considered by the Commission on a case by case basis. Generally, adjustments to the equivalent availability performance indicator which will be considered by the Commission are categorized as follows:

- Natural or externally caused disaster.
- Unforeseen shutdown or continued operation of a unit pursuant to the actions of a Regulatory agency.
- Rescheduling of planned maintenance into or out of the review period.
- An identifiable and justifiable change in the work scope of a planned outage affecting total outage time.
- A difference between actual and forecast reserve shutdown hours, if reserve shutdown hours are used as

part of the equivalent availability target setting methodology"

Consistent with this provision of the GPIF Manual, FPL proposes to adjust the actual EAF of St. Lucie Units 1 and 2 to remove the impact of the shutdowns of these units that were necessitated by hurricanes Frances and Jeanne during September and October, 2004.

Q. Please describe the shutdown of St. Lucie Units 1 and 2 due to hurricane Frances.

A. The units were both brought offline on September 4, shortly before the site began experiencing hurricane-force winds from hurricane Frances as required by St. Lucie's Technical Specifications. Units 1 and 2 returned to service on September 14 and September 18, respectively

Q. Please explain why St. Lucie Units 1 and 2 remained shut down for several days as a result of hurricane Frances.

A. A series of factors contributed to the amount of time St. Lucie Units 1 and 2 remained shutdown. At the time of the hurricane's eye landfall on Hutchinson Island, hurricane Frances was a category 2 storm with maximum sustained winds of 108 mph. The slow movement of hurricane Frances intensified the effects of this storm. The area was impacted for 60 hours with 18 hours of hurricane force winds and 5 hours of exposure to the strongest winds of the hurricane's eye wall. The last hurricane force winds passed on Sunday morning, September 5, after which the Onsite Damage Assessment commenced. After the storm, local phone system was degraded and access to Hutchinson Island was limited due to the north bridge being out. The ability to conduct an evacuation of the surrounding areas is a prerequisite to restarting the units following a natural disaster, and requires NRC and FEMA approval.

On Sunday evening, FEMA and the NRC initiated their post disaster review. On September 7, FEMA completed its review and advised the NRC that it could give reasonable assurance for the re-start of the St. Lucie units. The NRC authorized FPL to commence the units' normal start-up procedures on that same day. Units 1 and 2 returned to service on September 14 and 18, respectively, after recovering from problems with salt water and rain intrusion into electrical equipment and the condensate/feedwater systems.

Q. Please describe the shutdown of St. Lucie Units 1 and 2 due to hurricane Jeanne.

A. The units were both brought offline on September 25, shortly before site began experiencing hurricane-force winds from hurricane Jeanne as required by St. Lucie's Technical

Specifications. Units 1 and 2 returned to service on October 3 and 4, respectively. .

Q. Did FPL undergo the same sort of post-hurricane re-start process for St. Lucie Units 1 and 2 following hurricane Jeanne that you previously described with respect to hurricane Frances?

A. Yes, except that the problems with salt water and rain intrusion that were experienced with hurricane Frances did not recur with hurricane Jeanne.

Q. What specific adjustments to the actual EAF for St. Lucie Units 1 and 2 has FPL made to remove the effects of hurricanes Frances and Jeanne?

A. The unforeseen shutdowns of St. Lucie Units 1 and 2 due to hurricanes Frances and Jeanne resulted in increments to the forced outage rates of St. Lucie Units 1 and 2 of 5.20% and 6.61%, respectively. FPL has removed those increments from the 2004 EAF calculation for St. Lucie Units 1 and 2.

Q. Did FPL postpone a planned outage for St. Lucie Unit 2 as a result of hurricanes Frances and Jeanne?

A. Yes. Because of logistical problems resulting from the hurricanes, FPL elected to postpone into 2005 a refueling outage that was planned for the fall of 2004.

Q. Has FPL reflected the impact of postponing this planned outage on the calculation of the adjusted actual EAF for St. Lucie Unit 2?

A. Yes. FPL has substituted the target St. Lucie Unit 2 planned outage hours for the actual planned outage hours in calculating the adjusted actual EAF. The impact of this adjustment is minimal, resulting in only a trivial decrease to the adjusted actual EAF from 90.1% to 90.0% and no change to the GPIF incentive reward because both EAF values exceed the upper end of the reward range. Nonetheless, FPL believes it is appropriate to make this adjustment so that the effects of hurricanes Frances and Jeanne on both the forced outages and planned outages at St. Lucie Unit 2 have been handled consistently.

Q. Are there any changes to the targets approved through Commission Order No. PSC-03-1461-FOF-EI?

A. No, the approved targets have not changed.

Q. Please explain the primary reason or reasons why FPL will be rewarded under the GPIF for the January through December, 2004 period.

A. The primary reason that FPL will receive a reward for the period was that Turkey Point Nuclear Units 3 & 4, and St. Lucie

Nuclear Units 1 & 2 adjusted availability was better than targeted.

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

A. Turkey Point Unit 3 operated at an adjusted actual EAF of 76.6% compared to its target of 75.8%. This results in a +2.53 point reward, which corresponds to a GPIF reward of $553,063.

Turkey Point Unit 4 operated at an adjusted actual EAF of 97.7% compared to its target of 93.6%. This results in a +10.00 point reward, which corresponds to a GPIF reward of $2,689,725.

St. Lucie Unit 1 operated at an adjusted actual EAF of 93.0% compared to its target of 86.8%. This results in a +10.0 point reward, which corresponds to a GPIF reward of $3,060,836.

St. Lucie Unit 2 operated at an adjusted actual EAF of 90.0% compared to its target of 85.4%. This results in a +10.0 point reward, which corresponds to a GPIF reward of $2,548,102.

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

A. Turkey Point Unit 3 operated with an adjusted actual ANOHR of 10,987 Btu/kWh. This results in a +10.0 point reward, which corresponds to a GPIF reward of $550,460.

Turkey Point Unit 4 operated with an adjusted actual ANOHR of 11,116 Btu/kWh. This ANOHR is within the ± 75 Btu/kWh deadband around the projected target; therefore, there is no GPIF reward or penalty.

St. Lucie Unit 1 operated with an adjusted actual ANOHR of 10,838 Btu/kWh. This ANOHR is within the ± 75 Btu/kWh deadband around the projected target; therefore, there is no GPIF reward or penalty.

St. Lucie Unit 2 operated with an adjusted actual ANOHR of 10,918 Btu/kWh. This ANOHR is within the ± 75 Btu/kWh deadband around the projected target; therefore, there is no GPIF reward or penalty.

In total, the nuclear units' heat rate performance results in a GPIF reward of $550,460.

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

A. $9,402,187

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

A. Yes. Regarding EAF performance, eight (8) of the twelve (12) fossil generating units performed better than or equal to their availability targets, while the remaining units performed worse than their targets. The combined fossil unit availability performance results in a GPIF reward of $1,462,000.

Regarding ANOHR, four (4) out of the twelve (12) fossil units were below the ± 75 Btu/kWh deadband around their projected targets, resulting in a reward. Three (3) units out of the twelve (12) fossil units operated with ANOHRs that were worse than their projected targets resulting in a penalty. The remaining five (5) units operated with ANOHRs that were within the ± 75 Btu/kWh deadband around the projected targets, and they will receive no incentive reward or penalty. The combined fossil units heat rate performance results in a GPIF penalty of $47,439.

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

A. $1,414,561

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF P. SONNELITTER

DOCKET NO. 050001-EI

SEPTEMBER 9, 2005

Q. Please state your name and business address.

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

Q. Would you please state your present position with Florida Power and Light Company (FPL).

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

Q. Have you previously submitted testimony in this docket?

A. Yes, I have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the target unit equivalent availability factors (EAF) and the target unit average net operating heat rates (ANOHR) for the period of January through December, 2006, for use in determining the Generating Performance Incentive Factor (GPIF).

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

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

Q. Please summarize the 2006 system targets for EAF and ANOHR for the units to be considered in establishing the GPIF for FPL.

A. For the period of January through December, 2006, FPL projects a weighted system equivalent planned outage factor of 6.4% and a weighted system equivalent unplanned outage factor of 6.7%, which yield a weighted system equivalent availability target of 86.9%. The targets for this period reflect planned refueling outages for three nuclear units. FPL also projects a weighted system average net operating heat rate target of 8,469 Btu/kWh for the period January through December, 2006. As discussed later in this testimony, these targets represent fair and reasonable values when compared to historical data. Therefore, FPL requests that the targets for these performance indicators be approved by the Commission.

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

A. Yes, I have. Document No.1, pages 6 and 7, contains the information summarizing the targets and ranges for EAF and ANOHR for the 13 generating units which FPL proposes to be considered as GPIF units for the period of January through December, 2006. These pages were prepared in accordance with the latest revisions of the GPIF Manual. All of these targets have been derived utilizing the methodologies adopted in the GPIF Manual.

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

A. The GPIF Manual requires that the EAF target for each unit be determined as the difference between 100% and the sum of the equivalent planned outage factor (EPOF) and the equivalent unplanned outage factor (EUOF). The EPOF for each unit is determined by the length of the planned outage, if any, scheduled for the projected period. The EUOF is determined by the sum of the historical average equivalent forced outage factor (EFOF) and the equivalent maintenance outage factor (EMOF). The EUOF is then adjusted to reflect recent unit performance and known unit modifications or equipment changes.

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

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

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

A. The GPIF units were selected in accordance with the GPIF Manual using the estimated net generation for each unit taken from the production costing simulation program, POWRSYM, which forms the basis for the projected levelized fuel cost recovery factor for the period. The 13 units which FPL proposes to use for the period of

January through December 2006 represent the top 80.6% of the total forecasted system net generation for this period excluding three units: Sanford unit 4, Martin unit 8, and Manatee unit 3. The repowering of Sanford unit 4 and the conversion of Martin unit 8 to combined cycle constitute a major design change affecting both their generation capacity and the performance of these units. As a result, the future performance of these units will not be comparable to their historical performance. Manatee unit 3 is a new unit for 2005. Consequently, FPL does not yet have enough historical performance data from which to project future performance. Therefore, consistent with the GPIF Manual, the above mentioned units will be excluded from the GPIF calculations until we have enough operating history to use in projecting future performance.

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

A. Yes, they do.

Q. Does this conclude your testimony?

A. Yes, it does.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
H. R. Ball
Docket No. 050001-EI
Date of Filing: March 1, 2005

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

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

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

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

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

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

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

A. The purpose of my testimony is to summarize Gulf Power Company's fuel expenses and to certify that these expenses were properly incurred during the period January, 2004 through December, 2004. Also, it is my intent to be available to answer questions that may arise among the parties to this docket concerning Gulf Power Company's fuel expenses.

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

A. Yes, I have.

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

Q. During the period January, 2004 through December, 2004 how did Gulf Power Company's recoverable fuel expenses compare with the projected expenses?

A. Gulf's recoverable fuel cost of net generation was $368,614,013 or 8.34% above the projected amount of $340,245,540. Actual generation was

15,840,995 MWH compared to the projected generation of 16,252,040 MWH or 2.53% below projections. The resulting actual average fuel cost was 2.33 cents per KWH or 11.48% above the projected amount of 2.09 cents per KWH. The higher total fuel expense is attributed to the higher market fuel prices on all fuel types for the period. Fuel costs for coal on a \$/ton basis were 4.08% higher than forecasted. Fuel cost for gas on a \$/MCF basis was 8.32% higher than forecasted. The higher average per KWH fuel cost is attributed to higher fuel costs and a higher percentage of generation from natural gas fired units than projected. This information is from Schedule A-3 of the Monthly Fuel Filing for the month of December, 2004.

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

A. Excluding Plant Scherer Unit 3, Gulf purchased 2,336,534 tons of coal or 44% of its total coal purchased on the spot market. Schedule 1 of my exhibit consists of a list of contract and spot coal purchases for the period.

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

A. The total actual cost of coal purchased was \$233,011,211 (sum of lines 17 & 30 period to date on the December 2004, Schedule A-5) compared to the projected cost of \$237,862,178 or 2.04% below projected. The lower cost was due to a lower quantity of coal purchases than projected for the period.

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

A. The total cost of coal burned was $239,926,339 (the sum of lines 21 and 34 period to date on the December 2004, Schedule A-5). This is 2.09% higher than our projection of $235,008,136. On a fuel cost per MMBTU basis, the actual cost of coal plus boiler lighter fuel was $1.74 per MMBTU which is 6.75% greater than the projected cost of $1.63 per MMBTU. The higher per unit cost of coal is attributed to higher than anticipated coal prices for spot coal purchases.

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

A. The total cost of natural gas burned for generation was $126,308,124 (line 47 period to date on the December 2004, Schedule A-5). This is 20.53% greater than our projection of $104,791,763. The increase can be attributed to higher than forecasted generation on gas fired units. On a natural gas cost per unit basis, the actual burn cost was $7.14 per MMBTU which is 7.23% higher than the projected cost of $6.85 per MMBTU.

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

A. Gulf Power hedged 8,750,000 MMBTU of natural gas in 2004 using fixed price financial swaps.

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

A. Natural gas was hedged using financial swaps that fixed the price of gas to a certain price. These swaps settled against either a NYMEX Last Day price or Gas Daily price. The entire amount (8,750,000 MMBTU) of gas hedged was hedged using these financial instruments as reflected on Schedule 2 of my exhibit.

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

A. Schedule 2 of my exhibit consists of a table of all natural gas hedge transactions and associated costs. No fees, commissions, or option premiums were paid. Gulf's 2004 hedging program resulted in a net financial gain of $6,631,043 (settlement gains less support costs from lines 2 and 3 of Schedule A-1 December period-to-date).

Q. Did fuel procurement activity during the period in question follow Gulf Power's Risk Management Plan for Fuel Procurement filed with the Florida Public Service Commission on April 1, 2004?

A. Yes, Gulf Power's fuel strategy in 2004 complied with the Risk Management Plan, and the actual results achieved compared favorably with the projected results in the plan. Supply of all fuel types and associated transportation to Gulf's generating plants are secured through a combination of long term contracts and spot purchase orders as specified in the plan. The result was that Gulf's generating plants had an adequate supply of fuel available at all times to meet the electric generation demands of its customers. Fuel cost volatility was mitigated by compliance with the Risk Management Plan. In 2004, Gulf's average cost of fuel consumed was $2.37 per MMBTU. This was 11.27% higher than the original projection of $2.13 per MMBTU. However, the actual cost of fuel was reduced to $2.32 per MMBTU when gas hedging and other fuel cost credits are considered. Gulf was able to hold per unit fuel costs to very reasonable levels for its customers during a period of volatile market fuel prices by following its Fuel Risk Management Plan.

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

A. No.

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

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

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

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony of
H. R. Ball
Docket No. 050001-EI
Date of Filing: August 12, 2005

Q. Please state your name and business address.

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

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

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

Electric System. I transferred to my current position as Fuel Manager for Gulf Power Company in 2003.

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

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

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

A. The purpose of my testimony is to compare Gulf Power Company's original projected fuel and net power transaction expense and purchased power capacity costs with current estimated/actual costs for the period January, 2005 through December, 2005 and to summarize any noteworthy developments at Gulf in these areas. The current estimated/actual costs consist of actual expenses for the period January, 2005 through June, 2005 and newly projected costs for July, 2005 through December, 2005. It is also my intent to be available to answer questions that may arise among the parties to this docket concerning Gulf Power Company's fuel and net power transaction expenses and purchased power capacity costs.

Q. During the period January, 2005 through December, 2005 how will Gulf Power Company's recoverable total fuel and net power transactions cost compare with the original cost projection?

A. Gulf's currently projected recoverable total fuel and net power transactions cost for the period is $317,766,038 which is $24,233,227 or 8.26% above the original projected amount of $293,532,811. The resulting average fuel cost is projected to be 2.6411 cents per KWH or 9.28% above the original projected amount of 2.4169 cents per KWH. The higher total fuel expense and average per unit fuel cost is attributed to higher than projected coal and natural gas prices for the period which are reflected in both the fuel cost of generation and the cost of purchased power. Gulf also is projecting that a greater portion of its energy needs will come from higher cost purchased power and less from lower cost system net generation. This current projection of fuel and net purchase power transaction cost is captured in the exhibit to Witness Davis's testimony, Schedule E-1 B-1, Line 20.

Q. During the period January, 2005 through December, 2005 how will Gulf Power Company's recoverable fuel cost of System Net Generation compare with the original projection of fuel cost?

A. Gulf's currently projected recoverable fuel cost of System Net Generation for the period is $423,810,655 which is 30,367,887 or 7.72% above the original projected amount of $393,442,768. Total net system generation is expected to be 15,552,348 MWH compared to the original projected generation of 15,728,660 MWH or 1.12% below projections. The resulting average fuel cost is expected to be 2.7251 cents per KWH or 8.94% above the original projected amount of 2.5014 cents per KWH. This current projection of fuel cost of system net generation is captured in the exhibit to Witness Davis's testimony, Schedule E-1 B-1, Line 1.

Q. What are the reasons for the difference between Gulf's original projection of the fuel cost of System Net Generation and the current projection?

A. The higher total fuel expense and average per unit fuel cost is attributed to higher than projected delivered coal and natural gas prices for the period.

Q How did the total projected fuel cost of system net generation compare to the actual cost for the first six months of 2005?

A. The total fuel cost of system net generation was $186,155,636 which is $600,369 or 0.32% lower than the projection of $186,756,005. On a fuel cost per KWH basis, the actual cost was 2.5671 cents per KWH which is 5.54% higher than the projection of 2.4323 cents per KWH. This higher cost of system generation on a cent per KWH basis is due to fuel cost in $/MMBTU being 2.37% higher than projected and heat rate (BTU/KWH) of the generating units operating being 3.01% higher than projected. This information is found on Schedule A-1, Period to Date and Schedule A-3 of the June, 2005 Monthly Fuel Filing.

Q. How did the total projected cost of coal burned compare to the actual cost for the first six months of 2005?

A. The total cost of coal burned (including boiler lighter) was $122,179,371 which is $4,150,953 or 3.52% greater than our projection of $118,028,418.

On a fuel cost per KWH basis, the actual cost was 1.99 cents per KWH which is 6.99% greater than the projected cost of 1.86 cents per KWH. The higher than projected cost of coal burned and cost of coal fired generation is due to coal prices being 5.52% higher than projected on a $/MMBTU basis. This information is found on Schedule A-3 of the June, 2005 Monthly Fuel Filing.

Q. How did the total projected cost of natural gas burned compare to the actual cost during the first six months of 2005?

A. The total cost of natural gas burned for generation was $63,967,699 which is $4,759,888 or 9.50% lower than our projection of $68,727,587. On a cost per unit basis, the actual cost was 5.70 cents per KWH which is 9.83% greater than the projected cost of 5.19 cents per KWH. The total cost of natural gas burned for generation is lower than projected due to lower than projected net generation from gas fired units. The cost per KWH for gas fired generation is greater than projected due to higher natural gas prices. Natural gas prices were 6.15% higher than projected on a $/MMBTU basis. This information is found on Schedule A-3 of the June, 2005 Monthly Fuel Filing.

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

A. Gulf Power hedged 4,300,000 MMBTU of natural gas, for the period January, 2005 through June, 2005 using fixed price financial swaps.

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

A. Natural gas was hedged using financial swaps that fixed the price of gas to a certain price. These swaps settled against either a NYMEX Last Day price or Gas Daily price. The entire amount (4,300,000 MMBTU) of gas hedged was hedged using these financial instruments.

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

A. No fees, commission, or option premiums were paid. Gulf's gas hedging program has resulted in a net financial gain of $1,133,511 for the period January through June, 2005 (hedging settlement less support costs).

Q. Are Gulf Power's actual and projected operation and maintenance expenses for 2005 for its non-speculative financial hedging programs to mitigate fuel and purchased power price volatility reasonable for cost recovery purposes?

A. Yes, the O&M costs associated with managing the fuel hedging programs are a small percentage of the total benefit received from these programs. As an example, the projected recoverable O&M cost of managing the gas hedging program for the period January through December, 2005 is $27,985 while the total financial gain credited to fuel expense from the gas hedging program through June 2005 was $1,144,952.

Q. During the period January, 2005 through December, 2005 how will Gulf Power Company's recoverable fuel cost of power sold compare with the original cost projection?

A. Gulf's currently projected recoverable fuel cost of power sold for the period is ($139,488,492) or 14.76% above the original projected amount of $(121,543,000). Total megawatt hours of power sales is expected to be 4,444,075,588 KWH compared to the original projection of 4,221,182,000 KWH or 5.28% above projections. The resulting average fuel cost of power sold is expected to be 3.1388 cents per KWH or 9.01% above the original projected amount of 2.8794 cents per KWH. This current projection of fuel cost of power sold is captured in the exhibit to Witness Davis's testimony, Schedule E-1 B-1, Line 18.

Q. What are the reasons for the difference between Gulf's original projection of the fuel cost of power sold and the current projection?

A. The higher total credit to fuel expense from power sales is attributed to higher replacement fuel costs than projected as a result of higher coal and natural gas prices for the period increasing the fuel reimbursement rate ($/MWH) for power sales. Also, there is a total increase in the number of MWH being sold due to the favorable economic position of Gulf's generating resources in Southern Company's power pool dispatch.

Q. How did the total projected fuel cost of power sold compare to the actual cost for the first six months of 2005?

A. The total fuel cost of power sold was ($59,361,492) which is $465,508 or

0.78% less than our projection of ($59,827,000). On a fuel cost per KWH basis, the actual cost was 2.801 cents per KWH which is 0.21% greater than the projected cost of 2.795 cents per KWH. This information is found on Schedule A-1, Period to Date of the June, 2005 Monthly Fuel Filing.

Q. During the period January, 2005 through December, 2005 how will Gulf Power Company's recoverable fuel cost of purchased power compare with the original cost projection?

A. Gulf's currently projected recoverable fuel cost of purchased power for the period is $32,563,183 or 73.17% above the original projected amount of $18,804,000. Total megawatt hours of purchased power is expected to be 852,513,455 KWH compared to the original projection of 536,336,000 KWH or 58.95% above projections. The resulting average fuel cost of purchased power is expected to be 3.8197 cents per KWH or 8.95% above the original projected amount of 3.5060 cents per KWH. This current projection of fuel cost of purchased power is captured in the exhibit to Witness Davis's testimony, Schedule E-1 B-1, Line 12.

Q. What are the reasons for the difference between Gulf's original projection of the fuel cost of purchased power and the current projection?

A. The higher total fuel cost of purchased power is attributed to higher replacement fuel costs than projected as a result of higher projected coal and natural gas market prices for the period. These higher fuel prices have increased the fuel reimbursement rate for purchased power. Gulf is also purchasing a greater amount of MWH to supplement its own generation to meet load demands.

Q. How did the total projected fuel cost of purchased power compare to the actual cost for the first six months of 2005?

A. The total fuel cost of purchased power was $15,346,791 which is $5,637,791 or 58.07% greater than our projection of $9,709,000. On a fuel cost per KWH basis, the actual cost was 2.982 cents per KWH which is 11.14% lower than the projected cost of 3.355 cents per KWH. The higher than anticipated purchased power expense is due actual KWH purchases being 78% above the projected amount during the first six months of the year. This information is found on Schedule A-1, Period to Date of the June, 2005 Monthly Fuel Filing.

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

A. No.

Q. Were Gulf Power's actions through June 30, 2005 to mitigate fuel and purchased power price volatility through implementation of its non-speculative financial and/or physical hedging programs prudent?

A. Yes, Gulf's physical and financial fuel hedging programs have resulted in more stable fuel prices and lower fuel costs than would have otherwise occurred if these programs had not been utilized.

Q. Should Gulf's fuel and net power transactions cost for the period be accepted as reasonable and prudent?

A. Yes, Gulf's coal supply program is based on a mixture of long term contracts and spot purchases at market prices. Coal suppliers are selected using procedures that assure reliable coal supply, consistent quality, and competitive delivered pricing. The terms and conditions of coal supply agreements have been administered appropriately. Natural gas is purchased using agreements that tie price to published market index schedules and is transported using a combination of firm and interruptible gas transportation agreements. Natural gas storage is utilized to assure that supply is available during times when gas supply is curtailed or unavailable. Gulf's fuel oil purchases were made from qualified vendors using an open bid process to assure competitive pricing and reliable supply. Gulf makes sales of power when available and gets reimbursed at the marginal cost of replacement fuel. This fuel reimbursement is credited back to the fuel cost recovery account so that lower cost fuel purchases made on behalf of Gulf's customers remain to the benefit of those customers. Gulf purchases power when necessary to meet customer load requirements and when the cost of purchased power is expected to be less than the cost of system generation. The fuel cost of purchased power is the lowest cost available in the market at the time of purchase to meet Gulf's load requirements.

Q. During the period January 2005 through December 2005, what is Gulf's projection of actual / estimated net purchased power capacity transactions and how does it compare with the company's original projection of net capacity transactions?

A. As shown on Line 5 of Schedule CCE-1b in the exhibit to Witness Davis's testimony, Gulf's total current net capacity payment projection for the January 2005 through December 2005 recovery period is $23,023,668. Gulf's original projection for the period was $24,009,955 and is shown on Line 4 of Schedule CCE-1 filed in September, 2004. The difference between these projections is $986,287 or a 4.11% decrease in the original projection of net capacity payments and represents the difference between actual capacity payments year to date and the original projection for this period.

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

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
H. R. Ball
Docket No. 050001-EI
Date of Filing: September 16, 2005

Q. Please state your name and business address.

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

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

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

Electric System. I transferred to my current position as Fuel Manager for Gulf Power Company in 2003.

Q. What are your duties as Fuel Manager for Gulf Power Company?
A. My responsibilities include the management of the Company's fuel procurement, inventory, transportation, budgeting, contract administration, and quality assurance programs to ensure that the generating plants operated by Gulf Power are supplied with an adequate quantity of fuel in a timely manner and at the lowest practical cost. I also have responsibility for the administration of Gulf's Intercompany Interchange Contract (IIC).

Q. What is the purpose of your testimony in this docket?
A. The purpose of my testimony is to support Gulf Power Company's projection of fuel expenses, net power transaction expense, and purchased power capacity costs for the period January 1, 2006 through December 31, 2006. It is also my intent to be available to answer questions that may arise among the parties to this docket concerning Gulf Power Company's fuel and net power transaction expenses and purchased power capacity costs.

Q. Have you prepared exhibits that contain information to which you will refer in your testimony?
A. Yes, I have prepared an exhibit that compares actual and projected fuel cost of net generation for the past ten years. The purpose of this exhibit is to indicate the accuracy of Gulf's short term fuel expense projections.

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

Q. Has Gulf Power Company made any significant changes to its methods for projecting fuel expenses, net power transaction expense, and purchased power capacity costs for this period?

A. No. Gulf has been consistent in how it projects annual fuel expenses, net power transactions, and capacity costs.

Q. What is Gulf's projected recoverable total fuel and net power transactions cost for the January, 2006 – December, 2006 recovery period?

A. Gulf's projected total fuel and net power transaction cost for the period is $347,252,229. This projected amount is captured in the exhibit to Witness Davis's testimony, Schedule E-1, Line 21.

Q. How does the total projected fuel and net power transactions cost for the 2006 period compare to the projected fuel cost for the same period in 2005?

A. The total updated cost of fuel and net power transactions for 2005, reflected on revised Schedule E-1B of Witness Davis's testimony, is projected to be $323,077,548. The projected cost of fuel and net power transactions for 2006 represents an increase of $24,174,681 or 7.48%. On a fuel cost per KWH basis, the 2005 projected cost is 2.6897 cents per KWH and the 2006 projected fuel cost is 2.7859 cents per KWH. This is a increase of 0.0962 cents per KWH or 3.58%.

Q. What is Gulf's projected recoverable fuel cost of net generation for the period?

A. The projected total cost of fuel to meet system net generation needs in 2006 is $523,063,714. The projection of fuel cost of system net generation for 2006 is captured in the exhibit to Witness Davis's testimony, Schedule E-1, Line 1.

Q. How does the total projected fuel cost of net generation for the 2006 period compare to the projected fuel cost for the same period in 2005?

A. The total updated cost of fuel to meet 2005 system net generation needs, reflected on revised Schedule E-1B of Witness Davis's testimony, is projected to be $418,250,242. The projected total cost of fuel to meet system net generation needs in 2006 represents an increase of $104,813,472 or 25.06%. Total system net generation in 2006 is projected to be 17,810,860 MWH which is 2,520,105 MWH or 16.48% higher than is currently projected for 2005. On a fuel cost per KWH basis, the 2005 projected cost is 2.7353 cents per KWH and the 2006 projected fuel cost is 2.9368 cents per KWH. This is an increase of 0.2015 cents per KWH or 7.37%. This higher projected total fuel expense and average per unit fuel cost reflects a continued trend of increases in the forecasted price of coal and natural gas to fuel Gulf's generating units.

Q. Does the 2006 projection of fuel cost of net generation reflect any major changes in Gulf's fuel procurement program for this period?

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

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

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

Q. Has Gulf adequately mitigated the price risk of natural gas and purchased power for 2004 through 2006?

A. Gulf had adequate gas hedges in place for 2004 to mitigate price risk and the net result was a reduction in recoverable fuel cost of $6,652,157. Gulf currently has gas and purchased power hedges in place for 2005 and 2006 and continues to look for opportunities to enter into financial hedges that we believe will be of benefit to the customer. Through July of 2005 financial hedges have reduced recoverable fuel cost by $2,504,822.

Q. Should recent changes in the market price for natural gas impact the percentage of Gulf's natural gas requirements that Gulf plans to hedge?

A. Gulf has a disciplined process in place to evaluate the benefits of gas hedging transactions prior to entering into financial hedges that considers both market price and anticipated burn. The focus of this process is to mitigate the price volatility and risk of natural gas purchases for the customer and not to attempt to speculate in the natural gas market. Gulf's current strategy is to have gas hedges in place that do not exceed the anticipated gas burn at its Smith Unit 3 combined cycle plant. Gas burn requirements change as the market price of natural gas changes due to the economic dispatch process utilized by the Southern System generation pool in accordance with the Intercompany Interchange Contract. Typically, as gas prices increase, anticipated gas burn decreases and the percentage of gas requirements that are currently hedged financially increases. Gulf will continue to evaluate the performance of this hedging strategy and will make adjustments within the guidelines of the currently approved hedging program when needed.

Q. What actions does Gulf take to procure natural gas and natural gas transportation for its units at competitive prices for both long term and short term deliveries?

A. Gulf procures natural gas using both long and short term agreements for supply at market based prices. Gulf secures gas transportation for non-peaking units using long term agreements for firm transportation capacity and for peaking units using interruptible transportation, released seasonal firm transportation, or delivered natural gas agreements. Details of Gulf's natural gas procurement strategy are included in the "Risk Management Plan for Fuel Procurement" on file in this docket.

Q. What is Gulf's projected recoverable fuel cost of power sold for the period?

A. Gulf's projected recoverable fuel cost of power sold is ($201,426,000). This projected amount is captured in the exhibit to Witness Davis's testimony, Schedule E-1, Line 19.

Q. How does the total projected recoverable fuel cost of power sold for the 2006 period compare to the projected recoverable fuel cost of power sold for the same period in 2005?

A. The total projected recoverable fuel cost of power sold, reflected on revised Schedule E-1B of Witness Davis's testimony, is projected to be ($130,827,699). The projected recoverable fuel cost of power sold in 2006 represents an increased credit of ($70,598,301) or 53.96%. Total power sold in 2006 is projected to be 5,878,653 MWH which is 1,564,212

MWH or 36.26% higher than is currently projected for 2005. On a fuel cost per KWH basis, the 2005 projected cost is 3.0323 cents per KWH and the 2006 projected fuel cost is 3.4264 cents per KWH. This is an increase of 0.3941 cents per KWH or 13.00%. This higher total credit to fuel expense from power sales is attributed to higher replacement fuel costs as a result of the forecasted higher market prices for coal and natural gas increasing the fuel reimbursement rate ($/MWH) for power sales.

Q. What is Gulf's projected purchased power recoverable cost for energy purchased for the period?

A. Gulf's projected recoverable cost for energy purchases is $ 23,561,000. This projected amount is captured in the exhibit to Witness Davis's testimony, Schedule E-1, Line 13.

Q. How does the total projected purchased power cost for the 2006 period compare to the projected purchased power cost for the same period in 2005?

A. The total updated cost of purchased power to meet 2005 system needs, reflected on revised Schedule E-1B of Witness Davis's testimony, is projected to be $36,372,784. The projected cost of purchased power to meet system needs in 2006 represents a decrease of $12,811,784 or 35.22%. Total purchased power in 2006 is projected to be 464,921 MWH which is 500,488 MWH or 51.84% lower than is currently projected for 2005. On a fuel cost per KWH basis, the 2005 projected cost is 3.7676 cents per KWH and the 2006 projected fuel cost is 5.0677 cents per KWH. This is an increase of 1.3001 cents per KWH or 34.51%. This higher projected purchased power expense and average per unit cost reflect a continued trend of increases in replacement fuel costs as a result of the forecasted increases in the market price of coal and natural gas.

Q. What is Gulf's projected recoverable capacity cost for the period?

A. The total recoverable capacity cost for the period is $29,458,820. This amount is captured in Witness Davis's testimony on Line 3 of Schedule CCE-1. Schedule CCE-4 of Witness Davis' testimony lists the long term power contracts that are included for capacity cost recovery, their associated capacity amount in megawatts, and the resulting capacity dollar amounts. Also included on Schedule CCE-4 is a total of the revenues produced by several market based service agreements between the Southern Electric System operating companies and entities outside the system that are included in Gulf's 2006 projection. The total capacity cost shown on Schedule CCE-4 is included on Line 1 of Schedule CCE-1

Q. What are the other projected revenues that Gulf has included in its capacity cost recovery clause for the period?

A. Gulf has included an estimate of transmission revenues in the amount of $384,000 in its capacity cost recovery projection. This amount is captured in Witness Davis's testimony, on Line 2 of Schedule CCE-1.

Q. How does the total projected net capacity cost for the 2006 period compare to the projected net capacity cost for the same period in 2005?

A. Gulf's 2006 Projected Jurisdictional Capacity Payments(Schedule CCE-1, line 5) are projected to be $28,471,572 or 28% higher than the current estimate of $22,252,800 for 2005 that was filed in testimony under this docket on August 12, 2005. This increase is a result of Gulf's increased need for capacity reserves under the provisions of the Intercompany Interchange Contract. Gulf projects increases in customer load for the 2006 period over the prior year and will retire Plant Crist Units 2 and 3 by May 1, 2006 which will reduce available Gulf capacity. The combination of these events will require the purchase of more system capacity reserves in order to provide the level of reserve margin needed to reliably serve its customer load requirements.

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

A. Yes, it does.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Terry A. Davis
Docket No. 050001-EI
Fuel and Purchased Power Capacity Cost Recovery
Date of Filing: Revised April 21, 2005

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

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

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

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

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

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

A. Yes, I have.

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

Q. Are you familiar with the Fuel and Purchased Power (Energy) true-up calculations for the period of January 2004 through December 2004 and the Purchased Power Capacity Cost true-up calculations for the period of

January 2004 through December 2004 set forth in your exhibit?

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

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

A. Yes, I have.

Q. What is the amount to be refunded or collected through the fuel cost recovery factors in the period January 2006 through December 2006?

A. A net amount to be refunded of $18,641,731 was calculated as shown on Schedule 1 of my exhibit.

Q. How was this amount calculated?

A. The $18,641,731 was calculated by taking the difference in the estimated January 2004 through December 2004 under-recovery of $29,107,969 and the actual under-recovery of $10,466,238, which is the sum of the Period-to-Date amounts on lines 7, 8 and 12 shown on Schedule A-2, page 2, of the monthly filing for December 2004. The estimated true-up amount for this period was approved in Order No. PSC-04-1276-FOF-EI dated December 23, 2004. Additional details supporting the approved estimated true-up amount are included on Schedule E1-A filed August 10, 2004.

Q. Ms. Davis has the estimated benchmark level for gains on non-separated wholesale energy sales eligible for a shareholder incentive been updated for 2005?

A. Yes, it has.

Q. What is the actual threshold for 2005?

A. Based on actual data for 2002, 2003, and now 2004, the threshold is calculated to be $2,717,207.

Q. The Commission approved Gulf's hedging program in October 2002. What incremental hedging support costs related to administering Gulf's approved hedging program is Gulf seeking to recover for 2004?

A. Gulf has included $21,112 as shown on the December 2004 Period-to-Date Schedule A-1 for incremental hedging support costs related to administering the approved hedging program during the 2004 recovery period.

Q. Is Gulf seeking to recover any gains or losses from hedging settlements in the 2004 recovery period?

A. Yes. On the December 2004 Fuel Schedule A-1, Period to Date, Gulf has recorded a net gain of $6,652,155 related to hedging activities in 2004. Mr. Ball will address the details of those hedging activities in his testimony.

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

A. Schedules CCA-1, CCA-2, CCA-3 and CCA-4 of my exhibit relate to the Purchased Power Capacity Cost true-up calculation for the period January 2004 through December 2004.

Q. What is the amount to be refunded or collected in the period January 2006 through December 2006?

A. An amount to be refunded of $428,009 was calculated as shown in Schedule CCA-1, of my exhibit.

Q. How was this amount calculated?

A. The $428,009 was calculated by taking the difference in the estimated January 2004 through December 2004 over-recovery of $1,797,696 and the actual over-recovery of $2,225,705, which is the sum of lines 10 and 11 under the total column of Schedule CCA-2. The estimated true-up amount for this period was approved in Order No. PSC-04-1276-FOF-EI dated December 23, 2004. Additional details supporting the approved estimated true-up amount are included on Schedule CCE-1A filed August 10, 2004.

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

A. Schedule CCA-2 shows the calculation of the actual over-recovery of purchased power capacity costs for the period January 2004 through December 2004. Schedule CCA-3 of my exhibit is the calculation of the interest provision on the over-recovery for the period January 2004 through December 2004. This is the same method of calculating interest that is used in the Fuel and Purchased Power (Energy) Cost Recovery Clause and the Environmental Cost Recovery Clause.

Q. Please describe Schedule CCA-4 of your exhibit.

A. Schedule CCA-4 provides additional details related to Lines 1 and 2 of Scheduled CCA-2. This information is provided as a result of Staff's request at a recent fuel and capacity workshop.

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

A. Yes, it does.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Terry A. Davis
Docket No. 050001-EI
Fuel and Purchased Power Capacity Cost Recovery
Date of Filing: August 12, 2005

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

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

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

A. I graduated in 1979 from Mississippi College in Clinton, Mississippi with a Bachelor of Science Degree in Business Administration and a major in Accounting. Prior to joining Gulf Power, I was an accountant for a seismic survey firm, Geophysical Field Surveys in Jackson, Mississippi. In that capacity, I was responsible for accounts receivable, accounts payable, sales, use, and fuel tax returns, and various other accounting activities. In 1986, I joined Gulf Power as an Associate Accountant in the Plant Accounting Department. Since then, I have held various positions of increasing responsibility with Gulf Power in Accounts Payable, Financial Reporting, and Cost Accounting. In 1993, I joined the Rates and Regulatory Matters area, where I have participated with increasing responsibility in activities related to the cost recovery clauses, the rate case, budgeting, and other regulatory functions. In 2004, I was promoted to my current position.

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

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

A. Yes, I have.

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

Q. Are you familiar with the Fuel and Purchased Power (Energy) estimated true-up calculations for the period of January 2005 through December 2005 and the Purchased Power Capacity Cost estimated true-up calculations for the period of January 2005 through December 2005 set forth in your exhibit?

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

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

A. Yes, I have.

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

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

Q. Ms. Davis, what has Gulf calculated as the fuel cost recovery true-up to be applied in the period January 2006 through December 2006?

A. The fuel cost recovery true-up for this period is an increase of .0570¢/kwh. As shown on Schedule E-1A, this includes an estimated under-recovery for the January through December 2005 period of $25,168,826, plus a final over-recovery for the January through December 2004 period of $18,641,731 (see Schedule 1 of

Exhibit TAD-1 in this docket filed on April 21, 2005). The resulting net under-recovery of $6,527,095 and will be recovered during 2006.

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

A. Schedules CCE-1a, CCE-1b and CCE-4 of my exhibit relate to the Purchased Power Capacity Cost true-up calculation to be applied in the January 2006 through December 2006 period.

Q. What has Gulf calculated as the purchased power capacity factor true-up to be applied in the period January 2006 through December 2006?

A. The true-up for this period is a decrease of .0117¢ as shown on Schedule CCE-1a. This includes an estimated over-recovery of $913,842 for January 2005 through December 2005. It also includes a final true-up over-recovery of $428,009 for the period of January 2004 through December 2004 (see Schedule CCA-1 filed April 21, 2005). The resulting over-recovery is $1,341,851.

Q. Ms. Davis, does this complete your testimony?
A. Yes, it does.

GULF POWER COMPANY

Before the Florida Public Service Commission
Prepared Direct Testimony and Exhibit of
Terry A. Davis
Docket No. 050001-EI
Fuel and Purchased Power Cost Recovery
Date of Filing: September 16, 2005

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

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

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

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

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

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

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

A. Yes, I have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss the calculation of Gulf Power's fuel cost recovery factors for the period January 2006 through December 2006. I will also discuss the calculation of the purchased power capacity cost recovery factors for the period January 2006 through December 2006.

Q. Are you familiar with the Fuel and Purchased Power Cost Recovery Clause Calculation for the period of January 2006 through December 2006?
A. Yes, these documents were prepared under my supervision.

Q. Have you verified that to the best of your knowledge and belief, the information contained in these documents is correct?
A. Yes, I have.
Counsel: We ask that Ms. Davis's Exhibit consisting of fourteen schedules, be marked as Exhibit No. _____(TAD-3).

Q. What has been included in this filing to reflect the GPIF reward/penalty for the period of January 2004 through December 2004?
A. The GPIF result is shown on Line 33 of Schedule E-1 as an increase of .0039¢/kwh, thereby rewarding Gulf $441,988.

Q. What is the appropriate revenue tax factor to be applied in calculating the levelized fuel factor?
A. A revenue tax factor of 1.00072 has been applied to all jurisdictional fuel costs as shown on Line 31 of Schedule E-1.

Q. Ms. Davis, what is the levelized projected fuel factor for the period January 2005 through December 2005?

A. Gulf has proposed a levelized fuel factor of 3.076¢/kwh. It includes projected fuel and purchased power energy expenses for January 2006 through December 2006 and projected kwh sales for the same period, as well as the true-up and GPIF amount. The levelized fuel factor has not been adjusted for line losses.

Q. How does the levelized fuel factor for the projection period compare with the levelized fuel factor for the current period?

A. The projected levelized fuel factor for 2006 is .254 cents/kwh more or 9 percent higher than the levelized fuel factor for 2005 upon which current fuel factors are based.

Q. Ms. Davis, how were the line loss multipliers used on Schedule E-1E calculated?

A. They were calculated in accordance with procedures approved in prior filings and were based on Gulf's latest mwh Load Flow Allocators.

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

A. Gulf proposes a standard fuel factor, adjusted for line losses, of 3.092¢/kwh for Group A. Fuel factors for Groups A, B, C, and D are shown on Schedule E-1E. These factors have all been adjusted for line losses.

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

A. These were calculated based on projected loads and system lambdas for the period January 2006 through December 2006. These factors included the GPIF and true-up, and were adjusted for line losses. These time-of-use fuel factors are also shown on Schedule E-1E.

Q. How does the proposed fuel factor for Rate Schedule RS compare with the factor applicable to December 2005 and how would the change affect the cost of 1000 kwh on Gulf's residential rate RS?

A. The current fuel factor for Rate Schedule RS applicable through December 2005 is 2.837¢/kwh compared with the proposed factor of 3.092¢/kwh. For a residential customer who uses 1000 kwh in January 2006, the fuel portion of the bill would increase from $28.37 to $30.92.

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

A. Yes. A tabulation of these costs is set forth in Schedule E-11 of my Exhibit TAD-3. These costs represent the estimated averages for the period from January 2006 through December 2007.

Q. What amount have you calculated to be the appropriate benchmark level for calendar year 2006 gains on non-separated wholesale energy sales eligible for a shareholder incentive?

A. In accordance with Order No. PSC-00-1744-AAA-EI, a benchmark level of $3,151,487 has been calculated for 2006. The actual gains for 2003, 2004, and the estimated gains for 2005 on all non-separated sales have been averaged to determine the minimum projected threshold for 2006 that must be achieved before shareholders may receive any incentive. As demonstrated on Schedule E-6, page 2 of 2, Gulf's projection reflects a credit to customers of 100 percent of the gains on non-separated sales for 2006. The estimated gains on all non-separated sales are projected to be below the benchmark.

Q. You stated earlier that you are responsible for the calculation of the purchased power capacity cost (PPCC) recovery factors. Which schedules of your exhibit relate to the calculation of these factors?

A. Schedule CCE-1, including CCE-1a and CCE-1b, and Schedule CCE-2 of my exhibit relate to the calculation of the PPCC recovery factors for the period January 2006 through December 2006.

Q. Please describe Schedule CCE-1 of your exhibit.

A. Schedule CCE-1 shows the calculation of the amount of capacity payments to be recovered through the PPCC Recovery Clause. Mr. Ball has provided me with Gulf's projected purchased power capacity transactions. Gulf's total projected net capacity expense which includes a credit for transmission revenue for the period January 2005 through December 2005 is $29,458,820. The jurisdictional amount is $28,471,572. This amount is added to the total true-up amount to determine the total purchased power capacity transactions that would be recovered in the period.

Q. Has there been any change that would affect the capacity clause estimated true-up for 2005 filed by Gulf on August 10, 2005?

A. No.

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

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

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

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

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

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

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

A. The purchased power capacity costs recovered through the clause for a residential customer who uses 1000 kwh will be $2.72.

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

A. The fuel and capacity factors will be effective beginning with the first Bill Group for January 2006 and continuing through the last Bill Group for December 2006.

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

A. Yes, it does.

GULF POWER COMPANY
Before the Florida Public Service Commission
Direct Testimony and Exhibit of
L. S. Noack
Docket No. 050001-EI
Date of Filing April 1, 2005

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

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

Q. Please describe your educational and business background.

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

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

A. The purpose of my testimony is to present GPIF results for Gulf Power Company for the period of January 1, 2004, through December 31, 2004.

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

A. Yes. I have prepared an exhibit consisting of five schedules.

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

A. Yes. It was.

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

Q. Are there any issues related to the GPIF targets for this period that were filed with the Commission on September 12, 2003, in Docket No. 030001-EI that may affect the validity of those targets for this period?

A. Yes. Plant Daniel Units 1 and 2, which had been burning a high-Btu bituminous coal for several years, switched to a blend of approximately 60% high-Btu bituminous coal and 40% low-Btu sub-bituminous coal in March of 2004. This change in fuel mix was due to economic conditions and results in lower costs to customers than if the units continued burning the high-Btu coal only. However, this change in fuel also results in an increase in the heat rates of these units above the targets set for this period. This increase is not an indication of a change in unit efficiency but is more a reflection of the change in heat content and properties of the new fuel mix being burned.

Because the heat rate targets for this period were set according to the GPIF implementation manual, which required the targets to be set based on the historical high-Btu coal burn for Daniel Units 1 and 2, the heat rate targets for this period are only valid for these units when burning high-Btu coal. Consequently, there is no reasonable way to determine what portion of the actual unit heat rates are due to unit performance and what portion is due to the lower-Btu fuel mix. The GPIF process was not established to reward or penalize units for fuel switching; therefore, the heat rate targets set for this period for Daniel Units 1 and 2 are not applicable during the months when the units burned the low-Btu fuel mix.

Q. Please describe how this change in fuel mix is being addressed in this filing.

A. In accordance with past Commission Orders, including Commission Order PSC-04-1276-FOF-EI, Plant Daniel Units 1 and 2 are excluded from the GPIF heat rate calculations for the months when the low-Btu fuel mix was burned. This was accomplished by setting the units' ANOHRs (Average Net Operating Heat Rates) equal to their respective target ANOHRs at Actual Conditions as indicated on lines 2 and 4 of pages 16 and 17 of Schedule 3 for each month beginning with March through December 2004. This results in producing neither a reward nor a penalty for ANOHR for these two units for these months when the units were burning the low-Btu fuel mix.

It should be noted that, if adequate data is available, the Btu/lb independent variable that was stipulated and approved in Commission Order PSC-99-2512-FOF-EI will be added to the target heat rate equations for Daniel Units 1 and 2 beginning with the 2006 GPIF Target Filing that will be submitted in the fall of 2005. This process should account for the change in fuel mix for these units at that time.

Q. Is there any other information that has been supplied to the Commission pertaining to this GPIF period that requires amendment?

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

Q. Would you now review the Company's equivalent availability results for the period?

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

A calculation of GPIF availability points based on these availabilities and the targets established by Commission Order PSC-03-1461-FOF-EI is on page 11 of Schedule 2. The results are: Crist 4, +10.00 points; Crist 5, +10.00 points; Crist 6, -10.00 points; Crist 7, 0.00 points; Smith 1, +10.00 points; Smith 2, +10.00 points; Daniel 1, +7.50 points; and Daniel 2, +10.00 points.

Q. What were the heat rate results for the period?

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

As was done for the prior GPIF periods, and as indicated on pages 10 through 17 of Schedule 3, the target equations were used to adjust actual results to the target bases. These equations, submitted in September 2003, are shown on page 20 of Schedule 3.

As calculated on page 21 of Schedule 3, the adjusted actual average net operating heat rates correspond to the following GPIF unit heat rate points: -0.72 for Crist 4, -3.79 for Crist 5, +9.75 for Crist 6, 0.00 for Crist 7, 0.00 for Smith 1, -6.99 for Smith 2, -0.13 for Daniel 1, and 0.00 for Daniel 2.

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

A Using the unit equivalent availability and heat rate points previously mentioned, along with the appropriate weighting factors, the number of Company points achieved is +1.91, as indicated on page 2 of Schedule 4. This calculated to a reward in the amount of $441,988.

Q. Would you please summarize your testimony?

A. Yes. In view of the adjusted actual equivalent availabilities, as shown on page 11 of Schedule 2, and the adjusted actual average net operating heat rates achieved, as shown on page 21 of Schedule 3, evidencing the Company's performance for the period, Gulf calculates a reward in the amount of $441,988 as provided for by the GPIF plan.

Q. Does this conclude your testimony?

A. Yes.

GULF POWER COMPANY
Before the Florida Public Service Commission
Direct Testimony of
L. S. Noack
Docket No. 050001-EI
Date of Filing September 16, 2005

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

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

Q. Please describe your educational and business background.

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

Q. What is the purpose of your testimony in this proceeding?
A. The purpose of my testimony is to present GPIF targets for Gulf Power Company for the period of January 1, 2006 through December 31, 2006.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?
A. Yes. I have prepared one exhibit consisting of three schedules.

Q. Was this exhibit prepared by you or under your direction and supervision?
A. Yes, it was.

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

Q. Which units does Gulf propose to include under the GPIF for the subject period?

A. We propose that Crist Units 4, 5, 6, and 7, Smith Units 1 and 2, and Daniel Units 1 and 2, continue to be the Company's GPIF units. The projected net generation from these units, which represent all of Gulf's qualifying base and intermediate load units for GPIF, is approximately 82% of Gulf's projected net generation for 2006.

Q. What are the target heat rates Gulf proposes to use in the GPIF for these units for the performance period January 1, 2006 through December 31, 2006?

A. I would like to refer you to Page 44 of Schedule 1 of my Exhibit_(LSN-2) where these targets are listed.

Q. How were these proposed target heat rates determined?

A. They were determined according to the GPIF Implementation Manual procedures for Gulf. For Daniel Units 1 and 2, the Btu/lb independent variable that was stipulated and approved in Commission Order PSC-99-2512-FOF-EI and referenced in the 2005 GPIF Target

Filing, Docket No. 040001-EI, was added to the regression.

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

A. Page 2 of Schedule 1 of Exhibit_(LSN-2) shows the target average net operating heat rate equations for the proposed GPIF units, and Pages 4 through 40 of Schedule 1 contain the weekly historical data used for the statistical development of these equations. Pages 41 through 43 of Schedule 1 present the calculations that provide the unit target heat rates from the target equations. For Daniel Units 1 and 2, the estimates of the monthly Btu/lb for 2006 used to determine the heat rate targets for these units are included on Page 43 of Schedule 1.

Q. Were the maximum and minimum attainable heat rates for each proposed GPIF unit, indicated on Page 44 of Schedule 1 of Exhibit_(LSN-2), calculated according to the appropriate GPIF implementation manual procedures?

A. Yes.

Q. What are the proposed target, maximum, and minimum equivalent availabilities for Gulf's units?

A. The target, maximum, and minimum equivalent availabilities are listed on Page 4 of Schedule 2 of Exhibit_(LSN-2).

Q. How were the target equivalent availabilities determined?

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

Q. How were the maximum and minimum attainable equivalent availabilities determined for each unit?

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

Q. What actions does Gulf Power take to minimize the occurrence, duration, and magnitude of its unplanned outages?

A. Gulf Power has been proactive in implementing preventive maintenance programs that have improved the overall effectiveness of scheduling and planning processes as well as reducing the occurrence, duration, and magnitude of unplanned events. Gulf Power uses Plant Reliability Optimization (PRO), which was developed in partnership with the Electric Power Research Institute (EPRI). PRO is a maintenance process that seeks to produce the appropriate balance between corrective maintenance, preventive maintenance, and predictive maintenance. PRO combines all diagnostic, maintenance, financial, and process data into an effective decision-making tool. The ultimate goal is to perform maintenance at the least cost while maximizing equipment reliability.

Q. What actions does Gulf Power take to complete its planned maintenance outages on schedule and on budget?

A. In order to ensure planned outages are completed on schedule and on budget, Gulf assigns an outage coordinator for each planned outage. The outage coordinator is responsible for monitoring the work performed, the schedule, and the budget for the outage.

Q. What actions does Gulf Power take to optimize the equivalent availability factors and heat rates for its GPIF units?

A. The actions previously mentioned to minimize the occurrence, duration, and magnitude of unplanned outages as well as complete planned outages on schedule and on budget also help to optimize equivalent availability factors as well as heat rates for all of Gulf Power's units. In addition to these actions, periodic performance tests, heat rate reviews, and heat rate awareness training classes are conducted to optimize unit performance.

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

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

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

A. Yes. Gulf asks that the Commission accept:

1. Crist Units 4, 5, 6 and 7, Smith Units 1 and 2, and Daniel Units 1 and 2 for inclusion under the GPIF for the period of January 1, 2006 through December 31, 2006.

2. The target, maximum attainable, and minimum attainable average net operating heat rates, as

proposed by the Company and as shown on Page 44 of Schedule 1 and also on Page 5 of Schedule 3 of my Exhibit_(LSN-2).

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

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

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

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December, 2004

DIRECT TESTIMONY OF ALBERT W. PITCHER

March 1, 2005

Q. Please state your name and business address.

A. My name is Albert W. Pitcher. My business address is 200 Central Avenue, St. Petersburg, Florida 33701.

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

A. I am employed by Progress Fuels Corporation (PFC) in the capacity of Vice President – Coal Procurement.

Q. What are your duties and responsibilities in this capacity?

A. As Vice President for Coal Procurement, I am responsible for the procurement of coal and transportation services for delivery to the Crystal River plant site of Progress Energy Florida (Progress Energy) in order to satisfy the requirements of the site's four coal-fired generating units. My responsibilities include oversight of waterborne and rail delivery of coal to the plant site and conducting competitive bid solicitations to secure economic and reliable transportation services for these deliveries.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Business Administration Degree in Accounting from the University of Cincinnati in 1971. I began my professional career with Arthur Andersen and Company as a staff auditor. I was employed by Cincinnati Gas & Electric Company in various auditing and accounting functions from 1972 until 1976. I began my career with Florida Power Corporation (FPC), the predecessor of Progress Energy, as a staff auditor in the Audit Services Department in August of 1976. In 1977, I joined Electric Fuels Corporation (EFC), then a wholly owned subsidiary of FPC, as Manager of Accounting. I served in this capacity and that of EFC's Controller until 1984. At that time I became Vice President of Sales, charged with the responsibility of selling coal to utilities and industrial customers in the Eastern United States, from both EFC's affiliated mining operations and third-party sources. Over the period from 1984 to 2002, EFC's coal sales increased from less than one million tons to over 18 million tons annually. In September of 2002, following the merger with CP&L and the change of EFC's name to Progress Fuels Corporation (PFC), I assumed my current position of Vice President of Coal Procurement. In this capacity, I am responsible for the procurement and transportation of over six million tons of coal delivered annually to Progress Energy's Crystal River plant site.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the additional costs that Progress Energy incurred for replacement coal purchases and the chartering of two ocean-going coal barges as a result of the storm events of the 2004 hurricane season.

Q. Have you prepared exhibits to your testimony?

A. Yes. I have prepared Exhibit No. __ (AWP-1), a chart showing average coal inventories at Progress Energy's Crystal River plant site from August 2 through September 24, 2004, Exhibit No. ___ (AWP-2), which provides a breakdown of the incremental costs of spot coal purchases, and Exhibit No. __ (AWP-3), a table showing the calculation of incremental costs of additional coal barges that PFC chartered as a result of the 2004 storms.

Q. Please summarize your testimony.

A. Progress Energy's coal inventory was significantly impacted by the cumulative effects of Tropical Storms Bonnie and Matthew and Hurricanes Charley, Frances, Ivan and Jeanne. To varying degrees, the storms disrupted waterborne and rail coal deliveries to Progress Energy's Crystal River plant site. The resulting inventory losses caused Progress Energy to implement coal conservation measures, including non-economic dispatch. Additionally, in order to replenish depleted coal inventories, Progress

Energy purchased replacement coal on the spot market. The actual incremental cost of these replacement purchases was $2,056,954, as compared to our original 2004 projection of $3,274,290. Progress Energy incurred additional costs for chartering two ocean-going coal barges needed to expedite transportation of replacement coal so that coal inventories could be replenished as soon as practicable. As discussed in Mr. Portuondo's testimony, Progress Energy is limiting recovery of the costs of the additional ocean-going barges to the 2004 waterborne transportation rate established in the Stipulation and Settlement in Docket No. 031057-EI. Although the Company incurred an additional $1,305,140 in incremental barge costs above the settlement rate, the Company is absorbing those additional costs.

Q. Please describe Progress Energy's coal inventories prior to Tropical Storm Bonnie in August 2004.

A. During the first six months of 2004, our rail supplier was experiencing significant operational problems which significantly impacted rail deliveries to Progress Energy, as well as other utilities and industrial operations in the Southeast. During this period, Progress Energy only received 76 percent of its CSX nominations. As a result, just prior to Tropical Storm Bonnie in August 2004, the average coal inventory for the Crystal River coal units was 31 days of supply. Although the inventory was in the low range experienced over the last several years, it was well within a safe operating range based upon previous history. In order to increase inventory levels, we were in the process of maximizing waterborne transportation, while at the same time continuing to place corporate pressure on the rail supplier to improve performance. Those measures were underway when Tropical Storm Bonnie hit the Gulf of Mexico, followed closely by four major hurricanes and yet another tropical storm.

Q. How did the storm events during the 2004 hurricane season affect coal deliveries to Progress Energy's Crystal River Plant?

A. The unprecedented sequence and severity of the 2004 storms significantly impacted coal deliveries throughout the Southeast. From August 8^{th} through August 15^{th}, Tropical Storm Bonnie and Hurricane Charley disrupted coal barge traffic in the Gulf of Mexico, resulting in the disruption of one coal shipment to the Crystal River plant. Hurricanes Frances and Ivan again disrupted coal barge traffic from September 1^{st} through the 24^{th}, resulting in the disruption of eight shipments to the Crystal River plant. Hurricane Ivan also disrupted seven rail deliveries to Crystal River from September 16^{th} through the 22^{nd}. Finally, in October 2004, another barge shipment to Crystal River was disrupted due to Tropical Storm Matthew.

Q. What impact did the storm-related disruptions have on Progress Energy's coal inventory?

A. The ten disrupted barge shipments resulted in a coal inventory reduction of 165,000 tons; and the disrupted rail deliveries resulted in an additional inventory loss of 70,000 tons. The effects of these losses were experienced over an extended period. As shown on Exhibit No. __ (AWP-1), coal inventory levels fluctuated somewhat throughout the period, but the overall trend was increasingly downward particularly after September 1, 2004, due to Hurricanes Frances and Ivan.

Q. How did Progress Energy respond to the disruption in coal deliveries?

A Given the critical importance of the base-loaded Crystal River coal units, Progress Energy made it a priority to replenish and preserve its coal resources as the impact of the storms became apparent. Shortly after Tropical Storm Bonnie, PFC began purchasing coal on the spot market to replace disrupted shipments. As shown on Exhibit No. __ (AWP-1), deliveries generally rebounded in the second half of August, but disruptions occurred again in September with the approach of Hurricanes Frances and Ivan. By September 20, 2004, the average coal inventory for all units at Crystal River site fell below 20 days of supply. As a result, Progress Energy began implementing coal conservation measures, including non-economic dispatch oil and gas-fired units.

Throughout this period, PFC made replacement spot purchases when coal was available and capable of being transported to the Crystal River site. Overall, the Company purchased approximately 170,000 tons of spot coal to help replace the 235,000 tons lost as a result of the barge and rail deliveries disrupted by the storms. PFC also chartered an additional two coal barges to expedite delivery of replacement coal to the Crystal River plant site. As a result of these efforts, by November 1, 2004, coal inventories had reached 27 days of supply, allowing the Company to safely take the Crystal River units off coal conservation mode. On November 15, 2004, PFC chartered another barge to ensure that replacement coal could be delivered in a timely manner so that inventories could be increased to more acceptable levels.

Q. How did you determine the incremental costs of the spot coal purchases attributable to the 2004 Storms?

A. As shown in Exhibit No. ___ (AWP-2), the Company made four spot purchases of coal as a result of the 2004 storms. To determine the incremental costs of these purchases, we first determined the incremental coal price ($/ton) for each purchase by subtracting an estimated purchase price, based upon the Generation Fuel Forecast (GFF), from the actual spot purchase price. We then multiplied the incremental coal price by the number of tons of coal purchased to determine the incremental cost of each spot purchase. Finally, we added the incremental cost of each spot purchase to calculate the total incremental cost of $ $2,056,954. This is the same methodology we used to preliminarily calculate our original 2004 re-projection of $3,274,290.

Q. Why did PFC charter the additional coal barges?

A. The cumulative effect of the 2004 storms greatly impacted transportation in the Gulf of Mexico and throughout the southeastern United States for several months. During the same period, Progress Energy needed to expeditiously transport replacement coal to the Crystal River site so the base-loaded Crystal River coal units could be taken off conservation mode as soon as practicable. Faced with a large amount of coal to transport in a short period of time, on October 15, 2004, PFC chartered a coal barge from Ocean Dry Bulk to provide additional cross-Gulf transportation capacity during this critical time period. At the time, the Ocean Dry Bulk barge was the only one available. On November 15, 2004, PFC placed another chartered barge from Ocean Dry Bulk in service to help expedite the delivery of replacement coal so that inventory levels could be restored to more acceptable levels as soon as practicable.

It should be noted that, for safety reasons, the additional barges were not loaded to full capacity to ensure safe passage to the Crystal River plant site. Under normal circumstances, PFC uses Dixie barges which are specifically designed for delivery to Crystal River. The Dixie barges have an average capacity of 16,500 tons. By comparison, the chartered barges carried an average capacity of 13,589 tons.

Q. How did you determine the incremental cost of the additional barges?

A. As shown on Exhibit No.___ (AWP-3), the incremental cross-Gulf barge cost due to the hurricanes was calculated as follows:

(1) We derived the total cost per trip by multiplying the daily charter rate by the number of days per trip. This amount was then added to fuel costs incurred per trip for running and docking to derive the total cost per trip;

(2) We then divided the total cost per trip by the average tons per barge to determine a total cost per ton rate;

(3) Next, we calculated the incremental cost of the barges by subtracting the total cost per ton rate for the barges by the waterborne transportation rate established for 2004 in the Stipulation and Settlement in Docket No. 031057-EI.

(4) The incremental cost of the barges was multiplied by the number of tons of replacement coal delivered by the barges to derive the incremental cross-Gulf barge costs due to the hurricanes of $1,305,140. As noted above, Progress Energy is not seeking recovery of these incremental barge costs. Instead, the Company is limiting recovery to the 2004 waterborne transportation rate established in the Stipulation and Settlement in Docket No. 031057-EI.

Q. How does the final cost of the barges compare to Progress Energy's original 2004 projection?

A. Progress Energy's original projection of the incremental costs of the barges attributable to the storms was $613,686, as compared to the actual costs discussed above of $1,305,140. The difference is primarily attributable to the fact that our original estimates of the length of the barge trips was based on our experience with the Dixie barges that PFC normally uses for trans-Gulf barge shipments. As it turned out, the Ocean Dry Bulk barges were not as maneuverable as the Dixie barges, which were designed specifically to deliver coal to the Crystal River plant site. Due to this lack of maneuverability and weather delays, the Ocean Dry Bulk barge trips lasted almost twice as long as we had projected. As a result, the cost per ton of coal delivered was significantly higher than we had projected.

Q. Does this conclude your testimony?

A. Yes, it does.

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December, 2004

DIRECT TESTIMONY OF ALBERT W. PITCHER

April 1, 2005

Q. Please state your name and business address.

A. My name is Albert W. Pitcher. My business address is 200 Central Avenue, St. Petersburg, Florida 33701.

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

A. I am employed by Progress Fuels Corporation (PFC) in the capacity of Vice President – Coal Procurement.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. I submitted pre-filed testimony in this proceeding on March 1, 2005.

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

A. No.

Q. What is the purpose of your testimony?

A. In response to a request from Commission Staff, the purpose of my testimony is to present the results of a comparative analysis of the prices PFC paid for coal delivered in 2004 and available market indicators for the time period during which the original procurement decision was made.

Q. Do you have any reservations about the analysis requested by Staff?

A. Yes. Factors other than price must be taken into account when coal is purchased. Such factors include, but are not necessarily limited to, coal quality, supplier reputation, timing of specific needs, environmental considerations, and mode of transportation.

Q. Are you sponsoring any exhibit to your testimony?

A. Yes. I am sponsoring Exhibit No. __ (AWP-4) which presents the results of our comparative analysis.

Q. Was the comparative analysis reflected in Exhibit No. __ (AWP-4) conducted by you or under your direction and supervision?

A. Yes. I conducted the analysis along with others under my direct supervision.

Q. What market indicators are available for coal?

A. There is a hierarchy of market indicators for coal, including responses to Requests for Proposals (RFP), spot offers, and estimates from market publications. When PFC issues a major RFP and numerous bids are received, the market is determined by the bids. The bids outline a defined range of prices and qualities that suppliers are committed to provide. The same concept applies to month-to-month spot offers that we receive on a routine basis. As with RFPs, spot offers define the market; however, there typically are a smaller number of offers, the terms are shorter, and the tonnages are less. If PFC receives relatively few or no spot offers, then market publications as well as the buyer's experience and communication with suppliers take on increasing significance in defining the market.

Q. Please explain how you conducted the comparative analysis reflected in Exhibit No. __ (AWP-4).

A. For purposes of the analysis, we compared the price per ton associated with all coal deliveries to Crystal River Units 1, 2, 4 and 5 in 2004 with the best market indicator available for the time period during which the original procurement decision was made.

Q. What market indicators did you use in your analysis?

A. For coal purchased under a term contract, we primarily used the range of prices submitted by the bidders for that particular contract. For spot purchases, we used spot offers when available. If there were only a limited number of spot offers, we used them in combination with the most appropriate published market estimate for the type of coal and the time period of the purchase. When there were no RFP bids or spot offers available, we used the most appropriate published market estimate. In some cases, we determined a range of prices based on multiple market reports (i.e., *Evolution Carbon International*, *Evolution Markets LLC*, *Global Energy Decisions (also known as Henwood Energy)* and/or *United Power, Inc.*) In other cases, however, only one publication provided a price for the particular type of coal purchased. For example, only *Evolution Carbon International* provides prices for foreign coal.

Q. Please summarize the results of the comparative analysis.

A. Our analysis demonstrates that the prices of coal purchased for the Crystal River units in 2004 were generally below or within the range of available market indicators.

Q. Does this conclude your testimony?

A. Yes, it does.

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

DIRECT TESTIMONY OF ALBERT W. PITCHER

August 9, 2005

Q. Please state your name and business address.

A. My name is Albert W. Pitcher. My business address is 200 Central Avenue, St. Petersburg, Florida 33701.

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

A. I am employed by Progress Fuels Corporation (PFC) in the capacity of Vice President – Coal Procurement.

Q. Have you previously submitted testimony in this proceeding?

A. Yes. I submitted pre-filed testimony in this proceeding on March 1, 2005 and April 1, 2005.

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

A. No.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to support PEF's request for approval of four contracts entered into by PFC for waterborne coal transportation services (WCTS) provided to PEF. I will summarize the competitive bidding process that PFC conducted for each WCTS component. I also will explain why the competitive bidding process and resulting contracts resulted in valid market prices for each of the WCTS components, including the River Barge component, the Gulf Terminal Transloading component, and the Cross-Gulf Barge component.

Q. Why is PEF presenting the new WCTS contracts for the Commission's review and approval?

A. On July 20, 2004, the Commission issued Order No. PSC-04-0713-AS-EI, which approved a Stipulation and Settlement in Docket No. 031057-EI, which the Commission had opened to investigate PEF's benchmark for waterborne coal transportation service ("WCTS") transactions with PFC. The Stipulation and Settlement states that "[c]ontracts entered into by PFC for WCTS provided to PEF will be subject to competitive bidding." In addition, the Stipulation and Settlement states that "[e]ach such contract, and the competitive bidding process from which the contract results, will be presented to the Commission for review and approval or denial."

PFC has conducted the competitive bidding required under the Stipulation and Settlement and has entered into contracts for the components of WCTS to PEF's Crystal River Plant. Accordingly, pursuant to the

Commission's Order approving the Stipulation and Settlement, PEF filed a petition requesting approval the WCTS contracts on July 8, 2005.

Q. Are you sponsoring any exhibits to your testimony?

A. Yes. I am sponsoring the following exhibits:

- Exhibit No. ___ (AWP-5) - PFC River Barge Solicitation (This exhibit already has been filed as Exhibit A to PEF's Petition);
- Exhibit No. ___ (AWP-6) - Dry Bulk Fuel Transportation and Delivery Agreement Between PFC and AEP MEMCO, LLC (Already filed as Exhibit C to PEF's Petition with a Request for Confidential Classification);
- Exhibit No. ___ (AWP-7) - PFC Transloading Bid Solicitation (Already provided as Exhibit D to PEF's Petition with a Request for Confidential Classification);
- Exhibit No. ___ (AWP-8) - DBF Transfer and Storage Agreement between PFC and International Marine Terminals Partnership (Already filed as Exhibit E to PEF's Petition with a Request for Confidential Classification);
- Exhibit No. ___ (AWP-9) - PFC Gulf Transportation Bid Solicitation (Already filed as Exhibit F to PEF's Petition with a Request for Confidential Classification);
- Exhibit No. ___ (AWP-10) - Affreightment Contract between PFC and Dixie Fuels Limited (Already filed as Exhibit H to PEF's Petition with a Request for Confidential Classification); and

- Exhibit No. ___ (AWP-11) - Affreightment Contract between PFC and EMI-PA, Inc. (Already filed as Exhibit I to PEF's Petition with a Request for Confidential Classification).

Q. Please describe the competitive bidding process that PFC followed for the River Barge WCTS component.

A. On July 16, 2004, PFC issued a solicitation for bids for river barge coal transportation services from various origins on the Ohio, Kanawha, Big Sandy and Upper Mississippi rivers to a transloading facility in the New Orleans area. (A copy of the solicitation is provided as Exhibit No. __ (AWP-5)). PFC sent the solicitation to six potential providers: American Commercial Barge Line, Inland Marine Service, Crounse Corporation, Ingram Barge Company ("Ingram"), AEP MEMCO, LLC ("MEMCO"), and TECO Barge Line ("TECO"). In addition, PFC notified major coal trade publications which published articles about the solicitation, including a contact person at PFC.

PFC received proposals from Ingram, MEMCO, and TECO. Based on an initial evaluation, PFC selected Ingram and MEMCO for further evaluation. By comparing the cost of the two offers using two different escalation scenarios, PFC determined that MEMCO's bid provided between approximately $100,000 and $800,000 in cost savings over the term of the proposed contract. Accordingly PFC awarded a contract to MEMCO for a term extending from January 1, 2005, through December 31, 2007. A copy of the MEMCO contract is provided as Exhibit No. ___ (AWP-6).

Q. Please describe the competitive bidding process for the Gulf Terminal Transloading WCTS component.

. On June 17, 2004, PFC issued a solicitation for bids for terminal transloading services in the New Orleans area of the Mississippi River. (A copy of the solicitation is provided as Exhibit No. __ (AWP-7)). PFC provided the solicitation to the only three potential providers of the required services: IC RailMarine Terminal ("IC"), International Marine Terminal Partnership ("IMT") and TECO Bulk Terminal ("TECO"). PFC received proposals from all three providers. However, the IC bid was received after the response deadline and it did not satisfy the requirements of the solicitation.

Based on a comparative evaluation of the IMT and TECO proposals, PFC determined that IMT's proposal was the most cost-effective, providing cost savings between approximately $4.4 million and $5.5 million over the term of the proposed contract. Accordingly, PFC awarded the contract to IMT for a term extending from November 1, 2004, through October 31, 2007. A copy of the IMT contract is provided as Exhibit No. __ (AWP-8).

Q. Please describe the competitive bidding process for the Cross-Gulf Barge WCTS component.

A. On August 19, 2004, PFC issued a solicitation for bids for marine transportation services from various origins in the New Orleans area, as well as the McDuffie Island Coal Terminal in Mobile Bay, to PEF's unloading dock at PEF's Crystal River Plant. (A copy of the solicitation is provided as Exhibit No. __ (AWP-9)). PFC sent the solicitation to five potential providers: Allied Towing Company, Dixie Carriers, Inc. ("Dixie"), Express Marine, Inc., ("Express"), Moran Towing Corporation ("Moran"), and TECO Ocean Shipping ("TECO"). In addition, PFC placed advertisements in three major transportation publications. PFC also notified major coal trade publications which published articles about the solicitation, including a contact person at PFC.

PFC received responsive proposals from Dixie, Express, and Ocean Dry Bulk, LLC, a joint venture between TECO and Moran. Based on a comparative evaluation of the cost of the three offers under three escalation scenarios, PEF determined that Dixie was the least cost provider and that Express was the second least cost provider.

Because the current level of rail rates from the coal field to PEF's Crystal River Plant is higher than waterborne rates, PEF has decided to increase the amount of waterborne coal delivered to Crystal River. Accordingly, PFC awarded contracts to both Dixie and Express for three year terms. (Copies of Dixie and Express contracts are provided as Exhibit Nos. __ (AWP-10) and __ (AWP-11), respectively). Using two vendors will provide PEF five barges compared to the current four barges operated by Dixie only. In addition, the two contracts provide a cost savings of between approximately $20.4 million to $24.4 million over the term of the contracts.

Q. What action should the Commission take regarding the new WCTS contracts?

A. The Commission should approve the new WCTS contracts for cost recovery through the Fuel Cost Recovery Clause. As contemplated in the Commission's Order approving the Stipulation and Settlement in Docket No. 031057-EI, the competitive bidding conducted by PFC resulted in valid market prices for each of the WCTS components. By providing the solicitations to known vendors and, where appropriate, publicizing the solicitations in industry publications, PFC ensured that interested vendors had reasonable notice of the solicitations. The receipt of multiple proposals demonstrates competitive markets for all WCTS components. Moreover, by awarding contracts to the least cost proposals, PFC has assured that PEF will be provided cost-effective service for all WCTS components. For these reasons the contracts represent reasonable and prudent action to provide cost-effective waterborne coal transportation to PEF's Crystal River Plant.

Q. Does this conclude your testimony?

A. Yes, it does.

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

Fuel and Capacity Cost Recovery
Final True-up for the Period
January through December, 2004

DIRECT TESTIMONY OF ROBERT M. OLIVER

March 1, 2005

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

A. My name is Robert M. Oliver. My business address is P.O. Box 1551, Raleigh, North Carolina 27602.

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

A. I am employed by Progress Energy Carolinas Inc. as Manager of Portfolio Management for Regulated Commercial Operations.

Q. **What are your duties and responsibilities in that capacity?**

A. As Manager of Portfolio Management for Regulated Commercial Operations, I oversee the management of energy portfolios for Progress Energy Florida, Inc. ("Progress Energy" or "Company"), as well as Progress Energy Carolinas, Inc. My responsibilities include oversight of planning and coordination associated with economic and reliable system operations, including unit commitment and dispatch, fuel procurement and power marketing and trading functions.

Q. Please summarize your educational background and employment experience.

A. I have a Bachelor of Science degree in Mechanical Engineering from North Carolina State University (1992) and a Masters of Business Administration from University of North Carolina at Wilmington (1997). I joined Carolina Power & Light (CP&L) in 1992 as an Associate Engineer in the Nuclear Engineering Department. In 1998 I took a Senior Engineer position with System Planning and Operations Department (SPOD). In this capacity I provided support for various functions including maintenance scheduling, coordination with cogenerators, unit commitment and dispatch planning, and fuel costing for excess generation sales. With the merger of CP&L and Florida Power Corporation (FPC), I participated in the integration of the FPC Portfolio Management and related CP&L SPOD functions. In the newly formed Portfolio Management unit (2001), in addition to maintaining former duties, I worked in a number of capacities, including the near term Portfolio Management desk for Progress Energy Florida, which provides unit commitment and dispatch planning and fuel projections for the 7 day forecast period, maintenance coordination inside the prompt month, and fuel costing for economy purchases and sales. In 2002, I was promoted to manager of Portfolio Management.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the additional costs that Progress Energy incurred for reliability power purchases and non-economic dispatches due to Tropical Storm Bonnie and Hurricanes Charley, Frances, Ivan, and Jeanne (the "2004 storms").

Q. Please summarize your testimony.

A. During the course of the 2004 hurricane season, Progress Energy made reliability purchases based on the need to meet expected load in consideration of potential generation losses and other risk factors associated with each of the 2004 storms. Due to coal conservation measures necessitated by the disruption of barge and rail deliveries caused by the storms (as discussed in the testimony of Albert W. Pitcher), Progress Energy also dispatched oil and gas-fired units out of economic order until coal inventories could be replenished to acceptable levels. Using an industry standard unit commitment and dispatch model, we calculated the total incremental costs of the reliability purchases and non-economic dispatch to be $2,218,320 and $8,808,960, respectively. In comparison, our original 2004 projections for incremental reliability purchase and non-economic dispatch costs were $1,528,898 and $9,174,530, respectively.

Q. Have you prepared exhibits to your testimony?

A. Yes. I have prepared Exhibit No. ___ (RMO-1), which summarizes our calculation of the total incremental costs of reliability purchases and non-economic dispatches attributable to the 2004 storms.

Q. Please briefly describe how Progress Energy manages its energy portfolio to meet daily loads.

A. Each morning (by 7am EPT), Portfolio Management provides a seven-day forecast for optimal economic system operation. The forecast takes into account known operating constraints and best available information concerning expected weather and system load requirements, fuel cost and availability, anticipated cogeneration, purchases and sales. With the given constraints, the forecasting model provides a projection for hourly generation, fuel use, and costs from the Company controlled resources for the seven-day forecast period. The Company's Energy Control Center (ECC) reviews the resulting economic unit commitment and dispatch projection and may provide input (or further input) where appropriate regarding adjustments to the economic plan to ensure system reliability (e.g., reliability purchases or sales, utilization of alternate fuel adjustments to unit dispatch priority, etc.). The adjustments recommended by the ECC are made to the planning information and the (power/gas & oil) traders engage the market based on the fuel (cost/burn projections from the adjusted operating plan. On business days, the process of adjusting inputs, revising the forecast, reviewing the forecast and making adjustments to the forecast is repeated in the afternoon (by 2pm EPT), or may be repeated iteratively throughout the day or night as necessary to adjust for changing conditions or information.

Q. How did the storms of the 2004 hurricane season affect Progress Energy's portfolio management?

A. The 2004 hurricane season presented extraordinary challenges from a portfolio management perspective. Four major hurricanes sequentially impacted Progress Energy's service territory over a two month period. This required Progress Energy's ECC to make dispatch and purchasing decisions based on day-to-day assessments of a number of risks factors including:

- potential changes in storm path and intensity;
- potential personnel safety issues with continued operation of units;
- potential damage to generating units;
- potential derates due to environmental conditions (wet coal or grass attacks on cooling water intake);
- current or anticipated fuel inventory;
- potential future fuel availability issues (due to load demands and damage to gas, oil, or coal delivery infrastructure);
- potential loss of load (inability to reduce generation of online units low enough to match the load creating grid stability problems);

- potential for significant damage to base load plants (due to local flooding or tornadoes) without loss of load.

These factors had to be considered not only for Progress Energy's individual control areas, but also from a reliability perspective for the entire state.

Q. Did Progress Energy purchase power due to the 2004 storms?

A. Yes. Prior to each storm, we expected generation losses due to plant shutdowns and forced outages. In some cases, plants were intentionally shutdown due to safety concerns or to protect plant equipment. We also expected and experienced additional outages due to storm damage. For these reasons, we purchased power to ensure reliability both before and after the storms. Specifically, as shown on Exhibit No. __ (RMO-1), the Company made reliability purchases for the following days:

- August 13 through 15 in anticipation of Hurricane Charley;
- August 20 and 21 due to outages resulting from Hurricane Charley;
- September 6 in anticipation of Hurricane Frances;
- September 14 through 21 in anticipation of or as a result of Hurricane Ivan; and
- September 25 and 26 in anticipation of Hurricane Jeanne.

Progress Energy also made reliability purchases for September 14 through 21 to offset generation losses associated with oil conservation efforts. As discussed in the testimony of Pamela R. Murphy, these oil conservation efforts were necessitated by the disruption of barge and truck deliveries caused by Hurricane Ivan.

Q. Did Progress Energy dispatch generating units out of economic order because of the 2004 storms?

A. Yes. As discussed in the testimony of Albert W. Pitcher, the disruption of barge and rail deliveries caused by the storms resulted in coal inventory constraints that led Progress Energy to place Crystal River Units 1, 2, 4, and 5 on coal conservation mode beginning September 20, 2004. As a result, generation units were dispatched out of economic order until October 31, 2004, when coal inventories reached levels sufficient to allow the Company to take the Crystal River units off coal conservation mode.

Q. How did you determine the incremental costs of reliability purchases and non-economic dispatches attributable to the 2004 hurricanes?

A. Exhibit No. __ (RMO-1) summarizes the calculation of total incremental costs of non-economic coal conservation dispatches and reliability purchases attributable to the 2004 storms. The costs for coal conservation and reliability purchases were calculated using an industry standard unit commitment and dispatch model ("Couger"). This model and many of the operational parameter inputs (heat rates, ramp rates min/max ratings, etc.) are very similar to that used to develop Progress Energy's Generation Fuel Forecast (GFF) in PROSYM, with the primary difference being the use of as recorded actuals (unit derates and outages, system loads, fuel prices, purchases, sales, etc.) in place of forecast values.

Coal conservation costs were calculated by taking the difference between the daily fuel costs from a model run where the coal units were constrained to the as-dispatched loading profile and the respective daily fuel cost from a model run with the coal units unconstrained. It should be noted the out of economic cost effects of coal conservation were mitigated by economy purchases to the extent that market opportunities allowed. Actual purchases were included in both cases (constrained and unconstrained coal units).

Reliability purchase costs were calculated as follows:

(1) We first derived the reduction in fuel expense resulting from the reliability purchases ("purchase benefit") by taking the difference between the daily fuel cost from a model run with reliability purchases and the respective daily fuel cost from a model run without reliability purchases. In both cases, the coal limited constraints were imposed to avoid double counting the coal constraint effect.

(2) We then subtracted the daily purchase benefit from the daily cost of the storm-related reliability purchases to determine the daily reliability cost difference.

(3) Finally, we summed the daily reliability cost differences to calculate the total incremental reliability costs attributable to the 2004 storms.

Q. What were the total incremental costs of non-economic dispatches and reliability purchases that Progress Energy incurred as a result of the 2004 storms?

A. As shown on Exhibit No. ___ (RMO-1), the total incremental costs of non-economic dispatches and reliability purchases were $8,808,960 and $2,218,320, respectively. In comparison, our original 2004 projections for incremental reliability purchase and non-economic dispatch costs were $9,174,530 and $1,528,898 respectively.

Q. Does your calculation of non-economic dispatch costs include the incremental costs of spot purchases of natural gas and fuel oil necessitated by the 2004 storms?

A. No. In calculating the cost of non-economic dispatch of oil and gas fired units associated with coal conservation, we used the average term prices for fuel oil and natural gas. Thus, the incremental costs of spot purchases of fuel oil and natural gas were not included in our calculations. These additional incremental costs are discussed in the testimony of Pamela R. Murphy.

Q. Does this conclude your testimony?

A. Yes, it does.

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PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

FUEL ADJUSTMENT PROCEEDINGS

DIRECT TESTIMONY OF

SAMUEL S. WATERS

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

A. My name is Samuel S. Waters and I am employed by Progress Energy Carolinas (PEC). My business address is 410 S. Wilmington Street, Raleigh, North Carolina, 27602.

Q. Please tell us your position with PEC and describe your duties and responsibilities in that position.

A. I am Manager of Resource Planning for Progress Energy Florida (PEF or the Company) and Progress Energy Carolinas. I am responsible for directing the resource planning process for both companies. Our resource planning process is an integrated approach to finding the most cost-effective alternatives to meet each company's obligation to serve, in terms of long-term price and reliability. We examine both supply-side and demand-side resources available and potentially available to the Company over its planning horizon, relative to the Company's load forecasts. In my capacity

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as Manager of Resource Planning, I oversaw the completion of the Company's most recent TYSP document filed in April 2005.

Q. Please summarize your educational background and employment experience.

A. I graduated from Duke University with a Bachelor of Science degree in Engineering in 1974. From 1974 to 1985, I was employed by the Advanced Systems Technology Division of the Westinghouse Electric Corporation as a consultant in the areas of transmission planning and power system analysis. While employed by Westinghouse, I earned a Masters Degree in Electrical Engineering from Carnegie-Mellon University.

I joined the System Planning department of Florida Power & Light Company (FPL) in 1985, working in the generation planning area. I became Supervisor of Resource Planning in 1986, and subsequently Manager of Integrated Resource Planning in 1987, a position I held until 1993. In late, 1993, I assumed the position of Director, Market Planning, where I was responsible for oversight of the regulatory activities of FPL's Marketing Department, as well as tracking of marketing-related trends and developments.

In 1994, I became Director of Regulatory Affairs Coordination, where I was responsible for management of FPL's regulatory filings with the FPSC and the Federal Energy Regulatory Commission (FERC). In 2000, I returned to FPL's Resource Planning Department as Director.

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I assumed my current position with Progress Energy in January of 2004. I am a registered Professional Engineer in the states of Pennsylvania and Florida, and a Senior Member of the Institute of Electrical and Electronics Engineers, Inc. (IEEE).

Q. Have you previously testified before this Commission?

A. Yes. I have testified in several dockets related to resource planning and the need for power.

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

A. My purpose in this testimony is to support the Company's request for approval of a recent long term purchase agreement with Central Power & Lime, Inc. (CPL). The agreement calls for the delivery of firm capacity and energy during the period December, 2005 through December, 2010. The purchase is a component of the resource plan to meet our obligation to provide adequate and reliable electric service to our customers. Specifically this agreement is needed to maintain the 20 percent reserve margin. In addition to needing this power for system reliability, the fact that the energy comes from a coal-based resource provides substantial system fuel savings over the term of the contract. In his testimony, Mr. Portuondo discusses the appropriate recovery mechanism for recovery of energy and capacity payments as power is delivered under the agreement.

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Q. Are you sponsoring any exhibits to your testimony?

A. Yes. I am sponsoring Exhibit No. __ (SSW-1) - Agreement between Central Power & Lime, Inc. and Florida Power Corporation, d/b/a Progress Energy Florida, Inc.

Q. Please describe the new agreement.

PEF has entered into an agreement with CPL to purchase the output of a facility nominally rated at 133 MW, for the period December 1, 2005 through December 31, 2010. This purchase is needed to maintain a 20% reserve margin for the PEF system during that timeframe, and provides a valuable source of coal-fired energy during that period. A copy of the Power Purchase Agreement with CPL is provided in my Exhibit No. ___ (SSW-1).

Q. Please describe the contract with CPL in more detail.

A. The agreement with CPL is a purchase of firm capacity and energy from the CPL facility, located in Brooksville, Florida. The facility is a coal-fired electric cogeneration plant with a net output to PEF of 133 MW. The purchase price for the firm capacity is $[redacted]/kW-month, which is fixed for the term of the agreement, and energy is priced at $[redacted]/MWh, escalating at [redacted]% per year. The agreement further specifies an availability target of [redacted]%, excluding planned outages. Provisions for scheduling unit energy provide flexibility for PEF to take less than the full output of the unit if needed.

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Q. Please describe the scheduling provisions of the agreement in more detail.

A. As described in Exhibit F, the agreement provides 3 cases under which PEF may adjust the schedule of delivered power from CPL. The first case allows PEF to extend an outage which has been scheduled in advance, in accordance with the provisions outlined for the mutually agreed upon scheduling of planned outages. The second case allows PEF to reduce the scheduled output of the unit to no less than [redacted], with [redacted] notice. The third case allows PEF to take the unit offline, with a minimum of [redacted] notice, and a minimum [redacted] notice to bring the unit back on line. In each of these cases, CPL will charge PEF for MWh not delivered as follows:

Case 1 - $[redacted]/MWh for each MWh not delivered less than the unit's capability.

Case 2 - $[redacted]/MWh for each MWh not delivered less than the unit's capability.

Case 3 - $[redacted]/MWh for each MWh not delivered less than the unit's capability. An additional charge of $[redacted] per start up would also apply.

Q. Will these provisions affect the economics of the purchase in any significant way?

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A. No, but they do provide exceptional flexibility considering the power is being provided by a coal-fired cogeneration plant. Using our current projections of oil and gas prices, we would expect to be buying energy from this facility in every hour it is available. We do not expect to need the exercising of the provision at this time.

Q. Does the agreement provide for an adjustment to capacity payments to CPL based on the availability target?

A. Yes. The agreement specifies that, in the event that CPL does not perform up to the [redacted]% target in a given year, CPL will refund [redacted]% of the capacity payments for each [redacted]% actual availability falls below [redacted]%, down to [redacted]%. For each [redacted]% below [redacted]%, CPL will refund [redacted]% of the capacity payment for the year. Performance below [redacted]% would be a condition of default.

Q. Does this contract provide savings to PEF customers?

A. Yes. In the absence of power provided by this agreement, PEF would have to acquire an equivalent amount of firm capacity and energy in the summers of 2006 and 2007, and add a combustion turbine to meet demand in the summer of 2009.

Q. Does this contract provide other benefits to PEF customers?

A. Yes. In addition to the economics of the purchase, the contract will provide energy from coal-fired generating capacity, providing low-cost energy and

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serving to reduce the price volatility of PEF's fuel mix, and, since the capacity and energy prices are specified over the term of the contract, there is no uncertainty as to what price will be paid at any point in time.

Q. What action should the Commission take at this time regarding this agreement?

A. The Commission should find that entering into this agreement at this time is a reasonable and prudent action by the Company to maintain a 20% reserve margin over the contract term and stabilize energy costs to customers. Recovery of energy and capacity costs pursuant to the agreements would be permitted subject to a finding of reasonableness and prudence at the time the expenses are presented for cost recovery.

Q. Does this conclude your testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

GPIF Reward/Penalty Amount for January through December 2004

DIRECT TESTIMONY OF MICHAEL F. JACOB

Q. Please state your name and business address.

A. My name is Michael F. Jacob. My business address is 410 South Wilmington Street, Raleigh, North Carolina, 27601.

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

A. I am employed by Progress Energy Carolinas as Manager of Generation Modeling and Analysis.

Q. Have your responsibilities as Manager of Generation Modeling and Analysis remained the same since you last testified in this proceeding?

A. Yes, my responsibilities regarding the preparation of the Generation Performance Incentive Factor (GPIF) filing requirements for Progress Energy Florida (the Company) have remained the same.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the calculation of the Company's GPIF reward/penalty amount for the period of January through December 2004. This calculation was based on a comparison of the actual performance of the Company's nine GPIF generating units for this period against the approved targets set for these units prior to the actual performance period.

Q. Do you have an exhibit to your testimony in this proceeding?

A. Yes, I am sponsoring Exhibit No. ______ (MFJ-1T), which consists of the schedules required by the GPIF Implementation Manual to support the development of the incentive amount. This 28-page exhibit is attached to my prepared testimony and includes as its first page an index to the contents of the exhibit.

Q. What GPIF incentive amount have you calculated for this period?

A. I have calculated the Company's GPIF incentive amount to be a reward of $532,353. This amount was developed in a manner consistent with the GPIF Implementation Manual. Page 2 of my exhibit shows the system GPIF points and the corresponding reward. The summary of weighted incentive points earned by each individual unit can be found on page 4 of my exhibit.

Q. How were the incentive points for equivalent availability and heat rate calculated for the individual GPIF units?

A. The calculation of incentive points was made by comparing the adjusted actual performance data for equivalent availability and heat rate to the target performance indicators for each unit. This comparison is shown on each unit's Generating Performance Incentive Points Table found on pages 9 through 17 of my exhibit.

Q. Why is it necessary to make adjustments to the actual performance data for comparison with the targets?

A. Adjustments to the actual equivalent availability and heat rate data are necessary to allow their comparison with the "target" Point Tables exactly as approved by the Commission prior to the period. These adjustments are described in the Implementation Manual and are further explained by a Staff memorandum, dated October 23, 1981, directed to the GPIF utilities. The adjustments to actual equivalent availability concern primarily the differences between target and actual planned outage hours, and are shown on page 7 of my exhibit. The heat rate adjustments concern the differences between the target and actual Net Output Factor (NOF), and are shown on page 8. The methodology for both the equivalent availability and heat rate adjustments are explained in the Staff memorandum.

Q. Have you provided the as-worked planned outage schedules for the Company's GPIF units to support your adjustments to actual equivalent availability?

A. Yes. Page 27 of my exhibit summarizes the planned outages experienced by the Company's GPIF units during the period. Page 28 presents an as-worked schedule for each individual planned outage.

Q. Does this conclude your testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

GPIF Targets and Ranges for January through December 2006

DIRECT TESTIMONY OF MICHAEL F. JACOB

Q. Please state your name and business address.

A. My name is Michael F. Jacob. My business address is 410 South Wilmington Street, Raleigh, North Carolina, 27601.

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

A. I am employed by Progress Energy Carolinas as Manager of Generation Modeling and Analysis.

Q. Have your responsibilities as Manager of Generation Modeling and Analysis remained the same since you last filed testimony in this proceeding?

A. Yes, my responsibilities regarding the preparation of the Generation Performance Incentive Factor (GPIF) filing requirements for Progress Energy Florida (the Company) have remained the same.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the development of the Company's GPIF targets and ranges for the period of January through December 2006. These GPIF targets and ranges have been developed from individual unit equivalent availability and average net operating heat rate targets and improvement/degradation ranges for each of the Company's GPIF generating units, in accordance with the Commission's GPIF Implementation Manual.

Q. Do you have an exhibit to your testimony in this proceeding?

A. Yes, I am sponsoring Exhibit No. ____ (MFJ-1) which consists of the GPIF standard form schedules prescribed in the GPIF Implementation Manual and supporting data, including unplanned outage rates, net operating heat rates, and computer analyses and graphs for each of the individual GPIF units. This 122-page exhibit is attached to my prepared testimony and includes as its first page an index to the contents of the exhibit.

Q. Which of the Company's generating units have you included in the GPIF program for the upcoming projection period?

A. For the 2006 projection period, the GPIF program includes the same units that are in the current period, Anclote Units 1 and 2, Crystal River Units 1 through 5, Hines Unit 1, and Tiger Bay, plus three additional units, Bartow Units 1 through 3. Combined, these units account for 80.25% of the estimated total system net generation for the period.

The Company's Hines Unit 2 was not included for the upcoming projection period since there is not sufficient performance history to use in setting targets and ranges for the unit.

Q. Have you determined the equivalent availability targets and improvement/degradation ranges for the Company's GPIF units?

A. Yes. This information is included in the GPIF Target and Range Summary on page 4 of my exhibit.

Q. How were the equivalent availability targets developed?

A. The equivalent availability targets were developed using the methodology established for the Company's GPIF units, as set forth in Section 4 of the GPIF Implementation Manual. This includes the formulation of graphs based on each unit's historic performance data for the four individual unplanned outage rates (i.e., forced, partial forced, maintenance and partial maintenance outage rates), which in combination constitute the unit's equivalent unplanned outage rate (EUOR). From operational data and these graphs, the individual target rates are determined by inspecting two years of twelve-month rolling averages and the scatter of monthly data points during the two-year period. The unit's four target rates are then used to calculate its unplanned outage hours for the projection period. When the unit's projected planned outage hours are taken into account, the hours calculated from these individual unplanned outage <u>rates</u> can then be converted into an overall equivalent unplanned outage <u>factor</u> (EUOF).

Because factors are additive (unlike rates), the unplanned and planned outage factors (EUOF and POF) when added to the equivalent availability factor (EAF) will always equal 100%. For example, an EUOF of 15% and POF of 10% results in an EAF of 75%.

The supporting tables and graphs for the target and range rates are contained in pages 61-122 of my exhibit in the section entitled "Unplanned Outage Rate Tables and Graphs."

Q. Please describe the methodology utilized to develop the improvement/degradation ranges for each GPIF unit's availability targets?

A. The methodology described in the GPIF Implementation Manual was used. Ranges were first established for each of the four unplanned outage rates associated with each unit. From an analysis of the unplanned outage graphs, units with small historical variations in outage rates were assigned narrow ranges and units with large variations were assigned wider ranges. These individual ranges, expressed in term of rates, were then converted into a single unit availability range, expressed in terms of a factor, using the same procedure described above for converting the availability targets from rates to factors.

Q. Have you determined the net operating heat rate targets and ranges for the Company's GPIF units?

A. Yes. This information is included in the Target and Range Summary on page 4 of my exhibit.

Q. How were these heat rate targets and ranges developed?

A. The development of the heat rate targets and ranges for the upcoming period utilized historical data from the past three years, as described in the GPIF Implementation Manual. A "least squares" procedure was used to curve-fit the heat rate data within ranges having a 90% confidence level of including all data. The analyses and data plots used to develop the heat rate targets and ranges for each of the GPIF units are contained in pages 36-60 of my exhibit in the section entitled "Average Net Operating Heat Rate Curves."

Q. How were the GPIF incentive points developed for the unit availability and heat rate ranges?

A. GPIF incentive points for availability and heat rate were developed by evenly spreading the positive and negative point values from the target to the maximum and minimum values in case of availability, and from the neutral band to the maximum and minimum values in the case of heat rate. The fuel savings (loss) dollars were evenly spread over the range in the same manner as described for incentive points. The maximum savings (loss) dollars are the same as those used in the calculation of the weighting factors.

Q. How were the GPIF weighting factors determined?

A. To determine the weighting factors for availability, a series of PROSYM simulations were made in which each unit's maximum equivalent availability was substituted for the target value to obtain a new system fuel cost. The differences in fuel costs between these cases and the target case determine the contribution of each unit's availability to fuel savings. The heat rate contribution of each unit to fuel savings was determined by multiplying the BTU savings between the minimum and target heat rates (at constant generation) by the average cost per BTU for that unit. Weighting factors were then calculated by dividing each individual unit's fuel savings by total system fuel savings.

Q. What was the basis for determining the estimated maximum incentive amount?

A. The determination of the maximum reward or penalty was based upon monthly common equity projections obtained from a detailed financial simulation performed by the Company's Corporate Model.

Q. What is the Company's estimated maximum incentive amount for 2006?

A. The estimated maximum incentive for the Company is $11,074,256. The calculation of the estimated maximum incentive is shown on page 3 of my exhibit.

Q. Does this conclude your testimony?

A. Yes, it does.

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, RPR, CRR, 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 15TH DAY OF NOVEMBER, 2005.

Linda Boles

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