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 2

Pages 204 through 352

PROCEEDINGS: HEARING

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

APPEARANCES: (As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

CARLOS ALDAZABAL

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

A. My name is Carlos Aldazabal. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") in the position of Manager, Regulatory Affairs in the Regulatory Affairs Department.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Science Degree in Accounting in 1991, and received a Masters of Accountancy from the University of South Florida in Tampa in 1995. I am a CPA in the State of Florida and have accumulated 10 years of electric utility experience working in the areas of fuel and interchange accounting, surveillance reporting, and budgeting and analysis. In April 1999, I joined Tampa Electric as Supervisor, Regulatory

Accounting. In January 2004, I was promoted to Manager, Regulatory Affairs. My present responsibilities include managing cost recovery for fuel and purchased power, interchange sales, and capacity payments.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present, for the Commission's review and approval, the final true-up amounts for the period from January 2004 through December 2004 for both the Fuel and Purchased Power Cost Recovery Clause ("fuel clause") and the Capacity Cost Recovery Clause ("capacity clause"). I also present the wholesale incentive benchmark for January 2005 through December 2005 as well as the actual incremental operation and maintenance ("O&M") security alert and hedging expenses for the period January 2004 through December 2004.

Q. What is the source of the data which you will present by way of testimony or exhibit in this process?

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

Q. Have you prepared an exhibit in this proceeding?

A. Yes. I have prepared Exhibit No.___ (CA-1), entitled "Fuel and Purchased Power Cost Recovery and Capacity Cost Recovery" that contains four documents as described in my testimony.

CAPACITY COST RECOVERY CLAUSE

Q. What is the final true-up amount for the Capacity Cost Recovery Clause for the period January 2004 through December 2004?

A. The final true-up amount for the capacity clause for the period January 2004 through December 2004 is an over-recovery of $542,557.

Q. Please describe Document No. 1 of your exhibit.

A. Document No. 1, page 1 of 4, entitled "Tampa Electric Company Capacity Cost Recovery Clause Calculation of Final True-up Variances for the Period January 2004

Through December 2004", shows the calculation of the final over-recovery of $542,557. The actual capacity cost under-recovery, including interest was $7,126,422 for the period January 2004 through December 2004 as identified in Document No. 1, pages 1 and 2 of 4. This amount, less the actual/estimated under-recovery approved in FPSC Order No. PSC-04-1276-FOF-EI issued December 23, 2004 in Docket No. 040001-EI of $7,668,979, results in a final over-recovery for the period of $542,557 as identified in Document No. 1, page 4 of 4. This over-recovery amount will be applied in the calculation of the capacity cost recovery factors for the period January 2006 through December 2006.

Q. What is the estimated effect of this $542,557 over-recovery in the January 2004 through December 2004 period on residential bills during the January 2006 through December 2006 period?

A. The $542,557 over-recovery will cause a 1,000 kWh residential bill to be approximately $0.03 lower.

Incremental Security Alert Expenses

Q. What were Tampa Electric's actual 2004 incremental O&M costs for security alert expenses as a result of the events of September 11, 2001?

A. As shown in Document No. 1, Page 2 of 4, line 4, Tampa Electric incurred $589,444 for incremental O&M security expenses for measures taken by the company to protect its generating facilities for the period January 2004 through December 2004.

Q. How did the actual incremental O&M security costs compare to the costs included in the 2004 Actual/Estimated capacity filing?

A. Actual incremental O&M security costs were $56,571 higher than projected. To calculate incremental costs, Tampa Electric compared its actual total security O&M expenses to pre-9/11 annual security spending known as the baseline. All incremental O&M security costs were separately identified and any savings gained through the implementation of any security related projects were credited pursuant to the method described in Order No. PSC-03-1461-FOF-EI, issued December 22, 2003.

FUEL AND PURCHASED POWER COST RECOVERY CLAUSE

Q. What is the final true-up amount for the Fuel and Purchased Power Cost Recovery Clause for the period

January 2004 through December 2004?

A. The final fuel clause true-up for the period January 2004 through December 2004 is an over-recovery of $5,106,655. The actual fuel cost under-recovery, including interest, was $25,877,670 for the period January 2004 through December 2004. This $25,877,670 amount, less the actual/estimated under-recovery amount of $30,984,325 approved in Order No. PSC-04-1276-FOF-EI, issued December 23, 2004 in Docket No. 040001-EI results in a net over-recovery amount for the period of $5,106,655.

A significant driver for the over-recovery was the result of Order No. PSC-04-0999-FOF-EI whereby the Commission disallowed a portion of the waterborne coal transportation costs incurred by Tampa Electric under the current contract with TECO Transport. The actual 2004 waterborne transportation disallowance, calculated as prescribed in the aforementioned order is $13,426,496. While Tampa Electric maintains that the disallowance is not appropriate and has asked the Commission to reconsider its decision, the disallowance was booked, pursuant to generally accepted accounting principles, because the Commission's decision resulted in a probable expense for Tampa Electric and could be quantified. The $13,426,496 disallowance is included in the actual fuel cost under-recovery of $25,877,670 and reflected in the final cost over-recovery of $5,106,655 for the period January 2004 through December 2004.

Q. What is the estimated effect of the $5,106,655 over-recovery from the January 2004 through December 2004 period on residential bills during the January 2006 through December 2006 period?

A. The $5,106,655 over-recovery will cause a 1,000 kWh residential bill to be approximately $0.27 lower.

Q. Please describe Document No. 2 of your exhibit.

A. Document No. 2 is entitled "Tampa Electric Company Final Fuel Over/(Under) Recovery for the Period January 2004 Through December 2004". It shows the calculation of the final fuel over-recovery of $5,106,655.

Line 1 shows the total company fuel costs of $724,873,409 for the period January 2004 through December 2004. The jurisdictional amount of total fuel costs, which includes the waterborne coal transportation disallowance, is $693,053,508, as shown on line 2. This amount is compared to the jurisdictional fuel revenues applicable to the period on line 3 to obtain the actual under-recovered fuel costs for the period, shown on line 4. The resulting $64,420,223 under-recovered fuel costs for the period, combined with the interest, true-up collected and the prior period true-up shown on lines 5, 6 and 7, respectively, constitute the actual under-recovery of $25,877,670 shown on line 8. The $25,877,670 actual under-recovery less the actual/estimated under-recovery of $30,984,325 shown on line 9, results in a final over-recovery amount for the period January 2004 through December 2004 of $5,106,655 as shown on line 10.

Q. Please describe Document No. 3 of your exhibit.

A. Document No. 3 entitled "Tampa Electric Company Calculation of True-up Amount Actual vs. Original Estimates for the Period January 2004 Through December 2004", shows the calculation of the actual under-recovery as compared to the estimate for the same period.

Q. What was the total fuel and net power transaction cost variance for the period January 2004 through December 2004?

A. As shown on line A7 of Document No. 3, the fuel and net power transaction cost variance is $55,139,529 or 8.2 percent more than originally estimated.

Q. What was the variance in jurisdictional fuel revenues for the period January 2004 through December 2004?

A. As shown on line C3 of Document No. 3, the company collected $17,951,022 or 2.8 percent less jurisdictional fuel revenues than originally estimated.

Q. Please describe Document No. 4 of your exhibit.

A. Document No. 4 contains Commission Schedules A1 through A9 for the months of January 2004 through December 2004. Also included is a twelve-month summary detailing the transactions for each of Commission Schedules A6, A7, A8, and A9 for the period January 2004 through December 2004.

Wholesale Incentive Benchmark

Q. What is Tampa Electric's wholesale incentive benchmark for 2005, as derived in accordance with Order No. PSC-01-2371-FOF-EI, Docket No. 010283-EI?

A. The company's 2005 benchmark is $1,024,322, which is the three-year average of $838,302, $1,184,728 and $1,049,937 actual gains on non-separated wholesale sales, excluding emergency sales, for 2002, 2003 and 2004, respectively.

Hedging Transaction and Incremental O&M Costs

Q. Did Tampa Electric prudently incur incremental O&M expenses for initiating and/or maintaining its non-speculative financial hedging program in 2004?

A. Yes. Tampa Electric prudently incurred $210,045 for incremental O&M hedging expenses. An itemization of the incremental O&M expenses by category will be provided as an exhibit to the April 1, 2005 direct testimony of Tampa Electric witness J. T. Wehle.

Q. Does this conclude your testimony?

A. Yes.

TAMPA ELECTRIC COMPANY
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

CARLOS ALDAZABAL

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

A. My name is Carlos Aldazabal. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") in the position of Manager, Regulatory Affairs in the Regulatory Affairs Department.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Science Degree in Accounting in 1991, and received a Masters of Accountancy from the University of South Florida in Tampa in 1995. I am a CPA in the State of Florida and have accumulated 10 years of electric utility experience working in the areas of fuel and interchange accounting, surveillance reporting, and budgeting and analysis. In April 1999, I joined Tampa Electric as Supervisor, Regulatory Accounting. In January 2004, I was promoted to Manager, Regulatory Affairs. My present responsibilities include managing cost recovery for fuel and purchased power, interchange sales, and capacity payments.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present, for Commission review and approval, the calculation of the January 2005 through December 2005 fuel and purchased power and capacity true-up amounts to be recovered in the January 2006 through December 2006 projection period. My testimony addresses the recovery of fuel and purchased power costs, incremental hedging operations and maintenance ("O&M") costs, capacity costs and incremental O&M security costs for the year 2005, based on six months of actual data and six months of estimated data. This information will be used to determine fuel and purchased power costs and capacity cost recovery factors for the year 2006.

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

A. Yes. I have prepared Exhibit No. _____ (CA-2), which contains two documents. Document No. 1 is comprised of Schedules E1-B, E-2, E-3, E-5, E-6, E-7, E-8, and E-9, which provide the actual/estimated fuel and purchased power cost recovery true-up amount for the period January 2005 through December 2005. Document No. 2 provides the actual/estimated capacity cost recovery true-up amount for the period of January 2005 through December 2005. These documents are furnished as support for the projected true-up amount for this period.

Fuel and Purchased Power Cost Recovery Factors

Q. What has Tampa Electric calculated as the estimated net true-up amount for the current period to be applied in the January 2006 through December 2006 fuel and purchased power cost recovery factors?

A. The estimated net true-up amount applicable for the period January 2005 through December 2005 is an under-recovery of $147,656,222.

Q. How did Tampa Electric calculate the estimated net true-up amount to be applied in the January 2006 through December 2006 fuel and purchased power cost recovery factors?

A. The net true-up amount to be recovered in 2006 is the sum of the final true-up amount for the period January 2004 through December 2004 and the actual/estimated true-up amount for the period January 2005 through December 2005.

Q. What did Tampa Electric calculate as the final fuel and purchased power cost recovery true-up amount for 2004?

A. The true-up was an over-recovery of $5,106,655. The actual fuel cost under-recovery, including interest and the waterborne transportation cost adjustment, was $25,877,670 for the period January 2004 through December 2004. The $25,877,670 amount, less the actual/estimated under-recovery amount of $30,984,325 approved in Order No. PSC-04-1276-FOF-EI issued December 23, 2004 in Docket No. 040001-EI results in a net over-recovery amount for the period of $5,106,655. The final over-recovery of $5,106,655 will be applied in the calculation of the fuel recovery factors for the period January 2006 through December 2006.

Q. What did Tampa Electric calculate as the actual/estimated fuel and purchased power cost recovery true-up amount for the period January 2005 through December 2005?

A. The actual/estimated fuel and purchased power cost recovery true-up is an under-recovery amount of $152,762,877 for the January through December 2005 period. The detailed calculation supporting the actual/estimated current period true-up is shown in Exhibit ____ (CA-2), Document No. 1 on Schedule E1-B.

Q. Are incremental hedging O&M costs included in the actual/estimated fuel and purchased power cost recovery true-up amount for the period January 2005 through December 2005?

A. Yes. The Commission authorized the recovery of prudently-incurred incremental O&M expenses incurred for the purpose of initiating and/or maintaining a new or expanded non-speculative financial and/or physical hedging program designed to mitigate fuel and purchased power price volatility for its retail customers in Order No. PSC-02-1484-FOF-EI, issued October 30, 2002 in Docket No. 011605-EI. Therefore, as shown on Exhibit __ (CA-2), Document No. 1 on Schedule E1-B, line A-5b, Tampa Electric included $218,277 for actual and estimated incremental hedging O&M costs in its 2005 actual/estimated true-up calculation.

Q. How are the incremental hedging O&M costs calculated?

A. The total anticipated costs for 2005 are $387,430, and the base level amount is $169,153. Therefore, the incremental hedging O&M cost is calculated by subtracting the base level amount of $169,153 from the $387,430 of total anticipated costs, which results in an incremental expense of $218,277.

Q. How does this amount vary from the original projection?

A. The currently projected incremental hedging O&M cost are $111,103 more than the original projected costs. The variance is due to increased hedging activities as a percentage of total tasks performed by the fuel hedging group. The increased hedging activities are the result of additional counterparties used in hedging transactions and more hedging agreements with those counterparties.

Capacity Cost Recovery Clause

Q. What has Tampa Electric calculated as the estimated net true-up amount for the current period to be applied in the January 2006 through December 2006 capacity cost recovery factors?

A. The estimated net true-up amount applicable for January 2005 through December 2005 is an under-recovery of $957,312 as shown in Exhibit ____ (CA-2), Document No. 2, page 2 of 4.

Q. How did Tampa Electric calculate the estimated net true-up amount to be applied in the January 2006 through December 2006 capacity cost recovery factors?

A. Tampa Electric calculated the net true-up amount to be recovered in 2006 in the same manner as previously described for the fuel and purchased power cost recovery net true-up amount. The net true-up amount to be recovered in the 2006 capacity cost recovery factors is the sum of the final true-up amount for 2004 and the actual/estimated true-up amount for January 2005 through December 2005.

Q. What did Tampa Electric calculate as the final capacity cost recovery true-up amount for 2004?

A. The final true-up amount is an over-recovery of $542,557 per the company's March 1, 2005 true-up filing and as shown in Exhibit _____ (CA-2), Document No. 2, page 1 of 4.

Q. What did Tampa Electric calculate as the actual/estimated capacity cost recovery true-up amount for the period

January 2005 through December 2005?

A. The actual/estimated true-up amount is an under-recovery of $1,499,869 as shown on Exhibit ____ (CA-2), Document No. 2, page 1 of 4.

Q. Are incremental security O&M costs included for cost recovery through the capacity clause?

A. Yes. Given the Commission's previous authorization to recover incremental security O&M costs arising as a result of the extraordinary circumstances of the terrorist attacks of September 11, 2001, Tampa Electric's incremental security O&M costs are included for recovery through the capacity clause. Therefore, as shown on Exhibit ____ (CA-2), Document No. 2, Page 4 of 4, the company requests recovery of $386,528, after jurisdictional separation, for 2005 actual/estimated incremental security O&M expenses.

Q. How does this amount vary from the original projection?

A. The actual/estimated incremental security O&M expenses are $22,949 more than the original projected costs. The 2005 projection represented an annual reduction in expected security spending of approximately 35 percent compared to 2004 actual costs.

Q. Did Tampa Electric evaluate and calculate its incremental "post-9/11" security project costs according to the detailed guidelines provided in Order No. PSC-03-1461-FOF-EI filed in Docket No. 030001-EI on December 22, 2003?

A. Yes. The first test is to determine if the company has any O&M expenses for incremental security projects included in the Minimum Filing Requirements ("MFR") that established its current base rates and to remove any such expenses from the calculation of incremental expenses. None of Tampa Electric's post-9/11 increased security costs were included in MFRs that established its base rates as the company's last base rate proceeding was approved in 1993, before the terrorist attacks occurred. The second test is to identify any project costs that are reflected elsewhere in the company's base rates and remove them. Tampa Electric identified such project costs for security and credited the savings to the total incremental security expense. Finally, the third test is to determine if the project will result in any offsetting O&M savings and credit any savings to the project to reduce its total cost. Tampa Electric has evaluated its incremental security O&M expenses for related O&M savings and credited the savings against total incremental security O&M expenses. The calculation of incremental security O&M costs is shown on Exhibit ____ (CA-2), Document No. 2, page 4 of 4.

Q. Were Tampa Electric's base year "post-9/11" security costs adjusted for retail energy sales growth as required by Order No. PSC-03-1461-FOF-EI?

A. Yes. After adjusting the base year total by energy sales growth, the baseline that should be used to calculate 2005 incremental security costs is $2,163,802. The calculation of the baseline security O&M expense amount is shown on Exhibit ____ (CA-2), Document No. 2, page 4 of 4.

Q. Does this conclude your testimony?

A. Yes, it does.

TAMPA ELECTRIC COMPANY
DOCKET NO. 050001-EI
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

CARLOS ALDAZABAL

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

A. My name is Carlos Aldazabal. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") in the position of Manager, Regulatory Affairs in the Regulatory Affairs Department.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Science Degree in Accounting in 1991, and received a Masters of Accountancy from the University of South Florida in Tampa in 1995. I am a CPA in the State of Florida and have accumulated 10 years of electric utility experience working in the areas of fuel and interchange accounting, surveillance reporting, budgeting and analysis, and regulatory affairs. In April 1999, I joined Tampa Electric as Supervisor, Regulatory Accounting. In January 2004, I was promoted to Manager, Regulatory Affairs. My present responsibilities include managing cost recovery for fuel and purchased power, interchange sales, and capacity payments.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present, for Commission review and approval, the proposed annual capacity cost recovery factors, the proposed annual levelized fuel and purchased power cost recovery factors and the projected wholesale incentive benchmark for January 2006 through December 2006. In addition, I will address the 2006 projected incremental security costs as a result of the September 11, 2001 attacks; the appropriate base amount and period for calculating incremental security costs; and the projected incremental operating and maintenance ("O&M") costs associated with Tampa Electric's hedging activities. I will also describe significant events that affect the factors and provide an overview of the composite effect from the various cost recovery factors for 2006.

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

A. Yes. My Exhibit No. ____ (CA-3), consisting of three documents, was prepared under my direction and supervision. Document No. 1 of Exhibit No. ____ (CA-3) is furnished as support for the projected capacity cost recovery factors. In support of the proposed levelized fuel and purchased power cost recovery factors, Document No. 2 is comprised of Schedules E1 through E10 and E12 for January 2006 through December 2006 as well as Schedule H1 for January through December, 2003 through 2006. Document No. 3 provides the composite effect of the proposed cost recovery factors on a 1,000 kilowatt-hour ("kWh") residential bill.

Capacity Cost Recovery

Q. Are you requesting Commission approval of the projected capacity cost recovery factors for the company's various rate schedules?

A. Yes. The capacity cost recovery factors, prepared under my direction and supervision, are provided in Exhibit No. ____ (CA-3), Document No. 1, Projected Capacity Cost Recovery.

Q. What payments are included in Tampa Electric's capacity cost recovery factors?

A. Tampa Electric is requesting recovery through the capacity cost recovery factor of capacity payments for power purchased for retail customers excluding optional provision purchases for interruptible customers.

The company is also requesting incremental security expenses as a result of the events of September 11, 2001, as authorized in previous years. As shown on Exhibit ____ (CA-3), Document No. 1, Tampa Electric requests recovery of $594,892, after jurisdictional separation, for estimated expenses in 2006.

Q. Were Tampa Electric's base year "post-9/11" security costs adjusted for retail energy sales growth as required by Order No. PSC-03-1461-FOF-EI, filed in Docket No. 030001-EI on December 22, 2003?

A. Yes. Tampa Electric's 2005 actual adjusted base year total security O&M costs were $2,163,802. After adjusting this amount for expected energy sales growth, a $2,205,563 baseline was used to calculate Tampa Electric's 2006 incremental security costs. This calculation is shown on Exhibit ____ (CA-3), Document No. 1, page 4 of 4.

Q. Please summarize the proposed capacity cost recovery factors by rate schedule for January 2006 through December 2006.

A.

Rate Schedule	Capacity Cost Recovery Factor (cents per kWh)
Average Factor	0.287
RS	0.356
GS and TS	0.321
GSD, EV-X	0.263
GSLD and SBF	0.240
IS-1, IS-3, SBI-1, SBI-3	0.022
SL-2, OL-1 and OL-3	0.045

These factors are shown in Exhibit No. ___ (CA-3), Document No. 1, page 3 of 4.

Q. How does Tampa Electric's proposed average capacity cost recovery factor of 0.287 cents per kWh compare to the factor for January through December 2005?

A. The proposed capacity cost recovery factor is 0.015 cents per kWh (or $0.15 per 1,000 kWh) lower than the average capacity cost recovery factor of 0.302 cents per kWh for the January 2005 through December 2005 period.

Fuel and Purchased Power Cost Recovery Factors

Q. What is the appropriate amount of the base fuel and purchased power cost recovery factor for the year 2006?

A. The appropriate amount for the 2006 period is 5.413 cents per kWh before the normal application of factors that adjust for variations in line losses. Schedule E1 of Exhibit No. ___ (CA-3), Document No. 2, Fuel Projection, shows the appropriate values for the total fuel and purchased power cost recovery factor as projected for the period January 2006 through December 2006.

Q. Please describe the information provided on Schedule E1-C.

A. The Generating Performance Incentive Factor ("GPIF") and true-up factors are provided on Schedule E1-C. Tampa Electric has calculated a GPIF reward of $729,534, which is to be included in the calculation of the total fuel and purchased power cost recovery factors. Additionally, E1-C indicates the net true-up amount for the January 2005 through December 2005 period. The net true-up amount for this period is an under-recovery of $147,656,222.

Q. Please describe the information provided on Schedule E1-D.

A. Schedule E1-D presents Tampa Electric's on-peak and off-peak fuel adjustment factors for January 2006 through December 2006.

Q. Please describe the information provided on Schedule E1-E.

A. Schedule E1-E presents the standard, on-peak and off-peak fuel adjustment factors after adjusting for variations in line losses.

Q. Please summarize the proposed fuel and purchased power cost recovery factors by rate schedule for January 2006 through December 2006.

A.

Rate Schedule	Fuel Charge Factor (cents per kWh)
Average Factor	5.413
RS, GS and TS	5.435
RST and GST	6.613 (on-peak)
	4.811 (off-peak)
SL-2, OL-1 and OL-3	5.081

GSD, GSLD, and SBF	5.415	
GSDT, GSLDT, EV-X and SBFT	6.589	(on-peak)
	4.793	(off-peak)
IS-1, IS-3, SBI-1, SBI-3	5.280	
IST-1, IST-3, SBIT-1, SBIT-3	6.424	(on-peak)
	4.673	(off-peak)

Q. How does Tampa Electric's proposed average fuel adjustment factor of 5.413 cents per kWh compare to the average fuel adjustment factor for the January 2005 through December 2005 period?

A. The proposed fuel charge factor is 1.637 cents per kWh (or $16.37 per 1,000 kWh) higher than the average fuel charge factor of 3.776 cents per kWh for the January 2005 through December 2005 period. The resulting increase and the measures taken by Tampa Electric to mitigate the impact to customers are discussed later in this testimony.

Events Affecting the Projection Filing

Q. Are there any significant events reflected in the calculation of the 2006 fuel and purchased power and capacity cost recovery projections that were not reflected in last year's projections?

A. Yes. There are three significant events. These are 1) the increase in natural gas and coal commodity prices; 2) the company's wholesale purchases; and 3) Tampa Electric's recovery of waterborne coal transportation costs as required in Order No. PSC-04-0999-FOF-EI ("Order No. 04-0999") issued October 12, 2004 in Docket No. 031033-EI.

Q. Please describe the first event that affects the company's projection filing.

A. Tampa Electric's natural gas-fired Bayside Station became fully operational in January 2004, thereby increasing the company's use of natural gas. Natural gas prices have increased in recent years and have shown the same market volatility that has occurred with oil prices. Similarly, coal prices have increased due to high demand and leaner utility coal stockpiles. Since the 2005 projection was filed in September 2004, the average 2005 natural gas and coal prices per MMBTU have increased 27.6 and 15.6 percent, respectively. Witness J. T. Wehle's direct testimony describes the increase in fuel costs in more detail. Both natural gas and coal commodity prices are key drivers of Tampa Electric's increased fuel costs reflected in its August 2005 actual/estimated fuel and purchased power filing as well as in the 2006 projection filing. The higher pricing is expected to continue through 2006; therefore, Tampa Electric is seeking recovery of increased fuel costs through the Fuel and Purchased Power Cost Recovery Clause in 2006.

Q. Please describe the second event.

A. Tampa Electric entered into a cost effective purchase agreement with Calpine Energy Services, L.P. The purchase will improve supply reliability for retail ratepayers in 2005 and 2006 at reasonable and prudent costs. The direct testimony of Tampa Electric witness B. F. Smith describes the purchase and demonstrates that the costs associated with the purchased power agreement are prudent and appropriate for recovery through the Fuel and Purchased Power and Capacity Cost Recovery Clauses.

Tampa Electric also intends to enter into a one year purchase agreement to replace the agreement with Progress Energy Florida, which will expire at the end of 2005. The company is actively monitoring the market for a purchased power provider; however, no specific entity has been identified to date. The replacement purchase will be evaluated to determine the reliability as well as economic benefit it would provide.

Q. Please describe the third event.

A. The third event relates to the disallowance of costs required by FPSC Order No. 04-0999, which specifies that a portion of the costs incurred by Tampa Electric under the current contract with TECO Transport is not reasonable for cost recovery. The annual adjustment to the company's fuel cost recovery is projected to be $15,315,000 in 2006. This adjustment will be trued up to reflect the actual tons shipped and associated calculated disallowances as part of the normal true-up process.

Q. Have the impacts of Hurricane Katrina affected the company's projection filing?

A. Yes, as discussed in the testimony of witness J.T. Wehle, Hurricane Katrina has contributed to the volatility by causing a recent spike in natural gas prices. Due to the recency of this event and the fact that damage assessments are still being performed, only the winter impact associated with the rise in natural gas prices was incorporated.

Regulatory Treatment

Q. Do the fuel and purchased power cost recovery factors for the 2006 period include costs resulting from equipment failure, force majeure or breach of contract?

A. Yes. Tampa Electric is requesting recovery for the fuel and purchased power costs resulting from the Polk Unit 1 rotor failure and the default of No. 1 Contractors, one of Tampa Electric's coal suppliers.

Q. Is it appropriate for Tampa Electric to recover costs resulting from equipment failure, force majeure or breach of contract prior to exhausting all avenues of redress?

A. Yes. In the case of the equipment failure for Polk Unit 1, described in more detail in the testimony of witness W.A. Smotherman, it is clearly appropriate for Tampa Electric to recover replacement fuel and purchased power costs on a current basis. The equipment failure was not due to any failure of Tampa Electric to follow good utility practices and, therefore, was an event beyond Tampa Electric's control. Because of the equipment failure, Tampa Electric acted prudently in securing replacement fuel and purchased power required to serve its customers. Regulatory precedent dictates that prudently incurred fuel-related expenses should be recovered through the fuel and purchased power clause.

Similarly, in the case of the default by No. 1 Contractors, described in more detail in witness J.T. Wehle's testimony, Tampa Electric has acted prudently in immediately securing alternate coal suppliers to ensure uninterrupted fuel supply and reliability of service.

Tampa Electric is evaluating all avenues of redress for the equipment failure at Polk Unit 1, as well as pursuing legal action in the default from No. 1 Contractors, and will pursue all actions that appear likely to result in reimbursement for incurred damages. In the event the company is able to achieve reimbursement in excess of equipment replacement value for the Polk Unit 1 equipment, and any reimbursement from No. 1 Contractors will be flowed through to Tampa Electric's customers as a credit to the fuel clause.

Wholesale Incentive Benchmark Mechanism

Q. What is Tampa Electric's projected wholesale incentive benchmark for 2006?

A. The company's projected 2006 benchmark is $1,188,811, which is the three-year average of $1,184,728, $1,049,937 and $1,331,768 in gains on the company's non-separated wholesale sales, excluding emergency sales, for 2003, 2004 and 2005 (estimated/actual), respectively.

Q. Does Tampa Electric expect gains in 2006 from non-separated wholesale sales to exceed its 2006 wholesale incentive benchmark?

A. Yes. Tampa Electric anticipates that sales will exceed the projected benchmark by $2,510,789 of which 80 percent or $2,008,631 will flow back to ratepayers.

Incremental Hedging O&M Costs

Q. Is Tampa Electric seeking to recover prudently incurred projected incremental O&M costs for initiating and/or maintaining its non-speculative financial hedging program in 2006?

A. Yes. The projected incremental O&M expenses are shown on Exhibit No. _____ (CA-3), Document No. 2, Schedule E2, line 8c. Exhibit No. _____ (JTW-2) of the direct testimony of Tampa Electric witness J. T. Wehle itemizes the expected O&M expenses by functional category.

Cost Recovery Factors

Q. What is the composite effect of Tampa Electric's proposed changes in its capacity, fuel and purchased power, environmental and energy conservation cost recovery factors on a 1,000 kWh residential customer's bill?

A. Given the unprecedented increases in fuel commodity prices and purchased power costs, Tampa Electric implemented a strategy in 2005 to sell available SO_2 allowances to help mitigate some of the impact of rising fuel and purchased power prices. This is described in more detail in witnesses H. T. Bryant's and G. M. Nelson's testimonies filed in Docket No. 050007-EI. Even with the SO_2 allowance sales, as well as the prudent procurement practices and hedging strategies described by witness J. T. Wehle, the composite effect on a residential bill for 1,000 kWh is an increase of $11.54 beginning January 2006. These charges are shown in Exhibit ___ (CA-3), Document No. 3.

Q. When should the new rates go into effect?

A. The new rates should go into effect concurrent with the first billing cycle for January 2006.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

BENJAMIN F. SMITH

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

A. My name is Benjamin F. Smith. My business address is 702 North Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") in the Wholesale Marketing and Fuels group within the Fuels Management Department.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Science degree in Electric Engineering in 1991 from the University of South Florida in Tampa, Florida. I joined Tampa Electric in 1990 as a cooperative education student. During my years with the company, I have worked in the areas of transmission engineering, distribution engineering, resource planning, retail marketing, and wholesale marketing. I am currently the Manager of Wholesale Power in the

Wholesale Marketing and Fuels group. My responsibilities are to evaluate, pursue, and negotiate hourly and other short-term purchase and sale opportunities within the wholesale power market. In this capacity, I interact with wholesale power market participants such as utilities, municipalities, electric cooperatives, power marketers, and other wholesale generators.

Q. Have you previously testified before this Commission?

A. Yes. I testified before this Commission in Docket Nos. 030001-EI and 040001-EI. My testimony described the appropriateness and prudence of Tampa Electric's wholesale purchases and sales.

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

A. The purpose of my testimony is to provide a description of Tampa Electric's purchased power agreements that the company has entered into and for which it is seeking cost recovery through the Fuel and Purchased Power Cost Recovery Clause ("fuel clause") and the Capacity Cost Recovery Clause. I also describe Tampa Electric's purchased power strategy for mitigating price and supply-side risk while providing customers with a reliable supply of economically priced purchased power.

Q. Please describe the efforts Tampa Electric makes to ensure that its wholesale purchases and sales activities are conducted in a reasonable and prudent manner.

A. Tampa Electric evaluates its potential purchased power needs by analyzing the expected available amounts of generation and the power needed to provide for the projected energy and demand to be used by its customers. When there is a need, the company aggressively shops for wholesale capacity or energy, searching for reliable supplies at the best possible price from creditworthy counterparties. These purchases are evaluated based on forward and spot markets. The company engages in wholesale power purchases and sales with numerous counterparties. The creditworthiness of each counterparty is carefully checked before engaging in energy transactions. Purchases are made to achieve reserve margin requirements, to meet customers' needs, to supplement generation during both planned and unplanned generating unit outages, and for economical purposes. This process is followed to help minimize the cost of purchased power and maximize the savings to customers.

Q. Has Tampa Electric reasonably managed its wholesale power purchases and sales for the benefit of its retail customers?

A. Yes, it has. Tampa Electric has fully complied with, and continues to fully comply with, the Commission's March 11, 1997 order, No. PSC-97-0262-FOF-EI, issued in Docket No. 970001-EI, which governs the treatment of separated and non-separated wholesale sales. In addition, the company actively manages its wholesale sales and purchases with the goal of capitalizing on all opportunities to reduce costs to its customers.

The company's wholesale purchases and sales activities and transactions are reviewed and have been audited on a recurring basis by the Commission. In addition, Tampa Electric monitors its contractual rights with purchased power suppliers as well as with entities to which wholesale power is sold to detect and prevent any breach of the company's contractual rights. Tampa Electric continually strives to improve its knowledge of the markets and the available opportunities to minimize the costs of purchased power and to maximize the savings the company provides retail customers by making non-separated wholesale sales when excess power is available on Tampa Electric's system.

Q. What actions did Tampa Electric take to minimize incremental purchased power costs during the 2004 hurricane season?

A. There were an unprecedented four consecutive hurricanes in 2004 that affected the state of Florida—Hurricanes Charley, Frances, Ivan, and Jeanne. Tampa Electric made every effort to minimize incremental purchased power costs due to the storms while providing reliable supplies of energy to meet load. Tampa Electric made economic purchases whenever possible; however, the onset of these storms significantly impaired the company's ability to purchase power on a forward basis because of the uncertainty of load level, available transmission, and fuel supplies within the marketplace. In addition, to maintain system reliability during the storm season, Tampa Electric also made reliability purchases. For example, due to concerns that Hurricane Frances would affect Tampa Electric's generating resources at Bayside and Big Bend stations, the company called on its existing 150 MW purchase from Progress Energy Florida. Following the 2004 storm season, as fuel supplies became more certain, the company continued to purchase power on the spot market so long as the economics of the purchase were favorable.

Q. Did the 2004 hurricane season affect Tampa Electric's purchased power procurement strategies?

A. At the beginning of 2004, Tampa Electric's risk management strategy did not consider the possibility of four hurricanes within two months. Although there are no definitive industry reports on the probability of another such storm season, the company has reviewed its purchase power strategy in light of the 2004 storm season. During future hurricane seasons, the company's basic strategy is to "get in front of the storm". This means that Tampa Electric, using available storm tracking resources, will evaluate the impact of the storm on the wholesale market as soon as possible. Then, if needed, the company will purchase power on the forward market, first for reliability reasons, and then for economics. Absent the threat of a hurricane and for all other months of the year, the company's purchased power strategy of evaluating economic combinations of long- and short-term purchase options remains unchanged.

Q. Please describe Tampa Electric's 2005 wholesale energy purchases.

A. Tampa Electric assessed the wholesale energy market and entered into long- and short-term purchases based on price and availability of supply. The company expects to meet approximately 17 percent of its customers' 2005 energy needs through purchased power, which includes the existing long-term, firm purchased power agreements with Hardee Power Partners and qualifying facilities and the 150 MW non-firm purchase from Progress Energy Florida. Tampa Electric purchases power to assist with price stability and reliability of supply. For 2005, Tampa Electric expects that 51 percent of its purchased power will be from long-term contracts, and the remaining 49 percent will be purchased in the short-term market.

Q. Please describe Tampa Electric's 2006 wholesale energy purchases.

A. In 2006, Tampa Electric expects that 46 percent of purchased power will be from long-term contracts, and the remaining 54 percent will be purchased in the short-term market. In addition to the existing purchased power agreements with Hardee Power Partners and qualifying facilities, Tampa Electric negotiated a long-term, firm agreement to purchase 170 MW of peaking power from Calpine that begins May 1, 2006. Finally, Tampa Electric will continue to evaluate economic combinations of forward and spot market energy purchases during its spring and fall generation maintenance periods and peak periods to reduce the overall cost to customers. This purchasing strategy provides a reasonable and diversified approach to serving customers.

Q. Please describe Tampa Electric's purchase agreement with Calpine.

A. Tampa Electric projects a need for firm capacity to meet reserve margin requirements beginning in the summer 2006 and for each year through 2011. Tampa Electric entered into a contract to purchase 170 MW of firm peaking power from Calpine's natural gas fired facilities in Auburndale, Florida. The purchase will take effect May 1, 2006 and expire at the end of April 2011. The purchase substitutes for an additional combustion turbine on Tampa Electric's system.

Q. How did Tampa Electric determine that the Calpine purchased power agreement provided the greatest benefits to its customers, when compared to other options?

A. The Calpine purchase was achieved through a competitive bidding process supported by economic analysis from Tampa Electric's Resource Planning group. After viable bids were identified, Tampa Electric modeled the Calpine purchase and other options. Based on a comprehensive analysis, the Calpine purchase was the most appropriate option from a reliability and cost-effectiveness standpoint, and it provides a projected $26.2 million of savings to customers over the life of the contract. Tampa Electric then negotiated with Calpine to finalize the details of the agreement.

Q. Does Tampa Electric plan to enter into any other new purchased power agreements?

A. At this time, with the exception of seasonal purchases for 2005 and the long-term 170 MW peaking purchase from Calpine beginning May 2006, the company has not reached any agreements with other entities for forward purchases. As previously stated, Tampa Electric continues to evaluate economic combinations of forward purchases to reduce the overall cost to customers.

Q. Please describe Tampa Electric's wholesale energy sales for 2005.

A. Tampa Electric has entered into various non-firm, non-separated wholesale sales in 2005. These transactions have provided benefits to customers because year to date, 100 percent of the revenues from the sales were returned to customers through the fuel clause.

Q. Does Tampa Electric engage in physical or financial hedging of its wholesale energy transactions to mitigate wholesale energy price volatility?

A. Physical and financial hedges can provide measurable market price volatility protection. Thus far, Tampa Electric has engaged only in physical hedging for wholesale transactions because the availability of financial instruments within Florida is limited. The Florida market currently operates through bilateral contracts between various counterparties, and there is not a Florida trading hub where standard financial transactions could occur with enough volume for a liquid market. Due to this lack of liquidity, the appropriate financial instruments to meet the company's needs do not currently exist. Thus, Tampa Electric has not purchased any wholesale energy derivatives. Instead, Tampa Electric employs a diversified power supply strategy, which includes self-generation and long- and short-term capacity and energy purchases. This strategy provides the company the opportunity to take advantage of favorable spot market pricing while maintaining reliable service to its customers.

Q. Does Tampa Electric's risk management strategy for power transactions adequately mitigate price risk for purchased power for 2004 through 2006?

A. Yes, Tampa Electric's physical hedges have been successful, and the company expects them to continue to provide customers with adequate protection from purchased power price risk. For example, in 2004, Tampa Electric purchased 150 MW from Progress Energy Florida. This purchase has served as both a physical hedge and a reliable source of economical power in 2004 and 2005. The availability of this purchase has been high, and its price is based on the seller's system average fuel cost, providing some protection from increases in natural gas prices that affect the price of purchased power.

During the summer of 2005, Tampa Electric executed agreements with Okeelanta and Reliant Energy. The Okeelanta purchase is a fixed price agreement, and the purchase from Reliant Energy is a cost-based call option on peaking power. Both of these agreements reduce the purchased power price risk for Tampa Electric customers.

As I stated above, in May 2006, Tampa Electric will begin purchasing up to 170 MW of peaking power from Calpine. This purchase is at a fixed heat rate, which, although not at a fixed price, provides protection against an increase in purchase power prices because this purchase remains cost-based. This is the same type of price protection provided by the company's existing long-term, firm purchased power agreement with Hardee Power Partners. Finally, as 2006 approaches, the company continues to evaluate forward purchase options that further reduce the price risk of purchased power.

Mitigating price risk is a dynamic process, and Tampa Electric continually re-evaluates its options in light of changing circumstances and new opportunities. As far as purchased power is concerned, Tampa Electric continually strives to maintain an optimum level and mix of long- and short-term capacity and energy purchases to augment the company's own generation.

Q. Please summarize your testimony.

A. Tampa Electric monitors and assesses the wholesale energy market to identify and take advantage of opportunities in the wholesale electric power market, and those efforts have benefited the company's customers. Tampa Electric's energy supply strategy includes self-generation and long- and short-term power purchases. The company purchases in both the physical forward and spot wholesale power markets to provide customers with a reliable supply at the lowest possible cost, and Tampa Electric enters into non-firm, non-separated wholesale sales that benefit customers. Tampa Electric does not purchase wholesale energy derivatives in the developing Florida wholesale electric market due to a lack of financial instruments that are appropriate for the company's operations. It does, however, employ a diversified power supply strategy to mitigate price and supply risks.

Q. Does this conclude your testimony?

A. Yes.

TAMPA ELECTRIC COMPANY
DOCKET NO. 050001-EI
FILED: 04/01/05

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

JOANN T. WEHLE

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

A. My name is Joann T. Wehle. My business address is 702 N. Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Director of the Wholesale Marketing and Fuels Department.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor's of Business Administration Degree in Accounting in 1985 from St. Mary's College, South Bend, Indiana. I am a CPA in the State of Florida and worked in several accounting positions prior to joining Tampa Electric. I began my career with Tampa Electric in 1990 as an auditor in the Audit Services Department. I became Senior Contracts Administrator, Fuels in 1995. In 1999, I was promoted to Director, Audit Services and subsequently rejoined the Fuels Department as Director in April 2001. I became Director, Wholesale Marketing and

Fuels in August 2002. I am responsible for managing Tampa Electric's wholesale energy marketing and fuel-related activities.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present, for the Florida Public Service Commission's ("FPSC" or "Commission") review, information regarding the 2004 performance of Tampa Electric's risk management activities, as required by the terms of the stipulation entered into by the parties to Docket No. 011605-EI and approved by the Commission in Order No. PSC-02-1484-FOF-EI. In addition, I will present details regarding the appropriateness for recovery of $210,045 in incremental operations and maintenance ("O&M") expenses associated with hedging activities.

Q. Have you prepared any exhibits in support of your testimony?

A. Yes. Exhibit No. ___ (JTW-1) was prepared under my direction and supervision. My exhibit shows Tampa Electric's calculation of its 2004 incremental hedging O&M expenses.

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

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

Q. What were the results of Tampa Electric's risk management activities in 2004?

A. As outlined in Tampa Electric's annual Risk Management Plan most recently filed on September 9, 2004 in Docket No. 040001-EI, the company strives to reduce fuel price volatility while maintaining a reliable supply of fuel. In an effort to limit exposure to market price fluctuations of natural gas Tampa Electric established a hedging program. The program was updated and approved by the company's Risk Authorizing Committee ("RAC") in August 2004. Tampa Electric currently follows the program as approved by the RAC.

On April 1, 2005 Tampa Electric filed its annual risk management report, which describes the outcomes of its 2004 risk management activities. As the report indicates, Tampa Electric's 2004 hedging activities produced a net savings of $14.3 million for its customers.

Q. How did Tampa Electric's fuel mix change in 2004?

A. Tampa Electric completed its transition from burning predominantly coal to utilizing a mix of natural gas and coal as H. L. Culbreath Bayside ("Bayside") Unit No. 2 became commercially operational on January 15, 2004. As a result of repowering the coal-fired Gannon Station to the natural gas-fired Bayside Station, Tampa Electric's reliance on natural gas for retail generation increased from three percent in 2002 to 38 percent in 2004.

Q. Did the addition of Bayside Unit No. 2 impact Tampa Electric's hedging activity in 2004?

A. Yes, the addition of Bayside Unit No. 2 increased the volume of natural gas needed; as a result, Tampa Electric continued to augment its hedging strategies to mitigate natural gas price volatility. The enhancements to the risk management plan are described in the company's risk management report filed on April 1, 2005.

Q. Did Tampa Electric implement a hedging information system?

A. Yes, as planned Tampa Electric implemented Sungard's Nucleus Risk Management System ("Nucleus") and booked the first month of transactions in April 2004.

Q. What capabilities does Nucleus provide?

A. Nucleus records all natural gas hedging transactions and calculates risk management reports common to the industry. In addition, Nucleus supports sound hedging practices with its contract management separation of duties, credit tracking, transaction limits, deal confirmation, and business report generation functions. The Nucleus system also records all physical natural gas transactions. By consolidating physical transactions and financial natural gas hedging transactions into the Nucleus system Tampa Electric has improved contract, credit management and risk exposure analysis.

Q. What were the results of the company's incremental hedging activities in 2004?

A. The incremental hedging activities enhanced Tampa Electric's hedging processes, procedures, controls and capabilities. As a result, natural gas hedging activities protected Tampa Electric's customers from price volatility on [redacted] of the natural gas used in the company's plants. The net result of natural gas hedging activity in 2004 was a savings of $8.4 million, when the instrument prices were compared to market prices on settled positions.

Q. Did the company use financial hedges for other commodities in 2004?

A. No, Tampa Electric did not use financial hedges for other commodities because of its fuel mix. Historically, Tampa Electric has primarily relied on coal as a boiler fuel. The price of coal is relatively stable compared to the prices of oil and natural gas. In addition, there are no financial hedging instruments for the types of coal the company uses. Tampa Electric consumes a small amount of oil, making price hedging somewhat impractical; therefore the company did not use financial hedges for oil. The company did not use financial hedges for wholesale energy transactions because a liquid, published market does not exist in Florida.

Q. Does Tampa Electric use physical hedges?

A. Yes, Tampa Electric uses physical hedges in managing its coal supply. The company enters into a portfolio of differing term contracts with various suppliers to obtain the types of coal used on its system. In addition, some coal supply contracts contain volume options that the company uses when spot-market pricing is favorable compared to the contract price. In 2004, these coal strategies resulted in $5.9 million in savings to Tampa Electric's customers.

Q. What is the basis for your request to recover the commodity and transaction costs described above?

A. Commission Order No. PSC-02-1484-FOF-EI, in Docket No. 011605 states:

> "Each investor-owned electric utility shall be authorized to charge/credit to the fuel and purchased power cost recovery clause its non-speculative, prudently-incurred commodity costs and gains and losses associated with financial and/or physical hedging transactions for natural gas, residual oil, and purchased power contracts tied to the price of natural gas."

Therefore, Tampa Electric's request for recovery is in accordance with the aforementioned Order.

Q. Are you requesting recovery of incremental hedging O&M costs?

A. Yes, Tampa Electric requests recovery of $210,045 that the company incurred as incremental O&M expenses. The Commission, in Order No. PSC-02-1484-FOF-EI, states:

> "Each investor-owned electric utility may recover through the fuel and purchased power cost recovery clause prudently-incurred incremental operating and maintenance expenses incurred for the purpose of initiating and/or maintaining a new or expanded non-speculative financial and/or physical hedging program designed to mitigate fuel and purchased power price volatility for its retail customers each year until December 31, 2006 or the time of the utility's next rate proceeding, whichever comes first."

Tampa Electric established its base year expenses according to the portion of the employee's time and related expenses for hedging in 2001. The 2004 actual costs were then calculated using the same methodology. Tampa Electric's calculation of the incremental expenses as well as base year expenses and 2004 actual expenses are shown in my Exhibit No._____ (JTW-1).

Q. Does this conclude your testimony?

A. Yes it does.

TAMPA ELECTRIC COMPANY
DOCKET NO. 050001-EI
FILED: 9/9/05

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

PREPARED DIRECT TESTIMONY

OF

JOANN T. WEHLE

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

A. My name is Joann T. Wehle. My business address is 702 N. Franklin Street, Tampa, Florida 33602. I am employed by Tampa Electric Company ("Tampa Electric" or "company") as Director, Wholesale Marketing & Fuels.

Q. Please provide a brief outline of your educational background and business experience.

A. I received a Bachelor of Business Administration Degree in Accounting in 1985 from St. Mary's College in Notre Dame, Indiana. I am a CPA in the State of Florida and worked in several accounting positions prior to joining Tampa Electric. I began my career with Tampa Electric in 1990 as an auditor in the Audit Services Department. I became Senior Contracts Administrator, Fuels in 1995. In 1999, I was promoted to Director, Audit Services and subsequently rejoined the Fuels Department as Director in April 2001. I became Director, Wholesale Marketing and

Fuels in August 2002. I am responsible for managing Tampa Electric's wholesale energy marketing and fuel-related activities.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to discuss the change in Tampa Electric's fuel mix, the company's natural gas strategies, fuel price forecasts, potential impacts of the high and low fuel forecasts, and natural gas impacts related to Hurricane Katrina. In addition, I will address steps Tampa Electric has taken to manage fuel price and supply volatility and describe projected hedging activities and incremental operations and maintenance ("O&M") costs for these activities, and I sponsor Tampa Electric's 2006 risk management plan, submitted concurrently in this docket.

Q. Have you previously testified before this Commission?

A. Yes. I testified before this Commission in Docket Nos. 030001-EI and 031033-EI, and I have filed testimony in the annual fuel and purchased power cost recovery docket since 2001. My testimony in these dockets described the appropriateness and prudence of Tampa Electric's fuel procurement activities, fuel supply risk management, fuel price volatility hedging activities, and fuel transportation costs.

Q. Have you prepared an exhibit in support of your testimony?

A. Yes. Exhibit No. ___ (JTW-2), which consists of two documents, was prepared under my direction and supervision. Document No. 1 describes the calculation of the 2004 waterborne transportation costs disallowance, and Document No. 2 describes the calculation of the company's incremental O&M hedging costs.

Coal Transportation Costs

Q. Did Tampa Electric calculate the waterborne transportation costs submitted for cost recovery in accordance with the Commission's Order No. PSC-04-0999-FOF-EI ("Order No. 04-0999"), issued in Docket No. 031033-EI on October 12, 2004?

A. Yes. The waterborne transportation costs that Tampa Electric has and is seeking to recover reflect the adjusted rates per ton for each upriver terminal as well as the adjusted ocean barge transportation rate. The company calculates the adjusted rates as described in Order No. 04-0999. The river rate is adjusted using the following formula:

$$\frac{\text{(Weighted average rate per ton for all upriver terminals - \$1/ton)}}{\text{Weighted average rate per ton for all upriver terminals}} \times \text{Contract rate for specific upriver terminal}$$

The ocean rate is reduced by $2.41 per ton for shipments from the Davant, Lousiana terminal and $4.08 per ton for petroleum coke shipments from Texas, as prescribed by the Commission order.

For 2004, Tampa Electric's adjustment to its total waterborne transportation costs totaled $13,426,496. The variance from the Commission Staff's projected $15,315,000 disallowance amount was due to variations in river terminal origins, petroleum coke purchases, and total tons shipped, compared to projections. The total 2004 adjustment recorded in Tampa Electric's final true-up filing, submitted in this docket on March 1, 2005, was calculated using the actual tons of coal and petroleum coke shipped in 2004 and the methodology required by Order No. 04-9999. These calculations are shown in Exhibit No. ___ (JTW-2), Document No. 1. Therefore, Tampa Electric's 2004 adjusted coal transportation costs are appropriate for recovery through the Fuel and Purchased Power Cost Recovery Clause ("fuel clause").

Likewise, the expected 2005 and 2006 waterborne transportation costs have been adjusted using this same methodology according to Order No. 04-0999 and will be revised to reflect the actual tons shipped and associated calculated disallowances as part of the normal true-up process. Accordingly, it is also appropriate for Tampa Electric to recover its allowable 2005 and 2006 projected transportation expenses included in the fuel clause for coal transportation.

2006 Fuel Mix and Procurement Strategies

Q. What fuels will Tampa Electric's generating stations use in 2006?

A. In 2006, Tampa Electric expects its fuel mix to remain stable compared to the previous year. In 2006, natural gas-fired and coal-fired generation are expected to be 39 percent and 60 percent of total generation, respectively.

Q. How does Tampa Electric's natural gas procurement and transportation strategy achieve competitive natural gas purchase prices for long- and short-term deliveries?

A. Tampa Electric uses a portfolio approach to natural gas procurement. The company's portfolio consists of a blend of baseload, intermediate and swing supply types along with spot purchases. The contracts have various time lengths to help secure needed supply at competitive prices and maintain the ability to take advantage of favorable natural gas price movements. Tampa Electric's portfolio consists of many approved counterparties with which the company can trade for physical natural gas supply, which enhances liquidity and diversifies its natural gas supply portfolio. The portfolio also includes natural gas prices based on both monthly and daily price indexes, which represents diversification of its natural gas price portfolio.

Tampa Electric has also improved the reliability of the physical delivery of natural gas to its power plants by diversifying its pipeline transportation assets, diversifying its receipt points on the pipelines, and utilizing pipeline and storage tools to access lower cost supply and improve reliability during hurricanes or other events that constrain natural gas supply. The daily efforts of Tampa Electric to obtain reliable supplies of natural gas at the most favorable prices directly benefit its customers. Finally, Tampa Electric's risk management activities improve the company's natural gas procurement activities, by reducing natural gas price volatility.

Q. How has Tampa Electric diversified its natural gas transportation arrangements?

A. In 2005, Tampa Electric diversified its transportation assets when it entered into a cost-effective contract for firm natural gas transportation on Gulfstream Natural Gas Pipeline, LLC ("Gulfstream") that provides firm natural gas transportation directly to Tampa Electric's H. L. Culbreath Bayside Station ("Bayside Station") from Manatee County, via a 28-mile lateral pipeline. Tampa Electric anticipates completion of the lateral pipeline's construction in late 2007 or early 2008. The transportation agreement with Gulfstream adds a second pipeline to Tampa Electric's capacity portfolio and improves the company's ability to meet its natural gas hourly and daily demands.

Q. How do Tampa Electric and its customers benefit from the long-term firm natural gas transportation agreement with Gulfstream?

A. The Gulfstream agreement benefits Tampa Electric and its customers in several ways. First, the Gulfstream pipeline capacity is a cost-effective means of covering Tampa Electric's seasonal, daily and maximum hourly pipeline capacity needs. Secondly, through access to Gulfstream's Park-N-Ride service, the agreement improves Tampa Electric's ability to manage daily natural gas supply load swings and pricing volatility. Perhaps even more importantly, the lateral and agreement enhance Tampa Electric's reliability by providing a second source for natural gas supply transportation to the Bayside Station.

Q. Please describe Gulfstream's Park-N-Ride service.

A. Park-N-Ride is a service that allows Tampa Electric essentially to store natural gas in the Gulfstream pipeline until it is needed. The service also allows Tampa Electric to take natural gas from the pipe one day and repay that natural gas at a later date. For example, Park-N-Ride can be used to park natural gas on Gulfstream during a weekend when electric loads are reduced and then, pull the natural gas out of the pipe during the weekdays when electric loads peak. Another example of Park-N-Ride is to pull natural gas out during a day when the electric load changes significantly due to higher than expected loads or loss of a unit.

Q. What is Tampa Electric's coal procurement strategy?

A. Tampa Electric's two coal-fired plants are Big Bend Station and Polk Station. Big Bend Station is a fully scrubbed plant whose design fuel is high sulfur Illinois Basin coal, and Polk Station is an integrated gasification combined cycle plant that is currently burning a mix of Illinois Basin coal, petroleum coke, and lower sulfur coal. The plants have varying operations and environmental restrictions and require fuel with custom quality characteristics such as sulfur content, Btu/lb, ash fusion temperature and chlorine content. Since coal is not a homogenous product, fuel selection is based on these unique factors and price, availability, and creditworthiness of the supplier.

Tampa Electric maintains a portfolio of bilateral, long-, intermediate-, and short-term contracts for coal supply. Tampa Electric monitors the market to obtain the most favorable prices from sources that meet the needs of the generating stations. The use of daily and weekly publications, independent research analyses from industry experts, discussions with suppliers, and coal solicitations help in market monitoring and in shaping the company's coal procurement strategy to reflect current market conditions. This allows the company to maintain stable supply sources while providing flexibility to take advantage of favorable spot market opportunities. The company's efforts to obtain the most favorable coal prices directly benefit its customers.

Q. Has Tampa Electric entered into coal and natural gas supply transactions for 2005 and 2006 delivery?

A. Yes, it has. To mitigate price volatility and ensure reliability of supply, Tampa Electric has contracted for a significant portion of its expected coal needs for both years through bilateral agreements with coal suppliers. Two thirds of the company's expected 2006 coal requirements are already under contract. Tampa Electric has also entered into contracts for 40 percent of the company's expected natural gas needs for the winter of 2005 and all of 2006.

Q. Has Tampa Electric reasonably managed its fuel procurement practices for the benefit of its retail customers?

A. Yes. Tampa Electric diligently manages its mix of long-, intermediate-, and short-term purchases of fuel in a manner designed to reduce overall fuel costs while maintaining electric service reliability. The company monitors and adjusts fuel volumes it takes within contractually allowed maximum and minimum amounts in accordance with the price of fuel available on the spot market to take advantage of the lowest available fuel prices. The company's fuel activities and transactions are reviewed and audited on a recurring basis by the Commission. In addition, the company monitors its rights under contracts with fuel suppliers to detect and prevent any breach of those rights. Tampa Electric continually strives to improve its knowledge of fuel markets and to take advantage of opportunities to minimize the costs of fuel.

Q. Has Tampa Electric detected any suppliers' default of its fuel supply agreements?

A. Yes, in late 2004, No. 1 Contractors failed to deliver coal as specified in its fuel supply agreement with Tampa Electric. Tampa Electric has completed the notification procedures contained in the agreement, and the company has begun pursuing available legal remedies, including litigation.

Q. Is it appropriate for Tampa Electric to recover replacement coal costs prior to the resolution of its claim against No. 1 Contractors?

A. Yes, it is appropriate for Tampa Electric to recover replacement fuel costs prior to resolution of this claim. The company recovers its fuel costs as the fuel is consumed. Therefore, Tampa Electric should continue to recover its coal expenses, including any replacement purchases, as the fuel is consumed. In the event that Tampa Electric is successful in its claim against No. 1 Contractors, monetary damages for the breach of contract will be returned to customers through the fuel clause.

Projected 2006 Fuel Prices

Q. How does Tampa Electric project fuel prices?

A. Tampa Electric reviews fuel price forecasts from sources widely used in the industry, including PIRA Energy Consulting, Hill & Associates, the Energy Information Administration, the New York Mercantile Exchange ("NYMEX") and other energy market information sources. Futures prices for energy commodities, as traded on the NYMEX, are the primary driver of the natural gas and No. 2 oil price forecasts. The commodity price projections are then adjusted to incorporate expected transportation costs and quality adjustments. The transportation and quality adjustments are specific to the power plants to which the fuel will be delivered and the locations from which it is transported.

Coal prices and coal transportation prices are projected using information from industry-recognized consultants and are specific to the particular quality and location of coal utilized by Tampa Electric's Big Bend Station and Polk Unit 1. Final as-burned prices are derived using expected commodity prices, associated transportation costs, additives used, and analysis performed on coal inventory.

Q. How do the 2006 projected fuel prices compare to the fuel prices projected for 2005?

A. The entire industry, including Tampa Electric, has experienced rising fuel prices since 2004, and projected fuel prices for 2006 are higher for all commodities. The global economy and the increasing industrialization of countries like China have affected the price of natural resources such as natural gas, oil, and coal. The demand for these and other commodities, such as steel, has continued to exert upward pressure on fuel prices. Crude oil prices have soared recently, as illustrated by the recent price for crude oil of well over $60 per barrel, due to factors such as the turmoil in the Middle East, storage injections and withdrawals, and expected hurricane activity near the U.S. coastline. Likewise, the transportation costs of these commodities are affected by the increase in fuel prices.

Q. What are the market drivers of the expected 2006 increase in the price of natural gas?

A. Of the fuels utilized by Tampa Electric, natural gas has experienced the greatest increase in price over the last several years. In addition to price pressures from crude oil, the market drivers include increased demand from natural-gas fired generation, declining natural gas production in North America, delayed liquefied natural gas projects, concerns about the adequacy of natural gas in storage, and concerns about production losses due to tropical storm activity.

Q. Did Hurricane Katrina affect Tampa Electric's natural gas procurement activities?

A. Yes, since Hurricane Katrina affected the region where much of the nation's natural gas supply originates, the entire industry is now facing production and delivery constraints that affect the price and supply of natural gas. Some natural gas platforms in the Gulf of Mexico remain inoperable following Hurricane Katrina, which has reduced production capacity. In addition, natural gas transportation pipelines pass through the areas affected by Hurricane Katrina. The natural gas transportation pipelines may have been damaged under water, and the damage is still being assessed. Furthermore, following Hurricane Katrina, natural gas supplies in storage are declining due to decreased production. These significant post-hurricane effects have the potential to drive natural gas prices even higher and continue to constrain natural gas supply.

Q. Do Tampa Electric's projected fuel costs include natural gas supply and price impacts related to Hurricane Katrina?

A. Yes, Tampa Electric was able to incorporate $42 million in cost impacts seen at the end of August 2005 in its projected fuel costs submitted for recovery. Due to the recency of Hurricane Katrina, Tampa Electric has attempted only to quantify the impacts to natural gas prices for the winter of 2005 to 2006. This is appropriate since market indicators suggest that market prices may ease in the summer months as we move farther away in time from the impacts of Hurricane Katrina, which will allow the market to settle down. However, given the uncertainty related to current market pricing, Tampa Electric recognizes the possibility that the company will incur additional costs for natural gas, as well as for other fuels and transportation. Tampa Electric will true up these estimates to reflect actual costs as necessary.

Q. What are the market drivers of the increase in the price of coal?

A. Coal prices correlate with the prices of other fuels since coal mining utilizes petroleum products, steel, and lumber in its production processes; therefore, coal prices have increased in conjunction with increases in the prices of other fuels. Domestic transportation delays experienced by the U.S. railroads have also influenced summer 2005 spikes in coal prices. Furthermore, increased costs of SO_2 allowances contributed to the higher prices for lower sulfur coals and coal in general. For all of these reasons, Tampa Electric expects higher coal prices to continue through 2006.

Q. Did Hurricane Katrina affect Tampa Electric's coal procurement activities?

A. Yes, Tampa Electric's coal supply logistics were affected by Hurricane Katrina. Prior to the storm, TECO Transport moved ocean barges loaded with Tampa Electric's coal away from the storm path; thus, the ocean barges were able to continue delivering coal to Tampa Electric's Big Bend Station after Hurricane Katrina. Shipments have continued, despite some delays in the area near the mouth of the Mississippi River. Damage at TECO Bulk Terminal is being assessed, and TECO Transport has also begun fleet recovery activities. As with its coal suppliers, Tampa Electric continues to work with TECO Transport to ensure that coal shipments continue. At this time, Tampa Electric is not certain what measures will be required to maintain appropriate coal inventories. Key activities under consideration include the use of rail, the use of third-party barges until TECO Transport's fleet is recovered, as well as seeking alternative terminal services. Both TECO Transport and Tampa Electric are committed to maintaining a reliable supply of coal at Tampa Electric's generating stations.

Q. Do Tampa Electric's projected fuel costs include coal supply and price impacts related to Hurricane Katrina?

A. No. As I stated above, due to the recency of Hurricane Katrina, Tampa Electric is not yet able to quantify impacts to projected coal costs.

Q. Did Tampa Electric consider the impact of higher than expected or lower than expected natural gas prices?

A. Yes. After reviewing the historical volatility in NYMEX pricing and the implied volatility in natural gas options, Tampa Electric has estimated that actual prices in 2006 could be higher or lower than the base forecast by as much as 35 percent. Major fundamental or technical changes, such as abnormal weather, political instability or production shortages, will also dramatically affect price volatility, as demonstrated in the aftermath of Hurricane Katrina.

Hedging Transactions and Related Expenses

Q. Please describe Tampa Electric's risk management activities.

A. Tampa Electric complies with its risk management plan as developed by the Wholesale Marketing & Fuels Department approved by the company's Risk Authorizing Committee. The plan enables Tampa Electric to utilize system and procedural controls to provide detailed and timely reporting of hedging activities for management review and oversight. The company also uses the services of well-known, respected energy consulting companies to assist with forecasting fuel procurement and energy market conditions. Tampa Electric describes its risk management strategies and activities in detail in its Risk Management Plan filed in this docket on September 9, 2005.

Q. Does Tampa Electric's risk management strategy mitigate natural gas price risk?

A. Yes. To protect customers from price volatility, Tampa Electric may purchase over-the-counter natural gas swaps and collars. A swap is a financial derivative that provides a "fixed for floating" position. The buyer (Tampa Electric) pays a fixed price for the natural gas, which has a floating value until cash settlement at the end of the month. The swaps allowed Tampa Electric to lock in known natural gas prices and avoid upward price volatility. The transaction costs of swaps are embedded in the price of the commodity.

Collars are combinations of call options (caps) and put options (floors) that collar prices within a certain range. An option is the right, but not the obligation, to buy (call) or sell (put) natural gas at a pre-determined price. With a collar, the company knows that its future prices will remain within the predetermined boundaries established by the call and put options.

Q. Has Tampa Electric entered into financial hedging transactions in 2005 to mitigate the price volatility of natural gas?

A. Yes. Tampa Electric has purchased over-the-counter natural gas swaps to protect customers from natural gas price volatility. The hedging activity position is described in the Risk Management Plan submitted concurrently with this testimony. Tampa Electric will continue to hedge according to its Risk Management Plan approved by the Risk Authorizing Committee.

Q. Has Tampa Electric used financial hedging to mitigate the price volatility of its 2006 natural gas requirements?

A. Yes. Tampa Electric has already hedged a portion of its expected 2006 natural gas supply needs using swaps and will continue to take advantage of available natural gas hedging opportunities that benefit its customers, while complying with the company's approved Risk Management Plan. The 2006 hedging position for natural gas is provided in the Risk Management Plan filed concurrently with this testimony.

Q. Are the company's strategies adequate for mitigating price risk for Tampa Electric's 2004 through 2006 natural gas purchases?

A. Yes, the company's strategies are adequate for mitigating price risk for Tampa Electric's natural gas purchases. Tampa Electric's strategies balance the desires for reduced price volatility and reasonable cost with the uncertainty of natural gas volumes. These strategies are described in detail in Tampa Electric's Risk Management Plan, also submitted in this docket on September 9, 2005.

Q. Have recent increases in the market price of natural gas affected the percentage of Tampa Electric's natural gas requirements that the company has hedged or plans to hedge?

A. No. The volume hedged is driven primarily by expected natural gas consumption levels and the time until that natural gas will be needed. Based on those two parameters, the amount hedged is maintained within a prescribed percentage range. Price is not a component of the current plan since the objective is price volatility reduction, not price speculation.

Q. Does Tampa Electric anticipate incurring incremental O&M expenses related to initiating or maintaining its non-speculative financial hedging program in 2006?

A. Yes. In Order No. PSC-02-1484-FOF-EI the Commission authorized the recovery of prudently-incurred incremental O&M expenses for the purpose of initiating and/or maintaining a new or expanded non-speculative financial and/or physical hedging program designed to mitigate fuel and purchased power price volatility for its retail customers. Tampa Electric expects its 2006 total incremental hedging O&M cost to be $235,798. These incremental costs are itemized in Exhibit No. ___ (JTW-2), Document No. 2.

Q. What is Tampa Electric's appropriate base O&M expense level used to calculate incremental hedging O&M expenses?

A. Tampa Electric's base level of hedging O&M expenses of $169,153 reflects the company's actual 2001 costs prior to its implementation of a prudent financial hedging program in 2002. The base level costs were audited by the Commission Staff in Audit No. 02-340-2-1, in Docket No. 030001-EI. Tampa Electric's expected 2006 incremental hedging O&M expenses are calculated using this audited base level, as shown in Document No. 2 of my exhibit.

Q. Were Tampa Electric's efforts through July 31, 2005 to mitigate price volatility through its non-speculative hedging program prudent?

A. Yes. Tampa Electric has executed hedges according to the risk management plan filed with this Commission, which was approved by the company's Risk Authorizing Committee.

Q. Does this conclude your testimony?

A. Yes, it does.

CHAIRMAN BAEZ: All right.

Now we've got proposed stipulations.

MS. VINING: Yes. There are several issues where we have proposed stipulations. I'm -- and I would also note that I have distributed to the parties a list of additional issues that have been stipulated since the issuance of the prehearing order. And I don't know if you want me to list all of the ones that there's a proposed stipulation on or do you want to go issue by issue with the list that I gave you earlier?

CHAIRMAN BAEZ: Commissioners, what's your pleasure? Do you want to go issue by issue or -- I think we've got, we've got what amounts to a comprehensive list that's been provided to you.

COMMISSIONER DEASON: Mr. Chairman, I'm not opposed to taking all the stipulations -- unless there are particular questions, concerns with any individual one, I guess we can break it out. I don't have any concerns, so I could move them in mass.

CHAIRMAN BAEZ: And let me, if we can just hold your motion, put it on hold for a second. I want to confirm with the rest of the Commissioners, do they have specific questions on any particular stipulation? Commissioner Edgar, no?

Commissioners, we want to get ready to entertain a motion on all the stipulated issues, all the proposed stipulated issues, but I just want your confirmation that you don't have questions on them; otherwise, we'll hold off.

Commissioner Arriaga, you're okay? Good. Well, Mr. -- well, first, let me, let me clarify, I'm showing here that Issue 17A and 17J can be dropped.

MS. VINING: Yes. That's correct.

CHAIRMAN BAEZ: And we don't need a motion for that; right?

MS. VINING: No, I don't, I don't believe so.

CHAIRMAN BAEZ: All right. Then let the record reflect that Issue 17A and 17J are, are dropped. There's also a correction to the stipulated position on Issue 31A.

MS. VINING: Yes. The position that's listed in the prehearing order is incorrect. I can go ahead and read the corrected.

CHAIRMAN BAEZ: Can you do it? Because we're going to take them all up at once.

MS. VINING: The position? Yes. I'll go ahead and read it.

CHAIRMAN BAEZ: So if you can just go ahead and make that correction for our benefit.

MS. VINING: The corrected position on Issue 31A should read, "As described in Section 4 of Order PSC-03-1461-FOF-EI, Order Number 03-1461 in Docket Number 030001-EI issued December 22nd, 2003, the Commission approved a process for determining the incremental costs of post-911 security measures. This order requires investor-owned electric utilities to demonstrate that any related project costs that are reflected in base rates are removed to reduce the incremental security costs recoverable through the capacity clause. FPL's requested amount includes a briefing room expansion project caused by an increased number of security officers that is due to an NRC requirement. FPL maintains the briefing room in question has been dedicated for security purposes. Staff and FPL agree that if the briefing room had not been dedicated for security purposes, a percentage of the project costs would have been removed pursuant to Order Number PSC-03-1461-FOF-EI.

"In addition, FPL maintains that it has followed the process described in Section 4 of Order PSC-03-1461-FOF-EI and will provide the amount that the company has excluded pursuant to Order Number PSC-03-1461-FOF-EI. FPL agrees with staff that FPL's requested amount for 2006 contains a clerical mistake that has an effect of less than $10,000, not large enough to change the factors; therefore, the company should make any necessary adjustments in the true-up process in Docket Number 060001-EI."

CHAIRMAN BAEZ: Did everybody get that? Okay. Very well. Commissioners, you have the modified stipulated position on Issue 31A, and I think we're ready to take all the proposed stipulated issues up together.

MS. VINING: Chairman --

CHAIRMAN BAEZ: Yes.

MS. VINING: -- my one concern is it's fine for the issues that are listed as proposed stipulated in the prehearing order. But for the additional ones that are on the handout I gave you, do you want to take those up separately than all the ones that are listed in the prehearing order?

CHAIRMAN BAEZ: Do you -- is that your suggestion?

MS. VINING: That would be my suggestion just simply because the only place that they're memorialized is on a handout that I have given everyone.

CHAIRMAN BAEZ: Okay.

MS. VINING: We could make an exhibit. It's -- whatever you would judge to be the most expedient way.

CHAIRMAN BAEZ: I don't, you know -- well, the most expedient is for you to make an exhibit that includes the stipulated language. But we do have them before us in any case and are able -- you know, we've got everything that we need for us --

MS. VINING: Okay.

CHAIRMAN BAEZ: -- to be able to decide on them. The only question is we'll just give it, we'll give it a number, and that way you can get that in the record the same way you did with the stipulated issues that are already listed.

MS. VINING: Sure. The number would be, 76 would be the next number.

CHAIRMAN BAEZ: Show, show -- excuse me. Show hearing Exhibit 76 to be a listing of the additional stipulated issues and their positions. And those for the record would be 13A, 13B, 13H, 14D, 16B and 17F. Did I get them all?

MS. VINING: Well, I would also note that for Issues 1, 2, 3, 6, 7 and 9 there's a stipulated position for Gulf only.

CHAIRMAN BAEZ: Let the record reflect that 1, 2, 3, 6, 7 and 9 are Gulf only stipulated. Any other clarifications or --

MS. VINING: No. With that I think you can entertain a motion on all the proposed stipulations.

(Exhibit 76 marked for identification.)

CHAIRMAN BAEZ: Very well. Commissioner Deason.

COMMISSIONER DEASON: Mr. Chairman, I move the proposed stipulations contained in the prehearing order as modified by staff.

COMMISSIONER BRADLEY: Second.

CHAIRMAN BAEZ: All those in favor, say aye.

(Unanimous affirmative vote.)

COMMISSIONER DEASON: Mr. Chairman, I move approval of the stipulations contained in Exhibit 76, including the Gulf-specific issues as described by staff.

COMMISSIONER ARRIAGA: Second.

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

(Unanimous affirmative vote.)

CHAIRMAN BAEZ: Thank you. And without objection, we will admit Exhibit 76.

(Exhibit 76 admitted into the record.)

MS. VINING: Did you just enter 76 into the record? I wasn't sure if I missed that.

CHAIRMAN BAEZ: Yes.

MS. VINING: Okay. Great. Thank you.

And with that, I think we can move to the witnesses for cross.

MS. CHRISTENSEN: Commissioners, one more preliminary matter related to exhibits. I have certified copies of the customer comments that have come in related to the FPUC issue, the surcharge, and I don't believe Mr. Horton has any objection to moving those into the record. Now we can either do it now and that'll give the Commissioners an opportunity to look at them before we get to the issue, or we can move them in at the time we're taking testimony on those issues. But I was looking to move them in now, if there's no objection.

MR. HORTON: I don't have any -- I haven't seen them, but I don't have any objection to it.

CHAIRMAN BAEZ: I tell you what, why don't we -- and let's, let's not go off -- and we'll mark it, we'll mark it 77, and that's a composite of all the, all the --

MS. CHRISTENSEN: Customer comments.

CHAIRMAN BAEZ: -- customer comments. And, Ms. Christensen, if you can afford Mr. Horton an opportunity to, to see them and --

MS. CHRISTENSEN: Certainly.

MR. HORTON: Mr. Chairman, I doubt that I have any objection to them. I just haven't seen them.

MS. CHRISTENSEN: Yeah. I'll provide a copy to --

CHAIRMAN BAEZ: That's fine. There will be an appropriate time to get it in anyway, so that's --

MS. CHRISTENSEN: I'll provide a copy to Mr. Horton as well as staff, and they can look through those and then I'll see what we can do about moving them in.

(Exhibit 77 marked for identification.)

CHAIRMAN BAEZ: All right. Mr. Yupp, you weren't sworn, were you?

THE WITNESS: Not yet.

CHAIRMAN BAEZ: Okay. Then everybody, everybody I can catch this afternoon stand up, and all those witnesses that are in the room at this point, will you please stand up and raise your right hand.

(Witnesses collectively sworn.)

GERARD J. YUPP

was called as a witness on behalf of Florida Power & Light

Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BUTLER:

Q Mr. Yupp, would you please state your name and address for the record.

A My name is Gerard Yupp. My business address is 700 Universe Boulevard, Juno Beach, Florida.

Q By whom are you employed and in what capacity?

A I'm employed by Florida Power & Light as Director of Wholesale Operations.

Q Do you have before you the following direct testimony that was prefiled in this docket: First is entitled "Hedging Activity January 2004 through December 2004" dated April 1, 2005; and the second is entitled "Projections January 2006 through December 2006" that was filed on September 9, 2005?

A Yes, I do.

Q Okay. Do you have any corrections to make to your testimony or the attached exhibits?

A No, I do not.

MR. BUTLER: I'd ask that Mr. Yupp's prefiled direct testimony be inserted into the record as though read.

CHAIRMAN BAEZ: Without objection, show the prefiled direct testimony of Gerard Yupp entered into the record as though read.

MR. BUTLER: Thank you. Commissioners, Mr. Yupp's exhibits have been preassigned Exhibit Numbers 4 through 10 in the prehearing order or, I'm sorry, in the comprehensive exhibit list. The only thing I would note is that Mr. Yupp's Exhibit 4 is a confidential exhibit. It -- I don't think anybody intends to use it here at the hearing. It was filed with the testimony when prefiled. We requested confidential classification at the time, which you have granted. So I don't think anything needs to be done about it further, but I just wanted to note that it is confidential.

CHAIRMAN BAEZ: Very well. And I guess I would, I would urge the rest of, the rest of counsel, if, if need be as it arises, if you can point out the confidential exhibits as well off of the list.

Thank you, Mr. Butler. You can proceed.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF GERARD YUPP

DOCKET NO. 050001-EI

APRIL 1, 2005

Q. Please state your name and address.

A. My name is Gerard Yupp. My business address is 700 Universe Boulevard, North Palm Beach, Florida, 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company (FPL) as Director of Wholesale Operations in the Energy Marketing and Trading Division.

Q. Have you previously testified in the predecessors to this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide a review of FPL's 2004 hedging activity, including the detail required by Item 5 of the Resolution of Issues in Docket 011605-EI approved by the

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

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

Additionally, this testimony addresses Items 13 and 14 from Staff's workshop held on January 12, 2005. Item 13 requires each utility to provide "a numerical comparison of the annual average price paid for each fuel type (i.e., natural gas and oil) in the immediately preceding year to the market price for each fuel type". Item 14 requires the same comparison for solid fuel. FPL's methodology for these comparisons is divided into three categories: 1) hedged commodities (i.e., natural gas and residual fuel oil), 2) light fuel oil and 3) coal. For natural gas and residual fuel oil, my testimony will provide a general overview of FPL's hedging program process and its physical fuel procurement process. My testimony demonstrates that the hedging results FPL files each year provide the numerical comparison for natural gas and residual fuel oil that is contemplated by Item 13. Finally, my testimony separately addresses market comparisons and the methodology behind those comparisons for light fuel oil and coal.

Q. Are you sponsoring any Documents for this proceeding?

A. Yes. I am sponsoring the following Documents:

GJY-1: 2004 Hedging Activity

GJY-2: 2004 Light Oil Procurement Example

GJY-3: 2004 Solid Fuel Activity

GJY-4: Evaluation of Petcoke Supply Bids for 2004 (SJRPP)

GJY-5: Long Term PRB RFP, February-March 2004 (Miller and Scherer)

GJY-6: Long Term PRB RFP, August-September 2004 (Scherer)

Q. Please describe FPL's hedging objectives.

A. FPL's fuel hedging strategy aims to benefit FPL's customers by reducing fuel price volatility, and to the extent possible, mitigating fuel price increases, while maintaining the opportunity to take advantage of price decreases in the marketplace. The primary objective of FPL's hedging program is to reduce fuel price volatility, thereby helping to deliver greater price certainty to FPL's customers. Although FPL's hedging strategies may result in fuel savings to

FPL's customers, FPL does not execute speculative hedging strategies aimed at "out guessing" the market in the hopes of potentially returning savings to FPL's customers. FPL has implemented a well-disciplined, well-defined and controlled hedging program that is executed in compliance with FPL's risk management policies and procedures.

Q. Please summarize FPL's 2004 hedging activities.

A. FPL's 2004 hedging activities were successful in reducing fuel price volatility and delivering greater price certainty for FPL's customers. Because the market trended upward after FPL's hedge positions were in place for 2004, FPL's hedging activities in 2004 also delivered a significant amount of fuel savings to FPL's customers (approximately $250 million). FPL will continue to monitor the fundamentals of the energy markets and, as conditions change, FPL will make further adjustments to its hedging program to meet its objective of reduced fuel price volatility. Over time, FPL expects that the cumulative impact of its hedging program will reduce fuel price volatility and deliver greater price certainty for FPL's customers, while roughly balancing out the savings and losses resulting from the hedged positions.

Q. Does your Document GJY-1 provide the detail on FPL's 2004

hedging activities required by Item 5 of the Resolution of Issues?

A. Yes.

Q. Please describe how FPL implemented, executed and managed its hedging strategy throughout the recovery period.

A. FPL's approach has been to analyze the appropriate hedging strategy for the next recovery period during the first quarter of the previous year. This analysis includes the determination of the appropriate hedge percentages of both natural gas and residual fuel oil and the appropriate hedge instruments to utilize for each commodity. The goal of this analysis is to ensure that the hedging strategy will effectively reduce fuel price volatility in any hedged year by mitigating fuel price risk to FPL's customers while maintaining the opportunity to take advantage of fuel price decreases in the market to the benefit of FPL's customers. The results of this analysis are presented to management for final approval.

After approval, the hedging strategy is executed within the Energy Marketing and Trading Division of FPL. Hedge transactions are executed throughout the agreed upon transaction period in accordance with the approved strategy until the desired hedge levels are achieved.

FPL continuously monitors its hedging levels throughout the recovery period. FPL updates its fuel burn projections for the entire recovery period on a weekly basis. These projections incorporate the latest available information, including fuel prices, generation availability and load. To the extent that the updated fuel burn projections cause a change in FPL's hedge percentages that are outside of the approved tolerance band, FPL will rebalance its hedge positions within its predefined parameters as defined in the approved hedging strategy. This procedure for monitoring and, as required, rebalancing its hedging levels allows FPL to quickly respond to changes in the fuel market and adjust its hedged positions accordingly.

Q Is the procurement of natural gas and residual fuel oil physical fuel supply separate from FPL's hedging program?

A. Generally, yes. Most of FPL's hedge positions are transacted in the financial markets, and are not associated with physical deliveries. The physical supply of natural gas and residual fuel oil is predominately priced at a NYMEX settlement price or at an established index. FPL does, however, procure some of its long-term physical fuel supply on a fixed price basis, and the gains and losses resulting from these transactions are included in FPL's hedging results.

Regardless of the pricing mechanism, FPL's procurement of long-term physical fuel supply for natural gas and residual fuel oil is based upon the same fuel burn projections that FPL uses to execute and manage its hedging strategy. Short-term procurement or spot procurement (monthly, next day, intra-day, spot cargo) is utilized to supplement those long-term transactions, as needed to compensate for variations in natural gas and residual fuel oil requirements on a monthly and daily basis. For natural gas, monthly procurement is primarily transacted as a differential (basis) off the NYMEX settlement ("at the market"). Next day and intra-day transactions are typically executed at a fixed price or index. Daily fixed price and index transactions are deemed to have occurred "at the market" and are not included in the hedge results. For residual fuel oil, spot requirements are generally procured at an index and therefore represent the market at the time of delivery.

Q. Do the results of FPL's hedging activity for natural gas and residual fuel oil, as shown in Document GJY-1, provide the market-price comparison requested in Item 13 from Staff's workshop held on January 12, 2005?

A. Yes. As described above, a large portion of FPL's physical fuel supply for natural gas and residual fuel oil is procured at NYMEX settlement or market indices. A comparison of FPL's price paid versus the market price for the physical supply of these fuels would show no significant difference between the two. The variance from "market" in FPL's overall fuel price for natural gas and residual fuel oil is generated from the application of its hedging gains/losses and option premiums/transaction fees to the total dollars paid for each commodity on a monthly basis. Because hedging gains and losses are calculated by comparing the execution price of each hedge position to the market price at the time of liquidation, these gains or losses provide a good representation of the total price FPL paid for natural gas and residual fuel oil versus the market price for those fuels.

Q. Does Document GJY-1 provide a market-price comparison for light fuel oil?

A. No. Document GJY-1 covers only natural gas and residual fuel oil. At this point, these are the only two fuel commodities that FPL specifically hedges. Light fuel oil is used for unplanned peaking events. These events are unpredictable, and therefore are not included as part of the hedging program.

Q. How does the price FPL paid for light fuel oil compare to the

market price for light fuel oil during 2004?

A. FPL procures light fuel oil on an as-needed basis ("spot"). All spot procurement for light fuel oil is transacted at the applicable market index. Therefore, FPL's price paid for light fuel oil matches the market price at the time of delivery. An example of this comparison is shown in Document GJY-2, whichdetails an actual light fuel oil transaction from 2004. The transaction was for approximately 420,000 gallons of light fuel oil priced at an applicable index. Delivery of the 420,000 gallons occurred over a ten-day window. Document GJY-2 compares the total dollars FPL was invoiced for each delivery with FPL's calculation of what the total dollars should be for each delivery. The calculation is performed by taking the published index (as agreed to in the transaction terms) multiplied by the received volume and adding in transport and pollution tax charges. The difference between the invoiced total dollars and the calculation total dollars should be zero if FPL paid the agreed upon market price index, which is the case for the illustrative transaction shown in Document GJY-2. This transaction is representative of all of FPL's light fuel oil procurement during 2004. Thus, the prices FPL paid for light fuel oil equal the market price of light fuel oil during 2004.

Q. Please describe FPL's coal procurement process.

A. The procurement of coal or petroleum coke is accomplished through one of three different mechanisms: 1) a bidding process, 2) spot purchases or 3) contract negotiations. At St. John's River Power Park (SJRPP), procurement is done through JEA, the Operating Agent for SJRPP, on behalf of FPL. At Plant Scherer, procurement is done through Georgia Power Company, as Operating Agent for FPL.

Q. Please provide the methodology FPL utilized to determine a comparison between the prices FPL paid for coal versus the market price for coal during 2004, as required by Item 14 of the outcomes of Staff's workshop held on January 12, 2005.

A. FPL's 2004 coal procurement activity is summarized in Document GJY-3: 2004 Solid Fuel Activity. This Document shows all coal procurement transactions entered into during 2004, detailed by supplier, transaction type, commodity, term, purchase price and market price (deliveries of coal pursuant to contracts that were entered into prior to 2004 are not considered "2004 transactions" and hence are not included on Document GJY-3). Transactions are also grouped by location: "SJRPP" or "Plant Scherer."

Transactions executed through a bid process are considered to be priced "at the market," as the bid represents current available prices for the specific type of coal and other circumstances specified in the bid solicitation. Details of transactions that were executed through bidding processes are provided in Documents GJY-4, GJY-5 and GJY-6.

Spot purchases for both SJRPP and Plant Scherer are compared on Document GJY-3 to the best available market data at the time of the purchase.

Finally, for SJRPP, there were two transactions that fell into the "contract negotiation" category. The first involves SJRPP's term contract with the Coal Marketing Company (CMC). This contract provides, in part, for an annual tonnage nomination. The initial 2004 procurement strategy for SJRPP envisioned a solicitation for spot tonnage and therefore less than the maximum contract tonnage was nominated with CMC. Observing the run up in both the domestic and international steam coal markets, SJRPP was able to secure a narrow window to re-open the process and subsequently nominated the maximum contract tonnage. The contract price and a comparative market price at the time the nomination was made are shown on Document GJY-3, Line 12. Finally, SJRPP's contract with James River Coal Sales, Inc. was amended in the first quarter of 2004 through a negotiation process. The revised mine price was less than a comparative market price as shown on Document GJY-3, Line 9.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF GERARD J. YUPP

DOCKET NO. 050001-EI

SEPTEMBER 9, 2005

Q. Please state your name and address.

A. My name is Gerard J. Yupp. My business address is 700 Universe Boulevard, Juno Beach, Florida, 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company (FPL) as Director of Wholesale Operations in the Energy Marketing and Trading Division.

Q. Have you previously testified in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present and explain FPL's projections for (1) the dispatch costs of heavy fuel oil, light fuel oil, coal, petroleum coke, and natural gas, (2) the availability of natural gas to FPL, (3) generating unit heat rates and availabilities and (4) the quantities and costs of wholesale (off-system) power and purchased power transactions. In addition, I present and explain FPL's Risk Management Plan for fuel procurement in 2006 and respond to certain of the "items of interest" received from the FPSC Staff on August 23, 2005.

Q. Have you prepared or caused to be prepared under your supervision, direction and control an Exhibit(s) in this proceeding?

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

FUEL PRICE FORECAST

Q. What forecast methodologies has FPL used for the 2006 recovery period?

A. For natural gas commodity prices, the forecast methodology is the NYMEX Natural Gas Futures contract (forward curve). For light and heavy fuel oil prices, FPL utilizes Over-The-Counter (OTC) forward market prices. Projections for the price of coal and petroleum coke, and the availability of natural gas, are developed internally at FPL. The forward curves for both natural gas and fuel oil represent expected future prices at a given point in time. The basic assumption made with respect to the forward curves is that all available data that could impact the price of natural gas and fuel oil in the future is incorporated into the curve at all times. The forward curves represent prices at which FPL can transact its hedging program. The methodology allows FPL to better react to changing market conditions.

Q. What are the key factors that could affect FPL's price for heavy fuel oil during the January through December 2006 period?

A. The key factors that could affect FPL's price for heavy oil are (1) worldwide demand for crude oil and petroleum products (including domestic heavy fuel oil), (2) non-OPEC crude oil production, (3) the extent to which OPEC production matches actual demand for OPEC crude oil, (4) the availability of refining capacity, (5) the price relationship between heavy fuel oil and crude oil, (6) the price relationship between heavy oil and natural gas and (7) the terms of FPL's heavy fuel oil supply and transportation contracts.

World demand for crude oil and petroleum products is projected to increase slightly in 2006 over 2005 average levels primarily due to increases in demand in the U.S., China and other Pacific Rim countries. Although crude oil production and worldwide refining capacity will be adequate to meet the projected increase in crude oil and petroleum product demand, general adherence by OPEC members to its most recent production accord, and limited spare OPEC productive capacity, should prevent significant overproduction of crude oil. When coupled with the continuation of historically low domestic crude oil and petroleum product inventory levels, the supply of crude oil and petroleum products will remain tight during 2006.

Q. Please provide FPL's projection for the dispatch cost of heavy fuel oil for the January through December 2006 period.

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

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

A. The key factors are similar to those described above for heavy fuel oil.

Q. Please provide FPL's projection for the dispatch cost of light fuel oil for the January through December 2006 period.

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

Q. What is the basis for FPL's projections of the dispatch cost of

coal and petroleum coke for St. Johns' River Power Park (SJRPP) and coal for Plant Scherer?

A. FPL's projected dispatch cost for SJRPP is based on FPL's price projection for spot coal and petroleum coke delivered to SJRPP. The dispatch cost for Plant Scherer is based on FPL's price projection for spot coal delivered to the plant.

For SJRPP, annual coal volumes delivered under long-term contracts are fixed by July 1st of the previous year or are set by the terms of the contracts. For Plant Scherer, the annual volume of coal delivered under long-term contracts is set by the terms of the contracts. Therefore, the price of coal delivered under long-term contracts does not affect the daily dispatch decision.

In the case of SJRPP, FPL will continue to blend petroleum coke with coal in order to reduce fuel costs. It is anticipated that petroleum coke will represent 30% of the fuel blend at SJRPP during 2006. The lower price of petroleum coke is reflected in the projected dispatch cost for SJRPP, which is based on this projected fuel blend.

Q. **Please provide FPL's projection for the dispatch cost of SJRPP and Plant Scherer for the January through December 2006**

period.

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

Q. What are the factors that can affect FPL's natural gas prices during the January through December 2006 period?

A. In general, the key factors are (1) North American natural gas demand and domestic production, (2) LNG and Canadian natural gas imports, (3) heavy fuel oil and light fuel oil prices, and (4) the terms of FPL's natural gas supply and transportation contracts. The dominant factors influencing the projected price of natural gas in 2006 are: (1) projected natural gas demand in North America will continue to grow moderately in 2006, primarily in the electric generation sector; and (2) although domestic rig activity in the U.S. has increased significantly over the past few years, 2006 domestic natural gas production is at best expected to equal projected, average 2005 levels, reflecting a continued decline in the Gulf of Mexico region being offset by increases in Rocky Mountain production. The balance of the supply to meet demand will come from increased Canadian and LNG imports.

Q. What are the factors that affect the availability of natural gas to

FPL during the January through December 2006 period?

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

The current capacity of FGT into the State of Florida is about 2,030,000 million BTU per day and the current capacity of Gulfstream is about 1,100,000 million BTU per day. FPL currently has firm natural gas transportation capacity on FGT ranging from 750,000 to 874,000 million BTU per day, depending on the month, and 350,000 million BTU per day of firm natural gas transportation on Gulfstream. Total demand for natural gas in the state of Florida during the January through December 2006 period (including FPL's firm allocation) is projected to be between 350,000 and 550,000 million BTU per day below the total pipeline capacity into the state. FPL projects that it could acquire, if economic, all or most of this capacity on a non-firm basis to supplement FPL's firm allocation on FGT and Gulfstream. This projection is based on the current capability and availability of the two interconnections between Gulfstream and FGT pipeline systems and the availability of capacity on each pipeline.

Q. **Please provide FPL's projections for the dispatch cost and availability of natural gas for the January through December 2006 period.**

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

Q. **Did FPL also consider the impacts of Hurricane Katrina on natural gas and crude oil production in the U. S. Gulf of Mexico region, as well as, the impact on U. S. refinery operations?**

A. Yes, the forward curves that FPL utilized to develop its projections for this filing include all recently available data and assumptions that could impact the price and availability of natural gas and fuel oil in the future.

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

Q. **Please describe how FPL developed the projected Average Net Operating Heat Rates shown on Schedule E4 of Appendix II.**

A. The projected Average Net Operating Heat Rates were calculated by the POWRSYM model. The current heat rate equations and efficiency factors for FPL's generating units, which present heat rate as a function of unit power level, were used as inputs to POWRSYM for this calculation. The heat rate equations and efficiency factors are updated as appropriate based on historical unit performance and projected changes due to plant upgrades, fuel grade changes, and/or from the results of performance tests.

Q. **Are you providing the outage factors projected for the period January through December 2006?**

A. Yes. This data is shown on page 4 of Appendix I.

Q. **How were the outage factors for this period developed?**

A. The unplanned outage factors were developed using the historical full and partial outage event data for each of the units. The historical unplanned outage factor of each generating unit was adjusted, as necessary, to eliminate non-recurring events and recognize the effect of planned outages to arrive at the projected factor for the January through December 2006 period.

Q. Please describe the significant planned outages for the January through December 2006 period.

A. Planned outages at FPL's nuclear units are the most significant in relation to the Fuel Cost Recovery Clause. Turkey Point Unit No. 3 is scheduled to be out of service for refueling from March 5, 2006 until March 30, 2006 or 25 days during the projected period. Turkey Point Unit No. 4 is scheduled to be out of service for refueling from October 29, 2006 until November 23, 2006 or 25 days during the projected period. St. Lucie Unit No. 2 is scheduled to be out of service for refueling, reactor head inspection and steam generator tube sleeving from April 24, 2006 until June 23, 2006 or 60 days during the projected period.

Q. Please list any changes to FPL's generation capacity projected to take place during the January through December 2006 period.

A. There are no major changes to FPL's generation capacity projected during the January through December 2006 period.

WHOLESALE (OFF-SYSTEM) POWER AND PURCHASED POWER TRANSACTIONS

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

through December 2006?

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

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

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

Q. Does FPL have additional agreements for the purchase of

electric power and energy that are included in your projections?

A. Yes. FPL purchases coal-by-wire electrical energy under the 1988 Unit Power Sales Agreement (UPS) with the Southern Companies. FPL has contracts to purchase nuclear energy under the St. Lucie Plant Nuclear Reliability Exchange Agreements with Orlando Utilities Commission (OUC) and Florida Municipal Power Agency (FMPA). FPL also purchases energy from JEA's portion of the SJRPP Units. Additionally, FPL has purchased exclusive dispatch rights for the output of 6 combustion turbines totaling approximately 950 MW (the output varies depending on the season). The agreements for the combustion turbines are with Progress Energy Ventures, Reliant Energy Services, and Oleander Power Project L.P. FPL provides natural gas for the operation of each of these three facilities as well as light fuel oil for two of the facilities. FPL has also purchased 576 MW of capacity and energy from Reliant Energy Services out of the Indian River facility. This agreement begins on January 1, 2006 and runs through December 31, 2009. Lastly, FPL purchases energy and capacity from Qualifying Facilities under existing tariffs and contracts.

Q. **Please provide the projected energy costs to be recovered through the Fuel Cost Recovery Clause for the power**

purchases referred to above during the January through December 2006 period.

A. Under the UPS agreement, FPL's capacity entitlement during the period from January through December 2006 is 931 MW. Based upon the alternate and supplemental energy provisions of UPS, an availability factor of 100% is applied to these capacity entitlements to project energy purchases. The projected UPS energy (unit) cost for this period, used as an input to POWRSYM, is based on data provided by the Southern Companies. For the period, FPL projects to purchase 7,992,999 MWh of UPS energy at a cost of $148,265,000. The total UPS energy projections are presented on Schedule E7 of Appendix II.

Energy purchases from the JEA-owned portion of the St. Johns River Power Park generation are projected to be 2,991,600 MWh for the period at an energy cost of $55,449,000. FPL's cost for energy purchases under the St. Lucie Plant Reliability Exchange Agreements is a function of the operation of St. Lucie Unit 2 and the fuel costs to the owners. For the period, FPL projects purchases of 449,890 MWh at a cost of $1,661,200. These projections are shown on Schedule E7 of Appendix II.

FPL projects to dispatch 142,969 MWh from its short-term purchased power agreements at a cost of $15,506,263. These projections are shown on Schedule E7 of Appendix II.

In addition, as shown on Schedule E8 of Appendix II, FPL projects that purchases from Qualifying Facilities for the period will provide 5,473,258 MWh at a cost to FPL of $156,530,497.

Q. How does FPL develop the projected energy costs related to purchases from Qualifying Facilities?

A. For those contracts that entitle FPL to purchase "as-available" energy, FPL used its fuel price forecasts as inputs to the POWRSYM model to project FPL's avoided energy cost that is used to set the price of these energy purchases each month. For those contracts that enable FPL to purchase firm capacity and energy, the applicable Unit Energy Cost mechanisms prescribed in the contracts are used to project monthly energy costs.

Q. Please describe the method used to forecast wholesale (off-system) power purchases and sales.

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

Q. What are the forecasted amounts and costs of wholesale (off-system) power sales?

A. FPL has projected 2,165,000 MWh of wholesale (off-system) power sales for the period of January through December 2006. The projected fuel cost related to these sales is $121,663,200. The projected transaction revenue from these sales is $139,181,250. The projected gain for these sales is $11,512,150.

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

A. Schedule E6 of Appendix II provides the total MWh of energy; total dollars for fuel adjustment, total cost and total gain for wholesale (off-system) power sales.

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

A. FPL projects the sale of 537,724 MWh of energy at a cost of $1,925,287. These projections are shown on Schedule E6 of Appendix II.

Q. What are the forecasted amounts and costs of wholesale (off-system) power purchases for the January to December 2006 period?

A. The costs of these purchases are shown on Schedule E9 of Appendix II. For the period, FPL projects it will purchase a total of 1,406,040 MWh at a cost of $85,353,465. If generated, FPL estimates that this energy would cost $97,585,816. Therefore, these purchases are projected to result in savings of $12,232,351.

2006 RISK MANAGEMENT PLAN

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

A. Yes. FPL's 2006 Risk Management Plan is provided on pages 5 and 6 of Appendix I.

Q. Please describe FPL's hedging objectives.

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

Q. Does FPL project to incur incremental operating and

maintenance expenses with respect to maintaining an expanded, non-speculative financial and/or physical hedging program for which it is seeking recovery in the January through December 2006 period?

A. Yes. FPL projects to incur incremental expenses of $471,179 for its Trading and Operations Group and $25,306 for its Systems Group. These expenses total $496,485. The expenses projected for the Trading and Operations Group are for salaries of the three personnel who were added to support FPL's enhanced hedging program. The expenses projected for the Systems Group are for incremental annual license fees for FPL's volume forecasting software.

Q. **Does FPL's hedging plan for 2006 include strategies to mitigate the replacement fuel costs associated with the extended outage of St. Lucie Unit No. 2 due to the reactor vessel head inspection and steam generator tube sleeving?**

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

RESPONSES TO ITEMS OF INTEREST RECEIVED FROM THE

FPSC STAFF ON AUGUST 23, 2005

Q. What actions does FPL take to minimize the occurrence, duration and magnitude of unplanned outages at its fossil generating units?

A. FPL's Power Generation Division has processes, procedures and structure in place, such as condition-based maintenance, the Fleet Performance and Diagnostic Center (FPDC) and the Fleet Teams to continue to manage, assess and sustain the excellent performance of FPL's fossil generation portfolio.

Power Generation transitioned its major maintenance overhaul philosophy from calendar-based overhaul intervals to condition-based overhaul intervals. By doing overhauls on a condition-based interval, FPL can optimize the life of the existing fossil plant components while improving plant reliability and availability.

FPL further enhanced its fleet with the creation of the FPDC. Critical fossil plant operating parameters are monitored at the FPDC 24 hours per day, 7 days per week. Automated statistical analysis detects and alerts employees to even slight changes in performance. FPL can also analyze a unit's ability to perform according to its rated specifications and evaluate ways to improve efficiencies. The goal is to identify equipment degradation far enough in advance of a failure so that corrective measures can be put in place. All of FPL's initiatives and efforts are focused on achieving process control and preventing failures from occurring.

In addition, Power Generation adopted a "Fleet Team" approach by organizing its technical support groups around major plant components, such as boilers, combustion turbines, and generators. The Fleet Team approach improves the replication and standardization of best practices across the fleet.

Q. What actions does FPL take to help ensure that planned maintenance outages at its fossil generating units are completed on schedule and on budget?

A. FPL's Power Generation Division uses processes and procedures such as major maintenance planning, major maintenance execution, and major maintenance performance evaluation to complete planned maintenance outages on schedule and on budget.

Major maintenance planning is a process used to develop an integrated plan for ensuring timely and accurate execution of all work. The integrated plan includes work identification determined by condition-based maintenance, planning review meetings, development of job procedures, integrating cost/schedule plan, and determination of manpower requirements. In addition to planning the work, safety, environmental, and quality plans are developed to help ensure that each integrated plan is executed on schedule, within estimated cost, and without incident.

Major maintenance execution is the process of executing major maintenance outages with zero injuries, without environmental violations, within the scheduled duration, within authorized budget, and without failures upon unit return to service.

Major maintenance performance evaluation is the process of verifying that all major maintenance work performed meets the predetermined goals and objectives set forth during the planning process. This process effectively captures reasons for success and provides replication procedures for other FPL sites.

Q. **What actions has FPL taken to minimize incremental fuel and purchased power costs due to the impact of the 2004 hurricane season?**

A. As a result of the 2004 hurricane season, FPL implemented several strategies to help minimize incremental fuel costs and enhance reliability during severe weather events. Initiatives include securing spot transportation agreements with several additional natural gas pipelines, extending current natural gas storage agreements, adding and diversifying natural gas storage agreements and setting up contracts with additional natural gas suppliers. FPL continues to pursue additional natural gas storage and interconnect possibilities to diversify its Gulfstream supply potential. Heavy and light oil initiatives included evaluating and implementing appropriate inventory strategies, contracting for additional light oil storage and securing transportation arrangements. FPL will continue to pursue, evaluate and implement strategies that will help minimize incremental fuel costs and enhance reliability during severe weather events that are beneficial to its customers. To date, these initiatives have proven to be crucial in allowing FPL to manage its fuel supply and maintain reliable operations through the devastating impact that Hurricane Katrina has had on fuel supplies in the U.S. Gulf Coast.

Q. **Should recent changes in the market price for natural gas and residual oil impact the percentage of FPL's natural gas and residual oil requirements that FPL plans to hedge?**

A. FPL continuously monitors the natural gas and residual fuel oil markets in support of its hedging program and procurement plan. FPL re-forecasts its projected fuel requirements on a weekly basis incorporating current forward curve prices. As price changes drive differences in projected requirements, FPL rebalances its hedge positions to stay within percentage tolerances of its approved hedging plan. The recent changes in market prices for natural gas and residual fuel oil will not impact the percentage of each fuel that FPL plans to hedge. FPL's hedge program was developed to reduce volatility and deliver greater price certainty to its customers. FPL is not speculating on price movement and, therefore FPL will continue to follow its approved hedging strategy.

Q. **Has FPL adequately mitigated the price risk of natural gas, residual oil, and purchased power for 2004 through 2006?**

A. Yes. Over that period, FPL continued to execute its hedging strategy to help reduce volatility to its customers. As fuel prices have trended upward, FPL's hedging plan has also delivered significant savings to its customers. FPL will continue to execute its hedging program in accordance with its Risk Management Plan.

Additionally, FPL continually optimizes its fuel switching capability to help ensure that its customers receive the lowest possible cost of fuel. Finally, FPL capitalizes on all opportunities to either purchase lower cost power to offset higher generation costs or sell excess power to return gains to its customers that help reduce overall fuel costs.

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

A. The actions that FPL takes to optimize the equivalent availability factors of fossil GPIF units were covered in the discussion of unplanned and planned outages above. The heat rate of fossil units is optimized through a heat rate monitoring program. The actual unit heat rate is compared to a target heat rate to identify any instances of degradation. In order to determine the appropriate action to take, the degradation is analyzed to stratify it into three different categories: controllable parameters, short-term degradation, and long-term degradation. Controllable parameters require immediate adjustment of the unit. An example of a controllable parameter is adjusting the main steam pressure to maintain it at the design point. Short-term degradation can be recovered during short notice outages of small duration. An example of short-term degradation is steam turbine condenser fouling or compressor fouling on a combustion turbine, both of which would require a short outage to clean the component and return it to service. Long-term degradation can be recovered during planned outages that are usually of longer duration. An example of long- term degradation is loss of steam turbine efficiency due to wear which would require turbine disassembly to recover.

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

A. FPL purchases natural gas from multiple sources on the U. S. Gulf Coast, both onshore and offshore and from multiple suppliers all within a well-planned and balanced portfolio of term, spot and day-to-day purchases. This procurement strategy helps ensure competitive prices for FPL's customers and reliability of supply through diversification of sources and suppliers. FPL purchases firm natural gas transportation on a long-term basis to meet current and projected requirements, in order to help ensure an economic and reliable level of deliverability to its plants. FPL also purchases interruptible natural gas transportation, when economic, to provide low cost fuel delivery to its customers.

Q. **What actions does FPL take to procure residual oil for its units that burn residual oil at competitive prices?**

A. FPL purchases residual fuel oil from multiple sources, domestic and international, in the major U. S market hubs of New York Harbor and the U. S. Gulf Coast, as well as in the Caribbean, South America, and Europe. This helps to ensure the most competitive pricing and reliability of supply for FPL's customers.

Q. Does this conclude your testimony?

A. Yes, it does.

BY MR. BUTLER:

Q Mr. Yupp, would you please summarize your testimony.

A Okay. Commissioners, the purpose of my testimony is to present and explain FPL's projections for the dispatched costs and availabilities of fossil fuel, generating unit heat rates and availabilities and the quantities and costs of wholesale power transactions.

Additionally, my testimony presents and explains FPL's 2006 risk management plan. This plan provides an overview of FPL's hedging program, the risks associated with fuel procurement, and the processes, controls and oversight that are in place at FPL in the fuel procurement area. And this concludes my summary.

MR. BUTLER: Thank you. I tender Mr. Yupp for cross-examination.

CHAIRMAN BAEZ: Mr. Beck, no questions?

Colonel, do you have any questions?

LIEUTENANT COLONEL WHITE: No questions of this witness.

CHAIRMAN BAEZ: No questions.

Mr. Perry.

CROSS EXAMINATION

BY MR. PERRY:

Q Good afternoon, Mr. Yupp. My name is Tim Perry. I represent the Florida Industrial Power Users Group. I have a few questions for you.

Am I correct in my belief that you are the witness for FP&L that handles the fuel forecasting?

A Yes.

Q Okay.

A You are correct.

Q And in general, how does FP&L forecast natural gas prices for 2006 as compared to 2005?

A The forecast is the same. We use the, the NYMEX forward curve. For the '06 filing it would have been from a particular date and time. The close of business, I believe, on August 29th is when we used the NYMEX forward curve, and that would be our official forecast for the '06 period.

Q And have you done any projections of the forecast for natural gas prices in 2007 as they would compare to 2006?

A In 2007 we did, we did answer an interrogatory that asked specifically for what the '07 forecast for natural gas would be, yes. And I believe I have that actually in, in the composite exhibit. But it was in response to staff's seventh set of interrogatories we provided our current forecast for each month of '07.

Q And could you tell me what your forecast is for each month?

A Roughly beginning in January of '07, $10.84; $10.81 in February; $10.58 in March; $9.04 in April; and this is pure commodity price; $8.83 in May; $8.86 in June; $18.89 in July; August, $8.92; September, $8.90; October, $8.93; November, $9.32 and December, $9.69.

Q And how do those prices compare to the prices for the same month in 2006? Are they higher or lower?

A In 2006 as to what we have filed or to where we currently are in the market? The answer is going to be the same, but just for clarification.

Q You can give me both, please.

A Okay. If I look quickly across here, I would say the average price in '07 across the 12 months is roughly nine -- maybe $9.20, as comparison in what we have in the filing right now for the 2006 period across the 12 months our composite price, so to speak, was $10.09. I think if you look at the market right now or at least as of the close of business on Friday, the market was on average around $10.59, I believe, somewhere in that ballpark. So '07 is lower than what we have filed in '06 and what the current market is in '06.

Q Okay. I'm going to have Mr. Poucher hand out a document for you to look at.

A Okay.

CHAIRMAN BAEZ: Mr. Perry, do you need a number for this?

MR. PERRY: Yes, Chairman Baez, if I could have a number.

CHAIRMAN BAEZ: Show it marked as 78, and that's the NYMEX --

MR. PERRY: NYMEX gas prices as of November 4th, 2005.

CHAIRMAN BAEZ: NYMEX gas prices, November 4th, 2005.

(Exhibit 78 marked for identification.)

BY MR. PERRY:

Q And have you had a chance to look at this document, Mr. Yupp?

A Yes, I have.

Q And would you agree that these are the NYMEX gas prices for November 4th, 2005, for a forward curve?

A Yes. I believe this is the settlement from November 4th.

Q And would you agree that in general those, the prices that are shown on Exhibit Number 78 are declining in 2007 as compared to 2006 and the last month of 2005?

A Yes, I would agree with that. There is a general trend downward beginning in '06, at least the winter of '06, all the way through '07.

CHAIRMAN BAEZ: Mr. Perry, I'm sorry to interrupt. You're asking questions. I just want to know which column to look at. Are you just asking about any given column?

MR. PERRY: I can ask -- I'll follow up with that.

CHAIRMAN BAEZ: Okay. Thank you.

BY MR. PERRY:

Q Mr. Yupp, which is the particular column that shows the, the settlement price for November 4th, 2005?

A I've been looking at the most recent settlement column, which I'm assuming is the settlement from the 4th, and then last -- the first column last, I'm assuming would have been the after-hours trading, but I was going by the most recent settlement.

Q Okay. Thank you. Are you aware of FP&L's request in this docket to recover its 2005 underrecovery over a two-year period?

A Yes, I am.

Q Did you have any input in that decision?

A No, I did not.

Q Did you provide any information in that decision with regard to natural gas prices for 2007?

A I can't remember specifically if we did or at least if I did. I don't recall that.

MR. PERRY: Okay. I have no further questions.

CHAIRMAN BAEZ: Mr. Lavia, no questions? Staff?

MS. RODAN: Yes.

CROSS EXAMINATION

BY MS. RODAN:

Q Good afternoon, Mr. Yupp.

A Good afternoon.

Q As Director of Wholesale Operations in the Energy Marketing and Trading Division are you responsible for purchasing adequate quantities of natural gas and residual oil at a reasonable price for FPL?

A Yes, we are.

Q Does FPL burn natural gas and residual oil to provide for a majority of its retail energy sales?

A Yes, we do.

Q Is the price that FPL pays for most of its natural gas purchases linked to a market index?

A Yes. Most of our or a majority of our physical procurement both on the natural gas and residual fuel oil side would be linked to a physical index. The hedging component or hedging program that we have in place is more on the financial side, and that is what really dictates the price of our fuel at the end of any given month.

Q Please turn to Page 59 in staff's exhibit. This is FPL's July 2005 Schedule A3.

A Okay.

Q According to this schedule, FPL paid an average of $7.94 per MMBtu for natural gas, which was over $1 per MMBtu higher than FPL's estimate. What events or circumstances caused the natural gas price to rise higher than FPL's expectations?

A In July of 2005 I think the main driver on natural gas prices being higher than what we had originally forecasted or at least one of the drivers was the impact of Hurricane Dennis in the beginning of July and some of the replacement value that we had to pay for gas that was curtailed.

Q And can you please explain how Hurricane Dennis impacted the natural gas price in July of 2005?

A We were curtailed, and I don't recall specifically off the top of my head, but we were curtailed some of our base load quantities for the month, which those quantities would have been priced at the first of the month index. When those quantities were curtailed, we go back out into the market to replace them to the extent that we do have a, still have a requirement for that natural gas, and most likely that would have been at a higher price.

The other component, I guess, which is important, which could drive the higher price at least in this July time period would be the amount of gas that we burn versus what we forecasted to burn to the extent that we had to buy and utilize much more interruptible transport on either the Gulfstream Pipeline or on the FGT Pipeline, then our overall charge-out cost of gas would be higher than just buying and moving gas under our firm transport. So it could be a function of load and what our requirements were that month.

Q Can you please turn to Page 60 of staff's exhibit, which is FPL's August 2005 Schedule A3.

A Okay.

Q According to this schedule, FPL paid an average of $8.82 per MMBtu, which was approximately 60 cents per MMBtu higher than the estimate. What events or circumstances caused the natural gas price to rise higher than FPL's expectations?

A That could be lingering -- at this point now with one storm having come through in July and the market just in the state that it was in, gas prices were higher than we, than we originally had forecasted and were moving higher, given the fact that in August our gas price is relatively close, it is 60 cents higher on actual, and given the fact that our loads were extremely high in the month of August, I think some of this is definitely attributable to the, to the extent that we were utilizing interruptible transport on gas, and that is a higher cost than what we would have forecasted originally. But even in this time period gas prices were continuing to move up. So a couple of different reasons, but overall August was, was, from a standpoint of actuals, was not too bad from where we had forecasted, and I think a lot had to do with load.

Q Okay. Now I'm going to ask you the same question on the next page, Page 61, which shows FPL's September 2005 Schedule A3. FPL paid an average of $11.63 per MMBtu, which was over $2.20 per MMBtu higher than estimate. What events or circumstances caused the price to rise higher than FPL's expectations?

A Well, the number one driver in September was the impact of Hurricane Katrina. We -- FPL itself experienced a significant amount of curtailments in its base load natural gas that it had procured for that month. And, in fact, the first of the month's settlement, I don't recall specifically where September settled, but that index pricing would not have been that bad relative to this $11.63. And so to the extent that we were curtailed quite a bit of natural gas, we did have to go out and replace it. Loads were still high for us in September. And so we were basically out replacing our base load gas, which would have been at a lower price, with spot purchases in the market. And given the impact that Katrina had on the Gulf Coast, the production impact, the production shut-ins, the spot market for gas even at one point for us in particular was as high as even $18 to $20 an MMBtu. So we were forced to replace cheaper gas with spot purchases just to meet our requirements. And that, at least for September, is the main driver on the actual result.

Q Okay. According to the July through September Schedule A3s, as the price of natural gas increased, FPL burned more residual oil. How much of FPL's generating capacity can burn either residual oil or natural gas?

MR. BUTLER: I'm sorry. You mean what part can burn both?

MS. RODAN: Yes.

MR. BUTLER: Okay.

THE WITNESS: I don't have that specific number off the top of my head, especially since our stack has changed a little bit this year. But from a standpoint of switchable units between gas, light oil or distillate and resid, I believe we should be somewhere in the 40 to 45 percent range of switchable units.

BY MS. RODAN:

Q Okay.

A And that's subject to check. That's off the top of my head.

Q How did Hurricanes Katrina and Rita limit FPL's options for mitigating the impact of higher natural gas prices and lower gas availability compared with how FPL would respond to higher natural gas prices caused by a colder than normal winter season?

A If I understand the question correctly, and maybe I'll rephrase it, how did the impact of the hurricanes affect our day-to-day operations on natural gas versus how, let's say, a spike in the winter would be, would vary from that?

Q Yes. That's correct.

A The impact of the hurricanes was more significant in the fact that it was longer term, longer duration, and I think the great unknown for us on any given day was how long will these curtailments last, how long do we need to keep the volumes of gas we have in storage or over how many days should we, should we bleed them out, so to speak?

It was, it was more of a management of not knowing when production was going to come back, trying to pick the opportunities to burn residual fuel oil. But obviously we only have a limited quantity of oil in storage, and so every day it was a decision where should we burn oil, where should we burn light oil, should we utilize natural gas storage, where do we need to maintain oil inventories? Because we were impacted from a certain standpoint -- I'm getting heavy oil, heavy oil supplies back into FPL's system due to some of the storms. It did take a while, and, of course, heavy oil production was also shut in. So the storms are more of a global day-to-day decision of what is the best thing to do to manage through a long period of time.

From the standpoint of a cold winter day or a cold two or three days, we know we have adequate light oil inventory to get through that situation and most likely rebuild that light oil inventory after that situation has occurred. And so it's much easier to manage through those two- or three-day weather events where you know it's going to end and you know you're going to get a break to get your system back to where you need to be. During the hurricanes it was not knowing from day to day what we were going to have gas wise, oil wise, what was coming into the system, and so it was a much more difficult circumstance to manage through that longer term event.

Q Okay. Please turn to Page 5 in staff's exhibit. This is FPL's response to staff's interrogatory number 66.

A Okay.

Q First, I wanted to clarify something. In the second column on the chart, is that delivered price of natural gas or commodity price of natural gas?

A I'm sorry. I think I said that was commodity and that is delivered, which means that includes transport and variable costs.

Q Okay. Thank you. And in this response, the response contains the delivered residual oil and natural gas price forecast for 2007 by month. In your experience have you ever seen residual oil and natural gas prices for FPL's market forecasted at these levels for this period of time?

A For greater than one year out -- do you mean by period of time or -- I mean, 2006 prices are forecasted, or at least what's in our filing is greater than this.

Q For this length of time.

A No. I guess overall the bottom line answer is these prices are much higher than we've ever seen, much higher than we've ever seen this far out in time. And, yeah, this is the highest I've seen prices for this kind of period of time.

Q Okay. Is it correct that the volatility of natural gas price more than any other single factor will determine whether FPL incurs an underrecovery of its fuel costs in 2006?

A Partly that is true. Sure. The volatility of natural gas short-term at least in the winter where the potential for some very severe spikes on the natural gas side are prevalent right now. That would be one of the main drivers of an underrecovery in that time period. But, again, there are other factors that contribute to that, and obviously load is one of them. And a volume variance can create that type of situation, whether it be an under or overrecovery. But load is a main driver. But, again, fuel prices, yes, the volatility especially in the winter heating season will be, will be a main driver. But we do have adequate hedges in place to cover or to at least mitigate that and reduce the volatility during that time period. But depending on what type of price spike or volatility we experience in that period in conjunction with what our loads are at the time and everything would be, would be factors in determining whether we will be underrecovered.

Q Okay. Please turn to Page 25 in staff's exhibit. This is actually Page 11 of your deposition transcript. In Lines 2 through 11 you stated that the 2005 hurricane devastation to Gulf of Mexico gas facilities which has caused natural gas prices to escalate in 2005 will have a lasting effect on natural gas prices. Since the time of your deposition do you still believe the devastation to the gas facilities will have a lasting effect on natural gas prices?

A I think it will have a lasting effect on natural gas prices predominantly in the short-term here. And maybe in the short-term, I mean at least through the beginning of next summer, let's say, or at least coming out of this winter withdrawal season. There currently still is -- 47 percent of the Gulf of Mexico production is shut in. I don't -- we have seen prices drop over the last couple of weeks, but I think that's been predominantly due to milder than expected weather or normal weather, so to speak. I think the great unknown this winter is, is the weather and, and how cold it's going to get. And given that fact, gas prices could spike tremendously this winter with an extremely cold, cold winter period. We are entering the winter season at slightly less in natural gas in storage than we had over the last four years, and that was a, that was definitely the impact of the two storms that went through, Katrina and Rita.

So, yeah, I think there will be a lasting impact at least in the short-term because we really don't know when all the production is going to come back. And until all the production is back, I think, I think that impact is there every day.

Q Okay. Please turn to Page 31 in staff's exhibit. On Lines 11 through 15 you stated in your deposition transcript that FPL's natural gas price forecast for the remaining months of 2005 and 2006 is conservative. Do you still believe that

FPL's natural gas price forecast is conservative?

A Excuse me. Which page is that on deposition wise?

Q It's deposition Page 17.

A 17.

Q Which is staff exhibit Page 31.

A Okay. I think when we were talking about that in deposition, if I recall, we were talking about it being conservative from the standpoint of at that point there was a high level of uncertainty, as there still is right now. And so FPL at the time felt that what it had filed on August or on September 9th as its fuel price forecast was conservative. The market is higher. The market has been trending back to what our filing was, but as of right now it still is higher. And I think we were on the conservative side just not knowing the uncertainty in the market and where it could go. We felt that, that our filing prices were the best guess that we had at the time, and so it did not warrant updating a month later when prices went up. And now we see they're coming back down. So from the standpoint of being conservative, yes, I think they are because they still are under where the current market is, but the market is coming somewhat back to them.

MS. RODAN: Thank you, Mr. Yupp. I have no further questions.

CHAIRMAN BAEZ: Commissioners, questions?

Mr. Butler.

MR. BUTLER: I have, I think, one redirect. Hold on just one moment, please.

REDIRECT EXAMINATION

BY MR. BUTLER:

Q Mr. Yupp, can you turn to Page 5 of staff's exhibit. I just want to clarify something for you or with you.

A Page --

Q Page 5, the answer to interrogatory, yeah, interrogatory 66.

A Okay.

Q This is the question about the high level of the natural gas prices and fuel oil prices that are shown here.

A Uh-huh.

Q Are these prices, excuse me, higher than the sort of equivalent values for 2006 or are they lower?

A Than the equivalent charge-out values for 2006? These prices are lower.

MR. BUTLER: Okay. Thank you. That's all that I have.

CHAIRMAN BAEZ: Exhibits?

MR. BUTLER: I would move the admission of Exhibits 4 through 10.

CHAIRMAN BAEZ: Without objection, show Exhibits 4 through 10 admitted.

(Exhibits 4, 5, 6, 7, 8, 9 and 10 admitted into the record.)

CHAIRMAN BAEZ: Mr. Perry, I have one for you, I think.

MR. PERRY: Yes. I'd move Exhibit 78. And I'd also note this is the same document that was granted official recognition earlier.

CHAIRMAN BAEZ: Without objection, show Exhibit 78 admitted.

(Exhibit 78 admitted into the record.)

CHAIRMAN BAEZ: Just -- and I neglected to mention it earlier, but you've probably all gotten the, the hint. I think we're going to try and run until about 6:00 today. And if it's all right with everybody else, I think we're going to try and start up around 9:00 tomorrow so we can get as much out of tomorrow's day as possible. We did spend a fair bit of time arguing motions today, and to the extent I had anything to do with it, I apologize.

Mr. Butler, you can call your next witness.

MR. BUTLER: Okay. And Mr. Yupp may be excused?

CHAIRMAN BAEZ: Mr. Yupp, you're excused, sir. I'm sorry.

THE WITNESS: Thank you.

(Transcript continues in sequence with Volume 3.)

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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