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.
_______________________________________/

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

VOLUME 4

Pages 433 through 659

PROCEEDINGS: HEARING

BEFORE: CHAIRMAN BRAULIO L. BAEZ
COMMISSIONER J. TERRY DEASON
COMMISSIONER RUDOLPH "RUDY" BRADLEY
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER ISILIO ARRIAGA

DATE: Tuesday, November 8, 2005

TIME: Commenced at 9:00 a.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

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
11			545
12			545
13			545
14			545
15			545
16			545
17			545
41			658
42			658
43			658
44			658
45			584
46			584
47			584
48			584
49			584
50			584
77			586
80	PSC Order 14546 Issued 7-8-85	496	545
81	Jackson County Floridian newspaper Article Dated 10-11-05	597	598
82	Direct Testimony of Javier Portuondo in Docket 040001 minus exhibits	643	658

P R O C E E D I N G S

(Transcript follows in sequence from Volume 3.)

CHAIRMAN BAEZ: We'll go back on the record.

Good morning, everyone. We've got a couple of brief housekeeping matters. And to start off, we have started earlier trying to cut into some of the testimony that we have to take. Tentatively I think we're going to have to stop the hearing and then enter into a customer hearing at 11:00. The prehearing order has scheduled --

MS. VINING: Right. The prehearing order lists 11:00 for customer comments. Ms. Christensen from OPC is not here right now, so I don't know exactly how many people she has lined up to speak.

CHAIRMAN BAEZ: So that -- but in any case, we're going to have to convene a customer hearing for customer comments and then, you know, however long that takes. At this point, as most of you heard, there may not be a whole lot of time allotted to that. And we are also going to break for an hour at noon. Hopefully we'll be able to fit that in. That means yet again that we'll probably be running, probably be running a little longer today as well, and I hope everybody has made arrangements for that.

Now to the real housekeeping. I note, Mr. Perry, you had something that you held off yesterday.

MR. PERRY: Yes. We have one preliminary matter this morning. And that is on Issue 4, which was an issue that was raised by FIPUG, it relates to three utilities, FP&L, PEF and TECO, and the FIPUG and the three utilities have reached a stipulation on new language in the issue and new positions. And if you would turn to that, I can give you the new language of the issue and I can tell you that everyone agrees.

CHAIRMAN BAEZ: Just to confirm briefly, I know Mr. Beasley is up and Mr. Butler, and that's -- just confirm that.

MR. BEASLEY: Yes, sir.

MR. BUTLER: Correct.

CHAIRMAN BAEZ: Mr. Perko, I'm sorry. Okay. Now what we'll do, Mr. Perry, just read the language into the record. We're not going to -- and then provide it, if you haven't already, I'm sure you probably have, but provide it to staff as well. In terms of, in terms of acknowledging or at least voting on the stipulation, I know that there may be other issues outlying that we're going to be able to resolve as well, but in terms of voting or having the Commission consider the stipulation, we're going to hold that off to, you know, take up all the issues at the appropriate time. All right. So go ahead and read the stipulated language.

MR. PERKO: Okay. The revised language for the issue is, "Should the Commission revise the fuel cost recovery factors of FPL, PEF and TECO in April 2006, after the final

2005 true-up filing?"

And the position for FIPUG and the other parties would be, "Yes." By the "other parties," I meant FPL, TECO and PEF.

CHAIRMAN BAEZ: And PEF. And I see that there's other -- I mean, I guess there are other Intervenors, and I'm curious as to what their -- is it -- I mean, is everybody in agreement with it at this point or -- Mr. Beck?

MR. BECK: I just learned of this personally. I think our position would be to not join in the stipulation but not oppose it either.

CHAIRMAN BAEZ: Okay. And we'll take the interim again. We're holding off on this. We've got language on the table. That will give everybody else, all the Intervenors time to consider and decide whether it's appropriate for them to join in or not, and there will be plenty of time for that during the course of the day. And that goes not just for OPC, but everyone else that had a position on the issue.

Very well. Is that everything, all the preliminaries that we have this morning? Staff, nothing else that we've got to address this morning?

MS. VINING: That's it as far as I know.

CHAIRMAN BAEZ: Okay. Great. At this point are there any new witnesses in the room that I didn't swear in yesterday?

MS. VINING: Chairman, I just realized, I don't know if we had resolved whether or not Progress's witnesses would go before FPUC.

CHAIRMAN BAEZ: And I think that what we discussed offline was that Mr. Horton was still trying to check with his clients, with his witnesses.

MR. HORTON: That's correct.

CHAIRMAN BAEZ: And we'll have an answer for that hopefully by the end of, by the end of Ms. Dubin's testimony. Very well.

Good morning, Ms. Dubin.

THE WITNESS: Good morning.

KOREL M. DUBIN

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 Would you please state your name and address for the record.

A My name is Korel Dubin. I'm at 9250 West Flagler Street, Miami, Florida 33174.

Q And you've previously been sworn; correct?

A Yes.

Q By whom are you employed and in what capacity?

A I'm employed by Florida Power & Light as Manager of

Regulatory Issues.

Q Okay. Do you have before you the following direct testimony that was prefiled in this docket: Final true-up, January 2004 through December 2004 dated March 1, 2005; estimated actual true-up January 2005 through December 2005 dated August 9, 2005; projections for January 2006 through December 2006 dated September 9, 2005; and supplemental testimony and exhibits dated October 14, 2005?

A Yes, I do.

Q Was this testimony and the attached exhibits prepared under your direction, supervision or control?

A Yes.

Q Do you have any corrections to make to your testimony or exhibits?

A No.

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

CHAIRMAN BAEZ: If there are no objections, we'll show the prefiled direct testimony of Witness Dubin entered into the record as though read.

MR. BUTLER: Thank you. Commissioners, Ms. Dubin's exhibits have been preassigned Exhibit Numbers 11 through 17 in the prehearing order.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 050001-EI

MARCH 1, 2005

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

A. My name is Korel M. Dubin, and my business address is 9250 West Flagler Street, Miami, Florida, 33174. I am employed by Florida Power & Light Company (FPL or the Company) as the Manager of Regulatory Issues in the Regulatory Affairs Department.

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

A. Yes, I have.

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

A. The purpose of my testimony is to present the schedules necessary to support the actual Fuel Cost Recovery Clause (FCR) and Capacity Cost Recovery Clause (CCR) Net True-Up amounts for the period January 2004 through December 2004. The Net True-Up for the FCR is an under-recovery, including interest, of $7,707,142. The Net True-Up for the CCR is an over-recovery, including interest, of $5,177,060. I am requesting Commission approval to include this FCR true-up under-recovery of $7,707,142 in the calculation of the FCR factor for the period January 2006 through December 2006. I am also requesting Commission approval to include this CCR true-up over-recovery of $5,177,060 in the calculation of the CCR factor for the period January 2006 through December 2006.

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

A. Yes, I have. It consists of two appendices. Appendix I contains the FCR related schedules, and Appendix II contains the CCR related schedules. FCR Schedules A-1 through A-9 for the January 2004 through December 2004 period have been filed monthly with the Commission and served on all parties. Those schedules are incorporated herein by reference.

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

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

FUEL COST RECOVERY CLAUSE (FCR)

Q. Please explain the calculation of the Net True-up Amount.

A. Appendix I, page 3, entitled "Summary of Net True-Up," shows the calculation of the Net True-Up for the period January 2004 through December 2004, an under-recovery of $7,707,142. The calculation of the true-up amount for the period follows the procedures established by this Commission as set forth on Commission Schedule A-2 "Calculation of True-Up and Interest Provision."

The actual End-of-Period under-recovery for the period January 2004 through December 2004 of $189,903,441 is shown on line 1. The estimated/actual End-of-Period under-recovery for the same period of $182,196,299 is shown on line 2. This amount was approved by the Commission in Order No. PSC-04-1276-FOF-EI, dated December 23, 2004, and was included in the calculation of the FCR factor for the period January 2005 through December 2005. Line 1 less line 2 results in the Net True-Up for the period January 2004 through December 2004 shown on line 3, an under-recovery of $7,707,142.

Q. Have you provided a schedule showing the calculation of the End-of-Period true-up by month?

A. Yes. Appendix I, page 4, entitled "Calculation of Final True-up Amount," shows the calculation of the FCR End-of-Period true-up for the period

January 2004 through December 2004 by month.

Q. Have you provided a schedule showing the variances between actuals and estimated/actuals?

A. Yes. Appendix I, page 5 shows the actual fuel costs and revenues compared to the estimated/actuals for the period January 2004 through December 2004.

Q. Please describe the variance in fuel costs.

A. The final under-recovery of $7,707,142 for the period January 2004 through December 2004 is due primarily to a $37.7 million (1.1%) decrease in Jurisdictional Total Fuel Costs and Net Power Transactions (Appendix I, page 5, line C6) offset by a $44.9 million (1.3%) decrease in Jurisdictional Fuel Revenues (Appendix I, page 5, line C3).

The $37.7 million variance in Jurisdictional Fuel Costs and Net Power Transactions is due primarily to a $61.5 million (1.9%) decrease in the Fuel Cost of System Net Generation and an $11.3 million (4.1%) decrease in Fuel Cost of Purchased Power.

As shown on the December 2004 A3 Schedule, the $61.5 million (1.9%) decrease in the Fuel Cost of System Net Generation is primarily due to $94.4 million (4.4%) lower than projected natural gas cost offset by $36.9 million (4.4%) greater than projected heavy oil cost. The natural gas price averaged

$6.37 per MMbtu, $0.16 per MMbtu (2.5%) lower than projected. Additionally, 6,536,401 fewer MMbtu's (2.0%) of natural gas were used during the period than projected. Heavy oil averaged $4.43 per MMbtu, $0.08 per MMbtu (1.7%) lower than projected. 11,514,031 more MMbtu's (6.1%) of heavy oil were used during the period than projected.

The $11.3 million (4.1%) decrease in Fuel Cost of Purchased Power is due to less than projected dispatch of units for which FPL has short-term peaking capacity contracts approximately 58,188 MWh less than projected, resulting in lower than expected fuel costs.

These decreases are offset by a $24.5 million (21%) variance in the credit for Fuel Cost of Power Sold primarily due to less than projected total off-system power sales (approximately 317,297 MWh lower). Another offset is a $15.4 million (28.3%) increase in the Energy Cost of Economy Purchases, primarily due to higher than projected economy purchases (approximately 309,067 MWh of additional purchases above projections).

Q. What was the variance in retail (jurisdictional) Fuel Cost Recovery revenues?

A. As shown on Appendix I, page 5, line C3, actual jurisdictional Fuel Cost Recovery revenues, net of revenue taxes, were $44.9 million (1.3%) lower than the estimated/actual projection. This decrease was due to lower than projected jurisdictional sales, which were 1,194,586,249 kWh (1.2%) lower than the estimated/actual projection.

Q. Pursuant to Commission Order No. PSC-04-1276-FOF-EI, FPL's 2004 gains on non-separated wholesale energy sales are to be measured against a three-year average Shareholder Incentive Benchmark of $15,133,577. Did FPL exceed this benchmark?

A. Yes. As provided on the year-to-date December Schedule A6 that was filed on January 20, 2005, FPL's 2004 gains on off-system sales were $18,558,415. This $18,558,415 exceeds the $15,133,577 benchmark by $3,424,838. Consistent with Commission Order No. PSC-00-1744-PAA-EI in Docket No. 991779-EI, this $3,424,838 amount is to be shared 80%, or $2,739,870, to customers and 20%, or $684,968, to FPL shareholders. Thus customers receive 80% of the amount above the benchmark ($2,739,870), plus 100% of the gains on off-system sales below the benchmark ($15,133,577), for a total of $17,873,448 (see Appendix I, page 4, Line A2b, column 13). FPL is requesting that the Commission approve $684,968 as its Shareholder Incentive for 2004. FPL has reflected this incentive in the Final FCR True-up calculation for 2004 by reducing the amount of total gains on off-system sales by $684,968, from $18,558,415 to $17,873,448.

Q. What is the appropriate final Shareholder Incentive Benchmark level for calendar year 2005 for gains on non-separated wholesale energy sales

eligible for a shareholder incentive as set forth by Order No. PSC-00-1744-PAA-EI in Docket No. 991779-EI?

A. For the year 2005, the three year average Shareholder Incentive Benchmark consists of actual gains for 2002 2003 and 2004 (see below) resulting in a three year average threshold of:

2002	$ 9,726,487
2003	$17,827,648
2004	$18,558,415
Average threshold	$15,370,850

Gains on sales in 2005 are to be measured against this three-year average Shareholder Incentive Benchmark.

CAPACITY COST RECOVERY CLAUSE (CCR)

Q. Please explain the calculation of the Net True-up Amount.

A. Appendix II, page 3, entitled "Summary of Net True-Up Amount" shows the calculation of the Net True-Up for the period January 2004 through December 2004, an over-recovery of $5,177,060, which I am requesting to be included in the calculation of the CCR factors for the January 2006 through December 2006 period.

The actual End-of-Period under-recovery for the period January 2004 through December 2004 of $30,732,853 (shown on line 1) less the estimated/actual

End-of-Period under-recovery for the same period of $35,909,913 that was approved by the Commission in Order No. PSC-04-1276-FOF-EI (shown on line 2), results in the Net True-Up over-recovery for the period January 2004 through December 2004 (shown on line 3) of $5,177,060.

Q. Have you provided a schedule showing the calculation of the End-of-Period true-up by month?

A. Yes. Appendix II, page 4, entitled "Calculation of Final True-up Amount," shows the calculation of the CCR End-of-Period true-up for the period January 2004 through December 2004 by month.

Q. Is this true-up calculation consistent with the true-up methodology used for the other cost recovery clauses?

A. Yes, it is. The calculation of the true-up amount follows the procedures established by this Commission as set forth on Commission Schedule A-2 "Calculation of True-Up and Interest Provision" for the Fuel Cost Recovery Clause.

Q. Have you provided a schedule showing the variances between actuals and estimated/actuals?

A. Yes. Appendix II, page 5, entitled "Calculation of Final True-up Variances," shows the actual capacity charges and applicable revenues compared to the estimated/actuals for the period January 2004 through December 2004.

Q. What was the variance in net capacity charges?

A. As shown on line 9, actual net capacity charges on a Total Company basis were approximately $9.9 million (1.4%) lower than the estimated/actual projection. This variance was primarily due to $3.9 million (2%) lower than projected Payments to Non-Cogenerators due to lower than estimated payments for Southern Company and SJRPP. Additionally, Payments to Cogenerators were $3.2 million (0.9%) lower than projected primarily due to lower than estimated payments to Florida Crushed Stone. Incremental Power Plant Security Costs were $2.7 million (18.8%) lower than projected primarily due to some work delays while waiting for NRC direction before implementing. Expenses for Transmission of Electricity by Others were $0.4 million (5.0%) lower than projected. Short Term Capacity Payments were $0.6 million (0.6%) higher than projected, and Transmission Revenues from Capacity Sales were $0.6 million (7.7%) higher than projected.

Q. What was the variance in Capacity Cost Recovery revenues?

A. As shown on line 14, actual Capacity Cost Recovery revenues, net of revenue taxes, were $4.5 million (0.8%) lower than the estimated/actual projection.

Q. Have you provided a new schedule designated as Schedule A12 showing the actual monthly capacity payments by contract consistent with the Staff Workshop on January 12, 2005?

A. Yes. The Schedule A12 consists of two pages provided as Appendix II, pages 6 and 7. Appendix II, page 6, shows the actual capacity payments for Qualifying Facilities, Southern Company – UPS Contract and the St John River Power Park (SJRPP) contract and Appendix II, page 7 provides the Short Term Capacity payments for the period January 2004 through December 2004.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 050001-EI

August 9, 2005

Q. Please state your name and address.

A. My name is Korel M. Dubin and my business address is 9250 West Flagler Street, Miami, Florida 33174.

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

A. I am employed by Florida Power & Light Company (FPL) as Manager, Regulatory Issues in the Regulatory Affairs Department.

Q. Have you previously testified in this docket?

A. Yes, I have.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present for Commission review and approval the calculation of the Estimated/Actual True-up amounts for the Fuel Cost Recovery Clause (FCR) and the Capacity Cost Recovery Clause (CCR) for the period January 2005 through December 2005. In addition, I will discuss FPL's proposal for recovery of FPL's FCR under-recovery over a two-year period.

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

A. Yes, I have. It consists of various schedules included in Appendices I and II. Appendix I contains the FCR related schedules and Appendix II contains the CCR related schedules.

The FCR Schedules contained in Appendix I include Schedules E3 through E9 that provide revised estimates for the period August 2005 through December 2005. FCR Schedules A1 through A9 that provide actual data for the period January 2005 through July 2005 are filed monthly with the Commission, are served on all parties and are incorporated herein by reference.

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

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

Q. Please describe what data FPL has used as a comparison when calculating the FCR and CCR true-ups that are presented in your testimony.

A. The FCR true-up calculation compares estimated/actual data consisting of actuals for January through July 2005 and revised estimates for August through December 2005, with the original estimates for January through December 2005 filed on September 9, 2004. The CCR true-up calculation makes the same comparison except it includes actuals through June.

Q. Please explain the calculation of the Interest Provision that is applicable to the FCR and CCR true-ups.

A. The calculation of the interest provision follows the same methodology used in calculating the interest provision for the other cost recovery clauses, as previously approved by this Commission. The interest provision is the result of multiplying the monthly average true-up amount times the monthly average interest rate. The average interest rate for the months reflecting actual data is developed using the 30 day commercial paper rate as published in the Wall Street Journal on the first business day of the current and subsequent months. The average interest rate for the projected months is the actual rate as of the first business day in August 2005 for FCR and July 2005 for CCR.

FUEL COST RECOVERY CLAUSE

Q. Please explain the calculation of the FCR Estimated/Actual True-

up amount you are requesting this Commission to approve.

A. Appendix I, pages 2 and 3, show the calculation of the FCR Estimated/Actual True-up amount. The estimated/actual true-up amount for the period January 2005 through December 2005 is an under-recovery, including interest, of $571,454,676 (Appendix I, Page 3, Column 13, Line C7 plus C8).

Appendix I, pages 2 and 3 also provide a summary of the Fuel and Net Power Transactions (lines A1 through A7), kWh Sales (lines B1 through B3), Jurisdictional Fuel Revenues (line C1 through C3), the True-up and Interest Provision for this period (lines C4 through C10), and the End of Period True-up amount (line C11).

The data for January 2005 through July 2005, columns (1) through (7) reflects the actual results of operations and the data for August 2005 through December 2005; columns (8) through (12) are based on updated estimates.

The true-up calculations follow the procedures established by this Commission as set forth on Commission Schedule A2 "Calculation of True-Up and Interest Provision" filed monthly with the Commission.

Order No. 13694, Docket No. 840001-EI, dated September 20, 1984 states:

> "that when a utility becomes aware that its projected fuel revenues ... will result in an over- or under-recovery in excess of 10% of its projected fuel costs for the period, the utility shall so advise the Commission through a filing promptly made..."

FPL now projects that its estimated/actual under-recovery for 2005 is $571,454,676 million which represents 14.6% of the Total Fuel and Net Power Transactions of $3.926 billion originally projected for 2005 in FPL's September 9, 2004 filing (Appendix I, Page 4, Column 2, Line A7). FPL is notifying the Commission through its petition for approval of the estimated/actual true-up in this docket, which is being filed contemporaneously with this testimony, that it projects to exceed the 10% threshold described in Order No. 13694.

Q. Were these calculations made in accordance with the procedures previously approved in predecessors to this Docket?

A. Yes, they were.

Q. What is FPL's total under-recovery?

A. FPL's total under-recovery is $579,161,818. This consists of the $571,454,676 estimated/actual under-recovery for 2005 plus the final under-recovery of $7,707,142 for the period ending December 2004 filed on March 1, 2005. This total under-recovery of $579,161,818 would normally be carried forward and included in the fuel factor for January through December 2006.

Q. How does FPL propose to treat the $579,161,818 under-recovery?

A. In order to mitigate the impact on customer bills, FPL proposes to spread this under-recovery of $579,161,818 over a two-year period. FPL proposes to include one-half of the total under-recovery of $579,161,818, or $289,580,909 in the calculation of the twelve-month levelized fuel factor for the January 2006 through December 2006 period. The remainder of the true-up under-recovery will be included for recovery in the fuel factor for the January 2007 through December 2007 period.

Q. Please summarize the variance schedule provided as page 4 of Appendix I.

A. The variance calculation of the Estimated/Actual data compared to the original projections for the January 2005 through December 2005 period is provided in Appendix I, Page 4. FPL's original filing dated September 9, 2004 projected Jurisdictional Total Fuel and Net Power Transactions to be $3.907 billion for January through December 2005 (See Appendix I, Page 4, Column 2, Line C6). The estimated/actual Jurisdictional Total Fuel Cost and Net Power Transactions are now projected to be $4.439 billion for the period January through December 2005 (Actual data for January through July 2005 and revised estimates for August through December 2005) (See Appendix I, Page 4, Column 1, Line C6). Therefore, Jurisdictional Total Fuel Cost and Net Power Transactions are $531.8 million higher than originally projected (See Appendix I, Page 4, Column 3, Line C6).

Jurisdictional Fuel Revenues for 2005 are $30.0 million lower than originally projected (Appendix I, Page 4, Column 3, Line C3). Combining the $531.8 million of higher costs with the $30.0 million of lower revenues, plus interest, results in the $571.5 million under-recovery.

Q. Please explain the variances in Jurisdictional Total Fuel Costs and Net Power Transactions.

A. As shown on Appendix I, Page 4, Line C6, the variance in Jurisdictional Total Fuel Costs and Net Power Transactions of $531.8 million is a 13.6% increase from projections. The primary reason for this variance is higher than projected Fuel Costs of System Net Generation and higher than projected Energy Costs of Economy Purchases.

There is a $462.3 million or 12.8% increase in the Fuel Cost of System Net Generation due primarily to higher than projected natural gas and residual oil costs. Natural gas costs are currently projected to be $305 million (11.5%) higher than the original filing. The unit cost of natural gas in the estimated/actual period is $7.80 per MMBTU or $.63 (8.7%) higher than the $7.18 per MMBTU included in the original filing. Residual oil costs are currently projected to be $153.7 million (20%) higher than the original filing. The unit cost of residual oil in the estimated/actual period is $6.77 per MMBTU or $1.78 (35.6%) higher than the $4.99 per MMBTU included in the original filing. Projections for generation by fuel type for the period August 2005 through December 2005 are included in Appendix I, Schedule E3. Additionally, there is a $52.0 million increase in the Energy Cost of Economy Purchases due to higher than projected unit cost for economy purchases. Projected Economy energy purchases for the period August 2005 through December 2005 are provided in Appendix I, Schedule E9.

Q. What is the appropriate estimated benchmark level for calendar year 2006 for gains on non-separated wholesale energy sales eligible for a shareholder incentive as set forth by Order No. PSC-00-1744-PAA-EI, in Docket No. 991779-EI?

A. For the forecast year 2006, the three-year average threshold consists of actual gains for 2003, 2004, and January through July 2005, and estimates for August through December 2005 (see below). Gains on sales in 2006 are to be measured against this three-year average threshold, after it has been adjusted with the true-up filing (scheduled to be filed in March 2006) to include all actual data for the year 2005.

2003	$13,091,111
2004	$16,992,686
2005	$13,327,399
Average threshold	$14,470,399

CAPACITY COST RECOVERY CLAUSE

Q. Please explain the calculation of the CCR Estimated/Actual True-up amount you are requesting this Commission to approve.

A. Appendix II, Pages 2 and 3 show the calculation of the CCR Estimated/Actual True-up amount. The calculation of the Estimated/Actual True-up for the period January 2005 through December 2005 is an under-recovery of $12,294,835 including interest (Appendix II, Page 3, Column 13, Lines 17 plus 18).

Q. Is this true-up calculation made in accordance with the procedures previously approved in predecessors to this Docket?

A. Yes, it is.

Q. Have you provided a schedule showing the variances between

the Estimated/Actuals and the Original Projections?

A. Yes. Appendix II, Page 4, shows the Estimated/Actual capacity charges and applicable revenues (January through June 2005 reflects actual data and the data for July through December 2005 is based on updated estimates) compared to the original projections for the January 2005 through December 2005 period.

Q. Please explain the variances related to capacity charges.

A. As shown in Appendix II, Page 4, Column 3, Line 12, the variance related to capacity charges is a $6.6 million (1.1%) increase. The primary reasons for this variance is a $1.7 million increase in payments to non-cogenerators, a $1.1 million increase in short-term capacity payments, and a $13.5 million increase in Incremental Power Plant Security Costs. The $13.5 million increase in incremental security costs is primarily due to increased Design Basis Threat (DBT) costs resulting from industry experience and lessons learned during force on force exercises (FOF). The implementation of the DBT considers both defense tactics and physical modifications. When a FOF drill is performed, new offensive tactics are developed. Based on the results of the drill, offensive strategy modifications may be necessary to address any short falls identified and costs increase from these changes. This process is continuing to evolve and will continue to create ongoing modifications, and the potential for security staff additions. These variances above are somewhat offset by a $9.9 million decrease in Capacity Payments to Cogenerators (QFs). The QF variance is mainly due to lower than estimated payments to Florida Crushed Stone (FCS) of approximately $12 million during the first six months of 2005 and approximately $1.6 million higher than anticipated payments to Indiantown Cogeneration Limited Partnership (ICL) for the same period. FCS experienced higher forced outages, which affect adversely the formula by which this QF is paid capacity. ICL experienced the opposite: better performance than expected for this period.

In addition to the cost variances, Page 4, Column 3, Line 15, Capacity Cost Recovery revenues, net of revenue taxes, are $4.7 million lower than originally projected. The $6.6 million higher costs plus the $4.7 million revenue variance, plus interest, results in an estimated/actual 2005 true-up amount of $12.3 million under-recovery (Appendix II, Page 4, Column 3, Lines 16 plus 17). This under-recovery of $12.3 million plus the final 2004 over-recovery of $5.2 million filed on March 1, 2005 results in an under-recovery of $7.1 million to be carried forward to the 2006 capacity factor.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 050001-EI

September 9, 2005

Q. Please state your name and address.

A. My name is Korel M. Dubin and my business address is 9250 West Flagler Street, Miami, Florida 33174.

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

A. I am employed by Florida Power & Light Company (FPL) as Manager of Regulatory Issues in the Regulatory Affairs Department.

Q. Have you previously testified in this docket?

A. Yes, I have.

Q. What is the purpose of your testimony?

A. My testimony addresses the following subjects:

- I present for Commission review and approval the Fuel Cost Recovery (FCR) factors for the period January 2006 through December 2006 including an inverted fuel charge for the residential rate class.
- I present for Commission review and approval a revised 2005

estimated/actual true-up amount, which reflects the impact of Hurricane Katrina and other events in the world energy markets on fuel prices and which is incorporated into the calculation of the 2006 FCR Factors.

- In response to a question posed by Staff, I explain why it is appropriate and consistent with Commission practice for FPL to recover at this time replacement fuel and purchased power costs associated with the 2005 outage of Turkey Point Unit No. 4 due to a transformer fire, rather than delaying recovery until FPL has sought redress against third parties.
- I present Commission review and approval FPL's projected incremental hedging cost for 2006, to be recovered through the FCR Clause.
- I present for Commission review and approval FPL's proposal to recover through the FCR Clause FPL's projected costs for the St. Lucie Unit No. 2 sleeving project and explain why that proposal is appropriate and consistent with Commission practice.
- I present for Commission review and approval FPL's proposed treatment of the settlement payment and associated litigation expenses for FPL's claim against DOE High Assay Cost overcharges and explain why that treatment is appropriate and consistent with Commission practice.
- I present for Commission review and approval the Capacity

Cost Recovery (CCR) factors for the period January 2006 through December 2006.

- I present Commission review and approval FPL's projected incremental security costs for 2006, to be recovered through the CCR Clause and, in response to a question posed by Staff, explain why FPL should be permitted to include the additional costs for responding to continuing Design Basis Threat requirements.
- Finally, I provide on pages 80-81 of Appendix II FPL's proposed COG tariff sheets, which reflect 2006 projections of avoided energy costs for purchases from small power producers and cogenerators and an updated ten year projection of Florida Power & Light Company's annual generation mix and fuel prices.

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

A. Yes, I have. It consists of Schedules E1, E1-A, E1-B, E1-C, E1-D E1-E, E2, E10, H1, and pages 8-11 and 78-81 included in Appendix II (KMD-5) and the entire Appendix III (KMD-6). Appendix II contains the FCR related schedules and Appendix III contains the CCR related schedules.

FUEL COST RECOVERY CLAUSE

Q. What is the proposed levelized fuel cost recovery (FCR) factor for which the Company requests approval?

A. 5.869¢ per kWh. Schedule EI, Page 3 of Appendix II shows the calculation of the twelve-month levelized FCR factor. Schedule E2, Pages 10 and 11 of Appendix II indicates the monthly fuel factors for January 2006 through December 2006 and also the twelve-month levelized FCR factor for the period.

Q. Has the Company developed a twelve-month levelized FCR factor for its Time of Use rates?

A. Yes. Schedule E1-D, Pages 6a and 6b of Appendix II, provides a twelve-month levelized FCR factor of 6.257¢ per kWh on-peak and 5.698¢ per kWh off-peak for our Time of Use rate schedules. FCR factors by rate group are presented on Schedule E1-E, Pages 7a and 7b of Appendix II. Schedule E1-E also reflects the seasonal demand rider pursuant to the Stipulation and Settlement Agreement approved in Docket No. 050045-EI, which incorporates a different on-peak period during the months of June through September.

Q. Were these calculations made in accordance with the procedures approved in predecessors to this Docket?

A. Yes.

Q. Is FPL proposing an inverted rate structure for the FCR factor

applicable to residential customers?

A. Yes. FPL is proposing an inverted rate structure in order to send a more appropriate price signal to its residential customers. The inverted rate structure recognizes that there is a certain level of electric consumption required to maintain a standard level of household services, including lighting, refrigeration, and so forth. Conversely, usage above 1,000 kWh is more likely to be discretionary. Charging a higher factor for usage above 1,000 kWh provides an incentive for households to reduce discretionary electric usage.

Q. Has the Commission previously approved a residential inverted rate structure?

A. Yes. The Commission has previously recognized that inverted rates are intuitively conservation oriented (Docket 830465-EI, Order No. 13537). FPL's base residential rates effective January 1, 2006 will incorporate an inverted rate with a 1,000 kWh threshold. The inverted rate for fuel proposed here is consistent with the rate structure approved for FPL's base rates.

Q. How will the inverted rate structure affect the total fuel charges paid by the residential rate class?

A. The inverted rate structure is not intended to alter the total fuel charges paid by the residential rate class, because the inverted rate structure is designed on a revenue-neutral basis. As such, the use of a residential inverted FCR factor is designed to have no effect on the fuel charges of other rate classes.

Q. Has FPL revised its 2005 Estimated/Actual True-up amount that was filed on August 9, 2005 to reflect the impact of Hurricane Katrina and other events in the world energy markets on fuel prices?

A. Yes. The 2005 Estimated/actual True-up amount has been revised to an under-recovery of $761,656,548 because of the significant changes in fuel prices that have resulted from Hurricane Katrina and other events in the world energy markets. The calculation of the revised 2005 Estimated/actual true-up amount is shown on Revised Schedule E1-B, on page 4a of Appendix II.

Q. What is the revised net true-up amount that FPL is requesting to include in the FCR factor for the January 2006 through December 2006 period?

A. FPL is requesting approval of a net true-up under-recovery of $769,363,690. This $769,363,690 under-recovery represents the revised estimated/actual under-recovery for the period January 2005 through December 2005 of $761,656,548 plus the final true-up under-recovery of $7,707,142 that was filed on March 1, 2005 for the period January 2004 through December 2004. FPL proposes to include one-half of the total under-recovery of $769,363,690, or $384,681,845, in the calculation of the FCR factor for the January 2006 through December 2006 period. The remainder of the true-up under-recovery will be included for recovery in the fuel factor for the January 2007 through December 2007 period.

Q. **What adjustments are included in the calculation of the twelve-month levelized FCR factor shown on Schedule E1, Page 3 of Appendix II?**

A. As shown on line 29 of Schedule E1, Page 3 of Appendix II, the total net true-up to be included in the 2006 factor is a revised under-recovery of $384,681,845. This amount divided by the projected retail sales of 106,064,217 MWh for January 2006 through December 2006 results in an increase of .3627¢ per kWh before applicable revenue taxes. The Generating Performance Incentive Factor (GPIF) Testimony of FPL Witness Pam Sonnelitter, filed on April 1, 2005, calculated a reward of $10,816,748 for the period ending December 2004, which is being applied to the January 2006 through December 2006 period. This $10,816,748 reward divided by the projected retail sales of 106,064,217 MWh during the projected period results in an increase of .0102¢ per kWh, as shown on line 33 of Schedule E1, Page 3 of Appendix II.

Q. **On August 23, 2005 the Commission Staff requested that FPL**

address the following question in testimony: Is it appropriate for FPL to recover replacement fuel and purchased power costs prior to exhausting all avenues of redress against the party or parties which manufactured, delivered, or installed the transformer which caught fire and caused Turkey Point Unit 4 to be shut down for 21 days?

A. Yes. It is appropriate for FPL to recover at this time replacement fuel and purchased power costs associated with the 2005 outage of Turkey Point Unit No. 4 due to a transformer fire, rather than delaying recovery until FPL has sought redress against third parties.

This approach is consistent with Commission practice reflected in Order No. 15486, Docket No. 840001-EI-A regarding an extended outage at St. Lucie No. 1 due to damage to its thermal shield. FPL had previously recovered the replacement power costs associated with the outage and in this Order, the Commission stated:

> "We find that FPL acted prudently in incurring the $183,112,226 of jurisdictional replacement power costs associated with SL1's 1983-84 repair outage and, accordingly, it is not required to refund any portion of those monies."

Thus, the Commission did not require FPL to postpone recovery of the replacement power costs associated with the thermal shield outage until its prudence review was completed.

FPL's proposed approach for recovery of replacement power costs associated with the Turkey Point Unit 4 transformer fire is also consistent with Order No. 18690, Docket No. 860001-EI-B regarding several outages at Crystal River Unit 3 that occurred in 1986 and 1987. Florida Power Corporation (now Progress Energy Florida) had included replacement fuel costs for these outages in its fuel factors In 1988 the Commission concluded that those replacement power costs had been prudently incurred and, accordingly:

> "ORDERED that the replacement power costs associated with the outages described above *have been properly recovered* by Florida Power Corporation through our Fuel and Purchased Power Recovery Clause ...."

(Emphasis added). These orders reflect a consistent pattern of the Commission's allowing prudently incurred replacement power costs resulting from nuclear plant equipment failures to be recovered in the course of fuel adjustment proceedings.

Additionally, Order No. 12540 in Docket No. 830001-EU shows the Commission's practice of including in subsequent recovery periods the costs or credits associated with the resolution of claims against vendors and insurers at the time any such claims are resolved. For example, that Order states:

> "'Commissioners, what this relates to is the testimony

presented by Mr. Silva, where there are some payments being made currently by the Company. For example, to Amoco Company for natural gas, we are paying less than we are being invoiced. The matter is subject to litigation. What we're saying is, on those matters that related to that we would like your assurance that if it is determined at a later date out of this period that the company's liability exceeds the amount which has been paid, that we will be able to come back to you and treat that as a fuel expense. Let us pay now what we think is necessary to continue the supply of that gas but don't preclude us from coming back if the amount is different either up or down in the future.' We find, as Chairman Gunter indicated that it is fair if the risk goes both ways. *If the cost goes up or down, it should be subject to recovery either by the customer or the Company.*"

(Emphasis added). Consistent with this Commission practice, should there be any recovery of associated fuel replacement costs via litigation or settlement, FPL will flow back these amounts to customers through the fuel clause.

<u>Incremental Hedging Costs</u>

Q. Has FPL included any costs in its FCR factors for the period January 2006 through December 2006 consistent with the Hedging Resolution approved in Docket No. 011605-EI?

A. Yes. As stated in the testimony of FPL witness Gerard Yupp, FPL projects to incur $496,485 in incremental O&M expenses for FPL's expanded hedging program. The $496,485 is for three (3) employees who are dedicated full time to FPL's expanded hedging program and for computer software license fees. FPL has included $496,485 in projected incremental hedging expenses in its FCR calculations for the period January 2006 through December 2006. This amount is shown on line 3a of Schedule E1, page 3 of Appendix II.

<u>**St. Lucie Unit 2 Steam Generator Tube Sleeving Project**</u>

Q. Is FPL requesting recovery of the St. Lucie Unit 2 steam generator tube sleeving project, through the FCR Clause?

A. Yes. As discussed in the testimony of FPL witness J. R. Hartzog, the cost of this sleeving project is estimated to be $30 million. FPL has included this amount in the calculation of the FCR factor for 2006 on Schedule E2, line 1c, pages 10 and 11 of Appendix II.

Q. What is the basis for requesting recovery of the sleeving project cost through the Fuel Cost Recovery Clause?

A. The Commission in Docket No. 850001-EI-B, Order No. 14546 issued July 8, 1985, addressed costs that may be appropriately included in the calculation of recoverable fuel costs.

The Commission allowed fuel-related costs that are normally recovered through base rates to be recovered through the fuel clause if they will result in fuel savings to customers and are not being recovered elsewhere. Recovery has been on a case by case basis after Commission approval.

The Commission has applied this concept to both nuclear and fossil fuels. As described in Mr. Hartzog's testimony, implementation of the sleeving project at St. Lucie Unit 2 will allow the unit to continue to operate at 100% power until the steam generators are replaced in the Fall of 2007. FPL believes it is appropriate to seek FCR Clause recovery of the sleeving project cost because the project will be undertaken to ensure the thermal output from St Lucie Unit No. 2, which is especially important during these times of high fossil fuel costs.

In 2006, nuclear generation from St. Lucie Unit No. 2 operating at its full rated output is projected to save FPL's customers approximately $1.26 million per day when compared to generating an equivalent amount of power using fossil fuels. FPL is undertaking the sleeving project so that St. Lucie Unit No. 2 can continue operating at its full rated output and thus continue to provide this low cost nuclear generation to FPL's customers. Because of the large fuel savings that will result from the sleeving project, especially in these times of high fossil fuel costs, FPL believes that recovery of the costs associated with the project through the FCR Clause is appropriate.

Recovery of the sleeving project costs would be consistent with the Commission's decision in Docket No. 850001-EI-B, Order No. 14546 issued July 8, 1985 and with treatment given to another nuclear plant project, the thermal power uprate of Turkey Point Units 3 and 4. In Order No. PSC-96-1172-FOF-EI, Docket No. 960001-EI, dated, September 19, 1996, the Commission stated:

> "We also approve Florida Power & Light Company's request to recover costs associated with the thermal power uprate of Turkey Point Units 3 and 4. Florida Power & Light Company's thermal power uprate of Turkey Point Units 3 and 4 will result in an estimated fuel savings of $198 million, or a present value of $97 million, through the year 2011 at a cost of approximately $10 million. The savings are due to the difference between low cost nuclear fuel replacing higher cost fossil fuel."

Recovery of the sleeving project is also consistent with other projects that have been approved for recovery through the clause because the purpose of these projects has been to keep the cost of fuel down. For example, in Order No. PSC-95-0450-FOF-EI, Docket No. 950001-EI, dated April 6, 1995, which approved FPL's request to recover plant modifications to burn a more economic grade of residual fuel oil, the Commission stated:

> "FPL also requested recovery of approximately $2,754,502 for modifications made to Cape Canaveral Unit #1 and #2, Fort Myers Unit #2, Riviera Unit #3, and #4 and Sanford Unit #3, #4, and #5. The modifications will enable the units to operate using a more economic grade of residual fuel oil. The modified units will still comply with emission constraints. FPL asked to recover the costs of the modifications through the Fuel and Purchased Power Cost Recovery Clause, because the modifications will generate significant savings due to lower fuel prices for high sulfur residual oil.
>
> When we established comprehensive guidelines for the treatment of fossil fuel-related costs, we recognized that certain unanticipated costs may be appropriate for recovery through the fuel clause. Order No. 14546 addresses this concern by allowing fuel-related expenditures that are not being recovered through a utility's base rates to be recovered through the fuel clause. Order 14546 states:
>
> While it is the Commission's intent in this order to establish comprehensive guidelines for the treatment of fossil fuel related costs, it is recognized that certain unanticipated costs

> may have been overlooked. If any utility incurs, or will incur, a fossil fuel related cost which was not addressed in this order and the utility seeks to recover such cost through its fuel adjustment clause, the utility should present testimony justifying such recovery in an appropriate fuel adjustment hearing.
>
> We have allowed such costs to be recovered through the fuel clause in the past when those expenditures resulted in significant savings to the utility's ratepayers. According to FPL's projections, its ratepayers will realize over $80 million in fuel savings through 1999. We find that FPL's cost for modifications fits within the policy we established in Order No. 14564. We approve recovery of the modification costs through the fuel clause."

Another example is described in Order No. PSC-97-0359-FOF-EI, Docket No. 970001-EI, dated March 31, 1997, approving FPL's request to recover equipment modifications and additions to burn low gravity fuel oil, the Commission stated:

> "We also approve the parties' stipulation that Florida Power and Light Company should recover the costs of implementing certain equipment modifications and additions at some of its generating plants and fuel storage facilities to use "low

gravity" fuel oil. These modifications will allow FPL to operate these plants using a heavier more economic grade of residual fuel oil called "low gravity" fuel oil. These modifications are estimated to save FPL's ratepayers more than $19 million over the next three years at a cost of approximately $2 million. Order No. 14546, issued July 8, 1985 allows a utility to recover fossil-fuel related costs which result in fuel savings when those costs were not previously addressed in determining base rates. Thus, FPL shall be allowed to recover the projected cost of the modifications through its fuel clause beginning April, 1997."

<u>Nuclear Fuel Litigation Settlement</u>

Q. In Mr. Hartzog's testimony, he describes a settlement of FPL's claim against the DOE for being overcharged for High Assay Costs in calculating the price for uranium enrichment services during 1992 and 1993. How does FPL propose to treat the settlement amount and associated litigation expenses incurred by FPL?

A. FPL's portion of the settlement is estimated to be $6,845,200, and FPL's associated litigation expenses are $403,017. FPL proposes both to flow back this $6,845,200 settlement to customers through the FCR Clause and to recover the $403,017 in litigation expenses through the FCR Clause. This resulting net $6,442,183 reduction in fuel costs is shown on revised Schedule E1b, line A1g, page 4b of Appendix II.

Recovery of the litigation expenses is consistent with Order No. PSC-93-0443-FOF-EI in Docket No. 930001-EI dated March 23, 1993 which addressed the litigation costs associated with the IMC nuclear fuel contract arbitration. In approving recovery of those litigation expenses, the Commission stated:

> "We find that the litigation costs incurred in the IMC contract dispute were reasonably related to the cost of fuel, reasonably expected to result in reduced fuel cost for the retail ratepayers, and thus appropriate for recovery through the fuel clause."

FPL believes that these same characteristics apply to the litigation expenses associated with the DOE's High Assay Costs. As shown above, FPL recovered a settlement of almost $7 million for an expenditure of only $403,017 in litigation expenses. FPL's customers clearly benefited from FPL's litigation initiatives, so it is appropriate for FPL to recover the $403,017 in litigation expenses through the FCR Clause.

CAPACITY COST RECOVERY CLAUSE

Q. Have you prepared a summary of the requested capacity

payments for the projected period of January 2006 through December 2006?

A. Yes. Page 3 of Appendix III provides this summary. Total Recoverable Capacity Payments are $589,161,828 (line 16) and include payments of $195,921,936 to non-cogenerators (line1), Short-term Capacity Payments of $85,098,860 (line 2), payments of $308,181,900 to cogenerators (line 3), and $4,254,816 relating to the St. John's River Power Park (SJRPP) Energy Suspension Accrual (line 4a), $35,692,871 of Okeelanta/Osceola Settlement payments (line 5b), $22,454,060 in Incremental Power Plant Security Costs (line 6), and $6,551,137 for Transmission of Electricity by Others (line 7). This amount is offset by $4,663,115 of Return Requirements on SJRPP Suspension Payments (line 4b), by Transmission Revenues from Capacity Sales of $6,005,900 (line 8), and by $56,945,592 of jurisdictional capacity related payments included in base rates (line 12). The resulting amount is then increased by a net under-recovery of $7,117,775 (line 13). The net under-recovery of $7,117,775 includes the final over-recovery of $5,177,060 for the January 2004 through December 2004 period that was filed with the Commission on March 1, 2005, plus the estimated/actual under-recovery of $12,294,835 for the January 2005 through December 2005 period, which was filed with the Commission on August 9, 2005.

<u>Incremental Power Plant Security</u>

Q. Has FPL included a projection of its 2006 Incremental Power Plant Security Costs in calculating its Capacity Cost Recovery (CCR) Factors?

A. Yes. FPL has included $22,454,060 on Appendix III, page 3, Line 6 for projected 2006 Incremental Power Plant Security Costs in the calculation of its CCR Factors. The continuation of this approach is provided for in Section 14 of the Stipulation and Settlement Agreement approved in Docket No. 050045-EI. Of the total amount, $21,579,060 is for nuclear power plant security, which is discussed in Mr. Hartzog's testimony. The remaining $875,000 is for fossil power plant security, which includes the costs of increased security measures for fossil power plants required by the Maritime Transportation Act, Coast Guard rule and/or recommendations from the Department of Homeland Security authorities.

Q. On August 23, 2005, the Commission Staff requested that the following question be addressed in testimony: Should the Commission allow FPL to recover the $26.0 million security cost in 2005 and the projected 2006 amount due to continuing Design Basis Threat (DBT) Requirements?

A. FPL should be allowed to recover through the CCR Clause the DBT costs it incurs in excess of $40.4 million. The Proposed Resolution of Issue that was approved in Order No. PSC-04-1276-FOF-EI provides for security costs due to the NRC's Design Basis Threat requirements over and above that amount to be recovered through the CCR clause. Specifically the order states:

> "$40.4 million is only an estimate of the DBT costs. The actual amount of those costs almost certainly will vary. In the event the Commission ultimately determines that the actual amount of FPL's prudent and necessary DBT costs exceeds $40.4 million, then the variance will be recovered via FPL's CCR factor pursuant to the Commission's usual procedures."

It is important to note that the $26.0 million Staff quotes in its question is the total amount of security costs to be recovered through the CCR clause, not just DBT costs. The $26 million for 2005 includes approximately $13 million for DBT costs. The remaining $13 million is for other nuclear and fossil power plant security costs either required by the NRC or by the Maritime Transportation Act, Coast Guard rule and/or recommendations from the Department of Homeland Security authorities.

Calculation of CCR Factors

Q. Have you prepared a calculation of the allocation factors for demand and energy?

A. Yes. Page 4 of Appendix III provides this calculation. The demand allocation factors are calculated by determining the percentage each rate class contributes to the monthly system peaks. The energy allocators are calculated by determining the percentage each rate contributes to total kWh sales, as adjusted for losses, for each rate class.

Q. **Have you prepared a calculation of the proposed CCR factors by rate class?**

A. Yes. Page 5 of Appendix III presents this calculation.

Q. **What effective date is the Company requesting for the new FCR and CCR factors?**

A. The Company is requesting that the new FCR and CCR factors become effective with customer bills for January 2006 through December 2006. This will provide for 12 months of billing on the FCR and CCR factors for all our customers.

Q. **What will be the charge for a Residential customer using 1,000 kWh effective January 2006?**

A. The typical 1,000 Residential kWh bill is $105.45. This includes a base charge of $38.12, a storm restoration surcharge of $1.68, the fuel cost recovery charge from Schedule E1-E, Page 7 of Appendix II for a residential customer is $55.30, the Capacity Cost Recovery charge is $6.03, the Conservation charge is $1.42, the Environmental Cost Recovery charge is $.26 and the Gross Receipts Tax is $2.64. A comparison of the current Residential (1,000 kWh) Bill and the 2006 projected Residential (1,000 kWh) Bill is presented in Schedule

E10, Page 78 of Appendix II. Pursuant to the stipulation and settlement agreement approved in Docket No. 050045-EI, the gross receipts tax embedded in each clause factor has been removed and the gross receipts tax is shown all in one line.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

SUPPLEMENTAL TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 050001-EI

OCTOBER 14, 2005

Q. Please state your name and address.

A. My name is Korel M. Dubin and my business address is 9250 West Flagler Street, Miami, Florida 33174.

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

A. I am employed by Florida Power & Light Company (FPL) as Manager of Regulatory Issues in the Regulatory Affairs Department.

Q. Have you previously testified in this docket?

A. Yes, I have.

Q. What is the purpose of your supplemental testimony?

A. The purpose of my supplemental testimony is to present for Commission review and approval revised fuel cost recovery (FCR) factors for the period January 2006 through December 2006. The FCR factors have been revised to reflect a revised 2005 estimated/actual true-up which includes two additional months of actual data (August and September 2005) that result in an additional

$203,370,845 million under-recovery for 2005.

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

A. Yes, I have. It consists of various schedules included in Appendix A.

Q. What factors have contributed to FPL's actual August and September 2005 fuel costs being higher than were estimated in its 2005 estimated/actual true-up?

A. The additional $203 million under-recovery associated with the August and September actual data is primarily due to rising fuel prices as a result of global impacts on natural gas and crude oil, worsened by the damage to oil and natural gas production and refinery facilities in the Gulf of Mexico from Hurricanes Katrina and Rita. Additionally, Net Energy for Load was higher than projected in both months.

Q. Using the available data on actual costs for August and September 2005, what is FPL's revised 2005 estimated/actual true-up?

A. The additional two months of actual data for August and September 2005 results in a revised 2005 estimated/actual true-up of $965,027,393. The revised 2005 estimated/actual true up calculation is provided as Schedule E1b, pages 1 and 2 of Appendix A. This revised 2005 estimated/actual true-up under-recovery of $965,027,393 plus the final 2004 true-up under-recovery of $7,707,142 results in a total true-up under-recovery of $972,734,535 which is provided on Schedule E-1A, Page 5 of Appendix A.

Q. Why is FPL revising its 2006 FCR factors to reflect this increased under-recovery for August and September 2005?

A. Because of the magnitude of the increase, FPL believes that it should take the opportunity to incorporate the available updated data. This is consistent with Commission Order No. 13694 in Docket No. 840001-EI, dated September 20, 1984, which states:

> "[A]ll regulated utilities [are] on notice that testimony given at hearing, whether verbal or prefiled, must be true and correct as of the date it is incorporated in the record. While we recognize that fuel adjustment projections are compiled significantly in advance of hearing and are composed of many assumptions that are subject to change, we must, at the time of hearing, have the benefit of the most accurate and current information available to the utilities. This is not to say that every known change must be brought to our attention. Rather, we are concerned with material and significant changes in the basic assumptions supporting a company's request. A changed assumption that would either result in, or

> have the potential to result in, a mid-course correction should certainly be brought to our attention. Likewise, changes in the assumptions regarding nuclear or other base load units should be updated. A certain element of judgment will have to be exercised in updating assumptions of limited materiality. We will expect such updates at hearing and shall evaluate failures to update on a case-by-case basis."

Q. Does FPL propose to recover the full additional true-up under-recovery during 2006?

A. No. Consistent with its prior filings in this docket and in order to mitigate the impact on customer bills, FPL proposes to spread the total revised under-recovery over a two-year period. One-half of the total revised true-up under-recovery of $972,734,535, or $486,367,268, is included in the calculation of the twelve-month levelized FCR factor for the January 2006 through December 2006 period. The remainder of the true-up under-recovery will be included in the fuel factor for the January 2007 through December 2007 period.

Q. Are there any other revisions to FPL's September 9, 2005 FCR filing?

A. Yes. FPL has reviewed its projections for the nuclear sleeving project and updated the original cost estimate of $30 million included in the

September 9, 2005 filing to $25 million. This revised amount is reflected on Schedule E2, Line 1c, Column n, Page 12 of Appendix A.

Q. What is the proposed revised levelized 2006 FCR factor for which the Company requests approval?

A. 5.960 cents per kWh. Schedule El, Page 4 of Appendix A shows the calculation of this revised twelve-month levelized FCR factor. Schedule E2, Pages 11 and 12 of Appendix A indicates the revised monthly FCR factors for January 2006 through December 2006 and also the revised twelve-month levelized FCR factor for the period.

Q. Has the Company developed a revised twelve-month levelized FCR factor for its Time of Use rates?

A. Yes. Schedule E1-D, Page 7 of Appendix A, provides a revised twelve-month levelized FCR factor of 6.348¢ per kWh on-peak and 5.789¢ per kWh off-peak for our Time of Use rate schedules. Revised FCR factors by rate group are presented on Schedule E1-E, Pages 9 and 10 of Appendix A, including FCR factors for the seasonal demand rider pursuant to the Stipulation and Settlement Agreement approved in Docket No. 0500045-EI.

Q. What effective date is the Company requesting for the revised factors?

original filing, the Company is requesting that the revised FCR factors become effective with customer bills for January 2006 through December 2006. This will provide for 12 months of billing on the FCR factors for all our customers.

Q. What will be the revised charge for a Residential customer using 1,000 kWh effective January 2006?

A. The revised typical 1,000 kWh Residential bill, excluding taxes and franchise fees is $106.36. This includes a base charge of $38.12, a storm surcharge of $1.65, the revised FCR charge of $56.22, the Conservation charge of $1.42, the Capacity Cost Recovery charge of $6.03, the Environmental Cost Recovery charge of $ 0.26, and the Gross Receipts Tax of $2.66.

Q. Does this conclude your supplemental testimony?

A. Yes, it does.

BY MR. BUTLER:

Q Would you please summarize your testimony, Ms. Dubin.

A Yes. Good morning, Commissioners. My testimony presents for Commission review and approval FPL's fuel and capacity cost recovery final true-up for the period January through December 2004, the estimated actual true-up for the period January through December 2005, and projections for the period of January 2006 through, through December 2006.

Additionally, I have filed supplemental testimony to revise the proposed fuel factors to reflect a revised 2005 estimated actual true-up, which includes two additional months of actual data, August and September 2005, which includes the impact of Hurricane Katrina and Rita.

FPL's total underrecovery is approximately $972 million. In order to mitigate the impact of high fuel prices on customers, FPL proposes to spread the total revised underrecovery over a two-year period. FPL's -- one-half of this total underrecovery or $486 million is included in our factor calculation for January through December 2006. The remainder of the true-up underrecovery would be included in the fuel factor for the January through December 2007 period.

Additionally, my testimony presents for the Commission's review and approval FPL's proposal to recover $25 million through the fuel clause for the St. Lucie Unit 2 sleeving project. FPL is undertaking this project so that the St. Lucie Unit 2 can operate at its full rated output and thus continue to provide low cost nuclear generation to FPL's customers, a savings of approximately $1.2 million per day. Therefore, FPL believes that recovery of the costs associated with the sleeving project through the fuel clause is appropriate. This concludes my summary.

MR. BUTLER: Thank you, Ms. Dubin. I tender her for cross-examination.

CHAIRMAN BAEZ: A quick count by show of hands, how many of the Intervenors have cross for this witness? All right. And so we'll start with Public Counsel. Mr. Beck.

MR. BECK: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. BECK:

Q Good morning, Ms. Dubin.

A Good morning.

Q Ms. Dubin, would you agree that the sleeving project that FPL plans to conduct at the St. Lucie Unit 2 is a repair that will allow the steam generators to operate at full capacity?

A I would agree that it's a modification to them and it -- the modification that will allow the unit to, to operate at 100 percent or higher than it otherwise would, which results in fuel savings for FPL's customers.

Q You won't agree with me that it's a repair?

A No. I would say it's a modification. I think it's different than a repair. You know, we're not talking about cleaning a boiler here. We're talking about, you know -- let me maybe try to contrast that. A boiler is an ordinary, routine maintenance type thing. Of course, you have some fuel savings, you get some efficiency after you clean that boiler. But here we've got, in contrast, a very -- a modification, one that's something that's extraordinary. FPL's never done this before, it's not something that's routine. As Mr. Gwinn talked about yesterday, something that's routine is the plugging. This is not a routine thing. And it results in fuel savings for customers; my testimony shows that it's about $1.2 million per day.

In addition to that, I have talked with our accounting folks, and but for the, the period of time that, that this project is going to be in place, it would really be considered a capital project. But for the short period of time it's considered an O&M, and that's because they call it, consider it a significant betterment of the asset.

Q Okay. You're agreeing it is O&M though; is that correct?

A Yes.

Q Okay. Now the plugging is what you called your normal repair?

A Yes.

Q The purpose of the tubes in the steam generator is to allow coolant to flow through the tubes, is it not?
A Yes.
Q Okay. When you plug it, plug a tube, it no longer performs the intended function of a tube, does it? Isn't that right?
A The plugging is the, is a normal repair cost, and actually the sleeving is a modification of the tube.
Q Right. But if a tube is working properly, coolant flows through the tube; isn't that right?
A I believe so, Mr. Beck. I'm not, I'm not a nuclear engineer.
Q Okay. Well, I mean, would you agree that the plugging stops the coolant from flowing through the tube?
A Yes.
Q Okay. And the purpose of sleeving is to allow the coolant to continue flowing through the tube, is it not?
A The purpose of the sleeving is to modify the tubes to allow the unit to continue to operate at 100 percent.
Q And by modify the tube, it's essentially putting a small piece of tube within the tube so that the coolant can continue to flow through the tube.
A Right. It does modify the tube so that it can continue to operate.
Q Okay. Now you would not agree with me earlier that

it is a repair; is that right?

A No.

Q Okay. Let me ask you about FPL's position on Issue 14F. Do you have that there or shall I read it?

A Yes.

Q Okay. And FPL's position on 14F in the second sentence, FPL states regarding to the sleeving that it is not a routine O&M repair cost. Okay? Now I read that, interpreted that to mean that it's still a repair cost, it's just not a routine O&M repair cost. Is that not -- did I read that incorrectly?

A It's not a routine O&M repair cost. I think the, the, the emphasis should be there on routine O&M.

Q Let me ask this then. Is it a nonroutine O&M repair cost?

A It's a nonroutine cost and it's considered O&M, but I would, I would classify it as a modification.

Q Okay. So when you say it's not a routine O&M repair cost, FPL didn't mean to imply it was a repair cost?

A No. It's -- we would consider it a modification.

Q Ms. Dubin, in your testimony at Page 11 you refer to an order the Commission issued in 1985, Order Number 14546. Do you recall that?

A Yes.

Q I made copies of that and I'd like to ask that they be passed out.

MR. BUTLER: Mr. Beck, would you please refer where in her testimony you are referencing just for the record?

MR. BECK: Page 11, Line 19. And that would be the, that would be the September 9th testimony.

MR. BUTLER: Thank you.

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

MR. BECK: Yes, Commissioner.

CHAIRMAN BAEZ: I'm showing Number 80.

(Exhibit Number 80 marked for identification.)

BY MR. BECK:

Q Ms. Dubin, do you have Exhibit 80 in front of you?

A Yes, I do.

Q Okay. And are you familiar with Order 14546?

A Yes, I am.

Q Could you turn to Page 2 of the order, please.

Would it be fair to describe this order as, as one of the Commission's fundamental orders distinguishing what is a fuel cost and what is not a fuel cost?

A Yes.

Q Okay. And the Commission in 1985 took up an agreement among the parties to distinguish fuel costs or nonfuel costs, did it not?

A Yes, it did.

Q Okay. And on Page 2 at Paragraph 2 toward the top of the page --

A Yes.

Q -- let me, let me read the first two sentences, if I could.

It says, "Prudently incurred fossil fuel-related expenses which are subject to volatile changes should be recovered through an electric utility's fuel adjustment clause. The volatility of fossil fuel-related costs may be due to a number of factors including, but not necessarily limited to: Price, quantity, number of deliveries and distance." Do you see that?

A Yes.

Q Okay. Would you agree with me that sleeving does not fit any of those four factors that are listed in the order at that point?

A Yes.

Q Okay. And that paragraph concludes that all other fossil fuel-related costs should be recovered through base rates, does it not?

A Yes, it does.

Q On Page 3 of the order toward the top there's a paragraph that starts "O&M Expenses at Plants, Storage Facilities and Terminals." Do you see that?

A Yes.

Q Okay. And let me read the first part, if I could. "These costs are relatively fixed and do not tend to fluctuate significantly even with changes in the number and sizes of deliveries. As these costs are closely akin to other O&M expenses, they are more properly recovered through base rates." Do you see that?

A Yes, I do.

Q Would you agree that that description would apply to the sleeving?

A Well, Mr. Beck, there's another part of this order which allows for, for flexibility.

Q Right. And we're -- I'm -- we're getting there.

A Okay.

Q Okay. But for the other -- I mean, just reading this before you get to the exceptions, you'd agree that would apply to the sleeving?

A Not in this case, no.

Q You don't agree to that? Where it says "These costs are relatively fixed and do not tend to fluctuate significantly even with changes in the number and sizes of deliveries," wouldn't you agree that that description applies to sleeving?

A Yes, I would.

Q Okay. FPL is relying on an exception to those criteria, is it not, when asking for the sleeving expenses to go through the fuel charge?

A FPL is relying on the criteria that the Commission set out in this order to, to be able to be flexible when, when something wasn't recognized or anticipated when base rates were set and that results in significant fuel savings to customers.

Q Right. My question is you're relying on that exception to criteria that would otherwise apply.

A The exception that the Commission noted in this order, yes.

Q Right. And that's at the bottom of Page 3, is it not?

A I'm referring to the top of Page 5, Item Number 10, where it says in part, "which were not recognized or anticipated in the cost levels used to determine current base rates and which, if expended, would result in fuel savings to customers. Recovery of such cost should be made on a case-by-case basis after Commission approval."

Q Okay. Let me take you right below that section of the order, if I could. Just a little bit further down it says, "The following types of fossil fuel-related costs are more appropriately considered in the computation of base rates." The first item listed is operation and maintenance expenses at generating plants or system storage facilities. Do you see that?

A Yes, I do.

Q Would you agree that that description fits sleeving?

A No. I think the, the description that fits sleeving in our case here is, is Number 10, that it was a cost that was not recognized or anticipated and it results in significant fuel savings. My testimony describes fuels savings of $1.2 million per day.

Q Right. You would not agree then that sleeving is an operation or maintenance expense at generating plants?

A As I stated before, it is an O&M expense, yes. But for the period of time, it would have been considered a capital, a capital item.

Q Okay. And where it says "operation and maintenance expense," do you see any, any use of the word "routine" in front of that?

A No, I do not.

Q Okay. So the Commission doesn't distinguish between routine and nonroutine O&M expenses in this order, does it?

A No, it does not.

MR. BECK: Thank you, Ms. Dubin. That's all I have.

CHAIRMAN BAEZ: Colonel.

CROSS EXAMINATION

BY LIEUTENANT COLONEL WHITE:

Q Good morning, Ms. Dubin.

A Good morning.

Q I'm Lieutenant Colonel Karen White, and I'm representing the Federal Executive Agencies. I'd like to focus this morning on the capacity cost recovery factors.

A Okay.

Q And I'd like to start by looking at your Exhibit Number 16 at Page 5.

CHAIRMAN BAEZ: Commissioners, Exhibit 16, for your reference, is the Exhibit KMD-6.

LIEUTENANT COLONEL WHITE: Thank you, Commissioner.

BY LIEUTENANT COLONEL WHITE:

Q Okay?

A Okay.

Q And I'm looking specifically at the CILC D/CILC G and right below it at the CILC T rate schedule.

A Yes.

Q And as I look at this document, the, the capacity recovery factor that applies to those two rate schedules is 2.38 and 2.27; is that correct?

A I'm sorry. Could you repeat your question?

Q In Column 9 the capacity recovery factor that applies to those two rate schedules, the CILC D and CILC T, is 2.38 and then 2.27.

A Yes.

Q That's correct? Okay.

Now as I understand how FPL calculated these recovery factors, there are two components in the factor, is that correct?

A Yes.

Q Okay. And the two components are, number one, a demand component, which is noted by the column marked 12CP or the actual percentage of demand at generation; is that correct?

A Yes.

Q And then Column 3 is the energy related component.

A Yes.

Q And as I understand how you calculated it, the percentage of demand at generation is the 12CP?

A Yes. Twelve coincident peak.

Q And the energy-related cost is the one-thirteenth?

A Yes.

Q Okay. And then as I understand how that's been done, the demand, the -- I'm sorry. The energy-related cost, the one-thirteenth, was generation that was reclassified, I guess is a good word, and called energy; is that correct?

A I'm sorry. Reclassified and called energy?

Q To get the energy-related cost, the word energy --

A Yes.

Q -- the way that that's calculated by FPL is that it's actually generation cost which is classified as an energy cost; is that correct?

A Yes.

Q Okay. So as I understand how we've calculated these factors, capacity recovery factor, if either Column 2 or

Column 3 were changed, that would change the recovery factor; is that correct?

A Yes.

Q Okay.

A And they're -- the allocation is done on the 12CP one-thirteenth as prescribed by the Commission order on the capacity clause.

Q Okay. And so if you were to take out either one of those columns, 2 or 3, you would get a different number at the end, just simple math?

A Yes.

Q Okay. Now I'd like to talk for just a second kind of hypothetically. If I were to put Column 2 and Column 3 at zero, then the result would be zero, capacity-related factor of zero.

A If you didn't allocate any costs to them, it would be zero. Yes.

Q Okay. And if I were to -- do you know what would happen if I were to take out only the demand percentage, meaning Column 2, do you know what --

A It would reduce the, reduce the amount.

Q And do you have any idea what that would end up to be?

A No, not offhand.

Q Subject to check, would you agree that it would end up to be 23 cents?

A Yes.

Q Okay. So if I were to take out just the demand at generation percentage, leaving the energy-related costs, then the resulting capacity recovery factor would be 23 cents instead of $2.38 or $2.27?

A If you did not allocate the customer any demand, their factor would be reduced.

Q Okay. Thank you. I'd like to talk for a minute about the CILC rate itself and how that's calculated. That rate does not include any demand-related generation cost in the calculation of the rate itself, does it?

A In the capacity rate?

Q In the CILC rate, the rate schedule.

A For the capacity charge?

Q No. For the rate itself. When FPL calculates the rate, CILC, when they do the rate design for CILC.

A The base rate charge.

Q The base rate charge, that does not include any demand generation.

A The CILC rate is given a credit after their allocation is done, it is given a credit for their avoided cost, for, excuse me, for avoiding the next generating unit.

Q Okay. Would you I think what I'm asking I may not be asking it very well. When FPL designed the rate, the

CILC rate, they do not allocate any demand generation charges to the rate.

A They're allocated the same way that the capacity clause is. However, because of some of their nonserved, excuse me, nonfirm service they are given a credit for, for being able to avoid building another generating unit.

Q Okay. So basically the rate itself contemplates that there's no additional requirement for the demand, for the generation.

A They are given a credit for avoiding having to build that additional generating unit.

Q Okay. So what -- and what I note in, in this chart in the capacity recovery factor is there is not the same credit given because the demand at generation percentage is still included in the CILC columns; is that correct?

A In the capacity clause?

Q Yes.

A You're not avoiding anything here. You wouldn't be avoiding the purchased power contract or something like that. You've already avoided it once. You avoided paying -- avoiding building that additional generating unit. To do this here would, would amount to giving an additional credit and having the other general body of customers picking up the tab on that and having them pay more for no additional benefit.

Q Maybe I'm just confused. The capacity payment recovery factor, what is that allocating, what types of cost?

A Capacity costs for purchased power contracts.

Q Okay. And so how, how is the credit given to customers originally? You said it would be a double credit. Where was, where was the first credit for purchased power? How would that be in the rate?

A Okay. There is a credit for -- in their base rate charge, the customer pays a base rate charge, and then there is a credit to that base rate charge for being able to avoid building an additional generating unit. At that time the other customers, the other body of customers, residential customers and so forth, end up paying for that credit, but it's less than what they would pay if you had to build that additional unit. There is not a credit given in the clauses, I discussed yesterday in the environmental clause and here in the capacity clause, there is not an additional credit given because the capacity clause has nothing to do with, with that, avoiding building that generating unit. There is not an additional credit given because there's no additional benefit derived from that. The other general body of customers does not receive any other benefit at that point in time. So giving an additional credit here, having them pay for something, and then deriving no additional benefit would amount to charging them, you know, tens of millions of dollars more for no additional benefit.

Q But doesn't the CILC rate envision that purchased power is not necessary to cover these loads? In the same way you're not, you're avoiding buying or paying for additional purchased power under the CILC rate. Isn't that the basis behind the rate?

A And they're compensated for that. They're given a credit in their base rate charge for that.

Q But it sounds like what you just said was that they give the credit based on generation and this is for purchased power.

A Well, there's only one thing that can be avoided. If you were trying to avoid, avoid building a generating unit or avoid, trying to avoid a purchased power contract, you can't do both. It's one or the other in the calculation of the cost-effectiveness of the rate.

Q Okay. So it's your testimony then that the CILC rate does not envision a capacity recovery factor that would be derived the same way that the base rate is?

A It's allocated on 12CP one-thirteenth as the base rates are, and the base rate charge is where the credit is given to the customer.

LIEUTENANT COLONEL WHITE: Okay. Thank you. I have nothing further, Chairman. Thank you.

CHAIRMAN BAEZ: Thank you. Mr. Perry.

CROSS EXAMINATION

BY MR. PERRY:

Q Good morning, Ms. Dubin.

A Good morning, Mr. Perry.

Q I've got a few questions for you. Why don't we go back to the sleeving issue that you were discussing with Mr. Beck earlier.

A Okay.

Q And I'm going to direct you to Page 13 of your September testimony. And starting at Page 13 you cite four cases, one being Order Number 1454, which Mr. Beck has already discussed with you, and then at the bottom of the page starting at Line 20 you cite to Order Number PSC-95-0450. And in that order you quote on the next page, Page 14, that the costs that were approved passed through the clause related to modifications made to your Cape Canaveral, Fort Myers, Riviera and Sanford units. Do you know what types of modifications were made to those units?

A There were modifications made to, to, in one instance, to burn a different sulfur grade of fuel and another one to modify the plant. I'm not sure if it's that same case, the gravity of the fuel. In both instances there were modifications made to the plants. They weren't recognized or anticipated in time that the base rates were set. They resulted in fuel savings to the customers, so the Commission approved recovery through the clause. And we would I believe that the sleeving project is very similar to that.

Q Okay. And on Lines -- on Page 14, Lines 6 and 7, the quote that you have there says, "The modifications will enable the units to operate using a more economic grade of residual fuel oil." Would you agree with that?

A Yes.

Q Okay. And would you agree with me that that was a capability that before the modifications the plants didn't have?

A That's correct.

Q Okay. Okay. Now if I can ask you to turn to Page 15 and direct your attention to Line 17, please. And there you cite to Order Number PSC-97-0359.

A Yes.

Q And starting at Line 21 you have a quote there, and it says, "FPL should recover the cost of implementing certain equipment modifications and additions at some of its generating plants and fuel storage facilities to use low-gravity fuel oil. These modifications will allow FPL to operate these plants using a heavier, more economic grade of residual fuel oil called low-gravity fuel oil."

Would you agree with me that that was a capability that, that prior to the modification the plants did not have?

A It was a modification to the plant, yes, to, in order to, to provide fuel savings to customers.

Q Okay. And the capability to burn low-gravity fuel oil at those facilities was one that you didn't have prior to performing the modification; is that correct?

A That's correct.

Q Okay. Okay. And I think I passed over one order. And if you could turn back to Page 13, Line 8, and there you cite Order Number PSC-96-1172. And in that case, the Commission approved recovery of the thermal power uprate of Turkey Point Units 3 and 4. And would you agree with me that that particular modification was one that increased the units' generating capabilities after the modifications?

A It increased, it modified the unit and was able to provide additional fuel savings to customers. Yes.

Q Okay. So I'm going to use hypothetical numbers here. So if the unit's rating was 100 megawatts before the thermal power uprate, after the thermal power uprate it was, in hypothetical numbers, 110 megawatts?

A Right. Which is similar to the sleeving project where you could be operating like at 89 percent and then, and then up to 100 percent, being able to get the fuel savings between the 100 percent and the 89.

Q Except that with the sleeving project you are currently operating at 100 percent, and by performing the sleeving it allows you to continue to operate at 100 percent; is that correct?

A It allows you to, to operate the unit at a, at a higher level than you otherwise would.

Q Okay. If you don't -- if you plug, you will eventually have the possibility of having to derate the unit down to 89 percent?

A That's if the NRC approves the amendment. If it's at 9 percent. I mean, that's the evaluation that we have shows 89 percent. It could be 80 percent, it could be, you know, 85 percent. But it definitely is a difference between that and 100 percent, which in, in the case between the 100 and the 89 percent, it's about $59 million in savings between the two, the two different outputs.

Q Okay. I'm going to switch gears for a minute with you and I'm going to ask you about your collection of this year's underrecovery. Over how many years do you plan to collect the underrecovery for 2005?

A We propose to recover it over a two-year period, and fuel prices are high and we are trying to do whatever we can to mitigate that impact on customers. So we suggested to recover it over a two-year period.

Q And what are the reasons for, for spreading the recovery over two years?

A It was just a period of time to try to stretch it out without getting, you know, too far off field, but to try to help to mitigate the impact. There's been instances where we've done something like that before and it seemed like appropriate to do it this time.

Q And when you, when you're planning to do the two-year collection period rather than a one-year collection period, did you take into account what prices might be in 2007?

A We, we took a look at where, where fuel prices are or were and, and decided that it made sense to try to do what we could to mitigate it.

Q Okay. Is your forecast that in 2007 with spreading the recovery over two years -- how did you, how did you forecast what prices would look like in 2007 compared to 2006, spreading out the recovery over two years?

A I believe Mr. Yupp testified yesterday to what fuel prices are looking like. They're not coming down to anywhere where they originally had been. And we just were looking at trying to do what we could to try to mitigate the impact on customers.

Q Okay. But based on the, based on the current forecast on the NYMEX, they do show prices trending down at least slightly.

A At least slightly.

Q Okay. So based on the NYMEX forecast, you wouldn't expect that the prices would get any worse today.

A I'm sorry?

Q Based on the NYMEX forecast for 2007, you wouldn't anticipate that prices would get any worse in 2007 versus 2006.

A Well, on today's NYMEX, I mean, they're slightly lower, but that's not any indication of what could happen. There can be all kinds of spikes. There's so much volatility and uncertainty.

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

CHAIRMAN BAEZ: Mr. Twomey, before you start, Mr. Wright, you said you had questions as well?

MR. WRIGHT: No, Mr. Chairman, I do not. But thank you for asking.

CHAIRMAN BAEZ: Okay. Thank you. Mr. Twomey.

MR. TWOMEY: Yes, sir. Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. TWOMEY:

Q Good morning, Ms. Dubin.

A Good morning, Mr. Twomey.

Q Help me understand the, the scope of what FP&L is requesting the Commission to grant in its totality in the fuel and purchased power part of this hearing.

If I understand your initial August 9th, 2005, testimony, at that point FP&L was projecting an underrecovery for the year 2005 of approximately $579.1 million; is that correct?

A That's correct.

Q And then subsequently a month later on September 9th, 2005, you filed additional testimony reflecting that the underrecovery for this year had increased to approximately $769.3 million; is that correct?

A That's correct.

Q Now as reflected in the, the prehearing order, the underrecovery projected for all of 2005 is now up to $972.7 million; am I correct?

A Correct, with one exception. It does include a piece for 2004, the $7.7 million. So the 2005 is 965; in total it's 972.

Q Right. Thank you. And, furthermore, I understand that, that you only want to, because of the size of the underrecovery, only want to collect half or about $486.3 million in next year's clause.

A That is correct.

Q Okay. The prehearing order also reflects, does it not, that the totality of what you're asking is about $5.844 billion, which, as I understand it, doesn't include half of the 2005 underrecovery; is that correct?

A That's the projected cost for 2006.

Q Okay. If you know, Ms. Dubin, how much more does FP&L's request for the Year 2006, not counting the half of 2005 underrecovery, exceed what the company requested about this time a year ago in its projections for 2005? Isn't it somewhere in the range of $2 billion, $2.2 billion?

A The $2.2 billion includes the half of the true-up.

Q Beg your pardon?

A The $2.2 billion includes part of the true-up.

Q All the true-up or half the true-up?

A Half the true-up.

Q Half the true-up. So if we included the other half of the true-up, it would be approaching $2.6, $2.7 billion.

A That is correct.

Q Thank you. Now while Florida Power & Light may have explanations for why the projected 2005 total expenses exceed, to the extent they do, the projections you offered in the hearings, the 2004 about a year ago, isn't it true, wouldn't you agree, that the projections, in fact, turned out substantially off?

A There is a -- certainly the variance is very large, yes. And we've had some extraordinary situations between the extraordinary movements in fuel prices, as Mr. Yupp testified to yesterday, as well as the impacts of Hurricanes Katrina and Rita.

Q Okay. Now we know that, from your initial testimony, with respect to the sleeving project you initially testified on behalf of the company that you wanted to recover from your customers $30 million; correct?

A That's correct.

Q And, and subsequently that amount has been reduced to $25 million. And were you here yesterday and did you hear

Mr. Gwinn's testimony?

A Yes.

Q Okay. And we've been given an explanation from Mr. Gwinn as to why the amount was reduced by 25 -- by $5 million; right?

A Yes.

Q And is his understanding correct, as far as you know?

A Yes.

Q Okay. Now wouldn't you agree with me, Ms. Dubin, that Florida Power & Light Company's case for recovering $25 million in connection with the sleeving project from my client's members, they're your customers, and all of your customers is based entirely upon projections inasmuch as nothing that you testified to in terms of the dollars and the numbers and so forth has yet occurred?

A The -- I'm sorry. The $25 million?

Q Yes, ma'am.

A Yes. It's, it's a projection. And in the fuel adjustment clause customers pay no more or no less than what the actual costs are because they are trued up.

Q Right. But, again, just to be clear, the, the request for $25 million is based upon a projection that you will have, in fact, some tubes to sleeve and that they will be the worst-case scenario presented to you; correct?

A They are, they are based on our projections of what tubes need to be sleeved, yes.

Q Right. But, again, you don't, you don't know -- the company doesn't know that it will, in fact, for a fact have any tubes to sleeve; correct?

MR. BUTLER: I'm going to object to this questioning. I think that it's covering ground that Mr. Twomey covered with Mr. Gwinn yesterday. Clearly Mr. Gwinn is more appropriately suited to these sorts of questions about the details of the projection of the costs for the sleeving project, and I think it's beyond the scope of Ms. Dubin's testimony.

CHAIRMAN BAEZ: I'm going to allow Mr. Twomey to ask one more question on the string and move on.

MR. TWOMEY: Thank you, Mr. Chairman.

BY MR. TWOMEY:

Q The -- you testified -- you testify, do you not, that one of the advantages to your customers of the sleeving project being accomplished are the cost-effective advantages in terms of the fuel savings; right?

A Yes.

Q That is -- I'm sorry.

A By doing the sleeving, it allows the unit to continue to operate at 100 percent, savings of about $1.2 million per day. And as you had noted here, fuel prices are so high, it's particularly important to keep those nuclear units up and running at 100 percent, especially in this time of high fuel prices.

Q Yes, ma'am. That's in your testimony, right, the 1.2?

A Yes, it is.

Q Now that we've established that, doesn't that number depend and turn upon projections?

A The 1.2?

Q Yes, ma'am.

A Yes, Mr. Twomey. And as Mr. Yupp testified yesterday, we used the August 29th forward curve for our projections, and right now the forward curve is higher than that. So that $1.2 million, if anything is too low, the savings would be greater.

Q I see. But there's variability, is there not?

A Sure. There's variability in fuel prices. Absolutely.

Q And whether or not there is any cost-effectiveness to it depends in part upon whether the sleeving has to be accomplished; correct?

A With the sleeving we will be able to get more output of the nuclear units than we otherwise would, and there's a very big price difference between the price of nuclear fuel compared to, to fossil fuel and it results in that $1.2 million a day in savings to customers.

Q Yes, ma'am. Now help me understand your answer to a question by Mr. Beck. He asked you about the terminology "repair" versus "modifications." And my understanding from your answers, and correct me if I'm wrong, is that, that by your definition a repair to the, to a damaged tube would result in it no longer working; correct?

A I'm sorry?

Q If I understand your definition of a repair correctly, a plugging of a tube, which you call a repair, would result in it no longer functioning at all, the tube itself; correct?

A I'm trying to distinguish between something as a routine O&M repair like plugging, like my example of cleaning a boiler, and something extraordinary, something not routine like the sleeving. They're a different type of, of expense.

Q Yes, ma'am. That wasn't my question. And, in fact, isn't cleaning -- would you agree with me that cleaning a boiler is, in fact, maintenance and not a repair?

A Yes.

Q Okay. Now the -- back to my question, is that if you -- do you agree with me that plugging a tube at both ends stops the passage of water through that tube?

A Yes.

Q Okay. But you, you want to define that plugging as a repair, correct?

A Yes.

Q Okay. And we contrast that by saying that sleeving the tube, which allows the passage of water perhaps at a smaller volume, is, in your definition, a modification; correct?

A Yes.

Q Okay. Now do you -- who's the more qualified, if you're not the same, Mr. Hartzog for quantifying or categorizing repairs and modifications to different tasks, is he more qualified to that purpose?

A I'm sorry. Do you mean Mr. Gwinn?

Q Well, Mr. Hartzog or Mr. Gwinn, either one. The -- are they more qualified for categorizing different tasks in an outage as a repair or modification than you or are you equal or are you more qualified?

A I can tell you about the plugging and the sleeving as far as what is considered an O&M cost. I'm not sure what your question is, Mr. Twomey.

Q Well, as I read their qualifications, both of them, they are, their job titles refer to nuclear finance and terms such as that. They work seemingly exclusively in the nuclear realm of your company; correct?

A That's correct.

Q And I'm asking you, do you feel that they are more qualified to categorize tasks associated with accomplishing a nuclear outage than you?

A Yes. Yes.

Q Okay. Do you have a copy of, of Mr. Hartzog's testimony that's been adopted by Mr. Gwinn?

A I do.

Q Would you turn to Page 20, please.

A Yes.

Q Okay. Let me read a few phrases, a few sentences. At Page 20, Line 1, he testifies, "Option one, implementation of plugging and sleeving repairs during the spring 2006 refueling outage and replacement of the steam generators in the fall of 2007, as previously planned." Do you see that?

A Yes.

Q Down on Line 6, "Option three, implementation of an early refueling outage in the fall of 2005 to expedite the steam generators inspection and minimize the need for significant repairs." Do you see that?

A Yes.

Q Starting at Line 16 on Page 20, pardon me, "Sleeving is not used as the normal repair method because it is more costly and takes longer to implement." Do you see that?

A Yes.

Q Ms. Dubin, Mr. Gwinn told us yesterday that Mr. Hartzog is no longer with the company; is that correct?

A That is correct.

Q Did he leave of his own volition or do you know?

A I don't know, Mr. Twomey.

Q Do you know where he works now?

A I do not.

Q Okay. Now as I understand your testimony with respect to the steam generator sleeving project, you feel it's within the realm of your expertise apparently to read Commission orders, fuel adjustment orders and determine whether a given task, sleeving or plugging, fits within a certain niche authorized by a given authority; is that correct?

A I do, Mr. Twomey. I have 23 years of experience in fuel adjustment clause and various jobs in the Rates, Fuels and Regulatory Affairs Department. As well as this Order 14546, the workshop that's memorialized here, I participated as FPL's representative in that workshop.

Q Yes, ma'am. I'm sorry. I wasn't suggesting that you don't have those qualifications. I was just asking if you consider that you do.

A Yes, I do.

Q Okay. And you have that qualification, that qualification by dint of your experience and despite not being, having a law degree or degrees in engineering and the like; is that correct?

A I have an MBA, sir. I do not have a degree in engineering or law.

Q Right. That's what I'm saying.

A Yes.

Q Any engineering degree.

A No.

Q Okay. Now you recognize that Florida Power & Light entered into a stipulation in its base rates case subsequent to discovering the sleeving project potential, do you not?

A Yes. The, the MFRs in that case were filed on March 22nd, and FPL's decision to, to do sleeving after all the evaluations and so forth were going on, it didn't have the decision to do the sleeving until two months after the, after the MFR filing.

Q Yes, ma'am. But isn't it true that the actual stipulation agreement which was approved by this Commission was entered into subsequent to the determination of the company that it would at that time ask for $30 million, and they memorialized that amount and filed testimony with the Commission; isn't that correct?

A After the, after the stipulation and settlement agreement. I'm sorry. The stipulation and settlement agreement was in August and the filing of testimony was in September.

Q I'm sorry. You knew about -- but you knew about the amount. You had your projections prior to the stipulation, did you not?

A Roughly about the same time, I believe.

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

CHAIRMAN BAEZ: Ms. Vining.

CROSS EXAMINATION

BY MS. VINING:

Q Good morning, Ms. Dubin.

A Good morning.

Q The filing that you made in September, on September 9th of this year, that did not include any update to actual data since the August filing; is that correct?

A I'm sorry. Ms. Vining, could you repeat that, please?

Q Sure. The filing that you made on September 9th, that didn't include any update to actual data over what was filed in August of this year, did it?

A No, it did not.

Q But you did reestimate the fuel forecast essentially for the rest of the year.

A Yes, we did.

Q Now that reestimation of fuel cost was based upon Hurricane Katrina but not Hurricanes Rita and Wilma; is that correct?

A I believe the October 14th filing included both impacts of Hurricane Katrina and what was, and what was known of Rita.

Q Oh, I thought in the October filing you didn't reestimate fuel costs.

A I'm sorry. It was only in the actuals.

Q Okay. So the September filing had an update to the actuals for August; correct?

A Yes.

Q Okay. And in that September filing you had an additional $159 million in fuel costs over the August filing?

A Yes.

Q Now you just said that the filing in September and October that you made did not include the impact of Hurricanes Rita and Wilma, just to affirm what you had said earlier.

A The October 14th filing included actuals for August and September, so it did include Katrina but not Wilma.

Q Did you say Katrina?

A Yes.

Q What about Rita?

A And Rita, yes.

Q And Rita. Okay.

A Unfortunately there's too many hurricanes to keep track of.

Q Right. Well, considering that the costs for Hurricane Wilma aren't considered in the fuel forecast for the end of the year, do you think that the forecast you filed in September still represents the best forecast for that period?

A It does not capture those costs, no. Those, those costs are still being calculated now.

Q So any under- or overrecovery that might result in the period October through December of this year would be reflected in FPL's 2007 fuel factors.

A Yes.

Q I just have a couple of questions to follow up on what Mr. Twomey and Mr. Beck asked you, and also Mr. Perry, about Order 14546.

A Yes.

Q Which I believe you have as Exhibit 80.

A Yes.

Q Now when you're evaluating whether a particular nontraditional cost can be recovered for the fuel clause, let me know if you distinguish a difference between the following two scenarios: One, a utility implements a project which will result in fuel costs that are lower than current fuel costs or, number two, if a utility does not implement a project, then the utility would incur higher fuel costs.

A Do we do a project that would --

Q In other words, you talked about the sleeving project would fall under Paragraph 10 on Page 5 of this order.

A Yes.

Q Now I'm just wondering how you determine that there are fuel savings. In other words, I'm giving you two sort of options on how you look at it.

A To answer your question, when we look at a project to see if it fits in this Item 10 of this order, something that wasn't recognized or anticipated when base rates were set and that results in fuel savings to customers, we basically take a POWRSYM run, the same costing model that we use for fuel adjustment, and we do two runs, with and without. So, for example, the savings calculation it shows is two POWRSYM runs, one with St. Lucie 2 operating and one without, and the same calculations looking at it to run if it's running at 100 percent and if it's running at 89 percent. In each one of those cases we take the POWRSYM runs and we compare full power to either 89 percent or offline altogether and the differences that results in the fuel savings to customers. Again, it is based on the fuel prices that we input at the time.

Q Which of the two scenarios that I outlined for you best fits FPL's proposed sleeving project, would you say?

A The first one results in fuel savings.

Q Well, no, no. Both of the scenarios would result in fuel savings, it's just how would you look at it. The first one was the utility implements a project which will result in fuel costs that are lower than current fuel costs. So you're -- I thought you had said before that this will just allow the unit to operate at 100 percent as it is now. So presumably your fuel costs then would be the same. Even if you do sleeving, your fuel costs would be exactly what they are today.

MR. BUTLER: I'm sorry. Ms. Vining, can you define what you mean by today, you know, the starting point of your comparison? Are you talking about, for example, for the sleeving project, would today be, you know, at the point in 2006 when you're ready to restart the unit, is that today, or what do you mean by today?

BY MS. VINING:

Q Well, Ms. Dubin, is the unit operating at 100 percent in general right now?

A The unit is. But the projection that we looked at is the period of time when it's supposed to come back online in 2006. So the comparison there is if it doesn't come back online, if it can't restart because of the amount of degradation that they see or that it comes back at 89 percent. So it's that savings for that period of time that -- from the time it's down for refueling in the spring of 2006 to the, the outage in 2007 when the steam generators get replaced.

Q Here's what I'm getting at. If, if the unit right now is operating at 100 percent, even if you do risk sleeving and you get it to operate at 100 percent again, the fuel costs would be the same for the ratepayers.

A We would be able to continue to provide the low cost power. But that power has, has that, that value to it. From the period -- from that 18-month period from if the unit wasn't going to operate, it would be an additional $486 million to customers, excuse me, $586 million to customers for, for the difference between nuclear generation versus fossil.

Q Right. So that would be if, if FPL did not do resleeving and was forced to derate the unit.

A That would be if the unit was not able to operate at all.

Q Okay. So that's -- and that's what I'm saying. That's my second scenario, which is if the utility does not implement a project, then the utility would incur higher fuel costs. That's why I was sort of confused when you said that the first one was more what the sleeving project was; whereas, in my mind it's the second one, which is if you guys don't do the sleeving project, then you're looking at incurring higher purchased power costs. Would you agree with that?

A If we don't, if we don't do the sleeving project, the customers are going to end up with a higher fuel charge based on the fossil fuel that is needed to replace the nuclear generation.

Q But there's not going to be any fuel savings over what they're spending right now to run the unit.

A You're saying if it's 100 percent today and 100 percent then, is there fuel savings?

Q Right.

A They continue to get that benefit.

Q Okay. All right. Let me switch gears a little bit now and talk about FPL's proposal to spread out the recovery over two years.

A Yes.

Q Now if you can look at FPL's response to staff's interrogatory number 47, which is in our composite exhibit at Page 9.

A Yes.

Q Now this interrogatory shows what the bill would be if the underrecovery is spread over one year; is that correct?

A That is correct.

Q And what would the, the proposed 1,000 kilowatt-hour bill be if it's recovered in one year?

A If it's recovered in one year, the residential 1,000 kWh bill would be, excuse me, $111.08.

Q Okay. And with FPL's proposal to spread it over two years what would the average 1,000 kilowatt-hour bill be?

A It would be $106.36.

Q And, again, what we talked about earlier, the $106 that you just said does not include the costs of Hurricane Wilma in that.

A It does not.

Q And at this point in time do you have an opinion on what the bottom line impact will be of Hurricane Wilma on the, on the 1,000 kilowatt-hour bill?

MR. BUTLER: I'm sorry. Are you talking about for 2006? Because I don't think there will be one for 2006.

BY MS. VINING:

Q I'm saying generically do you have a dollar idea of what you think that impact might be?

A I don't. It would contribute though to the underrecovery.

Q Which, which we'd be looking at recovering in 2007.

A Yes.

Q As well as the deferred underrecovery that you are requesting this year.

A Right. It would be the $486 million plus whatever underrecovery occurred due to Wilma would be included in the 2007 fuel factor.

CHAIRMAN BAEZ: Can I ask a question real quick?

MS. VINING: Sure.

CHAIRMAN BAEZ: Ms. Dubin, you, are you implying or are we to understand that whatever underrecovery is represented by your filing in 2007 is entirely due to the hurricane or could there possibly -- I mean, is there a possible underrecovery, as there always is a possibility for things other than -- underrecoveries that weren't caused by the storm?

THE WITNESS: There could be, Commissioner. Right now the, the figures that we've been talking about include actual data through September. So October, November and

December are estimates, so any variance from those months would be carried forward.

CHAIRMAN BAEZ: And it just so happens that the timing of it --

THE WITNESS: Timing of it as well.

CHAIRMAN BAEZ: You do have a significant event that kind of contributed, but.

THE WITNESS: That's true. Yes.

CHAIRMAN BAEZ: All right.

BY MS. VINING:

Q Okay. And I just want to be clear. We're -- this impact of Wilma could potentially be felt in an underrecovery in the fuel clause and potentially through some sort of mechanism through base rate recovery with an adjustment perhaps to storm reserve amounts as well; is that possible?

A That's possible, Ms. Vining. I'm not, I'm not -- I don't have any knowledge of that though.

Q Okay. So you would say that it's probable that the recovery of Hurricane Wilma costs would be during a period that would be in 2007?

A Yes.

Q You were present for Mr. Yupp's testimony yesterday; right?

A Yes, I was.

Q Now do you believe that FPL is more likely than not to incur an underrecovery of its 2006 fuel costs given the factors the utility has proposed and given changes in the fuel market since FPL has filed its projection testimony?

A Well, I believe, as Mr. Yupp said, as we sit here today that there is, prices are higher than what we have in our forecast and continue to be, you know, volatile and, and prices remain high.

Q And do you think that FPL will be able to achieve the level of fuel hedging gains in 2007 and it's included as a credit to the 2006 fuel factors?

A I'm sorry. Could you --

Q I'm just wondering if you think that the hedging program will still be able to, to have the gains that you had proposed in 2007. In other words, do you think hedging will still be as effective, given the changes in the market that have occurred since your filing?

MR. BUTLER: I'd like to interpose a mild objection to the question. This really was for Mr. Yupp. If Ms. Dubin can answer it, I don't have any objection to that, but that's really his area.

MS. VINING: Understood. And this is something that just came up after his testimony, so I thought, well, as far as Ms. Dubin could answer, that would be great.

MR. BUTLER: That's fine.

THE WITNESS: Generally speaking, and Mr. Yupp is, Mr. Butler is correct, Mr. Yupp is the expert on this, but generally speaking our hedging program continues to help to mitigate the, the impacts of the higher fuel prices and helps to reduce volatility.

BY MS. VINING:

Q Now do you know when FPL proposes to increase its base rates to recognize the 2005 rate case settlement terms and conditions? And with this I'm mostly talking about the generation base rate adjustment for Turkey Point.

A Ms. Vining, I'm just not recalling that start date. I'm sorry.

Q Perhaps June of 2007, does that sound --

A That does sound correct.

Q That does sound right? So you're looking at recovering that in 2007. So that would be set in the 2006 factors as well.

A Yes.

Q So that would be added to the $486 million that you're proposing be recovered in 2007.

A Yes.

Q Okay. Do you have any idea what the likely magnitude would be at this point on a 1,000 kilowatt-hour bill, residential bill related to Turkey Point; in other words, the generation base rate adjustment?

A I do not know.

Q Okay. Now do you know when FPL proposes to increase its base rates to adjust its storm cost reserve amount?

A I'm not sure of that time frame. I'm sorry.

Q Okay. Because I thought in the order they were required to come in in six months and tell us what the appropriate recrual would be. Does that sound right?

A That does sound correct.

Q Okay. Now do you know of any other rate adjustments in 2006 compared to, or 2007 compared to 2006 that we haven't discussed so far?

A Just the other adjustment clauses.

Q Okay. Now you're, FPL's proposing to spread out the $972 million underrecovery to mitigate the impact on customer bills. I'm assuming that's the main reason for doing it.

A Yes, that is.

Q Okay. And do you think in light of all the things we've discussed, the generation base rate adjustment with regard to Turkey Point and the effects of Hurricane Wilma, that that is still going to be the case?

A That it'll help to mitigate?

Q Yes.

A That's -- we are, are hoping to try to spread this out, and that was one way to do it.

Q And, of course, any underrecovery that is deferred, the ratepayers will pay interest on that underrecovery.

A Yes, at the commercial paper rate.

Q And what's the commercial paper rate running at about now?

A It's running between 3.5 and 4 percent.

Q Okay. So if you're talking about deferring $486 million, what would the impact be on the ratepayers then at 4 percent, let's say? Okay. Let me, subject to check, would you agree it's about $19 million?

A Yes.

Q Okay. Let me switch gears again, and I have a few questions for you on Issue 4, notwithstanding the proposed stipulation that we have right now.

What is the administrative cost of revising FPL's fuel factors?

A The administrative costs?

Q Uh-huh. To the company to do that.

A I don't, I don't know offhand what they would be, but we have people that work in our clause areas that do, you know, regular A schedule filings and things like that, so this would be incremental to that.

Q Okay. So it wouldn't -- a million dollars is outside the realm of reasonableness on that?

A Yes. That's more -- we do have to take into account any of the billing that would have to be changed, but it's nowhere close to that.

Q Oh, okay. Half of that? I mean, do you -- can you give me any kind of idea? I mean, it's not going to be $1,000 obviously.

A No, it's not going to be $1,000, but it's --

Q More than $100,000?

A No, I do not believe so.

Q Okay. And I want to be clear on, on also what's being proposed as a stipulation on this. If, even if FPL has an underrecovery or has, has, let's say, there's only like a $1,000 difference between what you propose and what you end up having to pay in fuel costs. Is that saying then that you're going to file something to revise those factors even if there's only a $1,000 difference?

A No, I don't believe so.

Q Do you have any idea what that threshold would be?

A It would have to be something significant. I'm just not sure what that threshold is.

Q Okay. But as far as you know, the parties haven't worked out what that threshold would be?

A I don't believe so.

Q Okay. And generally speaking, the midcourse correction procedure says it has to be either a 10 percent under- or overrecovery before you would come in?

A Yes.

Q Okay. Okay. I just have a few questions about the

Federal Executive Agency's Issue 31B. Now is it your understanding that the discount that's afforded to the CILC customers below the level of their otherwise applicable firm rates is recovered from all ratepayers through the energy conservation cost recovery clause?

A It's, Ms. Vining, I believe it's the conservation clause in Progress. For FPL it's in their base rates.

Q Okay. And is this discount based on the avoided cost of generation?

A Yes. It's the cost of avoiding building a generating unit.

Q Now if the Commission adopts FEA's position and the CILC rate class is exempt from the allocation of these costs, will that decrease the discount offered to CILC customers?

A I believe they're asking for an additional discount in the capacity clause. And in order to provide them with an additional discount, it ends up where the other general body of customers, including the residential customers, would pay for that, millions of dollars and with no additional benefit.

Q So, in other words, they would be getting a discount in base rates and a discount through the clause?

A Yes.

MS. VINING: Okay. That is all I have. Thank you.

THE WITNESS: Thank you.

CHAIRMAN BAEZ: Commissioners, questions?

Mr. Butler.

MR. BUTLER: I do have a few on redirect.

REDIRECT EXAMINATION

BY MR. BUTLER:

Q Ms. Dubin, let me start with something, going back to the sleeving project, I just want to clarify something for the record. If it turns out that when FPL inspects the steam generators in the spring 2006 refueling outage either a less extensive sleeving project is required than what is contemplated by the $25 million projection or best case, you know, there aren't enough tubes that require plugging that they even have to implement the sleeving project, will FPL's customers receive the benefit in the form of a refund of any amount that might be collected on a projected basis for the project above and beyond what it actually cost?

A Yes. The projection would be trued up in the, in the company's filing and credited back to customers.

Q And that's the -- is that the same mechanism that's used for first projecting and then truing up all the rest of FPL's fuel costs?

A It's the normal procedure for fuel adjustment. Customers pay no more or no less than the actual expenditures.

Q Okay. You were asked questions about whether plugging a tube repairs the tube. Would you agree that plugging tubes in the steam generator is a way of repairing the steam generator so that it can continue to be in service?

A Yes.

Q Okay. You were asked some questions by staff about sort of the point of reference or comparison point for where one would see savings if the sleeving project is implemented. Let me ask you if FPL arrives at the end of the Spring 2006 refueling outage in a situation where more than 30 percent of the tubes in the steam generators need to be addressed one way or the other, either plugging or sleeving the tubes, would you agree that FPL at that point, and I'll also add in this, assuming FPL gets the license amendment request it has sought to be allowed to plug up to 42 percent the steam generator tubes, really has three options: It could not do anything and simply not operate the unit, it could plug more than 30 percent of the tubes and operate at 89 percent of the current rated power output, or it could sleeve so it doesn't exceed the 30 percent limit and continue to operate at 100 percent output for that next refueling cycle? Would you agree that those are the three options that would be available?

A Yes, those are the three options. And if the unit didn't operate at all, the -- I mean, if you compare the unit operating at 100 percent versus not operating at all, it's about $586 million in savings. If you compare the unit operating at 100 percent compared to the 89 percent, the savings are $58.9 million. And when you take the $25 million from it it's still $34 million in savings to customers.

Q And at that point if that's what eventuated, would you agree that FPL simply wouldn't have the option available to it of not sleeving and operating at 100 percent output?

A Yes.

Q Let me ask you to look at Order 14546 that had been identified as Exhibit 80.

A Yes.

Q Turn, if you would first, please, to Page 3 of the order.

A Yes.

Q Mr. Beck had asked you some questions about this paragraph that's under the heading "O&M Expenses at Plants, Storage Facilities and Terminals."

A Yes.

Q And this talks about O&M costs or O&M expenses at plants, among others, and it starts out by saying, "These costs are relatively fixed and do not tend to fluctuate significantly even with changes in the number and sizes of deliveries." Correct?

A Yes.

Q Okay. Is the sleeving project cost a relatively fixed expense to FPL?

A Well, it would vary with the amount of sleeves, of course, that have to be included, so it does vary.

Q Is the sleeping project a cost that FPL anticipated at the time that it projected its 2006 MFR costs?

A No. They were not included in our MFR filing.

Q Do you know whether it's something that FPL budgets as part of its normal sort of routine cycle of refueling outage expenses?

A No, it's not budgeted as a routine expense.

Q Okay. Would you turn, please, in the same order over to Page 5. And Mr. Beck asked you questions about a paragraph or clause that's numbered one here on this page about operation and maintenance expenses at generating plants.

A Yes.

Q Would you please read the introduction to that series of four enumerated items where it says, "The following types"?

A "The following types of fossil fuel-related costs are more appropriately considered in the computation of base rates."

Q I sort of just covered this, but I want to confirm, were the sleeving costs considered in the computation of FPL's base rates?

A No, they were not.

Q Okay. And if you will look above that portion of the order, still on Page 5, to Item Number 10, would you please read Item Number 10?

A "Fossil fuel-related costs normally recovered through base rates but which were not recognized or anticipated in the cost levels used to determine current base rates and which, if expended, will result in fuel savings to customers. Recovery of such costs should be made on a case-by-case basis after Commission approval."

Q Okay. Now let me ask you about sort of the elements of that, that item, which is one of the items that is a potentially allowable type of fuel cost recovery.

Were the sleeving costs anticipated in the cost levels used to determine FPL's current base rates?

A No, they were not.

Q Okay. Will they result in fuel savings to FPL's customers?

A Yes.

Q And I think you mentioned this earlier but just please clarify, what are the amounts of those fuels savings?

A We've calculated various different ways. If you looked at the replacement power cost for the total amount of period of time from the spring refueling in 2006 to the fall 2007 when the steam generator is being installed, the fuel savings associated with 100 percent power is $586 million. We've, and we've also calculated the difference between 100 percent power and 89 percent power, and that calculation results in a $58.9 million savings. And when you take the $25 million from it, the cost of the unit, it results in

$34 million in savings.

Q Okay. Thank you. You were asked or you testified to sort of the appropriate accounting treatment for the sleeving project. I believe you said that it is being treated as an O&M expense by FPL, but would be treated as a capital expense but for the fact that the steam generators in which it's being implemented have a short remaining life to them and don't qualify as a capital project; correct?

A That's correct. I've spoken with our accounting department to go through how that was categorized. And it would, but for the period of time, it would be considered a capital project because it's considered a significant betterment of the asset.

Q Okay. Now even if the steam generators were going to remain in service for a long enough period of time that you didn't have this problem of not meeting the longevity threshold, would tube plugging ever be a capital project according to the accounting conventions that the company uses?

A No, it would not.

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

THE WITNESS: Thank you.

CHAIRMAN BAEZ: Exhibits?

MR. BUTLER: I would move admission of Exhibits 11 through 17.

CHAIRMAN BAEZ: Without objection, show Exhibits 11 through 17 admitted.

(Exhibits 11, 12, 13, 14, 15, 16 and 17 admitted into the record.)

CHAIRMAN BAEZ: And, Mr. Beck, I have one for you, 80.

MR. BECK: Yes. We would move that, Mr. Chairman.

CHAIRMAN BAEZ: Without objection, we'll show Exhibit 80 admitted as well.

(Exhibit 80 admitted into the record.)

CHAIRMAN BAEZ: Ms. Dubin, thank you. You can step down. I guess you still have rebuttal anyway.

THE WITNESS: Yes. Thank you.

COMMISSIONER ARRIAGA: Mr. Chairman, are we allowed to ask questions now or later? Are we finished?

CHAIRMAN BAEZ: I think we're finished.

COMMISSIONER ARRIAGA: I'm sorry. I didn't know the process.

CHAIRMAN BAEZ: I apologize. If you have a question, you can -- I see the witness was slow in stepping down. You can go ahead and ask your question.

COMMISSIONER ARRIAGA: As long as I don't violate the process.

MR. BUTLER: Yesterday she was very fast.

CHAIRMAN BAEZ: Yesterday she was fast. Now today, you know. Ask your question, Commissioner.

COMMISSIONER ARRIAGA: I'm having a little trouble trying to understand the purpose behind FPL's proposal to delay the recovery over a two-year period. What are you trying to accomplish? Because put yourself in a position a year from now, what are we going to be telling the customers a year from now when we have to add the half portion that you're asking to delay or to prolong in the period, plus the Wilma effect, plus fuel effects, what do you think the reaction is going to be? What is your purpose?

THE WITNESS: The purpose there is, Commissioner, there's an increase, of course, in the 2006 projections compared to 2005, there is that large increase plus this large true-up amount, and it was just a way to try to see if there was some way to, to mitigate that impact or reduce the rate shock, if you will, of the comparison of the 2005 fuel factors to 2006. Just a way to try to spread it out a little so that the impact wouldn't be as great.

COMMISSIONER ARRIAGA: It wouldn't be as great now, but, again, what would happen in 2007?

THE WITNESS: There is, there is that possibility, yes.

COMMISSIONER ARRIAGA: Okay. Regarding the sleeving project, do you know of any, any instance in which the NRC has authorized any kind of plugging beyond the 30 percent limit?

THE WITNESS: Commissioner, I don't know. Perhaps -- and Mr. Gwinn's going to take the stand later in rebuttal and perhaps that question is better addressed by him.

COMMISSIONER ARRIAGA: Okay. Thanks.

CHAIRMAN BAEZ: Mr. Butler, was that going to be your guidance?

MR. BUTLER: Yes.

CHAIRMAN BAEZ: Thank you.

COMMISSIONER ARRIAGA: Thanks.

CHAIRMAN BAEZ: Okay. Thank you, Ms. Dubin.

At this point we've got one -- some brief housekeeping. Mr. Perko?

MR. PERKO: Yes. Mr. Chairman, I believe we've agreed that Progress Energy's witnesses will go next.

MR. HORTON: Yes, sir. It appears that we'll be able to get FPUC on and off this afternoon. That's the, that's the schedule.

CHAIRMAN BAEZ: I appreciate your cooperation amongst you, Mr. Horton. And, Ms. Christensen, I want to get some --

MS. CHRISTENSEN: (Microphone off.)

CHAIRMAN BAEZ: But there are customers here. Okay. So we're still on schedule for the 11:00. Very well.

Mr. Perko, you can call your first witness.

MR. PERKO: We'd call Pamela R. Murphy.

MS. VINING: Javier is listed first in the prehearing order.

CHAIRMAN BAEZ: Mr. Perko, I have Mr. Portuondo listed first.

MR. PERKO: We'd prefer to call Ms. Murphy first just for travel logistics, see if we can get her out earlier.

CHAIRMAN BAEZ: So long as you ask nicely. I don't -- I'm not sure, I'm not sure if there's any real objection to it from the Intervenors. Very well, Mr. Perko.

Good morning, Ms. Murphy.

MR. PERKO: Thank you, Mr. Chairman.

CHAIRMAN BAEZ: Not at all.

Ms. Murphy, you were sworn; right? You were sworn yesterday?

THE WITNESS: Yes, sir.

CHAIRMAN BAEZ: Thank you.

PAMELA R. MURPHY

was called as a witness on behalf of Progress Energy Florida and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. PERKO:

Q Would you please state your name and business address for the record.

A Pamela R. Murphy, Post Office Box 1551, Raleigh, North Carolina 27602.

Q By whom are you employed and in what position?

A Progress Energy Carolinas, Inc., as Director of Gas and Oil Trading.

Q Ms. Murphy, did you submit testimony and exhibits in this docket on March 1st, April 1st and September 9th, 2005?

A Yes.

Q Do you have any corrections to make to your prepared testimony or exhibits?

A No.

Q If I asked you the questions in your testimony today, would your answers be the same?

A Yes, they would.

MR. PERKO: At this time, Mr. Chairman, I'd request that Ms. Murphy's testimony be inserted into the record as read.

CHAIRMAN BAEZ: Without objection, show the prefiled testimony of Witness Pamela Murphy entered into the record as though read.

And, Mr. Perko, I'm showing that Ms. Murphy's exhibits are, have already been numbered as 45 through 50.

MR. PERKO: That's correct.

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

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

DIRECT TESTIMONY OF PAMELA R. MURPHY

March 1, 2005

Q. Please state your name and business address.

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

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

A. I am employed by Progress Energy Carolinas, Inc., as Director, Gas & Oil Trading.

Q. What are your duties and responsibilities in that position?

A. As Director of Gas & Oil Trading, my responsibilities include managing the purchase and delivery of natural gas and fuel oil for Progress Energy Florida ("Progress Energy" or "Company"), as well as Progress Energy Carolinas. I also am responsible for oversight in all negotiations regarding natural gas and fuel oil contracts to meet the requirements of each of these companies.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the additional costs that Progress Energy incurred for natural gas and fuel oil due to storm events during the 2004 hurricane season. I also will describe the Company's efforts to mitigate the effect of natural gas and oil supply interruptions caused by those storms.

Q. Please summarize your testimony.

A. Progress Energy's natural gas and fuel oil supplies were affected to different extents by the storm events of the 2004 hurricane season. Tropical Storm Bonnie and Hurricane Ivan interrupted natural gas production in the Gulf of Mexico, causing Progress Energy's contract ("term") suppliers to invoke *force majeure* provisions in their contracts. Progress Energy used various means to mitigate the resulting impact on its natural gas supplies including replacement gas purchases on the spot market. The Company also made spot purchases to provide additional gas for coal and oil conservation measures. Because the spot purchase prices were higher than term contract prices, the Company experienced higher total gas costs as a result of the storms. The total incremental gas cost attributable to the storms is $6,772,574, as compared to our original projection of $6,740,224. The Company also made spot purchases of fuel oil to mitigate the impact of the 2004 storms on fuel supplies. These purchases resulted in additional incremental costs of $25,888. In addition, for safety reasons, Progress Energy incurred a demurrage charge of \$146,052 to avoid having an oil barge docked at the Bartow Plant during Hurricane Ivan. Thus, the total incremental costs of natural gas and fuel oil that Progress Energy incurred as a result of the storms of the 2004 hurricane season were \$6,944,514.

Q. Are you sponsoring any exhibits with your testimony?

A. Yes. I am sponsoring Exhibit No. ___ (PRM-1), a table showing the calculation of total incremental natural gas costs attributable to the storm events of the 2004 hurricane season, Exhibit No. __ (PRM-2), a table showing natural gas volumes associated with spot purchases necessitated by the 2004 storms, Exhibit No. __ (PRM-3), a table showing the total incremental fuel oil costs attributable to the 2004 storms, and Exhibit No. __ (PRM-4), a report of the Mineral Management Service entitled the "Hurricane Ivan Evacuation and Production Shut-in Statistics"

Q. Which storm events during the 2004 hurricane season affected Progress Energy's term natural gas supplies?

A. During the 2004 hurricane season, two major storms affected term gas supplies for Progress Energy. Tropical Storm Bonnie affected term gas supplies from August 10th to the 13th. Hurricane Ivan also affected term gas supplies from September 13th through October 5th. Hurricane Charley, Frances and Jeanne affected the Florida area. However, Progress Energy did not experience any gas supply interruptions during these storms.

Q. How did Hurricane Ivan and Tropical Storm Bonnie affect natural gas production in the Gulf of Mexico?

A. To different degrees, both storms caused natural gas production in the Gulf of Mexico to be "Shut-in." (Shut-in occurs when natural gas is no longer flowing from the production platforms; in this case because the platforms were evacuated and production was turned off at the well-head.) According to the "Hurricane Ivan Evacuation and Production Shut-in Statistics" provided by the Mineral Management Service, a bureau of the U.S. Department of Interior, the total cumulative shut-in gas production because of Hurricane Ivan was 172.259 Bcf. This equates to approximately 3.871% of the yearly production of gas in the Gulf of Mexico. A copy of the Mineral Management Service's Report is provided as Exhibit No. __ (PRM-4).

Q. What effect did Hurricane Ivan and Tropical Storm Bonnie have on Progress Energy's term gas supplies?

A. Due to the Shut-ins caused by the storms, Progress Energy's term gas suppliers invoked *force majeure* clauses in their contracts. Under *force majeure*, these suppliers were not obligated to perform and Progress Energy was not obligated to pay under the contracts. Total term gas supply interruptions attributable to *force majeure* events caused by Tropical

Storm Bonnie amounted to approximately 131,000 decatherms (Dths). For Hurricane Ivan, total term gas supply interruptions caused by *force majeure* events amounted to approximately 2.35 million Dths. Exhibit No. __ (PRM-2) shows the daily volumes of term natural gas supplies that were not delivered due to the *force majeure* events associated with Tropical Storm Bonnie and Hurricane Ivan.

Q. Are Progress Energy's term gas suppliers obligated to make up the deliveries by providing additional natural gas in the future.

A. No. Under the force majeure clauses in our supply contracts, the suppliers are relieved of any obligation to perform for the period of the force majeure event, and they are not obligated to provide additional gas in the future.

Q. How did Progress Energy mitigate term gas supply interruptions caused by Hurricane Ivan and Tropical Storm Bonnie?

A. During Hurricane Ivan and its aftermath, Progress Energy mitigated gas supply interruptions by: (1) purchasing replacement gas supplies from the spot market; (2) purchasing gas supplies from third party storage accounts; (3) utilizing a parking agreement on the Gulfstream pipeline for 200,000 Dths of natural gas; (4) utilizing fuel oil to the extent necessary for reliability purposes; and (5) working with Gulfstream and Florida Gas Transmission to use a portion of the existing gas in the pipelines to the extent operationally feasible to meet load. For the most part, Progress Energy used the same measures to mitigate gas supply interruptions due to Tropical Storm Bonnie; but the Company did not purchase gas from third party storage accounts in connection with that storm.

Q. How does Progress Energy's parking agreement with Gulfstream help to mitigate gas supply interruptions?

A. Progress Energy previously negotiated and acquired a short-term parking agreement with Gulfstream to hold 200,000 Dths of natural gas for later delivery on demand. Progress Energy acquired this parking agreement to minimize the impact of unanticipated natural gas supply disruptions, such as storm-related gas production curtailments in the Gulf of Mexico, and to further ensure reliability in the event of unexpected increases in natural gas consumption. This agreement, which was in effect from July 1, 2004 through October 31, 2004, gave Progress Energy access to additional natural gas which helped mitigate the gas supply disruptions caused by Tropical Storm Bonnie and Hurricane Ivan.

Q. How does Progress Energy's Operational Balancing Account on Gulfstream help mitigate gas supply interruptions?

A. Progress Energy's Operational Balancing Account on Gulfstream provides for a daily balancing mechanism to account for the difference in actual burns versus actual gas deliveries. When Progress Energy has a positive imbalance in this account, we work with Gulfstream to use this excess gas to supplement gas burns to the extent operationally feasible on Gulfstream's pipeline. Progress Energy utilized this account to help mitigate the natural gas interruptions caused by Tropical Storm Bonnie and Hurricane Ivan.

Q. How did the storms of the 2004 hurricane season affect Progress Energy's fuel oil supplies and how did the Company respond?

A. During August 9th to the 12th, Tropical Storm Bonnie caused slight delays to waterborne fuel oil deliveries from the Gulf Coast to Florida due to high seas in the Gulf of Mexico. Progress Energy adjusted delivery schedules and utilized inventory to manage the delays.

Immediately following Tropical Storm Bonnie, Hurricane Charley caused interruption of fuel oil deliveries to most of Progress Energy's oil-fired plants. Hurricane Charley also caused delays in waterborne fuel oil deliveries to distribution terminals in the Gulf Coast area. Evacuations in Florida also caused an increase in gasoline demand which reduced the amount of truck transportation equipment available to deliver No. 2 fuel oil to Progress Energy's oil-fired plants. As a result, fuel oil inventories were drawn down and the Company made spot purchases of fuel oil to supplement contract supplies after this event.

In early September, Hurricane Frances caused impacts similar to those described above from Hurricane Charley. The Company similarly responded by making spot fuel oil purchases to supplement depleted contract supplies.

Hurricane Ivan moved through the Gulf of Mexico from September 13th to the 16th and again on September 21st to the 24th interrupting Gulf Coast waterborne supply due to high seas in the Gulf of Mexico. No spot barge deliveries to Bartow were made due to Hurricane Ivan. With Hurricane Ivan following closely after Hurricane Frances and limited trucking availability due to gasoline demand, Progress Energy was not fully able to keep up with fuel oil deliveries. As a result, fuel oil was conservatively used for reliability purposes and natural gas was burned in the dual fuel capable units at Bartow, Anclote and Suwannee until inventories could be replenished.

Hurricane Jeanne struck the east coast of Florida from September 25th to the 28th causing impacts similar to those described above for Hurricane Charley. Rail and truck deliveries to the Suwannee Plant were affected during Hurricanes Ivan and Jeanne. Fuel inventories were drawn down and natural gas was burned at Suwannee to conserve fuel oil until inventories could be replenished.

Q. How did the 2004 storms' impact on Progress Energy's coal supplies affect natural gas supply needs?

A. As discussed in Mr. Pitcher's direct testimony, due to coal inventory constraints cause by the cumulative effects of the 2004 storms, Progress

Energy implemented coal conservation measures beginning on September 20, 2004. As part of the coal conservation effort, natural gas-fired generation units were dispatched out of economic order ahead of coal units. This necessitated additional spot gas purchases beyond those needed to replace the term supplies lost as a result of the *force majeure* events.

Q. How much natural gas did Progress Energy purchase on the spot market due to the coal conservation measures necessitated by the 2004 storms?

A. Exhibit No. __ (PRM-2) shows the daily volumes of spot gas purchases associated with oil and coal conservation measures. These purchases, which were above and beyond those necessitated by *force majeure* events, were made from September 14 through October 6, 2004.

Q. How did you determine the incremental natural gas costs attributable to the 2004 Storms?

A. The additional natural gas costs attributable to the 2004 storms include two components: (1) incremental costs of spot gas purchases made to replace cuts in term supplies resulting from *force majeure* events; and (2) incremental costs of additional spot purchases made to provide additional gas for oil and coal conservation measures. As shown on Exhibit No. __ (PRM-2), we added the daily gas volumes associated with these two categories of purchases to determine the total daily volume of spot gas deliveries attributable to the storms. As shown on Exhibit No. __ (PRM-1), we then determined the difference in daily gas costs by subtracting the average term gas costs from average spot gas cost for each day. We derived the total incremental gas costs for each day by multiplying the daily gas cost difference and the daily spot gas deliveries attributable to the storms. The sum of the daily incremental gas costs reflects the total incremental gas cost of $6,772,574 shown on Exhibit No. __ (PRM-1). We used the same methodology to calculate the incremental gas costs in our original 2004 projections, but at that time we did not include spot purchases made as a result of Tropical Storm Bonnie in August, 2004.

Q. What effect did the fuel supply disruptions caused by the storms have on Progress Energy's overall fuel oil costs?

A. As a result of the storms, Progress Energy made replacement purchases of fuel oil on the spot market to help mitigate the disruptions in contract fuel oil supplies. Because the spot purchase prices were higher than contract prices, the Company experienced higher total fuel oil costs as a result of the storms. The resulting increase total fuel oil prices was $25,888. In addition, for safety reasons, we incurred a demurrage charge of $146,052 to avoid having a fuel oil barge docked at Bartow during Hurricane Ivan. Thus, as shown on Exhibit No. __ (PRM-3), the total incremental fuel oil costs associated with the 2004 storms was $171,940.

Q. Does this conclude your testimony?

A. Yes, it does.

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

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

DIRECT TESTIMONY OF PAMELA R. MURPHY

April 1, 2005

Q. Please state your name and business address.

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

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

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

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

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

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to summarize the results of Progress Energy's Risk Management Plan for 2004, and to provide the information required by Order No. PSC-02-1484-FOF-EI, which approved the resolution of the hedging-related issues pending before the Commission in Docket No. 011605-EI.

Q. Have you prepared exhibits to your testimony?

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

Q. Did Progress Energy encounter any force majeure events in 2004?

A. Yes, Progress Energy encountered two force majeure events. Tropical Storm Bonnie and Hurricane Ivan entered the Gulf of Mexico and disrupted a portion of our contracted natural gas supplies.

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

A. As discussed in my testimony of March 1, 2005, Progress Energy took the following measures to mitigate gas supply interruptions during the storm-related force majeure events: 1) purchased replacement supplies, 2) purchased supplies from third party storage accounts, 3) utilized a parking agreement on Gulfstream, 4) utilized No. 2 fuel oil to the extent necessary for reliability purpose, and 5) worked with Gulfstream Natural Gas and Florida Gas Transmission (FGT) to use a portion of the excess gas in their pipelines to meet load.

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

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

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

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

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

A. Progress Energy did not hedge wholesale power and coal prices for 2004. However, the Company did make economic purchases as well as wholesale power sales to third parties that resulted in overall savings to its customers of approximately $27.2 million. With respect to natural gas, Progress Energy met all of its hedging strategy objectives to 1) mitigate price risk and volatility, 2) provide gas price certainty, 3) maintain a diverse portfolio, and 4) provide potential for ratepayer's savings. To that end, the following transactions were entered into by Progress Energy:

1) Progress Energy had several fixed price contracts that resulted in additional savings to customers of approximately $51.06 million. As of December 31, 2004, the fixed priced contracts had a favorable marked-to-market value through 2010 of approximately $131 million.

2) The Company used financial swaps to fix the price on a portion of the residual oil used in 2004, which resulted in a net cost to customers of approximately $.76 million.

To summarize, the Company met its 2004 hedging objectives including the objective of providing a savings to the ratepayers. A total savings to customers of approximately $50.3 million was attained in addition to approximately $27.2 million in economic power purchases and excess power generation sales.

Q. Please describe Progress Energy's process for procuring natural gas, at market prices.

A. Progress Energy buys virtually all of its term natural gas at market index prices. The Company purchases most of its gas supply on either a short-term or long-term basis using a Request for Proposal process to identify suppliers that can meet the Company's needs. The resulting contracts identify market indices to establish daily or monthly gas prices. The Company also builds in price flexibility to be able to change a floating market index price to a fixed price for a certain amount of time to implement its phased hedging strategy to reduce price volatility for its ratepayers. Some supplies are purchased at a fixed price initially to hedge physical natural gas to execute PEF's hedging strategy mentioned above. For the most part, natural gas prices are determined by the market index at the location of the Progress Energy's receipt points to its firm transportation capacity. For example, gas purchased at FGT Zone 3 is priced based on either Platts Inside FERC, Gas Market Report, first of the month posting for

FGT Zone 3 or Platts Gas Daily, daily price survey midpoint for the day of flow for FGT Zone 3.

Q. Please describe Progress Energy's process for procuring residual oil and distillate oil at market prices.

Progress Energy purchases residual and distillate fuel oil primarily through term contracts. Some supplies are purchased in the spot market to supplement contract supply as needed. Fuel oil prices for the term contracts are generally based on the U.S. Gulf Coast or New York Harbor market index quotes for the particular grade of fuel oil. The delivered price includes charges for transport, handling, inspection and taxes. For spot supplies, the prices are based on either a fixed delivered price, market index quotes or supplier rack postings plus transport, handling, inspection and taxes.

Q. Does this conclude your testimony?

A. Yes, it does.

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

Fuel and Capacity Cost Recovery
January through December 2006

DIRECT TESTIMONY OF PAMELA R. MURPHY

Q. Please state your name and business address.

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

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

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

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

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

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present and address PEF's Risk Management Plan for fuel procurement in 2006. In addition, I will address the Company's actions to mitigate price volatility through its hedging strategies.

Q. Has PEF developed its Risk Management Plan for fuel procurement in 2006 in accordance with the Resolution of Issues proposed by Staff and approved by the Commission in Order No. PSC-02-1484-FOF-EI, Docket No. 011605-EI?

A. Yes. PEF's Risk Management Plan was prepared in accordance with the Resolution of Issues approved by the Commission and is attached to my prepared testimony as Exhibit No. ___ (PRM-2). Certain information in the exhibit has been redacted, consistent with the Company's request for confidential classification of this information.

Q. What are the objectives of PEF's hedging plans for 2006?

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

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

Q. Please describe the hedging activities PEF plans for 2006 for its natural gas requirements.

A. PEF will conduct physical and financial natural gas hedging in accordance with the Company's approved natural gas hedging strategy. The Company has hedged approximately 53% of its projected natural gas usage at an average fixed price of $5.45/MMBtu. The Company also started using financial products in June 2005 to hedge forward prices. The approved financial products include swaps, options and futures.

Q. Please describe the hedging activities PEF plans for residual oil in 2006?

A. The Company's No. 6 heavy oil hedging strategy was implemented in June 2004. The Company has been and will continue to use financial over-the-counter swaps to hedge its projected No. 6 heavy oil requirements. The Company has hedged approximately 53% of its projected No. 6 heavy oil usage at an average fixed price of $5.20/MMBtu.

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

A. The Company's current hedging strategy now extends for a current plus 4 year period. This is a change from the previous 2 year rolling seasonal period.

Q. What were the results of PEF's hedging activities during the January through July 2005 period?

A. The Company's hedging activities produced customer savings of approximately $52 million for natural gas and No. 6 heavy oil. For the seventh-month period from January through July 2005, PEF hedged approximately 68% of its natural gas consumption. For the January-July 2005 time period, PEF hedged approximately 66% of it No.6 residual oil consumption.

Q. Does this conclude your testimony?

A. Yes, it does.

BY MR. PERKO:

Q Ms. Murphy, have you prepared a summary of your testimony?

A Yes, I have.

Q Would you please provide that.

A Good morning, Commissioners. The primary purpose of my testimony is to summarize the results of Progress Energy's risk management plan for 2004 and 2005 and to present the company's risk management plan for 2006.

In 2004, Progress Energy met all of its risk management objectives to, one, mitigate fuel price volatility; two, provide gas price certainty to smooth out natural gas prices over time; three, maintain a diverse portfolio of volume and prices over time; and, four, provide potential savings to ratepayers. A total savings to customers of approximately 50 million point three million -- $50.3 million in addition to approximately $27.2 million in economic purchases in excess generation sales.

As discussed in my September 2005 testimony, we have also been successfully implementing the company's risk management plan for 2005. For the first six months of 2005 the company's hedging strategies produced customer savings of approximately $52 million for natural gas and oil. That completes my summary.

MR. PERKO: The witness is tendered for

cross-examination.

CHAIRMAN BAEZ: I don't see Public Counsel stepping up.

Mr. Perry.

CROSS EXAMINATION

BY MR. PERRY:

Q Good morning, Ms. Murphy. My name is Tim Perry. I represent the Florida Industrial Power Users Group.

A Good morning.

Q Good morning. Are you the witness for Progress Energy that is primarily for doing the fuel cost forecasting?

A Yes, I am.

Q Okay. And do you prepare the fuel cost forecast for the fuel and cost recovery clause?

A I prepare it in conjunction with our enterprise risk management folks.

Q Okay. And they do the hedging aspect of it, I suppose?

A No. We actually implement the hedging in my section.

Q Okay. Okay. And what do you base your forecast on for natural gas?

A The gas price forecast starts in the enterprise risk management section, and they start with the NYMEX forward curve. And we adjust that based on the methodology developed by EPRI, the Electric Power Research Institute. And then from there we adjust up for bases and my team and I's commercial view of where prices are going to be for when that month occurs in the future.

Q Okay. And have you made any preliminary forecasts of fuel prices in 2007 at this point in time?

A Yes.

Q And what do you predict that fuel prices for 2007 will do in relation to the fuel prices for 2006?

A Right now we believe that 2007 will be somewhat less than 2006 as of, as of the late-filed exhibit that we gave to Ms. Vining as of October 28th, 2005.

Q Okay. And is -- have you quantified a percentage difference between 2006 and 2007 prices?

A No, we have not.

Q Okay. And since the exhibit that was prepared for staff, have you noticed a trend in the NYMEX curve prices since then for 2007?

A Slightly downward.

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

CHAIRMAN BAEZ: Mr. -- Colonel, you don't have questions? Mr. Wright is not here. Mr. Twomey is not here. Staff?

MS. VINING: Yes, we have questions.

CROSS EXAMINATION

BY MS. VINING:

Q Good morning, Ms. Murphy.

A Good morning.

Q Now would you say that Progress burns natural gas and residual oil to provide for approximately 40 percent of its retail energy sales?

A That's probably more a question to ask Mr. Portuondo, but it seems accurate.

Q But you are responsible for purchasing fuel for Progress Energy Florida?

A For the natural gas and fuel oil, yes.

Q Okay. Now if Progress has a contract for natural gas where the price is linked to a market index, how is the natural gas price typically determined?

A Well, the publications go out and they solicit quite a few customers as to what they bought and sold gas for. And from there they report that in two indexes: One is the first of the month index for the whole month that the gas will be delivered under, and then there's a Gas Daily publication which is for the next-day flow.

Q Okay. In July of 2005 Progress paid an average of $8.81 per MMBtu for natural gas, and this is in the A3 schedule, which is $1.90 over what Progress's estimate was. Why was there a differential in that particular month?

A Well, we experienced Tropical Storm Bonnie, which we incurred force majeure conditions from our suppliers, as well as shortly after that we had Hurricane Dennis. And we also experienced force majeure conditions from our suppliers due to Hurricane Dennis as well. And because of that we were out -- the gas was actually not delivered, so we had to be in the spot market, and the spot market was much higher than what we projected in the E3 schedules a year before.

Q Were there any other impacts of Hurricane Dennis than what you just listed on the natural gas price? You said force majeure.

A Force majeure. They didn't deliver the gas and the spot prices reacted to it in the Gas Daily market as being higher than what we projected.

Q Now in August of 2005 as reported on your A3s there was a $1.50 differential between what you actually purchased the gas at and what you had projected. What happened in that month to cause the differential?

A Well, it was a carryover from Dennis as well as it's an active hurricane season. Hurricane Katrina actually made landfall on August 29th, but we received as early as August 26th force majeure notices shutting off our production because of Hurricane Katrina and the impacts it was going to have in the, in the Gulf of Mexico to natural gas platforms.

Q Now in September of 2005 there appeared to be a $3.50 differential. I'm assuming the impacts of Katrina were still being felt in September. Was there anything else that caused that differential of $3.50?

A Hurricane Rita.

Q And how did Katrina and Rita impact the price that Progress paid for natural gas in September?

A We had practically -- quite a bit of our gas was shut off due to force majeure events from our suppliers. And because of that we were out in the market buying storage gas or whatever we could in order to keep the lights on using natural gas in our turbines. And the prices ran up considerably in the Gas Daily market because everyone else actually was experiencing force majeure conditions as well. So everybody was out in the market trying to buy storage gas, which ran the prices up considerably.

Q Now when you have a natural disaster like Katrina or Rita, what does Progress due to mitigate the impact on its ratepayers?

A Prior to the hurricane season we entered into four call options totaling 100,000 dekatherms a day, ten-day call options, so we ended up paying a premium for those to have gas available should we get force majeured on our term gas. That was one of the things that we did. And then we also bought gas from storage on the spot market. And we tied our call option gas to storage facilities so to ensure better reliability that that gas would be there.

Q How about fuel switching? Was that utilized?

A Well, for Hurricane Katrina, when we saw that she was going to be a Category 5 and she was coming up the Gulf of Mexico, we started, at least with our light oil, started to conserve it early because of the unknown impacts that Hurricane Katrina was going to have on that. And it's a good thing because, once again, Katrina and Rita, those two storms were in the path of 2,900 platforms out of 4,000 sitting in the Gulf of Mexico. And as I think Mr. Yupp reported yesterday, we still have gas and oil shut in in the Gulf of Mexico as a result of those storms.

Q Now did you also dispatch your units differently as a result of the hurricanes?

A We bought quite a bit of purchased power to stay out of Number 2 fuel oil, but I don't recall that we dispatched a whole lot differently. We kept Number 6 up and running because our supplies were very healthy and we burned natural gas. But we started the conservation of Number 2 oil by trying to stay out of burning Number 2 fuel oil to conserve it in case the natural gas had a longer term effect on our term gas not coming back at a reasonable time period.

Q Now presumably a lot of the items that you just discussed would be how you would also react if you had a period of time in the winter where you had a colder than average day or series of days. But were there any of the things that you just discussed that -- or let me put it this way, were there any things that you would do in that circumstance, i.e., a series of days that are colder than normal, that you couldn't do in the wake of Hurricanes Katrina and Rita? In other words, was there an option that wasn't open to you that you would normally have in a colder than normal winter season?

A Well, more than likely we wouldn't have force majeure events where gas production was shut off.

Q Okay. All right. I want to talk to you a little bit about FIPUG's proposal for Progress to defer collection of part of its underrecovery over a two-year period or over an extended one-year period.

FIPUG says in its position on that issue that Progress's fuel cost projections demonstrate that Progress's costs will be ameliorated as the impacts of Katrina phase out. Do you agree with that assessment for the Year 2006?

A Not necessarily, because you could have -- you know, there's still a limited supply, you could have supply constraints due to colder than normal weather, you could have an active hurricane season next year, the uncertainty to crude oil prices could drive natural gas prices up. There's a lot of uncertainty in the market right now as to what 2006 prices are actually going to be, or 2007.

Q So even though the market has somewhat evened out in the last week or so, let's say, you still don't believe that prices are going to decrease significantly next year?

A No, I do not.

Q How about for 2007?

A I think they may stabilize a little bit, but it really -- the uncertainty right now for 2007 is how much demand destruction (phonetic) these high gas prices are having on industrial customers or just conservation in general. That's probably the uncertainty as to whether or not prices are going to go down is how much demand destruction is actually out there.

Q So would you say then that it's your opinion that it's not a good idea for that underrecovery to be delayed?

A No.

Q Because the customers of Progress Energy could potentially be looking at another large underrecovery in the next two years.

A It's possible.

Q If you could look at Bate stamp 84A in staff's composite exhibit. This is what Progress Energy provided as a response to interrogatory 84, I believe. It was also given to us as part of a late-filed deposition exhibit, but I think it was actually, I thought, a response to an interrogatory. You can correct me if I'm wrong.

A It may have been both.

Q It may have been both? Okay.

Do you believe that Progress's natural gas price forecast for the latter months of 2005 and 2006 is conservative, given the most recent market information that you have available to you?

A I believe it's now lower than what I would have projected if I'd have done the filing on October 28th.

Q Okay. And in light of that, does that cause you even further concern about delaying --

A Yes, it does.

Q -- the underrecovery?

A Yes.

Q Okay. Now looking at Page 84A, can you look at the third column of data which is for Year 2007?

A Yes.

Q Now that shows Progress's forecast of natural gas prices for 2007 without transportation costs or hedging impacts; is that correct?

A That's correct. It's our unhedged portion.

Q Okay. And the source of the futures price, that is the Henry Hub; is that correct?

A Column 3 is the same forecast methodology that I explained to Mr. Perry where it starts out with the NYMEX forward curve, it adjusts it based on the methodology developed by EPRI, and then it is also adjusted for bases and our commercial view.

Q Okay. And did you do that forecasting with a date of October 28th, 2005?
A For the 2007?
Q Yes.
A I believe those two days, yes. They were done on the same day for 2006 reprojection and then a 2007 reprojection.
Q Now looking at the amount you have listed for gas for January of 2007, that is $13.51 per MMBtu?
A Uh-huh.
Q Now it appears to us that the October 31st Gas Daily, which would indicate the October 28th price, the settlement price was $11.82. Can you tell me what the discrepancy is between the number that we saw in Gas Daily and what you have listed for January 2007?
A Once again, it's adjusted for the methodology developed by EPRI, which is the time and volume or volatility associated with taking Henry Hub natural gas forward curve and converting it over to a forecast, what we think the price is going to be when January of 2007 arrives. And then we adjust it for the bases to get it to our receipt points, where our firm gas transportation receipt points are, and then adjusted for my team and I's commercial view, what we think we're going to be paying for gas in January of 2007.
Q Okay. So based on what you just said, you think really that Progress will be paying significantly more than

what the NYMEX forward curve has for 2007.

A Yes, we do.

Q Okay. Let's talk about your hedging program for a little bit. If you can turn to Page 2 of your direct testimony which you filed on September 9th.

A Do you know what page it is in here?

Q Well, actually it's on the composite. It would be -- do you have your testimony in front of you?

A No, I do not.

Q Okay. Well, you might be able to answer these then --

A Okay.

Q -- off the top of your head, let's say.

A All righty.

Q Now in your testimony you had said that Progress has hedged approximately 53 percent of its projected 2006 natural gas usage. Is that correct?

A For 2006, that's correct.

Q Okay. At an average fixed price of --

A $5.45.

Q -- $5.45 per MMBtu. I had a little typo in my questions. That's why I wasn't sure.

Now are there substantial gains related to those hedges that are incorporated into Progress's proposed 2006 fuel factors?

A The 2006 fuel factors include the gains to our hedging program if we're in the money. That savings will flow through the fuel adjustment clause to lower prices overall.

Q Now what events in the market have contributed to Progress being able to project these substantial gains in 2006?

A The markets went up compared to the prices that we hedged with early on back in 2003 and 2004. The market has continued to move upward and we bought low, so, therefore, they're in the money significantly based on where prices are at or projected to be.

Q How about for 2007? Do you think in light of what we discussed earlier about you think the market remaining high in 2007, you still, Progress will still be able to see substantial gains in its hedging program?

A If the market stays right where it is right now, we already have hedged 2007 a portion of that, and we are significantly in the money as well.

Q What portion has been hedged already for 2007?

A For natural gas we've hedged -- I want to say around 40 percent so far.

MS. VINING: Okay. With that, I'm done. Thank you.

THE WITNESS: Thank you.

CHAIRMAN BAEZ: Commissioners, questions of Ms. Murphy?

MR. PERKO: Mr. Chairman, I just had a couple of clarifying questions.

CHAIRMAN BAEZ: Oh, well, since we don't have questions, go ahead. Redirect.

MR. PERKO: Oh, I'm sorry. I didn't mean to --

CHAIRMAN BAEZ: No. I was just checking to make sure the Commissioners didn't have questions. It doesn't look like they do. Mr. Perko.

MR. PERKO: I apologize if I was premature.

CHAIRMAN BAEZ: No, that's all right.

REDIRECT EXAMINATION

BY MR. PERKO:

Q Ms. Murphy, in response to Mr. Perry's questions, you answered, compared some 2007 and 2006 forecasts, and I just want to make sure the record is clear. You also referred to what I thought you believed was a late-filed exhibit. Looking at Page 84 of staff's exhibit, is that the late-filed exhibit that you're referring to?

A Yes.

Q Okay. And I'd just like to confirm, the 2007 forecast there for natural gas in Column 3, that was the 2007 forecast that you were referring to in response to Mr. Perry's questions?

A Yes.

Q Okay. And in Column 1, could you explain what that provides?

A Column 1 is the commodity forecast only for what we filed on September 9th. It was done on August 31st, based on the close of NYMEX as of August 31st using the same methodology that we always come up with for the first couple of years for the gas forecast.

I would like to say that prior -- or after two years we do use PIRA as the forecast for our out through 20 years. But for the first couple of years we start with the NYMEX forward curve and adjust it based on EPRI's methodology.

Q Just so I understand, this Column 1 on Page 84 reflects the as-filed 2006 forecast as adjusted for hedging and transportation; is that correct?

A Yes. This actually reflects hedging taken out of the forecast.

Q And if you compare the 2007 forecast to that as-filed forecast, how, how would you compare those two?

A It's slightly higher.

Q Which is slightly higher?

A 2007, I'm sorry, is slightly higher than the 2006 as-filed.

Q As-filed. Thank you. No further questions.

CHAIRMAN BAEZ: Exhibits. And I'm showing, as we had mentioned earlier, Ms. Murphy's exhibits are 45 through 50.

MR. PERKO: That's correct, Mr. Chairman. We'd request that they be admitted into evidence.

CHAIRMAN BAEZ: And at this time if there's no objections, we'll show them admitted. That would be Exhibits 45 through 50.

(Exhibits 45, 46, 47, 48, 49 and 50 admitted into the record.)

CHAIRMAN BAEZ: Commissioners, ladies and gentlemen, I think at this point -- almost, my gosh, right on time. We have noticed a customer hearing on the FPUC proposed surcharge, so we will stand the, the fuel hearing in recess in order to convene the customer hearing. And I guess it says testimony, so the customers are to be sworn. And if -- do we need to read the notice, separate notice on it or --

MS. VINING: No. The way it's listed is we'll take customer comments on it.

CHAIRMAN BAEZ: It's comments, it's not testimony?

MS. CHRISTENSEN: Commissioner, may I clarify one thing?

CHAIRMAN BAEZ: Ms. Christensen.

MS. CHRISTENSEN: This was not noticed as a service hearing. We just set a time certain for taking customer comments or customer testimony so that they wouldn't have to wait for other aspects of the fuel docket. I just wanted to clarify that.

CHAIRMAN BAEZ: Oh, okay. All right. It works fine by me. Ms. Christensen, did you have -- I'm sorry, Ms. Murphy.

You are sitting there patiently. You are excused, ma'am.

THE WITNESS: Thank you.

CHAIRMAN BAEZ: I got to remember to do that; otherwise, people are going to be sitting around all day.

Ms. Christensen, was it your, and I wasn't part of the conversation or the discussion that actually set up this portion of the hearing, was it your contemplation that the customers would be giving testimony or, or comments? And I think with an understanding of one or the other.

MS. CHRISTENSEN: Right. That it would be for the purpose of being allowed to be into the record. It would be, you know, testimony so that the Commissioners could consider it.

CHAIRMAN BAEZ: Very well.

MS. CHRISTENSEN: So that was my anticipation. But we just wanted to set a time certain so that the customers would not have to show up on the first day and then, and wait for the Commission proceeding.

CHAIRMAN BAEZ: That works perfectly. And before we go ahead and do that, I want to ask Mr. Horton, you had introduced -- Ms. Christensen, you had introduced certified copies of customer comments, and I tried to give Mr. Horton a chance to, or at least some time to inspect them. Do you have any objection to admitting them?

MR. HORTON: I have reviewed them, Mr. Chairman. I don't have any objections insofar as they pertain to FPUC, and I think that's all they are.

CHAIRMAN BAEZ: Very well. So since there is no objection, what had been identified as Exhibit 77 will now be admitted. Just get that out of way.

(Exhibit 77 admitted into the record.)

MS. CHRISTENSEN: Let me go -- with your indulgence, I would go ahead and hand those to the Commissioners as well as to the court reporter.

CHAIRMAN BAEZ: Thank you.

MR. BUTLER: Mr. Chairman, may I ask what your intentions are for sort of reconvening the main part of the hearing? Is that going to be at a time certain or just whenever the customer comments get completed?

CHAIRMAN BAEZ: Well, Mr. Butler, I wish I could give you a time certain. My, my, my suspicion is since there are only two customers here to give testimony, then this may be, this may take ten or 15 minutes. And I would like to get -- you know what the situation is with the remaining witnesses, so I'd like to get as much ground under us as possible. That's why I'm not saying -- but I had mentioned earlier we're going to break for lunch at noon. Okay?

MR. BUTLER: That's fine. Thank you.

CHAIRMAN BAEZ: The, the customers, Ms. Christensen.

MS. CHRISTENSEN: Can we bring them both up at the same time and show them how to work the microphone?

CHAIRMAN BAEZ: Oh, absolutely. Sure. If they would just -- sir, ma'am, if you'd just remain standing for a second so I can swear you in real quick and then we can all take our seats.

RAY BARKER and NANCY BARKER

were sworn and testified as follows:

CHAIRMAN BAEZ: And if you would state your names and address for the record, please.

MS. BARKER: I'm Nancy Barker. I'm from Marianna, Florida. Do you need my street address?

CHAIRMAN BAEZ: Yes, ma'am, if you wouldn't mind.

MS. BARKER: 2363 Highway 73, Marianna, Florida 32448.

CHAIRMAN BAEZ: Welcome, Ms. Barker. Sir.

MR. BARKER: I'm Ray Barker and I'm from Marianna, and I live at 2363 Highway 73, Marianna. I've been a customer for, ever since '77 of Florida Public Utilities.

CHAIRMAN BAEZ: Thank you, sir. And if -- I normally say ladies first, so, Ms. Barker, you can go ahead and give us your testimony.

MS. BARKER: Well, I attended the October 6th hearing in Marianna. Very few people showed up because of the time, and a lot of people work, working people. I attended and I strongly -- I didn't speak at the hearing, but I strongly object to this pay-ahead, you know, fuel charge. If you don't pay your bill, you get disconnected even if you're paying this pay-ahead. I'd rather have the money, the few dollars in my money market account making me a little bit of interest instead of in the company's hands.

If you don't pay your bill, you get cut off. That's the basic thing of the total thing. I don't know what their policy is, but one lady did state that she's struggling to pay her bills. And, you know, if she can't make her payments, don't dare cut her off.

Now there was a gentleman there that represented, he was a reverend, he represented 10,000 Baptists in the area, they're poverty line people, and he strongly objected. And everybody in the Marianna hearing, they called it, objected.

Now we were told by Mr. Cutshaw, he's the director there in Marianna, that if the customers disapproved of this, they wouldn't progress it. What I understand, I didn't attend the Fernandina meeting because we live in Marianna, it was reported in our newspaper that everyone there opposed, too, of the customers. I'm just sorry that a lot of people didn't come. Most people felt like, at the hearing that when they made an objection to this plan, that the power company would not progress it further. That's what we were led to believe. And I'm sure when they said "I object" and even wrote in "I object," that's the way it would be. But evidently not.

There's, you know, there's a lot of poor people in the area. There's -- I think they said there was 30,100 customers in the Fernandina and Marianna area. Now that's a chunk of change where you collect ahead. And it was not, at least I didn't understand, I'm not that educated, but I know I pay my bills. I don't care if it's $100 or $300. You have to plan, everything is going to go up. I'd rather pay it when it becomes due. Even with the pay-ahead, people still pay -- if they can't pay their bill, they're going to be cut off. So, you know, I just strongly object to it.

CHAIRMAN BAEZ: Ma'am, and a quick question for you. Now you seem, at least by your last statement you seem to understand that, at least as the company has presented this, their effort was to make, make the rate shock at some future time a little less. Is that your understanding or --

MR. BARKER: No.

CHAIRMAN BAEZ: Okay.

MS. BARKER: No, sir. The only way I see it -- and I, you know, I'm just a regular customer. I'm a captive consumer.

CHAIRMAN BAEZ: Yes.

MS. BARKER: I'm a captive customer. I pay or, you know, I don't have electricity. We don't have a choice here, you know. We can't go to another power company and say, hey, we're going to shop, you know.

CHAIRMAN BAEZ: Right. Right.

MS. BARKER: This -- I didn't understand that that's what they had planned to do. But as I am putting it this way, they are putting the money, if they get this approved, in an interest-bearing account. Now how is that going to benefit the customer? It comes out of my pocketbook, not theirs. I'd rather control my own money instead of a company that's a mega bucks company. Why would they need the little extra -- and every six months the rate is going to go up, by the way, according to the green sheet that was passed out.

MR. BARKER: It's going to double itself.

MS. BARKER: It'll be double it. You know, if you have 1,000 kilowatts, it's two something. And if you used over that, it's doubled that, then it goes on up. Now my only objection is -- I think our money is safe in our own accounts, not in theirs.

CHAIRMAN BAEZ: Fair enough.

MS. BARKER: I don't care what they say.

CHAIRMAN BAEZ: Commissioners, do you have questions of Ms. Barker? No questions?

MS. BARKER: Okay.

CHAIRMAN BAEZ: Mr. Horton -- no. Okay. Ms. Barker, thank you for coming today. We really do appreciate it.

Mr. Barker, you're up.

MR. BARKER: All right, sir. Appreciate it. I tried -- I apologize for being the only people from Marianna.

CHAIRMAN BAEZ: Not at all. I wish there had been more of you.

MR. BARKER: I asked my county commissioner to come and he refused. I asked my representative who represents the people in that area and she lives in Marianna to come, and that's Ms. Colby. But now both of these people has got to run for reelection, and I'm going to be sure that people knows about it.

So, you know, neither one of our representatives, both our county commissioner nor our state representative, wanted to come and represent us.

So I've got to tell you about the people in Marianna. It's a farm area. They are governed by the county, they're governed by the state, they're governed by the federal. They've got so used to seeing something like this they just automatically bend over.

So, you know, what I want to concentrate on is the paper. What I'm going to give you is documented. This is a paper that came out October the 4th when it first came about. This is a quote, direct quote from Mr. Cutshaw. "This is money we collect for our energy provider and pass directly back to the company." Now I assume he's talking about to Florida Public Utility being the company. So, you know, they're going to collect money for themselves for no particular purpose, and that's his quotation from the newspaper.

The other thing from Mr. Cutshaw, Cutshaw said, "FPU will abide by what the majority of the customers say they want to do. This is an opinion, and whatever our customers want and feel most comfortable with is what we will do." Mr. Cutshaw.

All right. Ms. Perkins -- everything was not put in the paper. Ms. Perkins here, it's on the front page of this, she asked, "When will this thing end?" They said they didn't know or they didn't plan on it ending. They say, well, how will we get our money back? They say, well, you're not going to get it back. This money goes in a trust fund for the power company. Now as far as I'm concerned, this is extortion.

Now this green sheet says different, and it was at the meeting and this is a green sheet put out by y'all. It says it will double itself every six months through 2007. These amounts will be returned with interest to FPUC customers during the 2008/2010 period. They didn't say that and they were asked. So which is right, what they said, or is this brochure put out by you people?

CHAIRMAN BAEZ: Does anybody want to take a stab at this? I could, but I'm not sure. Mr. Barker, near as I can tell, okay, there seems to be some confusion on the word "returned," "returned to you." I believe, as has been filed with testimony in the proposal, that -- and that's, that's something that still has to be proven and approved or not approved at this point, and certainly your comments are going to be taken into account, but that the act of returning the money to you is not a physical one, but rather that money is credited back to the customers so that the charges don't increase.

MR. BARKER: Yeah. Over, what, a ten-year period, I think it said in your green sheet here?

CHAIRMAN BAEZ: That -- I don't have the green sheet in the front of me, so I'm at a disadvantage.

MR. BARKER: You want one?

CHAIRMAN BAEZ: Thank you, sir. But do you see at least the point I'm trying to make is not -- there's no check, or at least I wouldn't expect a check to be coming back, but rather prices are lowered by that amount.

MR. BARKER: Well --

CHAIRMAN BAEZ: That's the best that I can explain it.

MR. HORTON: Mr. Chairman.

MR. BARKER: I go back again --

CHAIRMAN BAEZ: Mr. Horton. Hold on, Mr. Barker.

MR. HORTON: If I could, the proposal is for the additive to be collected for two years, at which time when the new contracts take effect all the amount that's been collected plus interest would be credited back to the customers on their bills for a period of three years.

CHAIRMAN BAEZ: Right. So the bills, the bills will either, will get lower or not be higher because of that.

MR. BARKER: All right, sir. Now you're talking about, you know, a two-year period they're going to be collecting money. With every six months it doubles itself. Now I think there's a law that says -- you might know. You have a lot of attorneys on the board here.

CHAIRMAN BAEZ: Hardly any at this point, but go ahead, sir.

MR. BARKER: But now -- well, y'all have got a law degree according to your makeup in your paper.

CHAIRMAN BAEZ: Some -- yeah. I was being, I was trying to be funny, and I apologize.

MR. BARKER: Okay. That's all right. But what I wanted to say is I think there's a law that says if they collect money from you, they've got to pay you interest. I know that when you pay a deposit, you get it back in credit.

CHAIRMAN BAEZ: And I think you've hit upon --

MR. BARKER: You're talking about a two-year period, and I think the law says they'll pay you interest every year.

CHAIRMAN BAEZ: I think, but I think you've hit upon how that returning of the money is intended, if I understand what Mr. Horton is saying.

MR. BARKER: Let me ask you something. I talked to several businesspeople in Marianna. Now gas company independents there are all for this because they say, sometime my charge is going to go up, so when you buy $20 worth of gas from me, I'm going to charge you $30 because I need that $10 to put in an account that I can give my fuel people when it comes due for me to get another contract with them. The grocery people say the same thing; this is independents. They say I think it's a good idea because, you know, when you check out at the grocery store here and you pay $50 for groceries, you know, I'd like to have maybe a 20-cent surcharge in case I've got to change my vendors and my prices goes up. And the power company here is, in 2008 when these prices become effective, you're going to pay them then. You're going to pay the new price, fuel charge then in your next bill when it goes effective. So what have you paid all this money in arrear for?

CHAIRMAN BAEZ: I think the proposal states that that money that was paid in advance would be credited back against those increases in 2008.

MR. BARKER: We don't get any break because they told you right away, you're going to pay whatever the charge is come 2008.

CHAIRMAN BAEZ: Right.

MR. BARKER: So where, where do we get the break and why are they collecting it, with the exception of they want a trust fund that draws interest that they don't intend to return either to the customer?

CHAIRMAN BAEZ: Mr. Barker, I think I've reached, if not passed, the limit of what I can answer for you.

MR. BARKER: I didn't quite understand what you said.

CHAIRMAN BAEZ: I think I'm at that point where I can't answer your questions anymore because I've got to decide on it later. Do you see what I'm saying? I'm trying to be helpful. I may be hurting the process if I talk about it anymore.

MR. BARKER: Well, I appreciate the opportunity to take the time and discuss what I feel.

CHAIRMAN BAEZ: Not at all. We're glad for you to come over.

MR. BARKER: I'm retired. I've worked hard all my life. I've had to turn my head and bend over many a time for the employees that I worked for, and this is to make a living, to raise my kids and pay my bills. I don't really at this age need someone collecting money from me for them a trust fund, when I'm having, I'm on a fixed income and I've got enough problems. And I'm just tired of bending over. Now you are all honorable men and ladies.

CHAIRMAN BAEZ: Thank you, sir.

MR. BARKER: And I leave it to you in your hands to make the right decision. The right decision is going to either be we're going to pay it or we're not going to pay it. But I'd rather think that you people that's going to decide this is not someone that leeches off the state. I hope you put your mind into this, as I have. And if there was some reason for it, you know, I might would agree with it, but I don't see any reason for it.

Now I'll leave these two papers with you because there's a lot of other information in here about it. There's a lot of direct quotes in here.

CHAIRMAN BAEZ: Commissioners, do you have questions of Mr. Barker at this point? No?

Mr. and Mrs. Barker, I want to thank you for coming. I know that it was quite a, quite a trip to be here today, and, and you don't need to apologize because you're the only two that came out. I think you and your neighbors, certainly your neighbors should be very proud of you for doing that. And thank you for sharing your thoughts with us.

MR. BARKER: I appreciate it. Thank you very much.

CHAIRMAN BAEZ: You have a safe trip back.

Ms. Christensen, the handout, do you need to mark it?

MS. CHRISTENSEN: Yes. I would ask to have that marked for identification.

CHAIRMAN BAEZ: The next number is 81.

(Exhibit 81 marked for identification.)

CHAIRMAN BAEZ: Mr. Perko, I'm showing your next, your next witness as Mr. Portuondo; is that correct?

MR. PERKO: That's right, Mr. Chairman. We'd call him at this time.

CHAIRMAN BAEZ: Please.

I'm sorry, Ms. Christensen, were you offering the Exhibit 81 for admission? Ms. Christensen, were you offering 81 for admission?

MS. CHRISTENSEN: Yes. I didn't realize we were going to do that at this point. But, yes, if we could, I'd ask to move that into the record.

CHAIRMAN BAEZ: All right. Show it admitted without objection.

(Exhibit 81 admitted into the record.)

CHAIRMAN BAEZ: Go ahead, Mr. Perko.

JAVIER PORTUONDO

was called as a witness on behalf of Progress Energy Florida and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. PERKO:

Q Would you please state your name and business address for the record.

A Javier Portuondo, P. O. Box 14042, St. Petersburg, Florida.

Q Mr. Portuondo, did you submit prefiled testimony and exhibits in this docket on March 1st, August 9th and September 9th, 2005?

A Yes, I did.

Q Did you also submit supplemental direct testimony on September 9th and revised supplemental direct testimony on October 14th, 2005?

A Yes, I did.

Q Do you have any corrections to make to any of your testimony or exhibits?

A No, I do not.

Q Do you adopt your prefiled testimony as your testimony in this proceeding?

A Yes, I do.

MR. PERKO: At this time, Mr. Chairman, I'd request that Mr. Portuondo's testimony be inserted into the record as read.

CHAIRMAN BAEZ: Without objection, show the prefiled testimony of Javier Portuondo entered into the record as though read.

And I'm showing, Mr. Perko, that Mr. Portuondo's exhibits, prefiled exhibits are already numbered 41 through 43, I'm sorry, 41 through 44; is that correct?

MR. PERKO: That is correct.

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

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

DIRECT TESTIMONY OF JAVIER PORTUONDO

March 1, 2005

Q. Please state your name and business address.

A. My name is Javier Portuondo. My business address is Post Office Box 14042, St. Petersburg, Florida 33733.

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

A. I am employed by Progress Energy Service Company, LLC, in the capacity of Director, Regulatory Services – Florida.

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

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe Progress Energy Florida's ("Progress Energy" or the "Company") Fuel Cost Recovery Clause final true-up amount for the period of January through December 2004, and the Company's Capacity Cost Recovery Clause final true-up amount for the same period.

Q. Have you prepared exhibits to your testimony?

A. Yes, I have prepared and attached to my true-up testimony as Exhibit No. __ (JP-1T), a four-sheet true-up variance analysis of the difference between the estimated true-up balance and the actual period-ending true-up balance. Exhibit No. __ (JP-2T) contains the Capacity Cost Recovery true-up calculations for the January - December 2004 period. Exhibit No. __ (JP-3T) has the projected year-end fuel and capacity balances as filed with my 2004 Estimated/Actual True-Up Testimony. Exhibit No. __ (JP-4T) shows the storm related costs which were incurred in 2004. In addition, I will sponsor the applicable Schedules A1 through A9 and A12 for December 2004, period-to-date. For ease of reference, the schedules are attached as Exhibit No. __ (JP-5T).

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

A. Unless otherwise indicated, the actual data is taken from the books and records of the Company. 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. Would you please summarize your testimony?

A. Per Order No. PSC-04-1276-FOF-EI, the projected 2004 fuel adjustment true-up amount was an under-recovery of $155,959,294 (Exhibit No. __ (JP-3T), pg 1). The actual under-recovery for 2004 was $170,405,871

(Exhibit No. __ (JP-5T)) resulting in a final fuel adjustment true-up under-recovery amount of $14,446,577. PEF will collect $76,802,024 of the actual under-recovery in 2005 deferring the remaining balance of $93,603,847 for recovery in 2006.

The projected 2004 capacity true-up amount was an over-recovery of $11,358,199 (Exhibit No. __ (JP-3T), pg 2). The actual amount for 2004 was an over-recovery of $7,661,391 (Exhibit No. __ (JP-2T)) resulting in a final capacity true-up under-recovery amount of $3,696,808.

FUEL COST RECOVERY

Q. What is the Company's jurisdictional ending balance as of December 31, 2004 for fuel cost recovery?

A. The actual ending balance as of December 31, 2004 for true-up purposes is an under-recovery of $170,405,871.

Q. How does this amount compare to the Company's estimated 2004 ending balance included in the Company's projections for the calendar year 2005?

A. The actual true-up attributable to the January - December 2004 period is an under-recovery of $170,405,871 which is $14,446,577 higher than the re-projected year end under-recovery balance of $155,959,294. Pursuant to Order No. PSC-04-1276-FOF-EI, approving the Company's 2005 Fuel Adjustment Factors, Progress Energy will collect $76,802,024 of the 2004 under-recovery in 2005 and defer the remainder until 2006. Therefore the under-recovery amount deferred until 2006 will now be $93,603,847.

Q. How was the final true-up ending balance determined?

A. The amount was determined in the manner set forth on Schedule A2 of the Commission's standard forms previously submitted by the Company on a monthly basis.

Q. What factors contributed to the period-ending jurisdictional under-recovery of $170,405,871 shown on your Exhibit No. __ (JP-1T)?

A. The factors contributing to the under-recovery are summarized on Exhibit No. __ (JP-1T), Sheet 1 of 4. Jurisdictional fuel revenues fell below the forecast by $34.1 million, while jurisdictional fuel and purchased power expense increased $135.0 million. This $135.0 million unfavorable variance is primarily attributable to escalating fuel prices throughout the year which not only increased the Company's generation expense but also affected the cost of power purchases.

By combining the differences in jurisdictional revenues and jurisdictional fuel expenses, the net result is an under-recovery of $169.1 million related to the January through December 2004 true-up period. When interest of $1.3 million is included, the actual ending under-recovery balance is $170.4 million as of December 31, 2004.

Q. Please explain the components shown on Exhibit No. __ (JP-1T), sheet 2 of 4, which produced the $161.0 million unfavorable system variance from the projected cost of fuel and net purchased power transactions.

A. Sheet 2 of 4 shows an analysis of the system variance for each energy source in terms of three interrelated components; (1) changes in the amount (MWH's) of energy required; (2) changes in the heat rate, or efficiency, of generated energy (BTU's per KWH); and (3) changes in the unit price of either fuel consumed for generation ($ per million BTU) or energy purchases and sales (cents per KWH).

Q. What effect did these components have on the system fuel and net power variance for the true-up period?

A. As can be seen from sheet 2 of 4, variances in the amount of MWH requirements from each energy source (column B) combined to produce a cost increase of $39.2 million. The primary reason for the unfavorable variance in MWH requirements is the effect that generation mix had on total net system fuel and purchased power cost.

The heat rate variance for each source of generated energy (column C) results in an unfavorable variance of $24.6 million. A large component of this variance is due to greater peaker activity than estimated.

A cost increase of $97.2 million resulted from the price variance (column D), which was caused by a number of sources detailed on lines 1 through 19 of sheet 2 of 4, of Exhibit No. __ (JP-1T). Significant price increases in all the fossil fuel groups contributed to this unfavorable variance. Coal prices were higher than projected primarily due to increased export demand by foreign countries. Gas prices were higher than projected primarily due to increased demand combined with flat production. There has been an increase in drilling for natural gas but this has been offset by volume declines from the older wells. Oil prices increased primarily from higher demand and tight production guidelines from OPEC. The increase in fuel prices also contributed to the higher amounts paid for purchased power. Escalating coal prices resulted in higher energy payments to qualifying facilities since nearly all the contracts are tied to coal unit pricing.

Q. Does this period ending true-up balance include any noteworthy adjustments to fuel expense?

A. Yes. Noteworthy adjustments are shown on Exhibit No. __ (JP-5T) in the footnote to line 6b on page 1 of 2, Schedule A2. These adjustments include the recovery of depreciation and return associated with Hines Unit 2 (authorized in Order No. PSC-02-0655-AS-EI). Also included is the recovery of the Company's investment in the remaining two of the 11 previously approved combustion turbine gas conversion projects, Debary Unit P8 and Suwannee Unit P3.

Q. Does the final true-up ending balance contain any costs related to storm events during the 2004 hurricane season?

A. Yes. The final true-up ending balance includes $17,473,967 in incremental costs related to the 2004 storms. As shown on Exhibit No. __ (JP-4T), the total incremental fuel costs incurred as a result of the 2004 storms are $18,779,107. These costs are explained further in the direct testimony of Pamela R. Murphy (oil & gas), Albert W. Pitcher (coal and ocean-going barges) and Robert M. Oliver (reliability purchases and non-economic dispatch). Progress Energy is limiting recovery of the costs of the additional ocean-going barges discussed in Mr. Pitcher's testimony to the 2004 waterborne transportation rate established in the Stipulation and Settlement in Docket No. 031057-EI. Therefore, the $1,305,140 in incremental barge costs discussed in Mr. Pitcher's testimony has not been included in the final true-up ending balance.

Q. Were there any prior year adjustments included in the current true-up period?

A. Yes. Fuel surcharge payments to British Petroleum Co. of $4.5 million were incurred and paid in 2001 but not booked to fuel inventory until April 2004 due to an accounting error. These payments were incurred to secure additional oil deliveries in January 2001 due to cold weather. This type of payment rarely occurs which is a contributing factor to the improper coding of the invoices resulting in the payments not being booked to fuel inventory. Since an adjustment to account for this error was booked in a month that had a low volume of light oil purchases (April 2004), the unit cost ($/Bbl) of light oil purchases as shown on the April 2004 Fuel and Purchased Power Cost Recovery Clause (Exhibit No. __ (JP-5T), Schedule A5, Pg 1 of 3, line 20) was significantly distorted.

Q. Did Progress Energy's customers benefit during the true-up period from its investment in the Gas Conversion projects previously approved by the Commission?

A. In 2003 one of the two remaining gas conversion projects, Suwannee P3, did not produce fuel savings to offset the project's conversion costs for the year. In 2004, consistent with Order No. PSC-98-0412-FOF-EI, which approved cost recovery for the conversion projects, the Company credited to fuel expense the depreciation and return costs for Suwannee P3 collected in 2003. Including interest through January 2004, this credit was $178,798. As indicated on Exhibit No. __ (JP-1T), Sheet 3 of 4, sufficient fuel savings for Suwannee 3 were achieved in 2004 and the associated conversion costs have been recollected. The other gas conversion project, Debary P8, produced fuel savings of $1,806,361 in 2004, which exceeded the project's 2004 conversion costs of $156,124. All of the Company's investment in the 11 approved gas conversion projects have now been recovered through the fuel adjustment clause.

Q. Did Progress Energy's customers benefit during the true-up period from its investment in Hines Unit 2 previously approved by the Commission?

A. Yes. Actual 2004 system fuel savings for Hines Unit 2 was $71,893,428. Total system depreciation and return was $40,687,507. This results in a net system benefit to customers of $31,205,921 (Exhibit No. __ (JP-1T), Sheet 4).

Q. Has the three-year rolling average gain on economy sales included in the Company's filing for the November, 2004 hearings been updated to incorporate actual data for all of year 2004?

A. Yes. Progress Energy has calculated its three-year rolling average gain on economy sales, based entirely on actual data for calendar years 2002 through 2004, as follows.

Year	Actual Gain
2002	$ 5,628,586
2003	9,844,761
2004	5,330,652
Three-Year Average	$ 6,934,666

Q. Order No. PSC-02-1484-FOF-EI, issued in Docket No. 011605-EI, requires each utility to include in the final true-up each year all base year and recovery year operating and maintenance expenses associated with financial and physical hedging activities. What were the base year and recovery year O&M expenses associated with hedging?

A. There were no base O&M expenses associated with hedging activities, and while PEF was actively hedging both physically and financially in 2004, there were no incremental O&M expenses associated with hedging incurred. Future incremental hedging costs could include net new personnel assigned to physical and financial hedging, new computer systems and infrastructure for hedging activities, and transaction costs.

CAPACITY COST RECOVERY

Q. What is the Company's jurisdictional ending balance as of December 31, 2004 for capacity cost recovery?

A. The actual ending balance as of December 31, 2004 for true-up purposes is an over-recovery of $7,661,391.

Q. How does this amount compare to the estimated 2004 ending balance included in the Company's projections for calendar year 2005?

A. When the estimated 2004 over-recovery of $11,358,199 to be refunded during the calendar year 2005 is compared to the $7,661,391 actual over-recovery, the final net true-up attributable to the twelve month period ended December 2004 is an under-recovery of $3,696,808.

Q. Is this true-up calculation consistent with the true-up methodology used for the other cost recovery clauses?

A. Yes. The calculation of the final net true-up amount follows the procedures established by the Commission.

Q. What factors contributed to the actual period-end over-recovery of $7.7 million?

A. Exhibit No. __ (JP-2T), sheet 1 of 3, entitled "Capacity Cost Recovery Clause Summary of Actual True-Up Amount," compares actual results to the original forecast for the period. As can be seen from sheet 1, the actual jurisdictional revenues were $.1 million lower than forecasted revenues due to decreased customer usage. An $11.5 million reduction in net capacity expenses resulted primarily from a number of cogenerators not meeting capacity commitments as specified in their contracts. Offsetting the lower capacity payments were additional incremental security expenses of $3.8

million mainly due to projects associated with the 2002 Maritime Transportation Security Act that were not in the original forecast. An interest provision of $.1 million also contributed to the over-recovery.

Q. Were there any items of note included in the current true-up period?

A. Yes. In Order No. PSC-02-1761-FOF-EI, issued in Docket No. 020001-EI, the Commission addressed the recovery of incremental security costs through the capacity cost recovery clause. Exhibit No. __ (JP-2T) includes incremental security costs of $8,425,115 (system).

OTHER ISSUES

Q. Has Progress Energy confirmed the validity of the methodology used to determine the equity component of Progress Fuels Corporation's capital structure for calendar years 2003 and 2004?

A. Progress Energy's Audit Services department has reviewed the 2003 analysis performed by Progress Energy Fuels Corporation ("PFC"). The revenue requirements under a full utility-type regulatory treatment methodology using the actual average cost of debt and equity required to support Florida Power business was compared to revenues billed using equity based on 55% of net long-term assets (short cut method). The analysis showed that for 2003, the short cut method resulted in revenue requirements which were $60,659, or .017%, lower than revenue requirements under the full utility-type regulatory treatment methodology. This analysis confirms again the appropriateness and continued validity of the short cut method. We believe the methodology used to determine the equity component of PFC's capital structure for 2004 has been properly applied. However, the audit to validate the calculation is not scheduled to by completed by Audit Services until the end of the 1st quarter of 2005, and therefore will be included as part of my Estimated/Actual True-Up Testimony to be filed in August 2005.

Q. Did PEF properly apply the settlement rates to waterborne coal transportation service during 2004 pursuant to the Stipulation and Settlement Agreement reached in Docket 031057-EI, Order No. 04-0713-AS-EI, issued July 20, 2004?

A. Yes. The settlement rates were applied in accordance with the Stipulation and Settlement Agreement to all waterborne transportation service in 2004. A refund of $3.9 million was received from PFC in May 2004 which represents the difference between the proxy and settlement rates for January through April 2004. This refund was included in the May 2004 Fuel Adjustment Clause. Progress Energy paid PFC the settlement rate from May through December 2004.

Q. What were the cumulative savings as a direct result of the settlement agreement?

A. The 2004 cumulative savings were $11.0 million.

Q. Does this conclude your direct true-up testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

Fuel and Capacity Cost Recovery
Estimated/Actual True-Up Amounts
January through December 2005

DIRECT TESTIMONY OF
JAVIER PORTUONDO

Q. Please state your name and business address.

A. My name is Javier Portuondo. My business address is Post Office Box 14042, St. Petersburg, Florida 33733.

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

A. I am employed by Progress Energy Service Company, LLC, in the capacity of Manager, Regulatory Services - Florida.

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present for Commission approval Progress Energy Florida's (Progress Energy Florida or the Company) estimated/actual fuel and capacity cost recovery true-up amounts for the period of January through December 2005.

Q. Do you have an exhibit to your testimony?

A. Yes. I have prepared an exhibit attached to my prepared testimony consisting of Parts A through D and Commission Schedules E1-B through E9 which contain the calculation of the Company's true-up balances and the supporting data. Parts A through C contain assumptions which support the Company's reprojection of fuel costs for the months of July through December 2005. Part D contains the Company's reprojected capacity cost recovery true-up balance and supporting data.

FUEL COST RECOVERY

Q. How was the estimated true-up under-recovery shown on Schedule E1-B, Sheet 1, line 21, developed?

A. The estimated true-up calculation begins with the actual balance of ($109,593,820), taken from Schedule A2, page 2 of 2, for the month of June 2005. This balance plus the estimated July through December 2005 monthly true-up calculations comprise the estimated $162,800,989 under-recovery balance at year-end. The projected December 2005 true-up balance includes interest estimated at the June ending rate of 0.264% per month. The development of the actual/estimated true-up amount for the period ending December 2005 is shown on Schedule E1-B.

Q. What are the primary reasons for the projected December-ending 2005 under-recovery?

A. The projected December-ending 2005 under-recovery was primarily due to the following: (i) the Commission-approved deferral of a significant portion Progress Energy Florida's expected 2004 under-recovery; and (ii) escalating fuel prices and lower retail sales through June due to mild weather.

Q. Please explain the deferral of the expected 2004 under-recovery and its effect on the projected December-ending 2005 under-recovery fuel balance.

A. Pursuant to Order No. PSC 04-1276-FOF-EI, approving the Company's 2005 Fuel Adjustment Factors, Progress Energy Florida deferred $79.2 million of the expected 2004 under-recovery to 2006. In addition, the actual year end 2004 under-recovery was $14.4 million higher than projected, resulting in a $93.6 million carry-over to 2006. This represents over 57% of the projected 2005 under-recovery fuel balance.

Q. How did escalating fuel prices affect the projected December-ending 2005 under-recovery?

A. Actual oil and gas prices continue to surge over projections due to limited excess production and refining capacity. Actual contract prices for coal and transportation were higher than originally estimated as not all contracts were executed at the time of the 2005 projection filing.

These price pressures are expected to contribute $69.2 million to the final 2005 under-recovery or less than a 5% variance to our original projection.

Q. Does Progress Energy Florida expect to exceed the three-year rolling average gain on Other Power Sales?

A. No. Progress Energy Florida estimates the total gain on non-separated sales during 2005 will be $2,978,598, which does not exceed the three-year rolling average for such sales of $6,934,666.

Q. How does the current commodity fuel price forecast for July – December 2005 compare with the same period forecast used in the Company's September 2004 filing?

A. Coal (including transportation) prices increased on average $5.24 per ton or 8.2%. Natural gas increased an average $.08 p/ mmbtu or 1.1%. Residual (heavy or No. 6) oil increased on average $9.22 per barrel or 26.1%, while distillate (light or No. 2) oil increased an average of $28.17 per barrel or 59.3%.

Q. What is the source of the Company's fuel price forecast?

A. The Company's fuel price forecast was based on forecast assumptions for residual oil, distillate oil, natural gas, and coal shown in Part B of my exhibit. The forecasted prices for each fuel type are shown in Part C.

CAPACITY COST RECOVERY

Q. How was the estimated true-up under-recovery shown on Part D, Line 46, developed?

A. The estimated true-up calculation begins with the actual balance of ($14,632,547) for the month of June 2005. This balance plus the estimated July through December 2005 monthly true-up calculations comprise the estimated ($16,775,983) under-recovery balance at year-end. The projected December 2005 true-up balance includes interest estimated at the June ending rate of 0.264% per month.

Q. What are the major changes between the original projection for the year 2005 and the actual/estimated reprojection?

A. Factors contributing to the $16.8 million under-recovery are a ($3.7 million) variance between the projected and actual true-up balance at year end 2004 and ($13.1) million of lower retail sales, which is less than a 5% variance from our original projection.

OTHER MATTERS

Q. Is Progress Energy requesting approval of any new contracts in this proceeding?

A: Yes. In accordance with Order No. 04-0713-AS-EI in docket No. 031057-EI, Progress Energy Florida has filed a petition requesting approval of four new contracts that Progress Energy Florida's affiliate, Progress Fuels Corporation, has executed to provide waterborne coal transportation service (WCTS) to Progress Energy Florida. As is discussed in Progress Energy Florida's petition and the testimony of Albert Pitcher, the new contracts and the competitive bidding process that led up to them resulted in valid market prices for each of the WCTS components.

Q: How has Progress Energy Florida recovered 2005 WCTS costs pending the FPSC's review of the new WCTS contracts?

A: If new WCTS contracts were not approved by January 1, 2005, the Stipulation and Settlement in Docket No. 031057-EI contemplated continued use of the 2004 settlement rates until approval of these contracts or market proxies. However, Progress Fuels Corporation billed Progress Energy Florida at actual WCTS rates, which were lower than the 2004 settlement rates. It was in the best interest of ratepayers for Progress Energy Florida to recover these lower costs pending FPSC review of the new WCTS contracts.

Q. Were there any other items of note since the time of the last fuel filing?

A. Yes. The year-end 2005 under-recovery fuel balance reflects the requirements of a May 31, 2005 Federal Energy Regulatory Commission (FERC) order in Docket Nos. PA04-10-1000 and PA04-12-000. The year-end 2005 under-recovery fuel balance also has been adjusted to account for overpayments to qualified facilities.

Q. What were the amounts that Progress Energy allocated to Progress Energy Florida's and Progress Energy's Carolina's retail ratepayers pursuant to the May 31, 2005 FERC Order?

A. Progress Energy determined that a reasonable methodology for allocating the $5.5 million awarded to its retail ratepayers as a result of the FERC compliance audit was MWH sales. This methodology resulted in $2.4, $.5 and $2.6 million allocated to North Carolina, South Carolina and Florida, respectively.

Q. When did Progress Energy Florida refund the $2.6 million to Progress Energy Florida's retail ratepayers?

A. Progress Energy Florida deducted $2.6 million from its retail fuel cost under-recovery in May 2005. This amount is reflected in the estimated $162.8 million under-recovery fuel balance at year-end 2005.

Q. What was the total amount of overpayments made to Progress Energy Florida's qualifying facilities from August 2003 through August 2004?

A: $6.1 million was overpaid to Progress Energy Florida's qualifying facilities during this time frame. This amount does not include $143,518 of cumulative interest from August 2003 to May 2005 due retail ratepayers for the overpayments. Progress Energy Florida deducted the $6.1 million principal and $143,518 cumulative interest amount from its retail cost under-recovery in May 2005.

Q: When was this amount refunded to Progress Energy Florida's retail rate payers?

A: This reduction to the fuel cost under-recovery is reflected in the estimated $162.8 under-recovery fuel balance at year-end 2005.

Q. Does this conclude your estimated/actual true-up testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

Fuel and Capacity Cost Recovery Factors
January through December 2006

DIRECT TESTIMONY OF
JAVIER PORTUONDO

Q. Please state your name and business address.

A. My name is Javier Portuondo. My business address is Post Office Box 14042, St. Petersburg, Florida 33733.

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

A. I am employed by Progress Energy Service Company, LLC, in the capacity of Manager, Regulatory Services - Florida.

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present for Commission approval the levelized fuel and capacity cost factors of Progress Energy Florida (PEF or the Company) for the period of January through December 2006.

Q. Do you have an exhibit to your testimony?

A. Yes. I have prepared an exhibit attached to my testimony consisting of Parts A through F and the Commission's minimum filing requirements for these proceedings, Schedules E1 through E10 and H1, which contain the Company's levelized fuel cost factors and supporting data. Parts A-C contain the assumptions which support the Company's cost projections. Part D contains the Company's capacity cost recovery factors and supporting data. Part E contains the calculation of depreciation and return on Hines 2 in accordance with the Stipulation and Settlement Agreement in docket 050078-EI of PEF's base rate review proceeding. Part F contains the calculation of the two tier inverted rate for residential service proposed by PEF in order to promote energy efficiency and conservation.

FUEL COST RECOVERY

Q. Please describe the levelized fuel cost factors calculated by the Company for the upcoming projection period.

A. Schedule E1, page 1 of the "E" Schedules in my exhibit shows the calculation of the Company's basic fuel cost factor of 5.195 ¢/kWh (before metering voltage adjustments). The basic factor consists of a fuel cost for the projection period of 4.53001 ¢/kWh (adjusted for jurisdictional losses), a GPIF reward of 0.00133 ¢/kWh, and an estimated prior period true-up of 0.65988 ¢/kWh. Utilizing this basic factor, Schedule E1-D shows the calculation and supporting data for the Company's final levelized fuel cost factors for service taken at secondary, primary, and transmission metering voltage levels. To perform this calculation, effective jurisdictional sales at the secondary level are calculated by applying 1% and 2% metering reduction factors to primary and transmission sales, respectively (forecasted at meter level). This is consistent with the methodology used in the development of the capacity cost recovery factors. The final levelized fuel cost factor for residential service is 5.202 ¢/kWh. Schedule E1-D shows the Company's proposed tiered rates which are developed in Part F.

Schedule E1-E develops the Time Of Use (TOU) multipliers of 1.342 On-peak and 0.848 Off-peak. The multipliers are then applied to the levelized fuel cost factors for each metering voltage level which results in the final TOU fuel factors to be applied to customer bills during the projection period.

Q. Does the Company's basic fuel cost factor for 2006 include the entire projected 2005 true-up under-recovery amount?

A. Yes, however, the projected 2005 true-up under-recovery amount has been updated since my August 9, 2005 testimony. Contemporaneously with this filing, I am filing supplemental testimony and a revised exhibit which update the re-projected 2005 under-recovery amount presented in my August 9, 2005 filing based on actual fuel costs through July, 2005 and updated natural gas and oil prices. As stated in my supplemental testimony, the amended 2005 true-up balance is $264.9 million, made up of a $93.6 million carryover from 2004 and a $171.3 million under-recovery for 2005. The Company is proposing to collect this entire amount in 2006.

Q. What is the change in the levelized residential fuel factor for the projection period from the fuel factor currently in effect?

A. The projected levelized fuel factor for 2006 of 5.202 ¢/kWh is an increase of 1.284 ¢/kWh or

33% from the 2005 levelized fuel factor of 3.918 ¢/kWh.

Q. Please explain the reasons for the increase in the levelized fuel factor.

A. The increase in the levelized fuel factor between 2005 and 2006 is mainly driven by escalating fuel costs. 2006 estimated coal prices are 14.6% higher than 2005 estimates. 2006 estimated heavy and light oil commodity prices are 39.4% and 45.8% above 2005 estimated prices, respectively. 2006 natural gas commodity prices are 20.6% higher than 2005 estimates. Actual oil and gas prices continue to surge over projections due to limited excess production and refining capacity. As discussed in more detail in the Direct Testimony of Pam Murphy, the Company has entered into hedging contracts to mitigate some of the price risk and volatility.

Q. Is the Company proposing any rate design changes for its proposed fuel factors?

A. Yes. In light of continually increasing fuel costs, the Company is proposing a new inverted rate design for residential fuel factors to encourage energy efficiency and conservation. Specifically, the Company is proposing a two-tiered fuel charge whereby the charge for a customer's monthly usage in excess of 1,000 kWh (second tier) is priced one cent per kWh more than the charge for the customer's usage up to 1,000 kWh (first tier). The 1,000 kWh price change breakpoint is reasonable in that approximately 2/3 of all residential energy is consumed in the first tier and 1/3 of all energy is consumed in the second tier. The Company believes the one cent higher per unit price, targeted at 1/3 of the residential class's energy consumption, will promote energy efficiency and conservation. This type of inverted rate design was incorporated in the Company's base rates approved in Order No. 02-0655-AS-EI.

Q. How will the rate design be implemented?

A. Part F to my exhibit shows the calculation of the levelized fuel cost factors for the two tiers of residential customers. The two factors will be calculated on a revenue neutral basis so that the Company will recover the same fuel costs as it would under the traditional levelized approach. As shown on Part F, the two-tiered factors are determined by first calculating the amount of revenues that would be generated by the overall levelized residential factor of 5.202¢/kWh shown on Schedule E1-D. The two factors are then calculated by allocating the total revenues to the two tiers for residential customers based on the total annual energy usage for each tier.

Q. What is included in Schedule E1, line 3, "Coal Car Investment"?

A: The $10.4 million depicted on Line 3 represents depreciation expense, return on average investment, repair and maintenance expense, and property taxes on rail cars used to transport coal to Crystal River. These railcars are currently owned by Progress Fuels Corporation (PFC), and their related costs are included in the coal price charged to PEF by PFC. When coal procurement and transportation is consolidated, ownership of a locomotive, caboose and approximately 700 railcars will be transferred from PFC to PEF. In addition, PEF will lease approximately 200 railcars currently leased by PFC.

The $10.4 million also includes the carrying cost of coal purchased but not yet delivered to Crystal River and fuel procurement O&M costs in accordance with the Stipulation and Settlement in Docket 050078-EI. As part of the consolidation of the coal procurement and transportation functions, ownership of the railcars and coal inventory in transit (approximately $28.4 million) to Crystal River is expected to transfer to PEF on December 31, 2005.

Q: Why is Progress Energy combining its coal procurement and transportation functions?

A: Combining PEF's and PEC's coal procurement and transportation functions is intended to leverage fuel purchasing power, optimize transportation contracts and assets, improve coordination across functional groups and reduce costs while increasing customer service.

Q: Will the combined organization be a separate entity or part of Progress Energy?

A: The combined organization will be part of Progress Energy Carolinas (PEC) similar to oil and natural gas procurement functions and related transportation services.

Q: Is PEF requesting recovery of all costs associated with coal procurement and transportation through the fuel clause?

A: Yes. Currently, PEF's affiliate PFC procures all coal and related transportation services for PEF. PFC includes the commodity cost of coal along with transportation costs (barge and rail), depreciation, repair/maintenance and administrative expenses, taxes and a return on regulated assets in the cost per ton of coal billed to PEF. PEF recovers this cost per ton through the fuel clause.

Consistent with established FPSC policy, certain costs will continue to be recovered through the fuel clause. See Order No. 95-1089-FOF-EI. Such costs (approximately $4.3 million) include depreciation, repair and maintenance expenses, applicable taxes and a return on average investment at the authorized rate of return. In accordance with the Stipulation and Settlement Agreement in Docket 050078-EI, the carrying costs of fuel inventory (approximately

$3.7 million) and administrative costs (approximately $2.4 million) associated with fuel procurement and transportation will also be recovered through the fuel clause. Any other costs recovered through the fuel clause will be in accordance with FPSC Order No. 14546.

Q. What is included in Schedule E1, line 4, "Adjustments to Fuel Cost"?

A. The $38.3 million on Line 4 represents $36.6 million of depreciation and return associated with Hines 2 in accordance with the Stipulation and Settlement Agreement in Docket 050078-EI and the annual payment of $1.7 million to the Department of Energy for the decommissioning and decontamination of their enrichment facilities.

Q. What is included in Schedule E1, line 6, "Energy Cost of Purchased Power"?

A. The $114.1 million on Line 6 represents the projected energy costs for a 70 MW purchase power contract with Tampa Electric Company and a 414 MW purchase under a Unit Power Sales (UPS) agreement with Southern Company. The capacity payments associated with the UPS contract are based on the original contract of 400 MWs. The additional 14 MWs are the result of revised SERC ratings for the five units involved in the unit power purchase, providing a benefit to PEF in the form of reduced costs per MW. Both of these contracts have been approved for cost recovery by the Commission. As further discussed below and in the Direct Testimony of Samuel S. Waters, Line 6 also includes a contract for the purchase of 133 MW coal-based energy and capacity from Central Power & Lime beginning in December 2005. The capacity costs associated with these purchases are included in the capacity cost recovery factor.

Q. What is included in Schedule E1, line 8, "Energy Cost of Economy Purchases"?

A. The $55.6 million on Line 8 consists primarily of economy purchases from within or outside the state. This amount also includes energy costs for purchases from Seminole Electric Cooperative, Inc. (SECI) for load following and off-peak hydroelectric purchases from the Southeast Electric Power Agency (SEPA). The SECI contract is an ongoing contract under which the Company purchases energy from SECI at 95% of its avoided fuel cost. Purchases from SEPA are on an as-available basis. There is no capacity payment associated with either of these purchases. Other purchases may have non-fuel charges, but since such purchases are made only if the total cost of the purchase is lower than the Company's cost to generate the energy, it is appropriate to recover the associated non-fuel costs through the fuel adjustment clause rather than the capacity cost recovery clause.

Q. How was the Gain on Other Power Sales, shown on Schedule E-1, Line 15a, developed?

A. The total gain on non-separated sales for 2006 is estimated to be $5,856,036 which is below the three-year rolling average for such sales of $5,972,207 by $116,171. The total gain will be distributed to customers based on the sharing mechanism approved by the Commission in Order No. PSC-00-1744-PAA-EI.

Q. How was Progress Energy's three-year rolling average gain on economy sales determined?

A. The three-year rolling average of $5,972,207 is based on calendar years 2003 through 2005 and was calculated in accordance with Order No. PSC-00-1744-PAA-EI.

Q. Please explain the entry on Schedule E1, line 17, "Fuel Cost of Stratified Sales."

A. PEF has several wholesale contracts with SECI. One contract provides for the sale of supplemental energy to supply the portion of their load in excess of SECI's own resources (586 MW in 2006). The fuel costs charged to SECI for supplemental sales are calculated on a "stratified" basis in a manner which recovers the higher cost of intermediate/peaking generation used to provide the energy. There are other SECI contracts for fixed amounts of base, intermediate and peaking capacity. PEF is crediting average fuel cost of the appropriate strata in accordance with Order No. PSC-97-0262-FOF-EI. The fuel costs of wholesale sales are normally included in the total cost of fuel and net power transactions used to calculate the average system cost per kWh for fuel adjustment purposes. However, since the fuel costs of the stratified sales are not recovered on an average system cost basis, an adjustment has been made to remove these costs and the related kWh sales from the fuel adjustment calculation in the same manner that interchange sales are removed from the calculation. This adjustment is necessary to avoid an over-recovery by the Company which would result from the treatment of these fuel costs on an average system cost basis in this proceeding, while actually recovering the costs from these customers on a higher, stratified cost basis. Line 17 also includes the fuel cost of sales made to the City of Tallahassee in accordance with Order No. PSC-99-1741-PAA-EI, a 70MW sale made to Reedy Creek and a 15 MW sale made to the City of Homestead.

Q. Please explain the procedure for forecasting the unit cost of nuclear fuel.

A. The cost per million BTU of the nuclear fuel which will be in the reactor during the projection period (Cycle 15) was developed from the unamortized investment cost of the fuel in the reactor. Cycle 15 consists of several "batches" of fuel assemblies which are separately accounted for throughout their life in several fuel cycles. The cost for each batch is determined from the actual cost incurred by the Company, which is audited and reviewed by the Commission's field auditors. The expected available energy from each batch over its life is developed from an evaluation of various fuel management schemes and estimated fuel cycle lengths. From this information, a cost per unit of energy (cents per million BTU) is calculated for each batch. However, since the rate of energy consumption is not uniform among the individual fuel assemblies and batches within the reactor core, an estimate of consumption within each batch must be made to properly weigh the batch unit costs in calculating a composite unit cost for the overall fuel cycle.

Q. How was the rate of energy consumption for each batch within Cycle 15 estimated for the upcoming projection period?

A. The consumption rate of each batch has been estimated by utilizing a core physics computer program which simulates reactor operations over the projection period. When this consumption pattern is applied to the individual batch costs, the resultant cost of Cycle 15 is $.35 per million BTU.

Q. Please give a brief overview of the procedure used in developing the projected fuel cost data from which the Company's basic fuel cost recovery factor was calculated.

A. The process begins with a fuel price forecast and a system sales forecast. These forecasts are input into the Company's production cost simulation model, PROSYM, along with purchased power information, generating unit operating characteristics, maintenance schedules, and other pertinent data. PROSYM then computes system fuel consumption and fuel costs and purchased power. This information is the basis for the calculation of the Company's levelized fuel cost factors and supporting schedules.

Q. What is the source of the system sales forecast?

A. The system sales forecast is made by Corporate Planning using population projections from the Bureau of Economic and Business Research at the University of Florida and economic assumptions from the Economy.Com. The assumptions for the projection period are explained in Part A of my exhibit.

Q. Is the methodology used to prepare the sales forecast for this projection period the same as previously used by the Company?

A. Yes. The methodology employed to produce the forecast for the projection period is consistent with the Company's most recent filings and was developed with an econometric forecasting model.

Q. What is the source of the Company's fuel price forecast?

A. The fuel price forecast for natural gas and fuel oil (residual #6 and distillate #2) comes from observable market data in the industry. The fuel price forecast for natural gas and fuel oil is jointly prepared by the Company's Enterprise Risk Management section and Regulated Fuels Department.

The nuclear fuels forecast uses known values of remaining balances of current fuel batches, projected costs of future batches, and projected batch energy production to determine a cost rate that is reported on a cost per unit of energy production basis (cents per million BTU). The projection for costs of future batches uses projections for each fuel component. Each fuel component projection is based on contract portfolio and market projections in effect for that component. Fuel requirements and individual batch energy forecasts are derived from core physics models that incorporate energy production forecasts and operating/refueling outage strategies. Nuclear Fuel Management & Safety Analysis is responsible for all aspects of the forecast.

The coal price forecast is prepared by PFC based on projected deliveries to Crystal River supplied by Systems Planning and Operations. The pricing is based on contracts that Progress Fuels has procured on behalf of PEF for deliveries to Crystal River.

The assumptions for the 2006 projection period are shown in Part B of my exhibit. The forecasted prices for each fuel type are shown in Part C.

CAPACITY COST RECOVERY

Q. How was the Capacity Cost Recovery factor developed?

A. The calculation of the capacity cost recovery (CCR) factor is shown in Part D of my exhibit. The factor allocates capacity costs to rate classes in the same manner that they would be allocated if they were recovered in base rates.

Q. **Please provide a brief explanation of Part D to your exhibit.**

A. Pages 1 and 2: Projected Capacity Payments. These pages contain system capacity payments for UPS, TECO, Chattahoochee, Central Power & Lime, summer and winter peaking contracts and QF purchases. The retail portion of the capacity payments is calculated using separation factors as agreed to in the Stipulation and Settlement Agreement under Docket 050078 as detailed in the Rebuttal Testimony of William C. Slusser Jr.

Pages 3 and 4: Estimated/Actual True-Up. These pages are included in my supplemental direct testimony and exhibits for the 2005 estimated/actual true-up filing, which as I explained above are being filed contemporaneously with this filing. They present the actual ending true-up balance as of July 2005 and re-forecast the over/(under) recovery balances for August through December 2005 to derive an ending balance for the current period. This estimated/actual balance of $14.6 million is then carried forward to Page 1, to be collected during January through December 2006.

Page 5: Development of Jurisdictional Loss Multipliers. The same delivery efficiencies and loss multipliers presented on Schedule E1-F.

Page 6: Calculation of 12 CP and Annual Average Demand. The calculation of average 12 CP and annual average demand is based on 2003 load research data and the delivery efficiencies on Page 3.

Page 7: Calculation of Capacity Cost Recovery Factors. The total demand allocators in column (7) are computed by adding 12/13 of the 12 CP demand allocators to 1/13 of the annual average demand allocators. The CCR factor for each secondary delivery rate class in cents per kWh is the product of total jurisdictional capacity costs (including revenue taxes) from Sheet 1, times the class demand allocation factor, divided by projected effective sales at the secondary level. The CCR factor for primary and transmission rate classes reflects the application of metering reduction factors of 1% and 2% from the secondary CCR factor.

Q. Please explain the increase in the CCR factor for the projection period compared to the CCR factor currently in effect.

A. The projected average retail CCR factor of .886 ¢/kWh is 14.8% higher than the 2005 factor of 0.772 ¢/kWh. The increase in the factor is primarily due to the carry-over of prior period under-recoveries, increases in the annual QF and firm purchase power capacity payments and a 133MW firm purchase with Central Power & Lime beginning in December 2005.

Q. Has Progress Energy included incremental security charges in the 2006 projected capacity amount?

A. Yes. PEF has included $3.8 million of estimated incremental security for 2006 in accordance with the Stipulation and Settlement Agreement in Docket 050078-EI.

OTHER MATTERS

Q. Has PEF entered into any new contracts since the time of the last fuel filing?

A: The Company is in the final stages of negotiating a contract with Central Power & Lime. An executed contract is expected fall 2005. The contract provides for the purchase of 133 MW of energy and capacity from December 1, 2005 through December 31, 2010. This purchase will contribute to PEF meeting a 20% reserve margin during the contract term and, more importantly, provide a source of coal-based energy to the system. This purchase has been modeled in the projection of system fuel costs, and results in a savings to customers when compared to other purchase alternatives.

Q. Are any additional new purchases included in the 2006 projection of system fuel costs?

A. Yes. The company is currently pursuing the purchase of approximately 200 MW for the summer of 2006, and approximately 450-500 MW for the period December 2005 through February, 2006. These purchases will be required to maintain a 20% reserve margin for those periods. PEF is currently in discussions with potential suppliers of this capacity, which is expected to be supplied from peaking resources. These purchases have been included in the projection of system fuel costs. The summer, 2006 purchase of 200 MW has been modeled after a similar purchase made for the summer of 2005 from The Energy Authority (TEA). The purchase beginning in December, 2005 has also been modeled after the TEA agreement.

Q. Does this conclude your testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 050001-EI

Fuel and Capacity Cost Recovery
Estimated/Actual True-Up Amounts
January through December 2005

SUPPLEMENTAL DIRECT TESTIMONY OF
JAVIER PORTUONDO

Q. Please state your name and business address.

A. My name is Javier Portuondo. My business address is Post Office Box 14042, St. Petersburg, Florida 33733.

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

A. I am employed by Progress Energy Service Company, LLC, in the capacity of Manager, Regulatory Services - Florida.

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes

Q. What is the purpose of your supplemental testimony?

A. The purpose of my supplemental testimony is to update and amend the Company's 2005 estimated/actual fuel and capacity cost recovery true-up balances presented in my pre-filed testimony of August 9, 2005 and accompanying Exhibit No. __ (JP-1R).

Q. Are you sponsoring an exhibit to your supplemental testimony?

A. Yes. I am sponsoring revised Exhibit No. ___ (JP-1R) to substitute for the exhibit filed with my testimony of August 9, 2005. The revised exhibit includes the following revisions to the exhibit submitted with my testimony filed August 9, 2005: Part C, Part D and Schedules E1-B through E5. The remainder of the exhibit has not changed from the original filing on August 9, 2005.

Q. What revisions has the Company made to the 2005 estimated/actual fuel and capacity cost recovery balances?

A. As reflected in revised Exhibit No. __ (JP-1R), the Company has made the following revisions to the 2005 estimated/actual fuel and capacity cost recovery balances:

- We have included actual fuel costs through July 2005 in order to derive more accurate projections of 2005 year-end true-up fuel and capacity recovery balances.
- We have included updated fuel price projections for the remainder of 2005 in light of continually increasing fuel prices.
- We have adjusted estimated incremental security costs to remove an additional $789,620 of base rate expenses pursuant to FPSC Order No.

PSC-03-1461-FOF-EI. This reduction was inadvertently omitted in the original August 9, 2005 filing.

Q: What is the effect of including actual July 2005 fuel costs and updated fuel prices on the Company's projected fuel true-up balance?

A: The effect on the fuel cost recovery true-up balance is an increase of $102.1 million compared to the initial filing. The Company's revised true-up balance of $264.9 million is shown on Schedule E1-B in my revised Exhibit No. ___ (JP-1R). This total is made up of a $93.6 million carryover from 2004 pursuant to Order No. PSC 04-1276-FOF-EI and a $171.3 million under-recovery for 2005.

Q: What is the effect of including July 2005 capacity costs and adjusted incremental security cost on the Company's projected capacity cost true-up?

A: The effect on the capacity cost recovery true-up balance is a decrease of $2.2 million compared to the initial filing. The Company's revised true-up balance of $14.6 million is shown on Part D in my revised Exhibit No. __ (JP-1R).

Q. Does this conclude your estimated/actual true-up testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET No. 050001-EI

Fuel and Capacity Cost Recovery Factors
January through December 2006

REVISED SUPPLEMENTAL DIRECT TESTIMONY OF
JAVIER PORTUONDO

Q. Please state your name and business address.

A. My name is Javier Portuondo. My business address is Post Office Box 14042, St. Petersburg, Florida 33733.

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

A. I am employed by Progress Energy Service Company, LLC, in the capacity of Manager, Regulatory Services - Florida.

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your revised supplemental testimony?

A. The purpose of my revised supplemental testimony is to update and amend the Company's 2005 estimated/actual fuel and capacity cost recovery true-up balances presented in my supplemental direct testimony of September 9, 2005 and accompanying Exhibit No. __ (JP-1R), and the Company's 2006 fuel and capacity cost recovery factors presented in my projection testimony of September 9, 2005 and accompanying Exhibit No. __ (JP-1P).

Q. Are you sponsoring an exhibit to your revised supplemental testimony?

A. Yes. I am sponsoring Exhibit No. __ (JP-1S) , which includes revisions to Part D and Schedules E1-B and E2 in Exhibit No. __(JP-1R) submitted with my supplemental direct testimony and Exhibit No. (JP-1P) filed with my projection testimony on September 9, 2005. Exhibit No. __ (JP-1S) also includes the following additional revisions to the Exhibit No. __ (JP-1P): Part F and Schedules E1, E2, E10 and H1.

Q. What revision has the Company made to the 2005 estimated/actual fuel and capacity cost recovery balances?

A. As reflected in Exhibit No. __ (JP-1S), the Company has included actual fuel and capacity costs through September 2005. In light of continually increasing fuel costs, the Company is submitting these revisions to provide more accurate projections of 2005 year-end true-up fuel and capacity recovery balances based on the most recent and accurate information available.

Q. What is the effect of including actual August and September 2005 fuel costs on the Company's projected fuel true-up balance?

A. The effect on the fuel cost recovery true-up balance is an increase of $50.8 million compared to the balance submitted in my supplemental testimony of September 9, 2005. The Company's revised true-up balance of $315.7 million is shown on Schedule E1-B in my Exhibit No. __ (JP-1S). This total is made up of a $93.6 million carryover from 2004 pursuant to Order No. PSC 04-1276-FOF-EI and a $222.1 million under-recovery for 2005.

Q. What is the effect of including actual August and September 2005 fuel costs on the Company's 2006 levelized fuel cost factor?

A. The effect on the basic fuel cost factor is an increase of 0.126¢/kWh (before metering voltage adjustments). The Company's revised fuel cost factor of 5.321¢/kWh is shown on Schedule E1 in my Exhibit No. ___ (JP-1S). The Company's final levelized fuel cost factor for residential service of 5.329 ¢/kWh is shown on Schedule E1-D in my exhibit No. ___ (JP-1S). The Company's revised inverted fuel rates of 4.979 ¢/kWh and 5.979¢/kWh are shown on Part F in my exhibit No. ___ (JP-1S).

Q. What is the effect of including August and September 2005 capacity costs on the Company's projected capacity cost true-up balance?

A. The effect on the capacity cost true-up balance is a decrease of $3.0 million compared to my supplemental testimony of September 9, 2005. The

Company's revised true-up balance of $11.6 million is shown in Part D of my Exhibit No. __ (JP-1S).

Q. What was the effect of including actual August and September 2005 incremental security costs on the Company's projected capacity true-up balance?

A. Actual incremental security costs incurred in August and September 2005 were $830,142 as shown in Part D of my Exhibit No. ___ (JP-1S). These costs were deducted from our original estimated December 2005 incremental security costs of $1,649,033 to derive total 2005 incremental security costs of $6,219,642. This total is consistent with that which was provided in Part D of my 2006 fuel and capacity cost recovery projection testimony filed on September 9, 2005.

Q. What is the effect of including actual August and September 2005 capacity costs on the Company's 2006 capacity cost factor?

A. The effect on retail factor is a .007¢/kWh decrease. The Company's revised retail factor of .879¢/kWh and revised residential factor of .993¢/kWh are shown on Part D in my Exhibit No. ___(JP-1S).

Q. What is the effect of including actual August and September 2005 fuel and capacity costs on the Company's proposed 2006 total $/1000 KWH residential rate?

A. The effect on the $/1000 kWh rate for 2006 is an increase of $1.24. The $/1000 kWh rate for 2006 also increased an additional $.03 due to a change in PEF's Storm Cost Recovery Surcharge from $3.58 to $3.61. The amount of this surcharge was not final at the time my 2006 fuel and capacity cost recovery projection testimony was filed on September 9, 2005. The Company's revised $/1000 kWh rate of $109.56 for the period of January through December 2006 is shown on Schedule 10 in my exhibit No. ___ (JP-1S).

Q. Does this conclude your revised supplemental testimony?

A. Yes.

MR. PERKO: We'd now tender the witness for cross-examination.

CHAIRMAN BAEZ: Very well. OPC doesn't have questions apparently. Colonel, do you have questions? Mr. Perry?

MR. PERRY: Thank you, Chairman.

CROSS EXAMINATION

BY MR. PERRY:

Q Good morning. Yes. Good morning, Mr. Portuondo. My name is Tim Perry, and I represent the Florida Industrial Power Users Group. And I have a few questions for you this morning.

A Good morning.

Q I'm going to start by handing out a copy of your testimony in last year's docket, if I may. And if we could mark that, I believe it's 82.

CHAIRMAN BAEZ: 82 is the next number, yes. And those would be excerpts?

MR. PERKO: It's the whole testimony minus the exhibits.

CHAIRMAN BAEZ: Okay. That would be a copy of the direct testimony of Javier Portuondo in the, in Docket 040001 minus exhibits.

(Exhibit Number 82 marked for identification.)

BY MR. PERRY:

Q And if you could turn to Page 3, please.

A Okay.
Q On Page 3 of last year's testimony you suggested a certain methodology for recovering the underrecovery amount for 2004. What did you suggest at that time?
A During 2004 we suggested a two-year recovery of that underrecovery.
Q Okay. So in 2004 you suggested that for the 2004 underrecovery, that it be recovered over two years in 2005 and 2006.
A Yes.
Q And what were the reasons for, at that time for proposing a two-year underrecovery, a two-year collection of the underrecovery?
A The rationale was an attempt to minimize the impact on customers, and it was also thought at the time that fuel prices were hopefully going to trend downward, and it was consistent with how we have treated large underrecoveries in the past, that from time to time we will spread them over two years. But it's -- we've never contemplated doing that two years consecutively because of the significant cash flow impact to the company of doing that, as well as the, kind of mortgaging the future for customers that would result if our assumed decrease in price did not materialize.
Q What was the percentage increase that customers were facing in the 2005 factor versus 2004 if you didn't do the

two-year underrecovery?

A I don't recollect, to be honest with you.

Q Okay. Would you agree with me that the factor that was approved for 2005 was $39.12 per 1,000 kilowatt-hours on a residential bill?

A Yes.

Q And the factor for 2004 was $34.53 on a 1,000 kilowatt-hour bill?

A That's correct.

Q Okay. And subject to check, would you agree with me that that was a 13.3 percent increase?

A Yes. But that was the increase contemplating a two-year recovery.

Q Okay. And would you agree with me that if you had not spread out the overrecovery over two years, then the amount of the fuel factor in 2005 would have been $41 per 1,000 kilowatt-hours?

A Subject to check.

Q Okay. And that would be a 20 percent increase over the 2004 factor of $34.53, subject to check.

A Yes.

Q Okay. And would you agree with me that your proposed charge for 2006 is $53.21?

A I believe so.

Q Okay. And subject to check, would you agree with me that that, that the percent difference between the $53.21 charge for 2006 that's proposed and the 2005 factor of $39.12 is 36 percent?

A For just fuel, is that where -- yes.

Q Yes.

A Yes. Subject to check, I believe that's right.

Q And that is greater than the percentage increase that customers were facing last year if you would have just done the one-year underrecovery.

A Yes. And one of the contributing factors to that is the fact that I'm having to carry $93 million from 2004 into 2006. So that's one of the issues that we had to deal with when deciding whether to repeat the deferral over two years is that we continue to put upward pressure in a period that appears to us to be very volatile; whereas, we had thought when we were projecting 2005 that we would see some stability. That really hasn't materialized, so, therefore, the reason you see a larger increase is partially because of that carryover from 2004.

Q Would you agree with me that if you were to collect this year's underrecovery over two years, the fuel factor would drop to $49.26, which is an increase of about 25 percent versus last year's factor?

A I don't -- subject to check of your math, I don't disagree. But, again, your, your potential is that you'll be in the same situation with increasing rates in 2006, pardon me, 2007.

Q Okay. And would you agree with me that an increase -- you would agree with me that an increase of 36 percent is greater than an increase of 25 percent.

A Yes.

Q Okay. And one of the things that you talked about was the volatility of the fuel prices; isn't that correct?

A Yes.

Q Okay. And by spreading out the recovery over two years, what that does is it mitigates the increase in a one-year period; isn't that correct?

A It lessens the impact to customers.

Q Okay. And the impact that customers will have in 2005, if you have a one-year recovery of an underrecovery, is much greater than the impact that they would have had if there, if there would have been a one-year underrecovery last year; isn't that correct?

A I'm not quite sure I followed that.

Q That -- okay. Last year they would have had a 20 percent increase on their bill.

A If we had gone with a one-year recovery.

Q Right. And this year they're facing a 36 percent increase.

A Right. But as I told you, that had we gone with a one-year recovery, this year the underrecovery would have been $93 million less.

Q Okay.

A So, therefore, their 30 some percent increase would be that percentage lower.

Q But either way, what you're looking at is a bigger spike in this year's prices if you do a one-year underrecovery this year; isn't that correct?

A Oh, most definitely.

Q Okay. So if you were to do a two-year underrecovery this year, that would decrease the spike.

A It just, like you said, defers that spike to another year.

Q Okay.

A Because you're -- I mean, if you assume -- I think one of the rationales for spreading over more than one year is if you are anticipating fuel costs to either stabilize or decline, it makes sense then not to see the price seesaw, going up and down. But in a period where you envision fuel costs and the potential for underrecoveries to continue to increase, I think it's better for the customer to get what has already occurred behind them and then be faced with whatever happens in the marketplace going forward.

Q And what does Progress Energy currently project that prices will be in 2007 versus 2006?

A I don't have an exact price because of the volatility in the marketplace, but, but we are already seeing that our projection for the remainder of the year is slightly higher than what we forecasted here before the Commission. So it's very problematic for us because there are so many external factors putting pressure on the commodity markets that, you know, may or may not really be real, but the problem is that we're having to buy the commodity at those prices.

Q Okay. And you didn't answer my question. But the question that I asked was what is Progress projecting that prices will be? I'm not talking on an absolute basis. I'm talking about the trend for 2007 versus 2006.

A As far as directionally? Higher.

Q And, if anything, slightly higher at this time; isn't that correct?

A Oh, I don't agree with that.

Q Isn't -- okay. Can I ask you to turn to Page 84A in the green packet that you have to your right?

A Yes, sir.

Q And I believe that this is what Ms. Murphy was testifying about earlier. And what this shows, if I'm correct, is an updated forecast that Progress did for staff based on the October 28th NYMEX prices. And I think Mr. Perko asked a question about Column 3, and I believe that Ms. Murphy's answers were that vis-a-vis the 2006 prices, that they're slightly higher.

A Oh, you're absolutely correct. But now let me call your attention to Column 2, which is the 2006 view of the market prices as of October 28th. As compared to Column 1, which is what's in this filing before the Commission today, you're looking at 14, 15 percent increase for 2006 in the month of January. That variance will affect the customer's price if it materializes in 2007. So you can't simply look at the burn cost for 2007 as your measure of whether the customer's price will go up or down.

Q And even if you're, even if you're projecting costs to go up, if you were to spread out the underrecovery over two years, that smooths out the price over time; isn't that correct?

A I would say yes, that's the intent.

Q Okay. And is one of the goals of having a certain -- is one of the goals of, in the fuel clause factor to have a sort of rate stabilization over time?

A One tries to achieve that. But always in the balance of other factors like cash flow to the company, if we are seeing that the collections are going to potentially be less than the actual incurred, that puts significant cash flow impacts on the company to actually pay for that commodity. I understand we do, we get the time value of money, but that doesn't alleviate the fact that I have to come up with the principal to pay for those commodities. So that's, you know, that's a factor.

The other factor is, you know, how much more pressure are you putting in those outer years as you carry, you know, the balance from '04, a partial balance from '05, a partial balance from '06? You continue to exacerbate the problem if you don't get it behind you and, and send the right signal to customers related to the commodity prices at the time they're, or as close to the time that they're using the commodity.

Q There's still going to be a signal that there's an upward trend in prices regardless of whether it's going to be a one-year or two-year underrecovery; isn't that correct?

A It may be a higher signal than they need to see because you're carrying that impact from the prior year. If you had gotten it behind you, like we talked about 2004's number, although 2004 would have been a higher percentage increase had we increased it, pardon me, collected it over one year, then the 2005 increase would have been slightly lower and, you know, they could see the, the relative effects of, of the marketplace in 2004 versus 2005.

MR. PERRY: Okay. I don't have any further questions.

CHAIRMAN BAEZ: Mr. Wright.

MR. WRIGHT: No questions.

CHAIRMAN BAEZ: No questions?

MR. WRIGHT: Thank you, Mr. Chairman.

CHAIRMAN BAEZ: That leaves Ms. Rodan.

CROSS EXAMINATION

BY MS. RODAN:

Q Yes. Good morning still, Mr. Portuondo.

A Good morning.

Q Did Progress Energy experience an overrecovery of its fuel costs in October 2005 compared to the fuel costs as shown in your September 9th supplemental testimony?

A An overrecovery?

Q Yes.

A You're comparing the August 9th, is that what you're comparing?

Q The September 9th supplemental testimony.

A All right. Versus the October 5th, October?

Q Yes.

A If I'm looking correctly, my September -- you're looking at the month of September; is that correct?

Q For October.

A Oh, I apologize. October projected 2005? The October projection for 2005 is the same in both filings. If I'm looking at the right information that you're looking at, Line 15 of the September amended showed $15 million, $15.4 million underrecovery. And if you look at the October Line 15, it's the same number.

Q Okay. At this time does Progress Energy expect to overrecover its fuel costs in November or December 2005, again compared to your September 9th supplemental testimony?

A No. Actually we'll -- our current view shows that we're going to be underrecovered even further than our projection.

Q Okay. As an alternative to FIPUG's proposal, would the utility be opposed to deferring half of its $222.1 million underrecovery from 2005 to 2007?

A Yes.

Q Can you please explain why?

A If I understood your question, it would be deferring it half of what we're going to collect in '06 to '07, which is the same two-year amortization that FIPUG is presenting.

Q It would be deferring half of the 2005 underrecovery, deferring that to 2007.

A Isn't, isn't that what FIPUG is proposing?

Q FIPUG was proposing a combination of 2004 and 2005 underrecovery, and this would just be the $222.1 million as opposed to the 315, $315 million.

A I don't believe that was FIPUG's position. I could be mistaken. In either case, I don't support FIPUG's proposal to amortize the 2005, given the expectations that we see for impacts in 2007.

MS. RODAN: Okay. Thank you. I have no further questions.

CHAIRMAN BAEZ: Commissioners, do you have questions at this point?

Just, just so that -- and, Mr. Portuondo, I apologize for the question, but there seems to be some misunderstanding on the part of, on the part of staff, and I don't know if it's better to ask, let Mr. Perry ask you one question. It's sort of an awkward position. You have to explain or somehow clarify an Intervenor's testimony, but I'm willing to allow the question, the one question to be asked if it'll help staff, if you think you need it.

MR. PERRY: I've got to look at the number to double-check, but I don't know if Mr. Perko is going to interpose an objection, but I think he'd probably want to do that.

CHAIRMAN BAEZ: Some -- and here is -- I mean, you can see, you can see where we're crossed up here. I don't know who's the appropriate person to ask it. And if, and if there is none, I'll ask it.

MR. PERKO: Mr. Chairman, I -- let me check here. I believe that FIPUG's proposal is clear from the issue that it stated in 13M. I don't know if that helps clarify things.

CHAIRMAN BAEZ: I tell you what, Mr. Portuondo, clarify for me your understanding of what, of what FIPUG, your understanding of what FIPUG's seeking in this because I'm not sure now I understand it.

THE WITNESS: Sure. I'll be glad to. My understanding is that they are seeking an amortization of the '05 underrecovery over two years similarly to how we treated the '04.

CHAIRMAN BAEZ: Okay. And but, but as a, as a concept under your understanding of the FIPUG proposal, the $93 million carryover is, is being respected in its two-year, in its original two-year form.

THE WITNESS: Yes, as I understand it.

CHAIRMAN BAEZ: Okay. Commissioners, if you don't have any other -- Mr. Perry.

MR. PERRY: I think -- I apologize. I didn't hear your question and answer because I was getting clarification.

CHAIRMAN BAEZ: All I -- the only, the only thing that I needed, that I needed clarified in my mind was that what is, what is, what is recognized as a carryover from prior years that would now theoretically be in its second year of amortization, final year of amortization, is still being respected under, under FIPUG's proposal. Mr. Portuondo answered me that it is his understanding that it is; that the $93 million that was identified in testimony as a carryover from a previous year is not part of what FIPUG is seeking to have amortized over an additional two years.

MR. PERRY: Okay. And my understanding from the clarification I got is -- and I don't want to, I don't want to have this --

CHAIRMAN BAEZ: Mr. Perko is not going to -- I don't, I don't know who we can put on there to get it.

MR. PERRY: Yeah. We put on our issue a certain number, $315.7 million to be amortized over two years. It's my understanding that that also includes the portion of the 2004 underrecovery that was deferred to this year. So whereas Mr. --

CHAIRMAN BAEZ: So we're not -- so you're not dealing, you're not dealing -- let me ask the, the -- from what you know, Mr. Portuondo, we're not dealing with a 50 percent, a 50/50 amortization of the 2005 underrecovery.

THE WITNESS: It appears that we're not.

CHAIRMAN BAEZ: Okay.

THE WITNESS: I did not think, given the fact that the Commission had already ordered the 2004 to be spread over two years, that that was in play.

CHAIRMAN BAEZ: Okay. I'm, I'm clear. I don't know if there needs to be anything else, so.

MR. PERRY: I think, I think that the witness is -- I mean, he's talked about what our position is. I think that he's mistaken on what our position is, so I think that it's only fair to clarify that.

CHAIRMAN BAEZ: Okay. But I don't know who you've got to clarify that.

MR. PERRY: Well, I understand that.

CHAIRMAN BAEZ: It's clear in my mind.

MR. PERRY: Okay.

CHAIRMAN BAEZ: Mr. Perko, redirect.

MR. PERKO: Yes, just a couple of questions.

REDIRECT EXAMINATION

BY MR. PERKO:

Q Mr. Portuondo, if the proposal were to take out the $93 million that was deferred from 2004 from the proposal to carry the underrecovery over two years --

CHAIRMAN BAEZ: Mr. Perko, I don't think the court reporter can hear you.

MR. PERKO: I'm sorry.

BY MR. PERKO:

Q If the proposal at hand were, and I'm not saying it is, but if it were to take out the $93 million that was deferred from the 2004 underrecovery, take that out from the underrecovery that is proposed to be deferred over two years in this year's docket, would the company's position still be that that should not be done for the reasons you've stated?

A That is correct.

MR. PERKO: No further questions.

CHAIRMAN BAEZ: Exhibits. Mr. Perry, I have 82 for you.

MR. PERRY: I'd move Exhibit 82, please.

CHAIRMAN BAEZ: Without objection, show 82 admitted.

(Exhibit 82 admitted into the record.)

CHAIRMAN BAEZ: Mr. Perko, I have 41, 42, 43 and 44 for Mr. Portuondo.

MR. PERKO: That is correct.

CHAIRMAN BAEZ: Show 41 through 44 admitted.

(Exhibits 41, 42, 43 and 44 admitted into the record.)

CHAIRMAN BAEZ: And I can't believe our luck. At this point we're going to recess for lunch until 1:00. And, Mr. Horton, do you have your witnesses ready to go at 1:00?

MR. HORTON: Yes, sir.

CHAIRMAN BAEZ: Thank you.

MR. PERKO: Mr. Chairman, can we have Mr. Portuondo excused, please?

CHAIRMAN BAEZ: Mr. Portuondo, you're excused. I always do it.

(Recess taken.)

(Transcript continues in sequence with Volume 5.)

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

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