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COMMISSION  
CLERK

October 5, 2006

- VIA OVERNIGHT DELIVERY -

Ms. Blanca S. Bayó, Director  
Division of the Commission Clerk and  
Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399

Re: Docket Nos. 060001-EI and 060362-EI

Dear Ms. Bayó:

I am enclosing for filing in the above dockets the original and fifteen (15) copies of the prefiled testimony and exhibits of Florida Power & Light Company witnesses Korel M. Dubin and Gerard J. Yupp, which respond to the prefiled testimony and exhibits submitted on behalf of the Office of Public Counsel by Patricia W. Merchant concerning the recovery through the fuel cost recovery clause of certain costs associated with natural gas storage.

If there are any questions regarding this transmittal, please contact me at 561-304-5639.

Sincerely,

John T. Butler

- CMP \_\_\_\_\_
- COM 5
- CTR DTB
- ECR
- GCL
- OPC \_\_\_\_\_
- RCA \_\_\_\_\_
- SCR \_\_\_\_\_
- SGA \_\_\_\_\_
- SEC
- OTH \_\_\_\_\_

Enclosure  
Cc: Counsel for parties of record (w/encl.)

DOCUMENT NUMBER-D/

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FPSC-COMMISSION CL

**CERTIFICATE OF SERVICE**  
**Docket Nos. 060001-EI and 060362-EI**

**I HEREBY CERTIFY** that a true and correct copy of the rebuttal testimony of Florida Power & Light witnesses Korel M. Dubin and Gerard J. Yupp have been furnished by overnight delivery or U.S. Mail on the 6th day of October, 2006, to the following:

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**BEFORE THE FLORIDA  
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 060001-EI**

**IN RE: LEVELIZED FUEL COST RECOVERY  
AND CAPACITY COST RECOVERY**

**And**

**DOCKET NO. 060362-EI**

**IN RE: PETITION TO RECOVER  
NATURAL GAS STORAGE COSTS THROUGH  
FUEL COST RECOVERY CLAUSE**

**FLORIDA POWER & LIGHT COMPANY**

**October 6, 2006**

**REBUTTAL TESTIMONY OF:**

**G. J. YUPP  
K. M. DUBIN**

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**  
**FLORIDA POWER & LIGHT COMPANY**  
**REBUTTAL TESTIMONY OF GERARD J. YUPP**  
**DOCKET NO. 060001-EI**  
**October 6, 2006**

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

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

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

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

**Q. Have you previously testified in this docket?**

A. Yes.

**Q. What is the purpose of your testimony?**

A. The purpose of my testimony is to rebut certain assertions made in the testimony of Public Counsel Witness Patricia W. Merchant in opposition to FPL's proposed recovery through the fuel clause of two specific components of natural gas storage costs associated

1 with FPL's proposed participation in the MoBay Gas Storage Hub  
2 and FPL's continuing participation in the Bay Gas storage facility.  
3 Specifically, Ms. Merchant opposes FPL's recovery of carrying costs  
4 associated with unamortized base gas in the MoBay facility and the  
5 working volume of stored gas at the MoBay and Bay Gas facilities.  
6 My rebuttal testimony, together with that of FPL Witness K. M.  
7 Dubin, shows that Ms. Merchant's rationale for opposing recovery of  
8 these costs lacks merit. FPL believes its cost recovery proposal is  
9 appropriate as the costs associated with its proposed participation in  
10 the MoBay facility and the costs associated with its continuing  
11 participation in the Bay Gas facility constitute hedging-related costs.

12

13 **BASE GAS**

14 **Q. Please describe the role of base gas in a natural gas storage**  
15 **facility.**

16 A. Base gas is the volume of gas that must remain in the storage  
17 facility to provide the required pressurization to extract the working  
18 gas volume. Base gas is analogous to the volume of fuel oil that  
19 resides in a tank up to the discharge piping. This volume of oil,  
20 known as "tank bottoms," allows for the extraction of the working oil  
21 inventory.

22

23 **Q. Will FPL be able to recover its base gas volumes associated**

1           **with the MoBay facility at the end of the contract term?**

2    A.    Yes. At the end of the contract term, FPL can either withdraw the  
3           base gas and burn the gas directly at its plants or execute an “in-  
4           cavern” exchange with another party and receive payment for the  
5           gas. An exchange could occur if another party was replacing FPL’s  
6           participation in the storage facility.

7

8    **Q.    Is base gas a requirement for all types of underground natural**  
9           **gas storage?**

10   A.    Yes. Base gas is needed, regardless of whether gas is stored in a  
11           salt cavern, depleted oil/gas reservoir or aquifer underground  
12           storage.

13

14   **Q.    Do gas storage facilities typically charge storage customers for**  
15           **base gas?**

16   A.    Yes. Base gas is a cost of providing storage service and therefore,  
17           storage facilities would typically need to recover this cost from their  
18           customers one way or another.

19

20   **Q.    Does FPL currently pay for and recover the cost of base gas**  
21           **requirements associated with its Bay Gas storage contract**  
22           **through the fuel clause?**

23   A.    Yes. FPL’s base gas requirement with its Bay Gas contract is not

1 detailed as a separate charge in the contract, but instead, is  
2 included in the Bay Gas monthly demand charge. This monthly  
3 demand charge is recovered through the fuel clause as a  
4 component of the total monthly cost of natural gas.

5

6 **Q. Why is the base gas charge broken out separately in FPL's**  
7 **proposed MoBay contract?**

8 A. FPL requested this separation in an effort to minimize the cost of  
9 base gas to FPL's customers. Under the MoBay contract, FPL has  
10 the right to either lease the base gas from MoBay or provide its own  
11 base gas. Leasing the base gas from MoBay would be equivalent  
12 to the arrangement that FPL has with Bay Gas and would therefore  
13 not have raised any issue about recoverability. However, FPL  
14 wanted the flexibility to self-provide base gas if it could do that at a  
15 lower cost than MoBay was offering and has acted prudently to  
16 choose that alternative to save our customers money.

17

18 **Q. Do you believe it would be appropriate for the Commission to**  
19 **make a distinction as to the recoverability of base gas**  
20 **depending on whether the cost is built into the charges paid to**  
21 **a storage facility or is provided separately by the utility?**

22 A. No. This would be unfair and would discourage utilities from  
23 seeking innovative arrangements to reduce costs to customers.



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**STORED GAS**

**Q. What is the purpose of FPL’s gas storage projects?**

A. The purpose of FPL’s gas storage projects is to hedge the physical supply of natural gas, thereby increasing reliability and helping to reduce fuel price volatility during natural gas supply disruptions and/or periods of high demand.

**Q. Does FPL need to store gas in order to operate its fleet of gas-fired units?**

A. No. Natural gas storage is not required for the ordinary operation of FPL’s gas-fired plants. Natural gas is transferred directly from a pipeline into the power plant. Natural gas is scheduled, delivered and consumed from a pipeline on what can be termed a “real-time” basis. The intermediate step of storing a fuel, as is the case with fuel oil, is not a requirement for ordinary natural gas operations. Natural gas storage inventory is generally utilized under “abnormal” conditions that are impacting the real-time delivery or price of natural gas. Recent history has shown that extreme weather events can have a significant impact on gas supply, and these events certainly qualify as “abnormal” conditions. Over the past two hurricane seasons, FPL incurred incremental costs to replace firm natural gas supply that was curtailed as a result of severe weather-related

1 events of approximately \$96.5 million.

2

3 **Q. How much working gas does FPL expect to store, on average,**  
4 **in the Bay Gas and MoBay facilities?**

5 A. Because natural gas storage is utilized to hedge the physical supply  
6 of natural gas, FPL's general practice and intent has been to  
7 maintain full working gas volumes, particularly during hurricane  
8 season and winter months. During the remaining three "shoulder  
9 months," FPL can be slightly more selective in its strategy for  
10 working gas volumes depending on market conditions and weather  
11 forecasts. In general, however, the volume of working gas that FPL  
12 expects to maintain in its gas storage facilities will likely average  
13 90% or more of its total working gas capacity. FPL's total working  
14 gas capacity between Bay Gas and MoBay will be 8 BCF.  
15 Assuming FPL maintains working gas volumes of approximately  
16 90% of its working gas capacity, FPL's working gas volume would  
17 be approximately 7.2 BCF at any given point in time.

18

19 **Q. What is the estimated value of that stored gas?**

20 A. The actual value of the stored working gas will fluctuate depending  
21 on injection and withdrawal rates and market conditions. However,  
22 for illustrative purposes, if the average price of natural gas was  
23 \$7.00 per MMBTU, the average value of FPL's stored working gas

1 would be approximately \$50 million.

2

3 **Q. When does FPL pay for the gas it stores?**

4 A. FPL pays for the gas it stores at the end of the month in which it  
5 takes delivery of the gas.

6

7 **Q. When does FPL recover the cost of the stored gas?**

8 A. FPL recovers the cost of the stored gas at the end of the month in  
9 which it withdraws the gas and burns the gas in its plants.

10

11 **Q. Does this mean that FPL is incurring carrying costs throughout  
12 the period between the delivery and withdrawal of stored  
13 natural gas?**

14 A. Yes.

15

16 **Q. Does FPL presently recover any of the carrying costs for its  
17 stored gas?**

18 A. No.

19

20 **Q. Would you consider the absence of an opportunity to recover  
21 carrying costs on stored gas to be a disincentive to the use of  
22 gas storage as a means of physical hedging?**

23 A. Yes. As such, it is inconsistent with the Commission's

1           encouragement of hedging.

2

3   **Q.   Ms. Merchant states that FPL’s assertion that natural gas**  
4   **storage is solely for hedging and not ordinary purposes**  
5   **contradicts FPL’s Petition which states “gas storage allows**  
6   **FPL to better manage and respond to intra-day changes in its**  
7   **natural gas requirements due to load variance, unit outages,**  
8   **etc.” Do you agree that this statement is contradictory?**

9   A.   No. The purpose of hedging is to reduce fuel price volatility and in  
10   the case of natural gas storage, to ensure the physical supply of  
11   natural gas. The sentence that follows the quote that Ms. Merchant  
12   included in her testimony finishes the point that FPL was making in  
13   its Petition. That sentence reads, “The ability to withdraw gas from  
14   storage on an intra-day basis allows FPL to potentially avoid having  
15   to purchase higher priced, intra-day natural gas and/or dispatching  
16   generation with alternate fuels.” This sentence clearly shows that  
17   natural gas storage, even on an intra-day basis, is not required to  
18   run gas-fired generation for ordinary operations, but allows FPL to  
19   manage the volatility associated with purchasing natural gas in the  
20   spot market or burning higher cost alternate fuels. Under normal  
21   operating conditions, FPL does not require natural gas storage to  
22   meet its customer requirements. The utilization of natural gas  
23   storage under normal operating conditions can help reduce price

1 volatility, which is the intent of fuel hedging.

2

3 **Q. Ms. Merchant asserts that the hedging order does not allow for**  
4 **the recovery of carrying costs through the fuel clause as this**  
5 **type of cost is not listed in the specific examples of types of**  
6 **hedging costs that are allowed recovery through the fuel**  
7 **clause? Do you agree?**

8 A. No. I participated extensively in Docket No. 011605-EI on FPL's  
9 behalf. At the time the Hedging Order was issued, expanded  
10 hedging programs were new to all the parties and there was no  
11 possible way the Order could cover all of the types of hedging costs  
12 and hedging instruments that would be allowed. The order clearly  
13 allows for the recovery of hedging related costs, both physical and  
14 financial. The list of examples was not meant to be all  
15 encompassing, but rather gives examples of costs related to types  
16 of hedging instruments that were known at that time. The  
17 Commission should focus on FPL's intent, which is to help ensure  
18 the physical supply of natural gas and reduce its price volatility. This  
19 intent is fully consistent with the Hedging Order.

20

21 **Q. Does this conclude your testimony?**

22 A. Yes.

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**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FLORIDA POWER & LIGHT COMPANY**

**REBUTTAL TESTIMONY OF KOREL M. DUBIN**

**DOCKET NO. 060001-EI**

**October 6, 2006**

**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. The purpose of my testimony is to rebut the testimony of the Office of Public Counsel (OPC) witness Patricia W. Merchant, in opposition to FPL's proposed recovery through the fuel clause of two specific components of natural gas storage costs associated with FPL's proposed participation in the MoBay Gas Storage Hub and FPL's continuing participation in the Bay Gas Storage Facility. Specifically,

1 Ms. Merchant opposes FPL's recovery of carrying costs associated  
2 with unamortized base gas in the MoBay Facility and the working  
3 volume of stored gas at the MoBay and Bay Gas Facilities. My  
4 rebuttal testimony, together with that of FPL witness G.J. Yupp,  
5 shows that Ms. Merchant's rationale for opposing recovery of those  
6 carrying costs is ill-founded and lacks merit.

7

8 **Base Gas**

9 **Q. Ms. Merchant proposes that base gas should be recovered over**  
10 **the life of the contract and amortized through the fuel clause**  
11 **over a 15-year period; however, carrying costs associated with**  
12 **any unamortized balance of base gas should not be recovered**  
13 **through the fuel clause. Please comment on this proposal.**

14 **A.** OPC's proposal is illogical, because it would be inconsistent to allow  
15 amortization of base gas but not recovery of the carrying costs for the  
16 unamortized balance of that same base gas. Amortization implicitly  
17 recognizes that the cost of base gas is not being recovered  
18 elsewhere and that it is appropriate for FPL to recover that cost  
19 through the fuel clause. Carrying costs are an equally valid and real  
20 cost of providing base gas, and so consistency dictates that FPL  
21 likewise be afforded the opportunity to recover those costs through  
22 the fuel clause.

23

24 Furthermore, denying recovery of carrying costs on the unamortized

1 base gas balance guarantees that FPL will not fully recover its costs,  
2 thus creating a major disincentive that is inconsistent with the  
3 Hedging Resolution. Order No. PSC-02-1484-FOF-EI, dated October  
4 30, 2002 approving the Hedging Resolution states that “the Proposed  
5 Resolution of Issues appears to remove disincentives that may  
6 currently exist for IOU’s to engage in hedging transactions that may  
7 create customer benefits by providing a cost recovery mechanism for  
8 prudently incurred hedging transaction costs, gains and losses, and  
9 incremental operating and maintenance expenses associated with  
10 new and expanded hedging programs”. There is no distinction made  
11 between what types of hedging transactions qualify for recovery and,  
12 in fact, a note at the end of the hedging resolution approved by the  
13 Order specifically observes that “[n]o implication concerning the  
14 relative merits of using financial versus physical hedging should be  
15 drawn from this proposed resolution.”

16  
17 Natural gas storage is a prudent form of hedging that will provide  
18 benefits to its customers by providing supply security and volatility  
19 reduction. Therefore; base gas costs, whether a one-time expense  
20 or amortized over a period of time with carrying costs on the  
21 unamortized balance, should qualify for recovery through the fuel  
22 clause.

23  
24 **Q. How does FPL propose to recover the base gas costs?**



1 A. In contrast to Ms. Merchant's proposal, FPL proposes to expense the  
2 base gas through the fuel clause in the same manner that "tank  
3 bottoms" (the "non-recoverable oil" that sits at the bottom of oil  
4 storage tanks) are expensed through the fuel clause. This non-  
5 recoverable oil is needed to keep the oil level in a tank high enough  
6 for the working volume of oil to be removed by the suction piping in  
7 the tank. Non-recoverable oil remains in the tank until it is  
8 periodically cleaned, at which time the oil is removed and burned as  
9 fuel. Pursuant to Order No. 12645, Docket No. 830001-EI, dated  
10 November 3, 1983, FPL and other utilities have been authorized to  
11 charge the cost of non-recoverable oil to the Fuel Clause when the oil  
12 is loaded into the tanks, with a credit to the Fuel Clause when it is  
13 ultimately removed and burned. This is precisely the treatment that  
14 FPL seeks with respect to the base gas costs.

15

16 **Q. Ms. Merchant states base gas correlates closer with base coal**  
17 **than non-recoverable oil. Do you agree?**

18 A. No. Base gas is not analogous to base coal. Order No. 12645 in  
19 Docket No. 830002-EU discusses the recovery of base coal and  
20 states that:

21 "Base Coal (Issues 4 and 5)

22 Each coal pile maintained by a utility contains a certain  
23 amount of "base coal" used to support the pile. This coal is  
24 normally low grade coal and is not expected to be burned as

1 part of normal utility operations. Except for TECO, this coal is  
2 maintained in inventory in spite of the fact that it is not  
3 expected to be burned. All parties (except FPL, which uses  
4 no coal) have agreed that base coal should be capitalized in  
5 Account 312 and depreciated over the life of the plant. TECO  
6 currently accounts for its base coal in this manner. We find  
7 that the proper treatment of investment in base coal is to  
8 capitalize it in account 312 as proposed. Normally, plant  
9 items such as base coal would be depreciated over the life of  
10 the plant to which it relates. However, we find that a shorter  
11 period of five years is more appropriate for the depreciation of  
12 base coal.”

13 The distinctions between base coal and base gas are as follows:

- 14 • Base coal is “used to support the coal pile.” In contrast, base gas  
15 is not used to physically support anything (and hence, is not  
16 analogous to an improvement to real estate for accounting  
17 purposes).
- 18 • Base coal is “low grade coal.” In contrast, base gas is not low  
19 grade; it is the same as the other gas in the facility.
- 20 • Base coal is “not expected to be burned.” In contrast, base gas  
21 will be burned for the benefit of customers once the storage  
22 arrangement is terminated.
- 23 • Base coal is capitalized and depreciated. In contrast, base gas  
24 does not meet any criteria for capitalization in an electric plant

1 account, but could be included in account 151, Fuel Stock; it  
2 would not be subject to depreciation.

3

4 In contrast, base gas is exactly like non-recoverable oil in the most  
5 important respect: it is burned and hence up-front recovery is really  
6 pre-payment by customers for a usable fuel in the case of both base  
7 gas and non-recoverable oil. Since the base coal is not usable, this  
8 recovery approach would not even work for base coal, which is the  
9 main reason that there must be a different recovery approach for  
10 base coal.

11

12 **Carrying Costs for Stored Gas**

13 **Q. Ms. Merchant states that “Fuel inventory historically is**  
14 **recovered through base rates and is included as a component of**  
15 **working capital. Gas is no different than any other fuel inventory**  
16 **in which a utility invests. By its very nature, all inventory**  
17 **purchased is a physical hedge for supply as well as cost.**  
18 **Accordingly, I disagree with Ms. Dubin’s testimony that storing**  
19 **gas is solely for hedging not ordinary operating purposes, and**  
20 **as such separates the gas from the other fuel inventory**  
21 **balances.” Please comment on this assertion.**

22 **A. Ms. Merchant ignores the fact that natural gas storage is commonly**  
23 **characterized within the industry as physical hedging. For example,**  
24 **the July 21, 2005 edition of Natural Gas Weekly Update published by**

1 the United States Department of Energy, observed in commenting on  
2 market trends that 47 of 54 American Gas Association (AGA)  
3 member companies surveyed reported using natural gas storage as a  
4 primary hedging tool and that “several companies noted that storage  
5 (as a physical hedge) is the only hedge they employ, choosing not to  
6 use financial instruments at all.” In the case of storing gas as a  
7 physical hedge, the “hedging transaction” is the placement and  
8 retention of gas in storage for later use when needed. There are  
9 necessarily carrying costs associated with retaining gas in storage,  
10 and those costs are therefore part of the transaction costs.

11  
12 Moreover, Ms. Merchant is relying on semantics to gloss over a  
13 crucial difference between the role of gas storage for gas-fired units  
14 and the inventories of fuel oil and coal that are maintained at oil and  
15 coal-fired units. As discussed more fully in Mr. Yupp’s rebuttal  
16 testimony, gas-fired plants have operated effectively for years under  
17 normal operating conditions without gas storage, and could certainly  
18 continue to do so. The only thing that would be lost if FPL did not  
19 engage in gas storage is FPL’s ability to buffer its customers against  
20 the risk of supply unavailability and price volatility that the stored gas  
21 provides. In other words, the gas is stored first and foremost to be a  
22 physical hedge. In contrast, Mr. Yupp explains that FPL has never  
23 owned or co-owned an oil-fired or coal-fired unit that does not have  
24 an onsite fuel inventory, and it would be impractical if not impossible

1 to operate such a unit. While an oil or coal inventory may incidentally  
2 provide a small degree of physical hedging benefits, that is not the  
3 reason the inventory is maintained, and FPL has no choice but to  
4 maintain it. There is no need, in the words of the Hedging  
5 Resolution, to “remove disincentives” to the maintenance of fuel or  
6 coal inventories because those inventories are not discretionary in  
7 the first place.

8

9 **Q. Ms. Mechant states that “The Commission approved Gulf**  
10 **Power’s inclusion of gas inventory in working capital in Gulf’s**  
11 **last base rate case, Docket No. 010949-EI. The gas inventory**  
12 **was related to Gulf’ gas storage agreement with Bay Gas.” Is**  
13 **Gulf’s gas storage analogous precedent for FPL’s recovery of**  
14 **gas storage carrying costs?**

15 **A.** No. Gulf was already storing gas at the time of its 2002 base rate  
16 proceeding, and because the Hedging Resolution had not yet been  
17 approved at that time, there was no mechanism for recovering the  
18 carrying costs for the stored gas through the FCR Clause. Inclusion  
19 of the stored gas cost in the working capital calculation was thus  
20 Gulf’s only available recovery mechanism, and Gulf properly used it.  
21 In contrast, FPL did not begin any program of firm gas storage until  
22 after the Hedging Resolution was approved and has never included,  
23 or sought to include, any of the costs associated with gas storage in  
24 the determination of base rates.

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**Q. Ms. Merchant discusses the types of costs that are recoverable through the fuel clause pursuant to Order No. 14546, from the 1985 fuel docket. One of the criteria for fuel cost recovery discussed in that order is volatility. Ms. Merchant states “carrying costs for a stable amount of fuel contained in a storage facility are not “volatile” and therefore should be recovered through base rates. Carrying costs are simply the rate of return earned on the utility’s investment, which in this case is the investment in fuel contained in a storage facility.” Do you agree that whether or not gas storage costs are volatile should determine their recoverability through the fuel clause?**

**A.** No. Recovery of hedging costs is not based on their volatility; in fact, their purpose is to reduce volatility. Certainly, O&M expenses incurred to manage a hedging program are not necessarily volatile but are recoverable through the fuel clause pursuant to the hedging resolution. The basis for allowing recovery is that the Commission wanted “to remove disincentives that may currently exist for IOU’s to engage in hedging transactions that may create customer benefits by providing a cost recovery mechanism for prudently incurred hedging transaction costs, gains and losses, and incremental operating and maintenance expenses associated with new and expanded hedging programs”. This rationale has nothing to do with volatility.

1 **Q. Ms. Merchant asserts that the hedging order does not allow for**  
2 **the recovery of carrying costs through the fuel clause because**  
3 **the term “carrying costs” is not specifically listed as an example**  
4 **of the types of hedging costs that are recoverable through the**  
5 **fuel clause. Do you agree?**

6 **A.** No. As discussed more fully in Mr. Yupp’s rebuttal testimony, at the  
7 time the hedging order was issued, expanded hedging programs  
8 were new to all utilities and there was no possible way the order  
9 could cover all the types of hedging costs and hedging instruments  
10 that would be allowed. Like Mr. Yupp, I participated extensively in  
11 Docket No. 011605-EI on behalf of FPL and understood that the list  
12 of recoverable items in the Hedging Resolution was not intended to  
13 be all-encompassing but rather a list of examples.

14  
15 **Q. Ms. Merchant states that she believes including gas storage**  
16 **carrying costs through the fuel clause would violate the Rate**  
17 **Settlement Agreement and subsequent stipulation in the Fuel**  
18 **Docket. Ms. Merchant states that “inventory carrying costs are**  
19 **traditionally and historically included in base rates as part of**  
20 **working capital. The 2005 rate case settlement order stated the**  
21 **following: During the term of this Stipulation and Settlement ...**  
22 **FPL will not petition for any new surcharges... to recover costs**  
23 **that are of a type that traditionally and historically would be, or**  
24 **are presently, recovered through base rates. (Paragraph 3) Thus**

1           **it is clear to me that including inventory carrying costs or the**  
2           **carrying costs associated with the unamortized balance of gas**  
3           **would violate the terms of FPL's rate case settlement.” Do you**  
4           **agree?**

5    A.    No. Ms. Merchant is wrong in claiming that recovery of stored gas  
6           carrying costs would violate the 2005 Rate Case Stipulation and  
7           subsequent stipulation in the 2005 fuel docket, because that  
8           particular form of hedging cost was not contemplated at the time.  
9           Nothing in either stipulation says that it is limiting FPL's use of the  
10          hedging resolution to projects or forms of recovery already in place.  
11          Furthermore, recovery of stored gas carrying costs as a hedging  
12          expense would not call for any "new surcharge" in violation of the  
13          2005 Rate Case Stipulation. The recovery would be through the  
14          existing fuel clause, on the basis of the existing wording of the  
15          Hedging Resolution.

16  
17    **Q.    Ms. Merchant states “Citizens agree that the gas storage project**  
18           **is worthwhile.” Do you believe it is consistent with that**  
19           **conclusion for OPC to oppose FPL's recovery of reasonable and**  
20           **prudent costs associated with making that project available?**

21    A.    No; it is completely inconsistent. OPC seems to be saying in  
22           essence that the project will provide benefits for customers but just  
23           do not want FPL to have or receive the opportunity to recover the cost  
24           associated with the project. This is not a reasonable or realistic



1 regulatory position and its adoption would send the wrong signal to  
2 FPL and other utilities about exploring incremental, discretionary  
3 projects that could provide substantial benefits to customers but  
4 would require the utilities' shareholders to incur significant costs to do  
5 so. Of course, as I have discussed earlier, the specific purpose of  
6 the Hedging Resolution was to remove disincentives of this sort with  
7 respect to hedging-related activities, which FPL's gas storage  
8 projects most assuredly are.

9

10 In short, denying recovery of carrying costs on the stored supply of  
11 natural gas, including the unamortized balance of base gas,  
12 guarantees that FPL will not fully recover its costs, creating a major  
13 disincentive that is inconsistent with the Hedging Resolution.

14

15 **Q. Does this conclude your testimony?**

16 **A.** Yes, it does.