

ORIGINAL

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Subject: Electronic Filing for Docket Nos. 060001-EI and 060362-EI -- FPL's prehearing statement (gas storage)
Attachments: FPL Gas Storage Prehearing Statement.doc



FPL Gas Storage
Prehearing Sta...

Electronic Filing

a. Person responsible for this electronic filing:

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b. Docket Nos. 060001-EI and 060362-EI

c. Document is being filed on behalf of Florida Power & Light Company.

d. There is a total of 7 pages.

e. The document attached for electronic filing is Florida Power & Light Company's Prehearing Statement related to the gas storage.

(See attached file: FPL Gas Storage Prehearing Statement.doc)

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FPSC-COMMISSION CLERK

ORIGINAL

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power) DOCKET NO. 060001-EI
Cost Recovery Clause and)
Generating Performance)
Incentive Factor)

IN RE: Petition to recover natural) DOCKET NO. 060362-EI
gas storage costs through fuel) FILED: October 6, 2006
cost recovery clause, by Florida)
Power & Light Company)

FLORIDA POWER & LIGHT COMPANY'S PREHEARING STATEMENT

Pursuant to Order No. PSC-06-0207-PCO-EI, dated March 15, 2006 establishing the prehearing procedure in Docket No. 060001-EI, as subsequently amended by Order No. PSC-06-0560-PCO-EI, dated June 30, 2006 and Order No. PSC-06-0710-PCO-EI, dated August 23, 2006, which procedural orders were incorporated by reference in Docket No. 060362-EI by Order No. PSC-06-0788-PCO-EI, dated September 21, 2006, Florida Power & Light Company ("FPL") hereby submits its Prehearing Statement.

A. WITNESSES

<u>WITNESS</u>	<u>SUBJECT MATTER</u>	<u>ISSUES</u>
G. Yupp K. M. Dubin	MoBay and Bay Gas Storage Projects (including rebuttal of OPC witness Merchant)	1 - 6

B. EXHIBITS

WITNESSES AND SUBJECT MATTER

WITNESS	SPONSOR	SUBJECT MATTER	EXHIBIT TITLES
G. YUPP	FPL	Description of Gas Storage Project and Its Benefits to FPL and Customers	GJY-3 (Petition to Recover Natural Gas Storage Costs) GJY-4 (Gas Storage Costs)

C. STATEMENT OF BASIC POSITION

None necessary.

D. STATEMENT OF ISSUES AND POSITIONS

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

ISSUE 1: Should the Commission approve cost recovery through the fuel clause by Florida Power and Light for natural gas storage project costs and charges at both MoBay storage facility and Bay Gas storage facility, including monthly storage reservation charges, fuel retention and commodity charges for injection and withdrawal, monthly insurance charges, base gas charges and carrying costs on natural gas stored in inventory?

FPL: See FPL's positions on Issues Nos. 2 and 3.

ISSUE 2: Should the Commission approve FPL's proposal to recover the MoBay Gas Storage Costs including Base (pad) Gas and Fuel Storage Carrying Costs through the Fuel Cost Recovery ("FCR") Clause beginning in 2008?

FPL: Yes. The Gas Storage Project will substantially increase FPL's ability to hedge the physical supply of natural gas, resulting in a significant increase in system reliability and a reduction in natural gas volatility. As a physical hedge, the prudently incurred costs associated with the project are recoverable through the FCR Clause pursuant to the Proposed Resolution of Issues (the "Hedging Resolution") approved by the Commission in Order No. PSC-02-1484-FOF-EI, dated October 30, 2002. Recovery of Gas Storage Project costs through the FCR Clause is consistent with FPL's 2005 Rate Case Stipulation and the stipulation approved by the Commission in Order No. PSC-05-1252-FOF-EI, Docket No. 050001-EI, dated December 23, 2005, which permitted FPL to recover hedging costs through the FCR Clause throughout the term of the 2005 Rate Case Stipulation. There are three general categories of costs associated with the Gas Storage Project, which are recoverable through the FCR Clause for the following reasons.

The monthly storage reservation charge, injection/ withdrawal charges, and insurance charges are conventional gas transportation costs that, in addition to being recoverable hedging-related costs, are recoverable through the FCR Clause pursuant to Commission Order No. 14546, Docket No. 850001-EI-B, dated July 8, 1985 (lists transportation costs among the types of fuel-related costs that may be recovered through the FCR Clause).

Base Gas is provided by FPL to help maintain pressure in the gas storage facility, and it remains in the facility for so long as FPL's gas storage arrangement continues at the facility. Because it is needed to facilitate FPL's storage of gas in the Gas Storage Project, Base Gas is a hedging-related cost. In addition, Base Gas is directly analogous to the "non-recoverable oil" that sits at the bottom of oil storage tanks (*i.e.*, "tank bottoms") and should be recovered in the same manner. Order No. 12645, Docket No. 830001-EI, dated November 3, 1983, authorizes utilities to charge the cost of non-recoverable oil to the FCR Clause when the oil is

loaded into the tanks, with a credit to the FCR Clause when it is ultimately removed and burned. This is the same manner in which FPL proposes to recover the cost of the Base Gas it supplies for the Gas Storage Project: the Commission should authorize FPL to charge the cost of base gas to the FCR Clause when the base gas is initially injected into the storage facility, with a credit to the FCR Clause at the end of the storage arrangement, when the base gas is either removed and burned or FPL receives compensation for leaving the gas in the facility.

FPL incurs carrying costs on the quantity of gas that it stores in the Gas Storage Project. Because the purpose of storing gas is to effect a physical hedge, the stored gas carrying costs are appropriately considered hedging costs and recoverable through the FCR Clause. It would be misleading and unfair to FPL to treat the stored gas as fuel inventory that may only earn a return through inclusion in the base rate working capital determination. Such treatment would effectively deny FPL recovery of the stored gas carrying charges, because FPL's base rate MFRs have not reflected any stored gas costs in the calculation of working capital. Moreover, stored natural gas is not "fuel inventory" in the conventional sense; storing the gas serves the purpose of hedging rather than meeting ordinary operational needs of FPL's gas-fired plants. Gulf Power Company's inclusion of stored gas in its 2002 base rate working capital calculation is not analogous precedent. Gulf was already storing gas at the time of its 2002 base rate proceeding, and because the Hedging Resolution had not yet been approved at that time, there was no mechanism for recovering the carrying costs for the stored gas through the FCR Clause. Inclusion of the stored gas cost in the working capital calculation was thus Gulf's only avenue of recovery. In contrast, FPL did not begin any program of firm gas storage until after the Hedging Resolution was approved and has never included, or sought to include, any of the costs associated with gas storage in the determination of base rates. (YUPP/DUBIN)

ISSUE 3: Should the Commission approve FPL's request to recover Carrying Costs on gas stored at the Bay Gas facility through the FCR Clause commencing upon approval of FPL's petition?

FPL: Yes, for the reasons discussed in FPL's position on Issue 2. FPL has included costs associated with the Bay Gas Storage Contract in the FCR Clause since the contract's inception in 2003. However, until now FPL has inadvertently failed to include the carrying cost associated with natural gas stored at the Bay Gas facility in the FCR Clause. Commencing upon the Commission's approval in this proceeding, FPL proposes to begin including in the FCR Clause the natural gas inventory carrying costs associated with the Bay Gas Storage Contract. FPL is not seeking recovery of these costs retroactively, even though such costs should have been appropriately recovered through the FCR Clause. (YUPP/DUBIN)

ISSUE 4: Should FPL be allowed to recover the costs for accessing and using the MoBay Gas Storage Facility?

FPL: Yes. See FPL's position on Issue Nos. 2.

ISSUE 5: What is the appropriate regulatory treatment of the base gas requirement for the MoBay gas storage contract?

FPL: See FPL's position on Issue Nos. 2.

ISSUE 6: What is the appropriate regulatory treatment for the carrying costs associated with any unamortized balance of MoBay base gas?

FPL: As discussed in FPL's position on Issue Nos. 2, the Commission should authorize FPL to charge the cost of the base gas to the FCR Clause when base gas is initially injected into the MoBay storage facility, with a credit to the FCR Clause at the end of the storage arrangement, when the base gas is either removed and burned or FPL receives compensation for leaving the gas in the facility. If base gas costs are instead amortized and recovered through the FCR clause as described in Staff's Recommendation, dated August 4, 2006, the carrying charges on the unamortized balance are properly recovered through the FCR clause as a hedging cost.

E. STATEMENT OF LEGAL ISSUES AND POSITIONS

FPL: None at this time.

F. STATEMENT OF POLICY ISSUES AND POSITIONS

FPL: None at this time.

G. STIPULATED ISSUES

FPL: None at this time.

H. PENDING MOTIONS

Motion for Temporary Protective Order dated June 1, 2006 related to OPC's request for G.J. Yupp affidavit and attachments to FPL's Petition for Approval of the MoBay Gas Storage project filed on April 28, 2006.

Motion for Temporary Protective Order dated June 15, 2006 related to OPC's request for FPL's responses to Staff's formal and informal discovery requests in Docket No. 060362-EI.

I. PENDING REQUEST FOR CONFIDENTIALITY

Florida Power & Light Company's Request for Confidential Classification of for Responses to Staff's Data Request Nos. 1 and 8 dated September 14, 2006.

J. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE

There are no requirements of the Order Establishing Procedure with which FPL cannot comply.

K. OBJECTIONS TO A WITNESS' QUALIFICATION AS AN EXPERT

FPL: None at this time.

Respectfully submitted this 6th day of October, 2006.

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By: /s/ John T. Butler
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CERTIFICATE OF SERVICE
Docket Nos. 060001-EI and 060362-EI

I **HEREBY CERTIFY** that a true and correct copy of the foregoing has been furnished by electronic delivery on the 6th day of October, 2006, to the following:

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