BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of

FUEL AND PURCHASED POWER COST RECOVERY CLAUSE WITH GENERATING PERFORMANCE INCENTIVE FACTOR.	DOCKET NO. 060001-EI
PETITION TO RECOVER NATURAL GAS STORAGE PROJECT COSTS THROUGH FUEL COST RECOVERY CLAUSE, BY FLORIDA POWER & LIGHT COMPANY.	DOCKET NO. 060362-EI
PETITION FOR AUTHORITY TO RECOVER PRUDENTLY INCURRED STORM RESTORATION COSTS RELATED TO 2004 STORM SEASON THAT EXCEED STORM RESERVE BALANCE, BY FLORIDA POWER & LIGHT COMPANY.	DOCKET NO. 041291-EI

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VOLUME 1

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PROCEEDINGS: HEARING

BEFORE: CHAIRMAN LISA POLAK EDGAR
COMMISSIONER J. TERRY DEASON
COMMISSIONER ISILIO ARRIAGA
COMMISSIONER MATTHEW M. CARTER, II
COMMISSIONER KATRINA J. TEW

DATE: Monday, November 6, 2006

TIME: Commenced at 9:30 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
LINDA BOLES, RPR, CRR
Official FPSC Reporters
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APPEARANCES:

MICHAEL B. TWOMEY, ESQUIRE, P. O. Box 5256, Tallahassee, Florida 32314-5256, appearing on behalf of AARP.

LEE L. WILLIS, ESQUIRE and JAMES D. BEASLEY, ESQUIRE, Ausley Law Firm, P.O. Box 391, Tallahassee, 32302, appearing on behalf of Tampa Electric Company.

JEFFREY STONE, ESQUIRE, RUSSELL BADDERS, ESQUIRE, and STEVE GRIFFIN, ESQUIRE, Beggs & Lane Law Firm, P.O. Box 12950, Pensacola, Florida 32591-2950, appearing on behalf of Gulf Power Company.

CAPTAIN DAMUND WILLIAMS, c/o AFLSA/JACL-ULT, 139 Barnes Drive, Suite 1, Tyndall AFB, Florida 32403-5319, appearing on behalf of the Federal Executive Agencies.

JOHN W. MCWHIRTER, JR., ESQUIRE, McWhirter Reeves Law Firm, 400 North Tampa Street, Suite 2450, Tampa, Florida 33602, appearing on behalf of Florida Industrial Power Users Group.

JOHN BUTLER, ESQUIRE, and BRYAN ANDERSON, ESQUIRE, Florida Power & Light Company, 700 Universe Blvd., Juno Beach, Florida 33408-0420, appearing on behalf of Florida Power & Light Company.

NORMAN H. HORTON, JR., ESQUIRE, Messer, Caparello & Self, P.A., P.O. Box 15579, Tallahassee, Florida 32317, appearing on behalf of Florida Public Utilities Company.

APPEARANCES CONTINUED:

HAROLD McLEAN, PUBLIC COUNSEL, CHARLIE BECK, ESQUIRE, JOE MCGLOTHLIN, ESQUIRE, and PATTY CHRISTENSEN, ESQUIRE, Office of Public Counsel, c/o The Florida Legislature, 111 W. Madison St., #812, Tallahassee, Florida 32399-1400, appearing on behalf of the Citizens of Florida.

CHARLIE CRIST, ATTORNEY GENERAL, JACK SHREVE, ESQUIRE, Senior General Counsel, and CECILIA BRADLEY, ESQUIRE, Senior Assistant Attorney General, The Capitol - PL01, Tallahassee, Florida 32399-1050, appearing on behalf of the Office of the Attorney General.

JOHN T. BURNETT, ESQUIRE, Progress Energy Service Co., LLC, P. O. Box 14042, St. Petersburg, Florida 33733-4042, appearing on behalf of Progress Energy Service Co., LLC.

R. SCHEFFEL WRIGHT, ESQUIRE, and JOHN T.LaVIA, III, ESQUIRE, Young Law Firm, 225 South Adams Street, Suite 200, Tallahassee, Florida 32301, appearing on behalf of Florida Retail Federation.

LISA BENNETT, ESQUIRE, and COCHRAN KEATING, ESQUIRE, FPSC General Counsel's Office, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, appearing on behalf of the Commission Staff.

I N D E X

WITNESSES

EXHIBITS

NUMBER:		ID.	ADMTD.
1	Comprehensive Exhibit List	16	16
2	Staff Consolidated Exhibit 1	16	16
3	Confidential Staff Exhibit 2	16	16
4	KMD-1	130	130
5	KMD-2	130	130
6	KMD-3	130	130
7	KMD-4	130	130
8	KMD-5	130	130
9	KMD-6	130	130
10	KMD-7	130	130
10A	KMD-8	58	130
10B	KMD-9	58	130
11	GJY-1	132	
12	GJY-2	132	
13	GJY-5	132	
14	GJY-6	132	

P R O C E E D I N G S

CHAIRMAN EDGAR: Good morning. Call this hearing, hearings to order. I appreciate your patience. We have a lot of paper to get organized this morning.

And I will begin by asking our staff to read the notice.

MS. FLEMING: Pursuant to notice and supplemental notice, this time and place have been set for a hearing in the following dockets: 060003-GU, 060004-GU, 060002-EG, 060007-EI, 060001-EI, 060362-EI, and 041291-EI.

CHAIRMAN EDGAR: Thank you. Okay. We'll move on next and take appearances to get us in the proper posture. And I am going to ask you to go kind of slowly so that I can make sure I've got the order. And also, if you would, please, obviously identify the company that you're representing and the docket numbers that you will be participating in. And we'll begin to my left.

MR. BUTLER: Thank you, Madam Chairman.

John Butler and Bryan Anderson of Florida Power and Light Company appearing in Dockets 060002, 060007, 060001, 060362, and 041291.

CHAIRMAN EDGAR: Thank you.

MR. HORTON: Good morning. Norman H. Horton, Jr., appearing for Florida Public Utilities Company in the 01, 02, 03, and 04 dockets.

CHAIRMAN EDGAR: Thank you.

MR. BURNETT: Good morning, Madam Chairman. John Burnett on behalf of Progress Energy Florida appearing in the 01 and 02 dockets. I also have Gary Perko appearing in the 07 docket on behalf of Progress Energy Florida.

MR. BEASLEY: Good morning. James D. Beasley and Lee L. Willis of the law firm of Ausley and McMullen representing Tampa Electric Company in the 01, 02, and 07 dockets.

MR. STONE: Good morning. Jeffrey A. Stone, and with me is Russell A. Badders and Steven R. Griffin of the law firm Beggs and Lane. We represent Gulf Power Company in the 02, 07, and 01 dockets.

MS. KEATING: Good morning. Beth Keating, Akerman Senterfitt. I'm here this morning on behalf of Florida City Gas in the 03 docket, and Florida City Gas and Chesapeake Utilities in the 04 docket.

MR. BECK: Good morning, Madam Chairman. My name is Charlie Beck with the Office of Public Counsel. I'd also like to make appearances for Harold McLean, Public Counsel, as well as Joe McGlothlin and Patty Christensen. We're appearing on behalf of the Citizens of Florida in the 01, 02, 03, 0362, and 07 dockets.

MR. WRIGHT: Good morning, Madam Chairman and Commissioners. I'm Schef Wright, and I would also like to enter an appearance for my partner John T. LaVia, III, as reflected in the prehearing orders. We are appearing on behalf of the Florida Retail Federation in the 060001 docket, 060362 docket, and 060007 docket. Thank you.

CAPTAIN WILLIAMS: Good morning. I'm Captain Damund Williams, and I'm here representing the Federal Executive Agencies in the 01 docket.

MR. McWHIRTER: My name is John McWhirter. I'm appearing on behalf of the Florida Industrial Power Users Group, and we have intervened in the 01 docket, the 02 docket, the 07 docket, and the 0362 docket.

MR. TWOMEY: Madam Chair, Commissioners, good morning. Mike Twomey on behalf of AARP. AARP has intervened in the 01 docket as well as the 362 docket. Thank you.

MR. SHREVE: Good morning. Jack Shreve appearing on behalf of Attorney General Charlie Crist, appearing in the 060362 docket. I would also like to enter an appearance for Cecilia Bradley.

CHAIRMAN EDGAR: Thank you. Is there anybody else? No. All right. Thank you very much.

MR. KEATING: Chairman Edgar, I believe the Staff Counsel should make appearances, but we were waiting to make sure there was no one else in the audience.

CHAIRMAN EDGAR: Mr. Keating.

MR. KEATING: Cochran Keating on behalf of the

Commission in the 01, 0362, and 041291 dockets.

MS. BROWN: Martha Carter Brown on behalf of the Commission in the 07 docket.

MS. FLEMING: Katherine Fleming on behalf of the Commission in the 02, 03, and 04 dockets.

MS. BENNETT: Lisa Bennett appearing on behalf of the Public Service Commission in the 01, 362, and 041291 dockets.

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CHAIRMAN EDGAR: Okay. We are on Dockets 01, 362, and 41291. Prior to closing the evidentiary portion of the proceeding, we will take testimony in all three dockets. We will take up each docket separately, but we will not close them for evidentiary purposes until the conclusion of the administrative tariff issue. In this way we can deal with the fall-out issues in the fuel docket and address them with the other two dockets, as well.

My intention, as I said just a few minutes ago, will be to deal with the preliminary matters, get us into the proper posture, then go on lunch break, come back for opening statements, and then go into witness testimony.

Ms. Bennett.

MS. BENNETT: Madam Chair, we have motions and petitions regarding confidentiality that are still outstanding. I would like to advise the Commission that we will present those and take care of those after this hearing with the prehearing officer.

CHAIRMAN EDGAR: Okay. And why don't you go ahead and give us a reminder as to caution with confidential matters.

MS. BENNETT: There will be confidential matters presented in both the 01 and the 362 dockets. Those numbers and dates will be marked. They are in a red folder. I want to caution all parties that are going to be speaking to those matters not to mention anything that is confidential out loud, because it becomes part of the record and will no longer be protected.

CHAIRMAN EDGAR: Okay. Let's discuss the proposed stipulations.

MS. BENNETT: Earlier this morning I handed you a list of proposed stipulations, they are for Issues 12, 13, 14, and 38A only. Those are stipulations in addition to the prehearing order. We have all parties either taking no position or agreeing to all of those issues, and are asking that if no party objects to those being moved into the stipulation list, that they be taken up without presentation of testimony during the testimony time.

CHAIRMAN EDGAR: Okay. Have all parties seen the additional proposed stipulations as described by Ms. Bennett?

Any objections?

MR. McWHIRTER: FIPUG has and has no objection.

CHAIRMAN EDGAR: Thank you. Okay.

Ms. Bennett.

MS. BENNETT: I do want to let the Commission know that Progress and staff entered into a stipulation based on the September 1st projections, and that stipulation appears in the prehearing order for Issues 11 and 35. After the prehearing order there was a reprojection filing, and those numbers changed. Progress has requested that the stipulation be withdrawn and that the new numbers be stipulated to. I have not spoken with all of the parties, but I have spoken with OPC and FIPUG, and they did not have an objection. If there are objections, then these two issues should be heard in the regular proceedings.

CHAIRMAN EDGAR: Can I get an affirmation on the record that you have had the opportunity to see and review the new proposed stipulation and the numbers contained therein on Issues 11 and 35 and have no objection at this time?

MR. McWHIRTER: That is correct for FIPUG.

MR. BECK: And for OPC, we have no objection.

CHAIRMAN EDGAR: Thank you.

MR. BURNETT: Madam Chairman, if I may.

CHAIRMAN EDGAR: Yes, sir.

MR. BURNETT: Pardon the interruption. Madam Chairman, I believe that also as to Issues 2, 3, 6, 30, 31, 32, and 8 we would have the similar issue. Those numbers have been filed and I believe have been seen by the intervenors, so I believe if we could have the similar process that you just did for those issues as well and a confirmation on the record, that we could have those stipulations.

CHAIRMAN EDGAR: Ms. Bennett?

MS. BENNETT: I apologize, we have not had an opportunity to talk with Mr. Burnett. Those are numbers that the Commission has not seen yet and we would like to give the Commission an opportunity to look at those numbers before we so stipulate because they did not appear in the prehearing order. At the break we will discuss with Mr. Burnett how that is to occur unless, of course, the Commission wants to go ahead and agree.

CHAIRMAN EDGAR: Mr. Burnett, as discussed by Ms. Bennett, I think what we would like to do is take the lunch break to give the opportunity for all to review those numbers and to hear back from our staff.

MR. BURNETT: Yes, ma'am.

MR. BADDERS: Madam Chairman, Russell Badders on behalf of Gulf. I believe we have a stipulation on Issue 32. If I recall, no one took positions adverse to Gulf during the prehearing, and Staff and Gulf are in agreement but for, I believe, a typo. We need to confirm that with counsel.

MS. BENNETT: The correct number -- staff is in agreement with the numbers of Gulf. This did not get picked up in either the prehearing order stipulation or the proposed stipulation in front of you. We don't have an objection to the numbers presented by Gulf or by TECO on Issues 32 and 33. We can move those to the stipulated agenda. I would suggest that you -- again, we have an opportunity to meet with Gulf and TECO at the break to discuss the manner in which this will be handled.

CHAIRMAN EDGAR: Okay. Mr. Badders --

MR. BADDERS: That works fine.

CHAIRMAN EDGAR: -- we're going to hold.

MR. BADDERS: Great.

MS. BENNETT: Madam Chairman, at this time you might want to give any party that has a witness to be excused the opportunity to request that their testimony be entered into evidence and exhibits entered into evidence and the witness excused. I do believe there is at least one witness who can be excused.

MR. BUTLER: Madam Chairman --

CHAIRMAN EDGAR: Are there any parties who would like to take advantage of that opportunity?

MR. BUTLER: Not to appear over-eager, but, yes. I believe that there are no issues that remain in dispute for which Mr. Gwinn, W. E. Gwinn of FPL is testifying, and we would ask that if that is the case that his testimony be stipulated into the record and that he be excused.

MR. BECK: Madam Chairman, I would have a preliminary issue I want to raise at some point, and I would ask that you not excuse Mr. Gwinn until we have resolved the preliminary issue.

CHAIRMAN EDGAR: Mr. Beck. So at a later time?

MR. BECK: When you get to me, I want to raise an issue concerning Issue 16G, but I don't think we're there yet, but I would ask that Mr. Gwinn not be excused until we resolve that.

CHAIRMAN EDGAR: Mr. Butler, not to penalize eagerness at all in this instance, but we're going to hold on your request.

MR. BUTLER: Understood.

MS. BENNETT: Madam Chair, the next item we have is we would like to move the Comprehensive Exhibit List and Staff's Revised Exhibit List 1 and 2 into the record. I would note for the Commission's information that Number 23 on your exhibit list for the 01 docket includes a response, a redacted response to Interrogatory Number 44 of TECO. That was included in your packet in error. That is not going to be addressed in this docket, it will be addressed in 362. It will show up as confidential information in your exhibit list of 362. I would ask that the parties agree to Exhibits 1, 2, and 3 being moved into evidence.

CHAIRMAN EDGAR: The exhibits as described by our staff counsel will be moved into evidence.

MS. BENNETT: Yes, Chair. And we have asked each party state whether or not they have an objection to that being moved into evidence.

CHAIRMAN EDGAR: Any objections?

MR. McWHIRTER: No objection from FIPUG.

MR. BEASLEY: No objection.

MR. HORTON: No objection.

MR. BUTLER: No objection.

MR. BADDERS: No objection.

CHAIRMAN EDGAR: So noted.

(Exhibits 1, 2, and 3 marked for identification and admitted into the record.)

MS. BENNETT: The final preliminary matter that I have is I understand that OPC would like to address the Commission on an issue which was deferred until next year, but there are some outstanding legal and policy questions to be raised.

CHAIRMAN EDGAR: Mr. Beck.

MR. BECK: Madam Chairman, our issue deals with the Prehearing Officer's ruling on Issue 16G. And what I would like to do is either ask the Prehearing Officer to hear argument to reconsider his ruling on that, or, alternatively, to have the full Commission reconsider it, whatever the Prehearing Officer prefers on that. This is an issue that was raised by FPL at the prehearing conference. We had a ruling by the Prehearing Officer last Thursday, and we simply haven't had a chance to argue it before the Prehearing Officer. So either way would be fine with me, I just don't know how to proceed.

MS. HELTON: Madam Chairman, may I make a statement concerning that? When the Prehearing Officer enters a non-final ruling, which I believe is what Commissioner Carter did in his prehearing order, our rule provides that reconsideration must be had by the full Commission. I don't believe that he has the discretion to reconsider his decision himself.

CHAIRMAN EDGAR: Ms. Bennett, do we have a recommendation from staff?

MS. BENNETT: It was my suggestion that the parties present a legal position, a legal argument to the Commission rather than evidentiary. The Prehearing Officer's ruling dealt with whether or not the evidentiary matter would be taken up this year or next year. My understanding is there is a difference on the legal position. Florida Power and Light would like to recover the costs associated with this issue this year subject to refund. The Office of Public Counsel would prefer that the Commission defer recovery of that cost until the Commission has an opportunity to hear the evidence. That could be a legal argument heard by the Commission at the end of the evidentiary hearing in the 01 document, and a decision made during bench time on the recovery issue only.

CHAIRMAN EDGAR: Commissioners, you have heard the recommendation from our staff. It is my understanding, as Ms. Bennett has described, that what we do have raised before us is a legal policy argument. And as she has also described, we do have the option of hearing from the parties on those legal issues at the conclusion of the testimony portion of the 01 docket. That seems to have some flow, and make some sense to me, but we may certainly have discussion.

COMMISSIONER DEASON: Madam Chairman, may I ask a question?

CHAIRMAN EDGAR: Commissioner Deason.

COMMISSIONER DEASON: Is this in terms of the reconsideration of the Prehearing Officer's ruling, is that what --

MR. BECK: Yes, sir. If the Prehearing Officer can't reconsider his own ruling, I would like to argue in favor of the full Commission reconsidering the Prehearing Officer's ruling.

COMMISSIONER DEASON: And, Madam Chairman, is it a question of doing that now or after evidence is presented?

CHAIRMAN EDGAR: Ms. Bennett.

MS. HELTON: I was sitting in the back of the room and realizing I'm not sure that the record is even clear which particular issue this is that we are discussing, so maybe we should start with that. I believe it is the issue dealing with whether there was sabotage at FPL's Crystal River Plant, is that correct?

MR. BUTLER: Turkey Point.

MS. HELTON: I'm sorry, Turkey Point Plant. And the issue before the Commission -- well, let me strike that. Commissioner Carter deferred any testimony that the Commission would hear on that matter until the next fuel proceeding in November of 2007. However, the issue is still before the Commission with respect to whether the company should be able to recover the costs associated with that happening at the plant at this point in time subject to interest, or whether -- subject to refund, or whether the Commission should allow the company to collect those costs only after hearing evidence next year.

Mr. Beck has asked for a reconsideration of Commissioner Carter's decision to defer the evidence being taken until next year. I believe the Commission could take that up now or could take that up at the end of the hearing. But maybe it would be the cleanest for the Commission to take that up now if you believe that you have enough information to decide whether the deferral of the evidence being taken until next year is an appropriate matter.

CHAIRMAN EDGAR: I have an alternative suggestion, which is that it is 12:10 by the clock in front of me, and I believe this is the last preliminary matter to dispense with prior to moving into opening statements, is that correct?

MS. BENNETT: That's correct, other than some discussion I need to have with each of the parties regarding the several stipulated issues.

MR. BEASLEY: Madam Chairman, I did have one other preliminary matter, and that would be whether we could stipulate the testimony of Witness Benjamin Smith for Tampa Electric if there are no questions of him, and have him excused.

CHAIRMAN EDGAR: Okay. Then, Mr. Beck, I'm going to hold on yours for a moment and ask if there are any questions for the witness that has just been described, or may he be excused.

No questions?

MR. McWHIRTER: Could I reserve until after the lunch hour on that?

CHAIRMAN EDGAR: All right. On that note then we are going to hold on that as well. And, Mr. Beck, coming back to yours, we are going to continue this discussion when we come back from lunch break, and that is going to be at 1:30. We are on lunch break.

MS. BENNETT: May I ask that the parties meet with me before?

CHAIRMAN EDGAR: And will all of the parties please get with our staff counsel on the break. Thank you.

(Lunch recess.)

CHAIRMAN EDGAR: We will go back on the record.

Okay. I believe that when we went on lunch break we had a number of pending preliminary matters and one request for reconsideration. So let's start with the pending procedural matters and then we'll finish with the request for reconsideration and get ourselves in the proper posture to then move on to opening statements.

So who would like to start?

MR. BURNETT: Thank you, Madam Chairman. John Burnett again on behalf of Progress Energy Florida.

At the lunch break I believe we determined the issue with the Progress Energy issues that I spoke about earlier, and, again, those were Issues 2, 3, 6, 8, 30, 31 and 32. Apparently what has happened with those is there was a scrivener's error in the prehearing order where Progress Energy Florida's positions for those particular issues are incorrect. So effectively we disagree with our own position as to those and agree with staff's position as reflected in the prehearing order. Those numbers were available, of course, to the Commission and to staff and to the other parties, and at the lunch break we also confirmed that the other parties still take no position on those issues.

Now with the adoption of the staff numbers for our position, I believe we would be in a posture to have a ripe,

ripe issues for stipulation. They are subject to the Commission voting on them.

And with that, Madam Chairman, we would also ask that Mr. Portuondo then be excused as a witness, unless anyone had questions for him.

CHAIRMAN EDGAR: Okay.

MR. BURNETT: Thank you.

CHAIRMAN EDGAR: Is there any objection to, or any questions by Commissioners to having the issues as described, 2, 3, 6, 8, 30, 31 and 32, stipulated issues that would be moved for consideration by the Commission when we take up stipulated issues at the end of the proceeding, and then also for Mr. Portuondo to be excused from the hearing? Seeing none, make it so, and Mr. Portuondo is excused.

MR. BURNETT: Thank you.

MR. BEASLEY: I have two pending matters. One was the request that Mr. Smith be excused from the hearing and his testimony be admitted into the record. And the other has to do with Issue 32. The prehearing order properly states Tampa Electric's position on that issue. The staff agrees with us and no one else takes a position with respect to Tampa Electric, so I would propose that that be a stipulated item as to Tampa Electric.

MS. BENNETT: The numbers do agree -- staff does agree with TECO's numbers or TECO agrees with staff's numbers, and we would not have an objection to that being moved to the stipulation portion of the proceeding if there are no objections from any parties.

CHAIRMAN EDGAR: Okay. Any objections?

MR. McWHIRTER: No objection from FIPUG.

MS. CHRISTENSEN: Commissioners, I would just ask to go back and readdress Mr. Portuondo and his testimony. I have no objections on the TECO matter.

We had a few questions for Mr. Portuondo, I'm sorry, on the supplemental projection testimony that he filed. And I apologize for missing that communication.

CHAIRMAN EDGAR: Is Mr. Portuondo still here?

(Laughter.)

MR. BURNETT: Much to his dismay, Madam Chairman.

CHAIRMAN EDGAR: Okay. All right. Let's -- just work with me as we try to move through all of what we need to, please.

Okay. Mr. Portuondo, we jumped the gun a little bit and I'm going to have to ask you to remain and participate in the hearing, please.

Okay. And that brings us back then to Mr. Smith? No.

MR. BADDERS: Russell Badders for Gulf Power.

CHAIRMAN EDGAR: Yes.

MR. BADDERS: We have one, one issue that could possibly be stipulated. Issue 32, it appears that the numbers that are listed for staff and for Gulf are in agreement, and I do not believe any other party has taken a position.

CHAIRMAN EDGAR: This is Issue 32?

MR. BADDERS: This is Issue 32.

CHAIRMAN EDGAR: Okay. And I am going to come back to you. Okay.

MR. BADDERS: I'm sorry.

CHAIRMAN EDGAR: That's all right. Okay. So, Ms. Bennett.

MS. BENNETT: Staff agrees with Gulf's numbers on Issue 32 or they agree with our numbers, and we would not object to that being stipulated if all the parties agreed.

CHAIRMAN EDGAR: Okay. Any objection?

MR. BADDERS: At some point we may need to address moving Witness Martin's testimony into the record. It does not appear that there are any remaining issues for Witness Martin. However, it's my understanding that Public Counsel may wish to call her for a gas storage issue, but they will not know that until after Mr. Ball testifies. So we could enter, or go ahead and move her into the record and excuse her for this portion, subject to being recalled on that one issue.

MS. CHRISTENSEN: That is correct. We believe that all the questions that we have probably will be able to be answered by Mr. Ball. But in, in the off chance that he's unable to answer them, then we'd like to reserve the opportunity to call Ms. Martin, if necessary.

CHAIRMAN EDGAR: Okay. Commissioner Tew.

COMMISSIONER TEW: I just wanted to clarify which number it is that the stipulation is based on on Issue 32.

MR. BADDERS: On 32, the number ending "162," which is Gulf's number, is the correct number. I believe the number listed under staff's position was a typo.

COMMISSIONER TEW: The Gulf number is the correct number.

CHAIRMAN EDGAR: Okay.

MR. BADDERS: Thank you.

CHAIRMAN EDGAR: Okay. Mr. Beasley, I don't think that we finished with your request.

MR. BEASLEY: Okay. Back to excusing Witness Benjamin Smith, we would request that. And also Mr. Aldazabal, all of his issues have been stipulated. If we could move his testimony and exhibits into the record. He will be made available though to answer questions as relates to gas storage costs.

CHAIRMAN EDGAR: Okay. I think what I would like to do for each of the witnesses who either will be or may be excused for all or a portion of the proceeding is wait and move their testimony and exhibits into the record when we come to them as we move through the witness list. It's just a little more orderly, I think, for me and for the record as well.

Is there an objection to Witness Smith and Witness Aldazabal --

MR. BEASLEY: Aldazabal.

CHAIRMAN EDGAR: -- thank you -- being excused?

MR. BEASLEY: We can just present Mr. Aldazabal's because he will be taking the stand and be made available for questions relating to gas storage costs.

CHAIRMAN EDGAR: To the gas storage portion.

MR. BEASLEY: So we can move his testimony at that point in time, if you prefer.

CHAIRMAN EDGAR: I think I do.

MR. BEASLEY: Okay.

CHAIRMAN EDGAR: Okay. Ms. Bennett?

MS. BENNETT: Staff has no objection to Smith or Aldazabal being excused, if there are no objections from any other parties.

CHAIRMAN EDGAR: Ms. Christensen?

MS. CHRISTENSEN: We have no objection to Witness Smith being excused. And as far as Mr. Aldazabal, as long as he is available for the cross-examination on the gas storage issue, then we have no objection as to the rest of the issues.

CHAIRMAN EDGAR: Okay. So ruled.

MR. BEASLEY: Thank you very much.

MR. HORTON: Madam Chairman?

CHAIRMAN EDGAR: Yes, Mr. Horton.

MR. HORTON: One that might be easy. On Page 5, the order of witnesses for Florida Public Utilities, we'd like to take Ms. Cheryl Martin last rather than first in our order. With that then the order would be Mr. Bachman, Mr. Camfield, Mr. Cutshaw and then Ms. Martin. Thank you.

CHAIRMAN EDGAR: So noted. We will take the witnesses up in the order that you just described.

Any other preliminary matters along these lines?

MR. BUTLER: Madam Chairman?

CHAIRMAN EDGAR: Yes, sir.

MR. BEASLEY: For FPL, I believe that we too are in agreement with staff on the position on Issue 32 and that it would be appropriate to stipulate for FPL on Issue 32.

CHAIRMAN EDGAR: Any objection?

MS. BENNETT: As long as they're agreeing with our number, we're fine.

CHAIRMAN EDGAR: Mr. Butler, that is my understanding; is that correct?

MR. BUTLER: That's right. The numbers in the prehearing order for both the FPL position and the staff position are the same. So, yes, we agree with their number.

CHAIRMAN EDGAR: Okay. So noted for Issue 32 for FP&L.

MR. BUTLER: Yes. And I'm not only eager but then ultimately persistent regarding Mr. Gwinn. I think, and I'm not sure if this is the right time to take it up, but we did have discussions at the break about what does and doesn't need to be addressed on Issue 16G at this time and -- or at this hearing. And I think that we have agreement with Public Counsel that based on that understanding of how we will be addressing the question of when to recover the dollars in Issue 16G, that there is no need for Mr. Gwinn to appear as a witness and that his testimony could be stipulated.

CHAIRMAN EDGAR: Okay.

MR. BECK: Yes. We have no objection to that, Madam Chairman.

CHAIRMAN EDGAR: Commissioners, any objection to Witness Gwinn being excused? No.

Any objections from anybody else, just so I don't get ahead of myself? Okay. Witness Gwinn is excused.

MR. BUTLER: Thank you.

CHAIRMAN EDGAR: Thank you. Any other items?

MS. BENNETT: Madam Chair, I need to clarify on the, Ms. Christensen's request that Mr. Portuondo not be excused, was she also requesting that Issues 2, 3, 6, 30, 31 and 32 not be moved to the stipulation page?

MS. CHRISTENSEN: We have some issues regarding the projection testimony regarding some of the filings. Maybe the best way to address that is to wait until after our cross-examination. I don't -- I don't know what impact it would have on the final numbers, the cross-examination questions that we have, because -- so maybe it would be best to, to wait. I don't know that we have taken a position as to the final numbers that they've presented today and I'm not sure that we will ultimately. But we do have some questions about some of the issues that he raised in the projection filings. So I guess, yes, we would ask to hold off on that until after our cross-examination.

MS. BENNETT: It would be my suggestion then that we not move those issues related to Progress to the stipulated section of the proceeding.

CHAIRMAN EDGAR: So that leaves us with Issue 8 and Issue 32?

MS. BENNETT: It's my understanding that all of the issues related to Progress, 2, 3, 6, 30, 31, 32, and 8 and 35, will remain in the proceeding in order that the Office of Public Counsel may conduct their cross-examination on the new projection filings.

MR. BURNETT: Madam Chairman, may I?

CHAIRMAN EDGAR: Yes, sir.

MR. BURNETT: I would just note that procedurally I'm not sure if OPC is on sound procedural ground by taking no position and now at this late date backing off their position. I would just raise that as a procedural deficiency in OPC taking no position and now apparently taking a position.

CHAIRMAN EDGAR: Ms. Christensen, he has a point.

MS. CHRISTENSEN: Our position is based on the fact that they filed supplemental testimony post-prehearing. So we could not have taken a position on something that was not filed until after the prehearing. And that's -- I'm restricting my questioning to the supplemental filing, which is why we are asking questions. Because that was filed, I believe, Thursday and the prehearing was held on Monday. So that's the basis for our asking questions. We would otherwise not have changed our position but for the supplemental testimony.

CHAIRMAN EDGAR: Mr. Burnett.

MR. BURNETT: Madam Chairman, I'm still at a bit of a loss, given the fact that the numbers as we reflected -- as reflected in staff were all taking no position again, and this is, again, the first time we're hearing of it. And I'm not sure that even Ms. Christensen has articulated what particular issue she has an issue with. So, again, I believe she is on unsound procedural ground given the mandates in the prehearing order even, even with the supplemental filing. Those numbers were available and OPC took no position.

CHAIRMAN EDGAR: This is supposed to have been the easy part of the proceeding.

Ms. Helton?

MS. HELTON: Let me -- can I ask Mr. Burnett a question?

CHAIRMAN EDGAR: You may.

MS. HELTON: Are you objecting to Ms. Christensen conducting cross-examination of Mr. Portuondo?

MR. BURNETT: I am based on the fact that I believe that OPC would not be in compliance with the prehearing order even with the supplemental filing at this time. She, she has taken no position on all the issues that he could possibly be cross-examined on. So, therefore, there's effectively nothing to cross him on.

MS. HELTON: And the supplemental testimony was filed after the prehearing conference; is that correct?

MR. BURNETT: That's correct. But there was no position prior to and then, again, a reaffirmation of a no position after those numbers. So net sum it's no position either before or after, even with the revised numbers.

MS. HELTON: Did Ms. Christensen object to you filing supplemental testimony?

MR. BURNETT: She did not.

MS. CHRISTENSEN: Can I clarify? I'm not sure where we took a no position subsequent to the filing of the supplemental testimony. It was our intention to ask a few questions about the supplemental testimony. And it's -- my intention is limited to the supplemental testimony that was filed by Mr. Portuondo after the prehearing order. I would not have -- you know, there would be no necessity for me to take a no position had the testimony remained the same. So, you know, other than limiting my scope to the testimony that we have not had the opportunity to conduct discovery on, you know, I think it would be eminently fair to allow us to conduct brief testimony on that. And I don't believe we've taken a no position on the supplemental testimony filing. In fact, that's why I was clarifying about the excusing of the witness Mr. Portuondo as it relates to that. I'm not sure that I've taken a subsequent no position on those issues.

MS. HELTON: Madam Chairman, I do have a suggestion. In the order establishing procedure that the prehearing officer would have issued in this case, we do state that once a party takes no position on an issue, that effectively that party waives any rights to further pursue that issue. However, here we have the added wrinkle that Progress has filed supplemental testimony after the date of the prehearing conference. So it seems fair to me that Ms. Christensen be allowed to conduct cross-examination concerning that limited scope of that supplemental testimony at the time that Mr. Portuondo would come up to present his part of the case, and then at the conclusion of that we can then revisit whether we can move these Issues 2, 3, 6, 8, 30, 31, 32 and 35 to the stipulated portion of the proceeding.

CHAIRMAN EDGAR: Ms. Christensen?

MS. CHRISTENSEN: That would be acceptable to OPC.

CHAIRMAN EDGAR: Okay. Mr. Burnett?

MR. BURNETT: Yes, ma'am. Thank you.

CHAIRMAN EDGAR: All right. Thank you. Okay. Any other matters?

All right. Then let's move on to the earlier request that we had for reconsideration by OPC.

MR. BECK: Madam Chairman, I've talked with counsel for FPL and staff counsel, and what we have agreed to do is I'll not move for reconsideration, but rather we'll address it in opening statements. We did ask for a little additional leeway in time. Our opening statement, we've divided it five minutes on the GPIF issue and five minutes earlier. I don't want to encroach on the five minutes for the GPIF. I don't think I'll be much more than five on this one.

CHAIRMAN EDGAR: Okay. Mr. Butler?

MR. BUTLER: That's fine. I will just cover my points regarding the timing of recovery of the replacement power costs in my opening statement.

CHAIRMAN EDGAR: Okay. In a burst of enthusiasm on my part, at the discretion of the Chair, if needed, I'll give each of you an additional two minutes in your opening statement, which would be seven, Mr. Beck, at the beginning and 12, Mr. Butler.

MR. BUTLER: Thank you.

CHAIRMAN EDGAR: Okay. Do we have any other preliminary matters? No.

Okay. Then we are ready to get into the heart of it, I think, and we will begin with opening statements. And, Mr. Butler, you're first and you're recognized, if you're ready.

MR. BUTLER: Thank you. I am. I am going to try to be as brief as possible, and I'd like to reserve, if I may, a couple of minutes, assuming I succeed in being brief, to respond to Mr. Beck and others who may comment on the same issue subsequently.

I'd like to address you briefly concerning the timing of cost recovery for replacement power costs resulting from the outage extension at Turkey Point Unit 3 last spring, and this is part of Issue 16G. The outage extension was caused by the discovery of a small drilled hole in pressurizer piping and it lasted about five days.

Investigations of the incident were initiated by FPL corporate security, the NRC and the FBI. The FBI's investigation is continuing and, until it's completed, FPL is very limited in what we can discuss about the incident. Because of these limitations you have agreed to defer fact-finding about the incident to next year's fuel hearing.

What remains for your decision at this hearing is whether FPL should be permitted to include the replacement power costs as part of its estimated/actual 2006 results in setting the 2007 fuel adjustment factors, subject to refund with interest later if FPL were ultimately found to have been imprudent, or if FPL should be denied recovery until a prudence determination is made next year.

FPL respectfully submits that established Commission practice provides for current recovery subject to the potential for future refunds.

Keep in mind that FPL has actually incurred the replacement power costs in question, which, by the way, are on the order of about $6.1 million. Keep in mind as well that FPL is entitled to recover its actual costs of power unless they have been imprudently incurred, and that there is presently no evidence of FPL imprudence concerning the incident in question.

The Commission has consistently allowed utilities to recover replacement power costs associated with nuclear plant outages until the prudence of the outages is ultimately determined. For example, in Order Number 15486, Docket Number 840001-EI-A, the Commission determined that FPL did not have to refund any replacement power costs that it had previously recovered for the St. Lucie Unit 1 thermal shield failure.

Similarly, in Order Number 18690, Docket Number 860001-EI-B, the Commission approved the prudence of replacement power costs that Progress had previously recovered for outages at Crystal River Unit 3.

In both of these instances, the utilities had been allowed to recover in the ordinary course their replacement power costs associated with the outages where the prudence had been called into question, subject to the potential for refund if the outages were later found to have been imprudent. Of course, in those particular instances no finding of imprudence had been made. But the point we're raising them for is the significance of the fact that even though prudence had been called into question, the utilities were allowed in the ordinary course to recover the costs to include the actual costs of the replacement power subject to a commitment and obligation to refund with interest if ultimately there had been an imprudence determination. And that is exactly the fact pattern present here, and the same procedure should be followed here.

There's no reason at this point to believe that FPL has been imprudent, and I will submit to you without verging unduly into evidence that there never will be any evidence of imprudence with respect to these outages or this outage. But that will be determined next year. At the moment, however, these are actual costs incurred. They are included in FPL's estimated/actual 2006 true-up, which is the ordinary course of business for the Commission. Those numbers are, again, in the ordinary course of business included as part of the 2007 factor. There will be a final true-up for 2006 next year, and it is routinely the Commission's practice to focus detailed investigations of issues such as prudence in the final true-up proceeding. And then if there is some determination that figures need to be change, you make it at that point in time and you have your refund of any disallowed amount with interest. That's exactly what we're proposing here, and it's the procedure we ask you to adopt. Thank you.

CHAIRMAN EDGAR: Okay. Mr. Horton.

MR. HORTON: I'll be very brief on behalf of Florida Public Utilities. We'd ask that you approve the request that we have submitted. For one thing, it's included in our filing this year, which is a little unusual than prior years is that we have a new contract for provision of power in the northeast section, Fernandina Beach. And we have provided information related to the RFP process and how that contract was arrived, and we believe everything that we've done has been prudent and appropriate, and we would ask that you approve the submissions as we've made them. Thank you.

CHAIRMAN EDGAR: Thank you. Mr. Burnett.

MR. BURNETT: Thank you, Madam Chairman.

Commissioners, I would like to focus my opening statement on the GPIF dead band proposal filed by the Office of Public Counsel. That proposal invokes the age-old adage of "If it ain't broke, don't fix it."

For the past 20 years the GPIF mechanism has been a balanced and effective program to incent enhanced generating unit performance and availability among the investor-owned utilities in Florida. In the 1980s, a series of workshops and hearings were held with input from all stakeholders, including the Office of Public Counsel. A detailed implementation manual resulted from those hearings and from those workshops, and that was a product of thoughtful technical analysis, technical input and, again, input from all stakeholders, including the Office of Public Counsel. In its same form, GPIF has worked well for almost two decades, and no one, including OPC, has ever challenged it.

Almost out of the blue this year OPC comes forward and suggests that not only is GPIF broken, but that it's effectively been broken since its inception.

In this case, 20 years later, OPC proposes that GPIF be dramatically skewed in a manner that favors penalties and that virtually eliminates rewards. Simply stated, the Office of Public Counsel suggests that GPIF be moved from an incentive mechanism to a penalty mechanism.

Commissioners, the evidence in this case will show that OPC's proposal is not only unfair on its face, but it's devoid of any substantive analysis or technical review. In fact, the evidence in this case will show that OPC's expert has not even made a cursory effort to determine how his proposal may impact fuel savings to ratepayers in Florida if it were to be implemented.

Commissioners, the evidence in this case will further show that OPC's expert has simply pulled a GPIF penalty range virtually out of thin air. The evidence will show that the only support for his proposal is what I call the substantive, the subjective black box of his experience in the utility industry. And we would purport that no regulatory body should change its policy based on the black box of industry experience because that black box cannot be cross-examined, it cannot be tested by logic, nor can it be tested by critical analysis. Simply it is not credible.

In simple terms, Mr. Ross in his proposal appears to contend that because utilities have received rewards under GPIF at various times, the process must be broken; because, as the evidence will show, Mr. Ross suggests that his proposal, quote, feels right to him, this Commission should turn a two-decade old program on its head and effectively make GPIF a penalty clause.

As the evidence presented by all the IOUs will show, OPC's proposal is unfair, unsupported and unwarranted. By definition then this Commission should not modify its GPIF program, when all credible evidence will show that the GPIF program in its current form is an even-handed, effective incentive program that provides fuel savings for ratepayers in Florida. Thank you.

MR. BEASLEY: Thank you, Madam Chairman. Jim Beasley for Tampa Electric Company. I'll just say that we oppose Mr. Ross's proposal for many of the same reasons that have just been presented to you. We think it would be an unbiased -- a biased penalty clause, and we urge you not to adopt his approach.

MR. BADDERS: Russell Badders on behalf of Gulf Power. We'll echo the comments of Progress and TECO before me with regard to the GPIF. We believe the Commission's policy should be continued, and we do oppose the proposal put forth by Mr. Ross. Thank you.

MR. BECK: Madam Chairman, Charlie Beck, Office of Public Counsel. Joe McGlothlin will be giving our opening statement on GPIF when we hit that section of the hearing either later today or tomorrow.

With regard to Turkey Point, earlier this year there was a scheduled outage at the Turkey Point Unit 3, and toward the end of the outage FPL conducted a test of the pressurized coolant system for the reactor and discovered there was a drilled hole in one of the pipes. And there's no dispute that this is a deliberately drilled hole and that -- you won't hear any dispute, I believe, from FPL that it was done either by an employee or a contractor because no one gets onto the premises of the nuclear plant if they don't want them there.

The drilled hole in the coolant system for the plant resulted in an outage extension of five days that delayed the startup of the nuclear reactor. It resulted in $6.1 million of additional fuel charges to, potentially to customers; at least that's the incremental additional fuel costs that we stipulated with FPL that's a result of the drilled hole.

We raised Issue 16G in the due course of this proceeding and had asked with respect to the outage extension at Turkey Point Unit 3 which was caused by the drilled hole, "Should customers of FPL be responsible for the additional fuel costs or not?"

FPL has come -- went to the prehearing officer and asked for a delay in that, that ruling, and we're not here today contesting the delaying. The prehearing officer ruled that the Commission must make decisions based upon facts presented in the record and granted the delay to FPL so they could develop the facts that are presented. And we fully agree with the prehearing officer's ruling on that.

The problem is the ruling, I think, suggests the answer that the Commission has to have. And that is if there's no evidence in the record before the Commission, how can you give the company rates to compensate them for them without them even providing the evidence? The burden of proof is on FPL with respect to the additional fuel costs. It's not on customers. They have to prove it and show their entitlement. The statutes governing this say that the rates must be fair, just and reasonable, and I will go into some case law in a moment about it. But if they don't sustain that burden, there's no basis upon which to grant them the recovery before they've presented the evidence. It has it completely backwards.

Mr. Butler contends that the Commission has consistently determined that the Commission practice is to allow the utilities to collect the money up-front even without proof. I'm going to disagree with that and give you a case, you know, in opposition, that shows just the opposite of that.

The case is Florida Power Corporation versus Cresse, and it's a Supreme Court case, 413 So.2d 1187. That case dealt with an extended outage at the Crystal River plant. It had been out for 167 days. The Commission withheld $22 million up-front and then had a hearing based on the evidence. And after the evidence, they withheld $3.5 million. Coincidentally, it was a five-day extension there that was at issue with the Crystal River plant, and then they withheld $3.5 million. That shows you, I guess, the cost of a seven-day outage is more today than it was back in 1980.

In that case, the Commission did not give Progress Energy the recovery up-front. They waited until there was evidence in the record and only then made their decision.

The, the company appealed that court to the Florida Supreme -- or appealed that case to the Florida Supreme Court, and one of the issues they raised was the burden of proof. They argued that once they proved they had incurred the costs, that it was unfair then to burden them with or saddle them with a burden of proof. They argued in that case that it was a PSC mistake that required FPC to prove that the failure to have -- a pump was at issue there -- to prove it was not imprudent.

The Supreme Court agreed with the Commission. The Commission made them carry a burden of proof before they'd let them get it temporarily. Despite the fact that Progress was arguing that it was not fair to them to do that, the Supreme Court upheld the Commission's holding of that burden of proof. So it's simply not true that the Commission precedent is that the company recovers the money up-front and then can prove it later. That case stands for just the opposite.

You can't say rates are reasonable if you haven't heard the evidence that they're reasonable. And, again, this is at the company's request, not anybody else. And it's over our objection that this has been delayed. But having been delayed, it's their burden to show it.

The statute's criteria for rates is fair, just and reasonable. It's not just negligence. The Commission has in the past used negligence to determine as a, as an indicator of whether rates are fair, just and reasonable, but that's not the only issue in this case.

The question is who should bear the burden of the increased rates? You know, who is in a better position and more -- who could be responsible for making sure that a drilled hole didn't happen with a deliberate act of sabotage? So it's not just negligence. There's an issue of who's responsible for it. And until you have the evidence, you can't make the decision. You can't satisfy the public's interest in fair, just and reasonable rates until you have the evidence. FPL will not be harmed by this. There's a true-up or there's a -- at a time later they'll be allowed to collect interest, if they're allowed it and the Commission doesn't. But until they prove it, you shouldn't allow this to be charged to customers. Thank you.

CHAIRMAN EDGAR: Mr. Twomey.

MR. TWOMEY: Madam Chair, Commissioners, Mike Twomey on behalf of AARP.

AARP fully supports the position just made to you by Mr. Beck. The precedent, as he told you, in that case is to hear the evidence first, give the company the money thereafter. And the cases, I believe, are similar. But as Mr. Beck said, and I'll be very, very quick here, is that there is not the request or a suggestion on the part of Public Counsel or AARP or any other customer group served by FP&L that I'm aware of that the company should never get this money.

As Mr. Beck said, because this has been deferred until next year, if you do as we request, the company doesn't get the money now from its customers who are holding the bag, so to speak. But if it's demonstrated to your satisfaction next year that they were prudent, expenses were prudently incurred, then they would get the money then and they would get interest on it as well. They won't be out anything. If you give them the money now, you put the burden on the backs of the customers to pay for it, as Mr. Beck said, before there is any evidence to suggest that the costs were prudently incurred.

A company comes in here and says merely that we spent the money, you have to give it to us and the customers have to carry it, pay for it out of their monthly bills until next year is not sufficient. The case cited to you, the Cresse case, by Mr. Beck holds for that proposition. And AARP would urge that you deny the request that the company get this money. It's $6.1 million. You either have the shareholders carry it during the pendency of the delay between the next hearing or you put it on the backs of the customers. It's either/or. There's not evidence before you now. You should wait, let the hearing go forth and the evidence be heard and then make a decision. Thank you.

CHAIRMAN EDGAR: Thank you, Mr. Twomey.

Mr. McWhirter.

MR. McWHIRTER: Madam Chairman and Commissioners, I'm John McWhirter representing a group of industrial consumers. We join with the Public Counsel on both issues that he has raised and spoke to in his opening statement. We also agree with the position that the Federal Executive Agencies have taken with respect to the capacity recovery charge which treats nonfirm customers the same as firm customers when it collects for capacity surcharges, even though those customers have had to go to the extra expense to buy generation in order to keep their facilities running during periods of interruption and are entitled to compensation for that.

I enjoyed the presentation this morning in the conservation docket where people went back down memory lane, even though it didn't quite relate to the evidence in the case, but it sent me back down memory lane.

I used to work for the Commission, and I left in 1965. And because of an interest in electric rates, I started keeping track of my electric bill. And this Commission started regulation in 1951. Between 1951 and 1972 base rates went down every year as systems grew. It was a fascinating thing.

In 1972, the first year I started keeping a record, a consumer of 1,000 kilowatt hours would pay $24 to Tampa Electric, I was a customer of Tampa Electric and so that's what I started keeping record of, but that $24 paid for not only the base rates, but it paid for all fuel costs.

But then something happened in 1973 when OPEC came along and we started the idea of guaranteed cost recovery. And up to that point in time utilities always represented and they still represent today that we only have an opportunity to earn our money. It's not guaranteed. But with respect to cost recovery it is guaranteed, and each year more and more things keep adding -- being added to cost recovery. And you will be amazed that this year 70 percent of the total revenue that Florida utilities will collect will be absolutely guaranteed through guaranteed cost recovery, and it's done in a truncated two-day hearing like we're going to have today.

And so when Mr. Beck says there's an obligation of the utility to come in and prove their case, we agree with that in spades. There is such an obligation.

So the first thing I did when I got the filings -- and, as you know, we get tremendous amounts of paper on September 1st to analyze and then determine whether we want to hire an expert and so forth. There are two things that jumped out at me. We know, first of all, that what we're dealing with is not costs that have already occurred, but projected costs for next year. So the first step that I take is I look at those projected costs and see how they compare to the fuel costs in the, in the New York commodity exchange, the NYMEX. And when you look in the filing and you see what they're paying for gas and what they're paying for oil and what they're paying for coal, it turns out that the projected costs for the various months of the year were substantially greater on September 1 when they made their estimates than the NYMEX was indicating. So we -- that was the first thing that gave us concern. And if you'll see our statement, we ask that the utilities prove to us why it is that their costs were so much higher than the NYMEX.

FP&L and Florida Progress have come through in the last ten days and filed updated filings, and they acknowledged that the volatile fuel costs -- the fuel market is changing, and FP&L reduced its demand for fuel costs by some $300 million, and I think Florida Progress, about $150 million or so. But the appalling thing is that last year the utilities increased their fuel costs by 45 percent in 2006 over 2005. That's a big increase. And it makes you somewhat wonder now that prices are trending down, and they may go back up again, but they're trending down and all the projections are that they're going down, but this year the utilities, all but Florida Power & Light, are increasing their fuel costs over last year's big number. So one of the things we wanted them to do was to prove the need of it.

Well, I'm fairly satisfied with what's going on -- Tampa Electric is asking for a 14 percent increase in its fuel cost, and that appears to be attributable primarily to their conversion from coal to gas, which exemplifies what y'all want to do on fuel diversification. Gulf Power is increasing its fuel costs by 31 percent. Now that's a big increase, but, once again, it's related to the fuel cost. Another thing that's going up -- because they're converting to gas.

The other thing that gave me concern was that when I looked at the projected costs for natural gas, we found that they were substantially higher than the costs for natural gas on the NYMEX. And part of that, of course, is attributable to the transportation costs that you have to get the gas from Henry Hub to your various dispatch points.

But it seemed to me that maybe part of the problem was also the Commission's new idea of risk management and hedging. So I went back to the hedging docket, and the Commission itself requested the utilities to begin hedging in 2001, and they asked the utilities to come up with a hedging program. And we spent about a year working on that, and there was a settlement that was approved by the Commission in October of 2002 in which it suggested that utilities, in order to avoid fuel cost volatility and midcourse corrections, that utilities should hedge. And that's a good decision. But hedging needs to be monitored and care needs to be taken that hedging is appropriate, so -- under the circumstances.

Two things came to mind. In the settlement agreement that we entered on August the 9th, 2002, apparently the period from 2003 through 2006 was a test period, and utilities were allowed to collect through the fuel costs their incremental costs of hedging, the operating and maintenance expense attributable to that, and they could do it through

December 31st, 2006.

Now in this case, FP&L is continuing those costs because we agreed to it in the stipulation with FP&L when we settled the base rate case last year, that it could go through 'til 2009. The other utilities need to come in and prove that they are not in 2007 carrying forward any O&M expense related to their hedging programs, and I'm sure they will. But I didn't see it in their testimony, so we'll ask some questions about that.

And the other thing that the Commission directed the utilities to do, at least when it approved the settlement, was that in addition to setting up a risk management program, each utility shall submit as part of its final true-up filing in the fuel and purchased, fueled and purchased cost recovery docket each year a report indicating the success of its risk management plan.

Well, when we look into the risk management plans, we find that this year -- the success may have been good in last, in previous years, but it's not quite that good this year. For instance, through July, and I don't know what's happened after that, so we'll ask Mr. Yupp about it, through July FP&L had lost $186 million on its hedging activity. That's the price that it paid to buy fuel over and above what it could have gotten that fuel for in the spot market. So I suspect the number is bigger now.

And what we want to find out from the utilities is just exactly what their plans are and how they're going forward with it. We're not going to prove anything I think significantly in this hearing. But we need to have, as Charlie Beck says, proof from the utilities that these programs are successful and still viable. The only -- these programs were initiated at the behest of the Commission and they were initiated for the purpose of avoiding fuel volatility. And fuel volatility is pretty well avoided already for customers in that the fuel factor is set once a year and goes on all year. And so the only thing to deal with is whether there's going to be a midcourse correction that people aren't looking forward to. But now that the fuel costs of the utilities are approaching $10 billion, it will take a billion dollar cost differential in fuel before it would trigger a midcourse correction. So if we're paying money for utilities to avoid volatility on top of the annual factor, I'd like to hear a little more explanation from the witnesses, who gave us very terse reports in their testimony, as to how the customers are benefiting from hedging today.

So that's all I have to talk about, but we will ask the witnesses some questions. And thank you for your time and attention.

CHAIRMAN EDGAR: Thank you, Mr. McWhirter.

Captain Williams.

CAPTAIN WILLIAMS: Madam Chairperson, Commissioners, this is Captain Damund Williams. I represent the Federal Executive Agencies. As Mr. McWhirter correctly points out, there was one issue that we raised and we hope that you will support us in that issue. It's Issue 38D.

Essentially what the Federal Executive Agencies, and my clients include Patrick, Kennedy Space Station and Cape Canaveral as just a few of our clients, what we're essentially requesting is that Florida Power & Light exclude nonfirm or load control demand when calculating the demand-related production cost component of capacity cost recovery factors for commercial industrial load control or CILC customers.

Currently, CILC customers are being charged for demand-related purchase capacity costs that they do not cause. We have filed testimony by economist Dennis Goins, who will testify as to why CILC customers should not be charged for this. He will tell you that an efficient pricing scheme requires customers to pay only for costs attributable to their demand. FPL does not build or acquire generating capacity to serve interruptible loads. As such, only firm service prices should include recovery of demand-related production costs.

Once again, we request your support in Issue 38D. Thank you.

CHAIRMAN EDGAR: Thank you, Captain Williams.

I believe that concludes the opening statement portion. And, Mr. Butler, you did reserve some time. Would you like to use it now?

MR. BUTLER: I would. Thank you.

CHAIRMAN EDGAR: You're recognized.

MR. BUTLER: Just two or three quick points. Regarding the Florida Power Corporation v. Cresse case that Mr. Beck cited, I would note, first of all, that in that case it refers to the disallowance decision by the Commission being made at a, quote, subsequent true-up hearing, unquote. And that's exactly what FPL is asking to have happen here, that the prudence determination be made at the subsequent true-up hearing, which in this case in effect would be the hearing in -- excuse me, or in the successor to this docket next November. That appears, by the way, on Page 1188 of the case, the 413 So.2d 1188.

Probably more important, I would note that the Florida Power Corp. v. Cresse case is a 1982 case; therefore, it was decided two years before the first of the two PSC orders that I had referenced to you. In other words, the Commission's practice of allowing cost recovery subject to refund after a prudence evaluation was completed was a practice that was adopted and implemented with full knowledge of the Supreme Court's ruling in FPC v. Cresse. And there are no later Supreme Court decisions that I'm aware of that's ever criticized the PSC's approach that was used in the '84 or

'86 dockets.

There's the suggestion here that sort of things must have been handled imprudently or else this incident wouldn't have occurred. And that just -- we're not getting into evidence here, but I just want to point out a couple of things about that suggestion.

First of all, you know, OPC had an opportunity to file testimony in this docket if it had concerns about the way FPL had handled the incident. It didn't. One of the reasons actually we asked for deferral was the fact that the record was so thin, thanks to the fact that Public Counsel filed no testimony and, therefore, we had nothing where there would have been an occasion for rebuttal.

But at this point as we stand here, we simply have costs that were incurred by FPL in the ordinary course of its business, and certainly the Commission's practice has been to allow recovery of those sorts of costs subject to potential refund if there's later a determination of imprudence.

Finally, I'd like to note that FPL gladly accepts the burden of demonstrating prudence, but OPC seems to suggest that FPL should pay just because an employee or a contractor apparently drilled the hole in the pressurizer piping in question. I would submit that this is inconsistent with the notion of prudence review.

And the best analogy we really have for the purposes here is the tort law doctrines applicable to employers of negligent hiring, negligent retention, negligent supervision, all doctrines that can impose on an employer liability for the acts of an employee that occur outside the scope of the employee's employment and certainly something that may be an intentional, deliberate bad action. And it's possible for employers to be responsible, but they are responsible when there has been actually a determination that they were negligent in the hiring, retention or supervision, that they knew or should have known of something that they either didn't take into account in hiring, that they ignored in retaining an employee, or that they failed to do in supervising the employee. That's the analogous standard that would apply here, and there's absolutely nothing in the record today to suggest that FPL was, you know, negligent or failed to meet any of those standards.

I appreciate your consideration and ask you, as I did before, to allow FPL to recover the money, subject to refund with interest in the event that any imprudence determination were made in next year's hearing. Thank you.

CHAIRMAN EDGAR: Thank you, Mr. Butler.

Okay. I believe that we are now ready to move into the testimony portion of our proceeding. We will, for efficiency purposes, swear in witnesses as a group. And so I will now ask for all witnesses who are to testify in this proceeding to please stand with me and raise your right hand.

(Witnesses collectively sworn.)

MR. BUTLER: I think I may have the first witness.

CHAIRMAN EDGAR: You do, Mr. Butler.

And I tried to count real fast, but I will look to counsel, if you do have a witness who was out of the room or was not sworn for some reason, please bring that to my attention when you call the witness to the stand later in the proceeding.

And Mr. Butler.

MR. BUTLER: Thank you. I would call FPL witness Korel M. Dubin to the stand.

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 Ms. Dubin, you have just been sworn; correct?

A Yes, I have.

Q Okay. Thank you.

Would you state your name and address for the record.

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

Q And by whom are you employed and in what capacity?

A I am employed by Florida Power & Light Company as

Manager of Regulatory Issues in the Regulatory Affairs Department.

Q Do you have before you the following prefiled testimonies: Final true-up testimony dated March 1, 2006, consisting of 11 pages and attached Exhibits KMD-1 and 2; estimated/actual true-up testimony consisting of 11 pages and attached Exhibits KMD-3 and 4 dated August 8th, 2006?

A I do.

Q Projection testimony dated September 1, 2006, consisting of 27 pages and attached Exhibits KMD-5, 6 and 7?

A Yes, I do.

Q I'm sorry. And supplemental testimony dated October 24, 2006, consisting of 12 pages and attached Exhibits KMD-8 and 9?

A Yes.

Q Okay. Were these testimonies and exhibits prepared under your direction, supervision and control?

A Yes, they were.

Q Do you have any changes or corrections to make to the testimonies and exhibits?

A No, I do not.

Q Do you adopt these prefiled testimonies and exhibits as your testimony in this proceeding today?

A I do.

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

CHAIRMAN EDGAR: The prefiled testimony will be inserted into the record as though read.

MR. BUTLER: And I would note that Ms. Dubin's Exhibits KMD-1 through 7 are preidentified as Exhibits 4 through 10 respectively in the, in staff's comprehensive list of exhibits. It appears that Exhibits KMD-8 and KMD-9 are not included on that list. And I discussed this with Ms. Bennett, who agreed that perhaps we could number those as 10A and 10B respectively so that we don't end up losing the sequence for the rest of the numbering.

CHAIRMAN EDGAR: Those exhibits will be marked as 10A and 10B.

MR. BUTLER: Thank you.

(Exhibits 10A and 10B marked for identification.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 060001-EI

MARCH 1, 2006

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 (FCR) Clause and Capacity Cost Recovery (CCR) Clause Net True-Up amounts for the period January 2005 through December 2005. The Net True-Up for the FCR is an under-recovery, including interest, of $307,437,600, which represents the variance between the estimated and actual costs and revenues for October through December 2005 of $77,843,195 plus the $229,594,406 estimated under-recovery for those same months that FPL has deferred for recovery in 2007 consistent with Order No. PSC-05-1252-FOF-EI. The Net True-Up for the CCR is an over-recovery, including interest, of $3,305,688. I am requesting Commission approval to include this FCR true-up under-recovery of $307,437,600 in the calculation of the FCR factor for the period January 2007 through December 2007. I am also requesting Commission approval to include this CCR true-up over-recovery of $3,305,688 in the calculation of the CCR factor for the period January 2007 through December 2007.

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-12 for the January 2005 through December 2005 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 2005 through December 2005, an under-recovery of $307,437,600. On October 14, 2005 FPL filed an estimated/actual true-up amount for 2004 and 2005 of $972,734,535. At that time FPL proposed to recover this true-up equally over a two-year period, 2006 and 2007. Instead, the Commission held in Order No. PSC-05-1252-FOF-EI, dated December 23, 2005, that:

> "While we understand FPL's concerns, we believe that it is not appropriate to defer any portion of FPL's 2004 final true-up or the 2005 actual (January-September) true-up to 2007, since these are known costs. The level of FPL's under-recoveries for the period of October through December of 2005 is estimated to be $229,594,406.... FPL's total fuel adjustment true-up amount to be collected in 2006 [is] $743,140,130, which reflects recovery of FPL's 2004 final true-up and 2005 actual true-up amounts."

Thus, of the total $972,734,535 estimated/actual under-recovery that FPL filed, the Commission directed FPL to include the $743,140,130 actual under-recovery through September 2005 in calculating the FCR factor for 2006. This left the remainder of $229,594,406, representing the estimated true-up under-recovery for October through December 2005, to be deferred for recovery in 2007. The actual under-recovery for October through December 2005 is $307,437,600, a variance of $77,843,195 from the estimate of $229,594,406.

The Summary of the Net True-up amount shown on Appendix I, page 3 shows the actual End-of-Period True-Up under-recovery for the period January 2005 through December 2005 of $1,042,870,588 on line 1. The Estimated/Actual True-Up under-recovery for the same period of $735,432,988 is shown on line 2. (This amount, plus the Final 2004 True-Up under-recovery of $7,707,142, total to the $743,140,130 that was approved by the Commission for recovery in 2006 as described above.) Line 1 less line 2 results in the Net Final True-Up for the period January 2005 through December 2005 shown on line 3, an under-recovery of $307,437,600.

The calculation of the true-up amount for the period follows the procedures established by this Commission set forth on Commission Schedule A-2 "Calculation of True-Up and Interest Provision."

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

A. Yes. Appendix I, page 4, entitled "Calculation of Actual True-up Amount," shows the calculation of the FCR actual true-up by month for January through December 2005.

Q. Have you provided a schedule showing the variances between actual and estimated/actual fuel costs and revenues for 2005?

A. Yes. Appendix I, page 5 compares the actual fuel costs and revenues to the estimated/actuals for January through December 2005.

Q. Please describe the variance in fuel costs.

A. Appendix I, page 5, line C11 compares the Actual End of Period Net True-up under-recovery of $1,050,577,730 to the Estimated/Actual End of Period Net True-up under-recovery of $972,734,535 resulting in a variance of $77,843,195. This variance is due primarily to a $53,361,488 (1.1%) increase in Jurisdictional Total Fuel Costs and Net Power Transactions (page 5, line C6), a $22,282,055 (0.6%) decrease in Jurisdictional Fuel Revenues (page 5, line C3), and an increase of $2,199,652 (16.5%) in interest (page 5, line C8).

The $53.4 million variance in Adjusted Total Fuel Costs and Net Power Transactions is due primarily to a $27.9 million (0.6%) increase in the Fuel Cost of System Net Generation, a $16.5 million (6.7%) increase in Fuel Cost of Purchased Power, and a $37.4 million (33.5%) increase in the Energy Cost of Economy Purchases, which are offset by a $8.6 million (10.1%) increase in the Fuel Cost of Power Sold, a $5.9 million (42.1%) increase in Revenues from Off-System Sales, a $5.9 million (3.6%) decrease in Energy Payments to Qualifying Facilities, and a $5.8 (11.7%) increase in Sales to Florida Keys Electric Cooperative and the City of Key West.

As shown on the December 2005 A3 Schedule, the $27.9 million (0.6%) increase in the Fuel Cost of System Net Generation is primarily due to $102.8 million (9.5%) greater than projected heavy oil cost, offset by $67.4 million (2.1%) lower than projected natural gas cost. Heavy oil averaged $6.16 per MMBtu, $0.17 per MMBtu (2.9%) higher than projected, and 11,644,643 more MMBtu's (6.4%) of heavy oil were used during the period than projected. The natural gas price averaged $8.53 per MMBtu, $0.02 per MMbtu (0.3%) higher than projected, but 8,886,358 fewer MMBtu's (2.4%) of natural gas were used during the period than projected.

The $16.5 million (6.7%) increase in Fuel Cost of Purchased Power is primarily due to higher than projected dispatch and fuel costs associated with FPL's short-term peaking capacity contracts. The $37.4 million (33.5%) increase in the Energy Cost of Economy Purchases is mainly attributable to two factors. Approximately $18,193,974 of the total variance is due to higher than projected economy purchases (approximately 274,102 MWh of additional purchases above projections). The remaining variance of $19,154,811 is due to higher than projected unit costs of economy purchases (approximately \$9.73/MWh higher than projected). The offsetting \$8.6 million (10.1%) variance in power sold is primarily due to higher than projected fuel costs for off-system sales (approximately \$5.23/MWh higher than projected).

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 \$22.3 million (0.6%) lower than the estimated/actual projection. This decrease was due primarily to lower than projected jurisdictional sales, which were 560,099,971 kWh (0.5%) lower than the estimated/actual projection.

Q. Pursuant to Commission Order No. PSC-05-1252-FOF-EI, FPL's 2005 gains on non-separated wholesale energy sales are to be measured against a three-year average Shareholder Incentive Benchmark of \$15,370,850. Did FPL exceed this benchmark?

A. Yes. As shown on the year-to-date December Schedule A6 that was filed on January 20, 2006, FPL's 2005 gains on off-system sales were \$21,022,022. This \$ 21,022,022 exceeds the \$15,370,850 benchmark by \$5,651,172. Consistent with Commission Order No. PSC-00-1744-PAA-EI in Docket No. 991779-EI, this \$5,651,172 amount is to be shared between FPL's customers and shareholders, with 80%, or \$4,520,938, going to customers and 20%, or \$1,130,234, going to shareholders. Thus customers receive 80% of the amount above the benchmark ($4,520,938), plus 100% of the gains on off-system sales below the benchmark ($ 15,370,850), for a total of $19,891,788. FPL is requesting that the Commission approve $1,130,234 as its Shareholder Incentive for 2005. FPL has reflected this incentive in the FCR Actual True-Up calculation for 2005 by reducing the amount of total gains on off-system sales by $1,130,234, from $21,022,022 to $19,891,788 (see Appendix I, page 4, Line A2b, column 13).

Q. **What is the appropriate final Shareholder Incentive 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 year 2006, the three year average Shareholder Incentive Benchmark consists of actual gains for 2003, 2004 and 2005 (see below) resulting in a three year average threshold of:

2003	$17,827,648
2004	$18,558,415
2005	$ 21,022,022
Average threshold	$19,136,028

Gains on sales in 2006 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" shows the calculation of the Net True-Up for the period January 2005 through December 2005, an over-recovery of $3,305,688, which I am requesting to be included in the calculation of the CCR factors for the January 2007 through December 2007 period.

The actual End-of-Period under-recovery for the period January 2005 through December 2005 of $8,989,147 (shown on line 1) less the estimated/actual End-of-Period under-recovery for the same period of $12,294,835 that was approved by the Commission in Order No. PSC-05-1252-FOF-EI (shown on line 2), results in the Net True-Up over-recovery for the period January 2005 through December 2005 (shown on line 3) of $3,305,688.

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

A. Yes. Appendix II, page 4, entitled "Calculation of Actual True-up Amount," shows the calculation of the CCR End-of-Period true-up for the period January 2005 through December 2005 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 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 2005 through December 2005.

Q. What was the variance in net capacity charges?

A. Appendix II, page 5, Line 13 provides the variance in Jurisdictional Capacity Charges of $1,757,010 or 0.3%.

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

A. As shown on page 5, line 14, actual Capacity Cost Recovery Revenues (Net of Revenue Taxes), were $5,030,603 (0.8%) higher than the estimated/actual projection. This $5,030,603 increase in revenues, less the $1,757,010 increase in costs, plus interest of $32,095 (page 5, line 18), results in the final over-recovery of $3,305,688.

Q. Have you provided Schedule A12 showing the actual monthly capacity payments by contract?

A. Yes. Schedule A12 consists of two pages that are included in Appendix II as pages 6 and 7. Page 6, shows the actual capacity payments for Qualifying Facilities, the Southern Company – UPS contract and the St John River Power Park (SJRPP) contract. Page 7 provides the Short Term Capacity payments for the period January 2005 through December 2005.

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. 060001-EI

August 8, 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 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 (FCR) Clause and the Capacity Cost Recovery (CCR) Clause 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 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 July 2006 through December 2006. FCR Schedules A1 through A9 provide actual data for the period January 2006 through June 2006. They 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 June 2006, and revised estimates for July through December 2006, with the original estimates for January through December 2006 filed on September 9, 2005. The CCR true-up calculation makes the same comparison.

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 July 2006 for FCR and 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 2006 through December 2006 is an over-recovery, including interest, of $244,625,067 (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 2006 through June 2006, columns (1) through (6) reflects the actual results of operations, and the data for July 2006 through December 2006, columns (7) 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.

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 $62,812,533. This consists of the $244,625,067 estimated/actual over-recovery for 2006 plus the final under-recovery of $307,437,600 for the period ending December 2005 filed on March 1, 2006. This total under-recovery of $62,812,533 is to be carried forward and included in the fuel factor for January through December 2007.

Q. Per Commission Order No. PSC-05-1252-FOF-EI dated December 23, 2005, the estimated true-up under-recovery for October through December 2005 of $229,594,406 was deferred for recovery in 2007. If this amount had not been deferred, what would the true-up amount carried forward to 2007 be?

A. If the $229,594,406 had not been deferred to 2007, the total true-up to be included in 2007 would be an over-recovery of $166,781,872 instead of an under-recovery of $62,812,533.

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 2006 through December 2006 period is provided in Appendix I, Page 4. FPL's original filing dated September 9, 2005 projected Jurisdictional Total Fuel and Net Power Transactions to be $5.795 billion for January through December 2006

(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 $5.422 billion for the period January through December 2006 (Actual data for January through June 2006 and revised estimates for July through December 2006) (See Appendix I, Page 4, Column 1, Line C6). Therefore, Jurisdictional Total Fuel Cost and Net Power Transactions are $372.9 million or 6.4% lower than originally projected (See Appendix I, Page 4, Column 3, Line C6).

Jurisdictional Fuel Revenues for 2006 are $98.8 million lower than originally projected (Appendix I, Page 4, Column 3, Line C3). Combining the $372.9 million of lower costs with the $98.8 million of lower revenues, plus interest, results in the $244.6 million over-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 $372.9 million is a 6.4% decrease from projections. The primary reason for this variance is lower than projected Fuel Costs of System Net Generation, which is somewhat offset by higher than projected Purchased Power Costs and Energy Costs of Economy Purchases.

There is a $508.6 million or 9.2% decrease in the Fuel Cost of System Net Generation due primarily to lower than projected residual oil costs offset somewhat by higher than projected natural gas costs. Residual oil costs are currently projected to be $703.7 million (56.8%) lower than the original filing. The unit cost of residual oil in the estimated/actual period is $8.02 per MMBTU or $0.05 (0.7%) lower than the $8.07 per MMBTU included in the original filing. Additionally, the estimated/actual heavy oil consumption is 56.5% less than the original projection. Natural gas costs are currently projected to be $205.3 million (5.1%) higher than the original filing. Although the unit cost of natural gas in the estimated/actual period is $8.95 per MMBTU or $1.02 (10.3%) lower than the $9.97 per MMBTU included in the original filing, consumption of natural gas has increased by 17.1% compared to the original projections. Projections for generation by fuel type for the period July 2006 through December 2006 are included in Appendix I, Schedule E3.

This decrease in fuel costs is partially offset by a $70.8 million increase in the Fuel Cost of Purchased Power due primarily to greater than projected use of purchased power. Projections for Fuel Cost of Purchased Power for the period July 2006 through December 2006 are provided in Appendix I, Schedule E7. Additionally, there is a $32.8 million increase in the Energy Cost of Economy Purchases due to higher than projected use of economy purchases. Projected Economy energy purchases for the period July 2006 through December 2006 are provided in Appendix I, Schedule E9.

Q. What is the appropriate estimated benchmark level for calendar year 2007 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 2007, the three-year average threshold consists of actual gains for 2004, 2005, and January through June 2006, and estimates for July through December 2006 (see below). Gains on sales in 2007 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 2007) to include all actual data for the year 2005.

2004	$18,558,415
2005	$21,022,022
2006	$19,967,227
Average threshold	$19,849,221

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 2006 through December 2006 is an under-recovery of $12,624,639 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 2006 reflects actual data and the data for July through December 2006 is based on updated estimates) compared to the original projections for the January 2006 through December 2006 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 an $11.5 million (2.0%) increase. The primary reasons for this variance is a $2.2 million increase in short-term capacity payments, a $4.4 million increase in Incremental Power Plant Security Costs, a $2.3 million increase in Transmission of Electricity by others, and a $2.3 million variance in Transmission Revenues from Capacity Sales. Short term capacity payments are higher than originally projected due to additional purchase power agreements that were not executed at the time of the original projections. Incremental Power Plant Security Costs are higher than originally projected due to an unplanned Force on Force drill at Turkey Point and delays in equipment installation due partially to high demand of specialized equipment in the industry. Additionally, detection devices in the fencing required additional modifications due to plant configuration. The increase in Transmission of Electricity by Others is due to additional transmission that FPL reserved for capacity and an additional non-firm reservation for the potential purchase of economy power that were not included in the original projections. The primary reason for lower than projected Transmission Revenues from Capacity Sales is a lower overall actual cost of transmission due to a greater amount of off-peak sales. Since off-peak rates are less than on-peak rates, more off-peak sales result in lower overall transmission costs.

In addition to the cost variances, Page 4, Column 3, Line 15, Capacity Cost Recovery revenues, net of revenue taxes, are $0.4 million lower than originally projected. The $11.5 million higher costs plus the $0.4 million revenue variance, plus interest, results in an estimated/actual 2006 true-up amount of $12.6 million under-recovery (Appendix II, Page 4, Column 3, Lines 16 plus 17). This under-recovery of $12.6 million plus the final 2005 over-recovery of $3.3 million filed on March 1, 2006 results in an under-recovery of $9.3 million to be carried forward to the 2007 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. 060001-EI

September 1, 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. My testimony addresses the following subjects:

- I present for Commission review and approval the Fuel Cost Recovery (FCR) factors for the period January 2007 through December 2007.
- I present for Commission review and approval a revised 2006 FCR estimated/actual true-up amount, which has been

updated to include July actual data and which is incorporated into the calculation of the 2007 FCR Factors.

- I present for Commission review and approval FPL's proposal to levelize the Residential 1,000 kWh Bill by offsetting the Generation Base Rate Adjustment (GBRA) for Turkey Point Unit 5 with the fuel savings attributable to this new unit.
- I present for Commission review and approval FPL's proposal to recover through the FCR Clause FPL's projected costs for the MoBay and Bay Gas Storage projects and explain why that proposal is appropriate and consistent with Commission practice.
- I present for Commission review and approval FPL's proposal to recover through the FCR Clause FPL's projected costs for the Southeast Supply Header Pipeline Project (SESH) and explain why that proposal is appropriate and consistent with Commission practice.
- I present for Commission review and approval the Capacity Cost Recovery (CCR) factors for the period January 2007 through December 2007.
- I present for Commission review and approval a revised 2006 CCR estimated/actual true-up amount, which has been updated to include July actual data and which is incorporated into the calculation of the 2007 CCR Factors.
- I present for Commission review and approval FPL's

projected incremental security costs for 2007, to be recovered through the CCR Clause, including costs associated with the recently issued North American Reliability Council (NERC) Cyber Security Standards

- Finally, I provide on pages 80-81 of Appendix II FPL's proposed COG tariff sheets, which reflect 2007 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 any exhibits in this proceeding?

A. Yes, I have. They are as follows:

- KMD-5 -- Schedules E1, E1-A, E1-B, E1-C, E1-D E1-E, E2, E10, H1, and pages 8-9 and 73-75 included in Appendix II
- KMD-6 -- the entire Appendix III
- KMD-7 -- the entire Appendix IV

Appendix II contains the FCR related schedules, Appendix III contains the CCR related schedules, and Appendix IV provides the alternate FCR schedules prepared using the standard methodology.

FUEL COST RECOVERY CLAUSE

Bill Levelization

Q. Is FPL proposing to levelize the Residential 1,000 kWh bill in 2007?

A. Yes. In order to provide customers with a stable, level bill in 2007, FPL proposes to levelize the Residential 1,000 kWh bill by offsetting the Generation Base Rate Adjustment (GBRA) as approved in Docket No. 050045-EI for Turkey Point Unit 5 with the fuel savings attributable to this new unit. The fuel savings of $96,464,000 attributable to Turkey Point Unit 5 are presented in the testimony of G. Yupp.

Without levelization, FPL's customers' bills are projected to decrease in January 2007 as result of lower charges for fuel and capacity. Then, in May 2007, when Turkey Point Unit 5 begins commercial operations, the GBRA will become effective, which thereby would increase customer bills. FPL's proposal will still provide a decrease in customers' bills in January while eliminating the increase in May.

Q. How does FPL propose to calculate this levelized Residential 1,000 kWh Bill?

A. FPL proposes to offset the GBRA that becomes effective in May 2007, by crediting the Turkey Point Unit 5 fuel savings to customers over the same timeframe, May through December 2007. Under the standard methodology, fuel costs for a given year (including any fuel savings) are levelized over the twelve month period. In order to offset the impact of the GBRA on customer bills in May through December 2007, the Turkey Point Unit 5 fuel savings would be excluded from the factor calculation for January through April 2007 and levelized over the eight month period May through December 2007.

To calculate the fuel charges that would levelize the 2007 Residential 1,000 kWh Bill, FPL prepared two E1 Schedules to calculate average fuel factors for January through April 2007 (page 3a of Appendix II) and May through December 2007 (page 3b of Appendix II). FPL first calculated fuel factors assuming Turkey Point Unit 5 is <u>not</u> operating in 2007, meaning that the fuel savings of $96,464,000 are excluded from the calculation of the levelized average fuel factor on both E1 Schedules. This adjustment is shown on Line 1a.

The next step is to adjust the fuel factors by crediting the fuel savings. The fuel savings of $96,464,000 when jurisdictionalized are $96,022,330. Crediting all of the $96,022,330 in the May through December period more than offsets the impact of the GBRA over the same timeframe. Therefore, in order to prevent a change in the 2007 Residential 1,000 kWh Bill, $95,672,330 of the savings are credited in May through December 2007 and $350,000 of the fuel savings are credited in January through April 2007.

For January through April 2007, FPL calculated a fuel factor that credits $350,000 of the jurisdictionalized fuel savings over the four month period. The $350,000 is divided by the projected sales for January through April 2007 which results in a downward adjustment to the fuel factor of.0011¢ per kWh. This adjustment is provided on Schedule E1 for January through April, Line 33a, Page 3a of Appendix II. This results in a levelized fuel factor of 6.071¢ per kWh on Line 35 or $57.29 on a Residential 1,000 kWh Bill. The total Residential 1,000 kWh Bill for January through April 2007 is $106.68, down from the current charge of $108.61, which is provided on Schedule E10, Page 71 of Appendix II.

For the period May through December 2007, FPL then calculated a fuel factor that credits $95,672,330 of the jurisdictionalized fuel savings over the eight month period. This amount is divided by the projected sales for May through December 2007 which results in a downward adjustment to the fuel factor of (.1262¢) per kWh, shown on Schedule E1 for May through December, Page 3b, Line 33a. This results in a lower levelized fuel cost recovery factor of 5.946¢ per kWh on Line 35. This represents $56.04 on a Residential 1,000 kWh Bill in May 2007, $1.25 less than the $57.29 charge in January 2007 (see Schedule E10, Page 71 of Appendix II).

In May 2007, the Base charge on a 1,000 kWh Residential bill increases by $1.25 due to the GBRA but, under FPL's proposal, is offset by the $1.25 decrease in the fuel charge due to the fuel savings associated with Turkey Point Unit 5. As a result, there is no change in the total Residential 1,000 kWh Bill, and it remains at $106.68.

Q. Will all rate classes see a levelized bill for the January through December 2007 period?

A. Only the "Typical" 1,000 kWh Residential Bill will be completely levelized, while for other Residential consumption levels and other rate classes there will remain small differences between their bills for January through April versus the bills for May through December. However, all customer classes and consumption levels will see less of a fluctuation in their bills from April to May than they would without FPL's proposes levelization. Moreover, all rate classes will see a decrease in their bills beginning in 2007.

Q. As an alternative, is FPL also providing fuel factors using the standard methodology?

A. Yes. Although FPL requests approval of its "Levelized Bill Methodology," in the alternative FPL has also provided fuel factors using the standard methodology. Appendix IV includes Schedules E1, E1-D, E1-E, E2, and E10, which calculate the twelve-month levelized fuel factor (standard methodology). This twelve-month levelized fuel factor spreads the savings resulting from Turkey Point Unit 5 throughout the twelve months of 2007.

Q. Is FPL's levelization proposal revenue neutral?

A. Yes. The FCR Factors that FPL proposes for levelizing the bill are designed to recover the same total FCR revenues over 2007 as would standard, non-levelized FCR Factors.

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

A. For the period January through April 2007, the levelized fuel cost recovery factor is 6.071¢ per kWh. Schedule El (January through April), Page 3a of Appendix II shows the calculation of this four-month levelized FCR factor.

For the period May through December 2007, the levelized fuel cost recovery factor is 5.946¢ per kWh. Schedule El (May through December), Page 3b of Appendix II shows the calculation of this eight-month levelized FCR factor.

Schedule E2 (January through April), Pages 10a and 10b of Appendix II shows the monthly fuel factors for January 2007 through April 2007 and also the four-month levelized FCR factor for this period. Schedule E2 (May through December), Pages 11a and 11b of Appendix II shows the monthly fuel factors for May 2007 through December 2007 and also the eight month levelized FCR factor for this period.

Q. Has the Company developed levelized FCR factors for its Time of Use rates?

A. Yes. For the period January through April 2007, Schedule E1-D (January through April), Page 6a of Appendix II, provides the four-month levelized FCR factor of 6.757¢ per kWh on-peak and 5.764¢ per kWh off-peak for our Time of Use rate schedules for this period.

For the period May through December 2007, Schedule E1-D (May through December), Page 6b of Appendix II, provides the eight-month levelized FCR factor of 6.632¢ per kWh on-peak and 5.639¢ per kWh off-peak for our Time of Use rate schedules for this period.

The time of use rates for the Seasonal Demand Time of Use Rider (SDTR) are provided on Schedule E-1D, Page 6c of Appendix II. The SDTR was implemented 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.

FCR factors by rate group for the periods January through April 2007 and May through December 2007 are presented on Schedule E1-E, Pages 7a and 7b of Appendix II. FCR factors by rate group for the SDTR are provided on Schedule E-1D, Page 7c of Appendix II.

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

A. Yes.

Q. Has FPL calculated the residential fuel charges using the inverted rate structure?

A. Yes.

<u>**Revised 2006 FCR Estimated/Actual True-up**</u>

Q. Has FPL revised its 2006 FCR Estimated/Actual True-up amount that was filed on August 8, 2006 to reflect July actual data?

A. Yes. The 2006 FCR Estimated/actual True-up amount has been revised to an over-recovery of $230,603,338 reflecting July actual data. The calculation of the revised 2006 FCR Estimated/actual true-up amount is shown on Revised Schedule E1-B, on Pages 4a-4b 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 2007 through

December 2007 period?

A. FPL is requesting approval of a net true-up under-recovery of $76,834,262. This $76,834,262 under-recovery represents the revised estimated/actual over-recovery for the period January 2006 through December 2006 of $230,603,338 plus the final true-up under-recovery of $307,437,600 that was filed on March 1, 2006 for the period January 2005 through December 2005. This $76,834,262 under-recovery is to be included for recovery in the FCR factor for the January 2007 through December 2007 period.

Q. What adjustments are included in the calculation of the levelized FCR factors shown on Schedule E1, Page 3a and 3b of Appendix II?

A. As shown on line 29 of Schedule E1, Pages 3a and 3b of Appendix II, the total net true-up to be included in the 2007 factors is a revised under-recovery of $76,834,262. This amount divided by the projected retail sales of 107,697,623 MWh for January 2007 through December 2007 results in an increase of .0713¢ per kWh before applicable revenue taxes. The Generating Performance Incentive Factor (GPIF) Testimony of FPL Witness Pam Sonnelitter, filed on April 1, 2006, calculated a reward of $8,478,098 for the period ending December 2005, which is being applied to the January 2007 through December 2007 period. This $8,478,098 reward divided by the projected retail sales of 107,697,623 MWh during the projected period results in an increase of .0079¢ per kWh, as shown on line 33 of Schedule E1, Pages 3a and 3b of Appendix II.

MoBay Gas Storage Project

Q. Is FPL requesting recovery of the MoBay Gas Storage Project, through the FCR Clause?

A. Yes. As discussed in the testimony of FPL witness G. Yupp, FPL is requesting fuel clause recovery treatment for the MoBay Gas Storage Costs including Base (pad) Gas and Fuel Storage Carrying Costs beginning in 2008. FPL is also requesting to recover Carrying Costs on gas stored at the Bay Gas facility through the fuel adjustment clause commencing upon approval of FPL's petition.

Q. What is the basis for requesting recovery of these gas storage project costs through the Fuel Cost Recovery Clause?

A. FPL is proposing to recover these costs through the Fuel Cost Recovery clause because the costs are gas transportation and hedging costs. Additionally, Base Gas is analogous to the "non-recoverable oil" and should be treated in the same manner. None of the costs of the Gas Storage Project are currently recovered through FPL's base rate charges or any other recovery mechanism.

Gas Transportation Costs

The monthly storage reservation charge, injection/ withdrawal charges, and insurance charges Gas Storage Project are described in the testimony of G. Yupp. Those charges are gas transportation costs and, as such, are recoverable through the fuel clause pursuant to Commission Order No. 14546 in Docket No. 850001-EI-B, issued July 8, 1985 which addressed costs that may be appropriately included in the calculation of recoverable fuel costs. The order lists transportation costs as a cost appropriate for recovery through the clause.

Base Gas

As discussed in more detail in Mr. Yupp's testimony, tenants at the Gas Storage Facility are required to provide or pay for a quantity of gas that will be injected into the storage reservoir to help maintain pressure in the reservoir and hence facilitate injection and removal of the working volume of gas. This Base Gas remains in the reservoir until the end of the storage agreement term, at which time it is either physically removed or sold to a subsequent tenant. In either event, FPL's customers would get the benefit of the Base Gas at that time. Base Gas is thus directly analogous to the "non-recoverable oil" that sits at the bottom of oil storage tanks (*i.e.,* "tank bottoms"). Non-recoverable oil is needed to keep the oil level in a tank high enough for the working volume of oil to be removed by the suction piping in the tank. Non-recoverable oil remains in the tank until it is periodically cleaned, at which time the oil is removed and burned as fuel. Pursuant to Order No. 12645, Docket No. 830001-EI, dated November 3, 1983, FPL and other utilities have been authorized 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 precisely the treatment that FPL seeks with respect to the Base Gas Costs.

Carrying Costs for Stored Gas

The Gas Storage Project is a physical hedge. As described in the testimony of G. Yupp, the storage facility 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. 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. Because the purpose of storing gas is to effect a physical hedge, the gas storage carrying costs associated with the Gas Storage Project are appropriately considered hedging costs.

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, hedging costs are recoverable through the FCR Clause. In the Order, the Commission stated:

> In addition, [the Hedging Resolution] maintains flexibility for each IOU to create the type of risk management program for fuel procurement that it finds most appropriate while allowing the Commission to retain the discretion to evaluate, and the parties the opportunity to address, the prudence of such programs at the appropriate time. Further, the [Hedging Resolution] appears to remove disincentives that may currently exist for IOUs 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.

The Hedging Resolution specifically refers to both "physical" and "financial" hedging throughout, and includes a note at the end specifically clarifying that "[n]o implication concerning the relative merits of using financial versus physical hedging techniques should be drawn from this proposed resolution." Therefore, FPL believes its proposal to recover the gas storage carrying costs associated with the Gas Storage Project through the FCR Clause is appropriate and consistent with the Hedging Resolution.

Q. Is recovery of hedging costs through the FCR Clause consistent with FPL's 2005 Rate Case Stipulation?

A. Yes.

The 2005 Rate Case Stipulation itself does not speak to the recovery of hedging costs. This was an oversight, which the parties confirmed to the Commission at the August 24, 2005 hearing on the stipulation. Order No. PSC-05-0902-S-EI, Docket No. 050045-EI, dated September 14, 2005 approving the Stipulation states:

> Pursuant to a stipulation approved in Order No. PSC-02-1484-FOF-EI, issued October 30, 2002, in Docket No. 011605-EI, FPL currently recovers incremental hedging costs through the Fuel Cost Recovery Clause (Fuel Clause). In its petition for a rate increase, FPL proposed to recover these costs through base rates instead. The [2005 Rate Case Stipulation] is silent on how incremental hedging costs will be recovered. *The parties clarified that they intended for recovery of these costs to continue through the [FCR] Clause during the term of the [2005 Rate Case Stipulation]. Because the Stipulation is silent in this regard, the parties indicated that they would take action to*

memorialize their intent in this year's [FCR] Clause proceedings.

(Emphasis added).

Consistent with this clarification, all of the parties to the 2005 Rate Case Stipulation that were parties to Docket No. 050001-EI entered into a stipulation on October 17, 2005 that provided in relevant part as follows:

"ISSUE: Should FPL be allowed to continue recovering incremental hedging costs through the [FCR] Clause during the term of the [2005 Rate Case Stipulation] that was approved in Order No. PSC-05-0902-S-EI, Docket No. 050045-EI, dated September 14, 2005, on the same basis as FPL has been recovering such costs pursuant to the Proposed Resolution of Issues that was approved in Order No. PSC-02-1484-FOF-EI, Docket No. 011605-EI, dated October 30, 2002?

POSITION: Yes. FPL's continued recovery of incremental hedging costs through the [FCR] Clause during the term of the [2005 Rate Case Stipulation] is reasonable and consistent with the intention of the parties to the [2005 Rate Case Stipulation]."

This stipulation was approved by the Commission as reasonable in Order No. PSC-05-1252-FOF-EI, Docket No. 050001-EI, dated

December 23, 2005. Thus the parties to the 2005 Rate Case Stipulation specifically intended and agreed that FPL would be permitted to recover hedging costs through the FCR Clause throughout the term of the 2005 Rate Case Stipulation, which will continue until at least December 31, 2009. Because the gas storage carrying costs are properly considered to be hedging costs, their recovery through the FCR Clause is appropriate and consistent with the 2005 Rate Case Stipulation.

Q. Is FPL also seeking to recover Carrying Costs on gas stored at the Bay Gas facility through the FCR?

A. Yes. FPL has utilized small scale natural gas storage arrangements for several years. Initially, FPL purchased storage capacity on a short-term basis, but in 2003 entered into a long-term storage arrangement with Bay Gas Storage Company Limited, Ltd. (the "Bay Gas Storage Contract").. 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 in the FCR clause the carrying cost associated with natural gas stored at the Bay Gas facility. FPL is not seeking recovery of these costs retroactively, even though such costs should have been appropriately recovered through 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.

<u>Southeast Supply Header (SESH) Pipeline Project</u>

Q. What is the SESH Pipeline Project?

A. As further explained in the testimony of FPL witness G. Yupp, the SESH pipeline project is a joint project of CenterPoint Energy Gas Transmission (CEGT) and Duke Energy Gas Transmission (DEGT) to build nearly 270 miles of 36-inch pipeline starting at CEGT's Perryville Hub in Northeast Louisiana and ending at the pipeline of DEGT's partially owned affiliate, Gulfstream Natural Gas System, near Mobile County, Alabama. The proposed route will cross and interconnect with major interstate pipelines serving the eastern United States that are not currently served at the Perryville Hub. The SESH Pipeline Project will allow FPL access to growing production from natural gas basins in East Texas and North Louisiana, which will provide an important on-shore alternate natural gas supply source for markets in the Southeast.

Q. Is FPL requesting recovery of the SESH Pipeline Project, through the FCR Clause?

A. Yes. As discussed in Mr. Yupp's testimony, FPL is requesting fuel clause recovery treatment for the SESH Pipeline Project costs beginning in 2008.

Q. What is the basis for requesting recovery of the SESH Pipeline Project costs through the Fuel Cost Recovery Clause?

A. In Docket No. 850001-EI-B, Order No. 14546 issued July 8, 1985, the Commission addressed costs that may be appropriately included in the calculation of recoverable fuel costs. The order lists the charges that "are properly considered in the computation of the average inventory price of fuel used in the development of fuel expense in the utilities' fuel cost recovery clauses". Item No. 4 of the list states, "Transportation costs to the utility system, including detention or demurrage." Clearly, the SESH Pipeline project costs are transportation costs to the utility system and would qualify for recovery through the FCR Clause. This is the same cost recovery treatment that FPL uses for its existing gas transportation costs. Moreover, as Mr. Yupp explains in his testimony, the SESH Project will be a valuable addition to FPL's gas-transportation alternatives because it will provide FPL access to on-shore supply which, in turn, will significantly increase supply reliability, supply diversity and potentially support customer savings.

CAPACITY COST RECOVERY CLAUSE

Q. Has FPL revised its 2006 CCR Estimated/Actual True-up amount that was filed on August 8, 2006 to reflect July actual data?

A. Yes. The 2006 CCR Estimated/actual True-up amount has been revised to an under-recovery of $18,215,446 reflecting July actual data. The calculation of the revised 2006 CCR Estimated/actual true-up amount is shown on page 3b of Appendix III.

Q. What is the revised net true-up amount that FPL is requesting to include in the CCR factor for the January 2007 through December 2007 period?

A. FPL is requesting approval of a net true-up under-recovery of $14,909,758. This $14,909,758 under-recovery represents the revised estimated/actual under-recovery for the period January 2006 through December 2006 of $18,215,446 plus the final true-up over-recovery of $3,305,688 that was filed on March 1, 2006 for the period January 2005 through December 2005. This $14,909,758 under-recovery is to be included for recovery in the CCR factor for the January 2007 through December 2007 period.

Q. Have you prepared a summary of the requested capacity payments for the projected period of January 2007 through December 2007?

A. Yes. Page 3 of Appendix III provides this summary. Total Recoverable Capacity Payments are $541,636,552 (line 16) and include payments of $195,185,676 to non-cogenerators (line1), Short-term Capacity Payments of $52,399,434 (line 2), payments of $316,149,792 to cogenerators (line 3), and $3,536,928 relating to the

St. John's River Power Park (SJRPP) Energy Suspension Accrual (line 4a), $30,442,387 in Incremental Power Plant Security Costs (line 6), and $2,679,339 for Transmission of Electricity by Others (line 7). This amount is offset by $5,399,062 of Return Requirements on SJRPP Suspension Payments (line 4b), by Transmission Revenues from Capacity Sales of $3,941,588 (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 $14,909,758 (line 13). The net under-recovery of $14,909,758 includes the final over-recovery of $3,305,688 for the January 2005 through December 2005 period that was filed with the Commission on March 1, 2006, plus the estimated/actual under-recovery of $18,215,446 for the January 2006 through December 2006 period, which includes actual data for January through July 2006 and revised estimates for August through December 2006.

<u>**Incremental Power Plant Security**</u>

Q. Has FPL included a projection of its 2007 Incremental Power Plant Security Costs in calculating its Capacity Cost Recovery (CCR) Factors?

A. Yes. FPL has included $30,442,387 on Appendix III, page 3, Line 6 for projected 2007 Incremental Power Plant Security Costs in the calculation of its CCR Factors. Section 14 of FPL's 2005 Rate Case Stipulation contemplates the continued use of the CCR Clause to recover incremental power plant security costs throughout the term of the stipulation. Of the total amount of projected 2007 costs, $26,547,082 is for nuclear power plant security, which is discussed in Mr. Gwinn's testimony. $1,098,942 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 rules and/or recommendations from the Department of Homeland Security authorities. Additionally, FPL is seeking recovery of incremental security costs of $2,796,363 related to recently issued North American Reliability Council (NERC) Cyber Security Standards CIP-002-1 through CIP-009-1 (Cyber Security Standards).

Q. Please describe the NERC Cyber Security Standard and discuss why recovery of them as Incremental Power Plant Security Costs is appropriate.

A. NERC was recently certified by the Federal Regulatory Energy Commission (FERC) as the nation's Electric Reliability Organization (ERO), pursuant to the Energy Policy Act of 2005. As such, NERC is responsible for developing and enforcing mandatory electric reliability standards which will apply to all users, owners and operators of the bulk power system. The NERC Cyber Security Standards were approved by the NERC Board on May 3, 2006 and became effective June 1, 2006 to address cyber security concerns as a result of the September 11, 2001 terrorist attacks.

FPL is seeking recovery only of the costs of complying with the Cyber Security Standards at its power plants; it has specifically excluded from its request the compliance costs associated with the transmission and other non-power plant parts of its system. None of the costs FPL seeks to recover are presently recovered through base rates. They are clearly related to governmentally-imposed post-9/11 security requirements and hence are properly recoverable through the CCR Clause.

<u>Calculation of CCR Factors</u>

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 factors for January through April and May through December become effective during these periods which will provide four months of billing on the January through March factor and eight months of billing on the May through December factor. This will provide for 12 months of billing on the new FCR factors for all our customers. FPL is requesting that the CCR factors become effective with customer bills for January 2007 through December 2007. This will provide for 12 months of billing on the CCR factors for all our customers.

Q. Under FPL's proposal to levelize the Residential 1,000 kWh Bill, what will be the charge for a Residential customer using 1,000 kWh effective January 2007?

A. The "typical" Residential 1,000 kWh Bill will be $106.68 under FPL's proposal to levelize the residential bill in 2007. For January through April 2007, this includes a base charge of $38.12, the fuel cost recovery charge is $57.29, the Capacity Cost Recovery charge is $5.57, the Conservation charge is $1.69, the Environmental Cost Recovery charge is $.24, the Gross Receipts Tax is $2.67, and an estimated storm securitization charge of $1.10. If securitization is accomplished in 2006, FPL expects that the storm charge will be reduced from its current level of $1.65 per 1,000 kWh to $1.10; if not, then the charge will be higher than $1.10. The storm securitization charge is a preliminary estimate. The actual storm recovery charge will be based on market conditions at the time the storm recovery bonds are issued. Pursuant to Order PSC-06-0464-FOF-EI issued in the Securitization docket, "prior to implementing the initial storm-recovery charges, FPL shall file tariff sheets for administrative approval, which tariff sheets will be administratively approved by Commission Staff within three (3) business days, subject to correction for any mathematical error. At Staff's request, FPL shall furnish draft tariff sheets at least five (5) business days in advance of the public offering of storm-recovery bonds."

For May through December 2007, the "Typical" Residential 1,000 kWh Bill remains at $106.68 and includes a base charge of $39.37, the fuel cost recovery charge is $56.04, the Capacity Cost Recovery charge is $5.57, the Conservation charge is $1.69, the Environmental Cost Recovery charge is $.24, the Gross Receipts Tax is $2.67, and an estimated storm securitization surcharge of $1.10. As stated above, the storm securitization charge is a preliminary estimate.

A comparison of the current Residential (1,000 kWh) Bill to FPL's proposed January through April 2007, and May through December 2007 projected Residential (1,000 kWh) Bills is presented in Schedule E10, Page 71 of Appendix II.

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. 060001-EI

October 24, 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 supplemental testimony?

A. The purpose of my supplemental testimony is to present revised Fuel Cost Recovery (FCR) factors for the period January 2007 through December 2007 from those filed on September 1, 2006 for Commission review and approval. These revised FCR factors reflect revised projected costs for 2007 as a result of lower projected prices for heavy oil, light oil, and natural gas as described in the supplemental testimony of FPL witness G. Yupp. Additionally, I present for Commission review and approval a revised 2006 FCR estimated/actual true-up amount, which has been updated to include August and September actual data and revised estimates for October through December 2006 and which is incorporated into the calculation of the revised 2007 FCR Factors. And last, I present for Commission review and approval FPL's revised proposal to levelize the Residential 1,000 kWh Bill by offsetting the Generation Base Rate Adjustment (GBRA) for Turkey Point Unit 5 with fuel savings attributable to this new unit and lower projected fuel costs.

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

A. Yes, I have. They are as follows:

- KMD-8 – REVISED Schedules E1, E1-A, E1-B, E1-C, E1-D E1-E, E2, E3 and E10.
- KMD -9 provides the REVISED alternate FCR schedules prepared using the standard methodology.

FUEL COST RECOVERY CLAUSE

<u>Revised 2007 FCR Projection</u>

Q. What is the revised projected net fuel and purchased power cost recovery amount for the period January through December 2007?

A. The revised projected 2007 costs are $6,032,519,831. This represents a decrease of $346,959,169 from the projected 2007 fuel costs filed on September 1, 2006.

Revised 2006 FCR Estimated/Actual True-up

Q. Has FPL revised its 2006 FCR Estimated/Actual True-up amount that was filed on September 1, 2006 to reflect August and September actual data as well as revised projections for October through December 2006?

A. Yes. The 2006 FCR Estimated/actual True-up amount has been revised to an over-recovery of $216,430,642 reflecting August and September actual data as well as revised projections for October through December 2006. The calculation of the revised 2006 FCR Estimated/actual true-up amount is shown on Revised Schedule E1-B, on Pages 4a-4b of KMD-8.

Q. What is the revised net true-up amount that FPL is requesting to include in the FCR factor for the January 2007 through December 2007 period?

A. FPL is requesting approval of a net true-up under-recovery of $91,006,958. This $91,006,958 under-recovery represents the revised estimated/actual over-recovery for the period January 2006 through December 2006 of $216,430,642 plus the final true-up under-recovery of $307,437,600 that was filed on March 1, 2006 for the period January 2005 through December 2005. This $91,006,958 under-recovery is to be included for recovery in the revised FCR factor for the January 2007 through December 2007 period.

Revised Amount to be Recovered by 2007 FCR Factors

Q. What is the revised impact on the amount to be recovered by the FCR Factors for January through December 2007, taking into account the revised projections of 2007 costs and revised true-up amounts?

A. As I noted above, the revised projected 2007 costs are $346,959,169 lower than the projected 2007 fuel costs filed on September 1, 2006 in contrast, the net true-up amount to be carried forward and included in the 2007 factors increases by approximately $14.2 million. Therefore, the total decrease from the September 1, 2006 filing is approximately $332.8 million.

Bill Levelization

Q. Is FPL continuing to propose that the FCR factors be adjusted to levelize the Residential 1,000 kWh bill in 2007 by offsetting the effect of the Generation Base Rate Adjustment (GBRA)?

A. Yes. In order to provide customers with a stable, level bill in 2007, FPL proposes to levelize the Residential 1,000 kWh bill by offsetting the Generation Base Rate Adjustment (GBRA) as approved in Docket No. 050045-EI for Turkey Point Unit 5 with fuel savings attributable to this new unit and lower projected fuel costs. The revised 2007 fuel savings of $73,832,000 attributable to Turkey Point Unit 5 are presented in the testimony of G. Yupp.

Without levelization, FPL's customers' bills are projected to decrease in January 2007 as result of lower charges for fuel and capacity. Then, in May 2007, when Turkey Point Unit 5 begins commercial operations, the GBRA will become effective, which thereby would increase customer bills. FPL's proposal will still provide a decrease in customers' bills in January, while eliminating the increase in May.

Q. How does FPL propose to calculate this revised levelized Residential 1,000 kWh Bill?

A. FPL proposes to offset the GBRA that becomes effective in May 2007, by crediting to customers from May through December 2007 (a) the jurisdictional portion of the Turkey Point Unit 5 revised fuel savings of $73,493,954 and (b) a small portion ($6,271,155) of the overall reduction in 2007 fuel costs resulting from FPL's re-projection of those costs. Under the standard methodology, fuel costs for a given year (including any fuel savings) are levelized over the twelve month period. In order to offset the impact of the GBRA on customer bills in May through December 2007, the total of these two credits ($79,765,109) would be excluded from the factor calculation for January through April 2007 and levelized over the eight month period May through December 2007.

To calculate the fuel charges that would levelize the 2007 Residential 1,000 kWh Bill, FPL prepared two E1 Schedules to calculate average fuel factors for January through April 2007 (page 3a of KMD-8) and May through December 2007 (page 3b of KMD-8). FPL first calculated fuel factors assuming Turkey Point Unit 5 is <u>not</u> operating in 2007, meaning that the fuel savings of $73,832,000 are excluded from the calculation of the levelized average fuel factor on both E1 Schedules. The additional adjustment of $6,271,155 needed to levelize the 1,000 kWH Residential bill is shown on line 32a. The $6,271,155 is divided by the projected sales for January through April 2007 which results in an adjustment to the fuel factor of.0197¢ per kWh. This adjustment is provided on Schedule E1 for January through April, Line 32a, Page 3a of KMD-8. This results in a levelized fuel factor of 5.763¢ per kWh on Line 35 or $54.20 on a Residential 1,000 kWh Bill. The total Residential 1,000 kWh Bill for January through April 2007 is $103.51, down from the current charge of $108.61, which is provided on Schedule E10, Page 14 of KMD-8.

The next step is to adjust the fuel factors by crediting the May through December 2007 period with the jurisdictional portion of the Turkey Point Unit 5 fuel savings of $73,493,954 and the $6,271,155 additional adjustment. Dividing the jurisdictional Turkey Point Unit 5 fuel savings of $73,493,954 by the projected sales for May through

December 2007 results in a downward adjustment to the fuel factor of (.0969¢) per kWh, shown on Schedule E1 for May through December, Page 3b, Line 33a. Additionally, the adjustment of $6,271,155 is also divided by the projected sales for May through December 2007 which results in a downward adjustment to the fuel factor of (.0083¢) per kWh, shown on Schedule E1 for May through December, Page 3b, Line 32a. This results in a lower levelized fuel cost recovery factor of 5.638¢ per kWh on Line 35. This lower factor results in a total fuel charge of $52.95 on a Residential 1,000 kWh Bill in May 2007, $1.25 less than the $54.20 charge in January 2007 (see Schedule E10, Page 14 of KMD-8).

In May 2007, the Base charge on a 1,000 kWh Residential bill increases by $1.25 due to the GBRA but, under FPL's proposal, is offset by the $1.25 decrease in the fuel charge due to the proposed adjustments. As a result, there is no change in the total Residential 1,000 kWh Bill, and it remains at $103.51.

Q. Will other rate classes also see levelization in their 2007 bills?

A. Yes. While, only the "Typical" 1,000 kWh Residential Bill will be completely levelized, all other Residential consumption levels and all other rate classes will see considerably less fluctuation in their bills between April and May than they would without FPL's proposed levelization. Moreover, all rate classes will see a decrease in their bills beginning in January 2007.

Q. As an alternative, is FPL also providing revised fuel factors using the standard methodology?

A. Yes. Although FPL requests approval of its "Levelized Bill Methodology," in the alternative FPL has also provided fuel factors using the standard methodology. KMD-9 includes Schedules E1, E1-D, E1-E, E2, and E10, which calculate the revised twelve-month levelized fuel factor (standard methodology).

Q. Is FPL's levelization proposal revenue neutral?

A. Yes. The revised FCR Factors that FPL proposes for levelizing the bill are designed to recover the same total FCR revenues over 2007 as would standard, non-levelized FCR Factors.

Q. What are the proposed revised levelized FCR factors for which the Company requests approval?

A. For the period January through April 2007, the revised levelized fuel cost recovery factor is 5.763¢ per kWh. Schedule EI (January through April), Page 3a of KMD-8 shows the calculation of this four-month levelized FCR factor.

For the period May through December 2007, the revised levelized fuel cost recovery factor is 5.638¢ per kWh. Schedule EI (May through December), Page 3b of KMD-8 shows the calculation of this eight-month levelized FCR factor.

Schedule E2 (January through April), Pages 8a and 8b of KMD-8 shows the revised monthly fuel factors for January 2007 through April 2007 and also the four-month levelized FCR factor for this period. Schedule E2 (May through December), Pages 9a and 9b of KMD-8 shows the revised monthly fuel factors for May 2007 through December 2007 and also the eight month levelized FCR factor for this period.

Q. Has the Company developed revised levelized FCR factors for its Time of Use rates?

A. Yes. For the period January through April 2007, Schedule E1-D (January through April), Page 6a of KMD-8, provides the revised four-month levelized FCR factor of 6.410¢ per kWh on-peak and 5.474¢ per kWh off-peak for our Time of Use rate schedules for this period.

For the period May through December 2007, Schedule E1-D (May through December), Page 6b of KMD-8, provides the revised eight-month levelized FCR factor of 6.285¢ per kWh on-peak and 5.349¢ per kWh off-peak for our Time of Use rate schedules for this period.

The revised time of use rates for the Seasonal Demand Time of Use

Rider (SDTR) are provided on Schedule E-1D, Page 6c of KMD-8. The SDTR was implemented 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.

The revised FCR factors by rate group for the periods January through April 2007 and May through December 2007 are presented on Schedule E1-E, Pages 7a and 7b of KMD-8. The revised FCR factors by rate group for the SDTR are provided on Schedule E-1E, Page 7c of KMD-8.

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

A. Yes.

Q. Has FPL calculated the revised residential fuel charges using the inverted rate structure?

A. Yes.

Q. Under FPL's proposal to levelize the Residential 1,000 kWh Bill, what will be the revised charge for a Residential customer using 1,000 kWh effective January 2007?

A. The revised "typical" Residential 1,000 kWh Bill will be $103.51 under

FPL's proposal to levelize the residential bill in 2007. For January through April 2007, this includes a base charge of $38.12, the revised fuel cost recovery charge is $54.20, the Capacity Cost Recovery charge is $5.57, the Conservation charge is $1.69, the Environmental Cost Recovery charge is $.24, the Gross Receipts Tax is $2.59, and an estimated storm securitization charge of $1.10. If securitization is accomplished in 2006, FPL expects that the storm charge will be reduced from its current level of $1.65 per 1,000 kWh to $1.10; if not, then the charge will be higher than $1.10. The storm securitization charge is a preliminary estimate. The actual storm recovery charge will be based on market conditions at the time the storm recovery bonds are issued.

For May through December 2007, the revised "Typical" Residential 1,000 kWh Bill remains at $103.51 and includes a base charge of $39.37, the revised fuel cost recovery charge is $52.95, the Capacity Cost Recovery charge is $5.57, the Conservation charge is $1.69, the Environmental Cost Recovery charge is $.24, the Gross Receipts Tax is $2.59, and an estimated storm securitization surcharge of $1.10. As stated above, the storm securitization charge is a preliminary estimate.

A comparison of the current Residential (1,000 kWh) Bill to FPL's revised proposed January through April 2007, and May through

December 2007 projected Residential (1,000 kWh) Bills is presented in Schedule E10, Page 16 of KMD-8.

Q. Does this conclude your supplemental testimony?

A. Yes, it does.

BY MR. BUTLER:

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

A Yes.

Good afternoon, Commissioners. My testimony presents for Commission review and approval the fuel and capacity cost recovery factors for 2007, including the final true-up for the period January through December 2005 and the estimated/actual true-up for the period January through December 2006.

Additionally, I have filed supplemental testimony to revise the proposed fuel factors originally filed on September 1st to reflect revised projected costs for 2007 as a result of lower projected prices for heavy oil and natural gas as described in the supplemental testimony of FPL witness Mr. Gerry Yupp.

My testimony also presents for the Commission's review and approval FPL's proposal to levelize the residential 1000 kWh residential bill by offsetting the generation base rate adjustment, GBRA, for Turkey Point Unit 5 with the fuel savings attributable to this new unit and with a small portion of the lower projected fuel prices, fuel costs, excuse me, reflected in FPL's supplemental testimony.

FPL's customer bills are projected to decrease in January 2007 as a result of lower charges for fuel and capacity costs. Then in May 2007 when Turkey Point Unit 5 begins commercial operations, the GBRA will become effective, which thereby would increase customer bills.

FPL's proposal will still provide a decrease in customer bills in January without, excuse me, while eliminating the increase in May. Only the typical 1000 kWh residential bill will be completely levelized, but all customer classes and consumptions levels will see less of a fluctuation in their bills from April to May than they would without FPL's proposed levelization. Moreover, all rate classes will see a decrease in their bills beginning in 2007.

And last, my testimony presents for Commission review and approval FPL's proposal to recover through the fuel clause FPL's projected costs for the Southeast Supply Header Pipeline Project and explain why that proposal is appropriate and consistent with Commission practice.

As Mr. Yupp explains in his testimony, the project will be a valuable addition to FPL's gas transportation alternatives because it will provide FPL access to onshore supply, which in turn will significantly increase supply reliability, supply diversity, and potentially support customer savings.

The projected pipeline costs are transportation costs to the utility system and, as such, clearly qualify for recovery through the fuel clause pursuant to Order Number 14546 in Docket Number 850001-EI-B. This concludes my summary.

MR. BUTLER: Thank you, Ms. Dubin.

I tender Ms. Dubin for cross-examination.

CHAIRMAN EDGAR: Mr. Beck.

MR. BECK: Yes. Thank you, Madam Chairman.

CROSS EXAMINATION

BY MR. BECK:

Q Ms. Dubin, let me ask you a question about the levelized charge that you mentioned in your summary.

A Yes.

Q I think your October 24th testimony also refers to it at the bottom of Page 10 and the top of 11, the typical residential 1,000 kilowatt hour bill will be $103.51.

A Yes. That's correct.

Q Okay. And in your testimony at the bottom of Page 10, you put the word "typical" in quotes. Why do you do that?

A Over the years we have -- many in the utility industry talk about what's a typical residential bill and we talk about -- I'm just referring to that. A typical residential bill when we look at it is 1,000 kWh. So it's just a different way of referring to it.

Q Okay. Is that the average usage of customers, if you know, or --

A It is a little bit lower than the average customer. I believe the average customer is 1,183 kWh.

Q Okay. Now under the rate structure of Florida Power & Light there's a different rate, is there not, for the first

1,000 kilowatt hours and then subsequent -- or kilowatt hours above the 1,000 threshold; is that right?

A Yes. Yes, there is.

Q Is that still one-penny difference?

A Yes, it is.

Q So even with your proposal, there will continue to be the one-penny difference in differential?

A Yes.

Q Okay. And what's the purpose of having that, the rate go -- have a one-penny differential at the 1,000 kilowatt hour level?

A The -- it's for -- it's to be consistent, first of all, with the way our base rates are treated. And then it helps to ensure a conservation effort, if you will, as well, that there is some usage that's discretionary, and it gives a break for, for usage below that level.

Q Okay. Now with respect to it being a conservation rate, has FPL done any studies or surveys to determine to what extent customers are aware of that differential in the, in the rate?

A It's -- we know customers are aware of it. We've publicized it in all of our bill inserts, different information to customers, it's on our website, we've talked to customers about it.

As far as any study done on the, on the rate itself, it's only been in effect since January, so it's a little premature to actually do an analysis on it at this point in time.

Q Or do you have any studies that determine whether that rate is being effective in conservation or not?

A We do not have any studies at this point. It's a little premature.

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

CROSS EXAMINATION

BY MR. McWHIRTER:

Q Ms. Dubin, what is the additional cost, carrying cost for the Turkey Point 5 plant under the GBRA concept?

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

Q You're going to increase your rates in May in order to cover the carrying costs for Turkey Point 5 under the GBRA mechanism?

A Yes.

Q What is the amount of those carrying costs?

A The revenue requirement for it?

Q Yes.

A It's, I believe, $122 million.

Q And you would collect that additional money by an across-the-board percentage increase in your base rates?

A Yes, Mr. McWhirter.

Q And Turkey Point 5 represents new capacity on your system?

A Yes, it does.

Q And when you purchase capacity from other utilities, do you use that same mechanism for charging your customers for the new capacity or the capacity you're purchasing?

MR. BUTLER: I'm sorry. I'd ask for clarification, what he's referring to as the "same mechanism."

MR. McWHIRTER: I didn't hear you.

MR. BUTLER: I'm sorry. I asked, John, for you to clarify what you mean by the "same mechanism" being used for recovery of the purchased power cost.

MR. McWHIRTER: I'll clarify the question.

BY MR. McWHIRTER:

Q You purchase capacity from other utilities; is that correct?

A That is correct.

Q And do you increase the base rates by a uniform percentage across the board when you purchase capacity?

A The purchase capacity is included in our capacity cost recovery. The capacity portion of that is recovered through a capacity charge to customers.

Q It's a surcharge. Does that surcharge represent a, a uniform percentage across the board for all classes of customers?

A It's a cost that's allocated based on demand.

Q So you use a different methodology for your capacity recovery costs than you use for the GBRA methodology?

A The GBRA methodology is one where they use one -- let me start -- excuse me.

In the capacity clause, it's, the costs are calculated on 12 CP 1/13th demand.

Q And you treat the nonfirm customer as a firm customer when you use a capacity surcharge; is that correct?

A Mr. McWhirter, I think perhaps you're getting into some questions that may be more appropriate for Dr. Morley.

Q All right. I'll defer. Thank you.

A Thank you.

CHAIRMAN EDGAR: Captain Williams.

CAPTAIN WILLIAMS: Just a few questions.

CROSS EXAMINATION

BY CAPTAIN WILLIAMS:

Q Ms. Dubin, in your testimony filed on August 8th, 2006, specifically in Appendix 1, KMD-3, Page 31, you sponsored two schedules, E7 and E8; is that correct?

A Yes.

Q Okay. Can you please tell us what these schedules show?

A E7 and E8 show the purchased power exclusive -- excuse me. E7 shows purchased power exclusive of economy purchases, and the E8 schedule shows energy payments to qualifying facilities. These are the estimated portion of our estimated/actual 2006 true-up.

Q Okay. Can you tell us the meaning of the Column 4 through 7 in those schedules?

A 4 through 7?

Q Right.

A On the E7 it's the purchase power, again, exclusive of economy energy purchases, and it's the total megawatt hours purchased and the megawatts for firm.

On the Schedule 8 it is the energy payments to qualifying facilities. And, again, megawatt hours purchased and megawatt hours for firm.

Q Okay. So Column 4 would be what, the total megawatt hours purchased?

A Yes.

Q And Column 5 would be -- what is that?

A There is nothing in Column 5.

Q But what would that column be? What would that represent?

A We -- these are standard forms and they have some columns that some utilities use and some don't. And there's -- FPL doesn't have anything relevant for that column.

Q But what would that column be?

A I don't know.

Q It's titled, Megawatt Hours for other Utilities; is that correct?

A Yes. Uh-huh.

Q Okay. And then Column 6 is what?

A Megawatts for -- megawatt hours for interruptible.

Q Okay. And for Column 7, what is that?

A Megawatt hours for firm.

Q And those are the same for Schedule E8; is that correct?

A Yes.

Q Okay. And in Column 6, what is the level of megawatt hours purchases shown for interruptibles?

A As I said, Captain, we do not use that column.

Q So what is the -- the question is what is shown for that column?

A We don't use that column, so nothing is shown there.

Q So nothing is shown. Okay.

Similarly, in September 2006 you also filed testimony; is that correct?

A I'm sorry?

Q I'm sorry. September 1, 2006, you also filed testimony; is that correct?

A Yes.

Q And, likewise, you filed, sponsored two schedules, Schedule E7 and E8; is that correct?

A Actually I sponsor the whole exhibit. But if you look on Page 2, you can see that Schedules E7 and E8 are sponsored by Mr. Yupp.

Q Okay. But those are essentially the same, same schedules that were used in the previous exhibit; is that correct?

A Yes. They show projections of purchased power and qualifying facilities.

Q Okay. But for a different year; is that correct?

A Yes. For the 2007 projected year.

Q And likewise in that exhibit, can you tell us what is shown for interruptible megawatt power in Column 6 for E, for E7 and E8, those exhibits?

A What columns?

Q 6, Column 6.

A Again, those are standard columns and one we do not use. The title of it is Megawatt Hours for Interruptible.

Q And it has nothing listed there?

A Nothing listed there.

CAPTAIN WILLIAMS: Okay. Thank you.

CHAIRMAN EDGAR: Are there any other parties with cross for Ms. Dubin? No? Are there questions from staff?

MS. BENNETT: No questions from staff.

CHAIRMAN EDGAR: Thank you.

Redirect?

MR. BUTLER: No redirect.

CHAIRMAN EDGAR: Commissioners, any questions for this witness? No. Then you may be excused. Thank you.

MS. BENNETT: Chairman, I believe we need to move the exhibits into evidence at this point.

CHAIRMAN EDGAR: Mr. Butler.

MR. BUTLER: Thank you, Ms. Bennett.

Yes. I would move admission of Exhibits 4 through 10 and 10A and 10B.

CHAIRMAN EDGAR: Seeing no objection, the exhibits would be moved into evidence.

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

(Exhibits 10A and 10 B admitted into the record.)

MR. BUTLER: And I would call Mr. Yupp to the stand.

I'm sorry. Bear with me just one moment.

GERARD J. YUPP

was called as a witness on behalf of Florida Power & Light Company and, having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BUTLER:

Q Mr. Yupp, have you previously -- excuse me. Have you previously been sworn?

A Yes, I have.

Q Okay. Would you state your name and address for the record?

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

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

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

Q Okay. Do you have before you testimony concerning hedging results, excuse me, dated March 1, 2006?

A Yes, I do.

Q Okay.

A No. Hang on. I have hedging results dated April 3rd, 2006.

Q I'm sorry. Wrong date.

And do you have before you testimony dated September 1, 2006, concerning projection, projections for 2007?

A Yes, I do.

Q And do you have before you a supplemental testimony dated October 24, 2006, also concerning revised 2007 projections?

A Yes, I do.

Q Okay. And do these testimonies have attached to them Exhibits GJY-1, GJY-2, GJY-5 and GJY-6?

A Yes, they do.

Q Okay. Were these testimonies and exhibits prepared under your direction, supervision and control?

A Yes, they were.

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

A No, I do not.

Q Do you, excuse me, do you adopt these prefiled testimonies and exhibits as your testimony in this proceeding today?

A Yes, I do.

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

CHAIRMAN EDGAR: The prefiled testimony will be entered into the record as though read.

MR. BUTLER: And I note that Mr. Yupp's Exhibits GJY-1, 2, 5 and 6 have been identified as Exhibits 11, 12, 13 and 14 respectively.

(Exhibits 11, 12, 13 and 14 marked for identifcation.)

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF GERARD YUPP

DOCKET NO. 060001-EI

APRIL 3, 2006

Q. Please state your name and address.

A. My name is Gerard 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 the predecessors to this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide a review of FPL's 2005 hedging activity, including the detail required by Item 5 of the Resolution of Issues in Docket 011605-EI approved by the

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

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

Q. Are you sponsoring any Documents for this proceeding?

A. Yes. I am sponsoring the following Documents:

GJY-1:2005 Hedging Activity

GJY-2: 2004 Revised Hedging Activity (Natural Gas)

Q. Please describe FPL's hedging objectives.

A. FPL's fuel hedging strategy aims to benefit FPL's customers by reducing fuel price volatility, and to the extent possible, mitigating fuel price increases, while maintaining the opportunity to take advantage of price decreases in the marketplace. The primary objective of FPL's hedging program is to reduce fuel price volatility, thereby helping to deliver greater price certainty to FPL's customers. Although FPL's hedging strategies may result in fuel savings to FPL's customers, FPL does not execute speculative hedging strategies aimed at "out guessing" the market in the hopes of potentially returning savings to FPL's customers. FPL has implemented a well-disciplined, well-defined and controlled hedging program that is executed in compliance with FPL's risk management policies and procedures.

Q. Please summarize FPL's 2005 hedging activities.

A. The natural gas and fuel oil markets experienced extreme price movements in 2005. Late season hurricanes, production shut-ins, and underlying uncertainty drove prices to unprecedented levels. FPL's 2005 hedging activities were successful in mitigating some of the impact of rising fuel prices and helped deliver a greater degree of price certainty for FPL's customers. Because the market reached extremely high price levels after FPL's hedge positions were in place for 2005, FPL's hedging activities also delivered a significant amount of fuel savings to FPL's customers (approximately $622 million for natural gas and residual fuel oil). FPL will continue to monitor the fundamentals of the energy markets and, as conditions change, FPL will make further adjustments to its hedging program to meet FPL's objective of reduced fuel price volatility. Over time, FPL expects that the cumulative impact of its hedging program will not result in significant savings or losses to FPL's customers.

Q. Does your Document GJY-1 provide the detail on FPL's 2005 hedging activities required by Item 5 of the Resolution of Issues?

A. Yes.

Q. Has FPL made revisions to the detail of its 2004 hedging activities that was filed on April 1, 2005?

A. Yes. FPL has revised the detail regarding natural gas storage activities during 2004. The revised details are shown in Document GJY-2.

Q. Why has FPL revised the details of its 2004 hedging activities related to natural gas storage?

A. While compiling the results of its 2005 hedging activities, FPL discovered that it had used a different methodology for the calculations applied to natural gas storage activities for 2004 than the methodology that had been used previously and is being used for 2005. Therefore, to maintain a consistent approach, FPL revised the detail of its 2004 natural gas storage activities by applying the same calculation methodology.

Q. Does this conclude your testimony?

A. Yes, it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF GERARD J. YUPP

DOCKET NO. 060001-EI

SEPTEMBER 1, 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 present and explain FPL's projections for (1) the dispatch costs of heavy fuel oil, light fuel oil, coal, petroleum coke, and natural gas, (2) the availability of natural gas to FPL, (3) generating unit heat rates and availabilities and (4) the quantities and costs of wholesale (off-system) power and purchased power transactions. Additionally, I provide a review of FPL's hedging program and present FPL's Risk Management Plan for fuel procurement in 2007. Lastly, my testimony details new natural gas storage and natural gas pipeline projects for which FPL is seeking Commission approval for recovery through the Fuel Clause.

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

A. Yes, I am sponsoring the following exhibits:

- GJY-2 -Appendix I
- Schedules E2 through E9 of Appendix II
- GJY-3 -MoBay Gas Storage Project Petition in Docket No. 060362-EI with the following attachments: Affidavit of Gerard Yupp, MoBay Presentation, Precedent Agreement, Storage Table and FPL's MFR Schedule B-18 for Test Year 2006.
- GJY-4 -Estimated Annual Costs of MoBay Gas Storage Project
- GJY-5 -Southeast Supply Header Documentation
- GJY-6 -Estimated Annual Costs of Southeast Supply Header

Pipeline Project

Exhibits GJY-3 through GJY-6 are bound separately as they contain confidential information.

FUEL PRICE FORECAST

Q. What forecast methodologies has FPL used for the 2007 recovery period?

For natural gas commodity prices, the forecast methodology is the NYMEX Natural Gas Futures contract (forward curve). For light and heavy fuel oil prices, FPL utilizes Over-The-Counter (OTC) forward market prices. Projections for the price of coal and petroleum coke, and the availability of natural gas, are developed internally at FPL. The forward curves for both natural gas and fuel oil represent expected future prices at a given point in time and are consistent with the prices at which FPL can transact its hedging program. The basic assumption made with respect to using the forward curves is that all available data that could impact the price of natural gas and fuel oil in the future is incorporated into the curve at all times. The methodology allows FPL to execute hedges consistent with its forecasting method and to optimize the dispatch of its units in changing market conditions. FPL utilized forward curve prices from the close of business on August 7, 2006 for its 2007 projection filing. This was the most recent date that allowed FPL adequate time to complete its filing.

Q. What are the key factors that could affect FPL's price for heavy fuel oil during the January through December 2007 period?

A. The key factors that could affect FPL's price for heavy oil are (1) worldwide demand for crude oil and petroleum products (including domestic heavy fuel oil), (2) non-OPEC crude oil supply, (3) the extent to which OPEC adheres to their quotas and reacts to fluctuating demand for OPEC crude oil, (4) the political and civil tensions in the major producing areas of the world like the Middle East and West Africa, (5) the availability of refining capacity, (6) the price relationship between heavy fuel oil and crude oil, (7) the price relationship between heavy oil and natural gas, (8) the supply and demand for heavy oil in the domestic market, and (9) the terms of FPL's fuel supply and transportation contracts.

The major driver for crude oil and petroleum product prices during the remainder of 2006 and 2007 will be the continued tensions in the Middle East, West Africa (in particular Nigeria) and other producing regions in the world. With limited spare OPEC productive capacity, refineries running near capacity, and growing worldwide demand, any perceived or actual loss of supply due to political or civil unrest in these regions have, and will continue to be a major factor in the price of oil to FPL's customers.

World demand for crude oil and petroleum products is projected to increase slightly in 2007 over 2006 average levels primarily due to increases in demand in the U.S., China and other Pacific Rim countries. Although crude oil production and worldwide refining capacity will be adequate to meet the projected increase in crude oil and petroleum product demand, general adherence by OPEC members to its most recent production accord, and limited spare OPEC productive capacity, should prevent significant overproduction of crude oil which, in turn, will result in the continued tight supply of crude oil and petroleum products during most of 2007.

Q. Please provide FPL's projection for the dispatch cost of heavy fuel oil for the January through December 2007 period.

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

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

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

Q. Please provide FPL's projection for the dispatch cost of light fuel oil for the January through December 2007 period.

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

Q. What is the basis for FPL's projections of the dispatch cost of coal and petroleum coke for St. Johns' River Power Park (SJRPP) and coal for Plant Scherer?

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

In the case of SJRPP, FPL plans to blend petroleum coke with coal in order to reduce fuel costs. It is anticipated that petroleum coke will represent approximately 27% of the fuel blend at SJRPP during 2007. The lower price of petroleum coke is reflected in the blended projected dispatch cost for SJRPP.

Q. Please provide FPL's projection for the dispatch cost of SJRPP and Plant Scherer for the January through December 2007 period.

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

Q. What are the factors that can affect FPL's natural gas prices during the January through December 2007 period?

A. In general, the key physical factors are (1) North American natural gas demand and domestic production, (2) LNG and Canadian natural gas imports, (3) heavy fuel oil and light fuel oil prices, and (4) the terms of FPL's natural gas supply and transportation contracts. Additional factors which can influence the projected price of natural gas in 2007 are: (1) projected natural gas demand in North America will continue to grow moderately in 2007, primarily in the electric generation sector; and (2) with continued increases in domestic rig activity in the U.S. over the past few years, 2007 domestic natural gas production is expected to be slightly higher than average 2006 production levels, as a continued decline in the Gulf of Mexico region is more than offset by increases in Rocky Mountain and Mid-Continent regions. The remaining balance of supply will come from increased Canadian and LNG imports.

Q. What are the factors that affect the availability of natural gas to FPL during the January through December 2007 period?

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

The current capacity of FGT into the State of Florida is about 2,030,000 million BTU per day and the current capacity of Gulfstream is about 1,100,000 million BTU per day. FPL currently has firm natural gas transportation capacity on FGT ranging from 750,000 to 874,000 million BTU per day, depending on the month, and 350,000 million BTU per day of firm natural gas transportation on Gulfstream. FPL projects that during the January through December 2007 period between 375,000 and 725,000 million BTU per day of non-firm natural gas transportation capacity (varying by month) will be available into the state. FPL projects that it could acquire some of this capacity, if economic, to supplement FPL's firm allocation on FGT and Gulfstream. This projection is based on the current capability and availability of the two interconnections between Gulfstream and FGT pipeline systems and the availability of capacity on each pipeline.

Q. Please provide FPL's projections for the dispatch cost and availability of natural gas for the January through December 2007 period.

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

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

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

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

Q. Are you providing the outage factors projected for the period January through December 2007?

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

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

A. The unplanned outage factors were developed using the actual historical full and partial outage event data for each of the units. The historical unplanned outage factor of each generating unit was adjusted, as necessary, to eliminate non-recurring events and recognize the effect of planned outages to arrive at the projected factor for the period January through December 2007.

Q. Please describe the significant planned outages for the January through December 2007 period.

A. Planned outages at our nuclear units are the most significant in relation to fuel cost recovery. Turkey Point Unit 3 is scheduled to be out of service for refueling from September 1, 2007 until October 1, 2007 or 30 days during the projected period. St. Lucie Unit 1 will be out of service for refueling, ICI thimble tube repair/replacement, and main generator rotor replacement from April 2, 2007 until May 7, 2007 or 35 days during the projected period. St. Lucie Unit 2 will be out of service for refueling, reactor head replacement, and steam generator replacement from October 1, 2007 until December 25, 2007 or 85 days during the projected period.

Q. Please list any changes to FPL's generation capacity projected to take place during the January through December 2007 period.

A. The most significant change to FPL's generation capacity in 2007 is the addition of the combined cycle Turkey Point Unit 5, which will increase FPL's net winter peak capability and the net summer peak capability by 1,104 MW and 1,144 MW respectively.

Q. Will the addition of Turkey Point Unit 5 result in fuel savings to FPL's customers?

A. Yes. The addition of this highly efficient, combined cycle unit will result in approximately $96,464,000 in fuel savings to FPL's customers from May through December, 2007.

Q. How did FPL calculate the fuel savings associated with the addition of Turkey Point Unit 5?

A. FPL utilized its POWRSYM model to quantify the benefits of Turkey Point Unit 5. This model is used to calculate the fuel costs that are included in FPL's projection filing. For this analysis, FPL ran two individual cases to determine fuel costs, one without Turkey Point

Unit 5 and one with Turkey Point Unit 5. The total fuel costs of the case that included Turkey Point Unit 5 were approximately $96,464,000 lower than the case without Turkey Point Unit 5.

WHOLESALE (OFF-SYSTEM) POWER AND PURCHASED POWER TRANSACTIONS

Q. Are you providing the projected wholesale (off-system) power and purchased power transactions forecasted for January through December 2007?

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

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

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

Q. Does FPL have additional agreements for the purchase of electric power and energy that are included in your projections?

A. Yes. FPL purchases coal-by-wire electrical energy under the 1988 Unit Power Sales Agreement (UPS) with the Southern Companies. FPL has contracts to purchase nuclear energy under the St. Lucie Plant Nuclear Reliability Exchange Agreements with Orlando Utilities Commission (OUC) and Florida Municipal Power Agency (FMPA). FPL also purchases energy from JEA's portion of the SJRPP Units. Additionally, FPL has purchased exclusive dispatch rights for the output of 6 combustion turbines (3 facilities) totaling approximately 950 MW (the output varies depending on the season). The agreements for the combustion turbines are with Southern Power Company and Reliant Energy Services. FPL provides natural gas for the operation of each of these three facilities as well as light fuel oil for two of the facilities. FPL's contract with

Reliant Energy Services (Shady Hills) for the output of 3 combustion turbines expires on February 28, 2007. Additionally, FPL's contract with Southern Power Company (Desoto) for the output of 2 combustion turbines expires on May 31, 2007. FPL has extended its contract with Southern Power Company (Oleander) for the output of 1 combustion turbine through May 31, 2012. This agreement was originally set to expire on May 31, 2007. FPL has also purchased exclusive dispatch rights for the output of Reliant Energy Services' Indian River facility totaling 576 MW. This agreement began on January 1, 2006 and runs through December 31, 2009. FPL also entered into two additional short-term capacity arrangements with Williams Power Company and Progress Ventures, Inc. for the purchase of 106 MW and 105 MW respectively. The transaction with Williams Power Company began on March 3, 2006 and runs through December 31, 2009. The transaction with Progress Ventures, Inc. began on May 1, 2006 and runs through April 30, 2009. Lastly, FPL purchases energy and capacity from Qualifying Facilities under existing tariffs and contracts.

Q. Please provide the projected energy costs to be recovered through the Fuel Cost Recovery Clause for the power purchases referred to above during the January through December 2007 period.

A. Under the UPS agreement, FPL's capacity entitlement during the period from January through December 2007 is 930 MW. Based upon the alternate and supplemental energy provisions of UPS, an availability factor of 100% is applied to these capacity entitlements to project energy purchases. The projected UPS energy (unit) cost for this period, used as an input to POWRSYM, is based on data provided by the Southern Companies. For the period, FPL projects to purchase 8,096,684 MWh of UPS energy at a cost of $154,074,000. The total UPS energy projections are presented on Schedule E7 of Appendix II.

Energy purchases from the JEA-owned portion of the St. Johns River Power Park generation are projected to be 3,149,354 MWh for the period at an energy cost of $53,621,000. FPL's cost for energy purchases under the St. Lucie Plant Reliability Exchange Agreements is a function of the operation of St. Lucie Unit 2 and the fuel costs to the owners. For the period, FPL projects purchases of 350,454 MWh at a cost of $1,380,200. These projections are shown on Schedule E7 of Appendix II.

FPL projects to dispatch 428,994 MWh from its short-term purchased power agreements at a cost of $37,743,907. These projections are shown on Schedule E7 of Appendix II.

In addition, as shown on Schedule E8 of Appendix II, FPL projects that purchases from Qualifying Facilities for the period will provide 5,951,033 MWh at a cost to FPL of $172,870,000.

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

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

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

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

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

A. FPL has projected 1,930,909 MWh of wholesale (off-system) power sales for the period of January through December 2007. The projected fuel cost related to these sales is $145,972,243. The projected transaction revenue from these sales is $169,111,791. The projected gain for these sales is $19,197,960.

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

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

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

A. FPL projects the sale of 83,738 MWh of energy at a cost of $1,380,200. These projections are shown on Schedule E6 of Appendix II.

Q. What are the forecasted amounts and costs of wholesale (off-system) power purchases for the January to December 2007 period?

A. The costs of these purchases are shown on Schedule E9 of Appendix II. For the period, FPL projects it will purchase a total of

1,727,679 MWh at a cost of $133,340,912. If FPL generated this energy, FPL estimates that it would cost $153,551,472. Therefore, these purchases are projected to result in savings of $19,625,703.

HEDGING OVERVIEW

Q. Please describe FPL's hedging objectives.

A. The primary objective of FPL's hedging program is to reduce fuel price volatility, thereby helping to deliver greater price certainty to FPL's customers.

Q. Please summarize the cumulative results of FPL's hedging activities.

A. Since its inception, FPL's hedging activities have been successful in mitigating some of the impact of rising fuel prices and helping to deliver a greater degree of price certainty for FPL's customers. Because 2002 through 2005 was marked by extreme price volatility and generally rising prices year-on-year, FPL's hedging activities have also delivered a significant amount of fuel savings. From 2002 through 2005, FPL's hedging activities for natural gas and heavy fuel oil have resulted in approximately $926 million in fuel savings to FPL's customers.

Q. What have been FPL's hedging results in 2006 to date, and

what results does FPL expect through 2007?

A. In contrast to the upward trend in the period 2002 through 2005, natural gas prices during 2006 have trended significantly lower than the forward curve prices. This trend has resulted from an extremely mild winter, above average natural gas storage levels and a relatively inactive hurricane season to-date. Comparatively, heavy fuel oil prices have increased approximately 7% over FPL's original 2006 forecast, mainly attributed to higher crude and gasoline prices. For 2006, through July, FPL's natural gas and heavy fuel oil hedge positions have resulted in realized losses of approximately $186 million.

Although mild winter weather, above average natural gas storage levels and a relatively inactive hurricane season to-date has driven 2006 natural gas prices lower, 2007 forward prices remain relatively high. As of August 28, 2006, natural gas prices for the first quarter of 2007 are approximately $4.50 per MMBtu higher than the September, 2006 NYMEX price. Similarly, heavy fuel oil prices for the first quarter of 2007 (as of August 28, 2006) are approximately $5.70 per barrel higher than the September, 2006 price. This widening price discrepancy between current and future prices began in 2005 as FPL was executing hedges for 2006 and continues now as FPL hedges for 2007. The impact of bearish information, such as above average storage levels, on forward prices is seen only in the short-term while short-term and future prices remain poised to increase upon any information that could possibly be interpreted as bullish, such as the formation of a tropical depression. In any event, the natural gas and heavy fuel oil markets continue to be highly volatile. Hedging remains the only effective means of dampening this price volatility and FPL intends to continue its active participation in hedging its natural gas and heavy fuel oil requirements.

Q. Does FPL expect that its hedging program will deliver fuel savings each year?

A. No. This is a point that I have emphasized in all my prior testimony on hedging. While FPL is extremely pleased when its hedging program generates net savings for its customers, it does not engage in hedging for this purpose. FPL's hedging strategies are aimed at reducing fuel price volatility. Speculative hedging strategies aimed at "out guessing" the market in the hopes of potentially returning savings to FPL's customers will lead to increased volatility in prices to FPL's customers. FPL cannot predict future fuel prices as there is no certainty in predicting the main drivers of fuel price, such as weather, hurricanes or unstable conditions around the world. What FPL can continue to do is execute a well-disciplined, independently controlled hedging program that reduces fuel price volatility and delivers greater price certainty to FPL's customers. Over time, FPL expects that the cumulative impact of its hedging program will not result in significant savings or losses to FPL's customers. FPL does expect, however, that over time its customers will experience more stable rates as a result of FPL's hedging activities.

Q. Has FPL prepared a risk management plan for 2007, as required by Order PSC- 02-1484-FOF-EI issued on October 30, 2002?

A. Yes. FPL's 2007 Risk Management Plan is provided on pages 5 and 6 of Appendix I.

Q. Is FPL seeking to recover projected incremental operating and maintenance expenses with respect to maintaining an expanded, non-speculative financial and/or physical hedging program for the January through December 2007 period?

A. Yes. FPL projects to incur incremental expenses of $540,100 for its Trading and Operations Group and $30,000 for its Systems Group. By "incremental", I mean that these expenses are not reflected in FPL's base rates. The expenses projected for the Trading and Operations Group are primarily for salaries of the three personnel who were added to support FPL's enhanced hedging program. The expenses projected for the Systems Group are for incremental annual license fees for FPL's volume forecasting software.

NEW PROJECTS

MOBAY GAS STORAGE HUB

Q. Please summarize the MoBay Gas Storage Hub facility.

A. MoBay Gas Storage Hub is a high-deliverability, multi-cycle reservoir gas storage facility located in Mobile County, Alabama. When fully developed, MoBay will be the largest, most southeasterly underground natural gas storage facility in the United States. MoBay will be interconnected to four different interstate pipelines: Florida Gas Transmission (FGT), Gulfstream Natural Gas (Gulfstream), Gulf South Pipeline (Gulf South) and Transcontinental Gas Pipeline (Transco). MoBay will be the only natural gas storage facility to-date capable of directly delivering natural gas into the Gulfstream pipeline system serving the Florida market.

Q. Why is FPL proposing to participate in the MoBay Gas Storage Project?

A. FPL proposes to acquire natural gas storage in the MoBay Gas Storage Hub because its participation in the storage facility 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. This project is a critical step in helping reduce FPL's vulnerability to natural gas supply curtailments in the Destin/Mobile Bay area and limiting FPL's exposure to the volatility inherent in relying on the spot or intra-day market or alternate fuels during severe weather events and periods of high demand. The 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 price volatility.

Q. Why does FPL believe the acquisition of natural gas storage constitutes a physical hedge?

A. Physical hedging involves the use of forward contracts to purchase the commodity itself, and/or the use of physical means of storing or producing the commodity to provide protection against future price swings. As stated previously, this project will help reduce FPL's vulnerability to natural gas supply curtailments and reduce FPL's exposure to the volatility inherent in relying on the spot or intra-day market and/or higher-priced alternate fuels during extreme weather events or periods of high demand. As such, the MoBay Gas Storage Project will serve as a physical hedge against the risks of both supply unavailability and price volatility. Natural gas storage is commonly characterized as physical hedging within the industry.

For example, the July 21, 2005 edition of Natural Gas Weekly Update published by the United States Department of Energy, commenting on market trends, explained that 47 of 54 American Gas Association (AGA) member companies surveyed report using natural gas storage as a primary hedging tool. Additionally, the publication states that "several companies noted that storage (as a physical hedge) is the only hedge they employ, choosing not to use financial hedges at all."

Q. **Has FPL previously petitioned the Commission for approval of the MoBay Gas Storage Project?**

A. Yes, in Docket No. 060362-EI. FPL's petition was addressed by the Commission at the August 15th Agenda Conference, but the Attorney General and others raised concerns about the petition for the first time at that agenda conference. This resulted in a deferral to the September 19th Agenda Conference. Waiting until the last minute to raise concerns about the Petition has had an unfortunate consequence for FPL and its customers. Deferral to the September 19th Agenda Conference means that there is little chance of a final Commission decision on FPL's petition before the end of September. MoBay has the right to terminate its contract with FPL if the Commission has not given final approval to the Project by September 29, 2006. FPL has tried unsuccessfully to negotiate an extension of the September 29th deadline with MoBay.

Q. What are the potential consequences to FPL and its customers if there is no final Commission approval by September 29th and MoBay exercises its termination right?

A. In the event that MoBay gave notice of termination, FPL could attempt to renegotiate the contract to avoid termination but most likely this would have to be at the current market price for MoBay's storage capacity, which is above the pricing currently in FPL's contract. While deciding on FPL's petition at the November 6-8 hearing in this docket as FPL proposes will reduce the risk to FPL and its customers of losing the benefits of the MoBay Gas Storage Hub, it cannot eliminate that risk.

Q. Is FPL seeking Commission approval of the MoBay Gas Storage Project prior to making a final commitment to proceed with the Project?

A. Yes. FPL expects the Project to provide substantial reliability and volatility-reduction benefits to our customers. To secure these benefits, however, FPL will have to incur significant costs. FPL needs to know that the Commission has approved the Project and FPL's proposed cost recovery before making its final commitment to proceed.

Q. When does FPL have to make a final commitment to proceed with the MoBay Gas Storage Project?

A. As I previously noted, both FPL and MoBay will have the right to terminate if the Commission does not give its final approval by September 29, 2006. FPL will retain its right to terminate the contract for up to 90 days thereafter, or until December 28, 2006. Therefore, FPL will have to decide before December 28th whether to proceed with the Project (assuming that MoBay has not already exercised its termination right before then).

Q. What types of costs for the MoBay Gas Storage Project does FPL seek to recover?

A. FPL is seeking recovery of the following costs associated with the MoBay Gas Storage Project:

-A monthly storage reservation charge

-Base Gas costs

-Fuel retention/commodity charges for injections and withdrawals

-A monthly inventory insurance charge

-Carrying costs associated with FPL's inventory balance

In many natural gas storage deals, base gas and insurance costs are incorporated into the monthly storage reservation fee; however for the MoBay contract, base gas and insurance charges were broken out separately at FPL's request, so that FPL would have the option to self-provide if it could do so at a lower cost.

Q **Do you have an exhibit that provides detailed, supporting documentation for FPL's proposed MoBay Gas Storage Project?**

A. Yes. My Exhibit GJY-3 consists of FPL's petition in Docket No. 060362-EI for approval of this Project, together with the following attachments to that petition:

-Affidavit of Gerard Yupp

-MoBay Presentation

-Precedent Agreement

-Storage Table

-FPL's MFR Schedule B-18 for Test Year 2006

Q. **What does FPL anticipate the annual cost to be for its participation in MoBay Gas Storage Project?**

A. Exhibit GJY-4 details FPL's estimate of the total annual costs associated with its proposed participation in the MoBay Gas Storage Project.

SOUTHEAST SUPPLY HEADER PIPELINE PROJECT

Q. **What is the Southeast Supply Header (SESH) Pipeline Project?**

A. The SESH Pipeline Project is a joint project of CenterPoint Energy Gas Transmission (CEGT) and Duke Energy Gas Transmission (DEGT). The potential new pipeline will have approximately 1 billion cubic feet per day of capacity and will consist of nearly 270 miles of 36-inch pipeline starting at CEGT's Perryville Hub in Northeast Louisiana and ending at the pipeline of DEGT's partially owned affiliate, Gulfstream Natural Gas System, near Mobile County, Alabama. The proposed route will cross and interconnect with many major interstate pipelines serving the eastern United States that are not currently served at the Perryville Hub, as well as both major pipelines that serve Florida. The SESH Pipeline Project will allow FPL access to growing production from natural gas basins in East Texas and North Louisiana, which will provide an important on-shore alternate natural gas supply source for markets in the Southeast and supplement the future natural gas demands of Florida.

Q. What are the key motivations for FPL's proposed participation in the SESH Pipeline Project?

A. The SESH Pipeline Project will allow FPL access to on-shore supply which will significantly increase supply security, diversify production away from the Gulf of Mexico and will likely lower prices, therefore producing customer savings. Currently, approximately forty percent of the transportation capacity on FGT and one hundred percent of the transportation capacity on Gulfstream is sourced from the Mobile Bay area. Florida's existing pipeline sourcing alternatives will continue to procure most of its production from the Gulf of Mexico in the Mobile Bay area. However, future demand for natural gas will need to be supplemented from other regions in order to maintain a secure link to natural gas production. By 2009, seventy percent of FPL's transportation capacity on FGT and Gulfstream will be sourced from the Mobile Bay area. With declining production in this area and increased demand for natural gas, FPL believes that this project will help maintain an adequate supply/demand balance in the region that will assure FPL's customers and other Florida consumers of natural gas, access to supply at reasonable prices in the future.

Additionally, the Mobile Bay area is highly susceptible to production shut-ins due to the threat or impact of severe weather events. The introduction of on-shore supply will increase the availability of natural gas during severe weather events.

Q. What will FPL's proposed participation in the SESH Pipeline Project entail?

A. FPL will serve as the anchor shipper and is proposing to acquire firm transportation rights to approximately 50% of the capacity on the new pipeline. By 2009, the SESH Pipeline would support 500,000 MMBtu per day of FPL's total Mobile Bay area firm transportation holdings of approximately 1,100,000 MMBtu per day or approximately forty-five percent.

Q. How will this project impact the available pipeline capacity into the state of Florida?

A. This is a supply security and future reliability enhancement project. This project will bring on-shore supply to the Mobile Bay area in the Gulf of Mexico. This project will serve to enhance the supply alternatives of the existing infrastructure of the FGT and Gulfstream pipelines in the Mobile Bay area; however it will not increase the available pipeline capacity into the state of Florida. FPL will continue to utilize its existing firm transportation contracts with FGT and Gulfstream to deliver natural gas to its plants. However, this project will impact the supply of natural gas available to FGT and Gulfstream allowing FPL the opportunity to seek more competitive supply pricing and to ensure supply availability to meet future demand and enhance access to supply if production in the Gulf of Mexico is curtailed.

Q. Is this project an important component for helping FPL meet its

future natural gas requirements?

A. Yes. Historically, the Mobile Bay area has provided the incremental supply behind existing pipeline expansions. The Mobile Bay area will continue to be an important incremental supply area to help meet future demand, but does not currently have the production growth to satisfy Florida's growing demand for natural gas. FPL's demand will grow by approximately 500,000 MMBtu per day over the next four years. In addition, the demand for natural gas in Florida, as a whole, continues to increase. According to data compiled by the FRCC from 2006 Ten Year Site Plans, Florida will need an additional 1,200,000 MMBtu per day of natural gas to meet the proposed generation expansions (natural gas) by 2010. It is critical for FPL and Florida that every effort is made to access new supplies to keep up with growing demand.

Q. Will this project expand the number of potential suppliers of natural gas to FPL?

A. Yes. This project will allow FPL access to new natural gas suppliers and on-shore supply from the Barnett Shale and Bossier Sands trends in East Texas and Northeast Louisiana. This project will increase the diversity and depth of FPL's existing supplier portfolio with the addition of domestic independent producers active in the East Texas and North Louisiana supply areas.

Q. How will this project increase supply reliability during extreme weather events?

A. Access to on-shore supply will significantly increase reliability during extreme weather events as off-shore production is prone to curtailments. Supply via FPL's transportation capacity rights on the SESH Pipeline Project would enable FPL to support approximately 4,000 MW of gas-fired capacity in the event of a supply disruption in the Gulf. This would allow FPL the opportunity to more efficiently manage fuel inventories during a loss of natural gas supply. Additionally, the introduction of new supply will create supply diversity which, in turn, will also help increase the reliability of supply.

Q. Will this project result in savings to FPL's customers?

A. Potentially. FPL believes that the introduction of 1,000,000 MMBtu per day of new supply into Mobile Bay area will have a positive impact on the overall supply/demand balance and should decrease the Mobile Bay basis (current premium above NYMEX for Mobile Bay supplies). While the primary driver of this project is to help meet future demand requirements and increase supply reliability and diversity, FPL believes that this project also may result in a lower overall cost of gas for FPL's customers.

Q. When is the SESH Pipeline Project projected to be in-service?

A. Current projections are for the project to be in-service by mid-2008.

Q. What types of costs associated with the SESH Pipeline Project is FPL seeking to recover through the Fuel Clause?

A. FPL's participation in the SESH Pipeline Project will result in two types of cost to be passed through the fuel clause: (1) fixed demand costs and, (2) variable commodity costs. Both types of costs are related to moving natural gas under firm transportation on the new pipeline. These transportation costs are identical in nature to the transportation costs that FPL incurs under its current FGT and Gulfstream firm natural gas transportation contracts, which FPL recovers through the fuel clause as a component of the total cost of gas. As discussed in the testimony of FPL witness K. Dubin, these transportation costs are recoverable through the fuel clause under existing Commission policy.

Q. What does FPL anticipate the annual cost to be for its participation in the SESH Pipeline Project?

A. Exhibit GJY-5 details FPL's estimate of the total annual costs associated with its proposed participation in the SESH Pipeline Project.

Q Do you have an exhibit that provides detailed, supporting documentation for FPL's proposed participation in the SESH Pipeline Project?

A. Yes. Exhibit GJY-6 is being included as documentation for the SESH Pipeline Project. This Exhibit includes the Precedent Agreement, Service Agreements and other associated agreements that FPL entered into on August 2, 2006 with Southeast Supply Header, LLC.

Q. Will FPL's participation in the SESH Pipeline Project diminish its need for the MoBay Gas Storage Project?

A. No. Each project is an important component of FPL's overall fuel procurement plan. There is not one project alone that can address supply reliability, supply diversity and future demand concerns. Rather, a combination of projects is necessary to enhance supply reliability and supply diversity and also address future demand concerns. While both the MoBay and SESH Projects address reliability concerns during severe weather events, the SESH Pipeline Project primarily addresses longer-term supply/demand balance issues and will be instrumental in helping FPL and Florida meet growing demand. The MoBay Gas Storage Project will significantly increase system reliability and help reduce natural gas price volatility for FPL's customers during severe weather events and periods of high demand. The MoBay Gas Storage Project is an excellent physical hedge for these types of short-term events. However, as demand increases, the MoBay Gas Storage Project cannot, by itself, mitigate all of the risk of supply disruptions and it does not address longer-term supply issues. While the SESH Pipeline Project will also help increase reliability during severe weather events as access to on-shore supply will reduce FPL's exposure to highly vulnerable off-shore production, this project also addresses longer-term supply issues. As described previously, declining production in the Mobile Bay area coupled with Florida's projected demand growth for natural gas have created a need for additional supply. The construction of the SESH Pipeline Project will help provide that supply into the Mobile Bay area for the benefit of FPL's customers and other natural gas consumers in Florida. Additionally, the SESH Pipeline Project could potentially help to lower the overall cost of natural gas in the Mobile Bay area.

Q. Does this conclude your testimony?

A. Yes it does.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

SUPPLEMENTAL TESTIMONY OF GERARD J. YUPP

DOCKET NO. 060001-EI

OCTOBER 24, 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 present and explain FPL's revisions to the projections for the dispatch costs of heavy fuel oil, light fuel oil and natural gas for the remainder of 2006 and for 2007 (the "Projection Period") from those included in my testimony filed on September 1, 2006 in this Docket. Additionally, I provide a revised estimate of the fuel savings associated with the addition of Turkey Point Unit 5, based upon these updated fuel cost projections.

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

A. Yes, I have. It consists of Exhibit GJY-7 (Revised Projected Dispatch Costs).

Q. Why has FPL revised its projections for the dispatch costs of natural gas, heavy fuel oil and light fuel oil?

A. FPL's September 1, 2006 filing included forward curve prices from August 7, 2006 for natural gas and fuel oil. Since that date, the market has trended lower for both fuels.

Q. What forward curve date has FPL utilized for its revised projections?

A. FPL utilized forward curve prices from the close of business on October 16, 2006.

Q. Did FPL evaluate alternate forward curve prices before settling on the October 16, 2006 prices?

A. Yes. FPL has been continuously monitoring the fuel markets and evaluating the impact on overall fuel costs associated with several different forward curve dates since its September 1, 2006 filing. The difficulty for FPL has been in identifying whether current market trends and varying forward curve dates produce fuel cost projections that are likely to be more representative of future fuel costs than FPL's original filing. Although fuel markets have generally trended lower since FPL's original projections, there continues to be a great deal of day-to-day volatility in the natural gas and fuel oil markets. For example, while evaluating the impact on total fuel costs of forward curve prices within a two-week time period, FPL produced results that varied by approximately $100 million. This level of volatility makes it extremely difficult to pick the single most appropriate date to use for revised fuel cost projections.

Q. Why did FPL utilize forward curves from October 16, 2006 for its final revised projections?

A. At this time, the October 16, 2006 curve incorporates the most current market information available while allowing FPL time to complete its revised filing. In addition, FPL's review of recent forward curves leads us to believe that the October 16, 2006 curve should be reasonably representative of future conditions.

Q. Does FPL believe that its revised fuel cost projections are an improvement over its original filing?

A. Yes. FPL believes that there are factors underlying the lower trends for natural gas and fuel oil prices that are likely to continue to affect fuel prices next year. However, as stated previously, the fuel markets continue to be volatile and there remains a level of uncertainty regarding the primary drivers of fuel prices. Winter weather, geopolitical instability and next year's level of hurricane activity all remain "unknowns" at this point in time.

Q. Why has the projected dispatch cost of natural gas changed since the September 1, 2006 filing?

A. The projection for the dispatch cost of natural gas has decreased primarily due to (1) an increase in domestic rig activity in the U. S. which is now assumed to result in an even higher than previously assumed level of domestic natural gas production for 2007; and (2) an actual all-time record level of natural gas in storage going into the 2006/2007 winter season resulting from mild 2005/2006 winter weather, normal summer weather and a relatively inactive hurricane season to-date. According to EIA data, the total amount of natural gas in U.S. storage was at 3.442 trillion cubic feet as of Friday, October 13, 2006. This storage level is 11.1%, or 345 BCF, above the five-year average; and 12.8%, or 391 BCF, above last year's natural gas storage level at this time.

Q. Please provide FPL's revised projection for the dispatch cost of natural gas.

A. FPL's revised projection for the system average dispatch cost of natural gas, by month, for the Projection Period is provided in Exhibit GJY-7.

Q. Why has the projected dispatch cost of heavy fuel oil changed since the September 1, 2006 filing?

A. The projection for the dispatch cost of heavy fuel oil has decreased mainly due to: (1) lower crude oil prices, reflecting higher than previously anticipated production from non-OPEC countries, resulting in higher than anticipated worldwide crude oil inventories; (2) higher heavy oil supply in the domestic market hubs, reflecting continued higher than projected refinery runs to meet increased light product demand; and (3) lower than anticipated residual fuel oil demand due to lower natural gas prices.

Q. Please provide FPL's revised projection for the dispatch cost of heavy fuel oil.

A. FPL's revised projection for the system average dispatch cost of heavy fuel oil, by month, for the Projection Period is provided in

Exhibit GJY-7.

Q. Why has the projected dispatch cost of light fuel oil changed since the September 1, 2006 filing?

A. The projection for the dispatch cost of light fuel oil has decreased mainly due to lower crude oil prices.

Q. Please provide FPL's revised projections for the dispatch cost of light fuel oil.

A. FPL's revised projection for the system average dispatch cost of light fuel oil, by month, for the Projection Period is provided in Exhibit GJY-7.

Q. Has FPL revised its estimate of the 2007 fuel savings associated with the addition of Turkey Point Unit 5 from its September 1, 2006 filing based upon its updated fuel price projections?

A. Yes. FPL ran two additional POWRSYM cases with updated fuel price projections to determine system fuel costs, one without Turkey Point Unit 5 and one with Turkey Point Unit 5. The total fuel costs of the case that included Turkey Point Unit 5 were approximately $73,832,000 lower than the case without Turkey Point Unit 5, which represents the currently anticipated 2007 fuel savings associated with that unit going into service commencing in May 2007. This is a reduction in the projected fuel savings from FPL's September 1, 2006 filing, reflecting the fact that with lower projected fuel prices, the increased efficiency of Turkey Point Unit 5 does not have as big an impact on FPL's total fuel costs.

Q. Does this conclude your testimony?

A. Yes it does.

BY MR. BUTLER:

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

A Yes. Good afternoon, Commissioners.

My testimony from a general perspective covers the details of the inputs that were used to develop FPL's 2007 fuel cost projections, including FPL's fuel price, fuel price forecast. My testimony also includes an overview of FPL's hedging program, as well as FPL's 2007 risk management plan for fuel procurement. And, lastly, my testimony details FPL's proposed participation in the Southeast Supply Header Pipeline.

And as you know, on October 24th, 2006, FPL did refile its fuel cost projections for the balance of 2006 and 2007, and this was primarily due to the overall trend lower for natural gas and residual fuel oil prices.

Just a little bit more detail on hedging. My testimony does explain that the objective of FPL's hedging program is to reduce fuel price volatility. FPL cannot predict future fuel prices, and, therefore, we do not engage in speculative trading or speculative hedging that is aimed at outguessing the market. What we do is execute a well-disciplined, independently controlled hedge program that reduces fuel price volatility for our customers and delivers -- well, reduces fuel price volatility for our customers and delivers greater price certainty. Now we know that over -- that there will be gains and losses associated with this hedge program from year to year. But we believe that over time our hedge program will not result in either significant gains or losses to our customers, but what our customers will experience over that time is more stable rates.

And the other part, the other project that I'd like to detail or other part of my testimony that I'd like to detail a little bit more is the Southeast Supply Header Pipeline Project, and that project will provide FPL access to onshore natural gas supply, which will significantly increase supply security, diversified production away from the Gulf of Mexico, help meet growing natural gas demand, and will likely lower prices in the Mobile Bay area, potentially producing customer savings.

It's important to note by 2009, 70 percent of FPL's firm transportation capacity on FGT and Gulfstream will be sourced from the Mobile Bay area. And while this area will continue to be an important supply source, this supply will need to be supplemented from other regions in order to meet incremental demand and to maintain a secure link to natural gas production. And that concludes my summary.

MR. BUTLER: Thank you, Mr. Yupp.

I would tender Mr. Yupp for cross-examination.

MR. BECK: No questions.

CHAIRMAN EDGAR: No questions?

Mr. McWhirter.

CROSS EXAMINATION

BY MR. McWHIRTER:

Q Mr. Yupp, do you have children?

A Yes, I do.

Q Is it true that they call them Yuppies?

A I've been called a lot of things in my life, yes.

(Laughter.)

Q I'm sorry. I'm just kidding.

A And they're just beginning that pain.

Q As I understand your, what you just said about hedging, you don't try to save money for customers through speculative hedging projects. What you try to do is to stabilize the cost and to avoid volatility; is that correct?

A That is correct.

Q Were you an employee of Florida Power & Light when we went from the, adjusting the fuel cost every 60 days to doing it once a year?

A Yes, I was. Probably not in the same role that I'm in now. When I first started particularly doing this, regulatory work, we had already gone to the one-year cycle.

Q What was the purpose of going to the one-year cycle?

A Since I was not involved at that time, I am not

100 percent sure. I don't know. I wouldn't even venture to guess.

Q Would it be fair to assume that the reason for that was to avoid price volatility on consumers' budgets and to ensure that their fuel costs remained relatively fixed like base rates do through the year?

A I'm sure that could have been one piece of it, yes.

Q Can you think of any other reason for going through the annual fuel cost?

A From the amount of paperwork involved in making a filing, I can assume that it, it could have been to reduce that burden, also. But --

Q Now you -- this year you're charging $540,000 for the operating and maintenance expense related to your hedging program?

A Yes, sir.

Q What are the other costs that you pay with respect to hedging over and above the, the cost of fuel you buy under physical contracts?

A Are you referring specifically to the $540,000 or outside of that?

Q No. Other than. Outside of that.

A Okay. Basically the, the other costs associated with, with hedging would be any transaction fees for hedging, any option premiums. Basically for us transaction fees and option premiums. I believe there's some cost component for letters of credit, types of costs like that.

Q Can you give us an idea of the magnitude of the dollars that are expended on that, those endeavors?

A The magnitude of dollars associated with option premiums could be fairly significant depending on the level of options that we would have or that we were utilizing as instruments in our hedging program. From a transaction fee standpoint or any other minor costs that may be associated with, with hedging, I do not believe the dollar total is significant. I don't have a number off the top of my head. But it surely would not be of the magnitude of, let's say, option premiums in the examples I gave.

Q Would it be fair to say that it's more or less than $10 million?

A It would be fair to say that it's more.

Q Okay.

A Not specifically those pieces. Let me clarify. The transaction costs, costs associated with credit issues and everything is, is less than $10 million. If we wanted to throw option premiums in, then that would start to change the magnitude of the dollars.

Q Throwing in option premiums, what would the costs come to in approximation?

A It varies from year to year depending on the percentage option premiums or options, whether that be calls or puts, that we are going to use in the hedge program. So I don't have a specific number. It does vary from year to year. It's going to depend on how much of that type of instrument we, we decide to use. But depending on, on, on that, it could, it could be less than $100 million, it could be slightly more than $100 million depending -- if, if option premiums are a big component of the hedge program, it could be even more than that. But it is -- it's not stable from year to year. It depends on what we decide to do.

Q Would you explain the difference between physical contracts and financial transactions?

A Sure. Physical contracts are -- and let's just, I guess, take an example of a physical contract at a fixed price. We could go hedge the physical commodity with a physical contract at a fixed price and take delivery of that commodity associated with that transaction.

Financial transactions are really what I'll call paper transactions, and that is we may take a fixed price position with a counterpart, and that instrument that -- or our fixed price position will settle against where the market settles and we will either owe the counterpart money or the counterpart will owe us money. And those dollars that are captured from that financial transaction are then lumped into our overall cost of gas on a monthly basis; so a gain going to reduce the costs and a loss serving to raise the costs.

Q And the option premiums you mentioned a moment before also go into your fuel cost recovery; is that correct?

A That is correct, sir.

Q The -- can you -- I may be moving into confidential areas, so if I'm asking a question that you feel uncomfortable answering, please don't do that. But can you tell us the percentage of your hedging contracts that are physical as opposed to financial?

A Actually that is not confidential. Most of what we do is financial. The largest, I'll say, percentage -- or from a physical standpoint natural gas storage is generally what we're using as our physical component of our hedging program. All the rest, and I'm just trying to think back the last couple of years, but predominantly the rest is all financial related.

* * * * *

(Transcript continues in sequence with Volume 2.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTERS
COUNTY OF LEON)

WE, JANE FAUROT, RPR, and LINDA BOLES, CRR, RPR, Official Commission Reporters, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that we stenographically reported the said proceedings; that the same has been transcribed under our direct supervision; and that this transcript constitutes a true transcription of our notes of said proceedings.

WE FURTHER CERTIFY that we are not a relative, employee, attorney or counsel of any of the parties, nor are we a relative or employee of any of the parties' attorneys or counsel connected with the action, nor are we financially interested in the action.

DATED THIS 7TH DAY OF NOVEMBER, 2006.

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