BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of: DOCKET NO. 090001-EI

FUEL AND PURCHASED POWER COST
RECOVERY CLAUSE WITH GENERATING
PERFORMANCE INCENTIVE FACTOR.
_______________________________/

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VOLUME 2

(Pages 227 through 422)

PROCEEDINGS: HEARING

COMMISSIONERS
PARTICIPATING: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP
COMMISSIONER DAVID E. KLEMENT

DATE: Monday, November 2, 2009

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

REPORTED BY: LINDA BOLES, RPR, CRR
Official FPSC Reporter
(850) 413-6734

APPEARANCES: (As heretofore noted.)

INDEX

WITNESSES

EXHIBITS

NUMBER:	ID.	ADMTD.
5 (REPORTER'S NOTE: This exhibit marked and admitted in Volume 1 for ease of the record.)		
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P R O C E E D I N G S

CHAIRMAN CARTER: Mr. Badders.

MR. BADDERS: Thank you. I would move that the prefiled direct testimony of M. A. Young be entered into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witness will be inserted into the record as though read.

MR. BADDERS: Mr. Young also has two exhibits which have been identified on the composite list as Exhibits 95 --

CHAIRMAN CARTER: On the comprehensive. On the comprehensive.

MR. BADDERS: On the Comprehensive Exhibit List as 95 and 96.

CHAIRMAN CARTER: Are there any objections? Without objection, show it done.

MR. BADDERS: That's all of our witnesses.

(Exhibits 95 and 96 marked for identification and admitted into the record.)

GULF POWER COMPANY

Before the Florida Public Service Commission

Direct Testimony of

M. A. Young, III

Docket No. 090001-EI

Date of Filing: April 3, 2009

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

A. My name is Melvin A. Young, III. My business address is One Energy Place, Pensacola, Florida 32520-0335. My current job position is Power Generation Specialist, Senior for Gulf Power Company.

Q. Please describe your educational and business background.

A. I received my Bachelor of Science degree in Mechanical Engineering from the University of Alabama in Birmingham in 1984. I joined the Southern Company with Alabama Power in 1981 as a co-op student and continued with Alabama Power upon graduation in 1984. During my time at Alabama Power, I worked at Plant Gorgas, Plant Gadsden and in Power Generation Services where I progressed through various engineering positions with increasing responsibilities as well as first line supervision in Operations and Maintenance. I joined Gulf Power in 1997 as the Performance Engineer at Plant Crist. My primary responsibilities have been to monitor and test plant equipment and monitor overall plant heat rate. In addition to this, I have been responsible for major plant projects and was the primary reliability reporter. As previously mentioned in my testimony, my current job position is Power Generation Specialist, Senior at Gulf Power Company. In this position, I am responsible for preparing all Generating Performance Incentive Factor (GPIF) filings as well as other generating plant reliability and heat rate performance reporting for Gulf Power Company.

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

A. The purpose of my testimony is to present GPIF results for Gulf Power Company for the period of January 1, 2008, through December 31, 2008.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?

A. Yes. I have prepared an exhibit consisting of five schedules.

Counsel: We ask that Mr. Young's Exhibit, consisting of five schedules, be marked for identification as Exhibit No. _(MAY-1).

Q. Is there any information that has been supplied to the Commission pertaining to this GPIF period that requires amendment?

A. Yes. Some corrections have been made to the actual unit performance data, which was submitted monthly to the Commission during this time period. These corrections are based on discoveries made during the final data review to ensure the accuracy of the information reported in this filing. The actual unit performance data tables on pages 16 through 31 of Schedule 5 of my exhibit incorporate these changes. The data contained in these tables is the data upon which the GPIF calculations were made.

Q. Were average net operating heat rate (ANOHR) targets that include the BTU/LB independent variable approved in FPSC Order No. PSC-99-2512-FOF-EI used for Plant Daniel Units 1 and 2 for this period?

A. No. The target heat rate equations for Plant Daniel Units 1 and 2 did not include the BTU/LB independent variable originally approved in FPSC Order No. PSC-99-2512-FOF-EI. The BTU/LB variable has been incorporated in previous filings to account for the change in fuel mix at Plant Daniel, which was previously noted in the GPIF Target Filing for 2006 that was submitted to the FPSC on September 16, 2005, as well as the GPIF Results Filing for 2005 that was submitted to the FPSC on April 3, 2006. The use of this BTU/LB variable was evaluated for the change in fuel mix at Plant Daniel, but the variable was not statistically significant and therefore not included in the target heat rate equation for Daniel 1 or Daniel 2.

Q. Please review the Company's equivalent availability results for the period.

A. Actual equivalent availability and adjusted actual equivalent availability figures for each of the Company's GPIF units are shown on page 15 of Schedule 5. Pages 3 through 10 of Schedule 2 contain the calculations for the adjusted actual equivalent availabilities.

A calculation of GPIF availability points based on these availabilities and the targets established by FPSC Order No. PSC-08-0030-FOF-EI is on page 11 of Schedule 2. The results are: Crist 4, -10.00 points; Crist 5, +2.50 points; Crist 6, -10.00 points; Crist 7, +10.00 points; Smith 1, -10.00 points; Smith 2, +9.17 points; Daniel 1, -10.00 points; and Daniel 2, -10.00 points.

Q. What were the heat rate results for the period?

A. The detailed calculations of the actual average net operating heat rates for the Company's GPIF units are on pages 2 through 9 of Schedule 3.

As was done for the prior GPIF periods, and as indicated on pages 10 through 17 of Schedule 3, the target equations were used to adjust actual results to the target bases. These equations, submitted in September 2007, are shown on page 20 of Schedule 3. As calculated on page 21 of Schedule 3, the adjusted actual average net operating heat rates correspond to the following GPIF unit heat rate points: +1.75 for Crist 4, +2.81 for Crist 5, -6.02 for Crist 6, 0.00 for Crist 7, 0.00 for Smith 1, -0.60 for Smith 2, 0.00 for Daniel 1, and +2.71 for Daniel 2.

Q. What number of Company points was achieved during the period, and what reward or penalty is indicated by these points according to the GPIF procedure?

A. Using the unit equivalent availability and heat rate points previously mentioned, along with the appropriate weighting factors, the number of Company points achieved was 0.36 as indicated on page 2 of Schedule 4. This calculated to a reward in the amount of $113,177.

Q. Please summarize your testimony.

A. In view of the adjusted actual equivalent availabilities, as shown on page 11 of Schedule 2, and the adjusted actual average net operating heat rates achieved, as shown on page 21 of Schedule 3, evidencing the Company's performance for the period, Gulf calculates a reward in the amount of $113,177 as provided for by the GPIF plan.

Q. Does this conclude your testimony?

A. Yes.

GULF POWER COMPANY

Before the Florida Public Service Commission

Direct Testimony of

M. A. Young, III

Docket No. 090001-EI

Date of Filing: September 1, 2009

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

A. My name is Melvin A. Young, III. My business address is One Energy Place, Pensacola, Florida 32520-0335. My current job position is Power Generation Specialist, Senior for Gulf Power Company.

Q. Please describe your educational and business background.

A. I received my Bachelor of Science degree in Mechanical Engineering from the University of Alabama in Birmingham in 1984. I joined the Southern Company with Alabama Power in 1981 as a co-op student and continued with Alabama Power upon graduation in 1984. During my time at Alabama Power, I worked at Plant Gorgas, Plant Gadsden and in Power Generation Services where I progressed through various engineering positions with increasing responsibilities as well as first line supervision in Operations and Maintenance. I joined Gulf Power in 1997 as the Performance Engineer at Plant Crist. In this capacity, my primary responsibilities were to monitor and test plant equipment and monitor overall plant heat rate. In addition to this, I was responsible for major plant projects and was the primary reliability reporter. As previously mentioned in my testimony, my current job position is Power Generation Specialist, Senior at Gulf Power Company.

In this position I am responsible for preparing all Generating Performance Incentive Factor (GPIF) filings as well as other generating plant reliability and heat rate performance reporting for Gulf Power Company.

Q. What is the purpose of your testimony in this proceeding?
A. The purpose of my testimony is to present GPIF targets for Gulf Power Company for the period of January 1, 2010 through December 31, 2010.

Q. Have you prepared an exhibit that contains information to which you will refer in your testimony?
A. Yes. I have prepared one exhibit entitled MAY-2 consisting of three schedules.

Q. Was this exhibit prepared by you or under your direction and supervision?
A. Yes, it was.

Counsel: We ask that Mr. Young's exhibit consisting of three schedules be marked for identification as Exhibit (MAY-2).

Q. Which units does Gulf propose to include under the GPIF for the subject period?
A. We propose that Crist Units 4, 5, 6, and 7, Smith Units 1 and 2, and Daniel Units 1 and 2, continue to be the Company's GPIF units. The projected net generation from these units, which represent all of Gulf's qualifying base load units for GPIF, is approximately 86% of Gulf's projected net generation for 2010.

Q. For these units, what are the target heat rates Gulf proposes to use in the GPIF for these units for the performance period January 1, 2010 through December 31, 2010?

A. I would like to refer you to page 44 of Schedule 1 of my exhibit where these targets are listed.

Q. How were these proposed target heat rates determined?

A. They were determined according to the GPIF Implementation Manual procedures for Gulf.

Q. Describe how the targets were determined for Gulf's proposed GPIF units.

A. Page 2 of Schedule 1 of my exhibit shows the target average net operating heat rate equations for the proposed GPIF units and pages 4 through 40 of Schedule 1 contain the weekly historical data used for the statistical development of these equations. Pages 41 through 43 of Schedule 1 present the calculations that provide the unit target heat rates from the target equations.

Q. Were the maximum and minimum attainable heat rates for each proposed GPIF unit indicated on page 44 of Schedule 1 of your exhibit calculated according to the appropriate GPIF Implementation Manual procedures?

A. Yes.

Q. What are the proposed target, maximum, and minimum equivalent availabilities for Gulf's units?

A. The target, maximum, and minimum equivalent availabilities are listed on page 4 of Schedule 2 of my exhibit.

Q. How were the target equivalent availabilities determined?

A. The target equivalent availabilities were determined according to the standard GPIF Implementation Manual procedures for Gulf and are presented on page 2 of Schedule 2 of my exhibit.

Q. How were the maximum and minimum attainable equivalent availabilities determined for each unit?

A. The maximum and minimum attainable equivalent availabilities, which are presented along with their respective target availabilities on page 4 of Schedule 2 of my exhibit, were determined per GPIF Implementation Manual procedures for Gulf.

Q. Mr. Young, has Gulf completed the GPIF minimum filing requirements data package?

A. Yes, we have completed the minimum filing requirements data package. Schedule 3 of my exhibit contains this information.

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

A. Yes. Gulf asks that the Commission accept:

1. Crist Units 4, 5, 6 and 7, Smith Units 1 and 2, and Daniel Units 1 and 2 for inclusion under the GPIF for the period of January 1, 2010 through December 31, 2010.

2. The target, maximum attainable, and minimum attainable average net operating heat rates, as proposed by the Company and as shown on page 44 of Schedule 1 and also on page 5 of Schedule 3 of my exhibit.

3. The target, maximum attainable, and minimum attainable equivalent availabilities, as proposed by the Company and as shown on page 4 of Schedule 2 and also on page 5 of Schedule 3 of my exhibit.

4. The weekly average net operating heat rate least squares regression equations, shown on page 2 of Schedule 1 and also on pages 20 through 35 of Schedule 3 of my exhibit, for use in adjusting the annual actual unit heat rates to target conditions.

Q. Mr. Young, does this conclude your testimony?
A. Yes.

CHAIRMAN CARTER: Mr. Horton.

MR. HORTON: I'll be sticking around.

CHAIRMAN CARTER: Mr. Burnett.

MR. BURNETT: Thank you, sir. We would move the prefiled direct testimony of Witness Garrett, Olivier, McCallister and Oliver, and the prefiled rebuttal testimony of McCallister into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witnesses will be inserted into the record as though read.

MR. BURNETT: And we would move into evidence Exhibits 105 through 123, sir.

CHAIRMAN CARTER: From the Comprehensive Exhibit List.

MR. BURNETT: Yes, sir.

CHAIRMAN CARTER: Are there any objections? Without objection, show it done.

(Exhibits 105 through 123 marked for identification and admitted into the record.)

PROGRESS ENERGY FLORIDA

DOCKET NO. 090001-EI

Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December, 2008

DIRECT TESTIMONY OF
Will Garrett

March 9, 2009

Q. Please state your name and business address.

A. My name is Will A. Garrett. My business address is 299 First Avenue North, St. Petersburg, Florida 33701.

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

A. I am employed by Progress Energy Service Company, LLC as Controller of Progress Energy Florida.

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe PEF's Fuel Adjustment Clause final true-up amount for the period of January through December 2008, and PEF's Capacity Cost Recovery Clause final true-up amount for the same period.

Q. Have you prepared exhibits to your testimony?

A. Yes, I have prepared and attached to my true-up testimony as Exhibit No. __(WG-1T), a Fuel Adjustment Clause true-up calculation and related schedules; Exhibit No. __(WG-2T), a Capacity Cost Recovery Clause true-up calculation and related schedules; and Exhibit No. __(WG-3T), Schedules A1 through A3, A6, and A12 for December 2008, year-to-date. I have extracted schedules on which there was no sponsored testimony. Schedules A1 through A9, and A12 for the year ended December 31, 2008, were previously filed with the Commission on January 20, 2009.

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

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

Q. Would you please summarize your testimony?

A. Per Order No. PSC-08-0824-FOF-EI, the projected 2008 fuel adjustment true-up amount was an under-recovery of $146,154,866. The actual under-recovery for 2008 was $145,284,208 resulting in a final fuel adjustment true-up over-recovery amount of $870,658 (Exhibit No. __(WG-1T)).

The projected 2008 capacity cost recovery true-up amount was an over-recovery of $15,292,976. The actual amount for 2008 was an over-recovery of $17,822,629 resulting in a final capacity true-up over-recovery amount of $2,529,653 (Exhibit No. __(WG-2T)).

FUEL COST RECOVERY

Q. What is PEF's jurisdictional ending balance as of December 31, 2008 for fuel cost recovery?

A. The actual ending balance as of December 31, 2008 for true-up purposes is an under-recovery of $145,284,208.

Q. How does this amount compare to PEF's estimated 2008 ending balance included in the Company's estimated/actual true-up filing?

A. The actual true-up attributable to the January - December 2008 period is an under-recovery of $145,284,208 which is $870,658 lower than the re-projected year end under-recovery balance of $146,154,866.

Q. How was the final true-up ending balance determined?

A. The amount was determined in the manner set forth on Schedule A2 of the Commission's standard forms previously submitted by the Company on a monthly basis.

Q. What factors contributed to the period-ending jurisdictional under-recovery of $145,284,208 shown on your Exhibit No. __(WG-1T)?

A. The factors contributing to the under-recovery are summarized on Exhibit No. __(WG-1T), sheet 1 of 4. Net jurisdictional fuel revenues fell below the forecast by $53.1 million, while jurisdictional fuel and purchased power expense increased $75.4 million, resulting in a difference in jurisdictional fuel revenue and expense of $128.5 million. The $75.4 million unfavorable variance in jurisdictional fuel and purchase power expense is primarily attributable to an unfavorable system variance from projected fuel and net purchased power of $89.9 million as more fully described below. Also, as a partial offset, there was a higher allocation of fuel and purchase power to the wholesale jurisdiction due to higher than projected wholesale sales. The $145.3 million under-recovery also includes the deferral of $16.8 million of 2007 under-recovery approved in Order No. PSC-08-0824-FOF-EI. The net result of the difference in jurisdictional fuel revenues and expenses of $128.5 million, plus the 2007 deferral of $16.8 million and the 2008 interest provision calculated on the deferred balance throughout the year is an under-recovery of $145.3 million as of December 31, 2008.

Q. Please explain the components shown on Exhibit No. __(WG-1T), sheet 4 of 4 which helps to explain the $89.9 million unfavorable

system variance from the projected cost of fuel and net purchased power transactions.

A. Sheet 4 of 4 is an analysis of the system dollar variance for each energy source in terms of three interrelated components; (1) changes in the amount (MWH's) of energy required; (2) changes in the heat rate of generated energy (BTU's per KWH); and (3) changes in the unit price of either fuel consumed for generation ($ per million BTU) or energy purchases and sales (cents per KWH).

Q. What effect did these components have on the system fuel and net power variance for the true-up period?

A. As shown on sheet 4 of 4, the dollar variance due to MWHs generated and purchased (column B) produced a cost decrease of $165.0 million. The primary reasons for this favorable variance were lower system requirements coupled with an increase in supplemental sales. The favorable variance in supplemental sales was created from certain contracts using more energy than anticipated. The unfavorable heat rate variance (column C) of $67.0 million is due to changes in the generation mix to meet the energy requirements. The unfavorable price variance of $187.9 million (column D) was caused mainly by higher than projected coal prices, coupled with higher power purchase prices. Coal averaged $3.71 per MMBtu, $0.64 per MMBtu (20.8%) higher than projected per the previously submitted A3, Page 2 of 3, Line 49. Firm Purchases contained an unfavorable price variance over projection as the actual usage for the Shady Hills and Osceola contracts exceeded projection. Economy purchases also contained an unfavorable price variance as the bulk of the variable usage occurred during the summer months, when fuel prices were significantly higher than projected due to market forces. These purchases were economically viable as they were less expensive than system peaker generation.

The variance related to Other Fuel is driven by the coal car investment (see Order No. 95-1089-FOF-EI.) This favorable variance is more than offset by an unfavorable price variance in Other Jurisdictional Adjustments. The leading components of this $1.4MM unfavorable price variance are listed below.

Q. Does this period ending true-up balance include any noteworthy adjustments to fuel expense?

A. Yes. Noteworthy adjustments are shown on Exhibit No. __(WG-3T) in the footnote to line 6b on page 1 of 2, Schedule A2. Included in the footnote to line 6b on page 1 of 2, Schedule A2, is the refund of $14.4 million in accordance with Order No. PSC-07-0816-FOF-EI found in Docket No. 060658-EI. These adjustments also include the return on coal inventory in transit of $5.5 million.

Q. Please explain the return on coal inventory in transit adjustment.

A: The $5.5 million adjustment represents the return on coal inventory in transit, in accordance with the approved Settlement and Stipulation in Docket No. 050078-EI, as discussed further in the *Other Matters* portion of this filing.

Q. Did PEF exceed the economy sales threshold in 2008?

A. No. PEF did not exceed the gain on economy sales threshold of $2.1MM in 2008. As reported on Schedule A1, Line 15a, the gain for the year-to-date period through December 2008 was $1.1 million; which fell below the threshold. This entire amount was returned to customers through a reduction of total fuel and net power expense recovered through the fuel clause.

Q. Has the three-year rolling average gain on economy sales included in the Company's filing for the November, 2008 hearings been updated to incorporate actual data for all of year 2008?

A. Yes. PEF has calculated its three-year rolling average gain on economy sales, based entirely on actual data for calendar years 2006 through 2008, as follows:

Year	Actual Gain
2006	1,990,442

	2007	2,556,198
	2008	1,080,438
Three-Year Average		$ 1,875,693

CAPACITY COST RECOVERY

Q. What is the Company's jurisdictional ending balance as of December 31, 2008 for capacity cost recovery?

A. The actual ending balance as of December 31, 2008 for true-up purposes is an over-recovery of $17,822,629.

Q. How does this amount compare to the estimated 2008 ending balance included in the Company's estimated/actual true-up filing?

A. When the estimated 2008 over-recovery of $15,292,976 is compared to the $17,822,629 actual over-recovery, the final capacity true-up for the twelve month period ended December 2008 is an over-recovery of $2,529,653.

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

A. Yes. The calculation of the final net true-up amount follows the procedures established by the Commission in Order No. PSC-96-1172-FOF-EI. The true-up amount was determined in the manner set forth on the Commission's standard forms previously submitted by the Company on a monthly basis.

Q. What factors contributed to the actual period-end capacity over-recovery of $17.8 million?

A. Exhibit No. __(WG-2T, sheet 1 of 3) compares actual results to the original projection for the period. The $17.8 million over-recovery is due primarily to lower than expected expenses of $46.9 million, partially offset by lower actual jurisdictional revenues of $31.1 million compared to projected revenues, due to lower than projected retail sales. The lower expenses were most notably due to outages at the Orlando and Pinellas County cogenerators. The $17.8 million over-recovery also includes the 2007 over-recovery of $2.2 million approved in Order No. PSC-08-0824-FOF-EI.

Q. Were there any items of note included in the current true-up period?

A. Yes. In Order No. PSC-02-1761-FOF-EI, issued in Docket No. 020001-EI, the Commission addressed the recovery of specific incremental security costs through the capacity cost recovery clause. In accordance with the Commission order, Exhibit No. __(WG-2T, sheet 2 of 3, line 20) includes incremental security costs of $5,855,422 before jurisdictional allocation to retail customers.

OTHER MATTERS

Q. Were the coal procurement and transportation functions transferred from Progress Fuels Corporation to PEF in 2006 accounted for correctly in 2008?

A. Yes. As part of a consolidation of PEF's coal procurement and transportation functions, ownership of railcars used to transport coal to Crystal River and coal inventory in transit were transferred from Progress Fuels Corporation to PEF on January 1, 2006. In accordance with Order No. PSC-05-0945-S-EI, which approved the Stipulation and Settlement in Docket No. 050078-EI, PEF recovered its carrying costs of coal inventory in transit and its coal procurement O&M costs through the fuel recovery clause. Furthermore, consistent with established Commission policy, PEF recovered depreciation expense, repair and maintenance expenses, property taxes and a return on average investment associated with railcars used to transport coal to Crystal River. In accordance with the approved Settlement and Stipulation in Docket No. 050078-EI, PEF used 11.75% as its authorized return on inventory in transit and coal car investment.

Q: Was the refund from Docket 060658, plus interest, included in the deferred fuel asset of $145,284,208 as of December 31, 2008?

A: Yes. The refund ordered in Docket 060658 was recorded as a separate regulatory liability of $12,425,492, with interest of $1,400,715, for a total of $13,826,207. This amount began accumulating additional interest as of July 1, 2007, and continued to accrue interest through the completion of the refund per Order No. PSC-07-0816-FOF-EI issued in Docket No. 060658-EI. The balance has been amortized monthly through the 2008 calendar year, as a reduction to recoverable fuel expense. The refund may be seen on Exhibit No. __(WG-3T) in the footnote to line 6b on page 1 of 2, Schedule A2.

Q: Please explain the adjustment found on line C. 12 of Schedule A2 in Exhibit No. __(WG-3T)?

A: Line C. 12 of Schedule A2 represents an adjustment to the allocation of fuel expense between the retail and wholesale jurisdictions for 2008.

Q: Have you provided Schedule A12 showing the actual monthly capacity payments by contract consistent with the Staff Workshop in 2005?

A: Yes. A confidential version of Schedule A12 is included in Exhibit No. __ (WG-3T).

Q. Does this conclude your direct true-up testimony?

A. Yes

PROGRESS ENERGY FLORIDA

DOCKET NO. 090001-EI

Fuel and Capacity Cost Recovery
Estimated/Actual True-Up Amounts
January through December 2009

DIRECT TESTIMONY OF
MARCIA OLIVIER

August 4, 2009

Q. Please state your name and business address.

A. My name is Marcia Olivier. My business address is 299 1st Avenue North, St. Petersburg, Florida 33701.

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

A. I am employed by Progress Energy Service Company, LLC as the Supervisor of PEF Regulatory Planning Strategy.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present, for Commission approval, Progress Energy Florida's (PEF or the Company) estimated/actual fuel and capacity cost recovery true-up amounts for the period of January through December 2009.

Q. Do you have an exhibit to your testimony?

A. Yes. I have prepared Exhibit No.__(MO-1), which is attached to my prepared testimony, consisting of two parts. Part 1 consists of Schedules E1-B through E9, which include the calculation of the 2009 estimated/actual fuel and purchased power true-up balance. Part 2 includes the calculation of the 2009 estimated/actual capacity true-up balance. The calculations in my exhibit are based on actual data from January through June 2009 and estimated data from July through December 2009.

FUEL COST RECOVERY

Q. How was the estimated true-up over-recovery of $14,255,732 shown on Exhibit__MO-1, Schedule E1-B, sheet 1, line 21, developed?

A. The estimated true-up calculation begins with the actual under-recovered balance of $76,027,808 taken from Schedule A2, page 2 of 2, line 13, for the month of June 2009. This balance plus the July through December 2009 monthly estimated differences between fuel revenues and expenses comprise the estimated $14,255,732 over-recovered balance at year-end. The projected December 2009 true-up balance includes interest which is estimated from July through December 2009 based on the average of the beginning and ending Commercial Paper rate applied in June. That rate is 0.027% per month.

Q. Does the ending true-up balance incorporate the rate reduction which was projected to reduce revenues by $206 million as approved by the Commission in Order No. PSC-09-0208-PAA-EI?

A. Yes, beginning with the first billing cycle in April 2009, fuel revenues reflect an average levelized retail rate decrease of $6.90 per 1000 kWh.

Q. How does the current fuel price forecast for July through December 2009 compare with the same period forecast used in the Company's 2009 mid-course correction filing approved in Order No. PSC-09-0208-PAA-EI?

A. Fuel costs per unit remained relatively constant for coal, heavy oil and light oil. However, natural gas costs per unit decreased an average of $0.50/mmbtu or approximately 6%.

Q. Have you made any adjustments to your projected fuel costs for the period July through December 2009?

A. Yes, we made four adjustments. 1) We made an adjustment for $4,534,894 to recover a return on our coal inventory in transit pursuant to Order No. PSC-05-0945-S-EI. 2) We made an adjustment for $184,080 to recover coal railcar investments. 3) We made an adjustment to remove $1,338,941 from our estimated fuel costs in July 2009 for the cost of replacement fuel and emissions associated with the unplanned outage that took place at our Crystal River nuclear plant (CR3) in January 2009. 4) We made an adjustment to include $2,101,786 of hedging costs in our estimated fuel costs in July 2009. These hedging costs arise from the difference between interest received and interest paid on collateral associated with our hedge derivatives from January through June, 2009.

Q. How did you arrive at the $1,338,941 CR3 replacement fuel and emissions adjustment?

A. First we calculated the replacement MW on an hourly basis during the outage which took place from 12:00 pm on January 27, 2009 through 2:00 am on January 29, 2009. Then we calculated the fuel and emissions costs on the incremental generating units that ran during those hours. Finally, we multiplied the MW by the replacement cost per mWh for each hour during the outage. The cost of the replacement fuel was $1,124,284, the NOx was $184,095, the SO_2 was $26,959, and the interest from January through June was $3,603. The total of these costs equals the $1,338,941, which is the amount that was removed from fuel costs as an adjustment in July's estimate. This amount will be reflected in July's A-Schedule filing as well.

Q. Please explain your hedging costs of $2,101,786 for interest on collateral related to derivatives?

A. This amount represents incurred costs of PEF's hedging program associated with posting collateral in support of its derivative hedged fuel positions. These costs are recoverable pursuant to FPSC Order No. PSC-02-1484-FOF-EI issued in October 30, 2002, that provides "Each investor-owned electric utility shall be authorized to charge/credit to the fuel and purchased power cost recovery clause its non–speculative, prudently-incurred commodity costs and gains and losses associated with financial and/or physical hedging transactions for natural gas, residual oil, and purchased power contracts tied to the price of natural gas. Examples of such items include transaction costs associated with derivatives (e.g., fees and commissions), gains and losses on futures contracts, premiums on options contracts, and net settlements form swaps transactions." Hedging contracts between PEF and financial institutions require, under certain circumstances, that one of the parties post collateral. During 2009, PEF financed through commercial paper the posting of large amounts of collateral to support derivative contracts with third parties; in turn the third party pays interest to PEF on the collateral funds advanced by PEF. The interest that is received by PEF from the counterparty is mainly based on the federal funds over-night rate, which is lower than the financing cost of the debt incurred by PEF to fund this collateral. The difference between interest received from the counterparty and interest paid by PEF on short-term debt from January through June 2009 of $2,101,786 is a direct incremental cost of PEF's hedging program, and is therefore included as an adjustment to fuel costs. A similar adjustment would be made to reduce fuel costs in the event PEF pays interest on collateral received at a lower interest cost than PEF's financing cost on short-term debt.

Q. Does PEF expect to exceed the three-year rolling average gain on non-separated power sales in 2009?

A. No, PEF estimates the total gain on non-separated sales during 2009 will be $1,354,172, which does not exceed the three-year rolling average of $1,875,691.

CAPACITY COST RECOVERY

Q. How was the estimated true-up under-recovery of $334,251,665 shown on Exhibit__MO-1, Part 2, page 1 of 2, line 53, developed?

A. The true-up balance is separated into two components, 1) the capacity portion excluding nuclear which is a $30,445,547 under-recovery (line 48), and 2) the nuclear portion which is a $303,806,118 under-recovery (line 52). The estimated true-up calculation for the non-nuclear capacity portion begins with the actual under-recovered balance of $12,506,789, (line 48) for the month of June 2009. This balance plus the estimated July through December 2009 monthly true-up calculations comprise the estimated $30,445,547 under-recovered balance at year-end. The projected December 2009 true-up balance includes interest which is estimated from July through December 2008 based on the average of the beginning and ending Commercial Paper rate applied in June. That rate is 0.270% per month.

Q. What are the primary reasons for the $30,445,547 capacity projected year-end 2009 under-recovery?

A. The $30,445,547 under-recovery is made up of a current period under-recovery of $32,975,199 (line 44) reduced by the final 2008 true-up over-recovery of $2,529,653 (line 47). The current period under-recovery is mainly due to a decrease in capacity revenues of $30.7 million plus an increase in capacity costs of $2.3 million. Retail sales are estimated to decrease in 2009 by 3.4 million mWhs compared to the original capacity projection filed on August 29, 2008.

Q. Please explain the end of period true-up amount related to the nuclear docket of $303,806,118 which is included on line 52.

A. The monthly true-up balances for the Levy and CR3 Uprate projects were added in order to reflect the estimated total CCR deferred balance for 2009. These true-up amounts were retrieved from the direct testimony of Thomas G. Foster filed on May 1, 2009 in Docket No. 090009, Exhibit TGF-1, Schedule AE-9, Pages 44-45 for the Levy 2009 true-up balance of $298,677,165 and Exhibit TGF-4, Schedule AE-9, Pages 30-31 for the CR3 Uprate 2009 true-up balance of $5,128,953.

Q. Does this conclude your estimated/actual true-up testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 090001-EI

Fuel and Capacity Cost Recovery Factors
January through December 2010

DIRECT TESTIMONY OF
MARCIA OLIVIER

September 14, 2009

Q. Please state your name and business address.

A. My name is Marcia Olivier. My business address is 299 1st Avenue North, St. Petersburg, Florida 33701.

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

A. I am employed by Progress Energy Service Company, LLC as Supervisor of PEF Regulatory Planning Strategy.

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present for Commission approval the levelized fuel and capacity cost factors of Progress Energy Florida (PEF or the Company) for the period of January through December 2010.

Q. Do you have an exhibit to your testimony?

A. Yes. I have prepared Exhibit No.__(MO-2), consisting of Parts 1, 2 and 3. Part 1 contains our forecast assumptions on fuel costs. Part 2 contains fuel cost recovery (FCR) schedules E1 through E10, H1 and the calculation of the inverted fuel rate. Part 3 contains capacity cost recovery (CCR) schedules.

FUEL COST RECOVERY CLAUSE

Q. Please describe the fuel cost factors calculated by the Company for the projection period.

A. Schedule E1 shows the calculation of the Company's levelized fuel cost factor of 4.917 ¢/kWh. This factor consists of a fuel cost for the projection period of 4.95372 ¢/kWh (adjusted for jurisdictional losses), a GPIF penalty of 0.00146 ¢/kWh, and an estimated prior period over-recovery true-up of 0.03921 ¢/kWh. Utilizing this factor, Schedule E1-D shows the calculation and supporting data for the Company's levelized fuel cost factors for service taken at secondary, primary, and transmission metering voltage levels. To perform this calculation, effective jurisdictional sales at the secondary level are calculated by applying 1% and 2% metering reduction factors to primary and transmission sales, respectively (forecasted at meter level). This is consistent with the methodology used in the development of the capacity cost recovery factors. The levelized fuel cost factor for residential service is 4.923 ¢/kWh. Schedule E1-D shows the Company's proposed tiered rates of 4.611 ¢/kWh for the first 1,000 kWh and 5.611 ¢/kWh above 1,000 kWh. These rates are developed in the "Calculation of Inverted Residential Fuel Rate" schedule in Part 2.

Schedule E1-E develops the Time of Use (TOU) multipliers of 1.436 On-peak and 0.790 Off-peak. The multipliers are then applied to the levelized fuel cost factors for each metering voltage level which results in the final TOU fuel factors to be applied to customer bills during the projection period.

Q. What is the amount of the 2009 net true-up that PEF has included in the fuel cost recovery factor for 2010?

A. PEF has included a projected over-recovery of $14,255,732. This amount includes a projected actual/estimated over-recovery for 2009 of $13,385,074 plus the final true-up over-recovery of $870,658 for 2008 that was filed on March 9, 2009.

Q. What is the change in the levelized residential fuel factor for the projection period from the fuel factor currently in effect?

A. The projected levelized residential fuel factor for 2010 of 4.923 ¢/kWh is a decrease of 1.010 ¢/kWh or 17% from the 2009 mid-course correction levelized fuel factor of 5.933 ¢/kWh, which was effective with the first billing cycle of April 2009.

Q. Please explain the reasons for the decrease in the levelized fuel factor compared with the 2009 forecast used in the Company's February 2009 mid-course correction filing.

A. The fuel factor charged to customers during 2009 included a projected $146,154,866 prior period under-recovery. The decrease in the 2010 levelized fuel factor is driven, in part, by the removal of this amount and the inclusion of the estimated $14,255,732 prior period over-recovery. In addition, fuel and purchased power costs are projected to decrease primarily due to 1) an increase in nuclear generation as the biannual outage occurred in 2009, and 2) a net decrease in fuel prices of approximately $144 million, driven mainly by a decrease in the price of natural gas.

Q. Why is PEF proposing to continue use of the tiered rate structure approved for use in 2006?

A. The Company is proposing to continue use of the inverted rate design for residential fuel factors to encourage energy efficiency and conservation. Specifically, the Company proposes to continue a two-tiered fuel charge whereby the charge for a customer's monthly usage in excess of 1,000 kWh (second tier) is priced one cent per kWh more than the charge for the customer's usage up to 1,000 kWh (first tier). The 1,000 kWh price change breakpoint is reasonable in that approximately 69% of all residential energy is consumed in the first tier and 31% of all energy is consumed in the second tier. The Company believes the one cent higher per unit price, targeted at the second tier of the residential class' energy consumption, will promote energy efficiency and conservation. This inverted rate design was incorporated in the Company's base rates approved in Order No. PSC-02-0655-AS-EI.

Q. How was the inverted fuel rate calculated?

A. I have included a page in Part 2 of my exhibit that shows the calculation of the levelized fuel cost factors for the two tiers of residential customers. The two factors are calculated on a revenue neutral basis so that the Company will recover the same fuel costs as it would under the traditional levelized approach. The two-tiered factors are determined by first calculating the amount of revenues that would be generated by the overall levelized residential factor of 4.923 ¢/kWh shown on Schedule E1-D. The two factors are then calculated by allocating the total revenues to the two tiers for residential customers based on the total annual energy usage for each tier.

Q. What is included in Schedule E1, line 3, "Coal Car Investment"?

A. The $234,708 on Line 3 represents the estimated return on average investment in rail cars used to transport coal to Crystal River using the 2010 rate of return as filed in PEF's rate case, Docket No. 090079-EI, MFR D-1. The approved rate of return will be applied to the investment in PEF's 2010 monthly A-schedule filings.

Q. How do PEF's projected gains on non-separated wholesale energy sales for 2010 compare to the incentive benchmark?

A. The total gain on non-separated sales for 2010 is estimated to be $3,253,509 which is above the benchmark of $1,663,602 by $1,589,907. Therefore, 100% of gains below the benchmark and 80% of gains above the benchmark will be distributed to customers based on the sharing mechanism approved by the Commission in Order No. PSC-00-1744-PAA-EI. Further, consistent with this Order, $317,981 or 20% of the gains above the benchmark will be retained for the shareholders. The benchmark of $1,663,602 was calculated based on the average of actual gains for 2007 and 2008 and estimated gains for 2009 in accordance with Order No. PSC-00-1744-PAA-EI.

Q. Please explain the entry on Schedule E1, line 17, "Fuel Cost of Stratified Sales."

A. PEF has several wholesale contracts with SECI. One contract provides for the sale of supplemental energy to supply the portion of their load in excess of SECI's own resources. The fuel costs charged to SECI for supplemental sales are calculated on a "stratified" basis in a manner which recovers the higher cost of intermediate/peaking generation used to provide the energy. There are other SECI contracts for fixed amounts of base, intermediate and peaking capacity. PEF is crediting average fuel cost of the appropriate strata in accordance with Order No. PSC-97-0262-FOF-EI. The fuel costs of wholesale sales are normally included in the total cost of fuel and net power transactions used to calculate the average system cost per kWh for fuel adjustment purposes. However, since the fuel costs of the stratified sales are not recovered on an average system cost basis, an adjustment has been made to remove these costs and the related kWh sales from the fuel adjustment calculation in the same manner that interchange sales are removed from the calculation. This adjustment is necessary to avoid an over-recovery by the Company which would result from the treatment of these fuel costs on an average system cost basis in this proceeding, while actually recovering the costs from these customers on a higher, stratified cost basis. Line 17 also includes the fuel cost of sales made to the City of Tallahassee in accordance with Order No. PSC-99-1741-PAA-EI, as well as sales to TECO, Reedy Creek, Gainesville, and the City of Homestead.

Q. Please give a brief overview of the procedure used in developing the projected fuel cost data from which the Company's fuel cost recovery factor was calculated.

A. The process begins with a fuel price forecast and a system sales forecast. These forecasts are input into the Company's production cost simulation model along with purchased power information, generating unit operating characteristics, maintenance schedules, and other pertinent data. The model then computes system fuel consumption and fuel and purchased power costs. This information is the basis for the calculation of the Company's levelized fuel cost factors and supporting schedules.

Q. What is the source of the system sales forecast?

A. System sales are forecasted by the PEF Finance Department using normal weather conditions, population projections from the Bureau of Economic and Business Research at the University of Florida and economic assumptions from Economy.Com.

Q. Is the methodology used to prepare the sales forecast for this projection period the same as previously used by the Company?

A. The methodology employed to produce the forecast for the projection period is consistent with the Company's most recent filings except for an update to the company's assumption for normal weather. Previous projections assumed a 30-year system weighted average weather assumption for both the energy and peak demand forecasts. The projection of company energy sales now incorporates a modified 20-year system weighted average weather condition. Specifically, weather from the 20-year period 1989-2008 (sorted by month for Heating Degree Days and Cooling Degree Days) was averaged and then the two worst outliers from each month were removed and the resulting 18 years became the final monthly average. This new assumption will improve the accuracy of the forecast which had been over-projecting winter-weather energy consumption. The remainder of the forecast methodology remained unchanged.

Q. What is the source of the Company's fuel price forecast?

A. The fuel price forecasts for natural gas and fuel oil (residual #6 and distillate #2) are based on observable market data in the industry and are prepared jointly by the Company's Enterprise Risk Management Department and Regulated Fuels Department. For coal, a third party forecast is used. Additional details and forecast assumptions are provided in Part 2 of my exhibit.

Q. Are current fuel prices the same as those used in the development of the projected fuel factor?

A. No. Fuel prices can change significantly from day to day, particularly in the storm season. Consistent with past practices, PEF will continue to monitor fuel prices and update the projection filing prior to the November hearing if changes in fuel prices warrant such an update.

Q. What adjustments has PEF transferred to base rates as part of Docket No. 090079-EI?

A. Beginning in 2010 PEF has included the recovery of the carrying cost on coal inventory in transit and coal procurement costs in base rates.

Q. What adjustment has PEF made to the projected fuel costs as a result of the review of coal costs for Crystal River Units 4 and 5 for 2006 and 2007 in Docket No. 070703-EI?

A. PEF will refund an estimated $8,498,039 (which includes an interest portion) to customers as prescribed in Docket No. 070703-EI regarding coal costs that were deemed excessive at Crystal River units 4 and 5 for 2006 and 2007.

CAPACITY COST RECOVERY CLAUSE

Q. Please explain what is included in Part 3 to your exhibit.

A. Page 1, Projected Capacity and Nuclear Costs - Normal Nuclear Recovery, includes system capacity payments to Qualifying Facilities (QF) and other power suppliers, as well as recovery of nuclear costs pursuant to Rule 25-6.0423, F.A.C. The retail portion of the capacity payments is calculated using separation factors filed in the Minimum Filing Requirements – Section E – Rate Schedules - Jurisdictional Separation Study - Projected Test Year 2010 – Revised May '09 Sales Forecast in Docket 090079-EI. Total nuclear costs of $435,326,932 for Levy and $10,668,857 for the CR3 Uprate project were derived from the Direct Testimony of Thomas G. Foster filed on May 1, 2009 in Docket No. 090009-EI, Schedule P-1, Exhibit TGF-2 pages 3-4 and Exhibit TGF-5 pages 3-4, respectively.

Page 2, Projected Capacity and Nuclear Costs - Deferred Nuclear Recovery, includes the same assumptions for capacity payments and separation factors as Page 1. However, total nuclear costs of $225,582,158 for Levy and $10,668,857 for the CR3 Uprate project were derived from the Direct Testimony of Thomas G. Foster filed in Docket No. 090009-EI, Schedule P-1, Exhibit TGF-3 pages 3-4 and Exhibit TGF-5 pages 3-4, respectively. The Levy costs are based on PEF's proposed alternative recovery to amortize year end 2009 under-recovered nuclear costs over a 5 year period as explained on pages 17-18 in that same testimony.

Page 3, Estimated/Actual True-Up, which was included in Exhibit __MO-1 to my Direct Testimony in the 2009 Estimated/Actual True-Up Filing, calculates the estimated true-up capacity and nuclear under-recovered balances for calendar year 2009 of $30,445,547 and $303,806,118, respectively. These balances are carried forward to Pages 1 and 2 to be collected during January through December 2010.

Page 4, Capacity Contracts, provides dates and MWs associated with various QF and purchase power contracts.

Page 5, Capacity Cost Recovery Clause Demand Allocator, provides the calculation of three demand allocators as follows:

- 12 CP and 1/13 annual average demand – Currently approved
- 12 CP and 25% annual average demand – Approved in TECO Rate Case Docket No. 080317-EI
- 12 CP and 50% annual average demand – Proposed in PEF Rate Case Docket No. 090079-EI, Direct Testimony of William C. Slusser Jr.

The actual demand allocator to be applied is dependent on the outcome of PEF's rate case. Therefore, we have presented multiple calculations to facilitate the 2010 rate calculation once a final decision has been made by the Commission.

Page 6-8, Capacity Cost Recovery Clause Factors by Rate Class, provide the calculations of the CCR factors for capacity and nuclear costs for each rate class based on the three demand allocators described above. The calculations are provided assuming both normal recovery and the proposed alternative deferred recovery of nuclear costs. The CCR factor for each secondary delivery rate class in cents per kWh is the product of total jurisdictional capacity costs (including revenue taxes) from Pages 1 and 2, multiplied by the class demand allocation factor, divided by projected effective sales at the secondary metering level. The CCR factors for primary and transmission rate classes reflect the application of metering reduction factors of 1% and 2% from the secondary CCR factor. The factors allocate capacity and nuclear costs to rate classes in the same manner in which they would be allocated if they were recovered in base rates.

Q. Has the Company employed the most recent load research information in the development of the Company's production capacity cost allocation factors?

A. Yes. The 12CP load factor relationships from the Company's most recent load research conducted for the period April 2008 through March 2009 has been incorporated into these factors. This information was included in PEF's Load Research Report filed with the Commission on July 31, 2009.

Q. Why are the CCR factors for the Curtailable (CS) and Interruptible (IS) rate classes presented both individually and combined in Part 3 of your exhibit?

A. As explained in the Direct Testimony of William C. Slusser Jr. in Docket 090079-EI, these rate classes should be combined and treated as one rate class since their load characteristics are similar. The CCR factors for these rate classes are presented both individually and combined on Part 3, pages 6-8 of my exhibit for ease of selecting the appropriate application determined by the Commission.

Q. What is the 2010 projected average retail CCR factor?

A. The 2010 average retail CCR factors for capacity and nuclear costs are as follows:

- Capacity - 1.021 ¢/kWh
- Nuclear Normal Recovery - 1.229 ¢/kWh
- Nuclear Deferred Recovery - .651 ¢/kWh

Q. Please explain the increase in the CCR factor for the projection period compared to the CCR factor currently in effect, excluding nuclear recoveries.

A. The total projected average retail capacity CCR factor of 1.021 ¢/kWh is 27.15% higher than the 2009 capacity factor of .803 ¢/kWh. The increase is primary due to collection of the prior period under-recovery of $30,445,547 compared to a prior period over-recovery refunded in 2009 of $15,292,976. The increase in the average capacity CCR factor is also due to lower projected sales kWh in 2010 as compared to 2009.

Q. Has PEF removed incremental security costs from the CCR clause in 2010?

A. Yes. Incremental security costs were recovered through the CCR clause pursuant to Commission Order No. PSC-02-1761–FOF-EI dated December 13, 2002, and Order No. PSC-05-0945-S-EI, dated September 28, 2005, but in PEF's Rate Case filing in Docket No. 090079-EI these cost were transferred to base rates.

Q. Summarize the items included in the capacity filing that are dependent on the Commission's final decisions in other dockets.

A. The Commission's decisions on the following items in the Rate Case Docket No. 090079-EI affect the final development of the 2010 CCR recovery factor:

1. Appropriate jurisdictional separation factors.
2. Appropriate production capacity cost allocation methodology.

3. Treatment of the Curtailable and Interruptible rate classes as separate rate classes or one combined rate class.

In addition, the nuclear cost recovery amount is dependent on the final decision by the Commission in Nuclear Docket No. 090009-EI. The 2010 CCR recovery factor will be changed according to Commission's final decisions on these matters.

Q. Does this conclude your testimony?

A. Yes

PROGRESS ENERGY FLORIDA

DOCKET NO. 090001-EI

Fuel and Capacity Cost Recovery Factors
January through December 2010

SUPPLEMENTAL DIRECT TESTIMONY OF
MARCIA OLIVIER

October 23, 2009

Q. Please state your name and business address.

A. My name is Marcia Olivier. My business address is 299 1st Avenue North, St. Petersburg, Florida 33701.

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

A. I am employed by Progress Energy Service Company, LLC as Supervisor of PEF Regulatory Planning Strategy.

Q. Have your duties and responsibilities remained the same since your testimony was last filed in this docket?

A. Yes.

Q. What is the purpose of your Supplemental Direct Testimony?

A. The purpose of my supplemental testimony is to amend the 2009 projected net capacity true-up under-recovery and 2010 capacity costs and related capacity cost recovery factors of Progress Energy Florida, Inc. ("PEF" or "the Company") for the period of January through December 2010, based on the Commission's vote at the NCRC (Docket No. 090009-EI) Agenda Conference held on October 16, 2009.

Q. Do you have exhibits to your Supplemental Direct Testimony?

A. Yes. I have prepared revised Pages 2, 3, 6, 7 and 8 to Schedule E-12, Part 3 to Exhibit No.___ (MO-2), which contains PEF's CCR filing.

Q. What revisions were made to PEF's projected 2008-2009 net capacity true-up under-recovery?

A. The net CCR true-up under-recovery of $30,445,547 was revised to $57,262,162, which includes 2009 nuclear costs of $418,311,136, approved in Order No. PSC-0749-FOF-EI, reduced by $198,000,000 for the nuclear deferral approved in Order No. PSC-09-0208-PAA-EI.

Q. What revisions were made to PEF's 2010 capacity costs?

A. The capacity costs were revised to include the $57,262,162 projected 2008-2009 net under-recovery and a 2010 net nuclear recovery amount of $206,907,726 (before revenue tax), approved at the October 16, 2009 agenda conference in Docket No. 090009-EI.

Q. What are the appropriate projected total recoverable CCR costs to be included in the recovery factor for the period January 2010 through December 2010?

A. The appropriate amount is $604,487,612, as shown on revised Schedule E-12, Page 2 to Exhibit No. __ (MO-2).

Q. What is PEF's revised CCR factor?

A. PEF's revised retail factor is 1.665 ¢/kWh as shown on revised Schedule E-12, Pages 6-8 to Exhibit No. __ (MO-2).

Q. Does this conclude your testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 090001-EI

Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December 2008

DIRECT TESTIMONY OF JOSEPH MCCALLISTER

April 3, 2009

Q. Please state your name and business address.

A. My name is Joseph McCallister. My business address is 410 South Wilmington Street, Raleigh, North Carolina 27601.

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

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

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

A. Yes. My responsibilities for the procurement and trading of natural gas and oil on behalf of Progress Energy Florida (PEF or the Company) have remained the same. In March 2009, I assumed responsibility for Power Trading.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to summarize the results of PEF's hedging activity for 2008 and to provide the information required by Order No. PSC-02-1484-FOF-EI and clarified in PSC-08-0667-PPA-EI.

Q. Have you prepared exhibits to your testimony?

A. Yes. I have attached exhibit JM-1T which summarized hedging information for 2008 and cumulative results from 2002 to 2008.

Q. What are the primary objectives of PEF's hedging strategy?

A. The objectives of PEF's hedging strategy are to mitigate fuel price risk and volatility and provide a greater degree of price certainty to PEF's customers.

Q. What hedging activities did PEF undertake during 2008 for fuel and wholesale power and what were the results?

A. PEF performed the activities outlined in its Risk Management Plan. With respect to hedging activities that were executed over time for 2008 to reduce the overall price risk and volatility associated with a portion of PEF's natural gas, heavy oil and light oil burns, PEF executed fixed price physical contracts for natural gas and financial instruments for natural gas, heavy oil and light oil that resulted in net hedge savings of approximately $239.7 million. For the period 2002 through 2008, PEF's natural gas and fuel oil hedges have provided net hedge savings of approximately $601 million. Although PEF's hedging activity has achieved significant fuel savings to date, the objectives are to reduce price risk and volatility and provide a greater degree of price certainty for its customers. As a result, there will be periods when realized hedge losses occur. In addition, during 2008, PEF made economic energy purchases and wholesale power sales to third parties that resulted in additional savings of approximately $30.8 million and $1.1 million, respectively.

Q. Does this conclude your testimony?

A. Yes

PROGRESS ENERGY FLORIDA

DOCKET NO. 090001-EI

Fuel and Capacity Cost Recovery
January through December 2010

DIRECT TESTIMONY OF JOSEPH MCCALLISTER

September 14, 2009

Q. Please state your name and business address.

A. My name is Joseph McCallister. My business address is 410 South Wilmington Street, Raleigh, North Carolina 27601.

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

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

Q. Have you previously filed testimony before this Commission?

A. Yes I have.

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to outline PEF's hedging objectives and activities for projected natural gas and fuel oil burns for 2010, outline PEF's actual hedging results for natural gas and fuel oil for January 2009 through July 2009, outline PEF's hedging results since the inception of its hedging program, and summarize PEF's economy purchase and sales savings for the period January 2009 through July 2009.

Q. Are your sponsoring any exhibits to your testimony?

A. Yes, I am sponsoring the following exhibits:

- Exhibit No. ___ (JM-1P) – 2010 Risk Management Plan *(originally filed on August 4, 2009)*; and
- Exhibit No. ___ (JM-2P) - Hedging Results for January 2009 through July 2009 *(originally filed on August 14, 2009)*

Q. What are the objectives of PEF's hedging activities?

A. The objectives of PEF's hedging activities are to reduce overall fuel price risk and volatility.

Q. Describe PEF's hedging activities for 2010.

A. PEF continues to execute its hedging strategy for projected natural gas and fuel oil annual burns. PEF executes its hedging strategy by entering into fixed price physical and financial transactions over time for a portion of its projected annual natural gas, heavy oil and light oil burns for future periods. PEF targets hedging between [redacted] of its 2010 forecasted annual natural gas and heavy oil burns. Included in the natural gas burn projections are estimates of usage at gas tolling purchased power facilities where PEF has the responsibility for purchasing the natural gas. With respect to light oil, PEF will hedge at least [redacted] of its forecasted annual light oil burns for 2010. The volumes that are hedged over time are based on periodic forecasts and actual hedge percentages can vary from forecasted hedge percentages based on the variations between forecasted burns and actual burns. The hedging program does not involve price speculation or trying to out guess the market. Hedging activities may not result in actual fuel costs savings;

however, hedging does achieve the objective of reducing the impacts of fuel price risk and volatility experienced by customers. As of September 2, 2009, for 2010 PEF has hedged approximately [redacted] of its forecasted natural gas burns, [redacted] of its forecasted heavy oil burns and [redacted] of its forecasted light oil burns. PEF will continue to layer in additional hedges for 2010 throughout the remainder of 2009 and during 2010 consistent with its on-going strategy.

Q. What were the results of PEF's hedging activities for January through July 2009?

A. The Company's natural gas and fuel oil hedging activities for January through July 2009 have resulted in hedges being above the closing natural gas and fuel oil settlement prices for the periods of January 2009 through July 2009 by approximately $332.7 million. This occurred as a result of significant declines in natural gas and fuel oil prices after the execution of hedging transactions for PEF's 2009 hedges. For illustrative purposes, the average closing NYMEX Henry Hub natural gas settlement price for the periods of January 2009 through July 2009 was approximately 52% lower than the September 30, 2008 closing prices for this same time period. Since the inception of the company's hedging activities for the period January 2002 through July 2009, PEF's natural gas and fuel oil hedging activities have been below the actual fuel market costs by approximately $268.2 million. Although PEF's hedging activity has resulted in net fuel costs savings to customers to date, the primary objective is to reduce price risk and volatility.

Q. What has been the savings generated through economy purchase and sales activity for January 2009 through July 2009?

A. During the period January 2009 through July 2009, PEF has made economic energy purchases and wholesale power sales to third parties that resulted in savings of approximately $5.3 million and $0.6 million, respectively.

Q. Does this conclude your testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 090001-EI

GPIF Reward/Penalty Amount for January through December 2008

DIRECT TESTIMONY OF ROBERT M. OLIVER

April 3, 2009

Q. Please state your name and business address.

A. My name is Robert M. Oliver. My business address is 410 South Wilmington Street, Raleigh, North Carolina, 27601.

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

A. I am employed by Progress Energy Carolinas as Manager of Portfolio Management.

Q. Describe your responsibilities as Manager of Portfolio Management.

A. As Manager of Portfolio Management, I am responsible for managing the development and application of the model, analysis and data used for the short term generation planning. As relates to this process, my duties include responsibility for the preparation of the information and material required by the Commission's GPIF True-Up and Targets mechanisms.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe the calculation of PEF's GPIF reward/penalty amount for the period of January through December 2008. This calculation was based on a comparison of the actual performance of PEF's ten GPIF generating units for this period against the approved targets set for these units prior to the actual performance period.

Q. Do you have an exhibit to your testimony in this proceeding?

A. Yes, I am sponsoring Exhibit No. ______ (RMO-1T), which consists of the schedules required by the GPIF Implementation Manual to support the development of the incentive amount. This 30-page exhibit is attached to my prepared testimony and includes as its first page an index to the contents of the exhibit.

Q. What GPIF incentive amount has been calculated for this period?

A. PEF's calculated GPIF incentive amount is a penalty of $531,150. This amount was developed in a manner consistent with the GPIF Implementation Manual. Page 2 of my exhibit shows the system GPIF points and the corresponding reward (penalty). The summary of weighted incentive points earned by each individual unit can be found on page 4 of my exhibit.

Q. How were the incentive points for equivalent availability and heat rate calculated for the individual GPIF units?

A. The calculation of incentive points was made by comparing the adjusted actual performance data for equivalent availability and heat rate to the target performance indicators for each unit. This comparison is shown on each unit's Generating Performance Incentive Points Table found on pages 9 through 18 of my exhibit.

Q. Why is it necessary to make adjustments to the actual performance data for comparison with the targets?

A. Adjustments to the actual equivalent availability and heat rate data are necessary to allow their comparison with the "target" Point Tables exactly as approved by the Commission prior to the period. These adjustments are described in the Implementation Manual and are further explained by a Staff memorandum, dated October 23, 1981, directed to the GPIF utilities. The adjustments to actual equivalent availability concern primarily the differences between target and actual planned outage hours, and are shown on page 7 of my exhibit. The heat rate adjustments concern the differences between the target and actual Net Output Factor (NOF), and are shown on page 8. The methodology for both the equivalent availability and heat rate adjustments are explained in the Staff memorandum.

Q. Have you provided the as-worked planned outage schedules for PEF's GPIF units to support your adjustments to actual equivalent availability?

A. Yes. Page 29 of my exhibit summarizes the planned outages experienced by PEF's GPIF units during the period. Page 30 presents an as-worked schedule for each individual planned outage.

Q. Does this conclude your testimony?

A. Yes.

PROGRESS ENERGY FLORIDA

DOCKET NO. 090001-EI

GPIF Targets and Ranges for January through December 2010

DIRECT TESTIMONY OF ROBERT M. OLIVER

September 14, 2009

Q. Please state your name and business address.

A. My name is Robert M. Oliver. My business address is P.O. Box 1551, Raleigh, North Carolina 27602.

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

A. I am employed by Progress Energy Carolinas Inc. as Manager of Portfolio Management for Fuels and Power Optimization.

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

A. As Manager of Portfolio Management for Fuels and Power Optimization, I oversee the management of energy portfolios for Progress Energy Florida, Inc. ("Progress Energy" or "Company"), as well as Progress Energy Carolinas, Inc. My responsibilities include oversight of planning and coordination associated with economic system operations, including unit commitment and dispatch, fuel burns, and power marketing and trading functions.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide a recap of actual reward / penalty for the period of January through December 2008 and also to present the development of the Company's GPIF targets and ranges for the period of January through December 2010. These GPIF targets and ranges have been developed from individual unit equivalent availability and average net operating heat rate targets and improvement/degradation ranges for each of the Company's GPIF generating units, in accordance with the Commission's GPIF Implementation Manual.

Q. What GPIF incentive amount was calculated for the period January through December 2008?

A. PEF's calculated GPIF incentive amount for this period was a penalty of $531,150. Please refer to my testimony filed April 3, 2009 for the details of how this incentive amount was calculated.

Q. Do you have an exhibit to your testimony in this proceeding?

A. Yes, I am sponsoring Exhibit No. ____ (RMO-1) which consists of the GPIF standard form schedules prescribed in the GPIF Implementation Manual and supporting data, including unplanned outage rates, net operating heat rates, and computer analyses and graphs for each of the individual GPIF units. This 122-page exhibit is attached to my prepared testimony and includes as its first page an index to the contents of the exhibit.

Q. Which of the Company's generating units have you included in the GPIF program for the upcoming projection period?

A. For the 2010 projection period, the GPIF program includes the same units that are in the current period, with the addition of Hines Unit 4. The following units are included in the 2010 GPIF program: Anclote Units 1 and 2, Crystal River Units 1 through 5, Hines Units 1 through 4, and Tiger Bay. Combined, these units account for 77% of the estimated total system net generation for the period. Hines 4 was included even though it has only 19 months of commercial history since it accounts for 6% of generation. The Company's BartowCC Unit 4 was not included for the upcoming projection period since there is not sufficient performance history to use in setting targets and ranges for this unit. BartowCC Unit 4 is forecasted to account for 18% of the estimated total system generation for the period.

Q. Have you determined the equivalent availability targets and improvement/degradation ranges for the Company's GPIF units?

A. Yes. This information is included in the GPIF Target and Range Summary on page 4 of my Exhibit No. ___ (RMO-1).

Q. How were the equivalent availability targets developed?

A. The equivalent availability targets were developed using the methodology established for the Company's GPIF units, as set forth in Section 4 of the GPIF Implementation Manual. This includes the formulation of graphs based on each unit's historic performance data for the four individual unplanned outage rates (i.e., forced, partial forced, maintenance and partial maintenance outage rates), which in combination constitute the unit's equivalent unplanned outage rate (EUOR). From operational data and these graphs, the individual target rates are determined through a review of three years of monthly data points during the three year period. The unit's four target rates are then used to calculate its unplanned outage hours for the projection period. When the unit's projected planned outage hours are taken into account, the hours calculated from these individual unplanned outage <u>rates</u> can then be converted into an overall equivalent unplanned outage <u>factor</u> (EUOF). Because factors are additive (unlike rates), the unplanned and planned outage factors (EUOF and POF) when added to the equivalent availability factor (EAF) will always equal 100%. For example, an EUOF of 15% and POF of 10% results in an EAF of 75%.

The supporting tables and graphs for the target and range rates are contained in pages 61-122 of my exhibit in the section entitled "Unplanned Outage Rate Tables and Graphs."

Q. Please describe the methodology utilized to develop the improvement/degradation ranges for each GPIF unit's availability targets?

A. The methodology described in the GPIF Implementation Manual was used. Ranges were first established for each of the four unplanned outage rates associated with each unit. From an analysis of the unplanned outage graphs, units with small historical variations in outage rates were assigned narrow ranges and units with large variations were assigned wider ranges. These individual ranges, expressed in term of rates, were then converted into a single unit availability range, expressed in terms of a factor, using the same procedure described above for converting the availability targets from rates to factors.

Q. Have you determined the net operating heat rate targets and ranges for the Company's GPIF units?

A. Yes. This information is included in the Target and Range Summary on page 4 of my Exhibit No. ___ (RMO-1).

Q. How were these heat rate targets and ranges developed?

A. The development of the heat rate targets and ranges for the upcoming period utilized historical data from the past three years, as described in the GPIF Implementation Manual. A "least squares" procedure was used to curve-fit the heat rate data within ranges having a 90% confidence level of including all data. The analyses and data plots used to develop the heat rate targets and ranges for each of the GPIF units are contained in pages 36-60 of my exhibit in the section entitled "Average Net Operating Heat Rate Curves."

Q. Were adjustments made to historical heat rates to account for estimated net output changes associated with scrubber and SCR installations?

A. Yes. Historical heat rates for Crystal River units 4 and 5 were restated as if the scrubbers and SCRs were in place during the historical data period.

Q. Please describe the overall impact of the adjustment on the Crystal River Units 4 and 5 heat rate targets.

A. The adjustment raised the heat rate targets, making the targets higher than if using the unadjusted historical average.

Q. How were the GPIF incentive points developed for the unit availability and heat rate ranges?

A. GPIF incentive points for availability and heat rate were developed by evenly spreading the positive and negative point values from the target to the maximum and minimum values in case of availability, and from the neutral band to the maximum and minimum values in the case of heat rate. The fuel savings (loss) dollars were evenly spread over the range in the same manner as described for incentive points. The maximum savings (loss) dollars are the same as those used in the calculation of the weighting factors.

Q. How were the GPIF weighting factors determined?

A. To determine the weighting factors for availability, a series of simulations were made using a production costing model in which each unit's maximum equivalent availability was substituted for the target value to obtain a new system fuel cost. The differences in fuel costs between these cases and the target case determine the contribution of each unit's availability to fuel savings. The heat rate contribution of each unit to fuel savings was determined by multiplying the BTU savings between the minimum and target heat rates (at constant generation) by the average cost per BTU for that unit. Weighting factors were then calculated by dividing each individual unit's fuel savings by total system fuel savings.

Q. What was the basis for determining the estimated maximum incentive amount?

A. The determination of the maximum reward or penalty was based upon monthly common equity projections obtained from a detailed financial simulation performed by the Company's Corporate Model.

Q. What is the Company's estimated maximum incentive amount for 2010?

A. The estimated maximum incentive for the Company is $17,063,378. The calculation of the estimated maximum incentive is shown on page 3 of my Exhibit No. ___ (RMO-1).

Q. Does this conclude your testimony?

A. Yes, it does.

PROGRESS ENERGY FLORIDA

DOCKET NO. 090001-EI

Fuel and Capacity Cost Recovery
January through December 2010

REBUTTAL TESTIMONY OF JOSEPH MCCALLISTER

October 12, 2009

Q. Please state your name and business address.

A. My name is Joseph McCallister. My business address is 410 South Wilmington Street, Raleigh, North Carolina 27601.

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

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

Q. What is the purpose of your testimony?

A. Progress Energy Florida (PEF) is filing additional testimony to address the testimony of Staff witness Ronald Mavrides and to clarify the findings documented in the Audit Report for 2009 hedging activity dated September 11, 2009 which addresses the audit of PEF's hedging activities for Audit Finding No. 1.

Q. Are your sponsoring any exhibits to your testimony?

A. Yes, I am sponsoring the following exhibits:

- Exhibit No. ___ (JM-1R) – 2008 / 2009 Forecasted and Actual Burn Natural Gas Data;
- Exhibit No. ___ (JM-2R) – 2009 Forecasted and Actual Burn Light Oil Data; and
- Exhibit No. ___ (JM-3R) – 2008 Forecasted and Actual Burn Heavy Oil Data.

Q. What are the clarifications you are making to the audit findings?

A. With respect to Staff's Audit Finding No. 1, PEF would clarify that the targeted hedging percentage ranges outlined in its Risk Management Plan are based on calendar year forecasted burns (i.e. January through December periods). PEF outlines that the targeted hedge percentages ranges are based on forecasted burns for a calendar year period. PEF performs periodic fuel forecast updates and monitors hedge percentages over time. Actual fuel burns therefore are not known until after the fact and thus actual hedge percentages may differ from hedge percentages based on forecasts. In its 2009 Risk Management Plan, PEF outlines the volumes that are hedged over time which are based on periodic forecasts and actual hedge percentages at any given time can vary based on changes in forecasted burns and actual burns that occur. In reviewing the findings by the Staff, PEF recognizes that Staff may have used different periods as the basis for their calculations that represented audit periods that are different than the calendar year hedge percentage targets outlined in PEF's Risk Management Plan. Outlined below is additional clarifying information for

Staff Audit Finding No. 1 related to natural gas, light oil and heavy oil.

Audit Finding No. 1 notes that for natural gas, hedge percentages for the actual amount burned in 2008 and 2009 were 83% and 87%, respectively. PEF did not exceed its targeted hedging percentage ranges for natural gas as outlined its Risk Management Plan. This is shown in Exhibit No. ___ (JM-1R). PEF's actual natural gas hedge percentages based on net burns for the calendar period of January 2008 through December 2008 were approximately 76%. For the calendar period January 2009 through December 2009, based on actual natural gas burns gas from January 2009 through August 2009, estimates for September 2009, and forecasts for October 2009 through December 2009, PEF currently expects its calendar year 2009 hedging percentage based on net burns for natural gas to be approximately 79%. Thus, PEF did not exceed its targeted hedge percentages for 2008 on a projected burn basis or an actual basis and currently does not expect to exceed its targeted hedge percentage ranges for estimated burns for 2009 as outlined in its Risk Management Plan. Actual burns are not known until after the respective periods are complete and as outlined in its Risk Management Plan, PEF executes its hedging activities based on forecasted burns and was within its targeted hedge percentage ranges for both 2008 and 2009 calendar year periods. This is shown in Exhibit No. ___ (JM-1R).

With respect to light oil, PEF's minimum targeted hedge percentage for

2009 was established at 25%. As previously noted, this is based on forecasted annual burns for a calendar period and does not match the percentage used by staff to calculate the percentage of 23% noted in Audit Finding No. 1. PEF was above its minimum targeted hedge percentage per its Risk Management Plan for forecasted burns for 2009. Based on its forecasted burns for 2009, PEF over time hedged up to approximately 30% of its forecasted 2009 burns. This is shown in Exhibit No. ___ (JM-2R). For the calendar period January 2009 through December 2009, based on actual light oil burns for January 2009 through August 2009, estimates for September 2009, and forecasts for October 2009 through December 2009, PEF currently expects its calendar year 2009 hedged percentage for light oil to be approximately 28% which is above the targeted minimum hedge percentage of 25% outlined in its Risk Management Plan. Thus, PEF does not expect to be below the minimum targeted hedging percentage for 2009. PEF executes its hedging activities based on forecasted burns and was above the minimum range for calendar year 2009 based on its forecasts and was within its Risk Management Plan targeted hedge percentages for 2009. This is shown in Exhibit No. ___ (JM-2R).

PEF did not exceed its targeted hedging percentage ranges for heavy oil as outlined in its Risk Management Plan. However, PEF actual hedged percentage for the calendar year 2008 was higher than its target range. Based on PEF's actual heavy oil burns for calendar year 2008, the hedge percentage was approximately 91%. As previously noted, this is based on calendar year period forecasted annual burns and PEF recognizes it does not match the time period used by staff to calculate the percentage of 96% noted in Audit Finding No. 1. The percentage of hedged volume will increase from forecast if actual burns come in lower. PEF performs periodic fuel forecasts and based on these forecasts, PEF was within its Risk Management Plan targeted annual hedging ranges. This is shown in Exhibit No. ___ (JM-3R). Based on actual burn data for 2008, PEF experienced overall lower heavy oil burns versus the forecasts for 2008. This was due primarily to PEF's being able to fuel switch a portion of its higher priced heavy oil with more economic natural gas based on daily market prices and conditions which resulted in lower heavy oil burns and lower fuel costs. The forecasted burns versus actual burns for natural gas and heavy oil are also shown on Exhibit No. ___ (JM-3R). Based on actual daily economic fuel switching opportunities during the course of 2008, actual burns for heavy oil came in lower than forecast and thus PEF actual hedging percentage came in higher than its forecasts.

Q. Does this conclude your testimony?

A. Yes.

CHAIRMAN CARTER: Mr. McWhirter.

MR. McWHIRTER: I'm happy. Are you waiting for an opening statement?

CHAIRMAN CARTER: No, no. Not yet. See, I know you've got that big moment. Let's hold, let's hold the moment. Witnesses, we're dealing with witnesses that have been stipulated to.

MR. McWHIRTER: I agree to the stipulated witnesses, Mr. Chairman.

CHAIRMAN CARTER: Thank you.

Mr. Brew.

MR. BREW: I don't have a witness, Your Honor, Mr. Chairman.

CHAIRMAN CARTER: Mr. Wright.

MR. WRIGHT: No witnesses.

CHAIRMAN CARTER: Mr. Beck.

MR. BECK: Nor do we.

CHAIRMAN CARTER: Okay. Ms. Bradley, any witnesses?

MS. BRADLEY: No.

CHAIRMAN CARTER: Thank you.

Captain, any witnesses?

CAPTAIN JUNGELS: No, sir.

CHAIRMAN CARTER: Thank you. Thank you.

Ms. Bennett.

MS. BENNETT: Staff has two witnesses.

CHAIRMAN CARTER: Okay.

MS. BENNETT: We'd move the testimony and exhibits of Tomer Kopelovich and Ronald Mavrides into the record as though read.

CHAIRMAN CARTER: That's easy for you to say.

The prefiled testimony of the witnesses will be inserted into the record as though read.

MS. BENNETT: And as a clean-up matter, I only got --

CHAIRMAN CARTER: Do we have exhibits for those witnesses?

MS. BENNETT: Yes. They're included in staff's composite exhibits 2 through 61.

CHAIRMAN CARTER: And you want to move them in at this time?

MS. BENNETT: We moved them in with staff's exhibits earlier. But, yes, I'll move them in again.

CHAIRMAN CARTER: Yes. Let's do it like that. That's the way we're doing it, okay?

MS. BENNETT: Move in Number 5, Exhibit Number 5.

CHAIRMAN CARTER: Okay. And --

MS. BENNETT: And I'm having a hard time reading this one.

CHAIRMAN CARTER: Never let, never let your writing get cold on you.

MS. BENNETT: And I think I'm being told Number 40. Yes. And we'd move Number 40 in.

CHAIRMAN CARTER: Okay. Are there any objections? Without objection, show it done.

(Exhibits 5 and 40 previously admitted into the record in Volume 1.)

DIRECT TESTIMONY OF TOMER KOPELOVICH

Q. Please state your name and business address.

A. My name is Tomer Kopelovich and my business address is 4950 West Kennedy Blvd., Suite 310, Tampa, Florida 33609.

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

A. I am employed by the Florida Public Service Commission as a Regulatory Analyst II in the Division of Regulatory Compliance.

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission since October 2002.

Q. Briefly review your educational and professional background.

A. I have a Bachelor of Business Administration Degree with a major in finance and fifth year of accounting from the University of South Florida. I am a Certified Public Accountant licensed in the State of Florida. I was hired as a Professional Accountant by the Florida Public Service Commission in October 2002. I am currently a Regulatory Analyst II.

Q. Please describe your current responsibilities.

A. I plan and conduct utility audits of manual and automated accounting systems for historical and forecasted data.

Q. Have you previously presented testimony before this Commission?

A. No.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor the staff audit report of Tampa Electric Company (TECO, company, or utility) which addresses the utility's August 1, 2008, through July 31, 2009, hedging activities. The audit report is filed with my testimony and is identified as Exhibit TK-1.

Q. Was this audit prepared by you or under your direction?

A. Yes, it was prepared by me.

Q. Please describe the work performed in this audit.

A. We reviewed and verified the information presented in the utility's Hedging Information Report that was filed on August 15, 2009. We reviewed a listing of all futures, options, and swap contracts executed by TECO for the period of August 1, 2008, through July 31, 2009. Also, we reviewed the volumes of each fuel the utility actually hedged using fixed price contract or instrument. In addition, we requested the types of hedging instruments the utility used and the average period for all hedges, options premiums, futures gains and losses and swap settlements. We reviewed the listing and a sample of contracts. We traced selected savings and costs on hedges to journal entries and the general ledger. We checked the swap transactions against the market future price as of the date the utility entered the swap and found that the prices were the same.

We reviewed the TECO hedging plans for 2008 and 2009. We compared actual percentage hedged on a monthly basis to allowable minimum and maximum limits prescribed by the Risk Authorization Committee.

We reviewed the Risk Management Plan and requested the company to answer a series of questions regarding the front, middle, and back office. We determined that there are separation of duties between the front office, middle office, and back office.

Q. Please review the audit finding in this audit report, TK-1, which addresses the hedging activities of TECO from August 1, 2008, through July 31, 2009.

A. One objective was to verify that quantities of gas and residual oil hedged are within limits of the percentage range specified in TECO's Risk Management Plan. We determined that TECO hedged above the percentage limit in August 2008 by twelve percent and in October 2008 by sixteen percent. The reason given for the deviation was that higher than projected generation from coal lowered actual gas consumption. Also, we determined that TECO hedged below the percentage limit in March 2009 by two percent because a natural gas unit outage was delayed to April. In April, TECO hedged above the percentage limit by eleven percent because the natural gas unit outage reduced gas burn.

Q. Does this conclude your testimony?

A. Yes.

DIRECT TESTIMONY OF RONALD A. MAVRIDES

Q. Please state your name and business address.

A. My name is Ronald A. Mavrides and my business address is 4950 West Kennedy Blvd., Suite 310, Tampa, Florida 33609.

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

A. I am employed by the Florida Public Service Commission as a Professional Accountant in the Division of Regulatory Compliance.

Q. How long have you been employed by the Commission?

A. I have been employed by the Florida Public Service Commission since October 2007.

Q. Briefly review your educational and professional background.

A. In 1990, I received a Bachelor of Science degree from the University of Central Florida with a major in accounting. I am also a Certified Government Auditing Professional and a Certified Management Accountant.

Q. Please describe your current responsibilities.

A. I perform conservation, environmental, hedging, and staff-assisted rate case audits. Also, I perform various other financial audits of electric, gas, and water and wastewater utilities.

Q. Have you previously presented testimony before this Commission?

A. No.

Q. What is the purpose of your testimony today?

A. The purpose of my testimony is to sponsor the staff audit report of Progress Energy Florida, Inc. (PEF, company, or utility) which addresses the utility's August 1, 2008, through July 31, 2009, hedging activities. The audit report is filed with my testimony and is identified as Exhibit RAM-1.

Q. Was this audit prepared by you or under your direction?

A. Yes, it was prepared by me.

Q. Please describe the work performed in this audit.

A. We requested a listing of each futures, options, and swap contract executed by PEF for the 12-month period covered by the Hedging Information Report. We requested the volumes of each fuel the utility actually hedged using fixed price contract or instrument. In addition, we requested the types of hedging instruments the utility used and the average period of each hedge, options premiums, futures gains and losses and swap settlements. We tested 24 hedging transactions, choosing an array of transaction types for each hedged fuel type. We traced the transactions to the general ledger.

We reviewed the existing tolling arrangements, and tested all tolling transactions for one month by tracing the invoices to the general ledger. A tolling arrangement involves providing natural gas to generators under purchased power agreements, and receiving back the generated power for a fee.

We reviewed PEF's Hedging Information Report as filed on August 15, 2009. We examined the report for reasonableness and used it as a basis for our testing and prudency reviews. We verified that the accounting treatment from futures, options, and swap contracts between PEF and its counterparties are consistent with Order No. PSC-02-1484-

FOF-EI, in Docket No. 011605-EI, issued October 30, 2002, and as clarified by Order No. PSC-08-0316-PAA-EI. We recalculated and traced gains (losses) to the general ledger. We determined they flowed through the fuel and purchased power cost recovery clause as either a charge or a credit as required in Order No. PSC-02-1484-FOF-EI. When there was existing inventory, the inventory account was adjusted, and when there was no existing inventory, the gains (losses) flowed through the fuel expense account.

We verified that the gains (losses) associated with each financial hedging instrument that PEF implemented are consistent with Order No. PSC-02-1484-FOF-EI. Using the trade tickets, we recalculated the gains (losses) by multiplying the volume by the difference between the fixed price and the settlement price, and compared them to the recorded gains (losses) per books.

We compared the percentage limits of purchased power hedged in the Risk Management Plan with the actual volumes of hedged burns.

We reviewed the utility's written procedures for separation of duties related to hedging activities: front office, middle office, and back office. We reviewed the internal and external auditors' workpapers addressing the separation of duties.

Q. Please review the audit findings in this audit report, RAM-1, which addresses the hedging activities of PEF from August 1, 2008, through July 31,2009.

A. There are two audit findings in the audit report.

Audit Finding No. 1

We compared the percentage of natural gas and oil burned for the period August 1, 2008, to July 31, 2009, to the percentage range provided for in PEF's Risk Management Plan. Per the Risk Management Plan, the natural gas and No. 6 oil burn percentage ranges are 50%-80%. The hedged percentage exceeded the limits in the Plan during 2008 and 2009 for natural gas and 2008 for No. 6 oil. This was due to less natural gas and No. 6 oil usage than was originally forecast. As the generation requirements were reduced from prior forecasts, the percentage of hedged volume increased when compared to actual burns.

Per PEF's Risk Management Plan, the percentage range for No. 2 oil is at least 25%. For 2009, the actual amount burned was only 23%. As the percentage range for No. 2 oil calls for a minimum hedged volume, a slight increase in burn activity for this commodity over prior estimates leads to the decrease in hedged volume as a percentage of total burns during this period.

Audit Finding No. 2

We reviewed the utility's written procedures for separating duties relating to hedging activities: front office, middle office, and back office. We reviewed the internal auditor and external auditor workpapers. The external auditors mentioned no deficiencies in their report. However, the internal auditors reported one "Ineffective Exception" to the contracting procedures. This involved a control activity that required contract negotiations, once completed and prior to final execution, to be internally routed for appropriate approval or comments with the Contract Review Form. Two out of five contracts tested did not have appropriate approval with the Contract Review Form.

Q. Does this conclude your testimony?

A. Yes.

CHAIRMAN CARTER: Okay. Now we've dealt with that. Any other preliminary matters from any of the parties before I go back to staff to ask them to -- any other preliminary matters?

Now to the attorneys whose witnesses have been stipulated to and exhibits have been entered into the record and you have no further matter before the, the Commission, you may be excused. Thank you so kindly.

I'm going to go to Ms. Bennett in a minute.

MS. BENNETT: I was just confirming that FPL had moved all of its exhibits in. I had heard through 74, and I thought they had more than just through 74.

CHAIRMAN CARTER: Okay. Commissioners, let's do this. Let's do this. We're going to let them go through the paperwork to make sure everything is on the up and up, we'll take a quick break, give Linda a break, and we'll come back and get ready for opening statements on the hour.

(Recess taken.)

We are back on the record. And when we last left, we had given an opportunity for the parties to get together and talk over certain matters, as well as revisit the issue of 10 that had been spun out. Ms. Bennett, you're recognized.

MS. BENNETT: Would you like to start with

Issue 10 and the vote on that, or would you like for me to start with the clarifications on the exhibit list?

CHAIRMAN CARTER: Let's start with Issue 10.

MS. BENNETT: At the break we've had, staff had an opportunity to do some more number crunching and I have some more accurate numbers for the residential customer.

For Issue 10 we calculate that it would be a little less than $44 impact for a residential customer using 1,000 kilowatt hours. And with that, I will turn it over to you.

CHAIRMAN CARTER: And that's $44 a year; is that right? Is that what you're saying?

MR. BUTLER: That's right.

MS. BENNETT: That's for the entire year.

CHAIRMAN CARTER: Okay.

MS. BENNETT: And I think you also asked OPC and the Intervenors to discuss, as well as FPL.

CHAIRMAN CARTER: That's correct. Mr. Beck.

MR. BECK: Thank you, Mr. Chairman. As it stands now, with no changes made the total bill for 1,000 kilowatt hours for a residential customer of FP&L will go down to a bit over $91 on January 1st, and then there will be a rate change on or about March 1st as a result of the rate case -- we hope down, but I know

Florida Power & Light is hoping up.

(Laughter.)

We would not be in favor of a, of a credit for the overrecovery over a three-month period because that would lead to yet another rate change on or about April 1st. And it's important, we believe, for customers to know what their rate is so that when they set the thermostat on their house or use electricity, they have a good feeling for how much it's going to cost them. So with three rate changes, we don't -- we think that's too much instability. So we would be in favor either of a one-time refund of the amount, that would mean the total bill would go, would be more in the line of about $94, $95 beginning January 1st, with a change March 1st, or do it over 12 months, one of those two. In other words, not a three-month recovery but a one-time or 12 months.

CHAIRMAN CARTER: Okay. Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman, Commissioners. I'll be brief. We would support a one-time refund for bills in January and here's why. This is unusual. I think you could find some precedent for short, short-term refunds and short-term recoveries. We are in extreme economic times. I believe that the unemployment rate in Florida is right around 11 percent today. If you were to put this refund in people's hands with a, as a one-time refund, as a bill credit in January, you would be putting somewhere, my rough calculations are somewhere between $250 million and $350 million in, probably $300 million, in the hands of Floridians that they could spend now. That would be a boost to the economy. It would be a good thing. And I come to that by rough calculations. Half, half of FPL's usage is residential, so half of $364 million is $182 million. A lot of their other customers are commercial. A lot of that money will be spent in Florida. Some certainly will go out of state to buy goods and services that are brought back into the state. But I think somewhere in the range of 250 to $300 million in the hands of Floridians in these extreme economic times is, is the appropriate thing to do. Thank you.

CHAIRMAN CARTER: Okay. Commissioners, I want to hear from the parties before I come back to the bench.

Ms. Bradley, do you want to speak to this matter? You're recognized.

MS. BRADLEY: Thank you. I would concur with what the Office of Public Counsel said. But I think Mr. Wright makes a good point, and I'm sure --

CHAIRMAN CARTER: Pull your mike a little closer to you.

MS. BRADLEY: I'm sorry. I'm sure after dealing with everything our citizens have had to deal with this year, with the economy being what it is and trying to provide for families for Christmas, a lump sum would probably help a lot more than having it spread out in small quantities over a period of time. I think they could probably do a lot more with that, so.

CHAIRMAN CARTER: So you're saying a one-time, maybe in January?

MS. BRADLEY: Yes, sir.

CHAIRMAN CARTER: And -- okay.

MS. BRADLEY: We think that it would be most helpful.

CHAIRMAN CARTER: Okay. Okay.

Mr. McWhirter.

MR. McWHIRTER: Mr. Chairman, FIPUG would support a Public Service Commission/FP&L one-time stimulus package to meet the Christmas bills.

CHAIRMAN CARTER: Thank you.

Mr. Butler, and then I'll come to the bench. Mr. Butler.

MR. BUTLER: Thank you, Mr. Chairman. First of all, let me put this a little bit in perspective. We normally -- the Commission uses midcourse corrections on several occasions and uses as the normal threshold for that 10 percent over or underrecovery. The $364 million, $365 million that's reflected in Issue 10 is about 6.5 percent. So it's well under the normal 10 percent threshold for doing an either overrecovery or underrecovery midcourse correction.

We don't think it would be appropriate to have what's in essence a one-month midcourse correction flowback of that money. I would note that I'm sure virtually none of the consumer parties who have just spoken would be in favor of doing the same thing if the tables were turned and it was a one-month, you know, recovery of some substantial underrecovery amount that could very well also be the circumstance in years in the future. And we think that symmetry in this process is extremely important.

There is no issue identified in the Prehearing Order, there is no testimony from any witness, there is nothing to suggest that there was going to be any change from the Commission's normal policy of returning true-up amounts over the 12-month period, the upcoming 12-month peer. So we think that the Commission has, would have a significant legal obstacle to an incipient policy change of this nature on the basis of, you know, essentially no testimony, no positions taken by parties until today in support of it.

The policy that the Commission has had in place has worked very well. In a symmetrical fashion it smooths out the impact on customers both when you've got a refund of overrecoveries and when you're looking to collect underrecoveries. There is a specific exception when things get seriously out of whack with the midcourse corrections, but we're not at a dollar amount that would trigger or really come even close to triggering the, you know, Commission's policy about making midcourse corrections.

And so for all of those reasons, we recommend that you stay with what is reflected in all of the issues and the positions in the prehearing statement, which is that the refund of this money occur evenly over the 12-month period January through December 2010. Thank you.

CHAIRMAN CARTER: Thank you. Commissioner Skop, you're recognized.

COMMISSIONER SKOP: Thank you, Mr. Chairman. Let's see where I'd like to start. I guess first to staff, the, for the residential customers, the projected number for a one-time refund I think would be $44 per customer, per residential customer.

And just let me stop here because my court reporter is having trouble hearing me. And I don't have a lisp. I got braces. I actually got orange and blue across the top. Go Gators.

(Laughter.)

CHAIRMAN CARTER: He had -- I knew he was going to work that in somehow or another.

COMMISSIONER SKOP: So if I'm having trouble speaking, it's because the wires are cutting into my, my gums, so I apologize for that.

But getting back on point, staff mentioned $44 for a one-time credit per residential customer per 1,000 kilowatt hours. But I believe that the average consumption is higher than that, so it would be more like $50 per residential customer. Would that be accurate for the average bill or a little bit more?

MS. BENNETT: I'm being told we believe so. We have not crunched those numbers specifically. And of course the larger customers, the larger the customer, the bigger the refund. So some of the industrial and commercials would see much bigger refunds.

COMMISSIONER SKOP: Okay. And then to Mr. Beck, you mentioned that Public Counsel was not in favor of a three-month or a two-month type refund before the, any proposed impact from the rate case would take effect. They would just rather do it as a one-time credit in January; is that correct?

MR. BECK: Yes.

COMMISSIONER SKOP: All right. And just one further clarification. Mr. Butler, I think that you've raised some arguments as to Commission policy that, deeming that it would be incipient policy change and not appropriate for the Commission to take such action in light of the fact that the rule for under/overrecoveries is a 10 percent threshold. But would you -- you would agree, would you not, that previously the Commission in '01 did a three-month refund of overrecoveries during the last three months of the year?

MR. BUTLER: I have done a little bit of checking during the break, and here's what I understand happened, Commissioner Skop.

There was a significant underrecovery midcourse correction in April of 2001. The fuel prices turned around significantly during the summer and into the fall of 2001, such that the company was looking at a significant overrecovery refund that would occur in the normal course in calendar year 2002. Instead, what the company did was to refund the overrecovery over a 15-month period instead of a 12-month period. It started in October of 2001 and essentially levelized the bills for the period from October 2001 through the end of December 2002. That's not what I'm understanding is being proposed here, so I don't think that that particular incident or event was, would be precedent for the approaches that are being considered here.

COMMISSIONER SKOP: Okay. All right. And I'm reading from Page 4 of the order, and the best I can tell, and, again, I'd rather not get into the minutia, but, quote, FPL seeks our approval to reduce its fuel charges to ratepayers by $138.1 million during the last three months of 2001. You would agree, would you not, that the amount in question here is significantly more than that amount that was reduced in 2001?

MR. BUTLER: Yes, I would agree. And, you know, what I think that was reflecting is that that was the three-month portion of, you know, what was going to be refunded over this 15-month period, as I understand it, back in 2001.

COMMISSIONER SKOP: And I guess, you know, I respect your argument and I respect you as an attorney. Usually when I have questions, you have answers, and I appreciate that because you never give me the runaround.

I guess what I'm struggling with as a Commissioner, and maybe my colleagues are too, is the benefit of a near-term refund versus rate stability that

Public Counsel and others have, have alluded to. And at least to me, you know, from FPL's perspective I can understand how it might be opposed to refunding overcollections to customers sooner rather than later, but I can't help to think that, you know, that reluctance to do so may be predicated in part by the argument that FPL is making in another docketed matter. Because, again, this, this amount bootstraps that whole argument. So but for part of this overrecovery, you know, some of the arguments that have been made in another docket could not be made with the same marketing pitch, if you will.

And so I'm looking at trying to do what's right for the customers, but also trying to avoid rate instability where rates go up or down only to go right back up. But, again, the amount in play here is substantial. It's about $50, subject to check, per residential customer, and that's a lot of money. And if you spread that over, you know, the course of the next 12 months, again, part of that lends itself into the arguments you're making for another docketed matter, which probably could not be made if this refund were made.

So I'd like to get your, I guess, impression of that and what you might like to add to that discussion.

MR. BUTLER: Thank you, Commissioner. Just mathematically, certainly if the money is refunded in December instead of during 2010, it's going to have the effect that the fuel component is going to have to be higher in 2010 than it would be if you spread the refund over that period.

I, I can tell you that that's not why we are proposing to spread it over the 12-month period in 2010. I mean, that's just the way that the process has routinely worked. I think that it is a, not a desirable precedent to go down the path of making fairly substantial refunds in one-month periods. I mean, it's possible that if we were in a situation like 2001 and we were looking at this as something to be done over a 15-month period or something, you're looking to pick up several months, that it, it might be something that could be beneficial. But given when this is coming up, you're really looking at, you know, a very large lump sum adjustment to the bills.

And, again, I go back to a point I made early in my comments, which is I'm certain that the consumer parties and the Commission would be very uncomfortable doing the same thing symmetrically if the concern was over a large underrecovery that had accumulated up to this point.

So my comments personally are made exclusively from the perspective of maintaining the consistency with existing Commission policy.

COMMISSIONER SKOP: And I respect that. With respect to the underrecovery though, we did have a previous midcourse correction where, I believe it was 2008, if my memory serves me correctly, where FPL had to come in due to increased fuel costs and seek additional recoveries at that time.

MR. BUTLER: Absolutely. That's true. And then what we did just, you know, to follow that through is -- well, two things. What we had suggested was that we would end up collecting the full amount of that underrecovery over the remaining months, which were about five, if I remember correctly. I think it would have started in the beginning of August and then continued on through the end of the year. And what the Commission decided to do at that time, because that was a lot to do in a fairly short period of months, was instead to cut it in half. And we recovered half of the midcourse correction amount in 2008 and there was a spread into the subsequent year of the remainder, kind of making the point I'm getting at, which is that when you have these late year corrections and the shorter the number of months that are left, the more of a concern it is. When you do that at all once, it results in some very large swings.

And, of course, in this instance it's a swing in the form of a refund, but it can equally well be a swing in the other direction. My personal feeling is that it's better to spread these over longer periods rather than shorter periods for just that reason.

COMMISSIONER SKOP: Let me, to that point let me play devil's advocate for a second.

If you knew the projected magnitude of the overrecovery would be, you know, approximately $365 million, and obviously that was known or should have been known a couple of months ago, was there something that prevented FPL from coming forth on its own initiative trying to give money back to its ratepayers as opposed to refunding it next year?

MR. BUTLER: Nothing preventing it. I mean, as you know, the rule on the midcourse correction policy requires notification if you exceed 10 percent. It doesn't forbid coming in for a midcourse correction for smaller percentage changes than that.

It has generally been FPL's policy not to do that. I can think of one instance way back when I, when I first started working with the fuel clause in about

2001 or 2002 where I think we may have petitioned for a change that we hadn't actually hit the 10 percent threshold but things were headed in that direction.

But generally what drives us up or down in our coming to the Commission for midcourse corrections is hitting the 10 percent threshold. So we could have. You're right. Nothing prevents us under the Commission's policy, but that's not usually the way that we proceed.

COMMISSIONER SKOP: And thank you, Mr. Butler.

And just to my colleagues, again, the prevailing economic conditions I think are what predicate the Commission trying to take a look at doing something and making difficult choices that in other more prosperous times it wouldn't probably make. But, again, I think that those, you know, certainly opportunities need to be looked at with a fine-tooth comb and, you know, a policy choice made.

You know, I'm for consistent policy. This fuel docket has moved rather smoothly with the exception of this one particular issue. But, again, I do think it's something that should be considered, you know, not necessarily implemented but at least considered based on some of the comments made by the Intervenors, but also recognizing that it does pose, you know, some hardship for the company in the near-term making a one-time refund. But, again, those are, those are the policy choices I think that the economic conditions demand that the Commission consider. So thank you.

CHAIRMAN CARTER: Commissioner Argenziano.

COMMISSIONER ARGENZIANO: Thank you. Can I ask staff this, and I think I know the answers but I just want to hear it, is the fuel recovery clause a statutory mandate?

MS. BENNETT: No, ma'am, it's not.

COMMISSIONER ARGENZIANO: Do we have rules?

MS. BENNETT: No.

COMMISSIONER ARGENZIANO: Okay. You made my point. My point is we don't even have rules and we're talking about precedent. And I understand precedent and what it means to the companies. But I also don't understand, if you have no statute and you have no rules, how it doesn't change, how it can't change.

Commissions from the past are different than the Commissions today. And as I'm saying that, my seat is going down for some reason. How about that? I felt like I went to kindergarten for a minute. And I have, I have difficulty understanding that times change, although I understand what OPC is saying. If people are going to get back their money, I think if the consumers are going to get back their money one way or the other, it's fine as long as they get their money back. If I'm a consumer at home, not even a big, big consumer, a large consumer, I'm not even going to notice the small -- you know, if it's a $50 a year type, I'm not even going to notice that at the end of the year if you did it over 12, 12 months. And I don't think they're ever going to say, gee, that felt nice, you know, which would be probably very good at this time for the consumer to feel that way. So I'm having a hard time not, without rules and without statute trying to figure out why we shouldn't give it all at once.

I hear OPC saying that three months is going to be instability. And but then that goes back to, well, then maybe it's better then to do the 12-month because they wouldn't feel the difference. But I don't -- but on the other hand, as I said before, I don't think they're going to feel the benefit of saying, oh, gee, okay, this is good. We got something back. And I'm just not sure. And maybe to the company, I'm not sure -- I understand you're comparing, you know, how would you like it turned the other way when we, when the consumer owes the company money? But I think the hit is much harder, and maybe that's where I need the company to help me understand how it would hurt now or where it hurts to give it all at one time, give it back all at one time.

MR. BUTLER: Commissioner, first of all, a lot of what I'm saying has to do with the policy that the Commission has used in applying the fuel clause. And let me turn just a moment to your comments about the absence of statutory-specific direction and the absence of rules.

As you probably know, the Commission has an exemption under the APA from rulemaking for the adjustment clause proceedings. The Florida Administrative Procedures Law does contemplate restrictions or, you know, limitations on agencies when they're acting in the area of nonrule policy, when they're doing things that, setting policy, acting particular ways and doing so outside the framework of rules. And that's what I was alluding to when I referred at the beginning of the comments to the incipient policymaking.

When you take that approach, as I understand the case law, the Commission or any agency is supposed to have support in the record for taking a different direction than it has taken before, and it's that constraint on nonrule policy that I was referring to.

But to your point of the, sort of what would be the harm of the one-time refund, I, I really just keep coming back to the, my understanding of the Commission's intent with the fuel clause. You know, there was a time not that many years ago, I guess that shows how old I am that I'm talking about the late '70s is not that long ago, but the Commission actually changed fuel factors monthly. There has been a change in the procedure that went to having the fuel factors changed every six months, and then somewhat more recently the change to the current mechanism where the fuel factors are set for a 12-month period. And one of the things that was seen as a real advantage of moving in the direction of setting the fuel factors for a longer period of time was to provide more rate stability for customers, that for some reasonable period of time they knew kind of month in, month out what the rate was going to be that applied to their bills.

My concern conceptually about what is being proposed here of the one-month flowback is I think it really goes in the opposite direction, probably about as far as you can go in the opposite direction from this idea of maintaining stability over a period of time. And, you know, everybody likes to have money refunded, but I do continue to come back to the point that I don't think people would like to see unpleasant surprises in the other direction. And I think that the Commission's current policy of spreading these refunds over a 12-month period, unless they're really out of whack, if they exceed the 10 percent threshold where you want to act more quickly, that that's just the right thing to do to maintain the stability of the system.

COMMISSIONER ARGENZIANO: Well, then -- Mr. Chair. And I certainly understand. And getting back to the APA, as you may well be aware, JAPC is looking at this issue right now as to what rules do you have regarding the fuel recovery clause. And coming from the Legislature and sitting on JAPC for many, many years, I understand. And I understand what you're saying as far as the, you know, the stability for everybody, and I think that's what OPC is saying also. If you're going to give this refund back either -- and I think it's because of the economic times that you're looking at a, maybe a diversion from past policy or procedure of the, of the Public Service Commission. And I think that's what I heard Commissioner Skop say also, the economic -- I think that's what you were referring to.

But, and I guess what I'm trying to figure out really is -- and the first thing I said was I really think that the consumer, when they're owed money, as long as they get it back, to me it's okay, I think. But then when I look at it a little differently, over a 12-month period, I mean, it would be okay. But when I look at it a little bit differently as not the three months, I think the three months probably is not a good thing to do because that really -- you're not sure after just a short period of time what your bill is going to be.

But I still can't feel -- I guess I can't articulate it and that's what's bugging me is that I don't know -- is it the large amount of money that impacts the company? I mean, it is a refund due to the consumer. Is it easier for you, not just talking about precedent, is it easier for the company for financial purposes, for investing, whatever it is, and that's what I'm trying to get to, the meat of the coconut, is it harder for the company to do it all at once financially?

MR. BUTLER: It is somewhat harder to do it all at once financially. You end up having matters of kind of coming up with the cash on short, short notice to make a very substantial refund. There are billing considerations. It's not an enormous issue, but it's considerable that, you know, doing a one-month refund on short notice is a, an additional step in configuring the billing systems to do that which they are not normally set up to do. And those are both important considerations that I think the Commission should take into account.

I do continue to say though that the sort of staying consistent with precedent, maintaining symmetry, using the fuel clause as a way to help smooth rather than create greater fluctuations in bills is important.

And let me also just reiterate something I said at the beginning of my comments. There is no testimony on this issue, there is no, really was no issue identified for addressing this point. And while I am, as you know, quite happy to talk on subjects at great length, I'm not here to testify obviously. Neither is Mr. Beck, neither are any of the attorneys here. And I do have a substantial concern under the, my understanding of the Administrative Procedures Act of making changes in, a pretty significant change in regulatory policy here with essentially nothing other than, you know, lawyers' colloquy with the bench as the basis for it.

COMMISSIONER KLEMENT: Mr. Chair.

CHAIRMAN CARTER: Hang on a sec. Commissioner Klement, then Commissioner Skop.

COMMISSIONER KLEMENT: Thank you, Mr. Chairman.

I am trying to think of consumer psychology and how they will look at getting this nice refund. It's a direct refund, right, as opposed to a reduction of their bill?

COMMISSIONER SKOP: Credit.

COMMISSIONER ARGENZIANO: Credit.

CHAIRMAN CARTER: It would be a credit to their bill.

COMMISSIONER KLEMENT: And so they'll remember that right now. But then in the near future perhaps or sometime next year if they're hit with a higher rate for whatever reason, they're going to, they're going to say, What are they doing to us? They're, they keep changing their rates, and look at how much difference it was considering the one-time, proposed one-time refund. Just the short time I've had this appointment, the remark, the comments I get from people on the street, friends, whatever, come up to me, I don't think they really understand a lot of their bill, and this might cause more confusion.

And I certainly appreciate the economic incentive that this represents too. I'm just, I'm not even decided yet myself, but I want to raise that as a point to consider, for the Commission to consider. Thank you.

CHAIRMAN CARTER: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chairman.

To Mr. Butler's point, he noted in response to Commissioner Argenziano about the hardship the company would face in terms of cash. Well, this merely would be a one-time credit to customers' bills. I mean, cash flow for operations certainly, you know, that has timing impacts, and I don't see that as being as big of a challenge as, as it was presented to be just given the fact that it was a credit.

The other issue I would raise in terms of the Commission precedent and the ability to depart or do what's reasonable in such difficult economic times, notwithstanding the requirements of the APA, is if you look at the way Issue 10 is framed, it states, "What are the appropriate total fuel adjustment true-up amounts to be collected/refunded from January 2010 to December 2010?" It states nothing as to how that would be implemented, whether it be a shorter period of time being a month or through that entire span.

So, again, the issue does not speak on the Commission's discretion to order a refund over a shorter period of time should the Commission I think deem it appropriate to do so. And I have some serious reservations to thinking that the Commission would be overturned and the appellate courts were trying to give consumers a refund.

COMMISSIONER ARGENZIANO: Mr. Chair.

CHAIRMAN CARTER: Commissioner Argenziano.

COMMISSIONER ARGENZIANO: Maybe a question to my colleagues, Commissioner Skop, because I've sat here on a number of occasions and heard about consistency, and, and many times have said, well, you know, coming from a different place that sometimes consistency is a good thing. And regulatory certainty, of course, is important for the, for the companies. But -- and other times I'm not so sure that just because another Commission did something a certain way meant that I'm or a new Commissioner is held to that if they feel differently with certain -- and a -- I guess with this issue what it comes down to, Commissioner Skop, I've heard you on a number of occasions talk about consistency. Is it, and this is what I tried to ask the company, if it's not so much hardship for the company and it's more about consistency, then maybe I need more information on what that consistency does when you change it and how much the economic times right now, the uncertain economic times that we're seeing now has to do with changing that consistency.

COMMISSIONER SKOP: I'll certainly take a stab at it. Like I say, in more prosperous economic times, you know, certainly this is an overrecovery of a pretty large magnitude. It's again two and a half times greater than I think the one in 2001 that was addressed. Different times, different circumstances.

I think that what it boils down to is, you know, having a near-term refund for the consumers versus having rate stability achieved in part by offsetting the impact of any proposed rate increase. Again, there's money there that is obviously overrecovery. Historically those amounts, you know, have been credited over a 12-month period. But, again, it's, it's the magnitude of the amount in question, the prevailing economic conditions and a judgment policy call as to how much do you value putting money or at least crediting the customers' bills so they have money that they're not paying in the near-term into consumers' pockets, which should have some, you know, economic impact on the economy as, as that free cash flow works it way through the, Florida's economy. But then looking at what happens potentially in March, you know, should the, any portion of the rate increase again be adopted and implemented into rates.

So, again, I'm trying to keep the issues separate and distinct. But I will note that, you know, the majority of the argument advanced by the company in terms of what rates will do if, you know, the proposed rate increase were approved by the Commission stems in part on bootstrapping this overrecovery amount to offset the impact of that proposed rate increase.

So, again, it's, it's an argument of, of -- I guess I'm torn. Again, it's an argument that certainly the company is using as a benefit to show how its rates might look next year for its consumers. But, again, that's predicated on the fact of there being a big cushion of overrecovery for fuel that could be credited now to the consumers or spread over 12 months, which, you know, plays into the argument, so.

MR. BUTLER: Mr. Chairman.

CHAIRMAN CARTER: Hang on a second. Hang on a second. I'm going to go to --

COMMISSIONER ARGENZIANO: Just to staff.

CHAIRMAN CARTER: You wanted to ask staff?

COMMISSIONER ARGENZIANO: Yeah.

CHAIRMAN CARTER: Commissioner Argenziano.

COMMISSIONER ARGENZIANO: Just can you tell me what -- if we're talking about an average of $44 to $50 a year for, as a refund, what does that come out to per month? I mean, there's really no noticeable difference on a monthly bill, is there? And I guess my struggle is figuring out what difference does it make as long as the people get back their money, but also understanding what Commissioner Skop is saying, people are out there expecting a difference. They've been told there's going to be a difference. And I think if you spread it out over 12 months, they're never going to see the difference. They're never going to realize. They're going to say, okay, we got a couple of pennies a month and they're never going to get that, ahh, we got our money back. I don't know. I guess maybe staff could -- have you done any, any numbers?

MS. BENNETT: Just a minute.

CHAIRMAN CARTER: Well, Commissioner, while staff is doing that, let me recognize Mr. Wright for a comment, and I'll come back.

Mr. Wright.

MR. WRIGHT: Thank you very much, Mr. Chairman. I'll be very brief.

Just a couple of quick points. First, I do want to make it clear we agree with Public Counsel that it should not be done over three months. We don't want this.

On that point, the fuel charges would be stable for the year, assuming no further midcourse corrections, the fuel charges would be stable for the year if you give a one-time bill credit as a refund in January or if you set the rate for the entire year.

Second, I don't think anybody said this quite this bluntly, but this $364.8 million that we're talking about is customers' money that we have paid and that FPL has in its possession, as it were, in some cash account somewhere.

Finally, we believe -- I consulted briefly with Mr. Beck on this, I believe, and I believe he concurs, that you have the authority to do this in this docket today. If not, if you are concerned about the procedural issue, you could spin this one issue out and do it as a proposed agency action. Thank you.

CHAIRMAN CARTER: Thank you. Hang on one second.

Mr. McWhirter, do you want to be heard on this? I'll come back to the bench in a minute.

MR. McWHIRTER: Something I didn't mention a little while ago is interest. Mr. Wright just told you that they've got $354 million of customers' money. Customers are going to get interest on that money over the next year, and under the commercial paper rates that is currently one-half of 1 percent. So what is Florida Power & Light going to do with the money? They've got $354 million in cash overcollections. It's possible that they will invest it in a fashion that they would get the AFUDC rate applied to it, and that's a pretty substantial amount of benefit to Florida Power & Light based on the customers' money that they borrowed at less than half of 1 percent. So I think it's probably a good idea to give it back rather promptly.

CHAIRMAN CARTER: Thank you.

Ms. Bradley, do you want to be heard before I go back to the bench?

MS. BRADLEY: Just briefly.

CHAIRMAN CARTER: Yes, ma'am.

MS. BRADLEY: There was a symmetry argument that I've heard a couple of times here. And if there was true symmetry between the parties, we probably wouldn't be here. I mean, I don't know of any of our consumers who made a billion dollar profit last year. So I don't think symmetry should be an issue, and would urge you to give it back as quickly as possible.

CHAIRMAN CARTER: Okay. I'm going to go back to Commissioner Argenziano, who had asked --

MR. BUTLER: Mr. Chairman.

CHAIRMAN CARTER: Mr. Butler, yes, sir.

MR. BUTLER: I'm sorry. May I respond briefly?

CHAIRMAN CARTER: You're recognized.

MR. BUTLER: One thing I wanted to point out to a point Commissioner Skop has made about the fact that, you know, FPL has noted in various places, including our rate case docket, the reduction in fuel costs next year and how that will more than offset the requested rate increase. And it is true that a portion of that is the $360 million that we're talking about here, but I just want to be sure to put that in perspective.

The revised Schedule E10 that we filed in this docket at staff's request last week, it shows that there is a $17.27 reduction on the 1,000-kilowatt hour bill in the fuel charges next year. Of that amount, roughly $3.50 to $4 of it would be this overrecovery. So the fuel bill goes down substantially. It will be showing a reduction for customers, excuse me, sort of either way. While the overrecovery we're talking about here is a component of it, it's a relatively small component of that amount. Thank you.

CHAIRMAN CARTER: Thank you.

Commissioner Argenziano, you had asked a question of staff. You're recognized, staff.

MS. BENNETT: My -- the calculations we have are that if there's a refund for a 1,000-kilowatt hour residential customer, it would be a little bit less than

$44. And then the remaining part of the year there would be an increase of approximately $3.60 in the fuel factor per month. And of course you've got the rate case decision which may or may not change the fuel factor or the rates.

CHAIRMAN CARTER: Does that, Commissioner, does that answer your question?

COMMISSIONER ARGENZIANO: Yeah, it did. Thank you.

CHAIRMAN CARTER: Okay. Commissioner Edgar, you had a question? Commissioner Edgar.

COMMISSIONER EDGAR: I did. Thank you, Mr. Chairman.

Coming back to Commissioner Klement's comment about, I think you said consumer psychology or something along those lines, and I also recognize and appreciate that many customers don't completely understand their bill. In fact, I'm probably one of those sometimes with, with some of the bills that come to my home for my family. And so we've used the term refund, we've used the term payment, we've used the term credit. Certainly in many instances those can be interchangeable but probably not every.

So let me ask this question. If what we are interested in doing is obviously kind of a true-up and evening out, having some stabilization but also what I'm going to use the term true-up for overpayment than being reimbursed or redistributed correctly, would it be possible instead of a credit on the bill for consumers to actually receive a check?

And I say that because -- and I don't know what the answer is or if there would be so many additional up-front costs that that would maybe negate the benefit -- but a credit on a bill is perhaps not always observed, observed or recognized as much as receipt of a check. And if that were the case, it would also, if indeed it were possible without a lot of pay me now or pay me later additional costs involved either to the company or consumers through some mechanism, it would still allow for those monthly bills to have more of a stable, across the board so that people can plan on what that, that bill generally is going to be certainly seasonally as well. So maintain some of that rate stabilization, being able to budget, having a good feel for what your bill is going to be according to your past and future use, and I think that is a very good thing, and maybe minimize some of that confusion if a bill in, say, January or February takes a significant decrease, which is always welcome but is not necessarily understood.

So I guess my question to Mr. Butler would be if indeed the Commission were to determine today that a one-time credit adjustment is the way to go in this particular circumstance, would it be possible for a check to be sent out versus a credit?

CHAIRMAN CARTER: Mr. Butler.

MR. BUTLER: I think if that is the direction the Commission takes, that it would be much, much, much more administratively feasible unfortunately to do it as a credit on the bill instead of the checks. I mean I think that there would be quite an expense involved in setting up a system that would calculate and then actually cut checks to 4 million customers.

So if -- whatever approach you do, I think it's safe to say that FPL would prefer to see it as something that would be an adjustment to the bill rather than the check. I appreciate your concern. And from the sort of consumer psychology perspective, I understand. I think it would make more of an impression on people. But I am also confident that there are people back in Miami and Juno Beach screaming as they hear this about the possibility of issuing the checks to all those customers. I do think that would be a significant administrative issue unfortunately.

CHAIRMAN CARTER: Thank you.

Commissioner Klement, then Commissioner Skop.

COMMISSIONER KLEMENT: But it would be a true economic stimulus. If that amount of money went in the mail within a week's period, that would be plowed back in some way as opposed to $3.60 a month taken off of my bill.

CHAIRMAN CARTER: Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chair.

Again, I think the -- I would tend to agree with Mr. Butler, if the Commission were to move forward with it, the credit would be the appropriate mechanism for the two-fold reason. First, the administrative costs associated with cutting the checks, although it would be nice to get a check in the mail, but when you mail those $4.5 million -- I wish they were $4.5 million checks. If you mail out 4.5 million checks, the postage on that alone is probably about $1.8 million for a 44-cent stamp. So, again, I find that probably not to be practical because at the end of the day the consumer would end up paying that postage charge. So to me the credit is probably, directly to the bill would probably be the more cost-effective mechanism for the consumers to receive full benefit of the, of the proposed credit, should the Commission go in that direction.

COMMISSIONER EDGAR: Well, there, Mr.

Chairman, is an interesting consumer psychology question I guess I would pose to our consumer representatives. Do you think most consumers would rather receive a one-time credit or a check that is slightly less?

MR. BECK: I think they'd like to get as much money back as soon as possible no matter how you did it, whether it's a credit or a check. I mean, the point would be to get as much back as you can I think.

CHAIRMAN CARTER: Commissioner Argenziano.

COMMISSIONER ARGENZIANO: We used to have a word for something like this in the Legislature: When you love the bill to death. While it would be great to, to send the money back to the people, I think that kills, kills it because of the added cost and the nightmare for the company. So it would be killing the bill by loving it to death.

I think when we're talking about the, an electric, the electric bill and what consumers pay, whether it's the large consumer or the consumer at home -- I'm going to keep going down here until I disappear.

CHAIRMAN CARTER: I didn't touch it. I didn't touch -- I did not touch that chair.

COMMISSIONER ARGENZIANO: Is this sabotage?

CHAIRMAN CARTER: I did not touch that chair.

(Laughter.)

COMMISSIONER ARGENZIANO: I think we're getting a little off the mark here. While that would be wonderful, I also think that a lot of people who are really hurting, maybe the lower income families, it would be very beneficial to get them back that credit on their bill so that they, they don't have to struggle or spend it for something else at the time. I think we're talking about electric. Let's stick with electric. Although my, I have to say my first concern was the fact that there are really no rules or statutes for me to look at as, as a Commissioner to say, okay, what are my parameters here? What can I do? Does it take into consideration the hardship, the economic times?

As you look at other statutes or you look at case law, Hope, Bluefield, where it does talk about the economic status, I didn't have any of that. So I look at that and say, well, okay, that leaves me kind of empty knowing there's no rules and no statute, only what the Commission's history is.

Well, there's some of the Commission's history I don't particularly agree with, even though I do understand regulatory certainty for a company and how important that is. But in looking at it really what it came down to, and I think Mr. Wright had just said it a little while ago, is the rate stabilization is going to stay the same whether you give it one time or you're going to do it all through the year. And then since it is the people's money and the company maybe can make money on that money, unless the company wants to get an added incentive by holding it for a year, to give it back to the consumer, then probably I'm going to go with giving it back all at once. It's their money. Give it back. And if it doesn't -- I didn't hear anything of real harm to the company. It is the people's money. So at this point I think the rate stabilization issue is solved either if you go 12 months or you go all at once. They're going to know what's coming after that. So that's pretty much where I'm at.

CHAIRMAN CARTER: Thank you.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chair.

And to that point that Mr. McWhirter raised, I also was going to bring that up about the difference between what the consumer would be earning on the overrecovery amount at the commercial paper rate versus what the company might earn for interest in investing those funds, either at AFUDC or in other types of financial instruments. So, again, there is, there is a fundamental difference in the interest being earned versus credited to the overrecovery amount. So, again, I don't know if that tilts the scale one way or the another, but it is a noteworthy concern that I meant to bring up previously.

But I'm also of the opinion that, you know, if we can find a way to do good and, you know, give the ratepayers the overrecovery amount in a one-time payment that doesn't really tilt the scale completely out of balance, that's probably the direction the Commission should go.

MR. BUTLER: Mr. Chairman.

CHAIRMAN CARTER: Mr. Butler.

MR. BUTLER: Just very briefly. This point of how the money gets used, you know, FPL uses whatever sources of funds it has to run its business. These funds are used in the ordinary course of keeping the lights on, you know, doing everything that FPL does. There's not an account where it's set aside and FPL is earning some sort of special return on that money. And it will absolutely impact FPL's financing requirements and its financing costs in, whatever it is, December or January if we have to come up with $365 million in just a single, you know, lump sum that needs to be refunded to customers. We haven't made provisions in securing financing for that. We'll have to do it. It could very well accelerate the issuance of first mortgage bonds, you know, which means we'd be coming up with the money to do this at a long-term debt rate.

So do, do understand, I may have in my earlier comments left the impression that it was not an important issue and, if I did, I apologize. But coming up with, you know, that magnitude of money on very short notice really does have a significant impact on the way the company conducts its finances, because all the money that is generated from all sources is used all the time to, you know, keep the business running. And this is kind of a surprise incremental substantial increase to those financing requirements.

CHAIRMAN CARTER: Thank you. Commissioners, before I recognize Commissioner Skop, I want to gently nudge you, Commissioners, to kind of let's start to moving. You know, you can talk it to death in the Legislature -- I mean love it to death in the Legislature and we can talk it to death here at the bench. So this is really an issue, if we feel that strongly about it, we need to make a move on it and then so we can proceed with the case.

So with that, as, as I'm going to recognize Commissioner Skop for a comment, so be thinking about the disposition of this matter.

Commissioner Skop.

COMMISSIONER SKOP: Thank you, Mr. Chairman.

Just to Mr. Butler's comments, again I recognize the company's position. I do think to some degree it may be somewhat overstated. I mean, certainly there's no regulatory uncertainty that occurs with the Commission taking such action. We're not denying recovery. These are funds that have been overrecovery, I mean overrecovered from the customers.

Second, you know, I don't believe it should come as any surprise that the Commission might in the situation of overrecovery, a substantial overrecovery given the prevailing economic conditions seek to return that overrecovery to consumers sooner rather than later. And I would quote from the '01 order, you know, "We approve FPL's proposal to reduce its fuel charges to ratepayers sooner rather than later."

Again, the Commission has done different things at different times. There's been times where past Commissions have done things that I would not agree with as a Commissioner. But, again, it's a judgment call. And, you know, in terms of coming up with cash, as you mentioned, you're not sending out cash. You're putting a credit to the bill. So it only affects cash flow from operations. And certainly they're a big company, they have a lot of free cash flow from operations. I don't really see the financial hardship is, is, is a death knell as it appears to be, you know, the picture being gloom and doom. I really don't see that.

Is it a, you know, something that would, could be covered? Yes. But, again, FPL Group is a large corporation, FPL is a large regulated monopoly and utility, and, you know, certainly it, it has large capital projects and lines of credits and all those things. So I don't really think it's that big of a hardship to issue a one-time credit, should the Commission desire to go in that direction. And if that's the will of the Commission, I'll certainly support it.

CHAIRMAN CARTER: Okay, Commissioners. It's time to cut the Gordian Knot. We've kind of talked about this, we've talked to the parties, talked to each other, talked to staff, so now it's time to go beyond talking. It's time to make a -- Commissioner Skop, you're recognized.

COMMISSIONER SKOP: Thank you, Mr. Chairman. We'll see where it goes, but at this time I respectfully move as to Issue 10 as it pertains to FPL to have the overrecovery amount of $364,843,209 refunded to FPL ratepayers as a one-time credit in January.

COMMISSIONER ARGENZIANO: Second.

CHAIRMAN CARTER: It's been moved and properly seconded. Seconded by Commissioner Argenziano. Commissioners, we have a motion and a second on the floor. Any discussion? Any comments? Any debate? Hearing none, all in favor of the motion, let it be known by the sign of aye.

(Affirmative vote.)

All those opposed, like sign. Show it done.

Staff, any other preliminary matters before we move?

MS. BENNETT: Yes. We need to, FPL needs to address the record. I think we've got a, maybe a communication issue. I heard 67, he said maybe 77.

CHAIRMAN CARTER: A communication issue?

MR. BUTLER: With me, with me misspeaking, I'm afraid. Because I checked with the court reporter and determined -- I apparently said move the admission of Exhibits 62 through 67. I meant to say 62 through 77. And those are all of the exhibits to the FPL witnesses whose testimony was admitted into the record.

CHAIRMAN CARTER: It would be 62 through 67?

MR. BUTLER: No. 62 through 77.

CHAIRMAN CARTER: 62 through 77.

MR. BUTLER: That's right. Yes.

CHAIRMAN CARTER: Without objection, show it done.

MR. BUTLER: Thank you.

REPORTER'S NOTE: Exhibits 62 through 77 were previously admitted into the record in Volume 1 for ease of the record.)

MS. BENNETT: And also staff would move Exhibit 133 into the record at this time.

CHAIRMAN CARTER: Are there any objections? Without objection, show it done.

(Exhibit 133 admitted into the record.)

Any further preliminary matters before we move?

MR. BUTLER: Mr. Chairman.

CHAIRMAN CARTER: Mr. Butler, yes, sir.

MR. BUTLER: I think that that is, those are all of the issues that related to FPL. And if that is correct, staff's understanding, the Commission's understanding, we would ask that FPL be excused.

CHAIRMAN CARTER: Ms. Bennett, is that correct?

MS. BENNETT: That is correct.

CHAIRMAN CARTER: Thank you, Mr. Butler. Have a great day. You may be excused.

MR. BUTLER: Thank you, Commissioners.

CHAIRMAN CARTER: Okay. Ms. Bennett, any further preliminary matters?

MS. BENNETT: No, Mr. Chairman.

CHAIRMAN CARTER: Okey-dokey then. All of our witnesses that are here, would you please stand and raise your right hand.

(Witnesses collectively sworn).

Thank you. Please be seated.

Mr. Badders.

MR. BADDERS: Thank you. Good afternoon, Commissioners.

I'm Russell Badders on behalf of Gulf Power Company, and I'll be very brief in my opening comments as Gulf has only one remaining issue. In fact, Gulf was made aware of this issue for the first time when FIPUG raised the issue at the Prehearing Conference.

FIPUG alleges that Gulf is selling energy to associated companies at a price that is below Gulf's generation cost. This allegation is without merit. Mr. Ball will testify that Gulf does not sell energy below its cost. In fact, his testimony will show that the conclusion reached by FIPUG is based on an inappropriate comparison of average, annual average fuel cost without recognition that the transactions are made on an hourly basis and that the hourly costs are fully reimbursed.

Commissioners, I ask that you reject the faulty conclusion proffered by FIPUG and grant Gulf cost recovery consistent with its filing in this docket. Thank you.

CHAIRMAN CARTER: Thank you, Mr. Badders.

Mr. Horton.

MR. HORTON: Yes. Excuse me. Norman H. Horton, Jr., on behalf of Florida Public Utilities Company.

We have provided to you the calculations for our factors. We urge you to accept those factors as they've been properly calculated. There are a couple of issues specific to FPUC remaining for resolution which affect those. One involves a review of our northeast division midcourse filing, and the other is our alternate proposal to mitigate the increase in the northwest division. Y'all know that FPUC does not, we don't generate any of the end power that we provide our customers. It's all pursuant to purchased power agreements either with JEA in the northeast division or Gulf Power in the northwest division.

Those current agreements that we have are ten-years agreement. The ten-year agreements went into effect a couple of years ago replacing very favorable agreements which we had, and y'all have heard the history of those.

Last year -- well, as a result of the fact that we don't generate our, our power but purchase it, we don't have the ability to control some of the expenses that a generating utility would. We, we purchase the power with the components, several different components in our fuel cost rather than just strictly fuel. The components that we consider to be fuel costs are comprised of several different, several different factors, as our witnesses will address.

Last year we requested a midcourse correction in our northeast division and some questions were raised as to whether or not we pursued all reasonable avenues to protect our ratepayers, and the answer to that is that we did. We have since provided additional data and information through discovery and data requests that support that we did. We had a consultant to review the cost of service study, we explored administrative and judicial remedies, and in the, in the end we think that we took the appropriate actions under the circumstances.

With our northwest division today we are projecting an increase. You heard the city manager this morning and the mayor. So we are projecting an increase in the, in the northwest division. And to mitigate the size of that increase, we've proposed using revenues for some of our storm hardening activities as an, as an offset to the fuel cost. This would reduce the magnitude of fuel increased, but there would still be an increase. There would still be, there would be some storm hardening activities which we would forego, but we think this is a reasonable option for you to consider.

Our witnesses have provided support for our projections, and we would request that you approve our filings. Thank you.

CHAIRMAN CARTER: Thank you. This is your big moment, Mr. McWhirter. We've been waiting on this all morning.

MR. McWHIRTER: Well, Mr. Chairman, I'm kind of like you, nearing the end of my term for this Public Service Commission.

(Laughter.)

If you ever get around to reading FIPUG's basic position, we deal with some policy issues. Policies by this Commission have grown like topsy over the years, and as they mature and you look at them, there are things that need to be addressed. And maybe you'll do it in that rule proceeding you're talking about, Ms. Argenziano. But I'm going to talk about those at the end of my presentation because I'm going to run out of time before I get to it.

Today we're going to focus on, only on Gulf Power. When I came to work for the Commission in 1963, which is some years back, there were a lot of things I didn't understand, and there's still a lot of things I don't understand. But I've found that it's helpful if you ask questions about things you don't understand and maybe it'll clarify it. Now Mr. Badders says that it all has to do with marginal pricing and it's quickly clarified and I'm going up, going down the wrong path.

In 1935, the Public Utility Holding Company Act commonly called PUHCA essentially outlawed a method of doing business in which unregulated businesses owned regulated businesses. The law was repealed recently along with other federal changes in laws that regulate financial companies. Single state PUHCs were born in Florida in the 1980s, but Gulf Power has been continuously operating as a subsidiary of the Southern Company a Georgia PUHC.

Gulf's filing shows that the average cost it plans to charge its retail customers next year, and I'm going to give it to you on a megawatt-hour basis because that's the same as a thousand kilowatt hours and it really is what normally impacts customers, next year they're going to ask for $47.94 a megawatt hour even before true-ups and taxes. By the amendment that it did today, that's going to reduce that amount of money by five cents. But when it sells power from those same power plants that it owns, it owns plants, as you know, in Georgia, Alabama, not, not in Alabama, but Mississippi and in Florida, when it sells power from those plants, it plans to charge $10 less to the Southern Company, its parent corporation, or $40.80.

In addition, they will charge retail customers another $48 million for capacity payments it plans to make to utilities from which it buys power. But Gulf will receive less than $300 in capacity payments from the people that it sells power to even though 27 percent of the total power produced is sold to non-retail consumers. In this case retail consumers are being charged, in addition to those amount of monies, $55.6 million for hedging activities in 2008 and 2009. They hedged their gas purchases and to some degree other purchases in order to stabilize the price. But when they sell at the marginal price, I don't think the hedging is included. We'll find out about that later.

Gulf has the burden of proving that these arrangements are prudent in addition to being fair and equitable to retail customers. The raw numbers are the only proof provided. This is not adequate in my opinion. Gulf has not borne its burden.

Nevertheless, I plan to help by asking Gulf's witnesses to explain how these interesting transactions work and, more importantly, why they are fair to retail customers.

In the remaining time before you turn on that red light, Mr. Chairman, I'll give you FIPUG's basic position on your other recorded -- on your recovery matters.

Guaranteed cost recoveries were initiated to help utilities deal with volatile costs they said would overwhelm them because of the time it takes to process the base rate case. These clauses have a secondary result that I don't believe regulators and legislators originally intended. When nonvolatile fixed costs are recovered through cost recovery clauses, most of the utility business risk is shifted from the utility -- oh, I'm already at the yellow light -- to utility customers. Utility profits are enhanced without review. Cost recovery clauses have proven to be so beneficial to utilities that now there will be $14 billion in these proceedings you had today that were gone through before noon, and that's 60 percent of the utility's gross revenue or more. The percentage is rising and policy changes with respect to cost recovery dockets need to be considered.

Some of the problems with cost recovery clauses today are, of course, as I've told you, fixed costs. Collecting fixed costs through a variable kilowatt hour charge is great for utilities when sales are increasing because it adds to their profit. Unfortunately, when sales are falling because some customers can't afford the utility bill or are seeking to conserve energy, the recovery method triggers automatic and unnecessary customer bill increases. Basing cost recovery on forecasted budgets without requiring monthly forecast revisions enables utilities to receive midcourse rate increases -- time's up. I'll quit, but I enjoyed visiting with you.

CHAIRMAN CARTER: You had me -- I was spellbound.

MR. McWHIRTER: Well, do you want to hear the --

CHAIRMAN CARTER: No, sir.

MR. McWHIRTER: I've only got one more page.

(Laughter.)

CHAIRMAN CARTER: I'm awake now.

Ms. Bradley.

MS. BRADLEY: Mr. Chairman, we really haven't taken a position on this. But after hearing the testimony this morning and gone to high school with the mayor, I would ask that you use your discretion to benefit the consumers as much as you deem appropriate.

CHAIRMAN CARTER: Thank you. Thank you, Ms. Bradley.

Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman, Commissioners. We have no opening statement, but I would say we look forward to Mr. McWhirter's questioning.

CHAIRMAN CARTER: Okay. Ms. Christensen.

MS. CHRISTENSEN: Similarly, we took no position on the issues that are remaining before the Commission, so we have no opening statement.

CHAIRMAN CARTER: Captain Jungels, did you want to make a statement, an opening statement?

CAPTAIN JUNGELS: If I could just briefly, sir.

CHAIRMAN CARTER: Yes, sir. You're recognized. You remember the light system; right?

CAPTAIN JUNGELS: Yes, sir.

CHAIRMAN CARTER: Okay.

CAPTAIN JUNGELS: I don't think we have to worry about that.

I'm Captain Jungels, and I'm here on behalf of the Federal Executive Agencies. Utilities are a large part of our O&M budget, and fuel costs, which are passed through, are a big part of that. And that comes out of the same pot of money that we use to fly the jets and do the missions, so that's why I'm here. And thank you, sir.

CHAIRMAN CARTER: Thank you very kindly.

Commissioners, let me do this before we get into the, to the witnesses. Let me give you my plans for today.

First of all, I don't plan on going late. That's the first part of my plan. Secondly, we'll go back on our lunch schedule. We'll probably do 1:00 to 2:15. And, staff, if there's some preliminary matters, maybe we can give you to 2:30 if you need to talk to the parties about anything like that. Why don't we just do that, Commissioners. That way we'll just go to lunch from 1:00 to 2:30. And that way if staff has any questions or the parties have any questions, they can deal with it at that point in time.

With that, call your first witness.

MR. HORTON: Florida Public Utilities would call Mr. Young and Mr. Cutshaw.

CHAIRMAN CARTER: Okay. That's the panel?

MR. HORTON: Yes, sir. That is a panel.

CHAIRMAN CARTER: Young and Cutshaw.

MR. HORTON: And while they're coming, Mr. Chairman, my objective would to be qualify each of them and then insert the testimony.

CHAIRMAN CARTER: Okay. That'll be fine.

MR. HORTON: And they were sworn.

CHAIRMAN CARTER: I remember the tie. I'm not going to comment on it, but I remember it.

CURTIS D. YOUNG

and

MARK CUTSHAW

were called as witnesses on behalf of Florida Public Utilities Company and, having been duly sworn, testified as follows:

MR. YOUNG: My name is Curtis D. Young, and I'm employed at Florida Public --

MR. HORTON: Mr. Young, Mr. Young, hang on just a second.

DIRECT EXAMINATION

BY MR. HORTON:

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

A. (By Mr. Cutshaw) My name is Mark Cutshaw, Florida Public Utilities Company, 911 South 8th Street, Fernandina Beach, Florida 32034.

Q. And, Mr. Cutshaw, have you caused to be prepared and prefiled prefiled testimony in this docket dated February 12th, February 25th and March 16th relating to the midcourse correction, and September 11th, 2009, with respect to the projections?

A. Yes, I did.

Q. And do you have any additions or corrections to make to this testimony?

A. No, I do not.

Q. And if I asked you the questions contained therein, your answers would be the same today?

A. That's correct.

Q. Mr. Cutshaw, have you also caused to be prepared Exhibits MC-1 through MC-5, which have been premarked as Exhibits 81 through 87?

A. Yes, I did.

Q. Do you have any additions or corrections to make to those schedules?

A. No, I do not.

Q. Mr. Young, could you state your name and address, please, sir.

A. (By Mr. Young) My name is Curtis D. Young. The address is 41 South Dixie Highway, West Palm Beach, Florida 33401.

Q. And, Mr. Young, did you cause to be prepared prefiled testimony dated September 11th, 2009, in this docket?

A. Yes, I did.

Q. And do you have any changes to make to that testimony?

A. No, I don't.

Q. If I asked you the questions contained therein today, your answers would be the same?

A. Yes.

Q. All right. Are you also adopting the testimony of April Lundgren dated March 5, 2009?

A. Yes, I am.

Q. And do you have any changes to that testimony?

A. No, I don't.

Q. So if I were to ask you those questions, your answers would be the same today?

A. Yes.

MR. HORTON: Mr. Chairman, I'd ask at this time that the prefiled testimony that I've identified be inserted into the record as though read.

CHAIRMAN CARTER: The prefiled testimony of the witnesses will be inserted into the record as though read.

BY MR. HORTON:

Q. Mr. Young, you are also adopting AML-1 as your exhibit, are you not?

A. Yes.

Q. And do you have any corrections to make to that?

A. No, I don't.

Q. And you're also sponsoring exhibits -- and, Mr. Chairman, that was Exhibit 78.

CHAIRMAN CARTER: 78?

MR. HORTON: Yes, sir.

CHAIRMAN CARTER: Okay.

BY MR. HORTON:

Q. And, Mr. Young, you're also, you also prepared CD-1 (sic.) and 2, which have been premarked 79 and 80?

A. Yes.

Q. Do you have any changes to those?

A. No, I don't.

Q. You also prepared some of the schedules in MC-1 through MC-5, did you not?

A. Yes, I did.

Q. Do you have any changes to make?

A. There is one change on that.

Q. Could you give that change, please?

A. It's on MC-5, Page 2 of 14.

Q. Okay.

A. On Lines 49 and 50, the units that are there aren't the updated version as reflected on the other schedules. This is just a typo. If you want the corrected numbers, I could provide them now.

Q. Go ahead and read those into the record, please.

A. Okay. Instead of the 93,982,996, that number should read 85,366,000.

Instead of the, on Line 50 in Column 19, instead of 40,672,004, that number should read 49,289,000.

Q. And with those, with those corrections, there are no other corrections to the exhibits?

A. One more -- two more corrections.

Q. Oh, okay. I'm sorry.

A. In Column 20, same lines, 49 and 50, the .11448 should read .11384. And on Line 50, Column 20, the .12448 should read .12384.

Q. All right. Now with those additions, your exhibits are correct?

A. Yes. Yes.

(Exhibits 78 through 80 marked for identification.)

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 090001-EI
CONTINUING SURVEILLANCE AND REVIEW OF
FUEL COST RECOVERY CLAUSES OF ELECTRIC UTILITIES

Direct Testimony of
Mark Cutshaw
On Behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. Mark Cutshaw, 911 South 8th Street, Fernandina Beach, FL 32034

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Have you previously testified in this Docket?

A. Yes.

Q. What is the purpose of your testimony at this time?

A. I will briefly describe the basis for the computations that were made in the preparation of the various midcourse Schedules that we have submitted in support of the April 2009 - December 2009 fuel cost recovery adjustments for our Northeast Florida electric division. In addition, I will advise the Commission of the projected difference between the revenues collected under the levelized fuel adjustment and the purchased power costs allowed in developing the levelized fuel adjustment for the period January 2009 - March 2009 and to establish a "true-up" amount to be collected or refunded during April 2009 - December 2009.

Q. Were the schedules filed by your Company completed under your direction

A. Yes.

Q. Which of the Staff's set of schedules has your company completed and filed?

A. We have filed Schedules E1, E1-A, E2, E7, E8, E10 and F1 for

Fernandina Beach (Northeast division). They are included in Composite Prehearing Identification Number MC-1. These schedules support the calculation of the levelized fuel adjustment factor for April 2009 - December 2009 (Midcourse Correction). Schedule F1 shows the actual true-up amount for January 2008 through December 2008 to be included in the midcourse rates effective April 2009 through December 2009.

Q. In derivation of the projected cost factor for the April 2009 - December 2009 period, did you follow the same procedures that were used in the prior period filings?

A. Yes.

Q. What is the reason for the midcourse correction?

A. The Company recently received notification from the power supplier to our Northeast Florida division that fuel costs will increase significantly beginning March 1, 2009, beyond the projected rates in Docket 080001-EI. We expect that these costs will be under recovered throughout the remainder of 2009 and thus creating a large under recovery by year end. Without a midcourse adjustment, we project the under recovery to approach the 10% threshold by year end. In order to avoid the necessity to collect a large under-recovery in 2010, we would like a midcourse correction to allow collection of the fuel costs in the period when incurred and to avoid an even higher increase in 2010 and mitigate an added financial burden on our customers.

Q. Why has the GSLD1 rate class for Fernandina Beach (Northeast division) been excluded from these computations?

A. Demand and other purchased power costs are assigned to the GSLD1 rate class directly based on their actual CP KW and their actual KWH consumption. That procedure for the GSLD1 class has been in use for several years and has not been changed herein. Costs to be recovered from all other classes are determined after deducting from total purchased power costs those costs directly assigned to GSLD1.

Q. How will the demand cost recovery factors for the other rate classes be used?

A. The demand cost recovery factors for each of the RS, GS, GSD, GSLD, GSLD1 and OL-SL rate classes will become one element of the total cost recovery factor for those classes. All other costs of purchased power will be recovered by the use of the levelized factor that is the same for all those rate classes. Thus the total factor for each class will be the sum of the respective demand cost factor and the levelized factor for all other costs.

Q. Please address the calculation of the total true-up amount to be collected or refunded during the April 2009 - December 2009.

A. In our Northeast Division, the purchased power recovery as of the end of March 2009, as reflected on Schedule F-1 filed with this Petition is an overrecovery of $1,637,098 which results in an adjustment of -0.64384 to the current factor if this were the final true-up. However, pursuant to the Purchased Power Agreement with JEA, there is an increase in the purchased power cost to be paid to JEA for purchased power by FPUC such that FPUC projects an underrecovery of $2,671,081 as of the year end 2009. As reflected in the testimony of Mr. Mark Cutshaw and Schedule E-1 which accompanies this filing, the requested factor for the Northeast Division is 6.851 cents per kWh. The calculation of the projected factor incorporates the -0.64384 cents per kWh for the overrecovery though March 2009.

Q. What will the total fuel adjustment factor, excluding demand cost recovery, be for the Northeast Florida division for the period?

A. In Fernandina Beach (Northeast division) the total fuel adjustment factor for "other classes" for the mid course correction, as shown on Line 43, Schedule E1, amounts to 6.851¢ per KWH.

Q. Please advise what a residential customer using 1,000 KWH will pay for the period April 2009 - December 2009 including base rates, conservation cost recovery factors, and fuel adjustment factor and after application of a line loss multiplier.

A. In Fernandina Beach (Northeast division) a customer will pay $133.72, an increase of $11.33 from the previous period.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 090001-EI
CONTINUING SURVEILLANCE AND REVIEW OF
FUEL COST RECOVERY CLAUSES OF ELECTRIC UTILITIES

Direct Testimony of
Mark Cutshaw
On Behalf of
Florida Public Utilities Company - Revised 2/24/2009

Q. Please state your name and business address.

A. Mark Cutshaw, 911 South 8th Street, Fernandina Beach, FL 32034.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Have you previously testified in this Docket?

A. Yes.

Q. What is the purpose of your testimony at this time?

A. I will briefly describe the basis for the computations that were made in the preparation of the various midcourse Schedules that we have submitted in support of the April 2009 - December 2009 fuel cost recovery adjustments for our Northeast Florida electric division. In addition, I will advise the Commission of the projected difference between the revenues collected under the levelized fuel adjustment and the purchased power costs allowed in developing the levelized fuel adjustment for the period January 2009 - March 2009 and to establish a "true-up" amount to be collected or refunded during April 2009 - December 2009.

Q. Were the schedules filed by your Company completed under your direction?

A. Yes.

Q. Which of the Staff's set of schedules has your company completed and filed?

A. We have filed Schedules E1, E1-A, E2, E7, E8, E10 and F1 for Fernandina Beach (Northeast division). They are included in

Composite Prehearing Identification Number MC-1. These schedules support the calculation of the levelized fuel adjustment factor for April 2009 - December 2009 (Midcourse Correction). Schedule F1 shows the actual true-up amount for January 2008 through December 2008 to be included in the midcourse rates effective April 2009 through December 2009.

Q. In derivation of the projected cost factor for the April 2009 - December 2009 period, did you follow the same procedures that were used in the prior period filings?

A. Yes.

Q. What is the reason for the midcourse correction?

A. The Company recently received notification from the power supplier to our Northeast Florida division that fuel costs will increase significantly beginning April 1, 2009, beyond the projected rates in Docket 080001-EI. We expect that these costs will be under recovered throughout the remainder of 2009 and thus creating a large under recovery by year end. Without a midcourse adjustment, we project the under recovery to approach the 10% threshold by year end. In order to avoid the necessity to collect a large under-recovery in 2010, we would like a midcourse correction to allow collection of the fuel costs in the period when incurred and to avoid an even higher increase in 2010 and mitigate an added financial burden on our customers.

Q Why has the GSLD1 rate class for Fernandina Beach (Northeast division) been excluded from these computations?

A. Demand and other purchased power costs are assigned to the GSLD1 rate class directly based on their actual CP KW and their actual KWH consumption. That procedure for the GSLD1 class has been in use for several years and has not been changed herein. Costs to be recovered from all other classes are determined after deducting from total purchased power costs those costs directly assigned to GSLD1.

Q. How will the demand cost recovery factors for the other rate classes be used?

A. The demand cost recovery factors for each of the RS, GS, GSD, GSLD, GSLD1 and OL-SL rate classes will become one element of the total cost recovery factor for those classes. All other costs of purchased power will be recovered by the use of the levelized factor that is the same for all those rate classes. Thus the total factor for each class will be the sum of the respective demand cost factor and the levelized factor for all other costs.

Q. Please address the calculation of the total true-up amount to be collected or refunded during the April 2009 - December 2009.

A. In our Northeast Division, the purchased power recovery as of the end of March 2009, as reflected on Schedule F-1 filed with this Petition is an overrecovery of $2,138,436 which results in an adjustment of -0.84101 to the current factor if this were the final true-up. However, pursuant to the Purchased Power Agreement with JEA, there is an increase in the purchased power cost to be paid to JEA for purchased power by FPUC such that FPUC projects an underrecovery of $2,671,081 as of the year end 2009. As reflected in the testimony of Mr. Mark Cutshaw and Schedule E-1 which accompanies this filing, the requested factor for the Northeast Division is 6.654 cents per kWh. The calculation of the projected factor incorporates the -0.84101 cents per kWh for the overrecovery though March 2009.

Q. What will the total fuel adjustment factor, excluding demand cost recovery, be for the Northeast Florida division for the period?

A. In Fernandina Beach (Northeast division) the total fuel adjustment factor for "other classes" for the mid course correction, as shown on Line 43, Schedule E1, amounts to 6.654¢ per KWH.

Q. Please advise what a residential customer using 1,000 KWH will pay for the period April 2009 - December 2009 including base rates, conservation cost recovery factors, and fuel adjustment factor and after application of a line loss multiplier.

A. In Fernandina Beach (Northeast division) a customer will pay $131.70, an increase of $9.31 from the previous period.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 090001-EI
CONTINUING SURVEILLANCE AND REVIEW OF
FUEL COST RECOVERY CLAUSES OF ELECTRIC UTILITIES

Direct Testimony of
Mark Cutshaw
On Behalf of
Florida Public Utilities Company - Revised 3/16/2009

Q. Please state your name and business address.

A. Mark Cutshaw, 911 South 8th Street, Fernandina Beach, FL 32034.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Have you previously testified in this Docket?

A. Yes.

Q. What is the purpose of your testimony at this time?

A. I will briefly describe the basis for the computations that were made in the preparation of the various midcourse Schedules that we have submitted in support of the April 2009 - December 2009 fuel cost recovery adjustments for our Northeast Florida electric division. In addition, I will advise the Commission of the projected difference between the revenues collected under the levelized fuel adjustment and the purchased power costs allowed in developing the levelized fuel adjustment for the period January 2009 - March 2009 and to establish a "true-up" amount to be collected or refunded during April 2009 - December 2009.

Q. Were the schedules filed by your Company completed under your direction?

A. Yes.

Q. Which of the Staff's set of schedules has your company completed and filed?

A. We have filed Schedules E1, E1-A, E2, E7, E8, E10 and F1 for Fernandina Beach (Northeast division). They are included in

Composite Prehearing Identification Number MC-3. These schedules support the calculation of the levelized fuel adjustment factor for April 2009 - December 2009 (Midcourse Correction). Schedule F1 shows the actual true-up amount for January 2008 through December 2008 to be included in the midcourse rates effective April 2009 through December 2009.

Q. In derivation of the projected cost factor for the April 2009 - December 2009 period, did you follow the same procedures that were used in the prior period filings?

A. Yes.

Q. What is the reason for the midcourse correction?

A. The Company recently received notification from the power supplier to our Northeast Florida division that fuel costs will increase significantly beginning May 1, 2009, beyond the projected rates in Docket 080001-EI. We expect that these costs will be under recovered throughout the remainder of 2009 and thus creating a large under recovery by year end. Without a midcourse adjustment, we project the under recovery to approach the 10% threshold by year end. In order to avoid the necessity to collect a large under-recovery in 2010, we would like a midcourse correction to allow collection of the fuel costs in the period when incurred and to avoid an even higher increase in 2010 and mitigate an added financial burden on our customers.

Q Why has the GSLD1 rate class for Fernandina Beach (Northeast division) been excluded from these computations?

A. Demand and other purchased power costs are assigned to the GSLD1 rate class directly based on their actual CP KW and their actual KWH consumption. That procedure for the GSLD1 class has been in use for several years and has not been changed herein. Costs to be recovered from all other classes are determined after deducting from total purchased power costs those costs directly assigned to GSLD1.

Q. How will the demand cost recovery factors for the other rate classes be used?

A. The demand cost recovery factors for each of the RS, GS, GSD, GSLD, GSLD1 and OL-SL rate classes will become one element of the total cost recovery factor for those classes. All other costs of purchased power will be recovered by the use of the levelized factor that is the same for all those rate classes. Thus the total factor for each class will be the sum of the respective demand cost factor and the levelized factor for all other costs.

Q. Please address the calculation of the total true-up amount to be collected or refunded during the April 2009 - December 2009.

A. In our Northeast Division, the purchased power recovery as of the end of March 2009, as reflected on Schedule F-1 filed with this Petition is an overrecovery of $2,138,436 which results in an adjustment of -0.84101 to the current factor if this were the final true-up. However, pursuant to the Purchased Power Agreement with JEA, there is an increase in the purchased power cost to be paid to JEA for purchased power by FPUC such that FPUC projects an underrecovery of $1,743,884 as of the year end 2009. As reflected in the testimony of Mr. Mark Cutshaw and Schedule E-1 which accompanies this filing, the requested factor for the Northeast Division is 6.558 cents per kWh. The calculation of the projected factor incorporates the -0.84101 cents per kWh for the overrecovery though March 2009.

Q. What will the total fuel adjustment factor, excluding demand cost recovery, be for the Northeast Florida division for the period?

A. In Fernandina Beach (Northeast division) the total fuel adjustment factor for "other classes" for the mid course correction, as shown on Line 43, Schedule E1, amounts to 6.558¢ per KWH.

Q. Please advise what a residential customer using 1,000 KWH will pay for the period April 2009 - December 2009 including base rates, conservation cost recovery factors, and fuel adjustment factor and after application of a line loss multiplier.

A. In Fernandina Beach (Northeast division) a customer will pay $129.99, an increase of $7.60 from the previous period.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 090001-EI
CONTINUING SURVEILLANCE AND REVIEW OF
FUEL COST RECOVERY CLAUSES OF ELECTRIC UTILITIES

Direct Testimony of
Curtis Young and Mark Cutshaw
On Behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. Curtis Young, 401 South Dixie Highway, West Palm Beach, FL 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Have you previously testified in this Docket?

A. Yes.

Q. Please state your name and business address.

A. Mark Cutshaw, 401 South Dixie Highway, West Palm Beach, FL 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Have you previously testified in this Docket?

A. Yes.

Q. What is the purpose of your testimony at this time?

A. I will briefly describe the basis for the computations that were made in the preparation of the various Schedules that we have submitted in support of the January 2010 - December 2010 fuel cost recovery adjustments for our two electric divisions. In addition, I will advise the Commission of the projected differences between the revenues collected under the levelized fuel adjustment and the purchased power costs allowed in developing the levelized fuel adjustment for the period January 2009 - December 2009 and to establish a "true-up" amount to be collected or refunded during January 2010 - December 2010.

Q. Were the schedules filed by your Company completed under your direction or review?

A. Yes.

Q. Which of the Staff's set of schedules has your company completed and filed?

A. We have filed Schedules E1, E1A, E2, E7, and E10 for Marianna (Northwest division) and E1, E1A, E2, E7, E8, and E10 for Fernandina Beach (Northeast division). They are included in Composite Prehearing Identification Number MC-4.

Q. In derivation of the projected cost factor for the January 2010 - December 2010 period, did you follow the same procedures that were used in the prior period filings?

A. Yes.

Q Why has the GSLD1 rate class for Fernandina Beach (Northeast division) been excluded from these computations?

A. Demand and other purchased power costs are assigned to the GSLD1 rate class directly based on their actual CP KW and their actual KWH consumption. That procedure for the GSLD1 class has been in use for several years and has not been changed herein. Costs to be recovered from all other classes are determined after deducting from total purchased power costs those costs directly assigned to GSLD1.

Q. How will the demand cost recovery factors for the other rate classes be used?

A. The demand cost recovery factors for each of the RS, GS, GSD, GSLD, GSLD1 and OL-SL rate classes will become one element of the total cost recovery factor for those classes. All other costs of purchased power will be recovered by the use of the levelized factor that is the same for all those rate classes. Thus the total factor for each class will be the sum of the respective demand cost factor and the levelized factor for all other costs.

Q. Is there any additional calculation of cost that is included in these costs recovery factors?

A. Yes. Consistent with the prior year we introduced an allocation of a portion of the transmission cost to the NE FL customers was made. We are continuing to include that calculation in these cost recovery factors.

Q. Why is it appropriate to allocate a portion of the transmission costs to the NE Florida customers?

A. The distribution charge (associated with distribution substations in NW FL) within the fuel charge should be allocated to both divisions in order to offset the disparity in substation related plant cost in the two divisions. This will allow all customers to contribute to the distribution charge within fuel just as all customers contribute to the substation plant related cost included in the base rates. Our NW division pays for a portion of distribution substations via a distribution charge through the fuel clause, where similar costs in our NE division are paid through base rates since FPUC owns the related plant and it is included in rate base. In the NW Division, Gulf Power Company owns the distribution substation with the exception of the distribution feeder bus. To allow for fair recovery of these costs the fuel portion should be allocated between the two electric divisions, similar to the rate base portion included for recovery in base rates. This allows for equitable cost distribution and recovery between all of our customers.

Q. What is the appropriate total cost allocated to the NE Florida customers for the 2010 calendar year?

A. The appropriate total cost allocated to the NE Florida customers for the 2010 calendar year is $476,832

Q. What was the basis of the allocation used to allocate a portion of the transmission costs to NE Florida Customers?

A. One half of the distribution charge will be included within the NE FL fuel determination just as the substation plant cost was equally allocated to all customers within base rates.

Q. Please address the calculation of the total true-up amount to be collected or refunded during the January 2010 - December 2010 year?

A. We have determined that at the end of December 2009 based on six months actual and six months estimated. We will have under-recovered $1,725,320 in purchased power costs in our Marianna (Northwest division). Based on estimated sales for the period January 2010 - December 2010, it will be necessary to add .54258¢ per KWH to collect this under-recovery.

In Fernandina Beach (Northeast division) we will have under-recovered $825,258 in purchased power costs. This amount will be collected at .24523¢ per KWH during the January 2010 - December 2010 period (excludes GSLD1 customers). Page 3 and 10 of Composite Prehearing Identification Number MC-4 provides a detail of the calculation of the true-up amounts.

Q. What are the final remaining true-up amounts for the period January 2008 - December 2008 for both divisions?

A. In Marianna (Northwest division) the final remaining true-up amount was an over-recovery of $591,984. The final remaining true-up amount for Fernandina Beach (Northeast division) was an over recovery of $1,659,809.

Q. What are the estimated true-up amounts for the period of January 2009 - December 2009?

A. In Marianna (Northwest division), there is an estimated under-recovery of $2,317,304. Fernandina Beach (Northeast division) has an estimated under-recovery of $2,485,067.

Q. What will the total fuel adjustment factor, excluding demand cost recovery, be for both divisions for the period?

A. In Marianna (Northwest division) the total fuel adjustment factor is 8.197¢ per KWH. In Fernandina Beach (Northwest division) the total fuel adjustment factor for "other classes", as shown on Line 43, Schedule E1, amounts to 6.572¢ per KWH.

Q. Please advise what a residential customer using 1,000 KWH will pay for the period January 2010 - December 2010 including base rates, conservation cost recovery factors, and fuel adjustment factor and after application of a line loss multiplier.

A. In Marianna (Northwest division) a residential customer using 1,000 KWH will pay $155.52, an increase of $18.93 from the previous period. In Fernandina Beach (Northeast division) a customer will pay $131.80 an increase of $1.81 from the previous period.

Q. Are there any relevant issues you would like to highlight regarding this calculation?

A. Yes. On January 26, 2009, Smurfit-Stone Container Corporation filed for bankruptcy protection. Smurfit-Stone is a Florida Public Utilities Company customer in the Northeast Division and is billed under the General Service Large Demand 1 (GSLD1) rate. In order to capture the pre- and post-bankruptcy cost that resulted, two separate bills were generated based on the criteria set forth in the GSLD1 rate structure. Based on the demand components of the billing methodology, the sum of the two bills exceeded the fuel revenue amount that would have been billed if the bankruptcy had not occurred and only one bill was generated. The net amount of the GSLD1 excess fuel revenue adjustment is $100,076 (Exhibit 1 of

Florida Public Utilities Company's Petition for Approval of Fuel Adjustment and Purchased Power Cost Recovery True-Up Amount filed August 4, 2009 details this calculation).

Q. What effect, if any, has this adjustment had on the fuel cost recoveries of the other remaining customer classes.

A. None. The fuel costs allocated to the remaining customer classes and all over and under recoveries for these customers are appropriate and would be the same if the bankruptcy did not occur.

Q. What is the appropriate treatment for the GSLD1 fuel billing adjustment?

A. Since this adjustment is specific to one GSLD1 Customer and the tariff and fuel clause requires direct pass-through of fuel costs to this type of customer, no over or under recoveries should exist. It would be appropriate to apply the excess fuel revenue billed to this specific GSLD1 customer against the portion of their bankruptcy-related bad debt write-off that is related to fuel revenues. The net result of this adjustment would be a reduction to GSLD1 fuel revenue of $100,148 (Exhibit 1 of Florida Public Utilities Company's Petition for Approval of Fuel Adjustment and Purchased Power Cost Recovery True-Up Amount filed August 4, 2009 details this calculation) and a reduction of the GSLD1 Accounts Receivable (pre-bankruptcy bad debt write-off) on the fuel revenue portion only.

Q. Why did the midcourse correction for the Northeast Florida division occur in April 2009 when the increase in rates from JEA did not increase until May?

A. FPUC was notified by JEA in January 2009 that certain factors in the purchased power rate would increase in March 2009. Due to the purchased power rate increase, FPU began negotiations with JEA on the proposed increases and filed for a mid-course correction effective beginning with usage in March 2009. Negotiations and review of rates continued with JEA which resulted in the implementation of the purchased power rate increase being delayed until April 2009 which led to an amendment of the petition and delayed the mid-course correction effective beginning with usage in April 2009. Negotiations continued between JEA and FPUC without ever reaching an agreement regarding amounts to be included in the purchased power rates. On April 21, 2009, FPUC made a presentation to the JEA Board of Directors objecting to the proposed rates and provided alternative rates along with the justification for accepting the alternative rates. In this meeting the JEA Board of Directors rejected the alternative rates proposed by FPUC and approved rates proposed by JEA which were to be effective May 1, 2009. Although the mid-course correction did go into effective prior to the final rate being effective from JEA, the negotiations were successful in delaying implementation of the rate increase for two months and the factors initially proposed were reduced thus reducing the impact on FPUC customers.

Q. Why is the increase in rates for NW FL more than those seen in NE FL?

A. During January 2009, Southern Company notified FPUC of additional increases in the purchased power rates. After reviewing the increased amounts, it was determined that a mid-course correction would not be required for 2009 since the underrecovery amount would be less than 10%. However, although it was known that an under recovery would occur in 2009, estimates of the increases proposed in 2010 were grossly under estimated. The significant increases by Gulf Power in 2010, coupled with the under recovery for 2009 resulted in significant increase to the FPUC customer in Northwest Florida.

Q. What is FPUC doing to mitigate these increases?

A. FPUC is continuing discussions with Southern Company to determine if reductions in proposed rates are possible. All options are being explored and will continue until all possible remedies are exhausted.

Q. Are other possible options being considered to minimize the impact on customers?

A. Yes.

Q. What are those options?

A. The most realistic option to reduce the impact on the Northwest Florida customers is to remove the 2009 under recovery amount of $1,725,320 and to recover this amount separately over amortize this amount of a certain period of time through the use of a portion of the storm hardening revenues received in our recent base rate increase. We would reduce a portion of the storm hardening expenditures and use those revenues for recovery of the underrecovered fuel costs. For 2010, the contribution to the amortization would occur by reducing the storm hardening expenditures in the Northwest Florida area in amount of approximately $295,500. The total fuel adjustment factor as shown on Line 33, Schedule E1 would then be 7.654¢ and a residential customer using 1,000 KWH would pay a typical bill of $149.95, reducing the increase resulting from the 2009 under recovery by a total of $5.63. This option is being proposed for only a one year period and depending on future fuel costs, we would evaluate each year to determine if we should continue with the storm hardening reductions to amortize any remaining underrecovery, or roll back into the fuel clause and recover through fuel rates.

Q. Are there other options?

A. We are continuing negotiations with Southern Company on fuel costs but are unable to determine if any changes will occur for 2010. These negotiations will review in detail all aspects of the rate components in order to ensure all components of the purchase power agreement are appropriate and the make any corrections that are necessary. All remedies are being explored as we continue these discussions.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION
DOCKET NO. 090001-EI
CONTINUING SURVEILLANCE AND REVIEW OF
FUEL COST RECOVERY CLAUSES OF ELECTRIC UTILITIES

REVISED

Direct Testimony of
Curtis D. Young
On Behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. Curtis D. Young, 401 South Dixie Highway, West Palm Beach, FL 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities.

Q. Have you previously testified in this Docket?

A. Yes.

Q. What is the purpose of your testimony at this time?

A. I will briefly describe the basis for our computations that were made in preparation of the various schedules that we have submitted to support our calculation of the levelized fuel adjustment factor for January 2010 - December 2010.

Q. Were the schedules filed by your Company completed under your direction?

A. Yes

Q. Which of the Staff's set of schedules has your company completed and filed?

A. We have filed Schedules E1-A, E1-B, and E1-B1 for Marianna and E1-A, E1-B, and E1-B1 for Fernandina Beach. They are included in Composite Prehearing Identification Number CDY-2. Schedule E1-B shows the Calculation of Purchased Power Costs and Calculation of True-Up and Interest Provision for the period January 2009 - December 2009 based on 6 Months Actual and 6 Months Estimated data.

Q. Please address the calculations of the total true-up amount to be collected or refunded during January 2010 - December 2010.

A. We have determined that at the end of December 2009 based on six months actual and six months estimated, we will under-recover $1,725,320 in purchased power costs in our Marianna division. In Fernandina Beach we will have under-recovered $825,258 in purchased power costs.

Q. What are the final remaining true-up amounts for the period January 2008 - December 2008 for both divisions?

A. In Marianna, the final remaining true-up amount was an over-recovery of $591,984. The final remaining true-up amount for Fernandina Beach was an over-recovery of $1,659,809.

Q. What are the estimated true-up amounts for the period January 2009 - December 2009?

A. In Marianna, there is an estimated under-recovery of $2,317,304. Fernandina Beach has an estimated under-recovery of $2,485,067.

Q. Are there any other issues relevant to this docket that you wish to present at this time?

A. Yes. On January 26, 2009, Smurfit-Stone Container Corporation filed for bankruptcy protection. Smurfit-Stone is a Florida Public Utilities Company customer in the Northeast Division and is billed under the General Service Large Demand 1 (GSLD1) rate. In order to capture the pre- and post-bankruptcy cost that resulted, two separate bills were generated based on the criteria set forth in the GSLD1 rate structure. Based on the demand components of the billing methodology, the sum of the two bills exceeded the fuel revenue amount that would have been billed if the bankruptcy had not occurred and only one bill was generated. The net amount of the GSLD1 excess fuel revenue adjustment is $100,076 (see attached Exhibit 1 for this calculation).

Q. What effect, if any, has this adjustment had on the fuel cost recoveries of the other remaining customer classes.

A. None. The fuel costs allocated to the remaining customer classes and all over and under recoveries for these customers are appropriate and would be the same if the bankruptcy did not occur.

Q. What is the appropriate treatment for the GSLD1 fuel billing adjustment?

A. Since this adjustment is specific to one GSLD1 Customer and the tariff and fuel clause requires direct pass-through of fuel costs to this type of customer, no over or under recoveries should exist. It would be appropriate to apply the excess fuel revenue billed to this specific GSLD1 customer against the portion of their bankruptcy-related bad debt write-off that is related to fuel revenues. The net result of this adjustment would be a reduction to GSLD1 fuel revenue of $100,148 (see attached Exhibit 1 for this calculation) and a reduction of the GSLD1 Accounts Receivable (pre-bankruptcy bad debt write-off) on the fuel revenue portion only.

Q. Does this conclude your testimony?

A. Yes.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Docket No. 090001-EI
Fuel and Purchased Power Cost Recovery Clause

Direct Testimony of
April M. Lundgren
on behalf of
Florida Public Utilities Company

Q. Please state your name and business address.

A. April M. Lundgren, 401 South Dixie Highway, West Palm Beach, Florida 33401.

Q. By whom are you employed?

A. I am employed by Florida Public Utilities Company.

Q. Could you give a brief description of your background and business experience?

A. I am the Assistant Controller for Florida Public Utilities Company. I began working for the Company in 2001 as the Financial Accountant and have performed various accounting functions including SEC reporting, budget forecasting, internal control compliance and documentation and research and application of new accounting guidance until I was promoted to my current position in January 2009. Additionally, I coordinate the audits for both external reporting and internal controls.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present the calculation of the final remaining true-up amounts for the period Jan. 2008 through Dec. 2008.

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

A. Yes. Exhibit________ (AML-1) consists of Schedules M1 , F1 and E1-B for the Marianna and Fernandina Beach Divisions. These schedules were prepared from the records of the company.

Q. What has FPUC calculated as the final remaining true-up amounts for the period Jan. - Dec. 2008?

A. For Marianna the final remaining true-up amount is an over recovery of $591,984. For Fernandina Beach the calculation is an over recovery of $1,659,809.

Q. How were these amounts calculated?

A. They are the sum of the actual end of period true-up amounts for the Jan. - Dec. 2008 period and the total true-up amounts to be collected or refunded during the Jan. - Dec. 2009 period.

Q. What was the actual end of period true-up amount for Jan. - Dec. 2008?

A. For Marianna it was $404,327 over recovery and for Fernandina Beach it was $1,203,944 over recovery.

Q. What have you calculated to be the total true-up amount to be collected or refunded during the Jan. - Dec. 2009 period?

A. Using six months actual and six months estimated amounts, we calculated an under recovery for Marianna of $187,657 and an under recovery of $455,865 for Fernandina Beach.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BY MR. HORTON:

Q. Thank you. Mr. Young, do you have a summary of your testimony?

A. Yes, I do.

Q. All right. Would you go ahead and --

CHAIRMAN CARTER: Hang on one second. Are they going to do -- each one is going to do one?

MR. HORTON: Each one is going to do a very brief one.

CHAIRMAN CARTER: Okay. Give me one second. Commissioners, just kind of hold in place.

(Pause.)

Mr. Horton, are you going to need five apiece or --

MR. HORTON: I think Mr. Young could probably do his in three, and Mr. Cutshaw would be considerably less than five.

CHAIRMAN CARTER: Give them six, six total.

MR. HORTON: Thank you.

CHAIRMAN CARTER: Okay. You may proceed.

BY MR. HORTON:

Q. Mr. Young.

A. My name is Curtis D. Young and I am employed at Florida Public Utilities. I've worked in the position of Senior Regulatory Accountant out of its corporate office in West Palm Beach for eight years. I am responsible for the computations involved in the preparation of the various E schedules and exhibits that support my testimony filed in this fuel docket. The purpose of my appearance here today is to answer any questions to the best of my ability pertaining to my testimony and support schedules and to further explain FPUC's positions on issues presented at the Prehearing Order. They are included in composite prehearing identification numbers MC-4 and MC-5.

Within composite prehearing identification number MC-4 FPUC has determined that at the end of December 2009, based on six months actual and six months estimated, we have underrecovered $1,725,320 in purchased power costs in our Marianna Northwest Division and will have underrecovered $825,258 in our Fernandina Beach Northeast Division. Based on these amounts, the total fuel adjustment factor is 8.197 cents per kilowatt hour in Marianna and 6.572 cents per kilowatt hour in Fernandina Beach.

In an effort to mitigate the effect of the projected fuel cost increases to our customers served by our Marianna Division, FPUC is proposing to set aside a little over $295,000 of the annual revenue designated for the 2010 storm hardening activities in Northwest

Florida and apply it against the projected 2009 underrecovery balance. The net effect of this transaction would reduce their total fuel adjustment factor from 8.197 cents per kilowatt hour to 7.654 cents per kilowatt hour, and decrease the typical bill for a residential customer with a monthly usage of 1,000 kilowatt hours by over $5.

FPUC has filed an alternative set of these schedules included in composite prehearing identification number MC-5 in support of this proposal.

Q. Mr. Cutshaw.

A. (By Mr. Cutshaw) Good afternoon, Commissioners. My name is Mark Cutshaw. I'm the General Manager for the Florida Public Utilities in our Northeast Florida division. My summary today will contain information on the two purchased power agreements that FPU has in place and the alternative position that we have provided regarding the Northwest Florida division purchased power adjustment.

As a little background, FPU began the process to secure new purchased power agreements in both divisions during April 2005. The very detailed process identified the existing suppliers for both divisions were the best possible solutions. The contract for the Northeast Florida division between FPU and JEA was amended and was effective January the 1st, 2007. The contract for Northwest Florida between FPU and Gulf Power/Southern Company was executed and became effective January the 1st, 2008. Previous contracts with both companies contained pricing for the entire term of the contract that was identified within the contract. The amended contracts or the new contract did not identify all the pricing components within the contract but did identify the methodology used to determine those prices.

The new process resulted in some issues during the initial term, which resulted in some undercollection of fuel revenues and the necessity for midcourse corrections. These issues have been thoroughly discussed with all the parties involved and it appears these have been corrected.

It has been a well-documented fact that the new contracts would bring significantly higher prices than FPU customers had enjoyed under the previous contracts. Because of this increase, FPU has been very assertive in working with both contracts to ensure the price of purchased power was as low as possible. FPU retained consultants to assist in the process and have conducted numerous meetings to review and discuss the determination of the cost-based methodologies.

Legal remedies have also been explored, but the lack of substantial basis led to the decision not to proceed in that direction. FPU has taken all prudent measures to manage the cost of purchased power in both contracts. Although the cost has resulted in FPU customers paying higher prices, the calculations do comply with the language contained within the contracts. FPU will continue discussions and will review any alternatives that we may be able to find in order to reduce these prices.

Due to the large increase in Northwest Florida, we have developed an alternative to help reduce the cost of energy by deferring the collection of the underrecovery that is currently projected at the end of 2009. The deferral would use approximately 295,000 to pay for the amortization of the underrecovery, which would defer pole inspections, joint use audits and a portion of the tree trimming. Since this service area is located inland and is not subject to significant damage that would be expected along the coast, this deferral would reduce the electric cost while not adversely impacting the damage and outages that may occur if a hurricane struck this area.

Thank you, and thank you for the extra time.

MR. HORTON: And the witnesses are available.

CHAIRMAN CARTER: Thank you. Ms. Christensen.

MS. CHRISTENSEN: We have no questions.

CHAIRMAN CARTER: Commissioner Skop, you're recognized.

COMMISSIONER SKOP: Thank you, Mr. Chairman.

Just one question. And, Mr. Horton, if you could direct me to the proper witness.

If I recall my memory with respect to the midcourse correction, I had raised the issue initially under the power purchase agreement that FPUC had with JEA. What caught my attention at the time is that initially for budget planning purposes I believe that JEA had represented to your client that they would not seek a fuel adjustment increase or something -- it was a long time ago, so I'm trying to help me remember what my concern was at the time.

Subsequent to that, they pointed to the contractual provision. I think my concern, as best I can remember it, is if JEA made a representation only to fall back on the contract, then why would they be not estopped from making that representation and why have they not waived the contractual provision by virtue of the representations that they made to your client? So who would be the best witness? It's a concern in passing, and then I'll go to our staff.

MR. HORTON: I think Mr. Cutshaw would be in a better position. I think he was the one that made some presentations to JEA and had the contacts with, with JEA.

COMMISSIONER SKOP: Thank you.

Mr. Cutshaw, if you could just briefly elaborate on that. And did you, in fact, identify the fact that they had made representations to your company there would be no additional increase, only to fall back on the underlying contract?

MR. CUTSHAW: That's correct. Let me give a little background information also. As we're here today in the fuel docket, and I think that's what we all commonly refer to what is occurring here, it may be the 01 docket, it may be the fuel docket, but in general -- and I think I've heard several people say the fuel docket.

And in the past with our previous contracts we knew for a ten-year period what all costs would involve, and I guess through those years we, we became comfortable knowing what those costs were. The contracts with JEA or the contract with JEA changed effective January the 1st, 2007.

Prior to that we'd had a lot of communication with them. We had talked about fuel costs, fuel costs. And that was in my summary one of the issues that came to pass was we con, we contacted them prior to this proceeding or preparing for this proceeding and said, "You know, we're getting ready to file our fuel projections for next year. Are there going to be any changes?" "No, there will be no changes in the fuel."

From the perspective of FPU, we look at the contract as our fuel cost. From every other company within the, within, that was here today, they look at fuel as coal prices, they look at nuclear, they look at oil. And the issue at that point was simply a miscommunication between myself and them. When I said fuel, I meant everything. When they said fuel, they meant their coal prices.

So was there miscommunication? Yes. Was it intentional? No. I think that was the history of what had occurred between us and, and JEA in the past. So there was no intent on anyone's part to, to lead us astray. It was simply the changes in the contract, changes in terminology. We made a mistake and that was the, that was the basic cause of what had occurred.

COMMISSIONER SKOP: All right. Thank you. And just to clarify, I don't believe that FPU made the mistake. Again, my memory, and I'm not to fault FPU. What I was merely trying to do is make sure that FPU was protecting its legal rights such that its ratepayers did not incur a cost that likely could be transferred to them, but by virtue of some intervening event might have precluded JEA from seeking that recovery. So, again, I don't really have a problem with this.

But what my memory seems to turn on is I think there was a document or a written document that was alluded to, and again this is many months ago, where FPU had stated that JEA expressly stated this, which might constitute waiver or estoppel from them seeking to, seeking to push through that increase. And so that was my concern, whether they had, you know, said something that precluded them from doing that, notwithstanding what the contract said. I know the contract allows it, but it seemed to me that they took some intervening action there. And if I -- I'm just trying to get to the bottom of whether there was a written document that would hinder their ability to seek recovery of those amounts, thereby protecting your ratepayers, or was there no written document? And I think that'll answer my question.

MR. CUTSHAW: And I can't remember exactly where that was provided, but we did have a written document from JEA where we had asked them to provide us with changes in their fuel cost for this year. They did provide, and I think that was one of the production of documents that we gave earlier. It did express that there would be no change in the fuel cost. But, again, that was the fuel component and did not really include the, the demand, the energy and other environmental costs.

COMMISSIONER SKOP: Okay. So as it was understood, the fuel, the term "fuel" was ambiguous in that written document.

MR. CUTSHAW: That's correct.

COMMISSIONER SKOP: I think there's a contract case law on that, some ship or something. Do you remember that from a long time ago, Chairman? What the name of ship was -- it was two different ships.

But, okay, I mean, I just wanted to, to make sure because, again, my interest is making sure that you're protecting your ratepayers. If there were a mistake or what have you, I'm comfortable with the fact that you tried to advocate and weren't successful. But, again, it's important that we look at those opportunities when they present themselves. If they tell you one thing and then seek to do another, that, you know, that should give you some sort of latitude to, to protest, which I think you did. So that was my only concern. Thank you, Mr. Chair.

CHAIRMAN CARTER: Thank you, Commissioner.

I just, I've got just kind of a -- let me give you up-front, I like to stay out of the weeds. Okay? So this is not, this does not require that.

On the, the rates that breaks out per, per residential customer or per customer, how much would that be per month?

MR. YOUNG: I think you're addressing that question, but I'm just -- which rates are you talking about and which customer?

CHAIRMAN CARTER: Well, here, let me tell, let me explain to you what rates I'm talking about, is that you said, you said that what you were going to do is take some of the --

MR. YOUNG: Oh, you're talking about the northwest customers.

CHAIRMAN CARTER: Yeah. And you were going to take some of the, I guess it would be the storm cost recovery funds and put it in to reduce the rates.

MR. YOUNG: Yes.

CHAIRMAN CARTER: And your colleague said that they were going to use costs that they have for tree trimming and things of that nature.

MR. YOUNG: Yes. Yes.

CHAIRMAN CARTER: So that's -- I'm trying to get to the bottom line on a monthly basis.

MR. YOUNG: The monthly basis without the, applying that trim, what we called storm hardening cost recovery, we're looking at $155.52. If we're allowed to apply one year's worth of storm hardening recovery rates against that, then we're looking at a typical bill of $149.95.

CHAIRMAN CARTER: It's about $6 a month; is that --

MR. YOUNG: Yeah. Close to $6 a month.

CHAIRMAN CARTER: Okay. All right. I just, Commissioners, I just wanted to kind of see what the bottom line was per customer per month on that.

Anything further from the bench? Staff, do you have questions?

MS. BENNETT: I do.

CHAIRMAN CARTER: You're recognized.

MS. BENNETT: The good news is you guys asked most of my questions, so that shortens them quite a bit.

CROSS EXAMINATION

BY MS. BENNETT:

Q. Good afternoon, Mr. Young, Mr. Cutshaw and Commissioners. Bear with me. With Issue 3A there wasn't a whole lot of testimony, and so I wanted to make sure that you all were aware of the discovery responses. And Ms. Williams is passing out those discovery responses. It kind of gives you more of an in-depth view of what exactly the utility did after it was notified of the increases and came to us for a midcourse correction. So they're returning the -- or Ms. Williams is passing out interrogatory responses that FPUC provided to staff asking about those issues. And while she's passing those out, I have a generic question.

CHAIRMAN CARTER: I have a generic answer.

MS. BENNETT: Okay.

CHAIRMAN CARTER: Oh, generic question to the witnesses.

MS. BENNETT: For the witnesses.

CHAIRMAN CARTER: Oh, okay. You're recognized.

BY MS. BENNETT:

Q. Just for clarification, I think you've said this, FPU purchases all of its power for Fernandina Beach or the northeast division from FPU; is that correct -- or from JEA; is that correct?

A. (By Mr. Cutshaw) Yes. That is correct.

Q. When was the contract between JEA and FPU, the most recent contract signed?

A. The most recent contract was amended in November of 2008.

Q. Okay.

A. The changes for that contract were simply to do with the assignment possibilities for that contract, but it did not change any other factors within the contract.

Q. Okay. And we've talked a little bit about the history of what happened over the midcourse correction and how this issue was raised in the fuel docket.

In response to staff's third set of interrogatories, Number 17, FPU states that it evaluated its legal recourse with regard to the JEA contract with legal counsel. And without disclosing any attorney-client privileged information, can you tell the Commission what decisions FPU made and why about its legal recourses?

A. As we moved through this process, we, we closely and carefully looked at the contract to see what rights that JEA did have. We retained an additional counsel, not that Mr. Horton was not the best in the world, but we did have another separate counsel that was involved, and we involved them very closely in the discussions that we had with JEA. We looked at the changes they had proposed. We went in-depth with different cost of service methodologies to look at how they were performing their calculations compared to the calculations that we felt were appropriate. And in discussing that with the legal counsel and their research into basically cost of service type studies, they found that the cost of service study that JEA did use for a municipal utility was appropriate and that they could not find anything that had, that was incorrect that had not been corrected. There were no -- there was nothing being used that was out of line with generally accepted practices.

Because everything fell in line with generally accepted practices, it was a known cost of service methodology, that there was, there was no recourse with FERC because there was nothing being done that was incorrect.

Q. I'm sorry. Go ahead.

A. So at that point, you know, we'd had additional discussions and decided rather than take the matter to FERC with a very, very low probability of any success, that we did not follow through with that.

Q. And in response to staff's first set of interrogatories, you did take some follow-up proceedings or steps with JEA. Would you explain what you provided to the Commission in response to staff's first set of interrogatories on the analysis FPU performed to determine that the JEA rate increase was fair?

A. After we got notification of the increase, we hired another consultant who had assisted us in the RFP process that secured this agreement. They looked at the cost of service methodology used by JEA. They also used additional cost of service methods that we, we used as a comparison, a benchmark to what JEA said the costs were going to be. We had from that many, many discussions. We, from our perspective, felt like there were some small successes. There were some changes that JEA did, did make to their cost of service methodology that did result in slightly lower prices. We went through the process. We had, like I mentioned, many discussions. We still didn't feel like they moved all that they could.

We ultimately made a presentation to the JEA board of directors, which I was brilliant in the discussion, in my presentation. However, they did not accept our proposal and kept the rates as proposed by their staff.

Q. And did you tell me earlier, does the contract give JEA the authority to determine which cost of service method to use, or is that FPU, FPUC's ability?

A. Within the contract, and I do not, it's in this pile somewhere, but it does specify that the, that JEA will use a generally accepted cost of service methodology to determine their rates. Since they are a municipal utility, and, again, I am not an accounting expert, but apparently they use different methods to determine their rates as compared to what a, or an investor-owned utility would use.

Q. And I think I heard you say that there was some reduction in the rates based upon your presentation to JEA; is that correct?

A. Yes. Because we do have two paper mills, they have a large impact on the demand that JEA sees from our service. They can be heavily using and then the next minute they're offline. We were able to explain this fact to JEA. There were several instances where they were using noncoincident peaks caused by the mills in their cost of service study. As we went through and did the studies, we were able to demonstrate that it was a one-time occurrence because of the paper mill, and they did back off on that and used our normal, what we would call a normal noncoincident peak demand that was not being impacted by the paper mills.

Q. Okay. And one final question with regard to Issue 3A from me. It's my understanding that JEA delayed the implementation of the rates for two months; was that correct?

A. Originally they were wanting to start, and I would have to go back again and look at the, the letter, but I believe it was in, they were wanting to begin in March. Because of our efforts they delayed that 'til April. And our additional efforts, they delayed it 'til May. So we were able to have them delay the implementation of the new rates by two months.

Q. Okay. I want to turn us now to Issue 3B. And Issue 3B asks, "Should the Commission approve FPUC's proposal to use a portion of storm hardening revenues to mitigate increases to its customers in the northwest division, which is the Marianna Division?"

I think you've already answered Chairman Carter, but what was a typical 1,000 kilowatt residential bill in 2009? Not 2010, but 2009.

A. (By Mr. Young) Hang on one second. For the northwest division was $136.59.

Q. And without the mitigation proposal what will it be for 2010 if the Commission approves FPU's requested increase?

A. $155.52.

Q. What's the reason for the increase?

A. I -- that was covered in our, the issue we had previously, I think it was Issue 10, and it goes on to explain in Issue 11.

Similar to what happened with JEA, we also get fuel costs from Gulf Power. And even though the fuel costs have been decreasing, there's an environmental component that has increased materially between 2009 and 2010, and that's what's making up most of the increase.

Q. So the 2009 underrecovery and then the environmental costs --

A. Yes.

Q. -- have caused the increase?

A. Yes.

Q. So I think I've heard you testify that the portion of the increase that's the 2009 underrecovery is $1,725,320; is that --

A. Yes, it is.

Q. Is that more than a 10 percent underrecovery?

A. Not quite.

Q. What is the percentage underrecovery?

A. I think it's closer to 8.

Q. Okay. On Page 8 of Mr. Cutshaw's testimony, he states that in response to the --

CHAIRMAN CARTER: I think he was looking.

MS. BENNETT: Oh, I'm sorry.

MR. YOUNG: Yeah. I'll find it for you.

MS. BENNETT: Okay.

(Pause.)

MR. YOUNG: Can you give me a few minutes? This is -- I can get that for you.

MS. BENNETT: Actually, Mr. Chairman, I was mostly concerned if it was a 10 percent underrecovery. So I don't -- if it's approximately 8 percent, we can accept that.

MR. YOUNG: Okay.

CHAIRMAN CARTER: Okay. He'll start looking. He'll continue to look while you ask Mr. Cutshaw your questions.

MR. YOUNG: Yeah, I will.

MS. BENNETT: Okay.

CHAIRMAN CARTER: You may proceed.

BY MS. BENNETT:

Q. Mr. Cutshaw, on Page 8 of your testimony, you state that in response to the significant increases in the northwest division's customer rates, FPUC is continuing discussions with Southern Company to determine if reductions are possible; is that correct?

A. (By Mr. Cutshaw) That is correct.

Q. What are the results of those conversations with Southern Company to date?

A. As of today there are, there has been no changes in the, in the rates. We have had correspondence between some of our upper management and the upper management, management of Southern Company. We're -- we've expressed our concerns and have provided them with some alternatives that we would like to see discussed. They have agreed to sit down with us and discuss those items. But as, as of today we don't know if there will be any changes or where we will go from here, but we are continuing to explore all possibilities on either modifying the contract or whatever we can do to try to continue to keep our costs down.

Q. Okay.

CHAIRMAN CARTER: Hang on. I think Mr. Young has found it. Mr. Young.

MR. YOUNG: Yes, I do have it here. I have 5.24 percent.

MS. BENNETT: Okay. Thank you.

BY MS. BENNETT:

Q. And, Mr. Cutshaw, back to your options that you're considering, the one that you recommend to the Commission is to use the storm hardening to reduce the 2009 underrecovery; is that correct?

A. (By Mr. Cutshaw) That's correct.

Q. Is it correct to say that this mitigation proposal for the Marianna Division would reduce storm hardening expenses for one year and use the storm hardening revenue to reduce the 2009 fuel underrecovery?

A. That is correct.

Q. Is it correct to say that this mitigation proposal would in effect subsidize fuel rates with base rate revenue?

A. Yes, it would.

Q. You're making this rate mitigation proposal as a way of starting discussions of ways to reduce fuel costs in the northwest division; is that correct?

A. Yes, it is.

Q. But while you're making this proposal, the positions that FPUC has taken in its prehearing statement are to implement the full effect of the fuel cost increases. I'm just making sure I understand that the numbers in the prehearing statement are the ones that do not reflect the $5.60 decrease; is that correct?

A. I'll have to let Mr. Young answer that one.

A. (By Mr. Young) That is correct.

Q. Isn't it true that the Commission included an expense allowance for storm hardening work, tree trimming, pole inspections in FPUC's most recent base rate proceeding?

A. (By Mr. Cutshaw) Yes. There was some additional revenues provided for pole inspections, joint use audits.

Q. And was that expense for Marianna only or was it Marianna and the northeast division, Fernandina?

A. That was included for implementation in both divisions.

Q. And how does FPU propose to distinguish the collection of the monies for work in the Fernandina Division versus the Marianna Division when it's reducing the fuel cost recovery for the Marianna Division only?

A. The way we're currently operating within the two divisions is to -- we have identified, and I'll take, for example, the pole inspections. The number of poles that we are to inspect each year in the Northwest Florida division is different than northeast. What we would do is defer the inspection of approximately 3,000 distribution poles in Northwest Florida. We would continue the inspection of the 600 poles in Northeast Florida. So we would have an identified cost for Northwest Florida that we could utilize to help defer the collection of the underrecovery.

We have a similar situation with the joint use audits. We could defer that and we would have a specific cost identified that would be deferred. We could go further and do that with the tree trimming also. We know how much a tree trimming cost, tree trimming crew costs per year. We would take those and defer that cost for a one-year period.

You were talking about separating it between the two divisions. I don't, I don't know that the rates would, the base rates would not change to be able to segregate those costs.

Q. Mostly what I was asking about was how do you segregate the base rates and continue the tree trimming in the one area and not in the other and how is that equitably divided? And I think you said you will set this accounting mechanism up. Has that been done yet?

A. (By Mr. Young) Yes. The costs that we include here, that 295,000, as Mr. Cutshaw had mentioned, that's only the costs of the tree trimming that was going to be covered in the northwest division. So we were, internally we were able to isolate what costs are going to be applied to what division. And that's the costs for the -- the cost on the base rates that are designated for northwest is what we're going to use to apply to the fuel.

Q. Let's go back to the base rate proceeding that you had recently with the Commission. And isn't it true that FPUC represented to the Commission in its last base rate proceeding that it needed storm hardening revenue because FPUC intended to implement storm hardening programs such as the expanded tree trimming program, the pole inspections and so on for the Marianna Division? Wasn't that part of your rate case before the Commission?

A. (By Mr. Cutshaw) Yes, that is correct. And there were additional revenues granted for the pole inspections and the joint use audits. There were no additional funds given for tree trimming.

Q. Are you proposing to amend your recent base rate proceeding with this?

A. That is correct. We -- well, not the base rate proceeding. We would amend our storm hardening plan to reflect these changes.

Q. That was my next question. Are you going to be able to meet your storm hardening plan if this were to be implemented for Marianna?

A. We feel like if we defer this for a one-year period, there may be a possibility down the road that we could catch up on the pole inspections, the joint use audits. The tree trimming, we're, we would not be able to catch up on that, so we would not be able to meet our, our obligations for tree trimming that's specified within the storm hardening plan.

Q. If customers don't know what the true cost of their electricity is because it's being subsidized by a base rate, how will they know that for 2011 they really should reduce consumption to keep their bills the same?

A. Could you repeat that one time for me, please?

Q. Sure. We've been hearing a lot of the

Commission talk about price signals and what's the appropriate price signals to customers and the consistency of rates through the year. FPU is proposing to basically subsidize its fuel costs by using a portion of the base rates. How will customers know to reduce their consumptions to keep their bills lower in 2011 if the Commission were to implement the rate mitigation in 2010?

A. One of the things that we have worked on in Marianna specifically for the last couple of years is to educate our customers on the increasing costs. Most of the customers have seen significant increases. Their costs since January of 2007, assuming that we have the increase as requested this time, will have gone up 121 percent. So their, their costs, they've been hit, as, you know, the mayor did say or the city manager did say, you know, their costs have gone up over double in, since January of 2007. They know what electricity costs now and they are all on a daily basis doing everything they can to reduce cost. Our, our usage in that area demonstrates that they are continuing to watch their usage. They know how much it costs now because it has impacted the area very dramatically.

Q. The mitigation --

CHAIRMAN CARTER: Hang on a second,

Ms. Bennett. You look like you're getting ready to go down another line.

MS. BENNETT: I only have a few more questions.

CHAIRMAN CARTER: Well, let's do this, so you guys can talk to the parties and be back, let's go ahead on, Commissioners, we're on lunch.

MS. BRADLEY: Since we've not taken a position on the rest of these issues, may I ask to be excused?

CHAIRMAN CARTER: You are excused.

MS. BRADLEY: Thank you, sir. I appreciate it.

CHAIRMAN CARTER: Yes, ma'am.

(Recess taken.)

(Transcript continues in sequence with Volume 3.)

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

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

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

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

DATED THIS _____ day of _____________________, 2009.

____
LINDA BOLES, RPR, CRR
FPSC Official Commission Reporter
(850) 413-6734

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

I, LINDA BOLES, RPR, CRR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

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

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

DATED THIS 5th day of November, 2009.

Linda Boles

LINDA BOLES, RPR, CRR
FPSC Official Commission Reporter
(850) 413-6734