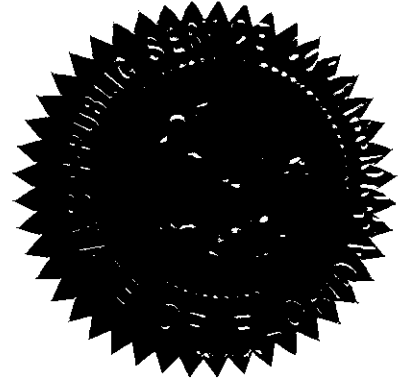


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080001-EI

In the Matter of:

FUEL AND PURCHASED POWER COST RECOVERY
CLAUSE WITH GENERATING PERFORMANCE
INCENTIVE FACTOR. (GULF POWER COMPANY)



PROCEEDINGS: AGENDA CONFERENCE
ITEM 13

BEFORE: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Tuesday, July 29, 2008

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

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

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1 PARTICIPATING:

2 JEFFREY A. STONE, ESQUIRE, representing Gulf Power
3 Company.

4 LISA BENNETT, ESQUIRE, and PETE LESTER, representing
5 the Florida Public Service Commission staff.

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P R O C E E D I N G S

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2 CHAIRMAN CARTER: We are back on the record with our
3 Agenda Conference and now we are on Item 13. Staff, you're
4 recognized.

5 MR. LESTER: Commissioners, I'm Pete Lester with
6 staff.

7 Item 13 addresses whether the Commission should
8 approve Gulf Power Company's petition for midcourse correction
9 to its 2008 fuel factors based on a projected underrecovery of
10 \$76 million.

11 Gulf has requested an increase in its fuel factors to
12 recover an additional \$41 million in the last four months of
13 2008 and to defer \$35 million to 2009. The underrecovery is
14 based on increased coal costs.

15 On Attachment A, Pages 15 and 16 of the
16 recommendation, staff has presented four options for recovery
17 of the cost. Option A would recover, would recover the cost,
18 all the costs in 2008. Option B would defer the costs to 2009.
19 Option C is the company's request and would recover \$41 million
20 in 2008 and defer \$35 million to 2009. And Option D would
21 spread the recovery over 16 months, that is the last four
22 months of 2008 and all of 2009.

23 Staff recommends the Commission approve Option C
24 based on rate stability, and staff is available to answer your
25 questions.

1 CHAIRMAN CARTER: Commissioners, before we -- let's
2 just hear from the company, then I'll just make a couple of
3 housekeeping statements.

4 Good morning, Mr. Stone, you're recognized.

5 MR. STONE: Thank you. Thank you, Mr. Chairman. I'm
6 Jeff Stone of the Law Firm of Beggs & Lane, and I serve as Gulf
7 Power Company's general counsel and it's in that capacity I'm
8 here before you today. We're here basically in support of the
9 staff's recommendation and here to answer any questions.

10 We're in a period of almost unprecedented fuel
11 volatility. Since the filing of our petition we have filed, of
12 course, our actual A Schedules for the month of June. And we
13 recognized that since we filed our petition there has been an
14 increase in our projected underrecovery for the end of the year
15 from what we, what we advised the Commission at the time of our
16 midcourse correction. However, we are not changing our request
17 and we are asking that the Commission approve the staff's
18 recommendation for Option C.

19 CHAIRMAN CARTER: Thank you so kindly.

20 Commissioners? Commissioner McMurrin, then
21 Commissioner Skop, then Commissioner Edgar.

22 COMMISSIONER McMURRIAN: Actually, Chairman, I had
23 comments. But if there are questions, I could wait.

24 CHAIRMAN CARTER: Questions?

25 COMMISSIONER McMURRIAN: Are there questions?

1 CHAIRMAN CARTER: Commissioner Skop.

2 COMMISSIONER SKOP: Thank you, Mr. Chairman, and I
3 have comments also.

4 But I think yesterday during briefing staff mentioned
5 that perhaps there would be an alternate variant of Option C
6 that would be a 50/50 exact split, and do we have that
7 available?

8 MR. LESTER: I believe we talked to the company about
9 the 50/50.

10 MR. STONE: Commissioner, I apologize. We left that
11 information in the car. We'll have someone get out and get
12 that for you.

13 COMMISSIONER SKOP: I appreciate that. Thank you.

14 CHAIRMAN CARTER: Have you -- okay. Let's go with
15 our comments. Commissioner Edgar, you're recognized.

16 COMMISSIONER EDGAR: Thank you, Mr. Chairman. Very
17 briefly I'd just like to kind of reference back to the
18 discussion that we had at a previous recent agenda item with
19 similar midcourse correction requests from FPL and from
20 Progress, and we had long, long discussion. I think many of
21 the issues are similar and so I would, rather than going
22 through all of that again, I would reference my comments and
23 the debate and discussion that we had. Then, as I said at that
24 point in time, it's always painful and it's gut-wrenching to,
25 to vote to impose an increase. But I do think looking at the

1 numbers and the situation that we are in and the fuel prices
2 and costs and, as has been stated, the volatility, that the
3 recommendation that we have before us from our staff, it does
4 seek to levelize and to stabilize rates month to month over the
5 next 12 to 17 months. And I do believe that that
6 recommendation is consistent with the decisions that we've made
7 recently in the past with, again, those other midcourse
8 correction requests that we had. And with that, I'm able to
9 support the staff recommendation.

10 CHAIRMAN CARTER: Thank you.

11 Commissioner Argenziano, are you with us?

12 COMMISSIONER ARGENZIANO: Yes, I am.

13 CHAIRMAN CARTER: Okay. Good deal. We're basically
14 in comments right now, Commissioner, if you had some. We're on
15 Item 13, the Gulf Power Company midcourse correction.

16 COMMISSIONER ARGENZIANO: No. No. Just, just a
17 question.

18 CHAIRMAN CARTER: Okay. You're recognized for a
19 question.

20 COMMISSIONER ARGENZIANO: Didn't Gulf, didn't they
21 have an actual rate case in 2002?

22 MS. BENNETT: Yes, Commissioner Argenziano. This is
23 Lisa Bennett. They did have an actual rate case that went to
24 full hearing in 2002.

25 COMMISSIONER ARGENZIANO: Okay. So it makes it a

1 little different for me as far as we have looked at, you know,
2 looked closely at them recently. It hasn't been 24 years or
3 any length of time since they've been really reviewed; is that
4 correct?

5 MS. BENNETT: That is correct, Commissioner
6 Argenziano.

7 COMMISSIONER ARGENZIANO: Thank you.

8 CHAIRMAN CARTER: Thank you. Commissioners, we're in
9 comment. Commissioner McMurrian and then Commissioner Skop.

10 COMMISSIONER McMURRIAN: Thank you, Chairman.

11 And I know you all remember in our last fuel
12 midcourse items I dissented from the majority's decision
13 because I agreed with the staff recommendations for Option A,
14 which, y'all remember, was to allow utilities to collect the
15 full projected 2008 underrecovery, excuse me, over the
16 remaining months of 2008. The majority voted to approve
17 Option C, which allowed the utilities to instead collect half
18 of the identified underrecovery during August through December
19 of '08 and defer collection of the remainder to '09.

20 My support for Option A on the Progress and FPL items
21 was premised on several key factors and several of them are
22 mentioned in the staff recommendation, including accuracy of
23 price signals, the compounding effects of deferring the
24 midcourse correction, substantial projected 2009 increases to
25 nonfuel rates, interest costs associated with deferring the

1 underrecovery and intergenerational inequity. And, finally,
2 Option A appeared to offer the greatest degree of stability in
3 the fuel factor from 2008 to 2009.

4 However, in Gulf's midcourse petition before us today
5 they propose Option C recovery. And in Gulf's case Option C is
6 the most regulatory sound choice, I believe, in consideration
7 of both the short-term and long-term impacts on the consumer
8 because it offers the greatest degree of stability in the fuel
9 factor from 2008 to 2009. Though I still maintain Option A was
10 the best for Progress and FPL, I would not apply this method so
11 rigidly such that it leads to unreasonable results for Gulf
12 Power's consumers.

13 Unlike Progress and FPL, Gulf's Option A would
14 require a huge increase in the remainder of 2008, approximately
15 22,000, I mean, \$22 per 1,000 kilowatt hours on a total bill
16 basis, and then a large jump back down in 2009 between \$11 and
17 \$14 per 1,000 kilowatt hours. This option would appear to
18 produce more erratic and less stable rates than the proposed
19 Option C. And there are other key differences in Gulf's
20 petition as well and they were all noted in staff's rec.
21 Gulf's underrecovery percentage is significantly larger at
22 18.39 percent compared to the 10.84 percent for Progress and
23 12.9 for FPL.

24 Gulf's petition is based on increasing coal prices
25 due to a force majeure event; whereas, Progress's and FPL's

1 were based primarily on increasing oil and gas prices. And
2 because Gulf is primarily coal-based, it's less susceptible to
3 natural gas price increases compared to the other IOUs.

4 And, finally, Gulf, though it is expected increases
5 in nonfuel expenses in 2009 in the environmental clause and the
6 capacity clause, and, of course, we haven't ruled on those yet,
7 but there are expectations that those costs will increase in
8 2009 to some degree, it doesn't have nuclear charges or base
9 rate increase charges in 2009. And its storm surcharge will
10 end in 2009 and will somewhat offset the nonfuel increases that
11 I mentioned earlier in environmental and capacity in the latter
12 half of the year.

13 So given the analysis of all those factors, and I
14 appreciate you letting me explain the differences in these
15 cases and why I dissented on those and would not be dissenting
16 on these if the staff recommendation is approved, I support
17 staff's recommendation to approve Option C in this case. Thank
18 you.

19 CHAIRMAN CARTER: Thank you, Commissioner.

20 Commissioner Skop.

21 COMMISSIONER SKOP: Thank you, Mr. Chairman, and
22 thank you, Commissioner McMurrin, for the comments that you
23 made in distinguishing between the past and the current
24 petition.

25 I guess I took a little bit different approach and,

1 again, under the premise that it's important to be fair and I
2 guess that's why when staff mentioned there may be an alternate
3 analysis that was strictly 50/50, I know we're talking about a
4 few percentage points, but, again, it does have an impact. You
5 know, it was I think my concern to try and be consistent across
6 the board for all of our major investor-owned utilities because
7 I think that's good regulatory practice.

8 But what I just wanted to offer or comment upon, and,
9 again, I took a little bit of a different approach, at least to
10 me Option D is almost equally attractive as Option C, and
11 here's why I think that's true.

12 If you look at Option D, which is spreading recovery
13 over 16 months -- and, again, I'm fully with Commissioner
14 McMurrian on this. If we were in any other different economic
15 times and the costs deemed to be prudent, I would, I would
16 likely grant full recovery, but, again, times are, times are a
17 little bit different now. And I think that Option D is
18 attractive to me because if you look at the fuel cost recovery,
19 the percentage in the remainder of 2008 is roughly -- let me
20 make sure I can do my math. Commissioner Carter, I need that
21 solar calculator.

22 CHAIRMAN CARTER: You need the solar calculator.

23 COMMISSIONER SKOP: But I think it's over a
24 10 percent difference and translates into a 6 percent cost
25 increase through the remainder of 2008. And you have a

1 slightly larger increase in 2009 versus the huge increase,
2 11.3 percent through 2008 in Option C. And just in a nutshell,
3 I think that Option D is attractive because to me, again, it
4 provides some near-term economic relief to consumers through
5 the end of 2008 along the lines of some of the other concerns
6 that were previous, previously mentioned or addressed to the
7 Commission. It also would assist schools and local governments
8 with appropriately planning to the extent that they don't have
9 a huge variance and they have a little bit forward-looking
10 flexibility on what 2009 may hold.

11 And also, too, with respect to consumers in the
12 Panhandle and specifically in Gulf's service area, I mean a lot
13 of concern has been raised about people on fixed income and
14 consumers and people being able to balance and juggle all of
15 these, these costs. And, you know, at least with the rate
16 increase beginning in 2009, which is more substantial in Option
17 D, at least that kind of corresponds with cost of living
18 adjustments that retirees would get or Social Security
19 recipients might get. So to me I found it to be a little bit
20 more attractive. I looked at the differential in interest,
21 which is about \$400,000, and that translates to about \$1 per
22 customer difference. But there are some substantial savings
23 through the remainder of 2008, which would likely be about, I
24 think, over the Option -- Option D over Option C, it's about
25 just under \$5 or more. And, of course, you have a little bit

1 of an increase in 2009. But it certainly allows people some
2 adequate time to plan for that increase. The utility is
3 adequately protected. Again, as I previously mentioned, our
4 regulatory policy is to have better than average ROEs and, you
5 know, they're receiving interest on the amounts that are
6 underrecovered.

7 But Option D, again, just in a nutshell, I just
8 wanted to put that out as a basis for alternate consideration
9 over and above the staff recommendation because I did think
10 that it had some substantial benefit to consumers that, again,
11 was attractive.

12 COMMISSIONER ARGENZIANO: Mr. Chair?

13 CHAIRMAN CARTER: Commissioner Argenziano.

14 COMMISSIONER ARGENZIANO: I agree with Commissioner
15 Skop. I like Option D. I think it provides the best scenario,
16 I think, for the consumer, and taking into consideration the
17 cost recovery for the company also. So I'm, I'm favorable to
18 Option D. I think it's less of a, of a jolt to the consumer.

19 And I also just wanted to make the comment, as I
20 mentioned before, the reason I asked about the rate case is
21 because I want to be consistent in my other votes, with my
22 other votes, that I cannot go for the -- I could not take the
23 vote without knowing that we've had a Commission rate case for
24 the company. And since Gulf has had that in '02, I feel
25 comfortable in doing so today.

1 CHAIRMAN CARTER: Thank you, Commissioner.

2 Commissioner Edgar, you're recognized.

3 COMMISSIONER EDGAR: Thank you. I would like to ask
4 staff to speak to why they recommended Option C over Option D,
5 and also share -- from hearing the comments from Commissioner
6 Argenziano and Commissioner Skop, that they're considering
7 Option D to perhaps be better for the consumer. What gives me
8 pause with that is that jump between December of '08 to January
9 of '09, which is in Option D, you know, more of a bump with
10 Option D than with Option C. And maybe again just to -- you
11 know, because Santa Clause comes to my house, and I'm thinking
12 December to January.

13 CHAIRMAN CARTER: Ho, ho, ho.

14 COMMISSIONER EDGAR: But, again, what I found
15 attractive about Option C was the more level approach over the
16 full term that we are looking at, and with that larger bump
17 between September through December, from September through
18 December through January to June, that does give me some pause
19 as to why that would be, would be better for consumers. So I'd
20 just like to throw that out and maybe have a little more
21 discussion.

22 CHAIRMAN CARTER: Staff, you're recognized.

23 MR. LESTER: We primarily went with Option C because
24 basically the increase occurs and the bills stay fairly level
25 from September 2008 on through all of 2009, and I believe the

1 company worked it out that way. You can see that on the fuel
2 cost recovery line for Option C, just the fuel cost recovery
3 portion of the bill stays virtually level for those three
4 periods. So, I mean, there's no real hard science on this or
5 anything. But we, we went with the idea that, you know, the
6 increase would occur and then the bills would stay relatively
7 level and that would provide rate stability for customers, and
8 at least we view that as a good planning value for customers.

9 COMMISSIONER ARGENZIANO: Mr. Chair?

10 CHAIRMAN CARTER: You're recognized.

11 COMMISSIONER ARGENZIANO: I hadn't thought about
12 Commissioner Edgar's point. That time of year is a time when,
13 you know, that is a time of year when consumers are spending a
14 lot of money on other things or trying to spend some money on
15 other things for Christmas and the holiday season, and that is
16 a consideration also.

17 CHAIRMAN CARTER: Commissioner Edgar.

18 COMMISSIONER EDGAR: Thank you. And just to follow
19 up on that note, the response from staff. I will harken back
20 again to the discussion that we had on, I think it was July 1st
21 about some of these items. And at that point I noted, or in
22 that discussion I noted that, you know, we, we all want to do
23 what is best for consumers, realizing just how hard it is with
24 the fuel cost increases in every facet of our life and that
25 there is really no right or wrong answer, and I appreciate

1 Commissioner Skop bringing, you know, a different approach.

2 I do see Option C as being, again, more consistent
3 with the approach that we used earlier on the other two
4 midcourse corrections, and that more stable across the time
5 period is, is attractive to me. But, again, I appreciate
6 having some discussion about the different options.

7 CHAIRMAN CARTER: Commissioner Skop.

8 COMMISSIONER SKOP: Thank you, Mr. Chairman.

9 And I agree with everything that Commissioner Edgar
10 said. Just the, you know, to me it's flip a coin between
11 C and D. You know, again, if we were purists, the 50/50 would
12 be probably the most fairest of all, but I'm going to base it
13 on what I have before me.

14 Again, just Option D was solely attractive because,
15 again, you know, as Christmas and the holidays come, you know,
16 you can send a price signal now that results in people having
17 less disposable income to do other things or stimulate the
18 economy. So I guess my philosophy, and, you know, I don't have
19 anything other to base it on other than hope, but it seems to
20 me that the, if we were to go with Option D and grant the
21 6 percent increase through the remainder of 2008 for the next
22 four months, that's, you know, a little bit less than the
23 11.3 percent under Option C. And, of course, you know, as the
24 year begins, you know, the percent change increases, you know,
25 not really dramatically, but, again, you can go for

1 stabilization or near-term economic relief. And I just think I
2 favor near-term economic relief to the extent that I think it
3 will help stimulate the economy.

4 And when the economy turns or when we get to the
5 beginning of the year it also facilitates organizations,
6 schools, local governments with planning, and consumers for
7 planning ahead for 2009. But also, too, getting to 2009,
8 that's when a lot of these cost of living adjustments kind of
9 kick in, at least some of the research that I've asked staff to
10 do indicated that. So it would allow consumers to better
11 absorb that, particularly those that are, you know, on retirees
12 or Social Security recipients, they get that cost of living
13 adjustment, which would help defray the increase to some extent
14 in 2009. So I can't say that one is better than the other. I
15 just took an alternate approach in looking at why Option D I
16 thought was attractive just by virtue of the near-term economic
17 relief that would help stimulate Florida's economy.

18 CHAIRMAN CARTER: I was just, I was just -- excuse me
19 for thinking out loud. I was just looking at the perspective
20 on, on Option C, which obviously I favor Option C, but I was
21 looking at the -- you start out at -- and most of the customers
22 would probably want to know, how much is it going to cost me
23 per month? And the percentages are here and there, but they
24 want to know, how much is it going to cost me per month? So
25 you're looking at \$113.76 for the remainder of '08. Then in

1 January of '09 it's like \$116.59, if I'm reading that
2 correctly. And then for the rest of the, from January to June
3 and then for the rest of '09 you go to \$113.95. Is that
4 correct, staff?

5 MR. LESTER: Yes, sir.

6 CHAIRMAN CARTER: And on D, Commissioners, you start
7 out at a lower rate obviously, \$108.36 for the rest of this
8 year. Then you pick up -- you're \$3 more that first period in
9 January to June, from \$116 -- well, \$2 more, \$116.59 to \$118.
10 And then you finish out the year from \$2 more, \$113.95 to
11 \$115.85. So I guess, you know, you -- it does seem a little
12 more stable. You're going from \$113 -- in Option C you go from
13 \$113 up to about almost \$3 more for about six months, then you
14 come back down to the \$113 and pretty much round out there.

15 In Option D you start out at \$108 and then you go up
16 \$10 more for the first six months, and then you, you come down
17 maybe \$3 for the remainder. So I guess it's six of one, half a
18 dozen of the other.

19 I still think that Option C seems to be the more --
20 and when you look at just how much people are going to pay per
21 month, people can really understand what's the bottom line.
22 And it seems to me the bottom line is, is, seems to be a little
23 clearer in Option C, Commissioners. And we're just in
24 discussion, so I'd love to hear what you have to say about
25 that.

1 Commissioner Skop, you're recognized.

2 COMMISSIONER SKOP: Thank you, Mr. Chair.

3 And, you know, like I say, I think it is, like you
4 say, six of one, half a dozen of another, flip a coin. I guess
5 to me the only thing I can distinguish, again, between that --
6 because I think both, both options are acceptable and, you
7 know, I'll adopt the will of the Commission. I just thought
8 that the, you know, for the remaining four months of 2008, you
9 know, having the \$108.36 versus the \$113.76 might serve some, a
10 small benefit to the consumers. I mean, granted they're going
11 to have a cost increase either way in 2009, but that difference
12 is, you know, splitting hairs; \$2 across the board in Option D
13 over Option C. And, again, I just don't have anything other
14 than, you know, maybe that would assist people in planning and
15 buy them a little time in the near-term. But that's the only
16 things that I can offer that Option D would be just more
17 attractive. I think they're about the same, as you correctly
18 pointed out.

19 CHAIRMAN CARTER: Commissioner McMurrian.

20 COMMISSIONER McMURRIAN: Thank you, Chairman.

21 I'm not trying to be argumentative, but I don't see
22 the difference in Option C and D as flipping a coin. I truly
23 am not, Commissioner Skop.

24 I can't support Option D for the same reasons I
25 couldn't support Option C last time. I think that it's putting

1 off too much for tomorrow that we need to be taking care of
2 today, because I'm still concerned that we're going to see
3 greater increases even in fuel costs next year. And I know
4 that Gulf has made projections and it looks like Option C will
5 sort of level out, at least what they think will happen as of,
6 as of this point or as of their filing. But I just, I can't go
7 along with Option D.

8 And I do note that we will be in Chipley tomorrow on
9 a different matter, and that is in Gulf Power's territory. And
10 I truly do believe that we can tell them with a straight face
11 that with Option C we've done the right thing for them. And so
12 I will be supporting staff's rec on Issues 1 through 3, and
13 I'll make a motion at the appropriate time.

14 CHAIRMAN CARTER: Commissioner Argenziano.

15 COMMISSIONER ARGENZIANO: Can you hear me, Mr.
16 Chairman?

17 CHAIRMAN CARTER: Yes, ma'am.

18 COMMISSIONER ARGENZIANO: Okay. I, as I said before,
19 I like D for the reasons Commissioner Skop had indicated. But
20 Commissioner Edgar brought up a very good point which I had not
21 considered, and it was the time of year. And a lot of families
22 are going to be in dire straits. There's going to be people in
23 dire straits just because of the increases anyway. I mean, I
24 don't know how -- I said it before, I just don't know how much
25 more the consumer can handle, although I know that companies

1 are entitled to their recoveries.

2 So I think that at this point C is going to be my
3 option. I think it's at the level, it's a more level bump, as
4 we might say, and not such a harsh bump in a time of holiday
5 season. And I'm not so sure that, you know, how things are
6 going to come out in the future. I just don't know how much
7 more the consumer can really handle. But at this point,
8 Mr. Chairman, Option C is the one I'm going to go for.

9 CHAIRMAN CARTER: Thank you, Commissioner.

10 Commissioner McMurrin, you're recognized.

11 COMMISSIONER McMURRIAN: I'll move staff rec on
12 Issues 1 through 3.

13 COMMISSIONER SKOP: Second.

14 CHAIRMAN CARTER: It's been moved and properly
15 seconded. Commissioners, any further questions or debate?
16 Hearing none, all those in favor, let it be known by the sign
17 of aye.

18 (Unanimous affirmative vote.)

19 All those opposed, like sign. Show it done.

20 (Agenda Item 13 concluded.)

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1 STATE OF FLORIDA)
 :
2 COUNTY OF LEON)

CERTIFICATE OF REPORTER

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4 I, LINDA BOLES, RPR, CRR, Official Commission
Reporter, do hereby certify that the foregoing proceeding was
5 heard at the time and place herein stated.

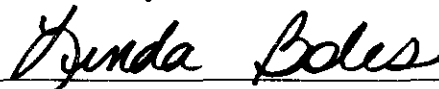
6 IT IS FURTHER CERTIFIED that I stenographically
reported the said proceedings; that the same has been
7 transcribed under my direct supervision; and that this
transcript constitutes a true transcription of my notes of said
8 proceedings.

9 I FURTHER CERTIFY that I am not a relative, employee,
attorney or counsel of any of the parties, nor am I a relative
10 or employee of any of the parties' attorneys or counsel
connected with the action, nor am I financially interested in
11 the action.

12 DATED THIS 13th day of August, 2008.

13

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FPSC Official Commission Reporter
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