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June 22, 2002

VIA FEDERAL EXPRESS

Blanca S. Bayó
Director, Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 011605-EI

Dear Ms. Bayó:

I am enclosing for filing the original and fifteen (15) copies of the prefiled testimony and exhibits of Florida Power & Light Company witnesses Joseph P. Stepenovitch and Korel M. Dubin.

Sincerely,

John T. Butler, P.A.

Copy to: All parties of record

CERTIFICATE OF SERVICE
Docket Nos. 011605-EI

I HEREBY CERTIFY that a true and correct copy of the prefiled testimony and exhibits of Florida Power & Light Company witnesses Joseph P. Stepenovitch and Korel M. Dubin have been furnished by United States Mail this 22nd day of June, 2002, to the following:

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By: ______________________
John T. Butler, P.A.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 011605-EI
FLORIDA POWER & LIGHT COMPANY

JUNE 24, 2002

IN RE: REVIEW OF INVESTOR-OWNED ELECTRIC UTILITIES' RISK MANAGEMENT POLICIES AND PROCEDURES

TESTIMONY & EXHIBITS OF:

J. P. STEPENOVITCH
K. M. DUBIN

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF JOSEPH P. STEPENOVITCH

DOCKET NO. 011605-EI

June 24, 2002

Q. Please state your name and business address.

A. My name is Joseph P. Stepenovitch. My business address is 11770 U.S. Highway One, North Palm Beach, Florida 33408.

Q. Please state your position and the nature of your responsibilities at FPL.

A. I am the Director of FPL's Energy Marketing & Trading Division. My primary responsibility is to oversee all functions related to generation asset optimization. These functions include fuel procurement, wholesale power trading and transportation for fuel and power.

Q. Please describe your educational background, and work experience.

A. I received a Bachelor of Science degree in Business Administration in 1989 from Barry University in Miami, Florida. I have been employed by FPL since 1980. In that time, I have held various positions within FPL's Power Supply Department; (1) System Operation Senior Specialist from October 1980 through February 1982; (2) Interchange Coordinator from February 1982 through February 1986; (3) Operational Planning Supervisor from February 1986 through May 1991; (4) Manager of Interchange Operations from May

1991 through April 1997; and (5) my current position since April 1997. Prior to my employment with FPL, I worked for New England Power Service Company for twelve years in a variety of positions in power delivery and systems operations areas.

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

A. Yes, I have. It consists of the following documents:

Document JPS-1, FPL's Proposed Risk Sharing Plan

Document JPS-2, Sample Calculations of Fuel Charges under Status Quo (Current Actual Fuel Cost Recovery Mechanism) and FPL's Proposed Risk Sharing Plan

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address FPL's positions on the issues that the Commission has identified regarding risk management (hedging) policies and procedures (those issues have been identified in the Commission's procedural orders as Issues No. 1a, 1b, 1c, 2, 3, 4 and 7; the Commission has taken action at agenda conferences to resolve Issues No. 5 and 6, which relate specifically to FPL and Florida Power Corporation, respectively). I will also address some additional issues that FPL believes are important for the Commission to consider in connection with hedging.

Q. What role should the Commission take concerning the manner in which each investor-owned electric utility manages risks associated with fuel procurement? (Issue No. 1a)

A. The Commission should encourage utilities to adopt plans that provide incentives to engage in an appropriate level of fuel hedging to reduce fuel cost volatility to customers. FPL believes that its Proposed Risk Sharing Program will meet the objective of reducing fuel cost volatility to the customer.

Q. Is each investor-owned electric utility taking reasonable steps to manage the price risk associated with its natural gas and residual oil transactions, as well as purchased power transactions based on natural gas prices, through the use of physical, operational, or financial hedging practices or a combination of those practices? (Issue No. 1b)

A. Yes, FPL continually manages natural gas, residual fuel oil, and wholesale energy price risk through multiple hedging practices. FPL maintains well-balanced, diversified portfolios of generation assets, fuel contracts and purchased power contracts. FPL's generation mix consists of nuclear, coal, petroleum coke, oil and natural gas-fired generation. This diversified mix of resources reduces the risk of fuel price volatility because FPL is not captive to one energy or fuel source. Additionally, FPL upholds diversification within its physical fuel and purchase power contracts through a mix of long-, mid- and short-term transactions.

FPL employs numerous operational hedging techniques on a daily basis to achieve complete asset optimization. Operational hedging includes fuel switching, optimizing fuel storage and transportation, and wholesale power trading. The ability to fuel switch between natural gas and oil helps FPL continually optimize the economic dispatch of its system. FPL can also optimize its firm natural gas transportation by selling delivered natural gas in the Florida markets when oil prices are below natural gas prices. Wholesale power trading helps reduce fuel costs as savings and gains are realized through purchasing, and selling power. These are some examples of how FPL is able to utilize operational hedging techniques on its diverse and flexible system to provide value to its customers.

Q. For what purposes does each investor-owned electric utility engage in physical, operational, or financial fuel price hedging practices, or a combination of those practices, and to what extent do such purposes involve reductions in fuel price volatility versus reductions in fuel costs? (Issue No. 1c)

A. Utilities engage in fuel price hedging to protect customers from the volatility of large price movements in the fuel markets. Fuel price hedging results in a reduction in price volatility, because the high and low prices in each fuel market are removed in favor of a known fixed price. Fuel price hedging may not necessarily result in a reduction in fuel costs, as the spot market price of fuel may be lower than the fixed price position at any given time. Likewise, the spot market for fuel may be higher than the fixed price position at times, which results in cost reduction. I would like to point out, however, that although one cannot predict for any particular hedging transaction whether it will result in cost savings compared to the spot market, FPL's extensive research and analysis of historical fuel market data indicates that, on average, forward purchases show a discount relative to the spot market at the time of maturity. This discount has been observed to increase as the length of the forward contract increases. Given this analysis, FPL projects that, over time, its Proposed Risk Sharing Plan can achieve a reduction in volatility, as well as, a reduction in costs to its customers.

Q. What is the appropriate regulatory treatment for gains and losses an investor-owned electric utility incurs from hedging fuel and purchased power transactions through futures contracts? (Issue No. 2)

A. Under FPL's Proposed Risk Sharing Program, FPL is seeking to modify the current fuel cost recovery mechanism from actual cost to recovery that is based on a combination of an approved market-based, fixed price for a set percentage of actual volume and a market-based, spot index price, for the balance of actual volume. This proposed modification would apply only to the commodity portion of natural gas and residual fuel oil. The difference between FPL's actual cost and the combination of fixed and spot index prices (gains or losses) would not be included for recovery through the Fuel Cost Recovery Clause. If the Commission does not permit FPL to implement the Proposed Risk Sharing Program and continues the current actual-cost recovery mechanism, then gains from futures contracts should be credited to the fuel adjustment clause and losses from futures contracts should be charged to the fuel adjustment clause.

Q. In FPL's Proposed Risk Sharing Program, is FPL seeking approval for a risk premium to compensate FPL for those risks that FPL takes by agreeing to recover, based on a predetermined fixed price, a set percentage of actual fuel requirements?

A. Yes, FPL's Proposed Risk Sharing Program assumes that the Commission will allow FPL to recover a market-based risk premium for the inherent risks FPL is transferring from the customer, under the current actual-cost based recovery program, to the shareholder. These inherent risks include timing and execution of fixed price transactions and counterparty risks associated with the availability of credit and with the deliverability of the commodity at the agreed to fixed price. In addition, since FPL's Proposed Risk Sharing Program assumes that the customer will receive a fixed price on a predetermined percentage of actual volume purchased, instead of the projected volume purchased, FPL has transferred the volume risk from the customer to the Company.

Q. Does FPL's Proposed Risk Sharing Program include an "extreme event" (force majeure) provision associated with unpredictable events?

A. Yes, FPL's Proposed Risk Sharing Program assumes that in the case of a force majeure event, the Commission will allow recovery of FPL's fuel cost to revert to the existing actual-cost recovery mechanism. A force majeure event is defined as an unpredictable event that results in a residual fuel oil and natural gas generation variance for a given month of at least 45% above the projected level or at least 30% below the projected level. Examples of force majeure events are extended unscheduled nuclear outages and acts of God, government and war.

Q. What is the appropriate regulatory treatment for the premiums an investor-owned electric utility receives and pays for hedging fuel and purchased power transactions through options contracts? (Issue No. 3)

A. Under FPL's Proposed Risk Sharing Program, premiums received or paid for hedging natural gas and residual fuel oil would be part of the commodity cost of fuel procurement and therefore, would not be recovered through the Fuel Cost Recovery Clause. Option premiums received or paid for wholesale power transactions would remain under the current recovery mechanism and, as such, would be recovered through the Capacity Clause. If the Commission does not permit FPL to implement the Proposed Risk Sharing Program and continues the current actual-cost recovery mechanism, then premiums received for option contracts should be credited to the fuel adjustment clause, and premiums paid for option contracts should be charged to the fuel adjustment clause.

Q. What is the appropriate regulatory treatment for the transaction costs an investor-owned electric utility incurs from hedging its fuel and purchased power transactions through futures and options contracts? (Issue No. 4)

A. Under FPL's Proposed Risk Sharing Program, transaction costs are a component of the non-commodity costs associated with hedging fuel and wholesale energy (e.g., broker commissions, fees, costs of margin requirements) and should be included for recovery through the Fuel Cost Recovery Clause. Additionally, FPL believes that it is appropriate to continue to recover natural gas and residual fuel oil non-commodity related costs, such as basis and transportation, through the Fuel Cost Recovery Clause on a dollar-for-dollar basis. FPL would recommend the same treatment if the Commission does not permit FPL to implement the Proposed Risk Sharing Program and continues the current actual-cost recovery mechanism.

Q. What is the appropriate regulatory treatment for costs an investor-owned electric utility incurs from developing, implementing and maintaining a hedging program?

FPL believes it is appropriate for the Commission to allow recovery through the Fuel Cost Recovery Clause of the prudent costs incurred while developing and implementing the risk management and trading system necessary to monitor and successfully execute its Proposed Risk Sharing Program. FPL currently estimates its costs for development and implementation to be approximately $3 million. Additionally, FPL believes it is appropriate for the Commission to allow recovery through the Fuel Cost Recovery Clause of the incremental cost of maintaining and operating the trading floor associated with the risk management plan. FPL currently estimates its incremental costs to be approximately $1 million, annually.

Q. Should purchased power and sales transactions be included as part of a utilities hedging program?

A. FPL engages in wholesale power trading to help realize its overall goals of asset optimization and an optimal portfolio of energy sources for FPL's customers. Wholesale power trading has a direct impact on fuel requirements and the economic dispatch of FPL's system. For these reasons, FPL believes that power transactions should be included as part of a hedging program. Purchased power, as well as sales transactions help to reduce fuel costs to FPL's customers. Under FPL's Proposed Risk Sharing Program, FPL's customers and FPL would share savings and gains associated with wholesale power transactions. FPL is proposing a sharing mechanism of 80% to FPL's customers and 20% to FPL on all wholesale power transactions. Savings associated with purchased power transactions would be calculated under the established methodology used for the Commission Fuel Cost Recovery Schedule A9. Gains associated with non-separated wholesale sales would be calculated under the established methodology used for the Commission Fuel Cost Recovery Schedules A6 and A6a. FPL believes that this sharing mechanism will provide appropriate incentives for FPL to maximize its gains from wholesale customers, to the benefit of its customers.

Q. **What incentive(s), if any, should the Commission establish to encourage investor-owned electric utilities to optimally manage the risks to ratepayers associated with fuel and purchased power price volatility? (Issue No. 7)**

A. On June 5, 2002, FPL filed a Proposed Risk Sharing Program with the Commission. Since the Commission Workshop, held on June 17, 2002, FPL has revised the Implementation/Approval section of this plan. FPL's revised Program is my Document JPS-1. FPL believes that its proposed program includes the appropriate incentives to encourage FPL to aggressively manage both the volatility and price risks associated with fuel and purchased power transactions. FPL's proposal also transfers to FPL some of the risks that its customers currently bear. FPL believes that it is appropriate to bring this proposal forward for Commission consideration and approval.

Q. Do you have any examples of how implementing FPL's Proposed Risk Sharing Program would affect FPL's customers compared to continuing under the current actual-cost recovery mechanism (status quo)?

A. Yes. An example of hypothetical calculations under FPL's Proposed Risk Sharing program are included as Document JPS-2.

Q. Does that conclude your testimony?

A. Yes it does.

Florida Power & Light Company
Fuel Cost Recovery
Proposed Risk Sharing Program Revised 6/24/02
Docket No. 011605-EI

JPS-1
Docket No. 011605-EI
FPL Witness: J. P. Stepenovitch
Exhibit____________
Pages 1 – 6
June 24, 2002

Florida Power & Light Company
Fuel Cost Recovery
Proposed Risk Sharing Program   Revised 6/24/02
Docket No. 011605-EI

OBJECTIVE

To reduce fuel cost volatility to FPL's customers

SUMMARY OF FPL's PLAN

- To become effective for the 2003 Fuel Cost Recovery period.
- Applies only to the commodity portion of the delivered price of residual fuel oil and natural gas; all other fuels, as well as the non-commodity portion of residual fuel oil and natural gas, charged at actual cost under present recovery mechanism. The following discussion relates to residual fuel oil and natural gas recovery.
- Customers will not pay actual fuel cost.
- Instead, customers will pay an average cost based on an agreed percentage of the volume at a fixed price and the remainder of the volume at a spot index price.
- FPL assumes risks inherent in the hedging program.
- The fixed price will also include a small risk premium to compensate FPL for those risks that FPL takes by agreeing to recover, based on a pre-determined fixed price, a set percentage of actual fuel requirements.
- FPL's Proposed Plan includes an "extreme event" (force majeure) provision associated with unpredictable events.
- FPL's Proposed Plan also calls for a sharing of the savings associated with purchased power and sales transactions.

FPL's PROPOSED PLAN

1. For fuel, FPL's Proposed Plan applies to the "commodity portion" of natural gas and residual fuel oil only.

2. Under FPL's Proposed Plan, beginning in 2003, FPL will no longer recover actual residual fuel oil and natural gas costs. Instead, FPL will recover the commodity cost for residual fuel oil and natural gas on an average fixed price and spot indexed price basis where –

   a) FPL will agree to recover a predetermined percentage of the actual volume purchased for natural gas and residual fuel oil, at an agreed fixed price for each fuel. Each year, prior to FPL's Fuel Cost Recovery Projection filing, FPL will seek Commission approval of the percentage of volume purchased and the methodology to determine the fixed prices to be used for the upcoming year.

   AND

   b) The balance of the actual natural gas and residual fuel oil purchases will be based on an agreed spot index price.

   AND

   c) FPL will assume risks inherent in the hedging process and to compensate FPL for these risks, the Plan assumes the Commission will allow FPL to recover a risk premium.

(See Approval/ Implementation Process section.)

3. FPL's Proposed Plan assumes that the Commission will allow recovery of all prudent transaction/hedging costs (e.g., broker commissions, fees, costs of margin requirements, the cost of developing and implementing the risk management system, the incremental cost of maintaining and operating the trading floor associated with the risk management plan), and natural gas and residual fuel oil non-commodity related costs (e.g., basis, transportation.), on a dollar-for-dollar basis.

4. FPL's Proposed Plan assumes that in the case of a force majeure event, the Commission will allow recovery of FPL's fuel cost to revert to the existing actual-cost recovery mechanism. A force majeure event is defined as unpredictable events that result in a residual fuel oil and natural gas

generation variance for a given month of at least 45% above the projected level or at least 30% below the projected level. Examples of force majeure events are extended unscheduled nuclear outages and acts of God, government and war.

5. FPL's Proposed Plan will not change the format of the Fuel Cost Recovery filing requirements, i.e., E-Schedules and A-Schedules. These schedules will continue to reflect the costs to be recovered from FPL's customers.

6. Under FPL's Proposed Plan, FPL's customers and FPL will share (80% to FPL's customers and 20% to FPL) savings/gains associated with wholesale power transactions. Savings associated with purchase power transactions would be calculated under the established methodology used for the Commission Fuel Cost Recovery Schedule A9. Gains associated with non-separated wholesale sales would be calculated under the established methodology used for the Commission Fuel Cost Recovery Schedules A6 and A6a.

7. Under FPL's Proposed Plan, the true-up mechanism will work in the same manner that it currently does where monthly and annual over- and under-recoveries are deferred and recovered in subsequent fuel adjustment periods. However, for residual fuel oil and natural gas, the fuel prices used to calculate the recoverable fuel costs will be based upon the fixed prices and spot price indices approved by stipulation as described in the Approval/ Implementation Section of this plan. For all other fuel types, the recoverable fuel costs will continue to be based on actual fuel prices paid by FPL. Consistent with the existing Fuel Cost Recovery Clause, these recoverable fuel costs for all fuel types will be totaled and compared to actual monthly fuel revenues to determine the over- and under- recoveries each month. The over- and under-recoveries will be deferred and recovered in subsequent fuel adjustment periods.

8. All other components of the Fuel and Purchased Power Cost Recovery Factor will remain unchanged from the current regulatory treatment.

Florida Power & Light Company
Fuel Cost Recovery
Proposed Risk Sharing Program Revised 6/24/02
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Approval/ Implementation Process

1. On April 1st of each year FPL will file a proposed stipulation containing the percentage of fuel volume that will be recovered on a fixed-price basis, the methodology to determine the fixed prices, the spot price indices, and the percent risk premium to be used for the upcoming year beginning in January. In order to ensure the maximum benefit to FPL's customers, FPL will request confidential treatment for this information. At the same time it is filed, the proposed stipulation and accompanying confidential information will be provided, on a confidential basis, to Staff, the Office of Public Counsel and the Florida Industrial Power Users Group (FIPUG), and also to other parties that have been granted intervention in the fuel adjustment docket as the Commission determines is necessary to protect legitimate interests of FPL retail customers. The reviewing parties have until the end of May to review the filing, discuss it with FPL and advise whether they will concur in the stipulation.

2. FPL will request that the proposed stipulation be addressed at the first Agenda Conference in June for Commission approval.

3. The Company will implement this stipulation and include it in the calculation of their September Fuel Cost Recovery filing for the following year only if :

    - all parties agree to the Stipulation and,
    - the Commission approves the Stipulation.

4. If the conditions listed in item no. 3 do not occur, then the proposed stipulation will not become the basis for the fuel cost recovery charge in the coming year. In that event, FPL will have the option to submit a second (revised) proposed stipulation (on a confidential basis) along with its September fuel filing. This revised proposed stipulation will contain the percentage of fuel volume that will be recovered on a fixed-price basis, the methodology to determine the fixed prices, the spot price indices, and the percent risk premium to be used for a portion of the upcoming year beginning in February. FPL will request that this revised proposed stipulation be addressed at the November Fuel Hearing for Commission approval.

5. If approved by the Commission, the Company will implement this stipulation effective in February. If it is not approved, then all fuel volume will be recovered in the upcoming year based on the existing actual-cost recovery mechanism.

Florida Power & Light Company
Fuel Cost Recovery
Proposed Risk Sharing Program Revised 6/24/02
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Transition Period

1. A transition filing will be made for the first year 2003 as soon as practicable after the conclusion of the Hedging Docket No. 011605-EI. FPL will submit a proposed stipulation (on a confidential basis) to become effective in January 2003. This filing will contain the percentage of fuel volume that will be recovered on a fixed-price basis, the methodology to determine the fixed prices, the spot price indices, and the percent risk premium to be used for the upcoming year beginning in January 2003.

2. The parties will have 21 days thereafter to review the proposed stipulation and confidential information, ask FPL clarifying questions and confirm to FPL that they do or do not concur with the stipulation (including any modifications to which FPL and the parties have agreed).

3. FPL will request that this proposed stipulation be addressed at the next available Agenda Conference for Commission approval.

4. If approved by the Commission, the Company will implement this stipulation effective in January 2003.

5. If time does not permit the transition schedule described in items 1 through 3 above, FPL will submit the proposed stipulation (on a confidential basis) with its September 20, 2002 projection filing to become effective in February 2003 (rather than January). In this case, FPL will request that this proposed stipulation be addressed at the November 20-22, 2002 Fuel Hearing for Commission approval. And, if approved by the Commission, the Company will implement this stipulation effective in February 2003. (Note: One fuel factor will be set as usual for the twelve months, January through December 2003.)

By Assumption Only:
Fixed % = 20%
Spot % = 80%
Risk Premium = 5%

FPL's Proposed Risk Sharing Program vs. Status Quo (Current Actual Cost Recovery Mechanism)

Forecasting and Fuel Charge Setting

- Spot Price Forecast $2 40/MMBTU
- Forward Price Index $2.20/MMBTU
- Forecast Generation 20,000 kWh
- Volume Forecast 100 MMBTU

Status Quo (Current Actual Fuel Cost Recovery Mechanism)

- Fuel Charge equals forecasted spot price per MMBTU
- Forecasted Fuel Charge = 100% × $2.4 = $2.4/MMBTU
- Forecasted Fuel Charge/kWh =
- $$\frac{\$2.4 \times 100\ \text{MMBTU}}{20000\ \text{kWh}} = 1.2¢/\text{kWh}$$

FPL's Proposed Risk Sharing Program

- Forward Price Index becomes $2.31/MMBTU including 5% risk premium
- Acquire 20% of forecast volume (20 units) at actual available forward price of $2.21/MMBTU
- Forecasted Fuel Charge = 80% × $2.40 + 20% × $2.31 = $2.382/MMBTU
- Forecasted Fuel Charge/kWh = $$\frac{\$2.382 \times 100\ \text{MMBTU}}{20000\ \text{kWh}} = 1.19¢/\text{kWh}$$

Random Events
Index and Actual Prices

- Actual Spot Price Index Value $2.70
- Actual Spot Price Paid $2 71 (paid 1¢ above index)
- Actual Available Forward Price $2.21 (paid 1¢ above index)
- Actual Generation 21,000 kWh
- Actual Volume Burned is 110 MMBTU (10% variance)

True Up
Based on
Spot Price Index and
Actual Volume

JPS-2
Docket No. 011605-EI
FPL Witness: J. P. Stepenovitch
Exhibit_______
Page 1 of 2
June 24, 2002

FPL Proposed Risk Sharing Program vs. Status Quo (Current Actual Cost Recovery Mechanism)

–Example–

	Status Quo	FPL's Proposed Risk Sharing Program
• Fuel Charge Collected	1.2¢ × 21,000 kWh = $252	1.19¢ × 21,000 kWh = $250.1
• Required Recovery	110 × $2.71 = $298.1	(.8 x 110) × $2.7 + (.2 x 110) × $2.31 = $288.4
• True-up in 2003	(Collected – Actual) ($46.1)	(Collected – Index) ($38.3)
• Actual Fuel Cost	Actual Prices Paid × Volume Burned = 110 × $2.71 = $298.1	90 × $2.71 + 20 × $2.21 = $288.1
• Customer Volume Risk (vs. 20% Actual Volume)	NA	$0
• The Company Volume Risk	$0	2 units × ($.4) = ($0.8)
• Customer Benefit vs Status Quo	NA	Required Recovery (Status Quo – the Company's Plan) $298.1 – $288.4 = $9.7
• The Company Benefit vs. Status Quo	NA	Required Recovery – Actual Fuel Cost = $288.4 – $288 1 = $0.3

By Assumption Only:
Fixed % = 20%
Spot % = 80%
Risk Premium = 5%

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF KOREL M. DUBIN

DOCKET NO. 011605-EI

June 24, 2002

Q. Please state your name, business address, employer and position.

A. My name is Korel M. Dubin, and my business address is 9250 West Flagler Street, Miami, Florida, 33174. I am employed by Florida Power & Light Company (FPL) as the Manager of Regulatory Issues in the Regulatory Affairs Department.

Q. Please state your education and business experience.

A. I received a Bachelor of Arts in Political Science from Emory University in 1980 and in 1982 I received a Master of Business Administration from Barry University. In June 1982, I joined Florida Power and Light Company's Fossil Fuel Section of the Fuel Resources Department. From 1982 through 1985 my responsibilities included administration of fuel supply and operations contracts, development of procurement procedures, research/analysis of transportation options and by-product sales, and support for regulatory filings. In December of 1985 I joined the Rates and Research Department as a Rate Analyst. Since 1985, I have held various positions of increasing responsibility in the Rates and Research Department and the Regulatory Affairs Department and my primary responsibilities have been in the area of the adjustment clause filings. In June 2000 I became Manager of Regulatory Issues in the Regulatory Affairs Department where I am primarily responsible for the coordination, development, and preparation of the Company's Fuel, Capacity and Environmental Cost Recovery filings. I am a company witness in these clause dockets.

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

A. Yes, I have. It consists of the following Document:

Document KMD-1, FPL's Proposed Risk Sharing Plan.

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

A. The purpose of my testimony is to address FPL's proposed approval/ implementation process for FPL's Proposed Risk Sharing Plan as well as the impact of the Plan on the Fuel Cost Recovery process.

Q. When does FPL propose to implement its Proposed Risk Sharing Plan initially?

A. FPL would like to begin implementation in 2003, so that customers will begin to benefit from volatility reduction as soon as possible.

Q. How does FPL propose to implement its Proposed Risk Sharing Plan in 2003?

A. As Mr. Stepenovitch has explained in greater detail, the Proposed Risk Sharing Plan is based upon charging customers for the commodity portion of residual fuel oil and natural gas purchases based upon agreed market-based fixed prices and spot price indices, rather than upon FPL's actual costs for those fuels. FPL proposes to file as soon as practicable after the conclusion. of the Hedging Docket No. 011605-EI, a proposed stipulation for the methodology that will be used for 2003, together with confidential information describing and explaining the following: the proposed fixed price percentage of actual purchases for 2003, the methodology proposed to be used for setting the fixed prices for 2003, the proposed spot price indices to be used for the remaining percentage of residual fuel oil and natural gas actual purchases in 2003, and the percent risk premium to be used in 2003.

At the time of filing, the stipulation and accompanying confidential information would be provided, subject to a confidentiality order, to Staff, Public Counsel, FIPUG, and any other party that the Commission determines legitimately needs to see the information to protect the interests of FPL retail customers. The parties will have 21 days thereafter to review the proposed stipulation and confidential information, ask FPL clarifying questions and confirm to FPL that they do or do not concur with the stipulation (including any modifications to which FPL and the parties have agreed). If all parties concur in the stipulation, then FPL proposes that the Commission consider the stipulation at the next available Agenda Conference. If approved, the stipulation will provide the basis for FPL to charge customers for the commodity portion of residual fuel oil and natural gas purchased during the period January 2003 through December 2003.

If time does not permit the transition schedule described above, FPL will submit the proposed stipulation (on a confidential basis) with its September 20, 2002 projection filing to become effective in February 2003 (rather than January). In this case, FPL will request that this proposed stipulation be addressed at the November 20-22, 2002 Fuel Hearing for Commission approval. And, if approved by the Commission, the Company will implement this stipulation effective in February 2003. (Note: One fuel factor will be set as usual for the twelve months, January through December 2003.) Under either schedule, if the stipulation were not approved, then residual fuel oil and natural gas purchased during the remainder of 2003 would be charged on the existing actual-cost basis.

Q. How does FPL propose to implement the Proposed Risk Sharing Plan after 2003?

A. In following years, we will have the benefit of more time, which will allow the approval process to conclude in time for FPL to make fixed-price commitments further in advance and thus take advantage of the greater price stability and forward discounts that Mr. Stepenovitch has described. For 2004 and beyond, FPL proposes to file its proposed stipulation and accompanying confidential information on April 1st of the prior year (e.g., April 1, 2003 for 2004) and that the reviewing parties have until the end of May to review the filing, discuss it with FPL and advise whether they will concur in the stipulation. If all parties concur, FPL would then ask the Commission to consider the stipulation at the first Agenda Conference in June, so that, if the Commission approves the stipulation, FPL will be able to implement it for the upcoming year beginning in January. This would allow FPL to enter into forward contracts for the fixed-price percentage of residual fuel oil and natural gas well in advance of the delivery of those fuels, which Mr. Stepenovitch explains is advantageous to take advantage of the opportunity to stabilize prices and realize forward discounts.

If the proposed stipulation is not approved, then the proposed stipulation will not become the basis for the fuel cost recovery charge in the coming year. In that event, FPL will have the option to submit a second (revised) proposed stipulation (on a confidential basis) along with its September fuel filing. This revised proposed stipulation will contain the percentage of fuel volume that will be recovered on a fixed-price basis, the methodology to determine the fixed prices, the spot price indices, and the percent risk premium to be used for the upcoming year beginning in February (rather than January). FPL will request that this revised proposed stipulation be addressed at the November Fuel Hearing for Commission approval. If approved by the Commission, the Company will implement this stipulation effective in February. If it is not approved, then all fuel volume will be recovered in the upcoming year based on the existing actual-cost recovery mechanism.

Q. Why does FPL propose to revisit the fuel-pricing methodology each year, rather than simply continuing to implement the methodology approved for 2003?

A. FPL expects that circumstances may change over time that make the elements of that methodology less appropriate for future years. As a simple example, FPL's view of the market may result in a decision to increase or decrease the percent of fixed price purchases for the following year. FPL may also learn of other indices or other price-determination mechanisms that would result in more representative fixed and spot index prices than those used initially. Unless the methodology is revisited by the Commission each year, this opportunity for enhancement could be lost.

Q. During the first year of the Proposed Risk Sharing Plan, will any transition adjustments be necessary?

A. Yes. Since residual fuel oil is charged to customers when burned using a weighted average inventory cost, an adjustment will be needed when the Proposed Risk Sharing Plan first starts. The 2003 weighted average inventory cost for the month ending just prior to the month of implementation will need to be reflected in the price charged to customers. After approximately two months of oil burns the elements of the Proposed Risk Sharing Plan will be in full effect.

Q. Under FPL's proposed plan, what will be the impact on the Fuel Cost Recovery filing requirements?

A. FPL's Proposed Plan will not change the format of the Fuel Cost Recovery filing requirements, i.e., E-Schedules and A-Schedules. These schedules will continue to reflect the costs to be recovered from FPL's customers. Additionally, FPL will provide the documentation, on a confidential basis, that is necessary to audit the fixed price position.

Q. Under FPL's proposed plan, how will the true up mechanism work?

A. Under FPL's Proposed Plan, the true-up mechanism will work in the same manner that it currently does where monthly and annual over- and under-recoveries are deferred and recovered in subsequent fuel adjustment periods. However, for residual fuel oil and natural gas, the fuel prices used to calculate the recoverable fuel costs will be based upon the fixed prices and spot price indices approved by stipulation as described in the Approval/ Implementation Section of this plan. For all other fuel types and the non-commodity portion of residual fuel oil and natural gas, the recoverable fuel costs will continue to be based on actual fuel prices paid by FPL. Consistent with the existing Fuel Cost Recovery Clause, the recoverable fuel costs for all fuel types will be totaled and compared to actual monthly fuel revenues to determine the over- and under- recoveries each month. The over- and under-recoveries will be deferred and recovered in subsequent fuel adjustment periods.

Q. Does this conclude your testimony?

A. Yes, it does.

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KMD-1
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FPL Witness: K. M. Dubin
Exhibit____________
Pages 1 – 6
June 24, 2002

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OBJECTIVE

To reduce fuel cost volatility to FPL's customers

SUMMARY OF FPL's PLAN

- To become effective for the 2003 Fuel Cost Recovery period.
- Applies only to the commodity portion of the delivered price of residual fuel oil and natural gas; all other fuels, as well as the non-commodity portion of residual fuel oil and natural gas, charged at actual cost under present recovery mechanism. The following discussion relates to residual fuel oil and natural gas recovery.
- Customers will not pay actual fuel cost.
- Instead, customers will pay an average cost based on an agreed percentage of the volume at a fixed price and the remainder of the volume at a spot index price.
- FPL assumes risks inherent in the hedging program.
- The fixed price will also include a small risk premium to compensate FPL for those risks that FPL takes by agreeing to recover, based on a pre-determined fixed price, a set percentage of actual fuel requirements.
- FPL's Proposed Plan includes an "extreme event" (force majeure) provision associated with unpredictable events.
- FPL's Proposed Plan also calls for a sharing of the savings associated with purchased power and sales transactions.

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FPL's PROPOSED PLAN

1. For fuel, FPL's Proposed Plan applies to the "commodity portion" of natural gas and residual fuel oil only.

2. Under FPL's Proposed Plan, beginning in 2003, FPL will no longer recover actual residual fuel oil and natural gas costs. Instead, FPL will recover the commodity cost for residual fuel oil and natural gas on an average fixed price and spot indexed price basis where –

   a) FPL will agree to recover a predetermined percentage of the actual volume purchased for natural gas and residual fuel oil, at an agreed fixed price for each fuel. Each year, prior to FPL's Fuel Cost Recovery Projection filing, FPL will seek Commission approval of the percentage of volume purchased and the methodology to determine the fixed prices to be used for the upcoming year.

   AND

   b) The balance of the actual natural gas and residual fuel oil purchases will be based on an agreed spot index price.

   AND

   c) FPL will assume risks inherent in the hedging process and to compensate FPL for these risks, the Plan assumes the Commission will allow FPL to recover a risk premium.

(See Approval/ Implementation Process section.)

3. FPL's Proposed Plan assumes that the Commission will allow recovery of all prudent transaction/hedging costs (e.g., broker commissions, fees, costs of margin requirements, the cost of developing and implementing the risk management system, the incremental cost of maintaining and operating the trading floor associated with the risk management plan), and natural gas and residual fuel oil non-commodity related costs (e.g., basis, transportation.), on a dollar-for-dollar basis.

4. FPL's Proposed Plan assumes that in the case of a force majeure event, the Commission will allow recovery of FPL's fuel cost to revert to the existing actual-cost recovery mechanism. A force majeure event is defined as unpredictable events that result in a residual fuel oil and natural gas

generation variance for a given month of at least 45% above the projected level or at least 30% below the projected level. Examples of force majeure events are extended unscheduled nuclear outages and acts of God, government and war.

5. FPL's Proposed Plan will not change the format of the Fuel Cost Recovery filing requirements, i.e., E-Schedules and A-Schedules. These schedules will continue to reflect the costs to be recovered from FPL's customers.

6. Under FPL's Proposed Plan, FPL's customers and FPL will share (80% to FPL's customers and 20% to FPL) savings/gains associated with wholesale power transactions. Savings associated with purchase power transactions would be calculated under the established methodology used for the Commission Fuel Cost Recovery Schedule A9. Gains associated with non-separated wholesale sales would be calculated under the established methodology used for the Commission Fuel Cost Recovery Schedules A6 and A6a.

7. Under FPL's Proposed Plan, the true-up mechanism will work in the same manner that it currently does where monthly and annual over- and under-recoveries are deferred and recovered in subsequent fuel adjustment periods. However, for residual fuel oil and natural gas, the fuel prices used to calculate the recoverable fuel costs will be based upon the fixed prices and spot price indices approved by stipulation as described in the Approval/ Implementation Section of this plan. For all other fuel types, the recoverable fuel costs will continue to be based on actual fuel prices paid by FPL. Consistent with the existing Fuel Cost Recovery Clause, these recoverable fuel costs for all fuel types will be totaled and compared to actual monthly fuel revenues to determine the over- and under- recoveries each month. The over- and under-recoveries will be deferred and recovered in subsequent fuel adjustment periods.

8. All other components of the Fuel and Purchased Power Cost Recovery Factor will remain unchanged from the current regulatory treatment.

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Approval/ Implementation Process

1. On April 1st of each year FPL will file a proposed stipulation containing the percentage of fuel volume that will be recovered on a fixed-price basis, the methodology to determine the fixed prices, the spot price indices, and the percent risk premium to be used for the upcoming year beginning in January. In order to ensure the maximum benefit to FPL's customers, FPL will request confidential treatment for this information. At the same time it is filed, the proposed stipulation and accompanying confidential information will be provided, on a confidential basis, to Staff, the Office of Public Counsel and the Florida Industrial Power Users Group (FIPUG), and also to other parties that have been granted intervention in the fuel adjustment docket as the Commission determines is necessary to protect legitimate interests of FPL retail customers. The reviewing parties have until the end of May to review the filing, discuss it with FPL and advise whether they will concur in the stipulation.

2. FPL will request that the proposed stipulation be addressed at the first Agenda Conference in June for Commission approval.

3. The Company will implement this stipulation and include it in the calculation of their September Fuel Cost Recovery filing for the following year only if :

   - all parties agree to the Stipulation and,
   - the Commission approves the Stipulation.

4. If the conditions listed in item no. 3 do not occur, then the proposed stipulation will not become the basis for the fuel cost recovery charge in the coming year. In that event, FPL will have the option to submit a second (revised) proposed stipulation (on a confidential basis) along with its September fuel filing. This revised proposed stipulation will contain the percentage of fuel volume that will be recovered on a fixed-price basis, the methodology to determine the fixed prices, the spot price indices, and the percent risk premium to be used for a portion of the upcoming year beginning in February. FPL will request that this revised proposed stipulation be addressed at the November Fuel Hearing for Commission approval.

5. If approved by the Commission, the Company will implement this stipulation effective in February. If it is not approved, then all fuel volume will be recovered in the upcoming year based on the existing actual-cost recovery mechanism.

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Transition Period

1. A transition filing will be made for the first year 2003 as soon as practicable after the conclusion of the Hedging Docket No. 011605-EI. FPL will submit a proposed stipulation (on a confidential basis) to become effective in January 2003. This filing will contain the percentage of fuel volume that will be recovered on a fixed-price basis, the methodology to determine the fixed prices, the spot price indices, and the percent risk premium to be used for the upcoming year beginning in January 2003.

2. The parties will have 21 days thereafter to review the proposed stipulation and confidential information, ask FPL clarifying questions and confirm to FPL that they do or do not concur with the stipulation (including any modifications to which FPL and the parties have agreed).

3. FPL will request that this proposed stipulation be addressed at the next available Agenda Conference for Commission approval.

4. If approved by the Commission, the Company will implement this stipulation effective in January 2003.

5. If time does not permit the transition schedule described in items 1 through 3 above, FPL will submit the proposed stipulation (on a confidential basis) with its September 20, 2002 projection filing to become effective in February 2003 (rather than January). In this case, FPL will request that this proposed stipulation be addressed at the November 20-22, 2002 Fuel Hearing for Commission approval. And, if approved by the Commission, the Company will implement this stipulation effective in February 2003. (Note: One fuel factor will be set as usual for the twelve months, January through December 2003.)