

State of Florida



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

CCA - file copy only

DATE: December 10, 2001

TO: Matthew M. Childs, Esquire, for Florida Power & Light
James A. McGee, Esquire, for Florida Power Corporation
James D. Beasley, Esquire, for Tampa Electric Company
Jeffrey A. Stone, Esquire, for Gulf Power Company
Florida Industrial Power Users Group
Office of Public Counsel

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FROM: Cochran Keating, Senior Attorney RVE WCK

RE: Docket No. 011605-EI - Review of Investor-Owned Electric Utilities' Risk Management Policies and Procedures.

Via Facsimile

Please note that staff will conduct an informal meeting in the above-referenced docket at the following time and place:

10:00 a.m., Thursday, December 13, 2001
Room 309, Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida

This docket was opened November 26, 2001, for purposes of addressing the "hedging" issues that were deferred from Docket No. 010001-EI. As part of this docket, staff proposes that each investor-owned electric utility prepare and submit a risk management plan for fuel and wholesale power procurement. Attached to this memorandum is a proposed outline for such a risk management plan. The purpose of this meeting is to discuss the attached outline. Any party wishing to participate in this informal meeting by telephone may dial Suncom 277-9454 or Non-Suncom (850) 487-9454 at 10:00 a.m.

If you have any questions concerning this meeting, please call Todd Bohrmann at (850) 413-6445 or Cochran Keating at (850) 413-6193.

WCK/jb

cc: Division of Safety and Electric Reliability
Division of Regulatory Oversight
Division of Economic Regulation

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Risk Management Plan Outline for
Fuel Procurement and Wholesale Power Purchases

I. Organizational Structure

A. Board of Directors

1. Indicate which committees, if any, provide oversight to the utility's risk management of its fuel procurement and purchased power transactions.
2. Indicate what company or division will procure fuel and purchase wholesale power for the utility and what individual should be contacted regarding the risk management plan.

II. Fuel and Purchased Power Mix

A. Coal

1. How much coal does the utility plan to purchase during the next three (3) years? List by year

B. Residual Oil

1. How much residual oil does the utility plan to purchase during the next three (3) years? List by year

C. Distillate Oil

1. How much distillate oil does the utility plan to purchase during the next three (3) years? List by year

D. Natural Gas

1. How much natural gas does the utility plan to purchase during the next three (3) years? List by year

E. Purchased Power

1. How much wholesale power does the utility plan to purchase during the next three (3) years? List by year

III. Fuel Procurement and Purchased Power

A. Coal

1. Coal Procurement Requirements
 - a. How much coal did the utility or utility affiliate, on the utility's behalf, procure during 2001? Please provide response in tons

and million British thermal units.

- b. How much coal did the utility or utility affiliate, on the utility's behalf, procure during 2001 on the spot market. Please provide response in tons and million British thermal units.

2. Coal Inventory

- a. How much coal did the utility have in inventory as of December 31, 2001? Please provide response in tons (or million British thermal units) and days supply.

B. Residual Oil

1. Residual Oil Procurement Requirements

- a. How much residual oil did the utility or utility affiliate, on the utility's behalf, procure during 2001? Please provide response in barrels and million British thermal units.
- b. How much residual oil did the utility or utility affiliate, on the utility's behalf, procure during 2001 on the spot market. Please provide response in barrels and million British thermal units.

2. Residual Oil Inventory

- a. How much residual oil did the utility have in inventory as of December 31, 2001? Please provide response in barrels (or million British thermal units) and days supply.

C. Distillate Oil

1. Distillate Oil Procurement Requirements

- a. How much distillate oil did the utility or utility affiliate, on the utility's behalf, procure during 2001? Please provide response in barrels and million British thermal units.
- b. How much distillate oil did the utility or utility affiliate, on the utility's behalf, procure during 2001 on the spot market. Please provide response in barrels and million British thermal units.

2. Distillate Oil Inventory

- a. How much distillate oil did the utility have in inventory as of December 31, 2001? Please provide response in barrels (or million British thermal units) and days supply.
- b. What was the minimum amount of the utility's distillate oil inventory during 2001? Please provide response in barrels (or million British thermal units) and days supply.

D. Natural Gas

1. Natural Gas Procurement Requirements

- A. How much natural gas did the utility or utility affiliate, on the utility's behalf, procure during 2001? Please provide response in million British thermal units.
- B. How much natural gas did the utility or utility affiliate, on the utility's behalf, procure during 2001 on the spot market. Please provide response in million British thermal units.

2. Natural Gas Inventory

- A. How much natural gas did the utility have in inventory as of December 31, 2001? Please provide response in million British thermal units and days supply.
- B. What was the minimum amount of the utility's natural gas inventory during 2001? Please provide response in million British thermal units and days supply.

E. Purchased Power

- 1. How much wholesale power did the utility or utility affiliate, on the utility's behalf, purchase during 2001? Please provide response in MWH.
- 2. How much wholesale power did the utility or utility affiliate, on the utility's behalf, purchase during 2001 on the spot market. Please provide response in MWH.

IV. Risk Management

A. Risk Identification

1. Coal

- 1. Identify each type of risk that the utility encounters for coal procurement;
- 2. Identify the utility's goal(s) in managing the risks associated with its coal procurement

2. Residual Oil

- 1. Identify each type of risk that the utility encounters for residual oil procurement;
- 2. Identify the utility's goal(s) in managing the risks associated with its residual oil procurement

3. Distillate Oil

- 1. Identify each type of risk that the utility encounters for distillate

- oil procurement;
- 2. Identify the utility's goal(s) in managing the risks associated with its distillate oil procurement

4. Natural Gas

- 1. Identify each type of risk that the utility encounters for natural gas procurement;
- 2. Identify the utility's goal(s) in managing the risks associated with its natural gas procurement

5. Purchased Power

- 1. Identify each type of risk that the utility encounters for wholesale power purchases;
- 2. Identify the utility's goal(s) in managing the risks associated with its wholesale power purchases.

- B. Describe your fossil fuel procurement and wholesale purchased power plans separately for 2002. Include:

General

- 1. Types of fuel used
- 2. Quantities and Mix and by percent
- 3. How purchased and by percent
- 4. Justify all purchases

Specific

- 1. What derivatives will be used and how
- 2. What will be hedged and how
- 3. Savings anticipated and why

SWOT

- 1. Describe the strengths of the plan
- 2. Describe the weaknesses of the plan
- 3. Describe the opportunities within the plan
- 4. Describe the threats to the plan and the countermeasures

C. Audits

- 1. Internal Auditor – describe the level of audit oversight that the position referenced in Part I.D. provides to the utility's risk management efforts.

2. Outside Auditors

- A. Indicate which outside auditors, if any, provide oversight to the utility's risk management efforts.
- B. Describe the level of audit oversight that these outside auditors provide to the utility's risk management efforts.

D. Acceptance of Risk

Describe how the utility decides an acceptable level of risk associated with its fuel procurement and purchased power transactions.

V. Income Statement – Discuss the impact on the utility's income statement for the following transactions:

- A. Opening an exchange-traded futures contract
- B. Closing an exchange-traded futures contract
- C. Opening an exchange-traded options contract
- D. Closing an exchange-traded options contract

VI. Regulatory Treatment

A. Base Rates

- 1. Identify the types of cash inflows associated with managing the risks associated with fuel procurement and purchased power transactions that the utility currently recovers through its base rates
- 2. Identify the types of cash outflows associated with managing the risks associated with fuel procurement and purchased power transactions that the utility currently recovers through its base rates

B. Fuel & Purchased Power Cost Recovery Clause

- 1. Identify the types of cash inflows associated with managing the risks associated with fuel procurement and purchased power transactions that the utility currently recovers through its fuel and purchased power cost recovery clause
- 2. Identify the types of cash outflows associated with managing the risks associated with fuel procurement and purchased power transactions that the utility currently recovers through its fuel and purchased power cost recovery clause