

State of Florida



Public Service Commission
-M-E-M-O-R-A-N-D-U-M-

DATE: May 7, 2002
TO: All Parties of Record
FROM: Cochran Keating, Senior Attorney *WCK WAK*
RE: Docket No. 011605-EI - Review of Investor-Owned Electric Utilities' Risk Management Policies and Procedures.

Via Facsimile

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

1:30 p.m., Tuesday, May 14, 2002
Room 182, Betty Easley Conference Center
4075 Esplanade Way
Tallahassee, Florida

The purpose of this meeting is to discuss the staff strawman proposal attached hereto and to discuss any alternative proposals from the parties for resolution of any issue or issues in this docket. If any party wishes to put forth an alternative proposal for discussion at this meeting, such proposal should be reduced to writing and provided to all parties as early as possible so that all parties will be prepared to discuss the relative merits of each proposal.

Parties are encouraged to attend this meeting in person. However, persons wishing to participate by phone may call (850) 921-2548 or Suncom 291-2548 at the time set forth above.

If you have any questions about this meeting, please call Cochran Keating at (850) 413-6193 or Bill McNulty at (850) 413-6443.

WCK/jb

cc: Division of the Commission Clerk and Administrative Services
Division of Economic Regulation
Division of Competitive Markets and Enforcement

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FPSC-COMMISSION CLERK

Staff Strawman Proposal
Docket No. 011605-EI
May 7, 2001

1. This strawman proposal does not contemplate any change in the mechanics of how the Commission establishes the fuel and purchased power cost recovery factor for each utility.
2. This strawman proposal is limited to natural gas-fired generation and wholesale energy purchases in which the energy price is tied to a natural gas price index.
3. Instead of recovering its natural gas costs on an as-burned basis, the utility will recover its natural gas costs through a combination of fixed and floating prices as set forth in paragraphs 4-9 of this strawman proposal.
4. Each utility shall indicate in its projection testimony filed the preceding September the percentage (F%) of natural gas that the utility will purchase based upon the fixed price index indicated in paragraph 6.
5. The utility will purchase the remainder of the utility's natural gas requirements (1 - F%) based upon the spot price index indicated in paragraph 7.
6. The closing prices for the first two trading months for natural gas futures on the New York Mercantile Exchange on the first business day of even-numbered months throughout the year shall represent the fixed price index referenced in paragraph 4. For example, the utility shall recover natural gas costs based on the closing prices for January 2003 and February 2003 delivery of natural gas on December 2, 2002 for F% of its natural gas requirements.
7. The daily closing price for natural gas at Henry Hub shall represent the spot price index referenced in paragraph 5.
8. To compensate the utility for timing, execution, and volume risk, the Commission shall allow the utility to recover a risk premium of one percent of the fixed price index value referenced in paragraph 6.
9. The Commission shall allow recovery of prudent transaction (e.g., broker commissions, fees) and non-commodity related costs (e.g., basis, transportation) on a dollar-for-dollar basis.
10. In case of a force majeure event, the Commission shall allow recovery of each utility's natural gas costs to revert back to the existing regulatory treatment.