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July 26, 2002

Ms. Blanca S. Bayó, Director  
Division of the Commission Clerk  
and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399-0870

RE: Docket No. 011605-EI

Dear Ms. Bayó:

Enclosed are an original and fifteen copies of the Office of Public Counsel's Prehearing Statement for filing in the above referenced docket.

Also, enclosed is a 3.5 inch diskette containing the Prehearing Statement of the Office of Public Counsel. Please indicate receipt of filing by date-stamping the attached copy of this letter and returning it to this office. Thank you for your assistance in this matter.

Sincerely,

Robert Vandiver  
Associate Public Counsel

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DOCUMENT NUMBER-DATE

07870 JUL 26 02

FPSC-COMMISSION CLERK

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Review of investor-owned )  
electric utilities' risk )  
management policies and )  
procedures. )  
\_\_\_\_\_ )

DOCKET No. 011605 - EI  
FILED: July 26, 2002

**PREHEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL**

The Citizens of the State of Florida, through their attorney, the Public Counsel, hereby file this Prehearing Statement to identify all of the issues of which the Citizens are aware.

**APPEARANCES:**

ROBERT D. VANDIVER  
Associate Public Counsel  
Office of Public Counsel  
c/o The Florida Legislature  
111 West Madison Street, Room 812  
Tallahassee, Florida 32399-1400  
On behalf of the Citizens of the State of Florida

**A. Witnesses:**

None.

**B. EXHIBITS:**

None at this time. However, exhibits may be introduced as necessary during examination of witnesses..

**C. STATEMENT OF BASIC POSITION**

The specific plans put forward should not be approved at this time. Additional incentives are unnecessary to encourage responsible risk management by utilities. Citizens assert that the risk premium and other compensation sought are not in proportion to the benefits received by the consumers.

DOCUMENT NUMBER-DATE

07870 JUL 26 02

FPSC-COMMISSION CLERK

#### D. STATEMENT OF FACTUAL ISSUES AND POSITIONS

ISSUE 1: Is each investor-owned electric utility taking reasonable steps to manage the risks associated with its fuel and purchased power transactions through the use of physical, operational, and financial hedging practices?

OPC: No position at this time

ISSUE 1A: What role should the Commission take concerning the manner in which each investor-owned electric utility manages risks associated with fuel procurement?

OPC: The Commission should establish an environment in which investor-owned utilities are able to manage risk associated with fuel procurement that affords consumers with prudent risk avoidance at the lowest possible cost.

ISSUE 1B: 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?

OPC: No position at this time

ISSUE 1C: For what purpose 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?

OPC: No position at this time.

ISSUE 2: 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?

OPC: If the Commission approves the use of futures contracts as a reasonable practice, prudent and reasonable gains/losses from hedging fuel and purchased power costs should be recognized in the fuel clause.

ISSUE 3: 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?

OPC: If the Commission approves hedging for investor-owned utilities, prudent and reasonable premiums a utility receives and pays for hedging fuel and purchased power contracts should be recognized in the fuel clause.

ISSUE 4: 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?

OPC: If the Commission approves hedging for investor-owned utilities, prudent and reasonable transaction costs should be recognized in the fuel clause.

ISSUE 7A: 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?

OPC: Adequate incentives such as the ability to recover prudent costs incurred in the provisions of utility service already exist for investor-owned utilities. See Section 366.041, Florida Statutes (2001).

ISSUE 7B: If the Commission were to approve any utility's incentive plan for optimally managing fuel price risk which includes a change in the method for calculating shareholder gains on wholesale sales as specified in Order Nos. PSC-00-1744-PAA-EI and PSC-01-2371-FOF-EI, what changes, if any, should be made to the requirements of these orders?

OPC:

No changes are necessary at this time for the reasons set forth in the Staff testimony.

Respectfully submitted,



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ROBERT D. VANDIVER  
Associate Public Counsel  
Office of Public Counsel  
c/o The Florida Legislature  
111 West Madison Street, Room 812  
Tallahassee, Florida 32399-1400  
On behalf of the Citizens of the State  
of Florida

DOCKET No. 011605-EI

**CERTIFICATE OF SERVICE**

**I HEREBY CERTIFY** that a true and correct copy of the foregoing has been furnished to the following individuals by U.S. Mail on this 26<sup>th</sup> day of July, 2002:

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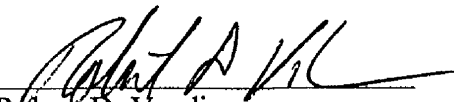
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