PROGRESS ENERGY FLORIDA

DOCKET NO. 030001-EI

Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December, 2002

DIRECT TESTIMONY OF
PAMELA R. MURPHY

Q. Please state your name and business address.

A. My name is Pamela R. Murphy. My business address is P. O. Box 1551, Raleigh, North Carolina 27602.

Q. By whom are you employed and in what capacity?

A. I am employed by Progress Energy Carolinas in the capacity of Director, Gas & Oil Trading.

Q. Have your duties and responsibilities remained the same since you last testified in this proceeding?

A. Yes, my responsibilities for the procurement and trading of natural gas and oil on behalf of Progress Energy Florida (Progress Energy or the Company) have remained the same.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to (1) summarize the success of Progress Energy's Risk Management Plan for 2002, and (2) provide the hedging-related information required by Order No. PSC-02-1484-FOF-EI, issued in Docket No. 011605-EI.

Q. Have you prepared exhibits to your testimony?

A. Yes, I have prepared a three-page summary of the success of the Risk Management Plan, which is attached to my testimony as Exhibit No. ___ (PRM-1) and a one-page summary of hedging information attached as Exhibit No. ___ (PRM-2).

Q. Did Progress Energy encounter any force majeure events in 2002?

A. Yes, Progress Energy encountered four force majeure events. Two of those occurred on Florida Gas Transmission pipeline system. The other two events were the result of a tropical storm and hurricane in the Gulf of Mexico that disrupted a portion of our contracted natural gas supplies.

Q. What measures did Progress Energy take during these force majeure events to maintain the load of its customers?

A. Progress Energy continued to serve customer load through the increased use of residual (No. 6) and distillate (No. 2) oil during the force majeure events that occurred on Florida Gas Transmission pipeline system. During the tropical storm and hurricane force majeure events, the Company again used No. 2 fuel oil to the extent necessary, and worked with Gulfstream Natural Gas to use a portion of the excess gas in their pipeline until production resumed. When necessary, the Company also initiated demand-side management and voltage reductions during the force majeure periods.

Q. What measures did Progress Energy undertake to minimize other risks identified in its Risk Management Plan?

A. Progress Energy continued to perform its daily management activities outlined in the Plan to monitor and, to the extent possible, mitigate risks to customers.

Q. Did Progress Energy follow the processes and guidelines outlined in the Plan?

A. Yes, all processes and guidelines were followed.

Q. What actions, including hedging activities, did Progress Energy take in 2002 to control the cost of fuel and wholesale power transactions?

A. With respect to natural gas, Progress Energy elected to enter into a zero-cost collar (a price floor and ceiling obtained at no cost) for 20,000 mmbtu per day supply of gas for the three-month period of December 2002 through February 2003. Although prices were within the collar in December and therefore had no effect on 2002 fuel costs, it provided savings of $198,800 over the remaining two months in 2003. Progress Energy also has one fixed price contract it acquired with the purchase of its Tiger Bay generating unit that resulted in an additional cost to the ratepayers of $2,098,791 in 2002. However, this contract has now turned around relative to the market, and currently has a projected net savings to customers through 2010 of approximately $33 million.

With respect to residual oil, the Company continued to utilize a option under one of its contracts to fix the price on selected shipments. Although this resulted in a net additional cost to customers of $1,533,222 in 2002, it has produced additional savings in the first two months of 2003 of $356,333.

In addition, the Company made economic off-system wholesale power purchases, as well as wholesale power sales to third parties, that resulted in reduced fuel costs to its customers of $12,641,859.

Overall, the total net value created for customers in 2002 by these fuel and wholesale power activities was a savings of over $9 million.

Q. Does this conclude your testimony?

A. Yes, it does.

SUMMARY OF THE SUCCESS OF RISK MANAGEMENT PLAN

Progress Energy Florida's (PEF) Risk Management Plan (Plan) was developed in mid-2002 to identify certain risks associated with fossil fuel and wholesale power requirements. The Plan also identified, among other things, the controls, oversight, risk reporting, and processes that PEF would follow to carry out its Plan. To that end, the following summarizes the various items listed above for 2002:

I. Risk Identification – Force Majeure Events

A. FGT Pipeline Leak - May 2 – PEF utilized #6 and #2 fuel oil to meet its projected load. PEF implemented voltage reduction and demand side management during the time.

B. FGT Compressor Station unscheduled outage – May 5-12 – PEF again utilized #6 and #2 fuel oil to meet its projected load. PEF also had to implement voltage reduction during this time.

C. Tropical Storm Isidore – September 24-27 – PEF relied on #6 and #2 fuel oil, as well as PEF went considerably short on Gulfstream (using line pack) to meet projected load. PEF repaid the gas to Gulfstream Natural Gas after the storm.

D. Hurricane Lili – October 1-4 – Once again, PEF utilized the same resources identified above for Tropical Storm Isidore.

II. Daily Management Activities

A. Fuel Oil – The difference between actual burns and forecast burns was 10 million barrels projected vs. an actual of 9.85 million barrels of #6 oil and 1.6 million barrels projected vs. an actual of 1.55 million barrels of #2 oil. Month-to-month variances were taken care of by working with suppliers to (i) either change delivery schedules as necessary, and/or (ii) not ordering #2 fuel oil truck loads to the plants.

B. Natural Gas – Month-end gas imbalances were either traded with third-party counterparties or cashed out by FGT. Due to PEF's Operational Balance Agreement with Gulfstream, PEF is allowed to carryover imbalances to the next month without penalty. The monthly imbalances were a result of balancing actual burns versus nominations with FGT that could not be mitigated due to alert day restrictions and/or end-of-month timing.

C. Coal – Two coal suppliers were temporarily suspended due to quality problems.

D. PEF purchased daily transmission on an as available basis to support economy purchases. In addition, PEF purchased 200 MWs of monthly transmission for the period May through October to improve diversity and availability of economic purchase opportunities.

E. Daily dispatch continues on an economic basis for its ratepayers. This dispatch is updated twice daily for next-day projected load forecasts. This process may, on occasion, deviate from economic dispatch due to operational problems at plant sites or forces beyond our control.

F. One coal supplier filed bankruptcy, however, there was no interruption of service

III. Monitoring of Industry Events

A. PEF continues to monitor the War with Iraq and its short- and long-term affects in the market, as well as the events leading up to the war.

B. Weekly gas storage injection/withdrawal amounts published by EIA are being followed to determine short- and long-term affects to future gas prices. In addition, rig counts are also followed to monitor the increase/decrease of drilling activity for replacement reserves.

C. Defaults by suppliers based on bankruptcies or announcements to exit the market are monitored by our credit section, as well as the respective front office personnel. For 2002, we have seen marketing companies like Dynegy, Aquila, Reliant, and El Paso either exit the business totally or reduce staff to return to its core business of managing its existing generation portfolio. Liquidity in the natural gas and power markets have been reduced by these events where major marketing companies have elected to exit the business line of "market making" activities.

IV. Price Risk Mitigation

A. Natural Gas – A zero cost collar was entered into for 20,000 mmbtu/day of natural gas supply for the period December 2002 through and including February 2003 which was not exercised in 2002. PEF has one (1) long-term fixed price contract that resulted in additional cost to ratepayers of $2,098,791. The mark-to-market on this fixed price contract for its remaining term is valued at approximately $33 million favorable for the ratepayers.

B. Wholesale Power – Savings from wholesale sales & purchases for 2002 were as follows:
1. Sales $5,628,586
2. Purchases $7,013,273

C. Fuel Oil – For 2002, PEF elected to fix the price on 1,964,727 barrels of #6 fuel oil on various shipments resulting in an overall additional cost to the ratepayers of $1,533,222.

D. Total Value Created: **$9,009,846**

V. Process and Guidelines

A. The Mid Office – Risk Reporting is incorporating forward curves and market pricing to provide daily reporting of mark-to-market and stress testing to Senior Management.

B. Audit Services continues to provide the services outlines in the Plan for fuel and wholesale power purchases. Their audits in 2002 included various aspects related to compliance, trading and procurement, and operational perspectives for fuel procurement and wholesale power purchases. The audits completed in 2002 had no major findings.

C. PEF natural gas, fuel oil, and wholesale power processes/procedures continue to be refined as part of our overall effort to improve business practices.

D. The guidelines referenced in the Plan have been adhered to and no trading and/or credit violations occurred in 2002.

Progress Energy Florida, Inc.	
Docket No.	030001-EI
Witness:	Murphy
Exhibit No.	PRM-2

PROGRESS ENERGY FLORIDA, INC.

Hedging information provided as part of the 2002 Fuel Clause Final True-up Filing as required by Order No. PSC-02-1484-FOF-EI, Issued October 30, 2002 in Docket No. 011605-EI

Hedging Instrument	Fuel Type	Total 2002 Volume Hedged*		Avg Period of Hedge	Total Cost of Hedge
Fixed Price Contact	Heavy Oil	1,964,727	bbls	daily	$0
Fixed Price Contact	Natural Gas	10,263,435	mmbtu	daily	$0
Zero Cost Collar	Natural Gas	620,000	mmbtu	daily	$0

* Physical Only