Progress Energy

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March 6, 2009

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VIA HAND DELIVERY

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: *Petition to allow transportation fuel surcharge hedging by Progress Energy Florida, Inc.; Docket No. 080649-EI*

Dear Ms. Cole:

Please find enclosed for filing on behalf of Progress Energy Florida, Inc. ("PEF") the original and five (5) copies of its response to Staff's Data Request dated February 20, 2009 in the above referenced docket.

Thank you for your assistance. Should you have any question, please feel free to call me at (850) 820-5184.

Sincerely,

John T. Burnett lms

John T. Burnett

JTB/lms
Attachments

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PEF RESPONSES TO STAFF DATA REQUEST DATED FEBRUARY 20, 2009
DOCKET NO. 080649-EI

Q1. Please provide copies of all of Progress Energy's coal transportation service agreements (i.e., "rail contracts," "barge contracts," "truck contracts"), detailing the method by which the transportation service provider recovers fuel costs, or charges for fluctuations in fuel costs. Please also include transportation service agreements for transporting heavy oil and light oil.

Answer: Please see "Attachment A" for Progress Energy Florida's (PEF) transportation contracts. All the contracts are confidential and have been filed with the Clerk's office along with PEF's Request for Confidential Classification dated March 6, 2009.

Q2. Progress Energy has petitioned for recovery of "costs" incurred by "hedging" diesel fuel for transportation using the monthly average of the WTI crude oil contract. Wouldn't the correlation between diesel fuel for transportation and the contract for No.2 Heating Oil be greater than the correlation between diesel fuel for transportation and the contract for WTI crude oil? In other words, wouldn't the contract to use for hedging against increases or decreases in the price of diesel fuel for transportation be the No. 2 Heating Oil contract?

Answer: The current [redacted] specifically utilizes the monthly average West Texas Intermediate (WTI) crude oil price to determine the fuel surcharge adjustment. Therefore, the WTI crude oil financial instrument is the most effective hedging instrument to use given the current contract structure of the [redacted].

Q3. By what authority does Progress Energy now recover the costs incurred by hedging against increases or decreases in the price of light oil?

Answer: The FPSC addressed electric utilities risk management policies and procedures in Order No. PSC-02-1484-FOF-EI dated October 30, 2002 and further clarified in Order No. PSC-08-0667-PAA-EI dated October 08, 2008. The Commission has reviewed and approved PEF's previous hedging results which included natural gas, residual oil and light oil. The Commission also approved PEF's 2009 Risk Management Plan in the Commission's Final Order No. PSC-08-0824-FOF-EI which included hedging for forecasted usage of light oil.

Q4. If the Commission were to allow the recovery of costs incurred by hedging diesel fuel for coal transportation, would Progress Energy then also hedge diesel fuel for light oil and heavy oil transportation?

Answer: PEF is not planning to ask to separately hedge diesel fuel surcharge exposure for light oil or heavy oil transportation related fuel costs at this time. The reasons for this are as follows:

- PEF is not exposed to fuel surcharges in its current term supply contract agreements for the delivery of light oil and heavy oil;

- PEF's light oil deliveries made by truck transportation are currently subject to a fuel cost surcharge and are considered a very small component of PEF's overall fuel surcharge exposure;

- It is difficult to predict the exposure related to surcharges on light oil truck deliveries due to actual timing and levels of light oil usage as compared to river and rail coal deliveries. Light oil is primarily used for peaking combustion turbines and as a backup fuel at intermediate gas generation sites, whereas, coal is used in baseload steam generation.

Q5. Since crude oil prices have declined to below $40 per barrel, how will this affect the fuel surcharge provisions of PEF's rail and barge transportation contracts?

Answer: The WTI price will not directly affect the fuel surcharge calculation contained in the barge related coal transportation contracts as the surcharges are not contractually tied to the price of WTI. For the current [redacted], the fuel surcharge is directly related to the average monthly price level of WTI. Specifically, if the average WTI price for any given month falls [redacted] per barrel, there will be no fuel related surcharge. As an example, in July 2008 the average WTI price was approximately $133 and the fuel surcharge was approximately [redacted] of the total [redacted] for the month. In December 2008, the average WTI price average was approximately $41 per barrel and the fuel surcharge was approximately [redacted] of the total [redacted] for the month. PEF cannot predict what the monthly average WTI price level will do in the future. As of February 26, 2009, the forward market WTI price for the balance of 2009 was approximately $50.00 per barrel. With respect to the river and gulf barges, the fuel surcharge in the respective water agreement is tied to the price of gulf coast diesel prices (i.e light oil), not WTI.

Q6. Is PEF seeking to hedge the price of transportation fuel for coal only or also for heavy oil and light oil? Please explain.

Answer: Please see response to Question 4.

Q7. Will the hedging of fuel prices for coal transportation affect coal RFPs or the evaluation of coal RFPs? Please explain.

Answer: No. The hedging of diesel and WTI prices for coal transportation will not affect coal RFPs or the evaluation of coal RFPs. A need for a coal RFP is dependent on other factors such as, but not limited to, burn forecasts, coals currently under contract, open positions and inventory requirements. As for the evaluation of coal RFPs, the same transportation rates will apply to all applicable bids in order to evaluate them on an "apples to apples" basis.

Q8. Will the hedging of fuel prices for coal transportation affect the purchase or evaluation of spot coal RFPs? Please explain.

Answer: Please see response to Question 7.

Q9. Is there an inherent reason that hedge positions for the fuel surcharge provisions of rail transportation contracts would perform differently than hedge positions for the fuel surcharge provisions of waterborne transportation contracts?

Answer: There are no inherent reasons or expectations that the effectiveness of hedge positions executed for the fuel surcharge provisions for rail and waterborne transportation modes should perform significantly different. This is due to the specific hedging products that will be used based on the specific market oil prices included in the respective contracts to calculate the fuel surcharges paid by PEF.

As an example, the fuel surcharge in the current [redacted] is tied to WTI prices and as such, PEF would execute hedges tied to the WTI crude oil contract. With respect to river barge activity, [redacted] would be hedged with US Gulf Waterborne Low Sulfur Diesel as this is based on the fuel surcharge calculations in the river barge contract. These commodities are used for their respective hedges because they are used in the fuel surcharge language of the respective transportation contracts.

Q10. Paragraph 14 of the petition indicates that some of the barge transport contracts include provisions for fuel surcharges based on market prices. Why is it only some? Are there barge transportation contracts for which the barge company assumes the risk of changing fuel prices? Please explain.

Answer: PEF used the term "some" in the petition as PEF is not exposed to transportation fuel surcharges in all of its deliveries of fuel by barge. PEF's coal barge transportation contracts have fuel surcharges that are borne by PEF. However, PEF is not exposed to barge fuel surcharges for deliveries of light and heavy oil.

Q11. In terms of total annual fuel revenue, please provide an explanation and assessment of the expected dollar effect the hedging of transportation fuel surcharges will have.

Answer: As an explanation of the impact of volatile fuel prices and impacts on fuel surcharges, PEF is providing some specific information of the current [redacted]. In 2006, 2007 and 2008 the total [redacted] costs were approximately [redacted], [redacted], and [redacted], respectively. In 2006, 2007, and 2008, the fuel surcharges for [redacted] accounted for approximately [redacted], [redacted] and [redacted] of total costs under this agreement, respectively. As can be seen from the trend in the percentages, as the price of oil increased over this time period, overall costs under the current [redacted] increased.

Based on market prices and volatilities of WTI as of December 31, 2008, a probabilistic analysis calculated the expected 2009 [redacted] fuel surcharge of approximately [redacted] and a [redacted] confidence interval of [redacted] to [redacted] assuming no hedging. Assuming PEF hedged 50% of their WTI exposure on December 31, 2008, the resulting [redacted] interval of 2009 [redacted] is approximately [redacted] to [redacted].

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PEF cannot predict where prices will ultimately settle in the future. As with PEF's existing hedging activities, hedging may or may not result in fuel savings, but hedging increases price certainty and reduces price volatility of projected fuel costs.

Q12. Staff would like to get some sense of the volume of fuel to be hedged. For a typical year, say 2008, please state the gallons of diesel fuel that are used for coal transportation by rail and coal transportation by barge and state the range of percentages of these volumes that would be hedged.

Answer: Based on current forecast for 2009, PEF estimates that its exposure under its current [redacted] is approximately [redacted] of WTI per year, or approximately [redacted] per month. PEF's estimated exposure under its river barge exposure for 2009 is approximately [redacted] of US Gulf Waterborne Low Sulfur Diesel annually or an average of [redacted] per month. At this time, PEF is considering a range of [redacted] for a period not to exceed [redacted] months or the existing terms of any of the applicable agreements.

Attachment A

(Transportation Contracts)

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(All Pages)