

**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 100001-EI
FLORIDA POWER & LIGHT COMPANY**

APRIL 1, 2010

**IN RE: LEVELIZED FUEL COST RECOVERY
AND CAPACITY COST RECOVERY**

**HEDGING ACTIVITY
JANUARY 2009 THROUGH DECEMBER 2009**

COM 5
APA 1
ECR 6
GCL 1
RAD 1
SSC
ADM
OPC
CLK 1

TESTIMONY & EXHIBITS OF:

G. J. YUPP

DOCUMENT NUMBER-DATE

02433 APR-10

FPSC-COMMISSION CLERK

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
TESTIMONY OF GERARD J. YUPP
DOCKET NO. 100001-EI
APRIL 1, 2010

Q. Please state your name and address.

A. My name is Gerard J. Yupp. My business address is 700 Universe Boulevard, Juno Beach, Florida, 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company (FPL) as Senior Director of Wholesale Operations in the Energy Marketing and Trading Division.

Q. Have you previously testified in the predecessors to this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present data on FPL's hedging activities, by month, for calendar year 2009. This data is required per Item 5 of the Resolution of Issues in Docket 011605-EI approved by the Commission per Order No. PSC-02-1484-FOF-EI, which states:

"5. Each investor-owned utility shall provide, as part of its

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1 final true-up filing in the fuel and purchased power cost
2 recovery docket, the following information: (1) the volumes of
3 each fuel the utility actually hedged using a fixed price
4 contract or instrument; (2) the types of hedging instruments
5 the utility used, and the volume and type of fuel associated
6 with each type of instrument; (3) the average period of each
7 hedge; and (4) the actual total cost (e.g. fees, commissions,
8 options premiums, futures gains and losses, swaps
9 settlements) associated with using each type of hedging
10 instrument.”

11 The requirement for this data was further clarified in Section III of the
12 Hedging Order Clarification Guidelines that was approved by the
13 Commission per Order No. PSC-08-0667-PAA-EI issued on
14 October 8, 2008.

15 **Q. Are you sponsoring an Exhibit for this proceeding?**

16 A. Yes. I am sponsoring Exhibit GJY-1 -- 2009 Hedging Activity Final
17 True-Up Report.

18 **Q. Please describe FPL's hedging objectives.**

19 A. Consistent with the guiding principles described in Section IV of the
20 Hedging Order Clarification Guidelines, the primary objective of
21 FPL's hedging program is to reduce the impact of fuel price volatility
22 in the fuel adjustment charges paid by FPL's customers. FPL does
23 not execute speculative hedging strategies aimed at “out guessing”

1 the market in the hopes of potentially returning savings to FPL's
2 customers. FPL has implemented a well-disciplined, well-defined
3 and well-controlled hedging program in compliance with FPL's 2009
4 Risk Management Plan that was approved by the Commission in
5 Order No. PSC-08-0824-FOF-EI, issued on December 22, 2008.

6 **Q. Please summarize FPL's 2009 hedging activities.**

7 A. Consistent with its approved 2009 Risk Management Plan, FPL
8 hedged its fuel portfolio for 2009 utilizing fixed price transactions. A
9 fixed price transaction allows a buyer to lock in the price of a
10 commodity for a set volume over a set period of time.

11

12 Actual 2009 natural gas and heavy oil fuel prices declined
13 substantially from the forward prices that were in effect when FPL
14 was executing its hedges for 2009. As would be expected under the
15 approved hedging approach, *this large decline in natural gas and*
16 *heavy oil prices resulted in reported hedging losses for the year, as*
17 *shown on Exhibit GJY-1. It is important to recognize that those*
18 *large declines in fuel prices resulted in FPL customers paying*
19 *significantly lower overall fuel costs for 2009. This was evidenced*
20 *by the 2009 net over-recovery of approximately \$365 million that*
21 *was returned to customers as a one-time credit in January 2010.*
22 *Conversely, if fuel prices had increased sharply after FPL executed*
23 *its hedges, FPL's hedging results would have shown a substantial*

1 gain for the year but FPL customers would have ended up paying
2 higher fuel costs.

3 **Q. Does your Exhibit GJY-1 provide the detail on FPL's 2009**
4 **hedging activities required by Item 5 of the Resolution of**
5 **Issues?**

6 **A. Yes.**

7 **Q. Does this conclude your testimony?**

8 **A. Yes, it does.**

CONFIDENTIAL

	A	B	C	D	E	F
	FPL NATURAL GAS PROCUREMENT					
	VOLUME (MMBTU)					
	PERIOD	INSTRUMENT	PURCHASES	SALES	OPTION PREMIUMS	GAIN/(LOSS)
1	YEAR-TO-DATE	FIXED PRICE TRANSACTIONS				
2	(JAN - DEC)	SWAPS				
3	2009	SWING SWAPS				
4		OVER-THE-COUNTER OPTIONS				
5		BROKER FEES				
6						\$ (1,660,695,829)
7						
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12	AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL					

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	A	B	C	D	E	F
			FPL HEAVY FUEL OIL PROCUREMENT			
			VOLUME (BARRELS)			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
1						
2						
3						
4	YEAR-TO-DATE	FIXED PRICE TRANSACTIONS				
5	(JAN - DEC)	SWAPS				
6	2009	SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
9						\$ (62,901,236)
10						
11						
12		AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL				

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	A	B	C	D	E	F
			FPL NATURAL GAS PROCUREMENT			
			VOLUME (MMBTU)			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
1						
2						
3	January-09	FIXED PRICE TRANSACTIONS				
4		SWAPS				
5		SWING SWAPS				
6		OVER-THE-COUNTER OPTIONS				
7		BROKER FEES				
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	A	B	C	D	E	F
			FPL HEAVY FUEL OIL PROCUREMENT			
			VOLUME (BARRELS)			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
1						
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3						
4	January-09	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
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CONFIDENTIAL

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			FPL NATURAL GAS PROCUREMENT			
			VOLUME (MMBTU)			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
1						
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4	February-09	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
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			VOLUME (BARRELS)			
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1						
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4	February-09	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
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8		BROKER FEES				
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1						
2						
3	March-09	FIXED PRICE TRANSACTIONS				
4		SWAPS				
5		SWING SWAPS				
6		OVER-THE-COUNTER OPTIONS				
7		BROKER FEES				
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	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>VOLUME (BARRELS)</u>		<u>FPL HEAVY FUEL OIL PROCUREMENT</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
			<u>PURCHASES</u>	<u>SALES</u>			
	March-09	FIXED PRICE TRANSACTIONS					
		SWAPS					
		SWING SWAPS					
		OVER-THE-COUNTER OPTIONS					
		BROKER FEES					

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1						
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4	April-09	FIXED PRICE TRANSACTIONS				
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3	April-09	FIXED PRICE TRANSACTIONS				
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3	May-09	FIXED PRICE TRANSACTIONS				
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3	May-09	FIXED PRICE TRANSACTIONS				
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3	June-09	FIXED PRICE TRANSACTIONS				
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3	June-09	FIXED PRICE TRANSACTIONS				
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4	July-09	FIXED PRICE TRANSACTIONS				
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3	July-09	FIXED PRICE TRANSACTIONS				
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1						
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4	August-09	FIXED PRICE TRANSACTIONS				
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4	August-09	FIXED PRICE TRANSACTIONS				
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4	September-09	FIXED PRICE TRANSACTIONS				
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4	October-09	FIXED PRICE TRANSACTIONS				
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4	November-09	FIXED PRICE TRANSACTIONS				
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1						
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3						
4	December-09	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
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