

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 011605-EI  
ORDER NO. PSC-02-0558-PCO-EI  
ISSUED: April 24, 2002

ORDER DENYING REQUEST FOR STATUS CONFERENCE

On March 28, 2002, Reliant Energy Power Generation, Inc. ("Reliant") filed a request for the prehearing officer to convene a status conference for the purpose of determining whether the relative risks of purchased power and self-generation would be addressed as an issue in this proceeding, as Reliant suggests. On April 5, 2002, Florida Power & Light Company ("FPL") filed a response in opposition to Reliant's request for status conference. On April 12, 2002, Florida Power Corporation filed a joinder to FPL's response.

In its request, Reliant asserts that the Commission should consider, in an appropriate policy-making setting, the factual, technical, and policy implications of the relative risks of purchased power and self-generation by investor-owned electric utilities ("IOUs"). Reliant asserts that such an examination would allow the Commission to focus on the appropriate structure of a portfolio designed to manage all risks effectively. Reliant contends, that "[i]nasmuch as the purpose of the instant docket is to consider IOUs' risk management techniques . . . the issue of the appropriate portfolio structure should be identified and squarely addressed as one of the issues in this proceeding." Reliant states that if the Commission chooses to address the matter in this proceeding, the issue should be identified immediately to allow all parties an adequate opportunity to prepare for hearing. Alternatively, Reliant asserts that if the issue is excluded from this docket, the Commission should establish a separate forum where the subject can be considered.

In its response, FPL asserts that Reliant's request would divert this proceeding from the purposes for which this docket was established and would thus be counterproductive to those purposes. Citing Order No. PSC-02-0192-PCO-EI, the Order Establishing Procedure in this docket, FPL notes that this docket was

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established to address six issues that were deferred from consideration in Docket No. 010001-EI. FPL states that each of those issues, as they were stated in Docket No. 010001-EI, was expressly directed to the subject of how IOUs manage their fuel transactions. FPL concedes that the issues have been reworded in this docket to slightly broaden the inquiry to fuel and purchased power transactions. However, FPL contends that this slightly broader focus simply indicates that the Commission is interested in how IOUs hedge their purchases of energy in whatever form those purchases take and does not suggest an "open-ended inquiry into the relative merits of self-generation versus purchasing wholesale power . . . ." FPL asserts that there is no commonality between these subjects that compels combining them and suggests that to do so would "confuse and disrupt" this proceeding. FPL notes that the Commission already considers the role of purchased power in an IOU's power-supply mix in need determination proceedings for new generating facilities and in the Commission's annual ten-year site plan proceedings. Finally, FPL asserts that Reliant, in pursuing this issue, is using its retail customer status as a "Trojan Horse" to justify intervention while steering the docket toward subjects particularly important to wholesale providers. FPL argues that this is contrary to the terms of the Order No. PSC-02-0357-PCO-EI, granting Reliant intervention in this docket.

In Order No. PSC-02-0192-PCO-EI, the following list of tentative issues was established for this docket:

- 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?
- 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?
- 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?

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?

ISSUE 5: For the period March 1999, to March 2001, did FPL take reasonable steps to manage the risk associated with changes in natural gas prices?

ISSUE 6: For the period March 1999, to March 2001, did Florida Power take reasonable steps to manage the risk associated with changes in natural gas prices?

In addition, the following issue was added pursuant to Order No. PSC-02-0428-PCO-EI, issued March 28, 2002:

ISSUE 7: 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?

The issues identified in these orders focus on the IOUs' management of the risks associated with volatility of fuel and purchased power prices (Issues 1, 5, 6, 7) and the appropriate regulatory treatment for gains, losses, premiums, and costs related to such "hedging" practices (Issues 2, 3, 4). Issues 1 through 6 were originally raised in Docket No. 010001-EI, concerning the fuel and purchased power cost recovery clause, to address how IOUs were, and should be, managing the volatility in natural gas prices which in recent years had created sharp increases in the fuel charges of some of the IOUs. Recognizing that IOUs who bought purchased power from natural gas-fired generating units were also seeing these price increases through the energy component of their purchased power transactions, which is recovered through fuel charges, the issues were expanded in this docket to cover IOUs' management of

the risks associated with volatility in the energy component of the IOU's purchased power commitment in addition to fuel prices.

In Order No. PSC-02-0357-PCO-EI, issued March 15, 2002, Reliant was granted intervention in this docket to represent its interests as a retail customer. That Order stated, in pertinent part:

As a retail customer, Reliant is not precluded from presenting evidence regarding benefits it may receive as a result of utility power purchases from wholesale providers, *so long as the evidence is relevant to the issues established in this docket.* However, the grant of intervenor status to Reliant shall not be construed to permit Reliant's interests as a wholesale provider to be represented in this proceeding. Pursuant to Rule 25-22.039, Florida Administrative Code, Reliant takes the case as it finds it.

(Emphasis added.)

As stated in that Order, Reliant may present evidence regarding benefits it may receive as a result of utility power purchases from wholesale providers, so long as the evidence is relevant to the established issues, i.e., relevant to IOUs' management of the risks associated with volatility of fuel and purchased power prices, in particular the energy component of such purchased power prices. A separate, additional issue concerning the relative risks of purchased power and self-generation need not be identified in this docket.

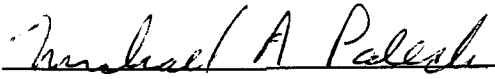
Upon consideration, Reliant's request for status conference is denied. The issues, as set forth and discussed herein, adequately inform the parties of the scope of this docket. Further, the cogent arguments in Reliant's request and FPL's response obviate the need for additional argument.

ORDER NO. PSC-02-0558-PCO-EI  
DOCKET NO. 011605-EI  
PAGE 5

Based on the foregoing, it is

ORDERED by Commissioner Michael A. Palecki, as Prehearing Officer, that Reliant Energy Power Generation, Inc.'s Request for Status Conference is denied, as set forth in the body of this Order.

By ORDER of Commissioner Michael A. Palecki, as Prehearing Officer, this 24th day of April, 2002.

  
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MICHAEL A. PALECKI  
Commissioner and Prehearing Officer

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

ORDER NO. PSC-02-0558-PCO-EI  
DOCKET NO. 011605-EI  
PAGE 6

Any party adversely affected by this order, which is preliminary, procedural, or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of the Commission Clerk and Administrative Services, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.