



Public Service Commission

-M-E-M-O-R-A-N-D-U-M-

DATE: September 27, 2000
TO: All Parties of Record
FROM: Cochran Keating, Staff Counsel WCK RVE
RE: 000001-EI - Fuel and purchased power cost recovery clause and generating performance incentive factor.

Via Facsimile

Please note that the Commission Staff has scheduled informal meetings with the following investor-owned electric utilities to be held at the times and locations indicated below:

Florida Power Corporation
1:30 p.m., Monday, October 2, 2000
Room 309, Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida

Tampa Electric Company
9:30 a.m., Tuesday, October 3, 2000
Room 309, Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida

Florida Power & Light Company
1:30 p.m., Tuesday, October 3, 2000
Room 309, Gerald L. Gunter Building
2540 Shumard Oak Boulevard
Tallahassee, Florida

The purpose of these meetings is to discuss each utility's risk management procedures regarding fuel procurement. Parties are welcome to be present and observe, but attendance is not required. Please note that these meetings will not be an open forum for discussion or questioning of the utility.

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Staff will conduct a similar meeting with Gulf Power Company and will provide notice of that meeting when it is scheduled. Staff has prepared the attached list of questions/topics to assist the parties in preparing for, and to facilitate discussion at, all of these meetings.

DOCUMENT NUMBER-DATE

12358 SEP 28 8

FPSC-RECORDS/REPORTING

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If there are any questions regarding this meeting, please contact Todd Bohrmann at (850) 413-6445 or Cochran Keating at (850) 413-6193.

WCK

cc: Division of Safety and Electric Reliability

Division of Regulatory Oversight

Division of Economic Regulation

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Questions/Topics for Discussion

1. Does the utility purchase or sell derivatives (futures, forward contracts, options, swaps, or some combination) as part of the utility's fuel procurement practices?
 - A) Definitions
 - B) Types of derivatives
2. What section, office, bureau, division, or department within the utility is responsible for purchasing and selling derivatives for or on behalf of the utility?
3. For the section, office, bureau, division, or department identified in the previous question, please be prepared to discuss:
 - A) Name of Supervisor
 - B) Chain of command between supervisor and the utility's chief executive officer
 - C) Number of individuals are assigned to or employed by the section, office, bureau, division, or department
 - D) Objectives
 - E) Functions
 - F) Policies
 - G) Coordination with other sections, offices, bureaus, divisions, or departments
4. How does the utility define "hedging"?
 - A) Is hedging a proper use of ratepayer funds?
 - B) Does the utility engage in "hedging"? If so, provide a recent example when the utility engaged in hedging?
5. How does the utility define "speculating"?
 - A) Is speculating a proper use of ratepayer funds?
 - B) Does the utility engage in "speculating"? If so, provide a recent example when the utility engaged in speculating?
6. How is information relevant to the utility's derivative trading shared among individuals responsible for purchasing or selling derivatives?

7. Does the utility use industry indices, benchmarks, or models to gauge the proper level of fuel supply and fuel price hedging to use? If so, what are those hedging indices, benchmarks, or models and how are they used?
8. How have fuel supply and fuel price hedging practices for the utility changed in the past 5 years?
9. What are the benefits and risks of the utility's fuel supply and fuel price hedging practices to:
 - A) Utility Retail Ratepayers?
 - B) Utility Wholesale Customers?
 - C) Stockholders?
 - D) Utility Management?
 - E) Utility Affiliates?
10. How are the benefits and costs of the utility's fuel price and fuel supply hedging practices shared between retail and wholesale customers?
11. Were the increases in natural gas fuel supply costs reflected in the utility's fuel supply 1999 and 2000 contracts properly hedged for both retail and wholesale customers?
12. What are the transaction costs associated with hedging?
13. Does the utility employ hedging strategies that require rebalancing after the initial hedge?
14. Do transaction costs sometimes outweigh the benefits of a hedging strategy? If so, how does the utility determine (or estimate) the benefits and costs?