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June 5, 2002

VIA HAND DELIVERY

Blanca S. Bayo, Director
Division of Records and Reporting
Betty Easley Conference Center
4075 Esplanade Way
Tallahassee, Florida 32399-0870

Re: Docket No.: 011605-EI

Dear Ms. Bayo:

On behalf of Florida Industrial Power Users Group (FIPUG), enclosed for filing and distribution are the original and 15 copies of the following:

- ▶ FIPUG's Comments on Issue #7.

Please acknowledge receipt of the above on the extra copy of each and return the stamped copies to me. Thank you for your assistance.

Sincerely,

Vicki Gordon Kaufman

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No.: 011605-EI
Filed: June 5, 2002

FIPUG'S COMMENTS ON ISSUE #7

The Florida Industrial Power Users Group (FIPUG) responds to the request for comment contained in Order No. PSC-02-0428-PCO-EI, issued on 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?

1. Hedging is a time-honored technique for reducing price volatility. Heretofore, the Commission has removed fuel and purchased power cost risk from regulated utilities and placed it 100% upon consumers. Over the long run, a competitive market should provide the most reasonable prices for these commodities. The Commission should promote a competitive market in the state through an efficient, independently-operated power transmission grid. Until that independent grid exists, and a publically traded open market exchange is active in the state, it may be premature to authorize regulated utilities to engage in extensive hedging through the use of derivative transactions.

2. A review of the annual fuel and purchase power orders for the last five years, demonstrates that regulated utilities' record for forecasting future market prices has been rather poor.

3. The cost of physical contracts for sale or purchase of a commodity is fully recoverable under the Commission Order No. 14546, issued July 8, 1985, in Docket No. 850001-EI-B. These contracts are exempt from the reporting requirements under FASB 133 relating to derivative instruments.

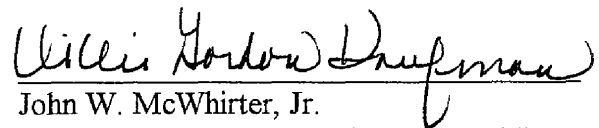
4. Current national concern over abuses in power trading, derivative accounting, and alleged abusive transactions militate toward the use of caution in authorizing regulated utilities to actively engage in the derivative market.

5. The incentive plans FPC and FPL proffered at the May 14th staff workshop seem to suggest that these utilities are willing to forecast prices over a year in advance and keep the savings if they beat their forecast and eat the cost if they fail, with a force majeure escape clause. Such a program has significant potential for customer harm. The staff proposal, which provides an after the fact measure, is more appealing to consumer interests.

6. FIPUG offers the following comments based on the information filed in this docket to date:

- a. There should be no incentives until confidential bi-lateral contracts are no longer confidential.
- b. Large customers should be allowed to hedge power costs under Commission supervision when a utility's capacity margin for the preceding year is less than 10%.
- c. Incentives, if allowed, should be granted after the fact by comparing the price paid for fuel and purchased power to the average market price during the period rather than granting an incentive based upon bettering the estimated market price for a future period.
- d. Incentives for purchased power should not be allowed until there is a fully operating competitive wholesale market for purchased power in the state with an independent transmission system operator.
- e. Incentives, if allowed, should be for no more than 10% of a regulated utility's fuel consumption requirements for the preceding year.

7. FIPUG reserves the right to provide further comments in response to the risk management programs and discovery proffered in this docket.



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CERTIFICATE OF SERVICE

I **HEREBY CERTIFY** that a true and correct copy of the foregoing FIPUG'S Comments on Issue #7 has been furnished by U.S. Mail on this 5th day of June, 2002.

(*) Wm. Cochran Keating
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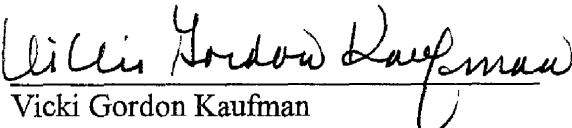
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