

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 011605-EI  
Dated: June 26, 2002

FLORIDA POWER & LIGHT COMPANY'S NOTICE OF INTENT TO SEEK CONFIDENTIAL CLASSIFICATION

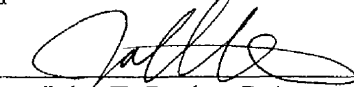
Pursuant to Section 366.093, Florida Statutes and Rule 25-22.006, Florida Administrative Code, Florida Power & Light Company ("FPL") hereby files this Notice of Intent to Seek Confidential Classification of certain documents and information responsive to Request Nos. 3, 8, 9, 10 and 12 of Staff's Second Request for Production of Documents and Interrogatory Nos. 14, 16 and 18 of Staff's Second Set of Interrogatories, and states:

Request Nos. 3, 8, 9, 10 and 12, and Interrogatory Nos. 14, 16 and 18 seek discovery of confidential, proprietary business information of FPL. (Copies of Staff's Second Request for Production of Documents and Second Set of Interrogatories are attached.) Accordingly, FPL hereby gives notice of its intent to seek confidential classification with respect to its responses pursuant to Rule 25-22.006(3)(a), Florida Administrative Code.

Contemporaneously herewith, FPL is serving its response to Staff's Second Request for Production of Documents and Second Set of Interrogatories.

R. Wade Litchfield, Esq.  
Attorney  
Florida Power & Light Company  
700 Universe Boulevard  
Juno Beach, Florida 33408-0420  
Telephone: 561-691-7101

Steel Hector & Davis LLP  
Attorneys for Florida Power & Light  
Company  
200 South Biscayne Boulevard  
Suite 4000  
Miami, Florida 33131-2398  
Telephone: 305-577-2939

By:   
John T. Butler, P.A.  
Florida Bar No. 283479

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

**CERTIFICATE OF SERVICE**  
**Docket No. 011605-EI**

I **HEREBY CERTIFY** that a true and correct copy of the foregoing has been furnished by Federal Express (\*) or United States mail this 26<sup>th</sup> day of June, 2002, to the following:

Susan D. Ritenour  
Gulf Power Company  
One Energy Place  
Pensacola, FL 32520-0780

Florida Industrial Power Users Group  
c/o John McWhirter, Jr., Esq.  
McWhirter Reeves Law Firm  
P.O. Box 3350  
Tampa, FL 33601-3350

Angela Llewellyn  
Regulatory Affairs  
Tampa Electric Company  
P.O. Box 111  
Tampa, FL 33601-0111

Jeffrey Stone/Russell A. Badders,  
Beggs and Lane Law Firm  
P.O. Box 12950  
Pensacola, FL 32576-2950

James Beasley/Lee Willis  
Ausley & McMullen Law Firm  
227 South Calhoun Street  
Tallahassee, FL 32301

Joseph A. McGlothlin, Esq.  
Vicki Gordon Kaufman, Esq.  
McWhirter Reeves  
117 South Gadsden  
Tallahassee, FL 32301

William Cochran Keating IV\*  
Senior Attorney  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

Robert Vandiver, Esq.  
Office of Public Counsel  
c/o The Florida Legislature  
111 W. Madison Street, Room 812  
Tallahassee, FL 32399-1400

James A. McGee  
P.O. Box 14042  
St. Petersburg, FL 33733-4042

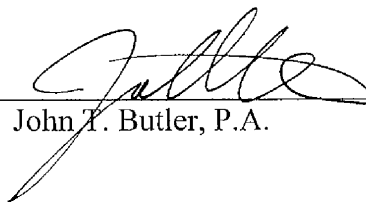
Michael G. Briggs  
Reliant Energy, Inc.  
801 Pennsylvania Ave, Suite 620  
Washington, D.C. 20004

Paul Lewis, Jr., Esq.  
Florida Power Corporation  
106 E. College Avenue, Suite 800  
Tallahassee, FL 32330-7740

Myron Rollins  
P.O. Box 8405  
Kansas City, MO 64114

John Attaway  
P.O. Box 32015  
Lakeland, FL 33802-2018

By: \_\_\_\_\_

  
John T. Butler, P.A.

RECEIVED  
MAY 24 2002

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 011605-EI

DATED: MAY 23, 2002

STAFF'S SECOND REQUEST FOR PRODUCTION OF DOCUMENTS  
TO FLORIDA POWER & LIGHT COMPANY (NOS. 3 - 12)

Pursuant to Rule 25-22.034, Florida Administrative Code, and Rule 1.350, Florida Rules of Civil Procedure, the Staff of the Florida Public Service Commission, by and through its undersigned attorney, hereby serves the following Request for Production of Documents upon Florida Power & Light Company (FPL).

Please produce the following documents at the Florida Public Service Commission, 2540 Shumard Oak Boulevard, Gerald L. Gunter Building, Tallahassee, Florida 32399-0850, no later than thirty days after service of this request for the purpose of inspection and copying:

DEFINITION

As used herein, the word "documents" shall mean the original and any non-identical copies of any writing or record, including but not limited to a book, pamphlet, periodical, letter, memorandum, telegram, report, study, interoffice or intraoffice

memorandum, memorandum reflecting an oral communication, handwritten or other notes, working paper, draft, application, permit, chart, paper, graph, survey, index, tape, disc, data sheet or data processing card, computer printout, or any other written, recorded, transcribed, filed or graphic matter, however produced or reproduced.

DOCUMENTS REQUESTED

3. Please provide all documents that comprise or include components of FPL's current risk management plan regarding fuel procurement (including purchase, delivery, and storage); this plan may include, but is not limited to, contingency actions for unfavorable operational, market, weather, or financial events, and may include procedures for enacting physical, operational, and financial hedges, including various controls and best practices to manage specified risks to fuel price, availability, delivery, and/or storage.
  
4. Please provide all articles, reports, and documents published by Standard and Poor's since January 1, 2000, that address any of the following subjects: hedging practices, fuel procurement, risk management, and energy derivatives. This

request asks only for articles, reports, and documents in FPL's possession, custody, or control.

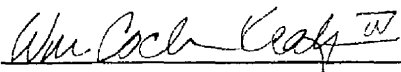
5. Please provide all articles, reports, and documents published by Moody's Investor Services since January 1, 2000, that address any of the following subjects: hedging practices, fuel procurement, risk management, and energy derivatives. This request asks only for articles, reports, and documents in FPL's possession, custody, or control.
6. Please provide all articles, reports, and documents published by Fitch since January 1, 2000, that address any of the following subjects: hedging practices for electric utilities, fuel procurement, risk management, and energy derivatives. This request asks only for articles, reports, and documents in FPL's possession, custody, or control.
7. Please provide all articles, reports, and documents prepared by investment banking firms, e.g., Merrill Lynch, since January 1, 2000, that address any of the following subjects: hedging practices, fuel procurement, risk management, and

energy derivatives. This request asks only for articles, reports, and documents in FPL's possession, custody, or control.

8. Please provide all articles, reports, and documents prepared by consultants, including risk management consultants, since January 1, 2000, that address any of the following subjects: hedging practices, fuel procurement, risk management, and energy derivatives. This request asks only for articles, reports, and documents in FPL's possession, custody, or control.
9. Please provide all articles, reports, and documents prepared by accounting firms, including the utility's auditor, that address any of the following subjects: hedging practices, fuel procurement, risk management, and energy derivatives. This request asks only for articles, reports, and documents in FPL's possession, custody, or control.
10. For the period January 1, 2000, through the present, please provide all documents, including internal memoranda, which

address fuel-related risk management by FPL, including any potential or actual changes to FPL's fuel-related risk management plans that were reviewed by officers, directors, or managers of FPL's risk management group or energy marketing and trading division (or its equivalent).

11. Please provide all reports, analyses, and statistical results related to research or surveys conducted by or on behalf of FPL since January 1, 1997, for the purpose of determining customer opinions and preferences concerning rate changes, especially fuel charge changes.
12. Please provide all documents and reports prepared since January 1, 2000, for the purpose of monitoring or measuring various types of risks associated with fuel costs that impact utilities' fuel cost recovery factors.

  
\_\_\_\_\_  
WM. COCHRAN KEATING IV  
Senior Attorney  
FLORIDA PUBLIC SERVICE COMMISSION  
2540 Shumard Oak Blvd.  
Tallahassee, Florida 32399-0850  
(850) 413-6193

RECEIVED  
MAY 24 2002

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 011605-EI

DATED: MAY 23, 2002

STAFF'S SECOND SET OF INTERROGATORIES TO  
FLORIDA POWER & LIGHT COMPANY (NOS. 14 - 36)

The Staff of the Florida Public Service Commission, by and through its undersigned attorney, propounds the following interrogatories, pursuant to Rule 1.340, Florida Rules of Civil Procedure, to Florida Power & Light Company (FPL). These interrogatories shall be answered under oath by you or your agent, who is qualified and who will be identified, with the answers being served as provided by the Rules of Civil Procedure. As provided by Rule 1.340(a), Florida Rules of Civil Procedure, each interrogatory shall be answered separately and fully in writing under oath unless it is objected to. Each answer shall be signed by the person making it.

Give the name, address and relationship to Florida Power & Light Company of those persons providing the answers to each of the following interrogatories.

If an interrogatory contained herein asks for information that has already been provided or is in the process of being provided to



STAFF'S SECOND SET OF INTERROGATORIES TO  
FLORIDA POWER & LIGHT COMPANY (NOS. 14 - 36)  
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the Commission through a Commission audit, please so state, indicating the date provided and the audit document/record request number.

INTERROGATORIES

14. Please provide an example of a hedging gain and an example of a hedging loss that FPL has experienced as a result of the using futures contracts for natural gas. If FPL has not used financial futures contracts for natural gas, please provide hypothetical examples of a hedging gain and a hedging loss based on realistic assumptions.
  
  
  
  
  
  
  
  
  
  
15. How does FPL currently account for hedging gains and losses resulting from the use of futures contracts? In your response to this interrogatory, please indicate whether hedging gains and losses experienced by FPL are currently being passed through the fuel adjustment clause.

STAFF'S SECOND SET OF INTERROGATORIES TO  
FLORIDA POWER & LIGHT COMPANY (NOS. 14 - 36)  
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16. Please provide an actual example of FPL's use of options for hedging. If FPL has not used options, please provide a hypothetical example of hedging fuel price volatility using options based on realistic assumptions.

17. How does FPL currently account for options used to hedge fuel price volatility? In your response to this interrogatory, please indicate whether option premiums paid by FPL are currently being passed through the fuel adjustment clause.

18. Please describe the types of transaction costs that FPL incurs in connection with the use of futures contracts, options, swaps, or other derivatives. If FPL does not engage in these types of transactions, please describe the types of transaction costs that FPL would incur if it did engage in such transactions. In your response, please describe charges and fees associated with these transactions and provide examples of actual charges and fees. If FPL does not use options or futures contracts, please provide realistic hypothetical examples of such charges and fees.

19. How does FPL currently account for transaction costs incurred to hedge fuel price volatility? In your response to this interrogatory, please indicate whether such transaction costs are currently being passed through the fuel adjustment clause.
20. In the context of regulatory accounting, how should utilities incorporate the principles of FAS 133/138, such as matching the financial instrument to the physical item being hedged, identifying the type of hedge based on effectiveness tests, and identifying objectives? If these items will not be detailed in financial statements, will they be detailed in some other report available to utility management and regulators?

STAFF'S SECOND SET OF INTERROGATORIES TO  
FLORIDA POWER & LIGHT COMPANY (NOS. 14 - 36)  
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21. In consolidated financial statements, are derivatives and hedging activities for regulated subsidiaries reported differently than they are reported for unregulated subsidiaries? If so, in what ways are they reported differently? Will regulated and unregulated transactions be reported net or separately?

22. What is the difference between how derivatives and hedging activities are reported for the company's financial statements versus the FERC Form 1?

23. To the extent not already specified in documents provided in response to Staff's Document Request No. 3 to FPL in this docket, please respond to the following:

- a. What types of risk has FPL identified in its current risk management plan?
- b. What are the objectives of FPL's current risk management plan? What policies and procedures has FPL put in place to achieve these objectives? What personnel are in place to achieve these objectives?
- c. What type of oversight does FPL and its management have with respect to the FPL's current risk management plan?
- d. What types of checks and balances exist with respect to FPL's current risk management plan? Please describe these checks and balances and explain how they are intended to work.
- e. How does FPL monitor and measure the risks addressed by its risk management plan? In your response, please identify all reports or reporting procedures employed by FPL to monitor and measure these risks.

STAFF'S SECOND SET OF INTERROGATORIES TO  
FLORIDA POWER & LIGHT COMPANY (NOS. 14 - 36)  
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24. What internal controls have been established for financial hedging activities associated with FPL's risk management plan referenced in Staff's Document Request No. 3 to FPL? (For a brief discussion of the types of internal controls that may be used to implement financial hedging activities, please review Chapter 4 "Internal Controls" of the NYMEX brochure entitled "A Practical Guide to Hedging" (go to [www.nymex.com](http://www.nymex.com), click on "Reference", then click on "Accounting Treatment", then "A Practical Guide to Hedging").

STAFF'S SECOND SET OF INTERROGATORIES TO  
FLORIDA POWER & LIGHT COMPANY (NOS. 14 - 36)  
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25. Please define price volatility (price risk).

26. Does reduced price risk equate to reduced prices? Please  
explain your response.



STAFF'S SECOND SET OF INTERROGATORIES TO  
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27. Does reduced price risk equate to greater price certainty?

Please explain your response.

28. How does fuel and purchased power price volatility impact ratepayers? On net, over the last ten years, has fuel and purchased power price volatility had a negative, positive, or neutral effect on FPL's ratepayers? Please explain your response.

29. Considering the existence of the fuel and purchased power cost recovery clause, what ratepayer benefits are achieved by price risk reduction? Which of these benefits can be directly measured?

30. Does the current fuel and purchased power cost recovery mechanism provide price certainty to ratepayers? Please explain your response.

STAFF'S SECOND SET OF INTERROGATORIES TO  
FLORIDA POWER & LIGHT COMPANY (NOS. 14 - 36)  
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31. By locking in fuel prices, can FPL offer any greater fuel price certainty to ratepayers beyond what is provided through the current fuel and purchased power cost recovery mechanism? If so, can that additional price certainty be quantified or measured (e.g., by percentage)? If so, has FPL quantified or measured that additional price certainty?
32. How is FPL's ability to manage costs through fuel switching affected by locking in fuel prices?

STAFF'S SECOND SET OF INTERROGATORIES TO  
FLORIDA POWER & LIGHT COMPANY (NOS. 14 - 36)  
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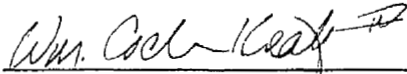
33. Please identify all financial and nonfinancial costs associated with fuel price risk reduction. If nonfinancial costs exist, please explain how they can be measured or quantified.

34. Can FPL achieve reduced fuel price risk while also minimizing long-run fuel costs? Please explain your response.

STAFF'S SECOND SET OF INTERROGATORIES TO  
FLORIDA POWER & LIGHT COMPANY (NOS. 14 - 36)  
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35. What incentives currently exist for FPL to manage fuel and purchased power price volatility for the overall benefit of ratepayers?

36. Please describe how FPL measures its success at minimizing price volatility.

  
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WM. COCHRAN KEATING IV  
Senior Attorney  
FLORIDA PUBLIC SERVICE COMMISSION  
2540 Shumard Oak Blvd.  
Tallahassee, Florida 32399-0850  
(850) 413-6193