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July 10, 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 the Florida Industrial Power Users Group (FIPUG), enclosed for filing and distribution are the original and 15 copies of the following:

- Direct Testimony and Exhibits of Bryan Stone on Behalf of the Florida Industrial Power Users Group.

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,

Timothy J. Perry

TJP/bae
Enclosure

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket Number: 011605-EI
Filed: July 10, 2002

DIRECT TESTIMONY AND EXHIBITS OF

BRYAN STONE

ON BEHALF OF

THE FLORIDA INDUSTRIAL POWER USERS GROUP

I. Introduction

Q. State your name and business address.

A. I am Bryan Stone; my address is PCS Phosphate, P.O. Box 300, White Springs, Florida.

Q. Briefly describe your professional and educational background and your work experience.

A. I have earned both the Bachelor and Master of Sciences Degrees in Electrical Engineering from The Georgia Institute of Technology, and I am a licensed Professional Engineer in the State of Florida. I was a Project Engineer in the phosphate industry from 1990-2000, with responsibility for implementing a wide variety of electrical and instrumentation (E&I) capital projects.

Q. What is your position with PCS Phosphate (PCS) and what are your duties in that position?

A. I have been the Superintendent of Electrical and Instrumentation (E&I) Maintenance since February 2001. My duties include directing a staff of 50 hourly and salaried E&I maintenance personnel, and acting as de facto Energy Manager with regard to electrical energy matters.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to describe PCS and its operations, to discuss risk management by hedging in general, and to comment upon the risk management programs proffered by Florida Power & Light Company (FPL) and Florida Power Corporation (FPC). In addition, I provide the large consumer opinion that the proposed programs,

which will be conducted in secrecy, are designed to shift the cost of risk management to consumers without any promise of reducing the cost of fuel.

Q. Are you thoroughly familiar with fuel cost risk management in general, or with the specific utility program proposals?

A. No. The people in our company that operate the risk management program are not currently available to testify. However, they have reviewed and counseled in the preparation of this prefiled testimony. I have a basic understanding of our risk management operations, but do not operate in that sector. Hopefully by the hearing date a company officer, who can better respond to cross examination on the relevant issues, will take my place. This testimony is further inhibited because crucial details of the utility risk management programs, such as the methodologies for calculating the fixed rates, are confidential. The time for filing testimony has been extremely limited and without the benefit of detailed discovery related to the utilities' testimony, which was filed on June 24th, with the intervening July 4th weekend. My observations are based on the PCS risk management experience and the application of that knowledge of the derivatives market to the limited amount of utility information available.

Q. Please summarize your principal concerns about the proposed hedging programs based on the knowledge you have.

A. • I am advised by counsel that the Florida Commission, like other regulatory commissions throughout the United States, transferred the total fuel cost risk from utilities to consumers in 1972 when it adopted the guaranteed fuel cost recovery clause. Programs to modify risk should primarily benefit the parties that are at risk, so in this case the consumers should be the primary beneficiaries. But to the contrary, the utility programs

will charge the consumers for setting up their new trading programs, and for all trading expenses associated with the new programs. PCS considers this to be an additional fuel cost risk, i.e., fuel cost risk mis-management.

- The utilities' proposed risk management programs duplicate the effect of the annual fuel factor which was implemented in 1998 at the utilities' request. The annual fuel factor sets a levelized cost for fuel for the consumer for the year, thus eliminating rapid changes in electric prices charged to the consumer that might result from fuel price volatility. The utilities' current proposals will not achieve a significant reduction in volatility over the levelized factor already in place.
- The proposed programs will enable regulated utilities to move into the potentially risky financial derivative market without significant regulatory restraint. The utilities propose two new utility profit opportunities at consumer expense with no new consumer benefit: first, by allowing them to purchase fuel for less than the estimated fixed price set for customers, and second, by allowing them to generate additional profit without risk in the financial derivatives market. They will be able to generate profit without risk by simply entering into futures contracts backed by options to eliminate downside risk, leaving only potential for profit. Customers will be required to fund the derivative costs without participating in any profits that occur.
- Secret operations by the dominant fuel purchasers in the Florida peninsula may exacerbate, rather than reduce, fuel cost volatility to the detriment of Florida's other utilities and all electric utility customers.
- The programs provide no independent analysis to ensure that the fixed fuel prices set for customers are just and fair.

- Locking in a high price of energy in a market that later declines could have devastating consequences for PCS. We would rather have available spot market prices and our continued choice to manage our own risk based on our own market assumptions and business expertise, without the premiums being proposed by the utilities.
- The regulated electric subsidiaries contend that, unlike their parent companies' unregulated trading affiliates, their regulated subsidiary is not experienced in the complex financial derivative trading arena. They say the trading affiliate is separate in that there is a Chinese wall between the experienced trading subsidiary and the inexperienced regulated electric utility. The proposed programs call for consumers to fund a new electric utility trading department within the regulated electric affiliate. The operations of the new department, like the operations of the trading subsidiary, will be treated as trade secrets.
- The programs do not exclude transactions with unregulated affiliates.

II. PCS' Operations

Q. Please describe PCS and its operations.

A. PCS has divisions that include PCS Phosphate, PCS Potash, PCS Nitrogen, and PCS Sales. By capacity, PCS is the world's largest nitrogen/phosphate/potash producer. I work at the PCS Phosphate – White Springs facility.

Q. Describe PCS' major operations in the FPC territory.

A. PCS Phosphate has a major manufacturing facility in White Springs, Florida, at which it conducts both mining and chemical processing operations, and employs approximately 610 people. The White Springs facility makes a property and sales tax contribution to the local and state economy of more than $5 million per year.

Q. In addition to Florida, where else does PCS have operations?

A. PCS Phosphate has a similar manufacturing facility in Aurora, North Carolina, and animal feed manufacturing locations in North Carolina, Illinois, Nebraska and Brazil. Other PCS divisions have locations throughout the U.S., Canada, and South America. PCS competes for sales on a worldwide basis.

Q. How will PCS be affected by the proposed risk management programs?

A. PCS, and other FIPUG industrial consumers, purchase about 5% of FPC retail electrical output and a very small percent of the FPL output. We would bear a corresponding percentage of the cost of the utility risk management programs. FIPUG's share of the charge for setting up the FPC program will be an estimated $500,000, plus an additional $50,000 per year collected from customers through additional wholesale incentives, or some other mechanism. In return, we will get a fixed price for fuel in excess of the actual fuel cost to serve our load with no promise or expectation that the overall cost of fuel will be lowered.

Q. What impact do electric power costs have on PCS' decisions regarding whether to operate a facility in Florida?

A. Electrical power cost is a significant cost of operation, and is factored into our economic evaluations when we are determining whether to start up recently idled facilities, such as our White Springs Suwannee River Chemical Complex, ramp up production of operating facilities, such as our White Springs Swift Creek Mine, or build new plants in the state. These types of evaluations compare the economics of increasing production at White Springs versus expanding existing facilities or building new facilities in other states.

Our company, and other industrial companies, long ago recognized the difficulty in remaining competitive under firm rates. We migrated to interruptible rates to save cost, despite the disruptions to our operations. We have also changed operations at our plants to lower electrical costs, just to stay competitive. We have added self-generation capability to defray electrical costs, at a significant capital and maintenance investment. Despite these changes, some phosphate companies have already gone out of the mining business in Florida because they could no longer compete. For these reasons, we are very sensitive to electric price changes, especially in the cost of fuel, which accounts for more than half of our electric bill.

PCS is a high load factor consumer of electricity. More than half of our electric consumption occurs during periods when FPC is running the generators that use less costly fuel and generators that operate most efficiently. FPC's high load factor commercial and industrial customers do not benefit from "real time" fuel cost pricing, but pay the system average cost of fuel for on-peak and off-peak consumption. In other words, we now pay more for fuel than the actual cost of fuel burned in the generators serving our load during the off-peak period.

Q. How does PCS currently engage in hedging?

A. PCS has a long-standing, successful natural gas hedging program. We have energy experts in-house to manage over 200 BCF per year in gas acquisition, distribution, and price risk management. Our program utilizes physical purchase contracts, natural gas futures, OTC swap options, and combined financial derivatives to hedge prices as far as five years in advance. Our analysis and actions combine forecasting natural gas prices and our multi-product prices and manufacturing capability.

Although we buy large quantities of natural gas, we have no significant market power in any jurisdiction and cannot influence the market price.

III. Observations on the Proposed Utility Programs

Q. Can you give a brief overview of the debate currently surrounding financial derivatives?

A. To save time, I have attached an op/ed column crafted by Daniel Altman that I believe fairly describes the nature of hedging and the current allegations of abusive techniques by some power trading companies. See Exhibit No. _____ (BS-1) to my testimony.

Q. What is the primary thrust of the proposed programs?

A. The utilities' primary effort is to lower the price volatility of natural gas and/or fuel oil used to fuel their electric generators. They recognize that this so-called hedging activity is merely "fixing" prices and, as compared to an on-going spot market, may not result in reduction of cost, and could actually result in increased costs to customers.

The utilities have stated that beyond limiting volatility, they desire to direct hedging or trading risk toward shareholders, to allow them to participate in the upside potential. Why don't they use their existing marketing affiliates that are better positioned to expand into derivatives trading? If they did, their shareholders would have to pay for the programs' costs. In their proposal, they create an entirely new trading entity, charge the creation and operating costs to the consumer, and still direct the profits to the shareholders. As stated previously, they can financially engineer derivative transactions to generate profit risk-free, by simply entering into futures contracts backed by options to eliminate downside

risk. This program follows a corollary to the golden rule: "He who makes the rules, gets the gold."

Q. Florida utilities are authorized to keep 20% of the revenue from wholesale power sales. FPC wants to increase this to 30%. What do you think is appropriate?

A. 0.0%. Florida is a closed wholesale power market. Wholesale profits in Florida only transfer funds from the customers of one utility to another (less a commission to the selling utility). Because there are profits to be made in the wholesale market due to the limited electric power supply in the state, there is an incentive to sell the most efficient generation in the wholesale market. There is no countervailing disincentive because retail customers pick up the total fuel cost of operating the less efficient generation. In my opinion, it is not in consumers' interest to allow the utilities to keep any portion of the revenue from wholesale sales. As with affiliate trading (discussed above), wholesale power sales is another fuel cost risk that needs to be included in a fuel cost risk management analysis.

Q. Does PCS and FIPUG recommend the Commission approve the proposed programs in their present form?

A. No.

IV. Necessary Constraints to Ensure that an Approved Hedging Program is Fair

Q. If the Commission decides to approve the utilities' hedging programs, should the Commission order an independent analysis of those programs?

A. Yes. While PCS strongly feels that the Commission should reject the utilities proposals out-of-hand, in the event the utilities' programs are approved, appropriate

measures must be put in place to ensure the protection of the customers. One such measure would be for the Commission to order that an independent analysis of the programs be conducted on an annual basis. Such an independent analysis would be conducted by an independent third party, at the direction of the Commission, and would include an analysis of: 1. the fairness of the utilities' methodology and price for the previous year; 2. the fairness of the proposed methodology and price for the upcoming year; 3. a review of the propriety of the instruments the utilities use to hedge. As an integral part of the independent analysis process, the utilities' customers should be afforded a point-of-entry to address the Commission regarding any individual concerns that may arise.

An independent analysis is critical because it would assist the Commission and the customers in understanding the fairness of the fixed price. For instance, PCS incorporates the risk management cost into the inventory cost of the commodity, allowing us to understand our energy cost per Btu. Under the utility programs, as we understand them, the stated commodity price will be some version of published commodities futures exchange price, but the risk premiums and other hidden risk management costs will be a separate cost folded into the utilities' total fuel cost rather than the inventory cost of fuel. Without a thorough analysis of the utilities' transactions, there will be no way to discern if the fuel price per Btu or Kwh per customer compares favorably to the spot market price.

An independent analysis would also be helpful in demonstrating to the Commission and the customer that even though the utilities stand to gain additional profit from retail customers under the new deal, customers will gain more from lower fuel costs. If an independent analysis cannot provide reasonable assurance that this is the case, the programs should be rejected. At a minimum, they should be sent back to the drawing board for improvement in

benefit sharing, and there should be opportunity for full customer participation and public debate.

Q. If the Commission approves the utilities' programs, should the trading activity be presented in the sunshine?

A. Yes. This is the only way the success of the activity can be fairly evaluated. If customers are required to finance the program and assume the greatest portion of risk, they should have the opportunity to know what they are financing so that they can understand whether they are being treated fairly. Although the Commission will have the ability to investigate the prudence of risk management activities, due to the complexity of the transactions, it is unlikely that it would have the monumental funds that would be required to adequately audit the utilities' risk management operations.

An example of the elusive aspects of derivative trading is shown in the chart attached as Exhibit No._____ (BS-2). In this perfectly legitimate transaction under current accounting standards, derivatives were used to enhance cash flow through creative off-balance sheet financing. Affiliated companies were used in futures deals with Chase. This is an example of one of the many types of transactions that are potentially harmful to the utilities' customers, and which require a tremendous amount of resources to adequately audit. If such a transaction were undertaken confidentially by a utility in a Commission-approved risk management program, which was also audited by the Commission, if uncovered the results would prove to be very embarrassing. Is a loan of this type the responsibility of customers?

In deciding whether to approve the utilities' risk management programs, the Commission must consider whether it should undertake the highly sophisticated audit

responsibility that will have to occur to monitor all derivative transactions in light of the fact that the Commission is already under tightened budgetary restraints. It is important that the Commission be able to thoroughly audit the utilities' transactions in order to protect the customers.

However, exposing the derivative program to the public record will help relieve the Commission from some of the scrutiny associated with the audit requirement. Allowing the interested public and the media access to the utilities' records would allow for the utilities' transactions to bear an additional level of scrutiny under the public's watchful eye. The net effect would be to discourage any unwanted transactions similar to the one appearing in Exhibit No._____ (BS-2).

There is a further reason for transparency. Captive customers of a government-protected monopoly are entitled to proof that fuel is being purchased at the lowest cost and the savings are being passed through to them. When some regulated utilities are so large that they can influence the area market in important commodities such as coal, oil, natural gas or power, their transactions should be transparent so that other utilities and large commercial and industrial consumers, and most importantly, the general body of ratepayers will not be disadvantaged by subsidized secret dealings that show up as "ricochets", "roundtrips" or other new devices to influence the market.

Q. Should the Commission, on its own motion, consider limiting the types of instruments and transactions that the utilities use to hedge?

A. Yes. By limiting the types of instruments and transactions that the utilities use to hedge, the Commission can further ensure that the utilities' transactions are above-the-board, and in the best interest of the customers.

Q. If the utilities' programs are approved, is it also necessary to prohibit trading with affiliates?

A. Yes. The Public Utility Holding Company Act was enacted for the benefit of stockholders and consumers primarily because of the abuses arising out of accounting irregularities and trading between companies affiliated with power companies. The potential for abuse in these transactions really needs no further explanation in the post-Enron era. Even now, utilities are allowed to purchase fuel from unregulated affiliates without competitive bidding, without disclosing the price paid, and without comparison to fair market prices. This represents a potentially significant fuel cost risk, that should be included in any analysis such as this.

V. Conclusion

Q. Do you have any general observations in closing?

A. We see no need for a program with such an apparent lack of benefit to consumers. Rather than reducing fuel cost risk, in our opinion, there is an increased fuel cost risk, due to the potential for abuses via creative financial engineering. We find it surprising that such a program would be proposed in light of the recent energy industry trading abuses. If the Commission wants to create an incentive for the monopolistic utilities to seek lower fuel costs, it should increase its support for open-access electric competition.

In closing, I would suggest that fuel cost volatility is not necessarily a bad thing. Recall in California when there was a capacity cost crisis, customers were shielded from its impact through fixed prices. They did not respond to the shortage by reducing demand because there was no price incentive to do so. PCS would prefer real time pricing and

would respond by modifying its operations when it could reduce costs by doing so. It already participates in such a program at its North Carolina facility (serviced by the parent company of FPC). Fixed fuel prices do not provide an incentive for the consumer to conserve energy.

One final thought, to serve as a logic-check for whether the utilities' proposed programs make sense, if the program is for the primary benefit of the customers, the Commission should wonder why PCS and the FIPUG consortium, which comprise some of the utilities' largest customers, are opposed to it.

Q. Does that conclude your testimony at this time?

A. Yes.

The New York Times
ON THE WEB
February 24, 2002

Contracts So Complex They Imperil the System

By DANIEL ALTMAN

Can what we don't know hurt us?

Though trading in those devilishly complex financial tools known as derivatives did not contribute much to Enron (news/quote)'s collapse, the contracts did allow the company to conceal the aims of its financial dealings. The veil of complexity, whose weave is tightening as sophisticated derivatives evolve and proliferate, poses subtle risks to the financial system — risks that are impossible to quantify, sometimes even to identify.

"This Enron situation poses a challenge to the traditional notion of systemic risk," said Henry T. C. Hu, a law and finance professor at the University of Texas who serves on the legal advisory board of the National Association of Securities Dealers. Traditionally, Professor Hu said, worries about derivatives centered on the intricate "daisy chain" of linkages they constructed among banks, brokerage firms and other financial institutions — a potential danger in times of crisis. Now, he said, "complexity provides cover for people who may be tempted by the wrong motives."

Enron certainly used complexity to its advantage, as regulators, investors and, yes, journalists have discovered while trying to disentangle its financial web. And as they stepped through Enron's looking glass into this new world of risk and dissimulation, they raised awareness of yet another potential problem for the financial system.

Unlike markets for stocks, bonds and commodities, where the assets traded and the details of those trades are easy to understand, the derivatives market is hardly transparent. The terms specified in a derivative contract can take up scores of pages of text, and trading is not always public. Yet abuse of derivatives could still have real and widespread effects, even for people with no money in the markets.

When companies that rack up huge hidden debts and traders who illicitly amass mountains of risk are exposed, Wall Street's big players rush to cut their losses and collect on their debts. If that kind of rush were ever to result in a shortage of cash, it would paralyze the financial system. Stock markets would tumble and banks would close, putting the savings of households at risk.

In their simplest definition, derivatives are contracts that promise payments from one investor, or "counterparty," to another, depending on future events. Those events can be as ephemeral as changes in the prices of securities or commodities from which the contracts are derived — hence the name — or as concrete as weather changes (which Enron turned into a booming business).

The contracts' payments are usually calculated in relation to the value of some underlying asset, like a bond or a shipment of oil. In June, according to the Bank for International Settlements, the over- the-counter market for derivatives consisted of contracts based on $100 trillion in underlying assets — about twice the value of all the goods and services produced by the entire world in a year, and a 38 percent increase in size since 1998.

Billions in derivatives contracts can hang on the share price of a single stock, and a single firm's portfolio of derivatives can link the fortunes of all the world's major financial institutions.

For those reasons, market watchers sometimes worry about the risk that a crisis in one company or sector could bring the entire financial system to its knees.

The world last awakened to worries about systemic risk when Long-Term Capital Management, the star-studded hedge fund, lost some big bets and had to be rescued by a coalition of banks in 1998. Since then, the dozens of banks that have a stake in most derivatives trades have become more careful to balance their risks, often using still more derivatives.

"The banks do diversify their positions," said Robert H. Litzenberger, an advisory director at Goldman, Sachs who recently retired from overseeing risk policy at the firm. "The big counterparties where you'd be concerned about systemic risk are able to use credit derivatives to protect themselves."

Banks and other financial institutions are alone in having to disclose their derivative positions. Their internal monitoring cuts down on the traditional kind of systemic risk, said Timothy S. Wilson, an executive director at Morgan Stanley responsible for risk policy. "Derivatives are generally subject to more rigorous risk management than most traditional banking products," he said.

Most banks risk less in derivatives markets than by lending money, he asserted: "The exposures of each firm are carefully monitored by its credit risk department, and limits are set to prevent those exposures' becoming large relative to capital."

Moreover, said Larry Promisel, a finance expert who worked at the Federal Reserve Board for 30 years, derivatives trades — when used in moderation — pose little risk of destroying entire markets because they always have winners as well as losers. "If one person loses, another is gaining, unlike pure credit risk," he said. "If you're taking a bet

on a price movement, and it goes the wrong way, it's going the right way for someone else."

Complexity has added to derivatives' usefulness, he said. "It allows people to take on precisely the risk they want," he said. But complexity could be a double-edged sword.

Michael R. Darby, a finance professor at the University of California at Los Angeles, puts it this way: "Do the products have the ability to offset risk through a true hedge? Yes. Do they have a potential for accounting abuses or trading abuses? Yes."

Those abuses may add up to a new kind of systemic risk. "Complexity allowed Enron to hide the true picture from the capital markets," Professor Hu said. For example, derivatives can replace traditional transactions in the name of secrecy. Enron took advantage of that, using derivatives trades to hide loans from Wall Street banks in inscrutable parts of its balance sheet.

"They're setting up these Rube Goldberg-like contraptions to do very simple things," Professor Hu said of the financial engineers who create new derivatives. Individuals and firms that design and sell different kinds of derivatives have an incentive to make them as complicated and confusing as possible, he added. "The more bells and whistles you have, the more you can charge."

Those bells and whistles also hurt the financial system by reducing the transparency of a company's activities for outsiders. Yet even a company's own directors might not understand its derivatives portfolio, Mr. Promisel said. "Boards shouldn't allow transactions they don't understand," he said. "That doesn't mean people don't do it."

With a loss of transparency comes a loss in confidence, as evidenced by the fallout from Enron's downfall. Outside the financial sector companies' use of derivatives is mostly unregulated and is believed to have increased sharply in the last few years. Such companies have deservedly received more scrutiny from analysts of late, Professor Darby said. "Nonfinancial firms that convert themselves into financial firms are at probably the biggest risk, because they don't have the traditional enforcement, and the board may be particularly ignorant."

Enron, in fact, prided itself on being "asset light," and during its fall was even tagged by some analysts as being more a hedge fund than a company dealing in real goods.

Still, Professor Darby said, nonfinancial companies can run their derivatives portfolios responsibly. General Electric (news/quote), he said, has done a better job of monitoring and managing its trades than Enron did.

Mr. Promisel offered a simple test for whether a company's derivatives trading could pass muster: "If a chief financial officer can't understand a transaction that one of their people brings to them, they shouldn't be doing it."

Another component of the incentive problem, Professor Hu said, is the enormous amount of money that can be reaped from a single transaction using derivatives. For the health of the financial system, he said, "you cannot have a system where you could create a lifetime wealth through one or two transactions."

Ethical conduct therefore occupies the central role in stemming systemic risk in derivatives markets. "In most cases, the accidents and negative fallout that have surrounded some derivatives episodes have been due to a lack of risk controls in the firms that have precipitated the events," said William C. Hunter, director of research at the Federal Reserve Bank of Chicago.

Mr. Hunter said he believes that the derivatives market will continue to grow and develop new kinds of contracts. But after Long-Term Capital's fall, companies put limits on trading volumes and exposure to specific types of risk. Those limits, he said, along with a shift in the focus of bank regulation from rule-making to risk-monitoring, should minimize crises. Each transaction involving a complex derivative should undergo careful examination, he added. "The more complex the set of transactions, the more due diligence that's going to have to be applied both by internal management and external counterparties," he said. "It does make for more complicated systems that are needed to monitor and appraise the risks."

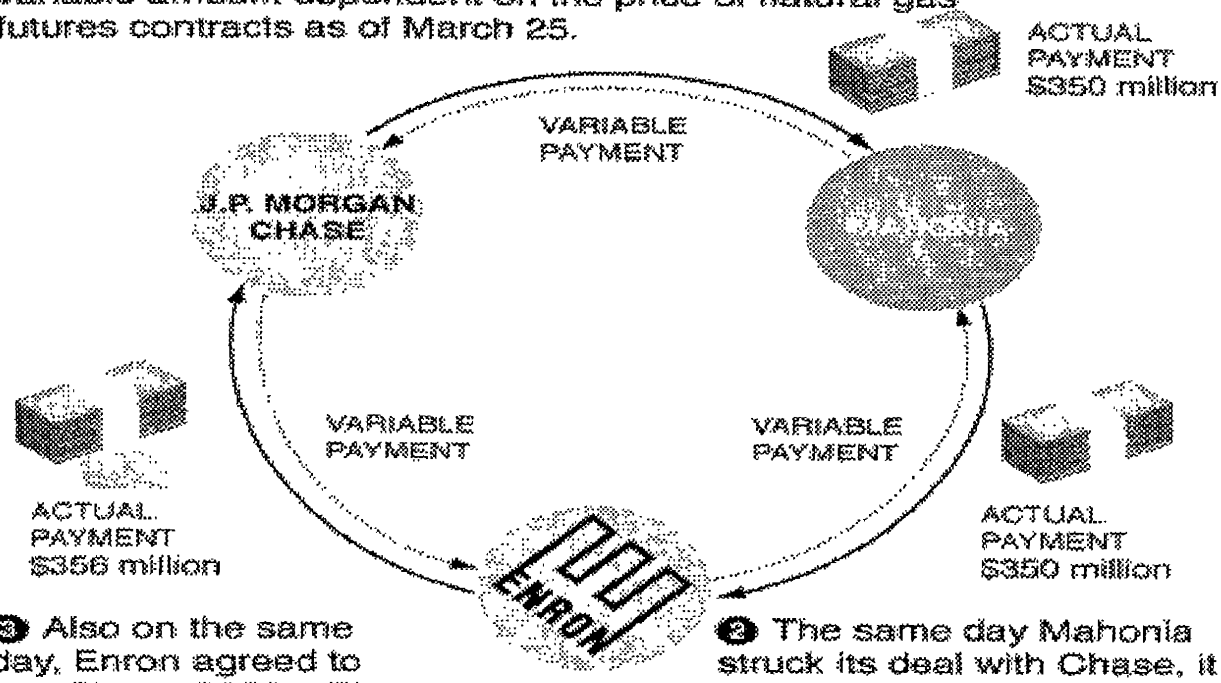
Institutions that did business with Enron, Mr. Litzenberger said, overestimated its trustworthiness: "The biggest problem with Enron was the credibility of your counterparty."

Because Enron was an unregulated derivatives trader, its activity was limited only by what the market allowed. And, as Professor Hu said, "market discipline works less well when you're talking about a company that seems to be not only assets- light but ethics-light."

The Money Merry-Go-Round

Late last year, Enron and J.P. Morgan Chase engaged in a deal with a third entity that ostensibly was a hedge to protect against rising prices of natural gas. As a result of the deal, Enron counted $350 million in additional cash flow in its third-quarter financial statements. The structure of the deal, however, makes it appear to be a loan, not a hedge. Here is how the deal worked, on paper.

❶ On Sept. 28, 2001, Chase paid Mahonia, an entity based in Jersey in the Channel Islands, $350 million. Mahonia agreed to pay Chase on March 26, 2002, a variable amount dependent on the price of natural gas futures contracts as of March 25.



❷ Also on the same day, Enron agreed to pay Chase $356 million on March 26, 2002, in return for a payment equal to the value of the variable payment that Chase was due from Mahonia on that day.

❸ The same day Mahonia struck its deal with Chase, it did the same deal with Enron, paying Enron $350 million for the same promise of a payment based on futures contracts on March 25, 2002. The net effect was that the money from Chase passed to Enron.

NET EFFECT The obligation for the variable payment passed from Enron to Mahonia to Chase and back to Enron a net zero. Enron ended up obligated to pay Chase $6 million more than it received on Sept. 28, 2001, the equivalent of an interest payment of about 3.4 percent on a loan.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Direct Testimony and Exhibits of Bryan Stone on Behalf of the Florida Industrial Power Users Group has been furnished by U.S. Mail on this 10th day of July 2002.

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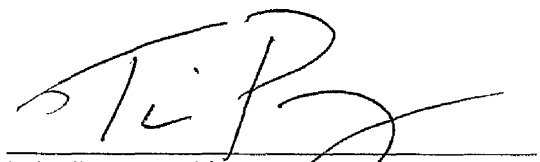

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