



Florida Power

A Progress Energy Company

JAMES A. MCGEE
ASSOCIATE GENERAL COUNSEL

July 25, 2002

Ms. Blanca S. Bayó, Director
Division of the Commission Clerk
and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 011605-EI

Dear Ms. Bayó:

Enclosed for filing in the subject docket are an original and fifteen copies of the Prehearing Statement of Florida Power Corporation.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Also enclosed is a 3.5 inch diskette containing the above-referenced document in WordPerfect format. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

JAM/scc
Enclosure

cc: Parties of record

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

Docket No. 011605-EI

Submitted for filing:
July 26, 2002

**PREHEARING STATEMENT OF
FLORIDA POWER CORPORATION**

Florida Power Corporation (FPC), pursuant to Rule 25-22.038, Florida Administrative Code, and Order No. PSC-02-0192-PCO-EI, hereby submits its Prehearing Statement in the subject proceeding and states as follows:

A. APPEARANCES

JAMES A. MCGEE, Esquire, Post Office Box 14042, St. Petersburg, FL
33733-4042
On behalf of Florida Power Corporation

B. WITNESSES

<u>Witness</u>	<u>Subject Matter</u>	<u>Issues</u>
Javier Portuondo	FPC Hedging Background and Regulatory Issues regarding FPC's Hedging Program proposal	All
Pamela R. Murphy	Operational Issues regarding FPC's Hedging Program proposal	1B, 5, 6

C. EXHIBITS

<u>Exhibit No.</u>	<u>Witness</u>	<u>Description</u>
<u>(JP-1)</u>	Portuondo	Examples of FPC's Hedging Program proposal
<u>(JP-2)</u>	Portuondo	FPC's June 5, 2002 Hedging Program proposal overview

D. STATEMENT OF BASIC POSITION

FPC's proposed Hedging Program is a thorough and reasonable response to the directive in Order No. PSC-02-0428-PCO-EI that utilities file a proposed risk management incentive plan, and should be approved by the Commission as a pilot program for a minimum two-year period.

E. STATEMENT OF ISSUES AND POSITIONS

- 1A. ISSUE: What role should the Commission take concerning the manner in which each investor-owned utility manages risks associated with fuel procurement?

FPC: With respect to FPC, the Commission should approve the Company's proposed Hedging Program on a trial basis and then monitor and evaluate the Program's results in order to gain the benefit of practical, first hand knowledge for use by the Commission in determining its long-term role concerning the manner in which utilities manage the risks associated with fuel procurement. (Portuondo)

- 1B. ISSUE: Is each investor-owned utility taking reasonable steps to manage the price risk associated with its natural gas and residual oil transactions, as well as purchased power transaction based on natural gas price indices, through the use of physical, operational, and financial hedging practices?

FPC: With respect to FPC, yes. FPC has successfully engaged in traditional physical and operational hedging practices to manage the risk of price volatility in the procurement of natural gas and residual (as well as distillate) oil. FPC has been reluctant to engage in non-traditional financial hedging practices due to regulatory uncertainty, which could be overcome by the Commission's approval of FPC's proposed Hedging Program. (Portuondo/Murphy)

2. ISSUE: 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?

FPC: Under the incentive provisions of FPC's proposed Hedging Program, customers would receive a fixed price for a portion of FPC's annual natural gas and residual oil quantities and FPC would be responsible for the gains or losses on futures contracts for these fixed price quantities of each fuel. (Portuondo)

3. ISSUE: What is the appropriate regulatory treatment for the premiums an investor-owned electric utility receives or pays for hedging fuel and purchased power transactions through options contracts?

FPC: Under FPC's proposed Hedging Program, traditional fuel clause recovery would apply to any premiums received or paid in the event FPC engages in options contract transactions. (Portuondo)

4. ISSUE: What is the appropriate regulatory treatment for the transaction costs an investor-owned electric utility incurs from hedging fuel and purchased power transactions through futures and options contracts?

FPC: Under FPC's proposed Hedging Program, transaction costs such as commissions and fees, margin requirement costs, basis charges, risk premiums, etc., would be recovered through the fuel clause in the traditional manner based on FPC's actual costs.

5. ISSUE: 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?

FPC: With respect to FPC, the Commission should approve FPC's proposed Hedging Program, under which FPC would bare full responsibility for the gains and losses of its hedging practices on a portion of its annual natural gas and residual oil quantities for which the customers' risk of price volatility has been completely eliminated. (Portuondo/Murphy)

6. ISSUE (informational): For what purposes do investor-owned electric utilities engage in fuel price hedging, and to what extent do such purposes involve reductions in fuel price volatility versus reductions in fuel costs?

FPC: The purpose of FPC's proposed Hedging Program is consistent with the Commission's directive to file an incentive plan for managing the risk associated with fuel price volatility. The Hedging Program expressly states that reducing this risk will not necessarily result in reduced fuel costs. (Portuondo/Murphy)

F. STIPULATED ISSUES

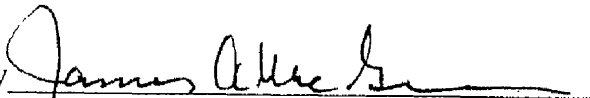
None at this time.

G. PENDING MOTIONS

None.

Respectfully submitted,

FLORIDA POWER CORPORATION

By 

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing has been furnished to the following individuals by regular U.S. Mail this 25th day of July, 2002:

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