

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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

DOCKET NO. 011605-EI

FILED: JULY 26, 2002

STAFF'S PREHEARING STATEMENT

Pursuant to Order No. PSC-02-0192-PCO-EI, issued February 12, 2002, the Staff of the Florida Public Service Commission files its Prehearing Statement.

a. All Known Witnesses

Todd F. Bohrmann

b. All Known Exhibits

Exhibit No.	Witness	Description
<u> </u> (TFB-1)	Bohrmann	Investor-Owned Electric Utilities' Natural Gas-Fired Generation: 1991, 2001 and 2011
<u> </u> (TFB-2)	Bohrmann	History of Risk Management
<u> </u> (TFB-3)	Bohrmann	Establishment of and Modifications to Fuel and Purchased Power Cost Recovery Clause
<u> </u> (TFB-4)	Bohrmann	Components of a Utility's Risk Management Plan
<u> </u> (TFB-5)	Bohrmann	Total Fuel Cost Statistical Measures for Florida Power & Light Company, Florida Power Corp., Gulf Power Company, and Tampa Electric Company: July 1996 through June 2001

DOCUMENT NUMBER DATE

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<u> </u> (TFB-6)	Bohrmann	Comparison of High Bill Complaints Filed with the Commission by Florida Power & Light Company's, Florida Power Corporation's, and Tampa Electric Company's Ratepayers
<u> </u> (TFB-7)	Bohrmann	Example of A Utility Engaging in Futures Contracts to Hedge Its Natural Gas Costs
<u> </u> (TFB-8)	Bohrmann	Example of A Utility Engaging in Options Contracts to Hedge Its Natural Gas Costs
<u> </u> (TFB-9)	Bohrmann	Excerpts from Order No. 14546, Docket No. 850001-EI-B, Issued July 8, 1985, Pages 4-5
<u> </u> (TFB-10)	Bohrmann	Definition and Hypothetical Example of Each Type of Risk That A Utility May Experience with its Fuel Procurement Transactions
<u> </u> (TFB-11)	Bohrmann	Types of Hedging Techniques
<u> </u> (TFB-12)	Bohrmann	Glossary of Terms

c. Staff's Statement of Basic Position

Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions stated herein.

d. Staff's Position on the Issues

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

POSITION: No position at this time.

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

POSITION: No position at this time.

ISSUE 1C: For what purposes does each investor-owned electric utility engage in physical, operational, or financial fuel price hedging practices, or a combination of those practices, and to what extent do such purposes involve reductions in fuel price volatility versus reductions in fuel costs?

POSITION: This issue was established for informational purposes only. Accordingly, staff takes no position on this issue.

ISSUE 2: 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?

POSITION: Gains and losses on derivatives used prudently to hedge risks associated with fuel procurement, gains and losses on derivatives used prudently to cross-hedge natural gas-indexed purchased power, and settlement proceeds on fuel swaps used prudently to hedge risks associated with fuel procurement should be recovered through the Fuel and Purchased Power Cost Recovery Clause.

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

POSITION: Premiums paid or received on the purchase or sale of options used prudently to hedge the risks associated with fuel and purchased power transactions should be recovered through the Fuel and Purchased Power Cost Recovery Clause.

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

POSITION: Transaction costs on the purchase or sale of derivatives used prudently to hedge the risks associated with fuel or purchased power transactions should be recovered through the Fuel and Purchased Power Cost Recovery Clause.

ISSUE 7A: 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?

POSITION: The allowance of recovery of gains, losses, settlement proceeds, premiums, and transaction costs as addressed in Issues 2, 3, and 4, if approved, would reduce or remove utilities' disincentives for hedging risks associated with fuel procurement; however, any further incentive to hedge such risks, including the incentives contained in the hedging plans proposed by the utilities, should not be approved.

ISSUE 7B: If the Commission were to approve any utility's incentive plan for optimally managing fuel price risk which includes a change in the method for calculating shareholder gains on wholesale sales as specified in Order Nos. PSC-00-1744-PAA-EI and PSC-01-2371-FOF-EI, what changes, if any, should be made to the requirements of these orders?

POSITION: No changes should be made to the method for calculating shareholder gains on wholesale sales as specified in Order Nos. PSC-1744-PAA-EI and PSC-01-2371-FOF-EI at this time.

e. Pending Motions

Staff has no pending motions.

f. Pending Confidentiality Claims or Requests

1. Florida Power Corporation's June 26, 2002, request for confidential classification of Document No. 05903-02.
2. Florida Power Corporation's June 12, 2002, request for confidential classification of Document No. 06096-02.
3. Florida Power & Light Company's June 28, 2002, request for confidential classification of Document No. 06733-02.
4. Florida Power & Light Company's July 18, 2002, request for confidential classification of Document No. 07466-02.
5. Gulf Power Company's June 11, 2002, request for confidential classification of Document No. 06066-02.
6. Gulf Power Company's July 17, 2002, request for confidential classification of Document No. 07443-02.
7. Tampa Electric Company's June 11 and June 24, 2002, requests for confidential classification of Document Nos. 06489-02 and 06490-02.

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g. Compliance with Order No. PSC-02-0192-PCO-EI

Staff has complied with all requirements of the Order Establishing Procedure entered in this docket.

Respectfully submitted this 26th day of July, 2002.



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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that one true and correct copy of STAFF'S
PREHEARING STATEMENT has been furnished by U. S. Mail this 26th day
of July, 2002, to the following:

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