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August 8, 2002

VIA FEDERAL EXPRESS

Blanca S. Bayó
Director, Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 011605-EI

Dear Ms. Bayó:

I am enclosing for filing the original and fifteen (15) copies of the direct and rebuttal testimony of Florida Power & Light Company witness Joseph P. Stepenovitch and the rebuttal testimony of Florida Power & Light Company witness Korel M. Dubin, which have been redacted to conform to FPL's revised positions on the issues in this docket as stated at the August 5, 2002, prehearing conference. All of these witnesses' exhibits have been redacted and hence are not included with the enclosed testimony, with the exception of JPS-3 to Mr. Stepenovitch's rebuttal testimony, which is attached thereto. The entire content of Ms. Dubin's direct testimony has been redacted and hence no redacted version of that testimony is enclosed.

Sincerely,

John T. Butler, P.A.

Copy to: All parties of record

CERTIFICATE OF SERVICE
Docket Nos. 011605-EI

I HEREBY CERTIFY that true and correct copies of the foregoing have been furnished by Federal Express (*) or United States Mail this 8th day of August, 2002, to the following:

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By: ______________________
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF JOSEPH P. STEPENOVITCH

DOCKET NO. 011605-EI

June 24, 2002

Q. Please state your name and business address.

A. My name is Joseph P. Stepenovitch. My business address is 11770 U.S. Highway One, North Palm Beach, Florida 33408.

Q. Please state your position and the nature of your responsibilities at FPL.

A. I am the Director of FPL's Energy Marketing & Trading Division. My primary responsibility is to oversee all functions related to generation asset optimization. These functions include fuel procurement, wholesale power trading and transportation for fuel and power.

Q. Please describe your educational background, and work experience.

A. I received a Bachelor of Science degree in Business Administration in 1989 from Barry University in Miami, Florida. I have been employed by FPL since 1980. In that time, I have held various positions within FPL's Power Supply Department; (1) System Operation Senior Specialist from October 1980 through February 1982; (2) Interchange Coordinator from February 1982 through February 1986; (3) Operational Planning Supervisor from February 1986 through May 1991; (4) Manager of Interchange Operations from May

1991 through April 1997; and (5) my current position since April 1997. Prior to my employment with FPL, I worked for New England Power Service Company for twelve years in a variety of positions in power delivery and systems operations areas.

~~**Q. Have you prepared or caused to be prepared under your direction, supervision or control an exhibit in this proceeding?**~~

~~A. Yes, I have. It consists of the following documents:~~

~~Document JPS-1, FPL's Proposed Risk Sharing Plan~~

~~Document JPS-2, Sample Calculations of Fuel Charges under Status Quo (Current Actual Fuel Cost Recovery Mechanism) and FPL's Proposed Risk Sharing Plan~~

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address FPL's positions on the issues that the Commission has identified regarding risk management (hedging) policies and procedures (those issues have been identified in the Commission's procedural orders as Issues No. ~~1a,~~ 1b, 1c, 2, 3, ~~4 and 7~~; the Commission has taken action at agenda conferences to resolve Issues No. 5 and 6, which relate specifically to FPL and Florida Power Corporation, respectively). I will also address some additional issues that FPL believes are important for the Commission to consider in connection with hedging.

~~**Q. What role should the Commission take concerning the manner in which each investor-owned electric utility manages risks associated with fuel procurement? (Issue No. 1a)**~~

~~A. The Commission should encourage utilities to adopt plans that provide incentives to engage in an appropriate level of fuel hedging to reduce fuel cost volatility to customers. FPL believes that its Proposed Risk Sharing Program will meet the objective of reducing fuel cost volatility to the customer.~~

Q. 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? (Issue No. 1b)

A. Yes, FPL continually manages natural gas, residual fuel oil, and wholesale energy price risk through multiple hedging practices. FPL maintains well-balanced, diversified portfolios of generation assets, fuel contracts and purchased power contracts. FPL's generation mix consists of nuclear, coal, petroleum coke, oil and natural gas-fired generation. This diversified mix of resources reduces the risk of fuel price volatility because FPL is not captive to one energy or fuel source. Additionally, FPL upholds diversification within its physical fuel and purchase power contracts through a mix of long-, mid- and short-term transactions.

FPL employs numerous operational hedging techniques on a daily basis to achieve complete asset optimization. Operational hedging includes fuel switching, optimizing fuel storage and transportation, and wholesale power trading. The ability to fuel switch between natural gas and oil helps FPL continually optimize the economic dispatch of its system. FPL can also optimize its firm natural gas transportation by selling delivered natural gas in the Florida markets when oil prices are below natural gas prices. Wholesale power trading helps reduce fuel costs as savings and gains are realized through purchasing and selling power. These are some examples of how FPL is able to utilize operational hedging techniques on its diverse and flexible system to provide value to its customers.

Q. 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? (Issue No. 1c)

A. Utilities engage in fuel price hedging to protect customers from the volatility of large price movements in the fuel markets. Fuel price hedging results in a reduction in price volatility, because the high and low prices in each fuel market are removed in favor of a known fixed price. Fuel price hedging may not necessarily result in a reduction in fuel costs, as the spot market price of fuel may be lower than the fixed price position at any given time. Likewise, the spot market for fuel may be higher than the fixed price position at times, which results in cost reduction. I would like to point out, however, that although one cannot predict for any particular hedging transaction whether it will result in cost savings compared to the spot market, FPL's extensive research and analysis of historical fuel market data indicates that, on average, forward purchases show a discount relative to the spot market at the time of maturity. This discount has been observed to increase as the length of the forward contract increases. ~~Given this analysis, FPL projects that, over time, its Proposed Risk Sharing Plan can achieve a reduction in volatility, as well as, a reduction in costs to its customers.~~

Q. 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? (Issue No. 2)

A. ~~Under FPL's Proposed Risk Sharing Program, FPL is seeking to modify the current fuel cost recovery mechanism from actual cost to recovery that is based on a combination of an approved market-based, fixed price for a set percentage of actual volume and a market-based, spot index price, for the balance of actual volume. This proposed modification would apply only to the commodity portion of natural gas and residual fuel oil. The difference between FPL's actual cost and the combination of fixed and spot index prices (gains or losses) would not be included for recovery through the Fuel Cost Recovery Clause. If the Commission does not permit FPL to implement the Proposed Risk Sharing Program and continues the current actual-cost recovery mechanism, then~~ gains from futures contracts should be credited to the fuel adjustment clause and losses from futures contracts should be charged to the fuel adjustment clause.

~~**Q. In FPL's Proposed Risk Sharing Program, is FPL seeking approval for a risk premium to compensate FPL for those risks that FPL takes by agreeing to recover, based on a predetermined fixed price, a set percentage of actual fuel requirements?**~~

~~A. Yes, FPL's Proposed Risk Sharing Program assumes that the Commission will allow FPL to recover a market-based risk premium for the inherent risks FPL is transferring from the customer, under the current actual-cost based recovery program, to the shareholder. These inherent risks include timing and execution of fixed price transactions and counterparty risks associated with the availability of credit and with the deliverability of the commodity at the agreed to fixed price. In addition, since FPL's Proposed Risk Sharing Program assumes that the customer will receive a fixed price on a predetermined percentage of actual volume purchased, instead of the projected volume purchased, FPL has transferred the volume risk from the customer to the Company.~~

~~**Q. Does FPL's Proposed Risk Sharing Program include an "extreme event" (force majeure) provision associated with unpredictable events?**~~

~~A. Yes, FPL's Proposed Risk Sharing Program assumes that in the case of a force majeure event, the Commission will allow recovery of FPL's fuel cost to revert to the existing actual-cost recovery mechanism. A force majeure event is defined as an unpredictable event that results in a residual fuel oil and natural gas generation variance for a given month of at least 45% above the projected level or at least 30% below the projected level. Examples of force~~

~~majeure events are extended unscheduled nuclear outages and acts of God, government and war.~~

Q. 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? (Issue No. 3)

A. ~~Under FPL's Proposed Risk Sharing Program, premiums received or paid for hedging natural gas and residual fuel oil would be part of the commodity cost of fuel procurement and therefore, would not be recovered through the Fuel Cost Recovery Clause.~~ Option premiums received or paid for wholesale power transactions would remain under the current recovery mechanism and, as such, would be recovered through the Capacity Clause~~. If the Commission does not permit FPL to implement the Proposed Risk Sharing Program and continues the current actual-cost recovery mechanism, then~~ premiums received for option contracts should be credited to the fuel adjustment clause, and premiums paid for option contracts should be charged to the fuel adjustment clause.

Q. 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? (Issue No. 4)

A. ~~Under FPL's Proposed Risk Sharing Program,~~ transaction costs are a component of the non-commodity costs associated with hedging fuel and wholesale energy (e.g., broker commissions, fees, costs of margin requirements) and should be included for recovery through the Fuel Cost Recovery Clause. Additionally, FPL believes that it is appropriate to continue to recover natural gas and residual fuel oil non-commodity related costs, such as basis and transportation, through the Fuel Cost Recovery Clause on a dollar-for-dollar basis. ~~FPL would recommend the same treatment if the Commission does not permit FPL to implement the Proposed Risk Sharing Program and continues the current actual-cost recovery mechanism.~~

Q. What is the appropriate regulatory treatment for costs an investor-owned electric utility incurs from developing, implementing and maintaining a hedging program?

~~FPL believes it is appropriate for the Commission to allow recovery through the Fuel Cost Recovery Clause of the prudent costs incurred while developing and implementing the risk management and trading system necessary to monitor and successfully execute its Proposed Risk Sharing Program. FPL currently estimates its costs for development and implementation to be approximately $3 million. Additionally,~~ FPL believes it is appropriate for the Commission to allow recovery through the Fuel Cost Recovery Clause of the incremental cost of maintaining and operating the trading floor associated with the risk management plan. FPL currently estimates its incremental costs to be approximately $1 million, annually.

~~**Q. Should purchased power and sales transactions be included as part of a utilities hedging program?**~~

~~A. FPL engages in wholesale power trading to help realize its overall goals of asset optimization and an optimal portfolio of energy sources for FPL's customers. Wholesale power trading has a direct impact on fuel~~

~~requirements and the economic dispatch of FPL's system. For these reasons, FPL believes that power transactions should be included as part of a hedging program. Purchased power, as well as sales transactions help to reduce fuel costs to FPL's customers. Under FPL's Proposed Risk Sharing Program, FPL's customers and FPL would share savings and gains associated with wholesale power transactions. FPL is proposing a sharing mechanism of 80% to FPL's customers and 20% to FPL on all wholesale power transactions. Savings associated with purchased power transactions would be calculated under the established methodology used for the Commission Fuel Cost Recovery Schedule A9. Gains associated with non-separated wholesale sales would be calculated under the established methodology used for the Commission Fuel Cost Recovery Schedules A6 and A6a. FPL believes that this sharing mechanism will provide appropriate incentives for FPL to maximize its gains from wholesale customers, to the benefit of its customers.~~

~~Q. 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? (Issue No. 7)~~

~~A. On June 5, 2002, FPL filed a Proposed Risk Sharing Program with the Commission. Since the Commission Workshop, held on June 17, 2002, FPL has revised the Implementation/Approval section of this plan. FPL's revised Program is my Document JPS-1. FPL believes that its proposed program~~

~~includes the appropriate incentives to encourage FPL to aggressively manage both the volatility and price risks associated with fuel and purchased power transactions. FPL's proposal also transfers to FPL some of the risks that its customers currently bear. FPL believes that it is appropriate to bring this proposal forward for Commission consideration and approval.~~

~~Q. Do you have any examples of how implementing FPL's Proposed Risk Sharing Program would affect FPL's customers compared to continuing under the current actual-cost recovery mechanism (status quo)?~~

~~A. Yes. An example of hypothetical calculations under FPL's Proposed Risk Sharing program are included as Document JPS-2.~~

Q. Does that conclude your testimony?

A. Yes it does.