

ORIGINAL



JAMES A. MCGEE
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PROGRESS ENERGY SERVICE COMPANY, LLC

April 1, 2004

HAND DELIVERY

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

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COMMISSION
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Re: Docket No. 040001-EI

Dear Ms. Bayó:

Enclosed for filing in the subject docket on behalf of Progress Energy Florida, Inc., are an original and fifteen copies each of the direct testimony of Donna M. Davis, Michael F. Jacob, and Pamela R. Murphy. *04203-04*

04204-04 Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. Also enclosed is a 3½ inch diskette containing the above-referenced documents in Word format and related exhibits in Word, Excel and PDF format. Thank you for your assistance in this matter. *04205-04*

Very truly yours,

James A. McGee
James A. McGee

JAM/scc
Enclosures

cc: Parties of record

- AUS
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04203 APR - 1
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PROGRESS ENERGY FLORIDA

DOCKET NO. 040001-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the direct testimony of Donna M. Davis, Michael F. Jacob, and Pamela R. Murphy on behalf of Progress Energy Florida has been furnished to the following individuals by regular U.S. Mail the 1st day of April, 2004.

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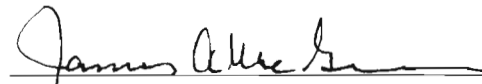
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PROGRESS ENERGY FLORIDA

DOCKET No. 040001-EI

**Fuel and Capacity Cost Recovery
Final True-Up for the Period
January through December, 2003**

**DIRECT TESTIMONY OF
PAMELA R. MURPHY**

1 **Q. Please state your name and business address.**

2 A. My name is Pamela R. Murphy. My business address is P.O. Box 1551,
3 Raleigh, North Carolina 27602.

4
5 **Q. By whom are you employed and in what capacity?**

6 A. I am employed by Progress Energy Carolinas in the capacity of Director,
7 Gas & Oil Procurement & Logistics.

8
9 **Q. Have your duties and responsibilities remained the same since you
10 last testified in this proceeding?**

11 A. Yes, my responsibilities for the procurement and trading of natural gas and
12 oil on behalf of Progress Energy Florida (Progress Energy or the Company)
13 have remained the same.

14
15 **Q. What is the purpose of your testimony?**

16 A. The purpose of my testimony is to summarize the results of Progress
17 Energy's Risk Management Plan for 2003, and to provide the information
18 required by Order No. PSC-02-1484-FOF-EI, which approved the resolution

DOCUMENT NUMBER-DATE

04205 APR-18

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1 of the hedging-related issues pending before the Commission in Docket
2 No. 011605-EI.

3
4 **Q. Have you prepared exhibits to your testimony?**

5 A. Yes, I have prepared Exhibit No. ____ (PRM-1T), a three-page summary of
6 the results of the Company's Risk Management Plan for the true-up period,
7 and Exhibit No. ____ (PRM-2T), a one-page listing of the hedging
8 information required by the Commission-approved resolution of issues in
9 Docket No. 011605-EI, both of which are attached to my prefiled testimony.

10
11 **Q. Did Progress Energy encounter any force majeure events in 2003?**

12 A. Yes, Progress Energy encountered two force majeure events. One
13 occurred on Florida Gas Transmission pipeline system as a result of a
14 pipeline leak downstream of compressor #4. The other was a result of
15 Tropical Storm Claudette in the Gulf of Mexico that disrupted a portion of
16 our contracted natural gas supplies.

17
18 **Q. What measures did Progress Energy take during these force majeure
19 events to maintain the load of its customers?**

20 A. Progress Energy continued to serve customer load through the increased
21 use of residual (No. 6) and distillate (No. 2) oil to the extent necessary
22 during the force majeure event that occurred on Florida Gas Transmission
23 pipeline system. During the tropical storm force majeure event, the
24 Company again used No. 2 fuel oil to the extent necessary and worked with

1 Gulfstream Natural Gas and Florida Gas Transmission to use a portion of
2 the excess gas in their pipelines until production resumed.

3
4 **Q. What measures did Progress Energy undertake to minimize other**
5 **risks identified in its Risk Management Plan?**

6 A. Progress Energy continued to perform its daily management activities
7 outlined in the Plan to monitor and, to the extent possible, mitigate risks to
8 customers.

9
10 **Q. Did Progress Energy follow the processes and guidelines outlined in**
11 **the Plan?**

12 A. Yes, all processes and guidelines were followed and no trading or credit
13 violations occurred.

14
15 **Q. What hedging activities did Progress Energy undertake for fuel and**
16 **wholesale power?**

17 A. Progress Energy did not hedge wholesale power and coal prices for 2003.
18 However, the Company did make economic purchases as well as short-
19 term wholesale power sales that resulted in overall savings to its customers
20 of approximately \$15.4 million. With respect to natural gas, Progress
21 Energy met all of its hedging strategy objectives to 1) mitigate price risk and
22 volatility, 2) provide gas price certainty, 3) maintain a diverse portfolio, and
23 4) enhance potential for ratepayer's savings. To that end, the following
24 transactions were entered into by Progress Energy:

1 1.) A zero-cost collar for a 20,000 MMBtu per day supply of gas for the
2 three-month period of December 2002 through February 2003. The
3 contract was exercised in February 2003, resulting in savings to
4 customers of \$190,400.

5 2) For March 2003, Progress Energy elected to exercise a contractual
6 option to convert a term purchase from index to daily pricing. This
7 price conversion resulted in customer savings of \$875,300.

8 3) Progress Energy had several fixed price contracts that resulted in
9 savings to customers of \$18,706,426. As of December 31, 2003, the
10 fixed priced contracts had a favorable mark-to-market value through
11 2010 of approximately \$61 million.

12 4) The Company exercised a contractual option to fix the price on various
13 shipments of residual oil in 2003, which resulted in a net additional
14 cost to customers of \$1,229,174.

15 To summarize, the Company met its 2003 hedging objectives and provided
16 total net savings to customers of \$18,542,952, in addition to savings of
17 approximately \$15.4 million from economic power purchases and short-
18 term off-system power sales.

19
20 **Q. Does this conclude your testimony?**

21 **A. Yes, it does.**

SUMMARY OF THE SUCCESS OF RISK MANAGEMENT PLAN

The Risk Management Plan of Progress Energy Florida (Progress Energy) for 2003 (the Plan) was developed in mid-2002 to identify certain risks associated with fossil fuel and wholesale power requirements. The Plan also identified, among other things, the controls, oversight, risk reporting, and processes that PEF would follow to carry out its Plan. To that end, the following summarizes the various items listed above for 2003:

I. Risk Identification – Force Majeure Events

- A. FGT Pipeline Leak - March 6 – To the extent necessary, PEF continued to serve customer load through the increased use of #6 and #2 fuel oil in addition to working with the interstate pipelines to use a portion of existing gas in the pipeline until production deliveries resumed.
- B. Tropical Storm Claudette – July 14-16 – During the force majeure event, PEF again used fuel oil to the extent necessary, and worked with Gulfstream Natural Gas and Florida Gas Transmission to use a portion of the existing gas in the pipeline until production deliveries resumed.

II. Daily Management Activities

- A. Fuel Oil – 8.3 million barrels of #6 oil were projected vs. an actual of 10.6 million barrels and .9 million barrels of #2 oil were projected vs. an actual of 1.1 million barrels. Month-to-month variances were handled by working with suppliers to change delivery schedules as necessary.
- B. Natural Gas – Month-end gas imbalances were either traded with third-party counterparties or cashed out by FGT. Due to PEF's Operational Balance Agreement with Gulfstream, PEF is allowed to carryover imbalances to the next month without penalty. The monthly imbalances were a result of balancing actual burns versus nominations with FGT that could not be mitigated due to alert day restrictions and/or end-of-month timing.
- C. Coal – One coal supplier was behind in deliveries and the missed shipments were replaced with a lower spot market price coal.
- D. Daily dispatch continues on an economic basis for its ratepayers. This dispatch is updated twice daily for next-day projected load forecasts. This process may, on occasion, deviate from economic dispatch due to operational problems at plant sites or forces beyond our control.

III. Monitoring of Industry Events

- A. Weekly gas storage injection/withdrawal amounts published by EIA are being followed to determine short- and long-term effects to future gas prices. In addition, rig counts are also followed to monitor the increase/decrease of drilling activity for replacement reserves.
- B. Defaults by suppliers based on bankruptcies or announcements to exit the market are monitored by our credit section, as well as the respective front office personnel. Industry events that occurred in 2002 have seen marketing companies like Dynegy, Aquila, Reliant, and El Paso either exit the business totally or reduce staff to return to its core business of managing its existing generation portfolio. As a result, liquidity in the natural gas and power markets have been reduced by these events where major marketing companies have elected to exit the business line of "market making" activities.
- C. During the 3rd and 4th quarters, domestic and import coal prices began rising. To mitigate the potential additional cost to the ratepayer, PEF began purchasing some of their 2004 requirements early to meet its needs.

IV. Price Risk Mitigation

- A. Natural Gas – Progress Energy met all of its hedging strategy objectives to 1) mitigate price risk and volatility, 2) provide gas price certainty, 3) maintain a diverse portfolio, and 4) provide potential for ratepayer's savings. Progress Energy elected to enter into a zero-cost collar for 20,000 MMBtu's per day supply of gas for the three-month period of December 2002 through February 2003. The contract was exercised in February 2003, resulting in a value to the ratepayers of \$190,400. For March 2003, Progress Energy elected to exercise a contractual option to convert the price of a term deal from index to daily. This price conversion resulted in a savings to the ratepayers of \$875,300. Progress Energy also had several fixed price contracts that resulted in stabilizing prices for a portion of its natural gas requirements for the ratepayers and provided an additional value to the ratepayers of \$18,706,426. Additionally, as of December 31, 2003 the fixed priced contracts had a favorable mark-to-market value through 2010 of approximately \$61 million.
- B. Wholesale Power – Savings from wholesale sales & purchases for 2003 were as follows:
 - 1. Sales \$9,844,761
 - 2. Purchases \$5,544,500
- C. Fuel Oil – For 2003, PEF exercised a contractual option to fix the price on 704,818 bbls of residual oil, which resulted in a net additional cost to customers of \$1,229,174.
- D. Total Value Created: \$35,794,881

V. Process and Guidelines

- A. The Mid Office Risk Reporting incorporated forward curves and market pricing to provide daily reporting of mark-to-market and stress testing to Senior Management, where appropriate.
- B. Audit Services continues to provide the services outlined in the Plan for fuel and wholesale power purchases. Their audits in 2003 included various aspects related to compliance, trading and procurement, and operational perspectives for portfolio management, fuel procurement and wholesale power purchases. The audits completed in 2003 had no major findings.
- C. PEF natural gas, fuel oil, and wholesale power processes/procedures continue to be refined as part of our overall effort to improve business practices.
- D. The guidelines referenced in the Plan have been adhered to and no trading and/or credit violations occurred in 2003.

Progress Energy Florida
Docket No. 040001-EI
Witness: Murphy
Exhibit No. PRM-2T

PROGRESS ENERGY FLORIDA

Hedging Information for the 2003 True-up Period

<u>Hedging Instrument</u>	<u>Fuel Type</u>	<u>Total 2003 Volume Hedged</u>	<u>Avg Period of Hedge</u>	<u>Total Cost of Hedge</u>
Fixed Price Contact*	Heavy Oil	704,818 bbls	daily	\$0
Fixed Price Contact*	Natural Gas	14,398,435 mmbtu	daily	\$0
Daily Price Contract*	Natural Gas	310,000 mmbtu	daily	\$0
Zero Cost Collar*	Natural Gas	1,180,000 mmbtu	daily	\$0

* Physical Hedge