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Progress Energy

JAMES A. MCGEE
ASSOCIATE GENERAL COUNSEL
PROGRESS ENERGY SERVICE COMPANY, LLC

September 9, 2004

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COMMISSION CLERK

VIA 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

Re: Docket No. 040001-EI; Exhibit to the testimony of Pamela R. Murphy; **Request for Confidential Classification.**

Dear Ms. Bayó:

Enclosed for filing in the subject docket on behalf of Progress Energy Florida, Inc., is an original and seven copies of its Request for Confidential Classification regarding the exhibit to the prepared testimony of Pamela R. Murphy filed this date under separate cover. Also enclosed is a sealed envelope containing the document subject to the Request, with the confidential information highlighted. **This document should be held as Confidential Information in accordance with Rule 25-22.006, F.A.C.** A public version of the document, with the confidential information redacted, is attached to each filed copy of the Request.

Please acknowledge your receipt of the above filing on the enclosed copy of this letter and return to the undersigned. A 3½ inch diskette containing the above-referenced Request in Word format is also enclosed. Thank you for your assistance in this matter.

Very truly yours,

James A. McGee

JAM/scc
Enclosures

cc: Parties of record

CMP ____
COM ____
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ECR 1
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FPSC-BUREAU OF RECORDS

Request
DOCUMENT NUMBER-DATE
09901 SEP -9 04
FPSC-COMMISSION CLERK

Confidential
DOCUMENT NUMBER-DATE
09902 SEP -9 04
FPSC-COMMISSION CLERK

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and Purchased Power Cost Recovery Clause and Generating Performance Incentive Factor.

Docket No. 040001-EI

Submitted for filing: September 9, 2004

REQUEST FOR CONFIDENTIAL CLASSIFICATION

Progress Energy Florida, Inc. (Progress Energy or the Company), pursuant to pursuant to Section 366.093, F.S., and Rule 25-22.006, F.A.C., hereby requests confidential classification of the highlighted information in the Company's Risk Management Plan (the Plan) filed this date in the subject docket as an exhibit to the testimony of Pamela R. Murphy in accordance with the Resolution of Outstanding Issues entered into by the parties and approved by the Commission in Docket No. 011605-EI. The Plan, which provides detailed information in Section IV regarding the manner and timing of Progress Energy's entry into the fuel and commodities markets, is enclosed with this Request in a separate sealed envelope, with the information for which Progress Energy seeks confidential classification highlighted. A copy of the Plan with the confidential information redacted is attached to each filed copy of this Request. In support hereof, Progress Energy states as follows:

Justification for Confidential Classification

1. Subsection 366.093(1), F.S., provides that any records "found by the commission to be proprietary confidential business information shall be kept confidential and shall be exempt from s. 119.07(1) [requiring disclosure under the Public Records Act]." Proprietary confidential business information includes, but is not limited to, "[i]nformation concerning . . . contractual data, the disclosure of which would impair the efforts of the public utility or its affiliates to contract for goods or services on favorable terms" (subsection 366.093(3)(d)), and "[i]nformation relating to competitive interests, the disclosure of which would impair the competitive business of the provider of the information" (subsection 366.093(3)(e)). The designated portions of the Plan fall within these statutory categories and, thus, constitute propriety confidential business information entitled to protection under Section 366.093 and Rule 25-22.006.

2. In particular, disclosure of the highlighted information in Section IV the Plan would provide highly sensitive information to recipients regarding the manner and timing of Progress Energy's entry into the fuel and commodities markets. Knowledge of this information would allow the opportunity for market manipulation through transactions made in anticipation of the Company's entry into the market. In addition, market manipulations of the type that could be made if the highlighted information were to be disclosed would have the effect of increasing the price of fuel paid by Progress Energy's customers, as well as

increasing the price paid by the Company to hedge the customers' price of fuel. These effects of disclosure would thus impair the efforts of Progress Energy to contract for goods and services on favorable terms for the benefit of its customers.

3. The information in the Plan for which Progress Energy now seeks confidential classification is virtually identical to that contained in (a) the Risk Management Plan (Document DN 10531-02) filed with the Company's request for confidential classification on October 1, 2002 in Docket No. 020001-EI, which was approved by Order No. PSC-03-0034-PCO-EI, issued January 6, 2003 in Docket No. 030001-EI, and (b) the Risk Management Plan (Document DN 08612-03) filed with the Company's request for confidential classification on September 12, 2003 in Docket No. 030001-EI, which was approved by Order No. PSC-03-1279-PCO-EI, issued November 10, 2003. Progress Energy submits that the basis for that order is equally applicable to the information subject to this Request.

4. The designated information for which confidential classification is sought by this Request is intended to be and is treated by the Company as private and has not been publicly disclosed.

Duration of Confidential Classification

5. Progress Energy requests an 18-month confidentiality period, consistent with Rule 25-22.006 (9)(a), F.A.C. In addition, Progress Energy asks that the confidential version of the Plan containing the highlighted information be

returned to the Company when the Commission no longer needs the information to conduct its business, in accordance with Rule 25-22.006 (9)(b), F.A.C.

WHEREFORE, Progress Energy requests that the highlighted information in Section IV of the Risk Management Plan attached hereto be accorded confidential classification for the reasons set forth above.

Respectfully submitted,

James A. McGee
Associate General Counsel
Progress Energy Service Company, LLC
Post Office Box 14042
St. Petersburg, Florida 33733-4042
Telephone: 727-820-5184
Facsimile: 727-820-5519
Email: james.mcgee@pgnmail.com

Attorney for
PROGRESS ENERGY FLORIDA, INC.

PROGRESS ENERGY FLORIDA

DOCKET NO. 040001-EI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing Request for Confidential Classification has been furnished to the following individuals by regular U.S. Mail the 9th day of September, 2004.

Wm. Cochran Keating, IV, Esquire
Office of the General Counsel
Economic Regulation Section
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Norman Horton, Jr., Esquire
Messer, Caparello & Self
P. O. Box 1876
Tallahassee, FL 32302

John W. McWhirter, Jr., Esquire
McWhirter, Reeves et al.
400 North Tampa Street
Suite 2450
Tampa, FL 33601

Vicki Gordon Kaufman, Esquire
McWhirter, Reeves et al.
117 S. Gadsden Street
Tallahassee, FL 32301

John T. Butler, Esquire
Steel, Hector & Davis
200 S. Biscayne Blvd., Suite 4000
Miami, Florida 33131

Lee L. Willis, Esquire
James D. Beasley, Esquire
Ausley & McMullen
P.O. Box 391
Tallahassee, FL 32302

Jeffrey A. Stone, Esquire
Russell A. Badders, Esquire
Beggs & Lane
P. O. Box 12950
Pensacola, FL 32576-2950

Robert Vandiver, Esquire
Office of the Public Counsel
c/o The Florida Legislature
111 West Madison St., Room 812
Tallahassee, FL 32399-1400

James A. McGee

Attorney

Redacted Document

Progress Energy Florida, Inc.
Risk Management Plan
Fuel Procurement and Wholesale Power Purchases

I. Objective

The objective of Progress Energy Florida, Inc.'s, (PEF) Risk Management plan is to provide the mechanisms to manage PEF's overall fuel costs and wholesale power purchases to provide reliable service to PEF's customers. As a result, this should ultimately reduce the number of mid-course corrections to the fuel factor portion of the customer's bill. The risk management plan allows for the use of various tools to reduce price volatility of natural gas and oil using approved products to hedge either financially and/or physically.

Progress Energy Carolinas, Inc., acts as agent for PEF. PEF has adopted Progress Ventures' risk management policies and practices.

II. Fossil Fuel and Purchased Power Future Needs

A. Fossil Fuel

1. Coal
   - PEF plans to burn approximately 6.4 million tons of coal in 2005 and in 2006
2. Residual Oil
   - PEF plans to burn approximately 10.7 million bbls. of #6 fuel oil in 2005 and 10.8 million bbls. in 2006
3. Distillate Oil
   - PEF plans to burn approximately 1.3 million bbls. of #2 fuel oil per year in 2005 and 1 million bbls. in 2006
4. Natural Gas
   - PEF plans to burn approximately 76 Bcf in 2005 and approximately 73 Bcf in 2006

B. Purchased Power - PEF plans to purchase approximately 0.5 million MWH/year and sell approximately 1.2 million MWH/year on the wholesale market in 2005 and 2006.

III. Risk Management Profile

A. Risk Identification * The primary risks PEF has identified with procurement of fossil fuels and purchased power are:

1. Coal

- Plant availability due to unscheduled outages
- Supply or transport problems due to labor disputes, weather, or other unforeseen delays
- Coal quality errors
- Financial strength of suppliers
- Changes in laws regulating mining, transportation or burning of coal
- Price volatility

2. Oil (Residual and Distillate)

- Differences between forecasted/scheduled requirements and actual requirements due to economic changes, overall power demand, weather changes, change in price relationships between competing fuels, plant availability (maintenance/unexpected shutdowns or startups), out-of-economic plant dispatch (e.g., due to transmission system constraints), power market changes, etc.
- Differences between forecasted/scheduled deliveries and actual deliveries due to supply or transport problems, loading and unloading delays, etc.
- Fuel quality problems such as blending errors, off-spec deliveries, changes in SO2 values, changes in plant fuel handling capability, etc.
- Changes in laws, regulations, plant permits, etc. that affect the amount, cost, testing requirements or quality of oil required
- Impact of regulatory, management, internal and external audit reviews
- General industry changes that impact overall availability/cost/quality of fuel oil
- Price volatility and fuel oil market related factors

3. Natural Gas

- Imbalance penalties with interstate pipelines as a result of over/under burns based on differences between forecasted /scheduled gas and actual requirements due to, but not limited to, changes in weather, plant availability, and alert day tolerances
- Deliveries by interstate pipelines and suppliers impacted by force majeure events, such as pipeline disruptions, production outages, hurricanes, etc.

- Natural gas storage level deviation from expected norms
- Crude oil prices
- Degree day deviations from expected monthly norms
- Defaults by suppliers (for example, bankruptcy)
- Price risk based on volatility in the natural gas industry caused by commodity funds (technical trading)
- Contractual disputes regarding payment and deliveries

4. Purchased Power

   - Default risk – inability of the supplier to obtain adequate resources to deliver the power per contract or agreement
   - Directional price risk – e.g., purchased power contracts in which the price of the purchased power is tied to an index
   - Physical risk – inability of electrical grid to reliably support power transfer
   - Credit risk – inability of contract counterparty to deliver per contract resulting in purchase of higher cost purchased power
   - Basis risk – e.g., supplier(s) can experience adverse weather as compared with Florida Power's service territory

*Acts of terrorism are considered beyond PEF's control

B. Risk Quantification

- Quantification of various risks, including stop-loss limits and Value-at-Risk (VaR) calculations, are included in Progress Ventures Risk Management Guidelines Appendix 13.

C. Risk Management (Daily Management Activities)

1. Coal

   - Review actual conditions and adjust delivery schedules as needed
   - Maintain contacts with plants and suppliers
   - Monitor market prices and spot market options
   - Monitor suppliers financial strength
   - Build flexibility on volume terms etc., into agreements
   - Develop alternative supply sources whenever possible

2. Oil

- Monitor actual conditions and consumption levels vs. forecasted levels and update forecasts frequently as conditions change. Adjust delivery schedules as needed
- Monitor actual delivery status and maintain frequent contact with suppliers and receiving plants to anticipate problems and take corrective action
- Keep current on market prices and activity. Utilize contract price options, inventory, and spot market options as appropriate. PEF is currently hedging its projected No. 6 residual requirements to reduce price volatility for the ratepayers using financial over-the-counter swaps.
- Continue to scrutinize a supplier's financial strength in order to assess ongoing creditworthiness.

3. Natural Gas

- Monitor plant gas burns vs. forecasted gas burns. If gas burn is projected to be out of tolerance on the pipeline, reschedule gas and re-allocate gas to different plants, or switching to alternative fuels, like oil
- Use fuel oil, where applicable, to maintain load
- Build additional optionality into seasonal/term contracts by specifying the use of a daily or a monthly market index (with the right to select either one), include take or release triggers on volumes to allow added flexibility, as well as the right to mutually agree to a fixed price
- Implement term contracts that allow swing volumes
- PEF is hedging natural gas to reduce price volatility for the ratepayers
- Evaluate zero cost collars for physical natural gas requirements in lieu of, or in conjunction with, fixed-price natural gas
- Evaluate the premium cost of purchasing a call option for a percentage of the utility's monthly natural gas requirements
- Use physical fuel oil inventory, where applicable, to dispatch at lowest fuel price. Logistics of physical fuel oil inventory levels must also be managed with this alternative
- Re-market any excess gas supplies/capacity, separately or bundled, on a daily basis
- Continue to scrutinize a supplier's financial strength in order to assess ongoing creditworthiness

4. Purchased Power

- PEF assesses each supplier's ability to deliver power based on historical reliability as a supplier (default risk) and credit ratings

- PEF utilizes both fixed price contracts (next day purchases) and variable price contracts tied to a specific counterparty's incremental cost
- PEF utilizes firm transmission paths where available for reliable purchased power

5. Portfolio Management

   - PEF will manage its risks associated with meeting its forecasted load requirements by maintaining a generation fleet with the capability of fuel switching, contracting for a diverse fuel supply and transportation portfolio, and the use of sales and purchases of energy to and from outside sources.

D. Acceptable Level of Risk

1. Oil and Coal - The amount of risk considered acceptable is based on past experiences with what has been successful and evaluating the risk profile of any problems or opportunities based on this experience.

2. Natural Gas - Decisions regarding acceptable risk are based on the circumstances at the time natural gas is purchased. The circumstances at the time may include scenarios involving all or a part of the following: force majeure events, fuel oil inventories, competitive fuel pricing, supply constraints, forward pricing trends etc. For example, if the utility views a strong directional market trend for natural gas based on industry reports, events in the marketplace, demand, national storage levels, etc., the utility would consider implementing the risk management tools identified for managing natural gas risk.

3. Purchased Power- Considerations for purchasing power on a long term and mid-term basis include, but are not limited to the following:
   - Price curves – directional price risk associated with fuel and power
   - Generator outages
   - Load forecast
   - Physical risk associated with transfer capability of transmission system
   - Credit worthiness of potential supplier(s)
   - Default risk of potential supplier(s)
   - Basis risk – e.g., supplier(s) can experience adverse weather as compared with PEF's service territory

IV. Fuel Procurement and Wholesale Purchased Power Plans for 2005

1. Coal
   - Approximately [redacted] of purchases are made on mid-term contracts in 2005 and [redacted] in 2006.

2. Oil
   - The majority of the fuel oil is covered by [redacted] supply contracts with flexible volume provisions and market based pricing. The spot market is utilized when contracts allow as a supplemental source of supply.

3. Natural Gas
   - Approximately [redacted] of the natural gas requirements for 2005 are currently covered by long-term (greater than 3 years) contracts. PEF will be initiating an RFP in second half of [redacted] to contract for additional gas for [redacted] under long-term contracts. The remaining natural gas requirements for [redacted] will be covered by short term and spot market contracts.

4. Purchased Power
   - Long-term firm purchased power is usually solicited by a request-for-proposal from credible counterparties. Mid-term purchased power is usually solicited via a survey of credible counterparties by requesting bids for the nomination and terms for the product needed.
   - Short-term firm purchased power is obtained through market assessment of bids and offers and negotiation with credible counterparties.

V. Guidelines

1. The Board of Directors has established a Risk Management Policy which directs the Risk Management Committee (RMC) to oversee Progress Energy's management of financial risks. The Risk Management Policy states the RMC shall regularly report on activities related to and carried out under the Policy to the Chief Executive Officer (CEO), the Board of Directors and the Finance Committee. The CEO is ultimately responsible for the company's management of risk.

2. The Risk Management Committee Guidelines identify the roles, responsibilities and decision making process of the RMC and its agents.

3. Progress Ventures Regulated Commercial Operations Risk Management Guidelines provide a methodology to assess, report, and mitigate risk associated with trading and marketing activities and procurement for the regulated fleet. In addition, there is a product approval process to provide a structure to validate that

all significant product risks have been identified and integrated into the risk control structure.

4. Corporate Credit Risk Management Guidelines provide a methodology to evaluate, measure, mitigate, and report credit risk associated with Ventures trading, marketing, and procurement activities as well as Corporate Credit provides credit governance and oversight on an enterprise-wide basis.

VI. Processes (Front Office)

PEF's Oil Process Analysis, PEF's Natural Gas Process Analysis, and Progress Fuels' Coal Purchasing Procedures provide the procedures utilized to implement PEF's risk management plan. To date, "Zainet" is PEF's natural gas and power transaction software system utilized to track and verify natural gas and power transactions. Zainet is the system of record to track and verify natural gas,oil financial hedges and power transactions. "FMS" (Fuel Management System) is the system used to track and verify coal and physical oil transactions.

VII. Risk Reporting (Middle Office)

Risk control generates reports and distributes to both trading and senior management on a daily basis. This is the primary mechanism to communicate group performance to management, the RMC, and the Board of Directors. The reports include all current positions and updates according to the markets. Market changes include pricing, correlation, volatility, et cetera. In addition, as conditions differ from day-to-day, gas scheduling updates deals with best-available information to correctly reflect how much gas is received and delivered at their respective delivery and receipt points.

A. Risk control manages all of the following activities:

1. Forward Curves - Forward curves provide prices for delivery of products at future dates. Forward curves provide the critical data necessary to calculate mark-to-market, value-at-risk, and stress testing. These curves are generated daily.

2. Market Pricing – Daily prices received from index providers are updated on a daily basis to settle or to mark all positions to the correct market price as of close of business.

3. Mark-to-Market (MTM) - MTM is a methodology utilized to value all physical and financial instruments, including those associated with assets. MTM measures unrealized gains and losses (forward positions) prior to contract settlement by calculating the difference between the transaction price and the forward curve.

4. Stress Testing - Stress testing is used to simulate extreme market conditions (e.g., hurricane), and the results are delivered in the daily reports.

VIII. Controls and Oversight

1. The Risk Management Committee (RMC) – The RMC oversees Progress Energy's management of financial risks.

   Committee Members
   - Chief Financial Officer - Progress Energy, Inc. (Chair)
   - President – Progress Energy Service Company, LLC
   - President – Energy Supply
   - President – Progress Ventures
   - President – Energy Delivery
   - SVP & General Counsel – Progress Energy, Inc.
   - Chief Risk Officer (CRO)

   Committee Members Responsibilities
   - Identifies, assesses, and monitors corporate financial risks
   - Approves:
     (i) Risk guidelines for various company activities
     (ii) New and existing trading, marketing, procurements and hedging products
     (iii) Analytical methodologies, models and assumptions
     (iv) Organization structure to ensure adequate segregation of duties

   - Reviews:
     (i) Aggregate market and credit capital for approval by the BOD

(ii) Summary positions and financial reports
(iii) Broad trading, marketing, hedging, and procurement strategies
(iv) General business conditions, market and credit risk exposures

- Presents to the CEO, BOD and Finance Committee:
  (i) Recommended aggregate market and credit limits and modifications for approval
  (ii) Summary positions and financial reports
  (iii) Summary of valuation methods, key controls, limit exceptions and violations
  (iv) Special studies as requested

- Creates sub-committees to provide greater attention to risk issues in various company activities

2. Trading, Marketing and Fuels Sub-Committee - The Trading, Marketing and Fuels Subcommittee's objective is to review market and credit risk exposure and business development and proposal opportunities associated with trading, marketing and procurement activities.

Sub-Committee Members
- VP – Regulated Commercial Operations
- VP – Ventures Finance
- VP and Chief Risk Officer
- Director – RCO Power Trading Operations
- Director – Gas and Oil Trading
- Director or Manager – Enterprise Risk Management
- Controller – RCO

Sub-Committee Responsibilities - Reviews, at a minimum:
- Commodity market trends
- Trading, hedging, procurement and marketing strategies
- Aggregate commodity risk exposures
- Market and credit exposure versus defined limits
- New products and services for RMC approval
- Model and model assumptions
- Key operational controls
- Credit exposure versus defined limits
- Pricing methodologies
- Summary exception reports
- Conducts special studies requested by the RMC
- Approves liquidity limits

3. Auditing Department – Audit Services provides independent assurance and consulting services that ensure regulatory compliance, effective corporate governance, operational excellence, and appropriate risk management for all major activities including fuel procurement. Activities are audited based on relative priority rather than a fixed cycle. Within that framework, Audit Services' oversight of fuel procurement risk management activities is addressed from the following perspectives:
    - Compliance
    - Trading and procurement
    - Operational