

ORIGINAL

BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 070001-EI
FLORIDA POWER & LIGHT COMPANY

APRIL 2, 2007

IN RE: LEVELIZED FUEL COST RECOVERY
AND CAPACITY COST RECOVERY

HEDGING ACTIVITY
JANUARY 2006 THROUGH DECEMBER 2006

TESTIMONY & EXHIBITS OF:

G. J. YUPP

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION
FLORIDA POWER & LIGHT COMPANY
TESTIMONY OF GERARD J. YUPP
DOCKET NO. 070001-EI
APRIL 2, 2007

Q. Please state your name and address.

A. My name is Gerard J. Yupp. My business address is 700 Universe Boulevard, Juno Beach, Florida, 33408.

Q. By whom are you employed and what is your position?

A. I am employed by Florida Power & Light Company (FPL) as Director of Wholesale Operations in the Energy Marketing and Trading Division.

Q. Have you previously testified in the predecessors to this docket?

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to provide a review of FPL's 2006 hedging activity, including the detail required by Item 5 of the Resolution of Issues in Docket 011605-EI approved by the Commission per Order No. PSC-02-1484-FOF-EI, which states:

"5. Each investor-owned utility shall provide, as part of its final true-up filing in the fuel and purchased power cost

1 recovery docket, the following information: (1) the volumes of
2 each fuel the utility actually hedged using a fixed price
3 contract or instrument; (2) the types of hedging instruments
4 the utility used, and the volume and type of fuel associated
5 with each type of instrument; (3) the average period of each
6 hedge; and (4) the actual total cost (e.g. fees, commissions,
7 options premiums, futures gains and losses, swaps
8 settlements) associated with using each type of hedging
9 instrument.”

10 **Q. Are you sponsoring an Exhibit for this proceeding?**

11 A. Yes. I am sponsoring the following Exhibit:

12 GJY-1:2006 Hedging Activity

13 **Q. Please describe FPL's hedging objectives.**

14 A. In Order No. PSC-02-1484-FOF-EI, the Commission approved the
15 Resolution of Issues in the Hedging Docket. The first component of
16 the Resolution states:

17 “Each investor-owned electric utility recognizes the
18 importance of managing price volatility in the fuel and
19 purchased power it purchases to provide electric service to
20 its customers. Further, each investor-owned electric utility
21 recognizes that the greater the proportion of a particular fuel
22 or purchased power it relies upon to provide electric service
23 to its customers, the greater the importance of managing

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price volatility associated with that energy source.”

Accordingly, the primary objective of FPL’s hedging program is to reduce fuel price volatility, thereby helping to deliver greater price certainty to FPL’s customers. FPL does not execute speculative hedging strategies aimed at “out guessing” the market in the hopes of potentially returning savings to FPL’s customers. FPL has implemented a well-disciplined, well-defined and controlled hedging program that is executed in compliance with FPL’s risk management policies and procedures.

Q. Please summarize FPL’s 2006 hedging activities.

A. FPL hedged its fuel portfolio for 2006 utilizing a mix of options and fixed price transactions. An “option” is a hedging instrument that gives the buyer the right, but not the obligation, to buy (call) or sell (put) a set commodity volume at a specific price for a specific period of time. The buyer of an option pays a premium to hold this right. A “fixed price transaction” locks in the price of a commodity for a set volume over a set period of time. In contrast to options, there is typically no separate premium charged for fixed price transactions.

The natural gas and heavy fuel oil markets experienced extreme price movements during the year. Natural gas settlement prices on the NYMEX ranged from a high of \$11.43 per MMBtu in January to a low of \$4.20 per MMBtu in October. Mild winter weather, above

1 average natural gas storage levels and a relatively inactive
2 hurricane season contributed to this significant downturn in the
3 natural gas market. United States Gulf Coast (USGC) heavy fuel oil
4 ranged from a high of \$48.15 per barrel in July to a low of \$32.83
5 per barrel in December. New York Harbor (NYH) heavy fuel oil
6 ranged from a high of \$50.76 per barrel in April to a low of \$39.89
7 per barrel in December. In addition to the impact of a relatively
8 inactive hurricane season, the significant downturn in heavy fuel oil
9 prices can be attributed to increased supply resulting from relatively
10 high refinery runs in order to meet growing U. S. gasoline demand.
11 Because the natural gas and heavy fuel oil markets trended lower
12 after FPL's hedge positions were in place for 2006, FPL's hedging
13 activities for natural gas and heavy fuel oil resulted in losses on
14 those positions of approximately \$469 million. This situation was a
15 complete reversal of prior years in which FPL's hedge positions
16 resulted in significant savings as the fuel markets continually
17 trended higher after FPL's hedge positions were in place. On a
18 cumulative basis, since its inception, FPL's expanded hedging
19 program has resulted in net gains of \$471 million. While the
20 cumulative impact of FPL's hedging program will vary and, at times,
21 may show either net savings or net losses, FPL expects that the
22 cumulative, long-term impact of its hedging program will not result in
23 significant savings or losses to FPL's customers. FPL continues to

1 monitor the fundamentals of the energy markets and, as conditions
2 change, FPL will make further adjustments to its hedging program to
3 meet FPL's objective of reduced fuel price volatility.

4 **Q. Does your Exhibit GJY-1 provide the detail on FPL's 2006**
5 **hedging activities required by Item 5 of the Resolution of**
6 **Issues?**

7 A. Yes.

8 **Q. Does this conclude your testimony?**

9 A. Yes, it does.

CONFIDENTIAL

	A	B	C	D	E	F
			FPL NATURAL GAS PROCUREMENT			
			VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
1						
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3						
4	TOTAL YEAR	FIXED PRICE TRANSACTIONS				
5	2006	STORAGE				
6		PHYSICAL POWER OPTION PREMIUMS				
7		PHYSICAL POWER (EXERCISED OPTIONS)				
8		SWAPS				
9		SWING SWAPS				
10		OVER-THE-COUNTER OPTIONS				
11		BROKER FEES				
12						\$ (416,637,197)
13						
14						
15		AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL				

CONFIDENTIAL

	A	B	C	D	E	F
				FPL HEAVY FUEL OIL PROCUREMENT		
				VOLUME		
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
1						
2						
3						
4	TOTAL YEAR	FIXED PRICE TRANSACTIONS				
5	2006	STORAGE				
6		PHYSICAL POWER OPTION PREMIUMS				
7		PHYSICAL POWER (EXERCISED OPTIONS)				
8		SWAPS				
9		SWING SWAPS				
10		OVER-THE-COUNTER OPTIONS				
11		BROKER FEES				
12						\$ (52,001,140)
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14		AVERAGE PERIOD OF HEDGE (Days) - PHYSICAL				
15		AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL				

CONFIDENTIAL

	A	B	C	D	E	F
			ELECTRICITY			
			VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>SAVINGS</u>	<u>GAINS</u>
1						
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4	TOTAL YEAR	FIXED PRICE TRANSACTIONS				
5	2006	STORAGE				
6		PHYSICAL POWER OPTION PREMIUMS				
7		PHYSICAL POWER (EXERCISED OPTIONS)				
8		SWAPS				
9		SWING SWAPS				
10		OVER-THE-COUNTER OPTIONS				
11		BROKER FEES				
12					\$ -	\$ -
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14		AVERAGE PERIOD OF HEDGE (Days) - PHYSICAL				
15		AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL				
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Note: Physical power option premium volumes represent the total available volume. Physical power option exercised volumes represent the actual volumes called upon.

CONFIDENTIAL

	A	B	C	D	E	F
				FPL NATURAL GAS PROCUREMENT		
				VOLUME		
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
1						
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4	January-06	FIXED PRICE TRANSACTIONS				
5		STORAGE				
6		PHYSICAL POWER OPTION PREMIUMS				
7		PHYSICAL POWER (EXERCISED OPTIONS)				
8		SWAPS				
9		SWING SWAPS				
10		OVER-THE-COUNTER OPTIONS				
11		BROKER FEES				
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A B C D E F
PERIOD INSTRUMENT PURCHASES VOLUME SALES OPTION PREMIUMS GAIN/(LOSS)
January-06

FIXED PRICE TRANSACTIONS
STORAGE
PHYSICAL POWER OPTION PREMIUMS
PHYSICAL POWER (EXERCISED OPTIONS)
SWAPS
SWING SWAPS
OVER-THE-COUNTER OPTIONS
BROKER FEES



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	A	B	C	D	E	F
			VOLUME		ELECTRICITY	
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>SAVINGS</u>	<u>GAINS</u>
1						
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4	January-06	FIXED PRICE TRANSACTIONS				
5		STORAGE				
6		PHYSICAL POWER OPTION PREMIUMS				
7		PHYSICAL POWER (EXERCISED OPTIONS)				
8		SWAPS				
9		SWING SWAPS				
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	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>	
1							
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4	February-06	FIXED PRICE TRANSACTIONS					
5		STORAGE					
6		PHYSICAL POWER OPTION PREMIUMS					
7		PHYSICAL POWER (EXERCISED OPTIONS)					
8		SWAPS					
9		SWING SWAPS					
10		OVER-THE-COUNTER OPTIONS					
11		BROKER FEES					
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	A	B	C	D	E	F
			FPL HEAVY FUEL OIL PROCUREMENT			
			VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
1						
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4	February-06	FIXED PRICE TRANSACTIONS				
5		STORAGE				
6		PHYSICAL POWER OPTION PREMIUMS				
7		PHYSICAL POWER (EXERCISED OPTIONS)				
8		SWAPS				
9		SWING SWAPS				
10		OVER-THE-COUNTER OPTIONS				
11		BROKER FEES				
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	A	B	C	D	E	F
			VOLUME		ELECTRICITY	
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>SAVINGS</u>	<u>GAINS</u>
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4	February-06	FIXED PRICE TRANSACTIONS				
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	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>	
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3	<u>March-06</u>	FIXED PRICE TRANSACTIONS					
4		STORAGE					
5		PHYSICAL POWER OPTION PREMIUMS					
6		PHYSICAL POWER (EXERCISED OPTIONS)					
7		SWAPS					
8		SWING SWAPS					
9		OVER-THE-COUNTER OPTIONS					
10		BROKER FEES					
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	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>	
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	A	B	C	D	E	F
			VOLUME	ELECTRICITY		
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>SAVINGS</u>	<u>GAINS</u>
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	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
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4	April-06	FIXED PRICE TRANSACTIONS				
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6		PHYSICAL POWER OPTION PREMIUMS				
7		PHYSICAL POWER (EXERCISED OPTIONS)				
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			VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
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4	May-06	FIXED PRICE TRANSACTIONS				
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			VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>SAVINGS</u>	<u>GAINS</u>
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3	May-06	FIXED PRICE TRANSACTIONS				
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				VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>	
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3	June-06	FIXED PRICE TRANSACTIONS					
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5		PHYSICAL POWER OPTION PREMIUMS					
6		PHYSICAL POWER (EXERCISED OPTIONS)					
7		SWAPS					
8		SWING SWAPS					
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				VOLUME		
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
1						
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3	June-06	FIXED PRICE TRANSACTIONS				
4		STORAGE				
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	A	B	C	D	E	F
					ELECTRICITY	
			VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>SAVINGS</u>	<u>GAINS</u>
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3	<u>June-06</u>	FIXED PRICE TRANSACTIONS				
4		STORAGE				
5		PHYSICAL POWER OPTION PREMIUMS				
6		PHYSICAL POWER (EXERCISED OPTIONS)				
7		SWAPS				
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				VOLUME		
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
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3	July-06	FIXED PRICE TRANSACTIONS				
4		STORAGE				
5		PHYSICAL POWER OPTION PREMIUMS				
6		PHYSICAL POWER (EXERCISED OPTIONS)				
7		SWAPS				
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	A	B	C	D	E	F
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			VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>SAVINGS</u>	<u>GAINS</u>
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				VOLUME		
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
1						
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3	<u>PERIOD</u>	<u>INSTRUMENT</u>				
4	August-06	FIXED PRICE TRANSACTIONS				
5		STORAGE				
6		PHYSICAL POWER OPTION PREMIUMS				
7		PHYSICAL POWER (EXERCISED OPTIONS)				
8		SWAPS				
9		SWING SWAPS				
10		OVER-THE-COUNTER OPTIONS				
11		BROKER FEES				
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	A	B	C	D	E	F	
				FPL HEAVY FUEL OIL PROCUREMENT			
				VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>	
1							
2							
3	<u>PERIOD</u>	<u>INSTRUMENT</u>					
4	August-06	FIXED PRICE TRANSACTIONS					
5		STORAGE					
6		PHYSICAL POWER OPTION PREMIUMS					
7		PHYSICAL POWER (EXERCISED OPTIONS)					
8		SWAPS					
9		SWING SWAPS					
10		OVER-THE-COUNTER OPTIONS					
11		BROKER FEES					
12							
13							
14							
15							

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	A	B	C	D	E	F
				ELECTRICITY		
				VOLUME		
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>SAVINGS</u>	<u>GAINS</u>
1						
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4	August-06	FIXED PRICE TRANSACTIONS				
5		STORAGE				
6		PHYSICAL POWER OPTION PREMIUMS				
7		PHYSICAL POWER (EXERCISED OPTIONS)				
8		SWAPS				
9		SWING SWAPS				
10		OVER-THE-COUNTER OPTIONS				
11		BROKER FEES				
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Note: Physical power option premium volumes represent the total available volume. Physical power option exercised volumes represent the actual volumes called upon.

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	A	B	C	D	E	F	
				FPL NATURAL GAS PROCUREMENT			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>VOLUME</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
1							
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4	September-06	FIXED PRICE TRANSACTIONS					
5		STORAGE					
6		PHYSICAL POWER OPTION PREMIUMS					
7		PHYSICAL POWER (EXERCISED OPTIONS)					
8		SWAPS					
9		SWING SWAPS					
10		OVER-THE-COUNTER OPTIONS					
11		BROKER FEES					
12							
13							
14							
15							

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A	B	C	D	E	F
PERIOD	INSTRUMENT	PURCHASES	SALES	OPTION PREMIUMS	GAIN/(LOSS)
September-06	FIXED PRICE TRANSACTIONS				
	STORAGE				
	PHYSICAL POWER OPTION PREMIUMS				
	PHYSICAL POWER (EXERCISED OPTIONS)				
	SWAPS				
	SWING SWAPS				
	OVER-THE-COUNTER OPTIONS				
	BROKER FEES				

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	A	B	C	D	E	F
			VOLUME	ELECTRICITY		
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>SAVINGS</u>	<u>GAINS</u>
1						
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3						
4	September-06	FIXED PRICE TRANSACTIONS				
5		STORAGE				
6		PHYSICAL POWER OPTION PREMIUMS				
7		PHYSICAL POWER (EXERCISED OPTIONS)				
8		SWAPS				
9		SWING SWAPS				
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17	Note: Physical power option premium volumes represent the total available volume. Physical power option exercised volumes represent the actual volumes called upon.					

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	A	B	C	D	E	F	
				FPL NATURAL GAS PROCUREMENT			
				VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>	
1							
2							
3							
4	October-06	FIXED PRICE TRANSACTIONS					
5		STORAGE					
6		PHYSICAL POWER OPTION PREMIUMS					
7		PHYSICAL POWER (EXERCISED OPTIONS)					
8		SWAPS					
9		SWING SWAPS					
10		OVER-THE-COUNTER OPTIONS					
11		BROKER FEES					
12							
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14							
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	A	B	C	D	E	F	
				FPL HEAVY FUEL OIL PROCUREMENT			
				VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>	
1							
2							
3							
4	October-06	FIXED PRICE TRANSACTIONS					
5		STORAGE					
6		PHYSICAL POWER OPTION PREMIUMS					
7		PHYSICAL POWER (EXERCISED OPTIONS)					
8		SWAPS					
9		SWING SWAPS					
10		OVER-THE-COUNTER OPTIONS					
11		BROKER FEES					
12							
13							
14							
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	A	B	C	D	E	F
			VOLUME	ELECTRICITY		
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>SAVINGS</u>	<u>GAINS</u>
1						
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	A	B	C	D	E	F	
				FPL NATURAL GAS PROCUREMENT			
				VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>	
1							
2							
3							
4	November-06	FIXED PRICE TRANSACTIONS					
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				FPL HEAVY FUEL OIL PROCUREMENT			
				VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>	
1							
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	A	B	C	D	E	F
			VOLUME	ELECTRICITY		
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>SAVINGS</u>	<u>GAINS</u>
1						
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				FPL NATURAL GAS PROCUREMENT			
				VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>	
1							
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	A	B	C	D	E	F	
				FPL HEAVY FUEL OIL PROCUREMENT			
				VOLUME			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>	
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	A	B	C	D	E	F
			VOLUME	ELECTRICITY		
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>SAVINGS</u>	<u>GAINS</u>
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