STATE OF FLORIDA

COMMISSIONERS:
MATTHEW M. CARTER II, CHAIRMAN
LISA POLAK EDGAR
KATRINA J. MCMURRIAN
NANCY ARGENZIANO
NATHAN A. SKOP

OFFICE OF THE GENERAL COUNSEL
MICHAEL G. COOKE
GENERAL COUNSEL
(850) 413-6199

RECEIVED-FPSC
08 MAR -5 PM 3: 13
COMMISSION
CLERK

Public Service Commission

March 5, 2008

John T. Butler, Esquire
Florida Power & Light Company
700 Universe Blvd.
Juno Beach, FL 33408

Hedging Data Requests

Re: Docket No. 080001-EI - Fuel and purchased power cost recovery clause with generating performance incentive factor.

Dear Mr. Butler:

By this letter, the Commission staff requests that Florida Power & Light Company (FPL) provide responses to the following data requests.

1. FPL buys very large quantities of residual oil and natural gas. FPL has storage for natural gas and on-site storage for residual oil. Given its ability as a large buyer of residual oil and natural gas with storage capability, FPL has significant ability to physically hedge oil and gas prices.

   A. Does FPL agree with the above statement? If not, explain.

   B. With the availability of financial hedging instruments in the oil and gas markets, have fixed-price contracts for the supply of residual oil and natural gas become uncommon? Please explain.

   C. To the extent to which FPL engages in physical hedging for the price of natural gas, residual fuel oil, and purchased power, how does (or how would) FPL measure the effectiveness of physical hedging?

2. Please refer to paragraph 16 of the petition.

   A. Does FPL through its petition propose eliminating physical hedging for residual oil and natural gas purchases? For purchased power? For natural gas in storage?

   B. If so, why does FPL propose to eliminate physical hedging (for gas, oil, or purchased power) as discussed on Page 10 of its petition?

DOCUMENT NUMBER-DATE
01665 MAR-5 08
FPSC-COMMISSION CLERK

C. What types of physical hedges and associated annual volumes did FPL hedge prior to the issuance of Order No. PSC-02-1484-FOF-EI?

D. What types of physical hedges and associated annual volumes did FPL hedge after the issuance of Order No. PSC-02-1484-FOF-EI?

E. In consideration of, among other things, Paragraph 4 of FPL's petition, has FPL evaluated the effectiveness of a hedging policy restricted to physical hedging? Please explain.

3. Staff would like to understand transaction costs – direct, indirect, or estimated - associated with swap transactions.

A. In evaluating whether to use a swap to financially hedge natural gas prices, does FPL compare the value of the swap to concurrent futures contract prices?

B. In evaluating whether to use an option to financially hedge natural gas or residual oil prices, does FPL compare the value of the swap to concurrent futures contract prices?

C. How does FPL determine if it is paying a reasonable price for swaps?

D. In evaluating whether to use a swap to financially hedge natural gas prices, how does FPL evaluate the swap? Discuss bid/ask spreads and comparing quotes from different banks.

E. Does FPL estimate the transaction costs of swaps? For example, would an appropriate estimate be the difference in the initial cost of a swap and the initial cost of futures contracts for the same time and quantity of a natural gas purchase?

4. Please provide an overview of the company's residual oil and natural gas trading software. Discuss the current information that is available from this software including spot market information and information on futures, options, and swaps.

5. Please provide an overview of company's power trading software. Discuss the current information that is available from this software including spot market information and any information on options, and swaps.

6. In its petition - paragraphs 8 and 9 in particular – FPL alleges that regulatory risk associated with its hedging activities has increased and that this could affect its bond rating and increase its cost of capital.

A. Please describe any reference by Moody's, Standard & Poor's, or Fitch to increased regulatory risk associated with hedging activities for any investor-owned electric utility in Florida.

B. Please provide documentation of these references to increased regulatory risk in Florida.

7. Please refer to paragraph 10 of the petition. FPL states there is a slight bias against gas short electric utilities.

A. Is this "hedging premium" simply in increase in the price of price volatility insurance that hedging instruments provide, particularly since the tropical storms and hurricanes in the Gulf of Mexico during 2004 and 2005?

B. Before the tropical storms and hurricanes in the Gulf of Mexico during 2004 and 2005, were oil and gas producers and marketers paying a hedging premium? Do the producers and marketer ever pay a hedging premium?

C. Please refer to Graph 2.4. Was FPL paying a short hedging premium before the end of 2005?

D. Would the market for futures, swaps, and options, and the market for the underlying commodity, correct any such bias or premium over a longer period?

8. Please see Exhibit 2 of FPL's Petition. Show this same graph restricted to the fuel component of the bill rather than the total bill in order to see true impact of hedging separate from the fluctuations of other bill components, such as base rates.

9. Please refer to the Specific Parameters identified in Exhibit 3 of FPL's petition. How does FPL intend to bring to the Commission's attention the special circumstances for advance approval, what are examples of such special circumstances, and how quickly will FPL expect the Commission to respond to such special circumstances?

10. Please refer to Page 11 of FPL's petition, Paragraph 16. FPL appears to indicate that the amount of the final true-up underrecovery is the amount subject to the VMM. Does FPL intend to include over and underrecoveries of the actual/estimated year in its proposed Volatility Management Mechanism? Are actual/estimated year underrecoveries included in the development of FPL's Exhibits attached to its petition?

11. Provide examples to demonstrate FPL's intent of Page 3 of Exhibit 3 of FPL's petition.

12. In the past five years, the Commission has at times determined to spread large FPL fuel underrecoveries over two years and at other times determined to pass through large FPL fuel underrecoveries in a single year. The Commission exercised its flexibility based on the specific circumstances at the time. The Commission has never spread medium to small underrecoveries over two years. Why should the Commission forsake the flexibility of using a case by case review for a policy of spreading all underrecoveries over a two year recovery period?

13. In responding to this question, refer to paragraph 7 of the petition. Here FPL states that the volatility of gain and loss position inherent in FPL's hedging program from time to time has elicited expressions of concern from various stakeholders, suggesting to FPL that there may currently be far less than the full support among constituents than existed at the outset of the hedging program. Please

identify the stakeholders who have expressed concerns and specifically what concerns they expressed and when they expressed such concerns.

14. Please refer to paragraph 13 of the petition. It references Exhibit 2. Paragraph 13 states that Exhibit 2 shows fuel charges that customers actually have paid or will pay during the period of 2000 to 2008. Is it correct that Exhibit 2 shows the entire 1,000 KWH residential bill for those years rather than fuel charges?

15. Under VMM, would all incremental hedging O&M costs be eliminated? When?

16. Under VMM, would there be any residual value to the incremental hedging O&M costs incurred to date, for such things as software programs?

17. Under VMM, would employee positions added to staff for FPL's hedging program remain, and if so, what duties would be performed? When would such positions be deleted?

18. The petition at page 9 discusses the need for FPL to reach an agreement with the Commission on a fair approach to reflect the impact of using commercial paper interest rate on the deferred underrecoveries on FPL's earnings for surveillance purposes. How and when does FPL propose that such an agreement be entered into?

19. What does FPL propose in the agreement discussed in question 18 above?

20. Paragraph 19 of the petition suggests that, as an alternative, FPL file monthly information on hedging results pursuant to current A-schedule procedures, allowing staff the opportunity to review such filings for the twelve months ended September 30, for purposes of the November fuel hearing. Does that schedule allow sufficient time for discovery, for both staff and parties, thereby enabling the Commission to make a determination of prudence? Explain your answer.

21. Please provide the data, spreadsheets and methodology for creating the graphical representations that appear in Exhibits 1 and 2 of the petition.

22. Please refer to paragraph 12 of FPL's Petition. The Commission in past years has flexibly administered mid-course corrections involving underrecoveries such that any factor adjustments are implemented during either; A – the remainder of the current year or B – the remainder of the current year plus the following year. Under VMM, does FPL propose the Commission retain the flexibility of establishing underrecovery periods on a case-by-case basis, or does FPL propose a standard recovery period for mid-course corrections involving underrecoveries? If so, what is that period?

23. Please refer to Paragraph 18 of the Petition. How does FPL propose that the Specific Parameters included in "FPL Hedging Guidelines" (Exhibit 3 of the Petition) be revised from year to year, assuming FPL's initial guidelines are approved as requested by May 2008? Please include in your response the scheduling of filing revisions, regulatory review, and regulatory final decisions contemplated.

24. Is there overlap between FPL's annual risk management plans (specifically, Items 1, 2, and 3 of Exhibit TFB-4) filed in September of each year and the Specific Parameters included in FPL Hedging Guidelines? If so, how does FPL propose that such overlap of reporting be resolved/addressed?

25. Explain how the VMM would affect the Commission staff's policy to send accurate rate signals to rate payers.

26. Explain whether – and to what extent – deferring consumer payments for underrecoveries over a two year period, with interest, would cost the consumer more than what it would cost if the consumer repaid the underrecovery over 1 year?

Please file the original and five copies of the requested information by Friday, March 14, 2008, with Ms. Ann Cole, Commission Clerk, Office of Commission Clerk, 2540 Shumard Oak Boulevard, Tallahassee, Florida, 32399-0850. Please feel free to call me at (850) 413-6230 if you have any questions.

Sincerely,

Lisa C. Bennett

Lisa C. Bennett
Senior Attorney

LCB:th

cc: Office of Commission Clerk
Division of Economic Regulation (McNulty, Lester)
Docket 080001-EI - Parties