

**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 080001-EI
FLORIDA POWER & LIGHT COMPANY**

APRIL 3, 2008

**IN RE: LEVELIZED FUEL COST RECOVERY
AND CAPACITY COST RECOVERY**

**HEDGING ACTIVITY
JANUARY 2007 THROUGH DECEMBER 2007**

TESTIMONY & EXHIBITS OF:

G. J. YUPP

DOCUMENT NUMBER-DATE

02594 APR-3 8

FPSC-COMMISSION CLERK

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

2 **FLORIDA POWER & LIGHT COMPANY**

3 **TESTIMONY OF GERARD J. YUPP**

4 **DOCKET NO. 080001-EI**

5 **APRIL 3, 2008**

6
7 **Q. Please state your name and address.**

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

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

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

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

16 A. Yes.

17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony is to provide a review of FPL's 2007
19 hedging activity, including the detail required by Item 5 of the
20 Resolution of Issues in Docket 011605-EI approved by the
21 Commission per Order No. PSC-02-1484-FOF-EI, which states:

22 "5. Each investor-owned utility shall provide, as part of its
23 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 Exhibit GJY-1 -- 2007 Hedging Activity

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

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

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

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

9 **Q. Please summarize FPL's 2007 hedging activities.**

10 **A.** FPL hedged its fuel portfolio for 2007 utilizing a mix of options and
11 fixed price transactions. An option is a hedging instrument that
12 gives the buyer the right, but not the obligation, to buy (call) or sell
13 (put) a set commodity volume at a specific price for a specific period
14 of time. The buyer of an option pays a premium to hold this right. A
15 fixed price transaction allows a buyer to lock in the price of a
16 commodity for a set volume over a set period of time.

17
18 Natural gas prices continually trended lower after FPL executed its
19 hedges for 2007. Compared to 2006, natural gas prices remained
20 relatively stable throughout 2007 due primarily to mild winter
21 weather, above average natural gas storage levels and a relatively
22 inactive hurricane season. Actual monthly settlement prices on the
23 NYMEX ranged from a high of \$7.59 per MMBtu (June 2007) to a

1 low of \$5.43 per MMBtu (September 2007). Including option
2 premiums, FPL's 2007 natural gas hedging activities resulted in
3 losses of \$799.3 million.

4
5 United States Gulf Coast (USGC) heavy fuel oil and New York
6 Harbor (NYH) heavy fuel oil trended lower for a period of time after
7 FPL executed its hedges for 2007. Mild winter weather and a
8 consistent buildup of U.S. crude oil stocks that peaked in June 2007
9 contributed to the downward trend. This trend reversed itself
10 beginning in the third quarter as U.S. crude oil stocks experienced
11 significant draws and the U.S. dollar began to weaken. Heavy fuel
12 oil prices began a steady upward climb starting in the late summer
13 through the end of the year. For reference, USGC and NYH heavy
14 fuel oil prices were approximately \$37 per barrel in January 2007.
15 By September, prices were approximately \$60 per barrel and
16 finished the year in December at approximately \$72 per barrel.
17 Ultimately, FPL's heavy fuel oil hedges for 2007, including option
18 premiums, resulted in losses of \$56.5 million as the gains realized
19 during the fourth quarter did not fully offset the losses realized
20 during the earlier part of the year when prices were trending lower.

21
22 On a cumulative basis, from inception through 2007, FPL's
23 expanded hedging program has resulted in net losses of

1 approximately \$384.8 million. While the cumulative impact of FPL's
2 hedging program will vary and, at times, may show either net
3 savings or net losses, FPL expects that the cumulative, long-term
4 impact of its hedging program will not result in significant savings or
5 losses to FPL's customers. In fact, given current market conditions,
6 FPL currently projects that by the end of 2008, the cumulative
7 impact of its hedging program will be essentially "flat" from a
8 gain/loss perspective.

9 **Q. Does your Exhibit GJY-1 provide the detail on FPL's 2007**
10 **hedging activities required by Item 5 of the Resolution of**
11 **Issues?**

12 A. Yes.

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

14 A. Yes, it does.

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A	B	C	D FPL NATURAL GAS PROCUREMENT		E	F
<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	VOLUME	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>GAIN/(LOSS)</u>
TOTAL YEAR 2007	FIXED PRICE TRANSACTIONS PHYSICAL POWER OPTION PREMIUMS PHYSICAL POWER (EXERCISED OPTIONS) SWAPS SWING SWAPS OVER-THE-COUNTER OPTIONS BROKER FEES	[REDACTED]				\$ (799,268,428)
AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL	[REDACTED]					

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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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4	TOTAL YEAR	FIXED PRICE TRANSACTIONS				
5	2007	PHYSICAL POWER OPTION PREMIUMS				
6		PHYSICAL POWER (EXERCISED OPTIONS)				
7		SWAPS				
8		SWING SWAPS				
9		OVER-THE-COUNTER OPTIONS				
10		BROKER FEES				
11					\$	-
12						\$
13						
14		AVERAGE PERIOD OF HEDGE (Days) - PHYSICAL				

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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				FPL NATURAL GAS PROCUREMENT		
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1						
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4	January-07	FIXED PRICE TRANSACTIONS				
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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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						
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4	January-07	FIXED PRICE TRANSACTIONS				
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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			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	January-07	FIXED PRICE TRANSACTIONS				
5		PHYSICAL POWER OPTION PREMIUMS				
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1						
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4	February-07	FIXED PRICE TRANSACTIONS				
5		PHYSICAL POWER OPTION PREMIUMS				
6		PHYSICAL POWER (EXERCISED OPTIONS)				
7		SWAPS				
8		SWING SWAPS				
9		OVER-THE-COUNTER OPTIONS				
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4	February-07	FIXED PRICE TRANSACTIONS					
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4	February-07	FIXED PRICE TRANSACTIONS				
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4	March-07	FIXED PRICE TRANSACTIONS					
5		PHYSICAL POWER OPTION PREMIUMS					
6		PHYSICAL POWER (EXERCISED OPTIONS)					
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4	March-07	FIXED PRICE TRANSACTIONS				
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4	April-07	FIXED PRICE TRANSACTIONS				
5		PHYSICAL POWER OPTION PREMIUMS				
6		PHYSICAL POWER (EXERCISED OPTIONS)				
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1	April-07	FIXED PRICE TRANSACTIONS				
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3	May-07	FIXED PRICE TRANSACTIONS				
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5		PHYSICAL POWER (EXERCISED OPTIONS)				
6		SWAPS				
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1	May-07	FIXED PRICE TRANSACTIONS					
2		PHYSICAL POWER OPTION PREMIUMS					
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9		OVER-THE-COUNTER OPTIONS					
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4	June-07	FIXED PRICE TRANSACTIONS				
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3	July-07	FIXED PRICE TRANSACTIONS				
4		PHYSICAL POWER OPTION PREMIUMS				
5		PHYSICAL POWER (EXERCISED OPTIONS)				
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3	July-07	FIXED PRICE TRANSACTIONS				
4		PHYSICAL POWER OPTION PREMIUMS				
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3	July-07	FIXED PRICE TRANSACTIONS				
4		PHYSICAL POWER OPTION PREMIUMS				
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6		SWAPS				
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4	August-07	FIXED PRICE TRANSACTIONS					
5		PHYSICAL POWER OPTION PREMIUMS					
6		PHYSICAL POWER (EXERCISED OPTIONS)					
7		SWAPS					
8		SWING SWAPS					
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4	August-07	FIXED PRICE TRANSACTIONS				
5		PHYSICAL POWER OPTION PREMIUMS				
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4	August-07	FIXED PRICE TRANSACTIONS				
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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							
2							
3							
4	September-07	FIXED PRICE TRANSACTIONS					
5		PHYSICAL POWER OPTION PREMIUMS					
6		PHYSICAL POWER (EXERCISED OPTIONS)					
7		SWAPS					
8		SWING SWAPS					
9		OVER-THE-COUNTER OPTIONS					
10		BROKER FEES					
11							
12							
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14							

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>
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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>
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CONFIDENTIAL

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				VOLUME		
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CONFIDENTIAL

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