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Sent: Tuesday, August 05, 2008 4:31 PM
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Subject: Electronic Filing/Docket No. 080001-EI/Petition of Florida Power & Light Company for Approval of Hedging Guidelines and for Leave to Withdraw its January 31, 2008 VMM Petition
Attachments: hedging order clarification guidelines FILED_8_5_08.pdf; hedging order clarification guidelines FILED_8_5_08.doc; Hedging guidelines petition FILED_8_5_08.doc; Hedging guidelines petition FILED_8_5_08.pdf

Electronic Filing

a. Person responsible for this electronic filing:

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b. Docket No. 080001-EI

In Re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor

c. The documents are being filed on behalf of Florida Power & Light Company.

d. There are a total of 11 pages (8 -page petition and 3- page Exhibit 1).

e. The documents attached for electronic filing are Petition of Florida Power & Light Company for Approval of Hedging Guidelines and for Leave to Withdraw its January 31, 2008 VMM Petition, with accompanying Exhibit 1.

John T. Butler
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Exhibit 1
DOCUMENT NUMBER-DATE
06857 AUG-5 8
FPSC-COMMISSION CLERK

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: Fuel and Purchased Power)
Cost Recovery Clause With)
Generating Performance Incentive)
Factor)

DOCKET NO. 080001-EI
FILED: August 5, 2008

**PETITION OF FLORIDA POWER & LIGHT COMPANY
FOR APPROVAL OF HEDGING GUIDELINES AND FOR LEAVE
TO WITHDRAW ITS JANUARY 31, 2008 VMM PETITION**

Florida Power & Light Company ("FPL") hereby petitions the Commission for (1) approval of the Hedging Order Clarification Guidelines attached hereto as Exhibit 1 (the "Hedging Guidelines"), which would clarify the Proposed Resolution of Issues that the Commission approved by Order No. PSC-02-1484-FOF-EI, dated October 30, 2002, in Docket No. 011605-EI to "establish a framework and direction from the Commission and the parties to the fuel adjustment proceedings with respect to risk management for fuel procurement" (the "2002 Hedging Resolution"); and (2) leave to withdraw its Petition for Approval of Improved Volatility Mitigation Mechanism that was filed in this docket on January 31, 2008 (the "VMM Petition"). In support of this Petition, FPL states as follows:

1. FPL is a public utility subject to the regulatory jurisdiction of the Commission under Chapter 366, Florida Statutes. The Company has offices located at 700 Universe Boulevard, Juno Beach, Florida.

2. All notices, pleadings and other communications required to be served on the petitioner should be directed to:

Jeffrey S. Bartel
Vice President - Regulatory Affairs
Florida Power & Light Company
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-and-

R. Wade Litchfield
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3. Pursuant to the 2002 Hedging Resolution, FPL and other investor-owned electric utilities (“IOUs”) have been using a mix of physical and financial hedges to mitigate fuel price volatility for the past several years. The IOUs’ hedging programs have been successful in achieving their (and the Commission’s) objective of mitigating fuel price volatility. During periods of rising prices, the IOUs’ fuel costs have risen more slowly than market prices, and hedges have shown gains; during periods of declining prices, the IOUs’ fuel costs have declined more slowly than market prices, and hedges have shown losses. This result is consistent with the Commission’s recently stated views concerning the proper function of a hedging program:

Hedging program[s] are designed to assist in managing the impacts of fuel price volatility. Within any given calendar period, hedging can result in gains or losses. Over time, gains and losses are expected to offset one another.

Order No. PSC-08-0030-FOF-EI, Docket No. 080001-EI, dated January 8, 2008, at 4.

4. Over time, the gains and losses in an IOU’s hedging program will tend to offset, but in any given sub-period – even over several years – it is quite possible to see significant accumulated gains or losses in a well-managed hedge program. In other words, while a hedging program will reduce the volatility in the actual fuel prices customers pay (achieving the program’s objective), volatility will be a natural and expected characteristic in the gains and

losses resulting from the hedging program.

5. When the Commission approved the 2002 Hedging Resolution, support for hedging was strong and consistent among the stakeholders. Unfortunately, the reaction of certain stakeholders over the ensuing years has not been symmetric when hedging programs show gains and when they show losses. Support for hedging has generally been strong during periods of rising fuel prices, when hedging programs are showing gains, but has waned when prices are falling and hedging programs are showing losses. IOU shareholders receive no special benefit or reward when hedging programs result in gains, but this observed asymmetry raises the specter that shareholders might be exposed to risks of non-recovery when hedging programs result in losses. This imbalance of risks and rewards can increase the perceived financial risk of the IOUs and ultimately increase their cost of capital.

6. The Hedging Guidelines are designed to mitigate against this asymmetry by reaffirming and clarifying the Commission's support for hedging as an appropriate means of managing the impacts of fuel price volatility. There are four basic components to the Hedging Guidelines:

a. Section I revises the scope and timing of the Commission's annual review of the IOUs' hedging programs. Currently, the Commission receives – but does not substantively review or approve -- information on each IOU's hedging plan for the upcoming year, in conjunction with the fuel cost projection filings that are made around the beginning of September and then reviewed for approval by the Commission at the hearing held in early November. Because the Commission is presently receiving hedging plans only on an informational basis, IOUs get little feedback as to whether the Commission concurs with their hedging plans. Moreover, even if the Commission were to review and approve the hedging plans

under this system, it would come too late to provide useful guidance. Most, if not all, hedges have already been placed for the upcoming year by the time the November fuel cost recovery hearing is held. Section I provides for IOUs to file the hedging plans in September that they will implement during the following calendar year. For example, an IOU would file its hedging plan in September 2008 describing the hedging program to be executed during calendar year 2009 for hedges applicable to on-going activities for 2009 and subsequent years included in the hedging program.

b. Section II is intended to provide consistency and clarity as to how the various IOUs report their hedging program results. "Hedging activities" that are appropriately reported by IOUs are defined to be natural gas and fuel oil fixed price financial or physical transactions. The instruments to implement these hedging activities include fixed price swaps, options, etc. If an IOU is responsible under a power purchase agreement for providing the natural gas or fuel oil required to generate the purchased power, the IOU will also report on any hedging activities that it undertakes with respect to that fuel.

c. Section III addresses the lengthy lag in reviewing IOU hedging results that arises from the timing of the annual fuel cost recovery cycle. Each March, IOUs currently provide their hedging results for the prior year. Those results are not reviewed and approved until the November hearing. Section III provides for IOUs to file their hedging results for an August 1 – July 31 fiscal year, which would then be reviewed and approved in the following November hearing, thus reducing the review lag by more than half. This essentially codifies the timing of the Commission's review of hedging results that is set forth in Order No. PSC-08-0316-PAA-EI, issued in this docket on May 14, 2008.

d. Section IV sets forth seven general principles that would guide and inform

both the IOUs' development of hedging plans and the Commission's review of those plans. None of these principles is new; in fact, they all derive from the 2002 Hedging Resolution and subsequent Commission decisions on hedging. However, FPL believes that stating the principles explicitly and in one readily accessible location will help facilitate mutual understanding and cooperation among all stakeholders.

7. All four of the major IOUs agree with and support the Hedging Guidelines. The Office of Public Counsel, the Office of the Attorney General, AARP, the Florida Retail Federation and FIPUG have all stated that they take no position at this time on the Hedging Guidelines.¹ FPL attempted to contact White Springs concerning its position on the Hedging Guidelines but was unable to do so before filing this petition.

8. FPL believes that approval of the Hedging Guidelines will substantially address the concerns that led it to file the VMM Petition. Accordingly, the VMM Petition is no longer necessary or appropriate, and FPL hereby seeks leave to withdraw it.

WHEREFORE, FPL respectfully requests the Commission to approve the Hedging Guidelines contained in Exhibit 1, in order to reaffirm and clarify the Commission's support for hedging as an appropriate means of managing the impacts of fuel price volatility, and to grant FPL leave to withdraw the VMM Petition.

¹ "No position at this time" indicates that these parties take no position on the Hedging Guidelines presently but reserve their right to do so subsequently.

Respectfully submitted,

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By: /s/ John T. Butler
John T. Butler
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CERTIFICATE OF SERVICE

Docket No. 080001-EI

I HEREBY CERTIFY that a true and correct copy of Florida Power & Light Company's Petition for Approval of Hedging Guidelines has been furnished by electronic delivery on this 5th day of August 2008, to the following:

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