Progress Energy

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August 22, 2008

VIA HAND DELIVERY

Ms. Ann Cole, Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

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

Dear Ms. Cole:

Please find enclosed for filing on behalf of Progress Energy Florida, Inc. ("PEF") the original and five (5) copies of our responses to Staff's hedging data request dated August 18, 2008 in the above referenced docket.

Thank you for your assistance in this matter. Please call me at (727) 820-5184 should you have any questions.

Sincerely,

John T. Burnett lms

John T. Burnett

JTB/lms
Attachment

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PEF's RESPONSES TO STAFF'S THIRD HEDGING DATA REQUEST
Docket No. 080001-EI

1. Order No. PSC-02-1484-FOF-EI allowed hedging for purchased power. PEF's proposed Hedging Order Clarification Guidelines address hedging for natural gas and fuel oil and for natural gas and fuel oil required to be provided under a purchased power agreement. Should directly hedging purchased power be excluded from the clarification guidelines? Please explain.

   Answer: ***PEF has not proposed Hedging Order Clarification Guidelines, so this question is not applicable to PEF. While PEF does support any changes that provide greater clarity and/or greater regulatory certainty, PEF is not a joint petitioner in Florida Power and Light's ("FPL") August 5, 2008 Petition for Approval of Hedging Guidelines, and PEF would defer to FPL to address questions related to their proposal.***

2. Please refer to Exhibit 1 and to IV. c. of the Hedging Order Clarification Guidelines.

   A. Since the beginning of 2003, has TECO's fuel price hedging activities reduced the volatility in the fuel factor? Please explain.

      Answer: ***PEF has not proposed Hedging Order Clarification Guidelines, so this question is not applicable to PEF. While PEF does support any changes that provide greater clarity and/or greater regulatory certainty, PEF is not a joint petitioner in Florida Power and Light's ("FPL") August 5, 2008 Petition for Approval of Hedging Guidelines, and PEF would defer to FPL to address questions related to their proposal.***

   B. Please provide calculations or other support for the idea that hedging activities reduce volatility in the fuel factor, i.e., reduce the period to period percentage change in the fuel factor.

      Answer: ***PEF has not proposed Hedging Order Clarification Guidelines, so this question is not applicable to PEF. While PEF does support any changes that provide greater clarity and/or greater regulatory certainty, PEF is not a joint petitioner in Florida Power and Light's ("FPL") August 5, 2008 Petition for Approval of Hedging Guidelines, and PEF would defer to FPL to address questions related to their proposal.***

3. How can an IOU show that it has met the goal of controlling "volatility of fuel adjustment charges?" In other words, if a utility's results show "losses," but claims that the goal is not to have "gains" or avoid "losses," but rather, to control "volatility of fuel adjustment charges," how would the IOU show that it met that goal? Please include a measurement method that all parties can agree to as a fair measurement method.

   Answer: ***PEF's primary hedging objective is to reduce price risk and the associated volatility. PEF reduces price risk and the associated volatility by locking in prices for a portion of its projected burns over time. Volatility can be simply described as the***

measurement of commodity price changes over time for a given period. By locking in prices for a portion of its projected fuel burns over time, PEF reduces the price risk and volatility from its overall fuel portfolio. By definition, fixed prices are no longer subject to on-going price movements and the volatility that will occur in the market. Consequently, a fixed price cannot be more volatile than an "open" market price regardless of the behavior of day-to-day prices after a fixed price hedge is executed. The results of the hedging activities may not result in net fuel costs savings but will achieve the objective of reducing the impacts of fuel price risk and volatility experienced by PEF's customers over time.

4. Please refer to Exhibit 1 of the petition – Hedging Order Clarification Guidelines. Given the statement in IV. e., why is it necessary to have the following phrase in IV. b.?

   "or attempting to anticipate the most favorable point in time to place hedges."

   Answer: ***PEF has not proposed Hedging Order Clarification Guidelines, so this question is not applicable to PEF. While PEF does support any changes that provide greater clarity and/or greater regulatory certainty, PEF is not a joint petitioner in Florida Power and Light's ("FPL") August 5, 2008 Petition for Approval of Hedging Guidelines, and PEF would defer to FPL to address questions related to their proposal.***

5. Regarding Section I.a., what is the level of detail your utility expects to report for Items 1, 3, 4-9, and 13-15?

   Answer: ***PEF has not proposed Hedging Order Clarification Guidelines, so this question is not applicable to PEF. While PEF does support any changes that provide greater clarity and/or greater regulatory certainty, PEF is not a joint petitioner in Florida Power and Light's ("FPL") August 5, 2008 Petition for Approval of Hedging Guidelines, and PEF would defer to FPL to address questions related to their proposal.***

6. Regarding Section I.a., why does the guideline not include Items 2, 10, 11, and 12 of TFB-4 required by Order No. PSC-02-1484-FOF-EI?

   Answer: ***PEF has not proposed Hedging Order Clarification Guidelines, so this question is not applicable to PEF. While PEF does support any changes that provide greater clarity and/or greater regulatory certainty, PEF is not a joint petitioner in Florida Power and Light's ("FPL") August 5, 2008 Petition for Approval of Hedging Guidelines, and PEF would defer to FPL to address questions related to their proposal.***

7. Regarding Section IV.b., is it correct that a utility's efforts to flexibly determine within any particular month the volume to be hedged during that month cannot be expected to reduce the volatility of fuel price hedging? As an example, is it correct that hedging a pre-set volume of natural gas purchases during a month when forward prices are at an historical high is not expected to increase fuel price volatility for the utility, even when the volume of natural gas hedged by all other hedgers in the nation declines substantially?

   <u>**Answer:**</u> ***PEF has not proposed Hedging Order Clarification Guidelines, so this question is not applicable to PEF. While PEF does support any changes that provide greater clarity and/or greater regulatory certainty, PEF is not a joint petitioner in Florida Power and Light's ("FPL") August 5, 2008 Petition for Approval of Hedging Guidelines, and PEF would defer to FPL to address questions related to their proposal.***

8. Regarding Section IV.g., does the guideline contemplate that the volume of the hedge will vary within the utility's implementation of this guideline only according to changes in the forecast of fuel burn and no other reason? Please explain.

   <u>**Answer:**</u> ***PEF has not proposed Hedging Order Clarification Guidelines, so this question is not applicable to PEF. While PEF does support any changes that provide greater clarity and/or greater regulatory certainty, PEF is not a joint petitioner in Florida Power and Light's ("FPL") August 5, 2008 Petition for Approval of Hedging Guidelines, and PEF would defer to FPL to address questions related to their proposal.***

9. Regarding Section IV.e., does the guideline contemplate that that the utility will base its hedge volume on a percentage basis rather than a volume basis?

   <u>**Answer:**</u> ***PEF has not proposed Hedging Order Clarification Guidelines, so this question is not applicable to PEF. While PEF does support any changes that provide greater clarity and/or greater regulatory certainty, PEF is not a joint petitioner in Florida Power and Light's ("FPL") August 5, 2008 Petition for Approval of Hedging Guidelines, and PEF would defer to FPL to address questions related to their proposal.***

10. Regarding Section IV.e., does the guideline contemplate a specific percentage to hedge rather than a percentage range to hedge for any fuel type?

   <u>**Answer:**</u> ***PEF has not proposed Hedging Order Clarification Guidelines, so this question is not applicable to PEF. While PEF does support any changes that provide greater clarity and/or greater regulatory certainty, PEF is not a joint petitioner in Florida Power and Light's ("FPL") August 5, 2008 Petition for Approval of Hedging Guidelines, and PEF would defer to FPL to address questions related to their proposal.***

11. Provide any documentation, including studies, reports, and risk management literature relied upon by your utility to support the idea that dynamically adjusting the volumes to be hedged based upon latest market conditions:

   a. Does not reduce fuel price volatility,

   b. Does not increase hedging gains, and

   c. Does not decrease hedging losses.

<u>Answer:</u> ***PEF provided any internal and external documents used to support and monitor its hedging program to the Florida Public Service Commission during the course of the PSC's 2008 hedging audit. PEF's executes its long-term hedging strategy by layering in fixed price transactions over time for a portion of forecasted annual fuel burns. The volumes that are hedged over time are based on periodic fuel projections. The hedging program is well managed and independently monitored and does not involve speculation or trying to "out guess" the market. PEF reviews its hedging targets annually and believes a long-term strategy of layering hedging transactions for a portion of its projected fuel burns is an effective way to manage and reduce the impacts of on-going market price volatility, and participate in changing and dynamic market conditions over longer periods of time. Although PEF reviews various forms of market information regularly to understand the latest market conditions, attempting to dynamically and regularly adjust the hedging strategy and targets based on latest market conditions and information would be in effect trying to out-guess the market and would increase the level of speculation that exists in a hedging program. In addition, basing hedging decisions solely on latest market conditions and information would result in a program that would likely result in inconsistent behaviors given dynamic market conditions and information that is always changing. Various forms of market information exist at any given point in time with often conflicting opinions on what the short-term and long-term impacts will be. As stated, PEF regularly reviews various forms of market conditions and information and believes it is an important part of its on-going efforts to understand and manage its overall fuel portfolio. Over the long-term, market conditions, prices and information will change. PEF is not an advocate to have overly dynamic hedging targets based on latest market conditions and information as we believe the most effective approach to hedging is to consistently execute a long-term strategy and participate in the market over long periods of time. This behavior will capture the ever changing market dynamics and conditions.***