

Ann Cole

From: Mary Bane
Sent: Wednesday, September 10, 2008 1:23 PM
To: Bill McNulty
Cc: Ann Cole; William C. Garner; Roberta Bass; Lorena Holley; Larry Harris; Bridget Grimsley; Tim Devlin; Cayce Hinton; Betty Ashby; Chuck Hill
Subject: FW: Requested Revision to Attachment A of Staff's Recommendation on Item 11 on the September 16, 2008, Agenda Conference (Docket No. 080001-EI)
Attachments: hedging order clarification guidelines (Staff Rec revisions).doc

Approved.

From: Bill McNulty
Sent: Wednesday, September 10, 2008 1:18 PM
To: Mary Bane
Cc: Ann Cole; William C. Garner; Roberta Bass; Lorena Holley; Larry Harris; Bridget Grimsley
Subject: Requested Revision to Attachment A of Staff's Recommendation on Item 11 on the September 16, 2008, Agenda Conference (Docket No. 080001-EI)

Staff's recommendation identified as Item 11 on the September 16, 2008, Agenda Conference addresses FPL's petition requesting Commission approval of fuel hedging guidelines. As part of its recommendation, staff included FPL's proposed guidelines as Attachment A. Staff's recommendation was filed on September 5. On September 8, FPL provided parties and staff with requested revisions to its proposed hedging guidelines via an e-mail and attached file (see attached file, with revisions appearing in "type and strike" format). Staff has reviewed the requested revisions. While the revisions clarify the proposed guidelines, they do not change the substance of the guidelines. Staff requests revisions to Attachment A to its recommendation consistent with the revisions proposed by FPL in the attached document.

Today staff has forwarded the e-mail communication from FPL containing the requested revisions to the Commission Clerk for placement in the docket file.

Thank you.

DOCUMENT NUMBER-DATE

08448 SEP 10 8

FPSC-COMMISSION CLERK

9/10/2008

EXHIBIT 1
Hedging Order Clarification Guidelines

I. Investor-owned utilities ("IOUs") shall file an annual Risk Management Plan for Fuel Procurement (the "Plan") as part of the IOU's Annual Estimated/Actual Fuel Filing. The Plan would be submitted for Commission approval at the annual Levelized Fuel Cost Recovery and Capacity Cost Recovery Hearing held in November (the "Annual Fuel Hearing").

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- a. Each IOU will file a comprehensive Plan as part of its annual Levelized Fuel Cost Recovery and Capacity Cost Recovery Estimated/Actual True-up filing ("Estimated/Actual Filing", which typically occurs in early August) that includes the level of detail the IOU feels is appropriate for the risk management/hedging program to be executed. As has been the case with risk management plans filed to date, the Plan will address Items 1, 2, 3 (to the extent possible), 4-9 and 13-15 of Exhibit TFB-4 (ref. Paragraph 2 of the Proposed Resolution of Issues approved in Order No. PSC-02-1484-FOF-EI, Docket No. 011605-EI, dated October 30, 2002). A copy of Exhibit TFB-4 is Attachment 1 to these Guidelines and is incorporated herein by reference. The Plan will cover the activities to be undertaken during the following calendar year for hedges applicable to subsequent years (e.g., file Plan in August 2008 describing the hedging program to be executed during calendar year 2009 for hedges applicable for on-going activities for 2009 and subsequent years included in the hedging program).
- b. The Plan may be filed with a request for confidentiality to ensure that an IOU's anticipated hedging activities are not broadcast to the market prior to execution.
- c. The Commission will review for approval each IOU's Plan during the Annual Fuel Hearing, which approval is required to proceed with the hedging activities proposed in that Plan. This is consistent with page 18 of the Staff recommendation, dated April 14, 2008, on FPL's VMM proposal: "Staff believes the more appropriate approach is for the Commission to approve in advance company risk management plans that identify ranges for the percentages of volumes to be hedged and the types of hedging instruments. Acting within those guidelines, the Company can rebalance its hedge positions in response to changes in market conditions."

- II. "Hedging Activities" that are appropriately reported by IOU's in their hedging information reports are defined to be natural gas and fuel oil fixed price financial or physical transactions; instruments 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 power purchased thereunder, the IOU will report on any hedging activities that it undertakes with respect to such fuel.
- III. At the Annual Fuel Hearing, the Commission will review and determine the prudence of each IOU's hedging activities for the year ending the immediately preceding July 31

(e.g., at the November 2009 Annual Fuel Hearing, the Commission will review and determine the prudence of hedging activities for the period August 1, 2008 though July 31, 2009). To facilitate this review, each IOU will file the following each year:

- a. A Hedging Activity Final True-Up Report in April, covering August 1 to December 31 of the prior year (in 2009, the Hedging Activity Final True-Up Report will cover all of calendar year 2008); and
- b. A Hedging Activity Supplemental Report by August 15, covering the period January 1 to July 31 of that year.

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Hedging Activity Final True-Up Reports and Hedging Activity Supplemental Reports will present the data on hedging activities by month, for each month covered by the reports.

IV. The Commission will establish the following guiding principles that the Commission recognizes as appropriate and will follow in reviewing Plans and an IOU's hedging actions; provided, however, that the Commission may approve a Plan notwithstanding deviations from one or more of the guiding principles, and the terms of an approved Plan will control for the purpose of reviewing hedging actions:

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- a. The Commission finds that the purpose of hedging is to reduce the impact of volatility in the fuel adjustment charges paid by an IOU's customers, in the face of price volatility for the fuels (and fuel price-indexed purchased power energy costs) that the IOU must pay in order to provide electric service.
- b. The Commission finds that a well-managed hedging program does not involve speculation or attempting to anticipate the most favorable point in time to place hedges. Its primary purpose is not to reduce an IOU's fuel costs paid over time, but rather to reduce the variability or volatility in fuel costs paid by customers over time.
- c. The Commission endorses the goal of controlling volatility of fuel adjustment charges and finds that hedging is a useful tool for this purpose.
- d. The Commission acknowledges that hedging can result in significant lost opportunities for savings in the fuel costs to be paid by customers, if fuel prices actually settle at lower levels than at the time that hedges were placed. The Commission recognizes this as a reasonable trade-off for reducing customers' exposure to fuel cost increases that would result if fuel prices actually settle at higher levels than when the hedges were placed. The Commission does not expect an IOU to predict or speculate on whether markets will ultimately rise or fall and actually settle higher or lower than the price levels that existed at the time hedges were put into place.
- e. The Commission recognizes that market prices and forecasts of market prices have experienced significant volatility and are expected to continue to be highly volatile and, therefore, does not intend that an IOU will try to "outguess the market" in choosing the specific timing for effecting hedges or the percentage or volume of fuel hedged.

- f. In order to balance the goal of reducing customers' exposure to rising fuel prices against the goal of allowing customers to benefit from falling fuel prices, the Commission finds that it is appropriate to hedge a portion of the total expected volume of fuel purchases; the volume and timing of such hedges will be implemented within the parameters of an approved Plan, subject to any modifications or exceptions to the approved Plan that have been filed with and approved by the Commission.
- g. The Commission understands that each respective company's forecast of fuel burns is an on-going process and forecasts do change over time. As a result, the volume to be hedged within the hedging program is based on a point-in-time forecast and the actual hedge percentages will vary from forecasts.