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October 22, 2008

VIA HAND DELIVERY

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

080649-GU

Re: *Petition to allow transportation fuel surcharge hedging by Progress Energy Florida, Inc.*; Docket No. _____

Dear Ms. Cole:

Please find enclosed for filing, on behalf of Progress Energy Florida, Inc. ("PEF"), the original and seven (7) copies of its petition to allow transportation fuel surcharge hedging.

PEF's Notice of Intent to Request Confidential Classification is also being filed for Exhibits 1 through 4 attached to the petition which are confidential in nature. Pursuant to Rule 25-22.006(3)(a), F.A.C., PEF will file its Request for Confidential Classification within 21 days from the date of this filing.

Thank you for your assistance with this matter. If you should have any questions, please feel free to contact me at (727) 820-5184.

Sincerely,

John T. Burnett
John T. Burnett

- COM _____
- ECR** _____
- GCL 1
- OPC _____
- RCP _____
- SSC _____
- SGA _____
- ADM _____
- CLK _____

JTB/lms
Attachments

DOCUMENT NUMBER-DATE

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by Progress Energy
Florida, Inc. To Allow Transportation
Fuel Surcharge Hedging

Docket No.: _____

Date Filed: October 21, 2008

**PETITION TO ALLOW TRANSPORTATION
FUEL SURCHARGE HEDGING**

For reasons stated herein, Petitioner, Progress Energy Florida, Inc. ("PEF"), hereby files this request to allow PEF to employ transportation fuel surcharge hedging in its hedging program. In support of this petition, PEF states the following:

1. PEF is an investor-owned utility subject to the jurisdiction of the Commission under Chapter 366, Florida Statutes. PEF's general offices are located at 299 First Avenue North, St. Petersburg, Florida 33701.

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

John T. Burnett, Esquire
Progress Energy Florida, Inc.
Post Office Box 14042
St. Petersburg, FL 33733-4042
Telephone: (727)820-5184
Facsimile: (727)820-5249

Paul Lewis, Jr.
Director, Regulatory Affairs
Progress Energy, Florida, Inc.
106 East College Ave., Suite 800
Tallahassee, FL 32301
Telephone: (850)222-8738

For express deliveries by private courier, the address is as stated in paragraph 1.

3. In this petition, PEF is seeking authorization to employ transportation fuel surcharge hedging into its current hedging program.

4. PEF currently engages in Commission-approved hedging activity to hedge a portion of the company's forecasted natural gas and fuel oil burns.

DOCUMENT NUMBER-DATE
10057 OCT 22 8
FPSC-COMMISSION CLERK

5. PEF's activities in this regard are consistent with the Commission's hedging orders, and PEF's hedging activity to date has been limited to hedging a portion of forecasted burns for natural gas and fuel oil. PEF's hedges have included physical fixed price contracts for natural gas, and financial instruments for both natural gas and fuel oil, which include fixed price swaps and options.

6. PEF has included in its hedging targets, both forecasted natural gas and fuel oil burns for its owned generation fleet and forecasted burns for its power purchase agreements where PEF is responsible for providing the natural gas or fuel oil required to generate the power purchased under the respective contracts.

7. Based on recent market conditions and recent worldwide developments in fuel supply, demand, and cost, PEF has identified additional hedging opportunities related to the fuel costs in coal transportation contracts.

8. Specifically, PEF has identified potential hedging opportunities related to fuel exposure embedded in contracts associated with the rail and barge transportation of coal to its Crystal River plant facilities.

9. PEF provides competitively priced, secure and reliable coal supply to its Crystal River coal generation facilities via transportation service contracts with CSX Railroad and with both River and Gulf barge transportation companies.

10. These rail and barge transportation service contracts have contractual provisions which include a freight rate and fuel price components. The current transportation service contracts include provisions which provide for fuel adjustments to the overall transportation costs billed to PEF based on changes in prices of certain fuel commodities.

11. In 2008, PEF experienced significant increases in its transportation costs related to the fuel surcharge components in the aforementioned coal transportation contracts due to the volatility in fuel prices and refined product prices such as diesel.

12. Utilizing the Commission-approved hedging framework that already exists, PEF performed a review of the CSX contract and can quantify the current price exposure embedded in the contract and effectively mitigate some of the price volatility of these fuel surcharges by employing a hedging approach and strategy similar to those already used for natural gas and fuel oil burns. PEF has included examples of such a strategy as Confidential Exhibits 1-4 to this Petition.

13. Based on the correlation between fuel surcharges and changes in the costs in the CSX rail transportation contract, PEF believes that hedging these costs in a manner consistent with PEF's existing hedging program can mitigate price volatility for PEF's customers by executing financial hedges using swaps and options to mitigate the impacts of the CSX surcharge.

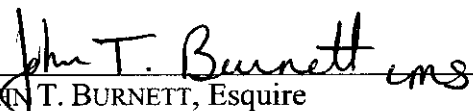
14. PEF also has barge transportation contracts that are utilized to secure coal for use at its Crystal River plant facilities. Similar to the CSX rail transportation contract, some of PEF's barge transport contracts include provisions for fuel surcharges based on market prices. In instances where these fuel adjustments are correlated to market prices for fuels, PEF would also look for opportunities to mitigate price volatility by hedging these costs in a like manner to the aforementioned CSX rail transportation contract based on completed analysis.

15. After receiving Commission approval, PEF will update its internal Risk Management Guidelines, incorporate this planned activity into its standard internal reporting templates and processes used to monitor the company's hedging activity, and

will include this activity in future Risk Management Plans. In addition, PEF will include the results of this activity as part of its required periodic filings to the Commission for hedging activities and results. If the Commission approves, PEF would implement hedging activities for a portion of the fuel surcharge exposure by the end of 2008. These activities would be consistent with PEF existing internal controls, procedures, and Risk and Credit Management Guidelines. No new costs or systems are required to implement this additional hedging activity. PEF would execute to reduce price risk and volatility with a duration not to exceed the current terms of the existing agreements or 24 months, whichever is less.

WHEREFORE, PEF respectfully requests the Commission to enter an order granting this petition and allowing PEF to further enhance its overall hedging activities to include fuel related surcharges and adjustments that are in existing fuel transportation agreements.

Respectfully submitted,



JOHN T. BURNETT, Esquire
Associate General Counsel
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Post Office Box 14042
St. Petersburg, FL 33733-4042
Telephone: (727)820-5184
Facsimile: (727)820-5519

ATTORNEY FOR PROGRESS ENERGY FLORIDA, INC.

CONFIDENTIAL EXHIBIT "1"

[REDACTED]

Confidential Exhibit 2 to this petition summarizes the actual CSX rail fuel surcharge and percentage from February 2006 through June 2008. Confidential Exhibit 3 to this petition summarizes the fuel surcharge impact per ton against the monthly average of the WTI crude oil contract to show the relationship between the two in the existing agreement. Confidential Exhibit 4 to this petition is a 2009 example of the CSX fuel surcharge by month with no surcharge hedged versus with a 50% of surcharge hedged. As can be seen from these exhibits, the price to per ton impact of the CSX fuel surcharge has been increasing and the relationship between CSX fuel surcharge and the change in WTI is highly correlated.

EXHIBIT 2

“Trends in the CSX Rail Fuel
Surcharge and Percentage”

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(Page 1 of 1)

EXHIBIT 3

**“CSX Fuel Surcharge correlation with
WTI prices”**

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(Page 1 of 1)

EXHIBIT 4

**“Example of Price Risk Mitigation by
Hedging”**

REDACTED

(Page 1 of 1)