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November 18, 2010

Lisa C. Bennett, Senior Attorney
Florida Public Service Commission
2540 Shumard Oak Boulevard
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Re: Staff's Data Request No. 1 dated November 12, 2010 in
Docket No. 100001-EI

Dear Ms. Bennett,

This letter is in response to your letter dated November 12, 2010. While Gulf believes that the current Commission guidelines regarding electric utility Risk Management Plans and hedging practices continue to be appropriate, we appreciate the opportunity to participate in this review and any future activities regarding this subject the Commission chooses to initiate.

General Questions:

1. Do you believe there are problems with current hedging practices? If so, explain.

   ANSWER: No.

2. Pursuant to Order No. PSC-02-1484-FOF-EI in Docket No. 011605-EI, the Commission developed a checklist of guidelines for the utilities to follow in hedging (Exhibit TBF-4 of the order). Are there any items on that checklist that:
   a. Need to be revised, or refreshed.
   b. Need to be deleted, or are no longer applicable;
   c. Need to be added to the list?

COM ____
APA 1
ECR 2
GCL 1
RAD 1
SSC ____
ADM ____
OPC ____
CLK ____

ANSWER:

a. No.
b. No.
c. No.

3. Do you believe certain aspects of current hedging practices should be modified to derive greater benefit for customers? If so, explain what should be modified and why.

   ANSWER: No.

4. Does the purpose of hedging include taking advantage of low market prices at any given time, or is hedging better accomplished by planning amounts to be hedged at designated intervals and then strictly adhering to that plan?

   ANSWER: No. The purpose of hedging is to mitigate fuel price volatility. Gulf's current hedging plan allows for flexibility as to the timing of entering hedging transactions and the quantity of fuel hedged in order to take into consideration changes in the fuel markets over time. While Gulf's preference is to preserve that level of flexibility in its hedging plan, we recognize that planning amounts to be hedged at designated intervals and strictly adhering to that plan is another viable hedging strategy.

5. Do you believe it would be appropriate for a utility to deviate from an approved plan in order to take advantage of low market price at any given time? Explain.

   ANSWER: Gulf believes the current guidelines allow each utility to develop a Risk Management Plan for Fuel Procurement that includes the flexibility to adjust the implementation of its hedging strategy in reaction to the market price of fuel. The decision to include this flexibility in the plan should be based on each utility's unique needs.

6. Does Order No. PSC-08-0667-PAA-EI address a utility's ability to deviate from approved plans in order to take advantage of low market prices at any given time? Explain.

   ANSWER: The order states "In addition, the guidelines allow the utilities flexibility for creating and implementing risk management plans." Furthermore, the Commission has retained the discretion to determine the prudence of hedging results and acknowledges that the guidelines are not binding the Commission's review of a utility's hedging practices.

7. If utilities were required to obtain approval to deviate from hedging plans to take advantage of low market prices, how should that be accomplished procedurally?

   ANSWER: Assuming a utility's current hedging plan does not provide the flexibility to take advantage of low market prices, a utility should have the option of requesting approval of a change to its hedging plan from the Commission on an expedited basis.

<u>IOU Only Questions:</u>

1. Do the techniques and principles of hedging include the ability to respond to market prices at any given time to hedge more or less? If so, explain. If not, should it?

   ANSWER: Yes. As long as the current percent of projected burn hedged is within the range established in the hedging plan the utility can effectively react to changes in market price forecasts to add to its current hedge position or to not enter into additional hedge positions at any point in time. The utility is clearly prohibited from entering into speculative hedge positions by exceeding the amount of the projected burn.

2. Does your current hedging plan provide the flexibility to respond to current market prices by hedging more or less? Explain.

   ANSWER: Yes, while Gulf's hedging plan establishes a range of hedge positions relative to the projected natural gas burn it also affords the flexibility to hedge volumes of gas above or below that range should market conditions warrant such activity.

3. Do current hedging plans prohibit your utility from responding to low market prices or otherwise acting to take advantage of time sensitive opportunities that would benefit customers?

   ANSWER: No.

4. Given that the utility's risk management plan specifies ranges for the volume of natural gas to be hedged, what are the factors influencing the percentage within the range to be hedged?

   ANSWER: Market price risk (volatility) or operational changes such as plant outages influence the quantity of natural gas to be hedged.

Should you have any questions, please do not hesitate to give me a call at 850-469-3316.

Sincerely,

Russell A. Badders
For the Firm

cc: Ann Cole, Office of Commission Clerk
Erik Sayler, Office of General Counsel
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