

**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 120001-EI
FLORIDA POWER & LIGHT COMPANY**

APRIL 2, 2012

**IN RE: LEVELIZED FUEL COST RECOVERY
AND CAPACITY COST RECOVERY**

**AUGUST 2011 THROUGH DECEMBER 2011
HEDGING ACTIVITY TRUE-UP REPORT**

TESTIMONY & EXHIBITS OF:

G. J. YUPP

DOCUMENT NUMBER-DATE

02000 APR-2 2012

FPSC-COMMISSION CLERK

1 **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**
2 **FLORIDA POWER & LIGHT COMPANY**
3 **TESTIMONY OF GERARD J. YUPP**
4 **DOCKET NO. 120001-EI**
5 **APRIL 2, 2012**

6

7 **Q. Please state your name and address.**

8 A. My name is Gerard J. Yupp. My business address is 700 Universe
9 Boulevard, Juno Beach, Florida, 33408.

10 **Q. By whom are you employed and what is your position?**

11 A. I am employed by Florida Power & Light Company (FPL) as Senior
12 Director of Wholesale Operations in the Energy Marketing and
13 Trading Division.

14 **Q. Have you previously testified in the predecessors to this**
15 **docket?**

16 A. Yes.

17 **Q. What is the purpose of your testimony?**

18 A. The purpose of my testimony is to present data on FPL's hedging
19 activities, by month, for calendar year 2011. This data is required
20 per Item 5 of the Resolution of Issues in Docket 011605-EI
21 approved by the Commission per Order No. PSC-02-1484-FOF-EI,
22 which states:

23 "5. Each investor-owned utility shall provide, as part of its

1 final true-up filing in the fuel and purchased power cost
2 recovery docket, the following information: (1) the volumes of
3 each fuel the utility actually hedged using a fixed price
4 contract or instrument; (2) the types of hedging instruments
5 the utility used, and the volume and type of fuel associated
6 with each type of instrument; (3) the average period of each
7 hedge; and (4) the actual total cost (e.g. fees, commissions,
8 options premiums, futures gains and losses, swaps
9 settlements) associated with using each type of hedging
10 instrument.”

11

12 The requirement for this data was further clarified in Section III of the
13 Hedging Order Clarification Guidelines that were approved by the
14 Commission per Order No. PSC-08-0667-PAA-EI issued on
15 October 8, 2008.

16 **Q. Are you sponsoring an exhibit for this proceeding?**

17 A. Yes. I am sponsoring Exhibit GJY-1 – August through December
18 2011 Hedging Activity True-Up .

19 **Q. Please describe FPL’s hedging objectives.**

20 A. Consistent with the guiding principles described in Section IV of the
21 Hedging Order Clarification Guidelines, the primary objective of
22 FPL’s hedging program is to reduce the impact of fuel price volatility
23 in the fuel adjustment charges paid by FPL’s customers. FPL does

1 not execute speculative hedging strategies aimed at “out guessing”
2 the market in the hopes of potentially returning savings to FPL’s
3 customers. For 2011, FPL implemented a well-disciplined, well-
4 defined and well-controlled hedging program in compliance with
5 FPL’s 2010 Risk Management Plan that was approved by the
6 Commission in Order No. PSC-09-0795-FOF-EI, issued on
7 December 2, 2009.

8 **Q. Please summarize FPL’s 2011 hedging activities.**

9 A. Consistent with its approved 2011 Risk Management Plan, FPL
10 hedged a portion of its fuel portfolio for 2011 utilizing fixed price
11 transactions. A fixed price transaction allows a buyer to lock in the
12 price of a commodity for a set volume over a set period of time.

13
14 Actual 2011 natural gas prices declined from the forward prices that
15 were in effect when FPL was executing its natural gas hedges for
16 2011. As would be expected under the approved hedging
17 approach, this decline in natural gas prices resulted in reported
18 natural gas hedging costs for the year, as shown on Exhibit GJY-1.
19 Conversely, heavy oil prices increased from the forward prices that
20 were in effect when FPL was executing its heavy oil hedges for
21 2011. As shown on Exhibit GJY-1, this resulted in reported heavy
22 oil hedging savings for the year.

23

1 **Q. Does your Exhibit GJY-1 provide the detail on FPL's 2011**
2 **hedging activities required by Item 5 of the Resolution of**
3 **Issues?**

4 **A. Yes.**

5 **Q. Does this conclude your testimony?**

6 **A. Yes, it does.**

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	A	B	C	D	E	F
			FPL NATURAL GAS PROCUREMENT			
			VOLUME (MMBTU)			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>SAVINGS/(COSTS)</u>
1						
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4						
5	YEAR-TO-DATE	FIXED PRICE TRANSACTIONS				
6	(JAN - DEC) 2011	SWAPS				
7		SWING SWAPS				
8		OVER-THE-COUNTER OPTIONS				
9		BROKER FEES				
10						\$ (404,239,340)
11						
12		AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL				

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	A	B	C	D	E	F
			FPL HEAVY FUEL OIL PROCUREMENT			
			VOLUME (BARRELS)			
	<u>PERIOD</u>	<u>INSTRUMENT</u>	<u>PURCHASES</u>	<u>SALES</u>	<u>OPTION PREMIUMS</u>	<u>SAVINGS/(COSTS)</u>
1						
2						
3						
4	YEAR-TO-DATE	FIXED PRICE TRANSACTIONS				
5	(JAN - DEC) 2011	SWAPS				
6		SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
9						\$ 16,580,894
10						
11						
12		AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL				

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			FPL NATURAL GAS PROCUREMENT			
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1						
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4	January-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
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CONFIDENTIAL

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			FPL HEAVY FUEL OIL PROCUREMENT			
			VOLUME (BARRELS)			
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1						
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4	January-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
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CONFIDENTIAL

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1						
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4	February-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
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1						
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4	February-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
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1						
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4	March-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
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1						
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4	March-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
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1						
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4	April-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
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1						
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4	April-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
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1						
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4	May-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
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1						
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4	May-2011	FIXED PRICE TRANSACTIONS				
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4	June-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
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4	June-2011	FIXED PRICE TRANSACTIONS				
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4	July-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
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3	<u>PERIOD</u>	<u>INSTRUMENT</u>				
4	July-2011	FIXED PRICE TRANSACTIONS				
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4	August-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
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1						
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4	August-2011	FIXED PRICE TRANSACTIONS				
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4	September-2011	FIXED PRICE TRANSACTIONS				
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4	October-2011	FIXED PRICE TRANSACTIONS				
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4	November-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
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1						
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4	December-2011	FIXED PRICE TRANSACTIONS				
5		SWAPS				
6		SWING SWAPS				
7		OVER-THE-COUNTER OPTIONS				
8		BROKER FEES				
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