3. Describe how the utility decides what an acceptable level of risk when associated with fuel procurement and purchased power transactions.

Response:

Oil and Coal:

The amount of risk considered acceptable is based on past experiences with what has been successful and evaluating the risk profile of any problems or opportunities based on this experience.

Natural Gas:

Decisions of acceptable risk are determined based on the circumstances at the time when purchasing natural gas. The circumstances at the time may include scenarios that involve all or a part of the following: Forward pricing trends, force majeure events ,fuel oil inventories, competitive fuel pricing, supply restraints, etc. For example, if the utility views a strong directional market trend for natural gas based on industry reports, events in the marketplace, demand, national storage levels, etc., the utility would consider implementing the risk management tools identified above.

Purchased Power:

Considerations for purchasing power on a long term and mid-term basis include, but are not limited to the following:

1) Price curves - directional price risk associated with fuel and power
2) Generator outages
3) Load forecast
4) Physical risk associated with transfer capability of transmission system
5) Credit worthiness of potential supplier(s)
6) Default risk of potential supplier(s)
7) Basis risk - e.g., supplier(s) can experience adverse weather as compared with Florida Power's service territory

A. Describe your fossil fuel procurement and wholesale purchased power plans separately for 2002. Please include:

General

1. Types of fuel used and power purchased or sold
2. Quantities and mix and by percent
3. How purchased and by percent
4. Justify all purchasing strategies in items 1-3.

Response to #'s 1-3:

Coal: 5.9 million tons of coal, or 56% of fossil fuel purchases, are forecasted to be purchased in 2002. 100% of the purchases is from mid-term contracts.
Oil: 11.6 million barrels of oil, or 28% of fossil fuel purchases, are forecasted to be purchased in 2002. The majority (approximately 97%) of the fuel oil is covered by mid-term (1-3 yr.) supply contracts with flexible volume provisions and market based pricing. Spot market is utilized when contracts allow as a supplemental source of supply.

Natural Gas: 40,340,000 Mcf of gas, or 16% of fossil fuel purchases, are forecasted to be purchased in 2002. Approximately 50% of the natural gas requirements are covered by long-term (> 3 years) contracts. Approximately 43% of the natural gas requirements are covered by short-term (> 1 month to 1 year) contracts. The remainder will be purchased in the spot market (1 month or less).

Purchased Power: 10,507,513 Mwh 's or 24% of the projected 2002 available for sale amount is from purchased power. Long term firm purchase power is usually solicited by a request-for-proposal from credible counter parties. Mid-term purchased power is usually solicited via a survey of credible counterparties by requesting bids for the nomination and terms for the product needed. Short-term firm purchased power is purchased through market assessment of bids and offers and negotiation with credible counterparties.

Response to #4:
Purchasing strategies for fuel and purchased power are based on having a portfolio mix that encompasses various types and lengths of contracts that will provide reliability, flexibility and the least cost for the utility and the ratepayers.

Specific
1. What derivatives will be used and how
2. What will be hedged and how
3. Savings (net of expenses) anticipated and why

Response:
Coal:
1. Use of derivative markets is not planned for 2002.
2. Use of hedging is not planned for 2002.
3. Not applicable

Oil:

1. Use of derivative markets is not planned for 2002.
2. The majority of fuel oil under contract is priced utilizing spot market-based indexes. Fixed price forward prices are periodically negotiated with contract suppliers as a hedge against future market price increases.
3. May or may not result in savings depending on actual market prices. Hedging eliminates volatility but does not always result in a savings to the ratepayers.

Natural Gas:
1. Use of derivative markets is not planned for 2002.
2. Based on circumstances the utility deems as a possible risk to the ratepayers, the utility will evaluate the risk management tools identified above.