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BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION

DOCKET NO. 090001-EI
FLORIDA POWER & LIGHT COMPANY

COMMISSION
CLERK

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APRIL 3, 2009

IN RE: LEVELIZED FUEL COST RECOVERY
AND CAPACITY COST RECOVERY

HEDGING ACTIVITY
JANUARY 2008 THROUGH DECEMBER 2008

COM 5
ECR 1
GCL 2
OPC
RCP 1
SSC
SGA 2
ADM
CLK Ct. Reporter

TESTIMONY & EXHIBITS OF:

G. J. YUPP

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

FLORIDA POWER & LIGHT COMPANY

TESTIMONY OF GERARD J. YUPP

DOCKET NO. 090001-EI

APRIL 3, 2009

Q. Please state your name and address.

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

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

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

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

A. Yes.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present data on FPL's hedging activities, by month, for calendar year 2008. This data is required per Item 5 of the Resolution of Issues in Docket 011605-EI approved by the Commission per Order No. PSC-02-1484-FOF-EI, which states:

“5. Each investor-owned utility shall provide, as part of its final true-up filing in the fuel and purchased power cost recovery docket, the following information: (1) the volumes of each fuel the utility actually hedged using a fixed price contract or instrument; (2) the types of hedging instruments the utility used, and the volume and type of fuel

1 associated with each type of instrument; (3) the average period of
2 each hedge; and (4) the actual total cost (e.g. fees, commissions,
3 options premiums, futures gains and losses, swaps settlements)
4 associated with using each type of hedging instrument.”

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

9 **Q. Are you sponsoring an Exhibit for this proceeding?**

10 A. Yes. I am sponsoring Exhibit GJY-1 – 2008 Hedging Activity Final True-Up
11 Report.

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

13 A. Consistent with the guiding principles described in Section IV of the Hedging
14 Order Clarification Guidelines, the primary objective of FPL’s hedging
15 program is to reduce the impact of fuel price volatility in the fuel adjustment
16 charges paid by FPL’s customers. FPL does not execute speculative
17 hedging strategies aimed at “out guessing” the market in the hopes of
18 potentially returning savings to FPL’s customers. FPL has implemented a
19 well-disciplined, well-defined, and well-controlled hedging program that is
20 executed in compliance with FPL’s risk management policies and
21 procedures.

22 **Q. Please summarize FPL’s 2008 hedging activities.**

23 A. FPL hedged its fuel portfolio for 2008 utilizing fixed price transactions. A
24 fixed price transaction allows a buyer to lock in the price of a commodity for

1 a set volume over a set period of time.

2

3 Natural gas and fuel oil markets were extremely volatile during 2008. Fuel
4 prices began the year at somewhat moderate levels and within six months
5 climbed to unprecedented highs only to return to moderate levels by the end
6 of the year. Actual monthly settlement prices for natural gas on the NYMEX
7 ranged from \$7.17 per MMBtu in January to a high of \$13.11 per MMBtu in
8 July, down to a low of \$6.47 per MMBtu in November, and finally \$6.89 per
9 MMBtu in December. United States Gulf Coast (USGC) heavy fuel oil and
10 New York Harbor (NYH) heavy fuel oil prices were approximately \$73 per
11 barrel in January 2008. By July, prices had climbed to approximately \$113
12 per barrel and by year-end had dropped approximately \$77 per barrel to \$36
13 per barrel. Overall, FPL's hedging activities helped to reduce the impact of
14 this extreme volatility on customer's fuel charges and resulted in total gains
15 of \$368.26 million.

16

17 On a cumulative basis, from inception through 2008, FPL's expanded
18 hedging program has resulted in net losses of approximately \$16.5 million.
19 While the cumulative impact of FPL's hedging program will vary and, at
20 times, may show either net savings or net losses, FPL expects that the
21 cumulative, long-term impact of its hedging program will not result in
22 significant savings or losses to FPL's customers.

23 **Q. Does your Exhibit GJY-1 provide the detail on FPL's 2008 hedging**
24 **activities required by Item 5 of the Resolution of Issues?**

1 A. Yes.

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

3 A. Yes, it does.

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| | | | FPL NATURAL GAS PROCUREMENT | | | |
| | | | VOLUME (MMBTU) | | | |
| | <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
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| 4 | YEAR-TO-DATE | FIXED PRICE TRANSACTIONS | | | | |
| 5 | (JAN - DEC) | SWAPS | | | | |
| 6 | 2008 | SWING SWAPS | | | | |
| 7 | | OVER-THE-COUNTER OPTIONS | | | | |
| 8 | | BROKER FEES | | | | |
| 9 | | | | | | \$ 100,709,736 |
| 10 | | | | | | |
| 11 | | | | | | |
| 12 | | AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL | | | | |

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| | | | FPL HEAVY FUEL OIL PROCUREMENT | | | |
| | | | VOLUME (BARRELS) | | | |
| | <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
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| 4 | YEAR-TO-DATE | FIXED PRICE TRANSACTIONS | | | | |
| 5 | (JAN - DEC) | SWAPS | | | | |
| 6 | 2008 | SWING SWAPS | | | | |
| 7 | | OVER-THE-COUNTER OPTIONS | | | | |
| 8 | | BROKER FEES | | | | |
| 9 | | | | | | \$ 267,554,705 |
| 10 | | | | | | |
| 11 | | | | | | |
| 12 | | AVERAGE PERIOD OF HEDGE (Days) - FINANCIAL | | | | |

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| | | | FPL NATURAL GAS PROCUREMENT | | | |
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| | <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
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| 4 | January-08 | FIXED PRICE TRANSACTIONS | | | | |
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| 6 | | SWING SWAPS | | | | |
| 7 | | OVER-THE-COUNTER OPTIONS | | | | |
| 8 | | BROKER FEES | | | | |
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| | | | FPL HEAVY FUEL OIL PROCUREMENT | | | |
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| | <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
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| 4 | January-08 | FIXED PRICE TRANSACTIONS | | | | |
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| 6 | | SWING SWAPS | | | | |
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| | <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
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| 4 | February-08 | FIXED PRICE TRANSACTIONS | | | | |
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| 6 | | SWING SWAPS | | | | |
| 7 | | OVER-THE-COUNTER OPTIONS | | | | |
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| | | | VOLUME (BARRELS) | | | |
| | <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
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| 4 | February-08 | FIXED PRICE TRANSACTIONS | | | | |
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| 3 | July-08 | FIXED PRICE TRANSACTIONS | | | | |
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| FPL NATURAL GAS PROCUREMENT | | | | | |
| VOLUME (MMBTU) | | | | | |
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| August-08 | FIXED PRICE TRANSACTIONS SWAPS SWING SWAPS OVER-THE-COUNTER OPTIONS BROKER FEES | [REDACTED] | | | |

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| | | | FPL HEAVY FUEL OIL PROCUREMENT | | | |
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| | <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
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| 4 | August-08 | FIXED PRICE TRANSACTIONS | | | | |
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| September-08 | FIXED PRICE TRANSACTIONS | | | | |
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| | | VOLUME (MMBTU) | | | |
| <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
| October-08 | FIXED PRICE TRANSACTIONS | | | | |
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| 4 | October-08 | FIXED PRICE TRANSACTIONS | | | | |
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| | <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
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| 4 | November-08 | FIXED PRICE TRANSACTIONS | | | | |
| 5 | | SWAPS | | | | |
| 6 | | SWING SWAPS | | | | |
| 7 | | OVER-THE-COUNTER OPTIONS | | | | |
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| | | FPL HEAVY FUEL OIL PROCUREMENT | | | |
| | | VOLUME (BARRELS) | | | |
| <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
| November-08 | FIXED PRICE TRANSACTIONS | | | | |
| | SWAPS | | | | |
| | SWING SWAPS | | | | |
| | OVER-THE-COUNTER OPTIONS | | | | |
| | BROKER FEES | | | | |

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| | | | FPL NATURAL GAS PROCUREMENT | | | |
| | | | VOLUME (MMBTU) | | | |
| | <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
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| 4 | December-08 | FIXED PRICE TRANSACTIONS | | | | |
| 5 | | SWAPS | | | | |
| 6 | | SWING SWAPS | | | | |
| 7 | | OVER-THE-COUNTER OPTIONS | | | | |
| 8 | | BROKER FEES | | | | |
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| | | | FPL HEAVY FUEL OIL PROCUREMENT | | | |
| | | | VOLUME (BARRELS) | | | |
| | <u>PERIOD</u> | <u>INSTRUMENT</u> | <u>PURCHASES</u> | <u>SALES</u> | <u>OPTION PREMIUMS</u> | <u>GAIN/(LOSS)</u> |
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| 7 | | OVER-THE-COUNTER OPTIONS | | | | |
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