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July 25, 2002

**-VIA FEDERAL EXPRESS-**

Blanca S. Bayó  
Director, Commission Clerk and Administrative Services  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Tallahassee, FL 32399-0850

RECEIVED FPSC  
02 JUL 26 PM 4:34  
COMMISSION  
CLERK

**Re: Docket No. 011605-EI**

Dear Ms. Bayó:

I am enclosing for filing in the above docket the original and seven (7) copies of Florida Power & Light Company's Prehearing Statement, together with a diskette containing the electronic version of same. The enclosed diskette is HD density, the operating system is Windows 2000, and the word processing software in which the document appears is Word 2000.

If there are any questions regarding this transmittal, please contact me at 305-577-2939.

Sincerely,

*John T. Butler for*  
John T. Butler, P.A. *JTB*

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Enclosure

cc: Counsel for Parties of Record (w/encl.)

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DOCUMENT NUMBER-DATE  
**07876 JUL 26 2002**

Miami West Palm Beach Tallahassee Naples Key West London Caracas São Paulo Rio de Janeiro Santo Domingo

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Review of investor-owned  
electric utilities' risk management  
policies and procedures. )  
)  
)  
)

Docket No. 011605-EI  
Dated: July 25, 2002

FLORIDA POWER & LIGHT COMPANY'S PREHEARING STATEMENT

In compliance with Order No. PSC-02-0192-PCO-EI, dated February 12, 2002, Florida  
Power & Light Company ("FPL") hereby files this its Prehearing Statement in the above docket.

(a) The name of all known witnesses that may be called by the party, and the  
subject matter of their testimony:

<u>Witness</u>	<u>Subject Matter</u>
Korel M. Dubin	Direct -- Approval/implementation process for FPL's proposed Risk Sharing Program and impact of the Program on the fuel cost recovery process.  Rebuttal -- Comments on portions of testimony of Bryan Stone and Todd Bohrmann
Joseph P. Stepenovitch	Direct -- Description of FPL's proposed Risk Sharing Program and response to Commission Issues 1A, 1B, 1C, 2, 3, 4, and 7.  Rebuttal -- Comments on portions of testimony of Bryan Stone and Todd Bohrmann

(b) A description of all known exhibits that may be used by the party, whether  
they may be identified on a composite basis, and the witness sponsoring each:

FPL has prefiled the following documents that comprise composite exhibits to the  
testimony of Ms. Dubin and Mr. Stepenovitch:

<u>Document</u>	<u>Content</u>	<u>Sponsoring Witness</u>
KMD-1	FPL's Proposed Risk Sharing Program	Dubin (direct)
JPS-1	FPL's Proposed Risk Sharing Program	Stepenovitch (direct)
JPS-2	Sample Calculations of Fuel Charges Under Status Quo (Current Actual Cost Recovery Mechanism) and FPL's Proposed Risk Sharing Plan	Stepenovitch (direct)
JPS-3	Forward Price As A Percentage Above or Below Spot at Time of Maturity	Stepenovitch (rebuttal)
JPS-4	FPL Proposed Risk Sharing Program Cost/Benefit Analysis	Stepenovitch (rebuttal)

DOCUMENT NUMBER-DATE

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FPSC-COMMISSION CLERK

**(c) A statement of basic position in the proceeding:**

The Commission should approve FPL's proposed Risk Sharing Program, which will provide an appropriate mechanism to limit the impact on customers of volatility in the cost of natural gas and residual fuel oil and is projected to reduce customers' overall cost for those fuels compared to the current actual-cost recovery mechanism.

**d) A statement of each question of fact the party considers at issue, the party's position on each such issue, and which of the party's witnesses will address the issue:**

**ISSUE 1A:** What role should the Commission take concerning the manner in which each investor-owned electric utility manages risks associated with fuel procurement?

FPL: The Commission should approve plans to provide incentives to utilities to engage in an appropriate level of fuel hedging to reduce fuel cost volatility to customers. FPL believes that its proposed Risk Sharing Program will best meet the objective of reducing fuel cost volatility to the customer. (Stepenovitch)

**ISSUE 1B:** Is each investor-owned electric utility taking reasonable steps to manage the price risk associated with its natural gas and residual oil transactions, as well as purchased power transactions based on natural gas prices, through the use of physical, operational, or financial hedging practices, or a combination of those practices?

FPL: Yes. FPL continually manages natural gas, residual oil and wholesale energy price risk through multiple hedging practices, including diversification of its generation mix, use of short-, mid- and long-term physical fuel and purchased power transactions, fuel switching, optimization of fuel storage and transportation, and wholesale power trading. FPL believes that approval of its proposed Risk Sharing Plan would provide incentives to maximize the benefits from these hedging practices. (Stepenovitch)

**ISSUE 2:** What is the appropriate regulatory treatment for gains and losses an investor-owned electric utility incurs from hedging fuel and purchased power transactions through futures contracts?

FPL: If FPL's proposed Risk Sharing Program is approved, then FPL will recover the commodity portion of natural gas and residual fuel oil costs based on approved market-based fixed prices and spot price indices, so there will be no occasion for FPL to recover its actual gains or losses on futures contracts for such fuels. For other fuel types and for purchased power (and if the Commission does not permit FPL to implement the proposed Risk Sharing Program and continues current actual-cost recovery mechanism for the commodity portion of natural gas and residual fuel oil), the gains from futures contracts should be credited to the fuel adjustment clause and losses from futures contracts should be charged to the fuel adjustment clause. (Stepenovitch)

**ISSUE 3:** What is the appropriate regulatory treatment for the premiums an investor-owned electric utility receives and pays for hedging fuel and purchased power transactions through options contracts?

FPL: If FPL's proposed Risk Sharing Program is approved, then FPL will recover the commodity portion of natural gas and residual fuel oil costs based on approved market-based fixed prices and spot price indices, so there will be no occasion for FPL to recover premiums it pays or receives for options contracts on such fuels. For other fuel types and for purchased power (and if the Commission does not permit FPL to implement the proposed Risk Sharing Program and continues current actual-cost recovery mechanism for the commodity portion of natural gas and residual fuel oil), the premiums received for options contracts should be credited to the fuel adjustment clause and premiums paid for options contracts should be charged to the fuel adjustment clause. (Stepenovitch)

**ISSUE 4:** What is the appropriate regulatory treatment for the transaction costs an investor-owned electric utility incurs from hedging its fuel and purchased power transactions through futures and options contracts?

FPL: Transaction costs are a component of the non-commodity costs associated with hedging fuel and purchased power. They should be recovered through the fuel adjustment clause irrespective of whether the Commission approves FPL's proposed Risk Sharing Program. (Stepenovitch)

**ISSUE 7A:** What incentive(s), if any, should the Commission establish to encourage investor-owned electric utilities to optimally manage the risks to ratepayers associated with fuel and purchased power price volatility?

FPL: The Commission should approve FPL's proposed Risk Sharing Program. (Stepenovitch)

**ISSUE 7B:** If the Commission were to approve any utility's incentive plan for optimally managing fuel price risk which includes a change in the method for calculating shareholder gains on wholesale sales as specified in Order Nos. PSC-00-1744-PAA-EI and PSC-01-2371-FOF-EI, what changes, if any, should be made to the requirements of those orders?

FPL: The Commission should approve FPL's proposal to share the gains on all wholesale power transactions (*i.e.*, purchases and sales), pursuant to which 80% of such gains are credited to FPL's customers and 20% of the gains are retained for FPL's shareholders. This would provide a symmetry in the incentives for wholesale power transactions that is currently missing and would encourage FPL to maximize its gains from all types of wholesale power transactions. (Stepenovitch)

**e) A statement of each question of law the party considers at issue and the party's position on each such issue:**

FPL is not aware of any questions of law at issue.

**f) A statement of each policy question the party considers at issue, the party's position on each such issue, and which of the party's witnesses will address the issues:**

FPL is not aware of any policy issues that are contested, except to the extent contained in the Issues addressed above.

**g) A statement of issues that have been stipulated to by the parties:**

Issues 5 and 6, concerning the prudence of FPL's and Florida Power Corporation's past fuel-procurement practices, have been resolved and need not be considered further in this proceeding. FPL is not aware of any stipulations concerning the Issues addressed above.

**h) A statement of all pending motions or other matters the party seeks action upon:**

FPL has no pending motions or other matters upon which it seeks action other than its pending request for confidentiality addressed in the next section.

**i) A statement identifying the party's pending requests for confidentiality:**

FPL filed on July 18, 2002, Florida Power & Light Company's Request for Confidential Classification of Certain Documents and Information Responsive to Staff's Second Set of Interrogatories and Second Request for Production of Documents. FPL does not believe there has been a ruling on this request.

**j) A statement as to any requirement set forth in this order that cannot be complied with, and the reasons therefore:**

FPL believes it has complied with all requirements of Order No. PSC-02-0192-PCO-EI.

Respectfully submitted,

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By: Korel M. Durbin for JTB  
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**CERTIFICATE OF SERVICE**

**Docket No. 011605-EI**

I certify that a copy of the foregoing was served by Federal Express (\*) or United States mail on this 25<sup>th</sup> day of July, 2002, to the following persons:

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