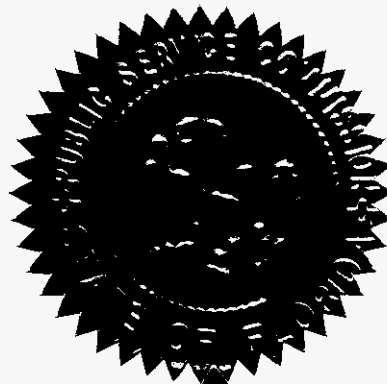


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 080649-EI

In the Matter of:

PETITION TO ALLOW TRANSPORTATION
FUEL SURCHARGE HEDGING BY PROGRESS
ENERGY FLORIDA, INC.



PROCEEDINGS: AGENDA CONFERENCE
ITEM NO. 14

BEFORE: CHAIRMAN MATTHEW M. CARTER, II
COMMISSIONER LISA POLAK EDGAR
COMMISSIONER KATRINA J. McMURRIAN
COMMISSIONER NANCY ARGENZIANO
COMMISSIONER NATHAN A. SKOP

DATE: Tuesday, April 7, 2009

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

REPORTED BY: JANE FAUROT, RPR
Official FPSC Reporter
(850) 413-6732

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P R O C E E D I N G S

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2 CHAIRMAN CARTER: That puts us, Commissioners
3 and staff, on Item 14. Give staff an opportunity to get
4 settled in. We will be on Item 14.

5 Let's go off the record for a moment.

6 (Off the record.)

7 CHAIRMAN CARTER: We are back on the record.
8 And when we last stopped we were in the process of
9 recognizing staff to introduce Item 14.

10 Staff, you're recognized.

11 MR. LESTER: Good afternoon, Commissioners.
12 I'm Pete Lester with staff.

13 Item 14 is Progress Energy Florida's
14 petition seeking approval to include hedging of coal
15 transportation fuel surcharges in its hedging
16 activities, and this involves diesel fuel costs
17 associated with rail and barge transportation of
18 coal. Staff is recommending that the Commission
19 approve Progress's petition, and staff is prepared to
20 answer your questions.

21 CHAIRMAN CARTER: Commissioner Skop, you're
22 recognized.

23 COMMISSIONER SKOP: Thank you, Mr. Chairman.
24 Just a quick question of staff and then a
25 general comment. On Page 4 of staff recommendation,

1 the first full paragraph states that Progress does
2 not intend to hedge the price of transportation fuel
3 longer than 24 months. Would that be the hedging
4 cycle, or will that just be hedging for just 24
5 months, or would it be a 24-month rolling basis?

6 MR. LESTER: It would be a rolling basis.
7 They wouldn't go out further than 24 months at any
8 particular time.

9 COMMISSIONER SKOP: Thank you for that
10 clarification.

11 Mr. Chairman, at least from my perspective,
12 I'm in favor of the staff recommendation. I think
13 that the hedging guidelines and plans that have been
14 approved by the Commission benefit ratepayers by
15 mitigating fuel price volatility while providing the
16 regulatory certainty for the utilities that engage in
17 those hedging practices.

18 I think that the Progress petition here
19 before us today to hedge the transportation-related
20 fuel cost is another innovative way to further
21 mitigate that fuel price volatility that consumers
22 have seen to date, and on top of that, you know, our
23 natural gas prices are hovering around historical
24 lows. And I know that in line with the hedging
25 guidelines and practices and approved plans, the

1 utilities are looking forward to hedge their fuel
2 requirements for 2010 as we move later into this
3 year; and, again, I'm in full support of the staff
4 recommendation on this issue.

5 But I would also entertain if utilities,
6 whether it be Progress or other IOUs in Florida, have
7 ways or things that they wish the Commission to
8 consider with respect to being able to further
9 mitigate fuel price volatility or save consumers
10 money in these times where, you know, the gas prices
11 are at historical lows, then I would certainly be
12 willing to entertain any proposals that the companies
13 may submit in that regard.

14 CHAIRMAN CARTER: Thank you.

15 Commissioner Argenziano.

16 COMMISSIONER ARGENZIANO: Mr. Chair, I guess
17 staff may be able to help me on this. Hedging works
18 both ways. It can save money and it can also cost
19 money, is that correct?

20 MR. LESTER: Yes, ma'am.

21 COMMISSIONER ARGENZIANO: So if the cost of
22 fuel drops and you're tied into a 24-month contract or
23 hedging bet, then you're stuck at a higher price.

24 MR. LESTER: That can work that way, yes,
25 ma'am.

1 COMMISSIONER ARGENZIANO: But by keeping it to
2 a 24-month rather than longer kind of makes it a little
3 less subject to the volatility of a change in the fuel
4 prices, or is that not correct? I mean, it could change
5 at any time I imagine, but I guess the 24-month was
6 picked because of a reason?

7 MR. LESTER: That's probably the most
8 foreseeable workable period for like diesel fuel prices
9 or something. I mean, beyond that there may not be a
10 lot of hedging instruments that would be available the
11 further out you go. So within 24 months there is a lot
12 of trading activity that would allow a company to hedge.

13 COMMISSIONER ARGENZIANO: My concern, and as
14 Commissioner Skop said, there are savings, but there is
15 also the downside to that, too. Because if you bought
16 it at a high cost and the fuel as we don't know -- as we
17 have seen in the past, right now it has been a little
18 steady, but I guarantee you that is going to change
19 soon. And I'm just concerned that if you had that big
20 drop like from the -- compared to our gas in our cars,
21 the \$4 a gallon to the \$2 a gallon, then you're stuck
22 with that for 24 months, if you just happen to pick the
23 wrong time to hedge, right?

24 MR. LESTER: Not quite, because I think they
25 are saying up to 24 months. They may go out that far.

1 They may hedge within --

2 COMMISSIONER ARGENZIANO: It could be less.

3 MR. LESTER: It could be less, yes, ma'am.

4 MR. HINTON: Yes, Commissioner. If you do --
5 if you do lock in a long-term contract for 24 months at
6 a certain price, if the price falls below that, then it
7 will recorded as a loss going forward for that
8 particular contract until the rates go back up. But
9 that's also why they don't hedge 100 percent of any
10 particular fuel, they keep it to a certain measure.

11 COMMISSIONER ARGENZIANO: But it is better to
12 just have up to 24 months than longer, right?

13 MR. LESTER: I believe so, yes, ma'am.

14 COMMISSIONER ARGENZIANO: Okay. Thank you.

15 CHAIRMAN CARTER: Commissioner Skop.

16 COMMISSIONER SKOP: Thank you, Mr. Chairman.

17 And I think Commissioner Argenziano raised
18 an excellent point with respect to that discussion.
19 You know, at least my observation is as Mr. Hinton
20 pointed out, you know, not hedging 100 percent of
21 your requirements provides some flexibility to take
22 advantage of the, you know, upward or downward
23 movements of fuel as well as not engaging in a
24 long-term contract. Because, again, if you lock in
25 at a high price, then you're at the peril of that

1 high price if fuel declines as Commissioner
2 Argenziano mentioned.

3 I think the situation that we have today is
4 a rolling reversal, and we have experienced that
5 drop, and certainly there are probably going to be
6 some hedging losses associated with that, but on a
7 forward-going basis for 2010, I mean, fuel is about
8 as low at least on natural gas, as I have seen it in
9 the last decade. I don't really expect it to go much
10 lower because historical norms would not support
11 that.

12 And I know that hedging is not used as a
13 speculative tool to try to lock in prices, but if
14 prices are at a low, again, I think that gets to the
15 point that I tried to make is that if there are plans
16 that would need or could be modified to accommodate,
17 you know, capturing savings or what have you, again,
18 those are things that I think the Commission would
19 entertain in terms of capturing this historical low
20 fuel price at the current time to get your
21 requirements for the coming year. But, again, I
22 don't want to speak for the Commission. To me I know
23 what I would do. So, thank you.

24 CHAIRMAN CARTER: Thank you.

25 Commissioners, anything further? Any

1 further questions, concerns?

2 Commissioner Skop, you're recognized for a
3 motion.

4 COMMISSIONER SKOP: Thank you, Mr. Chairman.

5 I would approve staff recommendation as to
6 Issues 1 and 2.

7 COMMISSIONER McMURRIAN: Second.

8 CHAIRMAN CARTER: It has been moved and
9 properly seconded. Is there any further questions or
10 any debate? The issue before us is to adopt staff's
11 recommendation. Any further question, any further
12 debate?

13 Hearing none. All in favor, let it be
14 known by the sign of aye.

15 (Simultaneous aye.)

16 CHAIRMAN CARTER: All those opposed, like
17 sign. Show it done.

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1 STATE OF FLORIDA)

2 : CERTIFICATE OF REPORTER


3 COUNTY OF LEON)

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5 I, JANE FAUROT, RPR, Chief, Hearing Reporter
6 Services Section, FPSC Division of Commission Clerk, do
7 hereby certify that the foregoing proceeding was heard
8 at the time and place herein stated.

9 IT IS FURTHER CERTIFIED that I stenographically
10 reported the said proceedings; that the same has been
11 transcribed under my direct supervision; and that this
12 transcript constitutes a true transcription of my notes
13 of said proceedings.

14 I FURTHER CERTIFY that I am not a relative,
15 employee, attorney or counsel of any of the parties, nor
16 am I a relative or employee of any of the parties'
17 attorney or counsel connected with the action, nor am I
18 financially interested in the action.

19 DATED THIS 17th day of April, 2009.

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JANE FAUROT, RPR
Official FPSC Hearings Reporter
(850) 413-6732