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March 17, 2008

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COMMISSION

Ms Ann Cole CLERK
Commission Clerk
Florida Public Service Commission
2450 Shumard Oak Blvd
Tallahassee, FL. 32399-0850

12 4 12 2008

Re: Docket No. 080001-EI

Dear Ms. Cole:

Here are FIPUG's responses to a staff data request dated March 4, 2008 in the above docket.

1. Do you agree that whether mid-course percents favor mid-course corrections depends on the relation between the aggregate cost-recovery factor and aggregate expenses, which may reflect hedging gains or losses, expressed in cents/kWh?

FIPUG: Yes. The undersigned respondent understands that the fuel costs filed in September and used to set the annual fuel cost factors that go into effect the following January each year include undisclosed hedging gains or losses, undisclosed risk premiums, interest on prior year results, return and operating costs attributable to miscellaneous capital investments, forecasted wholesale transaction results, transportation and some storage costs. The relationship of this cost bundle to actual operating experience for the cost bundle since the August estimates were made is then used to evaluate the need for a midcourse correction. Unless there is a remarkable change occurring before May or June, it is generally considered too late to apply a mid course correction. Midcourse corrections historically increase fuel recovery costs.

- CMP 1 2. Do you believe that a utility's ability to petition the Commission for mid-course corrections to COM cost-recovery factors, when conditions warrant such petitions, is beneficial to rate payers? to utilities? CTR Please explain. ECR 1 FIPUG: It is a mixed blessing favoring utilities. Mid course corrections benefit utilities GCL 2 because the enhanced cash flow serves to prevent an unanticipated charge against their working capital, a rate base item upon which utilities earn the authorized return. Customers benefit OPC because mid course corrections save customers interest on postponed collections. RCA 1 SCR Fuel cost increases applied after March exacerbate the adverse impact on residential customers because it occurs just before base load plants are maintained causing fuel costs to go up and SGA before the heavy air conditioning season when electric consumption increases. The result has SEC similar adverse impact on electric intensive businesses and industry using a calendar year OTH budget because of the unscheduled change.

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**Professional conservation advocates may believe that midcourse corrections offer price signals that may reduce consumption, but reduced consumption has the potential for base rate increases unless rates are properly structured to recover fixed costs. Water and sewer rates, unlike residential electric rates, are frequently designed so that capital carrying costs and other fixed costs are unaffected by reduced consumption. These rates have a base charge for fixed cost recovery and a consumption charge to recover variable costs.**

3. Attached is a copy of Exhibit TFB-4 referenced in Order No. PSC-02-1484-FOF-EI. Considering the implementation of the Order and the experience with hedging during the past five years, is the information contained in this document sufficient for purposes of risk management plan filings? If not, what changes should be made to risk management plan filings, and why?

**FIPUG: FIPUG participants do not oppose the concept of hedging. Over the years the Commission has moved from no independent fuel cost recovery [1951-1972]; to guaranteed full cost recovery of previously incurred costs every 60 days [1972-1979]; to semi annual recovery when prices fell precipitously after deregulation in 1978; to annual recovery of forecasted costs in 1998. After 1972 it appears the collection period changes were designed to dampen electric rate volatility.**

**As natural gas prices and oil prices increased and became more volatile in 2000 and 2001, the Commission staff recommended the hedging tool. The attached analysis from the EIA demonstrates that there was indeed volatility, the commodity price at Henry Hub has ranged between \$1.40/mmbtu to general monthly averages around \$4 with spikes as high as \$14 in February 2003. [It should be noted that the Henry Hub price is a commodity price, the delivered price of natural gas also contains a capacity charge from the pipeline ranging from \$0.40 per mmbtu to over \$2].**

**Before hedging was implemented there was a midcourse correction for FPC in 2000, for all of the largest IOUs except Gulf in 2001. Fuel prices went down for all but Gulf in 2002 and again in January 2003. All of the four largest IOUs except Gulf requested a mid course correction in the spring of 2003. The Commission orders do not show how the 52 smaller electric utilities dealt with the volatility of electric rates. Since 2003 fuel costs and prices have risen 105% in the last 3 years without the need of a midcourse correction. Hedging may have avoided volatility, but it has admittedly increased the costs and prices to the extent utilities pay undisclosed risk premiums and transaction costs.**

**Because the transactions are confidential and the risk management plans are by and large confidential, consumers must rely on regulatory officials to insure that there are no improper affiliate transactions and that all purchases are prudent.**

**The following suggestions may provide helpful evidence in that regard.**

**Amend item 10 of Exhibit TFB-4 to require that utilities indicate the years and nature of professional hedging experience of their personnel engaged in hedging.**

**Add the following:**

- 1. Explain how the utility manages hedges on a daily basis after they are acquired.**

2. **Provide copies of all standard and special contracts used in the hedging activity**
3. **Identify all business relations that hedging partners may have with unregulated affiliates of the regulated utility**
4. **Promptly report all transactions that do not conform to the stated risk management policy.**
5. **Each month separately report the risk premiums and transaction costs paid for the reporting period and the year to date in the A schedules.**
6. **On information and belief the Intercontinental Exchange lists transactions in Florida on a daily basis, report all transactions of 100 mmbtu or more that cost more than the ICE reported transactions.**

4. Order No. PSC-02-1484-FOF-EI, Page 6, Section 5 identifies the filing requirements of hedging results of the final true-up year for each investor-owned utility. Considering the implementation of the Order and the experience with hedging during the past five years, is the information referenced in Section 5 sufficient for purposes of reviewing the effectiveness of fuel price hedging by utilities? If not, what changes should be made to risk management plan filings, and why?

**FIPUG: The respondent doesn't know and cannot tell from the true up reports filed on March 3, 2008. Gulf reports that it doesn't pay transaction costs [Ball page 9 line 6]; According to the affidavit of PEF's Mr. MaCallister the information is confidential; TECo's Mr. Aldazabal reports \$152K in hedging expense, but doesn't provide the requested itemizations in a public document and doesn't provide information to explain what this expense is, presumably it is not an expense prohibited by §4 of the resolution; FPL states a hedging expense of \$ 510,708 in the exhibit to Ms. Dubin's testimony, but doesn't explain its nature. The information required by the aforesaid order may provide sufficient information for the Commission staff to determine if the transaction costs and risk premiums are appropriate, but if it is supplied it is confidential and unavailable for public scrutiny.**

**The burden currently rests upon the Commission Staff to determine whether the risk premiums and transaction costs are prudent.**

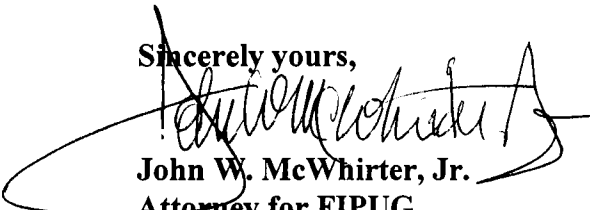
5. Is the year- to-year operation of the Commission's annual fuel factor, in conjunction with the mid-course correction mechanism and physical hedging, the optimal method for controlling the volatility of fuel costs for utility customers? Explain.

**FIPUG: From the FIPUG perspective the issue is not volatility avoidance, it is the prudence of the transaction costs and premiums paid, whether there is an open market in Florida and whether in the current credit crises banks provide greater liquidity than a free market exchange. FIPUG respectfully suggests that the Commission initiate steps to provide an open market exchange for transactions terminating within the state of Florida.**

6. Is the year-to-year operation of the Commission's annual fuel factor, in conjunction with the mid-course correction mechanism, and the terms detailed in Order No. PSC-02-1484-FOF\_EI, the optimal method for controlling the volatility of fuel costs for utility customers? Explain.

**FIPUG: Annual fuel factors combined with the opportunity for mid course corrections are probably sufficient to control volatility. Hedging is not objectionable as long as it is clearly shown that the risk premiums included in the price and transaction costs incurred are relatively nominal and are prudently incurred in the interest of retail customers.**

Sincerely yours,



**John W. McWhirter, Jr.**  
**Attorney for FIPUG**