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-M-E-M-O-R-A-N-D-U-M-

DATE: July 30, 2008

TO: Rosanne Gervasi, Senior Attorney, Office of the General Counsel

FROM: William F. Coston, Operations Review Specialist, Division of Regulatory Compliance WC

RE: 080437-EI - Request for confidential classification of portions of staff's *Review of Fuel Procurement Hedging Practices of Florida's Investor-Owned Electric Utilities* by Progress Energy Florida.
Document: 05188-08

Attached is a June 17, 2008 request (document 05188-08) from Progress Energy Florida counsel, John Burnett. This document includes the company's request for Specified Confidential Classification on portions of staff's *Review of Fuel Procurement Hedging Practices of Florida's Investor-Owned Electric Utilities*. The company cites §366.0963(3)(d) and §366.0963(3)(e), F.S.—which address contractual data and competitive interests, respectively—as the basis for the request.

Staff has reviewed this request and believes that the specified information is covered by §366.0963(3)(d) and (3)(e), F.S. Staff recommends the approval of Progress Energy Florida's Request for Confidential Classification on portions of staff's *Review of Fuel Procurement Hedging Practices of Florida's Investor-Owned Electric Utilities*.

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In re: Fuel and purchased power cost recovery clause with generating performance incentive factor.

080000-EI

Docket No. ~~080001-EI~~ COMMISSION CLERK

Dated: June 18, 2008

PROGRESS ENERGY FLORIDA INC.'S
REQUEST FOR CONFIDENTIAL CLASSIFICATION

Progress Energy Florida, Inc., ("PEF" or "Company"), pursuant to Section 366.093, Florida Statutes (F.S.), and Rule 25-22.006, Florida Administrative Code (F.A.C.), submits this Request for Confidential Classification for certain information contained in the FPSC Draft Report titled Fuel Procurement Hedging Practices of Florida's Investor-Owned Utilities. In support of this Request, PEF states:

1. The FPSC Draft Report titled Fuel Procurement Hedging Practices of Florida's Investor-Owned Utilities contains "proprietary business information" under Section 366.093(3), Florida Statutes.

2. The following exhibits are included with this request:

(a) Sealed Composite Exhibit A is a package containing an unredacted copy of all the documents for which PEF seeks confidential treatment. Composite Exhibit A is being submitted separately in a sealed envelope labeled "CONFIDENTIAL." In the unredacted version, the information asserted to be confidential is highlighted by yellow marker.

(b) Composite Exhibit B is a package containing two copies of redacted versions of the documents for which the Company requests confidential classification. The specific

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information for which confidential treatment is requested has been blocked out by opaque marker or other means.

(c) Exhibit C is a table which identifies by page and line the information for which PEF seeks confidential classification and the specific statutory bases for seeking confidential treatment.

3. As indicated in Exhibit C, the information for which PEF requests confidential classification is "proprietary confidential business information" within the meaning of Section 366.093(3), F.S. Specifically, the information at issue relates to sensitive business information, such as hedging transactions, risk assessment of financial counterparties, hedging forecasts, percentages, credit limits and pricing information, the disclosure of which would impair the efforts of the Company to negotiate fuel supply contracts on favorable terms. *See* § 366.093(3)(d), F.S.; Affidavit of Joseph McCallister at ¶ 5. Furthermore, the information at issue relates to the competitive interests of PEF, the disclosure of which would impair PEF's competitive business. *Id.* § 366.093(3)(e); Affidavit of Joseph McCallister at ¶ 6. Accordingly, such information constitutes "proprietary confidential business information" which is exempt from disclosure under the Public Records Act pursuant to Section 366.093(1), F.S.

4. The information identified as Exhibit "A" is intended to be and is treated as confidential by the Company. See Affidavit of Joseph McCallister at ¶ 7. The information contained in the report has not been disclosed to the public, and the Company has treated and continues to treat the information at issue as confidential. See Affidavit of Joseph McCallister at ¶ 7.

5. PEF requests that the information identified in Exhibit A be classified as "proprietary confidential business information" within the meaning of section 366.093(3), F.S., that the information remain confidential for a period of at least 18 months as provided in section 366.093(4)

F.S., and that the information be returned as soon as it is no longer necessary for the Commission to conduct its business..

WHEREFORE, for the foregoing reasons, PEF respectfully requests that this Request for Confidential Classification be granted.

RESPECTFULLY SUBMITTED this 18th day of June, 2008.

John T. Burnett LAG

R. ALEXANDER GLENN
Deputy General Counsel - Florida
JOHN T. BURNETT
Associate General Counsel - Florida
Progress Energy Service Company, LLC
Post Office Box 14042
St. Petersburg, Florida 33733-4042
Telephone: 727-820-5184
Facsimile: 727-820-5249
Email: john.burnett@pgnmail.com

Attorneys for
PROGRESS ENERGY FLORIDA, INC.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail to the following this 18th day of June, 2008.

John T. Burnett LMS

Attorney

Lisa Bennett, Esq. Office of General Counsel Florida Public Service Commission 2540 Shumard Oak Blvd. Tallahassee, FL 32399-0850	Florida Industrial Power Users Group c/o John McWhirter, Jr. McWhirter Reeves Law Firm 400 N. Tampa Street, Ste. 2450 Tampa, FL 33602
James D. Beasley, Esq. Lee L. Willis, Esq. Ausley & McMullen Law Firm P.O. Box 391 Tallahassee, FL 32302	Norman H. Horton, Jr. Messer, Caparello & Self, P.A. P.O. Box 15579 Tallahassee, FL 32317
Joseph A. McGlothlin, Esq. Office of Public Counsel c/o The Florida Legislature 111 West Madison Street, #812 Tallahassee, FL 32399	John T. Butler, Esq. R. Wade Litchfield, Esq. Florida Power & Light Co. 700 Universe Boulevard Juno Beach, FL 33408
Jeffrey A. Stone, Esq. Russell A. Badders, Esq. Steven R. Griffin Beggs & Lane Law Firm P.O. Box 12950 Pensacola, FL 32591	Robert Scheffel Wright John T. LaVia, III Young van Assenderp, P.A. 225 S. Adams Street, Suite 200 Tallahassee, FL 32301
Ms. Paula K. Brown Tampa Electric Company P.O. Box 111 Tampa, FL 33601	Mehrdad Khojasteh Florida Public Utilities Company P.O. Box 3395 West Palm Beach, FL 33402-3395
Ms. Susan D. Ritenour Gulf Power Company One Energy Place Pensacola, FL 32520-0780	Mr. James W. Brew, Esq. c/o Brickfield Law Firm 1025 Thomas Jefferson St., NW 8th Floor, West Tower Washington, DC 20007
Natalie F. Smith Florida Power & Light 215 S. Monroe Street, Ste. 810 Tallahassee, FL 32301-1859	AARP c/o Mike Twomey P.O. Box 5256 Tallahassee, FL 32314-5256

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CONFIDENTIAL

Public Service Commission

ACKNOWLEDGEMENT

DATE: June 18, 2008

TO: **John T. Burnett**

FROM: **Ruth Nettles, Office of Commission Clerk**

RE: **Acknowledgement of Receipt of Confidential Filing**

This will acknowledge receipt of a CONFIDENTIAL DOCUMENT filed in Docket Number 080000 **or, if filed in an undocketed matter, concerning** information contained in FPSC Draft Report titled Fuel Procurement Hedging of Florida's Investor-Owned Utilities, **and filed on behalf of** Progress Energy. **The document will be maintained in locked storage.**

If you have any questions regarding this document, please contact Marguerite Lockard, Deputy Clerk, at (850) 413-6770.

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Exhibit B

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and $2.7 million in premiums paid for calls under a collar arrangement. In sum, PEF netted a gain of $45.3 million in option premiums.

For fuel oil, PEF's hedging of No. 6 fuel oil primarily consisted of financial swaps over the past four years, with a combination of swaps and a limited number of options in 2007. Prior to the use of financial swaps in 2004, PEF used physical hedge contracts for its No. 6 oil.

For No. 2 fuel oil, PEF did not initiate any form of financial hedging until 2006. In 2006, the company used swaps for its No. 2 oil, while in 2007 the company used a majority of swaps with a limited number of options. Similar to the uncertainty in the natural gas market, PEF chose the use of financial swaps as a means of further reducing price volatility in the fuel oil market.

What are the company's targets and threshold limits for its financial hedging program?

PEF's *Risk Management Guidelines—Risk Limit Structure* establishes the company's tenure and volume of the fuel hedging commitments. More specifically, the reporting limits are the established hedging percentage targets for both natural gas and fuel oil. The hedging percentage targets represent the maximum tolerance level that PEF's hedging portfolio is not expected to exceed. It is PEF's policy not to hedge more fuel than forecasted to meet customer demand.

Exhibit 27 depicts the monthly hedging percentage targets for PEF's forecasted fuel burns for natural gas, No. 6 fuel oil, and No. 2 fuel oil. As shown in the exhibit, PEF hedges are layered over time, with a greater percentage of hedges being transacted in the short-term. For example, if the "current" year is 2008, the accumulated volumes of natural gas hedged against 2008 and 2009 forecasted burns cannot exceed 80 percent and 60 percent, respectively. The accumulated volume includes hedges entered into during the "current" year and prior years. The hedging contracts also must settle within the year they were used to offset the forecasted burn. In other words, a hedging contract entered into during 2008 to offset 2009 forecasted burn would have to settle in 2009.

Approved Hedging Strategy
Progress Energy Florida
(percent of forecast)

[redacted]	
Natural Gas	[redacted]
No. 6 Fuel Oil	
No. 2 Fuel Oil	

Exhibit 27 ***Source: Data Request 1.10***

Using another example, if the "current" year is 2008, PEF traders may enter into natural gas hedges to offset forecasted fuel requirements for 2010; however, the accumulated volume of that No. 2 oil is primarily used for PEF's peaker units. As a result, the actual burn could vary greatly from forecasted conditions due to unforeseen conditions to meet customer demand.

[redacted]

Exhibit 28 ***Source: Data Request 2.7***

[redacted]

Exhibit 29 ***Source: Data Request 2.7***

Exhibit 31 shows the trend in the monthly average market price of natural gas per MMBtu against the monthly average of PEF's financial hedging settlement costs for the same fuel. From 2003 to 2005, PEF's primary method of hedging natural gas was through the use of fixed price physical contracts. As a result, there were no financial hedging settlements over this period.

[redacted]

Exhibit 31 ***Source: Data Request 3.1***

From March 2006 (the first month PEF reported financial settlement costs) to December 2007, PEF's natural gas hedges settled at an average of $8.24 per MMBtu. In comparison, the average market price for natural gas over the same period was $7.64 per MMBtu. In sum for this period, PEF's natural gas hedges settled, on average, 60¢ more per MMBtu than the market price. Within calendar year 2007, PEF's natural gas hedges settled, on average, at 70¢ more per MMBtu than the market price.

As shown on Exhibit 31 natural gas prices peaked at $12.31 per MMBtu in October 2005, and dropped the very next month to $8.23 per MMBtu, and dropped even further two months later in December 2005 to $5.60 per MMBtu.

Exhibit 32 trends the market price of No. 6 fuel oil against hedging settlement costs of both fuels over the same five-year period. The first financial hedging settlements for No. 6 oil were reported in June 2004. Prior to June 2004, hedging for No. 6 fuel oil was done primarily through the use of fixed-price physical contracts. From June 2004 to December 2007, PEF's hedging settlement costs for No. 6 oil averaged $36.94 per barrel. In comparison, the market average was $40.77 per barrel. The difference represents a gain of $3.83 per barrel. For the most recent year, 2007, PEF also showed an average gain of 87¢ per barrel. For the year, PEF's No.6 fuel oil settled, on average, at $50.76 per barrel, whereas the average market price was $51.63.

[redacted]

Exhibit 32 ***Source: Data Request 3.1***

[redacted]

Exhibit 33 ***Source: Data Request 3.1***

The hedging trend for No. 2 fuel oil is shown in **Exhibit 33**. The Exhibit points out the volatility of No. 2 fuel oil market prices. Price spikes of $296 and $325 per barrel in April 2004 and March 2005 were followed by even greater spikes of $1,906 and $413 per barrel in December 2006 and April 2007. These extreme spikes make obvious the need for hedging of No. 2 fuel oil purchases. Prior to 2005, PEF procured No. 2 fuel oil via short and long-term market price contracts and spot purchases. Since inception of a financial hedging program for No. 2 fuel oil, PEF has recorded an average gain of $136 per barrel. For the year 2007, the average reported hedging settlement costs were $80.28 per barrel and the average market price financial transactions between the company and counterparty. **Exhibit 35** lists each current counterparty, their credit ratings, and Progress Energy's established credit limit for each party.

[redacted]

Exhibit 35 ***Source: Data Request 2.13***

Progress Energy has a dual relationship with several counterparties; allowing these counterparties to initiate financial hedging transactions and also contract for physical supply of natural gas and fuel oil. For natural gas, in 2006, PEF initiated both financial and physical transactions with three counterparties: BP Corporation North America, Macquarie Bank Limited, and Morgan Stanley Capital Group. In 2007, PEF initiated dual transaction with four counterparties: BP Corporation North America, Macquarie Bank Limited, Morgan Stanley Capital Group, and Shell Energy North America.

For oil transactions, PEF has a dual relationship with BP Products North America, Inc. Progress conducted both financial and physical transactions for fuel oil in each year 2004 through 2007.

Does the company conduct audits of its fuel procurement program and hedging instruments?

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Exhibit C

PROGRESS ENERGY FLORIDA
Confidentiality Justification Matrix

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DOCUMENT/RESPONSES	PAGE/LINE	JUSTIFICATION
FPSC Draft Report titled "Fuel Procurement Hedging Practices of Florida's Investor-Owned Utilities".	Page 64: Exhibit 26 Page 65: Exhibit 27 Page 67: Exhibit 28 Page 67: Exhibit 29 Page 69: Exhibit 31 Page 70: Exhibit 32 Page 70: Exhibit 33 Page 71: Exhibit 34 Page 75: Exhibit 35	§366.093(3)(d), F.S. The document in question contains confidential information, the disclosure of which would impair PEF's efforts to contract for goods or services on favorable terms. §366.093(3)(e), F.S. The document in question contains confidential information relating to competitive business interests, the disclosure of which would impair the competitive business of the provider/owner of the information.

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