Florida Power & Light Company, 215 S. Monroe Street, Suite 810, Tallahassee, FL 32301

FPL

John T. Butler
Managing Attorney
Florida Power & Light Company
700 Universe Boulevard
Juno Beach, FL 33408-420
(561) 304-5639
(561) 691-7135 (Facsimile)
Email: John.Butler@fpl.com

RECEIVED-FPSC
10 NOV 19 PM 3:40
COMMISSION
CLERK

November 19, 2010

VIA HAND DELIVERY

Ms. Ann Cole
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard, Room 110
Tallahassee, Fl 32399-0850

RE: Docket No. 100001-EI

Dear Ms. Cole:

Enclosed for filing on behalf of Florida Power & Light Company are the original and five (5) copies of its responses to Staff's Data Request No. 1, dated November 12, 2010.

Please contact me if you or your Staff has any questions regarding this filing.

Sincerely,

Nanci Nesmith
for John T. Butler

Enclosure

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

COM ____
APA 1
ECR 1
GCL 2
RAD 1
SSC ____
ADM ____
OPC ____
CLK ____

an FPL Group company

DOCUMENT NUMBER-DATE
09538 NOV 19 ≌
FPSC-COMMISSION CLERK

Q.
Do you believe there are problems with current hedging practices? If so, explain.

A.
No, FPL does not believe there are problems with the current hedging practices. The primary objective of FPL's hedging programs has been, and remains, the reduction of fuel price volatility. To that end, FPL's hedging programs have reduced fuel price volatility, delivered greater price certainty to customers, and reduced the need for fuel cost driven mid-course corrections, while avoiding speculative hedging strategies aimed at "out guessing" the market. At the same time, FPL's fuel programs have been able to take advantage of the current low spot prices observed in recent fuel markets with respect to the unhedged portions of its fuel portfolio, as well as capturing low prices for future fuel deliveries by virtue of the manner in which FPL layers in its hedges over time.

Q.

Pursuant to Order No. PSC-02-1484-FOF-EI, in Docket No. 011605-EI, the Commission developed a checklist of guidelines for the utilities to follow in hedging (Exhibit TFB-4 of the order). Are there any items on that checklist that:

- **A:** ***need to be revised, or refreshed.***
- **B: need to be deleted, or are no longer applicable;**
- **C: need to be added to the list?**

A.

The guidelines noted in Order No. PSC-02-1484-FOF-EI, along with the clarifications contained in Order No. PSC-08-0667-PAA-EI, provide adequate regulatory support and direction from the Commission regarding the characteristics and documentation each prudently managed, non-speculative hedging plan should include. FPL has not identified any items that should be added, revised, or removed from Exhibit TFB-4 at this time.

Q.
Do you believe certain aspects of current hedging practices should be modified to derive greater benefit for customers? If so, explain what should be modified and why.

A.
No, FPL does not believe that any aspects of current hedging practices should be modified in order to derive greater benefits for customers. The current hedging practices have been beneficial for customers through reduced fuel price volatility that, in turn, has delivered greater price certainty to customers and reduced the need for fuel cost driven mid-course corrections. Additionally, while customers have received these benefits associated with the hedged portion of FPL's fuel portfolio, they have also received the benefit of the more recent lower natural gas prices through the unhedged portion of the fuel portfolio.

As acknowledged by the Commission, the primary purpose of a hedging program is not to reduce an IOU's fuel costs paid by customers over time, but rather to reduce the variability or volatility in those fuel costs over time. The associated lost opportunity for savings in fuel costs to be paid by customers when fuel prices decline has been recognized as a reasonable trade-off for reducing customers' exposure to fuel price increases. FPL believes its current hedging practices properly incorporate both the benefits associated with reducing customer exposure to fuel price increases and the corresponding trade-off described by the Commission as a lost opportunity for savings due to fuel price decreases.

Q.
Does the purpose of hedging include taking advantage of low market prices at any given time, or is hedging better accomplished by planning amounts to be hedged at designated intervals and then strictly adhering to that plan?

A.
Hedging is best accomplished by developing a properly detailed plan with prescribed parameters, which could include volumetric amounts, timing intervals, and various other appropriate components, and then following that plan. The plan should allow for a reasonable amount of flexibility within the prescribed parameters, but should be specific enough to avoid undisciplined and/or speculative decisions. Following such a plan does not preclude a utility from taking advantage of low market prices at certain times. For example, FPL's plan includes the layering in of hedges over a long period of time which has allowed FPL to execute its most recent hedges during the current trend of lower natural gas prices.

Q.
Do you believe it would be appropriate for a utility to deviate from an approved hedging plan in order to take advantage of low market prices at any given time? Explain.

A.
As described in Section IV (f) of the Hedging Order Clarification Guidelines approved in Order No. PSC-08-0667-PAA-EI, each utility has been provided the opportunity to bring requests for modifying/deviating from a previously approved risk management plan to the Commission for consideration and approval. However, if a modification was intended to anticipate the most favorable point in time at which to place hedges or was based upon a forecast(s) about whether the utility expects markets to ultimately rise or fall, that would be considered speculative in nature (and may be inconsistent with Section IV (e) of the guidelines), and FPL does not believe that it would be an appropriate component of its hedging program.

Q.
Does Order No. PSC-08-0667-PAA-EI address a utility's ability to deviate from approved plans in order to take advantage of low market prices at any given time? Explain

A.
As discussed in response to Question 5, Section IV (f) of the Hedging Order Clarification Guidelines approved in Order No. PSC-08-0667-PAA-EI includes provisions that allow for a utility to both request a deviation from one or more of the guiding principles and request a modification or exception to a previously approved risk management plan. Theoretically, a utility could use these provisions to seek Commission approval for a deviation from its approved plan to take advantage of low market prices at any given time. However, as discussed in response to Question 5, neither Order No. PSC-02-1484-FOF-EI nor Order No. PSC-08-0667-PAA-EI supports the use of utility risk management plans to pursue speculative strategies.

Q.
If utilities were required to obtain Commission approval to deviate from hedging plans to take advantage of low market prices, how should that be accomplished procedurally?

A.
A utility has two methods available by which it could seek approval from the Commission for strategies and procedures intended to take advantage of low market prices when they occur. First, a utility could include a strategy and procedures for attempting to take advantage of low market prices as part of its risk management plan that is filed along with its annual Estimated/Actual Filing, which typically occurs in early August. If the Commission approved the strategy and procedures, then the utility could utilize them prospectively in an attempt to take advantage of low market prices. Alternatively, if a utility's then-current risk management plan did not contain a strategy or procedures for attempting to take advantage of currently low market prices, the utility could file a request with the Commission to deviate from the plan under Section IV (f) of the Hedging Order Clarification Guidelines approved in Order No. PSC-08-0667-PAA-EI. This request would then be reviewed and considered for approval. Because of market dynamics, the timing of approval for a deviation request would be extremely important. A very short review period, less than 30 days, would probably be necessary, and it is not clear procedures exist for the Commission to take definitive action in such a short time frame.

Please note that, as explained in prior responses, including strategies intended to anticipate the most favorable point in time during which to place hedges or predict whether markets will ultimately rise or fall would be speculative in nature, and FPL does not believe that such strategies would be an appropriate part of its hedging program.

Q.
Do the techniques and principles of hedging include the ability to respond to market prices at any given time to hedge more or less? If so, explain. If not, should it?

A.
Commission approved hedging principles properly do not support utilities randomly responding to market prices that currently appear to be "low" or "high". The guiding principle, as prescribed by the Commission, behind utility hedging programs is to reduce fuel price volatility. The programs should not include the ability to respond to market prices by trying to "out-guess" the market with strategies intended to anticipate the most favorable point in time to place hedges or predict whether markets will ultimately rise or fall, in hope of potentially returning savings to customers.

The primary objective of FPL's hedging program has been, and remains, the reduction of fuel price volatility. In general, FPL's objective is to limit the likelihood that its actual fuel costs in the hedged year will vary substantially from FPL's fuel cost projection for that year. Reducing fuel price volatility helps deliver greater price certainty to FPL's customers. As a consequence of volatility reduction, the hedging program will show savings in some years and losses in others, with the expectation that, over time, the cumulative impact of FPL's hedging program will be neutral and not result in significant savings or losses to FPL's customers.

Q.
Does your current hedging plan provide the flexibility to respond to current market prices by hedging more or less? Explain.

A.
FPL's current hedging plan provides a specified range of flexibility to respond to current market prices by including volumetric bands that allow for lower or higher hedge volumes to be executed in a particular period. However, FPL's current hedging plan does not provide the flexibility to speculate about the most favorable point in time to place hedges or predict whether current market prices will ultimately be "high" or "low," when compared to future prices.

After initial monthly target volumes have been hedged, rebalancing transactions are executed to maintain hedge percentages within approved tolerance bands. As stated in the annual risk management plan, FPL's projected hedge percentages are expected to change, within that specified range, from time to time due to rebalancing. The percentage changes are typically due to changes in market prices, which result in fuel switching opportunities that allow FPL customers to take advantage of lower cost fuel for generation, variations in projected unit outage schedules, or changes in FPL's load forecast.

Q.
Do current hedging plans prohibit your utility from responding to low market prices or otherwise acting to take advantage of time sensitive opportunities that would benefit customers?

A.
Current hedging plans do not prohibit FPL from responding to low market prices or time sensitive opportunities that could benefit customers. However, Commission orders do not support the inclusion of speculative strategies in utilities' hedging plans. FPL's current plan does not identify market price levels that would be considered as "low" or "high". Instead, FPL's approved plan includes a certain amount of flexibility that allows the utility to take advantage of relatively low prices and time sensitive opportunities which might occur during a specific month, while adhering to the overall strategy approved by the Commission during the annual fuel hearing.

The primary objective of FPL's hedging program has been, and remains, the reduction of price volatility. An attempt to capture "low" or "high" market prices for future fuel deliveries, with the intention of generating savings for customers in comparison to what spot fuel prices ultimately would have been at the time of delivery, would be purely speculative and the outcome would be unpredictable.

Q.

Given that the utility's risk management plan specifies ranges for the volumes of natural gas to be hedged, what are the factors influencing the percentage within that range to be hedged?

A.

FPL's risk management plan is designed with the objective of hedging a portion of its total projected annual natural gas volume requirements. These hedges are currently executed within a hedging window with transactions being executed during every month of the window.

Volume projections are dynamic and influenced by many different factors, including, but not limited to, customer demand, fuel-switching economics, planned outages, and system dispatch optimization. This implies that the program anticipates some variability in projected natural gas volumes over time. Additionally, FPL's projected load and fuel consumption have a strong seasonality component that influences the actual volume of natural gas consumed each month. FPL has been able to reduce the need to unnecessarily rebalance its portfolio by including tolerance bands around its hedge targets. During each month of the hedging window, FPL plans to hedge an amount that falls within a range around its target volume. This range provides FPL the operational flexibility to spread the hedges over the month and potentially avoid placing hedges on days when extraordinary events, such as hurricanes, create short-term aberrations in market prices.