Progress Energy

November 19, 2010

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COMMISSION CLERK

VIA HAND DELIVERY

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

Re: Fuel and purchased power cost recovery clause with generating performance incentive factor; Docket No. 100001-EI

Dear Ms. Cole:

Please find enclosed for filing on behalf of Progress Energy Florida, Inc. ("PEF") the original and five (5) copies of PEF's responses to Staff's Hedging Data Request in the above referenced docket.

Thank you for your assistance in this matter. Please call me at (727) 820-5184 should you have any questions.

Sincerely,

John T. Burnett LMS

John T. Burnett

JTB/lms

cc: Parties of Record

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PROGRESS ENERGY FLORIDA, INC.'S RESPONSES TO STAFF'S HEDGING DATA REQUEST
DOCKET NO. 100001-EI

GENERAL QUESTIONS

Q1. Do you believe there are problems with current hedging practices? If so, explain.

Response: PEF does not believe there are problems with current hedging practices.

Q2. 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B: need to be deleted, or are no longer applicable;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?

Response: PEF does not believe the checklist of hedging guidelines developed by the Commission for IOU's to follow should be revised, refreshed or deleted. The checklist provides an outline for the utilities to follow in its Risk Management Plan that is submitted to the Commission and Stakeholders, and provides a useful guide for the Commission to review the company's hedging activities. The Risk Management Plan identifies how PEF is engaging in competitive fuel procurement practices and activities and shows that PEF has the capabilities to perform active asset optimization and portfolio management activities to execute PEF's hedging program.

Q3. 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.

Response: PEF does not believe its hedging program should be modified at this time. Current practices result in a consistent approach to executing a structured plan and do not involve attempting to speculate or out guess the market.

Q4. 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?

Response: The purpose of PEF's hedging program is to reduce overall price volatility and provide greater price certainty over time for customers. PEF's structured plan does not involve speculating on prices or trying to out guess the market, and PEF's plan involves executing transactions over time within the parameters of its plan. PEF's structured plan design establishes target hedge percentages for natural gas, fuel oil and coal rail and river barge transportation and also states that PEF can make adjustments if needed to remain within targeted hedge percentage ranges. PEF established hedge percentage ranges provide a minimum volume of forecasted burns and exposures to be hedged over time with an emphasis on natural gas as it represents the largest fuel cost component. These ranges were established with some degree of flexibility and recognition that forecasted fuel burns can change over time due to deviations in forecasted burns caused by dynamic factors including, but not limited to, fuel price relationships, load variability and forecasted plant operations. As such, PEF has established targeted hedging percentages with established hedging ranges. PEF believes its plan, with the forward rolling 36 month period for natural gas, allows for some flexibility to hedge within its ranges. However, the current approved plan does not allow PEF the flexibility to hedge for periods beyond a forward rolling 36 month time period.

Per its Plan, PEF continues to layer transactions in the current lower market price environment as it works towards its targeted hedging percentages. For illustration of some recent hedging activities, PEF has executed the following hedging transactions:

- On November 3, 2010, PEF executed a hedge transaction for the period of April through October 2011 at $[redacted] per MMBtu.
- On November 12, 2010, PEF executed a hedge transaction for the months of January through March 2011 at $[redacted] per MMBtu.
- On November 15, 2010, PEF executed a hedging transaction for December 2010 at [redacted] per MMBtu.

These transactions were not executed because PEF believed or perceived natural gas prices are low; they were executed as part of PEF's on-going execution of its hedging plan.

Q5. 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.

Response: PEF believes that the answer to this question is dependent on particular facts and circumstances. As a general matter, and under typical conditions, it is not likely that PEF would seek to deviate from an approved plan. However, if certain facts and circumstances led PEF to believe that a deviation would be appropriate, PEF would make a formal request for review and approval to the Commission.

Q6. 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.

Response: In PEF's interpretation, Order number PSC-08-0667-PPA-EI on Exhibit 1 Section IV, requires the utilities to file exceptions or modifications to the approved Plan would need to be filed and approved by the Commission. As noted in general response

4 above, PEF does believe that its structured hedging plan with annual hedging percentage target ranges for each of the respective periods does provide it some degree of flexibility. In fact, one of the drivers of PEF's hedging percentage ranges in its Risk Management Guidelines for the various periods is to provide some degree of flexibility for dynamic factors that impact costs and forecasted burns.

Q7. 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?

Response: PEF believes that this question would need to be fully vetted and analyzed with all relevant stakeholders. In addition, low market prices are relative at any point in time and PEF's current activities are participating in the current lower price environment. However, if PEF desired to deviate from its Plan, it needs to be recognized that time would be of the essence in these situations. PEF believes that the process would need to include: 1) a standard of the type of transactions the Commission would consider if the utilities desired to deviate from its hedging plans; 2) a communication format procedure established so utilities could submit potential transactions to the Commission and quickly vet questions and data requests; and 3) timely approval or non-approval from the Commission.

QUESTIONS FOR IOU's

Q1. 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?

Response: A consistent hedging approach should be applied to meet the objective and benefit of hedging over time which is to reduce price risk and provide greater price certainty. A hedging plan should provide flexibility to respond to dynamic factors. As PEF's plan illustrates, the company believes this is accomplished by using minimum or targeted hedge percentages along with hedging ranges to provide some degree of flexibility.

Q2. Does your current hedging plan provide the flexibility to respond to current market prices by hedging more or less? Explain.

Response: As noted in general Questions 4 and 6 above, PEF believes its current structured hedge plan provides some degree of flexibility as it has percentage targets and outlined percentage ranges for the various time periods in its guidelines.

Q3. 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?

Response: No. For example, with respect to natural gas, PEF's current structured plan allows PEF to execute hedge transactions for a forward rolling 36 month time period. This provides benefits to the customer as PEF is reducing price volatility over time. Market prices can change and prices may go up or down further. The execution approach of layering in hedges over time in a non-speculative manner takes the guess work out of hedging and accomplishes the stated objective and purpose of hedging. In addition, as noted in general responses in 4 and 6, PEF is executing hedges for a forward rolling 36 month time period for natural gas and is executing hedging transactions in the current lower market price environment. Although not speculating on prices, all else being equal, lower prices may offer a utility the opportunity to hedge at higher percentage levels within its hedging range plan to provide greater cost certainty in uncertain markets.

Q4. 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?

Response: The target hedge percentage ranges of the forecasted annual natural gas burns are outlined in the PEF's Risk Management Plan and Guidelines. The primary drivers that influence the percentage to be hedged over time are: 1) the fuel mix makeup and 2) the phased execution of the layering in hedging transactions over time. Natural gas is PEF's largest fuel component and makes up a majority of the hedging activity. The hedging targets and ranges provide the basis for consistently executing PEF's strategy of layering in hedging transactions over time to reduce price risk and provide greater certainty for PEF's customers. PEF currently has a forward rolling 36 month hedging strategy for natural gas and has established annual targeted ranges that provide for higher hedging target ranges for annual periods that are closer to the delivery period and lower hedging target ranges for delivery periods that are further out in time. This approach will allow PEF to effectively execute a dollar cost averaging affect over time and allow it to participate in the current price environment.

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 19th day of November, 2010.

John T. Burnett LMS
Attorney

Lisa Bennett, Esq. Office of General Counsel Florida Public Service Commission 2540 Shumard Oak Blvd. Tallahassee, FL 32399-0850 lbennett@psc.state.fl.us	Florida Industrial Power Users Group c/o John McWhirter, Jr. McWhirter Law Firm P.O. Box 3350 Tampa, FL 33601 jmcwhirter@mac-law.com
James D. Beasley, Esq. Ausley & McMullen Law Firm P.O. Box 391 Tallahassee, FL 32302 jbeasley@ausley.com	Beth Keating Gunster, Yoakley & Stewart, P.A. 215 S. Monroe St., Ste 618 Tallahassee, FL 32301 bkeating@gunster.com
John T. Butler, Esq. Florida Power & Light Co. 700 Universe Boulevard Juno Beach, FL 33408 John.butler@fpl.com	J.R.Kelly/Charles Rehwinkel/Charlie Beck Office of Public Counsel c/o The Florida Legislature 111 West Madison Street, #812 Tallahassee, FL 32399 Kelly.jr@leg.state.fl.us Rehwinkel.charles@leg.state.fl.us Beck.charles@leg.state.fl.us
Ken Hoffman Florida Power & Light 215 S. Monroe Street, Ste. 810 Tallahassee, FL 32301-1859 Ken.hoffman@fpl.com	George Bachman Florida Public Utilities Company P.O. Box 3395 West Palm Beach, FL 33402-3395 gbachman@fpuc.com
Jeffrey A. Stone, Esq. Russell A. Badders, Esq. Steven R. Griffin Beggs & Lane Law Firm P.O. Box 12950 Pensacola, FL 32591 jas@beggslane.com rab@beggslane.com srg@beggslane.com	James W. Brew, Esq. c/o Brickfield Law Firm 1025 Thomas Jefferson St., NW 8th Floor, West Tower Washington, DC 20007 jbrew@bbrslaw.com
Ms. Paula K. Brown Tampa Electric Company P.O. Box 111 Tampa, FL 33601 regdept@tecoenergy.com	Keefe Law Firm Vicki Gordon Kaufman/Jon C. Moyle, Jr. 118 North Gadsden Street Tallahassee, FL 32301 vkaufman@kagmlaw.com
Ms. Susan D. Ritenour Gulf Power Company One Energy Place Pensacola, FL 32520-0780 sdriteno@southernco.com	Ms. Cecilia Bradley Office of the Attorney General The Capitol - PL01 Tallahassee, FL 32399-1050 Cecilia.bradley@myfloridalegal.com

Shayla L. McNeill, Capt, USAF c/o AFLSA/JACL-ULT 139 Barnes Drive, Suite 1 Tyndall AFB, FL 32403-5319 shayla.mcneill@tyndall.af.mil	Florida Retail Federation Robert Scheffel Wright/John T. LaVia, c/o Young Law Firm 225 South Adams Street, Suite 200 Tallahassee, FL 32301 swright@yvlaw.net