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J.R. Kelly
Public Counsel

March 14, 2008

Lisa C. Bennett
Senior Attorney
Office of the General Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 080001-EI - Fuel and purchased power cost recovery clause with generating performance incentive factor.

Dear Ms. Bennett:

I am writing in response to your letter dated March 4, 2008, to Public Counsel J.R. Kelly requesting comments on certain issues related to the Commission's fuel hedging policies. In some instances I have combined our responses to several of the questions.

Question 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?

Response: Yes, the calculation for mid-course corrections includes the effect of hedging gains and losses.

Question 2: Do you believe that a utility's ability to petition the Commission for mid-course corrections to cost-recovery factors, when conditions warrant such petitions, is beneficial to rate payers? to utilities? Please explain.

Response: Yes. A utility's ability to petition the Commission for mid-course corrections to cost-recovery factors, when conditions warrant, can be beneficial to ratepayers by reducing the amount of change at the subsequent cost-recovery factor setting and by providing customers a more current reflection of fuel prices. A more timely reflection of current fuel prices in electric bills allows customers to change their usage of electricity in response to the changes in the market price for fuel.

Question 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?

Question 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?

Combined Response: Although TFB-4 requires the companies to provide a number of disclosures (some of which the companies claim as confidential), we do not believe the full range of direct and indirect costs is reflected in the filings. Florida Power and Light Company's petition for an improved volatility mitigation mechanism, for example, concedes that indirect costs of hedging cannot be readily measured, but could be quite substantial. In addition to substantial indirect costs, there is always some degree of risk that a party to a financial swap would be unable to meet its obligations.

Question 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.

Question 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.

Question 7: If neither of the price volatility control methods described in Questions 6 and 7 are optimal, please describe the method which is optimal, then describe the second best method, and your reasons/rationale.

Combined response: We have reviewed the petition by Florida Power & Light Company with some interest and believe that it would be beneficial to see similar data from the other companies comparing fuel prices with hedging to fuel prices using the mitigation mechanism proposed by FPL. In particular, we would like to see whether data from the other companies supports a finding that a program such as the one proposed by Florida Power & Light Company would provide sufficient mitigation of fuel price volatility for the customers of the other companies.

Another possibility which might improve the current fuel adjustment process would be to eliminate hedging and to clarify that the Commission may choose the duration for collecting past under recoveries as the circumstances of each case dictate. By use of this tool, the Commission may be better able to provide customers with the benefit of reduced volatility in fuel costs without saddling customers with the costs and risks associated with the hedging programs. This approach would (1) allow the Commission, where appropriate, to spread costs over a longer period of time than is currently being employed by the companies in their hedging programs; (2) be tailored to the specific circumstances in any given case; and (3) eliminate the hedging risk and expense currently being borne by ratepayers.

Please contact me if you should have any questions.

Sincerely,

Charlie Beck

Charlie Beck
Deputy Public Counsel

CB:bsr