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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 170057-EI

ANALYSIS OF IOUS' HEDGING PRACTICES.
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PROCEEDINGS:	COMMISSION CONFERENCE AGENDA ITEM NO. 3
COMMISSIONERS PARTICIPATING:	CHAIRMAN JULIE I. BROWN COMMISSIONER ART GRAHAM COMMISSIONER RONALD A. BRISÉ COMMISSIONER JIMMY PATRONIS COMMISSIONER DONALD J. POLMANN
DATE:	Tuesday, April 4, 2017
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	LINDA BOLES, CRR, RPR Official FPSC Reporter (850) 413-6734

P R O C E E D I N G S

CHAIRMAN BROWN: And then we're going to circle back to Item 3, which is the hedging. And I believe we have several parties who would like to address us.

It looks like everyone is situated, so we will start with staff to introduce the item. Mr. Barrett.

MR. BARRETT: Good morning, Commissioners. Michael Barrett with AFD staff.

Item 3 addresses fuel hedging matters for the four generating IOUs in Florida.

Issue 1 is a policy-oriented issue that asks whether hedging activities should be continued, and your decision in Issue 1 will impact Issues 2 and 3.

Issue 2 asks whether changes should be implemented to the fuel hedging programs, and staff has identified three options for you to consider.

Issue 3 addresses implementing matters for the decisions reached in Issue 2.

Technical and legal staff are here for your questions. Several interested persons are present today and wish to address you this morning.

Last, an oral modification was distributed to all Commissioner offices and was placed in the docket file. The modification corrects scrivener's errors but has no impact on any of staff's recommendations.

CHAIRMAN BROWN: Thank you. And so I see that we have FPL, Duke, TECO, I believe Gulf Power, Public Counsel, FIPUG, and Sierra would like to address the Commission; is that correct?

MR. SAYLER: Yes, ma'am.

CHAIRMAN BROWN: Okay. I'm not going to put a time limit on it, but I am watching the clock. And recognizing this is a major policy decision for the Commission to consider, I'd like to give you all an opportunity to speak. It looks like you're in the order of which you would like to address the Commission, so I'll start with TECO, Mr. Beasley.

MR. BEASLEY: Yes, ma'am. Thank you.

I'm Jim Beasley for Tampa Electric Company. With me at the table this morning is Penelope Rusk, Manager of Rates for Tampa Electric Company. We also have Brent Caldwell, Director of Fuels and Planning Services for Tampa Electric. We appreciate the opportunity to appear before you.

We would like to speak in favor of the out-of-money call option proposal put forth by the four utilities. That approach has the following attributes:

First and foremost, the call option approach will achieve two key goals for hedging as we perceive them, the first of which is the call option approach will protect customers from price spikes in the natural gas market. The call option approach will also avoid hedging settlement losses when the price of natural gas declines. These settlement losses have been a major point of contention and criticism by various intervenors before the Commission.

Mr. Gettings' approach would continue to use swaps, which would continue to expose customers to potential hedging settlement losses. The call option approach would be far easier to implement, less complicated, likely less contentious than the risk-responsive proposal advanced by Mr. Gettings.

The call option approach will also be quicker and easier to implement by the utilities, and that approach has the unanimous support of the four utilities who would be required to implement whatever hedging decision that the Commission may reach.

The company did some back testing analysis showing that the out-of-money call options would have performed better than the legacy swaps program over the last 12 years, and the cost of the call option premiums was included in the results presented by Tampa Electric at previous workshops.

So for these reasons, we would urge the

Commission to approve the out-of-money call option proposal put forth by the IOUS to replace the swaps-based hedging procedure that has been in place and which is in moratorium for all of the IOUs for 2017.

I thank you for your attention, would be happy to answer any questions you may have.

CHAIRMAN BROWN: Thank you.

MS. TRIPLETT: Good morning, Commissioners. Dianne Triplett on behalf of Duke Energy Florida. Thank you also for the opportunity to address you.

I first want to say that Duke Energy continues to believe that whether we should continue hedging is a policy decision and it's yours, so we would be fine if you decided not to continue hedging.

But if you do continue hedging, it's important to structure it in a way that's -- that is fair to all. And really the most important attribute of any hedging program is there must be a clearly defined box or set of principles that all the utilities and all the parties understand that we will all stay within to hedge. And this allows for the most transparency and reduces the likelihood that there will be second-guessing after the fact with the benefit of perfect knowledge of the markets.

It is difficult for us to get those parameters set ahead of time under the Gettings approach. There are too many variables, too many individual decisions that must be made at various points in time, and it's a really complicated system of measuring and interpreting market signals to guide those responsive actions.

But by contrast, we are able to define that box with the out-of-the-market call option option that the utilities are advocating. A range of OTM thresholds or budgets can be clearly defined, executed by the utilities, and then reviewed by the Commission to confirm that the rules were followed.

I'm not going to repeat all of the comments that Mr. Beasley made about the benefits of our option because we agree with them, but the one thing that I would say is that the OTM call option is also a risk-responsive approach. We would use the value at risk of the bar metrics to set -- to help to set those thresholds which would be set forth in the risk management plan, and then when we execute on the hedges and work the plan, we can adjust the dollars and the levels again within that range based on the prevailing market conditions.

So in sum, if you believe hedging is still the appropriate thing to do -- again, still your decision -- we urge that the OTM call option be adopted because it really is the best of both worlds and it achieves the same objectives in a less complicated manner. Thank you.

CHAIRMAN BROWN: Thank you, Ms. Triplett.

Mr. Butler from FPL.

MR. BUTLER: Thank you, Madam Chair. Thank you for this opportunity to comment on staff's recommendation.

As you know, FPL is currently subject to a moratorium on hedging under our rate case settlement. However, if the Commission decides to -- excuse me -- decides that hedging should continue, we plan to resume it after the settlement period. And so we're very interested in whatever policy decisions you make today and going forward.

I'd like to compliment staff on preparing a good, thorough recommendation that lays out the issues in considerable detail, and FPL agrees with staff on Issue 1 that fuel hedging should continue if we can agree on what the right tools are for doing it.

The range of options presented by staff in the discussion of Issue 2 we also feel is appropriate. While it's not exhaustive, I think it effectively illustrates the available approaches that the Commission should consider.

And FPL understands that the Commission may want to refine the goals of hedging. As noted in the staff recommendation on page 13, FPL believe that a reasonable refinement would be to seek to protect customers against large price increases, while minimizing losses when natural gas prices decline. But FPL continues to believe that a call option strategy, as Mr. Beasley and Ms. Triplett have referred to, is a superior way to do so.

Fundamentally FPL's concern is that in spite of reassuring references to action boundaries and response strategies, risk-responsive hedging appears to entail a large and inescapable element of trying to outguess the direction and timing of market changes. This concern applies to the defensive and contingent elements of the risk-responsive hedging proposal, not just the so-called discretionary hedging element.

From the outset, this Commission has consistently found that IOU fuel hedging programs should not be about outguessing the market. For example, in the 2008 hedging guidelines approved by the Commission, one of the guiding principles was that, quote, a well-managed hedging program does not involve speculation or attempting to anticipate the most favorable point in time to place hedges. That guiding principle is just as sound today as it was in 2008, and we feel that it's directly at odds with how risk responsive hedging would work.

There are a few specific points that FPL would like to address briefly in staff's recommendation. First and foremost, I think there is a significant misunderstanding in staff's discussion of Table 2-2 on page 22 of the recommendation which compares the performance of hypothetical risk-responsive and call option approaches over the decade from 2007 to 2016. Staff talks about the large expenditures that would be required to buy OTM call options but does not point out that the cost of those options is already reflected in the total cost per MMBtu shown in Table 2-2.

So what Table 2-2 actually shows is that over the last decade, the call option strategy would have been cheaper for customers than risk-responsive hedging, both on average for the decade, $4.67 versus $4.95, and in seven out of ten years. And let me reemphasize, this is after fully taking into account the cost of the call options.

In view of the call option strategy's clearly superior economic performance, the comment on page 25 of the staff recommendation that it is economically inferior to risk-responsive hedging is, frankly, puzzling and insupportable.

Also puzzling is the comment on page 25 of the recommendation that it is conceivable that in stressful market conditions call options would be unavailable at any price. While this is theoretically true, FPL offers two observations that call into question the usefulness of this theoretical point.

First, the decade from 2007 to 2016, which is reflected in the Table 2-2, had some pretty stressful market conditions in it, and yet call options were not only available but, as shown on that table, generally would have been a more favorable alternative for customers than risk-responsive hedging.

Second, if market conditions became so extreme that call options were unavailable at any price, we would reasonably expect that during such extreme conditions a utility would encounter similar difficulties executing the additional swaps or buying put options that would be required to implement the defensive element of risk-responsive hedging. So if things are really that out of control, I don't think that the risk-responsive approach offers a viable alternative either.

Starting on page 19 of the recommendation, there's a discussion in some detail of a recent order of the State of Washington Utilities and Transportation Commission on risk-responsive hedging; however, it's important to understand some key issues and concerns about that order.

First, the State of Washington doesn't provide a roadmap about how to implement risk-responsive hedging. Rather, it tells the Washington utilities to try to go out and find a roadmap. The State of Washington provides no guidance or comfort as to how a utility might specify the operating parameters for a risk-responsive hedging program in a manner that would simultaneously keep an IOU's exposure to prudence risk low and at the same time provide the flexibility needed to respond to market conditions.

Finally, the State of Washington contemplates that utilities would develop their risk-responsive approach over up to three years. That's a long time to wait, and there's no real guidance given as to what's supposed to happen in the interim.

Staff's recommendation asserts on page 19 that regulated utilities in a few other states have used risk-responsive hedging, but due to confidentiality concerns, neither staff nor Mr. Gettings can reveal anything about how they implemented it or what the results have been. That missing information is exactly what the Florida IOUs and this Commission would need in order to properly evaluate risk-responsive hedging.

And I'd say especially challenging is the fact that so far as FPL has been able to determine, no IOU anywhere, including in the State of Washington, has implemented the contingent element of risk-responsive hedging, and that's the element that most directly addresses what we understand to be the principal concern here, which is how do you avoid having substantial hedging losses in a declining gas market?

So to summarize, FPL supports continued fuel hedging using the right tools. If the Commission wants to move away from the prior approach of agreeing in advance to an annual target percentage of gas burned to be hedged with financial swaps, then we believe that a call option strategy would be the best alternative. And I thank you again for the opportunity to make these comments.

CHAIRMAN BROWN: Thank you, Mr. Butler. And I do have Gulf Power on here next, but given the most recent vote, I don't know if they are inclined at this point to speak. And I'm seeing a head shake no, and so we will move on to Office of Public Counsel.

MR. SAYLER: Good morning, Madam Chairman. I gave some exhibits to the Commission staff to pass out to the parties, so I will give a moment.

CHAIRMAN BROWN: Thank you. Just one moment. I knew there was going to be a handout. I knew it.

MR. SAYLER: Absolutely.

CHAIRMAN BROWN: I was hoping for one.

MR. SAYLER: A picture is worth a thousand words.

CHAIRMAN BROWN: I do like pictures. All right. It looks like we all have it. Please proceed.

MR. SAYLER: Okay. Certainly. Good morning, Madam Chairman, Commissioners. My name is Erik Sayler with the Office of Public Counsel on behalf of the customers.

I do have some brief comments about Issue 1 as well as a four-page handout which you currently have. And let's take a look at this handout. The first three pages come from the United States Energy Information Administration. They are from their 2017 outlook. They show the long-term EIA forecast for the price of natural gas on page 1, as well as the total supply of natural gas which the EIA forecasts through 2050.

As you can see on page 1, the EIA is forecasting that gas prices should remain under $6 per MMBtu for at least the next 20 years. As you can see in the near term, there's a slight increase in the near years; however, there's really no projection of price volatility over this entire period.

Pages 2 and 3 show that the EIA is also projecting a long-term plentiful supply of natural gas available. And the next page is the same total supply but overlaid with the gas supply expected for the electric power industry as well as gas for export. I know there's been some concerns that as we start exporting natural gas, that will be a game changer in the market. But as you can see, the EIA says it's a very small amount, and there's quite a bit available for the electric industry.

For his testimony, OPC expert witness Dan Lawton relied upon the EIA for his assertions that long-term -- that there is a long-term plentiful supply of natural gas for his recommendation that there -- that hedging is no longer needed at this time.

Now at the last page of our handout is an excerpt from staff's page 22 from staff's recommendation. It's the Table 2-2 which Mr. Butler shared with you earlier, and FPL developed it as a part of their argument to show or to demonstrate the IOUs' out-of-the-market call option approach is superior to Gettings' risk-responsive approach. But as I read it, and I added the green highlighting, the main takeaway from this chart is the fact that in nine out of the last ten years customers would have been better off without either hedging alternative.

Now regarding Issue 1, is it in the customers' best interest to continue hedging at this time? For the reasons stated in Mr. Lawton's 2015 testimony and 2016 testimony as well as our comments that we filed last month, we believe the answer remains, no, at this time hedging is not in the customers' best interest. The information supplied by the EIA demonstrates that natural gas prices and supplies should be relatively stable through the 2050 timeframe.

So the question is why does Public Counsel believe hedging is not in the customers' best interest at this time? In addition to the data from the EIA, the Commission already has two very effective volatility response policies or mechanisms. First is the annual resetting of the fuel factor in the fuel cost recovery clause docket, and the second is the midcourse correction rule.

The stated purpose of hedging is to reduce fuel price volatility, but we believe that the prime goal and priority of any volatility response policy should be mitigating price volatility as experienced by the customers, and that is most often done through a change in the fuel factor.

The resetting of the fuel factor annually in the fuel cost recovery clause provides customers with a constant price for the 12-month period. It doesn't change. Customers can -- large customers, like Mr. Moyle's customers, can find out what the factor is and plan for it and budget for it, and the residential customers have the ability to know that they can manage their fuel because the price isn't going to change on a month-to-month basis. Any peaks or valleys in pricing being experienced during this year by the utilities when they're purchasing natural gas at market prices do not affect the price that customers are paying; therefore, there is no volatility impact to the customers.

In addition, the annual fuel factor also includes over- and under-recoveries from prior years not yet recovered; however, the fuel factor will not change absent extraordinary circumstances. Therefore, the annual setting of the fuel factor is the most effective tool this Commission has to mitigate fuel price volatility experienced by the customers.

The second tool the Commission currently possesses to combat volatility is the midcourse correction rule. It addresses anything that could change the price of fuel by more than 10 percent for the remainder of that particular year. This rule is straightforward. All the parties are very familiar with the process.

Another question to consider is: Are there any alternative volatility response policies other than hedging for this Commission to consider? And the answer is yes.

If the Commission needs another tool for mitigating fuel price volatility experienced by the customers, the Commission has the discretion to spread large under-recoveries over a longer period of time than just one year, which is typically done through the fuel clause.

Staff's recommendation on page 3 calls it alternative accounting treatment for recovery of gains and losses. FPL first proposed this tool in 2008, calling it a volatility mitigation mechanism.

Now at the workshop, some investor-owned utilities had a concern that utilizing this type of mechanism could cause pancaking of year-over-year under-recoveries and have a negative effect on customers. OPC submits, however, if the IOUs are accurately and adequately forecasting changes in the price of natural gas, then pancaking should not be a concern in the following year.

Therefore, since the Commission already has two very effective volatility response tools in its toolbox, OPC continues to believe that under today's economic climate and the long-term projections of the Energy Information Administration in terms of both the price and quantity of natural gas, all hedging activities should be discontinued at this time. The Commission should deny staff's recommendation on Issue 1 and find that hedging at this time is not in the best interest of the customers. As for Issues 2 and 3, we don't have prepared remarks, but can respond as needed. Thank you very much.

CHAIRMAN BROWN: Thank you, Mr. Sayler.

And Mr. Moyle.

MR. MOYLE: Thank you, Madam Chairman, and thank you also for, in your introductory remarks, indicating that there's no time limit. I'm not going to abuse that, but I do think that this is a very important issue that my clients, the Florida Industrial Power Users Group, who are large users of electricity 24/7, electricity is a big variable cost that they have had concerns about hedging for some time. And as Dianne Triplett with Duke said, this is, you know, your policy call. And your policy call is, you know, if you want to continue hedging, you know, then that's a choice. We would suggest that you discontinue hedging for a whole lot of reasons that I will go into.

But I think it's helpful, because, you know, you do -- you are confronted with a policy decision, to try to go back in time a little bit and rather than just look, okay, you know, here's what we have in front of us right now, to take a little bit of a broader look at this and a broader perspective.

And this Commission has been in existence for a long, long time and has regulated a lot of businesses, many of which it doesn't regulate now, and my understanding of why it's in existence is, is because when you have monopolies, you need to come in and replace market forces with regulations. You just had the Gulf rate case settlement. You know, Gulf is a monopoly. You come in -- you know, we reached a settlement and you approved the rates. That is a core regulatory function, I would suggest and argue.

Compare and contrast hedging to that, and I don't believe that this Commission has a long history of supporting hedging. And I would argue that hedging is not a core regulatory function that's part of what you, what you do. There are market prices that are out there. There's markets for that. And where markets can work, they should be allowed to work.

I think it's helpful to go back probably 15 years ago. That's when this Commission first put in place a hedging policy, 2002. And some things that were happening in 2002 is you had natural gas prices moving considerably. The technology that is talked about a lot today, hydraulic fracturing, was not in existence and there was not solar energy that was widely available.

Now if you look and go -- fast-forward to what you are confronted with here today is you have an extraction technique that has proven to be very beneficial and useful to getting additional natural gas from domestic resources. We used to have to import a lot of, a lot of energy sources. Now with hydraulic fracturing, it is producing a ton of natural gas. Now my colloquial "a ton of natural gas" is supported by Mr. Sayler's chart that shows what the federal government is suggesting with respect to, to natural gas and how it looks moving out, and there is a ton of natural gas as it moves out.

Another thing is solar. Solar is moving very rapidly. People are putting new solar in. Tampa Electric Company recently put in place a new solar facility. FPL, I think yesterday, made an announcement that they are going to continue to move aggressively with solar beyond what was in the settlement agreement.

So, you know, these are key factual changes. I think it's incumbent on you to make a policy decision based on the current facts on the ground, not facts 15 years ago with respect to natural gas.

Hedging has, since it's been implemented in 2002, has never worked very well. You all have looked at the issue a few times. There was the 2002 initial order. In 2008 there was a review and some tweaking was done. In 2015 you looked at it again, and then in the last fuel clause you suspended hedging. The parties entered into an agreement and said no hedging for 2017. That was the position FIPUG advocated. We entered into the stipulation and said, "Okay, we're good on stopping the bleeding for 2017," and we think that policy should continue.

The question about is this in the consumers' best interest, number one, which is where these comments are focused, you know, we think that the answer is an unequivocal no on that. And respectfully, you know, the utilities have a different point of view, but we would encourage you to listen to hopefully the strong, clear voice of the consumer advocates, the Office of Public Counsel, charged statutorily with representing all the consumers of saying, "No, we don't want hedging," the Industrial Power Users Group saying, "No, we don't want hedging." I think the Retail Federation in previous dockets has said, "No, we don't want hedging." And so we think that voice should be given serious and strong consideration.

The losses have been significant. FPL made a filing yesterday, just yesterday, and recounted their hedging losses, their most recent round of hedging losses. It's $223 million is how I read the testimony. But that gets added to years and years and years of cumulative losses.

Mr. Kelly was testifying in front of a House committee last week and used a $6.7 billion figure in cumulative losses since 2002. You know, if you add the 223 from FPL's most recent filing of yesterday, you're getting close to a $7 billion number in cumulative losses. And the 233, FPL is admittedly a larger utility, but all of the work that just went into the Gulf rate case, I mean, they were asking for 106 and they got 63. And then all of the sudden FPL comes in yesterday and says, "Yeah, the hedging, you know, another 223 in losses." And that means increased rates. Just because they say "losses," well, that means that in the fuel clause the customers are going to have their rates increased.

So my client has said, "We prefer to use the market, we'll pay at the pump," and that's the position that we would maintain.

I don't think that the utilities -- it's not their core business practice. I don't think -- and respectfully, I mean, this hedging is a tough issue. You know, you looked at the analysis and there's very smart people, but it's a tough issue. I don't think that they're that good at it. I mean, it's not their core business. The Commission has said, "Do it." But when you look at the results, you know, they're not something that you would shine up and say, "Oh, this is" -- hold up and say, "This is really, really good."

And even, you know, when you have these losses, somehow you say, "Well, this actually benefited the ratepayers." My ratepayers aren't feeling it when they say, "Oh, you benefited by the $223 million in losses."

A couple of final points, if I could. You just approved the settlement with Gulf. That settlement has a provision that says no hedging. I think it's through 2021. Mr. Butler referenced a similar provision in the FPL settlement. So contractually through settlement agreements there's no hedging for the state's largest utility, which has, I think, half the customers, and Gulf Power. We think that the proper policy decision would be to continue with the stipulation that's in place to say no hedging, and so that's what we would ask of you.

If you decide to go in another direction, again, respectfully I would think you would want to set it for hearing. All of these are very good lawyers, but they're not hedging experts. And you're being presented with three options. I sat through all these workshops. They're long, they're involved, they're complicated. It's challenging to understand all of the ins and outs. And if you are going to move forward with one of these other options, I would say it would be recommended that you get experts in here, you get facts in here, and you make a very informed decision, you know, not dissimilar from, like, a rate case. You get all this information and then you can make a judgment.

I'm hoping that the arguments that I'm making today will persuade you to just say, "Okay, let's shut it off. Mr. Sayler is making the point we don't need this, it's not volatile, it's not part of our history that we've done this for a long time, and we think the best, the best course is to cease it."

You know, somebody has said, "Oh, hedging is about minimizing customer pain." Well, customer pain is being inflicted considerably now, you know, to the tune of nearly $7 billion, and we would ask that simply it stop.

I'm going to close and conclude with an analogy. It doesn't involve a car, but I think that the analogy hopefully will make a point. I have friends who sometimes visit casinos, and --

CHAIRMAN BROWN: Friends.

MR. MOYLE: Friends. (Laughter.)

And there's a lot of rules in a casino when you are engaged in different games, and there also are some rules that people, my friends who visit the casinos often employ when they go into a casino. And one of those rules is to set the limit of your losses before you go into the casino.

And I would suggest that, you know, hedging has some similarities in that you are making bets on which way markets are going to go. I know that it's not speculative, but you're in the market, you're trying to do things that most people looking at a hedge would say, "Yeah, it's a bet."

But this Commission and the utilities have not set a limit for the losses, and they continue and continue and continue to mount. I think when we first had this conversation, I don't know exactly, but I think the, you know, the cumulative loss number started with a five, in the 5 billion range, and in the last few years we've had more and more losses and we're getting close to 7 billion.

So we would respectfully suggest that maybe the $7 billion limit is the analogy to the limit with respect to going to the casino and we say, "Let's get out of this casino right now, and let's get out of this hedging right now." We know that if we're not hedging, we won't continue to suffer losses. And I think that the chart Mr. Sayler provided, on his last page it shows that nine of the last ten years we'd have been better off paying market prices.

So thank you for the extended time to make these comments. FIPUG respectfully suggests and urge that you all discontinue hedging. And if you don't discontinue hedging, then set this for hearing and get all of the experts in and they can, I think, give you a picture of this that is probably a little more clear and technical than the lawyers you've heard today. So thank you, and I'm happy to answer any questions.

CHAIRMAN BROWN: Thank you, Mr. Moyle.

And last, but not least, is Sierra Club.

MR. GOLDSTEIN: Thank you, Madam Chair. Thank you, Commissioners.

I just want it to be clear that it's the

Sierra Club's view that hedging is a raw deal for Florida's customers. But part of the reason for that is that we're faced with utilities that are now over reliant on natural gas. If the real goal here is to limit customer exposure to pain from volatility in natural gas markets, then part of the consideration should be reducing the reliance on those gas markets, instead of holding them captive by generating up to 70 percent of your electricity from a single fuel source.

Now while the IOUs and staff both proposed separate recommendations, the call options and the risk-responsive approach, neither of these are so different in kind from the past practices to ensure that we won't continue to see mounting losses, that customers won't be asked to continue to throw money at a problem that they can't possibly solve in that way.

Instead, the Sierra Club hopes that the utilities and the Commission will see the value of taking two different steps. The first would be diversifying with zero fuel renewables. As Mr. Moyle just pointed out, solar is an emerging and powerful player on the market today. There's great potential here in the state. And while we applaud some of the efforts that the utilities have recently made to move in that direction, more can be done, and this would benefit customers by reducing their reliance on natural gas.

And the second would be to invest in energy efficiency. Energy efficiency can help to insulate ratepayers from wild swings in natural gas prices because they just use less of it. So what we're really looking at is what is the impact going to be on each individual's pocket, and that should be the concern here.

Now there are clear measures that can be taken that will have lasting benefits. The two that I just described can be put into place. A utility-scale solar farm has a useful lifetime somewhere in the course of 20 to 25 years. Energy-efficiency improvements, less multiple years. So these are measures that can be taken that will have a significant benefit to ratepayers in their monthly bills not just for one year but for years and years to come.

We'd also like to emphasize that hedging does nothing to address the environmental risk that's inherent with burning natural gas. Not only does operating a large natural gas plant require millions of gallons each day of groundwater to operate, but it's also a key contributor to climate change and a key emitter of greenhouse gases. Florida is a state that is uniquely aware of the risk of rising sea levels and of an increase in more powerful storms.

We hope, again, that the Commission will take the steps necessary to move away from such a uniform generating portfolio and that, in doing so, it will benefit customers and address the goals that they're attempting to address here today. Thank you.

CHAIRMAN BROWN: Thank you for your comments. And I want to thank all the parties for their participation in the workshops and the discussion and the meetings with staff and, of course, staff for the time that's been spent on this matter that's been going on. A lot of attention has been on it over the past year or so, and not just in the state but across the country people are -- commissions are having discussions on hedging with the natural gas prices so low and with an abundant amount of domestic supply. So this is a very relevant issue. It's a major policy decision.

And what's before us today, Commissioners, as you all are aware, the proposals -- the parties are pretty far off here. As Mr. Moyle said, this is a tough issue. Mr. Gettings' analysis was very thorough, very complex. I think recognizing the fact that whatever decision we take today, it's pretty clear, given the parties' positions, that it will be protested and it will most likely go to hearing. As Mr. Moyle also indicated, it would probably be most appropriate to just set this matter straight for hearing so we can take additional testimony, we can -- the parties and staff can conduct additional discovery so that we can make a most informed decision based on the issues.

The proposal by the utilities, again, recently just came to light, so it would be nice to have a little bit more time for our staff to do discovery on that. So my suggestion, although Mr. Moyle beat me to the punch, was really to go ahead and set this straight for hearing. We have September 27th and 28th already set aside for consideration of this, and I just wanted to open that up on the floor rather than get into the proposals being considered today.

Commissioners, any thoughts on that? Commissioner Graham followed by Commissioner Brisé.

COMMISSIONER GRAHAM: Thank you, Madam Chair. First, I want to apologize to Mr. Moyle. When he was in the middle of giving his speech, I noticed everybody's eyes must have looked this way because he turned back over his shoulder to look, and our old general counsel, Curt Kiser, walked in.

CHAIRMAN BROWN: Old? Former, former.

COMMISSIONER GRAHAM: Former. I didn't realize, I didn't realize it was that obvious until I saw Mr. Moyle look back over his shoulder, and I thought -- I guess all of the sudden all of our eyes went away from him. So for that, I apologize. Of course, I was wondering what did we do wrong that our general counsel had to come back here?

(Laughter.)

There's a lot of great points here. It's funny that so many people focused on this chart, 2-2. My office and I spent a lot of time looking at this chart and came to a lot of the same conclusions.

I guess my first question is going to be to Mr. Butler. The second column on this chart where the market settlement price is on this chart, is that -- the old way of doing hedges, basically you buy what the price is going to be tomorrow. And is this chart just an annual average of what those -- what that -- what would have happened if we had done that?

MR. BUTLER: That's right. It is just -- you know, pick 2007. As I understand it, if you took all the actual daily spot prices in 2007, averaged them, you'd get the $6.86 figure that's there.

COMMISSIONER GRAHAM: See, because my biggest concern, and I went around and around with staff on this one, is everything I keep hearing all the time is when this big spike comes, no one is going to know how to react to it. But if you look at 2008 when, quote, that spike came, it was over 30 percent, look at how both theories or both choices, how they both reacted. And then if you look the year after that, in 2009, where that price dropped about 50 percent, same thing. And look at the lag in that sort of thing.

I mean, I agree that there probably needs to be some sort of a hedge. I'm not convinced that either one of these choices are the right one. I mean, I think we need to do more than what we have been doing because it seems like what we've been doing before is picking a number and just staying there and not reacting to, you know, a market that's diving. And I understand that, you know, we need to take the guesswork out of it and I'm fine with that, but we've just got to do better than what we have been doing.

MR. BUTLER: That's a good point, Commissioner. We addressed in our written comments to some extent what you're getting at there. And, frankly, what we don't have in that time period is a long duration spike of the prices. They tended to go up very quickly but then came down fairly quickly. So the actual average over the course of the year wasn't that high. That was a good thing for customers. It's not something that can be, you know, guaranteed or necessarily expected. And I think where either of the hedging approaches that are being, you know, summarized here would have been quite effective is if you had had prices go up substantially and stay up substantially for a year or a couple of years. I think they would have been very effective in that period. But that's a lot of what's responsible for the phenomenon you just described.

COMMISSIONER GRAHAM: I understand when this thing -- when something spikes, the utilities are basically the buffer that's there because you guys are going to have to handle the spike until you come in to us and for everything to get trued up. And so -- and I guess we haven't done, you know, coming in many, many, many times a year. It's an annual thing, sort of thing now. But I still understand that you guys are kind of the buffer that's there. I don't know what the right answer is, and I'm agreeing with -- I can't believe I'm saying this out loud -- with Mr. Moyle, that, you know, maybe we need to get some more facts in here.

In here it said that we couldn't get any actual number from Gettings, and I can't see why for a hearing that we can't get the confidentiality and get these numbers in so, you know, it's not going to be out in the public but we can actually see -- you know, if this guy's got his super-duper method, let's see what it's -- how it's actually working, you know, in the field. And, you know, so I think by doing all that and going to hearing for all this stuff, maybe we'll get some more numbers in front of us.

I almost hate saying this because it seems like we've been doing this the last two or three years, it seems like, well, let's kick the can a little further down the road again. And -- but it's frustrating because it doesn't seem like we have everything we need when we get to this point. So I agree with you, Madam Chairman.

CHAIRMAN BROWN: Thank you.

Commissioner Brisé.

COMMISSIONER BRISÉ: Thank you, Madam Chair. Not to say ditto to what Commissioner Graham has said, but I think that, you know, there's obviously an interest by the consumers for us to take a deep dive. And I appreciate the work that staff has done, I appreciate the work of the workshop, but for me the dive isn't deep enough for me to arrive at a decision today.

And I think that if we went to hearing, we would be able to go through the testimony, ask the questions, and hear the back and forth through the questioning that would put us in a better position to arrive at a reasonable decision.

Personally, I think there may be some value to hedging. The question is what is, what is the, what is the right amount in terms of what percentage should be considered to be hedged, and if we're going to move forward with a percentage and so forth, what mechanism should be used to do that. And for us to actually arrive at that point, we have to -- from my perspective, we probably need to go into it a little bit deeper, or it -- you know, it may just turn out that after we hear all the testimony that, look, for our situation where we are today, it may not make sense for us to move forward with hedging. So I think that, I think it's probably appropriate for us to move towards a hearing.

CHAIRMAN BROWN: Commissioner Polmann.

COMMISSIONER POLMANN: Thank you, Madam Chairman.

CHAIRMAN BROWN: Microphone, sir.

COMMISSIONER POLMANN: Thank you, Madam Chairman. To say the least, this is complex, as has been noted by the parties. And I do want to recognize the parties' considerable effort and the coordination in the workshops. As we've seen, financial hedging enjoys many opinions, and on a good day, it's controversial.

The question that's posed in Issue 1 seems straightforward, and the simple answer is yes, as the staff recommendation is posed. But my concern is that there's a great deal of understanding, as has been reported and discussed in the media, you know, should we continue hedging, and I don't want that to be misunderstood in the public arena. Because if we were to take action today, I think that's what will be heard, continue hedging and continue losses, and there's so much more to the story.

And I think the Item 3 comes as a package. All of the issues should be on the table and discussed in total. And it would be difficult for me to move forward with a complete understanding of all of this as a package, and I think we do need more information and more discussion and discuss this all together with all of the issues within this item.

And the staff has done a great job, but there's 31 pages of information here. So I would support a bit more discovery and a greater deal of understanding. And I would refer to the language that is attached to the recommendation, the discussion of economic efficiency. I had some discussion in briefing that was very informative with staff.

And if I could take just a moment, if we look at page 26, and this follows all of the material that is in reference to Issue 2, it's three sentences in here. Staff believes the Commission should not be overly prescriptive, we've heard some of that from the parties, regarding the hedging strategy.

Staff believes the IOUs should have reasonable plans for dealing with market volatility and unexpected price shocks. We've heard that from the parties.

I think we would come to some conclusion, everyone could agree the IOUs should strive to balance the risk of price spike with customer concerns about losses. These are all consistent. But I don't think we can deal with that piecemeal, so I would support the notion of putting the whole package together and moving forward that way.

CHAIRMAN BROWN: All right. Thank you, Commissioner Polmann. So it sounds like there seems to be consensus on sending this straight to hearing. So what that would in effect do would obviate the need for Duke and TECO to file their 2018 risk management plans, which are supposed to be filed July 27th. So as part of a motion to set this straight to hearing, I would suggest having the Prehearing Officer to deal with the risk management plans in the fuel docket, be included in the motion to set it straight for hearing. Again, the dates that we have already calendared are September 27th and 28th.

Commissioner Graham.

COMMISSIONER GRAHAM: Thank you, Madam Chair. I was going to ask staff what do we need to do, and I think you handled some of that as far as the motion moving forward. But since you're going to leave it to the Prehearing Officer, I'll leave it to him to make the motion.

CHAIRMAN BROWN: That would be Commissioner Brisé. So Commissioner Brisé has been a champ. He has taken on the clauses again. I asked him to do it this year, and he agreed to do it. And I knew it was going to be a challenging year. So just I publicly want to thank him. He is just always a team prayer and always takes the challenging dockets. So Commissioner Brisé.

COMMISSIONER BRISÉ: Thank you. So in terms of the motion, I guess it's appropriate to move that we move this item straight to hearing and that we allow the Prehearing Officer to address all the issues related to all the fallout issues and all the dockets associated with the fuel dockets -- in the fuel clause rather.

CHAIRMAN BROWN: Staff, is that sufficient?

MR. HETRICK: That's correct.

CHAIRMAN BROWN: Thank you.

All right. Is there a second?

COMMISSIONER GRAHAM: Second.

CHAIRMAN BROWN: Any further discussion? Is everybody clear on the motion?

COMMISSIONER GRAHAM: Question.

CHAIRMAN BROWN: Question, Commissioner Graham.

COMMISSIONER GRAHAM: Does this mean that we are still suspending hedging until after the hearing?

CHAIRMAN BROWN: That would be a yes.

COMMISSIONER GRAHAM: I just wanted to make sure that --

MS. BROWNLESS: Well, it would be suspended through -- they would be not required to file their risk management plans for 2018.

COMMISSIONER GRAHAM: Okay.

MS. BROWNLESS: So the net effect of that would be to prolong the moratorium.

COMMISSIONER GRAHAM: I just want to make sure that we are all on the same page.

CHAIRMAN BROWN: It would be an additional year.

Okay. Any other questions? Everybody clear in the room here?

All right. All those in favor of the motion, say aye. Aye.

(Vote taken.)

The motion passes unanimously. Thank you. Thank you again for all those who have participated in this.

(Agenda item concluded.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, CRR, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

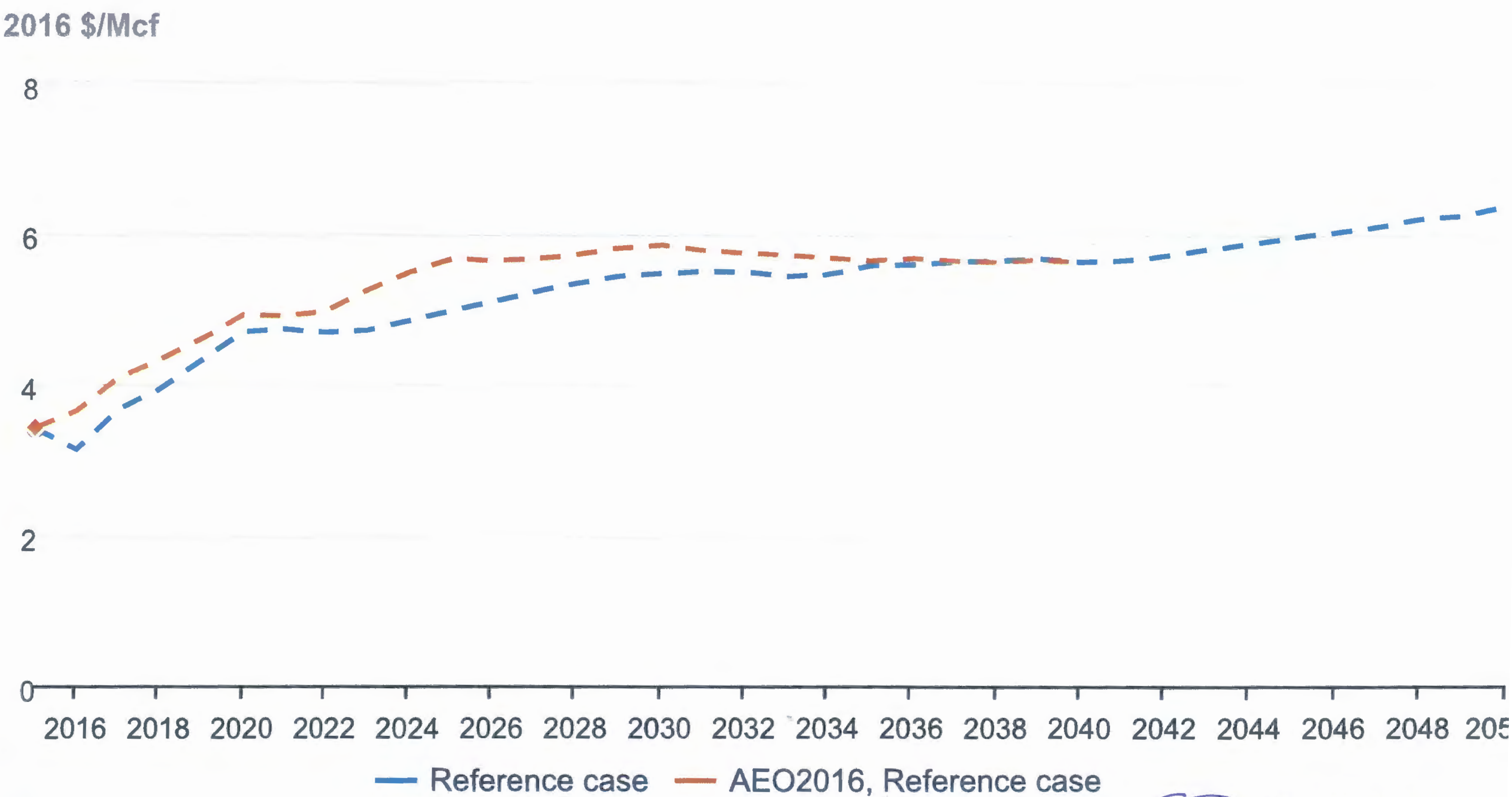
I FURTHER CERTIFY that I am not a relative, employee, attorney, or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 12th day of April, 2017.

Linda Boles

LINDA BOLES, CRR, RPR
Official FPSC Hearings Reporter
Office of Commission Clerk
(850)413-6734

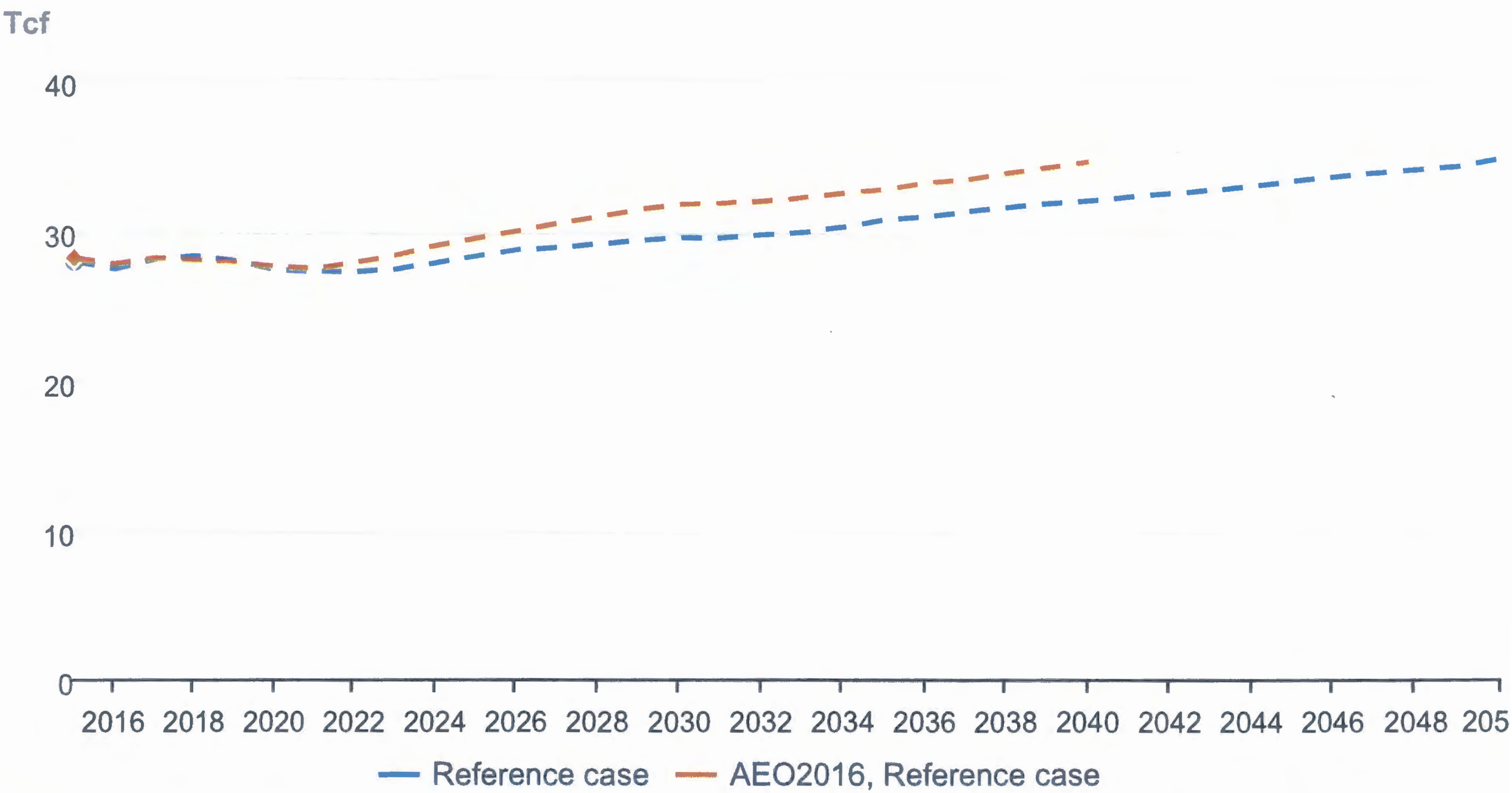
Natural Gas: Delivered Prices: Electric Power



eia Source: U.S. Energy Information Administration

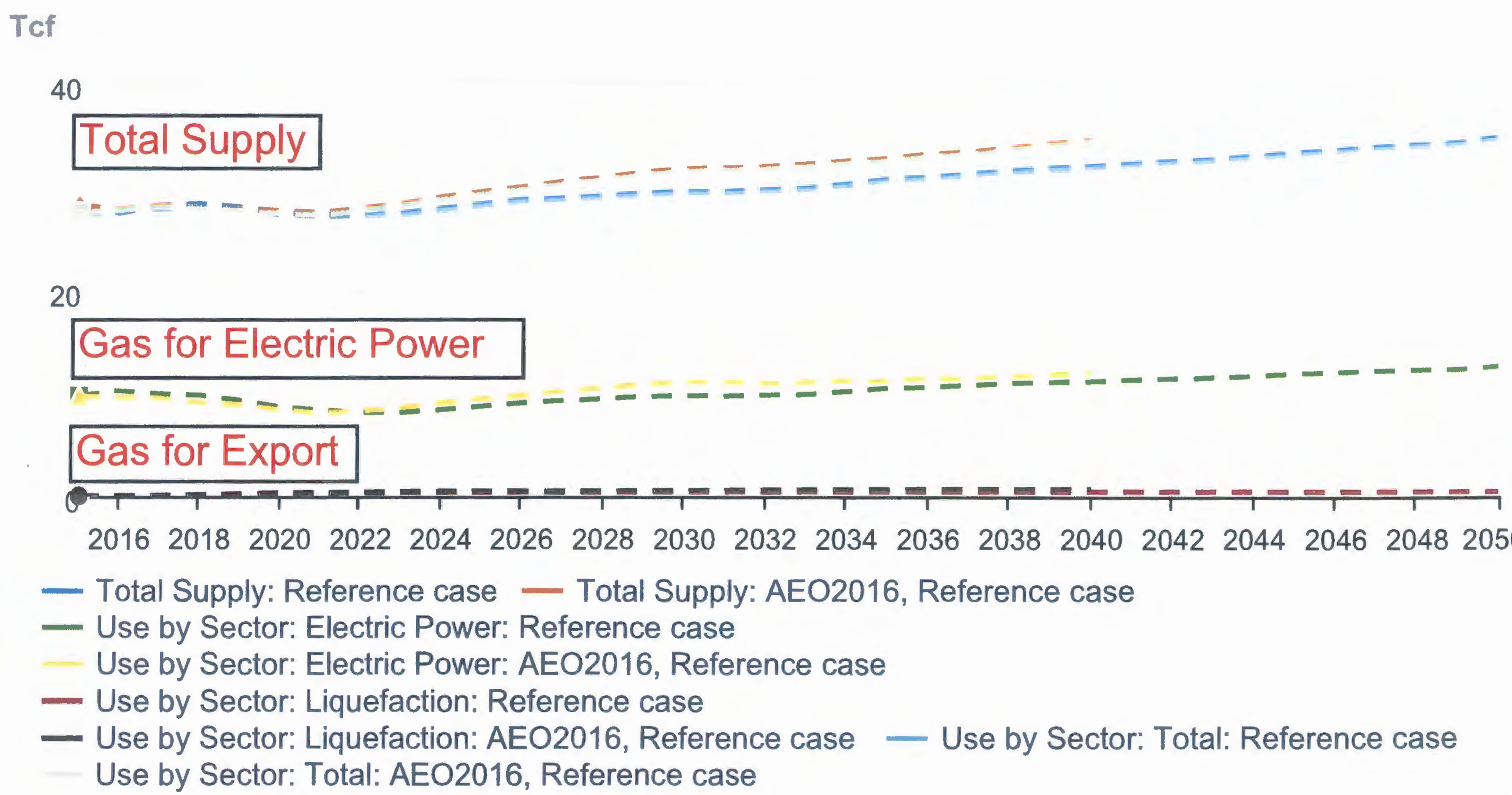
Parties/Staff Handout
Internal Affairs/Agenda
on 4 / 4 / 17
Item No. 3

Natural Gas: Total Supply



Source: U.S. Energy Information Administration

Natural Gas



Source: U.S. Energy Information Administration

Table 2-2 comes from page 22 from Staff's Recommendation.

In nine out of the last ten years, the ***actual*** *Market Settlement Price* for natural gas would *cost less* than the two alternative hedging replacement proposals under consideration today.

Table 2-2
Comparative Results of OTM Call Option and Risk Responsive hedging approaches from FPL

Year	**Market Settlement Prices** ($/mmBtu)	Hypothetical **Risk/Response Approach** Results [with Defensive hedging up to 65% against price increases] ($/mmBtu)	Hypothetical **OTM Call Options Approach** [with 15% OTM Options covering 60% of burn and includes the cost of option premiums] ($/mmBtu)	Difference in Average Annual Cost between Hypothetical Risk/Response Approach Results and OTM Call Options Results ($/mmBtu)
2007	$6.86	$7.70	$7.49	($0.21)
2008	$9.03	$9.07	$9.15	$0.08
2009	$4.04	$5.56	$4.48	($1.08)
2010	$4.40	$5.17	$4.77	($0.40)
2011	$4.05	$4.47	$4.32	($0.15)
2012	$2.79	$3.52	$2.92	($0.60)
2013	$3.65	$3.92	$3.80	($0.11)
2014	$4.41	$4.28	$4.46	$0.18
2015	$2.66	$3.27	$2.78	($0.49)
2016	$2.46	$2.57	$2.58	$0.01
2007-2016 Average	$4.44	$4.95	$4.67	($0.28)

Source: Excerpt of Exhibit 1 from FPL's Post-workshop comments (FPSC Document Number 03145-17) (Emphasis added)