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May 9, 2016

VIA ELECTRONIC FILING
Ms. Carlotta S. Stauffer
Division of the Commission Clerk and Administrative Services
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850

Re: Docket No. 160096-EI

Dear Ms. Stauffer:

Attched for filing in the above docket are Florida Power & Light Company's non-confidential responses to Staff's First Data Request (Nos. 1-15). FPL will file contemporaneously its confidential answers with a Request for Confidential Classification. If there are any questions regarding this transmittal, please contact me at (561) 304-5795.

Sincerely,

s/ John T. Butler

Enclosures

cc: Parties of record (w/encl.)

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CERTIFICATE OF SERVICE
Docket No. 160096-EI

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by electronic service on this 9th day of May 2016 to the following:

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s/ Maria J. Moncada
Maria J. Moncada

Q.

Please refer to paragraphs 10 and 11 of the petition and to Exhibits 1 through 4. Explain the reasoning and analysis supporting FPL's proposed reduced hedging targets.

A.

Consistent with the Commission's directive in Order No. PSC-15-0586-FOF-EI "to explore possible changes to the current hedging protocol that will minimize potential losses to customers," FPL and the other IOUs have proposed to reduce the annual maximum percentage of hedges and to limit the time horizon over which future hedges will be placed. Specifically, FPL will reduce its target hedging percentage for natural gas for 2017, as described in its approved 2016 Risk Management Plan, by up to 25%. Furthermore, beginning with the 2017 Risk Management Plan for 2018 natural gas hedges, FPL will reduce the annual percentage of its fuel hedges by 25% from the target approved in its 2016 Risk Management Plan. The hedging percentage reduction does not indicate that FPL no longer believes in the effectiveness of hedging. Rather, these adjustments will serve to reduce potential costs (losses) to customers if natural gas prices settle at lower levels than at the time hedges were placed. Conversely, if natural gas prices trend upward and actually settle at higher levels than at the time hedges were placed, customers will realize a reduction in potential savings (gains).

Q.

Explain the risks and benefits to customers, if any, of FPL's proposed reduced hedging targets.

A.

As described in FPL's response to Staff's First Data Request No. 1, reducing the hedging targets produces a benefit to customers in the form of reduced costs (losses) if natural gas prices settle at lower levels than at the time hedges were placed. Conversely, there is an increased risk to customers if natural gas prices trend upward and actually settle at higher levels than at the time hedges were placed. Under this scenario, customers will realize a reduction in potential savings (gains) and higher overall costs.

Q.

Please refer to paragraph 12 of the petition and to Exhibits 1 through 4. Explain the reasoning and analysis supporting the proposed limit on the future time horizon over which hedges may be placed.

A.

FPL currently does not financially hedge its projected natural gas requirements beyond the end of the subsequent calendar year from the year in which hedges are being placed. For example, in 2016, FPL will not financially hedge its projected natural gas requirements beyond the end of calendar year 2017. Therefore, from a time horizon perspective, paragraph 12 does not impact FPL's current financial hedging practice, but rather documents FPL's commitment to continuing its existing practice of not financially hedging past the subsequent calendar year. The time horizon of FPL's physical hedges in the form of gas reserves will continue to be equivalent to the useful life of each specific gas reserves project.

Q.
Explain the risks and benefits to customers, if any, of the proposed limit on the future horizon over which hedges may be placed.

A.
As described in FPL's response to Staff's First Data Request No. 3, FPL is not changing the time horizon of its financial hedges from its current practice. Therefore, the risks and benefits of not financially hedging past the subsequent calendar year will remain unchanged.

Q.

Has FPL analyzed the potential effects on 2016 and 2017 customers' bills of the proposed modifications to the risk management plans? If yes, please explain.

A.

FPL placed its financial hedges for calendar year 2016 in 2015 and therefore, the proposed modifications to the 2016 Risk Management Plan and future plans, will not impact the 2016 financial hedges or customers' bills. FPL is currently placing its financial hedges for 2017. The potential impact on customers' bills in 2017 of the proposed reduction in hedging percentages is subject to the movement of natural gas market prices as explained in FPL's responses to Staff's First Data Request Nos. 1 and 2.

Q.

Will the proposed modifications reduce the benefits and costs of hedging? Please explain any analysis that estimates the effects of the proposed changes.

A.

Yes. As described in FPL's response to Staff's First Data Request No. 2, reducing the hedging targets produces a benefit to customers in the form of reduced costs (losses) if natural gas prices settle at lower levels than at the time hedges were placed. Conversely, there is an increased risk to customers if natural gas prices trend upward and actually settle at higher levels than at the time hedges were placed. Under that scenario, customers would realize a reduction in potential savings (gains) and higher overall costs. Hypothetically, if one were to assume that all of the financial hedging execution parameters (timing, term, and pricing) remained the same under both hedging scenarios (i.e., original target and 25% reduced target), a 25% reduction in the hedged volume would result in a proportional 25% reduction in hedging costs (losses) or hedging savings (gains). In practice, however, a reduction in the hedging target will require some deviation in the execution parameters and therefore, the potential reduction in costs or benefits will not be exactly proportional.

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Docket No. 160096-EI
Staff's First Data Request
Question No. 7

Q.

Will the proposed modifications reduce the administrative costs of the hedging program for the remainder of 2016 and for 2017 assuming approval? Please explain.

A.

No. Currently, the only administrative costs incurred by FPL's financial hedging program are Intercontinental Exchange, Inc. (ICE) brokerage charges. Each user is charged a monthly minimum commission for access to ICE North American Natural Gas, and therefore, lowering the target hedging percentage will not reduce this administrative cost.

Q.

Please refer to the last two sentences of paragraph 5 of the petition. How would the factors listed in the last sentence cause the downward trend in natural gas prices to change or reverse?

A.

Market participants monitor the factors listed in Paragraph 5 of the petition to develop a fundamental understanding of supply and demand for natural gas. Production costs determine the breakeven market price needed by producers to meet their rate of return requirements. An increase in production costs would imply a higher required market price for producers. If that price is not met, reduced supply will potentially cause supply disruptions, which will eventually cause prices to move upwards. Weather patterns can play a significant role in determining gas demand; cold weather drives winter heating demand up and hotter temperatures in the summer typically drive up power generation demand. Both of these weather conditions can cause gas prices to move up. Environmental regulations on shale gas production can have a major impact on the supply of natural gas. Any regulations that either restrict the volume of gas that can be drilled or increase the cost of drilling gas require a higher market price for producers to sustain their business operations. Exportation of natural gas through pipelines to Mexico or LNG shipments to international markets generally provides a boost to the demand for US natural gas, which results in a higher domestic price for natural gas.

Q.

Please refer to last sentence of paragraph 8. As of the time of this interrogatory, what percentage of FPL's hedges for 2017 procurement has been executed?

a. For FPL, please refer to Exhibit 2, page 6, and to the sentence "FPL will not financially hedge its projected natural gas requirements beyond the end of calendar year 2017."

b. Please explain this sentence and its effect.

A.

As of April 30, 2016, FPL has hedged [redacted] of its projected 2017 natural gas consumption. Financial hedges account for [redacted] and gas reserves account for [redacted] of the projected 2017 consumption. This represents approximately one third of the hedging target level in the original 2016 Risk Management Plan.

a. N/A

b. Please see FPL's responses to Data Request Nos. 3 and 4.

Q.

Based on this sentence, for the 2017 Risk Management Plan, FPL will not hedge its projected natural gas requirements beyond the end of 2018. Is the correct? Please explain.

A.

Yes. As described in response to Staff's First Data Request No. 3, FPL currently does not financially hedge its projected natural gas requirements beyond the end of the subsequent calendar year from the year in which hedges are being placed. Consistent with that practice, during calendar year 2017 FPL will not financially hedge its natural gas requirements beyond the end of calendar year 2018.

Q.

If the hedging contracts in place for 2015 for FPL had been reduced by 25%, how much would FPL have saved compared to actual results? Please state any assumptions that might underlie this calculation.

A.

As described in response to Staff's First Data Request No. 6, if one were to assume that all of the execution parameters (timing, term, and pricing) of FPL's financial hedges remained the same between its actual hedges for 2015 and the financial hedges it would have executed under the 25% reduced target, costs (losses) associated with FPL's financial hedges would have been reduced by 25%, or approximately [redacted]. However, as stated in response to Staff's First Data Request No. 6, the actual result would likely be somewhat different in practice as lowering the hedging target would have required some deviation in execution parameters which would likely have generated a slightly different outcome.

Q.

What natural gas hedging savings (costs) and hedging volumes have been incurred by FPL for the period January-March, 2016?

A.

From January to March 2016, FPL hedged [redacted] MMBtu of natural gas using financial swaps and realized a hedging cost of [redacted]. From January to March 2016, FPL received [redacted] MMBtu of natural gas from the Woodford project and realized a hedging cost of [redacted].

Q.

If the proposed reductions detailed in the Joint Petition would have been in place during the January-March 2016 period, what natural gas hedging savings (costs) would FPL have incurred?

A.

Utilizing the data provided in response to Staff's First Data Request No. 12 for financial hedges and the assumptions referred to in response to Staff's First Data Request No. 6 and Staff's First Data Request No. 11, hedging costs (losses) would have been reduced by approximately [redacted] (25%) during the January-March 2016 period.

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Staff's First Data Request
Question No. 14

Q.

What natural gas hedging savings (costs) and hedging volumes is FPL estimating for the period April-December 2016?

A.

FPL currently projects financial hedging costs of [redacted] for the April to December 2016 period based on market prices as of May 2, 2016. The financial swap hedging volumes are projected to be [redacted] MMBtu. FPL currently projects to receive 12.7 Bcf of natural gas from the Woodford project during the April to December time frame. The Woodford project hedging results for the same period are projected to be [redacted] based on schedule IIA, included as part of the Hedging Activity Report filed on April 6, 2016.

Q.

If the proposed reductions detailed in the Joint Petition would have been in place during the April-December 2016 period, what are the estimated natural gas hedging savings (costs)?

A.

Utilizing the data provided in response to Staff's First Data Request No. 14 for financial hedges and the assumptions referred to in response to Staff's First Data Request No. 6 and Staff's First Data Request No. 11, FPL is estimating that if the hedges planned for April-December 2016 were reduced by 25%, hedging costs (losses) for that period, given market conditions as of May 2, 2016, would be reduced by approximately [redacted] (25%).