110003-GU

REDACTED

FLORIDA CITY GAS's
RESPONSES TO STAFF'S FIRST SET OF DATA REQUESTS

[CONFIDENTIAL: AS NOTED BY HIGHLIGHTING/REDACTION]

1. Does your company conduct physical or financial hedging of natural gas? If so, please provide the following:

<u>FCG Response:</u> The Company does not engage in financial hedging through trading financial instruments. The Company does, however, engage in physical hedging of natural gas supply.

A. percentage of natural gas hedged by financial hedging and monthly realized hedging gain or loss in 2010.

<u>FCG Response:</u> N/A.

B. percentage of natural gas hedged by physical hedging in 2010 and the price, term, and supplier of the contracts.

<u>FCG Response:</u> [redacted]

C. percentage of natural gas hedged by financial hedging and monthly realized hedging gain or loss in 2011.

<u>FCG Response:</u> N/A

D. percentage of natural gas hedged by physical hedging in 2011 and the price, term, and supplier of the contracts.

<u>FCG Response:</u> [redacted]

[redacted]

2. Please provide the rationale that supports your company's activity (or inactivity) in physical or financial hedging, including:

A. whether the market conditions and financial regulation support physical or financial hedging (please explain).

FCG Response: Florida City Gas uses physical hedges to mitigate price volatility for its firm customers. Price volatility is inherent in natural gas markets due to market fundamentals such as supply and demand mismatches, pipeline constraints, hurricane disruptions and weather conditions – both winter cold and summer heat. Given those factors, which all affect gas prices, Florida City Gas uses both fixed price supply contracts and its Bay Gas storage service to reduce market price volatility and to stabilize prices.

B. whether new developments in domestic gas-supply conditions, such as LNG and shale gas, affect physical or financial hedging (please explain).

FCG Response: LNG and shale gas provide additional supply to the natural gas market and have had an impact on lowering the level of natural gas prices overall. These new supplies have had the effect of first lowering and then maintaining the daily and forward prices in the $4 to $5 per dekatherm range; prior to LNG imports and the recent discovery of the various shale gas plays, natural gas was priced in the $6 to $7 range. Shale gas and LNG, while increasing supply reserves, do not of themselves decrease price volatility in the market. Price volatility will always be present in the price of natural gas that is impacted by fundamental factors such as the economy, summer and winter weather and hurricane activity.

C. administrative cost or availability of the hedging instruments (please explain).

FCG Response: As long as any hedging program implemented by Florida City Gas, and approved by the FPSC, is not overly complex and can be implemented utilizing existing personnel, Florida City Gas does not view administrative costs resulting from hedging transactions as excessive or the availability of hedging instruments as issues. Additionally, any cost – such as, but not limited to a)transactional fees, b) administrative costs, c) systems costs and/or d) hedging gains/losses - incurred as a result of hedging must be allowed to be passed through the utilities purchased gas adjustment mechanisms.

D. other (please explain).