AUSLEY MCMULLEN
ATTORNEYS AND COUNSELORS AT LAW

123 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(850) 224-9115 FAX (850) 222-7560

May 9, 2016

VIA: ELECTRONIC FILING

Ms. Carlotta S. Stauffer
Commission Clerk
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Docket No. 160096-EI – Joint Petition by Investor-Owned Utilities for Approval of Modifications to Risk Management Plans

Dear Ms. Stauffer:

Attached for filing in the above docket is Tampa Electric Company's Responses to Staff's First Data Request (Nos. 1-15) dated April 28, 2016.

Thank you for your assistance in connection with this matter.

Sincerely,

James D. Beasley

JDB/pp
Attachment

cc: Suzanne Brownless (w/attachment)
All Parties of Record (w/attachment)

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

A. Tampa Electric is lowering the percentage hedged in its Risk Management Plan in response to the Commission's desire, expressed at the November 2015 Fuel Clause hearing, to explore other hedging options that can reduce hedging losses when fuel prices decrease. The proposal strikes a balance of providing less price stability than the current plan and therefore less exposure to losses during a period of declining natural gas prices, while still providing a measure of price stability and certainty as well as valuable protection against price spikes in the event of an increase in natural gas prices, for a reduced portion of the expected volume usage.

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

A. Due to the proposal's reduced hedging volumes, customers will experience less price stability and greater exposure to price volatility, on the upside and the downside. In times of declining fuel prices, customers will experience lower overall fuel costs. However, if natural gas prices are increasing, then customers will experience higher overall fuel costs.

3. 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. Tampa Electric has proposed reducing its forward hedge position from 24 months to 18 months in response to the Commission's desire, expressed at the November 2015 Fuel Clause hearing, to explore other hedging options that can reduce hedging losses when fuel prices decrease. The proposal provides reduced price stability compared to the current hedging plan and therefore reduced exposure to losses during a period of declining natural gas prices, while still providing a measure of price stability and certainty as well as valuable protection against price spikes in the event of an increase in natural gas prices. In addition, by utilizing the 18-month hedge horizon, the hedge position will be approximately synchronized with the timing of the preparation of the annual fuel cost recovery factor.

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

A. The reduction from 24 months to 18 month forward hedge horizon reduces the price stability provided by the hedging plan while still providing protection from short-term price spikes. Customers will experience greater exposure to price volatility, on the upside and the downside. In times of declining fuel prices, customers will experience lower overall fuel costs. However, if natural gas prices are increasing, then customers will experience higher overall fuel costs.

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

A. No, Tampa Electric has not estimated the potential effects on 2016 and 2017 customer bills of the proposed modifications to the Risk Management Plan.

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

A. The proposed changes will reduce, but not eliminate, the customer benefit derived from fuel price stability. Tampa Electric has not estimated any quantitative impacts of the proposed changes. The impacts of these changes are dependent upon future natural gas price movements, and Tampa Electric does not speculate as to the direction or magnitude of future price changes.

7. 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, the proposed modifications will not reduce the administrative costs of the hedging program for the remainder of 2016 and 2017. Tampa Electric will continue to maintain contracts, credit reviews, and financial reports associated with the hedging program. These efforts are not reduced by a reduction in the quantity of hedges transacted.

8. 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. The price of natural gas is driven by the relative balance between supply and demand. The recent downward trend in natural gas prices is largely attributable to a surplus of supply created by the shale gas production surge coupled with a decline in demand caused by mild weather. If all other things remain unchanged, prices are likely to increase as a result of the factors listed below: supply is reduced due to production cuts (for economics or environmental regulation) or demand increases due to exports (LNG internationally or natural gas to Mexico), extreme weather, or elimination of alternative energy sources (plant closures).

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

A. As of month-end close on April 30, 2016, Tampa Electric has hedged approximately 21 percent of its expected natural gas hedges for 2017 under the currently approved Risk Management Plan. The current mark-to-market of the 2017 hedges is a savings of about $200,000.

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

A. Tampa Electric does not have the information to accurately determine the answer to this question. However, estimating the savings by reducing the 2015 actual results by 25 percent yields a revised mark-to-market 2015 cost of $29,881,744. This estimate assumes a linear 25 percent reduction to the total volume hedged in each and every transaction. In reality, the impact would have varied depending on the timing of hedge transactions and the prices at the various times the hedges were entered.

REDACTED

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

A. Tampa Electric's natural gas hedging result for January through March 2016 is a cost of $8,340,470 for a volume of [redacted] mmBtu.

12. 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 TECO have incurred?

A. Tampa Electric does not have the information to accurately determine the answer to this question. However, estimating the savings by reducing the actual results by 25 percent yields a mark-to-market cost of $6,255,353 during the January through March 2016 period. This estimate assumes a linear 25 percent reduction to the total volume hedged in each and every transaction. In reality, the impact would have varied depending on the timing of hedge transactions and the prices at the various times hedges were entered.

REDACTED

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

A. The mark-to-market financial position of unrealized natural gas hedges for the period April-December 2016 as of month-end close April 30, 2016 is a cost of $9,810,695 for a volume of [redacted] mmBtu.

14. 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. Tampa Electric does not have the information to accurately determine the answer to this question. However, estimating the savings by reducing the mark-to-market values of unrealized hedges by 25 percent yields an estimated cost of $7,358,021for the April through December 2016 period. This estimate assumes a linear 25 percent reduction to the total volume hedged in each and every transaction. In reality, the impact would have varied depending on the timing of hedged transactions and the prices at the various times hedges were entered.

15. For the purpose of this interrogatory, please refer to Exhibit 3, attached to the Joint Petition dated April 22, 2016. This exhibit states that TECO is reducing its minimum and maximum percentages for natural gas hedging. Where in TECO's 2016 Risk Management Plan are minimum and maximum percentages for natural gas hedging expressed?

A. Tampa Electric's 2016 Risk Management Plan does not list the minimum and maximum percentages for natural gas hedges. The company has provided that confidential information in response to previous requests. For clarity, the current percentages and the proposed percentages are shown in the following table.

REDACTED

Month Forward	Current RM Plan Min	Max	Average	Proposed RM Plan Min	Max	Average	Change to Min	Change to Max	Change to Avg
1	[redacted]								
2									
3									
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