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GULF POWER
A SOUTHERN COMPANY

May 9, 2016

Ms. Carlotta Stauffer
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee FL 32399-0868

Re: Docket No. 160096-EI – Joint petition for approval of modifications to risk management plans by Duke Energy Florida, Florida Power & Light Company, Gulf Power Company and Tampa Electric Company

Dear Ms. Stauffer:

Attached is Gulf Power Company's response to Staff's First Data Request in the above-referenced docket.

Sincerely,

Robert L. McGee, Jr.
Regulatory and Pricing Manager

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Attachments

cc w/att.: Beggs and Lane
Jeffrey A. Stone, Esquire
Office of General Counsel
Suzanne Brownless

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

RESPONSE:

Consistent with the Commission's directive to explore possible changes to the hedging protocol in order to mitigate potential losses to customers in periods of falling prices, Gulf has voluntarily participated in the development of the Investor Owned Utilities joint petition which, beginning in 2017, proposes to reduce the maximum volume of natural gas Gulf will price hedge by 25 percent. No analysis was performed by Gulf in the development of the joint petition or Gulf's exhibit that conforms to the stated objectives of the petition.

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

RESPONSE:

The risks and benefits to customers are all price related. Reducing the volume of natural gas price hedging contracts (primary fixed price swaps) Gulf enters into will increase the volume of natural gas consumption that will be priced at daily market price and will expose the customer to market price volatility for the majority of natural gas Gulf consumes. Depending on what happens to the price of natural gas, the reduced hedging targets will either be a risk or a benefit to customers.

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.

RESPONSE:

Consistent with the Commission's directive to explore possible changes to the hedging protocol in order to mitigate potential losses to customers in periods of falling prices, Gulf has voluntarily participated in the development of the Investor Owned Utilities joint petition which beginning in 2017, proposes to reduce the maximum future time horizon over which hedges may be placed going forward. No analysis was performed by Gulf in the development of the joint petition or Gulf's exhibit that conforms to the stated objectives of the petition.

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

RESPONSE:

The risks and benefits to customers are all price related. Reducing the future time horizon of natural gas price hedging contracts (primary fixed price swaps) Gulf enters into will remove the opportunity to lock in fixed prices in future years that would provide more price certainty to the customer for a longer period.

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

RESPONSE:

No. For 2016, Gulf has entered into all of the natural gas hedging transactions that it had intended to pursue in accordance with its risk management plan (RMP); thus, the proposed modifications to RMPs for 2016 contained in the Joint Petitioner' filing will have no impact on Gulf customer bills. The proposed modifications to the 2017 RMP will have a potential impact on future customer bills. The nature of that impact for 2017 will be determined by future market prices for natural gas relative to price hedge positions which have yet to be entered into. Given that these two factors are unknown today, the effect on future customer billing cannot be determined.

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

RESPONSE:

Yes. The proposed modifications will increase customer exposure to market price volatility, and shielding customers from market price volatility is a benefit of natural gas price hedging. Thus that benefit is reduced. Whether there will be a reduced cost of hedging, beyond some modest savings of administrative expenses, will only be determined by the future market prices for natural gas relative to price hedge positions which have yet to be entered into. No analysis has been performed to estimate the effects of the proposed 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.

RESPONSE:

No. The hedging program for 2016 is already in place and not subject to the proposed modifications. For 2017, there is potential for a small amount of reduced administrative costs since the scope of the hedge program would be reduced; however, no evaluation of future administrative cost has been performed.

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?

RESPONSE:

Production costs have declined due primarily to improvements in technology employed to remove natural gas from shale formations. The business of bringing natural resources to market focuses first on reserves that have lower production costs, followed by higher cost reserves. Going forward, the question is to what extent technology improvements can continue to overcome the increasing costs of bringing greater volumes of gas to market. Weather is a primary driver of gas demand, for heating homes and businesses in the winter and cooling them in the summer. Higher demand typically results in higher market prices for a commodity. Weather can also reduce supply, creating upward pressure on prices, with weather potentially causing well freeze offs and transportation shortages. Environmental regulations have typically increased demand for gas fired generation due to coal plant shutdowns and curtailment. Gas is also a preferred fuel for generation that serves as a demand response tool for growing intermittent sources of electricity such as solar and wind. Other countries outside the U.S. also face similar pressures, increasing the demand for natural gas. The consequence could be increased demand for domestic gas production being exported to Canada and Mexico by pipeline or overseas as LNG, and this higher demand for natural gas would typically yield higher market prices.

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

RESPONSE:

As of the time of this request, Gulf has entered into hedging contracts that cover 81 percent of its projected *target* hedge volume for 2017, assuming the Company targets the proposed upper hedge range as outlined in Gulf's Exhibit 4 to the Joint petition filed April 22, 2016.

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

RESPONSE:

No analysis has been performed to estimate this amount. Conducting such an analysis would be a burdensome and time consuming process and may not necessarily be an accurate view of a reforecast past, as it would be done with the benefit of hindsight as opposed to the best forecast of unknown future market conditions. Each hedge contract transaction would need to be evaluated to determine whether or not it would have been executed by recreating the market conditions at the time the decision would have been made.

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

RESPONSE:

Gulf hedged 9,220,000 MMBtu of its actual natural gas burn for the period January – March 2016 and incurred $17,984,205 in hedge settlement costs.

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 Gulf have incurred?

RESPONSE:

Please see Gulf's response to Item No. 10.

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

RESPONSE:

Gulf is estimating $50,374,860 in hedging costs and 25,960,000 MMBtu in hedging volume for the period April – December 2016.

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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)?

RESPONSE:

Please see Gulf's response to Item No. 10.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

IN RE: **Joint Petition for Approval of Modifications To Risk Management Plans by Duke Energy Florida, Florida Power & Light Company, Gulf Power Company and Tampa Electric Company**	))))	Docket No.: **160096-EI**

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true copy of the foregoing was furnished by electronic mail this 9th day of May, 2016 to the following:

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