



STONE
MATTHEIS
XENOPOULOS
& BREW, PC

March 6, 2017

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

Re: Docket No. 170057-EI: Post-Workshop Comments

Dear Ms. Stauffer:

White Springs Agricultural Chemicals, Inc., d/b/a PCS Phosphate (“White Springs”), submits the comments below to the general issues associated with continued utility hedging of oil and natural gas fuel purchases as outlined in the agenda to the workshop held on February 21, 2017 on these matters.

ISSUE 1A: Is it in the consumers’ best interest for the utilities to continue natural gas financial hedging activities?

PCS Phosphate: Yes, but Florida utilities should discontinue the current volume-targeted hedging method and develop methods that systematically address fuel price trends and risks. In brief, the generation fleets of Florida’s electric utilities, and Duke Energy Florida in particular, are becoming more gas-reliant. It is also true that the development of large shale-derived reserves of domestic supply have substantially lowered natural gas prices and perceived overall price volatility both in Florida and in the United States generally in the past decade. Nevertheless, hedging transactions are an appropriate and normal business response to mitigate consumer costs in the event of systemic volatility and price movement risks. Because the current volume-targeted methods in use today do not adequately incorporate market risk assessments, historic hedges have unnecessarily incurred significant hedging losses as the fundamental market changes have unfolded. Significantly, the magnitude of those losses is a product of the mechanism employed rather than the base decision to engage in hedging in the first instance.

ISSUE 1B: What changes, if any, should be made to the manner in which electric utilities conduct their natural gas financial hedging activities?

PCS Phosphate: Florida utilities should develop and implement appropriate risk-responsive hedging methods that systematically address fuel price trends and risks, and they should discontinue the current volume-targeted hedging method. While hedging should continue to be pursued due to the sheer level of exposure of Florida consumers to rate impacts driven by material changes in the underlying cost of fuel, the current volume-targeted method has been shown to be ineffectual and detrimental to consumers. PCS supports implementation of appropriate risk-responsive approaches in which the level and duration of transactions are actually informed by market analysis.

The current trued-up, annual average cost fuel factors employed in Florida rate-setting has a moderating effect with respect to short term fuel price dislocations, such as may be experienced due to unusual weather. That process, however, does not mitigate consumer risk associated with shifting market dynamics. Further, PCS generally opposes proposals to mitigate near term customer bill impacts due to material fuel cost under-recoveries by expanding the recovery of such costs for two or more years. While such an approach might be considered in a fact-specific instance where the causes of the rising costs were deemed to be non-recurring, expanding the recovery period in a rising market would simply exacerbate customer impacts in those subsequent periods.

ISSUE 3: If changes are made to the conduct of natural gas hedging activities, what regulatory implementation process is appropriate?

PCS Phosphate: PCS considers the implementation of appropriate risk-responsive hedging methods to be an important consumer safeguard, but there should be a full examination of risk-mitigating alternatives that affords adequate time for consumer input. The workshops conducted on this matter have been enlightening, but have elicited multiple substantive and procedural questions from consumers and utilities alike. PCS supports the filing of utility revised fuel cost risk management plans that are responsive to Staff's recommendations under a schedule that allows adequate time for discovery and intervenor testimony.

Respectfully submitted,

/s/ James W. Brew

James W. Brew

Stone Mattheis Xenopoulos & Brew, PC

1025 Thomas Jefferson Street N.W.

Eighth Floor, West Tower

Washington, DC 20007

(202) 342-0800

(202) 342-0807 (fax)

jbrew@smxblaw.com

law@smxblaw.com

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished via electronic mail this 6th day of March, 2017 to all parties of record as indicated below.

Suzanne S. Brownless
Office of General Counsel
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, FL 32399-0850
sbrownle@psc.state.fl.us

James D. Beasley
J. Jeffry Wahlen
Ausley McMullen
P.O. Box 391
Tallahassee, FL 32302
jbeasley@ausley.com
jwahlen@ausley.com

Jeffrey A. Stone
Russell A. Badders
Steven R. Griffin
Beggs & Lane
P.O. Box 12950
Pensacola, FL 32591
jas@beggslane.com
rab@beggslane.com
srg@beggslane.com

Robert L. McGee, Jr.
Regulatory and Pricing Manager
Gulf Power Company
One Energy Place
Pensacola, FL 32520-0780
rlmcee@southernco.com

Charles J. Rehwinkel / Erik Sayler
J.R. Kelly / Patty Christensen
Tarik Noriega
Office of Public Counsel
c/o The Florida Legislature
111 W. Madison Street, Room 812
Tallahassee, FL 32399-1400
rehwinkel.charles@leg.state.fl.us
sayler.erik@leg.state.fl.us
kelly.jr@leg.state.fl.us
christensen.patty@leg.state.fl.us
noriega.tarik@leg.state.fl.us

Robert Scheffel Wright
John T. LaVia, III
c/o Gardner Law Firm
1300 Thomaswood Drive
Tallahassee, FL 32308
schef@gbwlegal.com
jlavia@gbwlegal.com

Ms. Paula K. Brown
Manager, Regulatory Coordination
Tampa Electric Company
P.O. Box 111
Tampa, FL 33601
regdept@tecoenergy.com

John T. Butler
Maria Jose Moncada
Florida Power & Light Company
700 Universe Boulevard (LAW/JB)
Juno Beach, FL 33408-0420
john.butler@fpl.com
maria.moncada@fpl.com

Kenneth Hoffman, Vice President
Regulatory Affairs
Florida Power & Light Company
215 S. Monroe Street, Suite 810
Tallahassee, FL 32301-1858
ken.hoffman@fpl.com

Ms. Dianne M. Triplett
Duke Energy Florida, Inc.
299 First Avenue North
St. Petersburg, FL 33701
Dianne.triplett@duke-energy.com

Jon C. Moyle, Jr.
Moyle Law Firm, PA
118 North Gadsden Street
Tallahassee, FL 32301
jmoyle@moylelaw.com

Mr. Matthew R. Bernier
Senior Counsel
Duke Energy Florida, Inc.
106 East College Avenue, Suite 800
Tallahassee, FL 32301-7740
Matthew.bernier@duke-energy.com

/s/ Laura A. Wynn