BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Analysis of IOU's
Hedging practices.
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Docket No. 170057-EI
Filed: March 6, 2017

THE FLORIDA INDUSTRIAL POWER USERS GROUP'S
<u>POST-WORKSHOP HEDGING COMMENTS</u>

The Florida Industrial Power Users Group (FIPUG), by and through its undersigned counsel, files these Hedging Comments as requested by staff at the February 21, 2017 staff workshop in the above-styled matter.

<u>Hedging Comments - Overview</u>

Utility hedging programs should be discontinued for many reasons. In sum, the stated goal of utility hedging programs, to reduce price volatility, provides little tangible benefit to consumers. The only articulated "benefit" to ratepayers of the hedging program is "a reduction of price volatility", which translates into fewer mid-course fuel clause adjustments than might otherwise be experienced. Fewer mid-course fuel clause adjustments have hardly benefitted customers, particularly when considering that "the reduction in price volatility" has cost consumers, in real dollars, approximately $6.5 billion dollars since the hedging program's inception in 2002. Most consumers would rather "pay at the pump" and bear the risk of natural gas market prices in the same way consumers bear the market price risk of airline tickets, milk, egg, meat, cereal or gasoline.

FIPUG understands that natural gas prices may increase in the future and will not second guess the hoped for Commission decision to discontinue permanently the natural gas hedging program. The office of Public Counsel and the Florida Retail Federation, key parties that also regularly appear before the Commission, also believe that hedging should be discontinued. Put simply, the Commission should discontinue as soon as possible natural gas hedging.

What is Hedging?

The Merriam -Webster Online Dictionary defines hedging as "a means of protection or defense (as against financial loss)." Since the inception of the Commission-approved hedging program in 2002, hedging has resulting in combined customer losses of approximately $6.5 billion dollars. FPL alone, which serves approximately half of the state's homes and businesses, has accounted for more than $4 billion dollars in customer losses. If one accepts the Merriam –Webster definition of hedging, namely a protection or defense against financial loss, the utilities' hedging programs have failed spectacularly. The direct result of the hedging programs is a loss of approximately 6.5 billion dollars, the exact opposite of fending off financial loss. The time has come to discontinue permanently hedging.

Hedging is for the use and benefit of customers; customer wishes should be respected.

It is agreed that hedging is in place to "benefit" the ratepayers. Customers such as the Office of Public Counsel, the Florida Industrial Power Users Group, and the Florida Retail Federation are united in their collective request that hedging cease immediately. The utilities do not earn a return or other monies on hedging activities. Thus, the hedging issue is not like a rate increase dispute, with the Commission attempting to strike a fair balance between competing financial interests of ratepayers and a requesting utility. All of the "skin in the game" in the pending hedging contest belongs to ratepayers and most ratepayers simply want the game to cease.

Hedging losses and gains have not offset each other, an important Commission expectation <u>when approving utility hedging programs; offsetting gains have not been realized</u>

A key expectation of the Commission approved hedging program, that losses and gains would offset each other, has not been realized. When approving utility hedging plans during the 2007 fuel clause proceeding, the Commission stated in pertinent part:

> "Hedging program (sic) are designed to assist in managing the impacts of fuel price volatility. Within any given calendar period, hedging can result in gains or losses. Over time, gains and losses generally are expected to offset one another."

Order No. PSC-0030-FOF-EI, Docket No. 070001-EI, page 4. This has not come to pass over the fifteen (15) years that the hedging program has been in existence. Again, customers are approximately 6.5 billion dollars in the hole. The evidence is clear that hedging losses far exceed hedging gains. The disproportionate hedging losses are surely a strong signal that hedging is a policy that should cease, particularly given the favorable changes in the natural gas markets due to enhanced extraction techniques. The response to this strong signal should be to remove customers from harm's way and stop utility natural gas hedging.

The suggestion that, if the Commission gives utility hedging more time or changes the way that hedging is conducted, just maybe, someday, that hedging gains will offset hedging losses is not supported by credible evidence. Staff's witness Michael Gettings has helped make clear that the historical utility hedging practices have not worked well and were not well designed to mitigate the huge hedging losses that customers have suffered. While Mr. Gettings has offered an alternative approach to hedging, many questions and uncertainties remain with his suggested changes. Rather than keep customers as risk as questions are discussed and debated, as was done at the recent staff workshop, now is the time to stop the hedging financial bleeding.

<u>Consumers are used to price fluctuations</u>

The only reason the utilities contend natural gas hedging should continue is to reduce fuel volatility. Consumers are accustomed to market price changes, volatile or otherwise, when conducting their daily business in unregulated markets. The price of airline tickets typically increase significantly near Thanksgiving, the December holiday season and during the summer. Consumers cope. The price of eggs, milk, meat, and cereal fluctuates, sometimes significantly, based on agriculture conditions. Customers cope. The price of gasoline varies considerably over time. Consumers cope. Similarly, customers will cope if utility hedging ceases.

Most customers prefer to "pay at the pump" and
assume the risk of utilities not financially hedging natural gas

Some have suggested that customers may change their minds about hedging if market conditions change and natural gas prices climb. FIPUG acknowledges and recognizes this is a risk, and accepts it. Assuming investor owned utilities employ an appropriate fuel purchasing strategy, FIPUG is willing to pay market prices, i.e., "pay at the pump", for natural gas used to generate electricity.   FIPUG will not second guess the Commission's (hoped for) decision that hedging be discontinued. To the contrary, FIPUG will applaud such action which acts to "stop the financial bleeding" and move forward. If natural gas market prices rise precipitously, and other material facts change dramatically over time in natural gas markets, something that is not expected to happen based on current forecasts, the hedging issue can be reviewed, if necessary.

WHEREFORE, for the foregoing reasons, the Commission should extend indefinitely the current hedging moratorium or otherwise discontinue the utility hedging program.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing response was furnished to the following by Electronic Mail, on this 6th day of March, 2017:

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