

## Ashley Quick

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**From:** Kate Hamrick  
**Sent:** Friday, March 31, 2017 4:05 PM  
**To:** Braulio Baez; Apryl Lynn; Mark Futrell; Keith Hetrick; Mary Anne Helton; CLK - Agenda Staff; Cindy Muir; Commissioners & Staffs; Michael Barrett; Mark Cicchetti; Andrew Maurey; Suzanne Brownless; Jennifer Crawford  
**Cc:** Kate Hamrick; Jacqueline Moore; Kathy Shoaf; Nancy Harrison  
**Subject:** FW: Request for approval to make an oral modification to Item 3 on the April 4, 2017 Commission Conference, Docket No. 170057-EI - Analysis of IOU's Hedging Practices

Please see the approved oral modification for Item 3 (170057-EI) of the April 4, 2017, Commission Conference.

Thanks!

Kate Hamrick  
Executive Assistant to  
Mark Futrell  
Deputy Executive Director: Technical  
Florida Public Service Commission  
850-413-6304

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**From:** Mark Futrell  
**Sent:** Friday, March 31, 2017 3:52 PM  
**To:** Andrew Maurey; Braulio Baez; Kathy Shoaf  
**Cc:** Kate Hamrick; Keith Hetrick; Mary Anne Helton; Mark Cicchetti; Jennifer Crawford; Suzanne Brownless  
**Subject:** RE: Request for approval to make an oral modification to Item 3 on the April 4, 2017 Commission Conference, Docket No. 170057-EI - Analysis of IOU's Hedging Practices

Approved.

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**From:** Andrew Maurey  
**Sent:** Friday, March 31, 2017 3:36 PM  
**To:** Braulio Baez; Kathy Shoaf  
**Cc:** Mark Futrell; Kate Hamrick; Keith Hetrick; Mary Anne Helton; Mark Cicchetti; Jennifer Crawford; Suzanne Brownless  
**Subject:** Request for approval to make an oral modification to Item 3 on the April 4, 2017 Commission Conference, Docket No. 170057-EI - Analysis of IOU's Hedging Practices

Staff requests approval to make an oral modification to Item 3 scheduled for the April 4, 2017 Commission Conference. Staff's proposed modifications are contained solely on page 22, as shown in type and strike format below.

Due to a scrivener's error, the amount reported as \$374 million in the two paragraphs on page 22 (paragraph one, lines three and seven, and paragraph two, lines one and four), should be \$394 million. In addition, there are incorrect references to Table 2-2 in both paragraphs (line two of the first paragraph, and line seven of the second paragraph.) Both references to Table 2-2 should be changed to "Exhibit 1 attached to FPL's post-workshop comments." These corrections are necessary to avoid any confusion over the source of the \$394 million amount.

Staff believes FPL's expanded analysis is a more instructive comparison than what FPL presented at the workshop because it includes a period of higher volatility. Table 2-2 Exhibit 1 attached to FPL's post-workshop comments shows that FPL would have spent \$374 \$394 million in 2007 and \$1.7 billion over the ten-year period ending in 2016. That astronomical sum only provides rolling one-year hedge coverage. It is unlikely that any company would spend that amount of money in options premiums and it might not even be possible to find counterparties to execute that magnitude of options. The options market is far less liquid than the swap market. If in 2007, FPL's management, facing a prospective \$374 \$394 million outlay, decided to limit its expenditure to a more reasonable \$100 million, the hedge ratio going into the price spike would have been a fraction of the numbers presented.

Further, a one-year hedge is of limited value. One can imagine the prudence discussion if \$374 \$394 million were expended and prices did not rise substantially, but going into the next year prices increased dramatically before hedge coverage was secured. Extending option coverage to a two-year horizon would increase the options budget to well over twice the \$374 \$394 million level because options for the second year would demand about twice the premium requirements. It is doubtful any firm would have an appetite for an approximately billion dollar option premium expenditure to cover two gas years. Staff believes that Table 2-2 Exhibit 1 attached to FPL's post-workshop comments, taken on face value, illustrates the impracticality of the out-of-market option strategy.

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