FLORIDA PUBLIC SERVICE COMMISSION

Item 3

VOTE SHEET

April 4, 2017

Docket No. 170057-EI – Analysis of IOUs' hedging practices.

Issue 1: Is it in the consumers' best interest for the utilities to continue natural gas financial hedging activities?
Recommendation: Yes. The purpose of hedging is to protect customers from large price increases and to minimize mark-to-market losses that occur when prices settle below projected levels. Fuel price hedging has benefits and risks. However, when executed in an economically efficient manner, staff believes that fuel price hedging activities are in consumers' best interest.

MOOT

Matter to be set for hearing 9/27-28/17. The prehearing officer will handle fallout issues in fuel clause.

Duke and FPL will not be required to file their 2018 risk management plans.

COMMISSIONERS ASSIGNED: **All Commissioners**

COMMISSIONERS' SIGNATURES

MAJORITY	DISSENTING
Donald J. Polmann	
Julie Brown	
Jimmy Patronis	

REMARKS/DISSENTING COMMENTS:

Oral Modification, assigned DN 03957-17, is attached.

(Continued from previous page)

Issue 2: What changes, if any, should be made to the manner in which electric utilities conduct their natural gas financial hedging activities?
Recommendation: Consistent with the recommendation in Issue 1, staff believes that continuing fuel price hedging activities in an economically efficient manner is in the consumers' best interest and the Commission has the discretion to consider implementing changes to the manner in which the IOUs conduct their natural gas financial hedging activities.

MOOT

Issue 3: If changes are made to the conduct of natural gas hedging activities, what regulatory implementation process is appropriate?
Recommendation: Staff believes the Commission's decision in Issue 2 will dictate what changes to the regulatory implementation process are needed, if any.

MOOT

Issue 4: Should this docket be closed?
Recommendation: If no protest is filed by a person whose substantial interests are affected within 21 days of the issuance of the Order, this docket should be closed upon the issuance of a Consummating Order.

MOOT

Ashley Quick

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

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.

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 it~~'~~s 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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