

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Fuel and purchased power cost recovery
clause with generating performance incentive
factor

Docket No. 150001-EI

Filed: November 13, 2015

**FLORIDA POWER & LIGHT COMPANY'S POST-
HEARING BRIEF REGARDING ISSUES 1D, 1E, 3B AND 3K**

Florida Power & Light Company ("FPL"), pursuant to the Public Service Commission's ("Commission") Order No. PSC-15-0512-PHO-EI hereby files its post-hearing brief. As directed by the Commission at the November 2 and 3, 2015 hearing in Docket No. 150001-EI, this brief is limited to Issues 1D, 1E, 3B and 3K.

BACKGROUND

At the hearing held in this docket on November 2 and 3, 2015, the Commission approved stipulations for FPL on all Capacity Cost Recovery Clause issues and all Fuel and Purchased Power Cost Recovery ("FCR") Clause issues except for Issues 1D, 1E, 3B and 3K.¹ Tr. 12-13. Issues 1D, 1E and 3B relate to whether the investor-owned utilities should continue the fuel hedging programs which currently are implemented pursuant to the Commission's express policy. Issue 3K relates to the 2015 and 2016 costs that FPL included in the FCR Clause for its Woodford gas reserves project.

The prefiled testimony and exhibits of FPL witnesses Terry J. Keith, Don Grissette and Charles Rote (who adopted the testimony of J. Carine Bullock) were entered into the record and they were excused without cross-examination or questioning by the Commissioners. Tr. 14. FPL presented the live testimony of witness Gerard J. Yupp to address the remaining Issues 1D, 1E, 3B and 3K. The Office of Public Counsel ("OPC") and the Florida Industrial Power Users Group ("FIPUG") cross-examined Mr. Yupp and the hedging witnesses of other Florida

¹ The Commission also approved the parties' stipulation deferring Issue 3J until 2016, pending FPL's efforts to obtain recovery from vendors.

Investor-Owned Utilities (“IOUs”) on both direct and rebuttal testimonies. OPC presented witnesses Tarik Noriega and Daniel J. Lawton to testify regarding hedging. At the close of the hearing, the Commission asked the parties to submit briefs on the issues remaining for resolution. Tr. 1070. FPL addresses those issues below.

**The Record Does Not Support Discontinuing or
Modifying the Commission’s Long-Standing Hedging Policy**

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

FPL: *Yes. Utilities’ natural gas financial hedging programs have worked exactly as intended by the Commission and the utilities to limit the volatility of fuel costs that FPL customers pay. The intervenors have failed to demonstrate that the program should be revised or discontinued.*

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

FPL: *No changes should be made to the manner in which electric utilities currently conduct their natural gas financial hedging activities.*

The burden of proof on the issue of whether the Commission’s long-standing policy of support for hedging should be discontinued rests squarely with the intervenors. It is well-established that “[t]he burden of proof rests with [] the party asserting the proposition to be proved.” *See In re: Petition by Cargill Fertilizer, Inc. for permanent approval of self-service wheeling to, from, and between points within Tampa Electric Company’s service area*, Docket No. 020898-EQ, Order No. PSC-03-0945-PCO-EQ (Aug. 20, 2003) at p. 3 (citing *Stewart Bonded Warehouse, Inc. v. Bevis*, 294 So. 2d 315 (Fla. 1974)), rehearing on burden of proof denied by Order No. PSC-03-1110-FOF-EQ (Oct. 6, 2003). *Also Espinoza v. Dep’t of Bus. and Prof. Regulation*, 739 So. 2d 1250, 1251 (Fla. 3d DCA 1999) (“The general rule is that, apart from statute, the burden of proof is on the party asserting the affirmative of an issue before an administrative tribunal.”); *Balino v. Dep’t of Health and Rehab. Servs.*, 348 So. 2d 349, 350 (Fla. 1st DCA 1977) (same).

Here, it is the intervenors who seek affirmative relief with respect to Issues 1D and 1E. Specifically, the intervenors request that the Commission depart from the hedging policy it established in Order Nos. PSC-02-1484-FOF-EI and PSC-08-0667-PAA-EI. *See Courts v. Agency for Health Care Administration*, 965 So. 2d 154, 159 (Fla. 1st DCA 2007) (“if an agency changes a non-rule based policy, it must either explain its reasons for its discretionary action based upon expert testimony, documentary opinions, or other appropriate evidence . . . or it must implement its changed policy or interpretation by formal rule making.”). But for the issues raised by the intervenors, the IOUs would continue to hedge pursuant to the Commission’s express directives. Accordingly, the intervenors must support by a preponderance of the evidence their position that the Commission’s hedging policy should be discontinued or modified.

As detailed below, the intervenors failed to carry their burden to demonstrate that the Commission should undo its long-standing hedging policy.

History of the Commission’s Hedging Policy

In 2000 and early 2001, Florida experienced an unprecedented rise in natural gas prices that resulted in a significant under-recovery. Customer groups – including those seeking to undo hedging in this docket – voiced complaints about the impact of this natural gas price movement, which amounted to about \$2 per MMBtu. This led to robust discussions regarding how best to mitigate the impact of gas natural price volatility. Tr. 446 (Yupp).

Later in 2001, the Commission established a docket to address issues concerning risk management by IOUs with respect to fuel procurement. *In re: Review of investor-owned electric utilities’ risk management policies and procedures*, Docket No. 011605-EI. By Order No. PSC-02-1484-FOF-EI dated October 30, 2002 (“Order 02-1484”), the Commission approved a stipulation among the IOUs, OPC, and FIPUG that recognized “the importance of managing

price volatility” in the fuel purchased by IOUs to provide electric service to their customers. Pursuant to the stipulation, the greater the proportion of a particular fuel relied upon by a utility, the greater the importance of managing price volatility associated with that energy source. *Id.* at p. 5 (Attachmt. A, ¶ 1). Order 02-1484 directed each IOU to submit a plan annually on how it intended to hedge against that volatility and established a framework for utilities to file information that would facilitate Commission review and approval of hedging costs for fuel clause recovery.

In the years following Order 02-1484, FPL experienced uneven reactions by stakeholders during periods when FPL incurred losses in its hedging program compared to when it achieved gains. *See* Order No. PSC-08-0667-PAA-EI dated October 8, 2008 (“Order 08-0667”). Consequently, in 2008, FPL asked the Commission to institute guidelines under which IOU hedging programs would be reviewed and approved.² In Order 08-0667, the Commission adopted Clarification Guidelines which provide that:

- [A] well-managed hedging program does not involve speculation or attempting to anticipate the most favorable point in time to place hedges. Order 08-0667 at Section IV, part b; Tr. 399 (Yupp).
- The Commission does not expect an IOU to predict or speculate on whether markets will ultimately rise or fall and actually settle higher or lower than the price levels that existed at the time hedges were put into place. Order 08-0667 at Section IV, part d; Tr. 400 (Yupp).
- [H]edging can result in significant lost opportunities for savings in the fuel costs to be paid by customers, if fuel prices actually settle at lower levels than at the time that hedges were placed. Order 08-0667 at Section IV, part d; Tr. 400 (Yupp); and
- The Commission “recognizes this as a reasonable trade-off for reducing customers’ exposure to fuel cost increases that would result if fuel prices actually settle at higher levels than when the hedges were placed.” *Id.*

² FPL’s petition initially presented two alternatives, one being a proposed “volatility mitigation mechanism” that would replace hedging and the other being the expanded guidelines described above. In response to considerable opposition from parties to the proposed volatility mitigation mechanism, FPL withdrew it and asked the Commission to approve the expanded guidelines.

- The Commission “does not intend that an IOU will try to ‘outguess the market’ in choosing the specific timing for effecting hedges or the percentage or volume of fuel hedge.” Order 08-0667 at Section IV, part e.

In that Order, the Commission also acknowledged that “the expectation is that gains and losses will cancel out over the long-run.” Order 08-0667 at p. 9. As recently as 2011, the Commission held a workshop to discuss new information that might affect the IOUs’ hedging activities, including among other things, the development of shale gas and natural gas price volatility. Tr. 861-63 (Lawton). The Commission left the hedging policy intact. *Id.*

The consistent actions taken by the Commission over that nearly ten-year period leave no ambiguity. Hedging is not designed to reduce fuel costs. Rather, hedging is a tool specifically designed to mitigate the volatility of fuel charges. Tr. 400 (Yupp). Ignoring those consistent statements of the purpose of hedging, the intervenors now ask the Commission to revisit the need for hedging because it has not reduced fuel costs.

FPL’s Hedging Program is Well Managed and Consistent With Commission Guidelines

The fundamental principles of hedging are undisputed. As even OPC witness Lawton acknowledges, hedging accomplishes the goal of reducing price volatility by locking in the future price to be paid ahead of time rather than subjecting future fuel purchases to the day-to-day price changes in the market place. Tr. 826 (Lawton). An example of a hedge is the purchase of a future gas quantity at a fixed price, which ensures that the pre-purchased fuel is price-locked irrespective of the future market price. Tr. 826 (Lawton).

The fuel price secured through the hedging transaction may be higher or lower than the future gas market price at the time the commodity is needed and consumed. In other words, “hedges are not designed to beat the future market prices. Instead, hedging programs are designed to lock down prices and avoid the day-to-day volatility in market prices.” Tr. 826 (Lawton); *also* Tr. 378 (Yupp).

FPL's hedging program is designed – and has functioned – exactly as envisioned by the Commission's policy. The primary objective of FPL's hedging program has always been, and remains, the reduction of fuel price volatility. Tr. 398 (Yupp). By design, FPL's hedging program balances the goal of reducing customers' exposure to a volatile fuel price market against the goal of allowing customers to benefit from falling prices. Tr. 400 (Yupp). This is achieved by designing a program that limits hedging to only a portion of the total expected fuel consumption.

FPL's hedging strategies have been successful in achieving these objectives. Tr. 403 (Yupp). FPL has reduced fuel price volatility and delivered greater price certainty to its customers, while also allowing FPL's customers to benefit from falling fuel prices on the unhedged portion of FPL's fuel portfolio. *Id.* For example, earlier this year, FPL customers benefitted from falling gas prices, which were reflected in FPL's mid-course correction. Tr. 400-01.

As OPC witness Lawton recognizes, mid-course corrections are a consequence of “unexpected changes in market price,” or fuel price volatility. Tr. 829 (Lawton). Thus, a fair measure of the reduced volatility achieved through FPL's hedging program is the number of mid-course corrections the Company has avoided since the implementation of Order 02-1484. With hedging in place, fuel clause over-recoveries and under-recoveries have exceeded the Commission's 10 percent midcourse correction threshold only once. In contrast, had FPL not hedged, the 10 percent threshold would have been exceeded *nine* times during that same 13-year period, requiring nine additional mid-course corrections.³ Tr. 444 (Yupp); Exhs. 106, 115.⁴

³ During the course of the technical hearing, FIPUG's counsel appeared to take the position that more mid-course corrections would be a simple substitute for, and preferable over, a hedging program. FIPUG's counsel fails to recognize, however, that the availability of the mid-course correction mechanism does not constitute a changed condition since the Commission adopted

FPL also adheres to the Commission's guidelines by maintaining a disciplined approach that does not involve speculation or "out guessing the market." Tr. 399 (Yupp). Somewhat paradoxically, OPC witness Lawton criticizes FPL's hedging program because it is "automatic." He misses the point. Pursuant to Order 08-0667, FPSC-regulated hedging programs must be automatic to a certain degree. Tr. 941 (Yupp). Consistent with the Commission's guidelines, FPL implements a well-disciplined, well defined and well-controlled program that eliminates any aspect of market speculation, helps mitigate the impact of price spikes, and allows customers to benefit from falling market prices.⁵ Tr. 378, 941 (Yupp).

Unsatisfied with FPL's documented achievements in providing fuel price stability for customers, the intervenors assert that the hedging program should be discontinued because FPL has experienced losses and because, according to OPC witness Lawton, market conditions over the past few years indicate that future fuel prices will be low and steady. As detailed below, the intervenors' criticisms ignore the plain language of the Commission's hedging policy and are premised on speculation and flawed analyses.

and later confirmed its support for hedging. Mid-course corrections were already available in 2002 when the Commission adopted its hedging policy as a tool to mitigate volatility. *See* PSC Order No. 13694 at pp. 9-10. *In re: Fuel and purchased power cost recovery clause with generating performance incentive factor; In re: Purchased gas cost recovery clause*, Docket Nos. 840001-EI and 840003-GU, Order No. 13694 (Sept. 20, 1984) at pp. 9-10.

⁴ FPL's calculated the number of mid-course corrections avoided due to hedging by comparing (i) how much FPL had over-collected or under-collected its fuel costs at the end of each year (in total dollars and percentages) against (ii) a recalculation of the over- and under-collections with the impact of FPL's hedges removed. Exh. 115 (at FPL's corrected response to OPC's 12th Set of Interrogatories No. 127).

⁵ Additionally, FPL does not make any profit or return on natural gas financial hedging transactions entered into between the company and its hedging counterparties; it has no affiliate relationships with its hedging financial counterparties; and FPL adheres to strict corporate policies and procedures for its employees, including officers, which help prevent conflicts of interest as it relates to financial hedging transactions. Tr. 419 (Yupp).

“Losses”

The intervenors assert that the IOUs’ hedging programs are not functioning properly and should be discontinued because the utilities have experienced losses in five of the six years between 2009 and 2014. Tr. 822-23 (Lawton). This disregards entirely the plain terms of Orders 02-1484 and 08-0667 in two ways. *First*, the Commission acknowledged unambiguously that hedging can result in significant lost opportunities for savings. The Intervenor has done nothing more than recite the long-understood expectation that these lost opportunities will occur under the hedging program some of the time. The Commission expressly recognized that these lost opportunities are a “reasonable trade-off” for stability. The logical implication is that financial impact should not drive the evaluation for the success of a hedging program.

Second, assessing the success of a hedging program by analyzing the financial results also contradicts the Commission’s directive because it would require utilities to engage in speculation. Order 08-0667 directed utilities not to try to out-guess the market, and, since 2002, the Commission has emphasized that hedging should be non-speculative. Under OPC’s analytical framework, however, utilities would be forced to gamble on the timing of hedges in an effort to generate gains and avoid losses.

Thus, by the very rules established by the Commission, the success of a hedging program cannot be evaluated based on gains and losses. The goal of the program is to reduce volatility. Tr. 443 (Yupp). Gains and losses are a byproduct – not the centerpiece – of volatility mitigation. Under a well-managed hedging program such as FPL’s, volatility is reduced whether prices turn out unexpectedly high or low. Tr. 440 (Yupp).

Although OPC witness Lawton focused his testimony on the benefits associated with declining fuel prices, when pressed on cross-examination he acknowledged that fuel prices both rise and fall and that if gas prices rise, customers would benefit from having secured lower prices

through the hedging program. Tr. 893 (Lawton). Indeed, as recently as 2014, FPL experienced more than \$116 million in gains as a result of having locked in prices in 2013 for a portion of the following year's fuel portfolio. Exh. 105. It is to be expected that volatility will cycle through periods of gains and losses.⁶ Intervenors presented no credible evidence that the gains and losses resulting from FPL's hedging program will not offset each other over time.

Decline in volatility and prices

The intervenors assert that hedging should be discontinued on the additional ground that, based on both historical and projected natural gas market data, future fuel prices are expected to be low and stable. As a threshold matter, OPC witness Lawton's suggestion that low prices will continue into the future is based on the fact that there is now an ample supply of shale gas present in the market. Tr. 823 (Lawton). Witness Lawton offers no explanation, however, for the volatility experienced in 2014, a year in which shale gas supply was ample yet FPL experienced one of the highest volatility levels since the inception of the hedging program. Tr. 451-52, Exh. 107. (Yupp)

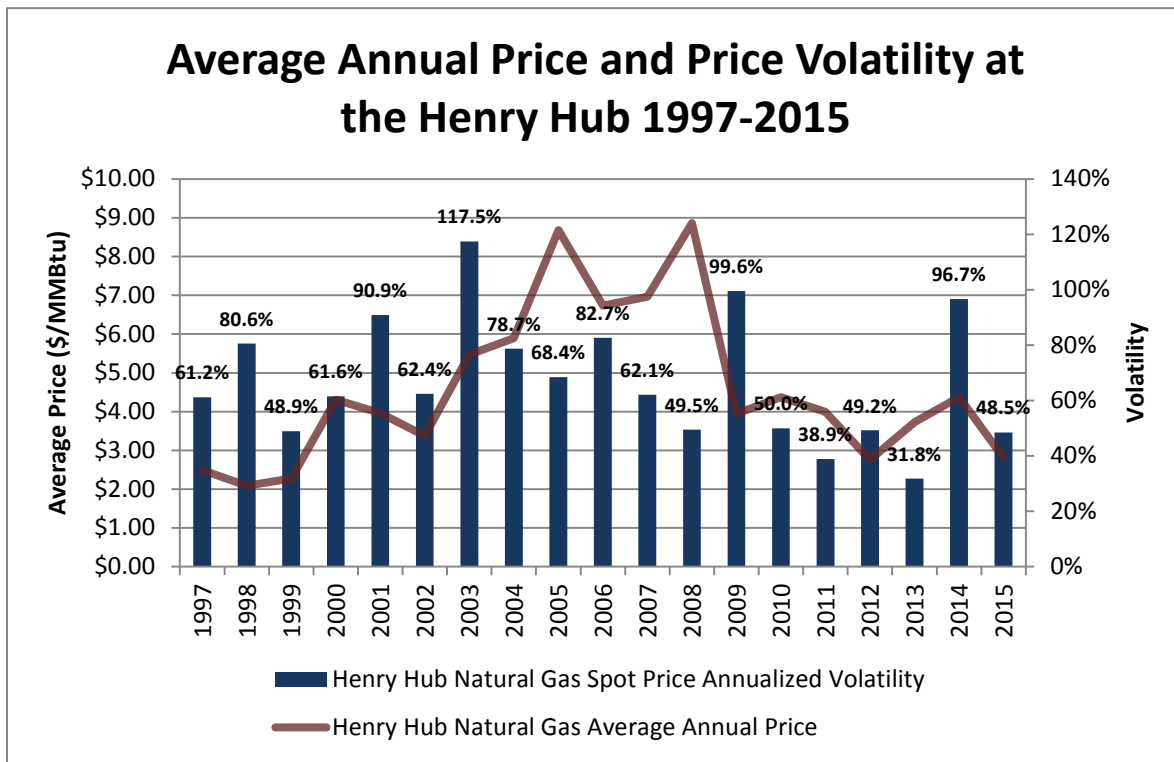
Beyond that critical unexplained fact, the intervenors' analyses are flawed in several additional ways: (i) the historical data reveal no consistent pattern in the volatility of fuel prices, (ii) future forecasts show the potential for significant swings and (iii) a period of low fuel prices is precisely the wrong time to stop hedging.

Historical data reveal no consistent pattern in the volatility of fuel prices. First, OPC witness Lawton's focus on a multi-year average or "trend" in the degree of volatility masks large and unpredictable year-to-year swings. Tr. 944-45 (Yupp). For example, as alluded to above,

⁶ As the Commission anticipated in Order 08-0667, FPL's annual hedging gains and losses did essentially equal each other out in the early years from about 2002 through 2008. Tr. 976 (Yupp). While market prices have declined in recent years, it would be speculative to conclude today that the gains will not offset losses in future years.

the annual volatility in the natural gas market for 2014 reached the third highest level over the 18 year-period from 1997 through 2014. Tr. 945 (Yupp). The volatility experienced in the immediately preceding year, 2013, dipped to the lowest level during the same 18-year period. *Id.* This 65% volatility increase from 2013 to 2014 represents the largest year-on-year increase over the entire period that OPC witness Lawton evaluated.

Even OPC witness Lawton admitted to the significant year-to-year swings. Tr. 885 (Lawton).



As shown graphically in Exhibit 107 (above), examples of actual year-to-year swings experienced by FPL include moving from a 55% increase in the level of volatility to a 39% decrease (2002-2004) as well as movement from a 13% decrease to a 50% increase followed by

a fifty percent decrease (2007-2010). Exh. 107. This empirical data demonstrates beyond a doubt that averaging volatility can obscure the impact of price movement. Tr. 945 (Yupp).⁷

Even if one focuses on the more recent past, FPL has experienced a wide range of volatility. Looking at the years since 2008, four of the years have exhibited roughly the same, fairly high level of volatility. In the remaining years, volatility spiked high twice and decreased twice. Tr. 995 (Yupp).

Second, while the intervenors assume that historical market data can be used to predict the future, they presented no competent evidence showing that prior year market volatility positions could be used for this purpose. Exhibit 107 illustrates the opposite. For example, as explained by FPL witness Yupp:

[H]ad [one] tried to predict the volatility in 2009 based on the trend in the prior three years (2006-2008), one would have seen a consistent trend of declining volatility and probably predicted that 2009 would have volatility of 40% or less. In fact, however, the 2009 volatility proved to be more than double that figure: 99.6%, the second highest level between 1997 and 2014. Similarly, if one had tried to use volatility in 2010 to 2013 to predict 2014 volatility, one would have seen volatility in the 30%-50% range and probably predicted more of the same for 2014. Instead, the 2014 volatility was 96.7%, the third highest value in the 1997-2014 period.

Tr. 946-48 (Yupp).

In fact, there is no evidence in the record – from OPC witness Lawton or otherwise – demonstrating that, over the past 13 years, current or prior volatility levels ever served as a reliable indicator of future volatility. Nor do the intervenors offer any valid explanation as to why the ability to predict volatility over the next few years would be any different.⁸

⁷ Likewise, EIA published data regarding Henry Hub natural gas spot prices from 2011 to 2015 reflected a four dollar-range from \$2 to \$6 for that four-year period. Tr. 985-986 (Yupp); Exh. 126 at pg. 11. On a system the size of FPL's, that movement represents \$1.2 billion. See Tr. 974, 981 (Yupp).

⁸ As stated previously, the suggestion that ample shale gas production serves as the basis for predicting future market conditions fails to account for the 2014 volatility spike.

Third, OPC witness Lawton’s “trend” line purporting to show a decline in volatility lacks statistical validity. A regression analysis performed by FPL witness Yupp on the same data showed that the trend line was not a valid predictor of volatility. His analysis showed that the correlation coefficient was “essentially zero,” meaning that there was no statistically significant correlation between the trend line and the values that reflect the annual volatility levels from 1997 to 2015. Tr. 995-96 (Yupp). Witness Lawton’s “trend” represents little more than an arbitrary straight line drawn between the beginning and ending points of the data set and provides no valid evidentiary support for his contention that volatility is declining over that period.

Finally, even if one accepted witness Lawton’s volatility calculations, the “average” volatility over the 2011 to 2015 time frame is actually *higher* than the volatility experienced during 2008 and 2011, the years in which the Commission reaffirmed its support for hedging. Tr. 879-880 (Yupp). Had the Commission been concerned with average volatility, as opposed to unexpected spikes or swings, the Commission presumably would have discontinued hedging during the 2008 proceedings or 2011 workshop. Instead, in both instances the Commission reaffirmed its support for hedging.

Future forecasts show the potential for significant swings. Future price projections do not support the intervenors’ predictions of low, stable gas prices. Data published by the United States Energy Information Administration (“EIA”), a source OPC witness Lawton deems reliable, shows an expected average price for 2016 of \$2.83 per MMBtu but then goes on to show an average spread of approximately \$3.05 per MMBtu between the lower 95% confidence interval (average price of \$1.70 per MMBtu) and the upper 95% confidence interval (average

price of \$4.75 per MMBtu) for that year. Tr. 993 (Yupp); Exh. 126 at p. 12.⁹ That \$3.05 spread represents an uncertainty of over \$1.8 billion in the cost of natural gas on FPL's system in a single year. See Tr. 974, 981 (Yupp) (noting that a one-cent movement in the price of gas represents a \$6 million change in fuel costs for FPL's system). In percentage terms, the EIA data shows that natural gas prices for 2016 can potentially range from 67% above the forecasted price point to 40% below the forecasted price point. Exh. 126 at p. 12. Thus, by the EIA's own assessment, there is a high level of expected volatility in 2016 natural gas prices from the perspective of both total dollars and percentages.

In addition, the intervenors' prognostications of future market activity entirely fail to account for the unknown. Weather is one rather straightforward example. OPC witness Lawton expressly recognized that adverse weather played a role in the substantial volatility and price spikes experienced in the early 2000s. Tr. 824 (Lawton). He also admits that weather conditions can significantly affect natural gas prices as a general principle and that future weather conditions cannot be predicted with a high degree of accuracy a year or more into the future. Tr. 883-84 (Lawton). Thus, by OPC witness Lawton's own admissions, unexpected weather events can lead to unexpected spikes, and his attempt to disregard extreme weather as an "outlier" is disingenuous. At bottom, these unexpected events are precisely what the hedging programs are designed to address, because, in an unhedged portfolio, FPL must pay the prevailing market prices for its natural gas, including the price increases that result from extreme weather. Tr. 945 (Yupp).

⁹ Even the graph upon which FIPUG's counsel relied – which did not include the confidence levels – showed Henry Hub spot prices from January 2011 through the present which moved from slightly above \$4 down to \$2 and then slightly above \$6. Tr. 986 (Yupp); Exh. 126.

Discontinuing hedging now would be especially ill-timed. It is undisputed that today's natural gas prices are historically low. Witness Lawton's assertion that one should stop hedging now because gas prices are low defies elementary market principles. Lower prices make hedging even more valuable due to the asymmetrical risks associated with price movement. Tr. 947 (Yupp). Prices cannot go below zero even in theory, and in reality they cannot go below the variable cost of production over any extended period of time. Tr. 421, 947 (Yupp). Therefore, if natural gas is forecasted to settle on average in the \$2 to \$3 per MMBtu range, the downside risk has to be less than the upside risk because prices cannot go much below that average and still cover the cost of production. In contrast, there is no upper limit on how much higher prices might rise above the expected \$2 to \$3 per MMBtu. Tr. 421, 947 (Yupp). Locking in the current low prices offers an opportunity to benefit from a market environment in which the likelihood of prices rising and thus creating hedging gains exceeds the likelihood of prices falling and producing hedging losses. Simply put, now is not the time to discontinue hedging.

FPL confirmed this asymmetrical distribution utilizing the Black Scholes model (a commonly used tool to assess volatility in the commodities markets). Tr. 947-48 (Yupp). Exhibit 108 presents the results of Black Scholes calculations of the probable range of prices above and below a forecasted value given different levels of volatility. As one illustration, if future volatility were equal to the average over the 1997-2014 period of 68%, then for the current expected market price of \$2.75 per MMBtu, one could be 95% confident that prices would be higher than \$2.01 per MMBtu and lower than \$3.78 per MMBtu. Thus, the lowest probable price is only \$0.74 per MMBtu below the expected price, while the highest probable price is \$1.03 per MMBtu higher. For a system the size of FPL's, this represents a potential range for natural gas costs that could be \$444 million lower but up to \$619 million higher than expected costs in an unhedged portfolio. In other words, the "upside" would be about \$175 million more than the

“downside.” Tr. 948, 954 (Yupp). It simply would not make sense to discontinue hedging in the face of this asymmetric distribution of potential upside and downside outcomes.

Furthermore, if hedging were discontinued now and prices spiked after all existing hedges expire, a decision to restart the program would fall the proverbial day late and a dollar short. As OPC witness Lawton recognized, neither FPL nor any other utility would be in a position to hedge against those increases that had already occurred. Tr. 891 (Lawton). Any significant under-recovery that might result could leave more customers unable to pay their bills. Tr. 990-91 (Yupp).

In conclusion, the intervenors fail to satisfy their burden of proving that the Commission’s existing hedging policy is not functioning and should be discontinued. To the contrary, hedging has served as an effective volatility mitigation tool for FPL’s customers, and, because approximately 72% of the electricity that FPL produces is currently generated with natural gas, reducing volatility will continue to be important. Tr. 981-82 (Yupp). Going forward, hedging will continue to mitigate the risk that a significant piece of the FPL customers’ fuel bill will swing due to price spikes or volatility in the market. Tr. 982 (Yupp).

Price stability for customers also produces other valuable benefits. Stable fuel prices facilitate customer planning and budgeting, and they help avoid the costs associated with customers’ inability to pay. In addition, utilities experience greater alignment between forecasts and actual results, which mitigates over-recoveries and under-recoveries and the associated carrying costs. Tr. 781-83 (Caldwell).

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Statement of Position on Issues 3B and 3K

ISSUE 3B: Should the Commission approve FPL's 2016 Risk Management Plan?

FPL: *Yes. On August 5, 2008, FPL filed a petition in the fuel docket requesting approval of Hedging Order Clarification Guidelines (the "Hedging Guidelines"). The Hedging Guidelines were approved by the Commission. Section I of the Hedging Guidelines provides for investor-owned utilities such as FPL to file a risk management plan covering the activities to be undertaken during the following calendar year for hedges applicable to subsequent years, and for the Commission to review such plans for approval as part of the annual fuel adjustment proceeding. FPL's 2016 Risk Management Plan is consistent with the Hedging Guidelines and should be approved.*

FPL filed its 2016 Risk Management Plan (or the "Plan") as part of its annual Fuel Cost Recovery and Capacity Cost Recovery Actual/Estimated True-Up filing. Tr. 401 (Yupp); Exh. 4 (Confidential). FPL's 2016 Plan is consistent with the Hedging Order Clarification Guidelines, as required by Order 08-0667, and remains consistent with the overall objectives described in FPL's discussion of Issue 1D above. *Id.* Pursuant to the Proposed Resolution of Issues approved in Order 02-1484, FPL's Plan addresses Items 1-9, 16 and 13-15 of Exhibit TFB-4. Additionally, FPL's 2016 Risk Management Plan specifically addresses the percentages and parameters within which FPL intends to place hedges during 2016 for its projected natural gas requirements in 2017. Tr. 401-02 (Yupp). The Plan also details several process and reporting requirements that are included in the Gas Reserves Guidelines approved in Order PSC-15-0284-FOF-EI, dated July 14, 2015.

There has been no suggestion by the intervenors that FPL's 2016 Risk Management Plan does not comply with the Commission's existing policies. Accordingly, the Commission should approve FPL's Plan.

ISSUE 3K: What costs are appropriate for FPL's Woodford natural gas exploration and production project for recovery through the Fuel Clause?

FPL: *The amount of total system recoverable expenses related to FPL's Woodford Project that FPL should be allowed to recover through the Fuel Clause for 2015 and 2016 are \$24,611,461 and \$53,777,690, respectively.*

By Order No. PSC-15-0038-FOF-EI, dated January 12, 2015, the Commission determined that FPL's investment in the Woodford natural gas reserves project is prudent and that associated costs are fuel clause recoverable. As set forth in Exhibit 12, the amount of total system recoverable expenses related to FPL's Woodford Project that FPL should be allowed to recover for 2015 and 2016 are \$24,611,461 and \$53,777,690, respectively. Exh. 12 (FPL 2016 E-Schedules, January through May 2016), pp. 91-94; *also see* Tr. 397, 423 (Yupp). No party disputed the appropriateness of these estimated costs.¹⁰

WHEREFORE, FPL respectfully requests that the Commission deny the intervenors' request to discontinue the established hedging policy, approve FPL's 2016 Risk Management Plan and approve for recovery through the fuel clause the 2015 and 2016 Woodford Project costs requested by FPL, as set forth in Issues 1D, 1E, 3B and 3K.

Respectfully submitted,

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¹⁰ During the technical hearing, FIPUG's counsel questioned whether the 2015 Woodford Project costs had been audited yet. Staff witness Small explained that the this year's Fuel Clause audit was limited to 2014 historical costs and therefore did not include 2015 Woodford Project costs (or any other 2015 costs). Tr. 927 (Small).

CERTIFICATE OF SERVICE

Docket No. 150001-EI

I **HEREBY CERTIFY** that a true and correct copy of Florida Power & Light Company's Post-Hearing Brief has been furnished by electronic delivery on November 13, 2015 to the following:

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