A BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Fuel and Purchased Power Cost Recovery Clause with Generating Performance Incentive Factor _____________________________________/	DOCKET NO. 160001-EI FILED: October 4, 2016

PREHEARING STATEMENT OF THE OFFICE OF PUBLIC COUNSEL

The Citizens of the State of Florida, through the Office of Public Counsel, pursuant to the Orders Establishing Procedure in this docket, Order No. PSC-16-0109-PCO-EI, issued March 17, 2016, submit this Prehearing Statement.

APPEARANCES:

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On behalf of the Citizens of the State of Florida.

1. WITNESSES:

The Citizens intend to call the following witnesses, who will address the issues indicated:

NAME	ISSUES
Tarik Noriega	1A, 1B (Hedging Issues)
Daniel J. Lawton	1A, 1B (Hedging Issues)

2. EXHIBITS:

Witness	Exhibits	Title
T. Noriega	TN-1	Résumé of Tarik Noriega
T. Noriega	TN-2	IOU Natural Gas Hedging Gains/(Losses) From 2002-2015
T. Noriega	TN-3	IOU Discovery Responses
D. Lawton	DJL-1	Resume of Daniel J. Lawton
D. Lawton	DJL-2	Testimony & Exhibits of Daniel J. Lawton filed in Docket No. 150001-EI
D. Lawton	DJL-3	Monthly Henry Hub Spot Prices $/MMBTU
D. Lawton	DJL-4	Hedging Gains & Losses Summary (2002-2016)
D. Lawton	DJL-5	Excerpt From Dewhurst Deposition
D. Lawton	DJL-6	FPL Witness Yupp's 2015 Analysis of Hedging Volatility Reduction Benefits
D. Lawton	DJL-7	Alternative Non-Hedging Fuel Factor

3. STATEMENT OF BASIC POSITION

Hedging Issues 1A and 1B

The Commission should re-examine and, based on the evidence submitted by the OPC, discontinue natural gas financial hedging practices by Florida investor-owned utilities. The testimony of Tarik Noriega and Dan Lawton provides compelling evidence that natural gas financial hedging is not in the best interests of Florida's electric utility customers. The costs of hedging paid by customers has exceeded $6.5 billion. These customer costs greatly outweigh any customer or shareholder benefits (e.g., reduced fuel price volatility experienced by customers, and reduced shareholder liquidity risks) received from hedging.

OPC witness Noriega reviewed the hedging gains (savings) and costs (losses) incurred since 2002 by the four Companies which financially hedge natural gas – Florida Power & Light Company (FPL), Duke Energy Florida (DEF or Duke), Gulf Power Company (Gulf), and Tampa Electric Company (TECO) (collectively, Companies). From 2002 to 2015, the cumulative natural gas hedging losses for these Companies are approximately $6.2 billion dollars. For 2016, the actual and estimate hedging losses exceed $443 million, bringing the combined hedging losses paid by customers to over $6.5 billion dollars. If the natural gas financial hedging programs are allowed to continue, OPC believes these losses are likely to continue detrimentally impacting the Companies' customers.

The stated purpose of natural gas financial hedging is to protect customers from fuel price volatility. However, the Commission's *annual* fuel adjustment clause proceeding and mid-course correction rule already effectively, efficiently, and economically mitigate against and reduce fuel price volatility experienced by the customers on their monthly bills. Unlike financial hedging, the annual fuel adjustment clause and mid-course correction rule do not result in lost cost opportunities for customers, while still mitigating the impacts of fuel price volatility.

While customers pay all the hedging costs, OPC witness Lawton describes how the shareholders reap the benefit of reduced shareholder liquidity risk. Shareholders' liquidity risks are reduced because the Companies are able to recover all their hedged fuel costs on a current basis, which is not the case if there is a significant under-recovery. Thus, Companies have an incentive to continue hedging in the face of financial losses.

It is the utilities' burden of proof to demonstrate that the customer benefits of continuing natural gas financial hedging to decrease fuel price volatility, as well as the shareholder benefits of reduced liquidity risk outweigh the costs of hedging as evidenced by the over $6.5 billion in customer costs paid since 2002 ($2.4 billion since 2011). If financial hedging is an insurance policy against fuel price volatility, then $6.5 billion is an unacceptable premium paid by the customers to protect them from something that is already sufficiently mitigated by the annual fuel adjustment clause mechanism and mid-course correction rule.

OPC submits the natural gas financial hedging programs should be reevaluated and terminated based upon the current condition of the natural gas markets and projections. The Commission should deny the Company's Risk Management Plans as they relate to natural gas financial hedging activities, and should suspend and end the practice of natural gas financial hedging. The hedging transactions currently in place pursuant to Commission approved Risk Management Plans should be allowed to settle; however, the Commission should direct the Companies not to enter into any additional financial hedging transactions until such time as the Companies prove that financial hedging would provide a net benefit to the customers without the enormous downside costs cumulatively experienced by the customers since 2002.

OPC takes no position on other hedging activities described in the Companies' proposed 2016 Risk Management Plans. However, to the extent these other activities would authorize the hedging of natural gas, the plans should be rejected.

Other Issues

The utilities have the burden of proof to justify and support the recovery of costs and their proposal(s) seeking the Commission's adoption of policy statements (whether new or changed) or other affirmative relief sought, regardless of whether the Interveners provide evidence to the contrary. Regardless of whether the Commission has previously approved a program as meeting the Commission's requirements, the utilities must still meet their burden of demonstrating that the costs submitted for final recovery meet the statutory test(s) and are reasonable in amount and prudently incurred.

4. STATEMENT OF FACTUAL ISSUES AND POSITIONS

I. FUEL ISSUES

HEDGING ISSUES

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

OPC: No. For the facts and reasons described in the testimonies of OPC witnesses Noriega and Lawton and in OPC's basic position, it is not in the best interest of the customers for the Companies to continue natural gas financial hedging activities. The cost to the customers, $6.5 billion and counting, greatly outweighs any benefits to the customers in fuel price volatility reduction or the shareholders in liquidity risk reduction. Further, customers should not be paying to reduce shareholder liquidity risks.

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

OPC: For the facts and reasons described in the testimonies of OPC witnesses Noriega and Lawton and in OPC's basic position, the Commission should deny the Company's proposed Risk Management Plans and should suspend and end the practice of natural gas financial hedging at this time.

FIPUG (Contested Issues)

ISSUE 1C: What were the financial results for each IOUs natural gas hedging activities for 2015?

OPC:

Duke	($225,543,645)	loss
FPL	($504,393,229)	loss
Gulf	($50,572,362)	loss
TECO	($39,842,325)	loss
Total	($820,351,561)	loss

ISSUE 1D: What were the financial results for each IOUs natural gas hedging activities for 2016 as of July 31, 2016?

OPC:

Duke	($114,900,000)	loss
FPL	($190,763,980)	loss
Gulf	($37,505,696)	loss
TECO	($17,877,735)	loss
Total	($361,047,411)	loss

COMPANY-SPECIFIC FUEL ADJUSTMENT ISSUES

Duke Energy Florida, Inc.

ISSUE 2A: Should the Commission approve as prudent DEF's actions to mitigate the volatility of natural gas, residual oil, fuel oil, and purchased power prices, as reported in DEF's April 2016 and August 2016 hedging reports?

OPC: No as to natural gas for the reasons OPC has set forth in Issues IA and IB.

ISSUE 2B: What action should Commission take regarding DEF's 2017 Risk Management Plan?

OPC: Deny approval for the reasons OPC has set forth in Issues IA and IB.

ISSUE 2C: Has DEF made appropriate adjustments, if any are needed, to account for replacement costs associated with the May 2016 forced outage at the Hines plant? If appropriate adjustments are needed and have not been made, what adjustment(s) should be made?

OPC: No position at this time.

Florida Power & Light Company

ISSUE 3A: Should the Commission approve as prudent FPL's actions to mitigate the volatility of natural gas, residual oil, fuel oil, and purchased power prices, as reported in FPL's April 2016 and August 2016 hedging reports?

OPC: No as to natural gas for the reasons OPC has set forth in Issues IA and IB.

ISSUE 3B: **What action should the Commission take regarding FPL's 2017 Risk Management Plan?**

OPC: Deny approval for the reasons OPC has set forth in Issues IA and IB.

ISSUE 3C: **What is the total gain in 2015 under the Incentive Mechanism approved in Order No. PSC-13-0023-S-EI, and how is that gain to be shared between FPL and customers?**

OPC: No position at this time.

ISSUE 3D: **What is the appropriate amount of Incremental Optimization Costs under the Incentive Mechanism that FPL should be allowed to recover through the fuel clause for Personnel, Software, and Hardware costs for the period January 2015 through December 2015?**

OPC: No position at this time.

ISSUE 3E: **What is the appropriate amount of Incremental Optimization Costs under the Incentive Mechanism that FPL should be allowed to recover through the fuel clause for variable power plant O&M costs incurred to generate output for wholesale sales in excess of 514,000 megawatt-hours for the period January 2015 through December 2015?**

OPC: No position at this time.

ISSUE 3F: **What is the appropriate amount of Incremental Optimization Costs under the Incentive Mechanism that FPL should be allowed to recover through the fuel clause for Personnel, Software, and Hardware costs for the period January 2016 through December 2016?**

OPC: No position at this time.

ISSUE 3G: **What is the appropriate amount of Incremental Optimization Costs under the Incentive Mechanism that FPL should be allowed to recover through the fuel clause for variable power plant O&M costs incurred to generate output for wholesale sales in excess of 514,000 megawatt-hours for the period January 2016 through December 2016?**

OPC: No position at this time.

ISSUE 3H: **If the Commission approves FPL's petition to continue the Incentive Mechanism with modifications in Docket No. 160088-EI, what is the appropriate amount of Incremental Optimization Costs under the Incentive Mechanism that FPL should be allowed to recover through the fuel clause for Personnel, Software, and Hardware costs for the period January 2017 through December 2017?**

OPC: No position at this time.

ISSUE 3I: **If the Commission approves FPL's petition to continue the Incentive Mechanism with modifications in Docket No. 160088-EI, what is the appropriate amount of Incremental Optimization Costs under the Incentive Mechanism that FPL should be allowed to recover through the fuel clause for variable power plant O&M costs associated with wholesale economy sales and purchases for the period January 2017 through December 2017?**

OPC: No position at this time.

ISSUE 3J: **Is $1,890,528 the appropriate refund amount associated with the Cape Canaveral Energy Center (CCEC) GBRA true-up?**

OPC: No position at this time.

ISSUE 3K: **What amount should be refunded to customers in the Fuel Clause as a result of the Florida Supreme Court's decision on the Woodford gas reserves project?**

OPC: No position at this time.

Florida Public Utilities Company

No company-specific issues for Florida Public Utilities Company have been identified at this time. If such issues are identified, they shall be numbered 4A, 4B, 4C, and so forth, as appropriate.

Gulf Power Company

ISSUE 5A: **Should the Commission approve as prudent Gulf's actions to mitigate the volatility of natural gas, residual oil, and purchased power prices, as reported in Gulf's April 2016 and August 2016 hedging reports?**

OPC: No as to natural gas for the reasons OPC has set forth in Issues IA and IB.

ISSUE 5B: **What action should Commission take regarding Gulf's 2017 Risk Management Plan?**

OPC: Deny approval for the reasons OPC has set forth in Issues IA and IB.

Tampa Electric Company

ISSUE 6A: **Should the Commission approve as prudent TECO's actions to mitigate the volatility of natural gas, residual oil, and purchased power prices, as reported in TECO's April 2016 and August 2016 hedging reports?**

OPC: No as to natural gas for the reasons OPC has set forth in Issues IA and IB.

ISSUE 6B: **What action should Commission take regarding TECO's 2017 Risk Management Plan?**

OPC: Deny approval for the reasons OPC has set forth in Issues IA and IB.

GENERIC FUEL ADJUSTMENT ISSUES

ISSUE 7: **What are the appropriate actual benchmark levels for calendar year 2016 for gains on non-separated wholesale energy sales eligible for a shareholder incentive?**

OPC: No position at this time.

ISSUE 8: **What are the appropriate estimated benchmark levels for calendar year 2017 for gains on non-separated wholesale energy sales eligible for a shareholder incentive?**

OPC: No position at this time.

ISSUE 9: **What are the appropriate final fuel adjustment true-up amounts for the period January 2015 through December 2015?**

OPC: No position at this time.

ISSUE 10: **What are the appropriate fuel adjustment actual/estimated true-up amounts for the period January 2016 through December 2016?**

OPC: No position at this time.

ISSUE 11: **What are the appropriate total fuel adjustment true-up amounts to be collected/refunded from January 2017 to December 2017?**

OPC: No position at this time.

ISSUE 12: **What are the appropriate projected total fuel and purchased power cost recovery amounts for the period January 2017 through December 2017?**

OPC: No position at this time.

COMPANY-SPECIFIC GENERATING PERFORMANCE INCENTIVE FACTOR ISSUES

Duke Energy Florida, Inc.

No company-specific issues for Duke Energy Florida, Inc. have been identified at this time. If such issues are identified, they shall be numbered 13A, 13B, 13C, and so forth, as appropriate.

Florida Power & Light Company

No company-specific issues for Florida Power & Light Company have been identified at this time. If such issues are identified, they shall be numbered 14A, 14B, 14C, and so forth, as appropriate.

Gulf Power Company

No company-specific issues for Gulf Power Company have been identified at this time. If such issues are identified, they shall be numbered 15A, 15B, 15C, and so forth, as appropriate.

Tampa Electric Company

No company-specific issues for Tampa Electric Company have been identified at this time. If such issues are identified, they shall be numbered 16A, 16B, 16C, and so forth, as appropriate.

GENERIC GENERATING PERFORMANCE INCENTIVE FACTOR ISSUES

ISSUE 17: **What is the appropriate generation performance incentive factor (GPIF) reward or penalty for performance achieved during the period January 2015 through December 2015 for each investor-owned electric utility subject to the GPIF?**

OPC: No position at this time.

ISSUE 18: **What should the GPIF targets/ranges be for the period January 2017 through December 2017 for each investor-owned electric utility subject to the GPIF?**

OPC: No position at this time.

FUEL FACTOR CALCULATION ISSUES

ISSUE 19: **What are the appropriate projected net fuel and purchased power cost recovery and Generating Performance Incentive amounts to be included in the recovery factor for the period January 2017 through December 2017?**

OPC: No position at this time.

ISSUE 20: **What is the appropriate revenue tax factor to be applied in calculating each investor-owned electric utility's levelized fuel factor for the projection period January 2017 through December 2017?**

OPC: No position at this time.

ISSUE 21: **What are the appropriate levelized fuel cost recovery factors for the period January 2017 through December 2017?**

OPC: No position at this time.

ISSUE 22: **What are the appropriate fuel recovery line loss multipliers to be used in calculating the fuel cost recovery factors charged to each rate class/delivery voltage level class?**

OPC: No position at this time.

ISSUE 23: **What are the appropriate fuel cost recovery factors for each rate class/delivery voltage level class adjusted for line losses?**

OPC: No position at this time.

II. CAPACITY ISSUES

COMPANY-SPECIFIC CAPACITY COST RECOVERY FACTOR ISSUES

Duke Energy Florida, Inc.

ISSUE 24A: Has DEF included in the capacity cost recovery clause the nuclear cost recovery amount ordered by the Commission in Docket No. 160009-EI?

OPC: No position at this time.

ISSUE 24B: What is the appropriate amount of costs for the Dry Cask Storage Facility that DEF should be allowed to recover through the Capacity Cost Recovery Clause pursuant to the 3rd Amendment to the RRSSA?

OPC: No position at this time.

Florida Power & Light Company

ISSUE 25: If the Commission does not approve recovery of the WCEC-3 revenue requirement through base rates in Docket No. 160021-EI, what are the appropriate 2017 projected non-fuel revenue requirements for West County Energy Center Unit 3 (WCEC-3) to be recovered through the Capacity Clause?

OPC: No position at this time.

Gulf Power Company

No company-specific issues for Gulf Power Company have been identified at this time. If such issues are identified, they shall be numbered 26A, 26B, 26C, and so forth, as appropriate.

Tampa Electric Company

No company-specific issues for Tampa Electric Company have been identified at this time. If such issues are identified, they shall be numbered 27A, 27B, 27C, and so forth, as appropriate.

GENERIC CAPACITY COST RECOVERY FACTOR ISSUES

ISSUE 28: **What are the appropriate final capacity cost recovery true-up amounts for the period January 2015 through December 2015?**

OPC: No position at this time.

ISSUE 29: **What are the appropriate capacity cost recovery actual/estimated true-up amounts for the period January 2016 through December 2016?**

OPC: No position at this time.

ISSUE 30: **What are the appropriate total capacity cost recovery true-up amounts to be collected/refunded during the period January 2017 through December 2017?**

OPC: No position at this time.

ISSUE 31: **What are the appropriate projected total capacity cost recovery amounts for the period January 2017 through December 2017?**

OPC: No position at this time.

ISSUE 32: **What are the appropriate projected net purchased power capacity cost recovery amounts to be included in the recovery factor for the period January 2017 through December 2017?**

OPC: No position at this time.

ISSUE 33: **What are the appropriate jurisdictional separation factors for capacity revenues and costs to be included in the recovery factor for the period January 2017 through December 2017?**

OPC: No position at this time.

ISSUE 34: **What are the appropriate capacity cost recovery factors for the period January 2017 through December 2017?**

OPC: No position at this time.

III. EFFECTIVE DATE

ISSUE 35: **What should be the effective date of the fuel adjustment factors and capacity cost recovery factors for billing purposes?**

OPC: No position at this time.

ISSUE 36: **Should the Commission approve revised tariffs reflecting the fuel adjustment factors and capacity cost recovery factors determined to be appropriate in this proceeding?**

OPC: No position at this time.

ISSUE 37: **Should this docket be closed?**

OPC: No.

5. STIPULATED ISSUES:

   None.

6. PENDING MOTIONS:

   OPC has no pending motions.

7. STATEMENT OF PARTY'S PENDING REQUESTS OR CLAIMS FOR CONFIDENTIALITY:

   OPC has no pending requests or claims for confidentiality.

8. OBJECTIONS TO QUALIFICATION OF WITNESSES AS AN EXPERT:

OPC has no objection to qualifications of witnesses.

9. STATEMENT OF COMPLIANCE WITH ORDER ESTABLISHING PROCEDURE:

There are no requirements of the Order Establishing Procedure with which the Office of Public Counsel cannot comply.

Dated this 4th day of October, 2016

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing Prehearing Statement has been furnished by electronic mail on this 4th day of October, 2016, to the following:

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