



## MEMORANDUM

**TO:** FMPA Executive Committee  
**FROM:** Jason Wolfe, Financial Planning, Rates and Budget Director  
**DATE:** June 9, 2022  
**RE:** **ARP Executive Committee Telephonic/Teams Rates Meeting  
Tuesday, June 14, 2022 at 2:00PM**  
**PLACE:** Via Teams and at Florida Municipal Power Agency  
8553 Commodity Circle, Orlando, FL 32819  
1<sup>st</sup> Floor Conference Room, Orlando, Florida

**DIAL-IN:** [Click here to join the meeting](#) or [+1 321-299-0575,,352716079#](#)

**(If you have trouble connecting via phone or internet, call (407-355-7767))**

## AGENDA

**Chair Howard McKinnon, Presiding**

- 1. Call to Order, Roll Call, Declaration of Quorum**
- 2. Review of May ARP Rate Calculation**
- 3. Action Item – ARP Gas Price Risk Mitigation**
- 4. Member Comments**
- 5. Adjournment**

The participants in the above referenced public meeting will conduct the public meeting by telephone, via a telephone conference hookup. There will be a speaker telephone made available for any interested person to attend this public meeting and be fully informed of the discussions taking place by telephone conference hookup at FMPA's headquarters, located at 8553 Commodity Circle, Orlando, Florida 32819-9002. If anyone chooses to appeal any decision that may be made at this public meeting, such person will need a record of the proceedings and should accordingly ensure that a verbatim record of the proceedings is made, which includes the oral statements and evidence upon which such appeal is based. This public meeting may be continued to a date and time certain, which will be announced at the meeting. Any person requiring a special accommodation to participate in this public meeting because of a disability, should contact FMPA at (407) 355-7767 or 1-(888)-774-7606, at least two (2) business days in advance to make appropriate arrangements. Any interested person may contact FMPA for more information on this public meeting by calling (850) 297-2011 or (877) 297-2012 or writing to: Open Government Law Compliance Coordinator, Florida Municipal Power Agency, 2061-2 Delta Way, Post Office Box 3209, Tallahassee, Florida 32315-3209.



# **May 2022 ARP Rate Call Package**

FMIPA Executive Committee  
June 14, 2022



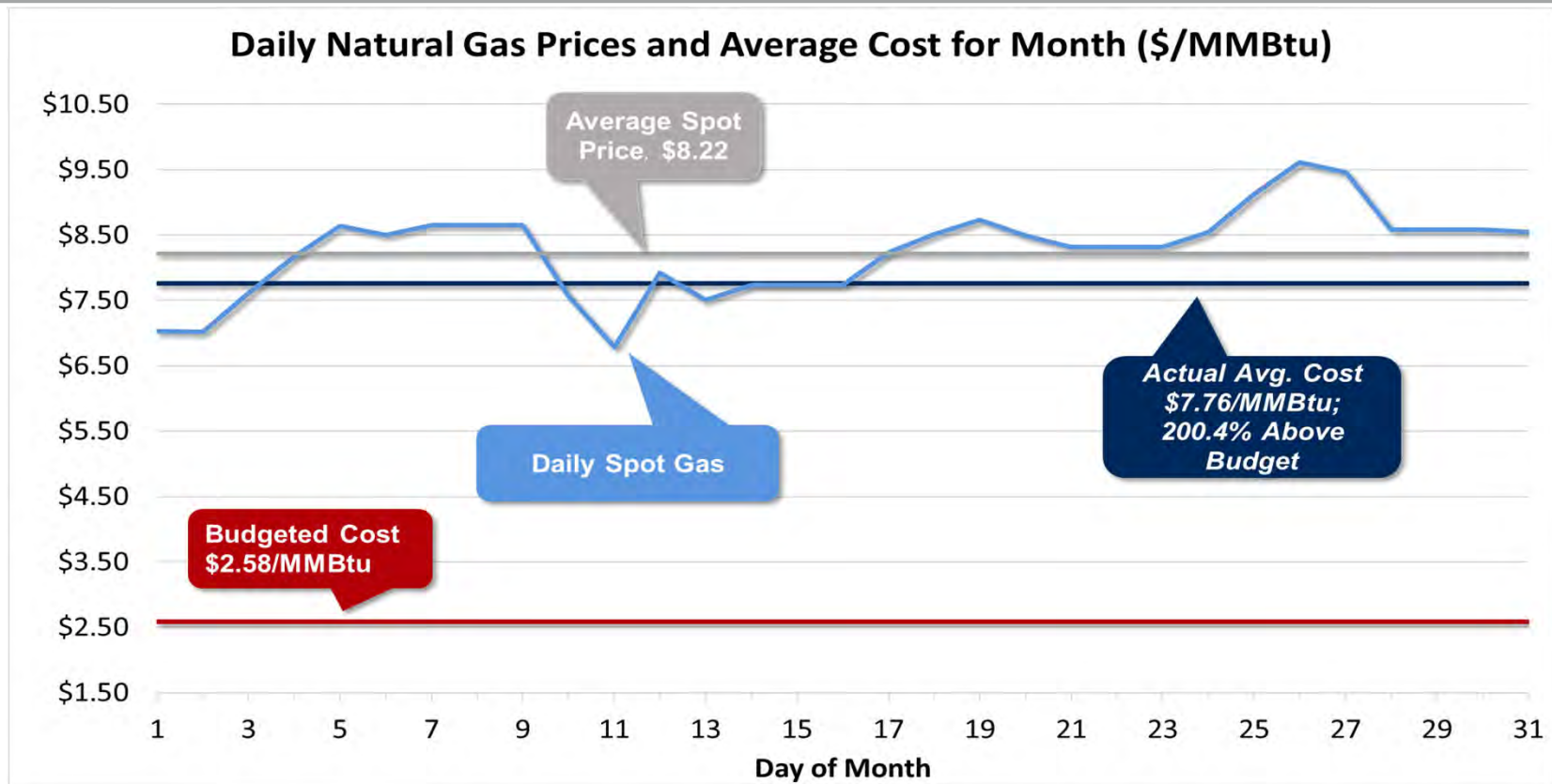
# May 2022 Key Discussion Items

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- May energy sales 5% > budget, YTD sales now slightly positive at 0.3%> budget
- May ARP avg. gas cost was \$7.76/MMBtu (200% > budget). June settle price 249% > budget
- Extreme volatility in gas futures pricing continues; forward curve used for rate setting (6/8) averaged ~\$6.73/MMBtu (261%) > budget for remainder of FY 2022
- With Cane Island 3 back from extended outage, gas generation 14% > budget for May, coal generation at budget
- Total external sales 48% above budget; 3<sup>rd</sup> party sales 7% > budget
- 37% solar capacity factor in May. With May energy rate ~\$72/MWh, May solar surcharge is a credit of \$36.88/MWh
- May avg. billed cost (Demand & Energy only) was \$106.61/MWh, ranging from \$101.96 to \$113.82. High gas prices drive \$/MWh D&E billed costs 103% > budget
- Participant D&E \$/MWh cost spread was \$11.86/MWh. Higher than 12-mo. rolling average of \$11.32/MWh (excluding Bushnell)
- Forecasted summer rates forecasted >\$100/MWh but remain highly uncertain. +/- \$2 swing in gas prices could impact rates by more than \$20/MWh
- At end of May, ARP was at 44.1 days cash on hand; projected between 41-42 days cash in June and July.

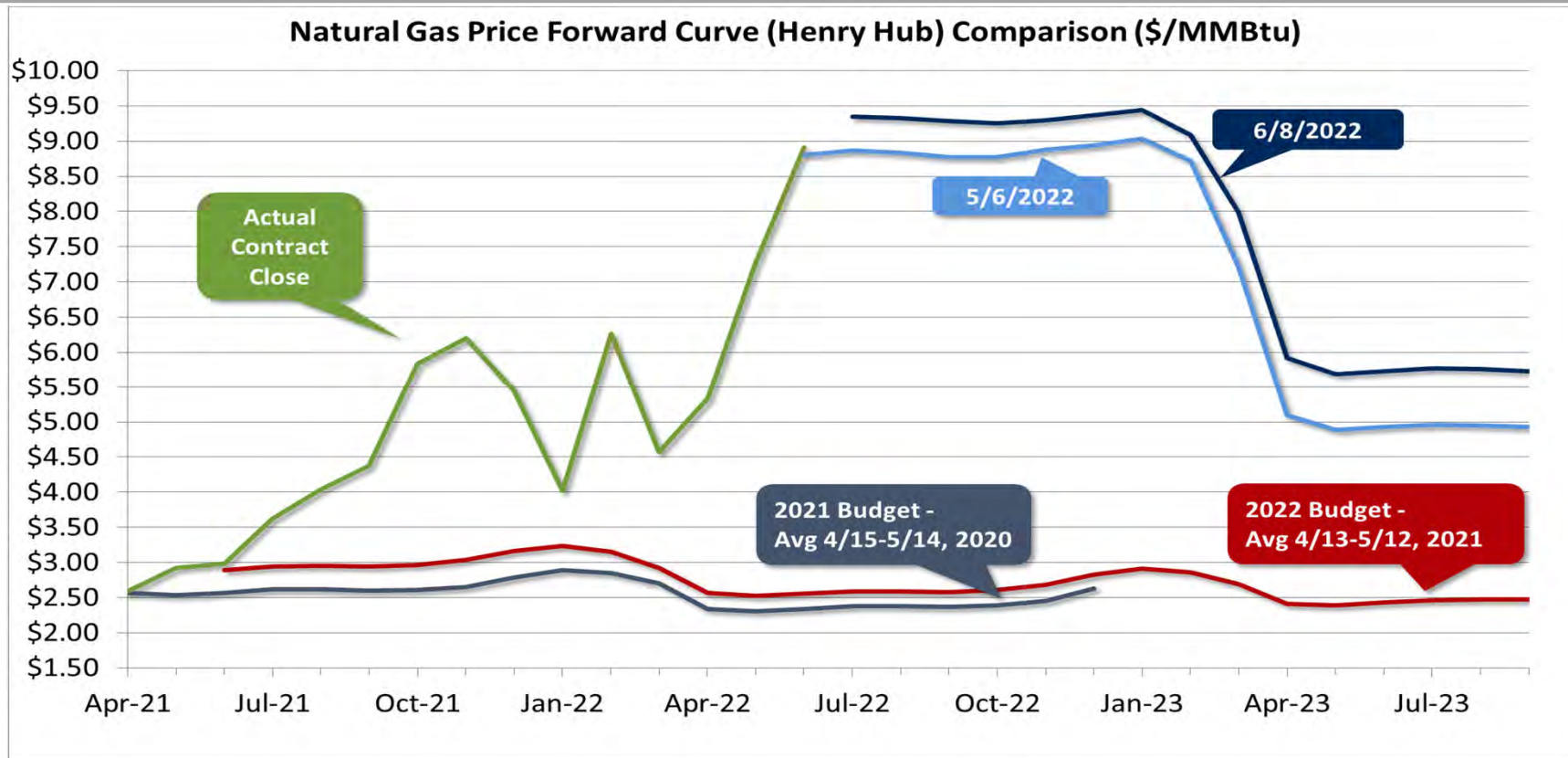
# May 2022 Avg. Gas Cost \$7.76/MMBtu (200%> Budget)

*~\$0.46/MMBtu Below Average Spot Price*



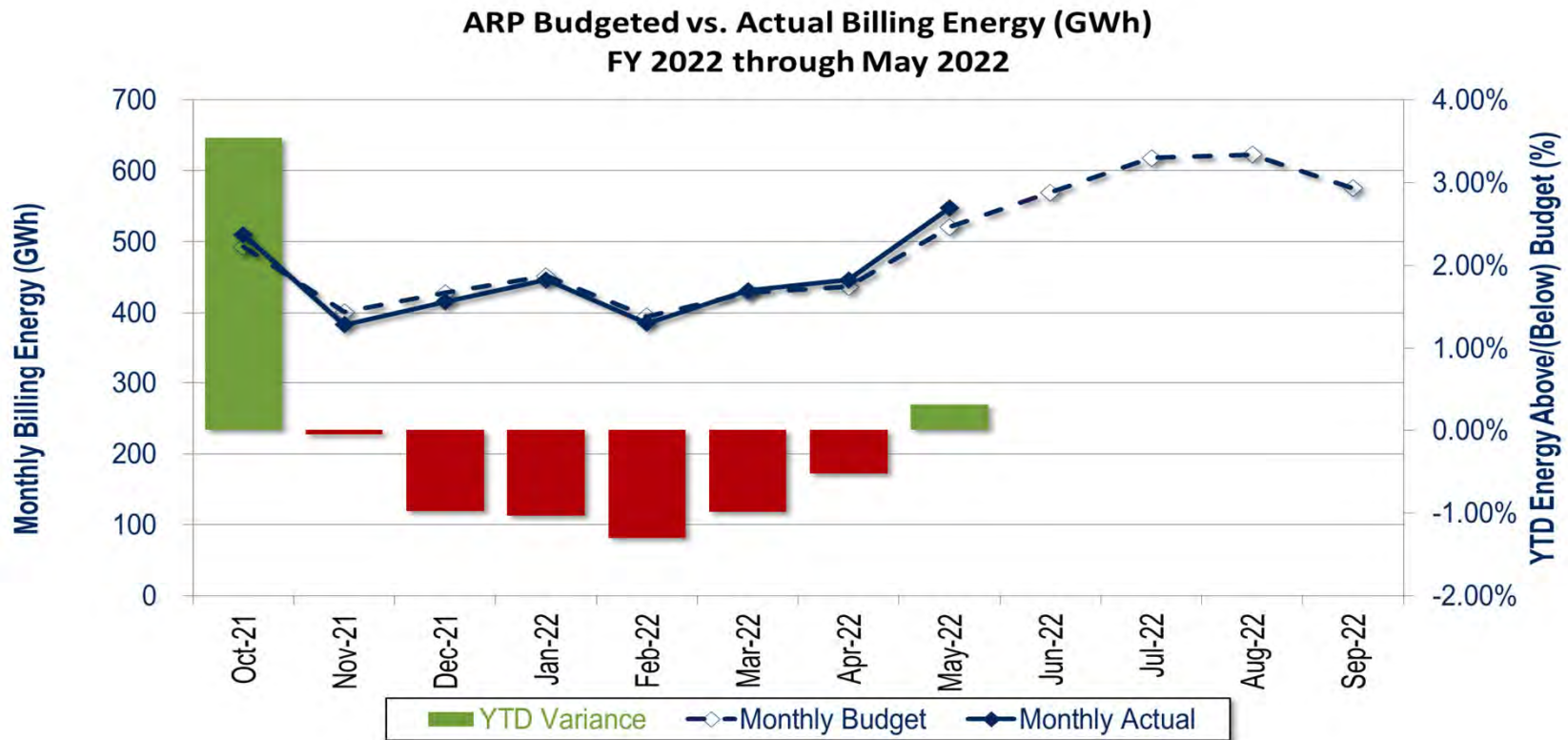
# June Contract Settle \$6.35/MMBtu (249%) > Budget

*Forward Curve Averaging \$6.73/MMBtu (261%) > Budget for FY 2022*



# May 2022 Energy Sales 5% > Budget

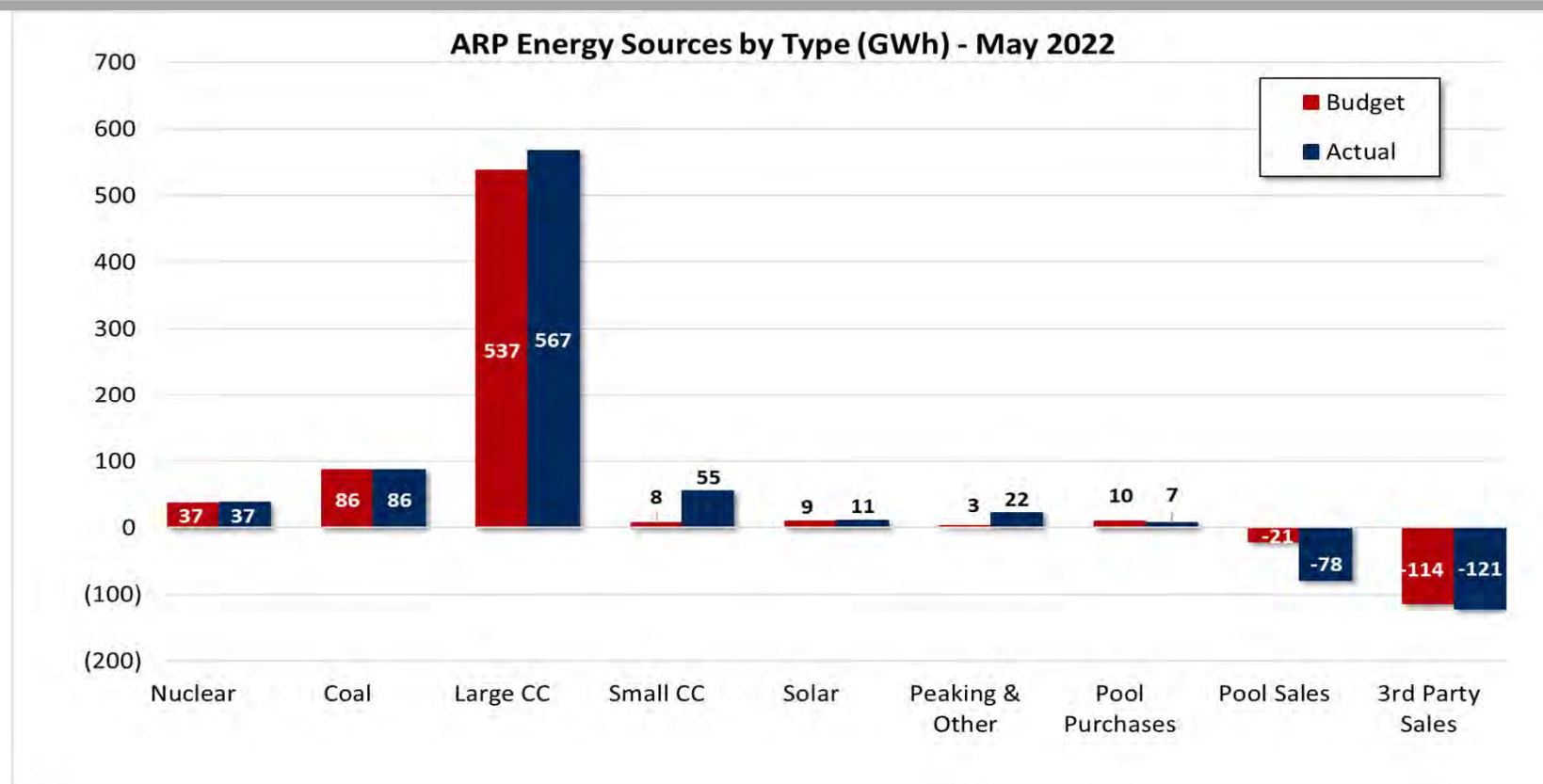
*YTD Sales Now Slightly Positive (0.3% > Budget) Going Into Summer Months*





# Gas Generation 14% > Budget w/ Cane 3 Return

## Coal at Budget; External Sales 48% > Budget



# May 2022 ARP Billing Rates

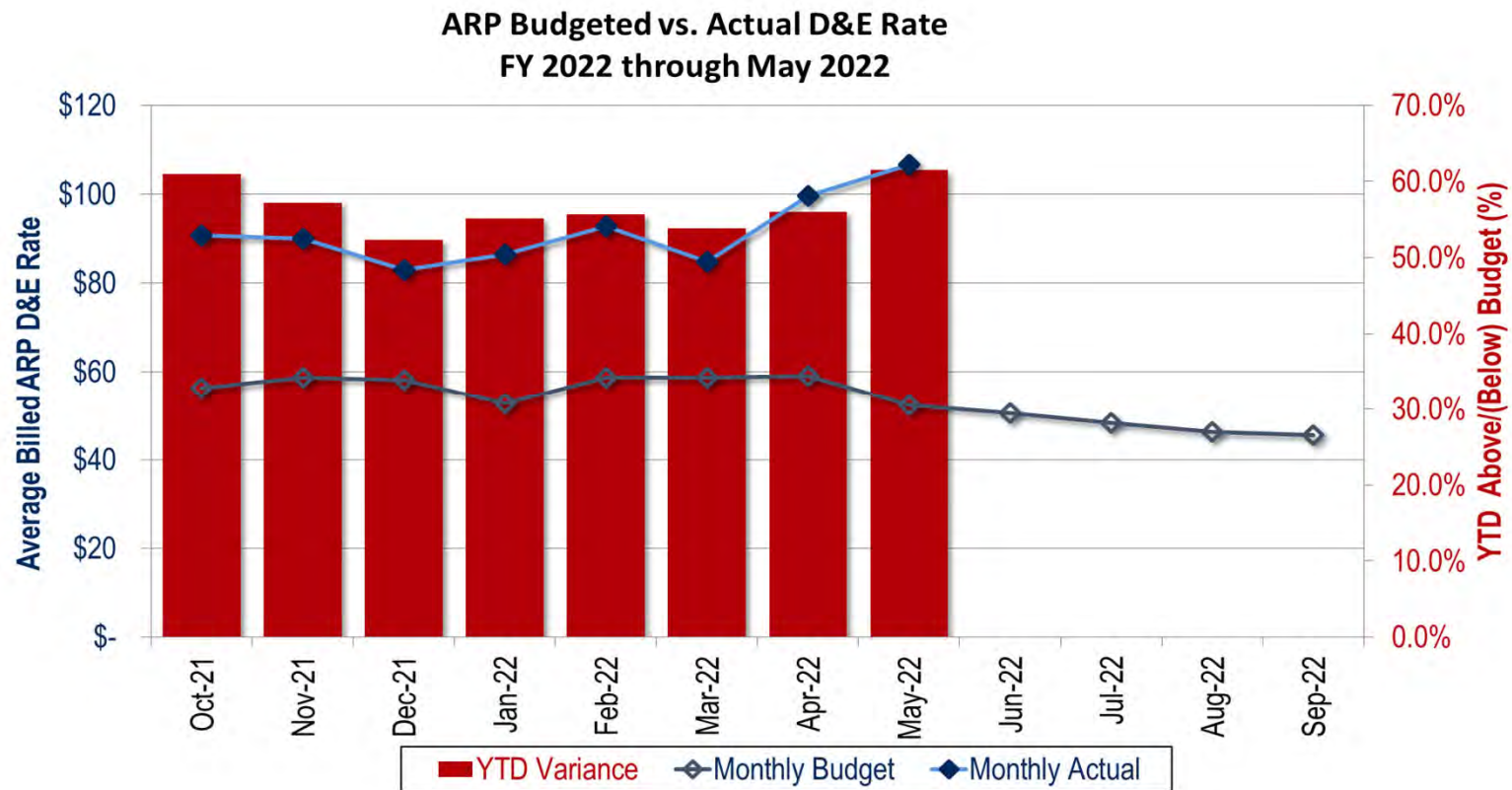
Rate	Units	Monthly Billing Rate
Energy	\$/MWh	72.25
Solar Surcharge	\$/MWh	(36.88)
Demand	\$/kW-mo.	16.31
Transmission (Non-KUA)	\$/kW-mo.	3.87
Transmission (KUA)	\$/kW-mo.	0.85

*5/31/22 Cash balance = \$88 million, or ~44 days*



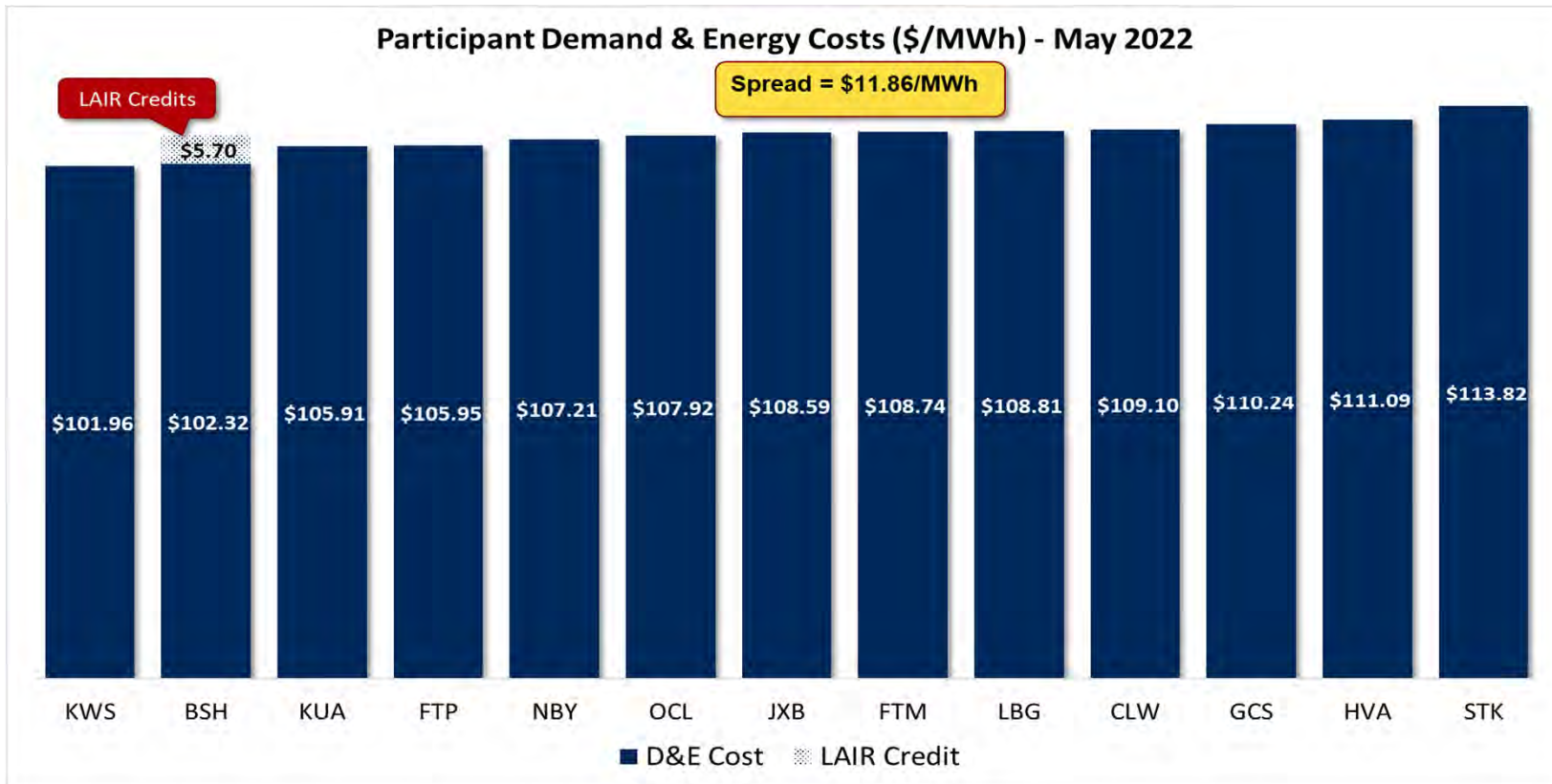
# May Avg. Billed ARP D&E Rate \$106.61/MWh

High Gas Prices Drive \$/MWh D&E Billed Costs 103% > Budget

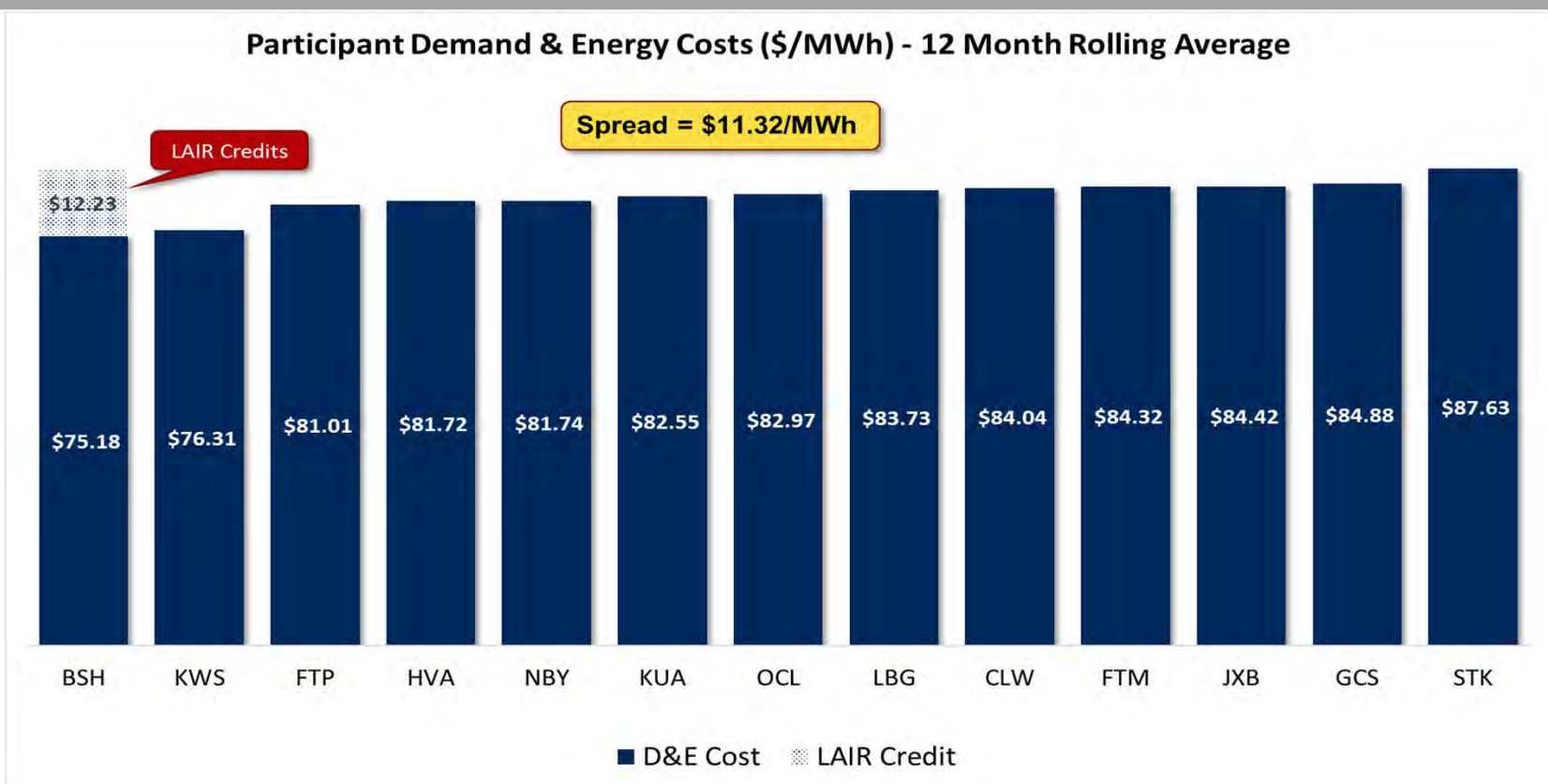


# May D&E Cost Spread is \$11.86/MWh

> Rolling 12-Mo. Average Spread, Excluding Bushnell, Of \$11.32/MWh



# 12 Month Rolling Average Participant Demand & Energy Costs, Excluding Bushnell, is \$11.32/MWh



# **Supplemental Information Will Be Posted on the FMPA Document Portal**



# **EC 3 – ARP Approval of Price Risk Management Directive**

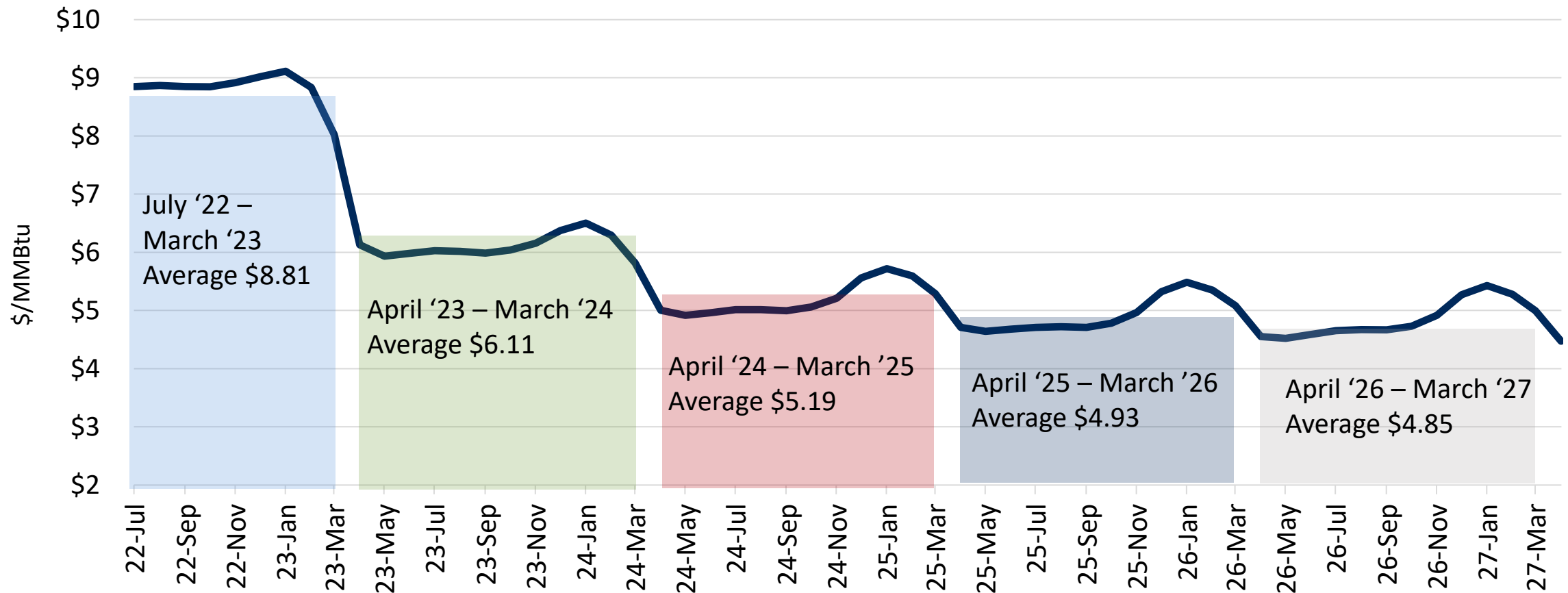
Executive Committee

June 14, 2022

# Futures Pricing Drops Substantially After Winter 2023

## Summer 2023 Averages \$5.99 vs. \$8.85 for Summer 2022

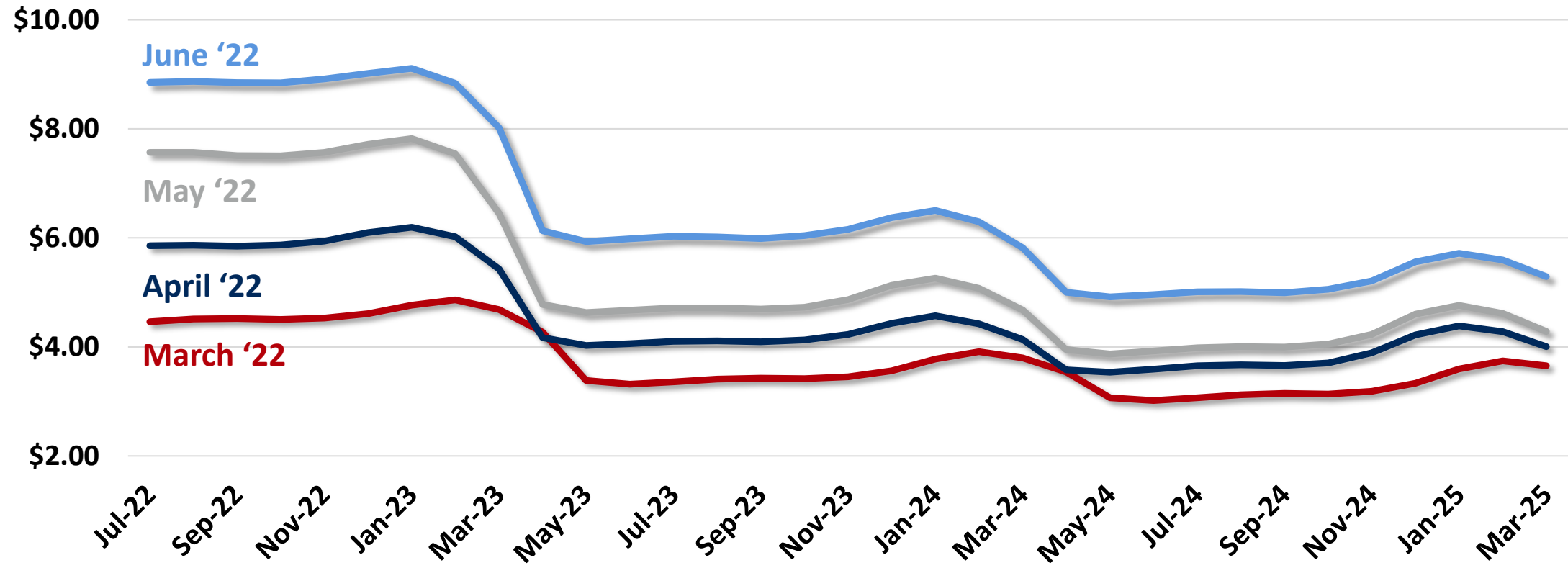
**NYMEX Futures Pricing as of Close June 10, 2022**



# Prices Up \$4.35/MMBtu for Summer Since March 2022

*April 2023 – March 2024 Up \$2.61/MMBtu Since March*

Historical Henry Hub NYMEX Contracts (\$/MMBtu)





# ARP Estimated Seasonal Gas Usage

*Based on Recent Loads and ARP Generation Mix*

Season	Est. Average Gas Use (MMBtu/Month)	50% of Average Gas Use (MMBtu/Month)	25% of Average Gas Use (MMBtu/Month)
<b>Summer</b> (May – Oct.)	3,000,000	1,500,000	750,000
<b>Non-Summer</b> (Nov. – Apr.)	2,280,000	1,140,000	570,000

# Gas Prices Drive Costs

*All-In Cost Up ~\$6.50/MWh for Every ~\$1 Move Up for Gas*

Gas Price Assumed (\$/MWh)	Projected All-In Cost April '23 – March '24 (\$/MWh)
\$3	\$78
\$5	\$92
\$6	\$99
\$7	\$105
\$9	\$118
\$11	\$131
\$13	\$144

# Percentage Fixed-Price Gas Has Impact on Cost

## *Can Support Estimated Spread to Market Based Cost*

Gas Price and Blend Assumed (\$/MWh)	Projected All-In Cost April '23 – March '24 (\$/MWh)*
\$3, 100% Market	\$78
\$9, 100% Market	\$118
\$9 (50% Market), 50% Fixed Gas	\$104
\$9 (75% Market), 25% Fixed Gas	\$111
\$3 (50% Market), 50% Fixed Gas	\$87
\$3 (75% Market), 25% Fixed Gas	\$83

*\*Assumes current forward gas prices and high-level assumption regarding gas unit efficiency. Actual results will vary based on ability to achieve desired fixed price and unit performance.*

# No Policy Changes for ARP System Supply – Directives

## *Finance Committee Recommends ARP Fix Price As A Project*

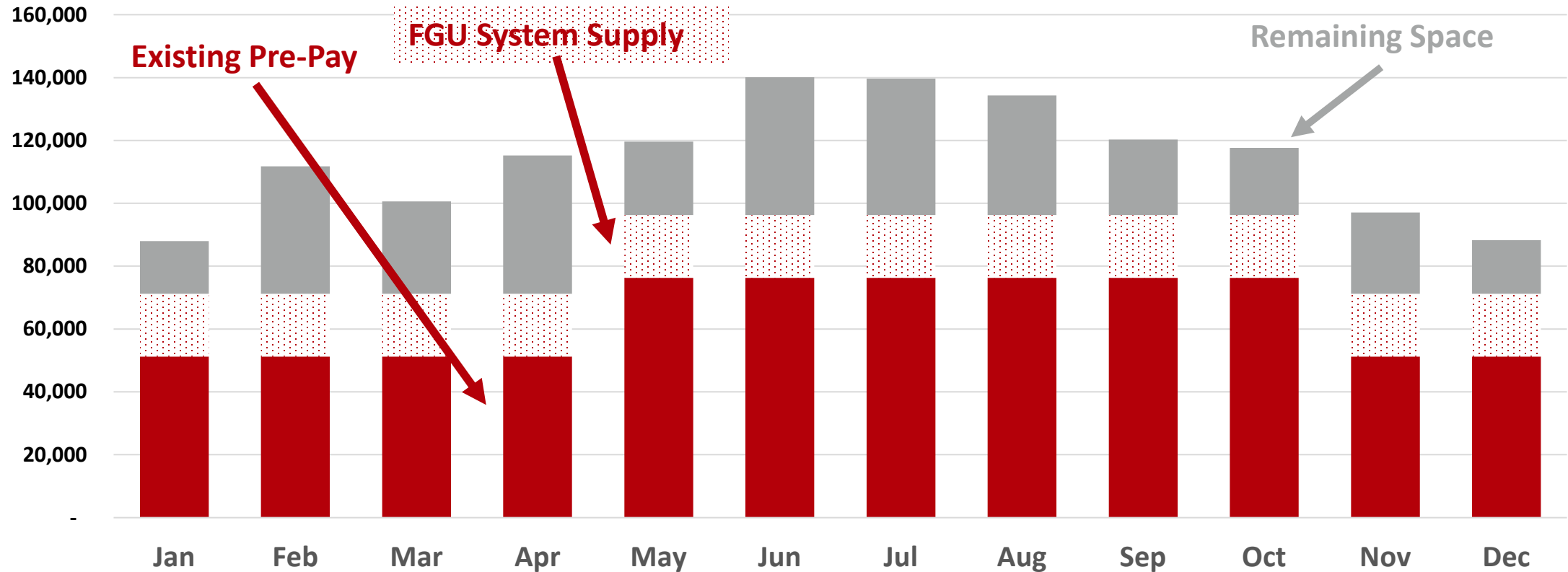
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- No policy change needed for ARP Gas Supply Management – Directive Only from the EC (quantity, term, and price)
- Finance Committee Recommended
  - May 2023 – April 2024
    - 50% of ARP Natural Gas Volume Exposure
    - Price Less Than \$6.50
  - May 2024 – April 2025
    - 25% of ARP Natural Gas Volume Exposure
    - Price Less Than \$6.50

# ARP Physical Transaction Headroom ~17k-35k/Day

## *FGU System Supply (ARP ~80%) Impacts Physical Position*

FGU Estimated Existing and Available Physical Headroom (MMBtu/Day)



# Summary of Gas/Power Price Risk Management

## *Analysis Refined to Reflect Revised Estimate for Physical*

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- Volume based on 2021 actual demand (70% of power from gas)
- Price Risk Management for 50% of gas volume, declining to 25% in '24-'25
  - FGU has room for ~21% - 35% physical for Spring '23 – Spring '24
  - Translates to ~42% - 71% of desired fixed price volumes physical, assuming FGU can shape volumes to monthly consumption
  - Remainder of desired fixed price volumes financial
- Futures Contract portion is subject to margin calls
- Margin calls if gas prices go below the strike price
- \$2/MMBtu drop in price in single month assumed (less extreme case)
- Next 3 months offsets margin call

# Margin Call Analysis - \$2 Decline During a Month

## May 1, 2023-April 1, 2024 – Margin Call of ~\$15 Million

<u>Dates</u>	<u>Monthly Price Risk Volume (MMBtu/Month)</u>	<u>Percent Physical Headroom (%)</u>	<u>Monthly Physical Headroom (MMBtu/Month)</u>	<u>Monthly Financial Volume (MMBtu/Month)</u>	<u>Market Decline after Hedging in Month (\$/MMBtu)</u>	<u>Margin Call for Season (\$)</u>
May '23– Oct. '23	1,536,984	28%	874,000	662,984	\$2.00	\$ 7,995,804
Nov. '23 – Apr. '24	1,140,976	23%	515,667	625,309	\$2.00	<u>\$ 7,503,713</u>
Total*						\$ 15,459,517

- \*Use a portion of the 2021B Bond proceeds as needed to immediately fund Margin Call.
- \*Assumes FGU can shape summer physical volumes due to increased burn.



# Margin Call Analysis – Leading to \$15 M Margin Call

## *2-3 Months ARP Bills Lower Offsetting Margin Call\**

<u>Dates</u>	<u>Monthly Volume (MMBtu/ Month)</u>	<u>Percent Price Risk Managed (%)</u>	<u>Decline in Prompt Month Price (\$/MMBtu)</u>	<u>Monthly Savings over Previously Expected Prices (\$)</u>
July '22 – Oct. '22	3,125,921	0%	\$3.00	\$ 9,377,763
Nov. '22 – Arp. '23	2,281,952	0%	\$3.00	\$ 6,845,856

\*Margin Call Added Over the Next Three Month's ARP Fuel Costs and 2021B Funds restored within ~90 days

# Recommended Motion

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- Move approval of (1) entering into a gas price risk mitigation transaction with Florida Gas Utility (FGU) at a price of no more than \$6.50 per MMBTu for 50 percent of the ARP's gas needs from May 2023 through April 2024, and 25 percent of the ARP's gas needs from May 2024 through April 2025; and (2) increasing the General Manager's authorization to use funds available from the Series 2021B bond proceeds for margin calls up to \$25 million upon notification to all Executive Committee members.