



MEMORANDUM

TO: FMPA Executive Committee
FROM: Jacob Williams, General Manager and CEO
DATE: October 11, 2022
RE: **ARP Executive Committee Telephonic/Teams Potential Rate Stability Program Workshop**
Wednesday, October 19, 2022 at 10:30 AM

PLACE: Via Telephone/Teams at Florida Municipal Power Agency
8553 Commodity Circle, Orlando, FL 32819
Frederick M. Bryant Board Room, Orlando, Florida

DIAL-IN: [Click here to join the meeting](#) or [+1 321-299-0575](tel:+13212990575), [262511948927#](tel:+13212992625)

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

AGENDA

Chair Howard McKinnon, Presiding

- 1. Call to Order and Roll Call**
- 2. Review Potential Rate Stability Program**
- 3. Member Comments**
- 4. 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.



Gas Price Stability Program Development

Executive Committee

October 19, 2022

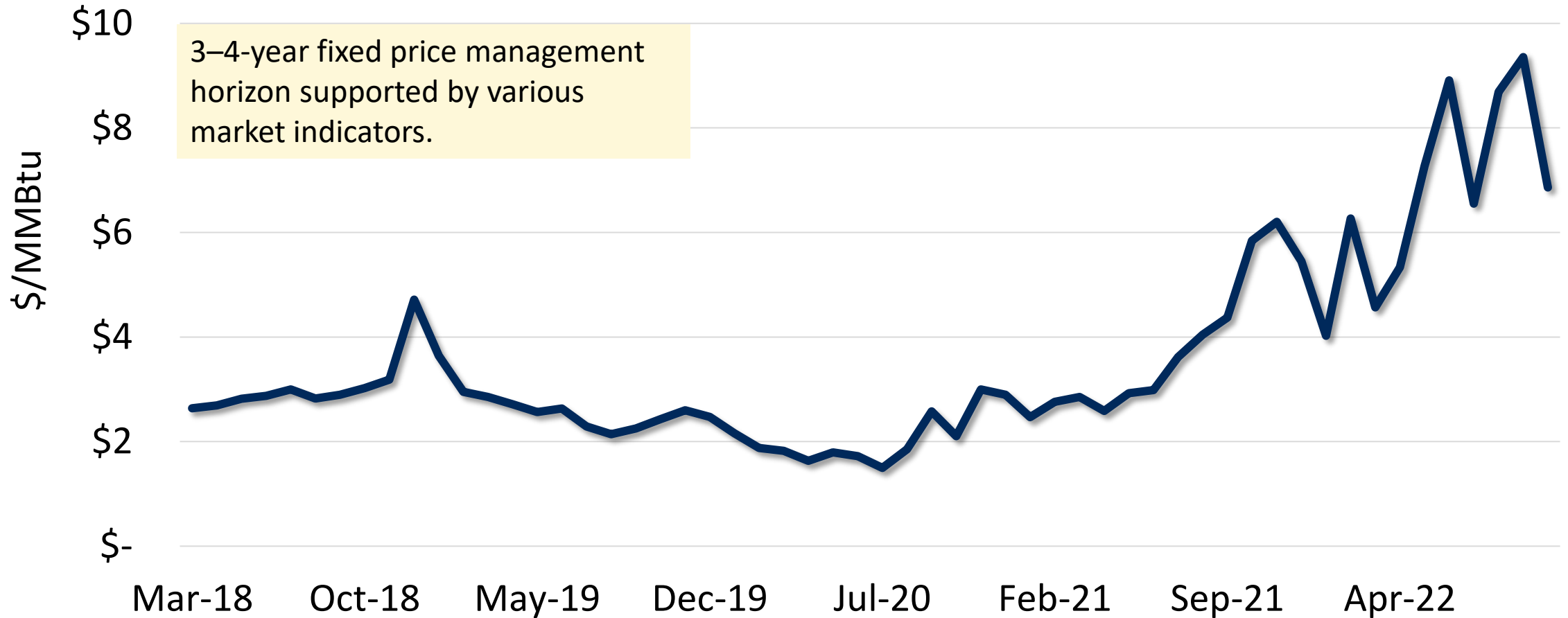
Defined Rate Stability Program Optimizes Performance

More Nimble Decision Making Required in Volatile Market

- Stable annual rates are the overall objective that will drive fixed targets
- **How long?** - fundamental conditions drive need for rate protection horizon of 2.5 to 4 forward years
 - Rolling 12-month limits create stability in cash management activity
- **How much?** - tiering maximum transactional limits on rolling 12-month basis will allow staff to provide more stability as months move forward
- **At What Price Targets?** - Team can operate more efficiently within a transparent structured program to manage to annualized rate goal with monthly variability
- **Exit Strategy?** - Defined program can be actively monitored and altered by EC to mitigate risk of significant lost opportunity with conditions triggers an exit
- **Resources and Roles?** – proposing cross-function team support model

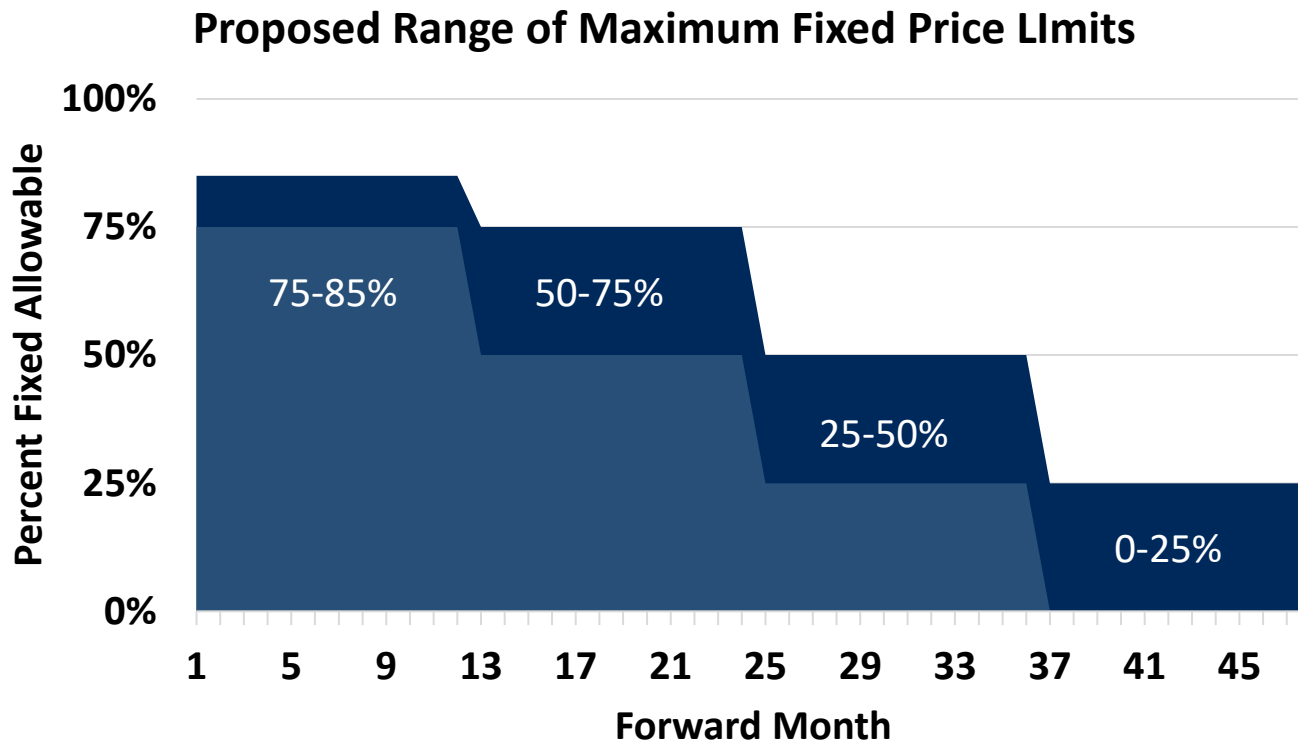
Historic Natural Gas Prices Create Volatile Market

2022 Average Prices ~216% Higher than 2018



Rolling Tiered Max Limits Define Level Of Certainty

Defined 30 - 48 Month Program Revisited Annually

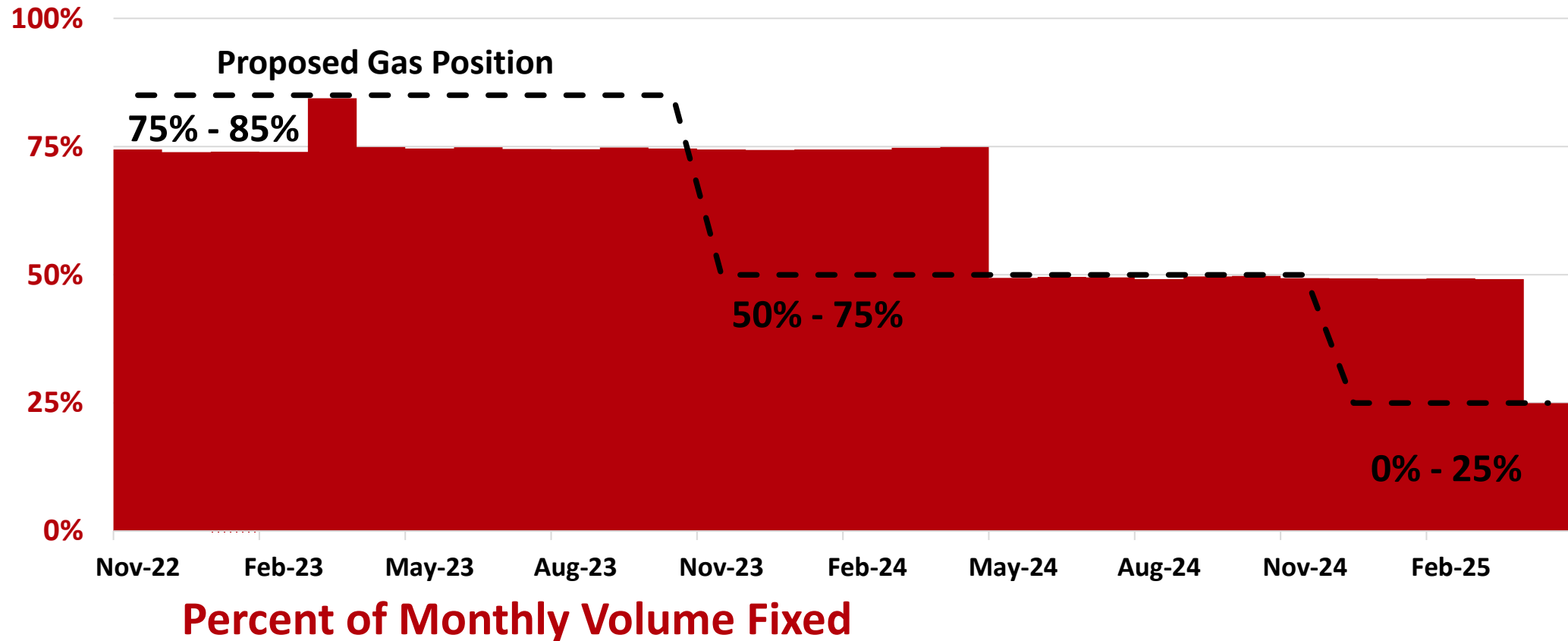


- Maximum target percentages fixed and reviewed at least annually
- Staff will not use single transaction to maximum, but target opportunities to beat target rates

Natural Gas Henry Hub Price Risk Management

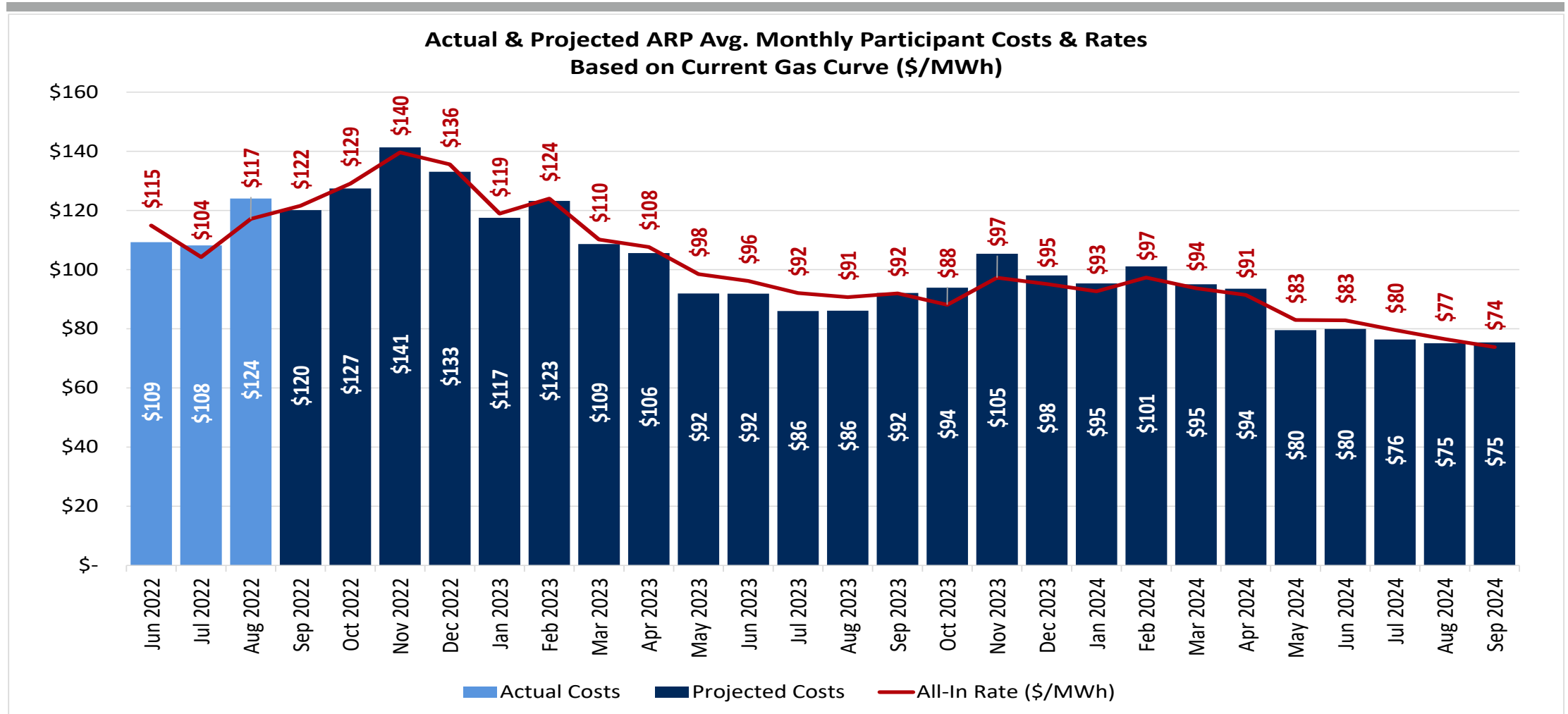
All Planned Volumes Have Been Purchased

ARP Fixed Gas Position



Proposing Annualized Price Targets

Monthly Volume Variations Drive Differing Monthly Rates

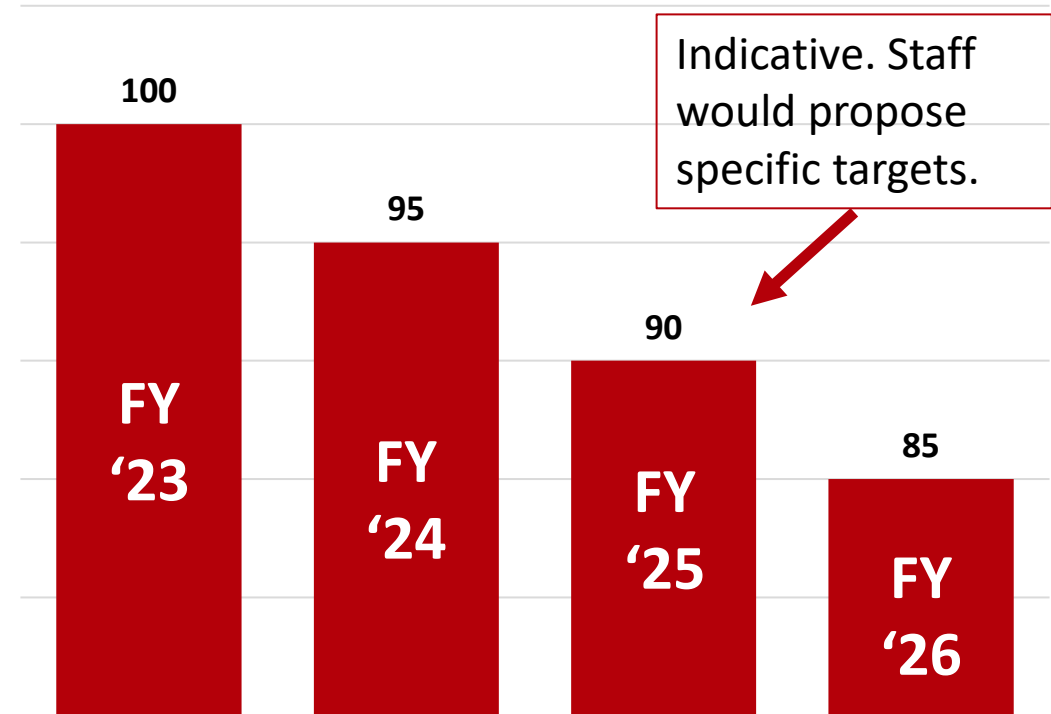


Member Rate Objectives Drive Transaction Activity

Annual Rate Targets Can Be Translated to Specific Gas Pricing

- Market currently supports declining forward rates that may not be achievable if left to spot market prices
- Program will focus specifically on ARP natural gas burn requirements; third party sale contracts mitigate ARP risk
- Seasonal rate patterns will persist, but potentially can be partially managed intra-year

Fiscal Year Annualized Rate Targets
(\$/MWh)

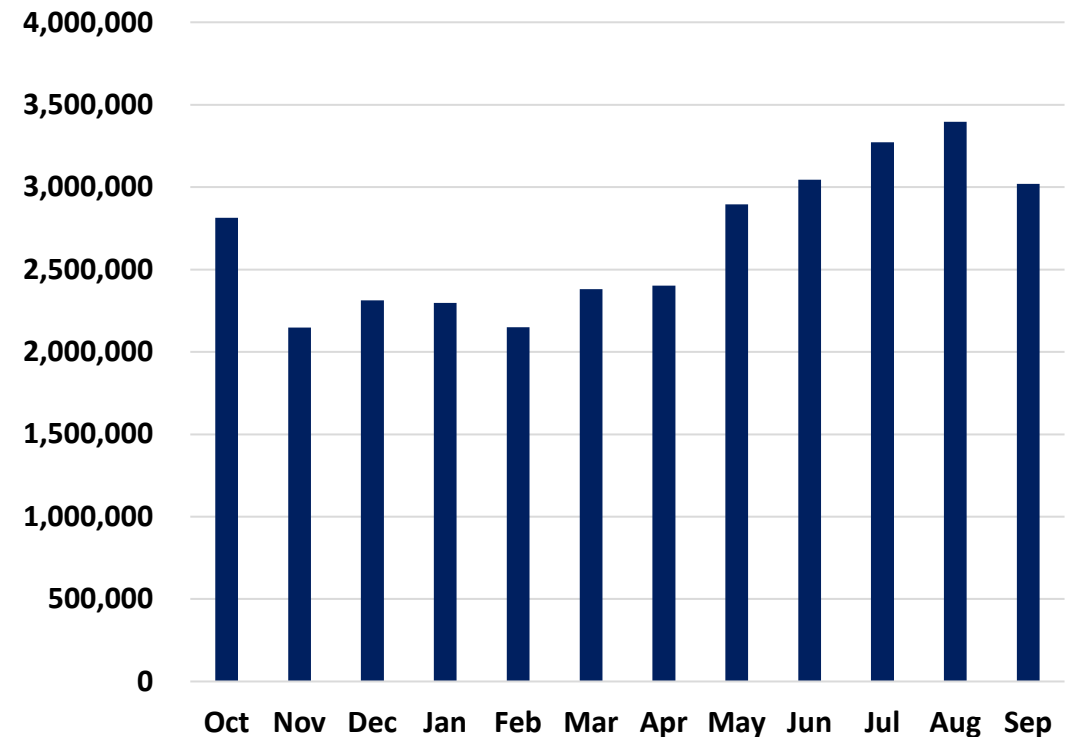


ARP Burn Requirements Drive Month Rate Variability

Cushion on Burn Mitigates Risk Since Outside Sales Excluded

- ARP Participant Load lower than total generation, which includes generation to 3rd party and FMPP sales
- Annual limits to be based on Participant consumption to mitigate risk since outside sales volumes excluded
- Monthly volume flexibility required to manage to annual rate objective within rolling twelve-month caps

ARP Estimated Monthly Burn Shape for Participant Load (MMBtu/Mo)

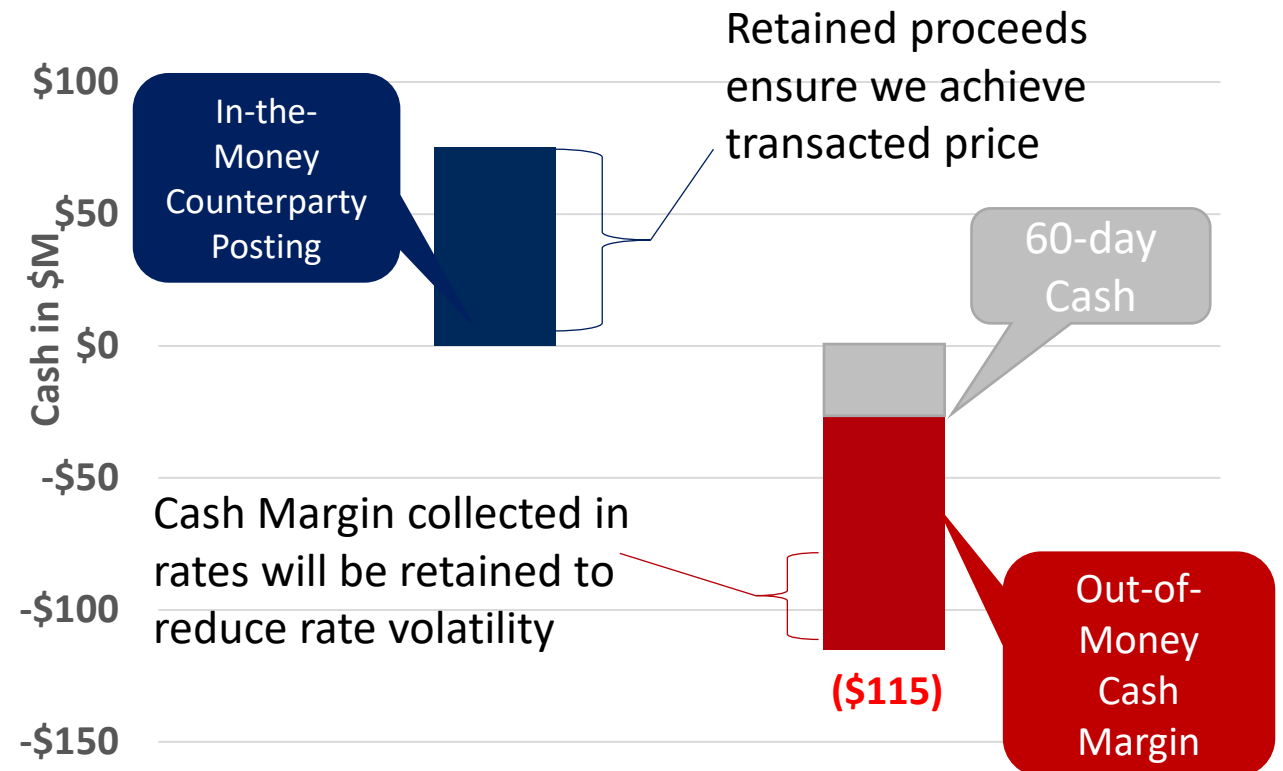


Cash Management Stabilizes With Defined Program

Specified Cash Will Already Be Collected To Facilitate Rolling Margin Needs

- ARP near-term rates allow for collection of margin cash requirements
- Willingness to collect margin over short-term supports credit ratings
- \$115M of reserves will handle a program of the proposed size inclusive of margin and 60-day cash requirement for \$1.50/Mmbtu drop
- If prices go up materially, reducing "cash margins" to zero or negative, we retain margins to avoid see-saw effect of collecting and refunding

Cash Management Relative to In-the-money or Out-of-the-money Scenarios



Staff Monitors Drivers That Risk Major Price Shifts

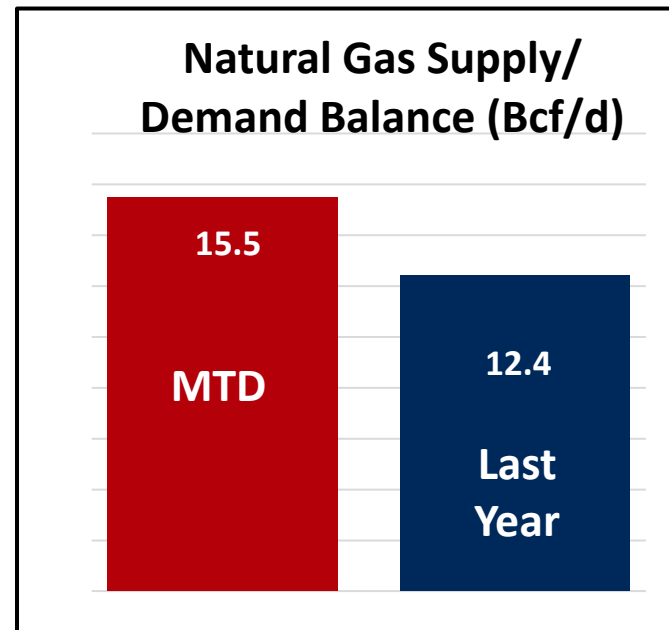
Routine Updates to EC Will Provide Transparency to Threats

Supply

- Overall domestic supply
 - Rig Counts
 - Production
 - Imports
- Federal Regulation
- Pipeline Reserve Capacity
 - New builds
 - Basis spreads

Demand

- Power segment demand
- Industrial demand
- Export / LNG demand
- Weather events
- Storage builds



Defined Roles Create Most Efficient Process

Structured Program Replaces Need for Timely Ad Hoc Meetings

Executive Committee

- Sets Program Parameters - timeframe, quantities & power prices

Internal Staff

- Aggregates information sources for decision making and guidance to FGU

FGU

- Facilitates execution of the transaction strategy

TEA

- Advisement, access to market intelligence & fundamental research

**Defined Roles from
Executive Committee
Members to External
Advisors Create Most
Efficient Process to
Achieve Rate Stability**

Staff Stretched to Support Current Method Of Transacting

Structured Program More Efficiently Utilizes Resources

- Leadership Team – overall management of program, final transaction decision making, market conditions monitoring, interaction with support entities (e.g. TEA)
- Strategic Planning – dashboard support, market conditions monitoring, gas volume estimation support, position tracking
- Business Development – lead interactions with FGU, dashboard support, market conditions monitoring, position tracking
- Financial Planning & Rates – forecasting and budget intelligence, cash management
- Treasury – margin posting, policy management, ongoing risk assessment
- Audit – independent oversight, policy alignment review

Separation of Duties Allows For Independent Oversight

Treasury and Audit Will Add Transparency To Finance Committee

- Risk Management Policy approved by Executive Committee will define the bounds of the program
- Quarterly position review with Executive Committee
- Monthly reporting to Finance Committee on cash management and utilization
- Audit periodically reviews transactional data for alignment with policy parameters
- Policy can evolve over time to remain relevant given underlying market conditions

Next Steps: If EC Supports

Program Can Be Developed Expeditiously Over Next Few Months

With EC support, Staff can prepare appropriate information and approval requests that will define structured elements of a natural gas price stability program:

- 3 - 4 year forward power price objectives
- Rolling 12-month tiered maximum fixed position limits
- Transparent routine reporting
- Cash management
- Maximum risk tolerances
- Risk Management Policy updates

Natural Gas Cash Management Strategy

Key Considerations

- FMPA does not have a rate stabilization policy or account
- Natural gas prices is one of the top risks (along with generation and rates) for FMPA in annual risk assessment
- Gas/power stabilization plan is for more stable and predictable rates
 - 75% of gas needs are hedged through March 2024
 - EC approved use of 2021B Bonds and pooled loan to underwrite margin calls and support 60-day cash needs
 - Currently collecting margins calls from Members over a rolling four-month period

Rating Agencies

Key Considerations

- Rating Agency concerns (discussed with FA's)
 - Full use of funds means no cash available for another emergency
 - Days cash on hand below our 60- day target is a major concern especially with no other credit support in place
 - 60-Day cash on hand numbers shown on FMPA reports are as of month end only and do not reflect intra-month volatility
 - In the event of a rating downgrade, borrowing cost would be higher going forward; however no near term borrowing anticipated

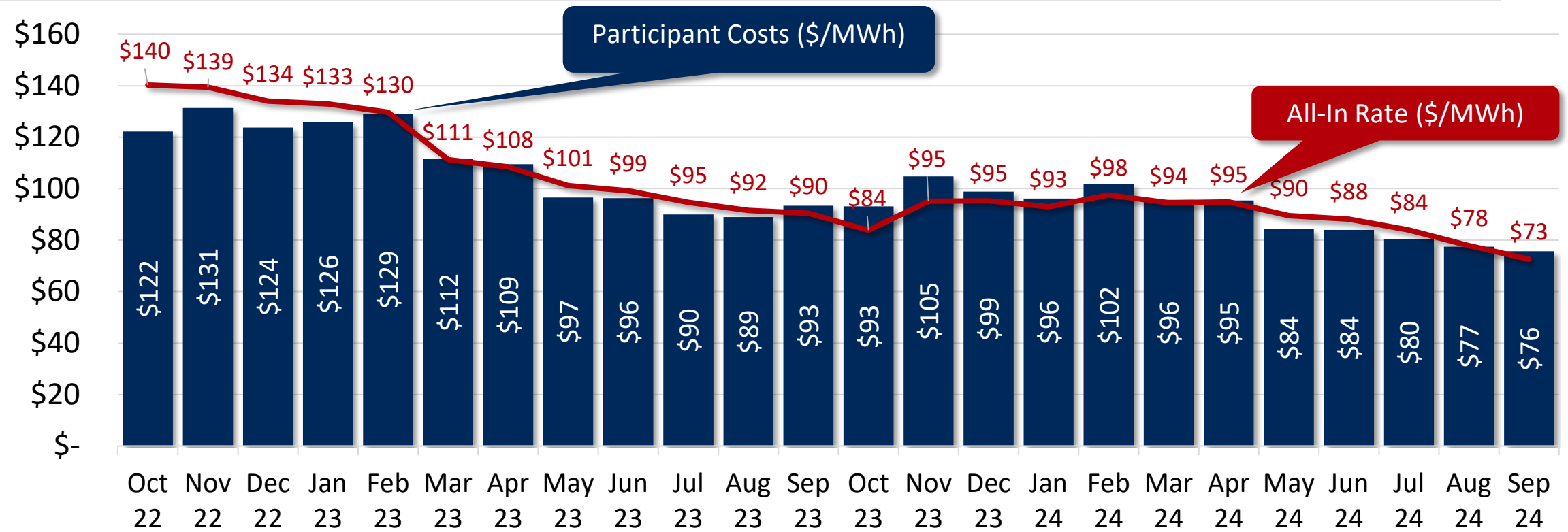
Natural Gas Cash Management Strategy

Options for Use of Bond Proceeds to Support ARP Cash Needs

- Base case – No Further Use of Bond Proceeds for Cash Support
 - Days cash would be 50+ days beginning Nov. 2022, 60+ days by Feb. 2023
- Option #1 – Pay Back Bond Proceeds by April 2023
 - Use bond proceeds to keep rates below \$130/MWh through March 2023
 - Days cash on hand (without bond proceeds) would be around 45 days for this period
 - Beginning April 2023, cash shortfall billed to members as usual to reach 60 days cash on hand target
- Option #2 – Use Bond Proceeds Until YTD Rates Get to \$110/MWh (likely fall 2023)
 - Use bond proceeds (~\$50M) to keep rates below \$120/MWh through Apr. 2023
 - Days cash would be <50 days through Feb. 2023, ~40 days from Mar. – Aug. 2023
 - In Oct. 2023, rates < \$110/MWh; bond proceeds use decreased to \$0 in _____

Rate Projections, Days Cash and Use of Bond Proceeds

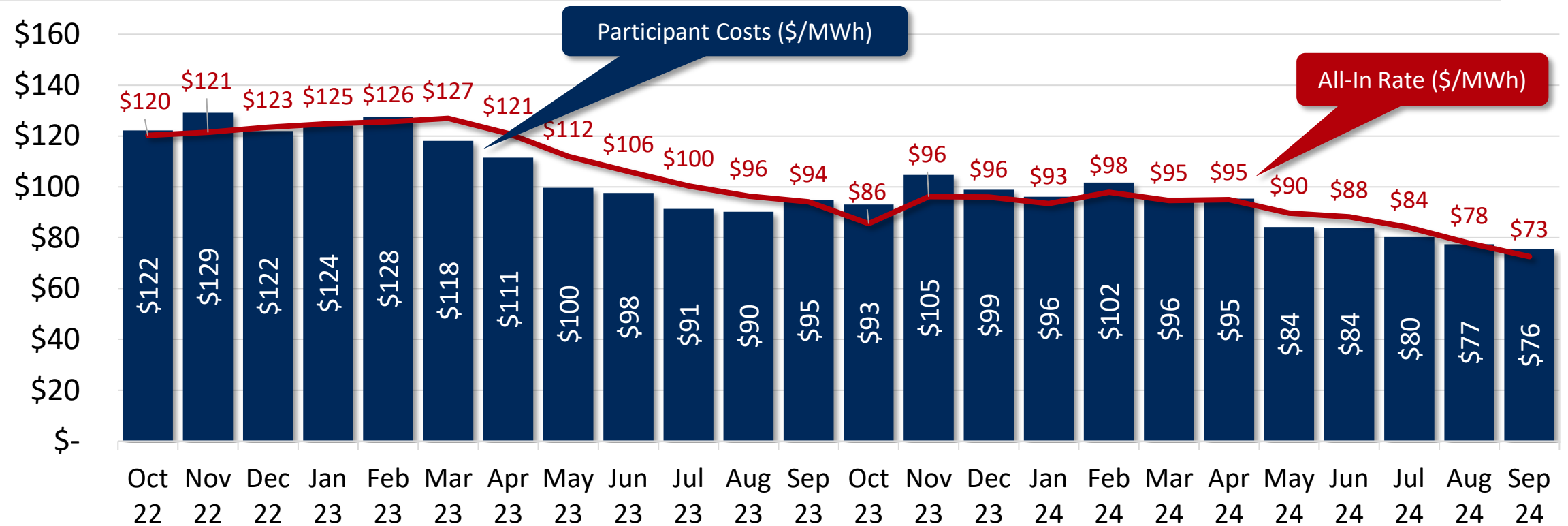
Base Case – No Bond Proceeds Used Beginning October 2022



	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24	Jul 24	Aug 24	Sep 24	
Bond Proceeds Used (\$M)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
True Days Cash	45	53	52	55	62	63	61	57	55	56	58	64	70	69	65	64	64	63	60	56	54	56	61	64	

Rate Projections, Days Cash and Use of Bond Proceeds

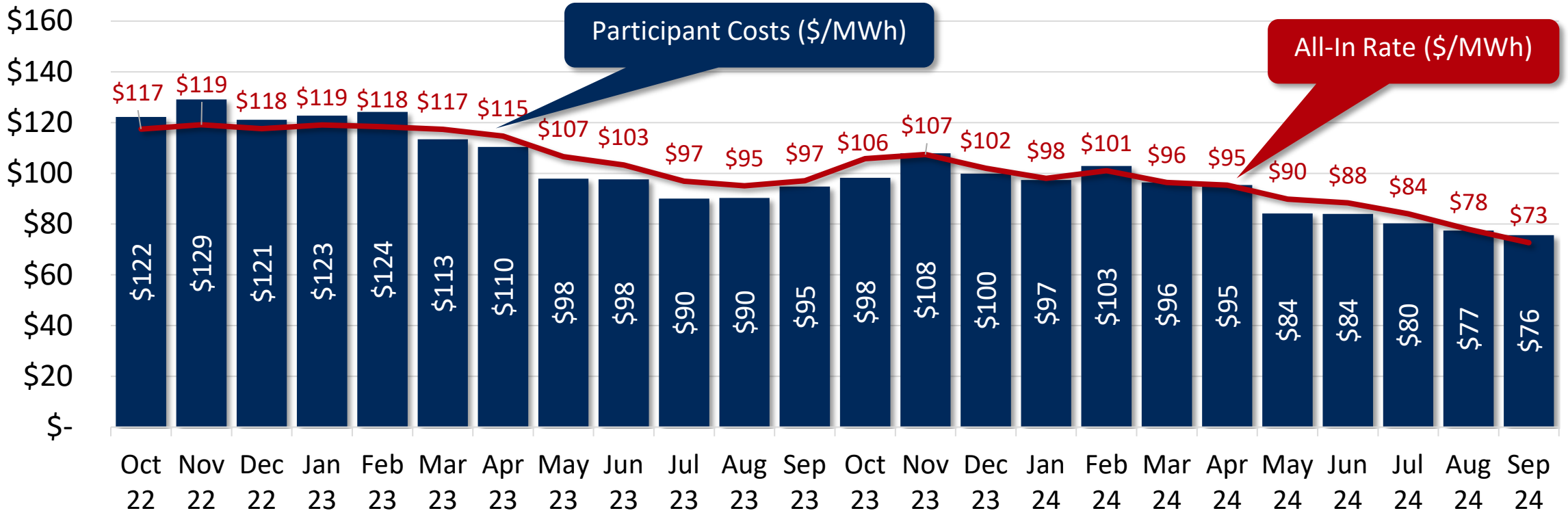
Option #1 – Pay Back Bond Proceeds by April 2023



	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24	Jul 24	Aug 24	Sep 24
Bond Proceeds Used (\$M)	\$35	\$35	\$30	\$30	\$30	\$10	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
True Days Cash	45	48	44	45	47	46	48	47	48	50	54	61	68	68	65	64	64	63	60	56	54	56	61	64

Rate Projections, Days Cash and Use of Bond Proceeds

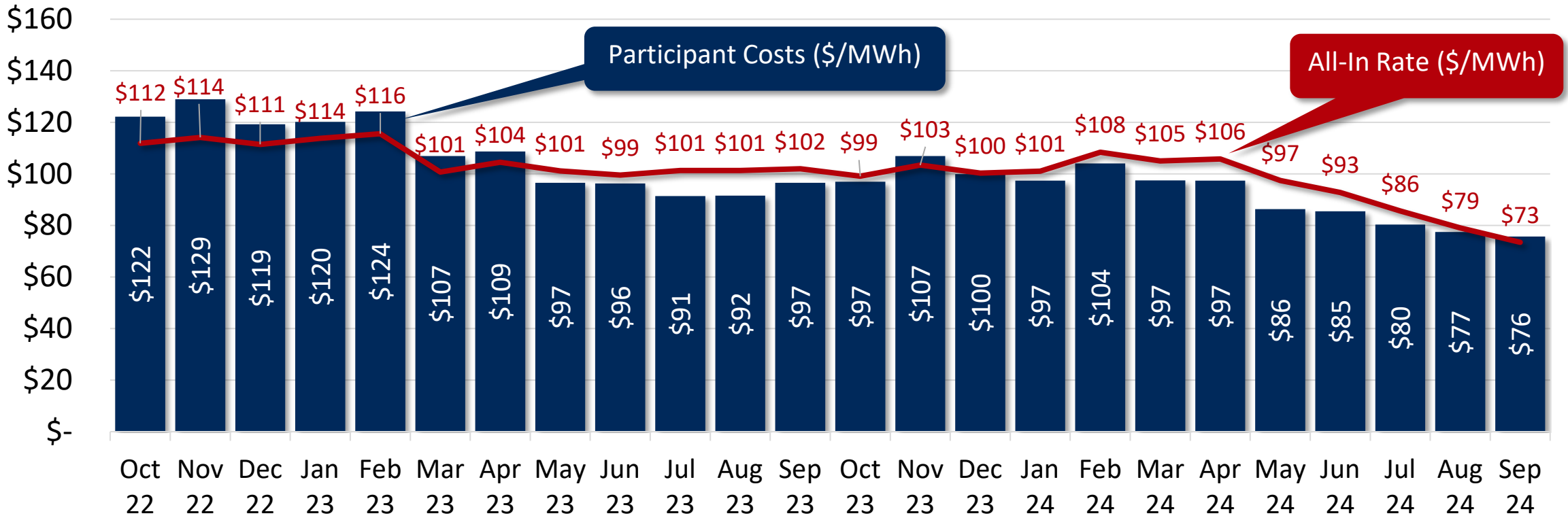
Option #2 – Continue Using Bond Proceeds for Cash Support through Summer 2023 but Maintain at Least 40 Days of True Cash



	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24	Jul 24	Aug 24	Sep 24	
Bond Proceeds Used (\$M)	\$40	\$40	\$40	\$40	\$40	\$25	\$20	\$20	\$20	\$20	\$20	\$15	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
True Days Cash	45	47	43	43	44	43	42	41	41	42	45	49	55	61	60	61	62	62	60	56	54	55	61	64	

Rate Projections, Days Cash and Use of Bond Proceeds

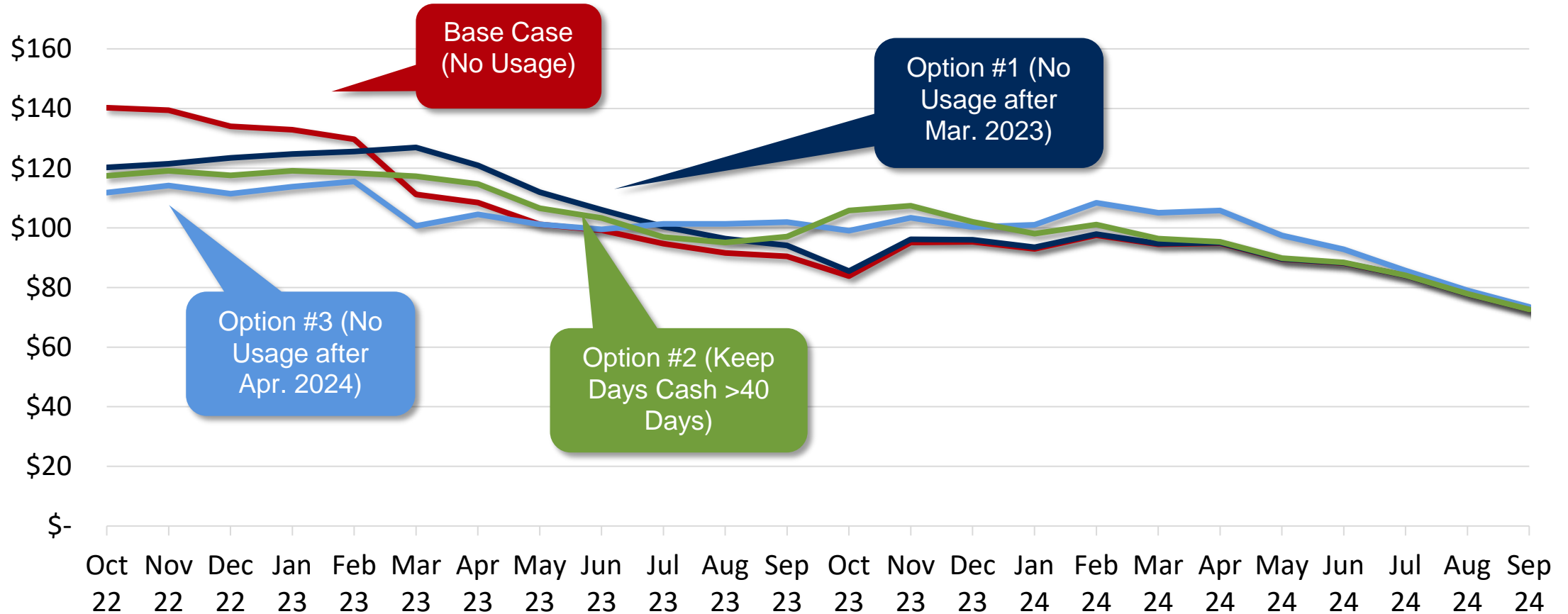
Option #3 – Use Bond Proceeds Until YTD Rates Get to \$100/MWh, then Decrease Usage to \$0 by April 2024



	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24	Jul 24	Aug 24	Sep 24
Bond Proceeds Used (\$M)	\$50	\$50	\$50	\$50	\$50	\$50	\$50	\$45	\$45	\$35	\$30	\$25	\$20	\$20	\$20	\$15	\$10	\$5	\$0	\$0	\$0	\$0	\$0	\$0
True Days Cash	45	46	41	40	41	39	35	31	30	31	34	40	47	50	48	48	50	51	51	50	51	54	60	63

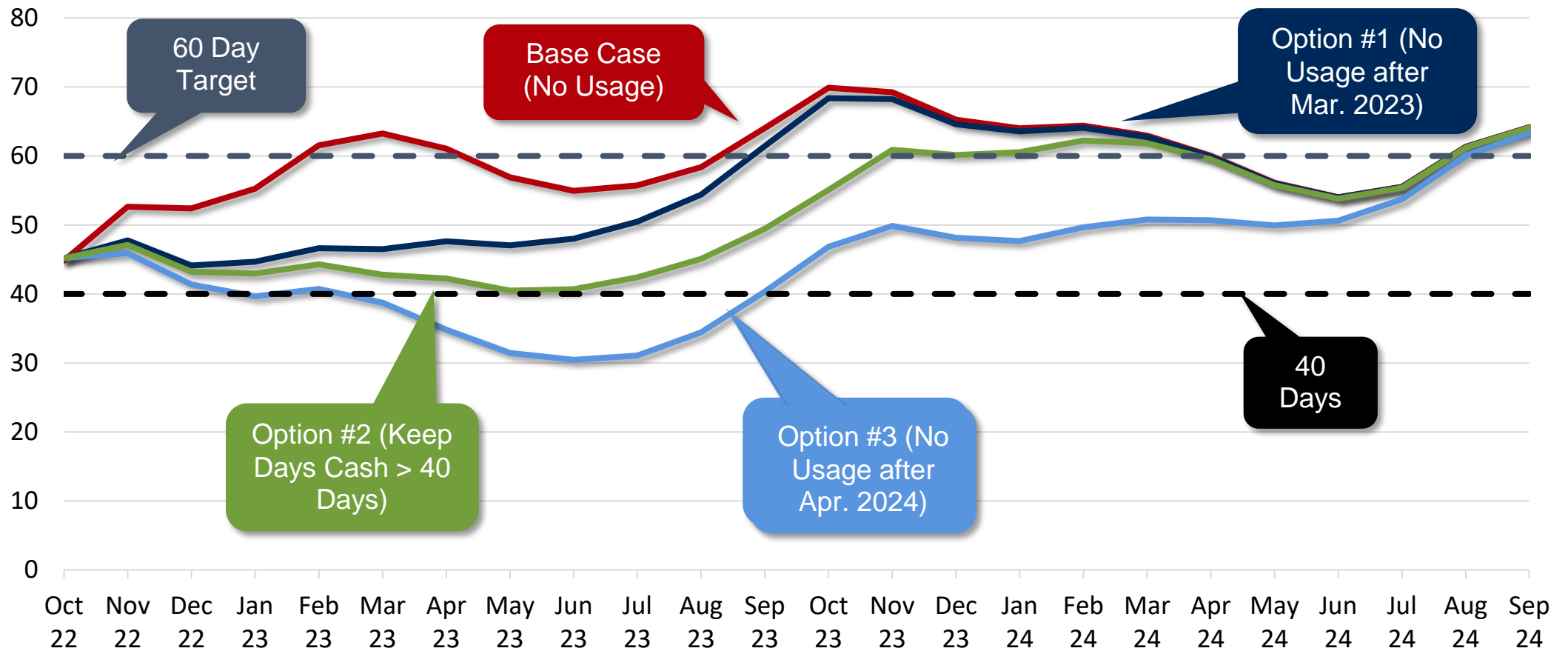
Comparison of Monthly Average All-In Rates (\$/MWh)

Trade-off Between Near-Term Costs vs. Longer-Term Costs



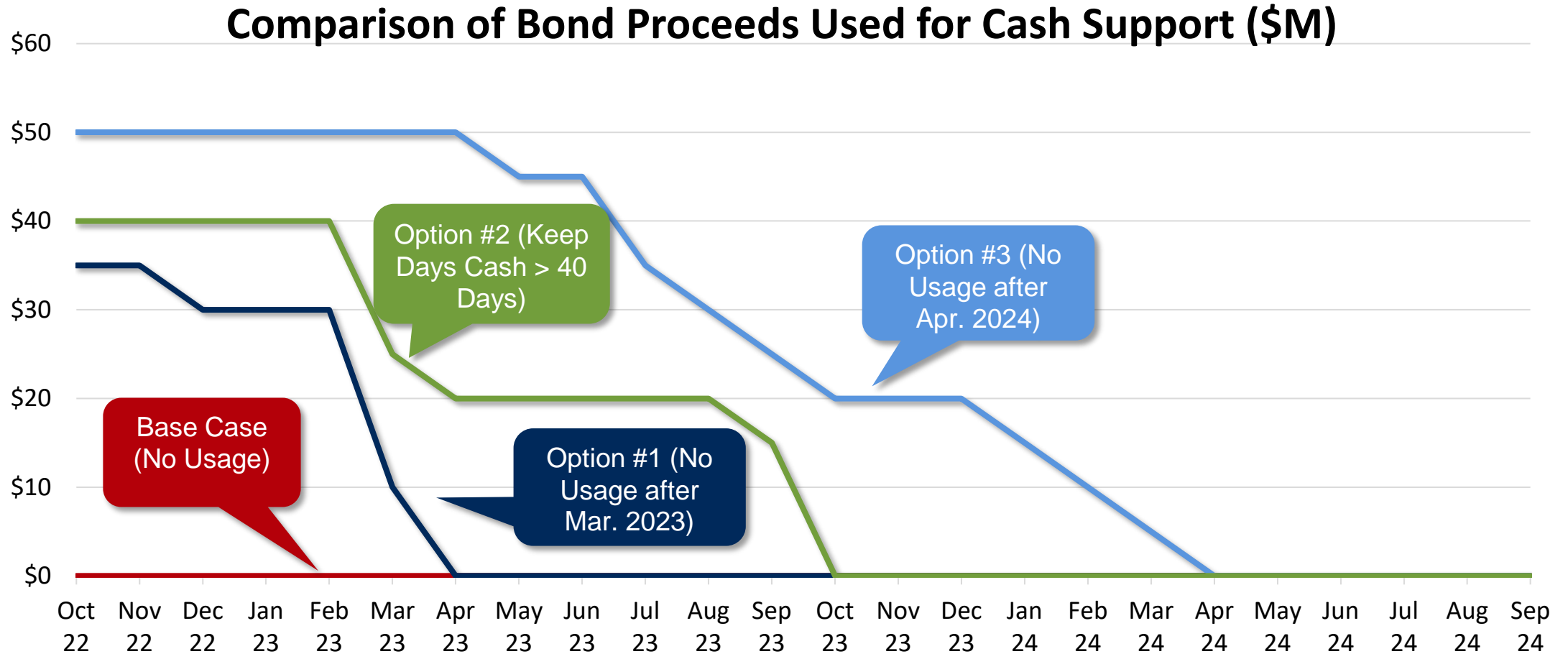
Comparison of Monthly Days Cash on Hand (Days)

Higher Bond Usage Reduces True Available Cash



Comparison of Monthly Bond Proceeds* Usage (\$M)

Higher Bond Usage Reduces True Available Cash



* Bond proceeds used for cash support. Does not include bond proceeds used for margin calls.

Options

Available to Executive Committee

1. Option #1 - Stop use of 2021B Bonds after March 2023 to meet 60-day cash needs
 - a. Days cash will be 44-50 days from Nov. 2022 to July 2023
2. Option #2 - Utilize 2021B proceeds thru summer, days cash no less than 40 days through Sept 2023
3. Option #3 – Utilize 2021B Bonds until rates get down to \$100/MWh; then decrease to \$0 in April 2024
 - a. Days cash will range from 30-51 days
4. Additional mitigation: Obtain a 3-year Line of Credit - \$50M (estimated cost of \$250k to \$300k per year)