Gas Hedging Strategy Update
Open Session Informational Briefing

Draft – For discussion purposes only

Update

- We are executing the tasks outlined in the prior Finance Committee and Board briefings

- Near-term focus is establishing an ISDA agreement

  - Currently working will Shell for first one to support the pilot program

  - ISDAs with other companies will be established after the pilot is completed

- We also met with Calpine and confirmed the gas pricing mechanism for Hidalgo

  - As expected, both Hidalgo and Silas Ray are priced from the same index (Houston Ship Channel) which simplifies hedging

Update

- Current expected timing is to execute the first gas hedge under the pilot program in January for February delivery

- Anticipated pilot program parameters:

Parameter	Value
Range of underlying FPE costs at 90% confidence (assumes 40% annualized power price volatility and 30% gas price volatility)	$5.76 million to $7.38 million
Anticipated pilot program hedge quantity	1,200 MMBtu/day
Current forward price (Feb)	$7.19/MMBtu
Potential hedge price (assumes 5% markup)	$7.55/MMBtu
Notional hedge value	$253,680
Potential hedge settlement range at 90% confidence (assumes 30% annualized gas price volatility)	-$82,227 to +$66,758

Note small size of pilot transaction compared to underlying FPE cost range.

- Potential settlements for pilot transaction are expected to move in the opposite direction of underlying fuel and purchase power costs, thereby helping to stabilize them.

- Because of small size of pilot, impact is expected to be small.

Timeline

Activity/Milestone	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Establish 1st ISDA	▬					
Conduct analysis and set quantities for pilot program	▬					
Request/receive approval for pilot transaction		▬				
Execute pilot transaction		▬				
Pilot deliveries occur			▬			
Assess pilot transaction results				▬		
Present pilot transaction results to FC and Board					▬	
Request approval for ongoing program implementation						▬