

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

DIRECT TESTIMONY OF

JOSEPH MCCALLISTER

ON BEHALF OF

PROGRESS ENERGY FLORIDA

DOCKET NO. 090007-EI

April 1, 2009

Q. Please state your name and business address.

A. My name is Joseph McCallister. My business address is 410 South Wilmington Street, Raleigh, North Carolina 27601.

Q. By whom are you employed and in what capacity?

A. I am employed by Progress Energy Carolinas (PEC) in the capacity of Director, Gas, Oil and Power.

Q. What are your responsibilities in that position?

A. I am responsible for the procurement of natural gas, fuel oil and emission allowances and the power trading and optimization on behalf of PEC and Progress Energy Florida (PEF).

1 **Q. Have you previously provided testimony before this Commission in**
2 **connection with PEF's Environmental Cost Recovery Clause?**

3 A. Yes. In last year's docket (No. 080007-EI); I presented testimony outlining
4 PEF's overall approach to procuring emission allowances as part of its
5 Integrated Clean Air Compliance Plan and preparation for the compliance
6 requirements of the Clean Air Interstate Rule (CAIR).

7

8 **Q. What is the purpose of your testimony?**

9 A. The purpose of my testimony is to summarize PEF's actions to date related to its
10 emission allowance procurement strategy as part of its Integrated Clean Air
11 Compliance Strategy in preparation for the requirements under the CAIR.

12

13 **Q. How does PEF determine how many emission allowances it needs to**
14 **purchase?**

15 A. As part of the fuel and generation forecasts, expected emissions are projected.
16 The forecasts are generated periodically and are based on input assumptions
17 such as generation availability and capacity, planned generation outage
18 schedules, purchase power contracts, fuel and emissions price forecasts, planned
19 environmental equipment installations and load projections. To determine if the
20 Company needs to purchase emission allowances for compliance requirements
21 in the current or future time periods, PEF compares the forecasts of the
22 emissions that will be generated to the number of emissions allowances that PEF
23 owns through allocations, purchases and accumulated inventory. The Integrated

1 Clean Air Compliance Plan stated that for the PEF system, the expected quantity
2 of emissions generated based on the forecasts was greater than the number of
3 allowances that PEF owns for the respective periods. As a result, PEF projected
4 the need to purchase allowances from the market in order to comply with the
5 regulations.

6

7 **Q. How did CAIR impact PEF's procurement activities for emission**
8 **allowances?**

9 A. CAIR established an updated cap-and-trade system for SO₂ and NO_x and covers
10 28 eastern states and the District of Columbia. CAIR established modified
11 sulfur dioxide (SO₂) annual compliance requirements under Title IV of the
12 Clean Air Act by requiring 2.0 SO₂ allowances to be submitted per ton of SO₂
13 emissions beginning with 2010 annual compliance filings, and 2.86 SO₂
14 allowances to be submitted per ton of SO₂ emission starting with 2015 annual
15 compliance filings. In addition, CAIR established new seasonal and annual
16 emission compliance requirements for nitrogen oxides (NO_x). Beginning in
17 2009, CAIR requires affected sources to complete a seasonal NO_x emission
18 allowance compliance submittal for the May 1 through September 30 time
19 period as well as an annual NO_x emission allowance compliance submittal for
20 the January 1 through December 31 time period each year.

21

22 **Q. What strategy has PEF pursued for procuring emissions allowances to**
23 **ensure compliance with CAIR?**

1 A. PEF's overall procurement strategy for meeting emissions allowance
2 requirements is to buy allowances over time based on forecasted compliance
3 needs. PEF believes a procurement strategy of buying emissions allowances
4 over time is a reasonable and prudent approach to ensure that compliance
5 requirements are met while reducing price risk and volatility for customers.

6
7 As part of its Integrated Clean Air Compliance Plan, PEF forecasted the need to
8 purchase both seasonal and annual NOx emissions allowances in order to
9 comply with CAIR beginning with 2009 operations. For that reason, and
10 consistent with its strategy, PEF has purchased seasonal and annual NOx
11 allowances over time to gradually increase inventories to the levels necessary to
12 achieve compliance.

13
14 **Q. Have there been any recent developments associated with CAIR?**

15 A. Yes. As discussed in my pre-filed testimony and the pre-filed testimony of
16 Patricia Q. West and Michael Kennedy in the 080007-E1 Docket, the Court
17 issued a decision vacating CAIR on July 11, 2008. As a result, PEF stopped
18 purchasing CAIR emissions allowances in light of the uncertainty created by the
19 Court's decision. More recently, on December 23, 2008, the Court issued a
20 revised decision that remanded CAIR back to the EPA without vacating the rule.
21 CAIR now remains in effect in its original form until new rules consistent with
22 the Court's finding are developed and adopted. Since CAIR is in effect per the
23 December 23, 2008 ruling, the Annual NOx emissions market has begun trading

1 again and PEF has resumed procuring allowances consistent with its strategy
2 and requirement to comply with the CAIR.

3

4 **Q. How do actual purchases of emission allowances for the period January**
5 **2008 through December 2008 compare with PEF's estimated/actual**
6 **projections as presented in previous testimony?**

7 A. Actual purchases of 2008 emission allowances are in line with PEF's previously
8 filed Estimated/Actual projections. The actual revenue requirements on the
9 inventory of SO₂ and NO_x emission allowances were \$9,664,191, compared to
10 the Estimated/Actual projection of \$9,616,405 for an immaterial variance (0%)
11 in 2008.

12

13 **Q. Does this conclude your testimony?**

14 A. Yes it does.

15