

**BEFORE THE FLORIDA
PUBLIC SERVICE COMMISSION**

**DOCKET NO. 120015-EI
FLORIDA POWER & LIGHT COMPANY**

**IN RE: PETITION FOR RATE INCREASE BY
FLORIDA POWER & LIGHT COMPANY**

DIRECT TESTIMONY & EXHIBITS OF:

SAM A. FORREST

(PROPOSED SETTLEMENT AGREEMENT)

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1 **I. INTRODUCTION**

2

3 **Q. Please state your name and business address.**

4 A. My name is Sam A. Forrest. My business address is Florida Power & Light
5 Company, 700 Universe Boulevard, Juno Beach, Florida 33408.

6 **Q. By whom are you employed and what is your position?**

7 A. I am employed by Florida Power & Light Company ("FPL" or the "Company") as
8 Vice President of the Energy Marketing and Trading ("EMT") Business Unit.

9 **Q. Please describe your duties and responsibilities in that position.**

10 A. I am responsible for the overall direction and management of the EMT Business
11 Unit, which handles FPL's short-term and long-term fuel management and
12 operations. These fuels include natural gas, residual fuel oil, distillate fuel oil,
13 and coal. Additionally, EMT is responsible for FPL's fuel hedging program,
14 long-term fuel transportation and storage contracts, power origination activities
15 and short-term power trading and operations. EMT is an active participant in the
16 daily spot natural gas supply market throughout the southeastern United States.

17 **Q. Please describe your educational background and professional experience.**

18 A. I hold a Bachelor of Science in Electrical Engineering from Texas A&M
19 University and a Master of Business Administration from the University of
20 Houston. Prior to being named Vice President of EMT for FPL in June 2007, I
21 was employed by Constellation Energy Commodities Group ("CECG") as Vice
22 President, Origination. In this capacity, I was responsible for managing a team of
23 power originators marketing structured electric power products in Texas, the

1 Western United States and Canada. Prior to my responsibilities with CECG in the
2 West, I was responsible for CECG business development activities in the
3 Southeast U.S.

4
5 Before joining CECG, from 2001 to 2004, I held a variety of energy marketing
6 and trading management positions at Duke Energy North America (“DENA”).
7 Prior to DENA, I was employed by Entergy Power Marketing Corporation
8 (“EPMC”) in several positions of increasing responsibility, including Vice
9 President - Power Marketing, following EPMC’s entry into a joint venture with
10 Koch Energy Trading.

11
12 From 1996 to 1998, I was Director of Installations at Dealer Solutions, a
13 successful start-up organization in the automotive industry. My staff was
14 responsible for installing a customized software application across the U.S.

15
16 From 1987 to 1996, I worked for AlliedSignal Aerospace at the Johnson Space
17 Center in Houston, Texas in increasing roles of responsibility. My last role there
18 was as Branch Leader of engineers responsible for implementing change requests
19 to National Aeronautics and Space Administration ground support equipment,
20 including the Mission Control Center and Software Production Facility.

21 **Q. Are you sponsoring any exhibits in this case?**

22 A. Yes. I am sponsoring the following exhibits:

- 23
- SF-1, Historical Performance of Existing Incentive Mechanism

1 • SF-2, Historical Performance of Power Sales Gains and Purchased Power
2 Savings

3 • SF-3, Example – “Total Gains Schedule”

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

5 A. The purpose of my testimony is to (i) provide an overview of the “Incentive
6 Mechanism” set forth in paragraph 12 of the proposed Stipulation and Settlement
7 (“Proposed Settlement Agreement”) filed by the Company on August 15, 2012, in
8 Docket No. 120015-EI, (ii) provide a description of the existing incentive
9 mechanism related to gains on power sales under which FPL currently operates,
10 including a review of the historical results of this incentive mechanism, (iii)
11 provide an overview of FPL’s current asset optimization measures and a
12 description of the additional measures to be included, (iv) describe how gains will
13 be calculated and the associated regulatory treatment, (v) provide an overview of
14 incremental optimization costs, and (vi) describe the timeline and filings that FPL
15 will make regarding the Incentive Mechanism.

16 **Q. Please summarize your testimony.**

17 A. The Incentive Mechanism detailed in paragraph 12 of the Proposed Settlement
18 Agreement is designed to create additional value for FPL’s customers while also
19 providing an incentive to FPL if certain customer-value thresholds are achieved.
20 The Commission has previously recognized the value of incentive mechanisms, as
21 FPL currently operates under an existing incentive mechanism related to gains on
22 power sales that was implemented in 2001. While the existing incentive
23 mechanism was well-designed for the time period in which it was implemented, it

1 does not take into consideration changes that have occurred in the market. The
2 Incentive Mechanism in the Proposed Settlement Agreement seeks to enhance the
3 existing incentive mechanism in two ways. First, it would expand the focus of
4 the incentives, so that FPL would be encouraged to pursue a wider range of gains
5 for the benefit of customers. Second, the Incentive Mechanism would update the
6 sharing threshold to provide a more meaningful opportunity for FPL to share in
7 the benefits that it delivers to customers, but only if FPL is successful in
8 delivering additional value to customers.

9
10 The Incentive Mechanism described in the Proposed Settlement Agreement is
11 very straightforward in that it simply adds incentives for FPL to create additional
12 value for customers above the levels currently being projected. The threshold
13 level of \$46 million contained in the proposal represents nearly \$11 million more
14 than FPL's 2013 projections for short-term power sales gains and short-term
15 purchased power savings. Customers will receive 100 percent of the benefits up
16 to \$46 million before any sharing begins.

17
18 Beyond short-term power sales and purchases (including short-term capacity
19 purchases), FPL will attempt to create additional value through other forms of
20 asset optimization including natural gas storage optimization, natural gas sales,
21 capacity releases of natural gas transportation, selling idle, third party
22 transmission and potentially outsourcing the optimization function to a third party
23 in the form of an Asset Management Agreement ("AMA"). In exchange for

1 expanding its optimization strategies to try to deliver additional value, FPL will
2 be entitled to recover reasonable and prudent incremental operation and
3 maintenance (“O&M”) costs incurred in implementing this expanded optimization
4 program. FPL believes that these costs will be modest in comparison to the \$46
5 million of savings that customers will receive before sharing begins and thus, it is
6 fair for customers to reimburse FPL for those costs.

7 8 **II. OVERVIEW OF THE INCENTIVE MECHANISM**

9
10 **Q. Please describe the Incentive Mechanism that is proposed in paragraph 12 of**
11 **the Proposed Settlement Agreement.**

12 A. The Incentive Mechanism detailed in paragraph 12 of the Proposed Settlement
13 Agreement is designed to create additional value for FPL’s customers while also
14 providing an incentive to FPL if certain customer-value thresholds are achieved.
15 The Incentive Mechanism described in the Proposed Settlement Agreement is
16 very straightforward in that it simply adds incentives for FPL to create additional
17 value for customers above the levels currently being projected. The first
18 threshold of \$36 million (“Customer Savings Threshold”) is based on FPL’s 2013
19 projections for short-term power sales gains and short-term purchased power
20 savings that were filed on August 31, 2012 in Docket No. 120001-EI. For 2013,
21 FPL projects power sales gains of \$4,238,116 and purchased power savings of
22 \$30,907,083, or \$35,145,199 in total. The proposed Incentive Mechanism also
23 includes a second threshold of \$10 million (“Additional Customer Savings”).

1 This second threshold of \$10 million represents the additional value that FPL will
2 attempt to create for its customers through expanding its optimization program.
3 The combination of the two thresholds results in FPL's customers receiving 100
4 percent of the benefits up to \$46 million, or nearly \$11 million more than FPL's
5 2013 projected benefits resulting from gains on sales and savings on purchases.

6
7 FPL will attempt to create additional value through other forms of asset
8 optimization as described in paragraph 12(a)(ii) of the Proposed Settlement
9 Agreement. These other forms of asset optimization include, but are not limited
10 to, natural gas storage optimization, natural gas sales, capacity releases of natural
11 gas transportation and selling idle, third party transmission. Additionally, FPL
12 could potentially outsource the optimization function of assets such as natural gas
13 storage and natural gas transportation to a third party in the form of an AMA in
14 exchange for a premium. These additional forms of optimization will be
15 described in further detail later in my testimony.

16
17 In exchange for expanding its optimization strategies to try to deliver additional
18 value, FPL will be entitled to recover reasonable and prudent O&M costs incurred
19 in implementing this expanded optimization program and share in some of the
20 benefits, but only if the defined threshold levels are reached.

21
22

1 **Q. Do the “Customer Savings Threshold” and the “Additional Customer**
2 **Savings” threshold apply to all customer classes?**

3 A. Yes. All customer classes will share in the benefits provided by this Incentive
4 Mechanism.

5 **Q. Will the asset optimization measures that FPL executes be subject to**
6 **Commission review to determine eligibility for inclusion in the Incentive**
7 **Mechanism?**

8 A. Yes. FPL will submit documentation to the Commission on an annual basis for
9 review, detailing all of the asset optimization measures that it proposes for
10 inclusion in the Incentive Mechanism.

11 **Q. Please explain why the Incentive Mechanism set forth in the Proposed**
12 **Settlement Agreement is in the public interest.**

13 A. The Incentive Mechanism is designed to create additional value for FPL’s
14 customers by engaging in additional forms of asset optimization. To the extent
15 that FPL can create additional value above the levels currently projected through
16 this expanded program, FPL’s customers will benefit through lower overall fuel
17 costs.

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1 **III. BACKGROUND ON EXISTING INCENTIVE MECHANISM**

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3 **Q. Is there Commission precedent for incentive mechanisms to encourage**
4 **utilities to maximize customer benefits from power-related transactions?**

5 A. Yes. The first incentive mechanism was established by Order No. 12923, issued
6 on January 24, 1984, in Docket No. 830001-EU-B. Order No. 12923 moved
7 economy energy sales gains from base rates to the fuel clause and established an
8 incentive mechanism that was designed to encourage investor-owned utilities
9 (“IOUs”) to make economy energy sales. Gains from economy energy sales were
10 split between customers and shareholders on an 80 percent-20 percent basis.
11 Economy energy sales were typically executed under Schedule C, a cost-based
12 interchange contract that prescribed a “split-the-savings” approach for
13 determining the transaction price. Most transactions were conducted on the
14 Florida Broker Network, an automated trading platform that matched the highest
15 bidders with the lowest offers in sequential order. On May 10, 2000, an
16 evidentiary hearing was held to determine if the incentive mechanism was still
17 necessary or appropriate.

18

19 A new incentive mechanism, under which FPL currently operates, was established
20 by Order No. PSC-00-1744-PAA-EI, dated September 26, 2000, in Docket No.
21 991779-EI. In that order, the Commission stated, “While there is no way to
22 precisely measure the effect of a shareholder incentive on the IOUs’ participation
23 in the wholesale market, we find that a properly structured incentive will result in

1 greater management efforts to increase economy energy sales, yielding gains on
2 those sales to the benefit of ratepayers.” The Commission goes on to state, “We
3 find that a properly structured incentive may achieve even greater benefits for
4 ratepayers by encouraging the types of sales from which ratepayers are currently
5 receiving the greatest benefit.”

6 **Q. What incentive do utilities receive under the existing incentive mechanism?**

7 A. The existing incentive mechanism utilizes a three-year moving average of actual
8 gains on all non-separated wholesale power sales, firm and non-firm, excluding
9 emergency sales, to establish a threshold level or “benchmark” each year. Actual
10 gains below this threshold are credited 100 percent to customers. Actual gains
11 above this threshold are split 80 percent to customers and 20 percent to
12 shareholders.

13 **Q. Was the existing incentive mechanism designed appropriately for conditions
14 that existed at the time it was initially implemented?**

15 A. Yes. At the time of its establishment, the landscape of the power market had
16 changed dramatically with the implementation of FERC Orders 888 and 889,
17 which helped to promote competition in the wholesale power market. Companies
18 were ramping up trading operations, market participants were growing and trade
19 volumes were increasing. The ability to move power through multiple states
20 opened up the opportunity to create additional value and gains were increasing on
21 power sales with the implementation of market-based rates. From 1997 through
22 1999, FPL increased its number of contracts almost seven-fold and saw its gains

1 on power sales more than triple from approximately \$19 million to approximately
2 \$60 million.

3 **Q. What has changed since the existing incentive mechanism went into place**
4 **that has reduced the opportunities for economy sales?**

5 A. Almost coincident with the implementation of the current incentive mechanism,
6 the electricity markets began to stabilize as merchant generation was developed
7 throughout the country and most notably within the southeast U.S. In more recent
8 years, beginning in 2007, FPL's gains on economy sales have declined as
9 opportunities for economy purchases have increased – this has been due in part to
10 increases in fuel oil prices relative to natural gas prices. FPL's higher incremental
11 cost of dispatch on fuel oil has offered significant opportunities to purchase from
12 other generators with available natural gas generation, while at the same time
13 reducing the opportunities to make wholesale sales at a gain. As shown in Exhibit
14 SF-1, from 2001 through 2011, under the existing incentive mechanism, FPL
15 delivered over \$158 million in benefits to customers while sharing in just under
16 \$2 million. FPL has not shared in any benefits since 2006.

17

18 **IV. DETAILS ON THE INCENTIVE MECHANISM**

19

20 **Q. How would the Incentive Mechanism in the Proposed Settlement Agreement**
21 **address the limitations in the existing mechanism?**

22 A. The Incentive Mechanism would address the limitations in the existing
23 mechanism in two ways. First, the Incentive Mechanism recognizes there are

1 other forms of asset optimization, such as purchasing power at a lower cost than
2 one's own generation, which provide the same benefit of reducing customers' fuel
3 costs, as do gains on power sales. As shown in Exhibit SF-2, during the same
4 period the existing incentive mechanism has been in place, FPL has delivered
5 over \$340 million to customers in purchased power savings by capitalizing on the
6 opportunities that the market presented at the time. The Incentive Mechanism
7 expands the existing incentive mechanism to include gains on purchasing power
8 in which FPL is currently active but which is not eligible for incentives, as well as
9 additional activities that would be new forms of asset optimization for FPL to
10 pursue. By expanding the types of asset optimization measures eligible for
11 incentives, FPL would be encouraged to pursue a wider range of benefits for
12 customers.

13
14 Second, the Incentive Mechanism would update the sharing threshold to provide a
15 meaningful opportunity for FPL to share in asset optimization benefits, once
16 customers have received 100 percent of the first \$46 million in benefits. By using
17 the \$36 million that is projected for 2013 gains on short-term power sales and
18 savings on short-term power purchases as the Customer Savings Threshold, the
19 Commission would be resetting the threshold to reflect today's market realities.
20 The Additional Customer Savings target of \$10 million would then set a
21 challenging but potentially achievable threshold above which FPL would share in
22 the benefits it delivers to customers – in other words, a true and meaningful
23 incentive. FPL believes that the 2013 projected gains and savings on short-term

1 power transactions would remain a reasonable threshold throughout the four-year
2 term of the Settlement Agreement. If the Commission decided to continue the
3 Incentive Mechanism thereafter, the continued appropriateness of the threshold
4 could be reevaluated at that time.

5 **Q. Are there any asset optimization activities that will not be part of the**
6 **Incentive Mechanism?**

7 A. Yes. FPL optimizes its generation and fuel portfolio through its normal day-to-
8 day activities. The optimization of its generation portfolio through economic
9 dispatch, the efficient utilization of its natural gas transportation capacity, and the
10 lowest, most reliable approach to gas procurement, are all activities that help to
11 lower costs to FPL's customers. FPL is not proposing to include these on-going
12 activities that are integral to day-to-day operations in the Incentive Mechanism,
13 because it would be difficult to track and determine the gains that result from
14 them. Nonetheless, FPL will continue to implement these on-going optimization
15 strategies to the benefit of customers.

16

17 **V. EXPANDED FORMS OF ASSET OPTIMIZATION**

18

19 **Q. Please describe the other forms of asset optimization that would be included**
20 **within the proposed Incentive Mechanism.**

21 A. Paragraph 12(a)(ii) of the Proposed Settlement Agreement recognizes that there
22 are several additional types of asset optimization in which FPL potentially could
23 engage to create benefits for customers, including gas storage optimization,

1 delivered city-gate gas sales using existing transport, production (upstream) area
2 sales, capacity release of gas transportation and electric transmission and the use
3 of AMA's. While these types of asset optimization measures are highly
4 dependent on market conditions, FPL's customers would receive the benefit of a
5 reduction in fuel or capacity (sale of electric transmission) expenses to the extent
6 they could be executed. I will briefly describe each optimization measure and
7 their potential to create benefits for customers:

- 8
- 9 • Gas Storage Optimization - FPL may be able to either sub-lease a portion of
10 its gas storage capacity or sell gas directly out of storage. FPL would seek to
11 execute these types of transactions predominately during non-critical demand
12 periods when full gas storage volumes are not required. The revenue that
13 would be generated from either type of transaction, a lease payment or a gain
14 on the sale of gas, would directly benefit customers by reducing overall
15 natural gas expenses.
 - 16 • Delivered City-Gate Gas Sales - FPL may be able to make natural gas sales in
17 the Market Area utilizing its natural gas transportation capacity when it is not
18 needed for its own requirements. While the opportunity for these types of
19 sales is limited due to FPL's high utilization of its firm gas transportation and
20 the necessity to retain a portion of its gas transportation to cover forecast
21 errors, if FPL was able to execute this type of sale, the gain would benefit
22 customers by reducing overall natural gas expenses.

- 1 • Production (Upstream) Area Gas Sales - FPL would engage in these types of
2 gas sales when generation or consumption requirements change, forcing FPL
3 to balance its natural gas supply with its demand. These types of sales are
4 made in the Production Area and do not require FPL to use its natural gas
5 transportation capacity. Opportunities could potentially exist outside of
6 balancing requirements. Gains for these transactions would benefit customers
7 by reducing overall natural gas expenses.
- 8 • Capacity Release of Gas Transportation - FPL could directly sell a piece of its
9 gas transportation capacity for short durations when it is not needed for its
10 own requirements. While the opportunity for these types of sales is limited
11 due to FPL's high utilization of its firm gas transportation and the necessity to
12 retain a portion of its gas transportation to cover forecast errors, if FPL was
13 able to execute this type of sale, the revenues would benefit customers by
14 reducing overall natural gas expenses.
- 15 • Electric Transmission Sales - FPL currently engages in the sale of idle electric
16 transmission. FPL owns long-term firm electric transmission service on the
17 Southern Company system to support its UPS purchased power agreements.
18 Under the terms of the UPS agreements, if FPL does not schedule UPS power
19 by the day-ahead deadline defined in each agreement, FPL loses its scheduling
20 rights for the next day. If FPL determines that it does not require UPS power
21 for a given day, it can re-post its electric transmission service on Southern
22 Company's OASIS system for other entities to purchase. Because the electric
23 transmission service would otherwise go unutilized, the revenue received from

1 this type of transaction directly reduces the cost of unutilized electric
2 transmission service for FPL's customers.

- 3 • AMA – FPL could outsource all or a portion of the optimization of its natural
4 gas storage or natural gas transportation capacity to a third party in exchange
5 for a premium. The third party would be independent of FPL or NextEra
6 Energy, Inc. and would typically have an existing portfolio of assets that,
7 when combined with FPL's asset(s), could be optimized to provide value to
8 both entities. FPL has had discussions with third party entities regarding
9 AMA's within the past two years. Given the decrease in the volatility of
10 natural gas prices, the overall lower level of natural gas prices, and the
11 narrowing of basis differentials between geographic locations, FPL has not
12 been able to reach commercially acceptable terms with a third party that are
13 advantageous to FPL's customers. Any premiums received from an AMA
14 would benefit FPL's customers by reducing overall natural gas expenses.

15 **Q. Why isn't FPL currently engaging in these additional forms of asset**
16 **optimization?**

17 A. FPL's opportunity to engage productively in these forms of asset optimization is
18 still evolving, so the potential to utilize them remains untested for the most part.
19 FPL's gas utilization has increased in recent years and its portfolio of gas
20 transportation and storage has grown to match, offering new opportunities when
21 these assets are not needed to serve native load to deploy them in ways that
22 reduce fuel expenses for FPL's customers.

1 **Q. Does FPL anticipate that it will enter into new natural gas transportation**
2 **agreements or natural gas storage agreements in order to implement the**
3 **forms of asset optimization described in paragraph 12(a)(ii)?**

4 FPL does not presently have any plans to enter into new agreements for the
5 purpose of asset optimization. FPL will continue to evaluate and enter into
6 agreements that either benefit the reliability of fuel supply or help lower overall
7 fuel costs for FPL's customers or both, and some of these agreements may
8 facilitate additional asset optimization. Regarding natural gas storage
9 specifically, FPL's firm gas storage agreement with Bay Gas expires at the end of
10 March 2013. FPL has been in negotiations with several gas storage companies
11 over the past several months, including Bay Gas, to address its future gas storage
12 needs. Given its increased dependence on natural gas, FPL plans to increase its
13 storage capability over 2 BCF (current level) moving forward.

14 **Q. Would the reliability of FPL's fuel supply or generation system be adversely**
15 **affected by these new asset optimization activities?**

16 **A.** No. FPL's primary focus is system reliability, and FPL will not engage in any
17 activities that negatively impact reliability.

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1 **VI. CALCULATION OF GAINS FROM ASSET OPTIMIZATION**

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Q. Please describe how gains associated with asset optimization measures would be calculated under the Incentive Mechanism.

A. The gains and savings associated with short-term wholesale sales and purchases will be calculated through the same methodology that FPL currently utilizes for those transactions. FPL utilizes two applications to determine marginal (incremental) pricing for sales and purchases. Marginal pricing for transactions greater than one hour in duration is developed utilizing GenTrader software. Marginal pricing for next-hour transactions is developed utilizing a program called "Economy A" which is part of FPL's Energy Management System. GenTrader and "Economy A" are unit commitment programs that provide optimal system dispatch output data based on numerous inputs including fuel prices, generation parameters and load data. These programs are used to determine the projected marginal costs for each transaction under consideration. The marginal cost data for each transaction is compared to the purchase or sale price of power to determine savings or gains. The marginal cost data for all transactions is shown in aggregate for each counterparty on Schedule A6 as the "Total \$ for Fuel Adjustment" and on Schedule A9 as the "Cost if Generated" in Docket No. 120001-EI. An example of the savings calculation for a short-term purchase is shown below:

- 1 • Transaction Evaluated: FPL is offered a next-day economy purchase of 100
2 MW from hour ending 0800 through hour ending 2300 at \$35 per MWh.
- 3 • Projected Marginal Cost: FPL runs its GenTrader program to determine that
4 its average marginal cost of generation during these hours is \$55 per MWh.
- 5 • Savings Calculation:
 - 6 ○ Total cost of power = 16 hours * 100 MW * \$35 per MWh = \$56,000.
 - 7 ○ The “Cost if Generated” = 16 hours * 100 MW * \$55 per MWh =
8 \$88,000.
 - 9 ○ FPL saves \$88,000 - \$56,000 = \$32,000 on this transaction versus its cost
10 of generation.

11
12 The savings associated with capacity purchases that are reported on Schedule A7
13 will be calculated utilizing the same methodology described above.

14
15 The gains from the additional asset optimization measures listed in paragraph
16 12(a)(ii) would be calculated as follows:

- 17
- 18 • Natural gas storage sublease – Gains will equal the revenue received for the
19 sublease.
- 20 • Natural gas sales (from storage, delivered city-gate, production area) – Gains
21 will equal the sales price minus the commodity cost plus variable costs (if
22 applicable).

- 1 • Capacity Release of gas transportation -- Gains will equal the revenue received
- 2 for the transportation sale.
- 3 • Electric transmission sale - Gains equal the revenue received for the
- 4 transmission sale.
- 5 • AMA – Gains equal the premium received by FPL from the asset manager.

6 **Q. Please explain how gains would be credited to customers for the optimization**
7 **measures described in paragraph 12 of the Proposed Settlement Agreement.**

8 A. Gains associated with any natural gas related transactions would be credited to the
9 total cost of gas in the month that the gains occur. These credits would serve as a
10 reduction to total gas expenses that are recovered from customers through the fuel
11 clause. Gains associated with wholesale power sales will continue to be credited
12 as a separate line item included in the “Total Fuel Costs and Net Power
13 Transactions”. Wholesale power purchases will continue to be charged through
14 the fuel clause; however, FPL would separately track the savings associated with
15 each transaction for inclusion in the Incentive Mechanism. Gains associated with
16 the sale of idle electric transmission capacity will continue to be credited as a
17 reduction to the total cost of unutilized transmission that is recovered through the
18 capacity clause.

19 **Q. How does FPL intend to recover the incremental gains associated with the**
20 **Incentive Mechanism?**

21 A. FPL intends to recover the portion of incremental gains shared by the Company
22 under the Incentive Mechanism through the fuel clause in the same manner that it

1 currently recovers rewards under the Generation Performance Incentive Factor
2 (“GPIF”).

3 **Q. What filing(s) will FPL make regarding its performance under the Incentive**
4 **Mechanism?**

5 A. Consistent with the GPIF timetable and as described in paragraph 12(a)(i) of the
6 Proposed Settlement Agreement, FPL will file a “Total Gains Schedule” with its
7 annual Final True-Up Filing along with all necessary supporting documentation.
8 This will give the Commission several months to review the data prior to FPL
9 including any gains for collection in the annual projection filing it makes for the
10 subsequent year. An example of the “Total Gains Schedule” is shown in Exhibit
11 SF-3. The “Total Gains Schedule” provided as Exhibit SF-3 is for illustrative
12 purposes and does not reflect actual data.

13

14 VII. INCREMENTAL OPTIMIZATION COSTS

15

16 **Q. Does the Incentive Mechanism provide for FPL to recover incremental costs**
17 **associated with implementing asset optimization?**

18 A. Yes. FPL anticipates that it will incur additional costs in order to generate the
19 expanded benefits to customers contemplated by the Incentive Mechanism.
20 Those costs will be very modest, however, in comparison to the \$46 million of
21 savings that customers will receive before FPL begins to share in the savings that
22 it produces. Thus, it is fair for customers to reimburse FPL for those costs.
23 Specifically, paragraph 12(b) of the Proposed Settlement Agreement provides a

1 recovery mechanism for “Incremental Optimization Costs” in two categories: (i)
2 incremental personnel, software and hardware costs associated with managing the
3 various asset optimization activities, and (ii) variable power plant O&M costs
4 incurred to generate additional wholesale sales beyond the 514,000 MWh of such
5 sales that were projected in FPL’s 2013 Test Year.

6 **Q. Has FPL estimated the total Incremental Optimization Costs it projects to**
7 **incur during 2013?**

8 A. FPL has not definitively determined what level of incremental optimization costs
9 would be required to support an expanded optimization program in 2013.
10 Although subject to change, FPL estimates that two to three additional personnel
11 could be required, in addition to the necessary computer hardware and software to
12 support the additional personnel and activities for 2013. These personnel would
13 be responsible for activities such as gas optimization and scheduling, as well as
14 incremental economy power purchases and sales. The expanded optimization
15 program would be formalized and implemented over time, so it is difficult to
16 predict the ultimate costs that would be incurred during 2013. However, it could
17 be anticipated that the annual incremental costs for three additional personnel,
18 fully loaded, as well as supporting computer hardware and software would be
19 approximately \$500K. FPL is projecting that its wholesale sales volume will not
20 exceed 514,000 MWh in 2013 and therefore, the incremental variable plant O&M
21 costs will be \$0.

22

23

1 **Q. How would FPL recover Incremental Optimization Costs?**

2 A. FPL's intent is to recover incremental personnel, software, hardware, etc. in the
3 same manner that it was allowed to recover incremental operating and
4 maintenance expenses incurred for the purpose of initiating and/or maintaining a
5 new or expanded hedging program. Order No. PSC-02-1484-FOF-EI, issued on
6 October 30, 2002 in Docket No. 011605-EI allowed for recovery of these
7 expenses through the fuel clause. FPL would include estimates of the Incremental
8 Optimization Costs with its annual projection filing each year. These costs would
9 then be subject to the standard true-up mechanism.

10

11 Variable power plant O&M costs would be recovered (to the extent the 514,000
12 MWh threshold for short-term power sales is exceeded) in the same manner as
13 FPL currently recovers incremental O&M associated with the sale of energy from
14 its Gas Turbines. These costs are charged to the "Fuel Cost of Power Sold" in the
15 month they are incurred.

16

17

VIII. SUMMARY

18

19 **Q. Please summarize why FPL believes that the proposed Incentive Mechanism**
20 **is in the public interest.**

21 A. The Incentive Mechanism would substantially improve upon the existing
22 incentive mechanism by providing an incentive for an expanded range of asset
23 optimization measures beyond just wholesale power sales. It also establishes a

1 challenging but realistically achievable threshold that FPL must meet in order to
2 share in the customer benefits from those measures. The Incentive Mechanism
3 would return 100 percent of the first \$46 million of asset optimization benefits to
4 customers through reduced fuel costs, while providing FPL a strong incentive to
5 achieve even greater levels of savings that would be shared between FPL and its
6 customers. This is a “win-win” value proposition that makes approval of the
7 Proposed Settlement Agreement even more attractive for FPL’s customers.

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

9 **A. Yes.**

Historical Performance of Existing Incentive Mechanism

Year	Filed Gains	3-Year Average Threshold	Customer Benefit	Shareholder Benefit
1998	62,276,204			
1999	59,183,161			
2000	37,400,076			
2001	17,846,596	52,953,147	17,846,596	0
2002	9,726,487	38,143,278	9,726,487	0
2003	17,827,648	21,657,720	17,827,648	0
2004	18,558,415	15,133,577	17,873,447	684,968
2005	21,022,022	15,370,850	19,891,788	1,130,234
2006	19,438,254	19,136,028	19,377,809	60,445
2007	18,545,406	19,672,897	18,545,406	0
2008	17,001,482	19,668,561	17,001,482	0
2009	10,700,431	18,328,381	10,700,431	0
2010	4,421,987	15,415,773	4,421,987	0
2011	4,918,688	10,707,967	4,918,688	0
*2012	3,627,952	6,680,369	3,627,952	0
Total (2001-2011)	160,007,416		158,131,769	1,875,647

*2012 - Estimated total gains based on January through September actuals and October through December projections as filed with FPL's Actual/Estimated True-Up on August 1, 2012 in Docket No. 120001-EI.

Historical Performance of Power Sales Gains and Purchased Power Savings

Year	Total Power Sales Gains	Total Purchased Power Savings	Total Customer Benefit
2001	17,846,596	14,596,830	32,443,426
2002	9,726,487	20,999,240	30,725,727
2003	17,827,648	30,111,501	47,939,149
2004	18,558,415	17,572,194	36,130,609
2005	21,022,022	28,589,989	49,612,011
2006	19,438,254	17,026,127	36,464,381
2007	18,545,406	16,274,883	34,820,289
2008	17,001,482	14,887,826	31,889,308
2009	10,700,431	39,751,658	50,452,089
2010	4,421,987	78,316,363	82,738,350
2011	4,918,688	64,644,735	69,563,423
*2012	3,627,952	38,460,208	42,088,160
**2013	4,238,116	30,907,083	35,145,199
Total (2001-2011)	160,007,416	342,771,346	502,778,762

*2012 - Estimated total gains and purchased power savings based on January through September actuals and October through December projections as filed with FPL's Actual/Estimated True-Up on August 1, 2012 in Docket No. 120001-EI.

**2013 - Estimated total gains and purchased power savings based on projections as filed with FPL's 2013 Projection Filing on August 31, 2012 in Docket No. 120001-EI.

TOTAL GAINS SCHEDULE
Actual for the Period of: January 20XX through December 20XX

TABLE 1

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Wholesale Sales (MWh)	Wholesale Sales Total Gains (\$)	Wholesale Purchases (MWh)	Wholesale Purchases Total Savings (\$)	Asset Optimization Savings (\$)	Monthly Gains (MG) (\$)	Cumulative Gains (CG) (\$)	Threshold 1 CG ≤ \$36M 100% Customer Benefit (\$)	Threshold 2 \$36M > CG ≤ \$46M 100% Customer Benefit (\$)	Threshold 1 and 2 Total Customer Benefit (\$)
						(3) + (5) + (6)				(9) + (10)
January	100,000	1,000,000	25,000	250,000	1,000,000	2,250,000	2,250,000	2,250,000	0	2,250,000
February	100,000	1,000,000	25,000	250,000	1,000,000	2,250,000	4,500,000	2,250,000	0	2,250,000
March	50,000	500,000	50,000	1,000,000	1,000,000	2,500,000	7,000,000	2,500,000	0	2,500,000
April	50,000	500,000	125,000	2,500,000	1,000,000	4,000,000	11,000,000	4,000,000	0	4,000,000
May	50,000	500,000	150,000	3,000,000	1,000,000	4,500,000	15,500,000	4,500,000	0	4,500,000
June	50,000	500,000	150,000	3,000,000	1,000,000	4,500,000	20,000,000	4,500,000	0	4,500,000
July	50,000	500,000	200,000	6,000,000	1,000,000	7,500,000	27,500,000	7,500,000	0	7,500,000
August	50,000	500,000	200,000	6,000,000	1,000,000	7,500,000	35,000,000	7,500,000	0	7,500,000
September	50,000	500,000	200,000	6,000,000	1,000,000	7,500,000	42,500,000	1,000,000	6,500,000	7,500,000
October	50,000	500,000	75,000	1,500,000	1,000,000	3,000,000	45,500,000	0	3,000,000	3,000,000
November	100,000	1,000,000	25,000	250,000	1,000,000	2,250,000	47,750,000	0	500,000	500,000
December	100,000	1,000,000	25,000	250,000	1,000,000	2,250,000	50,000,000	0	0	0
Total	800,000	8,000,000	1,250,000	30,000,000	12,000,000	50,000,000		36,000,000	10,000,000	46,000,000

TABLE 2

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Month	Cumulative Gains (CG) (\$)	Incremental Gains (IG) \$46M > IG ≤ \$75M (\$)	Incremental Gains (IG) \$75M > IG ≤ \$100M (\$)	Incremental Gains (IG) IG > \$100M (\$)	Threshold 3 \$46M > IG ≤ \$75M 30% Customer Benefit (\$)	Threshold 3 \$46M > IG ≤ \$75M 70% FPL Benefit (\$)	Threshold 4 \$75M > IG ≤ \$100M 40% Customer Benefit (\$)	Threshold 4 \$75M > IG ≤ \$100M 60% FPL Benefit (\$)	Threshold 5 IG > \$100M 50% Customer Benefit (\$)	Threshold 5 IG > \$100M 50% FPL Benefit (\$)
	Column (8) Table 1									
January	2,250,000	0	0	0	0	0	0	0	0	0
February	4,500,000	0	0	0	0	0	0	0	0	0
March	7,000,000	0	0	0	0	0	0	0	0	0
April	11,000,000	0	0	0	0	0	0	0	0	0
May	15,500,000	0	0	0	0	0	0	0	0	0
June	20,000,000	0	0	0	0	0	0	0	0	0
July	27,500,000	0	0	0	0	0	0	0	0	0
August	35,000,000	0	0	0	0	0	0	0	0	0
September	42,500,000	0	0	0	0	0	0	0	0	0
October	45,500,000	0	0	0	0	0	0	0	0	0
November	47,750,000	1,750,000	0	0	525,000	1,225,000	0	0	0	0
December	50,000,000	2,250,000	0	0	675,000	1,575,000	0	0	0	0
Total		4,000,000	0	0	1,200,000	2,800,000	0	0	0	0

INCREMENTAL OPTIMIZATION COSTS
Actual for the Period of: January 20XX through December 20XX

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Month	Personnel Expenses * (\$)	Other Expenses ** (\$)	Wholesale Sales (MWh) (From (2) Above)	Cumulative Sales Generation (MWh)	Sales Generation Threshold**** (MWh)	Sales Generation Above Threshold (MWh) *****	Weighted Average Variable O&M***** (\$/MWh)	Incremental Generation Variable O&M (\$) (6) * (7)	Total Incremental O&M Expenses (\$) (2) + (3) + (8)
January	25,000	0	100,000	100,000	514,000	0	1.51	0	25,000
February	25,000	0	100,000	200,000	514,000	0	1.51	0	25,000
March	25,000	0	50,000	250,000	514,000	0	1.51	0	25,000
April	25,000	0	50,000	300,000	514,000	0	1.51	0	25,000
May	25,000	6,250	50,000	350,000	514,000	0	1.51	0	31,250
June	25,000	6,250	50,000	400,000	514,000	0	1.51	0	31,250
July	25,000	6,250	50,000	450,000	514,000	0	1.51	0	31,250
August	25,000	6,250	50,000	500,000	514,000	0	1.51	0	31,250
September	25,000	6,250	50,000	550,000	514,000	36,000	1.51	54,360	85,610
October	25,000	6,250	50,000	600,000	514,000	50,000	1.51	75,500	106,750
November	25,000	6,250	100,000	700,000	514,000	100,000	1.51	151,000	182,250
December	25,000	6,250	100,000	800,000	514,000	100,000	1.51	151,000	182,250
Total	300,000	50,000	800,000			286,000		431,860	781,860

Footnotes:

* Personnel expenses are for payroll and loadings for two additional trading personnel in 20XX

** Other expenses are for a software license lease that began in May 20XX

*** "Sales Generation Threshold" is the level of wholesale sales assumed in projecting power plant O&M costs for the 2013 test year MFR's.

**** "Weighted Average Variable O&M" reflects the monthly variable power plant O&M costs projected in the 2013 test year MFR's.

***** Column (7) Formula: If Column (5) - Column (6) > 0, then Column (7) equals the lower of Column (5) - Column (6) or Column (4)