BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DOCKET NO. 120015-EI

In the Matter of:

PETITION FOR INCREASE IN RATES BY FLORIDA POWER & LIGHT COMPANY.
______________________________/

VOLUME 38

Pages 5490 through 5589

PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN RONALD A. BRISÉ COMMISSIONER LISA POLAK EDGAR COMMISSIONER ART GRAHAM COMMISSIONER EDUARDO E. BALBIS COMMISSIONER JULIE I. BROWN
DATE:	Monday, November 19, 2012
TIME:	Commenced at 4:31 p.m. Concluded at 6:55 p.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	JANE FAUROT, RPR Official FPSC Reporter (850) 413-6732
APPEARANCES:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

NUMBER:	ID.	ADMTD.
679-682		5527
702-704		5527
708-713		5527
714	5563	
715	5563	

P R O C E E D I N G S

CONTINUED CROSS EXAMINATION

BY MR. McGLOTHLIN:

Q. Well, understanding that you disagree with the relationships as you described, you would agree that the calculation that results in a negative $16 million of depreciation expense under incremental infrastructure costs is the mathematical result of what I have described to you, correct?

A. Are you talking about the negative 16 million under incremental infrastructure costs?

Q. Yes.

A. Line 5B? Yes, mathematically that is the number.

Q. And I'll submit to you that your exhibit failed erroneously to apply the $190 million of amortization reserve, and I gather that you don't accept that. But for purposes of establishing the mathematical calculation involved, and depending on how that's resolved, would you agree that if one were to apply that to the incremental infrastructure costs shown, the revenue deficiency, as you described it, associated with the infrastructure changes would be $148 million?

A. I haven't checked the math on the exhibit, but I can do so quickly.

Yes, the math is correct.

MR. McGLOTHLIN: I have no further questions.

CHAIRMAN BRISÉ: All right. Thank you very much.

Mr. Wright.

MR. WRIGHT: Thank you, Mr. Chairman.

CROSS EXAMINATION

BY MR. WRIGHT:

Q. Good afternoon, Jeff.

A. Good afternoon.

Q. Again, for you I have a few -- Schef Wright -- a few questions.

In response to some questions from Mr. McGlothlin, you testified that you were doing something with respect to settlement concepts or proposed terms of a settlement before the earlier testimony in the case was filed. Do you recall making that statement?

A. Yes.

Q. Okay. And do you recall that the earlier testimony in that case -- testimony filed by intervenors that is -- was failed on July 2nd, 2012?

A. And that is an important clarification that I might have omitted. Yes, it was before that.

Q. Okay. Thanks.

Just in brief terms, can you tell us what you were doing? I mean like -- you go ahead. I could lead you, but I'm not going to.

A. That's okay. I get a call from Jon. Jon, you know, asked me about this and this and that, and I would say, you know, whatever he needed to get the answers to his questions.

Q. So it was like discussions of settlement concepts, things like that?

A. Yes.

Q. Okay. Thanks.

MR. MOYLE: And just for the record, I mean, I think some of it arguably was work product type stuff that was helping with settlement discussions, and I think it has been covered sufficiently so long as Mr. Wright is not wanting to delve into infinite detail on it.

MR. WRIGHT: That's fine, Mr. Chairman. And I wasn't. I really wanted to get the timing down.

CHAIRMAN BRISÉ: Sure.

MR. WRIGHT: Thank you.

BY MR. WRIGHT:

Q. Okay. Do you recall what FIPUG's position was regarding a total revenue increase or decrease as reflected in its post-hearing statement regarding the main case?

A. No, I don't recall.

Q. Okay. Would you accept subject to check that FIPUG's post-hearing statement indicates a proposed rate reduction of $253.4 million?

A. How much?

Q. $253,446,000.

A. I'll look it up, certainly.

Q. Okay. Do you have the post-hearing statement with you now?

A. No.

MR. WRIGHT: Mr. Chairman, I just want to have somebody hand the witness FIPUG's post-hearing statement and show him -- direct him to the page so that he can confirm the number I just read him.

CHAIRMAN BRISÉ: Go right ahead.

MR. WRIGHT: Thanks.

BY MR. WRIGHT:

Q. If you will turn to the little yellow tab I have there that has star 126 on it?

A. Yes.

Q. That refers to Issue 126 in the case.

A. Yes.

Q. And that indicates that FIPUG's position as reflected in its post-hearing statement was that FPL's total base rate revenue should be decreased by

$253.4 million, correct?

A. Yes. It says specifically operating revenue should be decreased by that amount.

Q. Thank you. Would you agree that FIPUG's position as articulated therein would have resulted in fair, just, and reasonable rates?

A. I suppose under a litigated scenario it might have where the company would be able to come back in for another rate case.

Q. Was that a yes in a litigated scenario, if the company could come back?

A. That could be one outcome. In a litigated settlement -- in a litigated case the company would be free to come back any time.

Q. Would you agree with me that that rate reduction would have been in the public interest?

A. I have not done an analysis of the $253 million decrease to make that determination. The real question is what happens after that over the next four years.

Q. Will you agree that in general a rate decrease is better for customers than a rate increase?

A. I would argue that customers would always prefer a decrease over an increase, unless it would have some deleterious effect on the reliability of their supply of electricity.

Q. And surely FIPUG didn't believe that FPL's reliability would suffer if it were to experience a revenue reduction of $253 million, did FIPUG?

A. I don't know that I can speak for FIPUG. I can speak for myself. I don't know. I didn't do the analysis to determine what effect that might have on FPL.

MR. WRIGHT: That's all I have. Thanks.

CHAIRMAN BRISÉ: Thank you.

Mr. Saporito.

MR. SAPORITO: Thank you, Mr. Chairman.

Mr. Pollock, I'm here as pro se. I had made inquiries of another witness, and I put two Exhibits 706 and 707 in front of that witness. I was wondering if they might still be in front of you.

THE WITNESS: Offhand I don't see them, no.

CHAIRMAN BRISÉ: No, you would have to make that available to him. We can have somebody from our staff help you with that.

I think Mr. Saporito has copies.

MS. FARLEY: Okay.

MR. SAPORITO: I have an extra set if you need them.

MS. FARLEY: Okay. Thank you.

MR. SAPORITO: Can you take an opportunity to review those, please.

CHAIRMAN BRISÉ: Thank you so much. I was talking to our staff person.

THE WITNESS: Okay. I have reviewed the documents.

MR. SAPORITO: All right. Thank you.

CROSS EXAMINATION

BY MR. SAPORITO:

Q. I would like to question you about your Prefiled Testimony, Corrected Prefiled Testimony at Page 4, Lines 3 through 23, where you state the public interest is served when a settlement achieves a balance between competing interests. If there were two competing interests, one, the utility versus customers, and two individual rate classes. Did I say that correctly?

A. Yes, two sets of competing interests.

Q. And would you agree with me that public interests means anything affecting the rights, health, or finances of the public at large, and that it is a broad term that refers to the body politic and public will such as in this docket where private individuals rely on Florida Power and Light for vital service of electric power?

A. I'm sorry, I got a little lost in the middle of your question. Were you reading me a definition or are you suggesting that that is what the meaning of public interest is? I'm not clear.

Q. No, I'm asking you the meaning of public -- if you would accept that the meaning of public interest as you -- your testimony deals with public interest, your prefiled testimony, so I'm asking you if you would agree with me that public interest means anything affecting the rights, health, or finances of the public at large, and that is a broad term that refers to the body politic and the public will such as in this docket where private individuals rely on FPL for the vital service of electric power?

MR. MOYLE: Just so the record is clear, Mr. Saporito, I think you're asking him about the 706 that you just handed to him, and that definition, essentially asking him whether that's a definition as set forth in the Free Dictionary, is that right?

MR. SAPORITO: No, that's not correct.

Do you understand the question, sir?

THE WITNESS: Well, it sounds like you are quoting from this Exhibit 706.

MR. SAPORITO: Well, I am applying this FPL docket which you are testifying about within the meaning of that public interest.

CHAIRMAN BRISÉ: Mr. Saporito, you pose a question.

Mr. Pollock, did you understand his question?

THE WITNESS: I'll try to answer it. I'm not sure that I fully understand it, but I will do the best I can, and he can ask me again if I didn't get it quite right.

CHAIRMAN BRISÉ: No, we want to make sure that you understand the question. If you don't understand the question, ask to have the question rephrased again, and then we'll try it that way. Otherwise we will move on to another question.

THE WITNESS: Yes, sir. Thank you.

CHAIRMAN BRISÉ: Thank you.

THE WITNESS: I think I heard the question twice. I think in this sense what you are talk about is a very broad definition that could apply to just about anything, any matter of public interest, but I think that in evaluating public interest in this case, I think the Commission needs to look at the factors that affect both the utility as well as the customers, as I set forth in my testimony, and what the settlement does to balance those competing sets of interests.

BY MR. SAPORITO:

Q. Well, in your opinion, can you help this Commission out and explain to them whether or not your understanding of public interest as it applies to this rate case also incorporates the terms as to whether the proposed settlement agreement is fair, just, and reasonable?

A. Yes.

Q. Okay. Thank you. Would you agree with me that the majority of FPL customers are those comprised in the classes of residential customers and customers represented by the Federal Retail Federation?

MR. MOYLE: Object to the form. It's ambiguous. We have had testimony both ways with respect to the number of customer or sales, and I think the question needs to be a little more clear as to what he is asking with respect to, you know, the majority.

CHAIRMAN BRISÉ: I thinks it's a fair question.

THE WITNESS: I don't know who the members are of the Florida Retail Federation, so I can't comment on that. But there are obviously many more residential customers than there are other nonresidential customers.

BY MR. SAPORITO:

Q. Okay. Would you agree with me that the term public interest applies more so to FPL's residential customers and to those represented by Florida Retail Federation than to FPL industrial and commercial customers?

A. I would totally disagree with that statement. The public interest in every commission jurisdiction I ever testified in applies to all customers. It doesn't apply to just certain ones and not to others.

Q. Well, we talked about the term fair, just, and reasonable. Would it be fair, just, and reasonable for this Commission to approve a settlement agreement which would result in higher base rates for the majority of FPL customers versus a minority which will have favorable terms under this settlement agreement?

A. Well, first of all, I think it's true that the base rates for just about everybody are going up. I think you can see that on Exhibit -- let me get to that -- Exhibit JP-17 shows the base allocation of the 378 million base increase. With a couple of zeros for a couple of classes that were way above cost that would not get an increase under the settlement, every other rate class there is shown getting an increase.

Q. Do you think that's fair?

A. I think it's -- when you look at the context of the company's proposal, and the fact that this allocation would move classes toward parity, therefore addressing the second set of competing interests in my testimony, I think it's a reasonable outcome.

Q. So you don't believe that the Commission should give any weight to whether the majority or a larger number of FPL customers would have higher rates versus a lower number in this settlement agreement?

A. Well, I don't see a lower number. I see everybody -- except, again, for the classes that are getting no increase, because of where they happen to be in relation to parity. Other than that, you know, every other rate class is getting a base rate increase.

Q. Would you agree -- I gave you another exhibit there, 707, and Page 3, including the cover sheet -- actually it's page -- actually it straddles two pages, 2 and 3, there's a chart in there. But on the bottom of Page 2 it illustrates that 1,000 kilowatt hour residential customer, the typical customer, and there's a little detail there; from January 2012 to June of 2013 it talks about an increase or a decrease, and then there is a number of an increase for $5.77 a month. And I believe the Witness Deaton said that actually should be 5.75. Do you see that, what I'm talking about there; the base rate increase for the 1,000 kilowatt residential customer?

A. I'm sorry, what columns are you comparing?

Q. At the bottom of Page 2 there is only one column shown, and that is the base rates for the 1,000 kilowatt --

A. That's the row between January -- are you comparing June 13 to January 12, or January 13 to January 12?

Q. Yes. From January 12 -- on your far left there is a number there, $43.26, and then under the column June 2013 there is a number 49.03.

A. Okay.

Q. And then at the far right it says increase/decrease, and there's a number there, $5.77 a month, which we now believe it's supposed to be $5.75 a month as corrected by Witness Deaton.

A. Well, I don't know. I'm just doing the math, and when I subtract from 49.03 the number 43.26, I'm getting $5.77 unless I'm --

Q. There were some corrections made to some discovery, and she has told me that it's a two-cent reduction, so I'm going by her testimony.

A. I can't vouch for that calculation because I haven't seen that.

Q. All right. I just wanted to make sure you understand that that is the reference I'm going to be making this next question on. Would you agree with me that under the proposed settlement agreement that FPL's typical 1,000 kilowatt hour residential customer will increase from January 2012 to June 2013 by approximately $5.75 per month?

A. Well, subject to your earlier questioning of Ms. Deaton, if that number is 5.75, that's an increase, yes.

Q. And would you agree with me that under the proposed settlement agreement FPL's residential customers will pay higher base rates on a percentage basis as compared to FPL's commercial and industrial customer classes throughout the term of the proposed settlement agreement?

A. I don't think that's accurate. If you look at Exhibit JP-17, for example, the residential base rate increase in Column 4 of that exhibit shows 8.7 percent. When you look down at CILC customers, CILC 1D, 10.1 percent increase; CILC 1G, 10.6 percent; CILC 1T, 17.2 percent; MET, 19.3 percent. I mean, so there are a lot of numbers that are higher than 8.7.

Q. So doesn't it make common sense that the majority of -- that the majority of customers, being FPL residential customers, they would have a higher percentage increase than a small far lesser number of

FPL customers, isn't that true?

A. Wait. A higher percentage of FPL's customers being residential would get a -- are getting a bigger -- you mean they are paying a larger share of the 378 million? Sure. That's the biggest class. 220 out of 333 million is residential.

Q. So it affects those residential customers more then, correct?

A. No, the residential increase is what measures what the effect on the customer is. What is their bill going to go up? On average the bill is going up 7.9 percent. Residential is -- I'm sorry, the base rate, 7.9 percent, not the bill. 7.9 percent versus residential, 8.7, but there are other classes that are getting bigger percentage increases than 8.7.

Q. But if you have a class of FPL customers that are a significantly larger class of FPL customers versus a lower, significantly lower class of FPL customers, on a percentage basis the settlement agreement would economically affect a larger number of customers, is that not true?

A. No.

Q. All right. Would you agree with me that the proposed settlement agreement is not in the public interest because the residential class will have to pay higher base rates as compared with FPL's industrial and commercial customers?

A. Well, I think that statement is incorrect because the base rates are going up higher for some commercial/industrial customers than they are for residential customers. I mean, just the fact that rates are going up don't mean that the settlement is not in the public interest, and just because they are going up at different rates for different classes doesn't mean that the settlement is not in the public interest.

Q. Well, I'd like to explore your prefiled testimony, Page 8, Lines 19 through 23, where you talk about GBRA as a benefit to customers in their proposed settlement agreement. Would you agree with me that the GBRA effectively eliminates the regulatory lag for these large additions to the generation base and will expose ratepayers to higher base rates sooner?

A. Well, my testimony -- you're talking about at the bottom of Page 8, so we are at my testimony --

Q. Lines 19 through 23.

A. Okay. So in that reference, what are the benefits, I did mention that customers will have a more stable predictable rate path under the GBRAs because they will know when the increases are coming and about how much the increases are going to be. That's the benefit, not that there is not going to be an increase.

Q. All right. But would you agree with me that the GBRA effectively eliminates the regulatory lag for these large additions to the generation base and will expose ratepayers to higher base rates sooner?

A. Sooner than if you had to go through a rate case?

Q. Yes.

A. That would depend on the timing of that rate case. I mean, it depends on when the case was filed. And if the case was filed in anticipation six months ahead of the commercial operating date of the plant, it might not have any impact at all on regulatory lag.

Q. Would you agree with me that knowing the risk regulatory lag GBRAs increase the risk to all class of ratepayers of costly overinvestment by FPL?

A. Well, I don't know if there is a connection between regulatory lag and overinvestment, but I'll grant you that to the extent the utility has cost recovery mechanisms that tends to reduce regulatory lag. That also lowers the risk.

Q. Now, I'd like to explore your Prefiled Testimony at Page 9, Lines 11 through 14, where you talk about the proposed settlement agreement benefiting customers by obviating costs incurred by FPL customers participating in periodic rate case. Did I get that right?

A. Yes.

Q. Would you agree with me that FPL customers have a due process right to participate in FPL rate cases before the Commission?

A. Yes.

Q. Would you agree with me that the Commission's regulatory process provides for ratepayers to participate in need determinations for large generation facilities like those described in the proposed settlement agreement?

A. Yes.

Q. Would you agree with me that the proposed settlement agreement deprives FPL ratepayers from challenging other issues and bringing other arguments against the three large generation facilities incorporated in the GBRA process?

A. Well, I'm not sure what those issues are, and the Commission has already decided that the three plants in question are needed, they granted a certificate, so it's not a question of the need, it's only a question of costs. I believe the settlement addresses the cost issue.

Q. Well, that all may be true, but that's not my question. See, I'm an FPL customer -- I don't know if you knew that or not -- and I like to exercise my due process rights in these process. So had I known when this Commission was deciding and considering the GBRAs that are incorporated, or they are trying to be incorporated through this settlement agreement, when they were considering that during the need determination, I most likely would have intervened. But now that opportunity is taken away from me because FPL is trying to incorporate --

CHAIRMAN BRISÉ: Mr. Saporito, ask a question.

BY MR. SAPORITO:

Q. My question is would you agree with me that the proposed settlement agreement deprives FPL ratepayers from challenging other issues and bringing other arguments against the three large generating facilities incorporated in the GBRA process, understanding that they have already been accepted through a need determination?

MR. MOYLE: That is the same question he just asked and Mr. Pollock answered it.

MR. SAPORITO: I don't believe I got an answer, Mr. Chairman.

CHAIRMAN BRISÉ: I got lost in the question and the statement before the question, so if you could re-ask the question.

THE WITNESS: I think I got the question.

CHAIRMAN BRISÉ: Okay.

THE WITNESS: I don't think it deprives anybody's rights? To the extent that the costs come in above what the determination of need is, then you will have a right to determine whether or not the company should be allowed to recover costs above what the Commission said was the reasonable cost of those plants.

So there is still an opportunity there. There is also an opportunity if the earnings exceed the high point to, you know, try to remedy that through some regulatory process.

BY MR. SAPORITO:

Q. Would you agree with me that the GBRA process is not in the public interest because it fails to balance the benefits and reduction of risks for FPL with comparable benefits and risk reduction for the ratepayers?

A. Well, I certainly would agree the GBRAs are something that if I was FPL I would want to have them, because I know that I've got large investments that are going into service. I know that those costs are going to be incurred. It's good to have a mechanism that says, you know, I'm going to get timely recovery when those plants go on-line and I have to stop capitalizing financing costs associated with it. It helps my earnings. Obviously it benefits the company in that respect. It also benefits the ratepayers, because ratepayers know it's coming, they know that it's based on the parameters of the settlement, and there are no other base rate increases that we have to deal with until after 2016, which to me is a pretty good benefit for ratepayers. This is not an uncostly process for ratepayers to participate in.

Q. I'd like to explore your prefiled testimony at Page 9, Lines 18 through 23, and continued on Page 10, Lines 1 through 20, where you state that the settlement agreement would result in lower base rates for the vast majority of rate classes, and that with a few exceptions all rate classes will experience lower base rates than under FPL's original 2013 rate proposal, and that the settlement agreement is in the public interest. Did I get that right?

A. Yes.

Q. Would you please turn to your Exhibit JP-17, which is at Page 17 of your prefiled testimony.

A. Okay. I have it.

Q. Now, this exhibit is a comparison of the rate class revenue allocation between FPL's original proposed

2013 increase in Columns 1 and 2, and the proposed settlement agreement in Columns 3 and 4, is that correct?

A. Yes.

Q. So your exhibit at Line 1 shows a revenue comparison for FPL residential customers between FPL's original rate case filing shown in Columns 1 and 2 versus the settlement increase shown in Columns 3 and 4, am I correct on that?

A. Yes.

Q. So am I correct that you believe that FPL residential customers will see a decrease from 11 percent to 8.7 percent if the Commission were to approve the settlement?

A. They would see a lower increase. When I said decrease, I mean decrease relative to the numbers in Column 1. The numbers in Column 3 are almost entirely lower than the numbers in Column 1. That's what the testimony says.

Q. Now, we talked about the exhibit that I put in front of you, Exhibit 707. We talked about the $5.75 or 77 cents, what have you, which was the increase in monthly rates for residential customers from January 2012 through June of 2013. Now, if we divide the increase, that dollar amount by the -- if we divide the -- let me restate that.

Now, if we divide the increase of $5.75 or 77 cents, what have you, by the January 2012 base rate amount of $43.26, would you agree with me that that represents a 13.34 percent increase in base rates as a result of the proposed settlement agreement?

A. Yes. And let me apologize because I haven't looked at the detailed calculations enough to know, but I'm not sure -- does the June 2013 increase include Cape Canaveral? Because if it does, then this Exhibit 17 doesn't consider Cape Canaveral. It only looks at the January 13 increase vis-a-vis the corresponding rates that were in effect before that.

Q. You can't really answer that question without knowing that?

A. It looks to me like the June 13 increase includes another step.

Q. And it's your understanding that the settlement -- proposed settlement agreement extends to the end of 2016, is that correct?

A. Yes.

Q. So can you give me an estimate of how much FPL's residential customers base rates will increase by December 2016 as compared to January 2012?

A. I have not done that calculation.

Q. Well, don't you think that's important for these Commissioners to know that information? I mean, how are they going to determine whether this settlement agreement is fair, just, and reasonable and in the public interest without that information?

A. I think it's pretty clear that base rates are going up. The only question is how base rates are changing, is that fair, and reasonable, and necessary, and in the public interest, and that is what this hearing is to decide.

Q. So ratepayers like myself are just subject to the whim of the Commission, and we will have no say in our base rates because nobody knows what they are --

CHAIRMAN BRISÉ: Mr. Saporito, ask a specific question. It sounds like you are venting a little bit.

MR. SAPORITO: I was prefacing the question, Mr. Chairman.

BY MR. SAPORITO:

Q. Are my due process rights being violated here because I'm not going to be able to challenge these base rate adjustments through the end of 2016 as they go up and up and up?

MR. MOYLE: It has been asked and answered with respect to the due process question.

MR. SAPORITO: No, it hasn't, Your Honor.

MR. MOYLE: It calls for a legal conclusion.

MR. SAPORITO: No, it doesn't. I'm asking his opinion. He's an expert witness.

CHAIRMAN BRISÉ: Mr. Saporito, restate your question so I can hear it.

BY MR. SAPORITO:

Q. To the extent that this supposedly proposed settlement agreement results in increases in residential customer base rates through the end of 2016, and to the extent that I'm an FPL residential customer, are my due process rights being violated to the extent that I'm not going to be able to challenge those increases?

A. Well, I can't comment on due process rights because I'm not a lawyer, but the fact that the Commission is having this hearing to determine whether or not the settlement is fair, reasonable, and in the public interest, that's what the Commission will decide in this case. And this is the opportunity for everyone, including all ratepayer groups, to voice their positions.

Q. But isn't that exactly the point I'm asking you; how can anybody in this room make that determination whether it is fair, reasonable, and in the public interest if we don't know how much --

CHAIRMAN BRISÉ: Mr. Saporito, you just asked that question.

MR. SAPORITO: I'll move on.

CHAIRMAN BRISÉ: Thank you.

BY MR. SAPORITO:

Q. I'd like to explore your testimony at Page 10, Lines 21 through 29, where you talk about the settlement class revenue allocation resulting in moving rates closer to parity, and that in general rate classes are -- rate classes that are currently above parity should receive below average base revenue increase and vice versa for classes that are below parity? Did I say that right?

A. Yes.

Q. Okay. So are you contending that this Commission should raise base rates for FPL's residential customers and those represented by the Federal Retail Federation, and lower base rates for FPL's industrial and commercial customers by approving the settlement?

A. That settlement doesn't do that.

Q. Pardon me?

A. The settlement does not lower anybody's base rates. Bates rates are going either zero or positive. Look in JP-17, Column 4. Every class except for a few are getting increases.

Q. Okay. We will go on from there. Would you agree with me that consistent with the public interest, the Commission should reject the settlement agreement because it would economically disadvantage the majority of FPL customers?

A. I don't know that that fact is in evidence, the economic disadvantage. I have not -- I don't see an economic disadvantage. I mean, every rate class with the exception of a few will be seeing a base rate increase, but it's a lot smaller base rate increase than they would otherwise possibly see under alternative circumstances.

Q. Well, counsel for the Federal Retail Federation explored FIPUG's post-hearing brief where FIPUG argued for a reduction in base rates. Do you recall that? You testified in that hearing.

A. Yes. Right, I do recall that.

Q. Okay. And other intervenors, including myself, supported OPC's contention that base rates should also be lowered by approximately $250 million. Wouldn't it be a wise and prudent decision for the Commission to reject the settlement agreement and rule on the original rate case because the original rate case would lower the base rate for all FPL customers?

A. You don't know what the Commission might decide. They might decide, despite the evidence, that the company is entitled to an increase.

Q. And if the Commission were to decide that -- if the Commission were to decide that the base rates should be decreased by approximately $250 billion, would that be in the public interest in your view?

A. I mean, it would obviously be in the customers' interest because customers always like lower rates. I mean, I think that's a given. Now whether or not that is in the public interest, the Commission has to balance the customers' needs with the utility's needs and decide, you know, where to end up on the revenue scale.

Q. One last question to you. Can you please explain to this Commission about how the clause -- there is a clause in the settlement agreement, and you say that you reviewed it, if I remember your testimony correctly. There is a clause in there that says it is an all or nothing deal, either the Commission approves the settlement or they disapprove it.

Now, in your view with that clause in there, can this Commission cherry-pick what they like out of this proposed settlement agreement and place it back in the original rate case? Can they do that?

A. I think that kind of requires a legal conclusion which I can't really comment. That is obviously a term that says here is the agreement, all the terms are joint and several, as lawyers might say, and the Commission can approve it or not, or they can change it if they want. I mean, it's not without -- it's not farfetched for a commission to sometimes say, hey, maybe there are certain aspects that we think ought to come out differently. But whether they will or not really depends on whether they think overall the settlement is in the public interest, which I believe it is.

MR. SAPORITO: Thank you very much.

Thank you, Mr. Chairman.

CHAIRMAN BRISÉ: All right.

Mr. Garner.

MR. GARNER: I think I just want to go back and try and address something that came up in Mr. Saporito's examination.

CROSS EXAMINATION

BY MR. GARNER:

Q. Oh, by the way, good evening, Mr. Pollock.

A. Good evening.

Q. I don't remember exactly how it was worded, but there seemed to be an exchange where Mr. Saporito was asking if FPL customers lose an opportunity to advance their interests or protect their interests if rates are raised in a GBRA type scenario rather than through a base rate proceeding.

I just wanted to see if I understood your response. You seemed to say that you didn't see how customers would lose that opportunity, is that correct?

A. I think what I have said is that the settlement lays everything out in pretty good detail in terms of what happens when you get 378 million increase effective in 2013, you get 3 GBRAs when those plants become operational. It's very clear what's going to happen. The settlement describes what the parameters are coming up with the 378 million as well as the cost parameters that would go into determining the three GBRAs.

In terms of that, I think you have provided about as much input as you possibly can in terms of the process in determining how do you want your rates to change over time as new plant is brought in-service. At the same time, you have also said we are not going to let you try to recover the cost of the plants that are not subject to the GBRA. So we are trading off certainty that the company is going to get increases for new power plants against the fact that the company is going to have to absorb other costs that are not reflected in the 378 million and in the GBRAs.

Q. Thank you. Would you agree that it's not possible for either the Commission or interested persons, including customers, to examine projected costs at the same level of detail during a need determination proceeding as they would be able to in a traditional rate case proceeding?

A. Well, I mean, in a need determination you're by definition looking at an estimate. In a rate case you are looking at the actual. The actual costs, you know, can be a function of a lot of different things. If you think that the company does a fairly good job of estimating, then you might not be concerned. But on the other hand, you know, if there's some question about whether the estimates are too low or too high, then, you know, there's a trade-off there.

MR. GARNER: Thank you.

Thank you. That's it.

COMMISSIONER GRAHAM: All right.

Mr. Hendricks.

MR. HENDRICKS: No questions for this witness. Thank you.

CHAIRMAN BRISÉ: All right. Staff.

MS. KLANCKE: Staff has no questions for this witness.

CHAIRMAN BRISÉ: Commissioners?

All right. Redirect.

MR. MOYLE: Just a few, Mr. Chairman.

REDIRECT EXAMINATION

BY MR. MOYLE:

Q. Mr. Pollock, you were asked questions about FIPUG's position as taken in the post-hearing brief by Mr. Wright. You're aware, are you not, that FIPUG had a litigation position and also a settlement position that it announced at the start of the August proceedings, correct?

A. Yes.

Q. You were asked a series of questions by Mr. McGlothlin that, in essence, you know, asked you about JP-15 and JP-21 and the differences, and I just wanted to make sure that you feel like you have had an opportunity to explain the differences between JP-15 and JP-21, or would you explain the differences kind of in summary fashion?

A. Yes. I think the testimony that I have submitted basically explains that the subsequent exhibit is a correction of JP-15. I'm not relying on JP-15. I don't think the results change as a result. It certainly doesn't change my position that I think 378 is probably around the right number. I don't know that we are ever going to agree on all the parameters of what the right number is, but if it's in the range of reasonableness, then I think that's as far as you can get and say that the settlement is fair, reasonable, and in the public interest.

Q. With respect to the 378 number, are you aware that that number, you know, give or take some, but is approximately the same percentage number that was represented in the resolution of the Gulf Power rate case?

MR. McGLOTHLIN: Objection, beyond the scope of cross, and leading, as well.

CHAIRMAN BRISÉ: Mr. Moyle.

MR. MOYLE: You know, I think Mr. McGlothlin may be right on that, and I'll just ask one of his witnesses with respect to that point. Can I have just a minute?

CHAIRMAN BRISÉ: Sure.

(Pause.)

MR. McGLOTHLIN: This is indeed a rare sight.

(Laughter.)

BY MR. MOYLE:

Q. Do you have 713 in front of you?

A. Probably, but I don't think I was able to number all the exhibits on the fly. Oh, here it is. Yes, I have it.

Q. On Line 9 there's a revenue deficiency number of 148. Do you see that?

A. Yes.

Q. And I guess the question is can you reconcile that with the JP-21 exhibit?

A. So Exhibit JP-21 --

Q. 712.

A. Okay. Well, basically I think we have got double counting of the surplus amortization, because the 804 million of depreciation already reflects that number. And so to compare apples and apples, you get an increase of 16.8 million roughly in depreciation expense, not a decrease of 16 million. And then you don't also subtract 191 million a second time. It has already been taken out of the depreciation expense. You can't take it out of the net result, which is why the number is coming out 148 instead of 371.

Q. Okay. And then the final question. Have any of the questions that you have been asked on cross-examination changed your ultimate opinion that you believe this settlement is in the public interest?

A. No, they don't. I mean, no calculation, no mathematics, no analysis is ever going to be perfect or foolproof, but when you consider that in the context of all broader issues and the certainty that the settlement will have, and the balancing of interests, I continue to support the settlement as fair, reasonable, and in the public interest.

MR. MOYLE: Thank you, Mr. Chairman. That's all I have.

CHAIRMAN BRISÉ: All right. Let's deal with exhibits.

MR. MOYLE: FIPUG would move Exhibits 679 to 682 that were attached to the direct testimony, and Exhibits 702 to 704 that were attached to the rebuttal testimony.

CHAIRMAN BRISÉ: All right. We will move Exhibits 679 through 682 and 702 through 704, all right, recognizing the standing objection.

(Exhibit Numbers 679 through 682 and 702 through 704 admitted into the record.)

MR. McGLOTHLIN: OPC moves the exhibits that we discussed with the witness. I believe they were given Numbers 708 through 713 inclusive. If that's correct, I move those.

CHAIRMAN BRISÉ: All right. That's correct, and we will move Exhibits 708 through 713 into the record at this time, recognizing the standing objection.

(Exhibit Numbers 708 through 713 admitted into the record.)

CHAIRMAN BRISÉ: All right. This witness --

MR. MOYLE: He did his rebuttal, so he can be excused.

CHAIRMAN BRISÉ: He did both direct and rebuttal, so, Mr. Pollock, thank you very much, and you are excused.

THE WITNESS: Thank you for your time.

CHAIRMAN BRISÉ: All right.

MR. McGLOTHLIN: Mr. Chairman, this might be the appropriate time to take up a matter that we alerted you to during the prehearing conference. One of the exhibits that was the subject of some of our cross questions was presented as an errata to direct testimony, but it was attached when he submitted his rebuttal testimony, meaning that it was provided subsequent to the time for our own testimony to be filed.

In short, our accounting witness had no opportunity to address this document when she presented her testimony. And the reason we brought that up at the time of the prehearing conference and informed you and the parties that we might ask leave to have her address this exhibit when she took the stand is that we thought we might be able to take care of it during cross-examination, because we believe that what has been described as a corrected exhibit instead introduces an error in the magnitude of $190 million.

Mr. Pollock did not agree with that. The source of what we contend is an error is a subtle one. It doesn't lend itself to cold Qs and As. Ms. Ramas will be on tomorrow. We could have her testimony on this short subject prepared and distributed first thing in the morning so that as much notice as possible can be given to the parties. We would ask leave to do that and give her the ability in the space of a couple of minutes probably, add that to what she has to say when she appears for us tomorrow.

CHAIRMAN BRISÉ: All right. I think we were given a heads-up about this in our prehearing conference.

Mr. Moyle.

MR. MOYLE: Well, it's a little unusual. You know, we took the step of providing that errata. I mean, we could have filed it as a supplemental to the direct at the same time frame. You know, I could have put him on the stand and said do you have any corrections to your direct, and he could have made the corrections there. So, you know, I'm a little concerned that now we have just excused him, and now we are going to see some testimony we haven't seen before.

CHAIRMAN BRISÉ: All right. So --

MR. LITCHFIELD: We would share that concern. We would like a chance to see what is being proposed, but we share that concern. Mr. Pollock was scheduled for direct and rebuttal, and now he has been excused, and now we are going to hear fresh new testimony that he in the order of things would have a chance to have responded to.

MR. MOYLE: And I also think that we provided the information in discovery in the working papers that could have been available. I think that was done timely.

MR. McGLOTHLIN: What you provided -- well, let's back up. The concern is ours. Our witness had no opportunity to address what we contend is a serious mistake that was submitted after her own testimony was presented. We're just asking for due process, and we are trying to do it in the most equitable manner possible.

MR. MOYLE: But, Mr. Chairman, if you read her testimony, the witness' testimony, and it's coming back to me now, I think they didn't ask for discovery promptly, and she has a lot of testimony in her direct that says, well, I'm not sure where this number came from Mr. Pollock. And, you know, if they had asked for that on a timely basis they would have had it.

So I have to retract that previous statement. We did provide some stuff to them in discovery, but I think part of it was the result of them not asking for discovery in a timely basis with respect to getting the discovery before they filed the testimony.

MR. McGLOTHLIN: How could we ask for discovery of a document that was not prepared until he filed his rebuttal testimony? We got his workpapers through discovery. We got his rebuttal that included what purports to be a correction to his direct. We had no opportunity to address it. It's plain and simple. Mr. Moyle, with all due respect, has scrambled his time lines in that argument.

CHAIRMAN BRISÉ: All right. This is what we're going to do. So tomorrow morning have the document ready --

MR. McGLOTHLIN: Yes, sir.

CHAIRMAN BRISÉ: -- and it will be reviewed, and if there are objections and so forth with it we will deal with it at that point, but I certainly appreciate it.

MR. McGLOTHLIN: Thank you, sir.

MR. MOYLE: Just so we are clear, is it prepared now or is it going to be prepared tonight?

MR. McGLOTHLIN: It is going to be prepared tonight.

CHAIRMAN BRISÉ: All right. It is 5:22. We are going to go ahead and take our evening break. We are looking to do about 45 minutes, and so that will take us to -- if my math is correct -- right to about 6:10. Okay. So we look forward to seeing you here at about 6:10.

(Evening recess.)

CHAIRMAN BRISÉ: All right. FPL, call your next witness.

MR. BUTLER: Thank you, Mr. Chairman.

We would call Sam Forrest.

SAM FORREST

was called as a witness on behalf of Florida Power and Light Company, and having been duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BUTLER:

Q. Mr. Forrest, were you sworn this morning at the group swearing in of witnesses?

A. Yes, I was.

Q. Okay. Would you please state your name and business address?

A. My name is Sam Forrest. My business address is 700 Universe Boulevard, Juno Beach, Florida 33408.

Q. And by whom are you employed and in what capacity?

A. I am employed by Florida Power and Light Company as the Vice-President of the Energy Marketing and Trading Business Unit.

Q. Have you prepared and filed 23 pages of Prefiled Direct Testimony in this proceeding?

A. Yes, that's correct.

Q. Do you have any changes or revisions to make to your Prefiled Direct Testimony?

A. No, I do not.

MR. BUTLER: Mr. Chairman, I would ask that Mr. Forrest's Prefiled Direct Testimony be inserted into the record as though read.

CHAIRMAN BRISÉ: All right. At this time we'll enter Mr. Forrest's Prefiled Testimony into the record as though read, recognizing the standing objection.

I. INTRODUCTION

Q. Please state your name and business address.

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

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

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

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

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

Q. Please describe your educational background and professional experience.

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

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

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

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

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

Q. Are you sponsoring any exhibits in this case?

A. Yes. I am sponsoring the following exhibits:

- SF-1, Historical Performance of Existing Incentive Mechanism

- SF-2, Historical Performance of Power Sales Gains and Purchased Power Savings
- SF-3, Example – "Total Gains Schedule"

Q. What is the purpose of your testimony?

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

Q. Please summarize your testimony.

A. The Incentive Mechanism detailed in paragraph 12 of the Proposed Settlement Agreement is designed to create additional value for FPL's customers while also providing an incentive to FPL if certain customer-value thresholds are achieved. The Commission has previously recognized the value of incentive mechanisms, as FPL currently operates under an existing incentive mechanism related to gains on power sales that was implemented in 2001. While the existing incentive mechanism was well-designed for the time period in which it was implemented, it does not take into consideration changes that have occurred in the market. The Incentive Mechanism in the Proposed Settlement Agreement seeks to enhance the existing incentive mechanism in two ways. First, it would expand the focus of the incentives, so that FPL would be encouraged to pursue a wider range of gains for the benefit of customers. Second, the Incentive Mechanism would update the sharing threshold to provide a more meaningful opportunity for FPL to share in the benefits that it delivers to customers, but only if FPL is successful in delivering additional value to customers.

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

Beyond short-term power sales and purchases (including short-term capacity purchases), FPL will attempt to create additional value through other forms of asset optimization including natural gas storage optimization, natural gas sales, capacity releases of natural gas transportation, selling idle, third party transmission and potentially outsourcing the optimization function to a third party in the form of an Asset Management Agreement ("AMA"). In exchange for expanding its optimization strategies to try to deliver additional value, FPL will be entitled to recover reasonable and prudent incremental operation and maintenance ("O&M") costs incurred in implementing this expanded optimization program. FPL believes that these costs will be modest in comparison to the $46 million of savings that customers will receive before sharing begins and thus, it is fair for customers to reimburse FPL for those costs.

II. OVERVIEW OF THE INCENTIVE MECHANISM

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

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

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

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

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

Q. Do the "Customer Savings Threshold" and the "Additional Customer Savings" threshold apply to all customer classes?

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

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

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

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

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

III. BACKGROUND ON EXISTING INCENTIVE MECHANISM

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

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

A new incentive mechanism, under which FPL currently operates, was established by Order No. PSC-00-1744-PAA-EI, dated September 26, 2000, in Docket No. 991779-EI. In that order, the Commission stated, "While there is no way to precisely measure the effect of a shareholder incentive on the IOUs' participation in the wholesale market, we find that a properly structured incentive will result in greater management efforts to increase economy energy sales, yielding gains on those sales to the benefit of ratepayers." The Commission goes on to state, "We find that a properly structured incentive may achieve even greater benefits for ratepayers by encouraging the types of sales from which ratepayers are currently receiving the greatest benefit."

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

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

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

A. Yes. At the time of its establishment, the landscape of the power market had changed dramatically with the implementation of FERC Orders 888 and 889, which helped to promote competition in the wholesale power market. Companies were ramping up trading operations, market participants were growing and trade volumes were increasing. The ability to move power through multiple states opened up the opportunity to create additional value and gains were increasing on power sales with the implementation of market-based rates. From 1997 through 1999, FPL increased its number of contracts almost seven-fold and saw its gains on power sales more than triple from approximately $19 million to approximately $60 million.

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

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

IV. DETAILS ON THE INCENTIVE MECHANISM

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

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

Second, the Incentive Mechanism would update the sharing threshold to provide a meaningful opportunity for FPL to share in asset optimization benefits, once customers have received 100 percent of the first $46 million in benefits. By using the $36 million that is projected for 2013 gains on short-term power sales and savings on short-term power purchases as the Customer Savings Threshold, the Commission would be resetting the threshold to reflect today's market realities. The Additional Customer Savings target of $10 million would then set a challenging but potentially achievable threshold above which FPL would share in the benefits it delivers to customers – in other words, a true and meaningful incentive. FPL believes that the 2013 projected gains and savings on short-term power transactions would remain a reasonable threshold throughout the four-year term of the Settlement Agreement. If the Commission decided to continue the Incentive Mechanism thereafter, the continued appropriateness of the threshold could be reevaluated at that time.

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

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

V. EXPANDED FORMS OF ASSET OPTIMIZATION

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

A. Paragraph 12(a)(ii) of the Proposed Settlement Agreement recognizes that there are several additional types of asset optimization in which FPL potentially could engage to create benefits for customers, including gas storage optimization, delivered city-gate gas sales using existing transport, production (upstream) area sales, capacity release of gas transportation and electric transmission and the use of AMA's. While these types of asset optimization measures are highly dependent on market conditions, FPL's customers would receive the benefit of a reduction in fuel or capacity (sale of electric transmission) expenses to the extent they could be executed. I will briefly describe each optimization measure and their potential to create benefits for customers:

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

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

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

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

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

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

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

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

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

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

VI. CALCULATION OF GAINS FROM ASSET OPTIMIZATION

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:

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

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

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

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

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

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

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

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

A. FPL intends to recover the portion of incremental gains shared by the Company under the Incentive Mechanism through the fuel clause in the same manner that it currently recovers rewards under the Generation Performance Incentive Factor ("GPIF").

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

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

VII. INCREMENTAL OPTIMIZATION COSTS

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

A. Yes. FPL anticipates that it will incur additional costs in order to generate the expanded benefits to customers contemplated by the Incentive Mechanism. Those costs will be very modest, however, in comparison to the $46 million of savings that customers will receive before FPL begins to share in the savings that it produces. Thus, it is fair for customers to reimburse FPL for those costs. Specifically, paragraph 12(b) of the Proposed Settlement Agreement provides a recovery mechanism for "Incremental Optimization Costs" in two categories: (i) incremental personnel, software and hardware costs associated with managing the various asset optimization activities, and (ii) variable power plant O&M costs incurred to generate additional wholesale sales beyond the 514,000 MWh of such sales that were projected in FPL's 2013 Test Year.

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

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

Q. How would FPL recover Incremental Optimization Costs?

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

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

VIII. SUMMARY

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

A. The Incentive Mechanism would substantially improve upon the existing incentive mechanism by providing an incentive for an expanded range of asset optimization measures beyond just wholesale power sales. It also establishes a challenging but realistically achievable threshold that FPL must meet in order to share in the customer benefits from those measures. The Incentive Mechanism would return 100 percent of the first $46 million of asset optimization benefits to customers through reduced fuel costs, while providing FPL a strong incentive to achieve even greater levels of savings that would be shared between FPL and its customers. This is a "win-win" value proposition that makes approval of the Proposed Settlement Agreement even more attractive for FPL's customers.

Q. Does this conclude your testimony?

A. Yes.

MS. CHRISTENSEN: Commissioner, can I interject one comment before Mr. Forrest goes into his summary? I'm looking at the board behind Mr. Forrest. That appears to be an exhibit to his rebuttal testimony. I don't know if he was planning on addressing that as part of his summary, but if he is, then I would object because it's is not part of his direct testimony.

CHAIRMAN BRISÉ: Okay. Mr. Butler.

BY MR. BUTLER:

Q. Mr. Forrest, are you sponsoring Exhibits SF-1 through SF-3 to your Direct Testimony?

A. Yes, I am.

MR. BUTLER: And, Mr. Chairman, I would note that those exhibits are premarked as Exhibits 672 through 674 in Staff's Comprehensive Exhibit List.

CHAIRMAN BRISÉ: Okay. In reference to the chart, I mean, the demonstrative that is up there, is that related to his direct testimony here?

MR. BUTLER: It is an exhibit to his rebuttal testimony, as Ms. Christensen had noted. Mr. Forrest, I think, wanted to make reference to it to just provide context to our proposal on the incentive mechanism that he is testifying to. But if it's the Commission's preference, he can certainly wait and go through that on rebuttal.

CHAIRMAN BRISÉ: Okay. Yes, I suppose if they are not prepared to deal with that on direct, then we will deal with it during rebuttal.

MR. BUTLER: I would offer this, and if you would prefer just to put it off, that's fine, too. You know, Mr. Forrest could refer to it however he needs to and kind of explain in the context of the incentive mechanism, and then if Public Counsel has questions, we are certainly not expecting that they would have to ask them during this phase. He's going to be back on rebuttal, and they certainly could ask whatever questions they have about it then, or he will just not refer to it. The reason for putting it up was just to provide some context that hopefully would be useful to the Commissioners.

CHAIRMAN BRISÉ: Okay. Thank you.

MS. CHRISTENSEN: I think my objection would still stand, since it's part of his rebuttal exhibits.

CHAIRMAN BRISÉ: Understood.

MR. BUTLER: All right.

BY MR. BUTLER:

Q. With that, Mr. Forrest, would you please summarize your Direct Testimony.

A. Yes. Mr. Chairman, Commissioners, my direct testimony addresses the incentive mechanism described in

Paragraph 12 of the proposed settlement agreement. The incentive mechanism is designed to create additional value for FPL's customers while also providing an incentive to FPL if certain customer value thresholds are achieved.

The Commission has previously recognized the value of incentive mechanisms, as FPL currently operates under an incentive mechanism related to gains on power sales that was implemented back in 2001. While the existing incentive mechanism was well-designed for the time period in which it was implemented, it does not take into consideration changes that have occurred in the market over time or the changes in FPL's own generation mix in recent years.

The incentive mechanism in the proposed settlement agreement seeks to enhance the existing incentive mechanism in two ways. First, it would expand the focus of the incentives so that FPL would be encouraged to pursue a wider range of gains for the benefit of customers. Second, the incentive mechanism would update the sharing threshold to provide a more meaningful opportunity for FPL to share in the benefits that it delivers to customers. However, this sharing would only occur if FPL is successful in delivering more than an additional $10 million in value to customers than what is currently projected.

The proposed incentive mechanism is very straightforward. It simply encourages FPL to create additional value for customers. The threshold level of $46 million contained in the proposal represents more than $10 million in customer value than FPL's 2013 projections for short-term power sales, gains, and short-term purchased power savings. This is a challenging but realistically achievable threshold for FPL to meet. To the extent FPL can meet the threshold, customers will have received 100 percent of the benefits, up to $46 million, before any sharing by FPL begins.

Beyond short-term power sales and power purchases, FPL will attempt to create additional value through other forms of asset optimization. These additional activities will include the utilization of FPL's natural gas storage and transportation assets when they are idle and not needed to serve FPL's native load or to maintain system reliability.

There is also the potential to outsource a portion of the optimization function to an unaffiliated third party through an asset management agreement. In exchange for expanding its optimization strategies to try to deliver additional value, FPL would be entitled to recover reasonable and prudent incremental operation and maintenance costs incurred in implementing this expanded optimization program. FPL believes that these costs will be very modest in comparison to the $46 million of savings that customers will receive before any sharing begins, and thus it is fair for FPL to recover these costs.

Commissioners, this is a win/win value proposition that makes approval of the proposed settlement agreement even more attractive for FPL's customers. This completes my summary.

MR. BUTLER: Thank you, Mr. Forrest.

I tender the witness for cross-exam.

CHAIRMAN BRISÉ: All right. Ms. Christensen.

MS. CHRISTENSEN: Good evening, Commissioners.

Good evening, Mr. Forrest.

THE WITNESS: Good evening.

MS. CHRISTENSEN: I have a couple of exhibits that I will be using during my cross-examination. We can hand them out now, or as they come up, whichever is the Commission's preference.

CHAIRMAN BRISÉ: Sure. We will take them up now.

(Pause.)

MS. CHRISTENSEN: Mr. Forrest, did you get two exhibits?

THE WITNESS: I received one, I believe.

MS. CHRISTENSEN: And the exhibit that you received?

THE WITNESS: It's from the Ten-Year Site Plan.

MS. CHRISTENSEN: Permission to approach the witness to give him this.

CHAIRMAN BRISÉ: Sure. Go right ahead.

THE WITNESS: Thank you.

CHAIRMAN BRISÉ: Everyone should have two exhibits. If you don't have two exhibits, please let us know so we can make sure that --

MR. SAPORITO: We don't have one.

CHAIRMAN BRISÉ: All right. Which one are you missing?

MR. SAPORITO: (Inaudible; microphone off.)

CHAIRMAN BRISÉ: Okay.

MS. CHRISTENSEN: Well, let me, if I can, describe the two exhibits I handed out.

CHAIRMAN BRISÉ: Sure.

MS. CHRISTENSEN: The first exhibit that I intend to use is the Florida Power and Light 2012 Ten-Year Power Plant Site Plan excerpted, Pages 95 and 96. And if I could ask for a number for that.

CHAIRMAN BRISÉ: Sure. We are at 714.

(Exhibit Number 714 marked for identification.)

MS. CHRISTENSEN: And the exhibit that I would ask to use as an excerpted portion of the August 15th document, Pages 12 through 15.

CHAIRMAN BRISÉ: Okay. So that would be 715.

(Exhibit Number 715 marked for identification.)

MS. CHRISTENSEN: Okay.

CHAIRMAN BRISÉ: Does everyone now have two exhibits? All right. Thank you. You may proceed.

MS. CHRISTENSEN: Thank you.

CROSS EXAMINATION

BY MS. CHRISTENSEN:

Q. Good evening, Mr. Forrest.

A. Good evening.

Q. In your direct testimony you provided an overview of FPL's proposed expanded incentive mechanism, correct?

A. That's correct.

Q. And you are the Vice-president of FPL's Energy Marketing and Trading Business Unit, which handles FPL's short-term and long-term fuel management operations, correct?

A. That is correct.

Q. And would it be reasonable to say that you would know about the fuel requirements needed to meet the electricity consumption patterns of FPL's customers?

A. Yes.

Q. And would you agree that FPL has experienced variations in the levels of consumption by its retail customers in the past?

A. Variation in consumption of fuel or --

Q. In electricity consumption.

A. Over time, yes.

Q. Okay. And would you also agree that FPL currently experiences variations in electric consumption by its retail customers?

A. I think it varies by time and by season, by time of day; there is a lot of variation, yes.

Q. Okay. Would it also be correct to say that such variations in consumer consumption can be attributed to short-term weather events like tornadoes, thunderstorms, or wind storms?

A. There are a number of things that can impact customer usage. But, yes, those would be among them, yes.

Q. Okay. And would you also agree that such variations in consumer consumption can be attributed to long-term weather events, such as heat waves or cold snaps?

A. They certainly can have an impact, yes.

Q. Okay. And you would agree that FPL has an obligation to serve its customers no matter what the level of that consumption is by those customers?

A. We have an obligation to serve.

Q. Okay. And that is one of the reasons that FPL has a reserve margin, correct?

A. Yes. That is among them, yes.

Q. Well, let me refer to you what has been identified as Exhibit 714, the FPL 2012 Ten-Year Power Plant Site Plan excerpted. Are you familiar with this power site plant?

A. With certain provisions of it, yes.

Q. Looking at the excerpted pages, Page 95, I want to draw your attention to Column 14, and Column 14 says reserve margin after maintenance, is that correct?

A. Yes, it does.

Q. Okay. And can you please tell us what the reserve margins after maintenance and after peak for 2013, 2014, 2015, and 2016 are?

A. Just reading Column 14?

Q. Correct, up through the year 2016, which I believe is the end of the term of the agreement.

A. 2013 is 15.5 percent of peak; 2014 is 14.4; '15 is 15.6, and '16 is 13.2.

Q. Am I correct that the after maintenance does not include unplanned outages?

A. I don't know what is included in this table. I don't contribute to the table.

Q. Okay. Well, let me move on to another question, then. Would you agree that FPL has experienced variations in the level of generation in the past?

A. Can you be more specific as to what you are asking?

Q. Has FPL experienced variations in the level of generation it needs to produce in the past?

A. I'm still not sure I'm following what you're asking.

Q. Has FPL experienced for transmission variations in the capacity levels in the past?

A. As a marketing affiliate of the company, I can't speak on behalf of what transmission does or doesn't do.

Q. Okay. So you are not familiar with what the level of capacity is for transmission?

A. No, ma'am.

Q. Okay. And you are here today to sponsor the asset optimization with respect the natural gas transportation facilities?

A. That is correct.

Q. Are you familiar with those?

A. I am.

Q. And would the natural gas transportation facilities also experience capacity level variations currently?

MR. BUTLER: I'm sorry, but I at least don't have any idea what she means by capacity level variations. Is she talking about the level of capacity FPL has from one year to the next, or variations in the legal of utilization? I think it would be very helpful if she could clarify her question.

CHAIRMAN BRISÉ: Ms. Christensen.

MS. CHRISTENSEN: I will attempt to do so.

CHAIRMAN BRISÉ: Sure.

BY MS. CHRISTENSEN:

Q. FPL has forecast the need for capacity on its natural gas transportation facilities, correct?

A. We do include that in our forecast, yes.

Q. Okay. Does FPL experience -- I want to say variations, but does FPL -- has FPL experienced in the past higher or lower levels of capacity from the forecasted amount for natural gas transportation?

A. If I understand your question, I think the answer is yes. We have a fair amount of variation, and that can be day-to-day, it can be seasonal, it can be year-to-year. We have a set amount of firm gas transportation in our portfolio that we can take advantage of on a daily basis depending upon load variation, depending upon generation availability. It will depend upon how much natural gas it will consume. So on lower load days we use less of our firm transportation rights, on higher load days we will use a significant amount, if not all of our firm transportation rights.

We deal with a significant utilization factor through the summer periods. We are operating probably over the last six or seven years in the 97 percent plus utilization in the summertime, and then, you know, throughout the rest of the year those utilization factors are lower. So it does vary by season. It varies day-to-day. There is a lot of variation, if that's -- I'm hopefully answering your question.

Q. Okay. I think you have, and I just want to confirm that I'm understanding that some of those capacity variations that you just spoke about, seasonal or daily, can be attributed to weather pattern changes, mechanical breakdowns, or unplanned outages. Would that be correct?

A. Certainly all of those, yes.

Q. And it is possible that if these variations lead to customer demand being greater than FPL anticipated based on its forecast, that FPL would have to rely upon its higher cost units to meet that demand?

A. Again, if I understand your question --

Q. For generation.

A. -- there are times when we use 100 percent of our firm gas transportation rights on a daily basis. And if the load is greater than that, we will have to dispatch a higher priced fuel, such as residual fuel oil load, to serve load; absolutely. And that happens certainly more frequently in peak winter periods, or in the summer periods, or maybe during periods of high maintenance outages.

Q. Okay. And you would agree that generally speaking the lowest cost units get dispatched first and this is the basis of economic dispatch, correct?

A. I would generally agree with that, yes.

Q. Okay. And if variations lead to customer demand being greater than FPL's ability to supply the electricity, would FPL have to enter into the wholesale market to obtain supply to meet its customers' requirements?

A. There are times that we -- back up from that. We run an economic dispatch model which will tell us essentially based on what our projected load is for the day how much gas generation will be running, how much of our utilization of our gas transportation that we might be utilizing. And once we have established what our incremental cost looks like, we will canvas the market to see if there are opportunities to either purchase power or to sell power against that, depending upon what our generation availability looks like.

So there are definitely times when we will be in the marketplace to try and purchase power if we can do so cheaper than what it is that we are generating it for.

Q. I appreciate the answer, but I'm not sure it answered the question that I asked. So let me repeat the question and see if we can maybe hopefully get to the answer I'm looking for.

If the variations lead to the customer demand being greater than FPL's ability to supply the electricity, which is a little bit different than going out and purchasing power at the lowest economic cost, if they can't meet the electricity supply, would FPL have to enter into the wholesale market to obtain supply to meet its customers' requirements?

A. So if I can just make sure I understand your question. If you are saying if our load was such that our own generation couldn't meet the load, would we enter that marketplace? Certainly I think that's a pretty rare occasion, if ever, but we would certainly be in the marketplace purchasing power to the best of our ability before we had to try and use any type of customer interruption before that, absolutely.

Q. Okay. And I think that was what I was looking for. Thank you. Is it correct to say that FPL's expanded mechanism has been set up to include short-term capacity releases of natural gas transportation and transmission capacity that FPL has a right to use?

A. That is part of the proposal, yes.

Q. Okay. And you would define short-term as meaning a time period of one year duration or less, is that correct?

A. With respect to the existing incentive mechanism that defines economy purchases and economy sales, that's one year or less, absolutely. We would typically not enter into any type of transaction with respect to natural gas transportation of anywhere near that length. We would typically hold that on a day-by-day basis. So short-term for natural gas transportation, and those opportunities to maximize or optimize those types of the activities would very much be a day-to-day type activity, because we are going to retain a certain amount of our -- what I call idle transportation in arrears for a margin or for a safety benefit, if you will.

Q. Am I correct in understanding that FPL's system planning process has yet to account for the use of these eligible facilities through its expanded transaction?

A. Again, I'm not sure I understand your question.

Q. Let me try and rephrase that. Has the FPL system planning process accounted for the use of eligible facilities that FPL intends to use through its expanded mechanism, if you know?

MR. BUTLER: I don't understand the question. Are you asking about whether the planning process takes into account the short-term capacity releases?

MS. CHRISTENSEN: Yes. Whether or not they have taken into account this new incentive mechanism where you are going to be selling off short-term capacity, if you know?

THE WITNESS: I think I can answer the question. No is the short answer.

BY MS. CHRISTENSEN:

Q. Okay. Let me turn you your attention to Page 14 of your Direct Testimony. Let me scratch that question. I think you have already answered it.

Would you agree that FPL's native load customers are FPL ratepayers?

A. Would I read?

Q. Would you agree?

A. Agree. I'm sorry, yes.

Q. Okay. Would you agree that electric transmission facilities are largely, if not fully, dedicated to serving FPL's native load customers?

A. Again, I don't speak on behalf of our transmission organization, but they serve a number of customers, including FPL's native load customers.

Q. Would you agree that the natural gas transmission pipelines are largely, if not fully, dedicated to serving FPL's native load customers?

A. I would agree with that, that we use our natural gas transportation to serve the generation that ultimately serves our customers, our native load customers, also wholesale customers. And there is also periods when there is idle transmission not being utilized to serve any native load, and those are the periods that we are talking about, not during peak loads.

Q. Let me ask you this, though. The majority of the transportation and transmission facilities are built to serve your native load customers. You would agree with that, correct?

A. That's why we purchase it, yes.

Q. Okay. And you would agree that because these facilities are built to serve your native load customers, they are paid for by the native load customers?

A. I would agree with that through the fuel clause, yes.

Q. Okay. Would you agree that if the use of those facilities are sold in an off-system transaction, then those facilities cannot be utilized to serve native load customers?

A. I would agree with that. But, again, I would say that we are talking about periods when it's not being utilized to serve native loads customer. So if there is a period of time when we have capacity available, that we would either release that capacity for others in the state that might need it to utilize, or we could then sell delivered gas using it. But it wouldn't be during periods when we have high demand when we are utilizing it to sell to our own customers.

Q. And FPL could be doing that as of today, there is nothing that would prohibit you from selling that extra capacity at this moment, correct?

A. As a matter of practice we don't do it today, no.

Q. But there is nothing that would prohibit you from doing that today?

A. Well, I think part of what we are asking for today is a recognition by the Commission that there are other things that we could be doing. These are in addition to what we do today.

MS. CHRISTENSEN: Commissioner, can I ask that he answer the question that I posed to him?

CHAIRMAN BRISÉ: Sure. If you could repose the question.

MS. CHRISTENSEN: Yes.

BY MS. CHRISTENSEN:

Q. To your knowledge is there anything that would prohibit you from engaging in the activities that you are describing today?

A. Yes.

Q. And those -- what are you -- is there any rule that prohibits you from engaging in those activities that you are aware of?

A. Not that I am aware of, no.

Q. Is there any statute that would prohibit from you engaging in those difficulties that you are aware of?

A. I'm not aware of any statute that says we should or shouldn't be doing those types of transactions.

Q. Let me ask you, would you also agree that if the facilities are not available to provide gas-fueled electricity to native load customers, that it is possible that the lower efficiency units would be called upon to meet increased customer demand?

A. Re-ask that question for me, please.

Q. Absolutely. Would you also agree that if the facilities are not available to provide gas-fueled electricity to native load customers, then it is possible that the lower efficiency units would be called upon to meet increased customer demand?

A. Well, again, I think we are maybe drawing a conclusion that shouldn't be. We're never going to dispatch an asset, a higher-priced asset to take advantage of a potential for selling gas out of our gas transmission or selling power at a lower cost to dispatch a higher-priced cost. We have been participating in the wholesale power market for decades, and I don't think that there has ever been an instance when we would have done what you are suggesting, which is potentially dispatching a higher-priced asset to serve customers and using a lower-priced asset to potentially make an off-system sale, or in this case selling gas transmission when it was available to dispatch a higher priced fuel.

Q. But I think you would agree you have not engaged in these types of transactions prior to this request, correct?

A. We have not engaged in the gas market, but we certainly have done so on the power side and have a lot of history behind it.

Q. Right. That's the sale of excess electricity that you produce, is that correct?

A. That is correct.

Q. Okay. Now, let me re-ask the question and see if I can get you to respond to the question that I asked. Would you agree that if facilities are not available, and that's an assumption you may hypothetically --

A. Can I ask what facilities are you referring to?

Q. Generation facilities are not available to provide gas-fueled electricity to native load customers, then is it possible that a lower efficient unit would be called upon to meet increased customer demand?

MR. BUTLER: I am going to object. This has been asked and answered, and it is pretty close to incomprehensible. I mean, she, I think, is mixing up gas transportation facilities and electric generating capacity units into the same question in ways that at least I'm finding it impossible to follow, and ask her to rephrase her question if there is, indeed, a different question.

CHAIRMAN BRISÉ: Ms. Christensen.

MS. CHRISTENSEN: Well, I mean, I assume if the witness can answer it, that would be fine; otherwise, I would be happy to try and attempt to rephrase the question again.

BY MS. CHRISTENSEN:

Q. My question is getting at the generating units that use natural gas to produce electricity, if that clarifies it any for you.

A. So with that as the premise, ask your question again.

Q. Would you agree that if these facilities are not available to provide -- and the important part is gas-fueled electricity -- in other words, units that are fueled by gas to native load customers, then is it possible that lower efficient units fueled by something else would be called upon to meet the increased customer demand? Is it possible?

A. It is possible. I'm not sure why they are not available, but it is possible, yes.

Q. Thank you. And if you used lower efficiency units, would that mean higher fuel cost to native load customers?

A. Yes, and if I could give an example. If we have a generating unit that is off-line that is a lower efficiency or I will call it a high-efficiency unit, a gas-fired unit that is off-line for whatever reason, and we have to dispatch a higher priced fuel, such as residual fuel oil, that is part of the economic dispatch process, yes.

Q. I know that you said that you don't generally speak for the transmission facilities, but you are the person that is testifying regarding the expanded incentive mechanism, correct?

A. I am, yes.

Q. Okay. Would you agree that if transmission facilities are not available to be used to meet the needs of the native load customers, then FPL would have to purchase electricity in the wholesale market?

A. I'm confused by the question. I'm not sure why the transmission resources are not available.

Q. Assume hypothetically if transmission facilities were not available due to being utilized for the expanded incentive mechanism, and therefore not available to meet native load customers' needs, would FPL have to purchase electricity in the wholesale market?

A. Well, to be clear, the only electric transmission assets that we are talking about is the electric transmission that we have reserved and paid for that's on the UPS, as part of the UPS contracts coming out of the Southern Company. We don't have any rights to resell any of the electric transmission on FPL's system. That is for FPL transmission to handle through their own Oasis Electronic Bulletin Board. The marketing affiliate that I am doesn't have any rights to go resell those transmission assets.

Q. Okay. With that caveat, is it possible that you would have to go out into the wholesale market if that UPS transmission was not available?

A. Again, so that we have understand the process on that, we have to dispatch the UPS contract on a day-ahead basis. And if we don't foresee that as being available or being needed to serve our load, once it goes past the scheduling deadline that transmission is freed up to do something else with it. We are no longer able to bring that UPS contract into our service territory. So it's kind of a you schedule it or you don't schedule it, and if you don't schedule it, it's available to sell to somebody else through Southern Company's Oasis system.

Q. I'm not sure I got an answer to the question, but I will move on. Let me refer you to Page -- I'm sorry, Exhibit 715, which is an excerpt of the August 15th documents, Pages 12 through 15.

A. Uh-huh.

Q. And I want to specifically refer you to Page 14, the last sentence. Are you there?

A. Yes.

Q. Would you agree that it states, "FPL agrees that it will not require any native load customer to be interrupted in order to initiate or maintain an economic sale, whether that sale is firm or nonfirm," is that correct?

A. That is correct.

Q. Would you agree that this language does not guarantee that native load customers receive the lowest cost electricity once FPL implements the expanded mechanism?

A. I agree there is no guarantee in this sentence. However, I can say that we have never not served our native load over maintaining an economy sale that has been on our system.

Q. But I think you agreed with me that you have not had this expanded mechanism or expanded the transmission, is that correct?

A. I agree with that.

Q. Okay. Let me ask you the next question. Would you agree that in order to maintain service to the native load customers, this language would obligate FPL to go into the wholesale market to meet its firm load requirements?

A. No, not necessarily. I could certainly cut the transaction, and we do that, have done that on occasion where we have made an economy sale to a counter party. Something changes on our system, whether it a higher load or a loss of a generator, and we will curtail the transaction for the benefit of our native customers.

Q. You would do that on a firm load transaction, as well? That was what the question asked.

A. If that's how it has been communicated to the counter party, yes.

Q. If that is how it has been communicated to the counter party, would that be a nonfirm transaction, then?

A. Potentially, yes. Most of our transactions are nonfirm from that perspective.

Q. Let me ask you this. Is it correct that the prices FPL would have to pay to supply its customers with electricity to cover its wholesale transactions could be above and may be well above average market prices?

A. Ask that again, please.

Q. Is it correct that the prices FPL would have to pay to supply its customers with electricity to cover its wholesale transactions could be above and may even well be above the average market price? If you had to go into the short-term market to cover a sale, is it possible that you would be getting higher prices than you would otherwise have cost you to generate that power?

A. Yes, there is that potential. However, I think that we are drawing a lot of conclusions that misrepresent what it is that we are trying to do here today. This is a very straightforward proposal that allows us to do the things that we are doing today on the economy purchases and sales, which is --

MS. CHRISTENSEN: Commissioner, I think he is going well beyond the question that was posed to him.

CHAIRMAN BRISÉ: I would tend to agree.

BY MS. CHRISTENSEN:

Q. Mr. Forrest, can I draw your attention to Page 6 of your testimony. In that you discuss -- oh, am I looking at the wrong one? I apologize, I think I wrote down the wrong page for this. But in your direct testimony you discuss some of the transactions that FPL is requesting be part of the expanded mechanism, is that correct?

A. That is correct.

Q. Okay. And I think that you have agreed with me before, but FPL -- has FPL ever contracted to sell its gas transportation capacity?

A. Not that I'm aware.

Q. Okay. And I believe on Page 15 of your Direct Testimony you state that FPL's gas utilization has increased in recent years, is that correct?

A. That is correct.

Q. And you also contend, I think on Page 16, that FPL has increased its dependence on gas, correct?

A. That is correct.

Q. Hypothetically, assuming that the forecast is not 100 percent accurate, if dependence on gas increases, but FPL is selling its natural gas capacity because of the expanded incentive mechanism, wouldn't you agree that this increases the likelihood that FPL would have to go to the spot market to buy power or to buy more capacity?

A. No, I don't agree with that. We would maintain a certain threshold or a certain margin available that we would not sell into the marketplace to retain for reliability reasons. And on days of high utilization, we would not make any sales of capacity or sales into the marketplace. We are talking primarily about periods such as the spring and fall when we have lower utilization. We have capacity available for sale. We would still maintain a certain reliability threshold, if you will, that we wouldn't sell into that would allow us to serve load in the event that we either lost a generator or had a nonperformance from a counter party.

Q. Let me direct you to Page 4 of your testimony. You say that the threshold level was set at 46 million, which FPL claims is approximately 11 million more than the 2013 projections for short-term power sale gains and short-term purchased power savings, is that correct?

A. That is correct, yes.

Q. And would you agree that the 46 million could have been 36 million, that there is no independent basis for the 46 million?

A. Well, the $46 million was established by looking at our 2013 projections of economy purchases and economy sales, and those two numbers combined -- this was done as part of our fuel filing in August -- was $35.1 million. We rounded that up to $36 million, and then we, as part of this effort, offered our customers the first $10 million of value above that. So it's approaching $11 million above what we expect to gain out of the economy purchases and sales market, the short-term power purchases and sales. So this is significantly higher than just the threshold of saying what we have projected to do in 2013.

Q. But you would agree FPL could have decided it wanted to set that threshold at 36 million, correct?

A. Well, this was part of a negotiation. This wasn't decided individually.

Q. It could have been decided that it should have been 36 million, correct?

A. I suppose, theoretically, yes.

Q. Or theoretically it could have chosen a threshold of 56 million, correct?

A. Theoretically, yes.

Q. Okay. Would you agree that the threshold level remains the same throughout the term of the signatories agreement, even if gains increase significantly due to the expansion of the types of transactions subject to the proposed incentive mechanism?

A. Yes, the threshold does remain the same. I think that is what makes it straightforward and fairly simple from the perspective of there will be years that we may achieve the $46 million. There may be years when we don't achieve the $46 million. Irrespective of whether we do or we don't, our customers always see the large majority of the benefits from the program.

Q. And under the current incentive mechanism, the threshold level that must be met first before FPL or its shareholders are allowed to share in any gains is set based on a three-year rolling average, is that correct?

A. That is correct, yes.

Q. Let me turn your attention to your Exhibit SF -- I believe it is SF-2 attached to your Direct Testimony.

A. Yes.

Q. Looking at SF-2, would you -- looking at the third column, would you agree that FPL had purchased power savings in 2011?

A. Did we have purchased power savings in 2011?

Q. Correct.

A. Yes, we did.

Q. And if you look at that column, would you agree that those savings were approximately $64.6

million in 2011?

A. Yes, I would.

Q. And would you also agree that FPL is required to provide reliable service at just and reasonable rates?

A. Yes, I believe I would.

Q. Okay. And let me ask you this. Just referring back to the 2011 purchased power savings, is it correct that under the proposed incentive mechanism, FPL now wants to include these purchased power savings in determining whether or not it has met the threshold under its new incentive mechanism?

A. That is correct. The new threshold would recognize that there are dollar-for-dollar savings both from purchased power and dollar-for-dollar gains that come from the sale side of things. There are the same activities, the same personnel doing the same activities. This is just a reflection of maybe today's market realities that both savings and gains from purchases and sales do provide significant benefits.

MS. CHRISTENSEN: I have no further questions.

CHAIRMAN BRISÉ: Thank you.

* * * * * * *

STATE OF FLORIDA)

: CERTIFICATE OF REPORTER

COUNTY OF LEON)

I, JANE FAUROT, RPR, Chief, Hearing Reporter Services Section, FPSC Division of Commission Clerk, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 20th day of November, 2012.

Jane Faurot

JANE FAUROT, RPR
FPSC Official Commission Reporter
(850) 413-6732