BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of:

DOCKET NO. 140001-EI

FUEL AND PURCHASED POWER COST RECOVERY CLAUSE WITH GENERATING PERFORMANCE INCENTIVE FACTOR.
________________________________/

VOLUME 2

Pages 169 through 314

PROCEEDINGS:	HEARING
COMMISSIONERS PARTICIPATING:	CHAIRMAN ART GRAHAM COMMISSIONER LISA POLAK EDGAR COMMISSIONER RONALD A. BRISÉ COMMISSIONER EDUARDO E. BALBIS COMMISSIONER JULIE I. BROWN
DATE:	Monday, December 1, 2014
TIME:	Commenced at 12:00 p.m. Concluded at 4:00 p.m.
PLACE:	Betty Easley Conference Center Room 148 4075 Esplanade Way Tallahassee, Florida
REPORTED BY:	MICHELLE SUBIA, RPR Notary Public in and for the State of Florida at Large
APPEARANCES:	(As heretofore noted.)

I N D E X

WITNESSES

EXHIBITS

P R O C E E D I N G S

(Transcript follows in sequence from Volume 1.)

Thereupon,

SAM FORREST

was called as a witness, having been previously duly sworn, was examined and testified as follows:

CONTINUED CROSS EXAMINATION

BY MR. TRUITT:

Q Now, I note on page 38 right above the 10 percent you just referenced, you said it was Taylor's direct testimony, or as discussed by FPL witness Taylor is how you state it?

A Yes.

Q Could you tell us where that is in his direct?

A Yeah, we covered this in the deposition. I believe he covered it in discovery as well.

Q Now, in this 9-box that we have here on page 38, this 9-box assumes all other interest owners do not consent, correct?

A Correct.

Q And the ramification of that decision is that it's the highest capital expenditure, correct?

A That is correct. We felt it was most

appropriate to show the most conservative number in terms of the capital outlay and so there are other working interest owners that exist within these properties. And to the extent that they do not consent or don't want to participate in the well, we made the assumption that none of them participated so that we could show at the -- not the highest level of customer savings, but just what the maximum capital expenditure would look like, so a more conservative approach to demonstrating adverse to showing what the lowest level would be and then coming in at the higher number.

Q Now, if all other owners do consent, savings do go down to 60 million under this 9-box, correct? I believe that was in your errata sheet.

A Yes, that's correct. The customer savings go down, as does the capital investment, the investment, by a commensurate amount.

Q Right. Now, I've heard during opening statements, but just since you're a sworn witness, this was used creating the October 2013 FPL's Natural Gas Forecast, correct?

A That is correct. It was consistent with the other documents that were in front of the Commission at the time.

Q Okay. Now, there was also an errata sheet I

just mentioned a second ago, that also stated the capital expenditure increase from 119 million to 125 million, correct?

A That's correct, yes.

Q Okay. Now, you included October 2013 Natural Gas Forecast as your Exhibit SF-8, correct?

A That is correct.

Q And you did an updated Natural Gas Price Forecast in July of 2014 in preparation for your 2015 fuel filing; is that correct?

A That is correct, yes.

Q Okay. Now, I'm going to hand out a redacted version of the revised SF-8. Do you remember you did revised SF-8 as part an interrogatory?

A Yes.

Q Okay. And I wanted to have this redacted version entered into the record because, as we'll discuss in a second, under the black box is not really what I want to talk about.

A Okay.

MR. TRUITT: We would ask that this be given a separate exhibit number so that it can be referred to in a nonconfidential manner, Mr. Chairman.

CHAIRMAN GRAHAM: We will give this Exhibit

Number 63.

(Exhibit No. 63 was marked for identification.)

MR. TRUITT: Thank you.

BY MR. TRUITT:

Q Now, you recognize this, Mr. Forrest, correct?

A Yes, I do.

Q Okay. Under this blacked out section here in the middle, would you agree that all of the numbers that are technically under that are the same as the numbers in SF-8 that you originally filed with your direct? Those numbers didn't change, correct?

A Subject to check, I believe you're correct.

Q Okay. Now, just looking here based on a July 2014 fuel forecast that was prepared for a filing here with the Commission, the discounted customer savings dropped from 106.9 to 51.9 million, correct?

A Yes, they did. And if I could address that. I think it's important to point out that any forecast is a point-in-time forecast. Gas prices are incredibly volatile, they go up, they go down. Depending upon where in time you take that snapshot, you're going to see a definite impact to gas prices.

We could have taken it the following the day and the savings would have projected to be something different than what we saw here.

This forecast was done, obviously, as a result of our filing for the 2015 fuel factors. The band -- the 51.2 or -- I'm sorry -- $51.9 million estimate that you see in the July 28th forecast is well within the bands of our base fuel, taking other things into consideration.

I think what's important to note is if you look at different points in time -- back in December -- if I just use like the year 2025 as an example and look at NYMEX pricing, back in 2013, December of 2013, gas prices were at $5.60 for the NYMEX 2025 contract, which you won't see on this sheet. But within two months, it had dropped to $4.60. It had dropped an entire dollar. Within another two months, it had gone back to 5.60. So in a matter of four months, it swung a dollar down and a dollar up.

Why that's important is our customers burn roughly 600 billion cubic feet of gas every year. Every dollar move is $600 million. It's a staggering number how much gas moves around. That's $6 on your typical monthly bill. These numbers are volatile and, again, it's just all point in time.

Now, again, when we took this snapshot at this particular point in time, gas prices had come back down. And right now, that same year is in the $5 range. So gas prices move up, they move down. It's all about the time when you take these estimates. So I think all it does is demonstrate just how volatile gas prices are.

Q Okay. Now, in terms of the gas pricing, your unit does those forecasts, correct?

A That's correct.

Q Now, in terms of the 9-box and the low production, high production things, you would agree that you defer to Dr. Taylor in terms of the production, the range of estimates that you use, correct?

A That is correct.

Q Okay. Now, you would agree that the 9-boxes, they require a couple of predicates for the 9-box to work out, that all of the wells proposed are drilled, all the wells are successfully drilled, all of the wells produce within the band you have is 10 percent, all other owners nonconsent, and that your Natural Gas Price Forecast is correct? That's kind of the predicate assumptions that go into making this 9-box, correct?

A This particular 9-box, I agree with that, yes.

Q Okay. Now, I'm going to hand out another exhibit that has three variations of this 9-box which you graciously provided after the deposition. I'm going to ask that it go in as an independent exhibit.

Now, you recognize this exhibit, correct, Mr. Forrest?

A Yes, I do.

Q Okay.

MR. TRUITT: Mr. Chairman, we would ask that this be given an exhibit number.

CHAIRMAN GRAHAM: This will be Exhibit Number 64.

MR. TRUITT: Thank you, Mr. Chairman.

(Exhibit No. 64 was marked for identification.)

BY MR. TRUITT:

Q Now, there's three variations. I guess we'll sort through what we're looking at. The first page is kind of this explanatory page, correct, where you explain what the variations are?

A That's correct.

Q Okay. And then there's four attachments to that page, attachments one, two, three and four. And I just want to verify that attachment four, this is the

original 9-box that you have in your direct, correct?

A Yes, that's correct.

Q Okay. So these other three attachments are different. So we'll start with the first one, attachment one. Now, this was done using the October 2013 fuel curve with the thing that changed was plus or minus 20 percent production for the low production, high production bands; is that correct?

A That is correct, yes.

Q Okay. Now, then we have another one, attachment two, it's the July 2014 fuel curve. It's the exact same 9-box as you've got on page 38 except you just inserted the July price forecast, and you still use the 10 percent production, all other owners are nonconsent assumptions, correct?

A That is correct, yes.

Q Okay.

A Which, again, if I could just interject real quickly that the 10 percent versus 20 percent, we agreed to provide the 20 percent variations that you saw on attachment one and you'll see on attachment three. We don't believe that's the appropriate level of production variation to utilize. Again, Dr. Taylor can discuss why he believes that.

Q Okay. And the third attachment, you've got

the July fuel curve and then plus or minus 20 percent and all owners nonconsent, correct?

A That is correct, yes, sir.

Q Okay. Now, if I'm looking at the 10 percent of attachment two, so all you did in that one is you updated the fuel forecast?

A That's correct.

Q You used the ones that you're planning on using in a fuel filing next year.

Now, isn't it true that under this situation, FPL customers are not experiencing savings in three out of nine scenarios?

A That's correct.

Q Is that what that shows?

A That's correct. The low fuel forecast in that particular instance is fairly extreme. And if I could explain.

In 2015 -- again, remember when I described how the bands are created, it's plus or minus essentially 21.8 percent, call it 22 percent. When we look at the pricing forecast that was provided in 2015, that updated low price forecast comes out to $3 in 2015. So effectively what it's suggesting is the low price in 2015 is at $3.

When you look at the production profile, and you can see the very top, that's almost at the peak point of production, so you're going to see the biggest impact. While we're seeing our costs in the $3.40 range, the gas price would actually be down around $3.

Why that's important is a couple of reasons. One is the historical low for the 2015 contract is $3.60. That's the lowest that we've ever seen that contract. Three dollars is substantially lower than that.

I'm not suggesting it can't go there. I don't predict natural gas prices. It certainly could go there, I suppose. But if it does, that is a very, very good day for our customers, given that we're projecting gas prices in 2015 at $4, and it comes in at $3, a dollar savings, again, on the unhedged portion of our portfolio is a couple hundred million dollar savings for them. So it's a very extreme example in terms of the low price forecast.

Q Okay. And then just to clarify, the forecast was done for a filing at the Commission, correct?

A I'm sorry, ask that one more time.

Q The forecast you did in July, which happens to be an extremely low point in time, was done to support the 2015 fuel filing before this Commission, correct?

A Absolutely. And those 2015 fuel factors were based on the base forecast which, again, the case shows $52 million in savings.

Q Okay. Now, if I'm looking at attachment three, which is, again, we're using the July forecast but we're using the 20 percent, which I understand we're going to defer to Dr. Taylor when we talk to him?

A Correct.

Q In that scenario, again, we have three out of nine where customers don't save money, correct?

A That is correct, yes.

Q Okay. We've had a lot of discussions about the forecast, but you would agree with me, wouldn't you, that it would be appropriate for the Commission to consider current information, if available, when considering this first-of-its-kind proposal?

A I have no problem with the date of forecast being considered. $52 million is still a very substantial level of customer savings given the added benefit of the hedging that this transaction will provide over a longer period of time.

Q Okay. Now, I want to talk about PetroQuest itself for a minute. Now, you testified that PetroQuest is, quote, a well-know and highly regarded independent oil and natural gas company, correct?

A That's correct, in the Woodford, yes, they are.

Q Now, is it true you base that qualification on USG's experience with PetroQuest and the research performed in preparing this Woodford Project for filing?

A Yes. Certainly our discussions with US Gas were part of that, and then understanding their level of involvement in the Woodford as well.

Q Okay. Now, isn't it true USG entered into the first drilling agreement with PetroQuest in 2010, correct?

A That is my understanding, yes.

Q Now, that's one year before FPL started looking for these types of projects?

A Again, I wouldn't say that we started looking in 2011. We became aware of the transaction in 2011. We probably didn't start in earnest until the 2012 time frame in terms of looking for different types of opportunities, not just focused on these types of opportunities, but different types of opportunities in terms of creatively searching for ways of locking in longer-term value for our customers. So, yeah, it would be within a year of two of their transaction with PetroQuest.

Q Okay.

A Their original transaction, excuse me.

Q Now, in looking at PetroQuest related to this project and what you learned from USG, isn't it true that you don't know or did not encounter information regarding PetroQuest percentage of being on time for drilling projects?

A I am personally not aware, no.

Q Okay. Isn't it true that you do not know PetroQuest's percentage for completing wells on time?

A I do not have that information, no.

Q Isn't it true you do not know PQ's percentage for completing jobs at or under budget?

A No, I do not. Although, Dr. Taylor utilized their historical information on the wells that were drilled in the area of mutual interest that was shown earlier to develop those cost estimates, so he would have a very good understanding of their ability to deliver costs, at least in this particular area.

Q Okay. And we'll ask him. But I want to go back to the on time. I'm looking at your Exhibit SF-4, pages 60 and 61. And if you'll recall, again, this is confidential.

A That's correct.

Q All right. Now, what we have here is a

drilling schedule. Now, I'm not going to go into details or numbers or anything else, but it's a drilling schedule, correct?

A Correct.

Q Okay. Now, without divulging confidential information, we can look on page 60, for example, and we can see drill dates, there should have been a certain number of wells drilled by today?

A That's correct.

Q Correct?

A Correct.

Q Okay. And we have the same thing on page 61, correct?

A That's correct, yes, sir.

Q Okay. And the pages are distinctly -- it's just two different rigs, correct? I don't think that's confidential.

A That's what it is, it's rig one and rig two, that's correct.

Q Okay.

A There are two rigs available for drilling.

Q Now, isn't it true that PetroQuest is behind schedule on the list presented on page 60?

A They are. They are running a little bit behind schedule.

I think what's important to note is, you know, they are focused on doing it right, they're focused on -- and we'll get to the next page, I'm sure, in a minute -- but they're focused on doing the right thing and ensuring that they're delivering these projects or the individual wells at or below budget, if possible.

And they are running behind, but there are no concerns. This gas isn't going anywhere. It's all going to ultimately be drilled for the benefit of FPL's customers, if the Commission sees fit to approve it. So it's not like this gas is being evacuated in other ways.

Q Okay. Now, the drill dates, completion dates, and actual number of wells are confidential here?

A That's correct.

Q But let me try and ask it this way. And I don't believe it divulges confidential information, but Mr. Guyton may have other words about that. What percentage of wells has PetroQuest drilled of the ones that they should have started drilling by today?

A I think that would probably give away confidential information.

Q Well, I'm not asking for a numerator or

denominator.

A I understand. About 5 percent of their wells are underway, if my math is correct, subject obviously to check.

Q Okay. And that's on the first page on drill one, or did you do both?

A I did both.

Q You did both rigs?

A I did both, yes.

Q Okay. I wanted to split it, I'm sorry, I wasn't clear.

A Okay. I'm sorry.

Q Of rig number one, what percent --

A I'm sorry, ask your question again. I want to make sure I'm doing the math correctly.

Q Of rig number one, we have a set number of wells that the drill date should have started by today?

A Correct.

Q Of those, what percentage have been drilled?

A I'm sorry, I misunderstood your question. 40 percent have been drilled.

Q Okay. Now, on rig two, page 61, the same thing. Again, we see there's a certain number of wells that should have been drilled by today. What percentage have been drilled?

A   Zero.

Q   Okay.

A   Again, I'm not overly concerned by that. You know, this is a process that, you know, once it gets up and running -- they have not acquired a second rig yet to drill the second list of wells that are on the schedule. They are looking for a well that meets their needs rather than just going out and -- I'm saying a well -- a rig -- rather than just going out and acquiring a new rig.

MR. MOYLE: I move to strike all of this. I mean, the question was what percent, yes, or no. You know, he's basically backfilling a bunch of information that's based on hearsay as to what PetroQuest is doing. Move to strike.

CHAIRMAN GRAHAM: Well, OPC is asking the question. As I said before, I will let the witness verbalize as long as whoever is asking the question wants to control it. He chooses to let him answer so we'll let him continue the answer.

THE WITNESS: I would suggest it's -- I'm not a lawyer -- but it's not hearsay. It's what we're aware of in terms of what is being drilled at this point.

So PetroQuest is looking for a rig that meets their needs in terms of efficiency and the benefits that it will bring. So rather than just running out and finding any well that may lead to ultimate cost overruns and schedule delays, they are trying to do it right initially by finding a well that works to their needs. And my understanding is that they're close to having that one secured.

BY MR. TRUITT:

Q You said "they're close to." Do you have a date of when they're going to have a rig?

A I do not have a date. Maybe -- Dr. Taylor may have.

Q Does FPL -- actually, I'll ask this question first. Would it be accurate to say the dates in the last column -- I'm looking at pages 60 and 61 -- will now be pushed farther into the future due to the delays?

A Yes, at least for the initial wells they will be, yes. Like I can't suggest that they can't get it back on schedule. There's some discussion that they should be able to get back on schedule over time.

Q Okay. Does FPL have affirmative plans to accelerate the drilling schedule so as to have all wells completed within the set time frame?

A No. Right now we're not in control of the agreement so US Gas owns this transaction.

Q If it was approved, would that be FPL's intent?

A If the transaction is approved, we'll work with the operator to ensure that we can get them online as soon as possible. But there's no guarantee that that will get accelerated.

Q Okay. And if it's approved and you plan to accelerate -- I'm assuming based on your last statement, but tell me if I'm correct -- that FPL hasn't modeled the potential cost increase to catch up, so to speak?

A I guess I'm not aware of any cost increase. Again, we haven't committed and haven't had a discussion with PetroQuest with respect to what the ultimate schedule may be once it's transferred to Florida Power & Light, so I can't suggest that there will be a cost overrun or not.

Q Okay. Now, I'm looking at pages 35 through 57 in your SF-4. It's a big list of leases.

A That's correct.

Q You have that listed as Exhibit B, I believe?

A You said which pages?

Q I'm sorry, 35, I think.

A There you go, yes.

Q Yeah, the beginning of it.

Now, we had some discussions at the deposition so I'm going to ask some general questions first. Isn't it true oil and gas leases have multiple types of terms? And we're going to walk through the terms in a minute.

A Yes, they do.

Q Okay. Now, isn't it true that a royalty term is an amount paid by a lessee to the lessor for the right to capture the minerals, in this case gas?

A Yeah, in this case, it would be the landowner would have royalty rights and then he would lease that property -- he would obtain royalty rights by leasing the property to a potential operator.

Q Okay. Now, we discussed this, so isn't it true that you're not familiar with the actual royalty terms of these leases?

A I personally am not. We had a due diligence team that would be very familiar with this. We have both internal landmen at US Gas, as well as the hiring of an outside consultant that researched all of these leases as part of the due diligence process in the acquisition of the area of mutual interest. But I personally am not aware of the royalty terms.

Q And we don't have the lease terms anywhere in this proceedings before us in the docket or anything, do we? There's not in some other exhibit?

A Not that I'm aware of, no.

Q Okay. Now, isn't it true that you can have overriding royalty terms that could expire when the lease expires?

A I'm not sure of the exact terms of when they expire, but there are certainly overriding royalty interests that can happen, yes.

Q Okay. Now, isn't it true that royalty and overriding royalty owners have an option of taking minerals in kind, which means they can take gas and not money?

A I'm not aware of that. I'm only aware of them having an economic interest, not a physical interest. But, again, I'm not the de facto expert in this process so, again, I would defer to Dr. Taylor in terms of specifics around lease terms.

Q Okay. So with a hypothetical, let's suppose we have royalty owners -- and there's a bunch of leases here. Again, I can't say an exact number, but we have a few. So let's say were any royalties in the 3/16th to 1/8 range. Did you do an analysis of the Woodford Project to account for the fact that royalty holders,

those varying royalties, what that's going to do to the amount of gas that FPL is going to get?

A All of the -- all of the volumes of gas that have been shown in our economic analysis are net of all the royalties. So all of the royalties have already been extracted or have been accounted for in terms of the volumes that we're demonstrating here so there's no impact to any of the --

Q Was there a clause somewhere in terms of those productions that explain to us that that was already taken out? Because we didn't have the terms of royalties, so I'm asking you if you had somewhere in one of your exhibits that says the productions net all royalties?

A There may be a term -- again, we're looking at 130 pages -- there may be a term in here which I might be able to come back on the next go-around to discuss.

Q I know there's a term in the DDA.

A Right.

Q I was asking in terms of any testimony, did you clarify that all -- everything -- all of the royalties were already taken out?

A Not directly in my testimony, no.

Q Okay.

A But it would have been in the attachment.

Q Okay. And you would agree with me there's a concept involving shutting in a well, where the production stopped for some reason?

A Either that the well is not economic at that given time or the production -- the completion facilities, some of the above-ground facilities are not complete, there is a such thing as a shut-in, yes.

Q Okay. Now, you would agree with me also, there's shut-in royalty payments, that sometimes these leases could have terms that if you shut in a well, the lessor gets extra payments?

A I'm aware of that potential, yes.

Q Okay. And then also the leases have primary terms which dictate how soon drilling must happen before the lease expires?

A That's correct.

Q Okay. Do we know the primary terms in terms of these leases here?

A They can vary by lease, certainly. There's a lot of leases in the documents. The number of royalty owners that exist by lease, the number of working interest owners that exist by lease, royalty owners and their terms, all of that can vary by lease so that --

Q Well, we don't have it in this docket. What

I'm saying is in front of us we don't have a lease number "X" says if you don't drill within a year, considering you're behind schedule, then this lease expires?

A That's right.

Q We don't have that in front of us?

A That is correct. The landowner that would have that due diligence would have that information.

Q Okay. Now, you would also agree there's secondary terms of a lease, which is as long as production is flowing, then the lease continues on?

A I agree with that, yes.

Q Okay. You would agree with me that sometimes secondary terms can be conditioned on certain production levels?

A I am aware that you can condition the secondary lease on different outputs, yes.

Q Okay. And we don't have anything in front of us that some of these leases may have these conditional secondary terms so we don't know?

A That is correct.

Q Okay. Now, we've talked about all of these lease terms and everything else. Now, that's for the Woodford Project.

Now, under the guidelines, there's nothing in

the guidelines that mandates that any of these terms on projects that go through the guidelines come in front of this Commission either, correct?

A Ask that again.

Q Okay. I'll ask it in two parts.

A Okay.

Q So in this case, we don't have any of the terms of the individual leases in this record or before this Commission for their prudence determination, correct?

A That is correct.

Q Okay.

A I don't remember them being asked for.

Q Right.

A But they were not provided, no.

Q Under the guidelines, there's no provision in there that would require those lease terms and everything related to a project to come before the Commission for a prudence determination, correct?

A I guess to the extent that the Commission and staff, through an audit process, wanted to see that information, we would do our best to acquire it if it's available.

Q But what I'm saying is it's not in the guidelines?

A It's not in the guidelines, no.

Q Okay. Now, circling back to discussion on the Fuel Clause, back toward the beginning, you would agree with me -- you had mentioned the Martin gas pipeline lateral, I believe, in your direct?

A That's correct, yes.

Q Now, you would agree with me that that's not analogous to the gas reserves project, correct?

A I agree it's not.

Q Okay. Now, I don't know, did you read the Martin order when preparing your direct?

A I read parts of it, yes.

Q Okay. Isn't it true one of FPL's arguments was the pipeline should be in the Fuel Clause because it's specifically related to the transportation of fuel?

A Yes, which is clearly covered under 14546.

Q Okay. Now, isn't it true that one of the other arguments that FPL had made was that the Commission could compare the cost of FPL building it versus the cost of FGT building it, and you can clearly see construction costs, which didn't vary too much, that was cheaper?

A That's correct.

Q Correct?

A Yes.

Q Okay. Now, you agree with me, wouldn't you, that since the construction costs were relatively known, we had a good idea of what the savings were, correct?

A Yeah, we had a good idea what the savings were in that particular case, yes.

Q Now, did those savings involve predicting -- well, I guess I'll say isn't it true that those savings did not involve predicting a fluctuating commodity price 50 years into the future?

A I didn't see the economic analysis, but I can assume it didn't go 50 years, correct.

Q Okay. Now, isn't it also true that once FPL built the Martin pipeline, then FPL had a tangible item in existence?

A That is correct, yes.

Q Okay. Now, would you agree with me that these gas reserve cases, FPL doesn't actually have title to the reserves in the ground, the minerals in the ground?

A We will own the leases that have rights to the minerals, yes.

Q Okay. But you don't have --

A The leases will -- as we drill, we acquire leases in the properties, and those leases give us rights to the minerals, so we do have a tangible asset.

Q Well, isn't it true that you only have exclusive rights to enter land and drill in attempts to capture minerals?

A That is correct.

Q Okay. That's why I was saying you don't have the actual title to the minerals themselves, you have to get them?

A Oh, you have to go get them, that's correct, yeah. In Oklahoma, you don't own them until you actually extract them, that's correct.

Q Okay. And then the last question on the Martin pipeline, do you recall how much it cost?

A Not offhand, but I have it in front of me if you would like me to look.

Q No. It's less than $750 million a year, correct?

A Certainly. I'm not sure what that has to do with --

Q Nothing.

MR. TRUITT: OPC doesn't have anything further, Mr. Chairman.

CHAIRMAN GRAHAM: Retail Federation.

MR. LAVIA: No questions.

CHAIRMAN GRAHAM: Mr. Moyle.

MR. MOYLE: One is your plan; is that right?

CHAIRMAN GRAHAM: Yes.

MR. MOYLE: Okay.

CROSS EXAMINATION

BY MR. MOYLE:

Q Good afternoon --

A Afternoon.

Q -- Mr. Forrest.

A Yes, sir.

Q PetroQuest, nobody here -- no witness is from PetroQuest; is that right?

A That's correct.

Q Okay. And no witnesses from Forrest Garb?

A No witnesses from Forrest Garb.

Q They're the experts, the oil reserve experts that looked at this case; is that right?

A Yeah, I would certainly describe Dr. Taylor as a reserves expert. And he was the one that worked directly with Forrest Garb to develop their analysis.

Q You all didn't do a due diligence analysis followed by a report where you looked at everything related to this Woodford Project, correct? And I'm specifically focusing on a due diligence report.

A Yeah, I was not presented with a due

diligence report per se. I'm not sure if one was prepared by US Gas. I will suggest that there was a tremendous amount of due diligence that was done.

Q I'm asking you just -- you can go yes or no and your lawyer can redirect on that, but you're here -- no due diligence report that's in your testimony or --

A No, there's not.

Q -- that you're aware of?

A Yes, that's correct.

Q Same question with respect to a risk analysis report, no risk analysis report is part of your testimony, correct?

A That is correct.

Q Or that was otherwise done?

A Again, I'm not aware of what US Gas may have done on their side of the business. I was not presented with a specific risk report.

Q Right. And I'm not wanting you to speculate about somebody may have done something. I just want you to testify as to what you know or don't know. Are we good?

A We're good.

Q PetroQuest, they're a non-investment grade company, correct?

A Yes, they are. That's correct. That's very common for the industry.

Q FPL typically doesn't do business with companies that are junk bond status or non-investment grade, correct?

A I would suggest that there is a small part of our gas supply portfolio that comes from less-than-investment-grade entities. Again, most of that gas is procured at index pricing such that it's fluctuating with market.

The vast majority of our suppliers are, as you suggest, investment grade, but that doesn't preclude us from doing it. The large number -- there's a large number of smaller producers that are below investment grade.

Q If given a choice between doing business with somebody that has an investment grade rating and a non-investment grade rating, I assume you would prefer to go with the higher quality company?

A I think it would largely depend upon what kind of transaction I was doing.

Q Well, it doesn't matter whether you're buying widgets or whether you're buying gas, I mean, as a general proposition, wouldn't you, as a matter of business practice, rather do business with somebody

that has a higher security quality as compared to somebody that was less, all other things being equal?

A I think it's kind of a broad question. In this particular instance, I have no problem doing business with PetroQuest, who is below investment grade, given the rights that we have within the agreement to step in if things should go wrong on their side.

Again, the larger investment grade entities, sort of the major independents, if you will, they are not the ones that are looking for these types of transactions with counter-parties, so that's the reason we find ourselves with some of the smaller players.

Q And how long is this deal with PetroQuest going to be? Is it 30 years? I mean, that's what you're thinking that the wells will continue to produce for, right?

A It will vary depending upon the output of the well and the marketability of that gas. As long as it's -- as long as that gas is economic to continue to drill, it could last 30, 40, 50 years, yes, absolutely.

Q Okay. And you're also responsible for FPL's hedging program? You oversee that, right?

A That is correct, yes.

Q And you would not do hedging deals with

somebody over a long-term basis that had below investment grade ratings, correct?

A That is true. The --

Q That's all I need. Thank you.

Let me go to an exhibit that was handed to you. It's 60. You should have it in front of you. It was a --

A I'm sorry, I didn't number them with everyone else.

Q This is the final order of Northwestern Energy by Montana PSC.

A Okay, I have it.

Q Before I get there, I'll just ask you, did you -- in terms of preparing for your testimony, did you research how other states have addressed gas reserves?

A Yes, I did. Members of my team did as well, so they were the ones that investigated the different jurisdictions that have ruled on these types of transactions. And then those were brought to me, and I reviewed high level of documents. In the case of Northwestern Energy, I looked at their guidelines that they had.

Q Okay.

A Their fuel procurement plan, as it's called.

Q Did the Commission in Montana say, hey, this is a good idea and a petition was brought to them similar to what we have here or was the Montana oil and gas reserves issue handled in a different way, if you know?

A It was handled as a stipulation between what would effectively be Northwestern Energy and their Office of Public Counsel, is my understanding. And I'm not sure if there were other parties to that stipulation or not, but that's my understanding of how it happened.

Q Okay. Do you have any understanding as to whether there was any legislative activity that suggested that the Montana Commission should consider the oil and gas matter?

A I'm not aware, no.

Q If the Montana Legislature passed a statute and said that this should be considered, directing the PSC in their state to do it, would that be something that you think would be significant, in your judgment?

MS. GUYTON: Objection, goes to speculation as to the minds of both the Commission and the Legislature in another jurisdiction.

MR. MOYLE: I'm asking -- he's testifying about this policy he's asking you all to adopt.

I'm just asking him in his view and his opinion if the Legislature in Montana said go do this, whether that would be significant in his view.

CHAIRMAN GRAHAM: I'll allow him to answer the question, what he knows or what he thinks he knows. If he doesn't know, he can say he doesn't know.

THE WITNESS: It certainly is significant for Montana, I'll agree with that. Obviously their Legislature was dictating that they look at these types of transactions, it would be significant for them. I'm aware that other jurisdictions didn't have legislative action, so I think it, again, depends jurisdiction by jurisdiction how things get handled. But certainly for Montana, I would say it was significant.

BY MR. MOYLE:

Q Let me refer you to page two of 14 on this Exhibit Number 60 that was offered by the Office of Public Counsel. Would you just read into the record the second sentence under paragraph 11.

A Starting with "Since"?

Q Yes.

A "Since 2009, Northwestern Energy has been allowed by Montana Law to acquire natural gas production and gathering facilities and" -- I'm not sure what the brackets is, I'll skip -- "and seek inclusion of them in its rate base at 69-3-1413."

Keep going?

Q No, that's good.

A Okay.

Q The numbers you read, do you have an understanding as to that being a statutory cite?

A I don't.

Q You don't know one way or the other?

A I do not.

Q As a matter of policy, you would agree you're asking this Commission to adopt a new policy to allow FPL to recover production costs associated with oil and gas reserves in other states, correct?

A I think that we're asking them under an existing policy, under Order 14546, to recognize the customer benefits that come from a long-term transaction centered around gas production, as recognizing that it will lower fuel costs over time.

Q Has this Commission ever before -- you've heard the Chairman a couple of times -- are you aware that this Commission before has ever considered an oil and gas venture in other states and ask that the ratepayers be responsible for those? Just yes or no.

A Ask the question again.

Q Sure. Are you aware of any other cases in which any investor-owned utility has come before this Commission and asked this Commission to authorize the regulated utility to engage in oil and gas business in a foreign jurisdiction, Oklahoma, Texas, any other state?

A No, I'm not.

Q Okay.

A I'm also --

Q That's all I need. Thank you.

A Okay.

Q Do you have an opinion or do you think, as a matter of policy that -- who sets policy with respect to electric matters in the state of Florida? Is it the Legislature, the PSC? Not sure?

A Probably a combination of those.

Q Okay. You're not aware of the Florida Legislature considering the policy question of whether a regulated utility should be permitted to go and invest in oil and gas ventures in other states, are you?

A I'm not aware, no.

Q Do you think that might be a good idea to let the Legislature, who sets policy, consider that

question?

A That wouldn't be for me to say.

Q You just don't have a view on that?

CHAIRMAN GRAHAM: Asked and answered.

MR. MOYLE: I have a document I would like to hand out. It doesn't have a cover sheet because it's an interrogatory that I think has already been admitted, so I'll just use it. And I'll give you guys copies to facilitate the question. And the highlighting on it's mine.

MS. HELTON: Mr. Chairman, can we ask Mr. Moyle what exhibit number it's already been marked under?

MR. MOYLE: It's under one of those staff exhibits where all of those discovery documents came in. This is Interrogatory Number 82, page 1 of 1.

CHAIRMAN GRAHAM: Thank you.

MS. HELTON: I think that's Exhibit Number 44.

BY MR. MOYLE:

Q Sir, could you identify the document that's been placed before you?

A It's a Response to Staff's Second Set of Interrogatories, Interrogatory Number 82.

Q Did you assist in the preparation of this response?

A Yes, I did.

Q The question in here, you're asked if it's possible for the cost of investing in gas reserves, could they exceed the gas -- the value of the gas from the investment in a given year. And you acknowledge that that could happen, right?

A Yes, I agree it can definitely happen.

Q And if that happens, that's bad for ratepayers, correct, as it relates to the confines of this deal?

A As it relates to the specific confines of this deal, I agree that it will not demonstrate customer savings that year. But the customers will definitely be a beneficiary of lower gas prices.

Q In other context, correct? This is the inheritance issue?

A I'm not sure I ever followed your inheritance issue. But I will just suggest that if the vast majority of our production is unhedged, you know, we've got hedges in place for 2015, no hedges in place beyond that. So to the extent we're talking about 2016, our customers are 100 percent exposed to the market price of gas.

So if, in this particular instance, gas prices come in lower than what is the projected cost, this particular transaction will not show fuel savings that year, but our customers will be the beneficiary of substantially lower prices, which is a very, very good day.

Q You state in this answer that the information led to a projection of 107 million in customer savings. Is that currently the best information on the projected customer savings that you have?

A Yeah. Our original, as filed, projections were 107 million, again, as has been discussed earlier.

Q Right.

A We updated -- based on our 2015 fuel projections forecast, we updated that to show $51.9 million is the base case, again, which falls well within the range of the 9-box that was presented.

Q Sure. I just want to have a conversation about that. I mean, so in the original case, you said 107 million in savings and now it's down to 51, correct, based on most recent information?

A Yeah, based on the recent information --

Q All right.

A -- again, demonstrating the volatility that is certainly inherent in the market.

Q Right. And that was my next question, actually, that that 50 percent falloff with respect to projected savings underscores and highlights the volatility in this oil and gas market, correct?

A Absolutely.

Q Yeah. And natural gas, you see significant swings? You've been in the natural gas business how long?

A In one form or another, for 16 years.

Q Six, eight years ago, it was 11 or $12, now it's been down to three; is that right?

A Yeah. You know, we've experienced -- I started with Florida Power & Light in 2007. At that time, gas and oil were almost a parody with one another, so we made a daily dispatch choice based on what was happening with oil and gas. So we may dispatch on oil one day and natural gas on the next, just depending upon literally penny swings in either direction. So it was really at parody with one another.

Within a very, very brief period of time, within a year, that relationship was four or five to one, where natural gas was significantly less than oil, again distributing -- or demonstrating just the market volatility that's inherent in the marketplace. We paid gas prices anywhere from $5, when I got here, to as much as $14 in the 2007, 2008 time frame. Those prices have collapsed as a result of, one, the economic recession, but, two, what's happening obviously with the prolific shale. So, you know, we've seen certainly big, big swings in gas prices.

But even within this given year, we've seen, you know, volatility of 92 percent. Gas prices started the year at $4, went as high as $8, went back down to 3.50 and back up to $4. I mean, gas prices are just inherently volatile. You know, they're driven by weather. They're driven by economic issues. There's a lot of things that drive gas prices. So I absolutely agree that there is volatility in this marketplace.

Q   Technical obsolescence, that can drive gas prices, solar becomes a better deal, less natural gas, that's possible, right?

A   It can. Also, things like LNG export, you know, any type of 111(d) implications, obviously those things are all going to be very impactful to gas.

Q   Right. So you didn't do a -- I mean, Mr. Taylor is the better person to ask about risk associated with the oil and gas between the two of you; is that right?

A   Dr. Taylor?

Q Yeah, I'm sorry.

A It depends on what you're asking. Not necessarily.

Q So you think you have a better sense of risk with respect to something in the oil and gas business than he does?

A It, again, depends on what you're asking. If it's specific to drilling activities and the Woodford Project itself, I would suggest that he's a much better resource in terms of the technical side of that business. If it's about managing risk on a day-to-day basis, that's what my team does.

Q Okay. Well, let's spend a few minutes and talk about managing risk in the confines -- in the context of this deal, the Woodford deal, and also in the context of your guidelines, okay?

A Okay.

Q So I don't know how -- maybe we'll just break them up and let's talk about the Woodford deal and then we can talk about the guidelines so we're not, you know, talking past each other.

A Sure.

Q All of the market risk that you just described, in the confines of this deal, none of that market risk falls on the -- on FPL or the FPL

subsidiary that would be created to do this venture with PetroQuest, correct?

A The market risk that I'm referring to is the natural gas volatility that's just inherent. That's a risk that is 100 percent borne by our customers through the Fuel Clause Mechanism.

Q Right. And so I'm just -- again, I want to spend a little time and talk about this deal from the perspective of PetroQuest, I want to talk about this deal from the perspective of FPL, and I want to talk about this deal from the perspective of the ratepayers, okay? We did something like this in our deposition, right?

A Correct.

Q Your deposition.

So with respect to FPL, okay, they're not bearing any of the market risk related to oil and gas, correct?

A That is correct. Again, that a cost that's 100 percent borne by our customers.

Q Okay. So the customers get 100 percent of that risk that you just described, the volatility and the changes? In this construct, that's borne exclusively by ratepayers, correct?

A Yeah, under the current --

Q If you can go yes or no.
A Yes.
MS. GUYTON: I'm sorry, I think he was trying to get clarification of the question. You said under this construct, and I think he was trying to ask whether you were talking about currently or the Woodford deal.
THE WITNESS: I took it to mean currently.
MR. MOYLE: The Woodford deal?
THE WITNESS: Under the Woodford deal.
CHAIRMAN GRAHAM: Once again, he's allowed to answer the question, and give him time to kind of explain his yes or no answer to it, not to cut him off.
MR. MOYLE: I appreciate that.
THE WITNESS: I'm going to let you ask your question again.
BY MR. MOYLE:
Q Okay. Between FPL and the ratepayers, between those two parties, who bears all of the risk related to market volatility that you just described with the construct of this Woodford deal?
A With the construct of the Woodford deal?
Q Between FPL and the ratepayers.
A I understand.

Q And it's A or B.

A I would say that our customers wear 100 percent of the market risk associated with what's happening day to day in the market itself, right. So when gas prices go up, they're exposed to that, you know, beyond, again, our short-term financial hedging program.

The market risk, I'm not quite sure I follow the logic of the question in terms of market risk around the Woodford Project. The Woodford Project itself is entirely decoupled from the market. And that's what makes it such a great transaction and such -- sort of an innovation approach here. Our customers -- again, if you assume that hedging program in 2015, no hedging beyond that, our customers in 2016 and beyond are exposed to whatever happens with natural gas prices.

This transaction actually decouples from that, at least a small portion of it, and ties it to the production costs, actually eliminating risk, as opposed to adding to it. This transaction isn't adding risk to our customers, it's eliminating risk by hedging off a portion of that portfolio which they are entirely exposed to.

Q Yeah. Well, that's not exactly true that

this project is decoupled from market risk, correct? I mean, because you have PetroQuest out there, who they are a market player, they're going to be getting oil and gas and selling it into the market, as I understand it; is that correct?

A For their portion of it, yes, they will be -- there's no oil in this particular play, but they are going to be selling their natural gas at market prices. So PetroQuest wears exposure to whatever happens with market prices.

Our intent here is the exact opposite of that, which is to take the natural gas that we acquire through the PetroQuest transaction and deliver that gas to Florida to burn in our power plants.

Q I understand.

A It is the very hedge to that market risk that you're referring to.

Q Is FPL currently long in power?

A Are we long in power? We have a reserve margin in the 20 percent range that is appropriate for a utility in the Peninsula.

Q It's above the 20 percent range, isn't it?

A It's probably about 20 percent. I don't know the exact number right now.

Q And FPL just finished building or repowering

three natural gas generating units; is that right?

A Our Canaveral and Riviera units are online. The third modernization of Everglades is -- will come online in 2016.

Q And those all constituted significant capital expenditures, correct?

A That is correct.

Q And you're proposing, in this case, the ability to recover up to $750 million per year in capital, is that right, related to oil and gas plays similar to the one that the Commission is considering?

A One of the guidelines is a $750 million cap. I think it's important to note --

Q If I can get a yes or no and then an explanation.

A I thought I said yes. The 750 -- yes, the $750 million is one of the guidelines.

I think it's important to note that $750 million is not a target for the effort. It is absolutely meant to try and give flexibility within these negotiations. These are bilateral negotiations with counter-parties who have their own demands in terms of capital, as well as schedules, and so the number was meant to try and give us flexibility within those negotiations. Again, it's by no means a target in terms of how much we plan to spend every year.

I think it's also important to note, just in terms of context, that Mr. Butler referenced a $2.9 billion expenditure for natural gas. We spend a lot of money on natural gas every single year. So in order to create a meaningful level of hedging here for our customers, you're going to spend money over time.

Q Did you come up with that $750 million figure?

A Not directly, no. It was in discussions with senior management and --

Q So if you had to put a name with it, if you had to say, you know what, this 750 million figure belongs to "X," what name would you put with it?

A I don't have a specific name. Again, these were -- the entire guidelines were developed as part of a process to understand how best to try to approach the marketplace.

Q Okay.

A There was no sole --

Q So who were the people in the senior management that you discussed this number with?

A By name?

Q The 750, yeah.

A That was -- well, we describe it as the

Florida Power & Light Operating Committee, which would have been senior members of our leadership team at the NextEra level, as well as those vice-presidents that report into Eric Silagy, as President of Florida Power & Light, would have been those that had reviewed the guidelines.

Q So you gave me Eric Silagy's name. Anybody else that you can recall?

A Jim Robo, Moray Dewhurst, Charlie Sieving. There's a long list of names.

Q Were you a party to all of the conversations that resulted in the $750 million cap proposal that's set forth in the guidelines?

A The vast majority of those, probably, yes.

Q And you would be able to earn a return -- let's assume that the Commission approves this project and it moves forward and now you're operating in a different context, you would be able to earn a return on the annual 750 amount that's invested; is that right?

A Yes, again, if the Commission sees fit to approve the guidelines, again, through our investment in these projects, which would be expected to deliver fuel savings, as well as hedging benefits, we would be looking to receive our authorized, as midpoint to the

Fuel Clause, on return on equity for any prudently incurred costs.

Q So what just -- not to hold you to an exact number, but with respect -- if you assume a $750 million investment is made in one of these projects, what's the amount that would benefit shareholders, given the midpoint, early midpoint?

A I don't have that number in front of me.

Q Do you know what your current ROE is? "You" being FPL. It's 10 and a half, right, midpoint?

A Ten and a half percent. Subject to check, I would suggest in the neighborhood of $47 million, which, again, would be the, you know, return that we would expect to receive based on the authorized return on equity that we've established.

But I think it's also important to note that the customer savings that would come from that would be well above and beyond those numbers.

So in the case of the Woodford Project as an example, there is an embedded return on equity component in there. That $191 million of investment capitalizes -- or captures that return on investment, and those $107 million of customer savings are above and beyond that, as would be the case in the $750 million. These would be significant customer benefits well beyond those numbers.

Q So do this math for me. Thank you for doing that on the 750. Do the same math with respect to how much FPL would earn on the 191 million.

A Again, these numbers are all subject to check. No, that's not right. I'm not sure my math is coming out -- I'm showing $12 million.

Q I'm sorry?

A I'm showing 12 million. I'm not sure my math is correct on that.

MR. MOYLE: Mr. Chairman, we're at one o'clock, it may be a breaking point. If we can do that, maybe we'll come back and double-check your math when we get back from lunch.

CHAIRMAN GRAHAM: Sounds fantastic to me. I have about two minutes till one. Let's reconvene here at two o'clock by that clock.

(Whereupon, a luncheon recess was taken.)

MR. MOYLE: Thank you, Mr. Chairman, just one matter I had brought to your attention, Mr. Pollock's situation. And I've talked with all the parties and staff, and he is en route to Tallahassee. FPL has graciously agreed to take him out of order, so I think he probably is first up in the morning, if that's okay.

CHAIRMAN GRAHAM: Okay. That's fine.

MR. MOYLE: Okay.

CHAIRMAN GRAHAM: If we're in the middle of a witness -- well, we shouldn't be -- but if we're in the middle of a witness, well, let's finish that witness and then take him up.

MR. MOYLE: No, absolutely. He wasn't going to be able to get here tonight.

CHAIRMAN GRAHAM: Okay.

MR. MOYLE: Thank you, and thank the parties for their accommodation on that issue.

CONTINUED CROSS EXAMINATION

BY MR. MOYLE:

Q Mr. Forrest, I want to just follow up on a couple of questions I had asked you previously and we'll move into a couple of additional areas.

I had asked you who came up with the 750 number, you said Mr. Silagy. He's president of Florida Power & Light, correct?

A Mr. Silagy is president of Florida Power &

Light, that's correct. He did not come up with the $750 million. It was -- like I said, it was -- the entire guidelines themselves were approved as part of an operating committee meeting.

Q Okay. Well, I'm sorry, you're right, it was a -- you identified four people. I just want for the record to be clear the positions of the four people you identified. So I can ask each question or you can just tell me.

Mr. Robo, is he an officer with FP&L or is he an officer with the parent company?

A He's chairman and CEO of NextEra Energy.

Q And that's the parent of FPL, the regulated entity; is that right?

A That's correct.

Q Mr. Dewhurst, the same question?

A He is the chief financial officer of NextEra Energy and vice chairman, I believe.

Q Okay. And then the fourth person you identified was a name I was unfamiliar with.

A Charlie Sieving is general counsel of the corporation as well.

Q NextEra Energy?

A There were a number of other people in the room, including, as I mentioned, all of Mr. Silagy's direct reports were part of that process as well.

Q Okay. So the general counsel, he's the general counsel of NextEra?

A Of the corporation, yes.

Q And those people, along with others, they're responsible for the business operations of NextEra, the holding company, correct?

A The named individuals, yes. And then those that report to Eric are obviously responsible for the day-to-day operations of the utility itself.

Q Okay. And we spent a lot of time talking about this project, but you would agree that this proposal puts FPL and its ratepayers in the natural gas business and oil business in Oklahoma, correct?

A I would agree that this --

Q Just yes or no and then explain, please.

A Yes.

Q Thank you.

A The transaction itself is for production in Oklahoma. So by virtue of that, yes, we are involved in the production of gas. I don't know that I would consider it to be exploration, again, kind of based on the previous information we provided, which is this information is well known, the data is well known. And, again, Dr. Taylor will kind of go through the process of describing how we believe this is production versus true exploration.

MR. MOYLE: I'm sorry, Mr. Chairman, could we take two minutes?

CHAIRMAN GRAHAM: Did he confuse you?

MR. MOYLE: It's very easily done, very easily done. But FPL graciously --

CHAIRMAN GRAHAM: We'll take a minute or two, go ahead.

MR. MOYLE: Okay, thanks.

CHAIRMAN GRAHAM: And do what you got to do.

(Whereupon, the record was paused.)

MR. MOYLE: Thank you, Mr. Chairman. FPL graciously agreed to waive the cross of Mr. Pollock. So I think at the appropriate time, his testimony will come in and he won't have to travel. So I wanted to thank them for doing that.

CHAIRMAN GRAHAM: Okay.

MR. MOYLE: I needed to communicate that as well so thank you.

CHAIRMAN GRAHAM: Sure.

BY MR. MOYLE:

Q And my last question was you agreed that the proposal puts FPL in the oil and gas business in Oklahoma. But under the guideline, it's not limited to Oklahoma, right?

A That is correct. The guidelines --

Q Hold on a second. The guidelines speak to Texas? I assume this isn't confidential, the states?

A No, they're not. It is not confidential.

Q Okay. Texas, Louisiana, Oklahoma, Arkansas, Mississippi, Alabama, West Virginia, Ohio and Pennsylvania, correct?

A That is correct, yes. These are all areas where we buy gas from today, they're all areas, probably with the exception of the -- what we'll call the Marcellus, which is the West Virginia, Ohio, Pennsylvania area, where there are strong transportation paths back to our load here in Florida, so acquiring gas transportation will be fairly straightforward.

Those other areas that I mentioned up in the Marcellus may require more time for transportation to develop down into the southeast. But, again, those are all areas where we buy gas today.

Q Okay.

A So that's where we're focused on, yes.

Q And you would agree that this Commission doesn't have any oversight responsibility/jurisdiction for any operations taking place in those states, correct?

A Yes, I agree with that. Again, those are areas where we're buying gas from today.

Q Got you.

Is the Woodford proposal a good deal for FP&L and its shareholders, in your view?

A I think that --

Q If you could give a yes or no and then explain, please.

A Yes, it is a good deal for us. But the primary purpose of the transaction is to present customer savings. Again, Order 14546 is giving very specific, you know, opportunities to bring forward investments that have an opportunity to lower fuel costs.

To the extent that earning our authorized -- I'm going to get to your -- to the extent that, you know, we're allowed to earn our authorized midpoint for prudently incurred costs is a good deal for Florida Power & Light, I agree with that. It's a terrific deal for customers at the end of the day. They wear a tremendous amount of risk in terms of market prices, and this is what we believe to be kind of the first opportunity to try and mitigate some of that longer-term risk.

Q Anything else?

A That is all.

Q In that last answer, you referenced an order. In your testimony, you talked a little bit about an order. And I don't want to let a witness go without questioning them with respect to their testimony, but I really don't perceive you as being the FPL witness on Commission orders and Commission policy and can they do this, should they do this.

Am I wrong in my perception?

A I would agree that Commissioner Deason is a much better resource for you with respect to the prior orders and the regulatory construct.

Q Okay. I mean, you're not a lawyer, right?

A I am not.

Q And you probably wouldn't have an opinion as to what the limits are with respect to the Commission regulating in the public interest; is that fair?

A I would defer to Mr. Deason for that.

Q Because he's better able and you don't have an opinion on it, right?

A Correct.

Q Okay. I want to spend a little time talking about this errata that was filed after your deposition. Do you have an understanding of what errata is?

A It's a document which would demonstrate what may have been an error in the submission.

Q My impression has always been an errata is something where you maybe transposed numbers or there was a word that was not spelled correctly, things like that. Is that consistent with your understanding?

A Again, I'm not a regulatory expert, I would defer to the experts as to what that is.

Q Okay. And when we were taking your deposition, I think it was discovered that there was an important agreement that was not part of your prefiled testimony, correct?

A That is correct. The Joint Operating Agreement was not included.

Q And the Joint Operating Agreement is an important document, isn't it?

A I do agree, yes, the Joint Operating Agreement is an important agreement. It's a model form agreement is what it is. It's an agreement that's been utilized by the industry for 60 years. It's evolved over time, but it was developed by an association, the landmen, I think back in the '50s or '60s time frame and it has evolved from there. And it's sort of the de facto standard agreement that's utilized between parties to memorialize an operating agreement with respect to the drilling opportunity.

Q Okay. And I'm going to have an argument with your lawyers over this agreement, probably at a later point in time, for the Chairman's preference, but I'm going to ask you some questions about it in the event that it's allowed in.

Do you have a copy of the operating agreement that should have been attached to your prefiled testimony as Exhibit G?

A Yes, I do.

Q How many pages is it?

A I believe it's -- oops, I'm sorry -- 49, I believe. My math is probably escaping me. Yeah, 49.

MR. MOYLE: Mr. Chairman, can I approach just to make sure I have the same copy that he has?

CHAIRMAN GRAHAM: Sure.

THE WITNESS: Seventy-nine of 130. You've got two different attachments here at the end.

MR. MOYLE: All right.

MR. YOUNG: Excuse me, Mr. Chairman, if Mr. Moyle can point us to -- repeat the exhibit he was talking about again, please.

MR. MOYLE: My understanding of what I'm looking at is a document that FPL provided following the deposition of Mr. Forrest that was -- it's entitled the Model Form Operating Agreement and it's Exhibit G. This is the document that I think was supplemented as an errata following the deposition.

MS. HELTON: Commissioners, if your notebook is set up like mine, in the red notebook SF-4, that exhibit tab, there's a group of yellow pages and then there's a group of white pages under that tab, I think it's the white pages.

BY MR. MOYLE:

Q And FPL typically claims confidentiality over agreements. You said this was 40 pages, give or take. I mean, there's certain terms that you consider confidential, correct?

A Certainly. The entire document was marked confidential.

Q Right. But do you consider the whole document confidential or are there just key business -- I mean, I want to have a conversation about this. I don't want you to disclose any confidential information.

A Okay.
Q But, you know, things like what county this is in shouldn't -- I wouldn't think would be confidential.
A No, we've identified that in our petition, as well as in my testimony.
Q Okay. So to make sure we're looking at the same document, mine has what I call red lines on it. Does yours have that?
A Are you asking me? Yes, it does.
Q It does?
A Yes.
Q Okay. So like on the first page of Exhibit G, there's some underline and red lines in there, right, and you go through the document there's red lines, right?
A That is correct.
Q Okay. It's been my practice when negotiating something, that red lines are typically used when people are going back and forth on an agreement. Do you have that understanding as a general context?
A As a general context, yes. But this particular agreement, again, is a model form, so it's a sort of select option one, option two, option three. And you strike out those things that are not

applicable.

This is not a signed agreement. There's an actual signed operating agreement between the parties that happened subsequent to this. This was just attached as a model form of agreement which is in red line form to demonstrate what they have selected and what they haven't selected.

Q So you all gave us this document, what, a week ago, give or take, a couple of weeks ago?

A I don't remember the exact date but --

Q And there's no signature.

A -- a couple of weeks ago, I believe.

Q There's no signature page on it?

A No, it has not been -- it had not been executed at the time of the execution of the overall PetroQuest agreement. It's not standard that it would be.

Q And there's no document here today that's executed, correct, I mean, other than -- I mean, there's not an executed --

A There's a document that has been executed between PetroQuest and US Gas, which we are not a party to.

Q But it's not in this record?

A That is correct. I will say though --

Q And your testimony --

A -- that it's in the same form as this document.

Q Your testimony on that is based on what somebody told you, right? Who told you they executed it?

A The chief operating officer of US Gas.

Q Who is that?

A A gentleman by the name of Larry Wall.

Q Is he going to testify here today?

A No, sir.

Q A couple of other things that I want to just visit with you about. The ability to get a long-term fixed price hedge does not really exist in today's market, correct? Yes or no and then explain.

A Correct. Yes, it's correct.

Q Okay. And that is part of the reason is because of the volatility that you described earlier with respect to natural gas markets, it's hard for people to see that far beyond the horizon and take a fixed position in something for 20 years as credit risks and other risks associated with that and that's part of the reason why you can't get a long-term fixed price hedge, correct?

A Yes, I agree that's part of it. There are a number of factors which impact the ability to buy fixed price hedges, whether those are financial or physical.

On the financial side of the house, there is just a complete lack of liquidity beyond just the first couple of years of what's the Henry Hub Futures Contract, which you can buy through the Chicago Mercantile Exchange or NYMEX or different exchanges. It's a very liquid product.

There's not many counter-parties that trade beyond just -- right now is probably a 2015 time frame, some in 2016, but the vast majority of trades are happening in what I'll call the prompt or January. So that's where the vast majority of your liquidity is, in the very, very front end of the curve, which is what we relied upon for hedging purposes. On the physical side of the business --

Q Hold on, I'll get to the physical side --

A Okay.

Q -- in a second.

You just answered financial, right?

A That was financial, that's correct.

Q Okay. So just to make sure I understand that, with respect to financial, there's liquidity in the 18 months, what is it, six months to 18 months? I mean, it's a year -- near term?

A It's a near term, yes.

Q Okay.

A Six to 18 months is fine.

Q And isn't part of that because people have a better comfort level with respect to what natural gas prices may or may not do within an 18-month time period as compared to a 15 or 20-year time period?

A I think that is safe to say. I think it's also important to know what people are actually utilizing their hedges for or what they're actually trading. You got everything from hedge funds that are trading for their own account, that are trading on a speculative basis and there's a lot of movement in the front end and they're trading on technical factors that don't really have anything to do with sort of fundamental drivers.

And then you've got folks that are like a PetroQuest that may be out hedging on a short-term basis and so they are putting on financial hedges, you know, over a 16 to 18-month period to lock in prices for their production. So there's a lot of reasons why people are involved in the marketplace.

I think the longer term, as you start approaching, you know, three, four, five years out and beyond, the market loses tremendous liquidity because there is a lot of unknown about what's happening out there. The market itself doesn't reflect what's happening from a fundamental perspective. So when EPA announces like a 111(d) type impact, there's no movement in the back end because there is no trading happening in the back end. And so there's just a complete lack of liquidity, which really makes it sort of a difficult place to trade on a consistent basis.

Q Thank you for that explanation. It's helpful. And I want to ask you, in fact, the same question with respect to a long-term fixed price physical gas deal where you say I'm going to buy gas at this price for the next 20 years. That's not a product that's available in the market either for the same reasons we just discussed; is that right?

A Correct that it's not available. Maybe for different reasons though. From our perspective, you know, when we're trading with counter-parties on the financial side and setting up fixed price risk from a financial perspective -- and I'll get to the physical side, but explain why it's different.

From a financial perspective, we're trading with those counter-parties that have very strong credit ratings. That allows us to negotiate what are called collateral threshold agreements where we're not posting cash every time a price moves up or down by a penny or two. It allows us to trade with the larger banks that have very strong credit ratings and allows for a very robust market in the short term.

When you start looking at the physical supply, you begin to look at players who would be willing to enter into a long-term physical fixed price transaction over a period of 10 or 20 years. Your larger, what I'll call majors, like the Exxon Mobiles of the world and the BP's of the world, they just take prices as they come. They're not selling fixed price gas over a long period of time. They're not hedging even in the short term. They just take prices as they come along with the market.

The people that might be interested in doing a fixed price transaction are the smaller players and potentially those that are less than investment grade. And the collateral requirements of providing support for that type of transaction would be horribly cost prohibitive for those types of counter-parties.

PetroQuest is an example of somebody that is a fine partner with respect to drilling because we're earning as we go, right, we're paying as we earn our way into the acreage such that if something were to happen, we would stop paying, there's not that great of an exposure other than having to then come in and replace an operator. In effect, if it was a fixed price transaction with them on a physical basis, I'm now exposed to their ability to supply that fixed price over a long-term period of time. I've completely changed the entire risk profile of that transaction.

Q Okay. And you cover a lot of that in your testimony, right, I mean, what you just said?

A I cover some of that in my testimony, yes.

Q Okay. Why will Exxon and Gulf, why -- you said they take the prices as they come. I mean, that's their business model, right?

A That's their business model, has been for --

Q And that's because they don't want to get locked into a fixed price over a long-term basis, correct?

A I can't speculate as to what their business rationale is.

Q So you don't have any information or insight or knowledge as to why they may not do that given your years of experience in this business?

A Well, I could certainly speculate, but it wouldn't be --

Q Okay. Well, we'll stick to that no speculation rule. We'll have it go both ways, if we

can.

A Okay.

Q So just to be clear, you can't get a long-term fixed price physical deal in today's marketplace, correct?

MR. GUYTON: Objection, asked and answered at least twice.

THE WITNESS: Yeah, we're not aware of one.

BY MR. MOYLE:

Q Okay. Isn't -- well, the way I understand this deal with the ratepayers working, ratepayers are going to be in effect locking in to a fixed production cost for natural gas, correct?

A That is the goal, yes.

Q And how long will they be doing that for, 20, 30 years?

A Or longer. Again, it depends on how long that gas is flowing and still economic. So it could be for an extended period of time.

Q Doesn't that strike you as sort of being inconsistent if in the marketplace the Morgan Stanley's and the Goldman Sachs and all of these folks who are trading for financial positions to make money won't offer a long-term financial hedge and the BP's and the Exxons will not offer a long-term fixed physical

supply? Doesn't that strike you as inconsistent with what the ratepayers are being asked to shoulder and to be burdened, which is to lock in at a fixed price over the next 30 years with the fixed price being calculated based on the Woodford production cost?

A No, I don't agree with that.

Q Why not?

A The risks associated with longer-term fixed price transactions from a sales perspective are largely cost prohibitive because of -- mostly because of the collateral requirements required and the impacts to balance sheets and how you support that from a collateral perspective.

In this particular instance, with respect to the Woodford Project and our customers, our customers are 100 percent exposed to what's happening in the market today. So gas prices go up, they're going to be impacted by that. Gas prices go down, they're the beneficiary of that. But they have no protection beyond this.

This is an opportunity. This is not what I'll call a credit risk or a collateral risk. This is buying production coming out of the ground at production costs that provides some small mitigation of the risk that they wear, which is 100 percent exposure to market prices.

Q Do you understand that ratepayers in this proceeding, represented at this table, are taking the same position with respect to how they would like to pay for natural gas on a going forward basis that's taken by BP and Exxon, which is they will pay the prices as they come?

A I'm aware that's your argument, yes.

Q Okay. And in your very thorough answer that you gave to a previous question, you said part of the reason that you can't get a long-term fixed price deal is some of the counter-parties may not have sound credit worthiness, right?

A That is correct.

Q And in this case, the deal that's before this Commission is with a party that has a less than great financial risk, correct?

A They are less than investment grade, that is correct.

Q Okay.

A But they --

Q That's all I need. Thank you.

CHAIRMAN GRAHAM: You have to allow him time to explain his yes or no answer.

THE WITNESS: The difference being -- again, I'm not wearing fixed price exposure to the counter-party. I am participating with him in a drilling project as an investor that allows us to buy gas at production costs. It's quite a different transaction. It really is kind of apples and oranges, if you will, with respect to the risk profile with that counter-party.

BY MR. MOYLE:

Q You were asked in your deposition a lot of questions about liability that would flow through. I mean, I don't -- if we can do it kind of in broad fashion, it may save us some time.

A Okay.

Q But it's true that the ratepayers are assuming liability for things like, you know, earthquakes, sinkholes, contamination, reclamation of mines, any greenhouse gas emissions, that liability is something that ultimately would be the responsibility of ratepayers, correct?

A I'll caveat my answer.

Q Can you just go yes, no, and then explain?

A They are ultimately responsible for that. But I think that those risks themselves are very pinhole risks in terms of --

Q Very what?

A Pinhole, very small.

Q Okay.

A -- risks in terms of what the potential is for those types of issues impacting this particular transaction, that we're drilling 38 wells in an area that is well understood -- my understanding is that there's little to no seismic activity in the area. Again, Dr. Taylor can get into more details about that type of thing.

But I think what we're looking at is, you know, a transaction that is probably far removed from those types of risks. If they are determined that there are risks -- there are levels of mitigants, which would include anything that is, you know, gross negligence or willful misconduct by the operator is 100 percent their responsibility.

There are insurance premiums or insurance products that are offered, up to and including an umbrella policy that they carry on behalf of the drilling opportunities, so that insurance will cover any issues from a liability perspective as well.

Q How much is that policy?

A It depends on what type of policy that we're talking about. Some of it is confidential in the document. But there are different levels of protection, which would include, you know, a million dollars for bodily injury per incident at a particular site. They carry a number of different types of policies. The umbrella policy, obviously, is a much higher number than that.

So there is a lot of things that are providing protection to our customer from a liability perspective. And ultimately one of the reasons that we're forming a subsidiary, as Ms. Ousdahl can talk about, is creating a liability remote entity away from the parent, FPL.

Q A million dollars is pollution liability, right, coverage?

A I'm not aware of pollution liability insurance.

Q Do you have familiarity with the insurance provisions of the contract?

A I can certainly look them up in the operating agreement.

Q Okay. We'll go there.

Given the fact that PetroQuest is below investment grade, do you have an understanding as to what would happen if they filed for bankruptcy protection?

A I do. The --

Q And if you would tell me and then show me where your understanding is rooted in the contract documents, I would appreciate it.

A It may take me a few minutes to leaf through it to find out exactly where it is within the agreement. But there is a provision within the agreement which allows us, as a working interest owner, to insert a new operator in the event that they create -- or they have a bankruptcy. Ideally you would recognize something coming of that magnitude and you can step in before that if they have failed to pay bills. They are in default, you have the right to step in and provide a new operator.

And so there are protections here with respect to leading up to bankruptcy. But in the event that they do create -- or they do file for bankruptcy and then you are thrown into the mix with the bankruptcy court in terms of how the contract would be accepted or rejected by the bankruptcy court. So your ideal situation is to recognize the situation is coming ahead of time to be able to utilize the default of them not paying to replace them as an operator.

Q When I took your deposition, I asked you about these step-in rights and we couldn't identify them then, right?

A We didn't have the operating agreement in front of us.

Q Okay. So now we have the operating agreement, and it's a lengthy document. But if you could show me where the step-in rights are, I would appreciate it.

A So there's -- under Article 5 under the operator, which is on page 85 of 130, there is resignation or removal of operator, there's selection of successor operator on the effect of bankruptcy, and those items are covering the step-in rights. So sections -- it's Article 5B1, 2 and 3.

Q Well, three is effect of bankruptcy, right?

A Correct. But that's, again, in the effect of a bankruptcy, the operator becomes insolvent, they have effectively designed -- or excuse me -- they have been deemed to have resigned as a result of that bankruptcy.

Q And I read that to say that there may be a committee that's set up in bankruptcy to govern this deal?

A That is correct. You can set up an operating committee that would select a new operator or have PetroQuest to continue to be operator under the protection of the bankruptcy court, either one.

Q And there's no right for the PSC to approve a

new operator, is there?

A No, there's not. Again, that would be one of the things that I would expect the Commission to be able to review, though, through any type of prudence review to the decisions that we make.

Q Do you know if those provisions you just identified have been modified in the final version?

A It was my understanding is that the document you have in front of you, the Exhibit G, is the document that has been signed.

Q You don't know if it was modified in any way, shape or form?

A Not beyond what you have in front of you, no.

Q A couple of other questions. Thank you for your patience.

I want to talk a little bit -- I think we've talked about, you know, this deal from the perspective of FPL and the ratepayers. I mean, PetroQuest -- this provides PetroQuest with a source of capital, does it not, for their operations, this deal?

A Yes, it does.

Q Okay. And then they benefit because not only do they get a source of capital and they're at a little bit of a shaky credit risk, but they also pick up an ownership piece of the operations, correct, the carry?

A Yes, they do. They receive a premium over their level of capital investment. And that is meant to compensate them for the work that they have done up to this point in developing the properties, their expertise, their acquisition of the drilling rigs, their efforts to enhance the drilling activity, so they receive a premium, which is a very standard term in the industry.

Q Right. And the converse of that, stated differently is, in effect, you're paying for "X" percent of the operating cost of this deal, but you -- you don't receive "X" percent of the output, you receive "X" minus a confidential number with respect to the output, correct?

A That's correct. And if I could just use an example to explain. And these truly just are example numbers. But in the event that the agreement between FPL and PetroQuest was such that we all had 100 percent -- now, we don't, because there's other working interest owners -- but if we had 100 percent and we wanted to retain 50 percent of the working interest and PetroQuest wanted to retain 50 percent of the working interest, we might pay them 70 percent as an example of the cost, we paid 70 percent of the capital costs, they would pay 30 percent. So that

20 percent would be considered the carry. That's the premium that they receive, which again, goes for enhancing their drilling and tactics to enhance the overall experience, as well as the work they've done to acquire the leases and all of that. So they're receiving a premium for all of those activities to date.

Q Let me flip you to page 117 of 130, Exhibit D on the errata document.

A Yes.

Q That's the insurance page, right?

A That is correct.

Q Do you see Paragraph E?

A I do.

Q Is that the million bucks you talked about?

A That's one of them, yes.

Q Okay. And then as I read it, the extra insurance down there on F, is that the umbrella you were talking about?

A No. The umbrella policy would be D, which is umbrella liability to provide extended coverage up to.

Q Okay. I also read it to say that if you want additional insurance, then you get to pay for it?

A That's correct.

Q Is that your understanding?

A Yeah. And you can actually negotiate with the operator to buy insurance in lieu of this. In this case, we have not.

Q Let me flip you to -- this is Exhibit A, it's page 101 of 130 of your SF-4.

Now, you just said that there were no changes to the agreement that you knew of. Do you know if the agreement that was executed has this percent of ownership interest as set forth on page 101 of 130?

A My understanding is that is the existing agreement between those two parties. That percentage will change.

Q Right. But I want to talk about this deal. I mean, let me understand. I thought you said that there was a contract that was signed now that covered the Woodford deal; is that right?

A That's correct.

Q Okay. And then you said nothing changed on it. And I want you to confirm that in the Woodford deal nothing changed on page 101 of 130. Can you confirm that?

A Subject to check, I believe that is correct. And I will say that this is a carryover of their existing transaction signed from 2010. These rights will change once we acquire USG's working interest as well as part of PetroQuest's working interest so that the change will occur once we take possession of it. This is a carryover from their 2010 agreement.

Q Right. I mean, to be blunt, those numbers are not the same numbers that you agreed to in your DDA, right?

A They have really nothing to do with our agreement. This was a negotiation from 2010, which was a very different transaction at a very different time.

Q So you're going to substitute another Exhibit A once you get --

A There will be -- my understanding is that there will be an operating agreement signed between the parties once we take possession.

Q I thought you were just getting contracts assigned to you.

A Largely we are, yes. The working interest, my understanding -- again, subject to check -- the working interest will change once we buy into these properties, these -- US Gas already has a working interest in these properties, so we're buying them out of their working interest, which Ms. Ousdahl can go through in detail, if you would like to go through the detail of math of that.

Q So let's just assume that the Commission

thinks this is a good idea and they approve it and they approve your guidelines and you're looking at a deal into the future and it looks like the ratepayers are going to save $100,000 over 30 years, 30-year life. That's what you analyzed in this case, right?

A I believe our analysis went out to 2065, so it was over 50 years.

Q Okay. And I think you define fiduciary as making decisions that are financially responsible for the parties you represent, correct?

A I believe that's what I said at the deposition. And I also suggested I'm not an attorney.

Q And I just want to understand your understanding. You would agree that FPL was a regulated monopoly and that they have captive customers, right?

A We are a regulated monopoly, yes.

Q You have a fiduciary relationship that you owe to your shareholders, correct?

MR. GUYTON: Objection to the extent this calls for a legal conclusion on the part of the witness.

CHAIRMAN GRAHAM: He's said several times he's not an attorney.

MR. MOYLE: Right. But I'm asking just his understanding, not as a lawyer.

THE WITNESS: I would defer to the regulatory experts in the case to determine what fiduciary duty we have to our customers and shareholders.

BY MR. MOYLE:

Q I just want to test your understanding as to what you understand it to be, because you or others like you are going to be making decisions about whether to pull the trigger on these deals, right?

A I am responsible for part of that, yes.

Q Okay. Are you going to be pulling the trigger on these deals? Let's say the Commission approves it and then next year you got four or five deals in front of you, are you the one who's going to say, yeah, let's do this one?

A That will be a decision that goes through our normal delegation of authority process. It's not me making decisions on these particular transactions. We would have to take every one of them through our operating committee, which would be some of the members -- excuse me -- that I mentioned before.

There is a very specific delegation of authority from a risk perspective in terms of how our transactions are approved.

Q Okay. So it's --

A It's not me pulling the trigger per se. I'm certainly going to be the one that presents it to our senior leadership team for approval if we so think that these transactions are for the benefit of our customers.

Q So you're the main staff person that will present it to the operating committee?

A Most likely, yes.

Q Okay. And just to judge your understanding as to what your recommendations may be in a hypothetical going forward, if there was a project that provided for $100,000 of possible savings for ratepayers over a 50-year life, what do you do with that?

A I think in order to answer the question, you have to understand what is the market situation at that given time. If gas prices have --

Q Assume the same as today.

A If they're the same as today, $100,000 probably is not something that we would pursue. It is --

Q A million?

A I'm not sure we'll get to a target where you and I will agree what the right number is. I think what we should perhaps focus on is depending upon what gas prices are going -- if gas prices are rising, I think we'll be in a situation to present substantial savings as we had presented here. If gas prices were just to collapse as an example and, you know, fell to a, you know -- I'll call them historical lows -- it may well be in the best interest of our customers to pursue an opportunity that only has $100,000. I think it would be foolish to preclude the opportunity just based on the fact that -- on a hypothetical situation.

And perhaps I can use the Woodford Project as a good example of that. In the Woodford Project, we ran a break-even analysis just to see if we were to buy gas at what level, it would produce zero dollars in savings on a real basis. So in 2014 terms, they would effectively be buying gas at $3.90 flat for the next 50 years.

I mean, I think that's one of the strongest arguments for the transaction is you've got the opportunity to step into a position here at $3.90 flat for the next 50 years, and that presents zero customer savings. I think you've locked in a pretty terrific transaction. Now, again, that's an extreme example, but it kind of puts in context just how strong these transactions are.

Q Yes, sir. But we don't know what gas is

going to do? You don't know?

A I certainly do not, no.

Q And you don't know whether this proposed Woodford Project is going to save customers money, correct?

A I think we --

Q You can't sit here today and say it absolutely is going to save them money?

A I cannot guarantee that, no.

Q Okay. And --

A We presented the information with the best available we have and those are the projections that are in front of the Commission.

Q Right. All of this is based on forecast, correct?

A That is correct. I will say the forecast --

Q And one thing everybody agrees --

A The forecast is an important part of what we do every day though.

Q I understand.

A Every business decision we make is driven by the forecast.

Q Have you heard the saying that one certain thing about forecasts is they're going to be wrong?

A I'm a believer in that, yes.

Q Okay. So back to the question. And it's important to understand, I mean, you're not going to be making recommendations to the operations committee to invest in deals that may be really good for FPA -- FPL shareholders and that will be slightly okay for shareholders, right -- I mean, for ratepayers?

A That would not be our intent, no. I don't think we've ever demonstrated that conduct.

Q And that's because when you're making decisions that are financially responsible for parties, those parties include the ratepayers, correct?

A Our customers, absolutely.

MR. MOYLE: If I can just have one minute, I think I'm just about done.

CHAIRMAN GRAHAM: Sure.

BY MR. MOYLE:

Q So that operations committee you just detailed, who is on that?

A I gave you several of the names earlier.

Q So you gave me four, right?

A I would to get you a complete list.

Q Mr. Robo, Mr. Dewhurst?

A It's a group of 20-plus individuals that are senior leadership of NextEra Energy Corporation as well as Florida Power & Light.

Q So the decision on go, no go, will not be made by an FPL only committee, it will made by a committee that has NextEra people on it as well; is that right?

A NextEra Energy Corporation, yes, the parent to FPL.

Q And you agree --

A That is part of our delegation of authority process.

Q I got you.

You would agree that the interest of officers of NextEra Energy Corp, the parent, may be different than the interest and responsibilities of the officers of FPL, the regulated utility, correct?

A No, not necessarily. Our --

Q They have the same interests completely?

A Absolutely. Our officers -- the officers of NextEra Energy are every bit as concerned about the well-being of our customers as we are. There's no differentiation there.

Q The NextEra, the unregulated, they have wind out in Texas, they have solar, they have a lot of other interests besides just the regulated utility, correct?

A That's correct. And I'm not referring to anybody within NextEra Energy Resources, the unregulated side of our business, when I'm talking about NextEra.

Q The guidelines you proposed in doing your research, you testified you looked at Commission orders, Commission rules and Commission statutes, correct?

A In terms of the guidelines themselves?

Q No, no, no. Just to formulate your views as to whether this was something the Commission could approve.

A I'm not sure I followed your question.

Q Okay.

A I thought you were referencing the guidelines.

Q Do you have an understanding as to how the Commission articulates its policy?

A I would say that Commissioner Deason would probably do a much better job than I can to articulate that.

Q Okay.

A And I could turn to his testimony and read you what he wrote, which is very articulate.

Q We'll save everybody from that.

A Okay.

Q Do you understand that the consumer interests

in this case are trying to say very clearly and succinctly to you no thank you?

A You've said it a couple of times, yes, I'm aware of that.

Q Okay. Thank you. Thank you for your time.

A You're welcome.

CHAIRMAN GRAHAM: Staff.

CROSS EXAMINATION

BY MS. BARRERA:

Q Hello, Mr. Forrest.

A Good afternoon.

Q We meet again.

Can you please turn to page 14 of your rebuttal testimony?

MR. MOYLE: Are we doing rebuttal now?

CHAIRMAN GRAHAM: Why are you doing rebuttal?

MS. BARRERA: It's not concerning rebuttal, it is concerning the way that the current gas prices are forecasted. So unless somebody objects, I'll just drop the question.

CHAIRMAN GRAHAM: Go ahead and ask the question and we'll see if somebody objects.

MR. MOYLE: I don't object. I just want to make sure I didn't miss rebuttal.

MS. BARRERA: No, you didn't.

CHAIRMAN GRAHAM: You and me both.

MS. BARRERA: Actually, I was trying to move things along.

CHAIRMAN GRAHAM: I appreciate that.

THE WITNESS: I'm sorry, page 14 you said?

BY MS. BARRERA:

Q Yes. Are you there?

A Yes, I am.

Q Okay. Is it your testimony that NYMEX prices are a driver of FP&L's forecasted natural gas prices, particularly for the first two years of the forecast?

A That is correct. As I mentioned earlier, the NYMEX curve, which is the Henry Hub contract that we utilize, is a very liquid product that is a good indication of market prices at any given time. It's also how when we trade around our existing hedging program, what we utilize. So it's a good mix. It's a good starting point for our fundamental forecast.

And so we use NYMEX for the first two years and then we begin to blend that with a more fundamental forecast that is provided by PIRA Energy Group.

Q And when we introduced Exhibit 64, the three variations on customer fuel savings sensitivity matrix, does that show FP&L's most current gas price forecast?

A At the time it was submitted, yes, I believe so, yes.

Q Okay.

A And if I'm not -- because I'm not sure, Exhibit 64 was the update with the plus and minus 10 percent and 20 percent.

Q Right.

A Yes, at the time, that was absolutely the most recent.

Q Okay. And FP&L's most current gas price forecast is based in part on the July 2014 NYMEX future prices?

A If you could bear with me one moment.

Yeah, it's July 2014. I didn't know if we had a specific date in there, but it's saying July 24th -- or 2014. It may be -- it was July 28th was the specific date.

Q Okay. And do you regularly follow the future prices for NYMEX natural gas?

A Yes, I do.

Q Is it fair to say that FP&L's marketing and trading business unit refreshes the Henry Hub gas future prices every day?

A We monitor it every day. I wouldn't say that we refresh it every day.

To give you some background as to what the group does, we load prices into our trading system on a daily basis, so there are prices being uploaded, not necessarily Henry Hub, but other points of delivery like FGC's own three in Mobile Bay, which is a place where we commonly trade, would be uploaded every day. So there is a lot of price discovery and price entering into our systems to monitor.

It also gets updated on a monthly basis with respect to our hedging program so that Henry Hub does get an updated at that time. So we are constantly updating kind of a short curve, as I'll call it, to value hedges and to do hedging reporting and that kind of thing.

Q Now, are you aware or have you been following the 2015 and 2016 futures prices for NYMEX natural gas as of the past couple of weeks in November?

A Absolutely, yes.

Q Okay. And how have they trended in the past couple of weeks?

A Well, I'll say that December was an incredibly volatile month, moving up as much as 35 cents in a given week or down as much as 25 cents the following week.

Q You mean November? We're just in December.

A I'm talking about the December contract.

Q Oh, okay.

A So by the time we were talking about it, I guess within the last couple of weeks, the November contract was already closed.

Q Okay.

A So I'm talking about the next available contract, which would have been December at that point. So it was a very, very volatile period of time.

The last, I would say two weeks, have been largely barish and a lot of declining prices, especially in the last couple of days, as a result of some of the things that OPEC has announced, I think has probably been one of the big drivers of it down. Again, I think for us that it just really demonstrates, especially in the short-term, just how volatile market prices can be.

Again, I think that we still fall well within the range that we originally presently in terms of high and low forecast, but I think it just highlights just how volatile market prices are.

Q Okay. And how have the futures prices trended since July of 2014?

A Since July of 2014, I don't know that I have a specific trend that I can give you. I had mentioned earlier that gas prices have certainly been up and down.

If I look at the futures contract, and I mentioned 2015 -- actually, I'm sorry, 2025 is kind of a proxy for what's happening with market prices. Gas prices, you know, have been up a dollar, down a dollar, up a dollar and now down 70 cents just really over the last several months. There hasn't been that big of an impact in the back end of the curve.

Again, I haven't looked at gas prices today so I could be completely wrong on that. But we kind of have settled out at sort of a level place in the back end of the curve. Now, some of that may have been trending down recently, but I haven't looked at it in the last couple of days.

Q Okay. And part of FP&L's reason for its proposal to invest in the Woodford Gas Reserves Project is to generate potential fuel savings for customers; is that correct.

A That is correct, yes.

Q And would you agree that any potential fuel savings that may result from FP&L's investment in the Woodford Gas Reserve Project will be dependent on the actual outcome of the drilling and production activities?

A Yes, I do agree with that. Certainly the amount of output, as well as the cost to drill, will be a direct factor in sort of the effective cost of the gas being extracted, so certainly those are a huge component of it.

I think, as Dr. Taylor, when he sits up here, you'll have an opportunity to kind of understand how sure we are about some of these numbers and that we do believe that they will be very stable. And they are highly known kind of given the fact that there are other wells in the area that have effectively de-risked this particular play. But, yeah, I certainly do agree that those are factors that will dictate the effective cost.

Q Okay. And if the Commission grants FP&L's request that it is prudent for the company to invest in Woodford Gas Reserves Project and that the revenue requirement associated with this investment is appropriate for recovery through the Fuel Clause, would you agree that FP&L will earn its midpoint return on equity investment independent of the drilling and production activities?

A Certainly subject to any prudency review, so for prudently incurred costs, yes.

Q And isn't it true that FP&L currently purchases natural gas from more than 25 producers?

A Yes, we have a very robust supply portfolio of producers and marketers that all totaled about 40 or so. Any month-to-month basis, we're buying from anywhere from 40 to 43, I believe, different producers and marketers. About 25 is a good number in terms of the number of producers that we deal with directly.

Q Okay. Now, if one of these producers were to experience a problem with its production, had an accident, something interrupted it, its ability to provide FP&L with gas, FP&L can simply go to one of the other 24 producers to make up this volume; is that correct?

A Generically I'll say yes. Specifically it really would depend on who the supplier is. We have some very large suppliers in our portfolio producers that if they were to somehow stop supplying gas to us would be fairly impactful just given sort of the volumes that we're buying from some of the larger players.

Also, it would depend on the region. So we do buy a fair amount of gas still from offshore. As I mentioned, about 70 percent of our supply portfolio is coming from shale gas, the other 30 percent of it is coming from your more traditional sources, Gulf Coast and offshore. So to the extent that, you know, one of our big offshore suppliers was no longer able to deliver gas to us, it might be quite impactful, kind of depending upon how we're able to replace that supply. It may be a cost impact to us.

Q But generically you would be able to go to someone else, wouldn't you?

A Yeah. It may be at an impact from a price perspective.

Q Or one or two or three people, three producers?

A Yeah. It depends largely on sort of the size of the supply and how much of that supply is being cut.

Q Now, in the Woodford Gas Reserve Project, if FP&L has an investment in a working interest in the producer that fails to provide the gas, it's not as easy to simply go to some other producer to make up this volume, is it?

A I think there's a couple of layers to your question so I'll respond to each one of them individually. I think in the sense that PetroQuest, as the operator, stops producing gas, that would be certainly a material breach of the contract that would give us the rights to then step in and replace them as an operator.

If it was, you know, something where we just had a disruption of our gathering system and weren't receiving supply for a given day, we could certainly go back to the Perryville Hub, where this gas will be delivered, and just replace that gas in the marketplace. So I think it largely depends on the reason that gas was no longer being supplied.

It could be anything from replacing an operator down to just replacing gas on a daily basis if there was some type of shut-in problem with either some or all of the gas.

Q Okay. In the case of a fail on one of the 25 producers in which FP&L doesn't have an investment, would you agree that the customers do not assume that risk?

A So if I understand your question, if one of our suppliers doesn't supply gas on a given day and we have to go replace that gas, our customers do wear that risk today, so if we have to pay a higher price as a result of that.

And it happens occasionally where you might see a pipeline disruption where a counter-party might declare a force majeure because they can't deliver gas or they've got some other type of issue on their system where they can't supply the gas and they declare a force majeure, we'll have to go procure that gas elsewhere. If it comes at a higher price, our customers do wear that risk.

Q If the Commission finds it prudent for FP&L to invest in the Woodford Gas Project and that it is appropriate to recover the revenue requirement associated with this investment through the fuel cost, this revenue requirement is comprised of a return on the capital investment and the associated operation and maintenance expenses; is that correct?

A Yes, among other things. There's also taxes and royalty interest and so on, but yes.

Q And in your direct testimony, page 44 you discuss certain production and drilling risk associated with pursuing gas assets. Does any and all liability that may arise out of drilling and production of gas assets at the Woodford Project remain with PetroQuest or would it be shared among the working interest owners?

A Again, as I discussed with Mr. Moyle, it is largely dependent upon the nature of the liability and the nature of the risk. Again, if it's due to the gross negligence, the willful misconduct of PetroQuest as the operator, they bear that risk. If it's something that one of the insurance projects might mitigate, that might well take care of all of it. To the extent that it's some liability that gets passed on the working interest owners, then, yes, that would be borne by customers as well.

Q Okay.

A Again, if it's deemed to be prudent.

Q Please turn to page 153 of your deposition.

A Okay.

Q If PetroQuest is sued and damages are awarded in excess of any insurance or other mitigation measures that PetroQuest has in place to address such contingencies, is it FP&L's intention to recover from its customers through the fuel costs any damages it may be assigned due to its working interest in the Woodford Project?

A Again, given all the sort of caveats that I offered earlier in terms of the mitigants and those costs were ultimately deemed to be part of the working interest owners' responsibility, then yes.

Q Okay. On page 44 of your direct testimony.

A Okay.

Q You state that by approving FP&L's requested guidelines, the Commission should acknowledge the potential drilling and production risk, we've just discussed, and that as long as the transaction was within the guidelines, it cannot be deemed imprudent

based on the results; is that correct?

A Well, I think it falls one step short in all honesty. So what we're asking in the guidelines is basically to define the boundaries of what is acceptable in terms of pursuing these types of opportunities.

And just to clear kind of how I described it earlier, there are a number of guidelines that are defined within that. And these are each additive. You have to achieve each one of those guidelines in order to be able to be deemed within the guidelines.

So just because you're within a particular region like Texas but you haven't met another one of the guidelines doesn't make that prudent. So it has to meet all of the individual guidelines.

And, again, on the $750 million as a example, that doesn't mean you have to spend the $750 million, that's the cap. Again, that's not a target though. So you could spend something, you know, far less than that. So as long as you've met those individual guidelines in total, then that sort of gives you the first level of prudence, if you will.

We then have to make decisions within that individual transaction that are also deemed prudent. So the actions that we take as a working interest owner within that individual transaction would also need to be deemed prudent. We can't just make bad decisions once we've got a transaction that fit with the guidelines, we can't just go make bad decisions and drill when we otherwise know we shouldn't. So there's still a second layer of review in terms of the actions we take within those individual transactions.

Q So your testimony is that once you meet the guidelines, the Commission is precluded from looking behind and determining whether or not the following of the guidelines was prudent or not prudent?

A No, I don't think that's true at all.

Q So you think that if we -- if FP&L meets the guidelines, the Commission can still go back and determine whether or not the guidelines were really met, whether or not the decisions on the guidelines were good or bad?

A I would expect that to be part of the review, yes. In terms of the guidelines themselves, the guidelines will be what I'll call sort of the fairway and the rough. So as long as we're in the fairway and we transact within those bounds, then we would expect that the transaction would be considered to be prudent. But there still is a level of review that goes well beyond that, which is to then understand for that individual transaction the decisions that we make are also prudent.

Q Okay. And even if I -- I'm just going to ask this next question, I may have asked it already in my own words. In other words, while any potential fuel savings or hedging benefits to customers is directly related to the outcome of the drilling and production activities, the Commission's determination of whether FP&L was prudent in engagement in the invested -- in the investment is limited to whether the investment was consistent with the guidelines; is that correct?

A Again, I think that's the first step. There is a second step with respect to then determining whether we acted prudently within the individual transaction.

Q Okay. And following that vein, generally the utility has the burden to demonstrate its investment was prudent. Under the FP&L proposed guidelines, if approved, it appears the burden would be shifted to other parties to demonstrate that FPL was imprudent in pursuing gas reserve investments. Why is that the case?

A I take these guidelines to be very much the same as the hedging guidelines with respect to the ongoing review of our hedging efforts in demonstration of prudency, so I would think that these transactions will be viewed very much in that same light.

Q You've noted that the 750 million per year limit is a cap and not a target. But even so, at 750 million per year, FP&L could add the equivalent of a new combined cycle power plant to rate base every other year; is that correct?

A From a pure investment perspective, I agree, the math works out that way. I would also suggest that if we're investing at that level, there are significant customer savings that are resulting as an effect of that investment.

So, you know, again, like you said, it's not a target. But if there is an opportunity to invest in something that brings significant customer benefits, both through customer savings as well as that hedging benefit, then that would certainly make sense.

Q Okay. Now, instead of this plant that you would build every other year, instead of this plant being placed in rate base like most utility assets, the company, in the case of the project, would be growing rate base through the fuel cost recovery clause; is that correct?

A That is correct. And that's consistent with prior Commission orders.

Q And instead of being recorded in rate base where FP&L would have an opportunity to earn its midpoint return on equity on this investment, it is being recovered through the Fuel Clause where the company is assured to earn its midpoint return on equity; is that correct?

A Again, I don't know that I agree that it's assured. It has the opportunity to earn at that midpoint, again, if it can demonstrate that the cost of it, you know, imprudently -- or excuse me -- that prudently incurred -- and that we follow the guidelines per se.

So, you know, again, we're relying upon prior Commission orders with respect to allowing investment through the Fuel Clause when it does demonstrate customer savings, so I do agree with that, yes.

Q Okay. And on a cumulative basis, at what level or total amount would FP&L consider its investment in gas reserve projects represent a risk to its ongoing utility operations?

A I don't have that number. I don't know that there is a number, as was discussed, I believe, in discovery. The three rating agencies have been briefed on this. We've had conversations with them through our treasury department and others. They have reacted positively with respect to the opportunity.

MR. MOYLE: I'm going to object. Again, he can't talk about what the rating agencies told somebody and have that come in.

MR. GUYTON: I'm sorry, I think it was entirely responsive to the question that he was asked. He was trying to respond to the question.

CHAIRMAN GRAHAM: Let's hear the question again.

BY MS. BARRERA:

Q On a cumulative basis, at what level or total amount would FP&L consider its investment in gas reserve projects represent a risk to its ongoing utility operations?

MR. MOYLE: And my part of the objection is when he started venturing into we've met with regulate -- with Standard & Poor's and Moody's and here is what they said. You know, there's no way I can cross that or do anything, it's all hearsay and it shouldn't come in. Or if it does come in, it surely shouldn't find the -- you know, form the basis for a factual finding.

CHAIRMAN GRAHAM: I was going to say, I'll let it in. I think we just give it the weight it deserves. I think it answers the question.

THE WITNESS: Okay. So I'm not aware of any credit metrics that the rating agencies are tracking per se. We've had that conversation with the three rating agencies, S&P, Moody's and Fitch. Their reactions to it have been favorable, given that the Commission is obviously saving grace over the Woodford Project and pending any approval of the guidelines.

BY MS. BARRERA:

Q Okay. Testimony in FP&L's case is basically that the project is of benefit to the customers. However, what are the benefits to FP&L of investing in the Woodford Project and recovering costs through the fuel docket?

A Well, I think that -- and I kind of covered this earlier -- that, you know, from an investor perspective, we obviously have the opportunity to earn at the midpoint of the range if the costs that we demonstrated are prudent. I think I probably would push back on some of the intervenor testimony that has suggested that this is somehow a windfall. That is not at all the case. This is nothing more than earning our cost of capital, which we have to be competitive in the capital markets for our customers' money -- or excuse me -- our investors' money. And presumably that's what the Commission takes into consideration when they set the midpoint of the range, such that our investors are earning just that cost of capital and nothing more or nothing less.

Q Okay. If the Commission rejects FP&L's proposal, FP&L's affiliate, USG Properties, Woodford, Inc., LLC, will retain all rights, benefits and responsibilities of the PetroQuest joint venture; is that correct?

A That is correct.

Q And if FP&L and its customers were to share 50/50 the Woodford Project gains and losses between the production costs and the market price of gas and share 50/50 the cost of the return on the investment above the line, would that provide FP&L with an incentive to minimize costs to be shared with customers?

A I'm going to ask you to ask the question one more time.

Q Okay. If FP&L and it's customers were to share 50/50 the Woodford Project gains and losses between the production costs and the market price of gas and if they were to share 50/50 the cost of the return on the investment above the line, would that provide FP&L with an incentive to minimize costs to be shared with customers?

A I'm not sure incentive is the right number. In all honesty, I'm not sure exactly what's being proposed. From my perspective, you know, what is clear to me is this transaction is being offered for the benefit of customers. Right now they have, again, as I've said before, 100 percent market exposure.

The reason that this transaction is being proposed is because they wear that risk through the Fuel Clause today. You know, for some reason to try and bifurcate that or split that benefit in half to me doesn't make much sense in terms of what the transaction and transactions, along with the guidelines, are intended to mitigate, which is that market risk. So for me the 50/50 proposition just diminishes the intent of the proposal itself.

And I would also say the 50/50 proposal, again, I'm not entirely sure how that would work or what's being proposed. It's just a very different approach from, you know, prior Commission, you know, capital recovery of projects that are meant to lower fuel costs. It's a construct that has been in place for the 30 years, since Order 14546 went in place. It has served, I think, all of the parties well, and so I just don't know that I believe there's a reason to try and abandon that regulatory approach now.

Q Okay. And assuming that the 50/50 approach is viable, would that retain, for FP&L and its customers, access to producing wells and the benefits of more stable gas prices?

A Again, I'm not sure what it is you're proposing. I'm not sure it's viable to start with. And you're suggesting it's for customers or for shareholders or what was the question?

Q Well, would that retain for FP&L and its customers the access to the producing wells and the benefits of more stable gas prices?

A Yeah. So for customers, certainly. Again, the benefit would have been diminished by 50 percent, which, again, I think is contrary to what it is we're proposing.

For FP&L investors we're not trying to hedge any risk. Again, reminding you that this transaction is meant to try and stabilize prices over a long period of time in the face of what is a very volatile gas market. FPL's investors don't have that risk today. That's just a different risk profile that's not contemplated in the current capital structure, so I'm not sure that it diminishes risk for FPL's investors.

Q Okay. Just one second.

A Sure.

Q In your summary, you mention that now is a particularly good time to invest in gas reserves given current prices; is that correct?

A That is correct, yes.

Q And FP&L forecasts that natural gas prices are going to increase in the future; is that correct?

A That is correct. And it is also correct that the intervenors themselves also projected gas prices to increase.

Q And if natural gas prices increase, would you expect the cost of projects such as Woodford to increase or decrease?

A If natural gas prices are increasing, I would expect that the type of project that the Woodford Project is, the potential for that is to increase as well. But, again, the benefit of it is liable to produce more customer savings than what is even projected here in this particular case. So it's probably got a natural relationship.

But if the cost of gas is going up, so too is the purchase price of the particular opportunity but so is the customer savings, so I think those are probably naturally correlated.

Q Okay. You said earlier that the Commission would review gas reserve projects annually for prudence

and if there's a bad study, the Commission could find the project imprudent; is that correct?

A I think I need you to define "bad project," but I would maybe answer that --

Q A bad study.

A Well, if there's an action that we have taken within one of the projects, perhaps drilling a well when the previous several wells have been, you know, at a much higher cost or have been underproducing or were drilling in an environment where gas prices have fallen substantially, well below even our projected costs, I would deem those as something that would be looked at from a prudency perspective. So individual decisions within a given transaction certainly would be up for prudence review.

Q And if the Commission is going to review prudence after the investment is made but before costs are passed through, what is the purpose of the guidelines?

A Well, the guidelines themselves are intended to allow us to approach the marketplace in a manner that allows us to transact in a much quicker pace that helps sort of match what's currently happening in the marketplace. And let me explain.

So this transaction that we're utilizing an affiliate to warehouse while we go through this process, this started originally in June, we're now in December, counter-parties just are not willing to wait for that process to occur. That's the reason that we have an affiliate that's currently drilling with PetroQuest. They have started the process because PetroQuest, you know, has schedules to meet, they've got capital deadlines in terms of expenditures, and so it's a process that moves very quickly.

It's also a very robust market in terms of a lot of competition for these types of transactions, so counter-parties aren't going to wait for FPL to go through a six or eight-month regulatory review without knowing that there's a good outcome at the end. And if so, there's -- you know, if there's something that we can do to speed up that process, which is what the guidelines are meant to do, we're in a much better position to negotiate with customers -- or excuse me -- negotiate with counter-parties in a manner that will allow us to bring these transactions to fruition much quicker to bring customer benefits. I think if we were to try and rely upon just counter-parties waiting for a regulatory process, our chances of closing a transaction are very slim.

Q Thank you. I have no more questions.

A Thank you.

CHAIRMAN GRAHAM: Commissioners. Commissioner Balbis.

COMMISSIONER BALBIS: Thank you, Mr. Chairman. I have a few questions about this contract and then, of course, the framework or guidelines.

Mr. Forrest, thank you for your testimony here today. A couple of questions. What percentage does the PetroQuest contract represent as compared to FPL's overall average daily burn?

THE WITNESS: If I might just, again, using the chart behind me, probably the best way to show it is just in this particular period, the 2016 time frame, one of the productions at its absolutely peak I believe is somewhere in the neighborhood of about 2.7 percent of our daily consumption.

So you can see before that it's is a little shy, it's probably 2.4 and 2.5 percent and then tapers off very quickly. So it's a relatively small part of our overall portfolio from a supply perspective.

COMMISSIONER BALBIS: Okay. And why was this contract limited to that amount? I mean, how did that number of well sites -- how was that prepared?

THE WITNESS: So maybe I'll back up from just individual transaction. We've looked at transactions that have ranged from enormous to very, very small in terms of overall capital investment and kind of corresponding customer savings along with that.

The Woodford Project itself, as I mentioned earlier, was brought to us by US Gas. They had an existing relationship with PetroQuest. This area -- these 19 sections that you saw earlier are a subset of a larger transaction that they are a party to. It just so happened that this was dry gas, which is exactly what it is that we're looking for so, and so the area of mutual interest, as these 19 sections are defined, just provided a very kind of tidy, very straightforward, well understood -- because there's the 19 wells that already exist there, so the data was solid. It just -- it created a very clean transaction in terms of the presentation.

COMMISSIONER BALBIS: Okay. And if you could clarify a question or an issue I had with your SF-8. The redacted version is fine.

THE WITNESS: Okay.

COMMISSIONER BALBIS: And the question I have is on the effective costs. And I'm trying to understand the savings to the customers. So if I'm reading this correctly, in 2015, since the effective cost is less than the market price forecast, then customers will see an immediate savings or is there a period of time where they're still recovering the cost of their investment?

THE WITNESS: No, that is immediate savings. So the effective cost of the transaction over the course of the year is $3.48, which is basically the entire revenue requirements divided by the volume.

COMMISSIONER BALBIS: Okay. So essentially then customers are getting a return on their investment immediately?

THE WITNESS: Correct. Yes. And so you see a projection of $4.02. So it's just the $4.02 less 3.48 times the volume gives you the nominal undiscounted customers savings of $8.4 million times the discount factor, which gives you 7.8 on a net present value basis, but you're right.

COMMISSIONER BALBIS: Okay. Then specifically for the Woodford area, it's my understanding there are different zones on the FGT pipeline that have different transportation costs. Did FPL consider the points of entry of this gas in doing the analysis from cost effectiveness?

THE WITNESS: We did. We've looked at a lot of opportunities over the last couple of years, which have ranged everywhere from Louisiana to Arkansas to Oklahoma and even into Texas and other places, and have tried to figure out what the best opportunity is in terms of delivering this gas to Florida. Again, the ultimate goal here being trying to find a physical source of supply that's stably priced and is projected to be less than what the market is.

I do have a map that can show kind of the path that it would take to get to Florida, if you want to see that. But it's -- the plan would be to bring this gas in through some pipeline connection into Perryville, Perryville being the Perryville Hub, which then connects into the southeast supply header, which we have a tremendous amount of capacity on. So this would just replace a portion of the daily -- our daily procurement at Perryville, which we would then bring into our system.

So, yeah, we looked at a lot of different opportunities. This one makes traffic sense, again, given sort of how dry the play is. It's almost 100 percent methane, which works out very well, doesn't need to be processed. And so it's -- you know, it made good economic sense. But, yeah, we looked at a lot of different opportunities.

COMMISSIONER BALBIS: Okay. And then FPL currently has an incentive mechanism that deals with wholesale electricity and also gas?

THE WITNESS: That is correct.

COMMISSIONER BALBIS: Is the gas associated with this contract going to be excluded from that?

THE WITNESS: It would not be our intent to. When we presented the economics, the $107 million, it assumes that 100 percent of the gas would be delivered to Florida. So we made no assumptions about what potential incentive mechanism or actual optimization impact this might have. But once it's in the portfolio, our goal would be to treat this gas just like the rest of our procurement portfolio.

So if it makes sense for us to, you know, potentially sell the gas and buy at Perryville so we're not having to pay the variable charge on the pipeline, and if we can save that variable charge and make a more economic play, then we would assume that would be part of the optimization. Again, it would just be part of our daily optimization activities.

COMMISSIONER BALBIS: Right. And my concern is that here you have an effective cost of the gas that's much lower than what the projections will be. And my concern would be that FPL then sells that gas to another entity for a profit, knowing that after a certain threshold FPL will share in some of those profits.

THE WITNESS: Yeah. Okay, I understand your question. This gas would be viewed at from a market perspective. So even though we're buying it at a price of $3.48, if the gas market at, say, Enable East, which is the input out of the gathering system into the pipeline transportation system, if it was traded for 3.70 that day, we're looking at the 3.70 as the opportunity, not the 3.48. Our intent would not be to optimize this around the cost of gas, it would be the market opportunity.

So, again, it would get treated no

differently than any of our other gas, which, again, we're not treating this gas as at cost, if you will. The effective cost is not what's important to us, it's the market price of the gas.

COMMISSIONER BALBIS: Okay. And then also, there was some discussions, I think during opening statements, but I'm not sure, and that is about environmental impacts of these operations. And what assurances do Florida customers have that PetroQuest and even subsequent operators, if the framework is approved, are going to comply with all current environmental and other regulations and even any of those that are revised, amended or added?

THE WITNESS: Correct. So, you know, for the Woodford Project itself, PetroQuest went through a very detailed due diligence process, with both from our own FPL folks, as well as members of the US Gas team to ensure that they were in compliance with all laws and regulations. They provided regulations and warranties within the -- warrants within the contract itself suggesting they were not in violation of any laws. And we'll continue to monitor those.

So it's a process that we'll go through.

It's something that we ensure -- you know, we're dealing with reputable writers that don't have prior issues with respect to laws and regulations, so it's part of the due diligence that we go through.

COMMISSIONER BALBIS: Okay. But as far as the contract itself, I thought there was a provision in there.

THE WITNESS: There is a provision within the contract itself which allows us to nonconsent and not be penalized for that nonconsent if they were in violation of any health or safety laws. So if they are notified of any agency violation, we have the right to nonconsent and not be penalized for that.

COMMISSIONER BALBIS: Okay.

THE WITNESS: So, again, we have an obligation in this contract to drill a minimum of 15 wells. To the extent that they are in violation of an agency mandate, then we would not be penalized for nonconsenting under that 15 well minimum. So there are protections within the contract which enforce that.

COMMISSIONER BALBIS: Okay. And then moving on to the framework, I have a couple of questions about that. Following up on the environmental questions. In one of the guidelines -- or in the guidelines attachment, if you will, in SF-9, it indicates that Florida does not meet the criteria. So is it your understanding that none of these operations will occur in Florida?

THE WITNESS: That is correct.

COMMISSIONER BALBIS: Okay.

THE WITNESS: I'm not aware of any opportunities in Florida anyway. But we have committed to not participating in any drilling activities in Florida.

COMMISSIONER BALBIS: Okay. And then finally, there's been a lot of discussion during cross examination on protections for ratepayers. And it's my understanding, and correct me if I'm wrong, that there are several companies that solely do drilling, whether it's a verticle component, horizontal, the fracking or preparing for production. What are some -- who are some of the companies that do that and is it a separate operation from the operations at the production side? So once it's drilled in operation, then another company could step in. So who are some the companies that could drill?

THE WITNESS: I believe Basin Engineering is one that we've talked to. Again, this is -- the production side of the business for me is relatively new in terms of looking back one step from the producer. I would suggest Dr. Taylor is probably a great resource for those kind of conversations. He's been doing these for decades and has great experience with a lot those operators so I would suggest he's probably a better resource for those kind of questions than I.

COMMISSIONER BALBIS: Okay. And my thought is, you know, one of the ways -- I know with other contracts, associated -- you know, when there are costs, significant costs associated with it, you know, going through the bidding process is one way to gauge and make sure the costs associated with that activity are market based. And I know there are some companies -- well, they will even have different drilling companies side by side in the same play, if you will, and it's a good way to gauge.

And I'm wondering if that's something that could be included in the framework, you know, requirement that some of the operation are bid out of the drilling operations so, again, we can have additional protections.

Do you have any thoughts on that or will there be another witness that would be more appropriate?

THE WITNESS: I think in terms of the comparison, just to engage in a dialogue, I think Dr. Taylor would be a great resource for you. I can certainly spend some time with him when I'm finished here to sort of understand what information is readily available publicly to understand how do you make that comparison.

In some cases, you may just well not know what a person is drilling for versus what another operator is drilling for, so that would be an important part of that overall evaluation. But to the extent that information is publically available, that may be a relevant comparison.

COMMISSIONER BALBIS: Okay. And then final question, there were some percentages included in the framework of the average daily consumption, if you will.

THE WITNESS: Yes.

COMMISSIONER BALBIS: Of 15 percent, 20 and 25. How were those numbers developed and what would the impact be of increasing or reducing those?

THE WITNESS: So the numbers were developed, again, in very much the same way as the rest of the guidelines were, which was just an overall dialogue about what it was that we were trying to achieve in terms of customer savings and our position in the marketplace in terms of replacing some of our financial hedges in the short term with these transactions and starting to layer in some of the longer-term transactions.

And, again, if I could just use the chart here. I think one of the things to keep in mind when you look at these production profiles is, again, I mentioned 2.7 percent was sort of the peak daily burn, if you will, as a percentage of our overall needs in 2016. It tapers off very quickly to where it's less than 1 percent just within a short seven or eight years. In order to get some of this longer-term benefit, you need to be able to layer on some of these transactions.

So the next transaction probably has a very similar looking profile. And that's one of the reasons that we, you know, looked at the $750 million in these particular percentages as appropriate is trying to figure out as you layer in future transactions, you're trying to grow the back end of this thing to be able to get some support in the back end for the number of hedges that would actually be placed, you know, beyond just the first three or four years. And so this -- the discussion around the cost cap, as well as the percentage of average daily burn, was just part of that discussion about how do you start building a profile to be able to level up some of the back end of this thing to be able to provide production.

Again, this individual transaction, within just a very short period of time, tapers off to a level that is, you know, fairly small in terms of our overall consumption. The guidelines are what will allow us to start building up some of that production in the back end for customers.

COMMISSIONER BALBIS: Okay. And maybe I do have one more question. You indicated in your summary or in your response to a cross examination question, that for each $1 increase in natural gas, I think the monthly impact -- did you say $5 or $6?

THE WITNESS: So if you look at -- these are all rules of thumb, so it changes by a few pennies one direction or the other -- but if you assume that we're buying 600 billion cubic feet of gas in 2020 as an example, a $1 move represents $600 million in fuel charges. Again, with no other hedges in place, that represents a $600 million impact to customers. If that's an increase by a dollar, that loosely translates -- again, rule of thumb -- to about $6 on a customer bill, about $100 million for every dollar of customer bill on an annual expense basis.

COMMISSIONER BALBIS: Okay.

THE WITNESS: So 600 million would reflect about a $6 movement in the bill.

COMMISSIONER BALBIS: Okay. Thank you. That's all I have.

THE WITNESS: You're welcome.

CHAIRMAN GRAHAM: Commissioner Brown.

COMMISSIONER BROWN: Thank you, Mr. Chairman. And thank you, Mr. Forrest, for your testimony.

A few follow-up questions from some of the folks that have asked you questions here today, and general questions. With regard to the guidelines, can you state why having this project and future projects going through a Fuel Clause would not only benefit Florida Power & Light but also its customers?

THE WITNESS: Well, I think I acknowledged earlier that it does benefit both. Again, you know, we're looking for the certainty to be able to move these transactions quickly through the process to bring customer benefits. So one of the benefits of the Fuel Clause -- and it's a benefit to the Commission as well -- is being able to file these as part of the annual preview process. It gives great transparency where you'll have an annual review of these transactions as opposed to if it was through a rate case, if you will. You're in a much more delayed process in terms of the number of times you'll get to look at these things.

It also, because of the production profile, it serves itself well to a Fuel Clause kind of review, given that it has such a tapering profile on the back end. So the revenue requirements get set early on and they taper off very quickly so they are more suited to the Fuel.

You know, again, with respect to the benefit to Florida Power & Light, it just allows us to bring these things as quickly as possible through the process, in that we can capture opportunities for customers.

For customers, I think this is just an absolute home run. You know, it ultimately gets down to whether the Commission believes that there is a better way of mitigating long-term risks than just ignoring it. And that's largely what's happening today is that, you know, you've got customer fuel bills that go up with market prices, they go down with market prices, and there's very little that we can do to stem that.

So these types of transactions are sort of the first approach, and a very innovative approach, I think, to try and figure out a way to start mitigating some of that longer-term that risk that's just inherent in the profile.

COMMISSIONER BROWN: Great. Thank you for that summation. And just some general questions regarding USG. They were formed, what, back in 2010?

THE WITNESS: I don't know the exact time frame of when US Gas was formed. It would have been probably in the 2008 or nine time frame. I'm guessing. It's somewhere in that range.

COMMISSIONER BROWN: And they've been engaged in several projects, your testimony says, with PetroQuest prior to this particular project?

THE WITNESS: They have one very, very -- I wouldn't say very large, but we have a much larger transaction with them. I believe it's just one. It may have been initiated a few times along the way, but it's just one transaction with PetroQuest in the Woodford Arkoma, in that same area.

COMMISSIONER BROWN: And it was successful? It's successful?

THE WITNESS: They said it is, yes, absolutely.

COMMISSIONER BROWN: What will USG's role be in the project afterward if in the Commission approves the Woodford Project?

THE WITNESS: So if the Commission approves the project, the first step -- and Ms. Ousdahl can go through this in greater detail than I can -- the transaction will move to Florida Power & Light, it will be assigned, all of their rights and benefits will be assigned to Florida Power & Light. And they'll be reimbursed effectively net book value, all right. So they'll just be -- they'll get whatever they paid for it and nothing more and nothing less.

And so once they're -- that transaction has occurred, once that assignment has occurred, then they are sort of out of the production side of this thing and we'll be utilizing them for some services. So Dr. Taylor, who you'll have an opportunity to hear from later --

COMMISSIONER BROWN: Will go into the services?

THE WITNESS: Well, I can go through some of the services. But one of the things that we'll continue to utilize him for is evaluation of each individual well as is proposed.

So PetroQuest has an obligation to propose wells. And when those wells are proposed, we have to evaluate whether it makes economic sense to drill the well or not. We have to consent or nonconsent to that well. Dr. Taylor will be the one that makes that assessment.

COMMISSIONER BROWN: Okay. And I know Mr. Moyle asked you a few questions about due diligence and with regard to what has occurred so far. Can you go into some detail moving forward if the guidelines are approved, what level of due diligence will Florida Power & Light be doing for future projects.

THE WITNESS: Sure. Very similar to what we did in the instance of PetroQuest. So this is another area where we'll be using US Gas and some of their services, because they've developed a skill set and it turns down to a real make or buy kind of decision. We can utilize certain number of their people for a few hours a month or we can try and go out and hire those resources. It just wouldn't be cost effective.

So in a matrix organization like this that NextEra runs, it makes perfect sense from a make or buy perspective just to utilize those resources from the minimum level that they're required.

So when a project like the Woodford Project is looked at, there's a tremendous amount of due diligence that's done. On the Florida Power & Light side, we looked at the operational side of things in terms of how to move the gas to Florida, what's the best option for that. We think we've gotten very close to negotiating an agreement on the Woodford Project, which will provide even greater savings to customers as a result of that transportation agreement beyond even what's been projected here. All of that came through the due diligence process and understanding who the players are and how they all interact with one another. So there was a lot of work done on the Florida Power & Light side with respect to the operational side of it.

On the US Gas side -- and this is where we'll use some of their resources. They have landmen that are responsible for going out to county courthouses and pulling out title information. They research that title information. They determine whether they have 100 percent rights to the mineral rights. If they don't, they would then bring in an attorney, and an attorney would help cure whatever issues may exist.

And so there's a lot of due diligence that goes into this process. And, again, we'll be using US Gas to help out and aid in a lot of that process.

COMMISSIONER BROWN: Okay. And just to be clear, FPL will be seeking recovery for any incremental administrative cost associated with the project?

THE WITNESS: With respect to the individual projects. A good example, again, for the Woodford Project, we've made the assumption of about $300,000 in incremental costs. Kim Ousdahl can certainly go through her side of it, which is outsourcing the accounting functions. But we'll also be utilizing, as I said, Dr. Taylor to do assessments of individual wells as to whether they are economic or not. I said he would be responsible for that. He's responsible for the economic evaluation. Myself and my team will ultimately be responsible for the decision as to whether we consent or not consent.

So we'll utilize Dr. Taylor and his expertise and his staff to continue that process. We'll also be utilizing members of the US Gas Team to monitor well activity as it's being drilled and looking at the log data because they've developed that skill set internally. Again, it's just not a skill set that we have. So that would all go to recover the operating expenses which we would look to recover.

COMMISSIONER BROWN: Thank you for that clarification. And I read through the operating agreement and the DDA and looked at the insurance provisions, and there's some discussion on that, which is great. There seems to be a lot of robust liability protections from the insurance standpoint, but also has kind of a catchall for

Florida Power & Light. It says that under the DDA it states that USG may obtain such insurance as it deems advisable at its own expense.

THE WITNESS: Correct.

COMMISSIONER BROWN: And does Florida Power & Light foresee additional insurance protections at this point?

THE WITNESS: For this particular transaction, I don't believe so. I don't believe that USG has acquired any additional insurance. It's something we can certainly talk about. But at this time, I don't think that's something that's contemplated.

COMMISSIONER BROWN: Thank you. I appreciate it.

THE WITNESS: Sure.

CHAIRMAN GRAHAM: All right. I guess I have a question for you, or two. Earlier I think it was OPC asked you a question, and you were talking about consent or nonconsent on the first well. And if you choose to nonconsent on that first well, then -- unless I'm misunderstanding you -- you can't participate on everything else that comes out of that particular area?

THE WITNESS: Yes.

CHAIRMAN GRAHAM: Can you elaborate a little bit on that?

THE WITNESS: I can, yes. A confusing concept, I certainly realize. So there are 19 sections that are being drilled upon, and they're each a 640-acre section, all contiguous, again, as the chart you saw earlier. Two of those sections have no wells on them today, so 17 of them have wells. So they have all been effectively obtained by production, right, so there's -- you know, that information that they have goes to aid in the process of evaluating each of those wells with the data that's been provided by the operating wells.

The other two, which are when you look at the chart, the two in the lower right-hand corner are what's called first well drilling units. They don't have a well on them. And so for the other 17, this doesn't apply. They've already been held by production.

If we nonconsent to one of those two first well drilling units, we lose rights to the whole section. I think they're -- if I'm not mistaken -- and I can go back and look at the schedule -- I believe they're supposed to be drilled in early January or the early part of next year. Based on what we're seeing from the first wells, we're certainly interested in participating in those. But it is a piece where if we did choose to nonconsent, we would lose rights to drill the other two wells on those sites. It doesn't apply to those 17. Excuse me, it doesn't apply to the other 17.

CHAIRMAN GRAHAM: Why is that? Is there a higher risk in that first well?

THE WITNESS: No. It has to do with obtaining rights to the leases themselves. Again, I can have Dr. Taylor go through it in much more detail than I can as to why that is.

CHAIRMAN GRAHAM: Okay. Somebody asked you earlier, I think it was our staff, if you thought this was a windfall for Florida Power & Light and you said no. Why did you not think this was a windfall?

THE WITNESS: I guess again --

CHAIRMAN GRAHAM: Why wouldn't it be a windfall?

THE WITNESS: Again, when we look at how our investors are compensated, which in this particular instance -- I don't deny that there is -- when you look at the return on equity component, that that is, you know, labeled as profit. What I disagree with though is that obtaining or achieving the midpoint of the range is anything other than just earning basically their cost of capital.

We're competing with the rest of the capital markets to induce our investors to invest with Florida Power & Light. And I'm assuming that's what the Commission's looking at, trying to balance the need to induce the right level of investment from investors with the needs of the customer when they establish that range such that, you know, you're essentially looking at the opportunity cost of your investor's money, such that when you guys set the midpoint of the range -- and we're authorized to earn at that midpoint -- when we've earned that, basically we've earned their cost of capital and nothing more or nothing else. So, again, I don't consider that to be a windfall. I see that to be the appropriate return on capital for the risks that they have taken.

CHAIRMAN GRAHAM: When Florida Power & Light buys fuel now, do you get a return on any of it?

THE WITNESS: No, we do not. Again, this

transaction is unique in that we're actually investing. In most cases we're -- I say "in most cases" -- in all cases today, we're buying gas at market. So for us to buy that gas at market and then mark it up or try and profit from that in some way is obviously inappropriate.

In this particular instance, we're talking about investing, you know, per Order 14546. And Commissioner Deason can go through this in a heck of a lot more detail than I can. But when we invest in a means that we believe will reduce customer costs, it's appropriate to consider the investor's return on capital as a cost, the return on equity as a cost, as opposed to profiting on fuel. It's part of the cost of service.

CHAIRMAN GRAHAM: You talked earlier a little bit about insurance, and I know Commissioner Brown just brought up the insurance. If you get to the point -- let's just say something happens and you exhaust the insurance or the insurance chooses not to pay, who's responsible for that gap between what the insurance is going to go pay and what is owed?

(Whereupon, proceedings continued in Volume 3.)

CERTIFICATE OF REPORTER

STATE OF FLORIDA)
COUNTY OF LEON)

I, MICHELLE SUBIA, Registered Professional Reporter, certify that the foregoing proceedings were taken before me at the time and place therein designated; that my shorthand notes were thereafter translated under my supervision; and the foregoing pages, numbered 169 through 315 , are a true and correct record of the aforesaid 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 2nd day of December, 2014.

Michelle A. Subia

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